Who dares wins

Interview with MATÍAS ROJAS

Founder, Blue Oil Group

MATÍAS ROJAS was taught Political Philosophy by Prof. Harvey C. Mansfield Jr and graduated from Harvard University with an A.B. He began his career with the proprietary trading group at Morgan Guaranty Trust (JP Morgan & Co) in New York. After a short spell as a grain merchant in the Midwest, Mr Rojas went to work for Glencore founder Marc Rich in London, where he was responsible for developing his South American oil business. He founded the Blue Oil Group in 2004.

This year marks Blue Oil's tenth anniversary. What do you regard as the company's most important achievements so far?

Blue Oil's most important achievement in terms of adding value is that we have helped invent a business model that not only has had great success in certain companies that are better capitalised than us, but that also prepares the ground for where we should be heading. In today's oil distribution world, the key skill you need to be able to enter new markets is to know how to supply yourself in places where there are no refineries. The model, which we pioneered in Guatemala, and are now replicating in Peru, Chile and Nigeria, is that we look for places that are chronically short of refined oil products, such as diesel, gasoline, and sometimes fuel oil, and we set up terminals in those markets. This is the biggest barrier to entry, and puts you on an equal footing with the majors. The preconditions for market entry are a transparent pricing mechanism and a chronic reliance on product imports to satisfy demand for oil products. Once you have that you can set up an oil supply distribution hub that creates onshore enterprise value and relies on its efficiency for its success. That is the concept that we have been developing over the last decade, and it is now an accepted business model. There is another company, larger than us, that does this, but with more varying degrees of success because they have less insight at the 'on the ground' level, which is Puma/Trafigura.

Whereas a logistics operator would look at a terminal as a way to increase its revenue on logistics and to get as many clients as possible, people who think like us, and Puma/Trafigura, is that we look at a terminal as a way to access a market. Therefore, we don't want other people to use it and share that market. So, the entry barrier to market is a terminal, instead of a four billion dollar refinery. The oil import markets offer great opportunities to an entrepreneurial company, so I think that our discovery and honing of this model is our greatest achievement, our contribution to adding value in the oil world.

We are not middlemen; the cargoes we handle are ours, we own them. Which means we sometimes look at ways to position ourselves and buy a stream from a certain country because we believe it has inherent value, and then look to sell it to the markets where we believe that value can be realised.

So, you deal purely in refined products?

In the past we have moved crude, but it is not the focus of our business today. Crude movement is a function of where the business takes you. For example, we were among the bidders for the El Salvador refinery twice, both for the Shell part of the shares and for the Exxon part of the shares. In that case we would have had to go into crude and I am sure we will have to in the future. All of us in the Group individually have plenty of experience moving crude, but it's not where our attention is focused right now.

What are your main sources of those products?

We look at the origination of products as a global thing and as a living creature. We are constantly running models and seeing where the most convenient source for a certain product is, and we then look to optimise that. In the early days of Blue Oil that was the Far East, for diesel, but after Fukushima the Japanese moved back into fossil fuels and away from nuclear. So, now we are moving back into an export mode in that region. We are also looking at the US West coast.

The easiest place to buy would be the US Gulf Coast, and we do that sometimes, but we also buy in the Caribbean, Colombia, Venezuela – and now from Peru, which nobody else has until recently, when they saw what we were doing. It's not rocket science: once people see you do it they try to copy it. But it's important to have that edge, those six months to a year of foresight that allow you to be more competitive. Our long-term objective is to grow our enterprise value, and we then convert that into market points.

As you say, people are quick to copy a successful model, so how do you maintain your edge over larger competitors?

Our competitors can copy certain things that we *do*, but copying a business model is much more complex. It and involves years of work, honing the skills and communication abilities of different individuals, getting them to identify a common objective and then to check their egos at their door and work towards that objective, which is something that has taken Blue Oil a long time to achieve. It is our greatest asset: the trust we have in each other, our esprit de corps. And the interesting thing is that it's scaleable, because once you have that going it has momentum, and new people coming in see and feel the spirit that drives the whole thing forward. It is an important part of what we have done, and something I am personally very proud of.

How many of you are there in the company?

If you look at our whole business model you'll see that we employ around 100 people worldwide, which doesn't sound like a lot for a company that moves the kind of volumes we move, because oil is a big business. But those 100 people are thinking, well-trained, contributors to the value of the company. We also have contractors. A lot of companies in our field will have their own trucking fleets or will have their own shipping operational departments, whereas we rely on third parties for that.

So you are relatively asset-light?

We are very asset light. We don't do that as a matter of policy, but we believe our greatest value is in knowing how to operate these assets, and very often we find that there are people who are looking for a lower return on their equity and are happy to own those assets in return for a good rent. But for us, our return on equity has very high expectations, so it would be inefficient for us to own something if we can get somebody else to buy it and rent it to us on a lease-back arrangement.

What makes Guatemala such a strategic market for the Group? How does it fit into your regional and global strategies?

Guatemala's initial value for us was the fact that it was the first market that gave us the opportunity to put into practice a model that we believed in very strongly, of integrating the efficiencies of a supply chain and trading with a distribution train on shore.

We entered Guatemala almost by accident. It was not the most comfortable situation: our main client there turned out to have been evading taxes for many years, and he was caught. We were totally offshore, but were faced with the possibility of having our inventory and cargoes seized by the authorities. So, we had to take the reins, move in-country and prove to the authorities that we weren't simply an agent of our old client, but that we had our own identity, and that we were interested in doing first-class business in a first-class way. That took from about 2005 to 2007 to achieve, and it consumed a lot of our energies, trying to develop the local contacts and capabilities, and the legal strategies to be able establish a presence there, to protect our inventory, because we had about US$60 million of inventory, that was at risk at that time. During that period, between 2005 and 2007, we were able to see that Guatemala had all the qualities that we saw were necessary to develop this model that we now use. So we developed it, growing our market share. We also introduced a healthy element of competitive pricing into the market, which is still very much the case. I think that to some extent, it is undeniable that the arrival of Blue Oil made the existing oil majors' business model in Guatemala less viable. Look at it from Blue Oil's perspective: if we only profited as much as the oil majors spent on overheads we would have had a very successful business. We took advantage of that: we were very efficient in supplying, whereas the oil majors had to use their in-house trading companies, which soaked up a lot of their margin. We always looked at the whole value chain as one, which made us a lot more efficient and a lot more aggressive at times. So, the oil majors had to exit, and I think the biggest challenge has been for the new owners of distribution companies to revise their business models to seek sources of value that do not involve growing market share.

I get the feeling that when they got their financing in line to acquire these new businesses, they had the idea that they would grow their market share from where those businesses were to start with. But when you have two new players, who account for 50 per cent of the market, doing that at the same time, then the result is that they simply cannibalise the margins. So, we had a few difficult years in Guatemala, from 2011 to the middle of 2013, when it was pretty dire. Most distributors were asking themselves why they were still doing business there. When you buy an asset worth several hundred million dollars with a business model in mind, it is very difficult to change that business model because you have a whole financing structure relying on it. Slowly, reality set in and from the middle of 2013 we saw the market start to build: a reasonable

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Pump up the volume: Blue Oil currently supplies close to 40 per cent of the motor fuel sold by independent petrol stations in Guatemala

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commercial margin, and reasonable commercial practices. It was a very dangerous situation toward the middle 2013, but since then things seem to have normalised. I think it is also telling that those of us who have been there for three years or more have invested enormous amounts of money in staying there, because there has not been the kind of market that would have paid you to be there.

What were the key criteria that made Guatemala a strategic imperative for you?

Guatemala has several very positive characteristics built into the system. First, it is a free-access market. This is very important. The mechanism for pricing products in the country is not rigged or subsidised in favour of any player. This means that those who have the vision to enter the market can participate on equal terms with everybody else. The competitive nature of the market before was hurting the players a few years ago, but we knew it would end because it wasn't as though there was a state oil company asking the government for more money. That does happen in other markets, so that was an important factor in the case of Guatemala. Second, Guatemala has a highly-developed entrepreneurial or business culture. Even though it is true that in a lot of countries many of the laws regulating hydrocarbons are in their early stages, and in a lot of countries you run the risk of the government legislating against the interests of business, this is less likely to happen in Guatemala because the business lobby is very powerful, and so the government does listen to you when you have a problem. Another factor I should mention is that the reality in Guatemala is that there is no power that can come and overwhelm your efforts, shall we say. It's a bit of an aggressive environment business-wise, but it's also a pretty level playing field. It is important to have strong local backers or support, but all business is conducted by people who have learned how to exist in that system. So, Blue Oil does not feel inferior to any Guatemalan company in being able to develop its objectives. This is very important. Outsiders are not disadvantaged.

Who is your local partner?

I was looking for local partners for a long time, but I discovered that having been there for so long I had become local, and I had found a lot of local people in accounting and management who were skilled, well-trained, and happy to join our vision. These are very important elements to being in Guatemala. There are also difficulties to being here, but to us the positive things have allowed us to maintain and grow our presence.

What advice would you give to would-be entrants?

My advice would be that if you want to do business in Guatemala you have to get really good people from within the Guatemalan system, who really know how things work, advising you on every aspect of your business, because your general counsel or accountant from your country are not going to have any idea about how a company's end product gets negotiated through the different authorities and regulatory bodies. There is a lot of dialogue that goes on, and you have to accept that, and you have to accept that you cannot impose your way of doing things. If you are not willing to take local advice and expertise, you will never negotiate your way through the Guatemalan system.

Looking ahead, are you interested in moving into upstream activities?

We traders live with the fear of being out-traded. That means that we know we have been able to get where we are on our wit, on our insight, but somehow there is always the feeling that we should get into a business where we don't have to think so much, and just count our dollars. I have friends who made money trading on supply and distribution, and then decided to invest upstream, as a retirement fund. The way Blue Oil looks at both upstream and refining, is that there will be opportunities that arise that make sense, and when they do, we'll do it. But we are not looking for a more stable, less difficult, less demanding business. We know that our strength is our ability to recognise an opportunity, and we will continue with that approach.

What impact do you expect the current confrontation between Russia and the West to have on your business?

I don't wish to predict what is going to happen with the 'new Cold War', but if Russia were to be slapped hard enough, it would mean that there would have to be restrictions on their oil production, like we have done with Iran in the past. So, if they do something 'bad' enough, the West would move toward restricting their ability to sell crude. The reality is that this would be a huge opportunity for companies that move oil around the world, like we do. What we do better than the majors is that we're not that concerned about who produces or consumes crude. We're concerned with who has refineries and what they do with their product. So, every refinery is a potential source of product for us. And this changes every day according to all sorts of criteria. Oil majors are very bad at reacting to very rapid changes, whereas we merchants of oil are very good at it, so this could be a situation that we could exploit better than the oil majors. Of course, that would be a terrible development for all of us, but realistically speaking, it would be a situation where our business model would do well.

Like the Chinese, we see crisis and opportunity as the same thing. F