Oil Price Problem

Look at the newsletter article on the opposite page.

Workers read newsletter articles to receive updates on company policies and future trends in their industry.

Question 1

What was the price of a barrel of oil in 1998?

Question 2

If there is too much oil on the market, how is the price affected?

Question 3

How are the prices of wheat and sugar similar to the price of oil?

Question 4

List three methods that this oil company uses to mitigate, or reduce, the impact of changing world oil prices.

Ride the crude price roller coaster

Supply and demand - the driver on the crude price roller coaster. This July, the price of crude oil temporarily touched $20 per barrel, an event no one would have predicted just a few months ago. The experts were surprised when oil prices remained in the $12 per barrel range throughout 1998 and are surprised at today's price of $20 per barrel.

According to economists, the price of any commodity is governed by supply and demand. Too much supply and price comes down; not enough supply and price rises. The unusual aspect of the current oil price is that worldwide inventories are still quite high, having risen due to the prospect of lower inventories with the anticipated OPEC supply curtailment.

So what's ahead?

Will the current price level last? No one knows for sure, so to reduce our company`s price risk exposure, we have recently taken an increased hedge position for part of production in 1999, 2000 and 2001.

Are the days of low oil prices over? Not necessarily. OPEC countries like Venezuela have shut in over 0.5 million barrels per day of production. The jury is still out whether this discipline will hold in the future.

A review of all major commodities indicates that in the long run, price will decline. For example, the costs of wheat, sugar, copper and gold are at much lower levels than 20 years ago. The gold mines in Canada are struggling with the sharp decline in price. The successful mines are those that have a rich reserve as well as a cost structure substantially below world price.

The Oil Sands strategy of cost reduction, selective hedging and Project Millennium is designed to mitigate against external crude price risk. This strategy will help keep our seat belts fastened tight for the oil price roller coaster ride.

For a look at current crude oil price, turn to www. bloomberg.com/energy

Answers - Oil Price Problem

1. *What was the price of a barrel of oil in 1998?*
   $12 (range)

2. *If there is too much oil on the market, how is the price affected?*
   price comes down OR **decline** OR **goes down**

3. *How are the prices of wheat and sugar similar to the price of oil?*
   prices are at **lower levels** than 20 years ago OR in the long run **prices will decline**

4. *List three methods that this oil company uses to mitigate, or reduce, the impact of changing world oil prices.*
   1. Cost Reduction
   2. Selective Hedging
   3. Project Millennium

Why is it important that test takers try every question?

TOWES is hand marked twice, by two different trained and certified TOWES test markers. Test takers do NOT lose marks for incorrect answers; they just don't gain a mark. As the test is hand marked, test takers should put something down for every question, as they are more likely to receive a higher score.
Each question in a TOWES test measures a different Essential Skill domain (reading text, document use and numeracy), at a complexity level ranging from 1-5. If test takers do not answer enough questions within each domain and at each level, there may not be enough information to accurately calculate results. If a test taker does not respond to at least 70% of test items, the score will include an asterix (*), which means that the results may not be an accurate reflection of the test taker's ability. If less than 50% of the items in a certain domain are not answered, no score will be reported, and an N/A - not applicable, will appear on the results report. This means that there was not enough information to score on.
It is important for TOWES test takers to understand that they should attempt every question. If a test taker absolutely cannot answer a question or problem set, they may draw a line through the question.

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Q3 **Scan** for key words 'wheat and sugar' and 'price.'

Locate 'A review of all major commodities indicates that in the long run, price will decline. For example.....than 20 years ago.'

Infer that oil is a part of 'all major commodities.'

Decide that 'prices are at much lower levels than 20 years ago' and 'in the long run, price will decline' are both correct answers.

So what's ahead?

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company`s price risk
creased hedge posit

Are the days of low c
Venezuela have shu
jury is still out whether this discipline will hold in the future.

Q4 **Scan** for key words 'mitigate', 'reduce', and 'impact of changing oil prices.'

Locate 'Oil Sands strategy....mitigate against external crude price risk.'

Infer that 'Oil Sands' is the the oil company in this document.

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