Survival of the fittest

INTERVIEW WITH MARIO KOEHLER
DIRECTOR, BLUE OIL SUPPLY COMPANY

MARIO KOEHLER is a seasoned business manager, investor, dealmaker and business developer with ownership stakes and executive roles in companies with activities in Latin America. Since 1998, following successful careers with AIG and the Boston Consulting Group in the US, Europe and Argentina, Mr Koehler founded Orion Asociados, a business development firm based in Buenos Aires. Since 2014, he has collaborated with Blue Oil Group as a Director responsible for business development and growth.

Even in an environment such as the oil industry, long dominated by global behemoths, it is still possible for niftier, nimbler players, able to see the gap between supply and demand, to wrong-foot the big boys and earn themselves a significant share in retail and industrial markets.

Which is what one independent has been doing over the last 11 years: first in Guatemala, and now in Chile. Blue Oil Group's expertise, acquired by its small team of traders over decades, is identifying markets with serious refining capacity shortage, then finding alternative sources of oil products to meet demand, creating competitive and reliable supply chains in the process.

"Put simply, we achieve differentiation from our much bigger competitors by offering better-priced products and improved services, which, over time, brings us greater market share," explains Mario Koehler, who took over six months ago as Blue Oil's head of business development.

The company also chose Guatemala because it has a transparent pricing mechanism: "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," says Mr Koehler.

After identifying Guatemala's potential, Blue Oil's team began supplying the market there in 2003, initially on an offshore basis by selling to an importer that sought to supply the country's independent service stations. The biggest entry barrier in the Pacific Coast of the Americas, and in Guatemala, is the chronic shortage of refined oil products such as diesel, gasoline, and fuel oil.

In June 2005, Blue Oil had the opportunity to take control of the Arcenillas Terminal in Puerto Quetzal, and it took it. The company's move onshore Guatemala as an importer was precipitated by the authorities' discovery that its only client (who was buying from it offshore) had been evading taxes for several years.

"Unless Blue Oil moved its presence onshore to take control of its storage and distribution, we were at risk of having our inventory seized to pay the rogue client's tax debts. The burden of proof was on us to show the authorities that were a separate entity, so we spent two years building up our corporate reputation and learning the market," explains Koehler. Ten years on Blue Oil has a hard-earned reputation as one of the Country's top corporate citizens.

Not that Blue Oil's entry into the Guatemalan market wasn't met with resistance. The country's distribution market was controlled by Shell, ExxonMobil, and Puma Energy, owned by Trafigura, the world's third-largest oil

Right: Dock of the bay: the pier at Blue Oil's Mejillones terminal in Chile

Opposite: Taking the long view: Blue Oil's Arcenillas terminal in Guatemala and metals trader. Their response to their upstart rivals was to hold onto market share at any price.

Blue Oil's superior origination and hedging strategies paid off. "Although we at Blue Oil initially held our ground and eventually grew our market share, the strategy led the two majors, Shell and Exxon to exit the market. Exxon sold out to Puma and Shell to the Honduran conglomerate Unopetrol," recalls Mr Koehler.

Unfortunately, both the new owners seemed to have a similar strategy for their new acquisitions – to grow market share. Added to the entry of a new importer in the market, this wreaked havoc on margins until the middle of 2013. Again Blue Oil held its ground and increased market share.

"We hung in there and barely survived – but we survived. As time moved on, we came to see who were our allies among our clients. What's more, the price war opened our eyes to a lot of things and allowed us to understand that we needed to integrate further, and so we set up alliances with 65 gas stations, some of which are branded Blue Oil, and some not," says Koehler, adding that the main point is the agreement with gas stations to buy their fuel from the company.

Mr Koehler, who started out in consultancy – he moved from Germany to Argentina to set up the Boston Consulting Group's Argentinean office more than two decades ago – highlights the importance of strong local backing in Guatemala, "even though outsiders are not put at a disadvantage. There are obviously some difficulties specific to the market, but to us the positive aspects have outweighed any difficulties and allowed us to maintain and grow our presence."

Finally, after two very difficult years between 2011 and the middle of 2013, Blue Oil began to see its market grow. "I guess what doesn't kill you makes you stronger," says Mr Koehler.

He describes the last decade as a "long haul", but says that over the last year the company has integrated into controlling gas stations. "The situation in Guatemala shows that we can hold our own in a competitive market, which can only be done if we are actually there, vertically integrated with a share of the market." Blue Oil now controls around 22 per cent of the supply of the service station market and 15 per cent of the total oil market in the country.

The company doesn't see itself as a middleman, and owns its oil cargoes, which means it can look at ways to position itself and buy a stream from a certain country and then sell it to the best markets to realise its value, notes Mr Koehler.

For example, he says, 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, while Blue Oil looks at a terminal as a way to access a market. "We don't want other people to use it and share that market. So, for us, the only real entry barrier to market is a terminal, instead of a US$4 billion refinery," he says, highlighting the company's entrepreneurial approach.

Blue Oil's philosophy is rooted in its background as a trading company, according to Mr Koehler. The group was born out of the long-term collaboration of a team of traders, operations and finance experts that have been supplying oil to the Pacific coast of the Americas for over a decade. In the early days, it worked as a unit in a joint venture with a medium-sized oil trading company that concluded in December 2003. During this four-year relationship, its team operated most of the diesel cargoes that were imported into Chile, Peru and Ecuador, as well as a large proportion of the gasoline imports. The company employs around 100 people worldwide, and also uses contractors. Unlike many of its competitors it is extremely asset-light, and doesn't even own trucking fleets or a shipping operational department.

Mr Koehler, who stayed on in Argentina after leaving Boston Consulting, going first into the pharmaceuticals industry and then equity fund management, says that after a decade in Guatemala, Blue Oil plans to stay, and that the company is not worried about the recent protests against corruption that have brought thousands of people onto the streets of the capital to call for the government to stand down, after the revelation of a massive customs fraud network known as 'La Línea', allegedly led by the then Vice President's private secretary. The Vice President has since resigned, along with other senior cabinet members and officials.

"We're not overly concerned about the political situation here. We're a British multinational company

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that is well-known and respected in Guatemala, and, very importantly, under this administration we have felt supported by the British Embassy. The powers that be here know that we're a serious outfit, and that our dealings are transparent. We don't believe in business models that depend on the government of the day: we pay our taxes and we get on with business," says Mr Koehler, adding that street protests can be a healthy sign of the country's democracy.

Applying the highly flexible business model it has developed over the last decade in Guatemala, Blue Oil is once again playing to its strengths on spotting a good opportunity, and is now embarking on the next phase of a growth strategy focused on the Pacific Rim, as it sets up operations in Chile.

The company is building an 86,000 cubic metre fuel terminal at the port of Mejillones, in the Antofagasta region of northern Chile, where it has already begun supplying the local mining industry. Blue Oil's terminal is expected be fully operational by the first half of 2017.

Mr Koehler believes its experience in Guatemala, albeit drawn from the retail market, has helped prepare the ground for its move into Chile, where it will be dealing with industrial customers.

Chile had been on Blue Oil's radar for some time, says Mr Koehler, as the company saw another opportunity where others might be put off by the challenge. "It's a country where there is considerable corporate concentration: around 20 major holding groups control something like 60 per cent of the economy, and these giant groups wield huge power and political influence."

What's more, he adds: "Its fuel supply is highly import-dependent, and distribution is highly concentrated. Around 60 per cent is controlled by COPEC, and in the North that share recently increased to an unwieldy 90 per cent or so. COPEC has the biggest network of gas stations, followed by Enex and Petrobras." And yet only around 65 per cent of petroleum products are refined in the country – and, crucially, mostly in the South.

Blue oil contacted mining companies operating in Antofagasta, who were keen to find alternatives to ensure competition and to guarantee supplies in case of any disruption to COPEC's facility. "What's more, no other terminals will now be built in the area. It was a perfect opportunity for us, and the timing was just right: COPEC had just won a US$2.3 billion tender to supply CODELCO, and Petrobras was already over-extended. The mining companies were telling us: 'we'll give you the business, just give us a good price and build a terminal'. It was like chatting up the prettiest girl at the party while her date is getting drunk," is how Mr Koehler describes the move.

He says that Chile also made sense because of its import-parity cost structures, along with monitoring from anti-trust authorities: "If the big players throw their weight around, we know the government will step in. Antofagasta, where we will be operating, is in need of supply alternatives, and demand for diesel has been steadily growing, and will continue to grow. There are only two other terminals to supply the region: COMAP's in Antofagasta, and COPEC's in Mejillones.

In short, Blue Oil's competitive position in northern Chile is solid. It can competitively source under the same conditions as current importers; it controls multiple discharge locations along Latin America's Pacific coast, allowing for logistical and volume efficiencies; and the company already has considerable experience supplying Latin America from Asia, which allows for greater competitiveness compared to supplies from the US Gulf coast. What's more, argues Mr Koehler, Blue Oil can manage transfer prices so as to sustain price competitiveness.

The total cost of the two-phase project is US$31 million, which Blue Oil hopes to raise locally. The IRR is between 20 per cent and 25 per cent leveraged. "We're looking to build up around a 25 per cent share of the market in the region, with projected sales volumes of 360,000 cubic metres a year. Unlike in Guatemala, our target customers are industrial: mining, transportation, and energy generation," says Mr Koehler.

Blue Oil will have its hands full getting its Chilean operation off the ground for the next couple of years, but is already looking around for new opportunities along the Pacific coast of the Americas, a region it now knows well, and that offers opportunities to bring in supplies from Asian markets. "We will stick to the Pacific. It's a region we have come to know and understand. I don't think it would make sense for us to try our hand in, say, Brazil," says Mr Koehler.

"We're watching the situation in Nicaragua closely, where a canal is being built to connect the Atlantic with the Pacific. There is huge potential there for us to further develop a terminal and distribution system. Southern Peru is also very interesting, especially if we can find a partner that has infrastructure we can work with. We could even move into energy generation, either there, or even in Chile. We don't even rule out moving into somewhere really tough, like north-western Mexico, and sitting it out until the situation there recovers. Don't forget that from 2017, gas stations in Mexico will be free to buy from whichever supplier they wish. I believe that we could compete with Pemex, no problem," says Mr Koehler, adding: "we've learned a lot in the last decade, and at the end of the day, in any tough market, whoever can deliver will find a buyer. In this business you can't follow somebody else's path – you have to pave your own." F