

## DOWNSTREAM COMPETITION

### *Refined product competition rollout will be gradual*

Competition in final product markets will be introduced at a modest pace, with the CRE regulating prices and tariffs of basic electricity services, natural gas and oil products. Deregulation requires a competition authority<sup>1</sup> finding that confirms the prevalence of effective competition in specific product markets. In the case of tradable products, the CRE will set prices that reflect conditions in relevant international markets. Regarding non-tradable products and services the regulator will provide explicit price determination rules. For these purposes it will take into account the Treasury's opinion.

Special treatment will be given to gasoline and diesel as well as jet-fuel and LPG, in which a lengthy transition process is envisaged. Automotive fuel prices will be subject to adjustment in 2014 at set monthly increases to eliminate the gap with respect to relevant external price references. From 2015 to 2019, maximum consumer prices will be adjusted according to expected domestic inflation if international reference prices are stable or falling. If they were to increase significantly, the Treasury will review their possible adjustment. Prices will be regulated until 2020 by the CRE, under generally applied rules. Even then, the government will maintain the power to intervene, and here the law offers less guidance, at times placing the responsibility of determining prices in the Treasury and in other instances with the Executive branch.

Import controls will stay in place until the end of the current administration in 2018, and during this time only Pemex will be allowed to import gasoline and diesel. This is an important provision as imports contribute a large share of domestic supply. These shares will continue to increase in the mid-term. One other restriction will be lifted in 2017, when non-Pemex service stations will be allowed to operate.

This calendar is overly cautious and a 5-1/2 year transition appears to be too long. Treasury continues to be involved in setting prices, although it has been suggested that this responsibility would be better delegated to the CRE, as is the case with other regulated products and services. Treasury should only set and adjust sales taxes on gasoline and diesel. The regulator can put in place safeguards to manage disruptions that will necessarily arise during the liberalization process. It is paradoxical that free market supporters in government

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<sup>1</sup> Comisión Federal de Competencia Económica (CFCE).

seem to be afraid of market solutions. They are not prepared to test markets pragmatically within the time frame of the current administration and unleash their creative powers.

The law is ambiguously drafted placing at times the responsibility of determining prices in the Treasury and at other instances with the Executive branch. In the first four months of 2014, 89 percent of the volume of sales would have been subject to direct control by the Treasury.