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Mexico Delays Nationwide Distribution of 15 ppm Sulfur Diesel

Stratas Advisors

In Mexico, the legislation regulating diesel fuel quality in the country is established under the NOM-016-CRE-2016 fuel specifications issued by the Energy Regulatory Commission (CRE). Within the NOM-016-CRE-2016, the CRE set the date for the nationwide commercialization and distribution of 15 ppm sulfur diesel to begin on Jan. 1, 2019. However, on Dec. 27, 2018, the CRE approved the Acuerdo A/065/2018 which established a temporary delay in the mandatory commercialization of 15 ppm sulfur diesel in the Central Bajío region.

The move to temporarily delay the full implementation for this particular region comes as a result of various meetings with licensees, business associations, groups representing automotive diesel fuel consumers, Pemex Transformación Industrial and Pemex Logística. From what concluded among the meeting attendees, it was determined that the Tula and Salamanca refineries are still making progress in their capability to produce this grade of diesel and the transportation and storage infrastructure is limited in the areas that these refineries would service. Taking these issues into account, the CRE indicated they will temporarily allow the Central Bajío region to ease their enforcement of the nationwide use of 15 ppm sulfur diesel.

The Central Bajío region consists of certain municipalities in the following states:

- Aguascalientes;
- Guanajuato;
- Hidalgo;
- Jalisco;
- State of Mexico;
- Michoacán;
- Querétaro;
- San Luis Potosí; and
- Zacatecas.

Although the Central Bajío region will be under a temporary exclusion from enforcing the NOM-016-CRE-2016 fuel specifications, the states in this area will enter into temporary coexistence zones and continue to sell both 15 ppm and 500 ppm sulfur diesel simultaneously. The CRE set a defined schedule which will run between Jan. 1, 2019 and June 30, 2019, during this time the CRE expects the entire supply chain in the country to complete the transition to 15 ppm sulfur diesel. Beyond the June 30, 2019 deadline, the temporary coexistence zones will come to an end as 15 ppm sulfur diesel must be provided throughout the national territory without exceptions as of July 1, 2019.

In addition to the July 1, 2019 deadline, the CRE established additional target dates that should be met in order to complete the transition to the use of 15 ppm sulfur diesel in the temporary coexistence zones, those being:

- As of May 1, 2019, fuel producers must guarantee the supply of 15 ppm sulfur diesel;
- By June 1, 2019, fuel carriers, fuel storage operators, and fuel distributors must guarantee the supply of 15 ppm sulfur diesel; and
- By June 30, 2019, service stations must guarantee the supply of 15 ppm sulfur diesel.

Although the intent of the Acuerdo A/065/2018 targeted the Central Bajío region, the states and municipalities that are not listed in the temporary coexistence zone are subject to certain deadlines to carry out the cleaning and conditioning of the storage and transport infrastructure within their respective states. Those target dates include the following:

- As of Jan. 1, 2019, fuel producers must guarantee the supply of 15 ppm sulfur diesel;
- By March 1, 2019, fuel carriers, fuel storage operators, and fuel distributors must guarantee the supply of 15 ppm sulfur diesel; and
- By March 31, 2019, service stations must guarantee the supply of 15 ppm sulfur diesel.

Under these scenarios, the temporary coexistence zone will expire on June 30, 2019 and 15 ppm sulfur diesel fuel must be supplied throughout the national territory as of July 1, 2019 in accordance with the provisions of Acuerdo A/065/2018.

Stratas Advisors View

With the nationwide use of 15 ppm sulfur diesel already occurring in various parts of Mexico, expectations are that the CRE will continue to push towards its full use in the coming year. Since the implementation of the NOM-016-CRE-2016 fuel specification, Mexico has been working towards improving the fuel quality of on-road diesel fuel. Based upon the 2019 target dates for the nationwide use of 15 ppm sulfur diesel, it appears that the refining sector in the country continues to slow the progression to lower sulfur fuels. Yet with the July 1, 2019 deadline established in Acuerdo A/065/2018, the CRE may be able to rectify the issues with the refining, storage and transportation of 15 ppm sulfur diesel prior to the upcoming deadline. With the passing of the NOM-016-CRE-2016 fuel specification, the refining sector in the country has been working towards meeting the goals set within the legislation since August 2016. In addition, the country may also depend on diesel fuel imports to meet the goal of the nationwide distribution of 15 ppm sulfur diesel. In closing, the target dates for the complete nationwide distribution of 15 ppm sulfur diesel may be revised by the CRE prior to the indicated dates based on the advancement made in addressing the issues related to the delay in meeting the criteria set in the NOM-016-CRE-2016 fuel specification.