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At one time, Mexican consumers only had one option on where to fill their gas tanks: stations selling gas under the brand of the state-run oil company, PEMEX. The options have increased greatly for consumers over the past 18 months, particularly in the larger metropolitan areas (SourceMex, Dec. 9, 2015, July 13, 2016, May 24, 2017). Motorists can now go to service stations selling gas under 26 different brands. Some of those brands are well known at the international level, such as BP, Arco, Shell, Gulf, and Chevron. Others are associated with retail stores that were already established in Mexico, including Costco and Oxxo. There are also lesser-known brands like Rendimax VIP, Eco Gasolineras, Nexum, Rendichicas, and El Rey Gasolineras.

The arrival of private stations is the result of energy reforms approved by Congress (SourceMex, Dec. 18, 2013, and Aug. 6, 2014). In the long term, the reforms encourage the construction of service stations in areas where residents had few options to buy gasoline.

Until that happens, some problems must be overcome, including outdated infrastructure, which has left PEMEX to play a behind-the-scenes role in the market.

A deficit of service stations

The arrival of private entities to Mexico's retail gasoline market is important because of a huge deficit of service stations, particularly in the rural areas. According to a recent study by the daily business newspaper El Economista, Mexico has an average of 1.1 service stations for each 10,000 inhabitants, and in 14 states, the average is less than one service station per 10,000 residents. This deficit is greatest in three poor southern states: Guerrero, Oaxaca, and Chiapas. The ratio is also low in the Mexico City metropolitan area (composed of the capital and México state), but this is a function of the area's very dense population.

According to the government's energy regulator (Comisión Reguladora de Energía, CRE), Mexico's goal is to eventually double the number of service stations throughout the country. However, some experts believe authorities are going to have to do much more than simply rely on the energy reforms to accomplish this goal, such as providing subsidies to entice private operators to the most remote areas.

According to José A. Estandía, an energy expert at the Mexico City office of the Jones Day law firm, about 400 stations in Mexico, many of them operating in large cities, do not sell the PEMEX brand. "In order to ensure that [this opening of the retail gasoline market] reaches everyone, there must some sort of government stimulus," Estandía said in an interview with El Economista.

The opening of the gasoline retail sector is forcing PEMEX to create a new business strategy to remain competitive. According to PEMEX officials, the state-run oil company plans to launch a new marketing strategy that includes the creation of a new image for the franchises selling oil under the PEMEX brand. The company did not offer any details other than to indicate that changes would be announced on Nov. 15.

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"We are creating a new franchise and new contracts, and we are in the midst of talks with a number of groups in the sector," said Carlos Murrieta Cummings, PEMEX director of industrial transformation. He added that the company wants "to offer a more profitable margin to the franchisees" with the changes in marketing strategy.

A limited supply of gas

A major problem for the private entities is the lack of infrastructure to handle gasoline imports, which has forced many companies to compete for the limited supplies available from PEMEX. "A year-and-a-half after Mexico opened its fuel market to private competition, almost all of the gasoline sold in BP and Royal Dutch Shell stations is coming from PEMEX," said the daily business newspaper El Financiero. "This is because Mexico lacks the network of pipelines and storage terminals that would allow the flow of imported oil from the port to the gas station."

José Antonio Muñoz, who is in charge of logistics for BP in Mexico, told El Financiero, "We are buying all our fuel from PEMEX because in Mexico there are no other sources from whom we can buy directly, and the costs of transport related to imports are currently not financially feasible."

BP operates 40 service stations in Mexico, but the company plans to eventually expand its network by another 1,460 sites, which would require easier access to sources of fuel.

PEMEX could find itself in a major quandary if infrastructure is not expanded. According to a report from the Auditoría Superior de la Federación (ASF), the auditing agency that answers to the Chamber of Deputies, PEMEX only produced about 38% of the gasoline it sold in Mexico in 2016, far short of its target, which is to supply about 62% of domestic demand. The production shortfall was made up by imports, which were 12% higher than PEMEX's target for the year.

However, several major infrastructure projects are already underway. Some private entities have announced projects to build energy-related facilities in the coming months. An important one in the works is a fuel import center and a network of pipelines at the port of Tuxpan in Veracruz. A conglomerate of US, Mexican, and Canadian interests is in charge of the project. The companies include Monterra Energy, KKR & Co., Invex, and Glencore (a joint venture among TransCanada and Mexican firms Sierra Oil & Gas and Grupo TMM).

The CRE believes that the opening of the market could bring in about US$17.9 billion in energy-related infrastructure investments in Mexico. According to estimates by the energy regulator, US$2.4 billion could go to pipelines, US$1.5 billion to rail-related projects and other modes of oil transportation, US$2 billion for storage of oil and diesel, and US$12 billion for service stations.

"The transformation of the oil sector has just begun, and we believe that new actors will emerge all along the production chain, from exploration and production to gas stations and service providers," Alejandro Demichelis, director at the London-based investment bank Hannam & Partners, told Bloomberg news service.

Security could be a challenge

One concern is the need to boost security once the infrastructure is built. The biggest issue is the widespread theft of fuel from PEMEX pipelines on the part of large criminal organizations, sometimes with the complicity of local officials (SourceMex, March 15, 2017,May 10, 2017,July 26, 2017). Fuel thieves are likely to target new pipelines.

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Estimates from the finance ministry (Secretaría de Hacienda y Crédito Público, SHCP) put losses from fuel theft between US$780 million and US$1 billion annually.

The government has begun to address the problem by creating a task force to investigate and take several steps to prevent fuel theft. The task force, which includes officials from PEMEX, the attorney general's office (Procuraduría General de la República, PGR), and the SHCP, has targeted service stations that have exhibited irregular sales patterns.

Among other measures, PEMEX has conducted internal investigations to determine if employees are aiding the gasoline thieves. In mid-October, PEMEX dismissed several workers at its refinery in Salamanca, Guanajuato, after determining that they were involved in a complex scheme of stealing fuel and selling the product on the black market.

Earlier in October, the public administration ministry (Secretaría de la Función Pública, SFP) revealed that a group of at least 40 PEMEX workers in Chihuahua were under investigation for a fuel-theft scheme. Those workers are said to have overfilled tanker trucks at the state capital's storage terminal and offloaded the excess to third parties before the trucks reached the service stations that were to be supplied.

Investigators allege that PEMEX modified instruments used to measure the amount of fuel a tanker can carry, and therefore the thefts were not detected.

"There was an interference in PEMEX's own computer system that changes the mathematical equation for the calculation of the [amount] of fuel the tanker supplies," SFP officials said.

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