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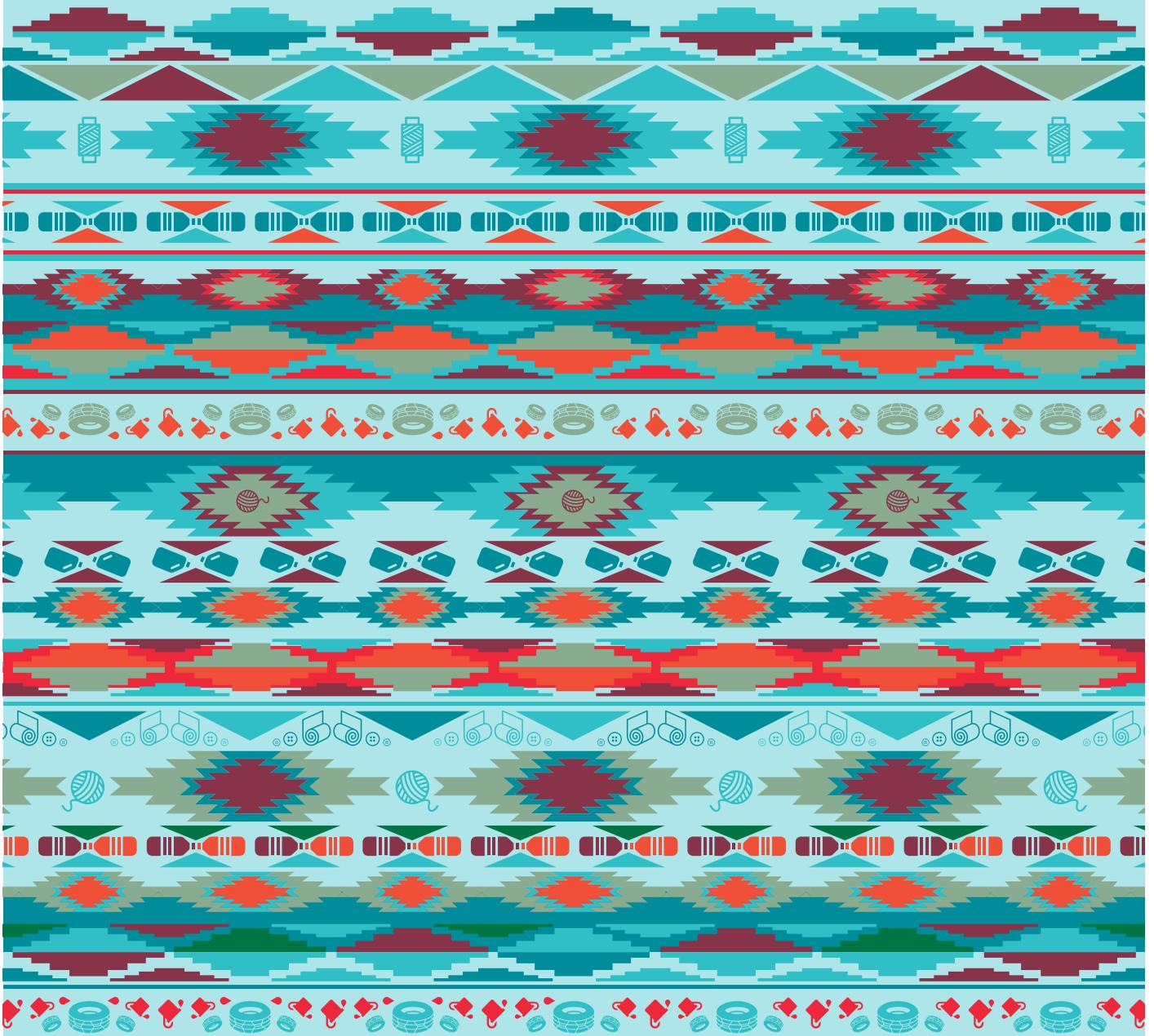
LATIN AMERICA

PETROCHEMICALS AND CHEMICALS

2019



Macroeconomic Overview - Petrochemicals - Specialties
Distribution - Logistics - Sustainability



After **three years** of operations, we have contributed to the **strong reduction of polyethylene imports** in Mexico and to the **improvement of the economy of our country**



Braskem Idesa

Dear Reader,

2019 has been a turbulent year in terms of geopolitical developments and trade tensions, including issues like Brexit in Europe and the never-ending tariff battles between the United States and some of its main trade partners – all of which have been affecting global economic performance.

In Latin America, the region's main economies have had to revise their growth projections downward as the year progressed, due also to their own internal developments such as weaker growth in Mexico and Brazil, in addition to Argentina's latest crisis. Indeed, as per its July 2019 update, the International Monetary Fund (IMF) predicts that the region will achieve flat growth of just 0.6% this year, and recovery in 2020 should be modest with 2.3% growth.

In this challenging environment, it is key for petrochemical and chemical producers to be efficient and to manage closely their production and logistics chains. We live in a world of product abundance as a result of the shale gas revolution, so the market will be taken by those who can be the most competitive. In this respect, the region needs to take advantage of its geological potential, with the pre-salt fields in Brazil and Argentina's Vaca Muerta developments, as well as Mexico's injection of funds to Pemex to help the state-oil company recover its past grandeur.

The petrochemical and chemical industries are accustomed to the ups and downs of economic cycles, and currently they must prove their resilience in order to survive the challenges ahead. Beyond market dynamics, there is also the urge to define and implement circular economy initiatives, something the industry has already started to address.

The challenges are there, but as we pointed out in the welcoming letter of this publication last year, Latin America is a solid market in itself, with more than 600 million people and growing middle classes. There are significant pockets of opportunity for chemical products, not just in terms of household consumption and personal care, but also in B2B relationships with developed industries such as automotive, mining, oil and gas and agriculture.

This is the context surrounding APLA's 39th Latin American Petrochemical Annual Meeting that takes place in Buenos Aires, and this is your complimentary copy of the *Latin America Petrochemicals and Chemicals 2019* executive guide, a publication produced in strategic collaboration with industry report specialists Global Business Reports.

The publication contains articles, analysis, infographics and interviews with key players across the whole value chain, showing a wide-angle snapshot of the current state of the industry in Latin America. This year, beyond the larger economies, we have expanded our coverage to include more companies from Chile and Colombia.

We cannot conclude this welcoming remark without thanking all the companies and institutions that participated in the research process of the report this year. We hope you enjoy the meeting and that you find this publication interesting and useful.



Manuel Díaz
Executive Director
APLA



Alice Pascoletti
Managing Director
Global Business Reports



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A snapshot of the region's macro-economic scenario, analyzing industry and political developments.

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LATIN AMERICA PETROCHEMICALS AND CHEMICALS 2019
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Industry Explorations
Global Business Reports & APLA

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Latin America Overview

“The period between 2002 and 2012 saw major development and middle class creation in all of Latin America. This had to do with a commodity boom in several countries and the middle class creation was the most significant we have observed in Latin America since the 1970s. The increasing middle class felt that they had rights to better education, healthcare and general conditions, which led many countries into left-oriented governments.”

- Munir Jalil,
Executive Director - Macro Research,
BTG PACTUAL

Adapting to Economic Uncertainty

Middle class expansion continues to offer opportunity for the petrochemicals industry in a region that is home to more than 600 million people

Election years rarely see a boost to economic and industrial growth anywhere, and last year Latin America held presidential polls in its two largest economies, Brazil and Mexico, while Argentina will hold its own presidential election in Q4 2019. In Brazil, recent growth rates have not been enough to undo the damage of the recession, with 1.1% GDP growth in 2017 and 2018, and a 2019 estimation that was revised downward to just 0.8% by the country's government in July.

Meanwhile, in Mexico, López Obrador's landslide victory sparked fears that the new government could introduce bumps on the country's road to the energy reform initiated by the preceding Peña Nieto administration. Adding to the political uncertainty, Mexico had to deal with the renegotiation of the free trade agreement with the United States and Canada, which finally resulted in the new USMCA agreement.

A comparison between Mexico and Brazil makes for an interesting case study in market perception and expectation versus reality. Latin America's economic cornerstones sit at opposite ends of the region and are currently governed by divergent political ideologies. However, the initial reaction of the business world to each situation has been somewhat unfounded, as Munir Jalil, executive director of macro research for BTG Pactual, related: "In Mexico, we were fearing the worst of a supposedly populist political system, which still has not materialized. On the other hand, we were very

optimistic about the political situation in Brazil with a supposedly pro-business government, but expectations have been disappointed since the new regime has taken over."

While Mexico's economy has recorded positive growth since 2010, expansion levels have plateaued, and, in July 2019, the IMF had reduced its GDP growth expectation for the year to 0.9%. In comparison, the IMF expects the world's economy to expand by 3.2% in 2019. This is down from a previous IMF projection of 3.7% growth; the negative effects of the U.S.-China trade tariff war, among other factors, explained the revision.

Latin America as a whole, however, has a positive outlook moving from 2019 to 2020, with a solid macro-economic framework in terms of fiscal accounts and inflation control. According to Martín Redrado, founder and director general of Fundación Capital: "Even though the world can become more volatile, Latin America is better prepared for the capital inflows and outflows. As the region has experienced crisis before, it has put up buffers in the financial sector, and I do not foresee a financial or macro-economic crisis in the near or medium-term future."

Although the picture is one of cautious optimism, Redrado did warn that Latin America is still very reliant on capital inflows and dependent on foreign direct investment due to a lack of savings – leaving the region sensitive to interest rates. Com-



modity prices also have a considerable impact. "If you want to look at the growth of Latin America, two variables should be taken into account – interest rates and commodity prices. We have a good outlook for both of these variables, and therefore Latin America has the ability to grow at a 3% to 4% level," he stated.

Sustained investment is needed before Latin America's abundant resources bear fruit

The overall feeling is that the Latin American region could perform better if governments were more willing to promote investment: "When you have a large consumer base of approximately 600 million people who are trying to improve their standard of living, you have the opportunity to create the products that they consume every day," related Mark Eramo, vice president for oil markets, midstream, downstream and chemicals at market intelligence firm IHS Markit. "The problem is that capacity in a significant amount of areas is not be-

ing added, and therefore the region is still a major net importer...From an energy and chemicals perspective, the best prospects are in Mexico, Brazil and Argentina. It will come down to government decisions to put policies in place that support or attract foreign investment, as well as stimulate in-country investment," he concluded.

The domestic and foreign investment necessary to fulfill the potential of Latin America's energy and chemicals prospects should not be restricted to industrial plants and extraction/processing technology. Becoming cost-competitive relies on efficient, modern logistics, and, in this regard, the region lags behind other developing nations with a deficit that is at least 30 years old, according to Eduardo Praselj, president of the Venezuelan Logistics Association (ALV). Praselj explained that for years the percentage of GDP that Latin American countries have invested in infrastructure has been insufficient – substantially less in comparison to regions that have overtaken them, such as Southeast Asia. "During the 1980s, the region [Latin America] invested 3.5% of GDP, but in the last 10 years

it has invested less than 2% of its GDP," he noted, suggesting that Latin American countries will probably have to invest double or triple what they are investing today with respect to their GDP in the coming decades.

"They must do so by incorporating the private sector, either through Public-Private Partnerships (PPPs), concessions or leases. There are countries that are already doing it: Mexico has been involved in an important activity in the matter of PPPs for highways, Argentina is doing it and judging by the declarations of the Secretary of Infrastructure of the Brazilian Government, Brazil as well," added Praselj.

Fortunately, foreign investors have exhibited a keen appetite for the region that should gain momentum in 2020 after elections in Latin America's big three economies have passed. Argentina, although the most volatile of the three, has the single most valuable resource in the region – the vast shale reserves at Vaca Muerta, of which less than 4% have been developed. Hyperinflation, an IMF bailout and a looming election have not dimmed foreign interest in the un-

conventional play that could transform the current feedstock deficit in the region.

U.S. companies with experience in the development of unconventional energy have shown a particular interest in Vaca Muerta, with Chevron and Exxon being two of the largest foreign investors in the resource sitting in the Neuquén Basin. As well as contributing to the financial investment necessary to develop Vaca Muerta, Chevron and Exxon are bringing best practices from Texas, Pennsylvania and North Dakota to help smooth the learning curve for Argentine partners, according to Derek Wong, economic officer at the U.S. Embassy in Argentina. Wong expanded on the potential players throughout the value chain seen in the resource: "Many U.S. energy companies that we speak to see the Vaca Muerta shale formation as a long-term investment opportunity, and it is not only the upstream producers. Services companies, midstream providers and downstream firms recognize the significance of the investment potential. In the petrochemicals industry, Dow has invested more than US\$2 billion in Argentina over the last 15 years." ■



Martín Redrado

Founder and Director General
FUNDACIÓN CAPITAL

“

There are six sectors in Argentina which, no matter what political outcome there is in the elections, are still going to be winners. The petrochemical industry is one of them.

”

■

What were the factors which led to the current economic crisis in Argentina?

This government was overconfident with regard to the problems it had to surmount and the level of inconsistencies it was inheriting. They underestimated the problem of inflation and applied a regime which gives the central bank the capacity to anchor inflationary expectations by increasing interest rates. This only works in a more normal situation where there is not a big distortion in relative prices, such as was the case in Argentina in 2015.

Moreover, the credit is very shallow and therefore a weak tool. In comparison to the rest of Latin America, where the credit market represents 50% of GDP, Argentina's credit market only represents 11% of GDP. The communication channel that the central bank has with the real economy is through the credit market. In a country where it is significant, raising or lowering interest rates does have a direct impact on the real economy. Quite the contrary, by raising interest rates the country attracted a substantial amount of 'hot money'. The result was we did not beat inflation and we also ended up with an overvalued currency.

Subsequently, the government was very keen to finance itself through Wall Street, but did not open other windows of financing around the world. When there was a sudden stop due to the rise in interest rates in April 2018, the government did not have alternative sources of financing. The government then decided to go to the IMF, which, in my view was too hasty and this move created a lack of confidence.

What can be done to rectify the situation?

We have a very modest emergency program which has clearly avoided a worst case scenario in terms of debt payments. However, the inflationary approach has been dismal. To make matters worse, Argentina is not experiencing GDP growth. A classical adjustment program has brought better performance to the country's fiscal situation, where its fiscal deficit went from 5% to GDP to 3.2% to GDP. Also, the need for dollars has reduced, which has diminished the country's vulnerability. However, lowering inflation and recovering the growth base still remain important issues.

What effect will the impending election have on the petrochemical and chemical industry?

There are six sectors in Argentina which, no matter what political outcome there is in the elections, are still going to be winners. The petrochemical industry is one of them. The question is then how fast these sectors and their entire value added chain will grow, but there is certainly a very positive outlook. If you have a business which is more export-oriented and you have a natural edge with the fluctuation you could have in the exchange rate, clearly you are hedged under the different contingencies.

How does Fundación Capital view the Latin American economy?

The majority of Latin America has a very solid macro-economic framework in terms of fiscal accounts and inflation control. Even though the world can become more volatile, Latin America is better prepared for the capital inflows and outflows, with buffers in the financial sector as a reaction to previous crises. However, Latin America is still very reliant on capital inflows and the region depends on direct foreign investment. This means we are interest rate sensitive, but my outlook for interest rates in the developed world is very calm moving forward.

Latin America is also highly commodity price dependent. If you want to look at the growth of Latin America, two variables should be taken into account – interest rates and commodity prices. We have a good outlook for both of these variables and therefore Latin America has the ability to grow at a 3% to 4% level. The region has, however, been quite complacent in making competitive reforms such as reforms in the labor market, pension funds, lowering taxes and incentives to promote investment. The proposed pension reform in Brazil could be a landmark for the region.

While my outlook for the region is positive, Latin America should develop bilateral or bi-regional credit agreements with countries outside of the region's traditional boundaries, looking towards Asia, Eastern Europe and Africa. I believe that a more aggressive policy agenda will make Latin America more competitive. ■



Mark Eramo

VP Oil Markets / Midstream /
Downstream / Chemicals
IHS MARKIT

“

From an energy and chemicals perspective, the best prospects are in Mexico, Brazil and Argentina. It will come down to the decisions that the governments make to put policies in place to support or attract foreign investment, as well as stimulating in-country investment.

”

■

How do you think Latin America stands in terms of growth and potential for the chemicals market?

From a geopolitical standpoint, the first advantage is that we have gotten past the elections, as any elections create a degree of uncertainty. The questions remains if the policies of the new governments in Mexico and Brazil will move the countries forward in terms of economic development. When you have a large consumer base, of approximately 600 million people, who are trying to improve their standard of living, you have the opportunity to create the products which they consume every day. The problem is that capacity, in a significant amount of areas, is not being added, and therefore the region is still a major net importer. From a macro level, there are natural resources available in Latin America and with the right policies in place, you can facilitate industrial and economic development, which can also aid in creating jobs and attracting investment to the region.

From an energy and chemicals perspective, the best prospects are in Mexico, Brazil and Argentina. It will come down to the decisions that the governments make to put policies in place to support or attract foreign investment, as well as stimulating in-country investment.

With a steep decline in hydrocarbons production in Mexico, how do you think the country can get back to a more balanced market to feed the entire chemicals value chain?

The government's focus must be to attract foreign direct investment to help develop the natural resources available in the country, in support of energy and chemical development. With the current plans of reducing production and eliminating exports, the indications are that it is going to be difficult to attract that investment. Once the new government begins to understand the value that can come from value chain development, they can maybe move towards a more balanced governance and find a way to move forward in terms of energy and other industrial development.

In Brazil, the chemical trade deficit has been growing significantly over the last years. How do you see development continuing in this country?

It all comes down to the incoming government being able to execute industrial development. The crude oil prices are increasing, which is a significant advantage for a country such as Brazil. One would expect Brazil to leverage the price increase and to grow with attracting additional investments. Brazil is showing increased hydrocarbons production and they already have the infrastructure in place with respect to refining and petrochemicals.

Do you see any particular trends in the petrochemical industry moving forward?

Latin America represents the shortest distance to market for North American exports. In a market where countries are not building production capacity and relying on imports, the North American market is favorable for importing from, as it is competitive. Within the Americas, trade flows have been and will continue to be sound. There are, however, pockets of production within Latin America, which can compete within their domestic market.

Globally, there seems to be a consensus around the fact that the rate of demand growth of refined products, such as gasoline and diesel, will begin to decline as we progress through the 2020s. By 2030, the incremental growth of refined product demand will begin to flatten out, eventually to a point where we will start seeing declines. A factor contributing to this decline in demand for refined products is the increasing fuel economy standards.

A result of this may then be that refiners will start to redeploy their assets to base chemicals, which changes the scale of what the refinery industry can bring to the market each year. In my opinion, crude oil to chemical integration is going to happen, but there are only a few large players globally that will be able to compete in this arena from a capital standpoint. ■



Eduardo Praselj

President
VENEZUELA LOGISTICS ASSOCIATION (ALV)

“

During the next decades, Latin American countries will probably have to double or triple their investment in infrastructure by incorporating the private sector, either through Public-Private Partnerships (PPPs), concessions, or leases.

”

What can be done to improve the logistics deficit in Latin America?

The logistics deficit is at least 30 or 40 years old. Prior to this, infrastructure such as roads, railways, ports, power generation and terminals was better than that of the South-east Asian countries. During the 1980s, Latin America invested 3.5% of GDP in infrastructure, but in the last ten years this figure has gone down to less than 2% of GDP. This has been mostly public investment and, in recent years, it has fallen brutally affecting total investment. The current state of the Latin American infrastructure represents a barrier to competitiveness and economic growth and Brazil is one of the countries where this issue is most strongly reflected.

During the next decades, Latin American countries will probably have to double or triple their investment by incorporating the private sector, either through Public-Private Partnerships (PPPs), concessions, or leases. There are countries that are already doing this; Mexico has been involved in PPPs for highways, Argentina is doing it as well, and judging by the declarations of the Secretary of Infrastructure of the Brazilian Government, Brazil will do so too.

What are the particularities of Brazil, Latin America's largest economy?

Today, 85% of cargo in Brazil is transported by road. However, an effort is being made to incorporate more railways and this is reflected in the projects and investments within modes of transport. The incorporation of two additional elements is also important: cabotage and the use of waterways. Brazil must take advantage of its rivers and river ports.

How is the digital revolution impacting the market in Latin America?

Digital transformation is going to have a big impact and organizations have to identify the means to adapt to it. Most companies handle the ABC of logistics: planning, forecasting demand, sourcing, storage, transport, etc. However, there are new elements such as real-time traceability, meaning that the customer knows the location of their container at any time, which allows for better decision making.

What will be the main impacts of the IMO 2020 regulations?

The IMO 2020 regulations limit the maximum sulfur content of ship fuels, much lower than the current one. The dilemma is then raised between using these new fuels, which will be more expensive than the current ones, or installing sulfur removers or SO2 scrubbers in the ships and maintaining the current fuels. Both options pose challenges. On the one hand, there is no obligation for the refining industry to provide these new fuels, which would add a scarcity premium. As for the removers or scrubbers, in addition to high installation costs, its use requires space in the ships, which decreases load capacity.

How do you think the development of shale gas reserves in the region can affect the chemical market?

With the introduction of shale gas various elements are joined: first, the price of gas is out of synch with the price of oil. If before the price of gas was more or less, in terms of energy, 70% of the price of oil, on a base of BTUs (British Thermal Units), today, one million BTUs of oil is worth US\$10-11, and one million BTUs of shale gas is worth US\$3. This brings a competitiveness to the U.S. that it did not have before. In addition, building plants in the U.S. is cheaper than in Latin America because of higher productivity, better infrastructure and economies of scale. Due to this, many projects that were planned for Latin America were not carried out and there was a relocation of plants to the U.S.

As a result of the low cost of gas from the United States, all petrochemical companies set about building plants to manufacture polyethylene. This developed a surplus of product that is supplied to, among others, the Latin American market, which created a congestion phenomenon. The first manifestation of congestion is that polyethylene is produced in bulk and for export it must be put in bags, then the baggers become a bottleneck. The second point of congestion is the ports. Now, in addition to Houston, product is being exported through the Atlantic ports. ■



Munir Jalil

Executive Director - Macro Research
BTG PACTUAL

“

We are not able to be as productive as we were in the past. This is not a phenomenon exclusive to Latin America, but we are experiencing a worldwide reduction in productivity, and nobody can be certain as to why this is happening.

”

How did the period of middle-class creation between 2002 and 2012 shape the current macro-economic situation in Latin America?

To put the region into context, indeed we have to go back to the period between 2002 and 2012, which was a period of major development and middle class creation in all of Latin America. The development had to do with a commodity boom in several countries and the middle class creation was the most significant we have observed in Latin America since the 1970's. This period also coincided with specific types of governments taking shape and gaining ground in the region. The increasing middle class felt that they had rights to better education, healthcare and general conditions, which led many countries into left-oriented governments. There were increases in taxation as well as expenditures. For the commodity producing countries, there was no increase in taxation as most of the increases in expenditures were financed through the higher commodity prices.

What were the factors that lead to the slowdown of growth in the region from 2013 onwards?

When 2013 came, there was a reduction in the price of copper and base metals, and 2014 saw a reduction in the price of oil and gas. The drop in price of export commodities had an impact on many economies in terms of reductions in revenues and income in terms of US dollars fell significantly. For example, before the decrease, Venezuela had export revenues equivalent to US\$95 billion, whereas in 2018, the country only had an export revenue of US\$18 billion.

After 2013, from a fiscal perspective, countries with higher levels of deficits had debt to GDP ratios which were higher. At that time, the Latin American region had a stroke of luck, as when we needed the money, for the first time ever in the history of the region, we were able to obtain it at the lowest interest rates possible. The reason for this was that the financial crisis in the developed world led to interest rates declining. The region was able to obtain financing at low interest rates, which enabled us to smooth-out the business cycle through fiscal policy. Countries in the region still had a high debt to GDP ratios, but significantly lower interest rates. As a consequence of the reduction in revenues, our economies went into a deceleration phase, and in some cases recession.

Why are growth rates not forecast to be as dramatic as the period between 2002 and 2012?

The answer comes down to the fact that we are currently not able to be as productive as we were in the past. This is not a phenomenon exclusive to Latin America, but we are experiencing a worldwide reduction in productivity, and nobody can be certain as to why this is happening. The high growth rates that we had in the past do not look as achievable anymore. We continue to expect complete recovery to take place, but the reality is that we are seeing downward regression on our growth expectations, some countries more than others.

There are polarizing political ideologies governing some of Latin America's biggest economies. How has this impacted their macro-economic outlook?

We do have an interesting political situation when looking at the two largest economies in the region, Mexico and Brazil. Mexico and Brazil both have a divergent type of government. In Mexico, we were expecting the worst in terms a supposedly populist political system trying to materialize, which still has not. On the other hand, we were very optimistic about the political situation in Brazil with a supposedly pro-business government, but expectations have been tampered since the new regime has taken over, and the country is also moving towards a more realistic expectation for growth. The challenge now is passing the pending pension reform in Brazil. ■

Latin America in a Global Context

The industry is shaken by the shale revolution and trade wars

By disrupting the previous trade scenario, the disputes over tariffs between the United States and China have also shaken the dynamics of global petrochemical product flows. Stefan Lepecki, CEO of Braskem Idesa, a large polyethylene producer based in Mexico, said that the United States is no longer a big exporter of polyethylene to China as used to be the case, and furthermore, the United States is bringing significant new capacity to the market: “All of this is creating new dynamics in trade flows, with an excess of polyethylene inventories here in the [Latin American] region, which is a challenge in the short term. Having said that, the long-term fundamentals are very positive, because global demand for plastics continues to be very strong,” Lepecki said.

The shale revolution in North America and the ongoing wave of investments in new petrochemical capacity are poised to compete with any potential new capacity in Latin America in the upcoming years. While development of Brazil’s pre-salt hydrocarbons and Argentina’s Vaca Muerta is already in motion, it will probably take a few years and a substantial increase in demand in the region to have new, sizeable greenfield projects of petrochemical plants in Latin America. “Latin America represents the shortest distance to market for North American exports,” highlighted Eramo of IHS Markit. “Trade flows have been and will continue to be sound as there

is ample product in the north and a need in the south. There are, however, pockets of production within Latin America that can compete within their domestic market.”

The most recent flagship investment in the region was the US\$5.2 billion plant by Braskem Idesa in Mexico. Inaugurated in 2016, the operation has been able to perform well despite the feedstock limitations in the country created by Pemex’s output decline: “Before Braskem Idesa, 70% of the polyethylene consumed in Mexico was imported from the United States, and only 30% was produced locally. We managed to stabilize that by replacing some imports and also doing some exports,” affirmed Lepecki of Braskem Idesa.

On the chemicals side, BASF invested €500 million to build and inaugurate an acrylic acid complex in Brazil in 2015 – the only world-scale superabsorbent plant in South America and the largest investment the Brazilian chemical industry has seen. “It is important for BASF to show that these types of investments can be profitable in South America, and once we have proven this, there will be room for more investment in the future,” stated Manfredo Rübens, president of BASF South America.

While North America is undoubtedly a natural trading partner for Latin America, increased diversification of its export markets could hedge against future instability, a strategy that seems particularly prudent

considering rhetoric from the Twitter-happy president of the United States directed at China and Iran. Martín Redrado of Fundación Capital suggested that Latin America should make the effort to be more aggressive on developing bilateral or bi-regional agreements with countries outside of the region’s traditional sphere of influence: “We should examine opportunities beyond the boundaries of traditional export markets and look towards Asia, Eastern Europe and Africa. I believe that a more aggressive policy agenda will make Latin America more competitive.”

Vertical integration: increasingly an imperative

The trend toward the electrification of transport and the gradual phasing out of

internal combustion engines has far-reaching implications for many industries. In mining, this is pushing long-term demand for copper and other metals, for example. Throughout the hydrocarbons value chain, there could be significant changes over the next couple of decades, especially in the downstream segment. Eramo of IHS Markit presented the following scenario: “There seems to be a consensus that the rate of demand growth of refined products, such as gasoline and diesel, will decline as we progress through the 2020s. By 2030, the incremental growth of refined product demand will begin to flatten out, and we will start seeing declines.”

As a result of this, refiners may start to re-deploy their assets to base chemicals and that will affect the volumes that the refinery industry can bring to the market each year, explained Eramo. “In my opinion, crude

oil to chemical integration is going to happen, but there are only a few large players globally that will be able to compete in this arena from a capital standpoint.”

Those few large players are companies that can benefit from the synergies created by vertical integration and economies of scale. Federico Veller, executive manager for chemicals at Argentina’s state-controlled YPF, the country’s largest energy company, anticipated: “The petrochemicals industry is the sector that will drive hydrocarbons consumption over the next years. Large oil companies forecast flattened fuel demand, and this is why focus is increasingly placed on the petrochemicals business. Those companies that are vertically integrated, with feedstock production all the way to the downstream business, will be the most competitive ones,” concluded Veller. ■



Chemical and raw materials solutions for competitiveness

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Manfredo Rübens

President South America
BASF

“

Currently, there are positive expectations and some optimism in Brazil, but on the other hand, there is a critical and uncertain situation in Argentina in light of the upcoming elections.

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Which business sectors are the most significant for BASF in South America?

The agricultural sector represents approximately 40% of BASF's business in South America. In 2018, in one of the company's largest global acquisitions to date, BASF acquired seed businesses and other assets from Bayer. A significant part of the overall global acquisition of €7.4 billion relates to Latin America.

In the chemicals segment of our business, BASF invested €500 million to build and inaugurate an acrylic acid complex in Brazil in 2015. This complex is the only world-scale superabsorbent plant in South America, and is the largest investment the Brazilian chemical industry has seen in a number of years.

How has the company performed financially in the region over the last few years?

In the years between 2015 and 2017, the deep recession in Brazil affected the company, and we had to adjust the organization to adapt to the lower market demand. In 2018, South America growth rebounded in terms of volume, sales and profit. The agricultural sector was a key growth driver during this period.

Currently, there are positive expectations and some optimism in Brazil, but on the other hand, there is a critical and uncertain situation in Argentina in light of the upcoming elections. Although it is a tough environment, BASF is holding up quite well in Argentina and has an overall positive outlook for the future of the country, which has significant resources.

Digitalization is one of the pillars of BASF's new global corporate strategy. Can you elaborate on this?

We have defined six strategic action areas through which BASF will sharpen its customer focus – innovation, sustainability, operations, digitalization, portfolio and employees. By using digital technologies and data, we are creating additional value for customers and increasing the efficiency and effectiveness of the company's processes. Examples of BASF's digital initiatives include: smart manufacturing with augmented reality tools and sensor techniques improving the forecasting and optimization of maintenance requirements; smart supply chain creating an integrated supply chain and higher availability of logistical data; and smart agriculture. We generate diagnostics to identify opportunities to test new technolo-

gies. The results obtained are the Center for Scientific and Digital Experiences (onono). For example: AgroStart, which is a startup acceleration program for the development of solutions to increase the efficiency and the capacity to generate results for agribusiness and investment; and Go to Market, our unprecedented e-commerce for chemicals in the region.

Have any of BASF's digital advancements been introduced to the South American market?

In March 2019, BASF inaugurated a center of scientific and digital experience in São Paulo. This is a high-tech center which serves as a platform to connect with customers, suppliers, stakeholders and start-up companies. The co-creation facility is aimed at stimulating the development of ideas from employees and customers, and creating a mindset for digitalization not only in BASF's own business, but also among its customers and the entire supply chain.

What are BASF's policies surrounding sustainability?

Since 1990, BASF has doubled its business, but has halved its carbon emissions. We have achieved this through optimization of our plants and processes, but to now move forward without any carbon footprint increase is a challenge. We are addressing this challenge by implementing new technologies, such as the carbon free production of methanol, which we have already patented. BASF was a founding member of the alliance against plastic waste. We are working on technologies, such as ChemCycling, to transform plastic waste into raw materials which can be used again. Further, BASF is very diligent with its supplier base when analyzing their sustainable footprint, and we are seeing that this is increasingly being requested by our customer base as well.

Moving forward, what are BASF's key objectives in South America?

More than 70% of the business BASF does in South America is in Brazil. We will see continued growth in Brazil in the near term, if the country is able to succeed with their planned programs to tackle the fiscal deficit, attack corruption, improve security and reduce bureaucracy. Moving forward, we expect the growth and development across the region to be more dynamic than what we have experienced to date. ■



José Magalhães Fernandes

VP & GM Performance Materials and
Technology - Latin America
HONEYWELL



Roberto Kirschner

South American Director
HUNTSMAN

Are there any particular segments of business that are a key focus for the company at present?

In Latin America, there's a strong presence of Honeywell's four business units (SBGs): Aerospace, Building Technologies (HBT), Performance Materials and Technologies (PMT) and Safety and Productivity Solutions (SPS). Particularly in the business I lead, Performance Materials and Technology, we have three key strategies. In the oil and gas industry, which is primarily managed by our UOP business unit, we are focusing largely on renewables moving forward. UOP is one of the major centers for refinery technology in the world, meaning that, of all the technologies available in the marketplace, 80% of those are proprietary to UOP. Nevertheless, as the world moves towards more renewable products, we have developed a unique technology that can convert vegetable and animal oils into a renewable fuel, which we call either "Green Diesel" or "Green Jet Fuel."

Can you elaborate on the capabilities of Honeywell's chemical segment?

Honeywell has more than 3,000 active patents, a global presence, and a century of experience

What have been the major recent developments for Huntsman in Latin America?

A major milestone was Huntsman's Performance Products division starting local production in Brazil. We are currently focusing on producing products for the oil field as well as the agrochemicals market, which is particularly strong in Brazil. Our focus moving forward will shift from commodities to specialties.

How significant is Huntsman's footprint in Latin America?

Huntsman's Performance Products division has an office and production in Brazil from which we manage the South American operations, as well as in Mexico, which manages Mexico, Central America and the Caribbean. Our Polyurethane and Textile Effect divisions have operations in Brazil, Mexico, Colombia and Argentina, and our Advance Material division has a footprint in Brazil. In the latter country, our Performance Products division mainly supplies the oil and gas and agrochemicals markets. Huntsman is also part of the automotive market supply chain in Latin America, and we provide products to the mining industry in South America.

using breakthrough chemistry and engineering to power global growth. For example, we developed the first biodegradable detergents, unleaded gas and the catalytic converter.

Recently, in Brazil we announced the launch of a new Aclar grade, Aclar Accel, a product that includes a very important component used by pharmaceutical companies that allows blister packaging to last longer and keep to the original molecular specification.

Under our Honeywell Spectra fiber and ballistic composite materials, we own a fiber composite technology that is used for a range of applications, including bullet-resistant helmets and vests for the military, industrial ropes and more. One of the most important product portfolios that we have within our chemical arm is our wide range of fluorine products, which includes refrigerants, blowing agents, specialty solvents and aerosol applications. We have the latest generation of fluorine products in the world; for example, our fluorine products are non-flammable and VOC-free. Another product line worth mentioning is our low-molecular-weight polyethylene waxes used in for a diverse range of applications from PVC pipes to coatings, inks and adhesives. ■

Can you elaborate on some of Huntsman's innovations?

We develop and innovate both in-house and in collaboration with customers. The company has a new line of paraffin dispersants for the oil field industry, for example. This product is specifically developed for the South American market where there is a high content of paraffin. Our chemistries work by modifying the crystalline structure of the paraffins, making it difficult for them to form a plug in the pipeline. For the agrochemical market, we provide more concentrated dispersants or a mixture of two or three different actives.

What are Huntsman's objectives moving forward?

Huntsman would like to increase its local production portfolio, especially within the oil and gas, agrochemicals and mining industries. The company is certified under the Responsible Care program and our entire company follows the program guidelines. Our aim is to use the best practices and standards of operation in all the regions we operate in. With increasing local production in Brazil, we want to send a message that the company is committed to the Latin American region. ■

The Distribution Market: A Quick Look

A trend towards consolidation favors digitally savvy distributors

The chemical distribution sector in Latin America is undergoing a renaissance – or a reckoning – of sorts. The shift is observable through the reorganization of the market, as well as a trend towards adding more value for clients through an improved capacity to provide logistical support in a region where infrastructure challenges are often acute. “Selling a product is part of what we do, but this is really a service for the producers to reach a market that they cannot serve and for the customers who would otherwise not have access to the producer,” explained José M. Berges, CEO of GTM Holdings, the second largest Latin American distributor. In 2012, the top 10 chemical distribution companies in Latin America had a market share of just 21%, according to The Boston Consulting Group, illustrating the severe fragmentation within the region’s chemical market. However, a wave of M&A activity is helping to consolidate the industry, which in turn will help to introduce better practices and raise standards while streamlining the development of distribution channels. Between September 2016 and April 2017, GTM tripled its size through three acquisitions: High Chem, quantiQ and Peruquímicos. The company will continue to seek new M&A opportunities, according to Berges, who elaborated on how the most recent acquisitions had improved GTM’s capacity and expanded their offering: “Before acquiring High Chem, our position in specialties was very limited. We had a good position in industrial chemicals and in what we call customer solutions, which is basically to elaborate tailor-made blends and formulations for the clients,” he said. “Through High Chem and then quantiQ, which had a very significant specialty chemicals operation as well, we became a full line supplier, with both industrials and specialties, and now we are transferring that knowledge from Mexico and Brazil to the other markets.”

Univar Solutions began investments in Latin America only seven years ago when it entered Brazil, but has since made further ac-

quisitions in Brazil, Mexico, Central America and the Andean region. Jorge Buckup, Univar Solutions’ Latin America president, highlighted the theme that has become so apparent in the distribution space: “The trend is clearly one of consolidation, and this is also where we see Univar Solutions playing a very important role. Our history in Latin America is recent, but the company has been growing significantly through acquisitions over these few years.” Buckup acknowledged that the distribution sector in Latin America is crowded, and volatility in the region’s biggest markets favors a select few players with the means to offer safe and secure handling of materials, product availability, expertise, technical support and advanced digital solutions. “The landscape will not become easier for small and medium size distributors,” he noted. In this context, the distributors with the most extensive footprint, liquidity and resources have a distinct advantage. The biggest chemical distributor in Latin America, and indeed the world, is Brenntag, generating around US\$15 billion annually and employing over 3,000 staff in Latin America. Despite the economic headwinds in Brazil and Argentina, South America’s two biggest consumer markets have remained the most profitable and fast

growing in Brenntag’s Latin America South region, according to president for this division, Guillermo Laborato. “For the biggest players in the market, which have the structure and liquidity to face market volatility, adverse conditions can create opportunity,” he said, adding: “Brenntag is able to offer clients the products that they need during difficult times that other companies will struggle to provide. Diversity is also important – operating in different market segments gives Brenntag the ability to mitigate challenges caused by instability.”

Another multinational player in the distribution and logistics space is BDP International, with a footprint of six offices and processing centers in Brazil, Argentina, Chile, Peru, Colombia and most recently, Uruguay. BDP’s Montevideo office was opened in October 2018, in line with the company’s global strategy to move further into and consolidate the company’s position in Latin America. Hector Midolo, BDP International’s managing director for Latin America, said: “We think of Uruguay as the Panama of the South. The country offers significant fiscal benefits and also has many free-trade zones of which global and regional companies are increasingly taking advantage.” ■



Image courtesy of Braskem

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Argentina

“There are six sectors in Argentina which, no matter what political outcome there is in the elections, are still going to be winners. The petrochemical industry is one of them. The question is then how fast these sectors and their entire value added chain will grow, but there is certainly a very positive outlook.”

- Martin Redrado,
Founder and Director General,
FUNDACIÓN CAPITAL

Argentina: How to Leave the Crisis Behind

Expectations for the industry are positive as the general election approaches

An IMF bailout to the tune of US\$56 billion, 55.8% inflation (between July 2018 and June 2019), unemployment rising to nearly 10% this year and a currency devaluation that has seen the Argentine Peso fall from 20 to the dollar in April 2018 to 58 to the dollar in August 2019: for a country with significant resources, the question must be asked – how did we get here?

During the previous Fernández de Kirchner government, high levels of distortion in prices had become commonplace, according to Gonzalo Mórtoła, controller at Puerto Buenos Aires. The country's biggest port is a public institution with over 100 years of history, as well as an example of how institutional corruption had eroded Argentina's competitiveness. "Fees were being charged that had never been charged in any other port of the world," said Mórtoła, continuing: "For instance, there was a US\$90 fee for the cleaning and sweeping of empty containers. There was also an insurance charge for all containers and merchandise, and without this insurance, the product could not leave or enter the port. The overall cost of fees was around US\$360 per container."

In the years since, Puerto Buenos Aires has been able to reduce these costs by over US\$300, illustrating the gravity of the situation the new government inherited. However, as the four-year Macri mandate reaches an end, the macro-economic picture in Argentina has remained depressed, an indication that anti-corruption measures and

a more pro-business attitude alone have not been enough to breathe life into a struggling economy. "This government was overconfident with regard to the problems it had to surmount and the level of inconsistencies it inherited," stated Martín Redrado, director general of Fundación Capital and former president of Argentina's National Bank, elaborating: "In my view, they underestimated the problem of inflation and a recipe that has worked in countries that have fewer distortions."

This approach gave the central bank the capacity to anchor inflationary expectations by using tools such as increasing interest rates. Argentina's credit market represents only 11% of its GDP, compared to the rest of Latin America where the credit market represents 50% of GDP. Therefore, the strategy of raising interest rates did not have the desired effect, as the communication channel that the central bank has with the real economy is through the credit market, explained Redrado. "By raising interest rates the country attracted a substantial amount of 'hot money.' The result was we did not beat inflation, and we also ended up with an overvalued currency."

The government's decision to finance itself through Wall Street, neglecting other windows of financing around the world such as in Europe, Asia or through multilateral institutions, left Argentina without sources of financing when interest rates rose sharply in April 2018. The subsequent IMF bailout

then created a lack of confidence that the government has not been able to overcome. Redrado concluded: "Even though we have strong support from the IMF, the lack of confidence in the international and domestic capital markets remains and has led to Argentina's current situation."

Looking at the upcoming political developments, to what extent will the result of the presidential election impact Argentina's petrochemical and chemical industries? Fortunately, the outlook appears positive regardless of the result: "Whoever wins the presidential election will benefit from the hard decisions the Macri administration has made, including important energy reforms to address the market distortions of prior policy decisions," said Derek Wong, economic officer at the U.S. Embassy in Argentina.

Fundación Capital observed that the new regime will have to follow the path set out by the IMF for the foreseeable future, as the country does not have the cash to repay the debt in the short-term. Martín Redrado proposed that Argentina should be looked at from a sectorial perspective: "There are six sectors in Argentina that, no matter the political outcome of the elections, are still going to be winners. The petrochemical industry is one of these industries. The question is then how fast these sectors and the entire value added chain of these sectors will grow, but there is certainly a very positive outlook." ■

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Argentina at a Glance

Source: IMF, data for 2018



CAPITAL

Buenos Aires

GDP

US\$518.1 billion

GDP GROWTH

-2.5%

HEAD OF STATE

President Mauricio Macri

TOTAL INVESTMENT (% OF GDP)

20.7%

GROSS NATIONAL SAVINGS (% OF GDP)

15.4%

CURRENT ACCOUNT BALANCE (% OF GDP)

-5.4%

Demographic Data

Source: IMF, data for 2018

POPULATION
44.6
MILLION



UNEMPLOYMENT RATE
9.2%

GDP PER CAPITA

US\$11,627

GDP PER CAPITA (PPP)

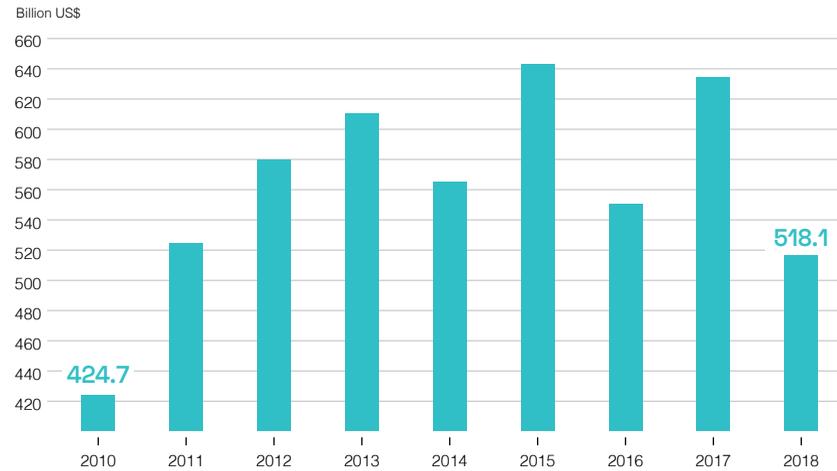
US\$20,537

INFLATION RATE

34.2%

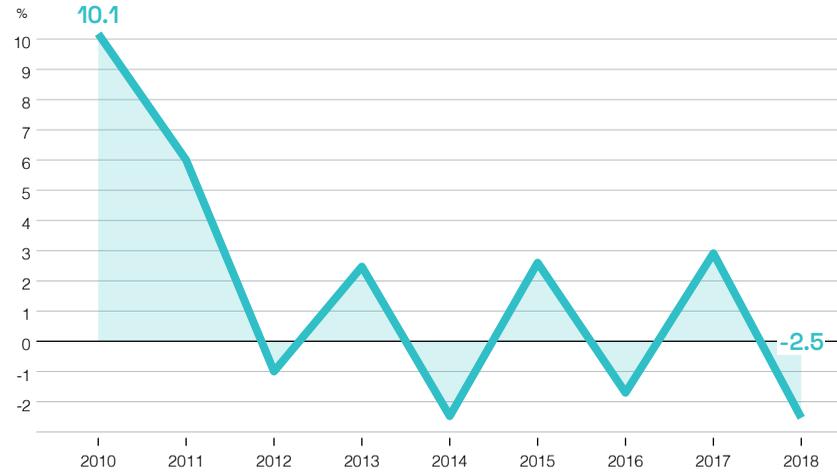
GDP Evolution in US Dollar Value

Source: IMF



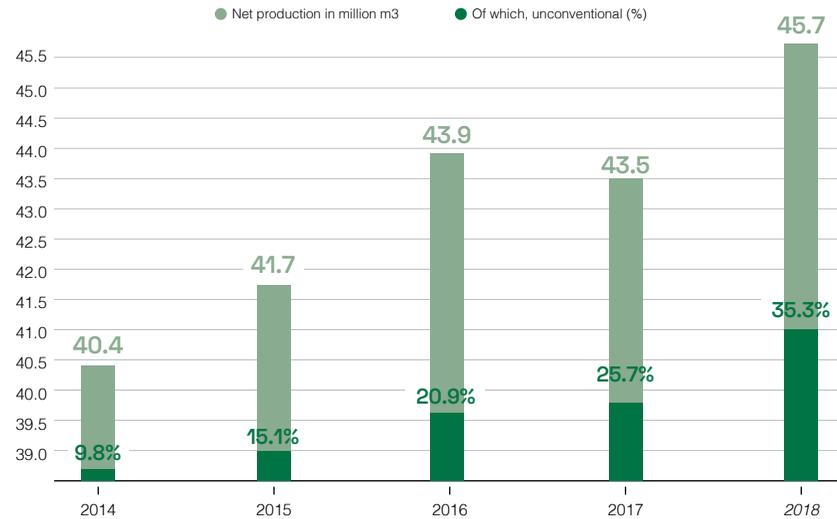
GDP Growth

Source: IMF



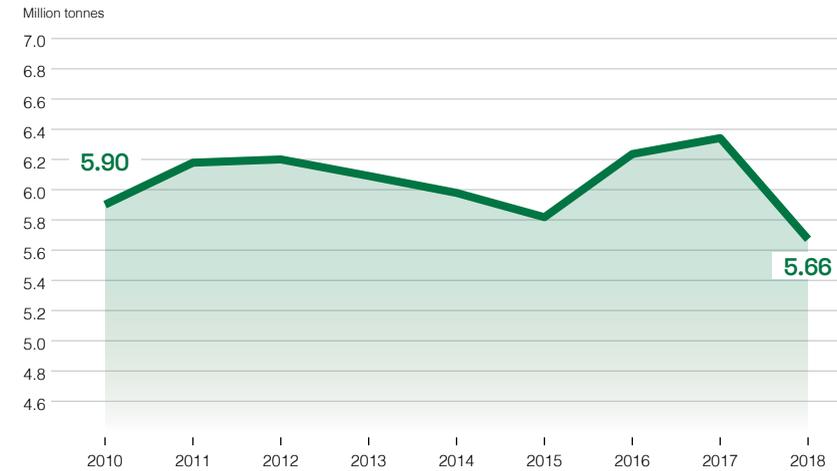
Natural Gas Production

Source: IPA



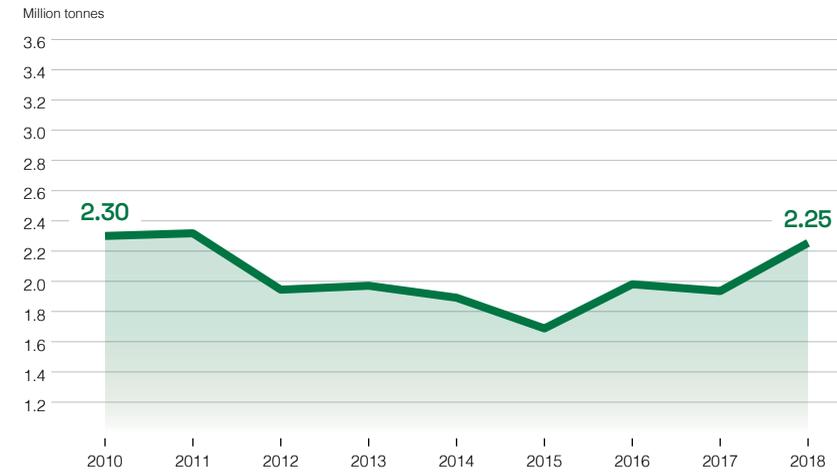
Evolution of Petrochemical Production Volumes

Source: IPA



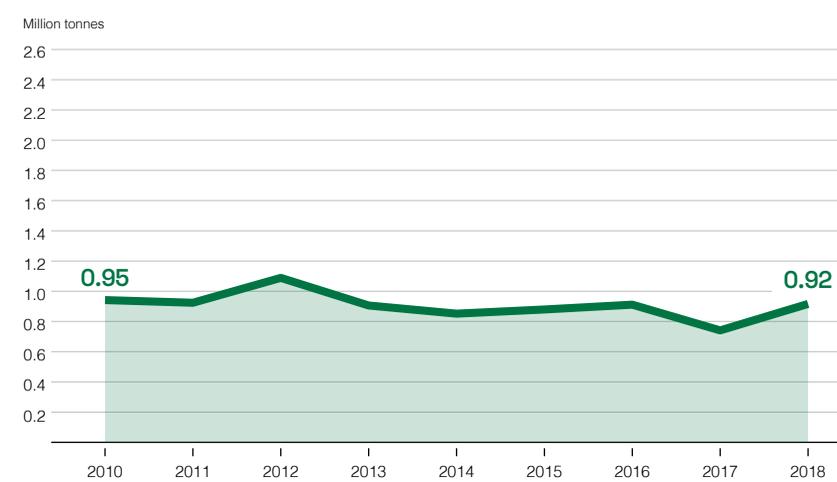
Evolution Of Petrochemical Import Volumes

Source: IPA



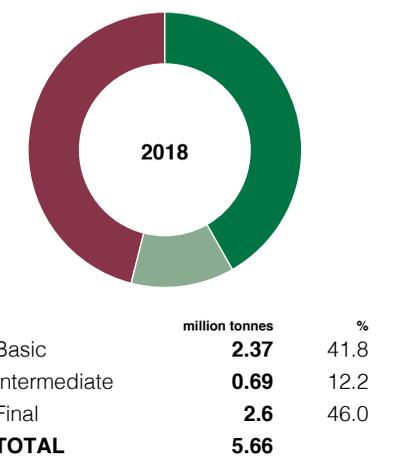
Evolution Of Petrochemical Export Volumes

Source: IPA



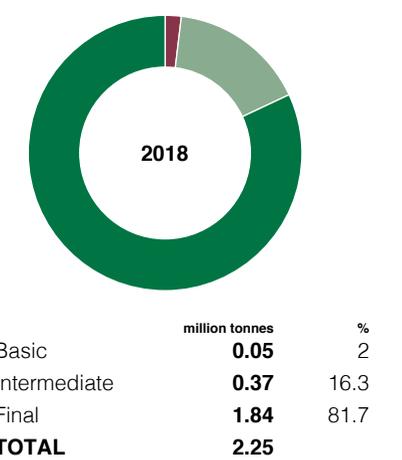
Petrochemical Production

Source: IPA



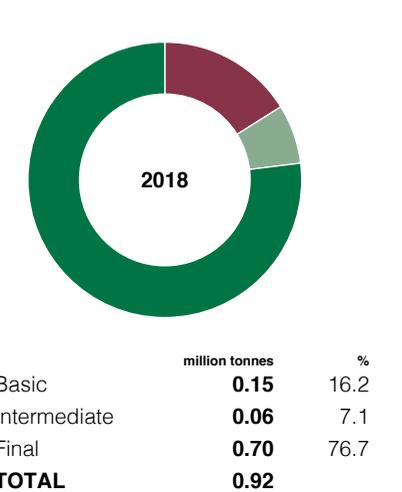
Petrochemical Imports

Source: IPA



Petrochemical Exports

Source: IPA





Jorge de Zavaleta

Executive Director
**ARGENTINE CHAMBER OF
THE CHEMICAL AND
PETROCHEMICAL INDUSTRY
(CIQYP)**

“

The overall message of the Argentina 2030 document is that the global trend is an increase in demand for chemicals and petrochemicals and that Argentina will be able to supply part of this demand.

”

How has the Argentinian petrochemical industry performed over the last 12 months?

Due to the volatility of the Argentinian economy, petrochemical production in 2018 was lower than in 2017. Although the government introduced an export tax in 2018, which put additional pressure on companies as they each have to pay 7 % of the FOB (freight on board) price, there has been an increase in petrochemical exports due to the decrease in internal demand. The assets, however, run at maximum (possible) capacity in order to reduce fixed costs.

Petrochemical exports represent US\$4 billion, approximately 7% of the total exports of the country. The chemical sector has a negative balance, meaning that we import more than we export. This situation exists in practically every country.

How is the chamber working with the government to develop the Argentina 2030 project?

The Argentina Petrochemical 2030 project started with the previous government, when the Minister of Industry launched the Argentina 2020 project, which included critical economic sectors such as oil and gas, steel, chemicals and petrochemicals among others. She wanted to know what it would mean to these sectors if hydrocarbons could be obtained at a reasonable and competitive price. We told her that this goal was not attainable in the 2020 timeframe as the non-conventional resources needed time to be developed. The quality of the mother rock at Vaca Muerta is excellent, but only 3% to 4% of the total acreage has been developed. The main challenge for Argentina is to create the macro-economic environment to develop such resources.

The chemical and petrochemical sector will grow faster than GDP. The potential investments in petrochemicals will come from natural gas and natural gas liquids (NGLs). We can produce not only plastics, but also urea and methanol. The overall message of the Argentina 2030 document is that the global trend is an increase in demand for chemicals and petrochemicals and that Argentina will be able to supply part of this demand.

What is a realistic timeline for Vaca Muerta to start producing significant feedstock?

The Chamber is part of the table of discussion set up by the Argentine government for Vaca Muerta. As part of this initiative, critical issues are touched upon such as infrastructure, hydrocarbons demand, downstream problems and equipment supply. The big challenge for the petrochemical industry as a whole and CIQYP is to increase the demand for gas. Argentina exports gas in summer, but during the winter these exports stop as all domestic production is used locally, and we even import energy from Bolivia the whole year. If we produce LNG in Argentina, this will be an enabler to fully develop Vaca Muerta and to have enough upstream activity to reach sufficient gas at competitive prices. The reality is that we can achieve success in time, but this will take around five to six years from now. That is the reason we are telling the government that we have to wait until the next decade.

Looking at the medium to long-term, what is the main reason for optimism in Argentina's petrochemical industry?

The good news is that Argentina has Vaca Muerta's resources, with gas that will last for 100 years. We believe that the cost of gas will be low enough so that the country can produce petrochemicals in the future, but we have to improve Argentina's backward economy. That is our challenge. The petrochemical industry is at the forefront of Latin American development, but we need more gas than what is required domestically. We have to compete on an international level with the United States and Saudi Arabia, among others. If we have enough gas and if the price is good enough, why not have a foreign investor come here and invest, for example, in a methanol plant, go to the coast and export it?

If you produce petrochemicals, with every US\$1 per MMBTU of gas you can produce a plastic resin with a price of between US\$4 and US\$6 per MMBTU used, then if you transform that resin into a plastic piece the value can increase from between US\$10 to US\$20. Our message is therefore that petrochemicals will be the value added component of Vaca Muerta. ■



Gabriel Rodríguez Garrido

Executive Director
**ARGENTINE PETROCHEMICAL
INSTITUTE (IPA)**

“

When we talk of Petrochemicals 4.0, we look at optimizing processes across the board, not only in transportation. A lot can be done in terms of safety and predictive controls, where costs are currently very high and could be reduced.

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You took over as executive director of the Argentine Petrochemical Institute (IPA) in 2019. What is your vision for the organization?

The IPA has a trajectory spanning more than 40 years. It was born out of the need to promote professionals and generate knowledge and statistics about the sector. I have been executive director for the last few months, and our goal is to modernize the Institute to meet the industry's current needs. In this respect, we are developing three pillars: the first one is to work on the potential of Argentina's hydrocarbon resources, with Vaca Muerta as the main driver. If we use this natural resource, the petrochemical industry can be the greatest value addition to Vaca Muerta – this is something that we have seen in other places like in the United States with their shale resources.

The second pillar is sustainability: a large part of the petrochemical industry is focused on plastics, and there is a need to achieve the circular economy of plastics. We have a technical cooperation agreement with Ecoplas, an association that works on these aspects, mostly in the transformation segment. Finally, the third pillar is to promote digital transformation in the petrochemical industry. This is a very traditional industry, and we believe there is plenty of room to introduce new technologies in many areas, from process control to commercialization, as the industry moves from the traditional B2B model to being closer to the final customer.

What is the current state of the petrochemicals industry in Argentina?

Over the last few years, the Argentinean industry has opened up to foreign competition. Open markets are good, but this new context demands the industry to be competitive. We are seeing a process of restructuring in many large players in the market, and some companies have had to shut down. Vertical integration would be the greatest factor for competitiveness, so we certainly need to take advantage of the Vaca Muerta developments.

Which sectors can create demand for more gas, and eventually for new petrochemical investments?

The gas resource is there; now, we need to generate demand for it. One segment is gas use for heating, although this demand is seasonal; another one is thermal power generation; another option is LNG exports, which require important investments; and finally, the gas consumer that adds the most value is the petrochemical industry. The petrochemical industry not only promotes exports, but it also increases the competitiveness of many other industrial sectors such as the chemical and agro industries. The petrochemical industry is a phenomenal generator of wealth and competitiveness to the country.

Overall, the agribusiness offers great opportunity for the petrochemical segment, as it requires fertilizers, urea and methanol for biofuels. The regional market is large, and currently it is a net importer of urea, so there is certainly an opportunity there. After this, the next step would be a new ethane cracker. These are visionary investments that require a favorable macroeconomic scenario (not the one today), but the potential is certainly there.

How can digitalization make the industry more competitive in areas such as logistics?

When we talk of Petrochemicals 4.0, we look at optimizing processes across the board, not only in transportation. A lot can be done in terms of safety and predictive controls, where costs are currently very high and could be reduced. For the logistics sector, the digital transformation will allow the prediction of consumer patterns and optimization of stocks.

The plastics industry is under scrutiny worldwide. Will it achieve its circular economy goals?

The whole industry needs to work toward the sustainability of the value chain, from the petrochemical producer to the transformer and the brand owner that delivers the product to the final client. We need to make sure that plastics do not reach the environment and that materials are adequately used. The challenge is significant, but through our agreement with Ecoplas we need to show that we are all in the same boat. Industry-wide, there are initiatives already gaining strength, such as the Alliance to End Plastic Waste. ■

Balancing Pragmatism with Creativity to Survive Tough Times

An industrial sector faced with adversity requires some thinking out of the box

2018 could easily be described as a roller coaster for several of Argentina's industrial segments due to the devaluation of the peso and the back and forth over the fiscal regime on exports. Indeed, the local currency lost half of its value against the American dollar between April and September 2018. It was not a smooth process, but rather two strong devaluation 'earthquakes.' By the end of the year, the government had managed to tighten the leash on exchange rates, but data on industrial output revealed the effects of instability, with an accumulated 5% decrease year-on-year and a worrying 14.7% contraction in December 2018 alone.

For industry leaders, the challenge created by devaluation alone was not an easy one to deal with. "When you source your feedstock in dollars and all your billable is in pesos, the devaluation can cause a mess," said one executive surveyed for this article, acknowledging however this impact could partially be offset by export sales, where

Argentinean prices suddenly became more competitive.

When the Macri administration tried to open up Argentina's market to the world, this meant the arrival of more imported product. Argentinian producers were indeed forced to look for markets outside, which was not an easy process, because the government suddenly reinstated taxes on exports in what was described as an "emergency measure" to tackle the country's deficit. Taxes on exports had already been applied, controversially, by the previous Kirchner administration, and many industries saw these as an obstacle that prevented new investment from entering the country. The ever-changing situation forced companies to be extremely flexible and creative to maintain their businesses. From the point of view of international players serving Argentina with foreign product, the situation was not easy either: "2018 was a very challenging year from a macroeconomic perspective, while a couple of years ago

we also had significant restrictions on imports," said Emilio Nager, Latin America commercial leader at Braskem.

Nager added that, since the company entered Argentina in 2005, it has witnessed many different economic periods, but 2018's industrial contraction was not good news for importers. Nager explained: "In 2018 the market experienced some contraction, but generally, Argentina has a polypropylene deficit that is served through imports. In polyethylene, there is a deficit of low density polyethylene, while there is enough capacity in high density polyethylene and a production surplus of linear polyethylene."

As global population increases, there is also a need to extend the agricultural frontier. This results in the need for more fertilizers, and, looking beyond nutrition, growing economies will require more chemical product in general. "The region has a deficit of 5 million mt/y of urea, with room for a 3-times world-scale multiplier,"

assured Federico Veller, executive manager for Chemicals at YPF, a company that currently has an installed chemicals capacity of 2.2 million mt/y between its aromatics, fertilizers and methanol business units. "Meanwhile, in plastics, there is space for one world-scale ethane cracker and the as-

sociated polyethylene plants to cover the projected deficit in South America, mainly in Brazil. There is also space for a world-scale polypropylene plant, as our current surplus of propane can justify a new propylene plant to produce the associated polypropylene." ■

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In 2018 the market experienced some contraction, but generally, Argentina has a polypropylene deficit that is served through imports. In polyethylene, there is a deficit of low density polyethylene, while there is enough capacity in high density polyethylene and a production surplus of linear polyethylene.

- Emilio Nager,
Latin America Commercial Leader,
Braskem

”



Global Industry Representatives Meet in Buenos Aires to Discuss Sustainability

tary initiative for the chemical and petrochemical industry value chain, is present in more than 60 countries and has been active in Argentina since 1992.

The workshop held at Hotel Meliá on May 9th in Buenos Aires included the participation of government representatives, regional chemical associations, the ICCA (International Council of Chemical Associations), local industry and the associated chemical and petrochemical industry chambers. In his opening remarks, Federico Veller, executive manager for chemicals of YPF, affirmed that the theme of sustainability is fundamental to the development of the industry, and therefore cross-border collaboration and the sharing of ideas should be encouraged.

Baudouin Kelecom, president of the Responsible Care Leadership Group (RCLG) and director of ExxonMobil, reflected on the Responsible Care Program in a global context, and its contribution to the sustainability of the industry: "Chemistry plays an integral role in solving global sustainability challenges: it makes stringent efforts to reduce CO2 and other

GHG emissions, provides crop protection and improvements in food storage capacities and seeks water purification, water supply and wastewater systems, among some of the initiatives."

On a domestic level, Rolando García Valverde, leader of CIQyP's Responsible Environment and Sustainable Development Program, underlined the association's commitment of implementing the Environmental Responsible Care Program (PCRMA) in Argentina: "The PCRMA makes the value chain aware of the importance of rational and adequate management of chemical products, demonstrating that by carrying out good risk management practices, losses are minimized, safety is improved and the impact on the environment is reduced."

Jorge De Zavaleta, executive director of CIQyP, echoed this sentiment in the closing remarks of the day. He also reaffirmed Argentina's observance of the Alliance to End Plastic Waste and commitment to fulfill the 17 Sustainable Development Goals (SDGs) outlined in the United Nations' 2030 Agenda for Sustainable Development. ■

In May 2019, the Argentine Chamber of the Chemical and Petrochemical Industry (CIQyP) held several conferences in which key industry stakeholders met to discuss the concepts of the Responsible Care Program and its impact on the sustainable development of the sector. The Responsible Care Program, a volun-

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opportunities,
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with Argentine gas in
Vaca Muerta,
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make a positive impact
on people's lives,
and to build the world we
dream of for tomorrow
by transforming
the resources we have
today.



YPF
QUÍMICA



Federico Veller

Executive Manager Chemicals
YPF

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Today we are accelerating the development of non-conventional feedstock. Vaca Muerta has become a rich tapestry of different companies producing more than 70,000 barrels of oil per day and 50 millions of cubic meters of natural gas per day, with very high five-year forecast increase.

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■ Could you give us some background of YPF's chemicals business?

YPF is the number one chemicals and petrochemicals producer in Argentina, with 2.2 million mt/y of total capacity among aromatics, fertilizers and methanol. Aromatics has an annual capacity of 500,000 mt/y, processing virgin naphtha out of our La Plata refinery. Fertilizers, our second business line, is an equal share joint venture with Nutrient for the production of 1.3 million mt/y of urea at Bahía Blanca. Methanol, our third business line, is processed at the plant of Huincul, with a capacity of 400,000 mt/y. Our market also sees smaller volumes of specialty chemicals such as maleic anhydride, polyisobutylene, linear alkylbenzene for detergents, oxo alcohols, and a wide range of solvents. A large portion of our market is in Argentina and Brazil, also reaching other 20 countries in the Americas and Europe.

■ Where is YPF focusing its investment pipeline on?

Our latest investment was devoted to the expansion of our reforming plant for aromatics in 2012. Today we are accelerating the development of non-conventional feedstock. Vaca Muerta has become a rich tapestry of different companies producing more than 70,000 barrels of oil per day and 50 millions of cubic meters of natural gas per day, with very high five-year forecast increase.

In chemicals, opportunities are enormous: We have gas and its liquids, good infrastructure with an excellent logistics hub at Bahía Blanca and a deep-water port, and finally we have a great market combining Argentina and Brazil.

■ In which petrochemical products there is space for new plants?

In fertilizers the region has a deficit of 5 million mt/y of urea, with room for a three times world-scale multiplier. In plastics, there is space for one world scale ethane cracker and the associated polyethylene plants to cover the projected deficit in South America, mainly in Brazil. There is also space in the market for a world scale polypropylene plant, as our surplus of propane can justify a new propylene plant to produce the associated polypropylene. Focusing even more on methanol, where the deficit is lower - around 1.5 million mt/y in the region - and Methanex is covering a great part of that with their Punta Arenas operations in Chile, but if we are competitive enough in our gas production, we could dream of a world scale methanol plant to meet the increasing needs of the biodiesel markets in Argentina and Brazil, and use the surplus to export to Asia.

All these ideas are part of the five-year strategic plan presented by YPF in the New York Stock Exchange event in October 2018. These very large projects will most probably require the participation of partners. Like in Vaca Muerta, we need to establish a petrochemical cluster with the participation of the main companies.

■ Will Argentina overcome the issue of gas demand seasonality to make these investments?

The key to unlock these developments is the stabilization of gas demand, bridging the gap between summer and winter. We need to maximize exports to Chile, restart electricity exports to Brazil, and maximize gas storage projects so we can store gas during the summer and sell it in winter. Today, we have one underground storage facility in Diadema, southern Argentina, and we are evaluating two more.

As from the summer 2019, YPF will start exporting LNG. We are bringing a floating liquefaction unit with a capacity of 2 million cubic meters per day, and we are looking at a fixed liquefaction unit at a larger scale that should be operative by 2024. We consider that the tipping point to stabilize our gas demand, unlocking the full upstream potential of Vaca Muerta. Today, non-conventional production represents 30% of YPF's total production, and by 2023, the final year of our strategic plan, 70% of our production should come from there. ■



Arturo Bettati

Managing Director Latin America
HALDOR TOPSOE

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What the region should do is to monetize the gas from non-conventional sources in relevant industrial applications. A new urea plant in an agricultural country like Argentina makes total sense, considering the Latin American region imports 5 million tonnes of urea fertilizer every year.

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■ What is Haldor Topsoe's positioning in the industry?

Haldor Topsoe started in Denmark in 1940 and has been a world leader in catalysis since then. With around 2,200 employees all over the world, we supply high-performance catalysts, proprietary technologies and equipment, licensing, process design, engineering, and services for customers in the chemical and refining industries. We are also at the forefront of developing sustainable technologies.

■ May we have more details of the company's areas of expertise?

Haldor Topsoe invests around 10% of its revenues in research and development (R&D) every year. We have the most comprehensive knowledge of heterogeneous catalysts and catalytic processes for the chemical and refining markets within one company anywhere. We are global market leaders within ammonia, ultra-low sulfur diesel, and hydrogen, and we are very strong in methanol, sulfur management, and hydrocracking refining. We typically do not execute EPC activities on projects, with the exception of some cases where we deliver modular plants. For instance, we supplied YPF with a modular hydrogen plant for their Luján de Cuyo refinery in Argentina, built in Europe, in 2011. Typically, we provide the technology, license, critical proprietary equipment, catalysts, and basic engineering, and in some cases detailed engineering.

■ What is the company's history in Argentina and the wider region?

The company already had a strong presence in Argentina when the Profertil ammonia/urea plant began operation in 2000 with Topsoe technology. Today, we are the undisputed market leader in ammonia and hydrocracking catalysts in Latin America, and we also have very considerable market shares within refining and petrochemical catalysts, with technologies in different countries such as Brazil, Venezuela and Colombia.

■ Where do you see the main opportunities ahead?

One of the important opportunities for growth is in Argentina, thanks to the potential of the shale gas in Vaca Muerta. However, the seasonal variations in the country's gas demand constitutes a problem. What Argentina and the region should do is to monetize this gas from non-conventional sources in relevant industrial applications. A new urea plant in an agricultural country like Argentina makes total sense, considering the Latin American region imports 5 million tonnes of urea fertilizer every year. We have the gas in Argentina, the market is there, and all we need is a new fertilizer plant. That gas not only would add value to the country's agro industry, but it would also bring more life to Vaca Muerta.

■ How do you see the trend for more efficiency, cleaner fuels and reduced emissions?

The driver for cleaner fuels is not only the regulation to bring sulfur levels down. New truck engines that demand higher quality fuels are pushing the development as well. YPF has a project for clean fuels and has already purchased from us the basic engineering for two ultra-low sulfur diesel plants at Luján de Cuyo and La Plata refineries. For REFICAR in Colombia, we have recently won the catalysts for one hydrocracking unit and two ultra-low sulfur diesel hydrotreaters. In addition, we have a large part of the hydroprocessing catalyst market in Chile. Meanwhile, Topsoe has developed new technologies for the ammonia, methanol, and hydrogen production segments that are able to reduce CO2 emission by about 14% and with significant energy savings.

■ What are the prospects for the future?

We strongly believe that the middle class in Latin America will continue growing, and that we are well positioned to support this growth. We continue training high-level engineers in the region so they can speak the language of our clients, and we know how to bring solutions to this growing region. We know there have been ups and downs in the region, but we always look at the long run and maintain our pace. Haldor Topsoe can support growth in Latin America with reliable, clean, and efficient technologies that enable investments in new plants. ■

Vaca Muerta Becomes a Reality

Unconventionals provide an outstanding opportunity to add value

Argentina is famous for its beef, with hordes of tourists flocking to experience the country's culinary delights. However, a different kind of dead cow currently has the mouths of both Argentine and international investors watering. With the notable exception of Venezuela, Argentina has been arguably the most turbulent of the Latin American countries in the last two years, yet can boast the region's most desirable resource – the vast unconventional shale reserves sitting in the Neuquén Basin.

Although development at Vaca Muerta is still in its infancy, with less than 4% of the resource having been developed to date, significant strides have already been made in its development, as illustrated by Federico Veller, executive manager for chemicals at YPF: “Back in 2012, YPF was the only player developing Vaca Muerta; today, after applying horizontal and multilateral technology, the scenario has changed, efficiency has dramatically increased and Vaca Muerta has become a rich tapestry of different companies producing more than 70,000 barrels of oil per day and 50 million cubic meters of natural gas per day.” YPF is already seeing encouraging results from Vaca Muerta, and it expects non-conventional hydrocarbon production to represent 70% of its output by 2023, versus 30% in 2018.

YPF is the largest shareholder in Compañía Mega, the Argentinian producer of ethane, propane, butane and natural gasoline, born out of a US\$720 million investment between YPF with 38%, Petrobras



Image courtesy of YPF

with 34% and Dow Argentina with 28%. Alejandro Fernández, general manager of Compañía Mega, commented that the company's expansion plan could result in its tripling in size, but this vision depends on the development of Vaca Muerta. Fernández gave his views on the scale of the project: “Considering the size of the resource, Argentina will not be the only destination market for the products that come from Vaca Muerta,” he said, continuing: “The development of petro-chemistry in Argentina will help, but will not be the sole solution. In addition to technological advancements for extraction techniques, vast investment must be made into infrastructure in the region.”

What is a realistic timeline for Vaca Muerta to start producing significant feedstock for the petrochemical industry? The CIQyP is part of the discussion set up by the Argentine government for Vaca Muerta and deliberates critical issues such as infrastructure, hydrocarbon demand, downstream problems and the supply of equipment. The biggest factor restricting quick development of Vaca Muerta is the demand for gas. Argentina exports gas in the summer, but during the winter exports stop as all domestic production is

consumed locally, and some energy has to be imported from Bolivia. “If we produce LNG in Argentina, this will enable the full development of Vaca Muerta by facilitating enough upstream activity to reach sufficient gas at a competitive price. The reality is that we can achieve success in time, but this will take around five to six years,” explained Jorge de Zavaleta, CIQyP's executive director.

The good news for Argentina is that Vaca Muerta contains gas that will last for over 100 years, and domestic production should see the cost of gas low enough to produce petrochemicals at an internationally competitive level. Jorge de Zavaleta touched on the role that foreign investment can play in the development of the unconventional resources, highlighting the upside of petrochemical production as a tremendous opportunity: “If you produce petrochemicals, with every US\$1 per million BTU (British Thermal Units) of gas you can produce a plastic resin with a price of between US\$4 and US\$6 per million BTU; then if you transform that resin into a plastic piece, the value can increase to between US\$10 and US\$20. Our message is therefore that petrochemicals will be the value added component of Vaca Muerta.” ■



Alejandro Fernández

General Manager
COMPAÑÍA MEGA

What were the circumstances that led to the creation of Compañía Mega?

Compañía Mega (Mega) is an Argentinian producer of ethane, propane, butane and natural gasoline, born out of a US\$720 investment between three major shareholders – YPF with 38%, Petrobras with 34%, and Dow Argentina with 28%. Mega has two complementary plants connected by a pipeline; a natural gas separation plant located in Loma La Lata in the Neuquén basin, and a fractionation plant, storage and loading facilities in Bahía Blanca. Having YPF as a partner means Mega is directly linked with the major producer of natural gas and petroleum in Argentina. Petrobras joined the partnership to guarantee a consistent source of liquefied petroleum gas (LPG) to the southern region of Brazil. Lastly, we needed a client to help monetize ethane production, and Petroquímica Bahía Blanca (PBB), a subsidiary of Dow Argentina, is dedicated to this.

At Mega's Neuquén plant the focus is on the C2+ sector – ethane, propane, and butane. Methane, what we call the C1 gas, goes back into the pipeline and is sent back to its producers. Mega has a pipeline that takes the C2 from our plant in Neuquén directly to Bahía Blanca, which is currently at 100% capacity. Today, two-thirds of Mega's production is exported. However, this process is done with a lot of care to make sure that we do not cause a shortage within the domestic market in Argentina. For example, we do not always export during the coldest winter months.

How have the demands for Mega's gas developed since the company was created in 2001?

Originally Mega was created to meet a designed parameter and the first input for that parameter was the quality of gas it received. Three different towers process the product we pump in Bahía Blanca; the first is the deethanizer tower, where the product gets pumped in an on-stream manner directly to Petroquímica Bahía Blanca (PBB). The ethane comes out of the deposit and ends up in the burner without having to go through any type of storage. The other products go to other tanks that are segregated by propane, butane and gasoline. The original demand for gas that Mega had to reach has been distorted by the new development of non-conventional resources. We could increase our production capacity since we have the resources, but Mega is very focused on quality, and therefore we have chosen not to increase at the moment.

Does Mega have any interest in expansion?

We have the expectation to grow, but contrary to some reports, no specific figure or amount has been defined for expansion. The expansion plan could result in tripling the size of the company, but that is a vision that depends on the development of non-conventional resources at Vaca Muerta. In order for Vaca Muerta to become successful it has to move to a more globalized market. Considering the size of the resource, Argentina will not be the only destiny market for the products that come from Vaca Muerta. The development of petro-chemistry in Argentina will help, but will not be the sole solution. In addition to technological advancements for extraction techniques, vast investment must be made in infrastructure in the region. ■

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Argentina will not be the only destiny market for the products that come from Vaca Muerta. The development of petro-chemistry in Argentina will help, but will not be the sole solution. In addition to technological advancements for extraction techniques, vast investment must be made in infrastructure in the region.

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After the Storms

Agro-business offers challenges and opportunities to the industry

Argentina's cloudy economic scenario was further exacerbated by literal storm clouds that battered the northern part of the country in January 2019, and in April, flooding again hit the Resistencia and Corrientes provinces. The wet start to 2019 stands in stark contrast to the drought that devastated the country's oilseed crop in 2018, providing a vivid illustration of the impacts of climate change and the added volatility and uncertainty it incurs.

Although Argentina has experienced challenging times on both economic and environmental fronts, its agricultural market has continued to perform well. For Federico Alonso-Hidalgo, general manager of Gleba, the Argentine subsidiary of ANASAC that is focused on developing products in crop protection and pest control, the agrochemical industry can play a key role in the country's economic development: "Argentina needs to continue growing in exports with regard to its agricultural production markets, but the growth of the country is already definitely driven by the agro-industrial market."

Recognizing the new variable of increasingly temperamental weather conditions, Alonso-Hidalgo cited the evolution in the adaption of technology to mitigate the effects of climate change as a priority for the sector.

For Rodolfo Vicetto, sales director at InsuAgro, the most significant problem in the agricultural industry is weed resistance – an opportunity for the agrochemical industry, as herbicides are used to eliminate unwanted plants in farming areas. "There is an increasing demand for food productivity and agricultural production in Argentina, and the adoption of better farming practices is a key driver for the growth of the herbicides market," said Vicetto, claiming that InsuAgro has experienced annual growth rates of 50% in the last four years.

At a regional level, the agricultural sector represents approximately 40% of BASF's business in South America, according to the company's president for South America, Manfredo Rübens, who mentioned that the company's €7.4 billion acquisition of seed businesses and assets from Bayer in 2018 related significantly to Latin America. While acknowledging that economic difficulties in Argentina have impacted market demand in recent years, Rübens was optimistic looking forward: "Although it is a very tough environment, BASF is holding up quite well in Argentina and has a positive outlook for the future of the country." ■



Federico Alonso-Hidalgo

General Manager
GLEBA

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Gleba has been operational in Argentina for a significant amount of time and we thus understand the very dynamic local environment. We believe that the agro-industrial sector in Argentina will continue to grow resulting in many more opportunities.

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■ **Please introduce Gleba and explain the company's area of focus?**

Gleba is the Argentine subsidiary of ANASAC Holding company with more than 70 years of experience in Latin America, from Mexico to Argentina, with headquarters in Santiago, Chile. In Argentina, the company is focussed mainly on developing products and services of high quality and innovation in crop protection and pest control.

One of the main differentiators of Gleba is that we are operating four different business units – crop protection, plant nutrition, formulation for third parties and environmental health. Our main business unit is crop protection and we have extensive expertise and knowledge within this field. As we are involved in formulating products for multinational companies, we have to continually adapt our high standards to meet client requirements. Gleba's plant nutrition unit is a new segment within the business and we have seen rapid growth within this area. Our environmental health business has also been performing very well over the last year and this unit is complementary to Gleba's entire portfolio.

■ **What is Gleba's infrastructural footprint in Argentina?**

Gleba has a plant located one hour from Buenos Aires. Recently we have invested in a new laboratory at this plant equipped with state-of-the-art technology in accordance with local and global requirements regarding quality and the environment. Research and development trials are constantly being carried out to provide our customers with innovative and efficient solutions. Gleba also has commercial offices in the north of Buenos Aires to be close to our clients.

■ **How extensive is Gleba's distribution network?**

One of Gleba's strengths is that it covers all the production areas in Argentina and we have teams spread across the country. We also have very good market penetration in various industries. Having local operations and facilities in Argentina gives Gleba a great competitive advantage. Through ANASAC, we are tied to the entire Latin American region and there are knowledge and technology transfers which can happen between the various companies that form part of the group.

■ **Argentina has been going through a very volatile period over the last two years. How has Gleba dealt with the challenges of the Argentinian economy and how has the company performed?**

As a group, we operate in more than 15 countries in Latin America which gives a good understanding of the micro and macro-economic factors influencing the region. In parallel, we also understand the cyclical nature of the Argentinian economy, which we believe creates opportunities for companies such as Gleba that can adapt to the situation and continue proving solutions in any environment.

■ **How much did the storms and drought of late 2018 and early 2019 affect the agrochemical industry in Argentina?**

Argentina experienced a part of the global climate change, which many regions are suffering from. Agricultural production now has this new component of volatility and uncertainty. There is an evolution in the adaption of technology to mitigate challenges due to climate change. Although the country is experiencing economic and environmental challenging times, the agricultural market is very strong regardless.

■ **Can you provide insights into Gleba's sustainability policies?**

Gleba works very closely with CIAFA (*Cámara de la Industria Argentina de Fertilizantes y Agroquímicos*) and a significant amount of the company's sustainability initiatives are CIAFA branded. The Chamber is very focused on the education of our industry, to promote a more sustainable future for all stakeholders.

■ **What is the outlook for Gleba moving forward into 2020?**

Gleba will continue to provide innovative and quality products and solutions to the market as we are very fast to adapt our pipeline to local demands. We are also very confident in our management team in Argentina. Gleba has been operational in Argentina for a significant amount of time and we thus understand the very dynamic local environment. We believe that the agro-industrial sector in Argentina will continue to grow resulting in many more opportunities. We have a solid pipeline of products, a solid team and a solid presence in Latin America, and we see a lot of opportunities for Gleba moving forward. ■

A Need for Competitiveness

Argentina's chemical distribution and logistics sector faces a reckoning

In the global chemical industry, the distribution sector represents approximately 20% of the value chain. In Argentina, on the other hand, this figure almost doubles. Adrián Gabriel Schwartz, president of Grupo Simpa, expanded on the reasons behind the sector's significance in Argentina: "Petrochemical producers are afraid of the financial risks in the country, hence distribution represents 38% of total sales."

Grupo Simpa is responsible for half of all petrochemical products sold in the distribution market in Argentina, selling polyethylene from Dow Chemical, polypropylene from PetroCuyo and polystyrene from Pampa Energía. While the company's market share has remained strong, Argentina's economic woes have affected turnover, reducing sales output from 17,000 mt/y to 12,000 mt/y. "The demand for all polymers

fell because the crisis affects the whole industry, not just the raw material," Schwartz pointed out.

The crisis has been particularly hard on the small and medium-size distributors that lack the solvency and liquidity to face market volatility. For the major players, however, these circumstances offer opportunities for growth, as producers and clients alike depend on the flexibility and market knowledge of their distributors.

The global market leader in chemical distribution, Brenntag, has managed to grow significantly in the last two years in Argentina, taking advantage of its position to offer clients the products they need during times when other companies struggle to provide. "Despite the challenging circumstances, 2018 was a record year for Brenntag in Argentina in terms of profitability," revealed Guillermo Laborato, president of the company's Latin America South region. "Political instability creates volatility in all market segments, but if you are better prepared than your competition, you will still be able to generate profits and growth," he added.

One of the major challenges for distributors and producers alike in Argentina, and indeed all of Latin America, is the logistics deficit facing the region. "Local fees in some Latin American countries, such as Brazil and Argentina, are sometimes two or three times as much as the international fees," stated Hector Midolo, BDP International's managing director for Latin America.

The Argentine Chamber of Logistics Operators (CEDOL) reported a 58% cost increase in the logistics sector in 2019, based on factors including rising petrol prices and tariffs. To help combat this challenge, Hernán Sánchez, commercial director of Celsur Logística (Celsur) and newly ap-

pointed president of CEDOL, called for a more collaborative approach between industry and government: "It is important for the organization to have an open channel of communication with the government and the trade unions to improve logistics. We have deficits in our methodology due to taxes, and we have to improve the tax situation."

Celsur provides 3PL (third-party logistics) services to companies such as Dow Chemical and YPF and is currently working on a new logistics model for the shale gas projects at Vaca Muerta, according to Sánchez. Acknowledging that Celsur's revenue in dollars has decreased due to currency devaluation, Sánchez noted that the company's market position has grown by approximately 10% over the previous two years. Underlining Celsur's commitment to its largest clients, he concluded: "Currently,

Celsur is focusing on the chemical industry and providing transport for solid products, and our investment in 2018 was dedicated to these services."

Moving forward, the development of the massive Vaca Muerta shale formation promises to spark a revolution in the country – if numerous developmental bottlenecks can be overcome. This presents an opportunity for the distribution of chemicals aimed at enhancing hydrocarbon production. Martín Cini, director of Petrolera Copsa, an Argentinean distributor, gave more details: "In terms of chemicals, Petrolera Copsa started as a distributor focused on the paints and adhesives business, but now we are dedicating a lot of effort to the oil and gas industry, which offers enormous potential. The oil and gas industry has seen significant growth in the Neuquén area, where Vaca Muerta still requires a lot of investment and infra-

structure to reach the potential a formation like this should have."

Despite the tumultuous last couple of years, Argentina's economy is the second largest in South America and third largest in Latin America and offers good upside. The chemicals industry already contributes around 12% of the nation's GDP and has great potential to grow further.

As an example, Anastacio Overseas recently opened an office in Argentina to begin its distribution business in the country following requests from regional clients to serve their subsidiaries in other countries of Latin America. "We opened the Argentina office with two goals: to offer products from producers located out of the region (mainly in Asia), but also to start the distribution business in the country," said Alejandro Gabrielli, regional manager of Anastacio Overseas. ■



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Adrián Gabriel Schwartz

President
GRUPO SIMPA

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Not every company has the size or health to be solvent. The task for the important players in distribution, such as Grupo Simpa, is to reassure the petrochemical industry, taking advantage of the fact that we are solvent and can help customers who are less so.

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■ **What type of companies does Grupo Simpa's petrochemical division distribute for?**

Grupo Simpa is responsible for half of all petrochemical products sold in the distribution market in Argentina. The company distributes petrochemical products for company's located in Argentina, and does not bring any of these products from abroad. We sell polyethylene exclusively from Dow Chemical, polypropylene from PetroCuyo and polystyrene from Pampa Energía. We import calcium carbonate from Spain and special products that are not produced in Argentina such as orange polyethylene. Grupo Simpa has more than 2,000 active clients. In Argentina, petrochemical producers are afraid of the financial risks in the country, hence distribution represents 38% of total sales.

■ **How do you view the current state of the petrochemical industry in Argentina and how has it affected Grupo Simpa?**

The situation of the petrochemical industry in Argentina has changed dramatically since 2016. The most drastic changes started in April 2018, when the exchange rate and the outflow of foreign funds in Argentina began. There is a very particular phenomenon in the plastic industry. Since plastic is a commodity that is valued in dollars, its price went up 120%. The U.S. dollar rose from 19 Argentinian pesos to 41 pesos in a period of five months. This situation generated critical challenges for businesses. It dramatically affected the public demand for all goods due to the sharp rise in rates.

The challenge intensified when companies lowered their turnover in units by 30%, but billing in pesos went up by 80%. This higher billing in pesos requires financing by banks, suppliers or petrochemical companies. However, nobody wants to finance the products because of the situation that Argentina was facing. This did not happen on all products. Durable goods were those that fell the most, while the packaging industry stood strong due to the demand of consumer goods, food and cleaning products. Eventually, society began purchasing second or third rank brands, but these need packaging too. The economy in Argentina was reduced between 20% and 30%. That made companies' sales 30% in units low-

er than previous years. Grupo Simpa was used to selling 17,000 mt/y, but now we sell 12,000 mt/y.

■ **Considering this challenging context, how can companies work to minimize risk and position themselves for success?**

I personally have lived through at least eight crises, which gives you an illustration that the Argentine population is used to dealing with turbulence. The economy will continue its path and the only thing that can be done is to apply pragmatic criteria for each of the situations.

Not every company has the size or health to be solvent. The less solvent ones have more difficulty because they do not have a backup. The task for the important players in distribution, such as Grupo Simpa, is to reassure the petrochemical industry, taking advantage of the fact that we are solvent and can help customers who are less so. This crisis will end and the Argentinian economy will continue to grow.

■ **The anti-plastic movement is gathering pace and regulations are becoming more stringent. Do you think an eventual elimination of plastics will take place?**

The majority of products that are currently consumed are made of plastic, and thus the consumption of plastic increases year on year. Rather than eliminating plastics, what should be done is working on the issue of recycling so that we do not continue to pollute the planet. The plastic itself is not the problem, but the people who dispose of it irresponsibly. Technology is improving so that the plastics are biodegradable. Although biodegradable plastics currently exist, their price is three or four times higher than normal plastics, but as the technology matures, the price will become more competitive.

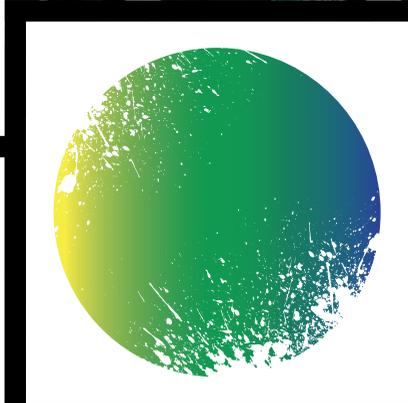
Some plastics are being replaced by paper. Ironically, the carbon footprint and damage caused by paper is much greater than that of plastic. A study conducted by Ecoplas shows that more plastic bags are being used when the plastic bags are removed from the supermarket, and exchanged for other types of bags. This is because people in Argentina use grocery bags to dispose their garbage, but now they are buying more heavy-duty bags for garbage disposal, that are worse for the environment. ■

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MC

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MC: The devaluation of the peso has made our products and blends more competitive for exports, even though the export tax has to be taken into consideration.

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■ **Could you give us an overview of the evolution of Petrolera Copsa?**

GC: Our company started in 1992 with the distribution of fuels and lubricants. We were focused on fuels, with bulk trades for the marine and agricultural markets, and also on our own network of gas stations. After that initial period, we started our solvents division as a complementary business. Over the years the division evolved to the distribution of chemical products including the preparation of blends for industry. Finally, we expanded our distribution of chemical products so that what was a side business, today represents an important part of our total revenues.

What is your footprint in Argentina?

GC: We have three plants: one in Neuquén, run by a sister company, which is dedicated mainly to chemicals, petrochemicals and blending for the oil and gas industry; and two in Buenos Aires Province – one dedicated to fuels and lubricants and the other one to chemicals. We are a wide supplier as we are not only a chemicals distributor, we have our own formulating capacity and our own logistics capabilities, with different types of facilities and trucks. This is a competitive edge, because in Argentina there are specialized chemical distributors on one side, or specialized fuels distributors on the other, but not a distributor that is in both areas.

MC: Logistics in a country like Argentina are essential. If you do not understand logistics well, costs go up and make many businesses unviable. Having the capability to source product from different plants and handle it through our three locations is an advantage for us.

Where do you see more opportunity for growth?

MC: In terms of chemicals, Copsa started as a distributor focused on paints and adhesives, but now we are dedicating a lot of effort to the oil and gas industry, which offers enormous potential. The oil and gas industry has had a significant growth in the Neuquén area in which Vaca Muerta

still requires a lot of investment and infrastructure to reach the efficiency level a formation like this should have. Recently, we also entered in the food and animal feed segment and these are the areas where we see a great opportunity for us.

GC: We are also starting to do our first exports with blends, paints and coatings for the general industry. We are looking at the markets of our neighbor countries that in general import certain blends and lots of chemical products for their industries.

How competitive are Argentinean products in the region nowadays?

MC: Although we are talking of products with international prices, the devaluation of the peso has made our products and blends more competitive for export (even though the export tax has to be taken into consideration). Perhaps two years ago exporting was not viable – now, this is a market we are opening and it remains to be seen if the low peso allows for exports in a sustainable way. A lot will depend on how internal costs go up in Argentina due to inflation.

What is your strategy to lay the foundations for future growth?

GC: Today, our priority is the oil and gas industry and introducing ourselves in the food and feed industry with a vision of providing as much value as we can. Our goal is giving solutions to our clients.

MC: As a family company, we have been experiencing disorderly growth and have now entered a period of professionalization, with the idea of having long-term growth plans in each of our business segments. Of course, planning five years ahead in Argentina is a challenge because of the volatility of the market and the economy, but it is necessary for us to have a more solid vision of our logistics, our financials and other aspects.

GC: This year we had a significant increase of about 30% for our chemical division. For 2019, we expect to have a further 40% growth. We have had an aggressive commercial attitude while other distributors had a conservative strategy. ■



Hernán Sanchez

Commercial Director
CELSUR LOGÍSTICA
President
CEDOL
(COMPANY CHAMBER OF LOGISTICS OPERATORS)

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The principal costs in the field of logistics are oil, human resources and investments, and the best way for Argentinian companies to deal with this situation is to work together, improve productivity and invest in human resources, as well as to develop new processes and systems.

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■ **In 2016 Celsur Logística (Celsur) employed 1,000 people, had 120,000 square meters of facilities and a turnover of 940 million Argentinian pesos per year. What is the company's current situation?**

In terms of both employees and the size of our facilities, our position has grown by approximately 10%. Celsur is still doing well as our customers are not directly associated with the difficult economic situation in Argentina. The company's revenues in dollars have decreased as our principal assets are in Argentinian pesos and our currency is directly affected by difficult economic circumstances. We have incorporated important customers in the automotive and consumer goods sector into our business and we have positioned ourselves as one of the five largest companies in Argentina that provides 3PL (third-party logistics) services. We have improved in terms of sustainability, taking care of the environment and are continuously trying to improve with regards to systems and human resources.

What percentage of Celsur's business is comprised of petrochemical and chemical companies?

Dow Chemical is Celsur's principal customer in the petrochemical and chemical field, but the company also started working for YPF in 2018. We are working on a new logistics model for the shale gas projects at Vaca Muerta because we wish to provide a more efficient and inexpensive supply chain for fracking operations.

You were recently appointed as the new president of CEDOL (Cámara Empresaria de Operadores Logísticos). Can you elaborate on the organizations objectives?

The goals of CEDOL remain the same – to show the Argentinian community the good practices of the logistics providers in Argentina and to work with competitors in a show of goodwill. It is important for the organization to have an open channel of communication with the government and the trade unions to improve logistics. We have deficits in our methodology due to taxes and we have to improve the tax situation.

In 2018 there was a 58% cost increase in the logistics sector based on increases in petrol and tariffs. How can companies help to bring down the costs?

Argentina is experiencing a high inflation rate that increases expenditure for all companies. The principal costs in the field of logistics are oil, human resources and investments, and the best way for Argentinian companies to deal with this situation is to work together, improve productivity and invest in human resources, as well as to develop new processes and systems.

Can you explain the steps Celsur is taking with regards to sustainability?

Celsur appointed a manager exclusively for this area that reports to the director of the company. We implemented quality control systems in terms of sustainability and changed our policy regarding the use of electrical systems in our warehouses.

We need productive companies in order to make our society more prosperous. Argentinian companies need to increase the potential of our country by using the resources we have available. While it is the goal of 3PL companies to generate income, Celsur has another vision – to have a role in the sustainable development of the people in the South American region.

Which logistic services is Celsur currently focusing on with the future in mind?

Currently Celsur is focusing on the chemical industry and providing transport for solid products, and our investment in 2018 was dedicated to these services. The company's most recent provision of logistic services has been to Vaca Muerta, and we need to invest in trailers and new systems. Celsur's focus in systems and human resources is the second focus, and the rest of our investments are allocated to our new customers and their projects.

Moving forward, what is Celsur's vision and what would you like to achieve?

We are constantly looking for new solutions to achieve successful supply chain processes in the United States and Europe, and we have a specialist who is adapting these systems to the particular Argentinian methodology because South American communities have different needs. Celsur is already well established in Brazil, but we are currently looking for new business in South America. The company has established a presence in Peru, and we are trying to expand to Chile as well. ■



Brazil

“Nowadays, 37% of the Brazilian market is being usurped by imported products. Brazil already has oil and gas, vast pre-salt reserves, and we are talking to the government about the possibility of bringing shale gas from Argentina’s Vaca Muerta. It will not be a quick process and requires serious investment, but we are trying to find a way to have more gas at a better price and to produce more local feedstock.”

- Fernando Figueiredo,
CEO,
ABIQUIM

Overcoming Sluggish Economic Conditions

Brazil eyes pension reform as the pathway to recognizing its potential

If Argentina is a roller coaster, Brazil, the region's largest economy, is a heavy truck struggling to move up the hill at a decent pace. Two years of annual growth in the 1% range is certainly not enough to make up for two years of strong recession (-3.6% in 2015 and -3.5% in 2016, according to data from the IMF). Now, with uncertainty about the presidential election finally gone, the forecast for 2019 was 2.5% growth at the beginning of the year, yet by July this estimate was down to just 0.8% – basically flat growth, clearly insufficient to improve Brazil's high debt-to-GDP ratio. In February 2019, controversial new president Jair Bolsonaro unveiled his proposal for pension reform, which is considered to be the critical element in a wider package of economic measures aimed at improving the state of Brazil's public finances. After months of uncertainty, in August 2019, the bill obtained congressional approval with 370 votes, comfortably reaching the 308-vote threshold required. Following this, Senate approval is also required. Brazil's economic recession and issues related to local competitiveness have taken their toll on Brazil's local chemicals industry, which is today the eighth largest worldwide, as opposed to the sixth largest a few years ago. A 2019 report from Abiquim (the Brazilian Chemical Industry Association) stated the deficit in the trade balance of chemicals reached a record high of US\$4.9 billion in the first months of 2019. "We have a lack of raw materials at



Image courtesy of Braskem

an internationally competitive price," said Fernando Figueiredo, Abiquim's CEO, citing stringent labor and fiscal laws hampering competitiveness. "Nowadays, 37% of the Brazilian market is being usurped by imported products," he continued. Sales by the local chemical industry have gone down from US\$150 billion in 2011 to less than US\$120 billion in 2017, explained Marina Mattar, director of Institutional Relations and Sustainability at Abiquim: "The industry faces several issues, starting with the cost of energy and raw materials. In some regions, the cost of energy is three times the price you would pay in the United States. Additionally, logistics are difficult. If you are in the state of Sao Paulo, it is cheaper to bring

chemicals from China than from Bahia. In Brazil, most transportation is done by road, which is very costly. Adding to all that, bureaucracy incurs significant cost for companies." Figueiredo and Mattar both added that Brazil now offers great potential for the industry due to the oil and gas resources of the pre-salt fields, yet the ball is in the government's court: "We are trying to persuade the government to use this oil and gas for the industry, instead of adopting a model of exporting raw materials and importing finished products," Mattar concluded. Paulo Guedes, Minister of Economic Affairs, is viewed as sympathetic to the industry's concerns. Figueiredo said: "70%



Fernando Figueiredo

CEO
ABIQUIM
(BRAZILIAN CHEMICAL
INDUSTRY ASSOCIATION)

“It will not be a quick process and requires serious investment, but we are trying to find a way to have more gas at a better price and to produce more local feedstock.”

What role does ABIQUIM play in Brazil's chemical industry?

ABIQUIM represents local manufacturers of chemical products in Brazil and deals with issues such as the coordination of Responsible Care, quality of products, environment and safety, free trade agreements, tariff negotiations, statistics and product advocacy. There are 160 member companies and ABIQUIM also includes transporters and distributors of chemical products committed to the Responsible Care program.

The deficit in the trade balance of chemicals is expected to increase again and reach US\$32 billion in 2019. What are the reasons behind this?

We have a lack of raw materials at an internationally competitive price. The problem is that one has influences from labor law and fiscal law. What is happening with increasing frequency is that imported products are marketed in Brazil. Nowadays, 37% of the Brazilian market is being usurped by imported products. Brazil already has oil and gas, vast pre-salt reserves, and we are talking to the government about the possibility of bringing shale gas from Argentina's Vaca Muerta. It will not be a quick process and requires serious investment, but we are trying to find a way to have more gas at a better price and to produce more local feedstock.

What is the aim of *A Different Future is Possible*, the report ABIQUIM put together with Deloitte?

A Different Future is Possible offers perspectives for the chemical industry in Brazil, with proposals that aim at removing the obstacles preventing investments and at providing the chemical industry with the conditions necessary to help Brazil and Brazilian people. The report details the current bottlenecks, such as lack of competitiveness, high cost of raw materials, electricity and logistics, as well as bureaucracy. The vast opportunities Brazil offers, such as size of the economy, oil and gas reserves, energy from renewable sources and the topic of Chemicals 4.0 are also covered. 70% of the logistics proposals put forward from the *Strategic Agenda of Logistics* by ABIQUIM to the new government have been well-accepted.

What can be done to deal with the logistical challenges in Latin America?

Neither the Brazilian government nor the Argentinian government has the money to significantly improve the logistics within their countries. The only other option is privatization, but to do that a legal framework that foreign investors can rely on should be in place, which is another issue Brazil needs to solve.

Have you noticed a difference when working with the new government in comparison with previous governments?

Michel Temer was in power for only two years, before he was charged with corruption, but what he achieved was impressive – labor and political reform, and fiscal change. The new government has the responsibility to change what is wrong in the country. It will be beneficial if the current government follows what was good in the previous government. People expect the new regime to be economically liberal and to introduce more privatization and economic freedom. Recently, ABIQUIM and 10 other associations met with the government and were told that within two weeks they would put a package into practice that will be revolutionary for the economy of Brazil. They did not divulge what this package details, but mentioned the gas price, which is three or four times more expensive than in the US and Europe.

What priorities would ABIQUIM like to see addressed in the coming years?

From an economic standpoint for Brazil, the priority for the government should be the implementation of the pension reforms. Regarding ABIQUIM's proposed reforms in *A Different Future is Possible*, the first priority is to use the Federal Government's oil and gas as raw material and energetic input in order to promote the industrial chain through structuring auctions. Secondly, the implementation of logistics suggestions. Thirdly, we have worked hard with government to prepare a law for the regulation of chemical substances. We are in discussion with the vice-president of congress in an effort to get this project through parliament as soon as possible. The Brazilian chemical industry wants to show the world that the chemical segment can promote sustainable development. ■

Brazil at a Glance

Source: IMF, data for 2018



CAPITAL

Brasilia

GDP

US\$ 1,909.4 billion

GDP GROWTH

1.4%

HEAD OF STATE

President Jair Bolsonaro

TOTAL INVESTMENT (% OF GDP)

15.4%

GROSS NATIONAL SAVINGS (% OF GDP)

14.6%

CURRENT ACCOUNT BALANCE (% OF GDP)

-0.77%

Demographic Data

Source: IMF, data for 2018

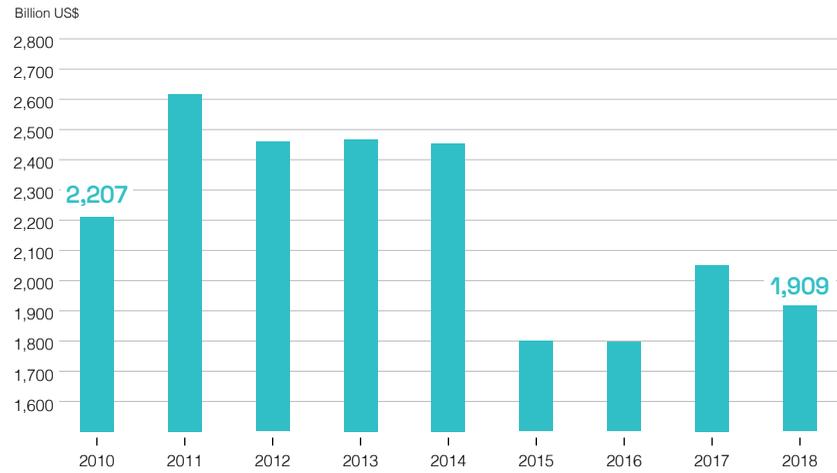
POPULATION
**208.3
MILLION**



UNEMPLOYMENT
RATE
12.3%

GDP Evolution in US Dollar Value

Source: IMF



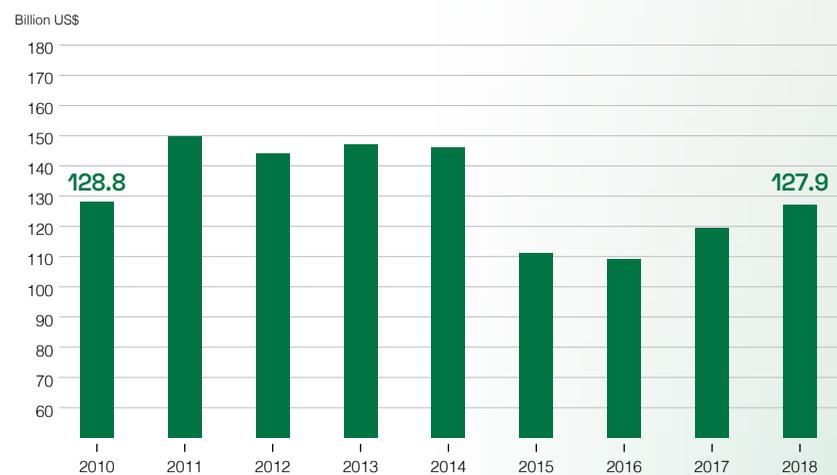
GDP Growth

Source: IMF



Chemical Industry Net Sales in US\$ Value

Source: ABIQUIM and other segment associations



GDP PER CAPITA

US\$8,967

GDP PER CAPITA (PPP)

US\$16,154

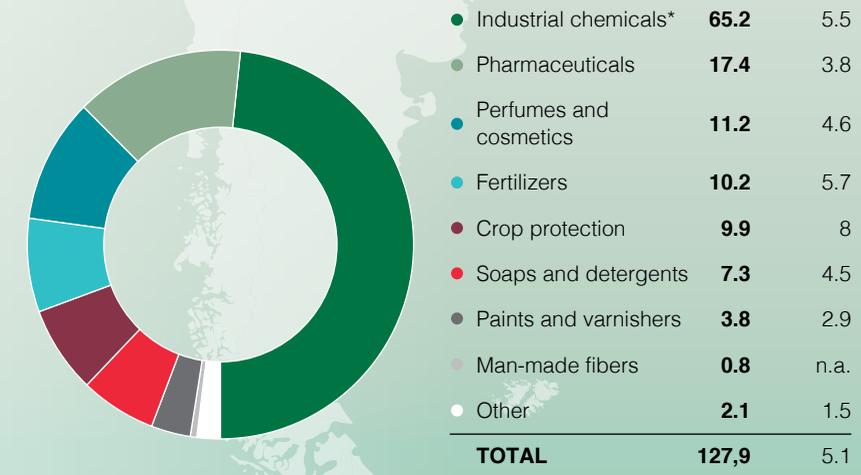
INFLATION RATE

3.6%



Chemical Industry Sales Breakdown (2018)

Source: ABIQUIM and other industry associations



BRAZIL'S CHEMICALS INDUSTRY REPRESENTS 12% OF INDUSTRIAL GDP

Total Investment in Chemical Plants for Industrial Use

Source: ABIQUIM

2011-2016

US\$ 14.1 billion

2017-2022

US\$ 3.3 billion

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of the logistics proposals put forward from the *Strategic Agenda of Logistics* by Abiquim to the new government have been well-accepted.”

The suggested proposals are from the *A Different Future is Possible* report put together between Abiquim and Deloitte, offering perspectives for the chemical industry aimed at removing the obstacles preventing investment and providing the sector with the conditions necessary to stimulate growth. The report details the current bottlenecks, such as lack of competitiveness, high cost of raw materials, electricity and logistics, as well as bureaucracy.

At the 21st annual APLA Logistics Meeting in São Paulo in March 2019, the Brazilian government laid out its strategy to create a more favorable climate for private investment and reduce logistics bottlenecks. Working in conjunction with BNDES, Brazil's national development bank, the government is drawing up a shortlist of projects to put forward as investment opportunities for collaboration with the private sector. “Rather than prioritizing one particular industry, the emphasis will be on a merit basis. Our current goal is to grow Brazil's annual GDP growth from 1.7% to 4% by 2022,” revealed Diogo Mac Cord de Faria, National Secretary of Infrastructure Development for the Brazilian Ministry of the Economy.

Mark Eramo, vice-president at IHS Markit, agreed that it all comes down to the new Brazilian government to promote industrial development: “One would expect Brazil to leverage the oil price increase and continue to grow by attracting additional investments. Brazil is showing increased hydrocarbons production and already has the infrastructure in place with respect to refining and petrochemicals. The challenge is whether they can pick up where they left off before the recession and leverage their advantages to continue to grow and develop.” ■



Diogo Mac Cord de Faria

National Secretary of
Infrastructure Development,
Ministry of the Economy
GOVERNMENT OF BRAZIL

■ The Government of Brazil is looking to reduce logistics bottlenecks by 2025. What is the new administration's strategy to achieve this?

Our strategic approach is to raise private investment as we are currently not in a strong fiscal position to follow through on the projects with governmental funds. BNDES, Brazil's national development bank, is in charge of producing all the projects that are necessary to establish public private partnerships for logistics, and we expect to complete this venture within the next two years.

■ What is the government's strategy to create a more favorable climate for private investment in Brazil?

We have to create the regulatory frameworks and legal frameworks which are necessary to attract private money. On the other hand, state owned companies, over the last few years, have created a crowding-out effect as they have been practicing non-competitive prices in order to reduce private participation and justify their existence. It is thus important to reduce or eliminate the participation of state owned companies in some sectors to open the space for private investment.

■ How will the government choose which projects to invest in and are there any industries which will receive particular attention?

The priority of the government will be to choose the projects that will give the best return on investment. The government will also assess its capacities in terms of following through on projects and prioritizing the projects according to these capacities. Rather than prioritizing one particular industry, the emphasis will be on a merit basis. Our current goal is to grow Brazil's GDP from 1.7% to 4% by 2022. ■

Mitigating Risk Through Diversification

Brazil's petrochemical and chemical players adapt to challenging times

On June 4th, LyondellBasell said it had ended talks with Odebrecht S.A. over the purchase of Braskem “after careful consideration.” The proposed US\$11 billion transaction had slowed due to complications surrounding a supply contract for naphtha with Petrobras and a delayed U.S. filing, according to Reuters, and the ending of negotiations will come as a blow to Odebrecht, as the construction conglomerate tries to restructure its debts after the infamous Car Wash scandal.

In the meantime, it is business as usual for Braskem, which has been working on enhancing its competitiveness and increasing its diversity in terms of feedstock and geography, according to Edison Terra Filho, the company's executive vice president. “Today, approximately 50% of the company's turnover comes from operations outside of Brazil. We are not reducing our footprint in Brazil, but rather diversifying and incrementing our activities in other regions,” he said.

The main region responsible for company growth over the last few years has been North America, Terra Filho elaborated, noting the increase in capacity at Braskem's U.S. assets. “We have also started a greenfield project in Mexico, and we are in the process of building a new facility in Texas to increase production capabilities. Braskem's PP plant project in Houston is on schedule both for budget and for time. The expectation is to have the plant online within the first half of 2020.”

Another Brazilian producer to have invested heavily in the United States is Oxiteno, which opened a new plant in Pasadena, Texas, in September 2018. João Parolin, Oxiteno's CEO, expanded on the development of the Pasadena operation, which is currently in a transition phase to reduce the inventories of imported products and introduce locally produced products to the market. Although Brazil is still Oxiteno's largest market and accounts for approximately 70% of its business, building upon the foothold Oxiteno has created in the North American market is key to the company's global strategy, with the aim of reaching more than 100,000 mt of sales in the United States in a four-year period: “Oxiteno's main target is to consolidate the US\$200 million investment made at the Pasadena plant. This level of investment in North America is not common from a South American chemical company and



Image courtesy of Oxiteno

serves as an indication of the company's ambition," stated Parolin. One of the longest standing players in Brazil's chemical industry, Elekeiroz, has noticed market recovery since the low of 2016, which has coincided with the optimization of the performance of its Camaçari oxo-gas and oxo-alcohols plants, according to Marcos de Marchi, CEO. "Only in 2017, when the economic conjuncture had improved, were we able to take advantage of heavy disintegration, and, as a result, Elekeiroz went back to its regular level of activity, attaining the international standards of competitiveness," he revealed. When asked about the main obstacles facing the Brazilian chemical industry in 2019, de Marchi pointed to high gas and

energy prices: "15 years ago, gas used to be much cheaper than in the United States. Nowadays, it is three times more expensive," he remarked, continuing: "70% of the Brazilian energy is exclusively dependent on hydroelectric power, which theoretically should be one of the cheapest energy sources, but in Brazil that is not the case." Despite the challenging macro-economic conditions in the region, a number of chemical producers in Brazil have managed to increase revenues, such as global company Eastman. "From 2017 to 2018 the Latin American region for Eastman grew 14% in revenue within the global company," divulged Pedro Fortes, managing director of Eastman Brazil.

Fortes was keen to point out that sustainable growth for the industry as a whole is reliant upon a healthy economy, and that Brazil is still in the early stages of a recovery. He used the example of the group of young soccer players trapped in a cave in Thailand in 2018 to illustrate his perspective: one of the boys asked a rescue-diver who used to be a soccer coach, "Tell me what I need to do to be a better soccer player?" The diver responded, "Before we think about being a better soccer player, we need to leave the cave," providing an apt metaphor for Brazil's current situation. Fortes concluded: "In many ways I believe this sums up the situation in Brazil – we must create stability before we can take advantage of our enormous potential." ■

Brazil's Innovation Leaders Embrace Sustainability

"In all markets, there are sustainability initiatives, and companies are looking for solutions that are more environmentally friendly where they can reduce the use of resources such as water and energy," said Oxiteno's João Parolin, who shares this perspective with many of his industry counterparts throughout the chemical value chain. Oxiteno's "Greenformance" concept was introduced to encourage the use of renewable raw materials, and the company now sources approximately 26% of its feedstock from renewable sources. Another leader in specialty chemicals with an emphasis on promoting sustainability through innovation is Croda, origi-

nating in Yorkshire, United Kingdom, with its largest manufacturing site in Latin America and the company's Latin American headquarters located in Campinas, Brazil. 75% of the water Croda consumes at its Campinas plant is reused on the site, and Richard Pino, vice president of Croda do Brasil, highlighted an example of the importance the company gives to innovation: "Croda invested in a site in the United States that is going to produce the first green EO [a bioethanol-based ethylene oxide] in the country and will produce the largest range of 100% bio-based ECO surfactants in the world. This opens a huge market for our customers." Green is also the operative color for Braskem, which has been expanding its "I'm green" portfolio in line with a strategy to strengthen renewable chemicals, outlined Edison Terra Filho. Braskem is known for its green polyethylene, produced from sugarcane ethanol, and the world's first biopolymer to be produced on an industrial scale. "With the new bio-based EVA resin [ethylene vinyl acetate copolymer] product, Braskem is demonstrating its leadership in sustainable manufacturing," remarked Terra Filho. Meanwhile, BASF defines its purpose as "creating chemistry for a sustainable future." To help fulfil this mission state-

ment, BASF inaugurated a center of scientific and digital experience in São Paulo in March 2019. The high tech center serves as a platform to connect with customers, suppliers, stakeholders and start-up companies, aimed at stimulating development and creating a mindset for digitalization across the entire supply chain, explained Manfredo Rübens, BASF president for South America. "With this platform, the aim is to augment BASF's own capabilities with the agility and innovative proposals of start-up companies," he said. Finally, Quimisa celebrates its 60th anniversary in 2019, and a focus on innovation and sustainability has been one of the pillars of its longevity, according to Rogério Wehmuth, owner and director of the family-owned company, which is in its third generation. Wehmuth expanded on the importance of Quimisa's enzyme segment, which touches a variety of the industries the company operates in: "Enzymes are not only applicable in the life sciences industry, but also in textiles and water treatment solutions. By developing sustainable technologies using enzymes, we can reduce water consumption needs through the preservation of water. We can also apply our technologies to increase and maintain shelf life for products such as grains." ■



Edison Terra Filho

Executive Vice President
BRASKEM
President
APLA

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Braskem is interested in any potential source of competitive feedstock in South America and is actively monitoring several opportunities.

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What has been at the core of Braskem's global strategy over the last couple of years?

Braskem has been working on enhancing its competitiveness and increasing its diversity in terms of feedstock and geography. Today, approximately 50% of the company's turnover comes from operations outside of Brazil. We are not reducing our footprint in Brazil, but rather diversifying and incrementing our activities in other regions. Besides, we are also working on improving our processes, incorporating digital initiatives and strengthening our compliance.

Which geographical regions have been driving growth for Braskem?

The main region responsible for company growth over the last few years has been North America. Since Braskem acquired its first assets in the US, we have been increasing the capacity of these assets. We have also started a greenfield project in Mexico, and we are in the process of building a new facility in Texas to increase production capabilities. Braskem's PP plant project in Houston is on schedule both for budget and for time. The expectation is to have the plant online within the first half of 2020. Braskem has also acquired assets in Germany, which has significantly boosted commercial operations in Europe. The company is now a local partner for global and local customers in Europe.

Is Latin America still a long way off to compete with the US in producing feedstock?

In the short to medium term there will be feedstock available in South America, both in Brazil and Argentina, for instance. In Brazil there has been a lot going on in terms of pre-salt oil production with the result being a significant amount of associated gas. We are monitoring investments that are being done and have been talking to potential partners that could make the production of additional feedstock a reality. The monitoring and discussions are not only to develop existing assets, but also to invest in new assets. Braskem is interested in any potential source of competitive feedstock in South America and is actively monitoring several opportunities.

There are, of course, boundaries to investments, and it would be very hard to make investments 100% for the regional market.

We will also have to be competitive for exports, but I think once the infrastructure investments are made we will be able to have new capacities coming on stream.

Can you provide details of the renewable bio-based EVA resin launched by Braskem in August 2018?

In line with Braskem's strategy to strengthen renewable chemicals, the company launched a resin made from ethanol sugarcane. Our innovations aim to expand the company's *I'm green* portfolio, which already is known around the globe for its green polyethylene, the world's first biopolymer to be produced on an industrial scale. With the new bio-based EVA resin (ethylene vinyl acetate copolymer) product, Braskem is demonstrating its leadership in sustainable manufacturing. The product is suitable for applications in industries such as footwear, automotive, transportation and flexible packaging.

What other sustainable initiatives are a current focus for Braskem?

Braskem has also been working on enhancing the recyclability of plastics. We are working on technologies that will improve the mechanical properties of the recycled resins in order to have goods that can be produced with a higher content of recycled plastics, as well as removing smell issues on recycled products and improving other properties of post consumption plastic. In June 2018, Braskem launched the concept of a resin that, when recycled, does not lose its mechanical properties as a typical resin does. By improving the potential quality of the recycled resin, products can be produced with a higher content of recycled material. With regard to sustainability, Braskem's three core priorities are plastic waste, water and climate change. Our purpose is to create sustainable solutions with plastics and chemicals in a way it could make peoples life better.

What are the key objectives for Braskem moving forward?

Braskem aims to continue to reinforce the diversity and flexibility that we have in terms of feedstock. We also have the objective to reinforce our geographical diversity by increasing our participation in other regions. We will remain focused on innovation, productivity and sustainability moving forward. ■



João Parolin

CEO
OXITENO

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We are fortunate that the mood is now starting to become more positive and everybody is looking forward to the reforms of the new government. There has already been a slight recovery and we believe that the country can now start growing again.

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Have you noticed an improvement in market conditions since the downturn in 2016?

Oxitenos has seen the industry improving, but we went through a very severe downturn in 2016. This means that even with the improvements, the Brazilian GDP grew with only 1.5% in 2017/2018. This growth is not enough to recover from the significant drop we experienced in 2015/2016, where the GDP dropped approximately 8%. We are fortunate that the mood is now starting to become more positive and everybody is looking forward to the reforms of the new government. There has already been a slight recovery and we believe that the country can now start growing again. Volume wise in Latin America, Oxitenos has seen mild growth over the last two years. 2018 was a good year in terms of price, as most of the prices for chemical and petrochemical products in the international markets were quite strong. The company experienced a better 2018, but the main reason was the margins rather than the volumes.

In 2018 Oxiteno opened a new plant in Pasadena, Texas. Can you elaborate on what capabilities this new infrastructure gives the company?

Oxitenos's Pasadena plant was commissioned in September 2018 and so far we have produced more than 30 different products at the site. Contrary to Latin America, the US market has grown vigorously and Oxitenos has found many new opportunities in this market. We did two years of pre-marketing for the Pasadena plant, importing products from Mexico and Brazil to start developing a customer base and putting in place the new sales plan.

Regarding Oxiteno's footprint and market share in the Americas, is Brazil still the company's biggest market?

Brazil is still Oxitenos's largest market and accounts for approximately 70% of the business. We have ambitious plans for the US and we aim to reach more than 100,000 mt/y of sales in the US in a four-year period. We currently have a small market share in the US, but believe that there is room for significant growth. Part of Oxitenos's 2022 global vision is to consolidate the Americas. We are building a position in the region which is quite unique: our footprint across

the Americas gives us the capability to respond to customer needs very quickly.

Which countries and markets in Latin America have driven growth for Oxitenos?

Colombia, Chile and Peru are currently performing well; Mexico and Brazil, despite their size, have only seen slight growth over the last two years, due to political and economic turmoil. Argentina has been through a very difficult period and we believe that 2019 will still be challenging for the country.

Regarding the industries Oxitenos serves, Brazil is a very big consumer market. This is one of the reasons why personal care is an important industry for Oxitenos. In terms of agrochemicals, Brazil is the largest single market in the world and is, therefore, key to our business and holds huge potential. Paints & coatings and oil & gas are also significant in the company's business portfolio.

In 2018, Oxiteno won the Kurt Politzer prize for technology and innovation. What were the factors behind this recognition?

We have worked very closely with our customers to develop solutions that are more sustainable in all areas. For example, in the detergents area, companies are searching for concentrates where one can reduce packaging and the transportation of water. In all markets, there are sustainability initiatives and companies are looking for solutions which are more environmentally friendly. Oxitenos introduced the Green-formation concept to encourage the use of renewable raw materials. Currently, approximately 26% of the raw materials Oxitenos uses are from renewable sources.

What are Oxiteno's principal objectives moving forward?

Oxitenos's main target is to consolidate the US\$200 million investment made at the Pasadena plant in the US. This level of investment in North America is not common from a South American chemical company and is an indication of the company's ambition. Oxitenos is prepared for and looking forward to the recovery of Latin America as a region. We have not only invested in the US, but also invested heavily in Brazil and Mexico to expand capacities. ■



Marcos De Marchi

CEO
ELEKEIROZ

“

Overall, the region is undergoing a positive period due to two main pre-conditions that did not exist 20 years ago: the pre-salt reserves in Brazil and the shale gas reserves from Vaca Muerta in Argentina. These will boost the chemical sector on the condition that governments foster the right regulatory and investment environment.

”

What have been the major developments at Elekeiroz since 2017?

Since 2017, the market has finally recovered and that was coincident with the optimal performance of the Camaçari oxo-gas and oxo-alcohol plants. We had acquired the oxo-gas plant in 2013, and then modified it throughout 2014 and 2015. However, in 2016, when we were finally ready to use it to its full potential, the market was not there. Only in 2017, when the economic conjuncture had improved, were we able to take advantage of the integration and, as a result, Elekeiroz went back to its regular level of activity, attaining the international standards of competitiveness.

In July 2018, H.I.G. Capital acquired 96.5% of Elekeiroz's shares. We are extremely satisfied with the new management. H.I.G. Capital has been challenging Elekeiroz to sustainable growth, while at the same time, they have not interfered in daily business as they respect our expertise in the sector.

In 2016, Elekeiroz formed a joint venture with Nexoleum to produce green plasticizers. How has this relationship evolved?

We have mostly focused on the launch of a new plasticizer, that I consider to be a breakthrough in the industry: not only it is versatile and can be used for general purposes, but it is also a primary plasticizer. 90% of the product is bio-based and it is part of the MB product line, which presents three qualities: first of all, as already mentioned, it is a primary plasticizer; secondly, it displays a high degree of thermal stability, and, thirdly, its properties are easily adjustable according to the customers' requirements. As it is a new product, we currently hold its patent in Brazil, in the Americas and in the main European countries. At this stage, we are already testing MB with some customers and the results are very positive.

Which industry has been the most relevant in driving growth?

Agriculture has been by far the driver for inorganic chemicals. As for organics, which account for the majority of Elekeiroz's value-added portfolio, the growth has been mostly led by painting and solvents, both for the housing and the automotive industry. ■

Which are the major obstacles facing the Brazilian chemical industry in 2019?

The primary issue is the natural gas price. Thus, we are soliciting the government to deal with such a monopolistic situation that has consequences on our sector. The price of energy is another major issue as well. 70% of the Brazilian energy is exclusively dependent on hydroelectric power, which theoretically should be one of the cheapest energy sources, but in Brazil that is not the case. In addition, Brazil's infrastructure deficit and harbor regulations also represent a challenge. I believe that harbor regulations need to be changed, notably introducing more open rules for cabotage navigation. Such a problem could be easily solved as it does not involve any investment.

Can you expand on how innovation is a key component of Elekeiroz's strategy?

We rely on the two traditional dynamics for innovation: inside-out and outside-in. In some cases, the customer comes to us with a specific request, while, in other cases, we develop a solution internally and look for customers at a later stage. Innovation at Elekeiroz does not only concern the product, but also the service.

Do you have a message for the members of APLA?

Elekeiroz is the regional leader in plasticizers and oxo-alcohols and the company's priority is to reinforce its strength in those niches even further. We want to deliver an excellent quality product, while meeting the ever-changing needs of customers. Elekeiroz is always trying to anticipate future requests, such as in the case of phthalate-free plasticizers that are increasingly demanded for the production of toys. I am very optimistic for Latin America because the per-capita consumption is still very low and that means that we have a lot of room for improvement. Overall, the region is undergoing a positive period due to two main pre-conditions that did not exist twenty years ago: the pre-salt reserves in Brazil and the shale gas reserves from Vaca Muerta in Argentina. These will boost the chemical sector on the condition that governments foster the right regulatory and investment environment. ■



Richard Pino

Vice President
CRODA DO BRASIL

What are the markets and industries that have helped drive growth for Croda in recent years?

We operate in four major market sectors, Personal Care, Life Sciences, Performance Technologies and Industrial Chemicals. Personal Care has in recent years increased its value delivering through innovation and sustainability. The Life Sciences market sector has created IP-rich delivery systems for complex health care and crop care applications. It also implements a significant amount of specialty chemicals into these formulations and requires high-purity ingredients that only we are able to deliver in the region.

The crop market has grown significantly over the last 12 months. Despite the crop market reporting a good year in 2017, suppliers to the market did not reap the benefits, but this changed in 2018 and we experienced a phenomenal year that we expect to continue during 2019. The performance technology markets, which includes Oil and Gas, Polymers additives and Coatings, Lubricants and Mining, also performed well in 2018, especially in Brazil and Colombia. Our Home Care sector also saw a

prosperous 2018 and more is expected for 2019.

Innovation is fundamental for specialty chemicals companies. How does Croda develop new products?

We have three pillars of innovation, which are internal innovation from our R&D department, innovation in collaboration with academia where we are involved in more than 85 projects at universities, and thirdly, we have a technology investment group who look for companies launching new products or technologies that we can either collaborate with or acquire to add to our capabilities.

What are Croda's key objectives moving forward?

Our global strategy is to continue to invest in innovation ensuring that we keep our position as the name behind the high performance ingredients and technologies in some of the biggest, most successful brands in the world: developing, making and selling specialty chemicals that are relied on by industries and consumers everywhere. ■

How has Eastman performed in Latin America in the last two years?

Eastman is a global company with approximately US\$10 billion in revenue. Recently the company has started publishing revenue information according to regions and, from 2017 to 2018, the Latin American region for Eastman grew 14% in revenue within the global company, despite the challenging macro-economic conditions in the region. Latin America is still in transition from a recession, which makes this growth extremely significant. Eastman's choice to acquire Taminco Corporation was certainly key to this growth, giving the company a better position to operate in some specific markets.

What is currently being done to stimulate the chemical industry in Brazil?

ABIQUIM hired Deloitte to prepare a report that explores ways in which the chemical community can promote the industry to attract investment interest. The chemical industry has the support of the government and the Minister of Economy, Paulo Guedes, who is sensitive to the industry demands. From a consumption point of view, Brazil has the domestic demand that could really drive economic

transformation, but it is our responsibility to foster a favorable environment for chemical industry investors and to create confidence in the region.

What are Eastman's objectives in Brazil and Latin America moving forward?

Eastman has a strong commitment to the region and thus we invest in capabilities. We have a focus on safety and sustainability, which we feel is the minimum commitment one must have to properly serve customers. We strive to create prosperity in the region and we work with customers whose vision is aligned with ours in this regard. We collaborate with various industries in Brazil with the aim to innovate as well as to grow the industries.

Although the Brazilian economy is starting to recover from the recession, it is not yet in a strong position. Eastman would like to see a fundamental shift that would give the means the entire industry needs to increase investor confidence. Eastman is developing a number of new segments in Latin America, which we think can add significantly to the company's development. We believe that there is tremendous potential in Latin America, and we would like to see the entire ecosystem grow. ■



Pedro Fortes

Managing Director
EASTMAN DO BRASIL

Rogério Wehmuth & Andressa Wehmuth



RW



AW

RW: Owner & Director

AW: Latin America General Manager

QUIMISA

What have been the major developments at Quimisa since 2017?

Quimisa is focused on the development, manufacturing, marketing and distribution of chemical products for customers both in Brazil and internationally. The company has a specialized lab for developments of enzymatic detergents that helps our customers have access to more ready-to-use products. We have also developed a new textile line that includes all the products to meet our customers' needs. The company has a focus on animal nutrition, and our presence in this segment is particularly strong in the south of Brazil. We offer a range of products, such as chemicals, textile detergents, stabilizers, wood processing and automotive solutions, water treatment solutions, and others.

Despite the challenging economic and political situation in Brazil, the company managed to grow in 2017 and 2018. We have branches at strategic points in the south and southeast of Brazil, and we make an effort to build relationships with the right customers.

Which of the market segments have been driving demand and growth over the last two years for the company?

Approximately 80% of Quimisa's business is in commodities. The company has developed a strong relationship with this sector and we see significant opportunity in the healthcare and animal nutrition markets as well, which we treat as one segment – the Life Sciences.

Can you elaborate on Quimisa's logistics inventory and capabilities?

Through our vehicular efficient structure, Quimlog, we are able to accommodate the logistical challenges of transporting chemical products. We have the capacity to transport corrosive, flammable, oxidising, toxic and food materials in a safe and responsible way. Quimillog is ISO 9001 and SASSMAQ certified, which reflects our commitment to responsibility, quality and safety. These capabilities provide Quimisa with flexibility and a significant competitive advantage in the market.

Can you elaborate on the company's efforts to achieve greater sustainability?

Sustainability is a focus area of Quimisa. One of our most important segments is the enzyme segment and we are developing new applications for this product. Enzymes are not only applicable in the Life Sciences industry, but also in textiles and water treatment solutions. By developing sustainable technologies using enzymes, we can re-

duce water consumption needs through the preservation of water. We can also apply our technologies as to increase and maintain shelf life for products such as grains.

What is Quimisa's vision for the future, and do you have a final message for our readership?

Quimisa believes that Brazil holds significant opportunities for the company moving forward. The country has significant needs that we are in a position to meet. Our aim is to relocate the application of the same products into various industries. Our vision is to continue our two-digit growth rate. ■

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Consolidation Heats Up

Brazilian distributors combine forces

The Latin American distribution sector is crowded, and Brazil is no exception. Economic volatility has sent shockwaves to an industry dependent on liquidity and the availability of stock, which has favored companies with deeper pockets and more extensive resources. During a downturn, opportunities for consolidation become apparent and U.S. global chemical and ingredients distributor Univar Solutions has taken advantage of market conditions conducive to M&A activity, having entered Latin America seven years ago in Brazil and reinforced its position with the acquisition of Tagma in September 2017. “The successful distributors will offer customers safe and secure handling of materials, excellent product availability, market and product expertise, technical support and high-level service and digital solutions,” said Jorge Buckup, Univar Solutions’ Latin America president.

Foreign entities looking to cast their nets over Latin America are not the only ones to have experienced success in the region. Large Brazilian distributors such as Química Anastacio have also recorded growth despite unstable domestic conditions. “In 2017, we grew 15% and in 2018, 26%, obviously with some influence from the exchange rate,” explained Jan Felix Krueder, Química Anastacio’s CEO.

He credited a business model designed for continuous growth and a development team with a mandate to introduce an average of eight to 10 new products per month to diversify the company’s portfolio. Krueder was quick to praise the business-friendly incentives proposed by the new Brazilian government, but recognized the logistical hurdles that must be overcome to increase competitiveness: “I think Brazil’s biggest challenge for development is the logistics deficit caused by a lack of infrastructure and investment. International investors have huge capital available, but still do not have confidence in our economy; they are waiting for effective reforms.”

The logistics deficit was the hot topic at APLA’s logistics reunion in São Paulo. Vivian Donatiello, manager at ILOS and a guest speaker at the event, gave an indication of the profound impact the issue has had on the Brazilian economy, citing the introduction of the table of minimum freight prices as one of the factors that contributed to the nation-wide truck drivers’ strike that brought Brazil to a standstill in May 2018: “Initially, the law was triggered by the observation that freight prices were volatile and dependent on too many different factors. Additionally, the recent increase in the diesel price prompted truckers to protest against the low transport prices that major companies have been imposing since.”

A number of factors are creating volatility in the sector, yet, if Brazil’s deficit in logistics persists, it poses a threat to the success of the wider industry. The ground is fertile for international capital, and all eyes are on the government to understand whether policy reform will be sufficient to attract the financiers. ■



Jan Felix Krueder

CEO
QUÍMICA ANASTACIO

“I think Brazil’s biggest challenge for development is the logistics deficit caused by a lack of infrastructure and investment. International investors have huge capital available, but are still not confident in our economy, waiting for effective reforms.”

Has Química Anastacio managed to achieve growth in recent years despite the context of economic and political turmoil in Brazil?

Química Anastacio has continued to grow over the last years, despite challenging conditions in Brazil. In 2017 we grew 15% and in 2018 26%, obviously with some influence from the exchange rate. Our business model is designed for continuous growth. Our development team has been introducing along these years an average of eight to 10 new products per month. For 2019 we will keep targeting double digit growth, again not depending on Brazil’s economy, whose predicted growth will be modest again, around 1.5%.

In 2017 Química Anastacio opened a warehouse in Buenos Aires. Is this in line with a strategy for expansion in Latin America?

Argentina is very strategic for Química Anastacio because it is the company’s first international experience outside of Brazil. We are growing slowly but continuously in Argentina, starting with personal care. The advantage is that it is close to Brazil, so we can send product for a fast stock replacement and resolve any problems that may arise quickly. In 2020 we hope to increase Química Anastacio’s presence in Latin America, potentially in Colombia, where Química Anastacio’s trading company – Anastacio Overseas – has shown great success.

What was the vision when you created Anastacio Overseas?

The plan was firstly to serve multinational clients in the personal care area as these clients requested Anastacio’s services in other countries. We then partnered with local distributors who already had in place a complete distribution structure, which allowed us to offer DDP to our customers. In 2016 we had a turning point, by incorporating an experienced team of traders and expanding sales to the whole of Latin America. Since then business has been expanding aggressively.

Are you optimistic about the new Brazilian government’s incentives to improve the business climate in Brazil?

Besides current issues with Congress, I am optimistic. The new government is focused

on doing all necessary reforms postponed over the last decades. Examples are the reform proposals for health insurance, administration (downsizing and cost control) and anti-crime. The economic team is very professional and market oriented. I think Brazil’s biggest challenge for development is the logistics deficit caused by a lack of infrastructure and investment. International investors have huge capital available, but are still not confident in our economy, waiting for effective reforms. Química Anastacio has always been doing necessary investments, independent on external scenarios. This year, we are opening two more distribution centers in Paraná and Rio Grande do Sul States and expanding our two warehouses in São Paulo (one for dry cargo and one for liquids).

What would you say are Química Anastacio’s advantages compared to its competitors both domestically and internationally?

Química Anastacio has been able to combine the reliability, commitment and quality of a 78-year company, combined with agile and flexible logistics and services. We offer tailor-made options and fast decision making, which is a competitive advantage towards multinational public listed companies. We also have a strong management structure and solid finances, which ensured our growth regardless of Brazil’s economic or political circumstances, and have been an advantage over local competitors. Being one of the two largest distributors in Brazil, our strong volumes assure competitive prices and costs. Dedicated teams provide efficiency in sales (divided per business unit), international logistics and market intelligence.

Do you have a final message for the members of APLA and readers of Global Business Reports?

We always repeat to our team how high our responsibility is through our 18 different market segments and over 5,000 active customers, having our products being consumed by 100% of Brazil’s 215 million population. We add value to our customers providing stocks for just-in-time delivery, competitive prices, credit, quality control, technical support and customized services. Our target is that Anastacio will always be known as a company that really takes care of its customers. ■



Mexico

“Before, the US was a great exporter of polyethylene to China, but this is no longer happening. Moreover, the US is bringing new capacity to the market. All of this is creating new dynamics in trade flows, with an excess of polyethylene inventories here in the region, which is a challenge in the short term. Having said that, the long term fundamentals are very positive, because global demand for plastics continues to be very strong.”

- Stefan Lepecki,
CEO,
Braskem Idesa

Promoting the Local Industry

Feedstock security dependent on strengthening Pemex

In Mexico, industry discussions were dominated last year by the long trade talks with their North American neighbors and speculation over what a potential López Obrador government may look like. Now, López Obrador ('AMLO') has been president for nearly a year, and NAFTA has been updated under its new USMCA name. The clouds over global trade are not gone, however, with the United States and China still battling over tariff disputes. The deterioration of the performance of national oil company Pemex in recent years is not only creating woes for the owners of chemical capacity in the country; it is also being seen as a risk to Mexico's economy. In June 2019, rating agency Fitch downgraded Pemex's credit rating to 'junk' status, creating concern among government officials. The national oil company currently holds US\$106 billion in international debt – the highest of any state oil company in Latin America according to Reuters – and has to make US\$27 billion in debt payments over the next three years. As a result of this downgrading, the Mexican administration reiterated its commitment to strengthening Pemex. "The Mexican government's focus must be to attract foreign direct investment to help develop the natural resources available in the country in support of energy and chemical development," affirmed Mark Eramo of IHS Markit. "With the current plans to reduce production and eliminate exports, the indications are that it is going to be difficult to attract that investment," he said. 68>>



Image courtesy of Braskem Idesa



Miguel Benedetto Alexanderson

General Director
ANIQ
(NATIONAL ASSOCIATION OF THE CHEMICAL INDUSTRY)

“

The central issue that is impacting the competitiveness of the chemical industry is the lack of natural gas in the southeast of the country, which has generated a significant decrease in the production of the main gas derivatives such as ethane, propane and ammonia. Derived from the above, the import volumes of the industry have increased.

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What are the key trends and dynamics impacting the Mexican chemical industry in 2019?

The central issue that is impacting the competitiveness of the chemical industry is the lack of natural gas in the southeast of the country, which has generated a significant decrease in the production of the main gas derivatives such as ethane, propane and ammonia. Derived from the above, the import volumes of the industry have increased.

The result of the 2018 general election caused some concern from the international investment community. What has changed since Andrés Manuel López Obrador (AMLO) took office?

Currently ANIQ works with the federal government to develop mechanisms that allow us to jointly address with both industry and government the main challenges of the country, such as energy self-sufficiency and consequently the self-sufficiency of the petrochemical industry.

How significant has Braskem Idesa's Etileno XXI project been for the domestic petrochemical industry in Mexico?

The Braskem Idesa complex has been a watershed for the chemical industry in Mexico, since it is the main investment project for the industry in the last 25 years, providing tangible evidence that investments can be made in our country which value the hydrocarbons and develop strategic zones for Mexico.

Can you elaborate on ANIQ's focus to implement the Responsible Care program throughout the chemical industry value chain?

The Integral Responsibility Management System was adopted in Mexico in 1991 and since then, companies have worked together with their customers, suppliers, distributors, transporters and communities to generate and implement security conditions inside and outside their operations, care for the environment and increase safety in the transport of their materials, significantly improving their performance indicators. These actions have earned the companies certified in the system recognition by society, their customers, and some agencies of the federal government over these years. At the same time, ANIQ works on the incorporation of Sustainable Development objectives, with the aim of adopting the new trends that are being developed worldwide.

The Mexican government has committed to reduce greenhouse gases by 30% in 2030 and by 50% in 2050. How does ANIQ work with its members to help achieve such targets?

The chemical industry fully shares the emission reduction objectives that Mexico has signed and we have ratified our commitment through reduction targets of 6% of the baseline. In addition, ANIQ has been certified as a greenhouse gas certification body, which provides support to companies in the certification of inventories of greenhouse gases and compounds. ■

Mexico at a Glance

Source: IMF, data for 2018



CAPITAL

Mexico City

GDP

US\$1,223.4 billion

GDP GROWTH

2%

HEAD OF STATE

President Andrés Manuel López Obrador

TOTAL INVESTMENT (% OF GDP)

23%

GROSS NATIONAL SAVINGS (% OF GDP)

21.2%

CURRENT ACCOUNT BALANCE (% OF GDP)

-1.88%

Demographic Data

Source: IMF, data for 2018

POPULATION
**124.7
MILLION**



UNEMPLOYMENT
RATE
3.3%

GDP PER CAPITA

US\$9,807

GDP PER CAPITA (PPP)

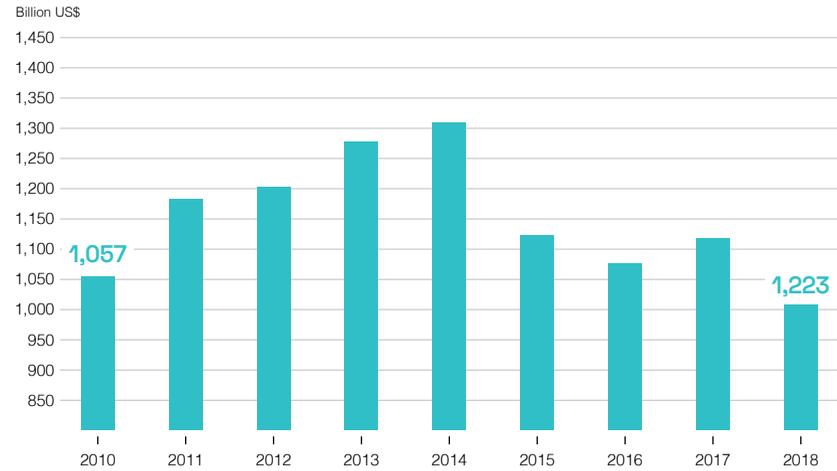
US\$20,602

INFLATION RATE

4.9%

GDP Evolution in US Dollar Value

Source: IMF



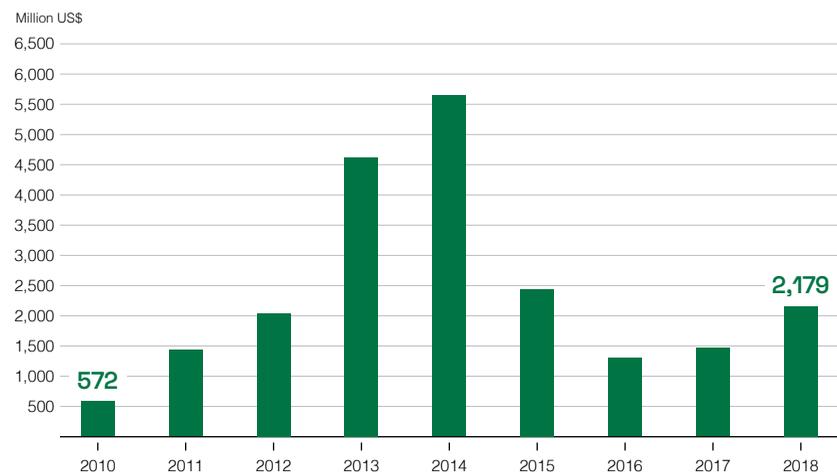
GDP Growth

Source: IMF



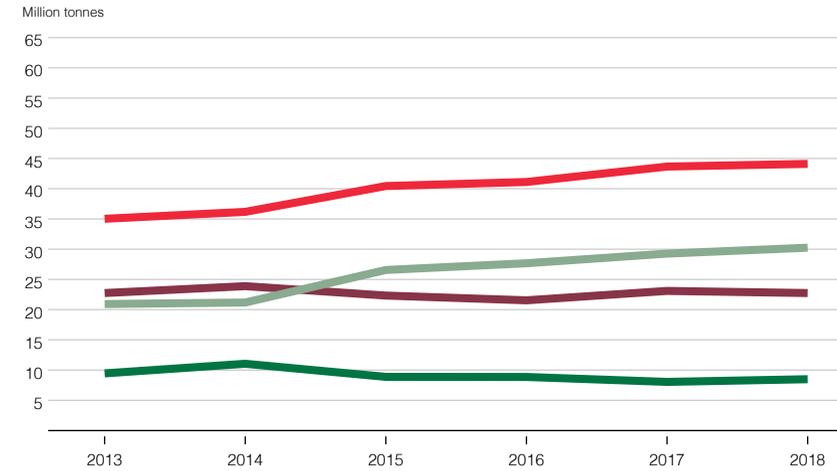
Chemical Industry Investment

Source: ANIQ



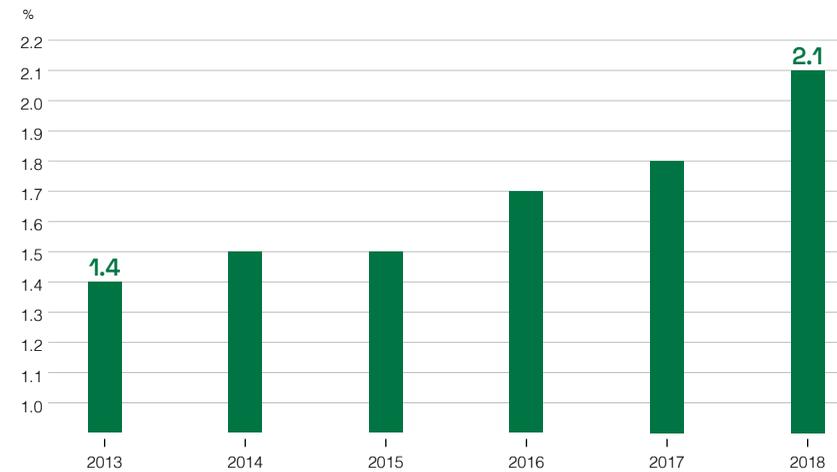
Chemicals Production and Trade

Source: ANIQ



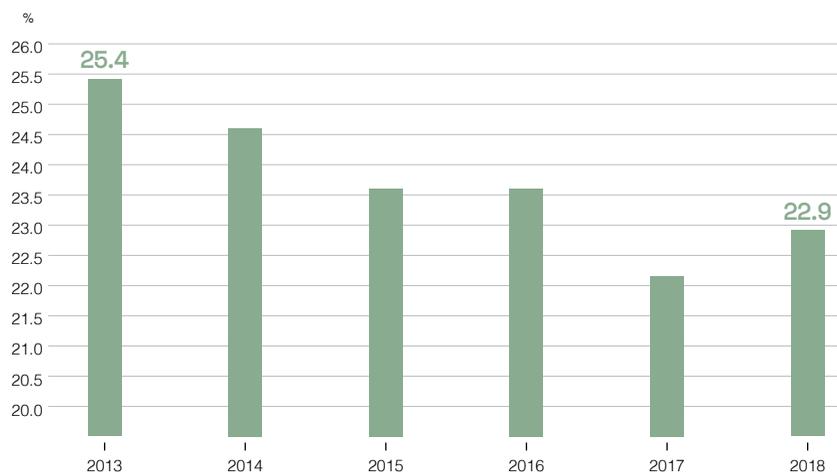
% Participation of the Chemical Industry in the GDP

Source: ANIQ



Chemical Industry Idle Capacity (%)

Source: ANIQ



44.70 NATIONAL APPARENT DEMAND

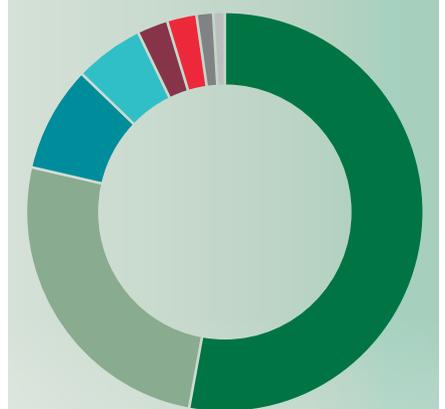
30.29 IMPORTS

22.68 PRODUCTION

8.27 EXPORTS

Chemical Industry Breakdown (% Sales Value)

Source: ANIQ





José Luis Uriegas

CEO
GRUPO IDESA

“

It is good news that Pemex started importing ethane, because their installed capacity in Morelos and Cangrejera can be put to work with very competitive ethane from the US.

”

How has Grupo Idesa evolved over the last years?

The main development for Grupo Idesa has been its evolution from a company exclusively dedicated to the production and commercialization of petrochemicals, to a group involved in related activities as well, such as chemical distribution and logistics. We have Alveg, the main chemical distributor in Mexico, and in logistics we have two companies: Excellence Sea and Land, with a land terminal in Veracruz and several other terminals, and Excellence Freights. On top of this, we have formed three joint ventures in the last years: Braskem Idesa, that operates a polyethylene plant; Cyplus Idesa, together with Evonik, that commissioned a sodium cyanide production facility for the mining industry in 2016; and Tonalli Energía, a joint venture with International Frontier Resources of Canada for the production of oil and gas. We already started production of oil in September 2018 and, while production is initially small, we are very happy with this development, which is a result of the energy reform. Therefore, we participate across the value chain, from upstream to midstream with our logistics companies, and finally downstream.

What are the main business lines of Grupo Idesa in petrochemicals?

One is phthalic anhydride, the first product the company produced 60 years ago, covering both the Mexican and export markets (mainly the US). This product is a key ingredient for unsaturated polyester resin and for plasticizers. Another important line is expanded polystyrene (EPS). At Petramin we produce alkylamines. Finally, a fourth important business line is derivatives of ethylene oxide: we have an ethanalamines plant with a capacity of 45,000 mt/y, and an ethylene glycols plant that is not operating at full capacity due to the lack of ethylene oxide feedstock by Pemex.

Do you expect feedstock availability to improve in Mexico?

The López Obrador administration is interested in developing the energy sector and they have announced they are going to give strong resources to Pemex. Independently of the energy reform, which will take a

few years, it is very important that Pemex receives strong support also on the petrochemical front. It is good news that Pemex started importing ethane, because their installed capacity in Morelos and Cangrejera can be put to work with very competitive ethane from the US. Setting up a bigger terminal to import ethane would be good news both for the private players and for Pemex.

Which industries will continue to drive growth for Grupo Idesa?

If we look at the sodium cyanide, Mexico is the world's largest producer of silver. Perhaps the future growth of the industry will not be as fast as in previous years, but the installed capacity will continue to demand a lot of product. Then, I see continued growth from the manufacturing industry in Mexico. The new free trade agreement with the US and Canada is great news and the segment will continue to be very dynamic, even if the automotive industry may see some changes.

What expansion plans do you have for Alveg, and what role will specialties play in the future?

The consolidation in the distribution segment is going to continue. We already have a very strong position in the market, so right now we do not have any M&A plans, yet we do not rule out acquiring companies in the future that may complement our portfolio with specialty products. At Alveg, for the last several years, we have created a team dedicated to specialties and it is an area that has been growing.

What can be done to make plastics a sustainable industry?

Through Braskem Idesa, we are the largest player in plastics in Mexico, therefore we need to play a leading role in the sustainability of the plastics segment. Plastics have been criticized, not without basis, for its massive use in packaging and the irresponsible disposal of these products. We have all seen the accumulation of plastics in oceans, especially in Asia. In Mexico we are working very closely, together with ANIQ and in collaboration with the fellow associations in the US and Canada, in an important program with Braskem Idesa. ■



Stefan Lepecki

CEO
BRASKEM IDESA

“

We have a permanent dialogue with Pemex to overcome the feedstock problem. Mexico has the same geology as Texas, so there is an opportunity to take production back to healthier levels.

”

How has Etileno XXI performed during 2018?

2018 has been a very positive year, even if we had certain capacity limitations due to the feedstock restrictions from Pemex. We continue to build relationships with our clients, helping them with the development of products. Also, from the industrial perspective, the plants are working really well. We have learnt a lot over the last couple of years, in terms of the logistics, the country and our sales strategies. We have also had good international margins, which has helped our results. Pemex has started to import some ethane, around 10,000-11,000 barrels per day, to feed Pemex Etileno and Braskem Idesa, who are the largest consumers. Pemex Etileno produces polyethylene as well as other products, while we only produce polyethylene.

Do you think the energy reform will help solve the feedstock issue?

We have a permanent dialogue with Pemex to overcome this problem. Mexico has the same geology as Texas, so there is an opportunity to take production back to healthier levels. The energy reform was a very positive move for the country and Braskem Idesa's investment in Etileno XXI, while it took place before the energy reform, was already an example of the joint efforts between the government, Pemex and the private industry to develop the value chain. The energy reform is not a simple task; it takes time to transform the framework from a 70-year old monopoly to an open market. We are currently in that transition, so the rules are not very clear yet. Even during this transition, Pemex remains the main provider of feedstock for the petrochemical industry, and Pemex's lack of investment has made the reform more difficult. Now, we have a new government that appears to be really focused on strengthening Pemex as a key player. This is very important. Independently from the energy reform, Pemex needs to maintain a strong role.

Is the country's infrastructure ready to feed the industry with imports?

There is already infrastructure to import natural gas to certain regions and in 2019 there is an underground marine pipeline project that will reach our area in the south-east. With that infrastructure in place, we

can decide whether to buy natural gas from Pemex or to import from other players. In terms of ethane, we need more infrastructure development as well. Pemex is limited to import more volumes due to infrastructure issues, so we need more investment in infrastructure to meet the demand during this transition period.

How do you see the global dynamics in the polyethylene market?

Globally, there are many challenges for the petrochemical industry, with geopolitical and economic factors, including the tariff war between the US and China, which has changed the dynamics of the polyethylene market. Before, the US was a great exporter of polyethylene to China, but this is no longer happening. Moreover, the US is bringing new capacity to the market. All of this is creating new dynamics in trade flows, with an excess of polyethylene inventories here in the region, which is a challenge in the short term. Having said that, the long term fundamentals are very positive, because global demand for plastics continues to be very strong.

Could you give us some figures in terms of the impact of Etileno XXI on the local economy?

Before Braskem Idesa, 70% of the polyethylene consumed in Mexico was imported from the US, and only 30% was produced locally. We managed to stabilize that, by replacing some imports and also doing some exports. In terms of employment, we created 26,000 jobs during the construction period, and now we have 800 employees in Braskem Idesa. The operation has also created at least 2,000 more jobs across the plastics value chain. With revenues of more than US\$1 billion annually, we contribute with very important tax revenues for the State.

Would you like to add a final message for the APLA members and delegates?

The industry faces many challenges, because society is changing very rapidly, in terms of consumption patterns, sustainability issues, digital transformation, diversity, etc. Traditionally, the petrochemical industry has been more conservative than that, so as companies we need to become more proactive and agile, and have a close eye on these developments. ■

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In late 2018, AMLO stated that Pemex would not sign new joint ventures with private companies until existing projects yield oil production, which raised doubts about future auctions and the overall progress of the energy reform. For Stefan Lepecki, CEO of Braskem Idesa, Mexico has the

same geology as Texas, so the country has an opportunity to take oil and gas production to higher levels. Yet, he said, no one should expect the energy market to change overnight: "Energy reform is not a simple task; it takes time to transform the framework from a 70-year old monopoly to an

open market. We are currently in that transition, and Pemex is still the main provider of feedstock for the petrochemical industry. Unfortunately, Pemex's lack of investment has made the reform more difficult." José Luis Uriegas, CEO of Grupo Idesa, joint venture partner of Braskem in the Etileno XXI plant in Coatzacoalcos, defended the need for both public and private participation to promote industrial development: "The López Obrador administration has announced that they are going to give strong resources to Pemex. Independently of the energy reform, which will take a few years, it is very important that Pemex receives strong support also on the petrochemical front."

Idesa is one of the companies participating in the opening of the upstream segment to private players through its stake in Tonalli Energía.

While the initiation of ethane imports by Pemex in 2018 was seen by many as a sign of the company's failure to maintain production levels, industry leaders saluted the move for the sake of maintaining a healthy value chain. Uriegas said: "It is good news that Pemex started importing ethane, because their installed capacity in Morelos and Cangrejera can be put to work with very competitive ethane from the United States. Setting up a bigger terminal to import ethane would be good news both for the private players and for Pemex."

Lepecki of Braskem Idesa, one of the companies that saw its output affected by the feedstock scarcity created by Pemex, highlighted that certain regions already have the infrastructure to import natural gas and that this year, an underground marine pipeline will reach the area in the southeast near Etileno XXI. "With that infrastructure in place, we can decide whether to buy natural gas from Pemex or to import from other players."

However, for Miguel Benedetto Alexander, general director of the National Association of the Chemical Industry (ANIQ), the increasing of import volumes of natural gas is holding the industry back: "The central issue impacting the competitiveness of the chemical industry is the lack of natural gas in the southeast of the country, which has generated a significant decrease in the production of the main gas derivatives such as ethane, propane and ammonia." ■

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EVONIK
POWER TO CREATE

Martín Toscano, Miguel Ángel Delgado & Federico Téllez

MT: Managing Director
MAD: Business Director RE - High Performance Polymers
FT: Business Director
EVONIK INDUSTRIES DE MÉXICO



MT

“

MT: Countries in the region should see themselves as a block and stop looking at each other as enemies. In automotive, Mexico is for the US what Eastern European countries are for Germany. We need to understand we are partners.

”

What has been Evonik's evolution in Mexico and the region?

MT: Evonik has 22 business lines under three main segments: Nutrition & Care, Resource Efficiency and Performance Materials. In Mexico, the most important target industries for Evonik are mining, automotive, animal nutrition, paints and coatings, aerospace and medical devices. Mexico has a solid manufacturing footprint and we are developing new products to help these industries. Besides, the growth of the middle class in Mexico also offers great opportunity in sectors such as personal care, household care, and healthcare. In Latin America, the main markets for Evonik are Mexico, Brazil, and Argentina, while Colombia, Peru and Chile are also important in certain business lines.

Being present in the specialty business, how important is to have a good mix between commercial and technical skills?

MT: I do not think technical skills go against commercial skills or vice versa. At Evonik, working with chemical specialties, we have a strong interaction with our clients at all levels. Mexico is different to other emerging markets in that we are seeing multinational companies setting up R&D centers in Mexico, not just for the Mexican market, but also for exports. At Evonik we are already very strong in applied technology, with centers in Mexico dedicated to coatings and animal feed, where we support our clients to have a better final product.

What are your main product lines for Mexico's precious metals mining industry?

FT: Mexico is the world's largest silver producer and a major gold producer, so the country is a large consumer of sodium cyanide. Our CyPlus Idesa joint venture produces sodium cyanide locally in Mexico to support the growing Mexican precious metal mining market.

What do you think of the new USMCA trade deal that replaces NAFTA?

MT: The countries in the region should see themselves as a block and stop looking at each other as enemies. In the automotive

segment, Mexico is for the US what Eastern European countries are for Germany and what Indonesia and Thailand are for Japan. We need to understand we are partners. The new USMCA treaty is not going to radically change what we had before. It is a lost opportunity in terms of modernizing the deal, but we continue seeing a great flow of investment into Mexico nevertheless. In the short term, however, we need to evaluate the impacts of other issues such as the fiscal reform in the US and the discussions around tariffs between the US and Europe and Asia.

Mexico has 52 free trade agreements, which gives the country access to between 60 and 70% of the global GDP, so we have a unique advantage to continue attracting investment in many industries, not just automotive – for instance, we see enormous growth in the Querétaro aerospace hub, and also great opportunity in the medical devices segment, where Evonik participates through its high performance polymers and healthcare business lines. One of our main challenges at Evonik will be to bring new production assets to the country, due to the feedstock situation for the petrochemical industry in Mexico. However, we have a solid production footprint, mainly in the US, where Evonik has made three important acquisitions recently.

Could you give us some examples of Evonik's innovation initiatives?

MAD: The focus of the automotive and aerospace industries is to reduce weight, increase efficiency and reduce fuel consumption. This is achieved with different materials such as foams with high mechanical resistance but low molecular weight, and composite materials.

MT: We also work in the green tire segment. By increasing the use of precipitated silica in tire production, we contribute to lower fuel consumption. We recently did an investment into a new plant of precipitated silica in South Carolina, which will serve clients like Michelin, Pirelli and Continental eventually also in Mexico. Besides, Evonik has a proprietary technology for absorbable medical implants, which eliminate the need for a second operation once you have an implant. ■

A Strategic Market Position

Mexico leverages its global connectivity

One of Mexico's key advantages is its accessibility to world markets. With dozens of free-trade agreements in place, Mexican companies have a variety of choices to pursue, both in terms of importing and exporting. The country has enhanced its visibility not just as a manufacturing center, but it has also emerged as a global hub for innovation in a diverse range of industries. "Mexico has 52 free trade agreements, which gives the country access to between 60% and 70% of global GDP," highlighted Martín Toscano, managing director for Mexico at specialty chemicals company Evonik Industries.

Toscano was critical of the new USMCA treaty, which, he said, was "a lost opportunity to modernize the deal," but he added that there continues to be a great flow of investment into Mexico nonetheless: "We have a unique advantage to continue attracting investment in many industries, not just automotive. We see enormous growth in the Querétaro aerospace hub, as well as great opportunity in the medical devices segment."

Beyond this important niche of medical devices, where Evonik participates through its high performance polymers and health-care business lines, Evonik benefits from Mexico's diversified manufacturing base, which demands a whole range of products, and from the expansion of the middle class

in a country with a population of 124 million people that offers great opportunity in business areas such as household and personal care.

Finally, Toscano described Mexico as a market where any innovative company should have a footprint: "Mexico is different to other emerging markets in that we are seeing multinational companies setting up R&D centers in the country, not just for the Mexican market, for also for exports. This is happening mainly in the automotive industry, but also in others. At Evonik we are already very strong in applied technology, with centers in Mexico dedicated to coatings and animal feed," he concluded.

Ongoing energy reforms have allowed for the import of oil and gas, creating consternation as well as opportunity in the management of Mexico's refined fuel deficit for the logistics sector. "Unit trains with gasoline and diesel have become the norm, and marine terminals on the east coast of Mexico, currently storing chemicals, are being constantly pressured by gasoline and diesel importers to assist in handling the discharge and much needed storage," said Peter Staartjes, CEO of Andino Holdings. "Our small marine liquid bulk chemical in Tuxpan has suddenly become an attractive option for chemical producers who are frustrated with bad, or sometimes non-existent, railcar service, or have been displaced by a terminal operator who would rather fill tanks with high volume and sometimes higher paying gasoline or diesel."

In this context, the tank leasing and liquid storage markets have an important role to play. However, many companies have invested in liquid storage assets of their own, resulting in a surplus of capacity in the market. Ricardo Diogo, director of business development at Oiltanking, com-

mented: "At Oiltanking we take a long-term view of the industry, so we manage to navigate the ups and downs, but we cannot ignore that there is some extra capacity in certain hubs and that an extra effort is needed to rent and fill up our tanks. Because of this, I expect to see some consolidation and optimization in the industry over the next five years."

Marcelo Scayola, manager for Latin American at Eurotainer, elaborated on the competition in this sector and his company's efforts to differentiate themselves: "There are several tank leasing companies in Latin America. We are the largest one, but the market is becoming more competitive, especially in Brazil," he said. "Through our partnership with Maersk, an advantage we offer is that we nationalize the tanks in each country where they are needed so that there are no issues in terms of admission permits."

Latin America's competitiveness as a chemicals hub will pivot on building capacity to facilitate the storage and, more broadly, the infrastructure to support the efficient movement of materials. There is ample reason to make these adjustments sooner rather than later as sustained economic growth and geopolitical shifts generate more interest in Latin America's rapidly developing markets. Martin Sack, managing director of Leschaco Mexicana, highlighted how freight forwarding companies like Leschaco view the changing relationship between Mexico and its powerful neighbor to the north as a positive signal: "We still see a huge opportunity to grow the business out of the United States, as the current U.S. government is pushing to increase manufacturing capacity. The already signed USCMA agreement shall stabilize and further strengthen the bilateral business between the United States and Mexico." ■



Ricardo Diogo

Director Business Development
OILTANKING

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Mexico is the country that is seeing fastest growth for Oiltanking. It is going to be a very important market for us in the years to come with the opportunities arising from the energy reform.

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Could you briefly present Oiltanking?

We are the second largest independent liquids storage company worldwide, with a footprint in 25 countries and around 21 million cubic meters of storage capacity between crude oil, refined products, chemicals and gas. In Latin America, we are mostly dedicated to crude and refined products, while we have chemicals storage in Colombia and Peru. In gas, we operate LPG capacity in Peru – this is an area where we are growing significantly, especially in northern Europe, through the acquisition of our Antwerp Gas Terminal in 2016, which is currently under significant expansion.

We are involved in the whole chain, being a classic company that typically owns the assets, either 100% or via joint ventures with other companies. We do everything from greenfield projects to brownfields and acquisitions. In Mexico we are supervising the construction of two terminals and a future pipeline, which we will operate. This case is a good example where we do not own the assets, but we will operate them via an Operations and Maintenance (O&M) contract.

Argentina was your first operation in Latin America. How is that doing, and what potential do you see in Vaca Muerta?

In Argentina, we have had a partnership with YPF for 25 years. We manage a crude oil gathering system, the biggest tank farm for crude oil in Argentina, and we feed five of the eight refineries in the country. Vaca Muerta's potential has been there for a few years now, but of course oil prices did not help, and also the government was unable to attract enough investment. Luckily, and in spite of the macroeconomic issues the country saw during 2018, things have changed. We are seeing the different players increasing production in the formation, hence we will start feeling from the market the need for capacity expansions on the crude oil side. Moreover, gas production is also increasing. With prices going up and the cost of exploration going down, in the medium to long term, the country can already look at the possibility of liquefaction plants to export its gas in the years to come.

Overall, what is the fastest-growing country for Oiltanking in Latin America?

Mexico is the country that is seeing fastest growth for Oiltanking. We only opened our Mexican office in 2017, with just two people, and now we have around 30 people. Once we start the O&M contract during 2019, we may have more than 100 people in Mexico. It is going to be a very important market for us in the years to come with the opportunities arising from the energy reform. Then, Brazil is obviously a very important market, where we have had a presence for 10 years.

How do you read the global market dynamics for liquids storage?

This industry has been growing a lot in the last 10 to 15 years, and our company is a good example of that, with both organic growth and acquisitions. In recent years, however, the lower prices of oil have affected the industry, and also some players have invested in their own capacity, hence, in some segments we can start seeing some overcapacity. Therefore, it is a challenging time right now. At Oiltanking we take a long-term view of the industry, so we manage to navigate the ups and downs, but we cannot ignore that there is some extra capacity in certain hubs and that an extra effort is needed to rent and fill up our tanks. Because of this, I expect to see some consolidation and optimization in the industry over the next five years.

How important is safety when you are storing dangerous liquids?

HSSE and operational excellence are key drivers in this industry. We always had this in our DNA, but over the last few years we have expanded further our focus on HSSE, with a very thorough HSSE management system that we apply on all our operations. ■



Andean Region

“Over time, the chemical industry in Chile has become stronger and more linked with its neighbors in Latin America. Different associations must collaborate in order to promote the chemical space so that all industries in the region have the opportunity to perform better.”

**- Edmundo Puentes,
President,
Asiquim**



Chile: Strengthening Trade Ties

Chile looks to invigorate commercial relationships with the Asia Pacific region

What Chile lacks in size in relation to its Latin American counterparts such as Brazil, Argentina and Mexico, it makes up for in stability, an element the larger Latin American markets have been sorely lacking in recent years. According to figures from the World Bank, Chile's economy rebounded from a sluggish performance in 2017 to growth rate of 4% in 2018, despite the trade feud between China and the United States negatively impacting the price of copper, the base metal that makes up around half of the country's exports.

Chile's stable economic and political context may be enviable to some of its neighbors, however, a relatively small population of just over 18 million and a geographical position that places the country far from a consistent supply of raw materials limits the potential of Chile's petrochemical and chemical industry, which represents approximately 2% of the country's GDP. Asiquim, Chile's chemical industry association, is representative of approximately 90% of this figure in terms of value of production coming from its 130 member companies.

Edmundo Puentes, Asiquim's president, observed that, due to the size of the Chilean market and lack of local petrochemical feedstock, logistics to secure imported raw materials are key for the industry. From a geographical standpoint, Chile has the advantage of a long coast along the Pacific Ocean, providing excellent access for trade with the Asia Pacific region, which is currently the country's main export market. "Chile can offer the eastern countries of South America access to these markets through its ports, highways and railways," suggested Puentes, continuing: "In 2019, both the APEC meeting as well as the COP 25 are hosted in Chile, which demonstrates the commitment of the political sector and the government to make the country a platform for trade in the Pacific region."

Of all the countries in South America, Chile has perhaps the most open market, with a large network of trade agreements incentivizing exports to countries such as China, Chile's largest trading partner that received 27.5% of its exports in 2017. In January

2010, Chile became the 31st member of the OECD (Organization for Economic Co-operation and Development) and the first South American member. For Julio García, owner and general manager of Adizol, the Chilean distributor for global specialty chemicals company Lubrizol, "The open market in Chile has created a highly competitive environment. Anyone can distribute a product, but having the requisite knowledge to provide a first-class service takes experience."

For Juan Pablo Gazmuri, managing director & CEO of Panimex, the stability of the Chilean economy and its open nature brings opportunity. Panimex was founded in 1956 and today exports 90% of production from its plasticizer plant and phthalic

anhydride (PA) plants. Citing his company's close relationship with the Foreign Relations Ministry in the development of new free trade agreements, Gazmuri emphasized the need for cross-border collaboration to drive the innovation necessary to remain competitive: "We believe that it is impossible to fully innovate as a standalone company; we do not have all the solutions. Innovation should be driven by customers' needs, and the only way to be successful in innovation is finding the right partners."

The Chilean government is not the only stakeholder taking the initiative to strengthen the country's logistical infrastructure. In December 2018, Oxiquim, one of the major players in Chile's chemi-

cal industry, received approval for the concession of a new port in Quintero, near the city of Viña del Mar in the Valparaíso Province. Oxiquim's terminal in Quintero Bay is already the largest open terminal for chemicals in the country. "The approval for the concession of a new port is both for the expansion of the existing services, as well as the construction of an additional port," said Edmundo Puentes, Oxiquim's general manager. "Oxiquim's plan is to build a new pier where we can load and unload liquids as well as bulk solids. I am convinced that Chile needs this new facility to handle the increasing demand as well as to offer more reliability in terms of port services," he added.

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Chile at a Glance

Source: IMF, data for 2018



CAPITAL
Santiago

GDP
US\$298.2 billion

GDP GROWTH
4%

HEAD OF STATE
President Sebastián Piñera

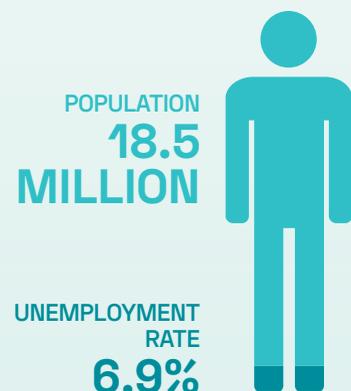
TOTAL INVESTMENT (% OF GDP)
22.7%

GROSS NATIONAL SAVINGS (% OF GDP)
19.5%

CURRENT ACCOUNT BALANCE (% OF GDP)
-3.1%

Demographic Data

Source: IMF, data for 2018



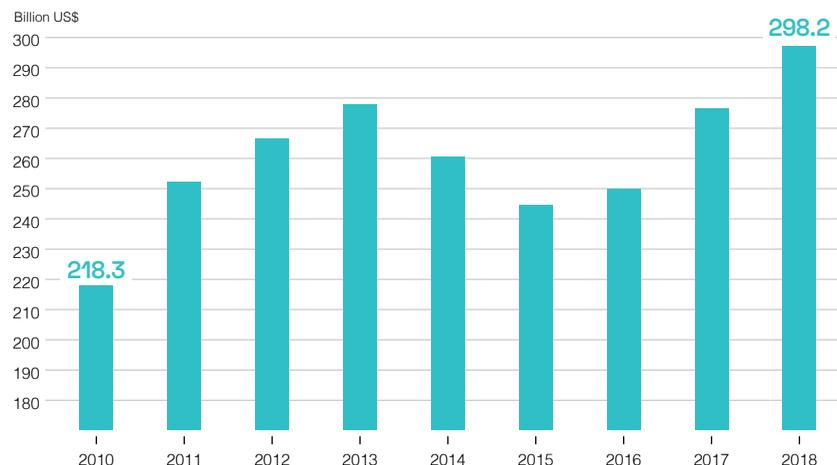
GDP PER CAPITA
US\$16,079

GDP PER CAPITA (PPP)
US\$25,978

INFLATION RATE
2.3%

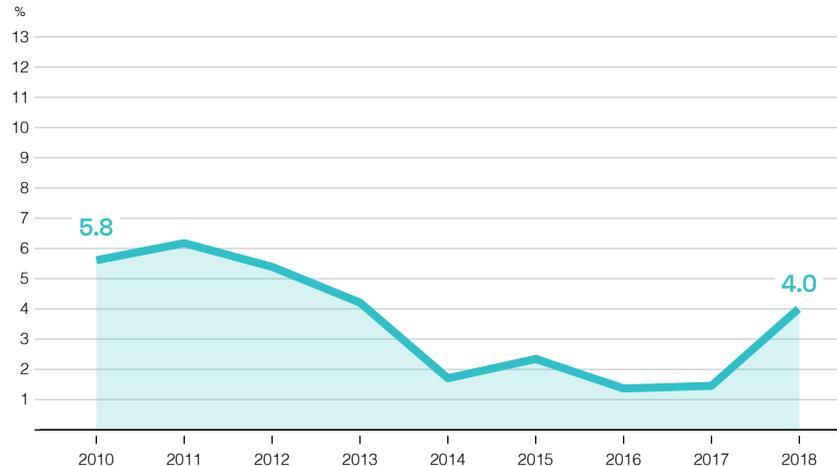
GDP Evolution in US Dollar Value

Source: IMF



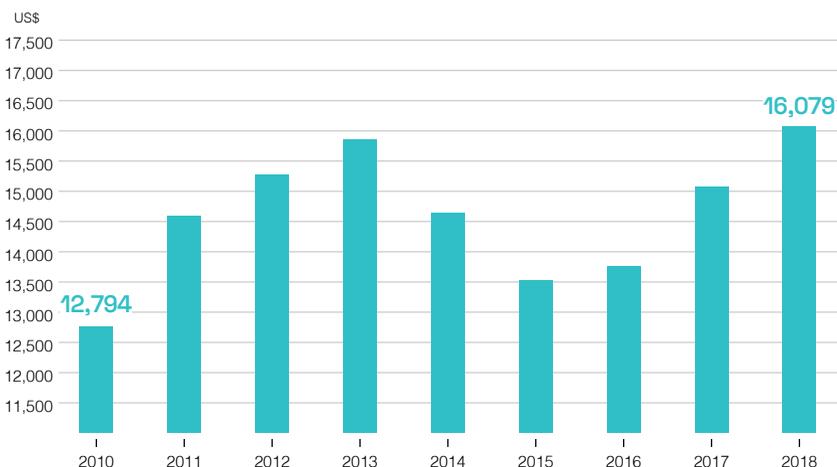
GDP Growth

Source: IMF



GDP per Capita in US Dollar Value

Source: IMF



Edmundo Puentes

General Manager
OXIQUM
President
ASIQUIM
(CHILEAN ASSOCIATION OF CHEMICAL INDUSTRY COMPANIES)

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There have been many growth opportunities within Chile and this is where Oxiquim has devoted its efforts. However, in the future we will start looking to more aggressively expand operations into other countries in the region.

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What are the different business areas that Oxiquim operates in?

Oxiquim operates in three different sectors: chemical distribution; maritime terminals; and resins for wood panels. With regard to distribution, Chile is a country located far from raw material sources for the chemical industry and Oxiquim supplies the manufacturing industry. Within the verticals that we operate in, the company is the largest distributor in Chile. The company has an interesting pool of logistical capabilities and the technologies to support its offerings. All of Oxiquim’s facilities have been engineered in-house, which showcases our strong engineering capabilities. We also have an R&D centre for our product development.

Can you elaborate on Oxiquim’s business divisions and their supporting infrastructure?

Wood resins is a very important industry in Chile and Oxiquim is the largest resin producer for this industry. We have a strong focus on technology in our resin business and our products are at a level of international standard compliance. Oxiquim is one of the top three largest resin producers for the wood panel industry in all of South America. Oxiquim also offers maritime terminal services, which include providing bulk liquid storage and transfer services from both specialized tankers and trucks. The company has three maritime terminals: one in Quintero Bay in the Valparaíso region, one in the Gulf of Arauco in Bío Bío region, and one in Mejillones Bay in the Antofagasta region. The Mejillones terminal supplies services for products that go mainly to the mining industry and fishing industry. The terminal in Quintero Bay is the largest open terminal for chemicals in the country. Our terminal in the southern part of the country is mainly used for the storage and transfer of raw materials to serve the forest products industry and the fuel distribution industry.

In December 2018, Oxiquim received the approval for the concession of a new port in Quintero. Is this an additional port or an expansion of the current port?

The approval for the concession of a new port is both for the expansion of the existing services, as well as the construction

of an additional port. Oxiquim’s plan is to build a new pier where we can load and unload liquids as well as bulk solids. I am convinced that Chile needs this new facility to handle the increasing demand as well as to offer more reliability in terms of port services.

Quintero is a region which has been affected by industrial pollution for many years and thus we are experiencing challenges with the local communities. The sensitivity of environmental issues in the region is very high.

Which of the industries that Oxiquim serves have been driving growth for the company?

In recent years, Oxiquim’s terminal and logistics business has grown significantly. Approximately 70% of the LPG imported into Chile is handled at Oxiquim’s terminals and we are currently in the process of building a new LPG terminal in Mejillones.

We have also seen growth in Oxiquim’s resin business and expect this upward trajectory to continue moving forward.

Does Oxiquim supply to other countries outside Chile?

Oxiquim does supply to other Latin American countries, but at the moment this represents a small portion of the company’s business. We supply to Argentina and Peru and we have a subsidiary in Peru from where we serve the copper mining industry. There have been many growth opportunities within Chile and this is where Oxiquim has devoted its efforts. However, in the future we will start looking to more aggressively expand operations into other countries in the region.

As president of Asiquim, what would you say is the biggest challenge facing the chemical industry in Chile?

Social acceptance is the biggest issue facing all industries in Chile. There has been an increase in regulations, following public opinion pressure that heavily influences decisions by the authorities. Within the chemical industry, permitting processes are still quite slow, and dealing with local communities is also a challenge. In general, Chile is a business friendly country, but it is still going through the process of learning how to deal with all stakeholders in the best manner. ■

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Argentine Natural Gas Exports Enter Chile after a 12-Year Hiatus

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Industrial development hinges on local approval

Residents of Quintero, the small fishing community in central Chile, have not shown overwhelming support for some of the proposed infrastructural developments, with a number of environmental incidents in the region harming the relationship between locals and industry. In 2014, an accident involving the state oil company ENAP resulted in 30,000 liters of oil being spilt into the sea, and tension was compounded in October 2018 when more than 700 residents of Quintero and its neighboring town Puchuncaví were hospitalized by toxins due to high pollution levels.

Puentes acknowledged that social acceptance is the biggest issue facing all industries in Chile: "There has been an increase in regulations following public pressure that heavily influences authority decisions," he revealed, further suggesting that authorities should work together with the private sector to help improve the image of Chilean industry. "Authorities put the problem of dealing with communities in the hands of the companies instead of trying to manage these challenges themselves. In general, Chile is a business friendly country, but it is still learning how to deal with all stakeholders in the best manner."

2019 marks the 25th anniversary of the Responsible Care program in Chile, and this has been of fundamental importance to the mission of Asiquim since its inauguration; the association's target is to have 100% of its members certified under the program by 2022. The importance of implementing modern, responsible best practices was also underlined by Claudio Gorichon, Reno S.A.'s general manager: "There is a chemical behind every product we consume daily, so, in effect, we as chemical distributors must be responsible and exude reliability," he stated.

One of the longest standing players in Chile's chemical industry, Reno was

■ On October 30th 2018, a landmark agreement came into effect for the provision of unconventional gas piped from Argentina's Vaca Muerta shale field to Chile's southern province of Biobío. The move is a turning point between the two countries for more than just economic reasons and can be seen as a gesture of goodwill from President Macri to rebuild a relationship that had soured in the mid-2000s when Argentina abruptly cut off gas exports to its Andean neighbor. "We are working enthusiastically with President Mauricio Macri to integrate our energy supply," stated Chilean President Sebastián Piñera.

This sentiment of collaboration was echoed by Andrés Roccatagliata, CEO of ENAP (*Empresa Nacional del Petróleo*), Chile's state-owned oil company: "We are convinced that regional integration is achieved through various means and that one of them is to take advantage of opportunities for energy interconnection between our countries," he said, continuing: "We want to evaluate the opportunities that could be given to these shipments and explore the possibilities of a greater commercial relationship between both countries." ■

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Oil and gas will still be an important part of the energy mix for the coming decades. To have fuel in every corner of the country in a sustainable manner, ENAP is improving its business model, strengthening its logistical capacities, its infrastructure, and its supply chain. We are also investing in environmental improvement projects and supporting initiatives that take advantage of gas as a transition energy source.

- Andrés Roccatagliata,
CEO,
ENAP



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Ixom believes that there is a great opportunity for growth in personal care, where we supply a significant amount of raw materials. Using Colombia as a reference for the region, there are many applications, products and experiences for us to replicate in Argentina, Chile and Peru. The company's objective is to also establish an important footprint in other areas of mining where we have not yet been involved in.



- Javier Canala,
General Manager Latin America,
Ixom

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Multinationals Experiencing Latin American Growth from their Chilean Bases

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founded in 1962 and today controls the importation, representation, commercialization and distribution of a variety of chemical products, with commercial offices and stock in Chile, Argentina and Peru. In 2018, Dow Chemical chose Reno as the best distributor of industrial solutions in Latin America's southern region, and Gorichon attributes this recognition to the company's focus on sustainable practices. He also suggested that the Chilean industry should improve old-fashioned methods: “Some small and medium enterprises working in the domestic market have lacked investment and neglected this responsibility.”

Another Santiago-based company with a focus on sustainability is Austral Chemicals, which was one of the first chemical companies in Chile, founded in 1942. Christophe Jacob, director of Austral Chemicals, noted that Chile is an advanced emerging market where regulatory requirements are becoming increasingly stringent and expectations are characterized by a growing demand for greater innovation, safety and efficiency. Highlighting examples of Austral's sustainable solutions that include HFO-based polyurethane systems designed to completely eliminate the use of HCFC-141b by 2020, Jacob expanded on his company's philosophy: “As an eco-responsible company, we are convinced the future is now dependent upon the way we address tomorrow's challenges with our suppliers and customers today.”

Keeping up to date with the market trends and the latest innovations is key to the success for Chilean companies operating in a highly-competitive environment, according to Celia Riffo, general director of Cerquim, a private company that has provided raw material distribution services to Chile's chemical industry for over 30 years. “Innovation in the chemical area is a major challenge. Water-based resins and more environmentally friendly products are being used more frequently,” she observed. ■

Political and economic stability combined with a strategic location for both the Latin American and Asian markets make Chile an attractive destination for multinational companies looking for a foothold and operational base in South America. This has long been the case in the mining sector, with companies such as Rio Tinto, Anglo American and BHP running some of the country's biggest mines. The chemical industry also has a number of multinational players experiencing growth from their Chilean bases.

On the distribution front, Melbourne-based IXOM has a presence in five South American countries – Colombia, Peru, Brazil, Argentina and Chile – and has chosen Santiago as its Latin American headquarters. Javier Canala, IXOM's Latin America general manager, explained that the company's level of activity across its various business sectors differs for each country: “The company is divided into three main business units.

The first is mining solutions, which represents approximately 60% of our business. The second business unit is building and construction and the third is industrial chemicals – including personal care, homecare, cleaning, polymers and coatings.”

Another global chemical distributor with a mining-focus in Chile is Manuchar, which has experienced success in emerging markets such as Latin America, Africa and Asia, where customers might need more assistance than in developed markets, according to Rolando Contreras, general manager of Manuchar Chile. “The Chilean office is mainly focused on solid chemical products, both bulk and small packaging materials, and we are the fourth largest distributor of solid chemicals in Chile,” said Contreras. “Our strength is bulk shipments mainly from an Asian origin, and we specialize in chemicals such as sodium sulphate, soda ash, sodium bicarbonate and various other chemical commodities,” he added. ■

Claudio Gorichon



General Manager
RENO S.A.

RENO has been active in Chile's chemical industry since 1962. How has the company evolved over the years?

Indeed, Reno was founded in 1962, but it actually started in 1957, so it has been working for 62 years in Chile. Reno is a family company, which at the beginning started distributing ethyl alcohol: we made solvents, thinners, and imported petrochemical products. Between 2010 and 2012, Reno opened a branch in Argentina and in 2015 we opened a commercial office in Peru. Nowadays we have commercial offices and stock in Chile, Argentina and Peru. Today, Reno's main business is the importation, representation, commercialization, and distribution of a variety of chemical products. We are currently managing a range of around 110 products, and each of them is delivered differently, either in bulk or separately in drums.

Does Reno supply chemicals to a diverse range of industries?

Since we are a small country, the only way of growing is adding new products and attacking different industries. 15 years ago, Reno was strong primarily in painting and cleaning products, but nowadays we are also present in adhesives, agribusiness, ceramics, mining, flexible foam, cosmetics, detergents, and flexible containers.

What percentage of business do Reno's Latin American operations outside of Chile represent?

In 2019, we expect Peru to represent 20% of Reno's sales portfolio and Argentina around 15%. Reno employs 70 people in Chile, 12 in Peru and 10 in Argentina. We are currently replicating in Argentina and Peru the same business model that has been a success for Reno in Chile. We have looked at the Colombian market and in the future Reno will open a commercial office there too.

Chile is celebrating 25 years of the Responsible Care program in 2019. How important is it for companies to adhere to responsible and sustainable practices?

The truth is that the industry has been changing its vision over time, and we have had to prove that this not a polluting industry but one that helps communities. There is a chemical behind every product we consume daily so, in effect, we as chemical distributors must be responsible and exude reliability. There is a social responsibility behind the chemical market today and we have to improve old-fashioned ways of thinking and acting. Some small and medium enterprises working in the domestic market have lacked investment and neglected this responsibility. At Reno we generally try to train customers, and we count on professionals who take courses in safety and in how to handle chemical prod-

ucts. We check thoroughly that all processes are carried out properly and that safety conditions are taken into account when delivering and unloading products.

What are the biggest challenges companies face working in the Chilean chemical industry?

The Chilean market is very open, and this presents a set of advantages and challenges. The nature of the market means we have received many products to replace national production, so in recent years, Chilean manufacturing has not improved. Certain national companies have closed and several imported products have arrived in replacement, because there is no duty for feedstock nor finished products. The open market has also fostered a high level of competition, which for new actors can be seen as an entry barrier since margins are low. On the other hand, as an open country with clear economic policies and economic stability, Chile is a straightforward place to operate in.

Do you have a final message for our readers?

Reno is leader in the business sectors it participates in, and has been leading the distribution of chemical products in Chile for over 60 years. The foundations of this success are supported by long-standing relationships with customers and suppliers. The responsible way in which Reno employees handle products is also fundamental to the company's philosophy and success, which was recognized in 2018, when we were chosen as the best distributor in the southern region by Dow Chemical for the industrial solutions area. ■



A regional leader in the distribution of a wide range of chemical products

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Colombia: A Country on the Rise

Leveraging macroeconomic conditions and a burgeoning middle class to overcome stigma

In the eyes of the international community, Colombia was a country steeped in violence and embroiled in drug traffic and corruption, all of which has tarnished the image of a vibrant country abundant in natural resources and located at the gateway linking South and Central America. This stigma is becoming a thing of the past, as modern-day Colombia offers the security and economic and political stability for business to thrive. This context has captured the attention of companies throughout the chemical value chain in Latin America, such as Anastacio Overseas, the international trading arm of São Paulo-based Química Anastacio, which has experienced its sharpest growth in the region from its Colombian operations, according to CEO Jan Krueder. Another chemical distributor to have experienced growth in Colombia is Rocsa S.A., which acquired Inproquim in 2017, with funding from private equity fund MAS Equity Partners, seeing the region as an area with high-potential. "In Colombia, if you check the top 10 distributors, there is one which is ahead – Brenntag, and then between the second and tenth, the numbers are similar, so there is opportunity for consolidation in the market," observed Jaime Romero, Rocsa's general manager. There are a number of factors that point to the continuation of this upward trend, as outlined by Munir Jalil, executive director of macro-research at investment bank BTG Pactual. Jalil pointed to a youthful age structure that still represents a population pyramid, and a GDP per capita (approximately US\$6,000) far lower than other similarly developed countries in the region, with considerable room for growth.



"Colombia receives the largest ratio of investment to GDP per-capita in the entire Latin American region, and the biggest investors into Colombia are Colombians," he explained, hinting that growth would be complemented by, rather than dependent upon, foreign investment. Many countries in South America are dependent on production from their capital cities. Argentina, Chile and Peru all rely heavily on the contribution of Buenos Aires, Santiago and Lima, respectively, the lynchpins of their economies. Colombia, on the other hand, has a far more diverse spread of cities, each with its own robust economic ecosystem, with Bogotá generating only 25% of the country's GDP, supported by industrial hubs in Medellín, Cartagena and Cali. "Colombia has only recorded two years of negative GDP growth over the past century, in 1937 and 1999, and the country has never entered recession," observed Jalil, elaborating that his country's geographical peculiarities (mountainous regions had previously limited infrastructure development between cities) have nurtured regional diversification. "This context allows for an insurance policy against negative GDP growth," he concluded.

The potential for further growth was underlined by Daniel Mitchell, president of local association Acoplásticos: "Looking at local demand figures, we see great opportunity to grow: in Colombia, we consume 28 kg of plastics per person per year (versus 35 kg in Brazil, 43 kg in Mexico, 45 kg in Argentina, 50 kg in Chile and 150 kg in the United States)." Acoplásticos was created in 1961, and represents the Colombian chemical and petrochemical activity in plastics, paints and inks, fibers and rubber, including virtually 100% of the petrochemical industry in Colombia. Describing how the association's mission has evolved to mirror the needs of its industry, Mitchell noted that the 1990s were a time of negotiating free trade agreements, 2002-2012 saw a drive to foster conditions that would make Colombia more competitive on an international level and, in recent years, the focus has been on sustainability and innovation. This current focus is perhaps the clearest indication of Colombia's development – without being bogged down by economic turmoil and political turbulence, countries can focus on implementing sustainable long-term visions, instead of short-term recovery measures. ■

Colombia at a Glance

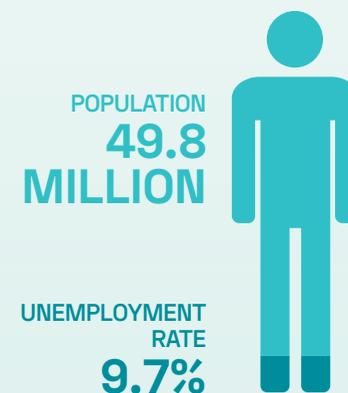
Source: IMF, data for 2018



CAPITAL
Bogotá
GDP
US\$333.1 billion
GDP GROWTH
2.66%
HEAD OF STATE
President Iván Duque
TOTAL INVESTMENT (% OF GDP)
20.1%
GROSS NATIONAL SAVINGS (% OF GDP)
17.2%
CURRENT ACCOUNT BALANCE (% OF GDP)
-3.8%

Demographic Data

Source: IMF, data for 2018



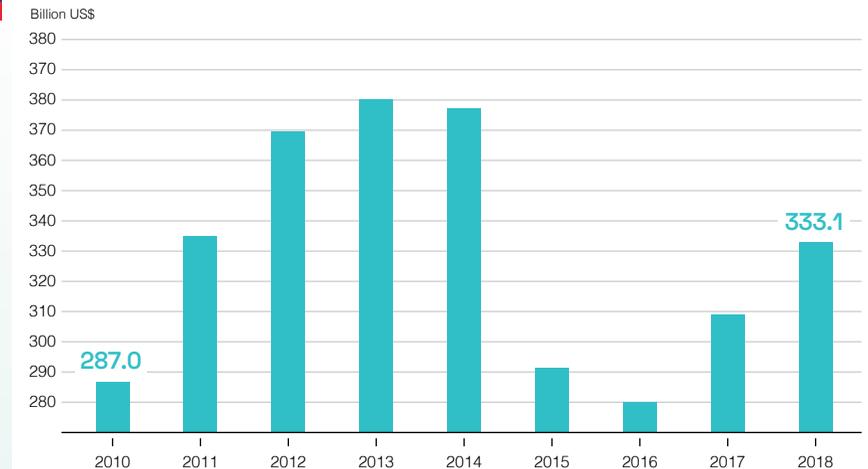
GDP PER CAPITA
US\$ 6,684

GDP PER CAPITA (PPP)
US\$14,943

INFLATION RATE
3.2%

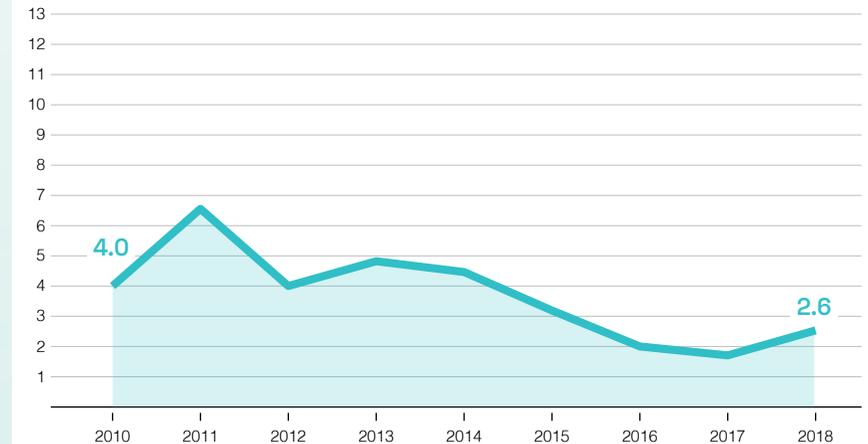
GDP Evolution in US Dollar Value

Source: IMF



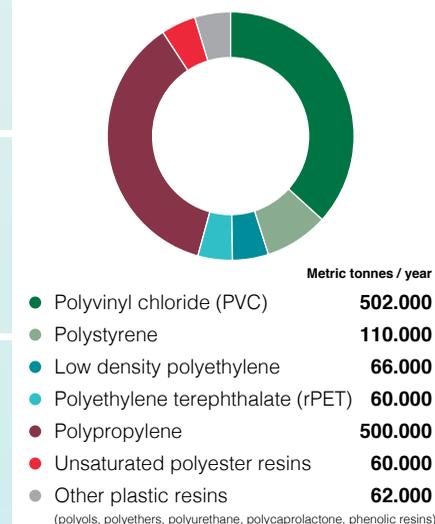
GDP Growth

Source: IMF



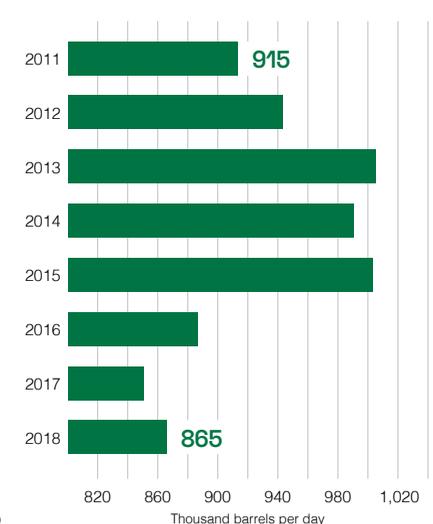
Installed Petrochemical Capacity

Source: Acoplásticos



Oil Production

Sources: IEP-ACP





Daniel Mitchell

President
ACOPLÁSTICOS

“

With regard to petrochemical plastics, the challenge is sustainability. There are some discussions about different solutions to the plastic waste problems that might not be the right route to take.

”

Can you provide insight into the evolution of Acoplásticos?

In the 1990s, the main mission of the organization was foreign trade, as this was a time when Colombia started to open its economy and negotiate free trade agreements. The focus was to bring companies together in order to represent them in these free trade negotiations. These days Colombia has a more open economy and we have free trade agreements with the US, the European Union and most Latin American countries.

From 2002 to 2012, Acoplásticos' main focus was to create better conditions within the country and within Colombian companies to make us competitive on a global level. We knew for the petrochemical industry to flourish, we would need better road infrastructure, lower energy costs, improved logistics, and a more highly skilled labor market.

What is the current mission and focus of the organization?

Over the last few years, Acoplásticos' main focus has been sustainability and the environment. The challenges we have in managing the waste of plastics is the key issue for the global chemicals industry. Promoting sustainability and the recycling of plastics has become, by far, Acoplásticos' most important goal and objective moving forward. Our aim is to move very quickly towards a circular economy and thus we have a focus on generating awareness amongst our clients of using products which are more ecofriendly and developing campaigns with consumers so that they are more aware of the role which they can play in correctly managing waste. Acoplásticos is also involved in regulatory changes in Colombia that aim to increase recycling rates and promote recycling projects and cleanups.

Are companies in Colombia taking the initiative in adapting to more sustainable practices, or are regulations driving change?

There is a mix of companies willing to adapt to sustainability efforts and companies only doing so when the regulations are enforced. The industry as a whole is transforming quite quickly, but the often-unfair demonization of plastic products is also an issue that must be addressed. Plastics have been key in creating safer, healthier and more prosperous modern societies, but there has not been enough care or ed-

ucation in how to recycle. As the industry adopts more responsible processes, such as the Responsible Care program, associations and governments need to take the initiative to educate their populations and promote recycling.

How does Acoplásticos help its members to look for new business opportunities?

Every two years, Acoplásticos organizes Colombia Plast, a trade fair focused on showcasing new machinery, equipment, molds, and raw materials. We also collaborate with Proexport, the export promotion agency of Colombia. Acoplásticos has a platform on its website which assists its members in finding providers and suppliers.

What are the biggest challenges facing the petrochemical and chemical industries in Colombia in 2019?

With regard to petrochemical plastics, the challenge is sustainability. There are some discussions about different solutions to the plastic waste problems that might not be the right route to take. We believe that politicians are rushing into solutions as they think banning plastics is the only way out. Changes have to be made, but the solutions have to be carefully considered. Companies in the petrochemical industry are coming up with great innovations and political regimes should take all possibilities into account. Communication with the public is of utmost importance so that they understand the value of the products, and their responsibility in correctly disposing plastic products, once they become waste.

With regard to the chemical sector, there are some improvements that have to be made in terms of emissions, processes, transportation and safety. Colombia was recently accepted into the OECD (Organization for Economic Co-operation and Development), which has many requirements the companies in the country now have to adhere to.

What are Acoplásticos' main objectives moving forward?

We would like to move more quickly towards a circular economy through innovation in sustainable solutions and not through regulations from political regimes. We want to see the size of chemical recycling facilities in Colombia grow, and we want to promote sustainability without affecting consumers, creating growth opportunities for petrochemical companies. ■

Entering the Export Game

Regional competitiveness will hedge on the availability of raw materials

Colombia has a number of key players in its petrochemical and chemical industries, comprised of a mix of national, foreign, private and state companies. Production is mostly consumed domestically, but increasingly being exported to neighbouring countries with fewer resources.

The biggest company in Colombia is state-owned Ecopetrol, with a petrochemical division that represents just 4% of its turnover, but that would be the 15th largest company in the country if considered as an independent business. Ecopetrol's petrochemical and industrial division achieved the biggest turnover in its history in 2018 – around US\$570 million, according to Felipe Trujillo López, manager of Ecopetrol's natural gas division. “Ecopetrol is the most important industrial and petrochemical player in Colombia. In this category we can find BTX (benzene, toluene and xylene), aromatics, plastics (polythene and propylene) as feedstock,” he stated.

To build upon this success, Ecopetrol intends to increase its exports, according to Fernando Cubillos Guzmán, manager of petrochemical and industrial products. “The nearest markets, such as Ecuador, Peru, Chile and northern Brazil, are where our products are really competitive,” said Guzmán, who went on to describe Ecopetrol's regionalization strategy to supply near geographies. Using Ecuador as an example, he elaborated: “They previously imported and stored BTX from Colombia, but then we suggested supplying to them as an extended geography, with a just-in-time system, no inventories, every day uploading trucks that go to Ecuador from Barrancabermeja. This allows Ecuador to avoid huge capex costs. This same business model can also work with Peru, Argentina, Chile and the north of Brazil.”

Esenttia (formerly Propilco) is the largest petrochemical company in Colombia, covering 70% of the Colombian polypropylene market with a capacity of 480,000 mt/y. The company is 100% owned by Grupo Empresarial Ecopetrol, which provides 30% of its feedstock. Esenttia also exports 60% of the country's polyethylene and polypropylene, but Juan Diego Mejía, president since 2016, believes the industry is being held back by a dependence on imported

feedstock: “There is a real lack of petrochemical raw material, and that has become a serious weakness in Colombia,” he reflected.

Esenttia currently has an expansion project in its third phase, which will increase production by 70,000 mt/y in two years' time, but Mejía believes this growth has not reached its potential: “Esenttia is growing, but substantial growth will only be achieved once the issue of raw material availability is dealt with.”

From the side of the chemical industry, Juan David Urrego, director general of Andercol, also mentioned the scarcity of feedstock as a burden: “2018 was a challenging year in terms of the general market conditions in Colombia, the availability of raw materials and the competitive landscape.”

However, Andercol's strategic decision to move its main facilities from Medellín to Cartagena to take advantage of export transportation should bear fruit for the chemical company in the Orbis Business Group, which currently exports 35% of its products: “We are definitely seeing an increase in our exports, especially with our facilities now being located in Cartagena. Our target is to supply 50% of our production to the Colombian market and 50% to our export markets,” stated Urrego.

Andercol is a Colombian company with a decidedly international footprint; it is present in 28 countries throughout the Americas. However, foreign companies that decided to open bases in Colombia also contribute considerably to Colombia's petrochemical and chemical production, with Mexichem accounting for around 482,000 mt/y of PVC, and Americas Styrenics (AmSty) and the Ajover Group having a combined capacity of 110,000 mt/y in polystyrene.

Another foreign company to have entered the Colombian market more recently is StarChem, from Georgia in the United States, which opened in Medellín and started manufacturing raw materials for the chemical industry in 2015. The company has experienced exponential growth since, according to its business manager Giuliano Castellani: “We started in 2015 with US\$200,000 in sales. In 2018 we closed with US\$1.9 million in sales, and in 2019 we are projected to reach US\$3 million.” ■

Felipe Trujillo & Fernando Cubillos

FT: Director - Products and Petrochemicals
FC: Manager - Petrochemical and Industrial Products
ECOPETROL



FT



FC

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FT: The crisis in Venezuela has seen record levels of Venezuelan migrants enter Colombia, causing a 20% increase in the consumption of benzene, xylene, toluene and white spirit since September 2018.

”

How important is Ecopetrol's petrochemical division in relation to its overall business portfolio?

FT: Even though the petrochemical business represents 4% of Ecopetrol's turnover, if you considered it as an independent business, it would be the 15th biggest company in Colombia. Ecopetrol is the most important industrial and petrochemical player in Colombia. In this category we can find BTX (benzene, toluene and xylene), aromatics, plastics (polythene and propylene) as feedstock, but also the industrial business which includes asphalt, lubricants, sulfur, paraffin, etc. 2018 was the year with the biggest turnover in Ecopetrol's history for its petrochemical division, of around US\$570 million. This turnover is just from Ecopetrol; if you add Esenttia's turnover (the biggest producer of polypropylene in the region) that figure doubles.

Why has Ecopetrol's petrochemical and industrial division performed so strongly in recent years?

FT: The petrochemical and industrial division has increased in relevance because of two important aspects in the last two years. First, the crisis in Venezuela has seen record levels of Venezuelan migrants (be that legal or illegal) enter Colombia, causing a 20% increase in the consumption of benzene, xylene, toluene and white spirit since September 2018. Similar increases in the sales of polyethylene and other products have also been observed. Secondly, the natural growth of the Colombian economy, with a growing middle class increasing its consumption, has had a positive effect as well.

As a supplier of raw materials, how does Ecopetrol compete with cheap feedstock from the USA?

FC: Ecopetrol is an integrated company with exploration, production, refinement, transport, and commercialization. This makes us very competitive, because no other company is better set up to serve Colombia. Ecopetrol's petrochemical facility is located in the center of the country in Barrancabermeja, allowing for efficient logistics costs. We also have a refinery in Cartagena for propylene production. Between petrochemical and industrial items we are talking of 55 products in our portfolio.

Which industries do these 55 products serve?

FT: In plastics, we serve food and personal care packaging. We produce low density poly-

ethylene with and without additives, but we also import resins that complement our portfolio. With solvents we reach the paint sector, resins and personal care too. In industrial products, with lubricant bases we produce feedstock for lubricants and fats. Ecopetrol produces all the asphalt that Colombia consumes, and also exports asphalt. Due to Ecopetrol, Colombia has transitioned from a country short of sulphur to having a surplus. Colombia is one of the few countries that has anticipated regulations, producing fuels to far higher specifications than regulations demand. This has led to the increased production of sulfur, since the quality of fuel we produce in the Barrancabermeja and Cartagena refineries are low-sulfur fuel.

Does Ecopetrol intend to increase its exports, and if so, to which countries?

FC: Ecopetrol definitely intends to increase its exports. The nearest markets, such as Ecuador, Peru, Chile, and northern Brazil, are where our products are really competitive. In Ecuador, Ecopetrol provides almost 100% of the country's total needs in BTX products, and more than 70% of the total required for Peru. We have been developing a regionalization strategy. Using Ecuador as an example, they previously imported and stored benzene, toluene, and xylene from Colombia, then we suggested we could supply to them as if it was an extended geography, with a just-in-time system, no inventories, every day uploading trucks that go to Ecuador from Barrancabermeja. This way Ecuador saves huge capex costs. This same business model can also work with Peru, Argentina, Chile, and the north of Brazil.

How would you define the key pillars of Ecopetrol's vision as a company?

FC: The three foundations in which the strategy of Ecopetrol's business is based are growth, profitability and sustainability. We achieve this through new markets, importing complementary products, and looking to do increasingly longer term business with clients.

FT: We would like to invite the companies that want to do business in Colombia to contact Ecopetrol. We can offer all the infrastructure we have been developing for the last 10 years to help shorten the time it takes to establish an office, recruiting workforce, and network. A process that might usually take eight years, could be done with Ecopetrol in eight months. ■



Juan Diego Mejía

President
ESENTTIA

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The economic and political conditions in Colombia are currently very positive. The government has created a lot of incentive to facilitate business growth, the security situation has also changed making the country safer and the infrastructure work being done helps to connect the different regions of the country.

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Can you introduce Esenttia and explain its significance to Colombia's petrochemical industry?

Esenttia is a Colombian company owned 100% by the Grupo Empresarial Ecopetrol and dedicated to the production of polypropylene and masterbatches as well as to the commercialization of polyethylene. Esenttia's polypropylene capacity is 480,000 mt/y from which 40% is to cover the local market and the rest is for the export market.

What has driven Esenttia's growth in Latin America in recent years?

Esenttia's market focus is specialties, looking for customers that value the differentiation and quality of our resins; with this strategy we have eroded some market share of other polypropylene producers in Latin America. We have concentrated on growth not only in Latin America but also the US.

Can you provide details of Esenttia's initiatives to promote sustainability and recycling in Colombia?

Sustainability and the creation of a circular economy in Colombia have taken on great importance in recent years and we have to consider two very important aspects. The first is the role that the State has in terms of the regulation of waste management, since up to now it does not facilitate the issue of sustainability within the country. On the other hand, there is the issue of citizens' behavior; a lot of work is needed regarding education of the people. We as Esenttia are trying to get people to connect with sustainability matters. We have developed many social initiatives based on recycled plastics in Cartagena. Esenttia has built parks, houses and docks and works a lot with the schools and communities in order to reinforce a culture of recycling.

What are the key challenges currently facing Colombia's petrochemical industry?

The lack of basic raw materials is a serious weakness for the Colombian petrochemical industry. The majority of us depend on imported feedstock. That is a weakness that will have to be resolved in order that the petrochemical industry in Colombia really develops. For example, in the second semester we will present to our board

a study to increase our capacity in 70,000 mt/y but a substantial growth of our company will only be achieved once the issue of raw material availability is dealt with and this is the case with many others.

Why do you think many multinational companies are showing interest in opening offices in Colombia?

The economic and political conditions in Colombia are currently very positive. The government has created a lot of incentive to facilitate business growth, the security situation has also changed making the country safer and the infrastructure work being done helps to connect the different regions of the country. It is worthwhile to mention that the North Colombian coast, due to its geographical location with excellent and efficient ports, which give to the area interconnectivity and competitiveness, creates a very attractive environment for new entrepreneurs. All of these reasons make Colombia a country which is generating interest for new companies to start businesses here.

What are the pillars of Esenttia's CSR policies?

All our actions are based on the achievement of the Sustainable Development Goals (SDG). More than a CSR policy, sustainability is in all Esenttia processes, by decision of the company's top management. This made us worthy of the Seal of Sustainability, of Icontec and ConTreebute.

In 2018, ESENTTIA was recognized by the Presidency of the Republic, with the Equipares seal, for its work in search of labor equity; and by the Secretary of Transparency, for admission to the club of Active Anticorruption Companies. Gender equity is extremely important for Esenttia. We believe that it is vital that companies like us understand the importance of having a genuine commitment to solve worker issues. Esenttia is one of the best places to work in Colombia, having received international recognition as the 21st of the 100 best companies to work for in Latin America. Regarding workplace safety, Esenttia has received the Cruz Esmeralda Merit Award for last three years, granted by the Colombian Security Council. We recently achieved the milestone of two years without lost in time accidents. ■



Jaime Romero

Commercial Manager
ROCSA COLOMBIA

What were the circumstances surrounding Rocsa's 2017 acquisition of Inproquim?

When Rocsa was established in 1997, we were mainly focused on detergents, personal care and food ingredients. We had a small share of our portfolio for industrial – everything related to petrochemical inks, paints, and construction – but the company's main focus was to grow in food. Rocsa detected an opportunity to make its first acquisition in 2016, which was a company named Rosmi well known in the industry as the most respected distributor for all dairy ingredients.

In 2017, MAS Equity Partners, a private equity fund, contacted Carlos Yaipén, Rocsa's CEO, with an interest in Colombia as a region for growth. In Colombia, if you check the top 10 distributors, there is one which is ahead - Brenntag, and then between the second and tenth, the numbers are similar, so there is opportunity for consolidation in the market. The acquisition of Inproquim was not in Rocsa's plans, however, when MAS

Equity Partners presented the opportunity, it was considered as a perfect fit. For any acquisition, synergies must exist between the companies involved, and the ones we found between Rocsa and Inproquim were rare to find.

Moving forward, does Rocsa intend to keep growing in the chemical industry?

Looking ahead, we are exploring opportunities in terms of expanding Rocsa's geographical reach and using available capital to upgrade to state-of-the-art facilities. We have a new office in Bogotá and we are also planning to improve the company's warehousing in both Cartagena and Bogotá. Rocsa was previously not very familiar with handling liquid bulks, but Inproquim had that knowledge, so now we are putting these two things together in a brand new warehouse with the latest technology.

There seems to be a general consensus among multinational companies that

Can you explain the circumstances surrounding the creation of the AmSty joint venture?

The AmSty JV formation originally took place between Chevron Phillips Chemical Company (CP Chem) and The Dow Chemical Company (Dow) in 2008. A few years later, Bain Capital bought Dow's portion in a larger acquisition and formed Styron LLC, which was renamed Trinseo LLC and is today the JV partner with CP Chem in AmSty. Trinseo went public some years ago and is traded on the NYSE.

At the time of formation, the styrenics market in general faced unfavorable demand trends, and the North American polystyrene market had been declining since the late 90s. This was primarily due to offshoring of consumer electronics markets, as well as the commoditization of PET. Styrenics producers showed weakening financial performance, extreme feedstock volatility and had aging assets in need of reinvestment. Dow and CP Chem saw an opportunity to spin off their styrenics assets into a partnership that could focus attention on the market, make better use of their respective feedstock positions, and operate more

efficiently. In 2008, I do not think anyone saw the potential for such a successful business as AmSty has become. But as we have grown these last 11 years, the styrenics outlook has improved and AmSty as a company has adapted very well.

What is the extent of AmSty's footprint and production capabilities in Colombia?

In Colombia, we operate a single polystyrene production site that produces about 80,000 mt/y of product on two reaction trains. In the Americas, we operate six polystyrene sites in addition to a world-scale styrene unit in Louisiana, producing around 1 million mt/y. While our Colombian operation is a small portion of that overall total, we are also able to import product into Latin America.

What are the main differences you notice between the U.S. and Latin American petrochemical industries?

Our polystyrene processes are the same because the technology package is the same. Still, there are some practical differences in terms of operation and delivery. Probably

business in Colombia is growing faster than in other areas in Latin America. Why do you think this is?

Colombia has been steadily growing for the past six to eight years, at between 1.8% to 3.5%. The country has a privileged location in Latin America, with the Cartagena and Barranquilla ports for everything that comes from Europe and USA, and Buenaventura port for everything that comes from Asia.

Do you have a final message for the members of APLA and the audience of Global Business Reports?

Rocsa already has a large presence in the Colombian market, and has gained a lot of attention due to the acquisition of Inproquim. One thing that identifies us as a good partner is that we are very quick in making decisions, have a lot of autonomy and a hunger to continue to grow. In 2019 and 2020, we will strengthen Rocsa's operations in Peru, which we have had since 2007, and replicate that business model in Ecuador, where we are just beginning operations. ■

the most obvious one is logistics, for raw materials as well as finished product. In the U.S. we have both the Mississippi River system and an extensive railroad network that afford us broad supply chain coverage. In Latin America, logistics are nearly all by truck and marine, so the topography and lack of certain options for large volume product delivery tends to make it more difficult to efficiently distribute products.

Moving forward, what would AmSty like to achieve in Latin America in the coming years?

Simply put, AmSty wants to grow and evolve with the market. Latin American polystyrene is a dynamic market, constantly changing with market forces, geo-political issues, and consumer trends. It is an exciting market that we believe we can be very successful in. More generally, our industry has the resources, knowledge, and economic power to fix the global plastics recycling issue and we take seriously our responsibility to improve society both today and in the future through our focus on innovation, which is built around more sustainable solutions for polystyrene. ■

Juan David Urrego

Director General
ANDERCOL



Can you provide an overview of the reach Andercol has in Latin America?

Andercol produces and sells different kinds of water-based and solvent-based polymers used as a raw material in products and applications of paints, composites, home care, adhesives, oil and gas, nutrition and other industries. The company has local operations and plants in four countries (Colombia, Brazil, Mexico and Ecuador). This coverage allows us to serve and supply to the entire region, as well as the group's own paints and coatings division and customers in general. In 2018, Andercol had sales in 31 countries – 28 countries in the Americas, two countries in Europe and one country in Asia.

In July 2018 there were price increases in Andercol's polymer business as well as its composite materials business. What were the factors behind this increase?

2018 was a challenging year in terms of the general market conditions in Colombia, the availability of raw materials and the competitive landscape. All these factors had an impact on our prices. In terms of competitiveness, the organization took the decision to move our main facilities from Medellín to Cartagena for logistical purposes and to be closer to our import and export businesses. We are now in a more competitive position to be a big export player.

What is the relationship between Andercol and NovaScott?

Andercol has a partnership of more than 40 years with Scott Bader, and we have joined our capacities to create the NovaScott joint venture. NovaScott is focused on offering customers high quality, innovative solu-

tions through a unique range of gelcoats. NovaScott is just beginning its journey as a newly-formed joint venture, but it is certain that the experience, values, trust and reputation built by both Andercol and Scott Bader over many previous years will create a solid framework to establish many successful and long-term business relationships in the future. The geographical focus of NovaScott is in Brazil, but in the future it will start exporting to other Latin American markets.

Can you elaborate on the sustainable chemistry that Andercol uses when designing products?

We have different ways in which we try to make our processes more environmentally friendly. One is using PET recycled resins to produce a range of polymers as unsaturated polyester resins and alkyds. We have a line of eco-resins that uses recycled materials, non-petrochemical solvents or APEO-free polymers. At the moment we are focusing our efforts on the development of innovative products based on renewable chemicals and recycled materials, generating environmentally and production friendly alternatives.

What are Andercol's objectives moving forward?

Andercol would like to grow in the Latin American markets where we have a presence. With the Brazilian market starting to recover, we believe that we will see significant growth rates within the country. We aim to consolidate Cartagena as our hub of operations for South America, and we want to use this location as a platform to expand our presence in the Americas. Sustainability will remain a focus for Andercol moving forward. ■

Peru at a Glance

Source: IMF, data for 2018

CAPITAL

Lima

GDP

US\$225.2 billion

GDP GROWTH

4%

HEAD OF STATE

President Martín Vizcarra

TOTAL INVESTMENT (% OF GDP)

21.8%

GROSS NATIONAL SAVINGS (% OF GDP)

20.3%

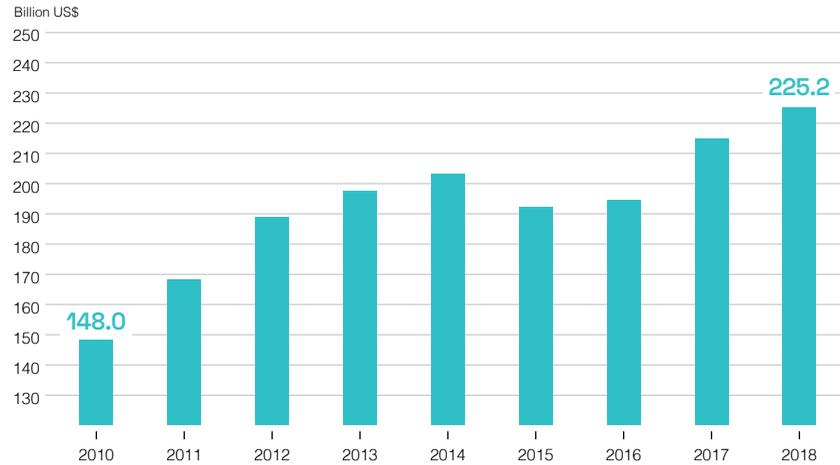
CURRENT ACCOUNT BALANCE (% OF GDP)

-1.5%



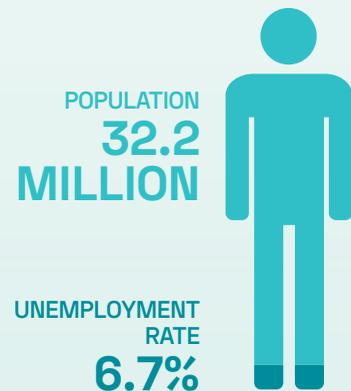
GDP Evolution in US Dollar Value

Source: IMF



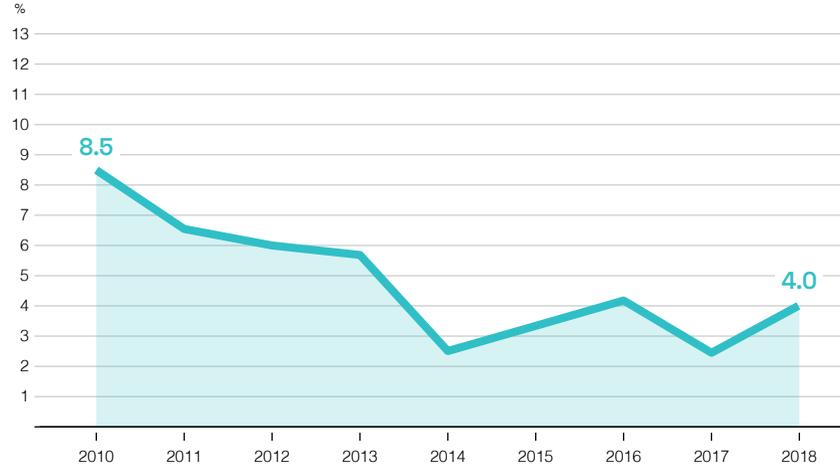
Demographic Data

Source: IMF, data for 2018



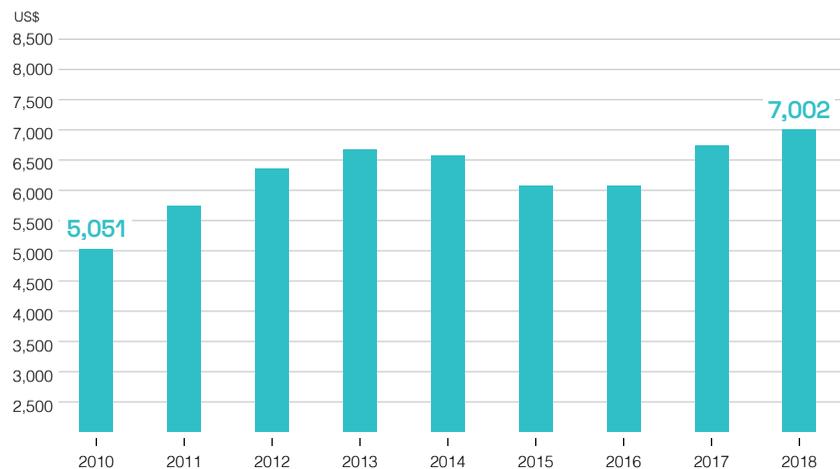
GDP Growth

Source: IMF



GDP per Capita in US Dollar Value

Source: IMF



GDP PER CAPITA
US\$7,002

GDP PER CAPITA (PPP)
US\$14,224

INFLATION RATE
1.3%

Ecuador at a Glance

Source: IMF, data for 2018

CAPITAL

Quito

GDP

US\$107.5 billion

GDP GROWTH

1.1%

HEAD OF STATE

President Lenín Moreno

TOTAL INVESTMENT (% OF GDP)

25.4%

GROSS NATIONAL SAVINGS (% OF GDP)

24.7%

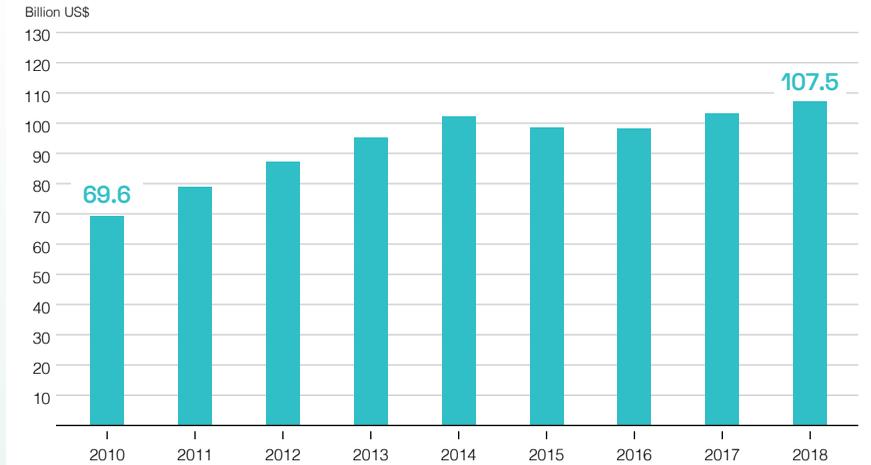
CURRENT ACCOUNT BALANCE (% OF GDP)

-0.7%



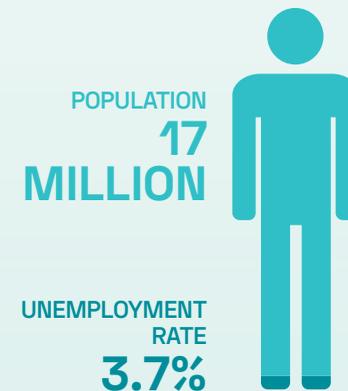
GDP Evolution in US Dollar Value

Source: IMF



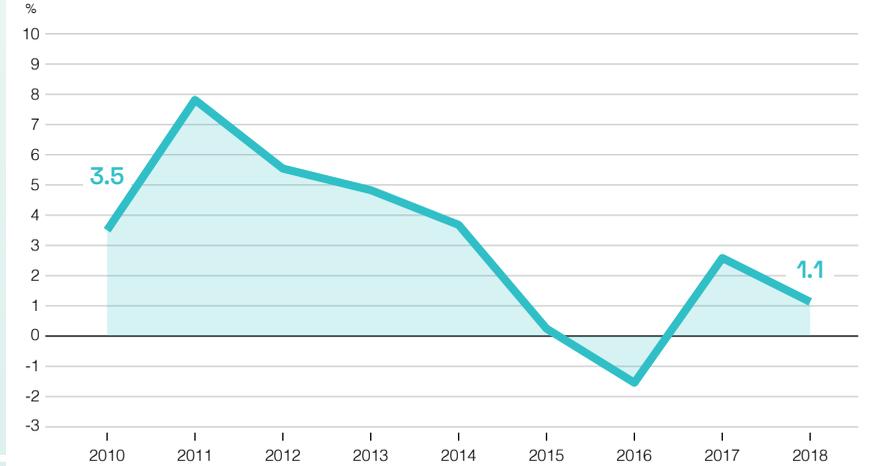
Demographic Data

Source: IMF, data for 2018



GDP Growth

Source: IMF



GDP PER CAPITA
US\$6,315

GDP PER CAPITA (PPP)
US\$11,718

INFLATION RATE
-0.2%

GDP per Capita in US Dollar Value

Source: IMF



Venezuela at a Glance

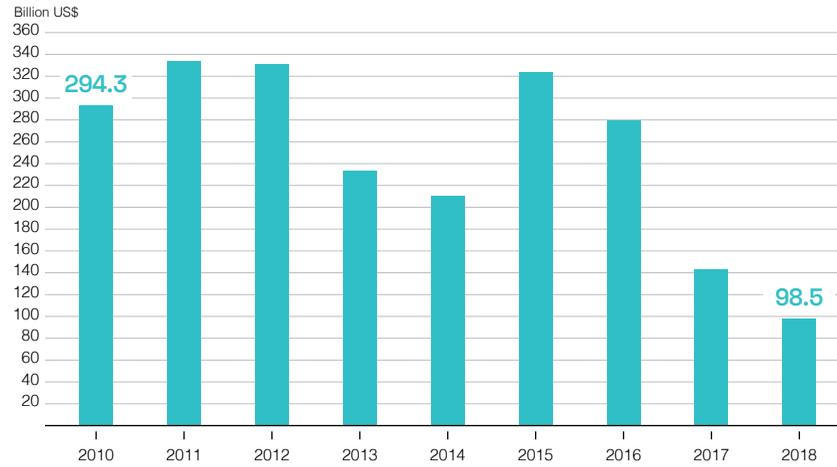
Source: IMF, data for 2018



CAPITAL
Caracas
GDP
US\$98 billion
GDP GROWTH
-18%
HEAD OF STATE
President Nicolás Maduro
TOTAL INVESTMENT (% OF GDP)
7%
GROSS NATIONAL SAVINGS (% OF GDP)
13%
CURRENT ACCOUNT BALANCE (% OF GDP)
6%

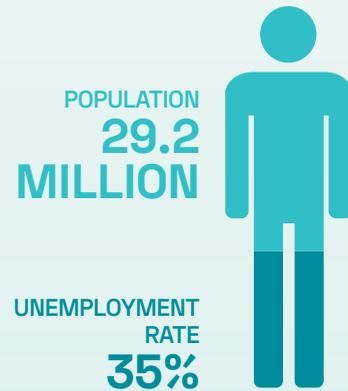
GDP Evolution in US Dollar Value

Source: IMF



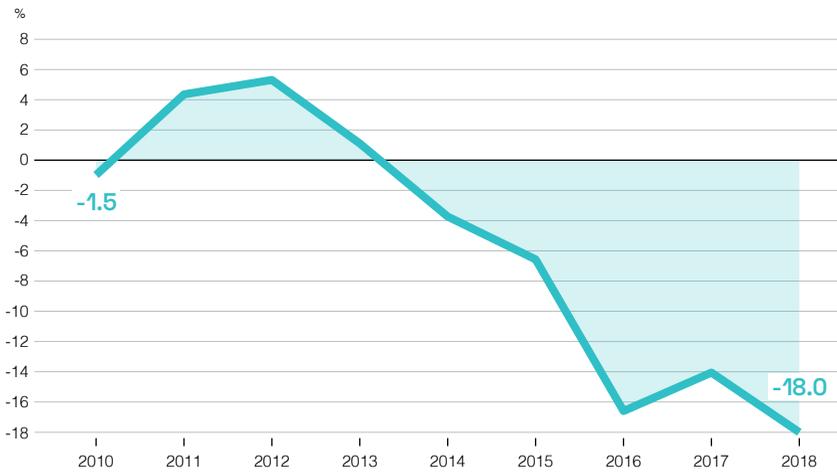
Demographic Data

Source: IMF, data for 2018



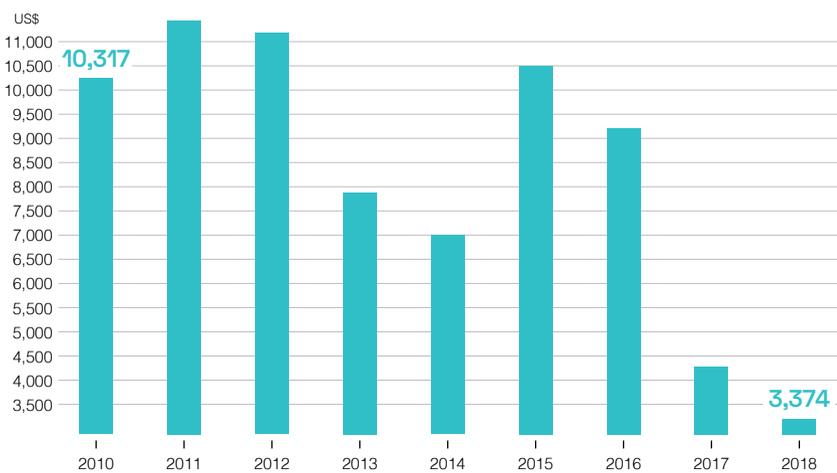
GDP Growth

Source: IMF



GDP per Capita in US Dollar Value

Source: IMF



GDP PER CAPITA
US\$3,374

GDP PER CAPITA (PPP)
n/a

INFLATION RATE
929,789%

Bolivia at a Glance

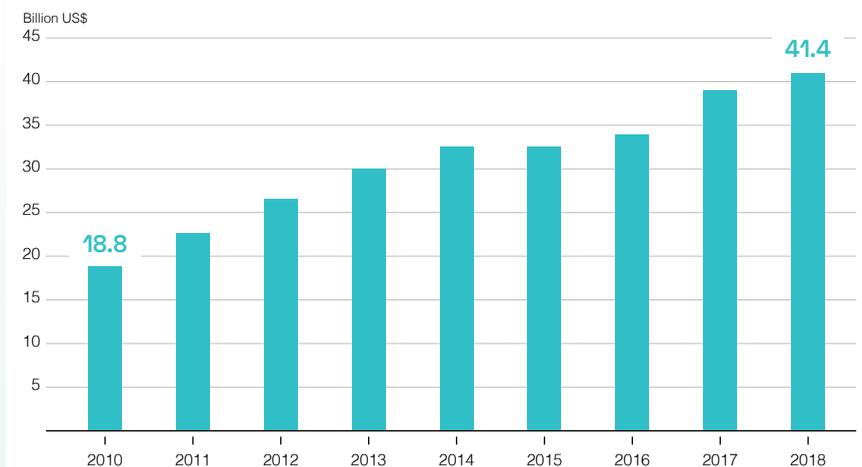
Source: IMF, data for 2018



CAPITAL
Sucre / La Paz
GDP
US\$41.4 billion
GDP GROWTH
4.3%
HEAD OF STATE
President Evo Morales
TOTAL INVESTMENT (% OF GDP)
21.9%
GROSS NATIONAL SAVINGS (% OF GDP)
16.9%
CURRENT ACCOUNT BALANCE (% OF GDP)
-4.7%

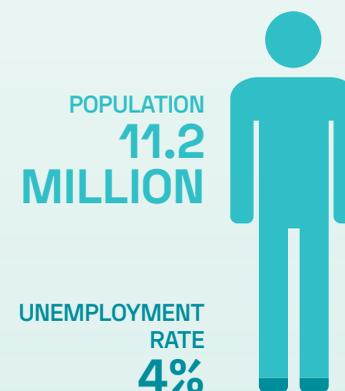
GDP Evolution in US Dollar Value

Source: IMF



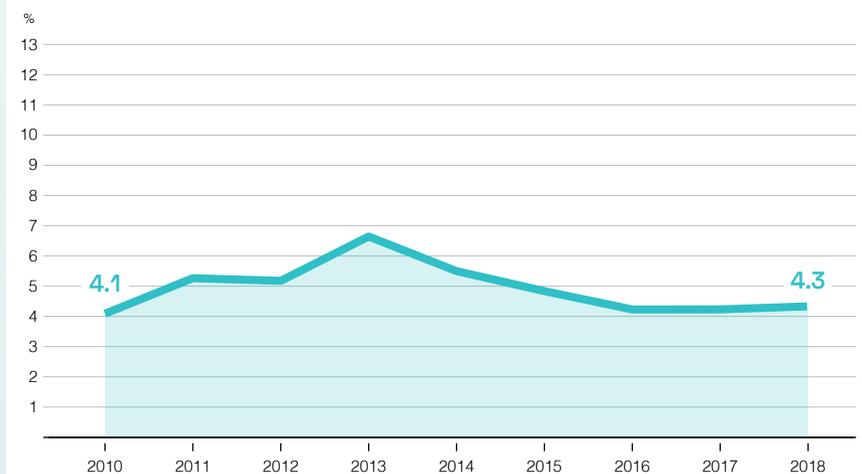
Demographic Data

Source: IMF, data for 2018



GDP Growth

Source: IMF



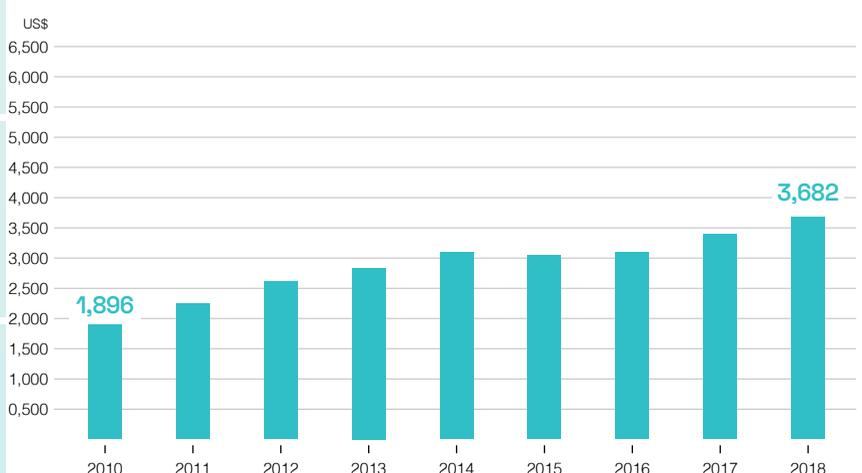
GDP PER CAPITA
US\$3,682

GDP PER CAPITA (PPP)
US\$7,123

INFLATION RATE
2.3%

GDP per Capita in US Dollar Value

Source: IMF





Distribution, Logistics and Services

“The logistics deficit is at least 30 or 40 years old. Prior to this, infrastructure such as roads, railways, ports, power generation and terminals was better than that of the Southeast Asian countries. During the 1980s, Latin America invested 3.5% of GDP in infrastructure, but in the last ten years this figure has gone down to less than 2% of GDP. The current state of the Latin American infrastructure represents a barrier to competitiveness and economic growth.”

- Eduardo Praselj,
President,
VENEZUELA LOGISTICS ASSOCIATION
(ALV)

New Distribution Trends

E-commerce is no longer limited to B2C

Multinational conglomerates such as Amazon and Alibaba have disrupted the traditional market, leveraging their success in e-commerce to access small and medium sized clients. For distribution companies, this translates to a need to introduce practices that add value and lessen the burden of logistics. “In countries like Brazil and Argentina, the logistics processes are usually complex, so the flexibility we are able to provide and having both domestic stocks and a flexible access to external sources are good add-ons,” commented Matthias Vorbeck, general manager of Anastacio Overseas, the international arm of Brazil’s Química Anastacio.

Learning to better utilize the tools afforded by digitalization is also key to embracing the transformation occurring in the distribution sector. “All going well, we will transition into becoming more of an information provider, where intelligent use of statistics and algorithms can have a very positive impact on monitoring inventories and prices,” said Peter Staartjes, CEO of

Andino Holdings, which offers distribution services through its Andikem arm. Ultimately, Andino wishes to pursue a business model that allows it to “serve the needs of chemical producers and allow them to reach the final mid- to small-size customer directly without needing the assistance of a distributor,” Staartjes elaborated.

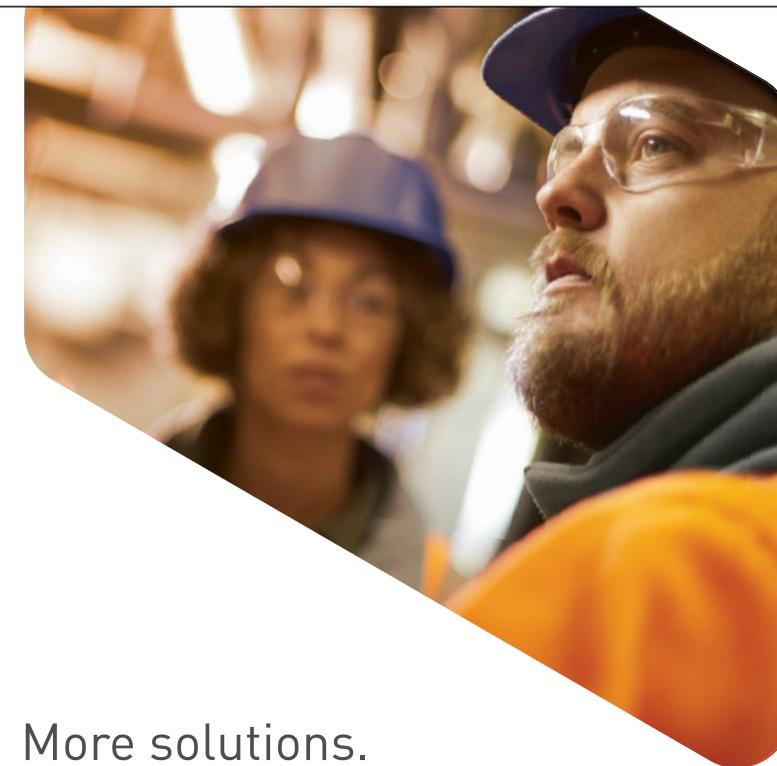
Martin Sack, managing director of Leschaco Mexicana, a freight forwarding company focused predominantly on chemicals that also offers tank container services, commented: “In Latin America, we are still a bit behind when it comes to technological development. I still believe that major organizations will procure their logistics services the traditional way, but definitely we are already preparing for future trends. As a company, we are investing heavily in new technologies, offering digital services for customers who require these.”

The push towards digitalization will contribute to the increasingly blurry line between distributors and logistics providers.

“Even though there are good distributors in Latin America, the region needs more dedicated infrastructure,” said Eugenio Manzano, executive director of Pochteca, a large Mexican player with a footprint in Central America and Brazil.

Taking advantage of its network of assets dedicated to chemical distribution, Pochteca began to offer broader services to suppliers and clients with specialized assets, including storage, blending, dilution, packaging, labeling, inventory management and product delivery.

Nonetheless, from a geographic perspective, Brazil and Mexico remain core markets for distributors as the dominant economies in Latin America, while growth opportunities throughout the rest of Latin America are also promising with total regional economic growth expected to increase from 1.6% in 2018 to 2.1% in 2019. Countries such as Chile, Peru and Colombia do not offer the same scale for distributors as their larger peers, but boast attractive investment frameworks. ■



More solutions.
More capabilities.
More ways to grow your business.

Univar Solutions delivers value-added services and specialized market expertise backed by our industry-leading distribution network to keep you on top of your challenges and ahead in your market. Count on us for the broadest lineup of chemicals and ingredients from the world’s top brands with the best-in-class capabilities you need to innovate and grow. It is our commitment to be dependable, make it easy, and to help you succeed.

Univar Solutions brings together the best of the best, reimagining distribution to help find the right solutions for your business.

 **Univar Solutions**
Innovate. Grow. Together. univarsolutions.com

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Image courtesy of Pochteca



Jorge Buckup

President Latin America
UNIVAR SOLUTIONS

“

The landscape is very competitive in markets with economic and political volatility. The successful distributors will offer safe and secure handling of materials, excellent product availability, market and product expertise, technical support, and high-level service and digital solutions.

”

■ **Can you provide insights into the evolution of Univar Solutions, particularly after the acquisition of Tagma in September 2017?**

Expanding geographically is part of Univar's global strategy and the aim is to grow our presence into new countries as well as the markets we are currently operating in. The company already sells to most of the countries in Latin America through its global exports unit. Univar began its investments into Latin America only seven years ago, through acquisitions. We started in Brazil, followed by Mexico and we now also have people and assets in Central America and the Andean region. More recently, we completed the transaction with Nexeo Solutions on March 1st 2019 and have changed our name and branding to Univar Solutions. This transaction brings a very nice specialties business in Mexico and Central America to Univar's portfolio. We are now focused on growing the business and capturing value from the combination of the two companies.

■ **How competitive is the landscape for Univar Solutions in Latin America?**

The landscape is very competitive with a significant number of players in markets with economic and political volatility. The landscape will not become easier for small and medium size distributors. The successful distributors will offer customers safe and secure handling of materials, excellent product availability, market and product expertise, technical support, and high-level service and digital solutions. For suppliers, successful distributors offer safe and secure handling of materials, transparent commercial relationships, brand stewardship, market expertise and support for new product adoption aiming at business growth.

Univar Solutions offers exactly that to its customers and suppliers in addition to having a strong balance sheet for further investments.

Also, Latin America is a very fragmented market with very few global players. The trend is clearly one of consolidation and this is also where we see Univar Solutions playing a very important role. Our history in Latin America is recent, but the company has been growing significantly through acquisitions over these few years. We see ourselves as part of the select group leading the consolidation trend in the region.

■ **What have been the factors behind the growth of Univar Solutions in Latin America over the past 12 months?**

In 2018, Univar Solutions further streamlined operations, introduced process innovations and focused on growing with its suppliers. Our asset-light, resilient business model was managed through various challenges including uncertain economic environment, transportation costs, product availability and slower demand during the second half of the year.

Our capillarity allowed us to grow our share in the solvent business. Our focused industry approach with a strong presence in specialty markets such as beauty and personal care, CASE, and performance chemicals drove higher customer engagement and sales.

Another key driver for the company's growth and success is our sales force execution. We are extremely methodical and disciplined in the way we go to market, as well as how we track and accelerate projects. We have made investments into technologies and processes to support our sales workforce so that they can spend the majority of their time in front of the customer.

■ **What are Univar Solutions' main objectives for the next 12 months?**

Univar Solutions has three key priorities in Latin America for 2019: firstly, to grow the business, secondly, to capture the value of the combination of Univar and Nexeo, and finally, to change the culture of the company. We aim to fully and exceptionally integrate the businesses and drive Univar Solutions' vision to be the most valuable chemical and ingredient distributor in the world.

■ **Do you have a final message for the members of APLA and readers of *Global Business Reports*?**

With the recent acquisition of Nexeo Solutions, we are combining product offering services and market insight with technology and product knowledge. While we do have a one-stop-shop approach in terms of commodities and specialties, it is important to point out that we have sellers that are focused on specific markets, meaning that they have the knowledge and insights necessary to support growth and decision making by our suppliers. Univar Solutions has the opportunity to leverage people, technology and resources to invest further in Latin America and expand and grow our business in the region. ■



José M. Berges

CEO
GTM HOLDINGS

“

The challenge of Latin America is twofold: the first one is logistics (which includes the security aspect) and the other one is fiscal. However, all our eggs are in the Latin American basket. This means we need to know how to handle the challenges.

”

■ **Could you do a brief recap of GTM's footprint and scope in Latin America?**

We are the second largest chemical distributor in Latin America and the only Pan American distributor. The company nearly tripled its size via three acquisitions made between September 2016 and April 2017, and that created an integration challenge. We transferred the headquarters from Costa Rica and Houston down to Sao Paulo. Now, the integration has been completed successfully and the structures are in place, with a bit more than 1,000 people in the region, so we can now look for new M&A opportunities. The distribution market in Latin America is still very fragmented.

■ **Beyond the size, what changed with the acquisitions of High Chem, quantiQ and Peruquímicos?**

The number one change by far is that we entered the specialties market. Before acquiring High Chem, our position in specialties was very limited. We had a good position in industrial chemicals and in what we call customer solutions, which is basically to elaborate tailor-made blends and formulations for the clients. Through High Chem and then quantiQ, which had a very significant specialty chemicals operation as well, we became a full line supplier, with both industrials and specialties, and now we are transferring that knowledge from Mexico and Brazil to the other markets. With our specialties, we serve many industries, the most important ones being paints and coatings, cosmetics, agro, lubricants, construction, resins, adhesives, plastics, mining and oil and gas.

■ **Which markets present the biggest growth opportunities?**

Brazil and Mexico are the major economies in the region and the ones that present the largest opportunities. Brazil has suffered the worst recession in its history and its recovery has been quite slow in 2018. Now, considering our new product lines and our focus on specialties and customer solutions, we see great opportunity in Brazil. The same applies to Mexico, with huge potential derived from the changes in the energy sector.

■ **How do you manage talent in the organization?**

Every company will tell you that people is the most important asset they have. In the case of distribution, this is even more the case: we do not have technologies or products, what we have is customer relationships and principal relationships. This is 100% human behavior, so we are in the people business. Therefore, we need to have extremely good people, put a lot of emphasis on training (managerial skills, negotiation skills, etc) and work with our principals to do the technical training. We already have 19 labs throughout the group and we are implementing three more in 2019 in Central America, Colombia and Peru to improve our customer service for specialties.

■ **What are the main challenges to operating in Latin America?**

The challenge of Latin America is twofold: the first one is logistics (which includes the security aspect) and the other one is fiscal. However, we are the Latin American guys, this is what we do. We do not have any other regions that can compensate for shortfalls in Latin America, so all our eggs are in the Latin American basket – this means we need to know how to handle the challenges. Logistics is actually one of the areas where we have a competitive advantage. We are one of the few companies that can do liquid bulk transport in dedicated ships coming from the US Gulf to both the Atlantic and the Pacific coasts of Latin America. Indeed, we own four marine terminals in Central America.

■ **Finally, how important is the APLA annual meeting for GTM?**

The APLA meeting is a very efficient way of spending three days. In the end we are exhausted, but we meet many people and gather a lot of opinions. What we do as GTM is using that to have our strategic reviews with our suppliers. For us, APLA and AFPM are the two key meetings we attend every year. ■



Eugenio Manzano

Executive Director
POCHTECA

“

The focus over the next two or three years is organic growth in the five countries where we operate, taking advantage of certain niche opportunities in these markets.

”

How has Pochteca grown in the chemicals segment?

We started in the chemical business in 2005, with the acquisition of Grupo Dermet. Before, we were active in the paper business. To date, we have done six acquisitions in the region, the last of which has been Conjunto Lar, a company dedicated to personal care specialties.

Our focus has been on profitable growth offering value added products and services. We have a very complete portfolio, with a catalogue of more than 7,000 products from more than 200 suppliers, serving more than 20,000 industrial clients from our 41 locations. We have more than 350 tanks and 310,000 square meters of logistics capacity which allow us to be efficient and flexible in serving our customers and providers. We do our own blending, dilution, packaging and labeling, following the standards of each country as well as important certifications, like ANIQ's SARI and NACD's Responsible Distribution. We operate in Latin America with world class standards while applying our local knowledge of the markets.

What is your capacity to provide technical support on product development?

We have technical teams in different industries such as water treatment, lubricants, household, personal care, metal working and oil and gas, among others, as well as application laboratories in food, coatings, household and personal care, colorants for textiles and quality control laboratories for every product we blend. This way, we can give consultancy on the development of sauces, paints, or hand soap, among many others.

Could you develop on the mega trends you are identifying?

In certain industries like coatings, pharma or printing, there is a growing demand for environmental services, recycling and use of greener chemicals, like VOC free solvents. At Pochteca we do recycling and remanufacturing of solvents and blends, separating the solvents from the waste and redoing the mixes. We also offer environmentally friendly chemicals to several segments, such as benzene-free hexane for oil extraction from seeds, odorless solvents, healthy food ingredients, nutraceuticals,

phenol free products for agrochemicals, food grade inorganics, biodegradable products for the oil and gas industry and others. There is a strong trend in the food industry to use sugar substitutes, to reduce sodium content, and to add vitamins and omegas. In personal care, the trend is to use products that are phenol-free and paraben-free. Our product specialists and technical teams are constantly monitoring trends and new products in the industries we serve in order to pass on the knowledge to our customers so they can improve their formulations or consider new ones.

How is your industry mix evolving?

On one hand, we serve basic industries like oil and gas, mining, manufacturing, coatings and plastics. These industries grow hand in hand with GDP, or a bit faster. On the other hand, we participate in high-growth industries that offer great potential and that follow macro trends at a global level. Some of these are water treatment, food, animal feed and agrochemicals.

How did you see the opportunity to provide logistics services?

We started offering logistics services to our suppliers and clients because we have a great network of assets dedicated to the chemical distribution business. We have transportation fleets in Brazil and Mexico that meet all the standards for dangerous goods transportation. So, we can offer storage, blending, dilution, packaging, labeling, inventory management, and product delivery for clients and suppliers with specialized assets and teams with chemical handling expertise.

What is your strategy to continue growing in the region?

The focus over the next two or three years is organic growth in the five countries where we operate, taking advantage of certain niche opportunities in these markets. We do not want to grow for the sake of growing, we want to do it in a solid manner. The truth is that there is still a lot of space for consolidation in Latin America. In Mexico we have more than 300 chemical distributors and there are thousands across the region. I think that both end users and producers would be happy to deal with less distribution players. ■



Guillermo Laborato

President – Latin America South
BRENNTAG

“

Despite the challenging circumstances, 2018 was a record year for Brenntag in Argentina in terms of profitability. For the biggest players in the market, which have the structure and liquidity to face market volatility, adverse conditions can create opportunity.

”

How extensive is Brenntag's footprint in Latin America and which products have been driving growth?

Brenntag is the global market leader in chemical distribution, generating US\$15 billion in 2018, and as such has a central role in the chemical industry's value chain. The company is also the market leader in Latin America, with a strong presence in the entire region. Brenntag employs over 1,600 staff members in Brazil, Mexico, Colombia, Argentina, Chile, Peru, Bolivia, Ecuador, Central America and the Caribbean. Brenntag's distribution covers a diverse range of industries including coatings, animal feed, food and nutrition, personal care, and industrial care, to name a few. We offer a full scope of products and represent a large amount of the most important producers in the world.

The importance of each business unit varies from region to region, but in Latin America the mining, energy and oil and gas sectors are most prominent. Brenntag Latin America also has a strong franchise in ACES (adhesives, coatings, elastomers, sealants), and has seen significant growth in the personal care and food business units in recent years.

The last two years have been volatile in South America's two biggest markets – Brazil and Argentina. Considering this context, how has Brenntag's Latin America South division performed?

Despite the challenging circumstances, 2018 was a record year for Brenntag in Argentina in terms of profitability. For the biggest players in the market, which have the structure and liquidity to face market volatility, adverse conditions can create opportunity. As such, Brenntag's operations in Brazil and Argentina are by far the most profitable and fast growing in the Latin America South division. Brenntag is able to offer clients the products that they need during difficult times that other companies will struggle to provide. Diversity is also important – operating in different market segments gives Brenntag the ability to mitigate challenges caused by instability.

What is the biggest challenge currently facing chemical distributors in Latin America?

The logistics deficit in Latin America is a great disadvantage for the industry and makes the entire region less cost effective and less competitive on an international scale.

Which business opportunities in Latin America present reasons for optimism moving forward?

Vaca Muerta in Argentina is attracting significant interest and Brenntag is also considering investing. The importance of the unconventional resources in the Neuquén Basin is profound and there seems to be an alignment between different governments, regardless of their political persuasions. Vaca Muerta could be fundamental in changing the feedstock playing field in Latin America with regard to imports and exports.

Having worked for producers Dow Chemical and Rohm and Haas, how do Brenntag's sustainability policies compare?

From first-hand experience, I can say that all three companies have world-class policies when it comes to safety, environmental responsibility and care in the management of chemicals. The largest distributors, such as Brenntag, have to take extra care as we handle, store and transport a vast array of chemical products, sometimes in close proximity. Producers have their own challenges, but rarely have such a large portfolio of chemical products in the same building.

As a global organization, sustainability and safety is a core focus for Brenntag and is ingrained in the culture of the company. Brenntag has established corresponding standards and processes in its international corporate structures and continuously encourages a sense of awareness among its employees. Sustainability as a strategy is paramount for growth.

What are the principal objectives for Brenntag Latin America in the next 12 months?

Brenntag is on a journey of excellence, focusing on connecting the best suppliers with customers around the world, and this mission is constant in all of the company's global operations. When dealing with thousands of clients, human resources are fundamental and the basis of Brenntag's success. We will continue to invest heavily in attracting, developing and retaining talent. Today more than ever, growth is required to stay ahead of the competition and as such Brenntag will continue improving its operations to remain the preferred partner in the industries it operates in. ■



Image courtesy of Pochteca

Preparing for the Worst: Emergency Services Tout Precautionary Steps

Logistical headaches can become costly for producers, distributors and customers alike. However, such costs pale in comparison with the potential damage caused by a chemical spill or explosive reaction. On March 21st 2019, a major explosion at a chemical plant in Chenjiagang Chemical Industry

Park, China, killed 78 people and injured 617 more. “In a one month period, the Chinese closed approximately 80% of the factories close to this province, which has led to challenges in terms of sourcing raw materials,” observed Jimmy Delgado, commercial director of Colombian distributor Interchem, illustrating both the risks involved in chemical handling and the power of Chinese dynamics to disrupt the global value chain.

On January 18th 2019, a pipeline transporting gasoline exploded in the town of Tlahuelilpan, in the Mexican state of Hidalgo, killing 80 people. One of the emergency teams brought in to evaluate the scene was Ambipar Response, which is part of Brazilian capital business Grupo Ambipar and has a presence in 55 countries with multiple bases in the Latin American region. For Denny Spencer, director of Ambipar Response, disasters of this nature should

ideally be prevented by detecting the problem at an earlier stage: “We train local communities so they know how to detect the symptoms of risks such as chemical spills. The earlier a risk is reported, the much greater chance of an effective response,” he said. Ambipar Response creates programs to manage the risks that revolve around chemical plants and designs action plans in case of an emergency. “This mobilization plan and training program is not only for the companies, our clients, but for all stakeholders in the vicinity of a chemical plant. Therefore, Ambipar Response works hand in hand with communities and local governments,” explained Spencer. He provided the recent example of a chemical spill simulation conducted by Ambipar Response with Braskem in Osasko, Greater São Paulo, which involved 400 members of the local community. ■



Denny Spencer

Director

AMBIPAR RESPONSE

“

The priority of our strategic business plan is to be able to respond to emergencies in Brazil in areas of chemical transport in a maximum of four hours. In Latin America, we are in the process of expanding, with the intention of adding bases in Mexico to complement the company's presence in South America.

”

Can you provide an introduction to Grupo Ambipar and the companies under its umbrella?

Grupo Ambipar is a Brazilian capital business group with a global reach and a significant presence in Latin America and others continents. The mission of the company is to offer integrated environmental solutions to industries and governments. We are currently rebranding the group into four principal business lines – Ambipar Response, which offers specialized emergency services; Ambipar Environment, that deals with the management, treatment, evaluation and transport of chemical and non-chemical residues; Eco Products, the arm of the company that works with recyclable products and products that protect the environment; and Ambipar Logistics, a business which transports chemical and non-chemical products.

How extensive is the footprint of the Ambipar Response emergency service?

In Latin America Ambipar Response has multiple bases in Brazil, Chile, Argentina, Uruguay, Paraguay, Peru, and Colombia. The company has also expanded beyond the borders of Latin America, having just acquired British company Braemar in October 2018, which specializes in oil spill treatments and is present in 55 countries worldwide. This strategic acquisition now gives Ambipar Response more than 140 operational bases globally and more than 10,000 active clients. Our call center, part of our global network to deal with incidents, is open 24/7.

What range of services does Ambipar Response offer to the petrochemical and chemical industries?

Ambipar Response offers a wide range of services, which can be categorized into separate groups. The first is the prevention of accidents (Risk Assessment), which from a petrochemical and chemical standpoint starts with risk analysis at industrial plants and transport routes. As well as identifying the probability of the potential events, we define what would be the consequences of an accident, such as a chemical spill near a local community. Ambipar Response creates a program to manage this risk, and a detailed action plan in case of an emergency – this mobilization plan and training program is not only for the companies, our

clients, but also for all stakeholders in the vicinity of a chemical plant, therefore Ambipar Response works hand in hand with communities and local governments.

How important is it to educate local communities so they can identify a potential hazardous situation?

It is vital. On 18 January 2019, a pipeline transporting gasoline exploded in the town of Tlahuelilpan, in the Mexican state of Hidalgo, killing 80 people. Ambipar Response did an evaluation of the site afterwards, but ideally disasters like these should be prevented by detecting the problem at an earlier stage. We train local communities so they know how to detect the symptoms of risks such as chemical spills. The earlier a risk is reported, the much greater chance of an effective response.

Ambipar Response's *Manual Portos* book was launched in October 2018. What does this manual contain?

Manual Portos contains a selection of the principal legislative texts in Brazil regarding shipping ports, as well as the best international practices of emergency responses in a port setting. We have used this model for the last 15 years for road and rail logistics with the PP14 manual, focused on the transport of hazardous goods. *Manual Portos* is an industry tool that contains the knowledge and experience of Ambipar Response's team of engineers and technicians, and is a reference for best safety practices in Latin America.

What are the prospects for Ambipar Response in Latin America?

Ambipar Response has a wide portfolio of customers working in a variety of industries, from multinational players such as the biggest petrochemical and mining producers, to small private distributors. The priority of our strategic business plan is to be able to respond to emergencies in Brazil in areas of chemical transport in a maximum of four hours. In Latin America, we are in the process of expanding, with the intention of adding bases in Mexico to complement the company's presence in South America. Grupo Ambipar is a long-term partner that offers consolidated and integrated services to ensure the safety and environmental integrity of the areas it operates in so that clients can focus on their bottom-line. ■

Logistics: The Missing Link

The infrastructure gap restrains the regional industry from taking off

For Latin America to fully recognize the potential of its chemicals industry, achieving a competitive logistics sector will be critical. The region currently lacks a comparative cost advantage, and poor infrastructure continues to be a frustrating obstacle to efficient transportation. The import-export dynamic across the region has created both challenges and opportunities, an example of which is the liquid storage business. In this context, chemical distributors often need to invest in several facilities country-wide to make sure they have a strong network to serve clients efficiently. Martín Cini, director of Petrolera Copsa,

an Argentinean distributor, said: “Logistics in a country like Argentina are essential. If you do not understand logistics well, costs go up and make many businesses unviable.”

In Brazil, which relies heavily on its trucking sector as the primary channel for transport due to a deficiency in rail and waterways, the export economy was expected to experience a boom that was not realized – largely as a consequence of chaotic conditions in the country’s logistics sector. In the context of a slow recovery from the worst recession in its history and following a 10-day driver’s strike in 2018 that produced ongoing disquiet in the trucking sector, exporters have experienced difficulties securing trucks to deliver goods to port.

Consequently, a situation has arisen whereby exporters have been less able to take advantage of the depreciated Brazilian currency and the United States’ pivot towards Latin America amid a trade war with China. The strike brought the country to a standstill and

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Managing Director
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For a freight forwarding company like Leschaco, the current deficit of refined fuels in Mexico represents an opportunity, because many companies need to import products into the country. Similarly, we still see a huge opportunity to grow the business out of the United States, as the current US government is pushing for an increase of manufacturing capacity.

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What is the trajectory of Leschaco in the Americas region?

The Leschaco Group was founded back in 1879. In 2018, we celebrated 40 years in our Brazilian organization, 40 years in the United States, and 20 years in Mexico. We also have an office in Chile and in all other countries we work through agents. As a global freight forwarder, we are active in several verticals – chemicals is still our main business and we are also strong in automotive, pharmaceuticals, and consumer goods. The business has evolved very well, and in 2018 we had 15% growth in Leschaco Mexicana, with a 15% to 20% expectation for 2019. We are also very optimistic in the other markets within the Americas, especially in Brazil we see opportunities due to the political change and the expected recovery of the economy.

How are dynamics changing in Mexico, considering the increased import volumes of product?

For a freight forwarding company like Leschaco, the current deficit of refined fuels in Mexico represents an opportunity, because many companies need to import products into the country. Similarly, we still see a huge opportunity to grow the business out of the United States, as the current US government is pushing for an increase of manufacturing capacity. The already signed USCMA agreement shall stabilize and strengthen even more the bilateral business between the USA and Mexico.

You also have a tank container operation. How does that fit into your business?

We are the only freight forwarder company that also has a tank container operation. Our competition in this field consists of companies that focus solely on the tank container business. Our tank container operation grows every year, right now we have more than 5,000 tank containers globally, and in the Americas we see a lot of growth opportunity in both Mexico and Brazil.

Do you see the chemical distribution business moving toward an Amazon-like digital model where buyers and sellers can connect directly?

We are definitely going to see enormous change in the coming years with digitalization, but this will happen first in the most developed industries. In Latin America, we are still a bit behind when it comes to technological development. I still believe that major organizations will still procure their logistics services the traditional way, but definitely we are already preparing ourselves for future trends. As a company we are investing heavily in new technologies, offering digital services for customers who require these.

As the consolidation wave continues in the region, how can a company like Leschaco serve larger and more sophisticated customers?

We are living in a complex and constantly changing environment. This requires an increasing proximity to the market in order to offer customized solutions. There is an ongoing trend of regionalization with our main customers and therefore we are investing heavily in additional capacities, manpower and technology, focusing on regional aspects exclusively.

Latin America suffers from an infrastructure deficit. What is the situation in Mexico in particular?

In Mexico there is a lack of highway and railway infrastructure, so we see a strong need for investment. It has been the problem for previous governments and it continues to be a problem for the new administration. The issue is, where can the money for this come from?

What are the industry’s security concerns in Mexico?

The security topic has been an issue for many years and it gets worse year after year. We had all-time highs in Mexico in 2018 when it comes to robberies, assaults and merchandise disappearing. The issue is particularly sensitive from Veracruz to Mexico City, with the surroundings of Puebla being very dangerous. We need to wait and see what the new government proposes to do, but I do not expect major changes immediately. This issue is hurting the Mexican economy deeply because the cost of this is very high for the logistics business as well as the whole market. ■

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cost the chemicals industry alone an estimated 2.5 billion Brazilian real (R\$), highlighting the continued impact of political dysfunction on the industry's ability to achieve progress.

Another politically challenging issue in the logistics discussion is the lack of capital investments to support the construction of better infrastructure and, specifically, who should fund these projects. Talks of public-private partnerships to facilitate trade between countries have stagnated over perennial disagreements between states and the industry as to where to source the heavy capital requirements for such projects.

Meanwhile, the region's ports and weak transport corridors continue to be overburdened. "Latin America is one of the most inefficient regions due to the infrastructure deficit and the congestion at the terminals," said Fernando Reinecke, president of the 20th APLA Latin American Logistic Meeting held in 2018 and regional manager of Logistics and Customer Service for Methanex Corporation. "This generates demurrages, and beyond that, there is a shortage of storage capacity for liquids. In Brazil, with all the problems that Petrobras suffered, the country had to import great volumes of product, and the industry has been affected by very high costs, both due to the demurrages and the high port rates." Despite challenges with infrastructure and disappointing performance on the exports side, imports continue to remain a strong business proposition throughout the region. Mexico and Brazil both fall among the top 10 importers of chemicals worldwide, with a combined value of US\$81 billion, or almost 4% of total global value, according to the World Trade Statistical Review 2018. ■

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BDP International's main business objective for 2019 is to improve its customer experience through digitization and innovation. The company is investing in these areas which will result in less human intervention required, and more value-added customer service engagements. We also continue to invest in our BDP Smart suite of applications developed in-house and tailored to specific verticals of operation.



- Hector Midolo,
Managing Director Latin America,
BDP International

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Peter Staartjes

CEO
ANDINO HOLDINGS

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What is the scope of Andino in the logistics and distribution segment?

The Andino Chemical Group has four integrated divisions: trading, shipping, terminalling and distribution – the latter is known as Andikem. We have a full sales office and staff in Mexico City, as well as a 100%-owned marine bulk liquid chemical terminal in Tuxpan, Veracruz. We also have offices in Lima with rented tanks in Callao, an office in Guayaquil, and an office in Bogotá with rented tanks in Cartagena. Our current services are providing the logistics (railcar, barge or tank truck) for chemical producers from the point of origin, to carry the product on board one of our own time chartered vessels, to then discharge the product at our terminal, and then deliver it to the end customer. All of this for a pre-agreed service fee instead of a gross margin.

How does Andikem fit into the equation?

Today, we do distribution using Andikem companies locally in all the countries where we are present, but ultimately our desired business model is to serve the needs

of chemical producers and allow them to reach the final mid to small size customer directly without needing the assistance of a distributor. We firmly believe that companies like Amazon and Alibaba (who already have announced their intention to enter the chemical product and services market) will have a significant impact in the chemical industry. We believe distributors will disappear if they do not add significant value to the chain. Companies like BASF have already announced they want to follow that model to directly access medium and small customers, which are more profitable for them.

Our current challenge is finding a way to offer the possibility of ordering your chemicals online in countries where this simply is non-existent, albeit for now. All going well, we will transition into more of an information provider, where intelligent use of statistics and algorithms can have a very positive impact on monitoring inventories and prices.

What logistics challenges are you facing, particularly in Mexico?

Unit trains with gasoline and diesel have become the norm and marine terminals on the east coast of Mexico, currently storing chemicals, are being constantly pressured by gasoline and diesel importers to assist in handling the discharge and much needed storage. At present Mexico has two or three days of inventory for these critical products.

What is the opportunity for Andino's logistics business in this context?

Our small marine liquid bulk chemical in Tuxpan has suddenly become an attractive option for chemical producers who are frustrated with bad, or sometimes non-existent, railcar service; or have been displaced by a terminal operator who would rather fill tanks with high volume and sometimes higher paying gasoline or diesel. Our current plans include the building of a liquid bulk chemical storage tank hub on an existing facility in the US Gulf nearby Houston, in a non-heavily congested area where we can safely dock and service our own time chartered vessels, supported by rail, barge and truck capabilities. ■

Andikem



Looking at the Future

“The industry faces many challenges, because society is changing very rapidly, in terms of consumption patterns, sustainability issues, digital transformation, and diversity.

Traditionally, the petrochemical industry has been more conservative than that, so as companies we need to become more proactive and agile and have a close eye on these developments.”

- Stefan Lepecki,
CEO,
Braskem Idesa



Manuel Díaz

Executive Director
APLA

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The petrochemical industry is going to become even more important with the electrification of transport, because vehicles need to be lighter and more efficient, and plastics play a key role in that regard.

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What have been the main milestones over APLA's nearly 40-year history?

Over the last four decades, we have consolidated a strong position as one of the most important industry associations in our segment worldwide. Today, there are important industry meetings in Europe, the United States and the Gulf, and our Latin American meeting has gained enormous importance over the years. In addition, we have built up a great membership both in terms of numbers and the quality of our members. We have approximately 110 corporate members, but including the different subsidiaries, we are talking about 330 companies. We are already preparing our 40th annual meeting, to be held in 2020 and in Sao Paulo for the first time. This recognizes both the expansion of the petrochemical industry in Brazil and the continuous growth that our annual meeting has experienced year after year.

What are the main lines of action of APLA in more recent times?

We are working on three main pillars. The first one is logistics, which is a key element of the value chain. We want our logistics meeting to continue increasing its quality and participation so that we can engage with the different governments and improve the region's competitiveness. In the medium term, another pillar is sustainability: we are working on awareness initiatives targeting wider society broadly and a young audience in particular about the importance of responsible use of plastics in daily life. Finally, the third pillar is education: under our APLA Labs initiative, we are reaching pupils in primary and secondary schools to promote a safe and responsible use of plastics while we continuing to communicate on the importance of petrochemicals and chemicals in people's lives. Through other international organizations, we are focusing on recycling, circular economy initiatives and the overall sustainability of the industry.

The petrochemical industry is generally considered to be quite traditional in its outlook. How is digitalization going to change the way the industry operates?

The petrochemical industry is seen as a traditional industry because it is very difficult to change the technology to produce certain products – it is not like updating to the latest Android version in your smartphone. Having said that, there are many technology companies that are working on the adoption of the latest innovations such as the digitalization of logistics chains and the use of artificial intelligence in petrochemical sites, with drones and remote monitoring, for instance.

It is a subject that matters to us and we are following closely. This year during APLA's Annual Meeting we are having the third edition of the Seminar about Technology Innovations.

How does the industry fit into a world that is moving away from fossil fuels?

The petrochemical industry is going to become even more important with the electrification of transport, because vehicles need to be lighter and more efficient, and plastics play a key role in that regard. If a car has today 60% to 65% plastic content, this figure is going to increase in the near future. The same goes for other modes of transportation, so the prospects for the industry are great in terms of new forms of mobility. In turn, this will mean lower gasoline and diesel consumption for transportation, but the petrochemical industry will be a growing consumer of product from the different refineries.

Finally, what are going to be the main topics at the annual meeting in Buenos Aires this year?

To start with, we have some pre-conferences by both technology and market intelligence providers. On Sunday, we will have the opening at the Centro Cultural Néstor Kirchner. On Monday, we will look at the macroeconomic situation of the region, and then we will focus on both Vaca Muerta and Brazil's pre-salt fields. We will also look at the integration between the refining and petrochemical segments. To finish off, on Tuesday we will focus on the opportunity that has opened up in terms of trade negotiations between Mercosur and the European Union, and we will talk about sustainability and the circular economy, with speakers from Ecoplas. ■



“Rather than eliminating plastics, what should be done is working on the issue of recycling so that we do not continue to pollute the planet. The plastic itself is not the problem, but the people who dispose of it irresponsibly. Technology is improving so that the plastics are biodegradable. Although biodegradable plastics currently exist, their price is three or four times higher than normal plastics, but as the technology matures, the price will become more competitive.”

- Adrián Gabriel Schwartz,
President,
Grupo Simpa



“Our innovations aim to expand the company's *I'm green* portfolio, which is known globally for its green polyethylene, the world's first biopolymer to be produced on an industrial scale. Now, the new bio-based EVA resin (ethylene vinyl acetate copolymer) product is suitable for applications in industries such as footwear, automotive, transportation and flexible packaging.”

- Edison Terra Filho,
Executive Vice-President, Braskem
President, APLA



“The industry as a whole is transforming quite quickly, but the often-unfair demonization of plastic products is also an issue that must be addressed. Plastics have been key in creating safer, healthier and more prosperous modern societies, but there has not been enough care or education in how to recycle. As the industry adopts more responsible processes, associations and governments need to take the initiative to educate their populations and promote recycling.”

- Daniel Mitchell,
President,
Acoplásticos



“Honeywell has a role to play in introducing technologies that are not only sustainable from an environmental point of view, but also competitive enough to make that transition faster. History shows that the implementation of new technologies sometimes takes a long lead time. Hydrotreated Vegetable Oil (HVO) can be derived from both vegetable oil and animal fat. We have converted those oils into a sustainable fuel that is suitable not only for automotive, but also for planes.”

- José Magalhães Fernandes,
Vice President & General Manager of
Performance Materials and Technology, Latin America Region,
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