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Citizen Protests Over Gasoline Price Hikes Fade Away in Mexico

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Citizen Protests Over Gasoline Price Hikes Fade Away in Mexico

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Seven months after the Mexican government eliminated subsidies on gasoline, prices at the pump have not increased significantly. The price stability means that the gasolinazo that upset so many Mexicans at the beginning of the year (SourceMex, Jan. 4, 2017, and Feb. 8, 2017) has faded into the background. Magna grade gasoline, the equivalent of regular unleaded, was down in June relative to the start of the year.

"The issue has disappeared from the public, primarily because the price of magna gasoline has declined by 2% on average between Jan. 1 and now," columnist Enrique Quintana wrote in the daily business newspaper El Financiero on June 23. "This is the equivalent of 30 centavos (US$0.01) per liter.

According to Quintana, the price of gasoline has fluctuated since mid-February, basically following the lead of international prices, which are also linked to movement in the exchange rate. "The decline in prices in the US, along with a weakening of the US dollar, has resulted in lower costs to the Mexican public," he noted, pointing out that this is occurring both in the regions where the energy regulating commission (Comisión Reguladora de Energía, CRE) is setting a ceiling on prices and in those where private entities determine the price.

The average price at the pump between Jan. 1 and mid-June was 13.98 pesos (US$0.77) per liter (or about US$2.91 per gallon) for magna grade gasoline, and 14.81 pesos (US$0.81) per liter of premium grade (or about US$3.06 per gallon), said the daily newspaper El Universal.

Under the government's scheme, a ceiling was set for the maximum price for the two grades of gasoline and diesel through Feb. 18. After that date, the maximum price would be allowed to fluctuate on a daily basis, in reactions the global market.

Prices stable, but still higher than year ago

With public attention centered on day-to-day price fluctuations, few consumers have noticed that prices are higher than they were a year ago. The high maximum prices allowed the state-run oil company PEMEX to grow its revenues from gasoline sales. The maximum price rose above 16 pesos (US$0.88) per liter this year for magna and above 18 pesos (US$0.98) for premium gasoline.

"Because of the prices set for the maximum cost of gasoline and diesel, Mexicans that visited service stations between Jan. 1 and May 31 paid 84.25 million pesos (US$4.6 million) more than in the first five months of 2016," according to El Universal. "The increase in revenues from a year ago had more to do with the higher maximum prices than with any rise in demand."

On June 30, the CRE reported the maximum price at 16.22 pesos (US$0.89) for magna, 17.96 pesos (US$0.98) for premium, and 17.07 pesos (US$0.94) for diesel, all higher than the high prices projected before the deregulation went into effect.

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The changes implemented at the beginning of the year also resulted in a shift of consumption habits. According to observers, demand for premium fell sharply in the first five months of the year, as consumers switched to magna. "Mexicans prefer to buy the cheapest gasoline rather than reduce consumption," said the online business news site Expansión.com, which noted that prices have increased relative to a year ago.

According to PEMEX, consumption of all grades of gasoline was down by almost 0.7% in May relative to a year ago.

With prices gaining a measure of stability, the massive protests that occurred throughout the country at the beginning of the year diminished significantly. "The issue of gasoline prices gradually became less of a news item," Quintana wrote.

Gasoline prices have also mirrored the trends in inflation, with consumer prices gaining a semblance of stability from month to month this year but remaining much higher than a year ago.

Consumer price inflation in January increased by 1.7% from December 2016. Furthermore, consumer prices were up 4.6% in January relative to the first month of 2016. Month-to-month inflation rates declined gradually between February and May, with inflation actually recorded at -0.12% between April and May. However, the inflation rate for May was still 6.16% higher when compared to the same month in 2016.

Even though month-to-month inflation has slowed down this year, surpassing 6% through mid-June, there is a very strong probability that the rate for all of 2017 will surpass the government's target of 3% to 4%. For that to occur, the inflation rate would have to be in the negative column each month of the second half of the year. An average of forecasts from private analysts who responded to a Reuters poll in June puts the inflation rate for 2017 at 5.9%. In contrast, Mexico's inflation rate was limited to 3.16% in 2016, according to the Organization for Economic Cooperation and Development (OECD).

Gas prices were only a small factor in the spike in inflation early in the year. A bigger concern was the extreme weakness of the peso, which was responding to an uncertain economic forecast. The early projections were tied to a sharp decline in the peso versus the US dollar following statements by newly installed US President Donald Trump that he would implement protectionist measures and seek to renegotiate the North American Free Trade Agreement (NAFTA) (SourceMex, Jan. 11, 2017, Feb. 22, 2017, March 8, 2017).

Other worries

The concern about the end of government subsidies has been replaced by other factors related to Mexico's wholesale and retail gasoline market, including the widespread theft of gasoline from PEMEX pipelines in Puebla and other states. Thieves have targeted a pipeline that runs from the refinery in Minatitlán in Veracruz state to Mexico City, with most thefts occurring in a region of Puebla known as the Triángulo Rojo (Red Triangle) or Franja del Huachicol (SourceMex, March 15, 2017).

Authorities have succeeded partially in reducing the incidence of fuel theft (SourceMex, May 10, 2017), which has reduced supplies—and therefore profits—for the huachicoleros, the criminal organizations managing the fuel-theft operations. As a result, the price of fuel on the black market increased from 7 pesos (US$0.38) per liter to 10 pesos (US$0.54). This prompted the daily newspaper

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Excélsior to declare in a headline on May 14 that the "huachicoleros have applied their own gasolinazo."

There are no official figures on the impact of fuel theft on the national supply of gasoline. In the states where the gasoline is pilfered and sold, some service stations have experienced a decline in sales. According to José Ángel García Elizondo, president of the organization that represents the owners of service stations (Organización Nacional de Expendedores de Petróleo, ONEXPO) service stations in the states of Veracruz, Puebla, Guanajuato, and Tamaulipas have experienced a 5% to 50% decline in sales because many customers are turning to the black market for their fuel. ONEXPO also blamed the reduced business on the government's decision to increase prices at the beginning of the year.

Refinery accident reduces fuel supplies

A bigger concern for PEMEX in terms of national supplies is the temporary loss of output at PEMEX's Antonio Dovalí Jaime refinery in Salina Cruz, Oaxaca state, because of damage from Tropical Storm Calvin. The storm hammered the port city on June 14, causing a major flood at the refinery. The flooding resulted in an oil spill and an explosion in an area where 500,000 liters of oil were stored.

A second spill was reported two weeks later, which not only caused further complications for clean-up operations but also exacerbated the environmental damage caused by the refinery to adjacent waterways and other public places. As a result of the toxic emissions from the accident, highly acidic "black rain" fell in Salina Cruz, in the municipality of Tehuantepec, including the popular Playa Brasil, according to the state environment ministry (Secretaría del Medio Ambiente, Energías y Desarrollo Sustentable de Oaxaca).

"The contamination has put us in a very difficult situation because we depend on tourism and fishing," local government representative Francisco Martínez Hernández told reporters.

The loss of output from the Dovalí Jaime refinery was a significant concern, especially because the facility was expected to be out of commission at least until the end of July to allow for cleanup and repairs. Immediately after the accident, authorities had suggested that the facility would only be shut down for 24 hours.

The refinery—which has the capacity to process about 330,000 barrels of oil per day (bpd)—accounts for more than one-fifth of Mexico's production of gasoline and other refined products.

The accident at the Dovalí Jaime facility appears to have dropped Mexico's refinery capacity to as low as 40%, which has forced PEMEX to consider imports totaling 3.5 million barrels of gasoline to make up for the deficit at home. Mexico's refineries were already operating at 56% capacity in May, according to the government's energy information agency (Sistema de Información Energética, SIE). Because of the deficit, Mexico is likely to boost imports of gasoline from the US, which is operating refineries at near capacity, according to US Energy Information Administration.

Analysts point out that Mexico already imports a large portion of the gasoline it consumes. "If you include the additional imports of 83,000 bpd required to compensate for the deficit created by the lack of output at Salina Cruz and add them to the average of 572,000 bpd that were already scheduled for July, then imports would account for more than 80% of Mexico's daily consumption requirements," according to the daily newspaper Excélsior.

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Writing for the daily business newspaper El Economista, columnist Alberto Aguirre M. noted that the Salina Cruz situation “is the latest in a series of unscheduled production stoppages, reflecting the inefficiencies in Mexico’s current policies regarding the production of fuels.”

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