

# Keeping Colombia competitive

INTERVIEW WITH **EDUARDO RODRIGUEZ TAMAYO**

COUNTRY CHAIRMAN, SHELL COLOMBIA, ECUADOR, CENTRAL AMERICA & CARIBBEAN



**EDUARDO RODRIGUEZ TAMAYO**

holds an MBA from Georgetown University, a BSc in Manufacturing Engineering from Boston University and was part of the Global Business Leadership Programme at Wharton School of the University of Pennsylvania. In 2004 he was appointed Retail Manager for Shell in the Dominican Republic, moving to Colombia in 2009 as Country Chairman. Since then his responsibilities have expanded to include New Business Development for Colombia, Ecuador, Central America and the Spanish and French Caribbean.

**How significant are Shell's interests in Colombia?**

We presently have three businesses in Colombia: a trading business, most of which is done through FOB purchasing, although we're also trying to develop crude monetisation; a lubricants business, and our upstream business, which consists of three offshore blocks: two under technical evaluation, in which Shell holds 100 per cent, and one EP block, in which we have a 65 per cent stake, in partnership with Ecopetrol. We did have onshore assets as well, but we relinquished them in 2015.

**What were the main factors behind the decision to quit upstream activities, and to return?**

Shell has maintained a continuous presence in Colombia for 80 years now. We left the onshore in the late 1990s because the security situation in the country was becoming increasingly complicated. In 2007 we saw how the country had improved in all of its metrics, plus the pro-investment conditions, so we decided to return to the upstream business. When you have a combination of the right resource plus the right conditions, it's a very friendly environment in which to invest.

We first entered as non-operators. We partnered with Ecopetrol on a couple of heavy crude blocks, and made a discovery in 2010. We sold our share quite easily, which is a good sign that the country is open for business.

After that, in 2010, we decided to become operators, which we did in the Middle Magdalena for unconventional onshore and in the Guajira for offshore. Since then, we continue to operate the offshore blocks and decided to relinquish all of our onshore positions. Based on our experience, the offshore has been a completely different story to the onshore. We found a government that has been willing to listen and work together with the industry to achieve a win-win for both the state and for the private sector. There are still a lot of challenges, but we feel comfortable with the way we have been working with the government. And I hope it remains that way.

**What makes you think it wouldn't?**

Well, we have noticed that in the past two years the peace process has dominated the political agenda, at

the expense of the day to day running of the country. Particularly in our industry, where we have seen changes of key ministers, government agencies without a director for long periods of time, and so on. That said, a successful conclusion to the peace process would add enormously to Colombia's attractiveness as an investment destination.

**The extractive industries are expected to be one of the big winners in the post-conflict era. Would a successful peace process be enough to persuade Shell and others to return to onshore exploration, do you think?**

It depends on two things: what improvements we see, both in the situation on the ground and in the fiscal and regulatory conditions, and the global portfolio of our companies.

In terms of offshore, we have some good prospects here, and we need to de-risk them and then take the necessary decisions. For example, what if we find gas? Deepwater gas is very expensive. So, then we will have to have a very detailed discussion with the government to see how we can make it viable, make it competitive in comparison to the Gulf in Mexico, or the LNG coming out of Trinidad. Colombia has to really understand that, and the centre of the discussion should always be country competitiveness.

**In terms of the country's competitiveness, where do you see the issues to be addressed?**

Well, the most important thing is to have the right incentives and the proper rule of law. The key thing is contractual stability: clear rules of the game and no changes. That way, you know what you are investing in and you know the risks that you're assuming, but that they are controlled.

One of the examples is the structural tax reform that is currently being debated in Congress, which is going to send a very important signal to investors. We want to be in a country where fiscal laws don't change the rules of the game. In 2014, there was a 'light' tax reform where certain things that should have been removed were not removed, which gave us cause for concern. Temporary taxes that turned out not to be temporary but fixed; things such as the equity tax, which for investors is something that is very sensitive. If you are investing in a drilling campaign, with five

wells, and the government decides to impose an equity tax, that's a game changer. Or, if they award you an environmental licence and then revoke it – as happened this year to another oil company– that worries investors, and it definitely worries me.

Generally speaking, our expectation is to continue working in cooperation with the government as we have over the past 6 years, and continue to improve the investment conditions to the benefit of both the country and the industry. The main challenges ahead are to have competitive and sustainable Technical and Environmental Terms of Reference, robust E&P offshore contracts, reasonable guarantees for operators, and a big expectation on the structural tax reform where we expect to maintain the current fiscal conditions that offshore operations are subject to.

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**Do you feel that the government is receptive to your concerns?**

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They are certainly receptive – as long as you don't just come with a complaint. If you raise an area of concern, or potential improvement, with a technical


justification, analysed in a legal context, and help them work it out, things tend to happen. That's what we have done and I think it has been very successful, so the key to success is to come up with solutions, not problems. Our expectation is for this trend to continue.

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**How do you see the outlook for the sector over the next year or two?**

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If you look at the offshore, most of the acreage has been awarded already, so any new activity from the ANH will depend on what happens to those blocks that have been granted. I don't expect to see much activity in terms of formal bid rounds.

Right now, the ANH is working on a new format to assign contracts, through competitive direct assignment, to try to accelerate the process. In this way, companies interested in a particular block can put in an offer, and then the ANH goes out the market to seek other interested parties. Then they evaluate the resulting offers and award the block to whomever is the best bidder, which we believe is a fair way of doing things, and a positive step forward for the industry and the country. 

**The key to success in working with the Colombian authorities is to come up with solutions, not problems**

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