Latin America: Refinery Fuel Market Outlook

Stratas Advisors

Latin America has about 9% of the world’s population, and it is one of the most urbanized regions of the developing world as about 80% of its population lives in urban areas.

The urbanization has occurred rapidly during the past 30 years, leading to an exponential growth of the vehicle fleet, congestion and emissions. In 2017, Latin America represented nearly 9.7% of global petroleum product demand. Gasoline and middle distillate make up 63% of refined product demand.

The region has high fuel consumption (total gasoline and diesel demand is 5,405 Mbdp) and it is projected to rise at a CAGR of 0.9% through 2040, reaching 6,376 Mbdp.

Current State of the Fuel Market

Latin America refinery capacity is 7,779 Mbdp with a conversion ratio of 33%. Despite its vast crude oil reserves, the region’s refining capacity and utilization rates and demand product mix dictate sizable product imports, primarily motor gasoline and diesel.

The main culprit holding back the fuel market is an outdated refining sector that has not been modernized and has not added the required capacity.

For 2017, Latin America’s total gasoline and diesel demand was 2,272 Mbdp. Brazil and Mexico are the two largest fuel consumers in the region. Overall, the demand of gasoline was 51% of total fuel demand.

There is limited harmonization of fuel quality standards throughout Latin American countries, except for Central American countries that share Central American Technical Regulation (RTCA) standards. There is a clear lag on fuel quality specifications with respect to more developed regions (i.e. EU, U.S., Japan).

Fuel Market Outlook

The transportation sector, with its vehicle fleet growth, is expected to be one of the key drivers of fuel demand in Latin America in the coming years.

Regarding fuel quality, a few Latin American countries, most likely Brazil and Argentina, will reduce sulfur in gasoline to 10 ppm starting by 2025. Several countries have announced plans to reduce sulfur content of on-road diesel vehicles to 15 ppm or even 10 ppm. It is expected that demand...
will remain significant for higher sulfur middle distillate tied to its use in the power generation sector in countries such as Venezuela, Argentina, Brazil and Central America.

Capacity additions in Latin America during the past few years have been delayed, and plans to modernize refineries have also been postponed due to economic limitations in many countries in the region as costs escalate into the billions of dollars. Projected supply and demand of gasoline (including biofuel) and diesel are shown below.

Demand for gasoline is projected to increase at a CAGR of 1.1% and demand of diesel is projected to grow at a CAGR of 0.2% through the study period (2017-2040). As demand grows, the supply demand deficit will remain and it will need to be fully met with imports.

Conclusion

The current and future outlook of the supply and demand of transportation fuels (gasoline and diesel) in Latin America shows the prospects of increased domestic demand and reliance on imports; therefore, it’s a favorable scenario for investments in the refining sector. However, the economic and political crises that some countries are under does not make possible to complete expansion projects and precludes further investment in the sector.