Private Service Stations Begin Operations in Mexico

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Mexico’s energy reforms, approved in 2013 and enacted in 2014 (SourceMex, Dec. 18, 2013, and Aug. 6, 2014), opened the retail distribution of gasoline at service stations to competition. The reforms removed the monopoly of the state-run oil company PEMEX, which had been the sole source of gasoline for Mexican motorists since former President Lázaro Cárdenas nationalized the Mexican oil industry in 1938.

Convenience store chain offers own brand of gas
One of the first competitors to enter the market is the convenience store OXXO, owned by beverage distributor Fomento Económico Mexicano S.A.B. de C.V. (Grupo FEMSA). The company launched OXXO Gas on July 7 at 50 service stations, primarily in Monterrey and other areas of Nuevo León state. The company expects to eventually offer the OXXO brand at all of its 330 stations, which are also located in the states of Aguascalientes, Chihuahua, Coahuila, Durango, Guanajuato, Jalisco, Michoacán, Querétaro, Quintana Roo, Tamaulipas, Yucatán, and Zacatecas.

The OXXO facilities are a fraction of the total service stations that PEMEX has supplied in Mexico. According to the energy ministry (Secretaría de Energía, SENER), there are nearly 11,000 service stations throughout the country.

OXXO and other potential gasoline providers will have to abide by price controls set by the finance ministry (Secretaría de Hacienda y Crédito Público, SHCP) through 2018. After that date, prices will be set by the free market, which would include the free importation of gasoline.

The transition has been easy for OXXO, since many of its convenience stores already sold PEMEX brand gasoline through pumps at their premises. For now, OXXO is simply changing the logo on the pumps. However, OXXO and other companies will now be able to acquire their own product and participate in all other aspects of the supply chain.

FEMSA officials said the company would supply at least 150 OXXO gas stations in Nuevo León, Coahuila, and Tamaulipas states by the end of July. “We project we will be using about 25 tankers to supply gasoline in the northeast region. This is based on current gasoline consumption patterns at OXXO service stations,” Alex Theissen Long, FEMSA director of logistics said in an interview with the daily business newspaper El Financiero. “There could be other variables, such as an increase in consumption or a move on our part to acquire new service stations.”

OXXO officials believe the company’s ability to sell gasoline under its own brand will be beneficial from a marketing standpoint, particularly when putting together special promotions. “Gas stations will improve our brand and our image,” said Rolando Vázquez Carrillo, director of OXXO Gas.

Foreign competitors on the horizon
Other companies, primarily multinational oil firms, are expected to enter the Mexican gasoline retail market soon. Those companies include familiar names like Shell, Exxon, and Chevron.
Some foreign competitors have already started to expand into the Mexican market.

The Texas-based company Gulf, which has a presence in 15 countries, has set a target of operating 2,000 service stations in Mexico within a three-year period, including 100 sites this year. The company started to sell franchises in March, and the first Gulf stations are expected to be in operation in Mexico City and Monterrey this summer.

“We are proud to be one of the first operations with a new brand in the recently opened Mexican market,” said Gulf official Sergio de la Vega, who once worked as an executive at PEMEX.

According to De la Vega, the company’s service stations will initially follow the prevailing practice in Mexico, where attendants pump gasoline. However, the company eventually plans to move to the model common in most US states, where motorists pump their own gas.

The pending competition from the multinational giants has prompted domestic service stations, most of which are expected to continue selling gasoline under the PEMEX brand, to embark on major investments. According to the Organización Nacional de Expendedores de Petróleo (ONEXPO), member service stations are planning to double expenditures on expansion and improvements in order to remain competitive. The planned expenditures could surpass 400 billion pesos (US$21 billion) in coming years.

“We know that we will be competing with brands that have established themselves in the international market,” said ONEXPO president José Ángel García Elizondo, who pointed out that nearly three-quarters of the service stations are small- or medium-sized businesses. Many of these businesses, known as pequeñas y medianas empresas (PYMES), operate one or two pumps and rely almost entirely on income obtained from gasoline sales.

Even with their small size, many of these PYMES have managed to find ways to modernize. “These service stations enjoy the highest standards in regards to equipment, safety, and environmental norms,” García Elizondo said.

According to ONEXPO, Mexican service stations earn about 730 billion pesos (US$39 billion) per year.

The expansion of service stations in Mexico also brings potential logistical challenges, particularly if PEMEX continues to play a central role in supplying fuel to gasoline providers around the country. Energy Secretary Pedro Joaquín Coldwell said the federal government is cognizant of this problem and has developed a system of incentives for the construction of storage facilities and pipelines. The expansion of these types of facilities could reduce bottlenecks and create greater autonomy for the system of transport and storage, Coldwell told reporters.

PEMEX gas cheaper in Houston

Even as private competitors are moving into the Mexican market, PEMEX continues its planned expansion into the US. In late 2015, it opened five stores in Houston, and it plans to open other facilities in Texas and other states (SourceMex, Dec. 9, 2015).

The opening of PEMEX service stations in Houston, however, exposed the differences in marketing practices between the Mexican and US systems, particularly in regards to price-setting mechanisms. The PEMEX stations in Houston were selling gas at US$1.54 per gallon, the equivalent of 6.90 pesos
per liter, in December of 2015. This was roughly one-half of the price in Mexico at that time, which
was about 13.90 pesos per liter, according to a report from Forbes magazine in December 2015.

“The difference in cost between fuel in the US and Mexico is due primarily to the fact that price in
the US is determined by the market,” Forbes said. “The decline in the costs of production of gasoline
is almost proportional to the drop in the price of the barrel of oil.”

The wide gap in prices is expected to narrow in 2018 when the SHCP ends price controls in
Mexico and allows supply and demand to determine the cost of gasoline at the pump. For the time
being, the SHCP will continue to set prices for gasoline and diesel, using a technical analysis that
includes input from the economy ministry (Secretaría de Economía, SE), the energy regulation
commission (Comisión Reguladora de Energía) and the anti-monopoly agency (Comisión Federal de
Competencia Económica).

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