



# **Doing business in Latin America – a European perspective on the energy industry**

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**Walter van de Vijver** is a Group Managing Director of the Royal Dutch/Shell Group of Companies and CEO of Shell Exploration and Production.

He joined the Group in 1979 as a field engineer and held a variety of positions in the exploration and production business in the UK, Qatar, the Netherlands, the US and Oman, before being appointed General Manager of the Brent Business Unit, in 1993, where he initiated and implemented the massive Brent Redevelopment Project.

In 1997 he became Chief Executive of Shell International Gas and Shell Coal International before moving to the United States the following year to take up the position of President and Chief Executive Officer of Shell Exploration and Production Company. In the US he led the restructuring and repositioning of the exploration and production and gas and power businesses.

Walter is married to Bernadette and has two daughters. His leisure interests include rowing, golf and pop music.

**Latin America may be facing some major challenges, but there is plenty of cause for optimism that these challenges can be overcome. The issues that have hindered more rapid development are becoming more recognised. The potential in Latin America's resources, and its people, is enormous. After nearly a century of activity in the region, Shell remains deeply committed to contributing towards Latin America's realisation of its potential, balancing short- and long-term objectives to deliver high performance within a solid framework of sustainable development.**

This conference is important. It opens doors.

Today I will concentrate on the major challenges that affect an energy multinational. And I will suggest some levers to boost relations between Latin America and Europe in the energy sector.

But first, here are three points to frame my remarks.

Number one, I believe Latin America *can* address its current challenges. The issues that have hindered more rapid development are becoming more recognised. Open management systems will help to resolve those issues.

The Earth Summit at Johannesburg echoed this sentiment. The Summit's Implementation Plan includes proposals to foster cooperation between countries in the Latin America–Caribbean region, and build on the Platform for Action that leaders in this region have themselves developed.

My second point: I cannot over-emphasise the enormous potential in Latin America—because of its resources; and its people. And because many of the foundations for development and growth are already in place.

These two points explain my third one: that Shell has a major commitment to the future of Latin America.

We have been active in South America for nearly 100 years. Today we operate in 30 countries. And we are committed to continue in Latin America, as a leading integrated energy company, in many cases working in partnership with the region's major players.

We believe we have something valuable to contribute. We have reliable, innovative partnerships with national oil companies and governments around the world.

We are able to participate in the development of the nations where we operate by fostering new businesses, and

creating employment.

We contribute to good business practices and principles, by setting high standards for our own performance—environmental, safety, and business integrity—and seeking the same high standards of those who work with us.

### **Challenges for Latin America**

Now that you have seen the frame, let me paint the challenges for Latin America.

The political situation in many countries is volatile and this leads to volatile economic growth.

Corruption colours the political, and social, environment across Latin America.

It contributes to income inequality—the top 20% of households have 20 times the income of the lowest 20%—and significant “leakage” of economic growth.

And the income gap is growing. Many people are unable to cover their basic needs. Extreme poverty is rising across the region.

Meanwhile, the economic burdens of Latin America are heavy: solvency issues, large debts, dependence on a single industry or trade partner, economic instability.

At the same time, individuals and organisations at home and abroad are holding up the mirror and saying “What about your *environmental* issues—Mexico's pollution, for example, or deforestation in the Amazon basin?”

Clearly, the energy industry has its share of responsibility. But it's not just down to us. Everyone needs to engage in this issue—all industries, and local people.

That's why, for example, Shell supports the Seeds of Life project in Argentina. This programme teaches small farmers in Tucumán how to cultivate the

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best crops, and produce seeds for the following year. Along with financial support, Shell provides fuels and administrative support for the project.

This kind of activity helps, but there is no doubt: Latin America faces major challenges. And the solutions need to be sustainable in the long term.

### Challenges for energy companies

For international energy companies, that may be soon enough. Energy is a long-term business.

But timing is not the only challenge for us.

Individual markets in Latin America are very different: in how open they are, how competitive, and how they are regulated. We have to approach each market in a different way.

The rules of the game should also be applied to all participants. For example, it is not attractive for companies like Shell to engage in markets where our products are competing with adulterated fuels at low prices, or where some competitors do not pay all the relevant taxes.

Another challenge for us is balancing supply and demand. The timescale for some energy investments is often decades. But events like the 1998 Asian economic crisis can have a rapid and profound impact on fuel demand—and operating margins.

Argentina is currently in the midst of its own crisis which is having a major impact on the local population and many industries. It is important that the efforts to resolve this situation and prevent it spreading to Argentina's neighbours are successful.

Despite all these challenges, for Latin America and the energy industry, I believe that we *can* work together to succeed. We can build a path to long-term solutions that benefit all of us by aiming in the short and medium term for high performance, based on strong business principles.

### Views of the future

Some people are rather gloomy about the future. The Economist Intelligence Unit deems Latin America one of the world's riskiest areas to do business. They expect little change in the short to medium term.

Longer term, the EIU is a little more optimistic, *if* Latin America can put its house in order.

These economic risk projections are important, but we must see them as part of the bigger picture. Let me give you an energy perspective on that bigger picture.

As you may know, Shell develops its own scenarios of the future. In our most recent global scenarios, we see energy consumption continuing to rise. Society's expectations—of business and government—are also rising, particularly in the context of the environment. These factors may lead to a shift from oil to gas as the fuel of choice; and an emerging hydrogen economy. Or they may result in a much more diverse energy mix. It's not yet clear. Meanwhile, the world will continue to be volatile and uncertain.

That's the big, global picture. Now if we focus in on Latin America, we see several possible paths forward and have developed three of these in some detail. I should stress: scenarios are not a guessing game. They don't answer the question, "what **is** going to happen?" They ask the question, "what could realistically happen, and what would be our robust response to these events?"

Our first Latin American scenario, we call "Cacerolazos"—obviously linked to the popular protests that were a factor in the recent events in Argentina. In this scenario the elites maintain their privileged position, manipulating popular protest against ineffective democracies and treading a fine line between populist policies and economic collapse. Populist, illiberal democracies and protectionist policies return to preserve profit opportunities for a rich, narrow upper-middle class. The external world is indifferent. Big business faces a difficult time—often a convenient scapegoat for protestors and governments alike. Government remains heavily involved in energy production and supply, supports domestic hydrocarbon businesses and prestige infrastructure projects such as hydroelectric power, but is unable to attract substantial foreign investment.

In the second scenario, called "Phoenix", the stranglehold of the Latin American elites is broken by political and

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financial crashes in many Latin American countries, followed in some cases by US or EU intervention. Triggers may be a debt crisis as in Brazil or Argentina, or invasion in the case of Colombia. The crashes lead to political realignment and a practical agenda on corruption, economics, the environment and human rights. In the short run, events are volatile and challenging—not least for foreign investors who get their timing wrong. In the long run, economic growth and political transparency increase. From 2010, energy demand growth reaches 7% a year for over a decade, with cross-border gas pipelines one of its drivers. Foreign direct investment (FDI) is required to meet this demand and develop a credible liberalised gas and power sector.

Finally, a scenario we call “Everybody Who is Nobody”—where popular movements gradually take the initiative from incompetent governments. Local urban communities entrench, develop infrastructure and gain political voice. Indigenous rural groups begin to mobilise, seeking constitutional defences of their rights. Governments decentralise, fragmenting their authority. Growth rates stabilise and gradually pick up, but energy demand growth is modest because of policies to boost energy efficiency, including public transport systems. Governments remain heavily involved in energy markets, with delivery to the urban poor a priority. With uncertainty on land rights, FDI in energy is hesitant and cross-border projects difficult.

Any of these three scenarios could unfold before our eyes. As I said, the important thing is to be prepared—so that we can all help Latin America to realise its full potential.

### **Role for energy companies**

What role can energy companies play?

We can help the fight against corruption, by raising the bar on business integrity and transparency. In Shell, we focus on identifying the conditions and circumstances that foster incidents, so that we can establish the right behaviours and systems to prevent them.

Secondly, energy businesses looking for a win-win situation in volatile Latin

America must be resilient: with consistent, cohesive management; excellent communications; and the ability to find new approaches to problem solving.

As you know, doing business in Latin America is demanding. So multinationals must provide strong support for their local leadership. If they lack that support, and spend their time trying to satisfy more demands from HQ, they will find it very difficult to promote stability and consistency.

Local talent needs to be nurtured as well. Latin America has a highly-educated, highly-skilled workforce. They deserve excellent management and staff development. It benefits everyone.

Especially when we encourage people in our business operations to network with each other, within and between countries. That way we have an aligned Latin American community within the business.

Engaging all our employees is one step in the process of engaging with *all* the stakeholders in the business.

Shell, for its part, is very keen to work more closely with national oil companies in exploration and production opportunities.

We also want to engage more with government and NGOs – in projects like the Sustainable Transport initiative. This programme was launched in Mexico City last May, to pilot a cleaner public transportation system. It is supported by the World Bank, Mexico City Government, and Shell, in the kind of partnership that the Earth Summit is trying to encourage. And the door is open for other interested, able partners.

Community engagement is vital in Latin America. We can do this in many different ways. For example, Shell operates a programme called LiveWire in Chile and Argentina, helping youngsters to get their own businesses off the ground.

We can help in the world beyond commerce. In Brazil, Comgás has an Apprentice Programme that trains young people to take the lead in social projects. They are improving health, protecting the environment, and tackling community issues in their areas.

International companies have a lot more to offer—supporting hospitals and

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schools, helping to run sports clubs for children, volunteering among the destitute, mentoring young people or older people who want to make a fresh start.

But we need to meet the needs of the people we're working with, not just offer the 'package from head office'. In Venezuela, there's a very high incidence of Huntington's disease in the Barranquitas community, close to Shell's operations. So we're helping the community to build a hospital there. It will be an international centre of excellence in the treatment of this disease.

As you can see, there are many facets to the role of an energy multinational. I would like to highlight just one more: building on best practice. Let me give you an example from Colombia.

Political, social and economic institutions there have been struggling. Shell Colombia is taking part in a programme for undergraduate students across the country.

The students are encouraged to understand Colombia's ethical problems. The programme focuses on values, and fosters a sense of social responsibility, which the students can apply in their future jobs as entrepreneurs or public officials.

800 students were on the programme by the first quarter of this year, in several Colombian universities.

This is just one example of how companies can share and build on best practice. There are many others. When best practice is a way of life in Latin America, it will be well down the road to realising its potential.

### **Encouraging investment**

And as I have shown, energy companies can do a lot to accelerate progress. However, some things need to be in place.

A stable commercial structure. Consistent legislation and regulations. A legal structure that is nationally and internationally recognised and adhered to by all.

We need to see government and society encouraging international investment—we do make large investments, over very long periods of time and we need to be confident that our people and our property are secure.

We are committed to maintaining our

own standards of business integrity. We need to know our intentions and efforts are mirrored in our potential business partners. And we can also learn from others, to bring about a general increase in these standards.

We need to see more action on issues like dumping, from those who regulate the business environment. Governments play a key role in shaping the competitive landscape.

Peru, for example, had major problems of illegal practices in the retail trade for oil products. Shell has worked closely with the oil industry association, and through the media, to highlight the situation. The relevant authorities are now taking action—to punish the tax evaders and encourage good business and good practice. This kind of co-operation benefits everyone.

Overall, we would welcome a level playing field, and more opportunity to participate. Take oil products again. In Latin America, national oil companies and local companies comprise almost 60% of the market—compared to less than 25% in Europe.

In summary, we are looking for opportunities for 'win-win' partnerships, where multinationals can do principled, profitable business, to deliver social and economic benefits in Latin America and beyond, with minimum environmental footprint.

I have given you some ideas towards that goal. But I am not suggesting that Shell has all the answers. I am looking forward to learning from the other industries represented here today, and from the panel discussion to follow.

Let me just confirm this: I am optimistic about the future for Latin America. If it can get back to basics, and create the conditions for growth and sustainable foreign direct investment, then Latin America will be in a strong position to realise its enormous potential.

Shell is ready and able to play its part in the "Latin America success story". We are offering development of resources at lowest acceptable cost, in a way that balances short- and long-term objectives, to deliver high performance within a solid framework of sustainable development.

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