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THE GUEST WHO NEVER LEFT

Addressing market imbalances, four years on

According to the report Competition: The Missing Ingredient for Growth? published by the World Bank, Latin America and the Caribbean (LAC) has been slowly —but consistently— addressing the imbalances that the pandemic brought. It seems that Covid-19 is the unpleasant guest who never left.

When everybody thought the worst was far behind, the Ukraine Russian war broke out, leading to an energy crisis in Europe. Meanwhile, China's growth never manifested as expected. The world has not been the same since the pandemic, and neither have the chemical and petrochemical industries.

Although it may seem tiresome to blame the pandemic, as Juan Pablo Gazmuri, vice president of ASIQUIM, defined it: "Time is split between pre and post-pandemic, explaining the current economic scenario."

Leaving Covid's consequences aside, there are other factors that contributed to the slow performance of the chemical industry over the last few months. According to Deloitte, a recession in Europe, inflation in the US, and a slow rebound in demand from China all hinder a recovery. Additionally, margins are shrinking due to an oversupply of some chemicals caused by increased capacity coming online and decreased consumption from overstocking in previous years. Stefan Lepecki, Braskem Idesa's CEO, commented: "2023 was extremely challenging for the global chemical and petrochemical industries, especially for polyethylene, Braskem Idesa's main product. Following the pandemic, significant investments were made in new plants in China and the US, increasing production capacity. Additionally, global inflation and higher interest rates to control it have impacted economies, which are not growing as expected. For instance, although China continues to grow, it is not at the rate seen in previous years."

PRIME TIME FOR TECHNOLOGY

For Wagner Costa, partner at Bain & Company, there was a boom after COVID-19, when high commodity prices and margins led companies to pursue growth strategies and M&A activities. However, the current downturn is leading companies to emphasize performance improvements and cost reductions. Simone de Faria, head of Latin America for Townsend, said: "Besides dealing with more expensive raw materials, many of Latam's plants are older and not as large as those in other regions. The lack of competitiveness is leading companies like Braskem to consider closing plants. The petrochemical industry is capital intensive, so the high basic interest rates impact long-term investments." In Argentina, YPF implemented the 4x4 plan to quadruple YPF's value and production in the next four years, however, according to Florencia Rodríguez, YPF Química's executive business manager, the financial aspect has become critical: "We must maintain the company's financial health and efficiency, even if it means divesting from profitable businesses and building the necessary infrastructure for transporting oil and gas. We are examining maintenance, services, and raw materials contracts to ensure we maximize value," she said.

In a conversation with Leandro Kruger, regional director for Brazil, and Ana Salmeron, the O&G and chemical sales manager, at Rockwell Automation, both explained that companies in the region do not have the luxury of time to adapt to inflationary pressure impacting energy and

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raw materials costs: "This is a prime moment for investment in the chemical industry rather than expanding production. The industry faces a challenge from imported products that enter the Brazilian market at competitive prices, and technology has emerged as a crucial response to help the industry improve efficiency and counteract the impact of cost-effective imports," said Kruger.


Manuel Díaz, Executive Director, APLA

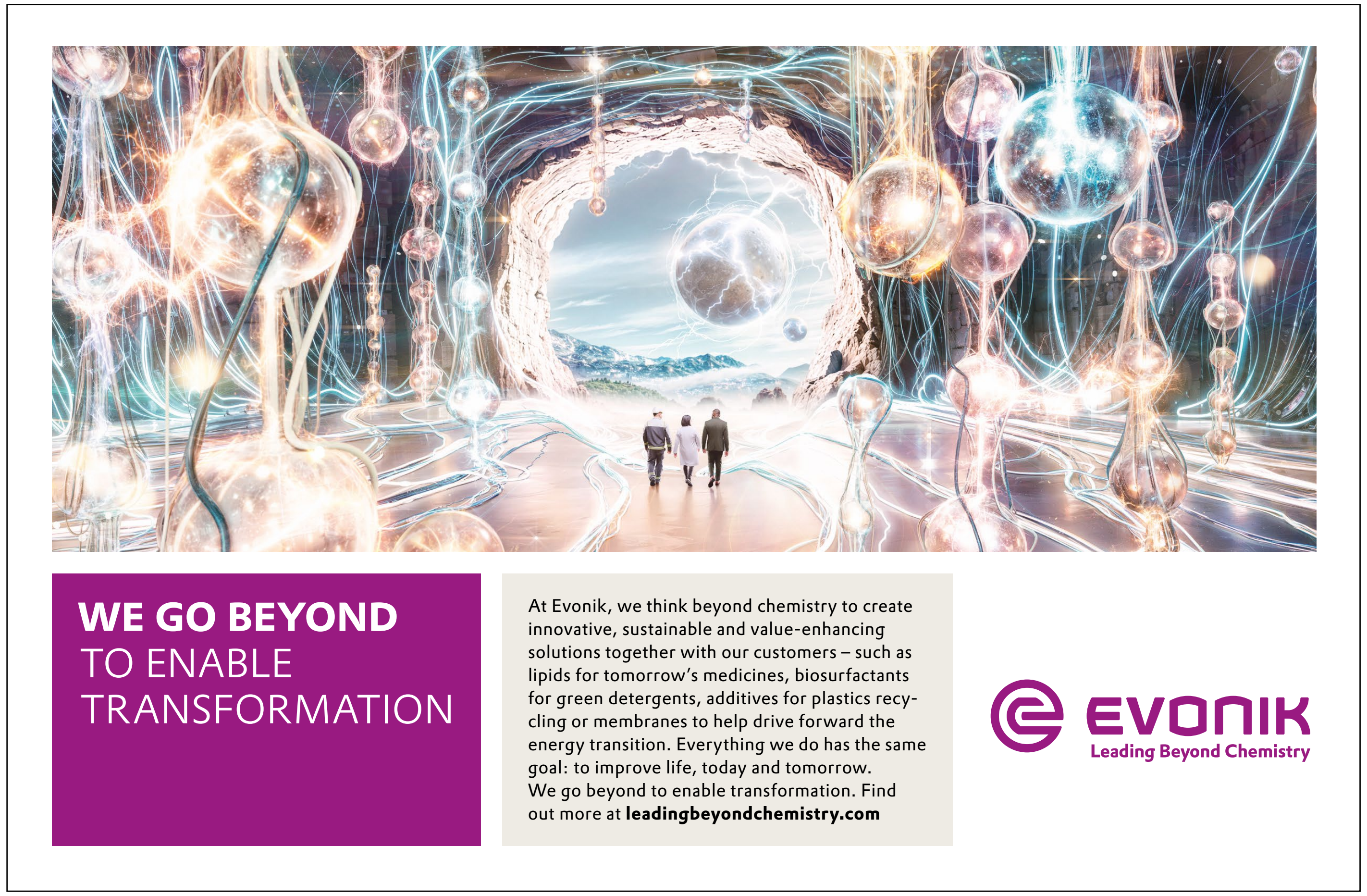

Martín Toscano, President, Evonik

CAUGHT IN THE MIDDLE

Nearshoring is nothing new to Latin America. While some countries are harvesting its benefits earlier and with the advantage of geographic proximity, like Mexico, the whole of Latin America offers many opportunities to fill the voids caused by the US-China trade war. As Manuel Díaz, APLA's executive director said: "Mexico alone cannot meet the demand surge driven by nearshoring activities. As such, it is likely that nearshoring will `spill´ over into other South American countries, creating substantial opportunities throughout the region." On the other hand, China has its own agenda for the region, especially in infrastructure for logistics.

Under the Belt and Road Initiative (BRI), also known as the New Silk Road, China has been working to extend its influence across various corners of the world. Take, for instance, the Chancay Port in Peru, a US$3.5 billion project led by Chinese COSCO Shipping, which is set to be inaugurated in November, with COSCO being the sole operator. On the other hand, a proposed project by Shaanxi Chemical Industry to construct a port in Tierra del Fuego near the Strait of Magellan (the most important natural passage between the Atlantic and the Pacific) fell through, and instead was given to an Argentine company, Mirgor—owned by Nicolás Caputo, cousin of the current Argentine Minister of Economy, Luis Caputo—and is said to have received approval from the US.

According to Martin Sack, Leschaco's regional head for the Americas: "The US/China trade conflict will keep having an important impact on the global economy. It is interesting to see how Latin America strives to balance its interests rather than just aligning exclusively with one major global player. Over the last decade, the trade between China and Latin America has been growing significantly despite the US maintaining its position as the primary trade partner for most Latin American countries." ■



SUSTAINABILITY

Not a buzzword

Is the energy transition a mere fantasy? That is the impression Aramco CEO Amin Nasser left during his speech at CERAWeek 2024 in Houston, Texas, earlier this March. Nasser stated that the current transition strategy is "visibly failing on most fronts," urging society to abandon the fantasy of phasing out oil and gas and instead invest in them adequately, based on realistic demand assumptions.

Sustainability inherently comes with a cost. Instead of questioning whether sustainability is merely a buzzword, we should ask ourselves how will we finance it?

"One of the main questions is `Who will take the bill for all of this?' I believe that we need to shift our mindset away from focusing solely on the lowest cost to considering the best overall costs," said Martín Toscano, president for Mexico at Evonik.

What he said next also resonated across many interviews: "While many products and technologies are in transition, and we may not yet have solutions at the competitive level of fossilbased products, adopting a strategy of push and pull — where one pushes but is supported by other stakeholders, makes it easier to demonstrate that what seems like the lowest cost is not necessarily the best final cost."


Pablo Pinochet, President Americas, Ambipar

For Carlos De Lion Neto, Southern Cone president at Arkema, the ones pulling —or pushing— are younger generations: "New generations are pushing for sustainable, innovative and high-performing products without significantly increasing costs and harming the environment. Companies that stay tuned to these trends will be better positioned to offer solutions that meet these expectations."

In a conversation with Mauricio Adade, president for Latin America at dsm-firmenich, he highlighted some statistics about society's demand for sustainable solutions. According to the Retail 2024 report by Adyen, a payment technology company, 56% of Brazilian consumers are willing to pay more for a product if the seller is transparent about the measures taken to reduce environmental impact. However, the Social Panorama of Latin America and the Caribbean 2023 report by the Economic Commission for Latin America and the Caribbean (ECLAC) states that, despite improvements in some indicators, over 180 million people in the region still lack sufficient income to meet their basic needs. Among them, 70 million are unable to afford a basic food basket. Sustainability extends beyond environmental concerns; it encompasses social factors as well. Therefore, how can we expect all Latin Americans to pay a premium for more sustainable products? For Adade, companies are the ones that must find a balance: "It is also crucial to recognize that in certain countries in Latin America, where many struggle to have enough to eat, sustainability seems like a luxury. Companies like ours, with sustainability as a core, must find ways to balance these realities."

A CIRCULAR CHAIN IS ONLY AS STRONG AS ITS WEKEAST LINK

As negotiations for a UN plastic treaty approach their final stages, with the last session scheduled from November 25 to December 1, 2024, in Busan, Republic of Korea, much focus is on circularity. Expectations are high: "By 2050, 50% of plastics are anticipated to come from circular resources," remarked Gabriel Rodríguez Garrido, executive director at the Argentine Petrochemical Institute.

However, the current downcycle presents challenges, particularly for mechanical recycling, as noted by Stefan Lepecki, CEO of Braskem Idesa: "If global polyethylene prices remain low due to supply and demand imbalances, producing and selling recycled PCR products becomes more difficult. Collecting waste and blending it incurs higher costs than producing virgin resin. Our challenge lies in becoming more efficient in waste collection, using technology, and improving logistics to offer PCR as an environmentally sustainable yet economically viable solution." Pedro Prádanos Zarzosa, Veolia Brasil's CEO, also shed some light on the current challenges of circularity in plastics: "The key factors for success include securing a steady feedstock supply at stable prices and ensuring committed buyers for recycled materials [...] Chemical recycling is even more challenging, as the end product, like naphtha, requires high and consistent quality suitable for plastic production."

Also, regarding circularity, and more specifically recycling, Pablo Pinochet, president for the Americas at Ambipar, mentioned that while the state of recycling in Latin America differs greatly between countries, the core issue is centered around the concept of "valorization.": "Waste is typically considered an environmental liability

Gustavo Cienfuegos, Managing Director Latin America, Topsoe

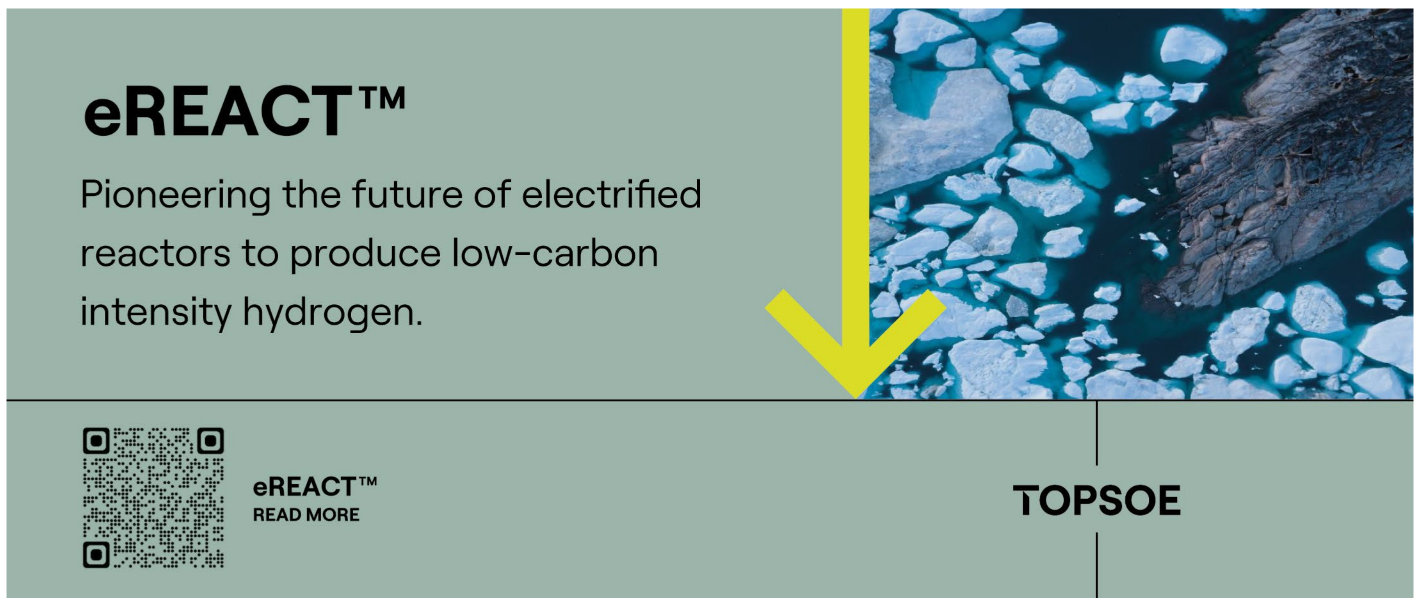
that companies must pay to dispose of. We are flipping this script by transforming that liability into an asset: Valorized waste can become raw material for another industry or even serve as an alternative energy source. However, close collaboration with our clients is required to understand their needs and jointly develop valorization strategies," he concluded.

LATIN AMERICA IS WALKING THE TALK

Colombia passed a bill in July 2024 banning single-use plastics. This recent legislative development raises questions about whether Latin America is lagging in environmental stewardship. Gustavo Cienfuegos, managing director for Latin America at Topsoe, commented that Latin America is behind the US and Europe in the energy transition, however, he suggests that this gap might be more about the pace of legislative changes rather than a lack of commitment. He advocates for a shift in approach, emphasizing that incentivizing rather than prohibiting could be a more effective strategy: "The renewables market is heavily influenced by government support. With the Inflation Reduction Act (IRA), the US is a great example, leading to a boom in projects, including many for Topsoe involving ammonia and electrolyzers. The lack of similar incentives in Latin America makes it harder for local companies to justify projects of this magnitude," illustrated Cienfuegos.

Cienfuegos also noted that while each Latin American country has its unique socioeconomic situation and priorities that can sometimes push environmental projects lower on the national agenda, there are many sustainable projects underway, especially SAF projects or green ammonia production, like the project Topsoe is working on in northern Brazil: "There are many initiatives, mainly leveraging the availability of resources like biomass, wind and solar energy. Brazil, for instance, is one of LATAM's primary drivers for these types of projects, benefitting from extensive natural resources and ports with easy access to Europe," he concluded.

In the context of limited government incentives, Brazil launched a program in early 2024 that places innovation and sustainability at the forefront. Ivan Fortunato, commercial director for LATAM at Yara, noted that Brazil's status as an agricultural powerhouse will facilitate the ramp-up of biomethane production. This effort is supported by the federal government's Nova Indústria Brasil Program to revitalize the chemical industry with a planned investment of R$300 billion by 2026. "The program is a crucial step serving as a foundation for developing new markets, especially in renewable industries [...] Brazil is rich in renewable resources and already has a relatively green chemical industry. With the proper regulations and a well-structured gas market, these strengths can be exploited to advance the country's industrial landscape," said Fortunato. ■



MEXICO

US and Mexico friendshoring enters a new chapter

Stefan Lepecki, CEO, Braskem Idesa

Discussions within the industry in Mexico over the three months of GBR's research revealed mixed feelings and focused on several key themes. One prominent theme was the Mexican presidential elections.

On June 2, Mexicans went to the polls to elect their next president, and Claudia Sheinbaum assumed office on October 1, 2024. One key area of interest for the industry is how the new president-elect will address Pemex, the state-owned energy company.

Pemex has been continually subjected to political interests and has even required government intervention to manage a debt of approximately US$100 billion, now structured as bonds. This debt and a production deficit have negatively impacted the chemical industry's production capacity. For example, Pemex reported its lowest monthly crude oil production in February, which, according to Reuters, was the lowest in 45 years.

Claudia Sheinbaum has already appointed Víctor Rodríguez Padilla as the next director of Pemex. The coming months are expected to be particularly intriguing for Pemex for two main reasons, as she stated to Bloomberg: "We need to work on two fronts. On the one hand, we must refinance the debt and ensure that this refinancing is linked to both oil production and refining, while also exploring other energy sources or new electricity generation schemes."

For Patricio Gutiérrez, chairman of the board and CEO of Grupo Idesa, there is a sense of optimism about the new leadership: "With the recent Mexican presidential elections and the new administration's arrival in October we expect to see positive signs of investment in this sector, which could bring substantial benefits to the country. While there are cautions, especially regarding the energy sector, I am confident that measures will be taken to improve the overall economic direction of the energy sector."

During a meeting with ANIQ, GBR inquired with the association's general director, Miguel Benedetto, about their collaboration with Claudia Sheinbaum's transition team. Benedetto explained that discussions have focused on the chemical industry's role in the energy transition, a crucial step for developing a comprehensive policy that supports renewable energy and sustainability, particularly in the context of nearshoring. Much like Gutiérrez, Benedetto showed optimism: "The upcoming administration has shown great willingness to engage with what they consider priority sectors like the chemical and petrochemical industries. They want to understand the challenges, contributions, and benefits they can provide," he concluded.

The never-ending story of insufficient domestic feedstock from Pemex has been detrimental to the growth of Mexico's chemical industry, preventing it from unleashing its full potential and forcing companies to depend on imports from countries like the US: "A robust Pemex is crucial for supplying raw materials to the chemical sector, and collaborating on joint projects to support its recovery is essential," commented Stefan Lepecki, CEO at Braskem Idesa.

Braskem Idesa produces polyethylene (PE) and operates a facility running at over 80% of its capacity. Due to the shortage of domestic feedstock, the company relies on a "fast-track" and temporary solution to import ethane: "Today, 70% of global polyethylene producers rely on naphtha crackers for feedstock, whereas companies like Braskem Idesa, using ethane, maintain a considerable competitive edge. While Mexican ethane remains our primary choice, Pemex lacks the capacity to meet our requirements and supply its own complexes. Importing ethane from the US will keep us globally competitive despite the logistics cost of importing feedstock, which might initially seem a disadvantage," explained Lepecki.

The real deal for Braskem Idesa is the completion of the Terminal Química Puerto México (TQPM), a subsidiary of Braskem Idesa, and a joint venture with Advario, a port operator. By mid-2024, TQPM's construction was 70% complete. "We are on track to commence operations in Q1 2025, a pivotal step in solidifying our ethane supply strategy. Importing feedstock from the US will also establish a certain `independence´ from the national supply currently provided by Pemex," concluded Lepecki.

Another company facing challenges due to Pemex's situation is INDELPRO, Mexico's sole polypropylene (PP) producer. According to Sebastián Díaz Barriga García, managing director, INDELPRO sells around 98% of its PP within Mexico. While Mexican consumers could benefit from cheaper foreign PP, Díaz Barriga García emphasized that flexibility remains a key factor driving clients to choose them: "As a local producer, we offer our clients early reaction times and inventory management. We can obtain propylene through various means, which North American PP producers cannot because their plants are connected by pipelines to FCC units or crackers. Importing PP would require our clients to maintain a large inventory buffer, whereas it can be just a few weeks with us," he explained. ■

BRAZIL

More "ordem" to keep the "progresso": pushing for protective measures against the rising tide of Asian imports

Carlos De Lion, Southern Cone President, Arkema

If there is one thing the Brazilian chemical industry has proven since GBR concluded its research and interviews for the last edition of this report, it is that there is strength in numbers. No country can escape the global economic dynamics and geopolitical factors driving the current downturn, but these have impacted the Brazilian chemical industry in a unique way. "The Brazilian chemical supply chain is facing unprecedented challenges that threaten its very existence and the future of sustainable solutions for Brazilian industry" is the translation of one of the paragraphs written in the "Manifesto in Defense of National Chemical Input Production" signed by different Brazilian industry associations on June 25, 2024, published by the Brazilian Chemical Industry Association (Abiquim).

Keep in mind that the Brazilian market mainly produces commodity chemicals, which are the ones that suffer the most in cycles like the current one. As Latin America's largest and the world's sixth largest chemical producer, this sector is a major contributor to GDP, with a revenue of US$167.4 billion and a local market worth US$250 billion. As such, the key message from the Brazilian chemical sector in recent months has been a call to action: they must focus on fixing what lies within their control.

Abiquim, along with other associations, unions and committees, has been actively lobbying the Brazilian government to take action to protect the industry. In March 2024, the Brazilian chemical sector submitted a request to increase the Common External Tariff (TEC), proposing the inclusion of 65 products on the List of Temporary Increases to raise tariffs on imported goods, particularly those from Asia. A few weeks later, on May 22, Abiquim representatives met with President Luiz Inácio Lula da Silva to discuss the industry's current state.

According to Abiquim's publication, Lula expressed his desire for a "strong chemical industry for Brazil, with great competitiveness among the main global economies, aiming for a second or third place globally." On one side, he requested a detailed roadmap from the sector; on the other hand, he committed to establishing commercial defense mechanisms against "predatory imports."

One of the representatives who attended the meeting with Lula was Francisco Fortunato, CEO of OCQ Group. Fortunato noted that despite OCQ's acquisition of Elekeiroz over a year ago, which paved the way for the development of new plasticizers and coalescents that are progressing faster than anticipated, the past year has been challenging: "2023 was challenging for us, and 2024 is proving to be just as tricky, mainly because of increased importation costs. While regions like Mexico, the US, and Europe have raised import duties, China's struggle to meet these global demands has resulted in a flood of cheaper products entering Brazil," explained Fortunato.

Fortunato is right: both Mexico and the US have been actively addressing this. In May 2024, President Biden announced increased tariffs on US$18 billion worth of Chinese imports across sectors deemed critical to national security.

From a geopolitical standpoint, observing how this ongoing superpower-rivalry between China and the US has impacted Brazil, which maintains strong relations with both, is interesting. For example, consider what John Moseley, COO of Port Houston, shared with GBR: "Brazil stands out as a key opportunity in the shifting trade environment influenced by geopolitical factors. As a vast country with a large economy, Brazil is undergoing transformative initiatives in infrastructure, including the development of ports, railroads, and the mining sector. In this context, Houston has emerged as the leading gateway for trade between the US and Brazil for the past decade, representing over US$24 billion in bilateral trade with Texas, making it the fifth-largest trading partner for the state."

On the other hand, when Lula visited Beijing, he stated: "Nobody can stop Brazil from continuing to develop its relationship with China."

At the beginning of this article, I mentioned, "there is strength in numbers"; However, it appears that Abiquim and parts of the industry lack support from the broader plastics value chain. For example, various media outlets indicate that ABIPLAST, the Brazilian Association of the Plastic Industry, and 15 other sectors may have petitioned President Lula to reconsider raising tariffs on plastic resins. They argue that such a move could disrupt the plastic market, potentially leading to inflation in essential products and affecting various government programs.

The purpose of this article is not to create divisions within the Brazilian industry but to depict the current situation. As Lula has stated, the industry must present a detailed roadmap to the government, ideally addressing ABIPLAST's concerns. When this will occur remains uncertain, however, as Fortunato pointed out: "In Brazil, imports are not regulated, creating an uneven playing field. While we have brought this issue to the government's attention, implementing new regulations, even if streamlined, could take at least two years."

BRAZIL'S BIOBASED BOOM

Estimates from the Food and Agriculture Organization (FAO) suggest that by 2050 global food production will need to increase by 60%. Continuing with current farming practices would place an unsustainable burden on our natural resources, which, combined with global warming and natural disasters, creates a difficult situation. However, as with many industries, growing societal concern over sustainability has pushed agriculture toward biological solutions, including biopesticides, fertilizers, stimulants, and crop management chemicals.

The global biologicals market was valued at US$13.44 billion in 2023 and is expected to grow from US$15.29 billion in 2024 to US$44.70 billion by 2032. Renato Guimarães, vice president for Latin America at FMC, stated that biological products represent 15% to 20% of the total crop protection sector, giving them a faster growth rate than their chemical counterparts. This is particularly true in Brazil, where favorable climatic conditions allow for multiple harvests each year, putting continuous pressure on land. While chemical solutions often struggle with this challenge, biological products help manage pest resistance and complement chemical options.

To illustrate this, he shared an example: "In the past, soybean disease control relied on frequent chemical treatments using the same active ingredient —five applications from the plant's emergence until harvest, often leading to resistance. Now, farmers start with biological products early in the season, delaying chemical use until disease pressure increases." ■

ARGENTINA

More investment needed to realize the country's potential

Argentina has been grappling with soaring inflation for the past few years. In 2020, the annual inflation rate stood at 50.93%. From 2021 to 2022, it surged to 94.79%, only to skyrocket further to 211.41% in 2023, marking the highest level in 32 years. As Javier Sato, CEO of Petroquímica Cuyo (Petrocuyo), put it, this longstanding issue has earned Argentina the title of the "world champion in inflation rates." Sato added: "This battle has led to a contraction in the local market, but we remain hopeful for an economic rebound. One of Argentina's main challenges is that it is one of the few countries that taxes exports simply because they generate wealth. If the government lifts these restrictions and focuses on making some investments viable, among others on energy developments like Vaca Muerta, it could significantly boost our economy."

Ariel Stolar, commercial manager for petrochemicals at Pampa Energía, noted that the country is currently facing a significant recession, which has particularly affected Pampa Energía's styrene segment: "Construction, a major demand driver, is currently at a standstill due to consumers' limited purchasing power for new apartments or homes. We hope the economic situation will improve positively by the end of the year," he said.

The lack of US dollar reserves prevents companies and people in general from accessing foreign currency, affecting the whole industry: "The challenge for us was securing production. With limited access to dollars, importing was difficult, mainly during 2022 and 2023, and many of our products rely on imported supplies and raw materials. Consequently, one of our team's main tasks was to source raw materials to ensure production and supply for the local and regional markets," commented Stolar.

Jorge de Zavaleta, executive director of the Argentina Chamber of the Chemical and Petrochemical Industry (CIQYP), noted that since our last publication in 2023, Argentina's socio-economic and political landscape—marked by Milei's election and the economic policies—has made it challenging to acquire raw materials, software, and spare parts, despite robust demand. However, he emphasized that the chemical and petrochemical sector has performed well given the circumstances: "Nevertheless, the sector managed to export US$4.5 billion while importing US$10.7 billion, resulting in a deficit of US$6.2 billion," adding: "In the first half of 2024, the domestic chemical and petrochemical sectors saw reduced volumes in the local market, partly offset by exports. The domestic market is somewhat subdued, awaiting macroeconomic stabilization to kickstart a phase of increased demand for inputs."

THE 'RIGI'

Although dollarization has not yet taken place, Milei has implemented other measures, described by some as "shock therapy": he devalued the peso by 50%, cut subsidies, and reduced the number of ministries, among others. One of the most significant developments is the approval of the 'Omnibus Bill.' Formally titled the 'Law of Bases and Starting Points for the Freedom of Argentinians,' Milei's government had to work on a new version after his initial attempt to pass the bill with 664 articles fell through in February 2024. This led Milei to come up with a new and more concise version with 232 articles, which was successfully passed in June 2024.

Despite provoking criticism and controversy from various sectors of Argentinian society, the new law introduces significant changes to Argentina's governance and economic policies. For example, it grants the President extraordinary powers for a year under specific conditions and includes reforms such as the modernization of labor regulations. This article will focus on two key points: the privatization of several companies and the implementation of the Large Investment Incentive Regime (RIGI, in Spanish), as they involve the crown jewel of Argentina's chemical and petrochemical industries: YPF.

YPF, which was nearly entirely privatized for 13 years following a decree by Menem, became majority state-owned in 2012, when Cristina Fernández's government passed a law declaring 51% of its assets of public utility and subject to expropriation. Milei attempted to reverse this with his initial Omnibus bill, which also included other companies like Aerolineas Argentinas (Argentina's flag carrier). However, this idea never materialized, as YPF and other companies were ultimately excluded from the list of those slated for privatization in the 'Omnibus Bill 2.0'.

The RIGI can be described as a scheme offering tax, customs, and currency flexibility to attract investments. It is supposed to provide fiscal stability for 30 years to companies investing over US$200 million. Although each province must choose whether to participate in the RIGI, the goal is to develop strategic sectors, including forestry, tourism, infrastructure, mining, technology, steel, and energy.

Shortly after the approval of the RIGI, YPF president Horacio Marín announced that the first project to be developed under this scheme would be an oil pipeline called Vaca Muerta Sur, with a total investment of US$2.5 billion. The project is the second phase of a gas pipeline connecting the Vaca Muerta shale gas formation to the Punta Colorada port in Río Negro province, one of the first provinces to adopt the RIGI, and also set to host YPF liquified natural gas (LNG) plant with an estimated US$30 billion investment.

If you have been following GBR's reports over the past couple of years, you are likely familiar with how every interview with Argentinian executives revolves around Vaca Muerta and its key role as a feedstock source for Argentina and the broader region. As de Zavaleta from the CIQYP noted, Vaca Muerta is often described as Argentina's "mini-Texas," with over 300 trillion cubic feet (tcf) of natural gas reserves. Given Argentina's annual consumption of 1.5 tcf, these reserves could potentially sustain the country for more than 200 years. However, it needs infrastructure to be developed: "Vaca

Muerta's unconventional natural gas presents an even more complex evacuation challenge. It contains methane (typically natural gas) and natural gas liquids (ethane, propane, butane, and natural gasoline), each with distinct markets and prices. This diverse gas basket offers a more attractive return, but handling it with this diversity poses a midstream challenge."

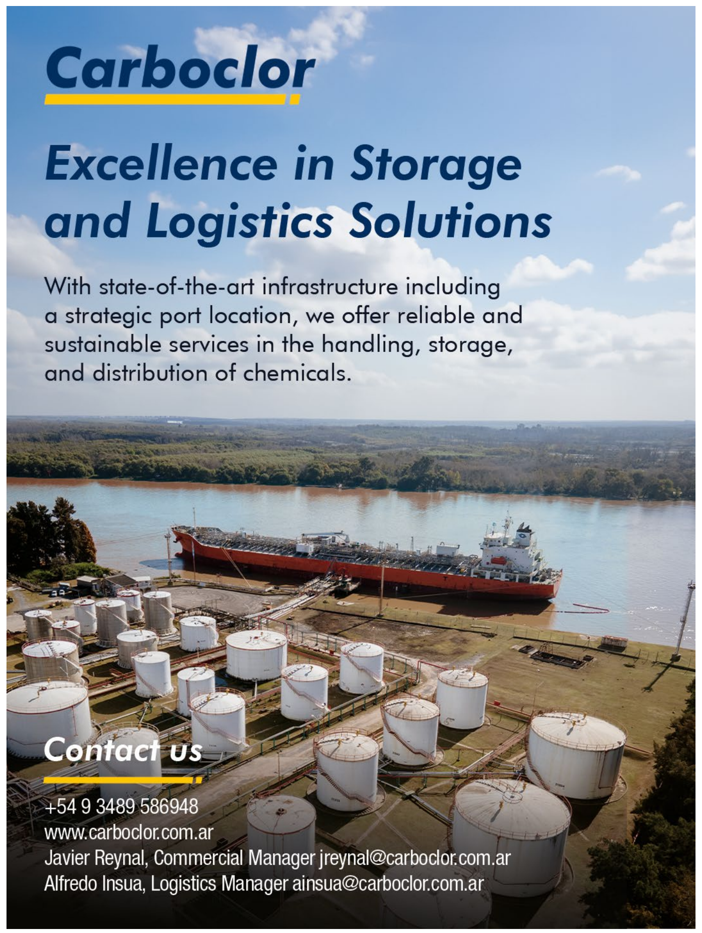
Gabriel Rodríguez Garrido, executive director of the Argentine Petrochemical Institute, added: "In this value chain, petrochemicals represent the final link; however, they offer substantial value addition. For instance, converting methane into urea doubles or triples the value of gas. Similarly, exporting ethane as a polymer like PP or PE increased its value six times compared to exporting it as raw ethane."

YPF has been making significant progress in exploiting Vaca Muerta. Florencia Rodríguez, executive business manager at YPF, shared with GBR that the company has been ramping up crude oil production and significantly increased Vaca Muerta's output in 2023 compared to 2022: "Over the last five years, shale oil production has grown 4.3 times, and shale gas production has quadrupled. In this context, YPF Química is positioned as a key player in this growth strategy, exploring opportunities to leverage gas as part of the overall expansion plan."

The YPF 's liquified gas plant project is a key component of YPF's ambitious 4x4 plan, which aims to quadruple the company's production and value over four years. According to Rodríguez: "The monetization of Vaca Muerta's crude oil and natural gas are its cornerstones."

Matías Campodónico, President Latin America, DOW

Florencia Rodríguez, Executive Business Manager, YPF Química



To capitalize on the unconventional shale crude from this Neuquén formation, Rodríguez noted that YPF has heavily invested in adapting its refineries. These upgrades have enabled the company to boost production of aromatics like toluene and xylene for the domestic and international market: "In 2023 alone, YPF invested US$5.7 billion," she concluded.

If Vaca Muerta represents Argentina's future in terms of energy sovereignty and the answer to securing US dollars, then the RIGI —or any similar economic mechanism, was essential. While current and future investments are crucial, it is also important to consider the fate of investments made in previous years, something raised by Adrián Schwartz, president of Grupo Simpa during his interview: "This policy places companies that made similar investments five or six years ago at a competitive disadvantage as they are excluded from these new benefits. While this approach aims to attract fresh investment and develop substantial reserves like the Vaca Muerta shale formation, it creates an unfair playing field for earlier investors."

Dow is another company already "harvesting" the fruits of Vaca Muerta and stands as one of the biggest integrated petrochemical players in the hydrocarbon value chain, thanks to its plastics business. The company is focused on the potential of the Vaca Muerta formation and has a partnership with YPF and Compañía Mega on the El Orejano shale gas field. As Matías Campodónico, president for Latin America, explained, the company's investments in Argentina aim to leverage Vaca Muerta's competitive advantage: "The gas is rich in ethane, which is crucial for producing ethylene and polyethylene at our Bahía Blanca complex," he added.

While Dow has not yet announced any specific investments planned for Argentina, in Canada, the company is investing US$7 billion in the Fort Saskatchewan Path2Zero expansion project to build the world's first net-zero cracker, designed to capture all greenhouse gas emissions. The interesting part? They hope to replicate this initiative at their Bahía Blanca complex: "In Argentina, we are evaluating carbon capture feasibility with Wintershall Dea and YPF through a MoU, with promising geological studies leading to upcoming drilling. However, the priority is to conclude the project in Canada, which is set to begin production in 2027. After that, the next decarbonization project will be evaluated, and we hope Bahía Blanca is in good standing to compete with other global projects, given the limited capital," added Campodónico.

Although that part remains uncertain—particularly regarding whether the government will offer specific incentives—I would like to conclude this article with the words of Javier Sato from Petrocuyo, which, I think, depict what most of the current Argentina petrochemical and chemical industry feels: "I am very optimistic about our future and believe this change was necessary. Argentina went from being the world's breadbasket at the beginning of the 20th century to having a poverty rate of nearly 50% today. I hope we can reclaim some of the glory from 80 years ago and stop the exodus of our young people seeking better prospects abroad." ■

ANDEAN REGION

Leaning to the left

In 2022, both Colombia and Chile shifted toward the left of the political spectrum. Boric took office in Chile after winning the 2021 elections, while Petro became Colombia's first leftist president. Boric has made two attempts to overhaul Chile's constitution, both of which were rejected in a referendum in late 2023. Petro seems to be considering a similar path, having spoken about a constitutional reform without providing further details.

The energy transition and environmental stewardship have been key pillars for both administrations. Boric, for his part, has adopted a two-pronged plan: advancing Chile's lithium and green hydrogen sectors. In 2023, he presented the National Lithium Strategy to enhance private sector involvement across the lithium value chain while maintaining selective state control in public-private partnerships. To promote green hydrogen, he introduced the National Green Hydrogen Action Plan 2023-2030. "Chile's future is envisioned in the green hydrogen and lithium sectors. However, achieving this vision depends heavily on a long-term state policy that facilitates permit approvals and the development of largescale projects," commented Juan Pablo Gazmuri, vice president at ASIQUIM.

When asked if there are any synergies between the mining and chemical industries that could be exploited, he answered: "All mining projects require chemical solutions. Even a slight improvement in efficiency can make a significant difference, given the large production volumes. Moreover, as major mining operations deplete their ore grades, chemistry becomes essential to keep mines operational. By collaborating closely with the mining industry, we, the chemical industry, have several synergies to leverage."

Left-leaning governments are often associated with protectionist measures, particularly when markets are flooded with foreign products at dumping prices. When asked about the situation, Jorge García, general manager of Petroquim—Chile's sole polypropylene (PP) producer—remarked that Chile remains one of the most open markets globally and emphasized that "protectionism is rarely the answer": "In times of significant oversupply, like we are experiencing today, you cannot ignore international prices. Even though the initial low offers may come from Asia, many regional producers eventually adjust their prices downward—not to the same extent, but they still adjust. This affects everyone, but the key is to learn how to navigate these situations by optimizing as much as possible," he commented. To really add value, García believes that being side by side with clients is critical: "The value of technical support and the ability to work closely with clients in their native language is substantial—something that Asian petrochemical companies often can't match," he concluded. ■

Jorge García, General Manager, Petroquim

Germán Torres, President, Brenntag Essentials Latin America

CHEMICAL DISTRIBUTION

There is still room for consolidation

When you move from industries like mining to the chemical and petrochemical sectors, it might feel like, even as the world accelerates, especially this past year with geopolitical, economic distress, or climatic events happening more frequently, both the chemical and petrochemical industries continue at a slower, more predictable pace. That is not the case. Similarly, looking at the reasons behind the current downcycle, the whole industry seems to be at a standstill. Again, that is another misconception.

The truth is during downcycles, strong companies adapt, survive, gain market share, and look for consolidation through M&A. But what really defines strength? Depending on your background and how you define strength, you might consider qualities like annual revenue, adaptability, financial stability, innovation, and strong leadership. However, we should focus on the true essence of strength—the capacity to endure, overcome challenges, and maintain or grow in the face of adversity. It is clear that every chemical distribution company operating in Latin America demonstrates a great deal of strength. According to Verified Market Research, if that were not the case, it would be impossible for the Latin American chemical distribution market to be valued at US$25.83 billion in 2024 and projected to reach US$36.12 billion by 2031.

Latin America is an arena where the top three global chemical distributors, Brenntag, Univar Solutions and Tricon Energy, are all looking to grow their market share. There seems still to be more room for consolidation in this market. For example, in May 2024, Brenntag announced the acquisition of the Mexican chemical distributor Química Delta. Germán Torres, president at Brenntag Essentials Latin America, told GBR that mergers and acquisitions are a key part of Brenntag's growth strategy, especially in Latin America, where they see significant opportunities in markets like Mexico and Brazil due to their proximity to the US and the trend for nearshoring. He also noted that each country in the region has unique strengths in various business areas, including agrochemicals, fertilizers, personal care, and construction. "This rich diversity across the region makes our business stimulating and rewarding. Instead of relying on a single market for opportunities, our approach combines various industries and sectors, allowing us to develop diverse strategies for growth, both organically and through acquisitions," he added.

Jorge Buckup, president of Latin America at Univar Solutions, emphasized that the success of large global companies relies heavily on leveraging the local component: "We are a global company, but local teams are essential, especially for Latin America. These teams understand the culture, are well aware of local market dynamics, and deliver solutions tailored to each specific market, whether in Mexico, Brazil, Argentina, Venezuela, or Colombia," he commented.

When discussing mergers and acquisitions in the chemical distribution sector, Buckup noted that Univar made several organizational adjustments over the past year to enhance its market approach. However, being acquired by Apollo Funds in 2023 has been a game changer, providing crucial support and allowing the company to implement its strategy with greater agility: "Operating as a private company with the support of a private equity fund like Apollo opens up more possibilities for us, including better resource allocation, whether in people, training, development, new capital investments, or acquisitions. As a private company, M&A is crucial for growth, particularly in Latin America, where we constantly explore opportunities and have conversations to identify the best choices for our markets," he concluded.

Returning to the earlier point about the misconception that the industry was at a standstill, Javier Canala-Echevarría, Pochteca's regional director for South America, helped dispel that notion: "The chemical distribution market is in constant movement, especially considering that market players face an always challenging supply chain and economic and political conditions. Consolidation provides customers access to one-stop-shop supply, whilst distributors strive to achieve a more diversified and integrated operation to improve efficiency and reduce risk."


Jan Krueder, CEO, Química Anastacio


Javier Canala-Echevarría, South America Regional Director, Pochteca

Another company on the top 100 distributors list with a strong local presence, similar to Pochteca, is Química Anastacio. In conversations with Jan Krueder, the company's CEO, he shared with GBR that in 2023, sectors such as base oils, lubricants, paints, industrial processes, and agriculture demonstrated resilience. Despite achieving double-digit growth, Krueder believes the results could have been even better: "Launching new products frequently has allowed this growth, compensating for slower economic conditions, specifically in Brazil. In 2023, we saw a significant price decline, preventing increased revenue growth despite maintaining high volume increases."

"Our leadership in Brazilian distribution demands competitive pricing strategies, robust sourcing capabilities, and adept international management, prioritizing FOB over CFR and negotiating locally for efficient logistic solutions," concluded Krueder.

As the segment continues to consolidate, are there any gaps left or "homeless segments"? According to Francisco Martínez, managing director of GreenChem Industries, there are. On the gaps that M&A leave, Martínez commented: "Often, when an acquisition happens, a new company is born. This consolidation helps improve our industry, fostering institutional companies prioritizing Responsible Care, Responsible Distribution, and SARI. These companies are concerned with addressing industry challenges and the society we serve, so it's better to collaborate with our valued partners and friends on the same playing field […] With each consolidation, we've seen increased interest from customers and suppliers in new players like GreenChem."

TRADING

It is easy to fall into generalizations, especially when trying to synthesize comprehensive reports on an industry as broad as chemicals, and particularly in a region as vast as Latin America. From a business perspective, there are more factors that divide Latin America than unify it. However, these gaps present opportunities for trading companies. Matthias Vorbeck, Anastacio Overseas' general director, said: "As a trading company, some gaps and challenges benefit us. Both Africa and Latin America are facing the need for robust logistical and financial support. This is crucial for facilitating trade across diverse markets."

While Anastacio Overseas started in Brazil and expanded to other markets in Latin America and Africa, another trading company that took the opposite approach is Reuse Trading. According to Tomas Steppe, managing director of the Belgian-based trader, the company found smaller markets in Central America, the Caribbean and Africa easier to grow than larger South American markets like Brazil or Argentina. However, he pointed out that Africa could learn from Latin America's experience with regionally integrated distributors: "The presence of regionally integrated distributors in Latin America, who operate across multiple countries, provides a model for approaching and engaging large, well-established distributors. As Africa's market evolves, adopting these practices could be beneficial for expanding our business there," he concluded.

MIND THE GAP AND SEIZE THE PRIZE

M&A's benefits are clear: gaining access to new markets, offering more specialized services, and expanding the footprint. However, Capstone Partners reports that M&A activity in this segment dropped by 77.8% by June 2024 compared to the same period last year, mainly due to the increasingly blurred lines between manufacturers and distributors.

Many distributors still prefer organic growth before M&A. For instance, Jan Krueder for Anastacio shared that even though the company is exploring the potential acquisition of an SME on the Pacific Coast, it is still focusing on organic growth across Brazil, Argentina, and Mexico.

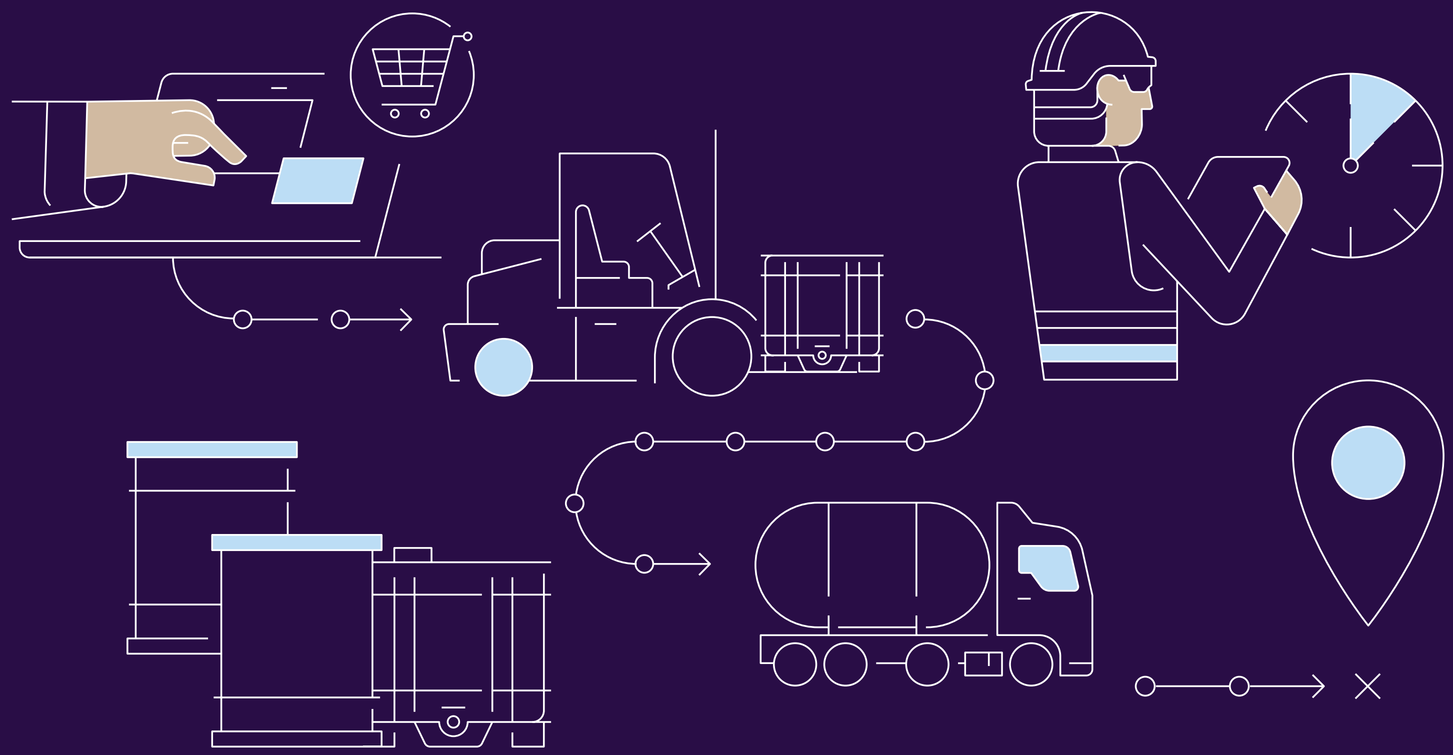
One might wonder if the drop in M&A activity is due to the current unfavorable conditions in the industry or if it is because there is no longer room for further consolidation. The latter seems less likely, as we are still witnessing ongoing activity in the sector. For instance, Stefan Van Loock, region manager of South America at Manuchar, shared with GBR the recent agreement to acquire a majority stake in Proquiel Químicos in Chile to increase the company's turnover in the country four to five times with the goal "To create a synergy that exceeds the sum of its parts—turning `one plus one´ into `two and a half,´ in his words.

On the other hand, Alessandro Moraes, IMCD's managing director in Brazil, explained that in the past year, the company completed 23 acquisitions globally, with 11 in the first half of 2024 alone, adding: "Whether penetrating new geographical areas or branching into different business sectors where we have limited or no presence, acquisitions play a crucial role in IMCD's strategy."

Bandeirante Brazmo is a distribution company based in São Paulo. CEO, Carlos Marin, explained that international distributors sometimes struggle to grasp local dynamics, focusing more on metrics: "They often aim to capture significant local market shares, but can struggle with pricing strategies adapted to Latin America. Some find greater profitability in higher-margin markets abroad. In Brazil, maintaining high inventory levels to ensure turnover is crucial, especially given the exchange rate volatility. The recent fluctuation from R$4.17 to R$5.66 per dollar—a nearly 10% change—illustrates this risk," he asserted. ■

BRENNTAG

150 years



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LOGISTICS AND SERVICES

Small changes create big waves across Latin America

When various media outlets released footage of the Francis Scott Key Bridge collapse in Baltimore (US) in March 2024, many of us had flashbacks to the 2021 blockage of the Suez Canal in Egypt, which lasted six days. Although the consequences of the bridge collapse will not mirror those of the canal blockage, it highlights how vulnerable different industries and regions are to logistical disruptions on the other side of the world.

More locally, in mid-2023, the Panama Canal Authority had to adjust the daily transit capacity due to a drought that lowered Gatun Lake's water levels. Although the canal was returning to normal levels by mid-2024, authorities are already warning about the longterm impacts of climate change and the challenges of securing water for the canal, as explained by Gabriel Mariscal, business manager at CB Fenton, during the APLA logistics meeting held in Santiago, Chile, in June 2024.

Considering this interconnected mesh that represents the world in a globalized economy, the factors leading to disruptions, and trends such as nearshoring, one might wonder if these trends are beneficial for specific regions.

For example, Grupo Puerto de Cartagena operates the Port of Cartagena, which has an installed capacity of 5 million TEUs and is currently handling around 3.7 million TEUs daily—a figure that has been steadily increasing. According to Giovanni Benedetti, CCO and head of marketing and sales at Grupo Puerto de Cartagena: "While growth might seem positive, it is essential to recognize that it does not always indicate a beneficial situation; the increase in container traffic does not necessarily reflect a booming market; rather, it is a result of ongoing disruptions in maritime routes. I believe everyone would like to grow, but not for all the wrong reasons."

Collaboration and interest between foreign and Latin American ports and governments are gaining momentum, particularly in the areas of best practices for infrastructure development—an area Latin America should prioritize, according to the latest APLA Logistics meeting—and energy transition.

The Port of Antwerp-Bruges International (PoABI) has a partnership with Prumo Logística at the Port of Açu in Brazil. Matheus Dolecki, representative for Latin America, commented that PoABI has another partnership with the Port Management Company of Suriname, and has more recently signed an agreement with the Mexican Navy and the State of Sonora to enhance the Port of Guaymas' energy transition.

Ports can drive decarbonization and improve efficiency by optimizing infrastructure for energy projects and sustainable alternatives. As owners and investors, they can support low-carbon regulations, enhance environmental and safety standards, and facilitate alternative fuel production, storage, and transport.

PoABI has experience in energy transition efforts, having signed and ratified a MoU with Chile's Ministry of Energy to advance green hydrogen initiatives: "Beyond Chile, we are also exploring opportunities in Latin American countries with solar and wind resources, particularly Brazil and Uruguay, where we have concrete projects underway while remaining open to other possibilities," added Dolecki.

Also in Brazil, Vopak, one of the world's largest tank storage companies, has been investing in its Alemoa terminal over the last few years, increasing capacity by 70%. The plans also align with Brazil's role as a provider of sustainable feedstocks. According to Álvaro Pérez, Vopak Brazil's president, the company's goal is to expand storage capacity for renewable feedstocks and second-generation ethanol: "One of our major upcoming projects is to introduce rail access at the Alemoa Terminal for the first time, a project being developed with other players of the port. This is expected to significantly impact the liquid market in Brazil and is projected to be fully operational within the next three to five years," ended Pérez.

Martin Sack, Regional Head Americas, Leschaco

Unlike Puerto de Cartagena, PoABI experienced a 5.5% drop in total throughput at the end of 2023 due to geopolitical tensions and slower global economic growth. However, as Dolecki noted, 2024 is showing signs of improvement:

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"Thanks to the added value of the merger, 2024 has been more positive. In the year's first half, our throughput rose by 3% to 143.2 million tons. The container segment stood out, with a 4.1% increase to 6.66 million TEUs and our market share climbing to 30.8%."

In terms of infrastructure, the Port of Houston, where Latin America accounts for around 32% of the Houston Ship Channel's business, has been developing Project 11, which, according to John Moseley, CCO of Port Houston, is "one of the largest waterway projects in the US, with more than a US$1 billion investment."

The Houston Ship Channel, currently 530 feet wide, will be expanded to 700 feet by the end of 2024, allowing it to simultaneously accommodate both a Suezmax liquid tanker and a Neopanamax container vessel. While the scale of this investment and the ability to handle such vessels is undoubtedly impressive, what truly stands out is the attention it has garnered from Brazilian authorities: "Project 11 has attracted significant interest from international governments, like Brazil, keen to learn from Port Houston and apply similar best practices to its infrastructure projects. Brazil urgently needs to enhance efficiency and streamline regulatory processes to support the development of rail and port infrastructure projects, overcome existing bottlenecks, and foster a more dynamic and efficient logistics network," concluded Moseley.

Another company investing in infrastructure, though on a smaller scale, is Carboclor in Argentina. According to Eugenia de Fazio, general manager, and Nicolás Spinelli, president, the company has been putting much effort into distancing itself from its previous image as a producer to become a logistics service provider, leveraging its knowledge of petrochemical production: "We are repurposing a large portion of our old pre-industrial area assets, previously used for petrochemical production, into expanded logistical facilities. This involves dismantling old infrastructure and completing engineering work to improve storage capacity. Our goal is to build versatile storage tanks and develop infrastructure to support a broad range of logistical services, including barge and truck handling," commented Spinelli, to which de Fazio added: "Our technical infrastructure is flexible, enabling adjustments to tank configurations, internal coatings, and safety measures to accommodate the specific needs of various products, including chemicals and fuels. We manage around 80 tanks of varying sizes, which helps us meet a broad spectrum of client needs. In addition, we have eight independent loading lines and a dedicated LPG installation with a direct dock connection."

A(I)-STROLABE: THE MODERN STARTS

So far, we have covered key points: logistical disruptions, port infrastructure gaps, freight rates, limited ship space, and sustainability. Many of these issues are interconnected, which is why companies are investing in new digital tools to address future challenges. "A recent survey highlighted that 81% of our chemical customers view trade wars, political instability, and data gaps as top risks in their supply chains. Recent examples include the floods in southern Brazil and drought conditions affecting the Panama Canal. These challenges push companies to invest in advanced analytical and insight capabilities for improved risk management, and predictive analytics has become essential in navigating this turbulent environment," commented Helio Coelho, PSA BDP's director of global chemicals sales in Latin America.

The company introduced Risk Monitor, a digital tool providing proactive risk management insights for navigating supply chain disruptions and climatic events. Additionally, My Navigator leverages AI to enhance the customer experience. "My Navigator improves customer control with predictive ETAs, using AI to account for factors like port congestion and global disruptions, similar to how Waze updates travel times based on real-time conditions. This predictive capability aids in better planning and reduces inventory costs," added Raquel Loanda, managing director of PSA BDP.

Matthew Costello, CEO of Voyager, noticed inefficiencies in maritime operations, especially with data sharing and analysis. He founded Voyager Portal, a software company designed to help commodity traders and manufacturers manage and predict voyage and demurrage costs to address these issues. The platform provides flexible solutions that can be purchased individually or as a bundle.

Costello, through Voyager, sees a solution for the freight market's consolidation and rising costs: collaboration between companies on similar trade lanes with non-competing products, focusing on sharing space rather than competing for it: "Companies often miss opportunities to optimize their shipping operations by bundling cargoes or combining contracts with other companies. Voyager tool can suggest optimal bundling scenarios by consolidating shipments into fewer voyages," he explained.

Leschaco, a logistics company, has been making steady strides in terms of technology development to improve its services. Martin Sack, Leschaco's regional head for the Americas, shared in an interview with GBR that, to better support customers in today's complex supply chain landscape, the company has been using its advanced platform, Lighthouse, to increase supply chain visibility and reduce extra costs: "Supply chain disruptions take place across shipping and port operations, and minimizing unforeseen expenses and delays is crucial," commented Sack. Lighthouse is an umbrella platform enabling Leschaco to provide comprehensive 4PL and LLP services.

A key focus for Leschaco has been integrating its Colombian entity after acquiring the Coltrans Group at the end of 2022. The integration began in early 2023 and should be finalized by the end of 2024: "In June, we announced the strategic decision to rename four out of the five acquired companies. The fifth entity, our customs agency, will be rebranded by mid-2025 since we are prioritizing its AEO (Authorized Economic Operator) certification process," concluded Sack. ■