

Dear Camila,

April 2010
Newsletter

Another 10% Energy Tax?



Yes, but not one that is legislated or mandated by governments. Swings and spikes in the price of oil - and consequently the cost of inputs - can drive supply chain costs by as much or more than the absolute price.

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Volatility Adds 10% to the Cost of Oil

From World War II until the first oil crisis, the average annual price of oil fluctuated within a 7% band, but in recent years the variation has rocketed to almost 10 times that amount. The 1973 and 1979 oil crises and the sharp escalation and crash of oil prices between 1998 and 2009 introduced a new dynamic to oil prices. If everyone could adjust instantly to the changes, the residual impact would be limited. However, given the number of layers in the oil and gas supply chain and the time lag involved in building refineries and bringing rigs onstream, the volatility results in higher equipment prices for oil producers, underutilized assets for equipment manufacturers, and excess inventory for component manufacturers. The combination of inefficiencies adds up to 10% of the cost of every barrel of oil produced.

To understand the bullwhip effect and how to dampen its impact, read our article, which was just published in the Oil and Gas Journal, titled:

[The Oil Price "Bullwhip:" Problem, Cost, Response](#)

Upcoming Presentations

Participate in these upcoming Boston Strategies International events:

April 22: "[Rails, Roads, Water and Air: Logistics, Inventory and Distribution](#)," Live Televised Panel Discussion, Institute for Supply Management, Phoenix AZ (USA).

May 18: "[Sourcing 2010 and Beyond](#)," Roundtable on Sourcing, Boston APICS Dinner Meeting, Waltham MA (USA).

May 26: "[Future Management Organization for Mediterranean Ports and the Maritime Sector](#)," 8th Mediterranean Logistics and Transport Forum, Barcelona (Spain).

June 15: "[Basics of Supply Chain Risk](#)," APICS, Providence RI (USA).

June 16: "[Success Stories in Supplier Development](#)," APICS South Shore Chapter, Taunton MA (USA).

Click [here](#) to see a complete list of our upcoming events.

Free Research & Analysis

- [Supplier Development: More Than a Good Idea](#)
- [Recognizing Excellence: BSI Supply Chain Award Winners](#)
- [Oil Price Volatility and How to Avoid It](#)

For more free research, please visit our website at www.bostonstrategies.com.

Meet Ashwin Bhat

Ashwin, an Associate in BSI's Dubai office, brings previous experience managing procurement events such as bidding and auctions for clients like Sunoco. He is a former accountant from KPMG in Hong Kong. Mr. Bhat has a Bachelors of Science degree in Business Administration from Babson College, where he had a double concentration in Strategic Management & Economics with the distinction of summa cum laude - the highest possible academic honor.



If you want to speak with Ashwin, please feel free to email him at abhat@bostonstrategies.com.

Give Us Feedback

If you have had an experience with Boston Strategies International - through an engagement, proposal, presentation, or even just based on this newsletter - please share your feedback.

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