

February 10, 2020

Gasoline Demand and Production Contracts in Latin America

Stratas Advisors

This report and more are available to subscribers of our [Global Fuel Specifications](#) service. Not a subscriber? [Create an account](#).

Latin American gasoline demand as a whole has been trending downward slightly as some countries have experienced economic recession. Gasoline production has fallen, but this is almost entirely due to Venezuela's economic collapse. Exports have risen, due to an increase in Brazilian exports caused by a slight decline in Brazil's gasoline demand due to competition from ethanol. The interharvest period in Brazil, from January to April, will raise ethanol prices and boost gasoline demand over the period.

Diesel production has fallen sharply in Venezuela and Mexico due to well-documented failings at PDVSA and PEMEX. It has also fallen in Colombia, although Ecopetrol remains a profitable and expanding government enterprise. Although it would be more lucrative for PEMEX to focus on upstream investment, the new populist administration has gone ahead with a signature promise to build a new refinery in the Tabasco state, despite the ongoing operational problems with existing refineries due to lack of investment. Some unexpected and contested election results have dampened the economic outlooks in some countries while in Ecuador and Chile, paralyzing riots and civil unrest experienced in October shocked governments, citizens and markets alike. Hope remains that beneficial government reforms will continue in the region, increasing economic activity and decreasing corruption and political risk.

Also of note, the Omega Green HVO plant project in Paraguay is still on schedule. The plant is projected to begin operations in 2022 and recently hired the Spanish firm Acciona for construction.

In Brazil, Latin America's largest gasoline consumer, gasoline demand faces several challenges. Brazil's gasoline demand is expected to contract by 2.5% in 2019 and by 1.5% in 2020 because of competition from ethanol, structural issues and a sluggish economic recovery. Brazil's national oil company, Petrobras, is looking to sell a large share of its refining, retail, transportation and other pursuits, according to economic policies of the current administration.

Ethanol has gained competitiveness vs. gasoline since 2018, as low sugar prices increased ethanol production volumes and reduced prices. This has reduced petroleum gasoline demand slightly as more consumers choose hydrous ethanol over gasolina C at the pump. Through August 2019, hydrous ethanol demand is up 26% compared to the same eight-month period in 2018. Hydrous ethanol demand increased 42% in 2018, compared to 2017 demand.

Brazil could endure a diesel shortage at the end of the year because of domestic price controls. Petrobras' new pricing policy, in which diesel prices at its refineries cannot be adjusted more than once every 15 days, has had a positive effect on Brazil's diesel demand. Revitalizing Brazil's energy sector has proven difficult due to the complexity of getting reforms through Congress. Diesel yields have been reduced by unexpected refinery outages operated by state-led oil producer and refiner Petrobras. Diesel is Brazil's most widely consumed product and demand is expected to grow by 1.5% in 2019 before increasing by 1.6% in 2020 due to economic recovery and new infrastructure investment.

