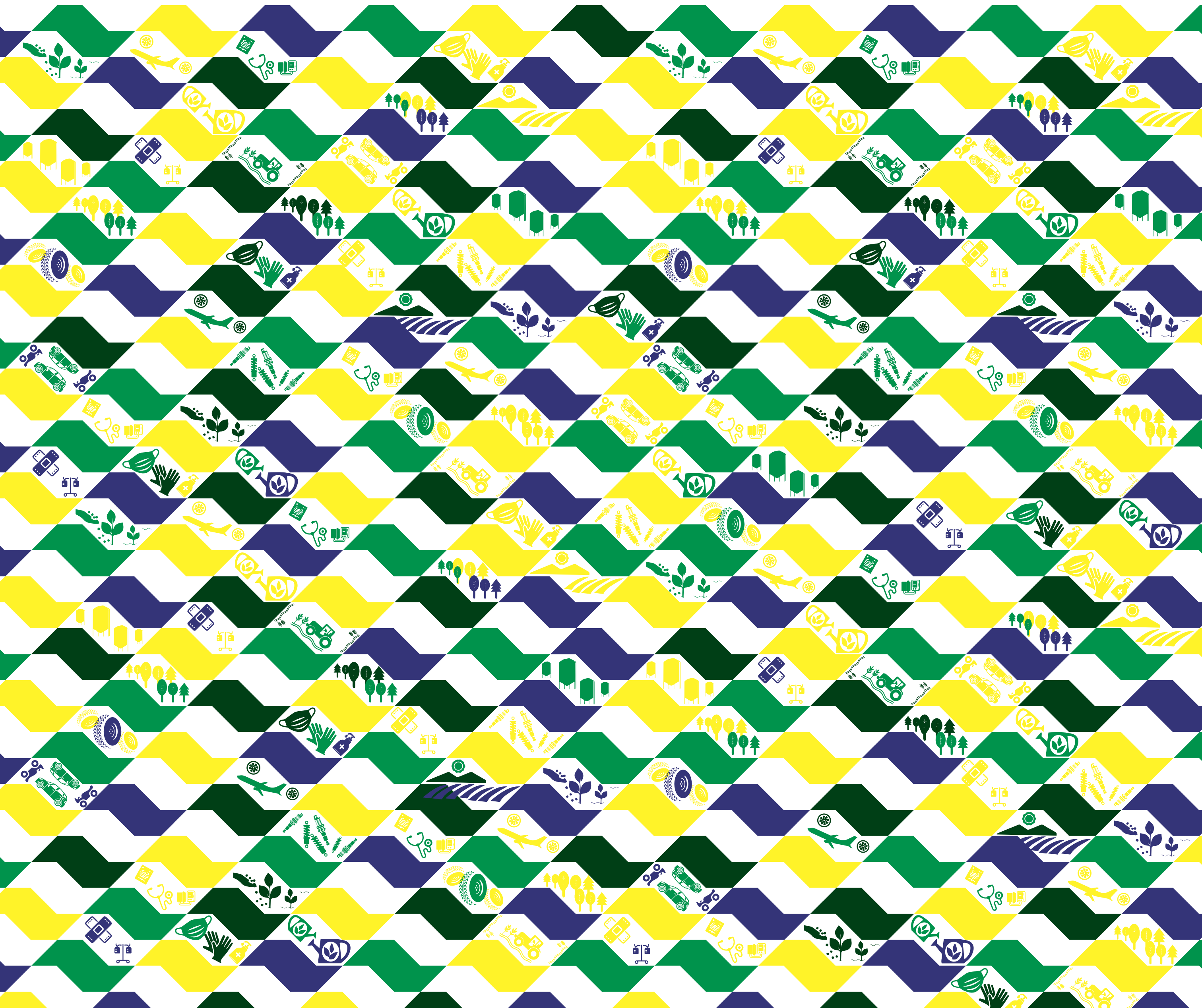
GLOBAL BUSINESS REPORTS & APLA

LATIN AMERICA
PETROCHEMICALS AND CHEMICALS
2020

Macroeconomic Overview - Covid-19 - Petrochemicals - Specialties
Chemical Distribution - Logistics - Sustainability



Dear Reader,

Welcome to this special annual publication where we will discuss the challenging economic scenario for Latin America, and the need for companies in the petrochemicals and chemicals industry to be very efficient in their production and logistics value chains.

The quest for competitiveness has done nothing but accelerate with the Covid-19 pandemic, a crisis that has plunged the global economy into recession and has created some asymmetrical developments for the chemicals industry. While demand for cleaning, health, food safety and agriculture-related chemicals has remained strong and even grown significantly in some cases, some other industries, like aviation, automotive and construction, have been deeply hit by the crisis, especially during the second quarter of the year.

The coronavirus crisis has highlighted the importance of the chemicals industry on several fronts: first, governments have realized it is an essential activity that feeds other industries, maintaining the minimum operational levels a country may need, even during strict lockdowns. Secondly, it has become apparent that the chemicals industry is key to tackle the virus and assure people's safety, improving public perception of the industry.

This said, the world's population continues to be very demanding when it comes to circular economy initiatives. Just as the skies were bright and clear when everyone was forced to stay at home, leaving cars in their garages, society demands clean oceans and rivers that are free of plastic. In this respect, the petrochemicals industry continues to invest strongly in research and innovation, looking at ways to close the loop of the value chain by transforming waste into new raw material.

Now, it is sad that we will not be able to meet in person this year and celebrate APLA's landmark 40th anniversary, but the APLA Virtual event nonetheless provides an excellent meeting platform for the industry to share knowledge and experience at such critical moment.

Moreover, APLA keeps its commitment to generate top-value information to the industry's stakeholders in Latin America and globally. In partnership with industry report specialists Global Business Reports, we are proud to present the 2020 edition of our *Latin America Petrochemicals and Chemicals* executive guide.

This special publication, containing articles, analysis, country factsheets and first-hand exclusive interviews with important players across the value chain, is presented this year in a new digital, interactive and smartphone-friendly version, that is accessible on GBR (gbreports.com) and APLA (apla.lat) websites.

We hope you enjoy the read, as well as the sessions and networking opportunities of APLA Virtual.

Manuel Díaz
Executive Director
APLA

Alfonso Tejerina
General Manager and Director
GBR

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LATIN AMERICA PETROCHEMICALS AND CHEMICALS 2020
APLA 2020
Industry Explorations
A Global Business Reports publication produced for APLA

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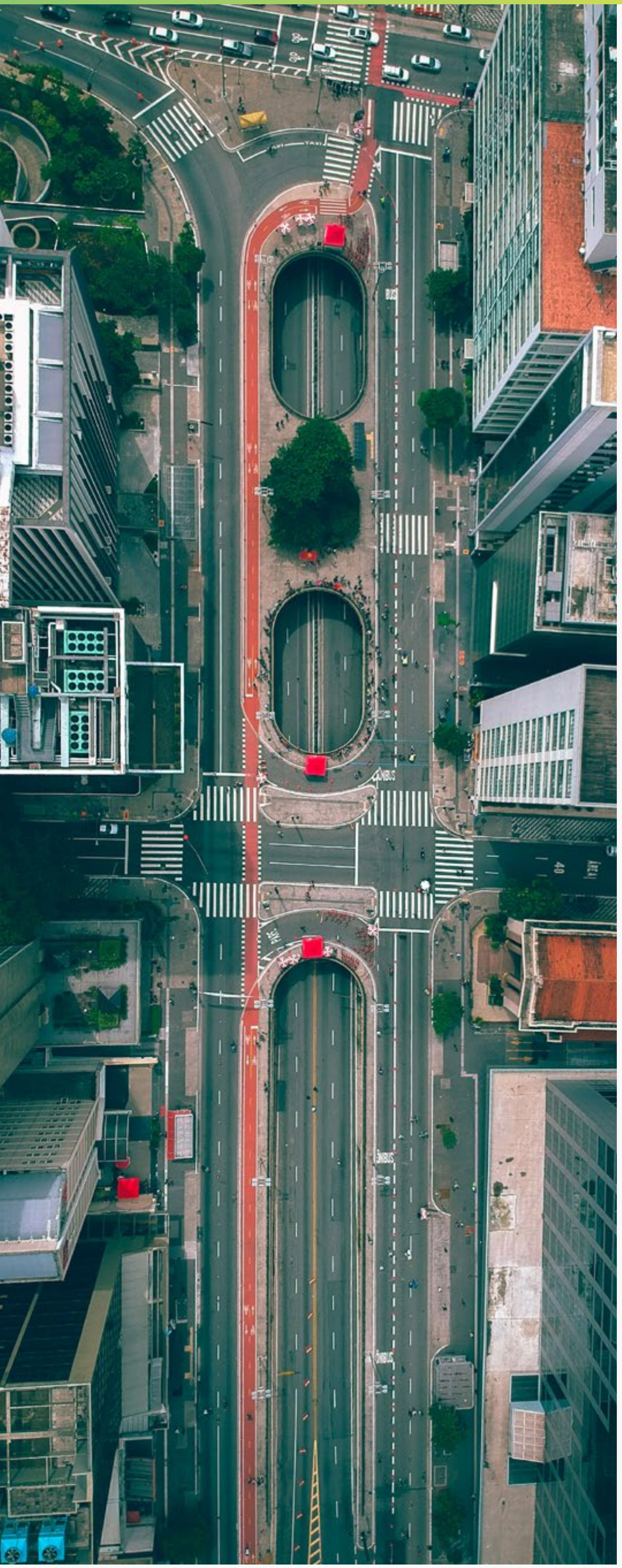
LATIN AMERICA OVERVIEW

"Even if 2020 will be a lost year in terms of growth in many of the chemical industry's segments, the sector has not seen the dramatic declines of crude oil demand, gasoline demand or automotive demand. The crisis has also strengthened the supply-demand balance, with the delay of new capacity projects, especially in the US."

**- Rina Quijada,
VP Business Development Latin America,
IHS Markit**

Iguazu Falls. Image courtesy of Ondrej Bocek.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Covid–19 Hits Latin America

THE PANDEMIC WORSENS EXISTING ECONOMIC WOES IN THE REGION

Throughout the first decade of this century, Latin America had been making good progress in generating higher incomes and adding millions of people to the ranks of the middle classes. Years or rapid economic growth, fueled by the commodity boom –the region is a large producer of hydrocarbons and metals– allowed for healthy GDP growth curves. When the commodity boom ended, however, the picture changed, in some cases radically.

Brazil entered into recession in 2015 and 2016, and the country was barely recovering from that before the pandemic struck. Argentina's erratic economy met with severe currency devaluations and hard-to-manage inflation rates. Finally, Mexico's lost its momentum from 2010 (5.1% GDP growth) to 2019 (0.4%), even though it did not fall into recession. The feeling in Mexico's business community is that the current administration has failed to realize the country's enormous potential over the last couple of years, while its state-owned oil company, Pemex, continues to struggle.

As a global crisis, the Covid-19 pandemic has not been limited to Latin America, but the virus has taken a particularly severe toll on the region. According to the International Monetary Fund in its June 2020 estimate, Latin America's economy will contract by 9.4% this year, and recovery will be soft with just 3.7% growth in 2021. "Many of those previously part of the middle class are now low income population," said Munir Jalil, executive director of macro research at BTG Pactual, a large Brazilian investment bank present across Latin America. "The key question is what should be done to recover to pre-pandemic levels."

Beyond the very high levels of contagion in the region, what is making the pandemic such a tough ride in Latin America is the lack of stimulus packages for the average citizen to help weather the storm. "One of the key differences we see in the region versus the US, Europe or Asia is that governments in the two largest economies, Brazil and Mexico, have not allocated large incentive resources to reactivate the economy," affirmed Rina Quijada, VP business development Latin America at IHS Markit. "In the US we are about to see the third stimulus package, and the first package alone was worth US$7 trillion, which is equivalent to the GDP of the whole of Latin America," she emphasized.

Some countries have established help packages for low-income citizens, but not to the levels of the rich world. In Brazil, the monthly 600-real subsidy (US$109) has helped president Jair Bolsonaro offset his falling popularity, following what many see as a dismal management of the pandemic (as of the end of the austral winter in September, the country already had nearly 140,000 deaths from Covid-19). Meanwhile, despite the exceptionality of the situation, Mexico prefers not to deploy expensive packages.

Beyond the availability of funds and the willingness or not to allocate them to relief programs, Latin America faces another issue when it comes to implementing them: informality. Munir Jalil of BTG Pactual says that, with the exception of Chile, it is very difficult for governments to reach those people that are under the radar: "In countries like Peru and Colombia, we have seen good efforts to capture some information about these people and provide economic support. Moving forward, the next step is to ensure that these people maintain a relationship with their governments," he argued, adding that a good initiative, albeit costly, would be to reform the labor market and establish unemployment benefits. "This way workers themselves will demand formal contracts from employers," he continued.

BTG Pactual expects Brazil's economy to contract by 5.5% this year. In Mexico, perhaps as a result of the lack of action in terms of stimulus, the estimate is a 9% fall, while Argentina is expected to record a severe 12% contraction in 2020. Of course, if the pandemic can be controlled, all these drops will be mitigated by a rebound effect in 2021, but what matters, says Jalil, is the figures from 2022 onwards. "This is where we will see the long-term behavior of countries."

The pandemic will not be the only factor to weigh in Latin America, as the region will see elections across 2021 and 2022. A certain degree of political instability is to be expected with the current economic crisis, as shown by the failed attempt by Congress to oust president Vizcarra in Peru in September. "The arrival of new populist governments cannot be ruled out," said Jalil.

Hopefully the region will be able to tackle the pandemic and implement sound economic policies, otherwise the pessimistic prediction that the 2015-2025 period could be a "lost decade" in Latin America may become a reality. ■

Bernardo Álvarez Certucha

Executive President
ALVEG
President
APLA

How are you adapting to the effects of COVID-19?

The Covid-19 pandemic has forced the world and Idesa to use all the technological tools we had at hand, but we were not convinced of their usefulness or we did not exploit them efficiently before. Covid-19 has brought about a global and organizational change, giving us a new form of remote work and

> **We will be seeing, in the coming years, the introduction of new global rules and regulations that will change not only the way we do business, but the way produce, distribute and transport our products.**

a new style of face-to-face work. Those of us who have been able to work remotely have become more efficient and productive in our chores, and it confirms our commitment to all those workers who still perform their work at the production or distribution sites.
Adapting to this dynamic has allowed us to continue our operations, focused on goals and results. Covid-19 has forced us to break paradigms, giving us the opportunity to explore new markets such as the commercialization of hygiene, health and personal cleaning products. We have created a new product portfolio for the distribution of home and health products, giving us a new growth opportunity in this segment.

Do you think the public perception of the chemical industry has improved with the pandemic?

The pandemic has brought a new perception of the chemical sector. As an industry, we have been behind the great effort to combat the virus; we are behind the creation of vaccines, health treatments, safety packaging and diverse hygiene materials. We must continue to educate current and future generations in the benefits of our products and the responsibility we have for the environment.

Mexico's chemical industry has suffered a lack of feedstock for years. What can be done about it?

Mexico needs a strong Pemex, which is not the case today. Pemex' economic and operational situations are quite delicate, so we support the government's efforts to revitalize the company. Unfortunately, Pemex alone cannot meet all the demand of raw materials that Mexico has. A long-term, sustainable solution would be a combination between State and private sector initiatives, as per the previous energy reforms.

How could the country reactivate investment in the construction segment?

The construction segment has been one of the hardest hit during the Covid-19 pandemic. Given the nature of the activities, keeping a safe distance and hygiene measures has become a challenge for the different actors within this industry. The infrastructure sector stopped activities for several months given the combination of uncertainty in the face of COVID-19 and the global economic crisis we are facing. Fortunately, the country has announced new infrastructure projects to develop in the following years.

Could you tell us about the joint venture companies you participate in, notably Braskem Idesa and Cyplus Idesa?

Braskem Idesa was already facing a difficult situation before the pandemic due to an oversupply in North America, coupled with low polyethylene (PE) prices because of low oil prices. However, demand has remained strong during the pandemic and, coupled with our good market position in Mexico and export markets, we have been selling all our production capacity. In the long run, PE prices should increase as demand will grow, but this will be a slow process.
Our sodium cyanide business at Cyplus Idesa's operations was initially impacted by the pandemic. The mining industry in Mexico was considered a non-essential activity during the first months, so mines had to shut down; however, the sector has reopened and demand is coming back again. Right now, gold is trading at near-record highs and sodium cyanide demand is very strong, giving our JV a good boost.

How is the new scenario promoting innovation across Grupo Idesa?

Idesa in investing and upgrading its technological platform, this has allowed us to improve our internal processes, making us more efficient and productive. We are becoming more agile and faster to respond to changing market needs.
We will be seeing, in the coming years, the introduction of new global rules and regulations that will change not only the way we do business, but the way produce, distribute and transport our products. We are adapting to a reality that demands us to be more sustainable and innovative. The new rules of the game will be sustainability and technological innovation, so companies will have to refocus their resources to target these two. ■

Rina Quijada

VP Business Development Latin America
IHS MARKIT

> **Available feedstock is not close to consuming markets or export facilities, so infrastructure needs to be built and adjusted to help monetize that feedstock – pipelines, ports, terminals and storage.**

What are the main factors currently driving industry dynamics in Latin America's petrochemical segment?

The petrochemical business is linked to consumer spending. Prior to Covid-19, I believed demand for petrochemicals in Latin America in 2020 would be slightly better than in 2019. However, the devastating impact of the pandemic, from Mexico to Patagonia, will make 2020 a loss year in demand, meaning no growth and in some cases a significant decline in demand. The surprise has been that Brazil, thanks to record performance from its agribusiness segment, is contracting at a lower rate than expected. In Argentina the new government is expected to continue developing Vaca Muerta. The big issue will be the macroeconomics of the country, because Argentina is in great debt.
One of the key differences we see in the region versus the US, Europe or Asia is that governments in the two largest economies, Brazil and Mexico, have not allocated large incentive resources to reactivate the economy. There has been very little stimulus, especially in Mexico. In the US we are about to see the third stimulus package, and the first package alone was worth US$7 trillion, which is equivalent to the GDP of the whole of Latin America.

How is the feedstock situation changing in this scenario?

The critical issue in petrochemicals is access to abundant and competitively priced feedstock. With lower crude oil prices, naphtha crackers have become more competitive (77% of feed in Brazil is naphtha-based, for instance). This means that the US' competitive advantage has significantly diminished. Exports of LNG, LPG or ethane will continue –however, prices are expected to be somewhat higher. With lower production of crude oil (we went to 12-13 million bopd to 8 million bopd in the US), we have less gas production and less ethane available close to the crackers. In this changing environment those companies that have flexible feed and can crack ethane, propane or naphtha will have an advantage. Finally, another key factor will be the outcome of the US presidential election. If the Republicans win, the country will continue promoting fracking and hydrocarbon development. If the Democrats win, probably fracking will go through a challenging period.

What are the big issues affecting Latin America's future petrochemical industry development?

First, available feedstock is not close to consuming markets or export facilities in the region, so infrastructure needs to be built and adjusted to help monetize that feedstock – pipelines, ports, terminals and storage. In Mexico you have the infrastructure but you do not have the feedstock available, so you have to import it. In Argentina you have the feedstock from Vaca Muerta, but you do not have the pipelines to take the product to areas of high local demand and exports. This said, once the infrastructure is built, then we expect to see a development of additional capacity in the region based on naphtha and gas in Brazil, and additional ethane and propane in Argentina.
Another important development is the significant change anticipated to take place in Brazilian industry. Petrobras has announced its firm desire to focus on exploration and production of crude oil and gas, and is in the process of selling their refineries. Also, Braskem's owners (Odebrecht and Petrobras) have expressed their desire to sell the company. This transaction will have a significant impact on industry dynamics in the region.

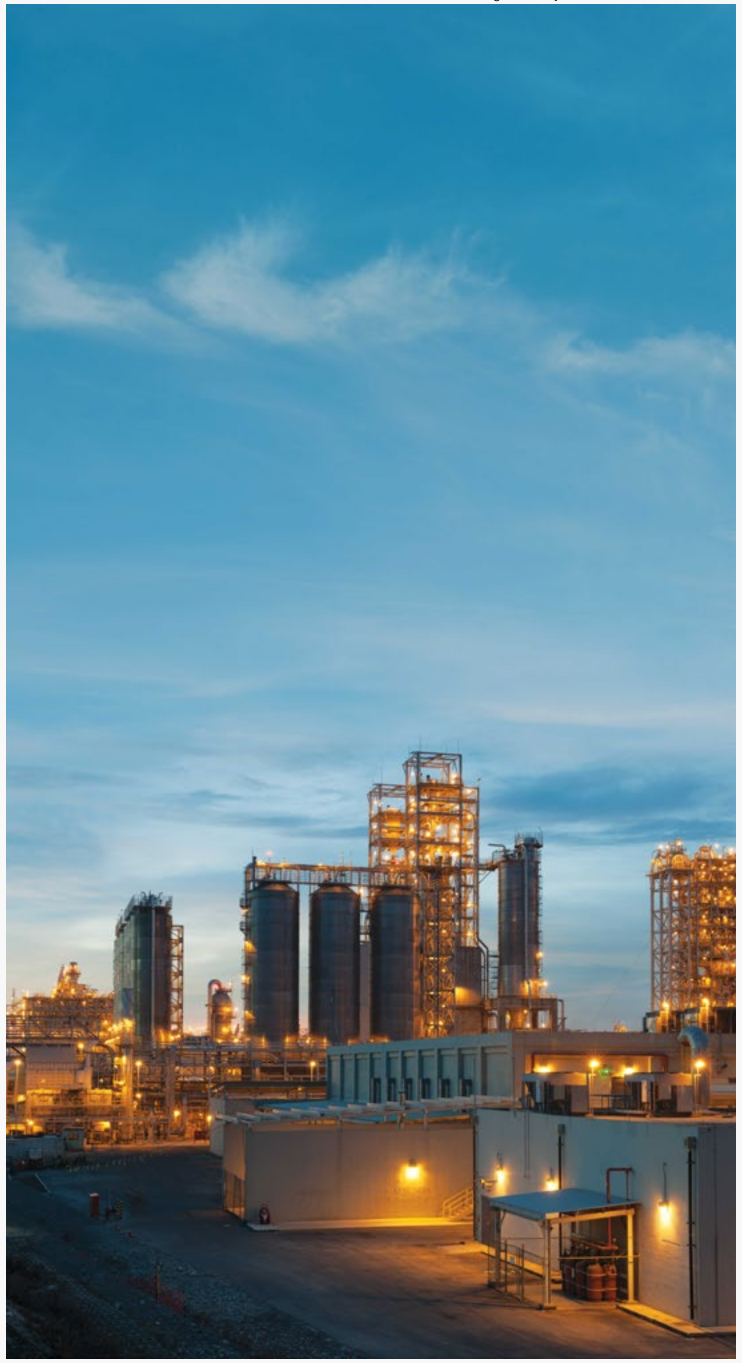
What is the role of the chemical industry to fight the pandemic?

If you want a silver lining from this crisis it is that the biggest cities in the region, like Mexico City and Sao Paulo, are taking a break from pollution. Besides, we see an improved image of chemicals and plastics because of their utility to fight the pandemic. Nonwoven polypropylene, for instance, has become a very visible material as it is used in personal protective equipment. Even if 2020 will be a lost year in terms of growth in many of the industry's segments, the industry has not seen the dramatic declines of crude oil demand, gasoline demand or automotive demand. The crisis has also strengthened the supply-demand balance, with the delay of new capacity projects, especially in the US. ■

Winners and Losers

COVID HAS HAD A MIXED EFFECT ON CHEMICAL PLAYERS ACROSS THE REGION

Image courtesy of Braskem



Generally speaking, 2019 was not a good year for chemicals companies across Latin America. Low petrochemical prices, coupled with sluggish or flat economic growth, resulted in a challenging year for players across the value chain. So, when the pandemic hit and lockdowns were enforced in March, one could have thought 2020 would be a disaster year for the industry. While Covid-19 is an immense challenge for everyone, the truth is that no such simplistic conclusion can be drawn, as demand for certain products has actually increased dramatically.

First of all, the industry was able to prove that it is an essential industry that has to keep running. "The chemical industry feeds 40 other industries, and companies serving the pharmaceuticals, packaging or personal hygiene industries have seen double-digit growth during the pandemic," highlighted Miguel Benedetto, director general of Mexico's National Association of the Chemical Industry (ANIQ). He added that the industry operated at 60% capacity during the worst moments of the pandemic, while the pre-pandemic average was 70%.

In Argentina, the essential nature of the chemical industry was also recognized. According to Jorge de Zavaleta, executive director of Argentina's Chamber of the Chemical and Petrochemical Industry (CIQyP): "We managed to convince the government that any continuous process plants, essential or not, should not stop. So polyethylene plants, urea plants and any other facilities that do not work on a batch basis could continue working. Also, the agriculture sector was declared essential from the beginning, and the chemicals industry is strongly linked to it with fertilizers, agrochemicals, plastics and agriculture equipment manufacturing."

Ciro Marino, CEO of Brazil's Chemical Industry Association (ABIQUIM), summarized the current state of affairs as follows: "The chemical industry is very diversified, but you can split it along two main lines: the winner sectors of the economy, including those directly related to the pandemic (hygiene products, polypropylene for masks, pharmaceuticals etc.), as well as agrochemicals and fertilizers, all of which have been running at full capacity. Then, you have the losers: automotive, aviation, tourism, textiles, and manufacturing."

The mining industry, which is also an important consumer of chemical products, saw some mine operations shut down for a few weeks in large mining countries Chile, Peru and Mexico, however early recovery in China boosted the copper price, while overall financial uncertainty elevated the gold price to record levels above US$2,000 per ounce. This generated solid demand for sodium cyanide and other chemicals used in mining extraction processes.

Adapting to new market conditions

Demand contraction was severe in some industry segments, but it was not the only factor to consider when redefining business strategies to adapt to the market conditions of the pandemic. Covid-19 had quite a few 'side effects', from local currency devaluations across Latin America, product scarcity, and pricing volatility. Björn Steckel, EVP of Chemicals for the Americas region at Helm, commented: "A key factor is pricing. In commodity products like glycols or styrene monomer, we have seen some dramatic price decreases this year. Acetone has shown very strong demand, but it is a by-product of phenol, which has been impacted by weak demand due to the automotive industry crisis. In isopropyl alcohol (IPA), the crazy demand for hand sanitizer prompted us to source additional product from outside the region. Assuring the supply of certain products has become a major challenge. Fertilizers and crop protection have not stopped booming."

Roberto Santos, CEO of large Brazilian producer Unigel, confirms that the agriculture industry in Brazil has seen zero impact. Before the pandemic, Unigel had already made a strategic decision to invest in fertilizers as the company's third main business unit, complementing its acrylics and styrenics portfolio. Betting on highly-resilient and less cyclical business like agro seems like a wise move, especially now.

All this said, the future success of chemical companies will not be defined alone by the sectors they serve – these companies will also have to be very efficient, agile and innovative. Following years of poor market conditions with a lower oil-price since 2014-2015, several players had already engaged in internal restructurings to lose some fat. In Brazil, for instance, specialty chemicals producer Oxiteno had already undertaken a cost-cutting project in 2019 to simplify its administrative structure. In Colombia, Ecopetrol had also been implementing 'transformation programs' to increase efficiencies – while this year, at its newly-created trading arm, the company has been taking advantage of pricing volatility to capture the opportunities created by contango situations in some products. All examples that, in a changing world and a dynamic market, companies cannot stand still if they want to survive and thrive. ■

Manfredo Rübens

President South America
BASF

How has BASF performed in South America over the past two years?
We experienced a record year for BASF in South America in 2019, performing well in all 11 businesses we have in the region. The acquisition of assets to the BASF portfolio in 2018 supported the growth. After the new government was elected in Brazil, there was a noticeable positive sentiment because of the reform agenda and action plan that had been set. This environment determined a robust outlook for BASF's investments in the country, including the recently built acrylics complex in Camaçari, Bahia.
2020 started well for BASF in the region, despite difficult economic conditions in Brazil. However, from late March onwards, there was an overall significant downturn due to COVID-19, particularly for our businesses that cater to the automotive industry, including OEM paints, plastics and additives. This said, some businesses, such as home care, animal nutrition or health experienced an even higher demand. A number of BASF's 15 plants in South America reduced production, some partially and others completely, as our focus shifted to the health and safety of our workforce and supplying to a lower demand. While Q2 was a weaker quarter, Q3 has seen a soft demand pickup. As a consequence, our impacted plants are gradually returning to higher levels of production. Our Agricultural Solutions division has remained strong throughout the year despite headwinds from currency devaluations, particularly the Brazilian real and the Argentinean peso.

How does BASF leverage its global network to design new products for the agriculture market?
In the past, BASF mainly provided solutions for crop protection. At the turn of the century, BASF was very strong in Europe, particularly in fungicides. Since the acquisition of American Cyanamide in 2000, BASF became a strong player in North America, particularly in herbicides and insecticides. Over time we were able to combine these strengths and leverage - together with a number of further acquisitions, the latest being the acquisition of seeds assets - the knowledge and our global R&D network to provide new products to the agricultural markets. BASF's research centers in Brazil are a key part of the company's global research network, which enables cross-fertilization of knowledge and innovation.

What trends have you noticed in the nutrition and care industries, and where is the demand coming from?
Speaking to some of our major Personal Care clients, such as Boticário and Natura, the topic of sustainability and vegan natural products are rapidly growing trends to which we are fully aligned. In nutrition, there is a significant increase in the consumption of vitamins and enriched foods.
Another trend across all industries is the move towards digitalization. Even before the pandemic, BASF had been utilizing digital platforms to be able to distribute chemical products to small and medium sized clients, and COVID-19 has accelerated this development. ■

Ricardo Cuetos

VP Americas Standard Products
INEOS STYROLUTION

What are INEOS Styrolution's main business lines?
Styrolution was first formed in 2011 as a joint venture between BASF and INEOS at a global level and, in 2014, INEOS took over 100% of the company. We are the global leaders in styrenics. We have grown organically and also through acquisitions; we acquired the SBC business from Chevron Philips Chemical, and last year we acquired two polystyrene plants in China from Total. In two years we will be completing a new ASA plant in Bayport, Texas, with a capacity of 100,000 mt/y, which is the first greenfield investment of INEOS Styrolution. This will cater to the construction and automotive industries. In North America we have three styrene monomer plants – two in the US and one in Canada. Finally, we have our Altamira plant in Mexico, where we produce polystyrene, ABS, ASA and SBC. Almost 90% of our sales to the Brazilian market come from the Mexican plant.

What businesses have resisted better the impact of the pandemic?
We are fully diversified across many sectors and this has helped a lot during this crisis. The more resilient businesses are food service packaging and healthcare. The medical segment has also remained very strong, as well as our sales to the toy industry. Automotive was heavily hit across both South America and North America. As of August 2020, we are pretty much back to pre-COVID levels in the US, while in Mexico and Brazil the recovery has been slower.

Could you give us some examples of innovative products at INEOS Styrolution?
Within polystyrene we have developed a new material for foam packaging that allows for the use of less resin, reducing the carbon footprint of the material. On ASA we have developed several grades for the automotive industry to better contain the color and have better UV resistance. We are also working with the construction industry on new ABS grades. Recently, we have also developed our Terluran ECO material, a recycled-content ABS.

How is INEOS Styrolution and the wider industry working towards the circular economy?
The industry is moving fast. In the beginning, industry and society were more reactive and there was a lack of scientific base to the discussion. People initially thought compostable material was the solution, but many countries lack the infrastructure to properly dispose of them. For a number of years, INEOS Styrolution has been working on advanced recycling efforts and technologies within both the mechanical recycling and chemical recycling space, particularly in the food packaging segment in polystyrene. We have proved that we can really transform the waste into the raw material, which is styrene monomer. Based on that, we have decided to build two manufacturing facilities; in the US and Europe. This allows us to close the loop infinitely. Now, besides just our industry, consumers also need to be aware of this cycle and dispose of their waste properly, while governments need to put the right infrastructure in place. ■

Juan Moncada

Managing Director Latin America
EASTMAN

2020 marks Eastman's 100th anniversary. What is the company's vision nowadays?
Our beginnings were quite modest in Kingsport, Tennessee. George Eastman was the founder of Eastman Kodak, and the chemicals division of Eastman was established in July 1920. In 2019, Eastman revenue was US$9.3 billion, with a diversified business portfolio and operations virtually all around the world, be it manufacturing plants, distribution hubs or commercial teams. Over the years, we have grown through a number of acquisitions, while we have divested non-essential businesses, in order to become a company focused on specialty materials and chemicals and on developing solutions and applications for the customers, rather than simply products.

What are your main manufacturing plants globally and in the Americas?
Globally, our U.S. plants in Kingsport and Longview and our Belgium site in Gent are our biggest assets, as they are integrated plants with economies of scale and diversified processes. In Latin America we have two plants in Mexico; one in Uruapan that produces tar derivatives for adhesives, mostly focused on the inks and personal care industries, and another one in Santo Toribio, Tlaxcala, where we produce the Saflex interlayers for car glass, a product that reduces noise levels and allows for an overall weight reduction of cars. In this plant we also have high technology solutions like heads-up display interlayers (HUD) that allow for the projection of information on the glass, so the drivers do not need to take their eyes off the road.
In Brazil we have two factories, one in Mauá, producing plasticizers and polyurethane resins for many different industries, as well as adjuvants and other products for the agribusiness. Our second plant in Brazil is in Itupeva and produces insoluble sulfur (Crystex insoluble sulfur), used in the fabrication of rubber derivatives, mainly for tire manufacturing.

What has been the impact of the pandemic on Eastman's business?
The automotive and construction industries have been heavily affected. Buying a house or a vehicle has not been an option for many people. Luckily, Eastman is present in medical, sanitization, nutrition and personal care, all sectors that have strengthened during the pandemic. Being diversified across different industries, we have been able to present exceptional results during H1 2020, with cash generation close to the company's record levels.

Could you describe some of Eastman's recent innovations?
Despite COVID-19 and remote work, we were able to introduce our Tritan Renew product, a new material produced with up to 50% post-consumer recycled feedstock, that maintains the same properties as our specialty copolyester resin, Tritan, in applications that require durable, safe, BPA-free materials, and high clarity, such as sports bottles, food storage containers, and appliances. Also, recently we launched two initiatives in the circular economy: the carbon renewal technology (CRT) and polyester renewal technology (PRT) processes. Both technologies allow us to use recycled materials that are generally not suitable for mechanical recycling in the production of new molecules. This is advanced recycling and resulting products offer the same properties as their equivalents from oil or coal feedstock. ■

Sustainability

THERE ARE MULTIPLE APPROACHES TO BEING A BETTER NEIGHBOR

The Covid-19 pandemic has highlighted the importance of the chemical industry to protect health: masks, gloves and other protective items as well as alcohol and hand sanitizer have become a staple of everyday life for the world's population, while plastic products have allowed for safe food packaging during lockdowns.

All this said, it has been several years already that the petrochemical and chemical industry is on a quest to close the life cycle of plastic products, and the pandemic is not going to make this problem go away. In the words of Juan Diego Mejía, president of Essentia: "The circular economy is here to stay and all of us must commit to it. From both a conceptual and pragmatic approach, we cannot keep using the planet as if its resources were endless."

Improving sustainability in a company's operations consists of many aspects, environmental stewardship being just one of them. These include not only recycling and waster management, but also reducing greenhouse emissions and the use of greener raw materials. Sustainability also means being a responsible employer, assuring the health, safety and decent remuneration and working conditions for employees – as well as being a good neighbor, supporting the communities around operations, even more so at a time of crisis like the current one with Covid-19.

This is part of the more traditional corporate social responsibility (CSR), and examples of this are numerous in the region: in Mexico, distributor Grupo Pochteca co-launched an initiative called "Companies for Wellbeing", through which it committed to pay 6,500 Mexican pesos as a minimum monthly wage – the company has 1,300 employees. Also in Mexico, in the state of Coatzacoalcos, Braskem Idesa has been supporting the authorities with doctors, nurses and hospital infrastructure during the pandemic.

In Colombia, Ecopetrol is developing social programs around infrastructure, sports, health and education. In Brazil, Unigel sponsors two schools in Candeias, with a total of 1,300 children. The program "became the benchmark on public-private partnerships in education in the state of Bahia", according to Roberto Santos, CEO of Unigel.

Greener operations

With the challenges generated by the planet's scarce resources and its growing population, it is not surprising that innovation is now heavily geared towards sustainability and no longer towards product performance and cost alone. João Parolin, CEO of Brazilian specialty chemicals producer Oxiteno, described the 'Greenformance' concept that guides the company's developments: "Most of what we do in our innovation activities is to find more sustainable ways to solve our customers' problems. The Greenformance concept looks at having an end-to-end study for every product."

As an example, Parolin mentioned a new fungicide for soybean rust that mitigates the side effects for the plants, as well as new high-concentration detergents that save packaging, freights and emissions.

Image courtesy of Willian Justen de Vasconcellos

As global warming becomes a reality, governments and industries are seeing how to best reduce greenhouse gas emissions and save water. In Colombia, for example, Ecopetrol has pledged to reduce total emissions by 20% by 2030. The state-owned company is investing in 300 MW of clean energy generation capacity, and has also joined a World Bank initiative to eliminate routine gas flaring in oil and gas fields by 2030. Meanwhile in Brazil, Unigel invested 50 million reais to ensure 80% of the water used in its Candeias facilities is recycled.

Moving toward bio-based raw materials is another strategy for companies in the chemical space. It has already been 10 years since Braskem launched its bio-based polyethylene, a product with the same properties as its fossil-based equivalent, and today the company's production capacity has grown to 200,000 mt/y of green PE. Edison Terra, executive VP Olefins and Polyolefins in South America for Braskem, affirms that demand for bio-based products continues to increase, especially in Europe and Asia, and Braskem is considering expanding the capacity of its green ethylene unit in Brazil. Braskem also developed a bio-based EVA resin, and is working with Haldor Topsoe to develop a new technology for the production of green monoethylene glicol (MEG) from sugarcane.

Also in Brazil, Elekeiroz has developed phthalate-free plasticizers from hydrocarbons, but the company, through its Nexoleum joint venture, can also produce green plasticizers using epoxidized soybean oil as feedstock. Marcos de Marchi, CEO of Elekeiroz, said: "This year we expanded our capacity for production of green plasticizers thanks to stronger demand from shoe and toy manufacturers mainly," although he recognized that soy bean oil is still expensive if compared to petroleum derivatives.

In many cases, it is final consumers driving change towards more environment-friendly products. In the home and personal care segment, for example, the trend is for more natural ingredients, and those dedicated to trading and distribution are playing an important role in connecting both ends of the value chain and passing on feedback to producers. "We work continuously with supplier partners and customers to introduce clean, green and safer technologies for paints, food, personal care and other markets," said Jorge Buckup, president Latin America at Univar Solutions.

Managing waste

While using green feedstock and reducing the amount of raw material required to produce a particular item are very positive developments, ultimately the industry needs to give a new life to the products when they become waste, and some steps are already being taken with the production of post-consumer recycled resins (PCR). The idea is that the concept of 'waste' itself must be eliminated.

Jorge Cuetos, VP Americas for standard products at INEOS Styrolution, explained that the company launched a recycled-content acrylonitrile butadiene styrene (ABS) last year, and has been working on a number of advanced recycling initiatives, particularly in the polystyrene used in food packaging. "We have proved that we can really transform waste into the raw material, which is styrene monomer. Based on that, we have decided to build two manufacturing facilities; in the US and Europe. This allows us to close the loop infinitely," he says, although for that to happen, he acknowledges that governments and citizens must also play their part with the proper recycling culture and infrastructure.

Braskem has also been working on different sides of the problem. In Brazil, the company has a program to increase post-consumer waste recycling and improve the lives of thousands of waste pickers, while in the US, the firm has partnered up with the Philadelphia Eagles football team to collect and recycle plastic bottle caps and other plastic materials. On the R&D front, the company is looking at recycling and has successfully tested in its crackers samples of feedstock produced out of the pyrolysis of plastic residues.

The solution, in any case, cannot consist only of the individual efforts of particular companies. Regulations will play a role in terms of setting recycling standards, while chemical segment associations, like ANIQ in Mexico, are also aiming at industry-wide targets. "Many cities and states in Mexico have already banned free plastic bags in supermarkets. By January 2021 single-use expanded polystyrene items will be banned as well, including plates, cups and straws," says Miguel Benedetto, director general of ANIQ. "By 2020, not just producers but also transformers, distributors and transportation companies should waste zero pellets. By 2030, 100% of the industry's packaging should be 80% recycled. And by 2040, 100% of all plastics and packaging should be recycled," he concluded. ■

BRAZIL

"Moving forward, the world needs to rethink its production strategies and move production back from the east to the west. We need to be flexible and have an open economy, but Brazil is not ready to compete. The country needs to address some issues internally that create high costs."

- Ciro Marino,
CEO,
ABIQUIM

Chapada Diamantina. Image courtesy of Matheus Seiji Goto.

Brazil

THE PANDEMIC IMPEDES STRUCTURAL REFORMS


Image courtesy of Oxiteno

When Brazil's statistics agency IBGE released its GDP results for the second quarter of the year, showing a 9.7% quarterly contraction, reactions were diverse. Pessimists highlighted that Brazil's economy was basically back to 2009 levels. Optimists pointed out that the economy was already in recovery mode during Q3; Q2 saw the peak of lockdown policies and GDP data recorded severe economic damage across many countries, not just Brazil.
Certainly, the expected 'V-shaped' recovery will not be enough to avoid recession in 2020, with economists valuing the expected decline within an approximate range of 5% to 6.5% – this would be the largest contraction for Brazil since records began in 1900, according to Reuters.
There is never a good moment to be struck by a pandemic, but Brazil's economy was slowly emerging from the 2015-2016 recession, and trying to implement a more competitive business environment through structural reforms. With flat, insufficient growth of 1% annually between 2017 and 2019, 2020 was meant to be the takeoff year for Brazil, yet this will have to wait.

The issue of competitiveness

The new market dynamics may offer Brazil's petrochemical industry some advantages. Rina Quijada, VP business development for Latin America at IHS Markit, pointed out that lower crude oil prices mean naphtha crackers are now more competitive, and 77% of the feed in Brazil is naphtha-based. Nevertheless, overall the Brazilian chemical industry has failed to adapt to global trade trends, as shown by the 50% increase in the chemical industry deficit over the last decade, from US$20.7 billion in 2010 to US$32.1 billion last year, according to Brazil's Chemical Industry Association, ABIQUIM.
"In the past decades, we have seen a very strong globalization process and today, our production chains are suffering from that," laments Ciro Marino, CEO of ABIQUIM. "We need to be flexible and have an open economy, but the truth is that Brazil is not ready to compete. The country needs to address some issues internally that create high costs."
What are these internal issues? According to Marcos de Marchi, CEO of Elekeiroz and ABIQUIM's chairman, the three main issues are access to feedstock, electricity rates and logistics. Speaking of the latter, he said: "We need to open up the cabotage market to foreign vessels. Today, to bring a product from Bahia to Sao Paulo, we need to use trucks at a cost of US$100 per tonne (US$/mt), when it could cost 20 or 30 US$/mt if the cabotage segment was open to competition."
De Marchi added that Brazil currently has the world's most expensive gas: "We have started 2020 paying between US$10 and US$12 per million BTU, which is absurd, when you consider than in Argentina they are closing down wells because they cannot sell the gas in the market at a price of between US$2 and US$3 per million BTU."
To address this situation, the government is moving forward with its *Novo Mercado de Gás* project, a package to liberalize the gas market and push Petrobras out of midstream and downstream activities. The initiative is already undergoing the approval process at Congress.
Industry leaders surveyed saluted the move as a very positive change: "Opening the market to international investors will provide an expansion of the gas distribution network. Also, we will be able to import LNG, and this will be the end of Petrobras' monopoly – as a result of which gas prices will go down," said Marino of ABIQUIM.
Roberto Santos, CEO of large petrochemical producer Unigel, agrees: "This government had the right concept in mind when it decided to open the market. Now, we can choose who we buy from in terms of feedstock and this is changing the landscape."

Counting on agro

A sector that has not stopped growing during of the pandemic is agriculture. Latin America, and Brazil in particular, offers outstanding conditions to supply the rest of the world with food. "The agriculture industry in Brazil is very strong and is probably the number one sector if you look at the industrial GDP of the country," said Santos of Unigel. "The production of every single commodity, like soy, corn, sugar, cotton or coffee, increases every year."
This trend has not gone unnoticed by the chemicals industry as it opens up opportunities in the fertilizers and crop protection businesses. Unigel, for example, is investing in urea production as the country currently relies heavily on imports.
Further down the value chain, given Brazil's great biodiversity, the country is the perfect testing ground for agricultural solutions. According to Manfredo Rübens, president South America at BASF, the company's Agricultural Solutions division represents 45% of the overall South American business portfolio. In Brazil in particular, BASF's research centers are major drivers of innovation for the agribusiness segment globally. "We are bringing 28 new solutions to the market in South America for very specific crops. Once a solution has been tested in Brazil, for instance, we are able to look at its applicability to other markets such as Ukraine."
Encouragement also stems from Brazil's efforts to tap into its pre-salt hydrocarbon resources at more competitive production costs than initially expected, opening great opportunities for the industry if the right framework is in place. As the largest economy in Latin America and a huge market of over 200 million people, the country's chemical industry will always have a key role to play, as long as both the administration and the different companies do their part to be more competitive. In the words of João Parolin, CEO of Oxiteno: "We will come out of this pandemic stronger, because digitalization has accelerated a lot and this is a big leap in productivity for all companies." ■

BRAZIL AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Brasilia

GDP
US$ 1,847 billion

GDP GROWTH
0.9%

HEAD OF STATE
President Jair Bolsonaro

TOTAL INVESTMENT (% OF GDP)
15.7%

GROSS NATIONAL SAVINGS (% OF GDP)
14.5%

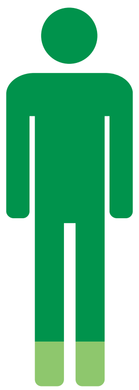
CURRENT ACCOUNT BALANCE (% OF GDP)
-1.30%

DEMOGRAPHIC DATA

Source: IMF, data for 2019

POPULATION
209.9 MILLION

UNEMPLOYMENT RATE
11.8%



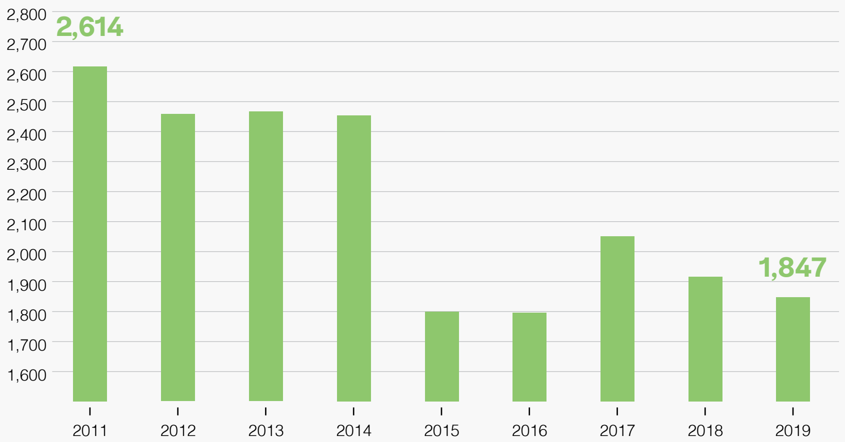
GDP PER CAPITA
US$8,797

GDP PER CAPITA (PPP)
US$16,462

INFLATION RATE
3.8%

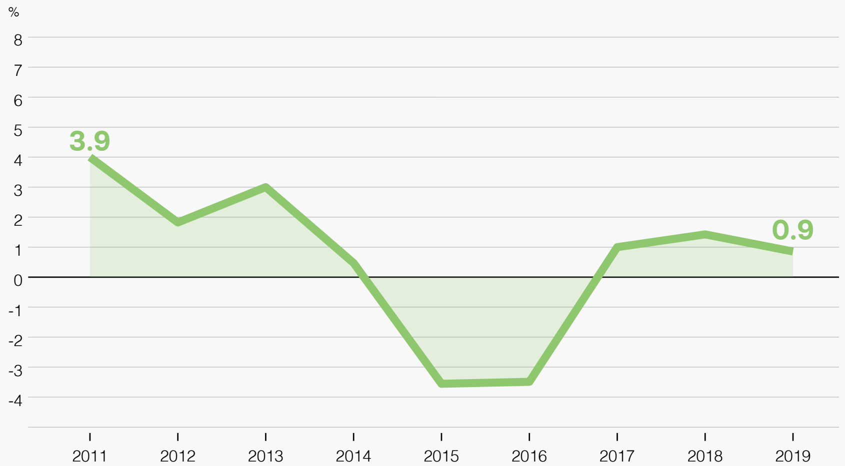
GDP EVOLUTION IN US DOLLAR VALUE

Source: IMF



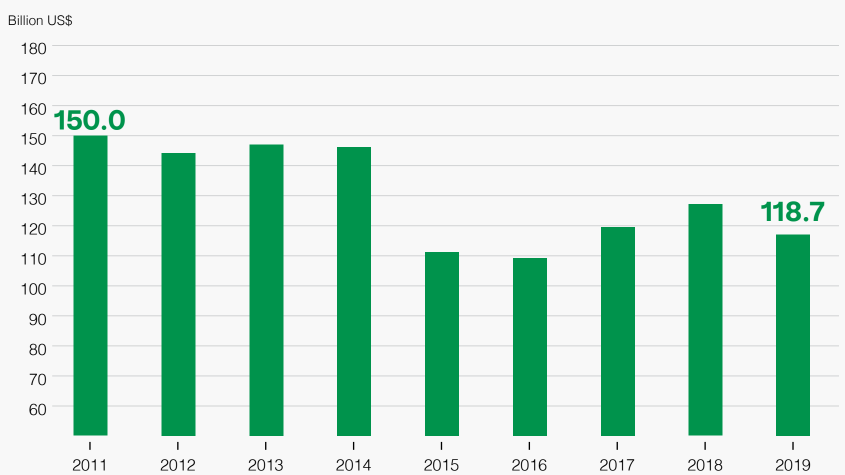
GDP GROWTH

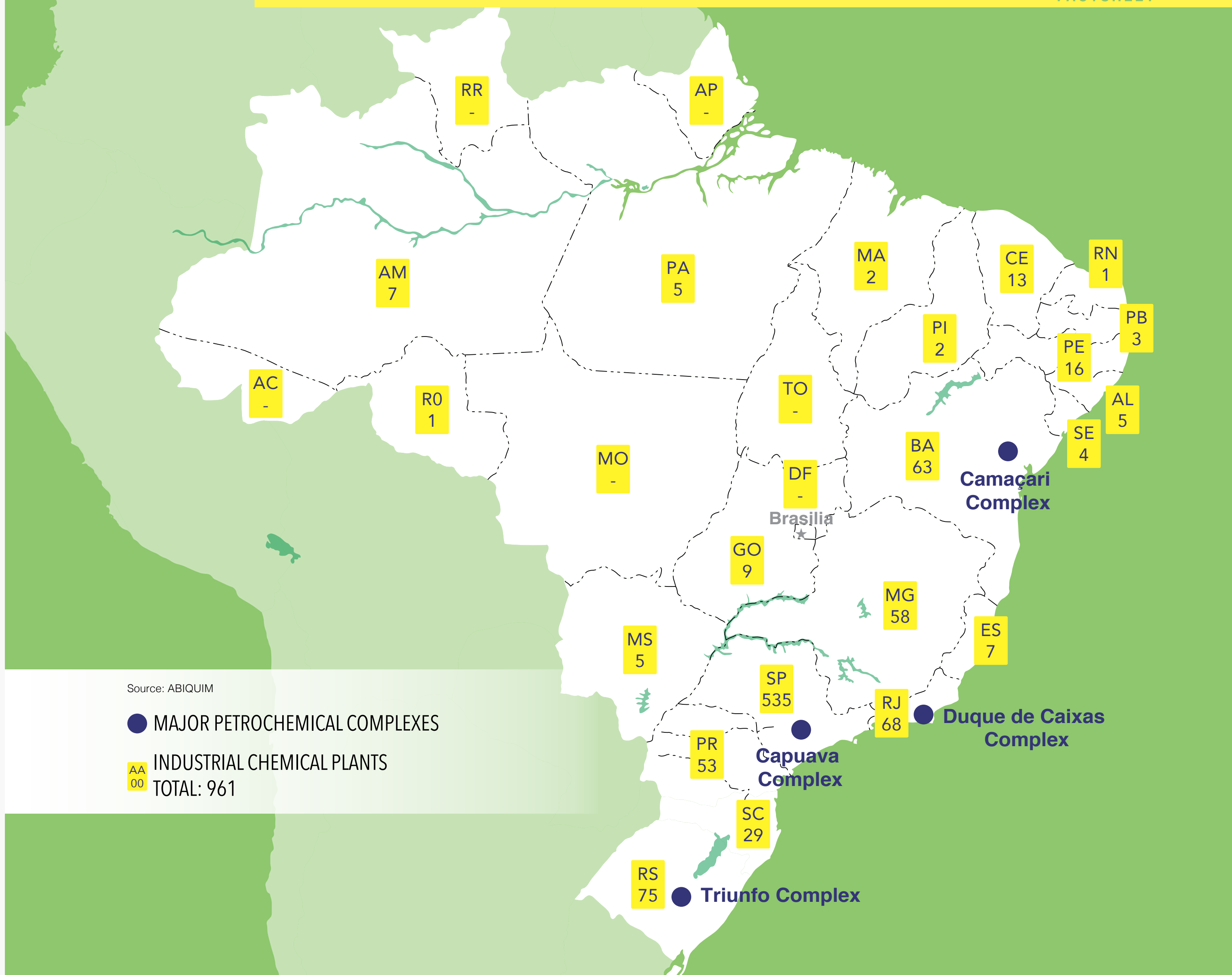
Source: IMF



CHEMICAL INDUSTRY NET SALES (US$ BILLION)

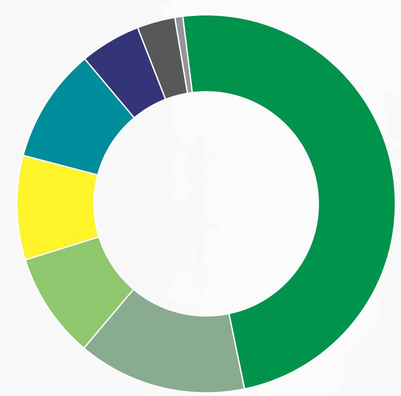
Source: ABIQUIM and other segment associations





CHEMICAL INDUSTRY SALES BREAKDOWN (2019)

Source: ABIQUIM and other industry associations



	Sales (US$ billion)	Average annual growth since 1996 (%)
Industrial chemicals	55.5	4.6
Pharmaceuticals	17.2	3.6
Perfumes and cosmetics	10.9	4.2
Fertilizers	10.6	5.6
Crop protection	11.8	8.5
Cleaning-related products	6.1	3.4
Paints and varnishers	3.7	2.7
Man-made fibers	0.8	n/a
Other	2.1	1.5
TOTAL	118.7	4.5

BRAZIL'S CHEMICALS INDUSTRY REPRESENTS 2.3% OF GDP

CHEMICAL INDUSTRY TRADE DEFICIT

Sources: ABIQUIM / MDIC / Secex

US$32.1 BILLION

2019

(+8.5%)

Ciro Marino

CEO
ABIQUIM
(BRAZILIAN CHEMICAL INDUSTRY ASSOCIATION)

»Brazil has good technological capacity, a trained workforce in chemicals and a clear regulatory framework, but we still need reforms. After the successful pension reform, we still have to implement tax and labor reforms«

How has Brazil's chemical industry been affected by the pandemic?

The chemical industry is very diversified, but you can split it along two main lines: the winner sectors, including those directly related to the pandemic (hygiene products, polypropylene for masks, pharmaceuticals etc.), agrochemicals, and fertilizers, all of which have been running at full capacity. Then, you have the losers: automotive, aviation, tourism, textiles, and manufacturing. Overall, during the second quarter of 2020, the industry in Brazil has been running at between 50% and 60% capacity.

In the past decades, we have seen a very strong globalization process, and today our production chains are suffering from that. Moving forward, we think that the world needs to rethink its production strategies and move production back from the east to the west. We need to be flexible and have an open economy, but the truth is that Brazil is not ready to compete. The country needs to address some issues internally that create high costs.

How are the changes in the gas market going to help boost competitiveness in Brazil?

The so-called 'New Gas Market' is going to bring very positive change. Opening the market to international investors will provide an expansion of the gas distribution network. Also, we will be able to import LNG, and this will be the end of Petrobras' monopoly – as a result of which gas prices will go down.

Brazil has good technological capacity, a trained workforce in chemicals and a clear regulatory framework, but we still need reforms. After the successful pension reform, we still have to implement tax and labor reforms. Additionally, there is also a plan for administrative reform to reduce the size of the State, which is too big, making business expensive with high interest rates. Furthermore, we should have a big political reform: nowadays, deputies and senators in Brasilia do not really represent the will of the population.

Can the country attract investment to rebuild some of the lost production chains?

For many years, we had an overvalued currency, but now that the real floats freely, Brazil is much more competitive for investment. Also, Brazil has a huge supply of water and clean energy sources like hydro, wind and solar power, and this is a unique advantage. In chemicals, Brazil has lost production capacity in several segments like methanol, even if the country has consumption levels that would justify having a world-scale plant. We could have that back if we have competitive feedstock.

Brazil also imports most of its fertilizers. Both the Defense and Economy ministries are convinced of the need to reestablish several production chains and have 'biosecurity' in areas such as food production and pharmaceuticals. For this, we do not need to touch the Amazon: everything can be done in the southern part of the country. We just need to be more efficient, so agrochemicals are tremendously important.

What is the potential of the pre-salt fields to better support the production chains?

Pre-salt already accounts for 70% of oil and gas production in Brazil. At the beginning of pre-salt development, the expectation was that production would be very expensive, because we are talking of 7,000 meters below sea level. Then, we saw that some pre-salt reserves are just underneath our historical wells, so exploitation becomes more economic because you do not need brand new drills, but just to extend some old wells.

What are the innovation and sustainability initiatives ABIQUIM and the industry are working on?

Plastics pollution in oceans is a big issue and ABIQUIM is leading discussions around the subject. We also have a strong zero-pellet program. Beyond this, we are promoting recycling and circular economy programs with the downstream chains, together with associations such as Abiplast and Plastivida. We are also working on natural gas specification, because depending on the methane content, the burning characteristics vary, and this offers room to reduce the levels of smog.

Brazil has high-tech innovation centers, like SENAI CETIQT in Rio de Janeiro, with interesting initiatives such as modifying the DNA of some natural fibers like cotton so the clothes adapt to the temperatures and become warmer or cooler. We also have an impressive 40,000 square meter SENAI center in Bahia, with the capacity to produce small reactors at a pilot, semi-industrial scale. ■

Edison Terra

VP Olefins and Polyolefins South America
BRASKEM

»The region, mainly with Brazil and Argentina, has huge potential for growth in the petrochemical industry as there will be plenty of feedstock available. This will require policy changes, midstream investments and infrastructural improvements.«

What is Braskem's global footprint?

Braskem is the largest petrochemical company in the Americas, the largest producer of polypropylene (PP) in the US, and a global leader in biopolymers production. We have a global presence with 40 industrial units, of which 28 are in Brazil, six in the US, two in Germany and four in Mexico. The company sells products in over 70 countries. One of Braskem's main developments is our new PP production plant in the US, which started its operation in Q3 2020. The US$675 million Delta project is located in La Porte, Texas, and it is the company's largest PP unit as well as the most energy efficient PP production plant in North America, with a production capacity of 450,000 tonnes per year (mt/y).

Can you elaborate on Braskem's capacity in Brazil and how is this market behaving?

Approximately one third of Braskem's capacity in Brazil goes to the export market, mainly South America. In 2019, our Brazilian market experienced a small growth rate of approximately 2%. We believed that the Brazilian economy would have a better performance in 2020, but the coronavirus scenario changed this perception. Even if Braskem is part of an essential industry for this market situation, we felt the global economic slowdown in our results. During this year, we focused on people safety and on meeting the needs of our clients. We kept our industrial units operating, with all the security protocols, and continue to prepare for a recovery in our markets. The context affected resins and chemical sales in Brazil, mainly in April, and this returned to near-normal levels in the middle of the year. We are confident we will have positive growth by the end of 2020 due to the start of the new PP facility and the expansion of our commercial footprint in Asia and Europe.

How can pre-salt developments facilitate access to competitive feedstock?

The region, mainly with Brazil and Argentina, has huge potential for growth in the petrochemical industry as there will be plenty of feedstock available. This will require policy changes, midstream investments and infrastructural improvements in the region. At Braskem, we have been talking to potential partners that could make the availability of additional feedstock a reality.

How important will renewable source chemicals be for Braskem moving forward?

Ten years ago in 2010, we launched the *I'm green* brand and bio-based polyethylene and, way before the circular economy started to become a hot topic in the sector, we were already focusing on recycling, waste reduction and investing in bio-based resins. Today, Braskem has an annual capacity of 200,000 mt/y of bio-based polyethylene and is the global leader in biopolymers production. We are seeing a much greater demand for our bio-based products, coming especially from Europe and Asia, and that is why we are studying opportunities to expand the capacity of our green ethylene unit in Rio Grande do Sul, Brazil.

Can you comment on some initiatives undertaken during Covid-19?

Since the beginning of the pandemic, in March, we had more than 80 global projects with clients and other partners amounting to R$10 million in donations. A lot of that was dedicated to the transformation of plastic resins and chemicals into essential goods, such as surgical masks, packaging for liquid and gel alcohol, bleach and 3D printing of bands for protective face shields. Another highlight was the donation of LPG to field hospitals and hygiene kits and food staples to local communities where we operate. Finally, we kept our team members as safe as possible, through flexible office schedules, a 40% reduction in the number of employees on site, and a platform for physical and emotional support to all team members and their families.

APLA celebrates 40 years in 2020. How has the mandate of the association evolved?

Today, we have approximately 120 associated members, creating a great platform to boost governance and promote business in the sector. At the APLA event, approximately 300 companies are represented from 35 countries, and people use this opportunity to network and develop business. We are trying to share the future of the industry and its trends and increase the awareness of sustainability to foster sustainable practices and responsible care in the industry. ■

Roberto Santos

CEO
UNIGEL

» Some industries have performed quite well, in terms of polystyrene disposables for food packaging and acrylic sheet. Besides, the agriculture industry has seen zero impact, while the demand for cyanide has remained strong, thanks to the increasing price of gold. «

Could you provide a description of Unigel's business lines and geographical footprint?

In recent years, Unigel has been very strong on two main business units, styrenics and acrylics, and we are now making an important investment to expand into a third business unit, fertilizers. In styrenics we have two styrene plants, two polystyrene plants, and also the latex plant in Guarujá that we acquired from Trinseo. We have invested heavily in our plant in Bahia, basically with a new ethylbenzene plant which feeds the styrene production, and have also expanded our styrene capacity.

In acrylics we have also invested to expand capacity in methyl methacrylate (MMA), and we have just completed an expansion of our sodium cyanide line to 40,000 tonnes annually (mt/y). We have started up a new plant in Bahia for methacrylic acid, of which we are the only producer in Latin America. We have also been investing in downstream products, such as acrylic sheet, which is widely used for individual protection during the pandemic. We have a fully integrated chain with MMA, polymethyl methacrylate, and acrylic sheet, in Brazil and also in Mexico, where we have four plants.

How important is your diversification into fertilizers?

We were already present in the fertilizer business with three ammonium sulfate production plants in Bahia, and now we are strengthening our position in this segment with the two ammonia/urea plants, which should be up and running starting January 2021. This is part of an agreement we have with Petrobras to lease these facilities that were idle since 2019. With urea production, we are adding a third pillar to our business, and this way we are better protected against economic cycles.

The agriculture industry in Brazil is very strong and is probably the number one sector if you look at the industrial GDP of the country. Brazil currently imports 5.5 million mt/y of urea, and even with the two new plants up and running, this would only represent 20% of the market. Also, Brazil imports between 2 million and 2.5 million mt/y of ammonium sulfate, while the production of every single commodity, like soy, corn, sugar, cotton or coffee, increases every year.

What has been the impact of the pandemic on your day-to-day operations?

We provide acrylic resin to the automotive and durable goods industries, which suffered a lot, especially in April. Interestingly enough, some industries have performed quite well, in terms of polystyrene disposables for food packaging and also acrylic sheet demand has increased substantially due to the pandemic. Besides, the agriculture industry has seen zero impact, while the demand for cyanide has remained strong, thanks to the increasing price of gold. At some point we had to put some plants on hold, but as of July 2020 we were working close to capacity again.

Could you provide examples of successful innovation by Unigel, and of the company's sustainability initiatives?

We have recently developed a patented proprietary technology for the production of methacrylic acid, which was engineered 100% in house in our R&D center in Bahia. It is a small-scale plant of 5,000 mt/y that is already in operation. We also developed ethyl methacrylate production as a continuous process. We have developed proprietary technology for acrylic resins as well, and the same goes for the production of our acetonitrile in our Camaçari unit.

In terms of sustainability, we have invested R$50 million to make sure that 80% of the water in Candeias (Bahia) is recycled. Also, we have a very important education program. We have been sponsoring two schools in Candeias with 1,300 children. The "Escola de Educação Infantil Gysella Tygel" became the benchmark on public-private partnerships in education in the Bahia state. We have had this education program for more than 15 years and we are very proud of it.

Would you like to add a final message to the delegates of APLA?

We are a traditional chemical industry player with good relationships with our stakeholders. We are one of the largest chemical companies in Brazil. We continue to grow and, as shown by our investment in fertilizers, we will continue to bet on Brazil, which has always been our number one priority, even if we export all over the world. ■

Marcos De Marchi

CEO
ELEKEIROZ

»Today, we have the world's most expensive gas. The ANP has announced that the country could open up to new competitors, both in refining, production and distribution of natural gas. That would be an excellent change.«

How is Elekeiroz positioned under the current owners, H.I.G. Capital?

Elekeiroz is the only provider of oxo-alcohols in the region and the leading player in plasticizers, with an important position in sulphuric acid and other products as well. This attracted H.I.G. Capital to do the transaction in 2018 and become Elekeiroz's controlling shareholder. In terms of plasticizers, we are adapting to new trends, with an increasing demand for phthalate-free products. In this respect, we have developed phthalate-free plasticizers from hydrocarbons, but we can also produce green plasticizers using epoxidized soybean oil as feedstock. We do that in our Nexoleum joint venture, which is a 50-50 partnership with the original Elekeiroz shareholders.

What is your installed capacity in Brazil, and do you have any plans to expand it?

We have a total capacity of around 500,000 tonnes/year (mt/y), including 280,000 mt/y of sulphuric acid and 140,000 mt/y of oxo-alcohols – the rest is distributed among the remainder of the products, such as plasticizers, organic anhydrides, fumaric acid, formaldehyde, unsaturated polyester resins and hydrogen. During the first semester, due to the economy crisis caused by Covid-19 we stopped some production lines during one month on average. But after July, the majority of the lines are running close to full capacity. Having said that, we are cautious, waiting for a consistent recovery of the economy before we engage in new investments or expansion projects. This year we expanded our capacity for production of green plasticizers, thanks to stronger demand from shoe and toy manufacturers mainly. This new capacity is not yet fully used, since the soya bean oil is currently expensive if compared to petroleum derivatives.

How can Brazil overcome the challenge of accessing competitive feedstock?

We have high hopes that the feedstock situation will change soon. Today, we have the world's most expensive gas. Brazil's National Agency of Petroleum (ANP) has announced that the country could open up to new competitors, both in refining, production and distribution of natural gas. That would be an excellent change. We have started 2020 paying between US$10 and US$12 per million BTU, which is absurd, when you consider than in Argentina they are closing down wells because they cannot sell the gas in the market at a price of between US$2 and US$3 per million BTU. We expect that the so called 'New Gas Market' (Novo Mercado do Gás) announced in July 2019 will be transformational for the economy, and especially for the chemical industry, which consumes 25% of all the industrial gas sold in the country.

Beyond feedstock, what are the changes that Brazil needs to become more competitive, and how are you working on this as part of industry association ABIQUIM?

There are three important issues that need to be addressed: one is feedstock, be it natural gas or naphtha; the second is electricity rates; and the third is logistics. At ABIQUIM we prepared 73 proposals that we delivered to all the presidential candidates before the past election. Bolsonaro's team was probably the one that showed interest in them. We are not asking for tax exemptions – these are structural changes to the economy. For instance, we need to open up the cabotage market to foreign vessels. Today, to bring a product from Bahia to Sao Paulo, we need to use trucks at a cost of US$100 per tonne (US$/mt), when it could cost 20 or 30 US$/mt if the cabotage segment was open to competition.

APLA celebrates 40 years of existence in 2020. What do you think will be the role of the association moving forward?

I believe APLA can play an important role in terms of integrating the regional market. We have already seen how Brazil could import gas from Argentina at competitive prices. Of course, there are government issues that need to be addressed, but if we as an industry manage to present solid private initiatives for the benefit of the economy, governments would not oppose those. ■

João Parolin

CEO
OXITENO

»We had a 5%-8% reduction of volumes during H1 2020, but we benefited from lower raw material costs, so we increased margins in our surfactants and specialty products, and from a devaluation of the local currency in Brazil, which reduced our fixed costs.«

Could you provide an overview of Oxiteno's operations?

We are a producer of surfactants and specialty chemicals. All our sites are in the Americas: Brazil, Mexico, US and Uruguay. The four main industries we serve are crop solutions, where our products are used in the formulation of herbicides, fungicides and insecticides; home and personal care, including I&I (institutional and industrial), where we provide surfactants for the formulation of detergents, cleaners, disinfectants, shampoo, etc; the coatings industry, with oxygenated solvents and surfactants used in coatings for the automotive industry, construction and other applications; and lastly, we are present in the oil and gas industry, providing surfactants for fracking operations and oil production. Beyond these four core markets, we also serve other segments like leather, textiles, pulp and paper and the food industry.

How did you adapt to lower petrochemical prices in 2019 and to the pandemic in 2020?

2019 was a challenging year for us, because we had very squeezed spreads in the petrochemical business. Petrochemical products are still relevant for us, like mono-ethylene glycol for the PET industry, and the margins were very thin. On top of that we had some inventory losses related to our oleochemical business, where we are a large importer of palm kernel oil. Our new facility in the US started operations in a context of a bad crop season in that country due to the floods. Meanwhile, in Brazil economic recovery was much lower than anticipated. As a result of all this, we implemented a cost-cutting project, whereby we simplified our administrative structure without touching the core innovation teams.
2020 started in a completely different mood, with a much better situation in agrochemicals, and then we had Covid-19. Our H1 2020 results, however, were much better than during the same period of 2019, with a good crop protection business in both the US and Brazil, and sales for home and personal care increasing a lot. Of course, anything related to durable goods like automotive, construction and textiles slowed down. Overall, we had a reduction of volumes between 5% and 8% during H1 2020, but we benefited from lower raw material costs, so we increased margins in our surfactants and specialty products. These factors, together with a devaluation of the local currency in Brazil, which reduced our fixed costs, all contributed for a very good first half of 2020.

Within your core markets, where do you see the biggest growth opportunities?

Even without touching the Amazon, Brazil has the largest amount of arable land available so the agribusiness is a strategic sector for us. The industry is becoming very sophisticated, with big data and IoT usage to know exactly how much water, fertilizer or pesticide you need to apply in each segment of the farm. Now you apply pesticides with drones, so that presents new challenges and new surfactant developments.
The other star segment for us is home and personal care. It is clear that the world will not be the same after this pandemic in terms of cleaning standards. Besides, if you look at the ageing population there is a strong opportunity in areas such as skincare products, for instance.

Can you provide examples of innovations, and what does your 'Greenformance' concept entail?

In crop protection, soybean rust is a problem in Brazil, as the fungicide used has some side effects on the plant. So, we have developed formulations that have a much milder impact. Also, we have worked on some tank mix adjuvants to stabilize formulations. Meanwhile, in the home and personal care area, Oxiteno has participated in the formulation of high concentration detergents, that save packaging, freight and emissions in general.
Most of what we do in our innovation activities is to find more sustainable ways to solve our customers' problems. The Greenformance concept looks at having an end-to-end study for every product. I do not like to talk about a 'cradle to grave' process, because sometimes you can recycle the waste material. We recently launched our sustainability plan until 2030, which comprises of nine sustainability pillars taken from the UN Sustainable Development Goals. ■

MEXICO

"At one point, Mexico´s chemical industry accounted for as much as 4% of its GDP; now it only represents 1.7%. Of the approximately US$45 billion chemical consumption, more than 60% is imported."

- Eugenio Manzano,
Executive Director,
Grupo Pochteca

Juventino Rosas, Guanajuato. Image courtesy of Ramy Loaiza.

Miguel Benedetto

Director General
NATIONAL CHEMICAL INDUSTRY ASSOCIATION (ANIQ)

What was the impact of Covid-19 on Mexico's chemical industry during the first half of 2020?

Fortunately, we were able to demonstrate that the chemical industry was an essential segment during the pandemic, as it feeds 40 other industries. The companies most affected were those serving the automotive sector, which was completely shut down during April, May and June. The same happened with the construction segment. The mining sector was not considered essential either, which had a big impact. On the other hand, companies serving the pharmaceuticals, packaging or personal hygiene industries have seen double-digit growth during the pandemic. Overall, the industry has operated at a 60% capacity, while before the pandemic the average rate of utilization was 70%.
As of July 2020, analysts predict a contraction of between 8 and 10% of Mexico's GDP. The chemical industry will also have a contraction of around 4%. The problem we have in Mexico is that there are no fiscal or economic incentives to boost recovery. For the next 18 to 24 months we will have a challenging scenario, and on the chemical industry front we will only recover the levels of December 2019 by Q4 2021 or Q1 2022.

What is the feedstock situation for the country's chemical value chain?

Before the pandemic, the industry could not go beyond a 70% utilization rate because Pemex was not able to supply enough feedstock. At ANIQ we have always said that we need a strong Pemex considering its importance as key supplier to the industry. We believe in a strategic alliance between Pemex and the private sector to incorporate new technologies, develop new production and successfully exploit deepwater offshore fields as well as shale gas. All that cannot be done by Pemex alone.
The current administration, however, believes that all the energy sector can be handled by Pemex, and that all the electricity sector can be handled by the Federal Electricity Commission (CFE). As a result, we have a shortage of gas and products like ethane, propane or butane, so they need to be imported, primarily from the US. Last year alone Mexico imported US$32 billion in petrochemicals to feed the chemical industry value chain. On top of this, Mexico also imports 7 billion cubic feet per day of natural gas.

The new trade deal, USMCA, entered into force on July 1st. How is it impacting Mexico's chemical industry?

The new trade deal is a satisfactory agreement. We managed to include three main principles in it: first, regulatory convergence, meaning that regulations have to follow scientific principles and be agreed among the three countries. The second one was a simplification of the rules of origin, which makes it easier to import or export without paying duties. The third theme was related to the energy sector. Mexico's energy reform in 2014 allowed for private sector investment in the energy segment, but these investments were not recognized by the NAFTA treaty. The new treaty includes this and gives more certainty.

> **We have a shortage of gas and products like ethane, propane or butane. Last year alone Mexico imported US$32 billion in petrochemicals to feed the chemical industry value chain. On top of this, Mexico also imports 7 billion cubic feet per day of natural gas.**

The AMLO administration is promoting fossil fuels. How can Mexico meet its Paris agreement commitments?

Mexico needs a reduction of 25% in greenhouse gas emissions, and the electricity sector needs to meet one third of that percentage, but the current administration is limiting the expansion of renewables and there is a strong focus on fossil fuels again. We are concerned because in this context, the only way Mexico can meet the goals of the Paris agreement is to further reduce emissions in the industrial and transportation sectors. As ANIQ we are working with the government to emphasize the need for change in the power generation sector.

What are your initiatives to tackle plastic pollution?

Many cities and states in Mexico have already banned free plastic bags in supermarkets. By January 2021 single-use expanded polystyrene items will be banned as well, including plates, cups and straws. ANIQ has a number of commitments: by 2020 not just producers but also transformers, distributors and transportation companies should waste zero pellets. By 2030, 100% of the industry's packaging should be 80% recycled. And by 2040, 100% of all plastics and packaging should be recycled.

Would you like to send a final message to the members of APLA?

Today, exchanging information and points of view is fundamental to the economic recovery of Latin America, and the chemical industry is a key factor to meet sustainable development goals. There is enormous potential in Latin America, the market is very significant, and we want to continue promoting the use of chemicals for the benefit of the wider society. ■

Mexico

PEMEX'S INABILITY TO FEED THE INDUSTRY CONTINUES THE COUNTRY'S RELIANCE ON IMPORTS

Economic growth for 2019 was disappointing for Mexico, as the country had to revise its initial projections downwards throughout the year. As per IMF data, the GDP barely expanded by 0.4% last year – a lack of pre-pandemic economic growth that will cause the post-Covid recovery to be "modest", according to a Fitch report released in September 2020. The ratings agency expects the country's GDP to contract by around 9% this year, following a strong fall of nearly 19% over the second quarter.
The last years have not been easy for the chemical industry either, as low petrochemical prices have put pressure on margins, while the lack of feedstock, a persistent problem in Mexico, has forced some producers including Braskem Idesa to be creative and recur to imports to maintain their projected levels of output.
The pandemic is adding to the challenges. Mexico's chemical industry association ANIQ predicts that the contraction in the chemical industry will be 4% this year –not as bad as the overall economy, but still significant enough to create some financial stress on operations. Miguel Benedetto, general director of ANIQ, expects a challenging scenario for the next 18 months, as the industry will only recover to pre-pandemic levels by the end of 2021 or early 2022.

How to best fix Pemex?

In April 2020, Pemex became a so-called "fallen angel", as its bonds culminated the process of descending from investment grade to junk. The heavily indebted national champion is struggling to get back on its feet, and this affects the whole value chain. "Before the pandemic, the industry could not go beyond a 70% utilization rate because Pemex was not able to supply enough feedstock," says Benedetto of ANIQ, who advocates for a strong alliance between Pemex and private players. "We must incorporate new technologies, develop new production and successfully exploit deepwater offshore fields as well as shale gas. All that cannot be done by Pemex alone," he said.
The López Obrador (AMLO) administration is not so favorable to public-private partnerships and wants to revive Pemex's former national glory, but it is failing to do so. "We have a shortage of gas and products like ethane, propane and butane, so they need to be imported, primarily from the US," explained Benedetto. "Last year alone, Mexico imported US$32 billion in petrochemicals to feed the chemical industry value chain, as well as an additional 7 billion cubic feet per day of natural gas."
Eugenio Manzano, executive director of

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MEXICO AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Mexico City
GDP
US$1,274.2 billion
GDP GROWTH
0.4%
HEAD OF STATE
President Andrés Manuel López Obrador
TOTAL INVESTMENT (% OF GDP)
21.6%
GROSS NATIONAL SAVINGS (% OF GDP)
20.5%
CURRENT ACCOUNT BALANCE (% OF GDP)
-1.2%

DEMOGRAPHIC DATA

Source: IMF, data for 2019

POPULATION
125.9 MILLION

UNEMPLOYMENT RATE
3.4%

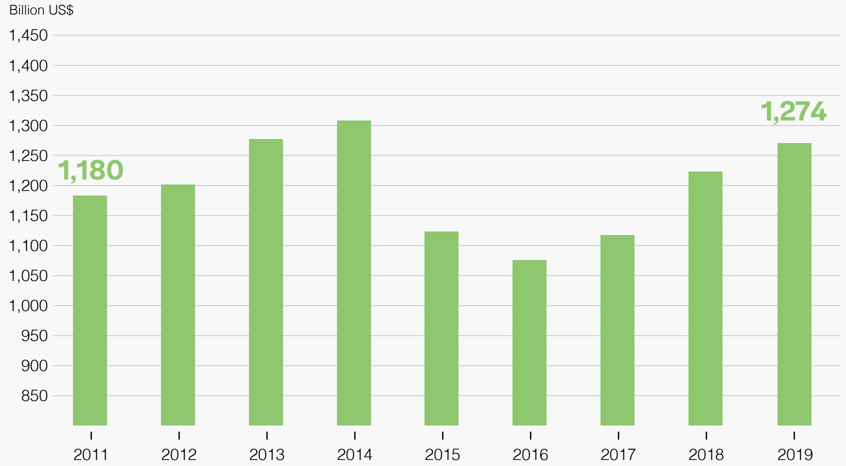
GDP PER CAPITA
US$10,118

GDP PER CAPITA (PPP)
US$20,867

INFLATION RATE
3.8%

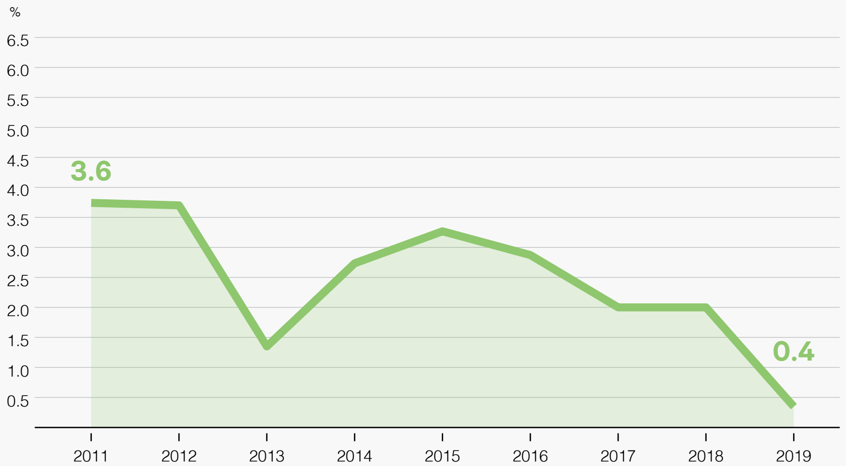
GDP EVOLUTION IN US DOLLAR VALUE

Source: IMF



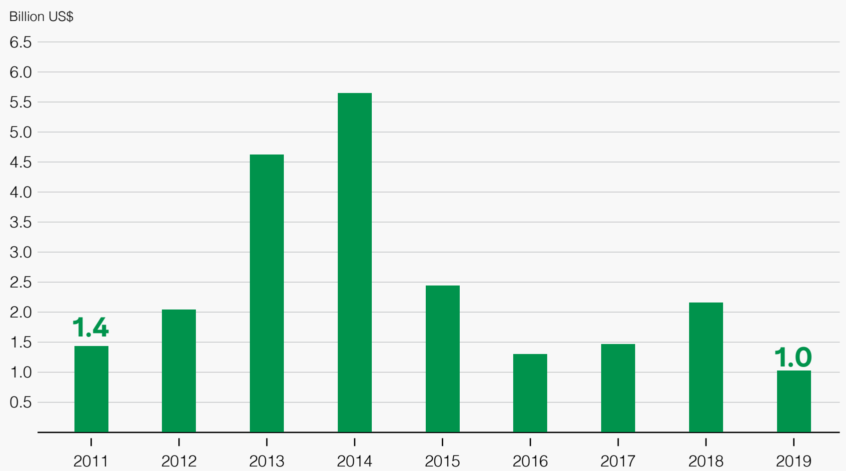
GDP GROWTH

Source: IMF



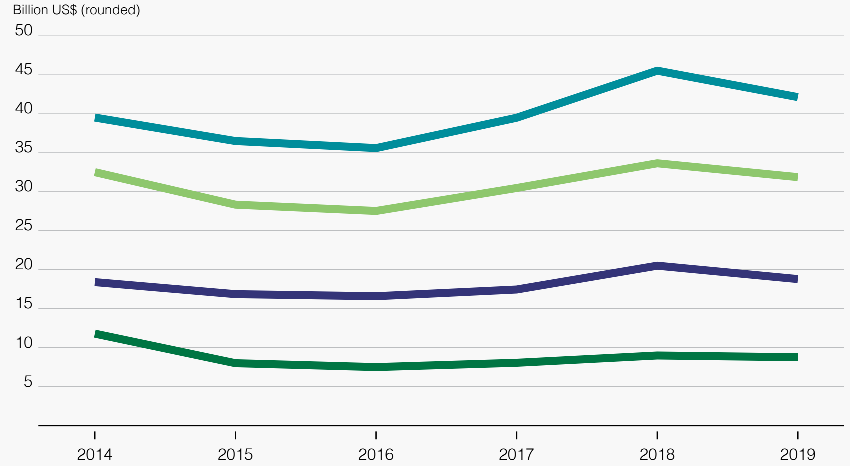
CHEMICAL INDUSTRY INVESTMENT

Source: ANIQ



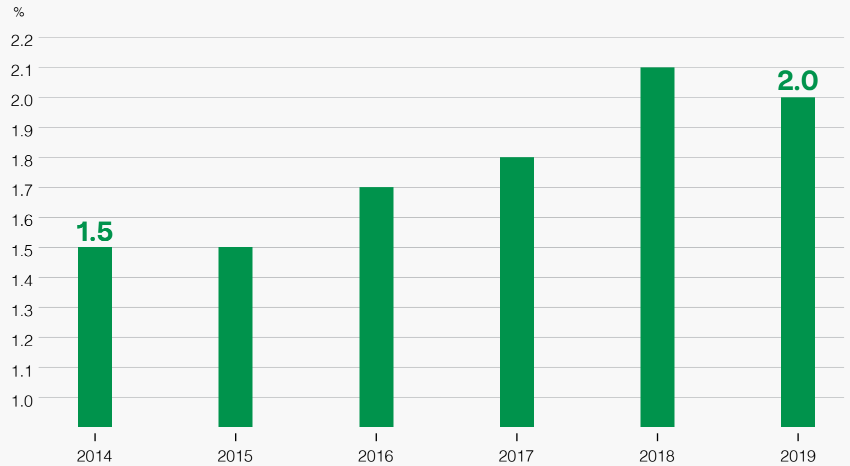
CHEMICALS PRODUCTION AND TRADE

Source: ANIQ



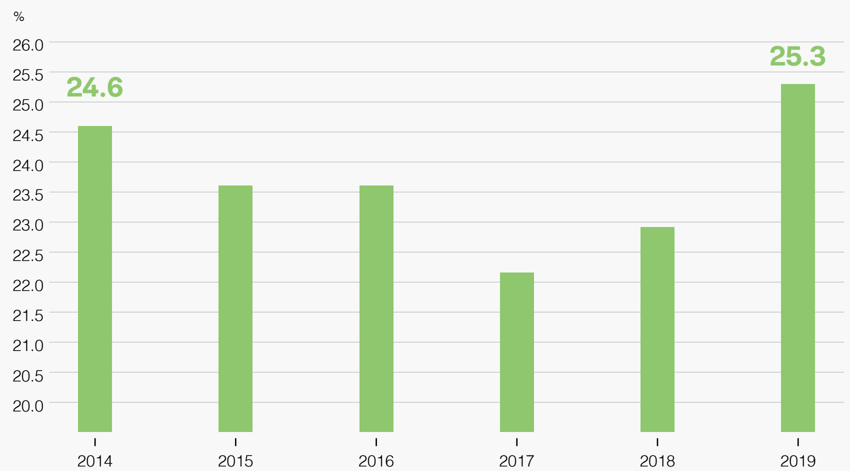
% PARTICIPATION OF THE CHEMICAL INDUSTRY IN THE GDP

Source: ANIQ



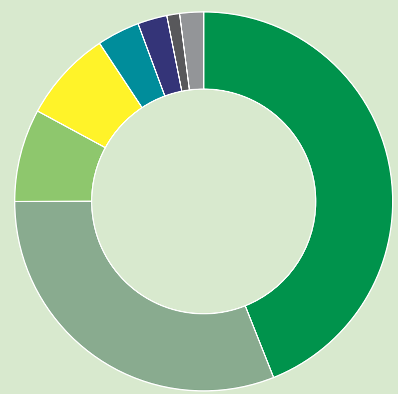
CHEMICAL INDUSTRY IDLE CAPACITY (%)

Source: ANIQ



CHEMICAL INDUSTRY BREAKDOWN (% SALES VALUE)

Source: ANIQ



	%
Petrochemicals	43.90
Synthetic resins	31.20
Agrochemicals	8.00
Inorganics	7.80
Industrial gases	3.60
Synthetic rubbers	2.60
Pigments and colorants	1.20
Adhesives	1.70

Stefan Lepecki

CEO
BRASKEM IDESA

» Covid-19 has been a global crisis, affecting all countries in different ways, but polyethylene is a very relevant product for the food packaging, hygiene and medical segments, which have been doing very well, while demand from construction and automotive has been hit. «

What was the state of the polyethylene market before Covid-19, and how have you adapted to the pandemic?

Before Covid-19 we were already experiencing a low cycle in the petrochemicals industry due to a large amount of new investments, mainly in the US and Asia. Globally, new capacity growth during 2019 was higher than demand growth, so that narrowed the spreads between ethane prices and polyethylene prices, directly impacting our business. Luckily, Braskem Idesa is a very competitive player; we are a low cost producer with a world-scale complex, and we have flexibility to take advantage of Mexico's strategic location and its free trade agreements with other countries. We export to more than 40 countries and, as of August 2020, polyethylene prices have already recovered, increasing price spreads as well.

Covid-19 has been a global crisis, affecting all countries in different ways, but polyethylene is a very flexible product serving different sectors of the economy. It is a very relevant product for the food packaging, hygiene and medical segments, which have been doing very well, while demand from construction and automotive has been hit. It is very difficult to predict how the economies will recover, but we continue to be optimistic with respects to our capabilities and the advantages of our polyethylene.

With regards to the company's day-to-day operations, we had to protect our collaborators. Very quickly, we sent our office people home to work remotely, and we plan to continue working like this for a while. At the industrial site, we reduced the number of employees and contractors, with a very strong focus on safety and production. We are very happy with the results we are having on both fronts.

How are you complementing Pemex's ethane supply with imports to increase utilization rates?

At Etileno XXI we have a production capacity of 1,000,050 metric tons of polyethylene per year (mt/y). To reach that rate, we need 66,000 barrels per day of ethane (bpd). Previously, we were only receiving 74% of that amount from Pemex, so this year we started a temporary 'fast-track' initiative to import ethane. The ethane arrives in a cryogenic ship to a temporary facility in the port of Coatzacoalcos and we transfer it to a carousel of trucks between the harbor and the Braskem Idesa facility. We are now importing 10,000 bpd and we plan to increase that to reach full capacity at the plant. Because Pemex's recovery will take time, the long-term solution should be a large-scale import terminal, and we expect to implement this in 2.5 years. Through ANIQ, we maintain a dialogue with the government and with Pemex to design structural solutions like this for the country's petrochemicals industry.

How has Braskem Idesa's been supporting the Coatzacoalcos region during the pandemic?

There are many large companies supporting Mexico, but we feel our responsibility is with the Coatzacoalcos region. Our approach is that we do not want to donate money, but provide tailor-made programs. For that, we are in close touch with the population and the authorities to really understand their needs. This is a poor region with not enough hospitals to deal with Covid-19, thus we decided to strengthen medical support with new doctors and nurses. We have also supported hospitals with infrastructure and with the donation of materials. We also have education programs.

How do perceive APLA's role over the last 40 years in providing a framework of collaboration for the industry?

APLA plays a key role, not only to understand dynamics in the chemicals industry in Latin America, but also to build relationships. The initial idea by Braskem and Grupo Idesa to work together and build the Etileno XXI plant in Mexico came up during an APLA meeting. So, APLA's 40th anniversary and Braskem Idesa's 10th anniversary are very much connected.

Would you like to add a final message?

We are in a difficult time for the industry and 2021 will probably be very challenging as we will see the real impact of the pandemic in the economy. The role of the petrochemical industry is clear: we support society with our products and services and, as an industry, we need to strengthen our actions toward the circular economy. ■

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large chemical distributor Grupo Pochteca, offers more figures on the current scenario: "At one point, Mexico´s chemical industry accounted for as much as 4% of the country's GDP; now it only represents 1.7%. The shortage of gas, ethane and methane negatively impacts the competitiveness of our chemical industry and many downstream industrial segments. There is strong competition from foreign manufacturers."

An illustrative example of the feedstock constraints that Mexico faces is the US$4.5 billion Etileno XXI facility, the largest petrochemical investment made in Mexico, operated by Braskem Idesa, and which has an annual production capacity of just over 1 million metric tons per year (mt/y). To reach that rate, the complex needs to be fed 66,000 barrels per day (bpd) of ethane, but Pemex has only been supplying 74% of that, so the company has to import ethane, a process initiated with a 'fast-track' temporary procedure. Stefan Lepecki, CEO of Braskem Idesa, provided more details: "The ethane arrives in a cryogenic ship to a temporary facility in the port of Coatzacoalcos, and we transfer it to a carousel of trucks between the harbor and the Braskem Idesa facility. We are now importing 10,000 bpd and we plan to increase that to reach full capacity at the plant. Because Pemex's recovery will take time, the solution should be a large-scale import terminal, and we expect to implement this in 2.5 years."

The world-scale size of the Etileno XXI facility and the versatility of the company's polyethylene were vital in navigating the low-priced polyethylene market of last year, when the addition of new capacity in the US and Asia outpaced demand growth. Mid-2020, the spreads between ethane prices and polyethylene prices have already improved, said Lepecki: "We export to more than 40 countries. It is very difficult to predict how the economies will recover, but we continue to be optimistic with respect to our capabilities and the advantages of our polyethylene."

A good position to recover

Despite the challenges, Mexico has several strategic advantages it can capitalize on, such as a large internal market, a strategic location neighboring the US, and a wide array of free trade agreements with many of the world's most important markets, allowing companies like Braskem Idesa to import feedstock needs and have very healthy export sales. These factors could help attract investment during this period where sourcing and trade paradigms are being redefined.

According to Martín Toscano, managing director of Evonik Industries in Mexico: "A positive development from the Covid-19 pandemic is an increasing trend in the relocation of supply chains from other world regions to Mexico to support further growth in North America. As frictions between the US and China rise, and as the Covid-19 pandemic is forcing some US companies to rethink their supply chains, Mexico can only benefit."

Toscano also downplayed the influence of the current administration on the business world: "Mexican industry continues unhindered by politics," he said, adding that more foreign companies are entering the Mexican market. "Many long-term investments look beyond current government policy, and the country's distinctive role as global manufacturing platform for many sectors supports interesting opportunities for further growth," he concluded. ■

Martín Toscano

Managing Director
EVONIK INDUSTRIES (MEXICO)

Can you comment on the company's performance for 2019 and the first half of 2020, with the impact of Covid-19?
Evonik's diversified presence across industries and sectors makes the company versatile and adaptable to market conditions. 2019 was positive for business growth with an increase of 15% in sales in comparison to the previous year. The growth has been structural and comes from an array of permanent factors. First, we made considerable progress in integrating new acquisitions. Secondly, we increased our involvement with global partners and their projects in Mexico, collaborating in their start of operations in the country. Finally, we developed our business portfolio with current clients taking into consideration their demand for products.
In 2020, despite the additional challenges around the Covid-19 pandemic, we are showing again solid growth in terms of volume and turnover versus the previous year. Several market segments are showing already their comeback to previous levels.

Could you provide some details on how the different industries you are involved in are behaving?
Due to the new free trade agreement with the North American region and the renewal and modernization of the free trade agreement with the European Union, Mexico shows interesting business growth in several market segments. Agriculture is the fastest growing industry in Mexico, next to automotive. Mexican agriculture revolves around fruits and vegetables that have high added value. Both automotive and aerospace will continue to play a key role in Mexico´s economy. Meanwhile, the pharma industry shows a mixed picture. While the industry is responding to the Covid-19 pandemic situation, the lack of clear rules and strategy in the purchasing commitments of the Mexican Institute of Social Security impacted several laboratories. Finally, Mexico is becoming a key player in the global protein markets, with exports of beef, pork and poultry meat growing.

How will changes brought in by the new trade agreement in North America impact Evonik in Mexico?
We are part of Evonik's North American platform and our closest partner for imports is the United States, as expected. Being an international company, we are flexible and can source our resources from Europe or Asia as well. Where we import our products from depends on our strategy and the product. While the rules around manufacturing for the automotive sector require some changes to operations, adjusting to the regulatory framework will suffice to sustain solid business projections. A positive development from the Covid-19 pandemic is certainly an increasing trend in the relocation of supply chains from other world regions to Mexico to support further growth in North America. As frictions between the US and China rise, and as the Covid-19 pandemic is forcing some US companies to rethink their supply chains, Mexico can only benefit.

"A positive development from the Covid-19 pandemic is an increasing trend in the relocation of supply chains from other world regions to Mexico to support further growth in North America. As frictions between the US and China rise, Mexico can only benefit."

Can you comment on the effect the López Obrador administration is having on business expectations?
Mexican industry continues unhindered by politics somehow and more foreign companies are entering the Mexican market. Many long-term investments look beyond current government policy and there are certainly important projections for Mexico globally. The country's distinctive role as global manufacturing platform for many sectors supports interesting opportunities for further growth. Right now, at Evonik we are committed to continue developing the right set of products and technologies to serve our customers in Mexico and keep working towards long term growth.

What is the company's strategy for innovation?
We want to collaborate closely with our clients to understand how to become more efficient and resourceful holistically. Innovating along the value chain with them makes us more flexible and allows us to better respond to external changes regarding time and cost. Only companies with a strong collaborative strategy with all stakeholders along the value chain can succeed.

How is the APLA conference useful and important for industry?
The APLA conference typically allows us to better understand our common challenges at a regional scale. There are political, social and economic dynamics in the region that sometimes result in uncertainty. APLA serves to understand that uncertainty and current affairs. It is great to connect with a diversity of players and provides a platform from which we can defend common interests. ■

Eugenio Manzano

Executive Director
POCHTECA

Has Covid had any impact on Pochteca's operations and strategy?
Pochteca started preparing since January 2020, identifying risks, training our people and devising plans for the various stages of a potential pandemic in Mexico. Since early March, all high-risk employees were sent home with full salary and benefits. Those whose functions could be performed from home continued to work almost seamlessly, our IT team did a great job keeping people connected. As we are considered an essential industry, our operations continued in all of our facilities. Digitization, ecommerce and salesforce mobility contributed a lot during the critical months and we expect to continue investing in these areas.
Our product and segment diversification strategy was also key in getting through the crisis in good shape because, while some segments suffered significantly, others did well, generating positive overall results.

"The challenging economic environment, open borders, government regulations, economy of scale requirements to be competitive, e-commerce and digitization and low commodity prices will certainly result in more mergers and acquisitions in our region's chemical distribution market."

What are the pillars of Pochteca's strategy?
We provide solutions to thousands of customers in over 500 cities in Latin America. Our strategy fundamentals are value added selling, risk diversification, world class HSSE standards and conservative financial metrics. These have helped us to successfully overcome a challenging environment with negative GDP growth in the countries where we operate as a result of Covid-19, compounded by decreasing commodity prices and a complicated oil and gas market. We have focused on products with higher added value such as specialties, blends, dilutions and services. Approximately 40% of our product line undergoes some value-adding process. As an example, in the oil and gas sector, we are developing new products and applications including chemical blends to aid with drilling, processing and other stages. This is also the case in the meat, beverages, sauces, personal care, housing and coatings industries.
Our logistics services are also an important part of our business. We have 300,000 square meters of warehousing capacity and provide other solutions such as tanks and railway terminals. Our new state of the art terminal in Guadalajara (inaugurated in November 2019) is fully operational and generating the expected results. Having low-cost operations improves our sustainability and is part of our strategy going forward.

What role does sustainability play in Pochteca's operations?
Sustainability is a core value in Pochteca, and we are very proud to have received the 2019 Excellence Award in Responsible Care from ANIQ. Aside from operating with a reduced environmental impact, our products and services allow companies to improve their efficiencies and savings. A few months ago, we launched a new division offering integrated environmental solutions to our customers, including recycling, co-processing, zero waste to landfill programs and responsible confinement/disposal of industrial waste. We go as far as contributing our own personnel working in-plant at our customers´ operations. In the case of solvent recycling, we are developing a new solvent treatment facility and continue working towards improving and expanding the existing one.

How do you view the Mexican economic outlook and what effects do you forecast on the chemical industry?
At one point, Mexico´s chemical industry accounted for as much as 4% of its GDP; now it only represents 1.7%. Of the approximately US$45 billion chemical consumption, more than 60% is imported. Our commercial deficit in the area shows that we rely on supply from abroad. The shortage of gas, ethane and methane negatively impacts the competitiveness of our chemical industry and many downstream industrial segments. There is strong competition from foreign manufacturers. This situation, together with negative or slow economic growth, represents a challenging environment for the coming years.

How do you view the market for distribution services in the region and do you see opportunities for M&A activity?
Latin America continues to have a very fragmented chemical distribution industry, with hundreds of small regional players. The challenging economic environment, open borders, government regulations, economy of scale requirements in order to be competitive, ecommerce and digitization and low commodity prices will certainly result in more mergers and acquisitions in our region. As we have always done, we will evaluate any attractive growth opportunity that we come across. ■

ARGENTINA

"We are worried about the short term; the challenge for 2020 is enormous, but the long term fundamentals do not change. The prospects are positive, especially if we manage to come out of the pandemic as a more competitive industry."

- Jorge de Zavaleta,
Executive Director,
CIQyP

Cachi, Salta. Image courtesy of Hector Ramon Perez.

Argentina

INDUSTRY ENDURES SLEW OF ECONOMIC AND PANDEMIC RELATED HARDSHIPS

When Argentina's Peronist leader, Alberto Fernández was inaugurated in December of 2019, there were several indications that his first year in office would be a rocky one. Latin America's third largest economy was already in the midst of an economic meltdown that began under President Fernández's predecessor, Mauricio Macri, in 2018, when country was dangerously close to defaulting on its sovereign debt, inflation was running rampant and poverty and unemployment were rising.

Jorge de Zavaleta, executive director of the Chemical and Petrochemical Industry Chamber (CIQyP), outlined the ways in which these struggles were felt by industry: "2019 was a very challenging year for the industry in Argentina as a result of the weakness of the different value chains that use our products and other circumstances including local currency devaluation and interest rates increasing from 50% to 68%. The petrochemicals and chemicals industry experienced a 4% contraction year-on-year in terms of production volumes. Sales value in US$ plummeted by 25%, and the value of exports also fell by 32% in US$."

Emilio Nager, commercial manager for international markets at Braskem Argentina, also offered his analysis saying: "There were specific niche opportunities in the market, yet demand for polyethylene and polypropylene was really slow as a consequence of the economic and political situation in Argentina."

Whatever ambitions President Fernández had to restore growth in his first year on the job were quickly put on hold due to Covid-19. In response to the pandemic, Argentina imposed some of Latin America's strictest lockdown policies. Its economy is now forecast to shrink by 12% this year according to the IMF, and its budget deficit is set to widen to about 8% of GDP. Since Argentina is limited in its ability to borrow abroad, the Central Bank has been printing money to finance the pandemic spending, which is helping to keep inflation above 40%. The government has responded by freezing the price of services like mobile phones and internet, and is proposing to raise funds for the budget with a one-time wealth tax on millionaires.

Argentina, despite starting strongly against the virus, now has one of the world's highest rates of positive Covid-19 tests. As of October 2020, the country hit 809,728 confirmed cases and passed 20,000 fatalities.

The path to recovery

Given that it touches such a wide variety of sectors, the chemical and petrochemical industry is a great indicator of the direction in which the broader economy is headed. At the beginning of 2020, aspirations were high that the Vaca Muerta shale region would play an integral role in spurring business activity. However, the toxic combination of an oil-price war between Saudi Arabia and Russia, two of the world's largest producers, and the Covid-19 pandemic drove the global crude market to below US$25 per barrel, effectively rendering much of the region's shale uneconomical. Although oil prices have since recovered to around US$40 per barrel as of October 2020, investment has been slow to return. However, as market conditions improve, Vaca Muerta will continue to be a national priority because of its vast export potential and because it will bring in what the country needs most to pull itself out of a financial crisis in its third year: US dollars.

There are some executives who see a silver lining. Gabriel Rodríguez Garrido, executive director of Argentina's Petrochemical Institute (IPA), contends: "If Argentina wants to solve its endless economic crises, the country needs to incentivize exports. Today, chemicals or petrochemicals make up 20% of all the industrial products manufactured in the country, so the industry offers enormous opportunities to add a lot of value by generating currency, jobs, and exporting value-added products. If Argentina does not take this opportunity, other countries will."

Besides, Argentina's economy is not all in a state of economic malaise. One of the more positive developments for the country is its strong agricultural sector. In the opinion of Federico Alonso-Hidalgo, general manager at Gleba, a crop protection firm: "The agro sec-

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Jorge de Zavaleta

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

How did Argentina's chemical industry end 2019?

Like for other segments, 2019 was a very challenging year for the industry in Argentina as a result of the weakness of the different value chains that use our products and other circumstances like local currency devaluation and interest rates going up from 50% to 68%. The petrochemicals and chemicals industry had a 4% contraction year-on-year in terms of production volumes. The sales value in US$ plummeted by 25%, and the value of exports also fell by 32% in US$. The commercial balance for 2019 showed a deficit of US$4.4 billion, just 0.67% higher than in 2018. This deficit is lower than Brazil's, which is over US$30 billion, even if we consider that Brazil's population is five times Argentina's. Argentina has the particularity of having a lot of natural gas and a large petrochemical pole in plastic resins and performance chemicals and exports nearly half of its production, while Brazil primarily serves its internal market.

Another issue we had last year and that continues today is export taxes, which generate a substantial portion of the government's revenue, affecting mainly the agriculture and mining sectors, but also chemicals. In 2019, the Macri administration increased these export taxes which affected our competitiveness in the international markets.

So, the economic situation was not ideal when 2020 started, then came the coronavirus. How is the industry weathering the storm?

The pandemic caught all governments by surprise and Argentina decreed a strict lockdown, which helped keep the number of deaths lower than in other countries, but also had a great impact on the economy. We were lucky that the Ministry of Productive Development was in close touch with the different associations. We managed to convince the government that any continuous process plants, essential or not, should not stop. So polyethylene plants, urea plants, and any other facilities that do not work on a batch basis, could continue working. Also, the agriculture sector was declared essential from the beginning, and the chemicals industry is strongly linked to it with fertilizers, agrochemicals, plastics and agriculture equipment manufacturing. On the other end, some chemical production was declared non-essential, such as the adhesives for construction, but by May-June 2020, the different municipalities approved the reopening of the industries that had shut down under strict safety protocols. If we look at some numbers, in May 2020, we only had a 15% production reduction year-on-year.

» We managed to convince the government that any continuous process plants, essential or not, should not stop [during the pandemic]. So polyethylene plants, urea plants, and any other facilities that do not work on a batch basis, could continue working. «

Did the temporary crisis of the oil and gas price during the lockdown hamper the availability of feedstock in Argentina?

The availability of gas-based feedstock in Argentina has never been a problem, even during the low period of demand. There was an issue with the availability of refinery-based products however, because refineries decreased their production volumes. Now, fuel demand is increasing again, from 50% of normal levels during the lockdown to around 70% in July 2020, so the industries do not have issues to obtain feedstock any longer.

Has the wider population changed its perception of the chemical industry, considering how necessary it is to fight the pandemic?

Chemical products are proving to be essential to tackle the pandemic and we realize that the authorities, at very high levels, now perceive the chemicals industry very differently than in years prior. However, we do not know if the same applies to the general public as we have not done any study related to that.

What are your forecasts in terms of GDP contraction this year, and what are the prospects for the chemicals industry?

The IMF predicts the GDP to fall by 9.9% in 2020, but we think contraction will be more severe than that. Our sector is very particular, because we are an industry that feeds other industries. 96% of industrial processes use chemical products. Without polypropylene or special paints, the automotive industry cannot operate, for example. So we are working little by little to restart everything. We are worried about the short term; the challenge for 2020 is enormous, but the long term fundamentals do not change. The prospects are positive, especially if we manage to come out of the pandemic as a more competitive industry. ■

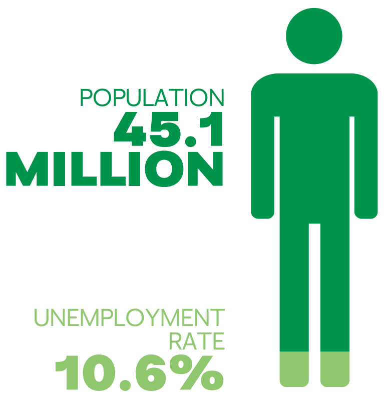
ARGENTINA AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Buenos Aires
GDP
US$445.5 billion
GDP GROWTH
-3.1%
HEAD OF STATE
President Alberto Fernández
TOTAL INVESTMENT (% OF GDP)
18.5%
GROSS NATIONAL SAVINGS (% OF GDP)
17.3%
CURRENT ACCOUNT BALANCE (% OF GDP)
-1.2%

DEMOGRAPHIC DATA

Source: IMF, data for 2019



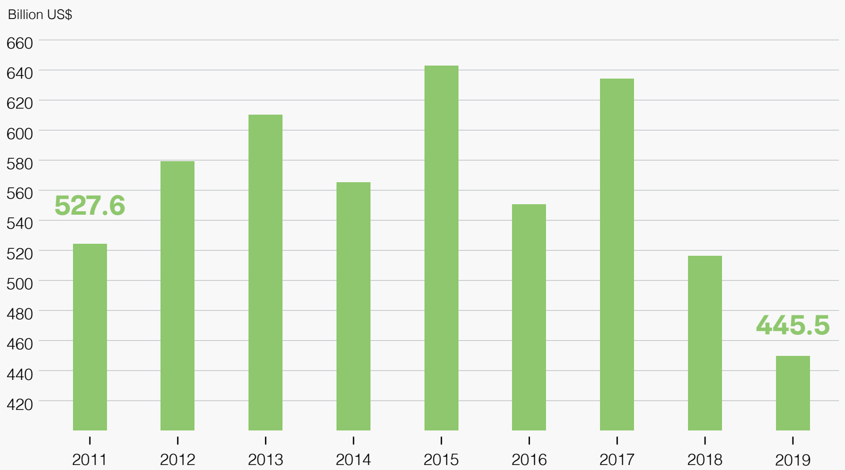
GDP PER CAPITA
US$9,888

GDP PER CAPITA (PPP)
US$20,055

INFLATION RATE
54.4%

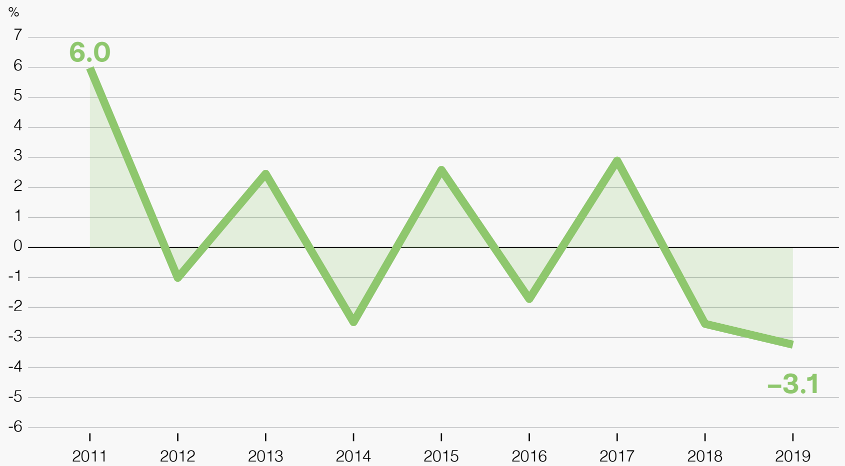
GDP EVOLUTION IN US DOLLAR VALUE

Source: IMF



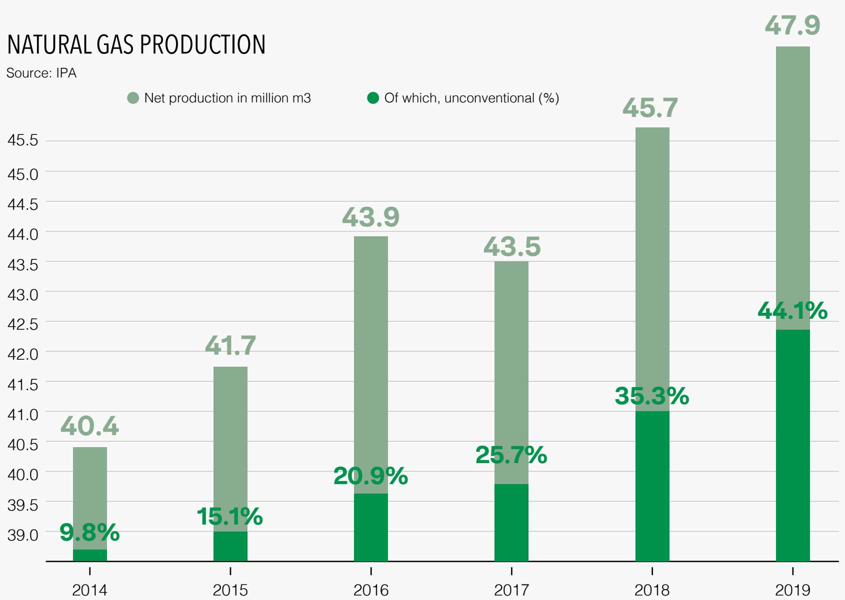
GDP GROWTH

Source: IMF



NATURAL GAS PRODUCTION

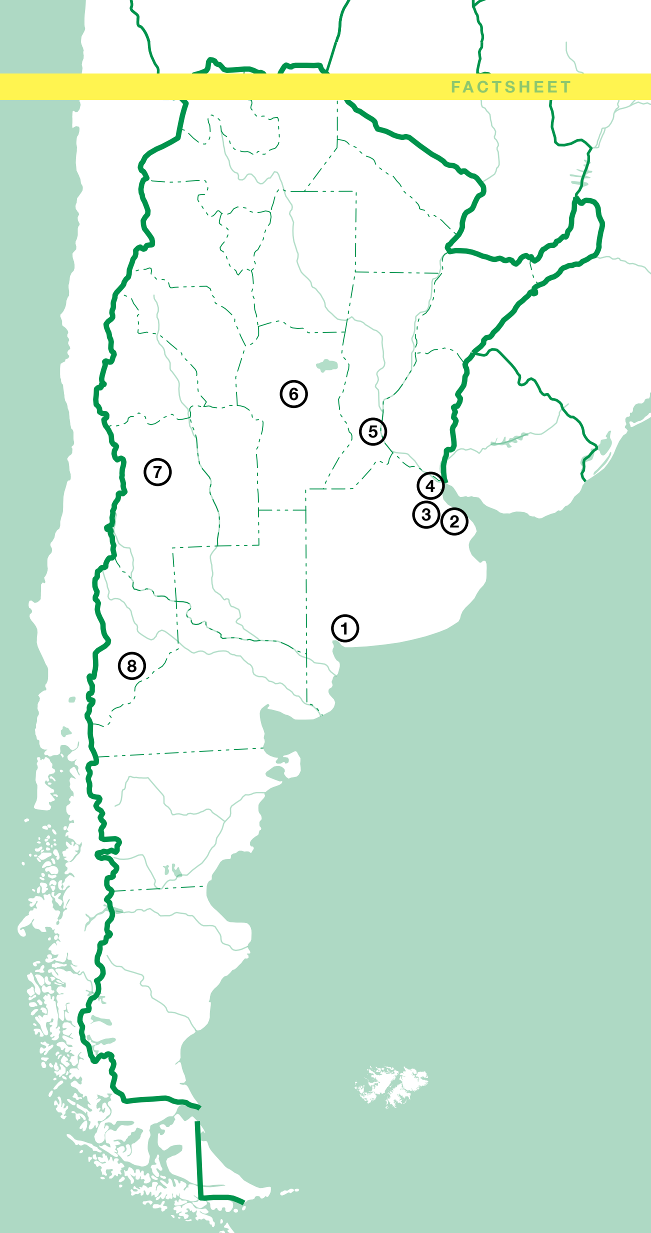
Source: IPA



Main Petrochemical Poles

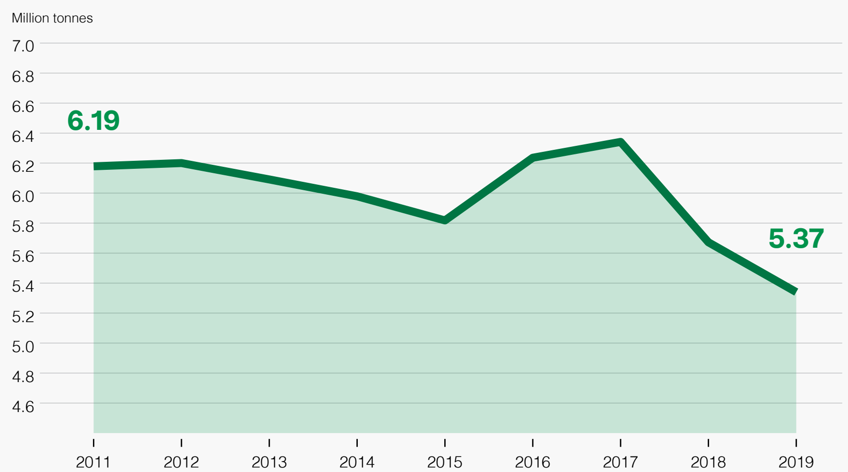
Source: IPA

1. **Bahía Blanca Area**
   - PBBPolisur S.A.
   - PROFERTIL S.A.
   - UNIPAR INDUPA S.A.I.C.
2. **Ensenada Area**
   - MAFISSA
   - PETROCUYO S.A.
   - YPF S.A.
3. **Gran Buenos Aires Area**
   - ATANOR S.C.A.
   - INDUSPOL AISLACIONES S.R.L.
   - PETROQUÍMICA ARGENTINA S.A.
4. **Campana - San Nicolás Area**
   - ATANOR S.C.A.
   - BUNGE ARGENTINA S.A.
   - CABOT ARGENTINA S.A.I.C.
   - CARBOQUÍMICA DEL PARANÁ S.A.
   - DAK AMERICAS ARGENTINA S.A.
   - PAMPA ENERGÍA S.A.
5. **San Lorenzo - San Martín Port - General Lagos Area**
   - AKZO NOBEL CHEMICALS ARGENTINA S.A.U.
   - ARAUCO ARGENTINA S.A. (Chemical Division)
   - DOW QUÍMICA ARGENTINA S.A.
   - EVONIK METILATOS S.A.
   - PAMPA ENERGÍA S.A.
   - STYROPEK S.A.
   - VARTECO QUÍMICA PUNTANA S.A.
6. **Rio Tercero Area**
   - ATANOR S.C.A.
   - FÁBRICA MILITAR RIO III
   - PR. III S.A.
7. **Luján de Cuyo Area**
   - PETROCUYO S.A.I.C.
   - YPF S.A.
8. **Plaza Huincul Area**
   - YPF S.A.



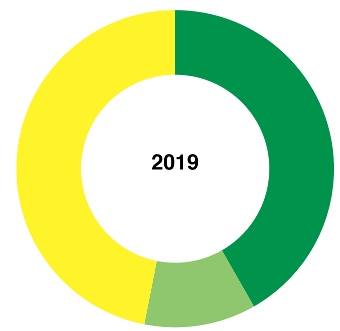
EVOLUTON OF PETROCHEMICAL PRODUCTION VOLUMES

Source: IPA



PETROCHEMICAL PRODUCTION

Source: IPA



	million tonnes	%
Basic	2.24	41.7
Intermediate	0.61	11.4
Final	2.52	46.9
TOTAL	5.37	

Gabriel Rodríguez Garrido

Executive Director
ARGENTINE PETROCHEMICAL INSTITUTE (IPA)

Could you provide some background on IPA and its recent developments?
IPA is a knowledge-based institution. As part of a strong modernization plan we are currently implementing, in May 2020 we merged with CIQyP, although both institutions maintain their identities and distinct mandates. The Chamber has a wider membership, of around 150 companies across the whole value chain, and its mandate is to focus on the short-term scenario. IPA has around 20 members, covering the main petrochemical producers, and we focus more on the medium and long term. Now, through this union, our initiatives reach a much larger audience.

What are IPA's main pillars?
We have three main pillars: the development of Argentina's resources to add value to the country; the digital transformation; and the sustainability of the industry. With regards to the first one, we try to promote the development of Vaca Muerta and other hydrocarbon deposits in Argentina. Of course, the market conditions are very volatile at the moment, but Vaca Muerta will be key for Argentina's growth. As discussed, at IPA we look beyond the circumstances of a particular moment. What matters is that the petrochemical industry is going to move forward if there are hydrocarbon resources available.

Does Argentina offer opportunity for large petrochemical investments at the moment, particularly in fertilizers?
Fertilizers would be an obvious choice in terms of investing on a new project in Argentina, because the market for this product is already in this region, with large agricultural markets in Argentina and Brazil. On the ethylene value chain, the market would have to be overseas. In any case, if Argentina wants to solve its endless economic crises, the country needs to incentivize exports. Today, chemicals or petrochemicals make up 20% of all the industrial products manufactured in the country, so the industry offers enormous opportunities to add a lot of value by generating currency, jobs, and exporting value-added products. If Argentina does not take this opportunity, other countries will.

Could you mention some of your initiatives in terms of education and knowledge sharing?
We have just started a degree in the petrochemical business, in strategic collaboration with Universidad Austral. It is an online degree, so we are having a very good response from some of the country's main petrochemical players, and there are even some pupils from overseas. We have other alliances with several education institutions, such as Universidad Nacional del Sur in Bahía Blanca, and also PLAPIQUI, which is part of CONICET, with a lot of virtual technical courses. We have also held workshops on health and safety related to petrochemical operations amid the pandemic, as well as on behavioral trends in remote work. Our final goal is always to connect academia with the petrochemical industry.

What other initiatives are you working on?
In diversity and inclusion we believe there is a lot of room for development in the industry. With CIQyP and our partners, we have built a network of diversity and inclusion in the country's chemical industry, so the sector can benefit from all the talent available. Within that, the starting point is to improve a lot in terms of gender equality.

The pandemic has highlighted the importance of chemicals and plastics for health and safety, but how is the industry working on its pending challenges regarding the circular economy?
Together with Ecoplas, a year ago we started a sustainability working table in the plastics industry. We are leading a working group on chemical recycling and we are developing a consortium of different plastic resin producers and CONICET to build up an advanced recycling center in Argentina, like the chemical recycling centers that are being set up in Europe. It is certainly an ambitious project, but a feasible one. We need to use this moment with the pandemic to communicate the good things the industry does. There is definitely the issue of plastic waste in the plastics segment, so we need to be proactive and be part of the solution. We cannot live without plastics, but we need to take care of the full cycle, and the industry is working on that direction. ■

»

Fertilizers would be an obvious choice in terms of investing on a new project in Argentina, because the market is already in Argentina and Brazil. On the ethylene value chain, the market would have to be overseas.

«

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tor in Argentina is a leader worldwide in adopting new technology. We have excellent productivity ratios and the industry has an export profile. In this context, the agrochemical sector is important in bringing new technology to our producers both in extensive and intensive segments."

IPA's Rodríguez Garrido is similarly bullish on the prospects for Argentina's agro industry. "Fertilizers would be an obvious choice in terms of investing on a new project in Argentina, because the market for this product is already in this region, with large agricultural markets in Argentina and Brazil."

In addition to agro, companies like Braskem are finding opportunities to invest in sustainable materials in the region. The company's green polyethlene is a plastic produced from sugarcane in Brazil. Sergio Marcondes, general manager at Braskem Argentina, commented: "We are very optimistic for the region and Argentina. We want to step up our business in Argentina and try to bring our innovative products here, such as green polyethylene, as well as our circular economy and sustainability efforts in the plastics value chain."

There are several areas in which the country needs to progress in order to encourage more circular economy investment, however. Marcondes continued: "Currently, the Argentinean structure for recycling still needs improvement. It is very difficult to source post-consumer material for recycling purposes and that is a key challenge to any circular economy effort. In other countries you see stronger partnerships between the industry and the government regarding this topic. I think there is an opportunity to improve that partnership in Argentina, both at the national and local levels."

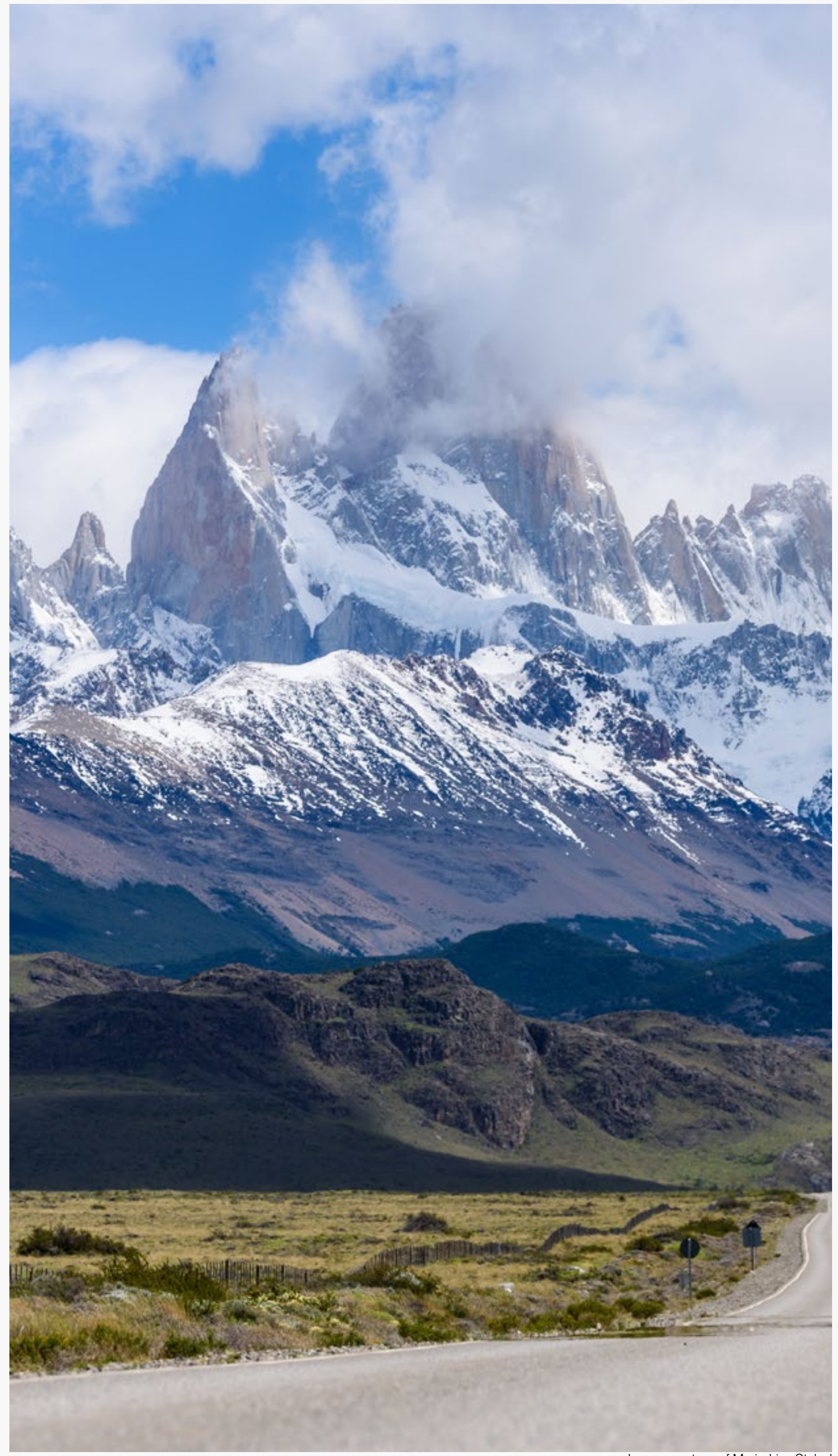

Image courtesy of Maria-Lisa Stelzel

Conclusion

The intertwined tasks of suppressing the pandemic and restoring growth present a remarkable challenge for Argentina's new president. Additionally, how President Fernández handles the country's foreign debt crisis will likely define his legacy. The economic woes and frequent debt crises are not a cause but rather a consequence of structural problems such as lack of trust in the peso, low competitiveness, and large fiscal deficits. Although it is unreasonable to think chemicals and petrochemicals will be enough to return the country to its days of prosperity, there is no doubt that Argentina will lean heavily on agricultural exports, the most internationally competitive area of the economy, and its promising petrochemical industry to help drag the itself out of its current precarious state. ■

Sergio Marcondes & Emilio Nager

SM: General Manager
EN: Commercial Manager
International Markets
BRASKEM ARGENTINA


SM


EN

How does Braskem adapt to the volatility of the Argentinean market?
SM: Braskem started its activities in Argentina around 2006, and we have seen ups and downs in the market. 2019 had high levels of uncertainty with the general election and the currency devaluation, all of which had an impact on demand. Uncertainty rarely helps business and long-term strategies; despite that, we are very optimistic for the region and Argentina. Therefore, we want to step up our business in Argentina and try to bring our innovative products, such as green polyethylene, as well as our circular economy and sustainability efforts in the plastics value chain.

What were the main supply and demand trends in 2019?
EN: The market dynamics did not really change, although 2019 was certainly a slow year in terms of market development. There were specific "niche" opportunities in the market, yet demand for polyethylene and polypropylene was really slow as a consequence of the economic and political situation in Argentina. Now, with the government change we expect the overall business scenario for 2020 to be similar to 2019, at least until the new government settles down.

Could you summarize Braskem's main efforts on the sustainability front?
SM: We are promoting our I'm green platform, especially the bio-based PE, and we are also working with our clients and partners in Argentina to implement our Circular Economy efforts. Through the introduction of our post-consumer recycled resins (PCR), we are aiming at serving our customer's needs, as well as helping improve the image of the industry for the next decades in terms of its sustainability strategy. We also participate in Ecoplas, an Argentinean NGO that works on sustainability and plastic recycling initiatives. Braskem is also part of the global Alliance to End Plastic Waste.
Unfortunately, currently the Argentinean structure for recycling still needs improvement. It is very difficult to source post-consumer material for recycling purposes and that is a key challenge to any Circular Economy effort. In other countries you see stronger partnerships between the industry and the government regarding this topic. I think there is an opportunity to improve that partnership in Argentina, both at the national and local levels.

Is demand for the green products growing fast?
SM: Due to different regulatory frameworks and industry cultures, the demand for bio-based products is higher in Europe and Asia than in Latin America. However, we believe that in the near future, countries like Argentina will be keener to adopt these types of sustainable solution. We are working with both brand owners and the industry in order to provide the required information and support to successfully, develop our I´m green bio-based resins. In addition, it is very important to emphasize that the bio-based polyethylene performs technically the same as the fossil-based PE. What changes is the source of the raw material; the bio-based polyethylene currently uses sugarcane as a source of raw material.

How important is the APLA Annual Meeting for a company like Braskem?
EN: APLA is always a good occasion to meet other industry peers. The meeting has grown over the last years and the expectation is for it to continue expanding. Latin America is not experiencing a positive economic moment, but as an industry, there are always opportunities to improve in terms of achieving better quality of life for the society
SM: An event like APLA is very important because you can have the brightest minds of the industry, highly motivated, under the same roof. Everyone is focused on improving and building a better future. The knowledge shared at APLA helps the development of the industry in the region. ■

Federico Alonso-Hidalgo

General Manager
GLEBA

Of Gleba's four business units, which have been in high demand?
Our main business unit is crop protection. The formulation of products for multinational companies has been in high demand, and we had to continually adapt 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 despite the challenges. Our environmental health business has also been performing well over the last two years and this unit is complementary to Gleba's entire portfolio.

How competitive is the agrochemical sector in Argentina, and what is Gleba's footprint in the country?
The agro sector in Argentina is a leader worldwide in adopting new technology. We have excellent productivity ratios and the industry has an export profile. Gleba has a long-standing tradition of formulating products at a very efficient plant located one hour from Buenos Aires. Recently we have invested in a new laboratory at this plant. Gleba also has commercial offices in the north of Buenos Aires to be close to our clients.
We are very fast to adapt our pipeline to local demands. We believe that the agro-industrial sector in Argentina will continue to grow, resulting in many more opportunities. We have an exciting pipeline of products, a good team and a solid presence in Latin America with our holding company ANASAC.

Can you elaborate on the CampoLimpio Foundation and the reasons behind its creation?
Gleba is part of the CampoLimpio foundation, which was set up by CIAFA (*Cámara de la Industria Argentina de Fertilizantes y Agroquímicos*) and CASAFE (*Cámara de Sanidad Agropecuaria y Fertilizantes*) to promote sustainability policies. It works to maintain a healthy environment in the agrochemical industry within the national and international legal frameworks on issues such as the promotion of good agricultural practices and responsible management of plant protection products. ■

Martín Cini

Director
COPSA COMBUSTIBLES, QUÍMICOS Y ESPECIALIDADES

Can you give us an overview of developments at Copsa during the last two years?
An important milestone was our name change from Compañía Petrolera Copsa to Copsa Combustibles, Químicos y Especialidades. This was a strategic decision that allows to be more marketable in industries such as the food segment. We also want to deepen our business with existing clients and suppliers. Oil and gas is an important focus for our products and an area we want to grow.
An important part of our business is our own line of retail products. We are constantly working to increase our production of mixtures and our capacity for added-value production. At the moment, we have offerings in thinners, refrigerating liquids, windshield cleaners, auto polish, among others. These products can be marketed as B2B as well as B2C.
A new product that has had excellent success and reception is our offering of triethylene glycol. We went from not participating in the market to accounting for 30% of it approximately.

Which industries show promise from a business perspective?
There are two pillars in which we are building our business plan growth, and these are oil and gas on one side, and agrochemicals on the other. These industries show promise externally and are a focus also specifically within our company. Because our selection of products is vast, we have a wide range of customers and partners. This gives us greater flexibility. Our existing customer base ranges from big companies like YPF, Champion and PAE, to others like a local paint shop.

Has Copsa felt the effects of reduced aggregate consumption at a domestic level?
Consumption went down in Argentina since 2019, and the effects in business are noticeable. We feel the impact particularly in our product line of paints, adhesives and coatings – which represents 20% of our petrochemical transactions. An important effect has to do with clients opting for our more economical products. The broader trend at an industry level is for products with better quality and durability but these past years have seen a reversal. Nevertheless, even at reduced margins, sales volumes still grow. Maintaining participation is our priority, so that we are well positioned when the market conditions improve. ■

ANDEAN REGION

"Plastic consumption will continue to grow, but the circular economy is here to stay and all of us must commit to it. From both a conceptual and pragmatic approach, we cannot keep using the planet as if its resources were endless."

- Juan Diego Mejía,
President,
Esenttia

Cotopaxi, Ecuador. Image courtesy of Vladimir Riabinin.

Chile

BATTLING TO DEFINE A FUTURE

As recently as October 2019, Chilean President Sebastián Piñera called his country an "oasis" in an economically and politically volatile region. Piñera was firmly disabused of any notions of Chilean exceptionalism soon after, when simmering discontent erupted into massive street protests causing widespread destruction and looting of city centers all over the country. This pushed Piñera to call a referendum that finally took place in October 2020, where an overwhelming majority of Chileans voted to replace the country's constitution dating back to the Pinochet years with a new one.

At the start of 2020, Chile's economic and political environment stood on shaky ground due to social unrest and these challenges have only compounded since COVID-19 swept the world. Chile won international praise for its swift lockdown and the highest level of testing in the region. However, Piñera's government ran into trouble as deaths later spiked, indicating that the lockdown had been ineffective for informal workers.

Notwithstanding the treacherous year, Chile's economy is forecast to perform relatively well, with the IMF projecting a 7.5% contraction in 2020 and growth of 5% in 2021, which would be one of Latin America's more vigorous economic recoveries.

This is not surprising, as Chile is among the most open economies in the region and is sensitive to copper prices, which have risen steadily throughout 2020. Chile's resilience is also due to a decades-long, cross-party commitment to prudent macroeconomic policies. This includes maintaining a balanced budget and saving the excess income from exports of copper, rather than using it to finance lavish public spending that has caused other commodity-dependent economies, like Argentina and

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CHILE AT A GLANCE

Source: IMF, data for 2019

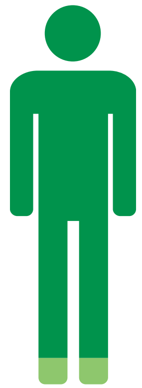
CAPITAL
Santiago
GDP
US$294.2 billion
GDP GROWTH
2.5%
HEAD OF STATE
President Sebastián Piñera
TOTAL INVESTMENT (% OF GDP)
23.2%
GROSS NATIONAL SAVINGS (% OF GDP)
20.1%
CURRENT ACCOUNT BALANCE (% OF GDP)
-3.4%

DEMOGRAPHIC DATA

Source: IMF, data for 2019

POPULATION
19.1 MILLION

UNEMPLOYMENT RATE
6.9%



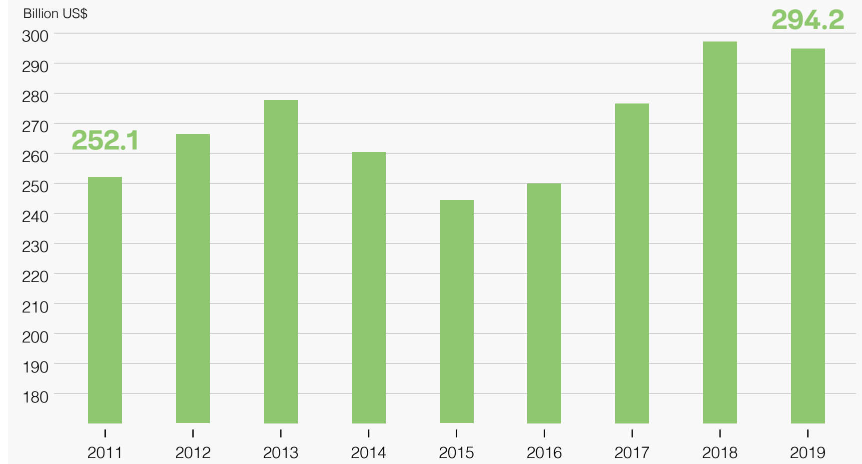
GDP PER CAPITA
US$15,399

GDP PER CAPITA (PPP)
US$26,317

INFLATION RATE
2.2%

GDP EVOLUTION IN US DOLLAR VALUE

Source: IMF

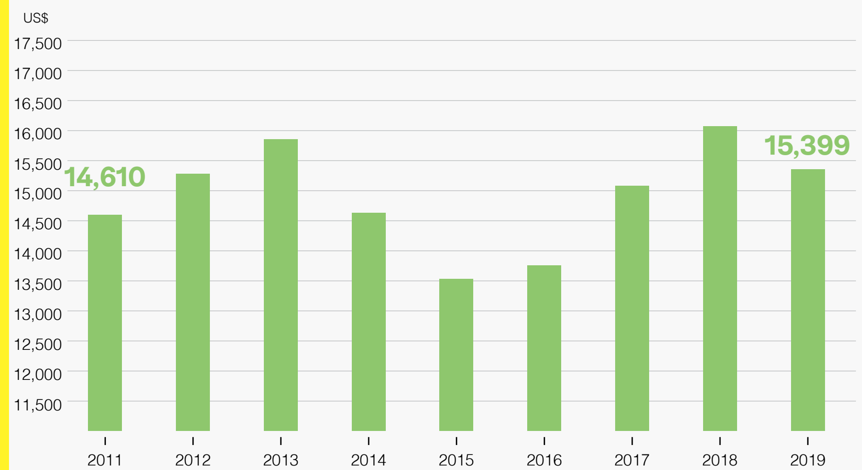


GDP GROWTH

Source: IMF

GDP PER CAPITA IN US DOLLAR VALUE

Source: IMF



Edmundo Puentes

Board Member
OXIQUIM
President
ASIQUIM

How have Oxiquim's main business areas responded to the challenges of Covid-19?
We have three main business areas: first, we manufacture resins for wood panels. We then have a business line of chemical distribution, where we source from global and local producers and we provide to the wider national industry. Finally, the third business line is our marine terminals for bulk liquids, with facilities across Chile. The pandemic has created significant challenges to logistic movements but we have been able to operate fairly normally by adapting the operational standards. For Oxiquim it has been fabrication and distribution that have been most affected by the pandemic. Demand has contracted in some sectors, notably construction, although the impact has not been so severe. We also provide to the pulp and paper, food, water treatment and mining industries, among others, so we have a very diversified client portfolio.

How are you investing in growing the marine terminals business?
This is the area where we see bigger growth opportunities. We initially invested on this front to assure the supply of raw materials for our own operations, after which we started serving third parties. We are now building an LPG terminal in Mejillones, which should start operation in January 2021. We also have other projects for improvements and expansions in our Quintero terminal as well.
Chile imports a lot of raw materials, but as the storage capacity increases, there are opportunities to serve the export markets as well. The challenge we have had is that Chile, although it has a very long coast, offers very few natural bays where you can buy these terminals. So, there is a lot of industrial activity concentrated in these locations, and this creates a lot of social pressure. For this reason, we have incorporated cutting-edge technology to control our emissions and make sure the product is always contained. The biggest challenge is the permits to build these facilities. They can take up to four or five years, while the markets change much more rapidly.

Can you develop on Oxiquim's R&D and technology capabilities?
We have technologies to produce resins for wood panels with very low formaldehyde emissions. Our technology is leader in low use of adhesive per cubic meter of panel, and this technological advantage places us in a good position to potentially invest in production facilities abroad.
In our logistics business, we have innovated increasing safety, with submarine break-away valves that can be used with products that can solidify at sea temperature. Moreover, in our LPG terminal we introduced a technology to heat up the gas using air before dispatch. This has worked very well and presents less environmental impact than other technologies. Finally, in mining we are introducing a new family of products based in unconventional principles to improve copper recovery in flotation processes used in Chile and Peru.

» **Beyond the situation with methanol production, which has been very dependent of natural gas imports from Argentina, the chemical industry in Chile has been performing at healthy levels.** «

As president of Asiquim, could you provide a general picture of how Chile's chemical industry is performing with the pandemic?
In 2019 the chemical industry outperformed GDP growth by 2.5%. Beyond the situation with methanol production, which has been very dependent of natural gas imports from Argentina, the chemical industry has been performing at healthy levels. In terms of the pandemic, at Asiquim we did a survey in June 2020 and, overall, the chemical industry has continued to operate at pretty much normal rates. This said, I think we will see demand contract as a result of the financial crisis caused by Covid-19. Also, in Chile we have a delicate social situation since last year, so the job losses of the pandemic may increase social unrest.

Oxiquim celebrates 70 years in 2020. Would you like to add a final message?
The company has proven to be very resilient to adapt to the different changes. As a final message, I would like to insist on the need to recover political leaderships, so the population trusts its leaders again, rather than follow the shouting in social media. We need a rational social dialogue. Also, I would like to send a message of optimism concerning the pandemic, as we have all proved that we can work very well in totally different ways than before. ■

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Ecuador, to fall into costly debt traps. As a result, Chile has built a reputation among creditors and international financial institutions as a model emerging market economy, which has allowed it to spend liberally during the current crisis. In a sign of Chile's privileged status among lenders, the IMF recently extended to Chile access to its Flexible Credit Line, which, unlike the organization's other loan programs, is not conditioned on fiscal belt-tightening.
With access to cheap credit, Piñera's government has rolled out a series of economic recovery measures to counteract the coronavirus-induced recession. They include a US$28 billion aid package, one of the largest among emerging market economies by share of GDP.
As a result of the country's economic resilience, Edmundo Puentes, president of Chile's chemical industry association, Asiquim, sees reason for optimism for the chemicals segment in Chile. In 2019, the chemical industry outperformed GDP growth by 2.5%, according to Asiquim figures. Despite the situation with methanol production, which has been very dependent on natural gas imports from Argentina, the chemical industry has been performing at healthy levels during 2020, according to Puentes. "At Asiquim we conducted a survey in June 2020 and overall, the chemical industry has continued to operate at pretty much normal rates," he explains.
That is not to say substantial risks do not lie ahead. "I think we will see demand contract as a result of the financial crisis caused by Covid-19. Also, in Chile we have a delicate social situation since last year, so the job losses of the pandemic may increase social unrest," he said.

The Choice

The upcoming presidential election in November 2021 could have profound implications for the business environment in Chile moving forward. Since protests began in 2019, the currency went into free-fall, depreciating by more than 13% before the central bank intervened. More recently, some investors have asserted that the pandemic and protests seem to be producing even greater polarization and political fragmentation, potentially opening the door to further discontent and increased tensions between executive and legislative branches in the years to come. As a result, the peso remains weaker than it should be given recent gains in copper, which is Chile's biggest export and the country's balance of trade.
Supporters of President Piñera's National Renewal government argue that years under his predecessor Michele Bachelet's Socialist party stymied industrial activity and view themselves as upholding the country's pro-business policies and measured approach to spending. In their view, a leftist government will result in investors holding back in the absence of certainty about future investment conditions. It is also possible that the election outcome could unsettle financial markets if the winning candidates' policies entail excessive public spending. In contrast, those on the left argue that protestors sent a resounding message that societal inequities must be addressed in order for the broader economy to prosper. Either way, unresponsive government and unkept promises of meritocracy and equal opportunity remain among Chile's biggest challenges.
As 2020 comes to a close, Chilean voters profoundly distrust all political parties and 90% believe the country is heading in the wrong direction according to America's Quarterly. There are no clear candidates for the presidential election next year and we do not know if the system will produce fragmentation that poses risks to business.
Regardless of the political climate and the result of the upcoming presidential election in 2021, it is critical that government continues to provide clarity on the policy and regulatory front in order to quell investor uncertainty so that Chile can remain the most advanced economy in Latin America for decades to come. ■

Claudio Gorichon

CEO
GRUPO RENO S.A.

Could you give us an overview of Reno S.A and the location of your operations?

Reno S.A was founded in 1957 as a family business in Chile. We specialize in the distribution of solvents and work in partnership with companies such as Dow and BASF. Nine years ago, we began sales in the Argentinian market and three years ago, we also started operations in Peru – a very competitive market, where we are experiencing outstanding growth. The Chilean market is more mature, so we are investing heavily in diversifying our product line through a new automated processing plant. In the future, our ambition is to expand further in the Andean region, possibly with Colombia as the next destination.

How has the company adapted to the Covid-19 pandemic?

We have had to develop different strategies for each country in which we participate, and we have implemented working from home with good results. Peru was the worst affected country, and our sales there fell sharply during April and May. In Argentina we had lower sales and payment problems. In Chile, where our headquarters are located, we are more diversified and Covid affected us less. Having supplies for the cleaning and food industries and having good levels of stock in product distribution helped us during quarantine periods.

Can you elaborate on the company's profile in Chile and how the company is perceived?

We commercialize raw materials to many industrial sectors in segments such as paints, inks, flexible foam, construction additives, cosmetics, cleaning products and food. We also supply products to the mining sector. We are the main reference for solvents in Chile; we were recognized by Dow as their best distributor for the Southern Cone. We see ourselves as doing more than just selling. In addition to the product, we offer technical consultancy, information and support.

Do you foresee acquiring other companies as a strategy for growth?

We made the deliberate decision to grow organically as opposed to acquiring other players within the business. This ensures that our growth is sustainable and minimizes our exposure to management risks. We want to grow at a sustained pace but not impulsively or irresponsibly, because growing through acquisitions can represent a loss of control. For this reason, we want to open operations in Colombia directly with our own office, and only after consolidating our presence in the Peruvian market.

> **»In Peru and Chile, money transactions are straightforward in comparison to Argentina. In Argentina, there are more tax charges and tax rates are higher. This makes the country less competitive because final products can be 50% more expensive than elsewhere.«**

Can you comment on the jurisdictions in which you operate from a tax and currency perspective?

In Peru and Chile, money transactions are straightforward in comparison to Argentina. In Argentina, there are more tax charges and tax rates are higher. This makes the country less competitive because final products can be 50% more expensive than elsewhere. Therefore, the focus of companies is typically on the domestic market, as exporting manufactured goods and other value-added goods are not a competitive option.

The exchange rates in Chile and Peru are not stable, but remain within manageable parameters, whereas in Argentina it is difficult to access the formal market, which is highly regulated and tends to discourage investment in that country. In Chile, from October 2019 to date, the peso has depreciated sharply. Due to social problems and a feeling of uncertainty about the country, many Chileans are demanding dollars.

How do you incorporate sustainability goals to the distribution business?

Part of our vision is to go beyond the mere buying and selling of products and to consider our responsibility not just with the clients and the general industry, but also with the local population and the environment. We demonstrate how handling chemical products responsibly does not result in harmful environmental impacts. The chemical Industry and the distribution industry are committed to sustainable development.

In our particular case, we offer good jobs and we help our community. We use the latest generation vehicles, thus reducing emissions to the environment. In our plants we comply with current legislation, there is responsible management, and we try to recycle or dispose of waste only in authorized places. We have traceability of our suppliers and customers, and we strive for them to align with our sustainability strategies. ■

Colombia

GOVERNMENT SEEKS SOLUTION TO REIGNITE GROWTH AMIDST PANDEMIC TURMOIL

Cocora Valley. Image courtesy of Sara Pinto.

In recent years, Colombia has been a rare good news story in a troubled continent, as the country found a path towards prosperity against the odds. The Andean nation was Latin America's fastest-growing economy before the pandemic hit, expanding its GDP 3.4% in 2019, and enjoys a good record of prudent economic policy, which has helped it overcome periodic bouts of political and social turbulence. Colombia enjoys a strong reputation among investors for conservative macroeconomic policies and steady growth, mostly avoiding the booms and busts that have bedeviled its neighbors.

Until the virus struck, Colombia was the fastest-growing main economy in Latin America for the second year running, according to Bloomberg. Its murder rate, once among the world's highest, is set this year to reach the lowest level since the 1970s. However, since Covid-19 wreaked havoc on the nation, the economy is contracting sharply and Standard & Poor's now projects an 8% drop in GDP in 2020, with a 5.5% recovery in 2021.

With businesses, including the national airline Avianca, going bankrupt, and widespread hunger as millions lost their

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Daniel Mitchell

President
ACOPLÁSTICOS

To what extent has the Covid-19 pandemic impacted the Colombian chemicals industry?
The initial impact of the Covid 19 pandemic has had mixed effects on the chemicals industry. In general terms, compared to other sectors, the chemicals industry has had above-average results, especially in applications that are part of value chains of products considered essential in the food, beverage, health, sanitary and cleaning sectors. In other applications, such as construction, automotive and home appliances, the negative impact has been harsh. The growth rate in Colombia from January to May 2020 compared to the same period in 2019 was -13% for the aggregated economy, +1.8% for basic chemicals, -7% for other chemical products and -11% for plastics products. We expect the second semester to improve, but this will depend on the spread of the virus and the general impact the virus will have on the economy and consumption.

How have Acoplásticos and its members dealt with the disturbance caused by the virus, and how has this developed since lockdown started in March?
We estimate that about 70%-80% of the companies represented by Acoplásticos never stopped, since they produce goods within the value chains of basic needs and which were excluded from the lockdowns. For these companies, we have basically focused on promoting the adoption of biosecurity protocols in the production plants and surroundings and with employees and their families. For those companies for which lockdowns were enforced, we focused on working with the government in order to provide support with their cashflow. Since April/May, all of the companies have been operating, some with more demand than others. In the last couple of months, we have helped companies with the measures adopted when workers are infected with the virus, and we have also promoted counter-cyclical measures by the government to accelerate growth.

Sustainability is one of the key focus areas for Acoplásticos. Do you think this will still be a priority for the industry in the context of a depressed economy?
Definitely. Plastic waste that is generated in every city or municipality has value which is generally wasted by being dumped into landfills. Our goal is to promote a more vigorous and dynamic plastics recycling market in Colombia and accelerate our transition towards a circular economy. Our strategy is centered on five pillars: improve eco-design, generate consumer awareness, promote regulation towards a circular economy, gather information, and accelerate initiatives and companies that demand recycled materials. We believe that by promoting plastics recycling opportunities we can generate new sources of growth and job creation, which will be key for the post-pandemic recovery.

> » **Our strategy is centered on five pillars: improve eco-design, generate consumer awareness, promote regulation towards a circular economy, gather information, and accelerate initiatives and companies that demand recycled materials.** «

Have there been any sections of the industry that have shown particular growth in 2020, and which areas has Acoplásticos identified as having a strong outlook?
We have seen a sharp growth in companies that provide protection against the Covid-19, such as those that produce masks, gloves, non-woven fabrics for health apparel, protective masks, among others. Bags used for deliveries or for waste disposal have also had positive results, as well as disposable articles that serve as sanitary solutions. I would also highlight the positive results of companies that produce chemicals, raw materials and packaging for food, beverages, disinfectants, cleaning products, as well as parts of health equipment used to treat the virus.

What advantages do you think Colombia has compared to its Latin American counterparts as a chemicals and petrochemicals producer?
Compared to most Latin American countries, Colombia has had a very stable economy during the last decades. We have had stable growth rates and very sound macroeconomic indicators. Investment rates are comparatively high, which means that companies have regularly updated their processes and machinery. Also, we have a mature chemicals industry, a highly trained workforce and a medium-sized internal market.

What is Acoplásticos' vision for 2021, and what would you like to see the industry achieve in that timeframe?
We expect a slow recovery in the second semester of 2020, and a stronger recovery in 2021. Our main goal in the medium term is to develop new and dynamic markets that offer solutions in sustainability, especially in our goal to accelerate the transition towards a circular economy. ■

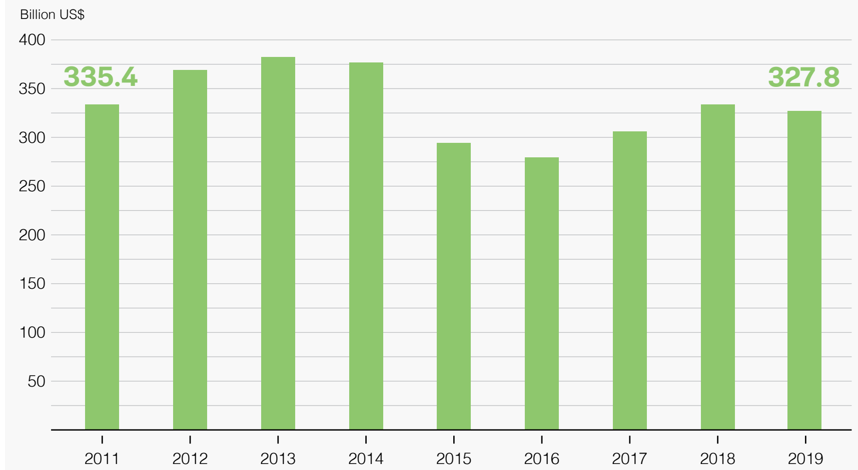
COLOMBIA AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Bogotá
GDP
US$327.9 billion
GDP GROWTH
3.4%
HEAD OF STATE
President Iván Duque
TOTAL INVESTMENT (% OF GDP)
21.8%
GROSS NATIONAL SAVINGS (% OF GDP)
17.6%
CURRENT ACCOUNT BALANCE (% OF GDP)
-4.2%

GDP EVOLUTION IN US DOLLAR VALUE

Source: IMF

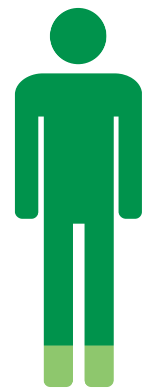


DEMOGRAPHIC DATA

Source: IMF, data for 2019

POPULATION
50.4 MILLION

UNEMPLOYMENT RATE
9.7%



GDP GROWTH

Source: IMF

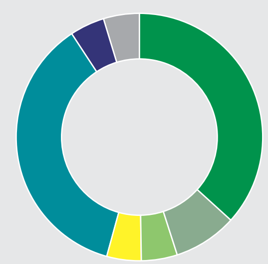
GDP PER CAPITA
US$ 6,508

GDP PER CAPITA (PPP)
US$15,541

INFLATION RATE
3.6%

INSTALLED PETROCHEMICAL CAPACITY

Source: Acoplásticos

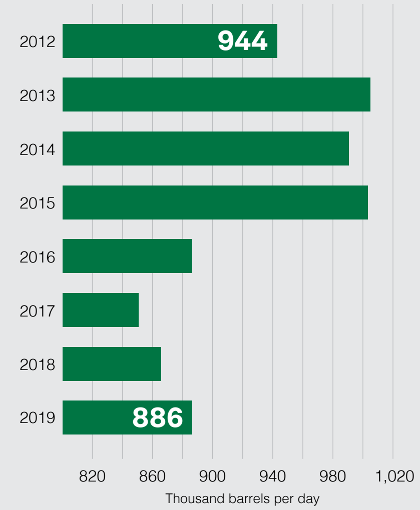


	Metric tonnes / year
Polyvinyl chloride (PVC)	502.000
Polystyrene	110.000
Low density polyethylene	66.000
Polyethylene terephthalate (rPET)	60.000
Polypropylene	500.000
Unsaturated polyester resins	62.000
Other plastic resins	62.000

(polyols, polyethers, polyurethane, polycaprolactone, phenolic resins)

OIL PRODUCTION

Source: IEP-ACP / MinMinas



Pedro Manrique & Felipe Trujillo

PM: VP Commercial and Marketing
FT: Manager Products and Petrochemicals
ECOPETROL

PM

FT

Could you provide an overview of Ecopetrol's petrochemical footprint?

PM: Ecopetrol is a vertically integrated group 88%-owned by the Colombian state. Upstream is our largest business, but we also have 12,000 kilometers of pipelines in the midstream sector, and two large refineries: Barrancabermeja, where we have a processing capacity of 250,000 barrels per day (bopd), and Cartagena (160,000 bopd). Being integrated is a great advantage to our petrochemicals business: we produce 800 million cubic feet per day of gas (cfpd), including ethane-rich petrochemical gas. We have two petrochemical plants in the Barrancabermeja complex, and in Cartagena we produce liquids. Since two years ago, we also have a trading business in petrochemicals, and there are strong opportunities for growth in Colombia and Latin America.

FT: Our BTX plant (covering benzene, toluene, xylene, ortho-xylene, lubricant bases, paraffins and propylene) is in Barrancabermeja. In aromatics, Ecopetrol meets 100% of the xylene and toluene demand in both Colombia and Ecuador. In aliphatic solvents, mainly white spirit, we supply 100% of Colombia's demand, and 50% of Ecuador's consumption, while we are growing our presence in aromatics in Peru, Brazil and the Caribbean islands. We also have a small low-density polyethylene (PE) plant with a capacity of 60,000 mt/y, while we now import high-density polyethylene, as well as some polypropylene with different qualities than the one produced by our subsidiary Esenttia.

In propylene, we meet 30% of Esenttia's needs. We also have the paraffins and lubricant bases – we produce Group 1 bases and we have started importing Group 2 bases, for vehicles with newer technologies.

In Cartagena, we have three main lines: first, propylene for Esenttia, where we feed 30% of their needs. Second, we produce sulphur, as a result of Ecopetrol's improved fuel standards. Up until three years ago, Colombia imported sulphur, today we meet 100% of the country's demand and we have a surplus for export. Then, in Cartagena we produce 1 million mt/y of coke, a new by-product following the site's modernization, for which we have a 10-year off-take agreement.

Finally, we have the asphalt business. Ecopetrol made a significant investment to expand capacity to 60,000 mt/month. As local demand did not reach that level, we developed the export market, but now road infrastructure is planned to be one of the key elements of economic recovery in Colombia. Currently the local market takes around 40,000 mt/m.

How was 2019 for Ecopetrol, and how has the group adapted to the pandemic in 2020?

PM: In 2019 the Ecopetrol group had record financial results. In petrochemicals in particular, lower oil prices caused a decrease in total values, but the year was very important for us to consolidate our trading business. With the pandemic, we reduced capital investments to the minimum. From a commercial standpoint, we went out to capture all the opportunities created by the market's contango situations for our trading business. Beyond this, Ecopetrol has implemented several transformation programs in past years to increase efficiencies, and this has allowed us to obtain outstanding results if compared with the rest of the industry.

Could you outline Ecopetrol's efforts in sustainability and social development?

PM: We have a TESG vision (Technology, Environmental, Social and Governance). Just on the commercial area, we have invested US$25 million in digitalization. Besides, we have a renewable energy program that will allow us to increase self-generation across the Ecopetrol group and even sell to the grid, with a total of 300 MW built in two years. This includes solar plants, and we also have biomass generation with sugarcane bagasse.

Ecopetrol wants to become the leader in reducing greenhouse gas emissions in Colombia and we have planned to decrease our total emissions by 20% by 2030. Ecopetrol also joined a World Bank initiative which seeks to eliminate routine gas flaring in oil and gas fields by 2030 at the latest.

Finally, there is the social aspect. Our objective is to have the social license to operate wherever we have a presence, which is in 400 of Colombia's 1,100 municipalities. We develop social programs around road and community infrastructure, sports, health and education. With the pandemic, Ecopetrol has delivered aid packages including resources for emergency care, which will reach more than 450,000 beneficiaries. ■

Juan Diego Mejía

President
ESENTTIA

What have been the latest developments for Esenttia in Colombia?

Esenttia is a producer of polypropylene which is part of the Ecopetrol group, the largest company in Colombia. We have two polypropylene plants in Cartagena; one splitter, one masterbatches and compounds plant, and we also have a sales subsidiary in Peru.

In Colombia, we produce homopolymers, random copolymers, impact copolymers, terpolymers, masterbatches, and we also commercialize low-density polyethylene (LDPE) from Ecopetrol as well as LLPE and HDPE from other foreign suppliers. We have always been heavily focused on exports, but at the same time we support our customers in Colombia, maintaining 70% of its market share. Our capacity is much larger than the local market, so we export 60% of our production. We have a capacity of 470,000 mt/y in our two polypropylene plants.

» **Our plan to add another 70,000 mt/y of capacity is still ongoing, because it is still strategic for the long term. We continue advancing the project having already purchased the main equipment and we expect to have most of the detailed engineering completed this year.** «

What was the business like in 2019, and now in 2020 with the pandemic?

2019 was a very good year, with an EBITDA of around US$90 million and, although 2020 started very well, the months of April and May were difficult due to the coronavirus pandemic, and we were forced to reduce capacity to 85%. By June and July, however, we were already operating at our normal rate. During the pandemic, we have seen two conflicting forces: the initiatives by the government to maintain people safe, and the need to keep the economy going. In terms of industries, the ones that performed better were those related to health, hygiene, and food and household packaging. On the flip side, the automotive segment was hit in the main economies like Brazil and Mexico, and that affected us.

What are the main markets for Esenttia and what products are becoming more important to your business?

We have a very strong focus on Latin America. Beyond Colombia, we have a small market share in Brazil and Mexico, but these markets are so large that they represent a very important business for Esenttia. We have also been growing our share in Central America and the Caribbean and other South American countries. Over the last years, demand has exceeded our capacity, so our goal with the expansion is to go back to these customers and markets that we were not willing to serve before.

Product wise, we are trying to move into more specialized products that have more value added, such as impact copolymers. Within that, we have different lines, including TPOs, or high-impact copolymers that give us an edge in some markets. In random copolymers we have some clarified products that also work very well, for instance our pipe grade. Terpolymers is a very important product for the future as Latin America imports most of these from Europe. Furthermore, we make very good homopolymers; some highly impact resistant, some clarified, and we also have a very good grade for medical cloth that is being very successful, even if that market is very competitive.

What is the status of your plan to expand production considering the current uncertainty?

Our plan to add another 70,000 mt/y is still ongoing, because it is still strategic for the long term. We continue advancing the project having already purchased the main equipment and we expect to have most of the detailed engineering completed this year. The expansion will use German technology, and will use feedstock imported from the U.S.

What are the main logistics advantages of being in Cartagena?

Cartagena has a strategic location between the world's main regions and has a privileged logistics situation, with a number of ports and weekly routes to Latin America, the US and Europe – that connectivity is very important. Internal logistics in Colombia present some challenges however, due to the Andes mountain chain that crosses the country from south to north and the fact that our roads still need to improve.

What is your view on circular economy initiatives?

Plastic consumption will continue to grow, but the circular economy is here to stay and all of us must commit to it. From both a conceptual and pragmatic approach, we cannot keep using the planet as if its resources were endless. We have several projects related to the circular economy, and our social action lines are very linked to that. One of our strategic projects is to build a plant to produce recycled plastic. ■

Image courtesy of Andercol

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jobs, the government of President Iván Duque is trying to pull off a difficult balancing act: provide enough stimulus to prevent even greater devastation, but without running up so much debt that the nation loses its investment grade credit rating. This cautious strategy has made Colombia an outlier in South America, with a stimulus package far smaller than that of peers such as Peru and Chile. This is largely a result of the fact that the country went into the crisis with a higher debt-to-GDP ratio than its peers Mexico, Peru and Chile, allowing it less fiscal room to prop up the economy, transfer cash to the needy and help struggling companies.
The collapse in exports in the second quarter of 2020 was among the most severe in the region, declining nearly 70% quarter-on-quarter due to the sharp drop in demand for oil, Colombia's largest export. The recovery in the third quarter was also not as smooth as in other regional economies, especially given a retightening of lockdowns in August in major cities as the usage of intensive care units surpassed thresholds that mandated shutting down certain parts of the country, including Bogotá. Lockdowns have since been relaxed nationwide beginning in September, and ratings agency Standard & Poor's expects that a recovery will firm up into the fourth quarter of 2020. It is also projected that consumption will be slow to recover due to severe job destruction, which has pushed unemployment to 20%. This will inevitably impact the chemical and petrochemical industries in Colombia. However, the industry is making the adjustments necessary to persevere.
According to Pedro Manrique, VP of commercial and marketing at Ecopetrol, in 2019 the group had record financial results, even if in petrochemicals lower oil prices caused a slowdown. Last year was also very important for Ecopetrol to consolidate its trading business, which allowed the group to have a better position in front of Covid-19. "With the pandemic, we reduced capital investments to the minimum. From a commercial standpoint, we went out to capture all the opportunities created by the market's contango situations for our trading business."
Similarly, at Ecopetrol subsidiary Esenttia, president Juan Diego Mejía commented: "2019 was a very good year, with an EBITDA of around US$90 million. Although 2020 started very well, the months of April and May were difficult due to the coronavirus pandemic, and we were forced to reduce capacity to 85%."
Things would pick up later on in the year, as Mejía described: "By June and July, we were already operating at our normal rate. During the pandemic, we have seen two conflicting forces: the initiatives by the government to maintain people's safety, and the need to keep the economy going. In terms of industries, the ones that performed better were those related to health, hygiene, and food and household packaging. On the flip side, the automotive segment was hit in the main economies like Brazil and Mexico, and that affected us."

Cartagena: Gateway to the world

In addition to its picturesque squares, cobblestone streets and colorful buildings, Cartagena is also known for its industrial potential and continues to build itself up as a hub. It lies in a strategic location for international trade and its closeness with ports like Panama, the east coast of the US, Gulf of Mexico and other Caribbean ports, makes its location attractive for commerce and investment. "Cartagena has a privileged logistics situation, with a number of ports and weekly routes to Latin America, the US and Europe ," said Esenttia's Juan Diego Mejía.
Juan David Urrego, managing director of the chemical business at Andercol, a part of Grupo Orbis, which recently consolidated its capacity after big investments in new facilities in Cartagena, shared his perspective on the advantages Cartagena's location provides: "We source our raw materials from the Americas, Europe and Asia, and being located in Cartagena we have a logistics advantage both for import and export processes."
As a result of the city's dynamism, multinational chemical companies such as Mexichem, Tenaris, Dow Chemical, Cabot, Biofilm, Holcim, among others, have all established their plants and offices in the city. Cartagena will continue to attract global chemical and petrochemical companies regardless of Colombia's challenging internal logistics due to the Andes mountains and underdeveloped roads.

Conclusion

Colombia has made enormous progress politically and economically over the past decade. However, there are deep reverberations from riots that began in Chile in October of 2019 that have been felt across Latin America and Colombia has not been immune. The devastation caused by the pandemic is only magnifying the social discontent that drove protests one year ago. Consequently, the months ahead threaten to bring socioeconomic and political turbulence, as protestors return to the streets. It will be a test of Iván Duque's government to meet the demands of protestors while continuing to foster a dynamic business climate. But both are essential for Colombia to advance from middle income to a developed economy. ■

Juan David Urrego

Managing Director Chemical Business
ANDERCOL
GRUPO ORBIS

What is the trajectory of Andercol in the regional market?
Andercol celebrates its 55th anniversary this year. We occupy a position in the middle of the chemical value chain as a B2B player. We are specialized in water-based and solvent-based polymers, with which we serve 12 main industries, and within that, over 200 sub-industries. We have production plants in Brazil, Ecuador, Colombia and Mexico, and from these four locations we serve 30 countries in the Americas and elsewhere. We have a workforce of 700 people.
In 2019 we had volatility in some markets but, overall, it was a better year than 2018. We consolidated our capacity after big investments in new facilities in Cartagena. What we have seen in 2020 is that, of the 12 industries we serve, four of them were considered essential during the worst moments of the pandemic, so our operations continued with the exception of Ecuador. In Mexico we operated at full capacity, and in Colombia and Brazil we only had to reduce our capacity for a few weeks. In terms of industries, we saw some segments deeply impacted like construction, leisure and transportation, but we are now seeing a V-shaped recovery. 2020 will close with lower sales than initially expected, of course, but we are optimistic about the recovery.

How important is Cartagena as a logistics hub for your operation?
In Colombia petrochemical production is focused on fuel and some derivatives produced by Ecopetrol. Therefore, we source our raw materials from the Americas, Europe and Asia, and being located in Cartagena we have a logistics advantage both for import and export processes. When Andercol was established 55 years ago, the focus was on the local market in Colombia, but now over 40% of Andercol's production is exported.

Could you provide examples of innovation at Andercol?
We have a sustainability strategy to have more friendly chemical processes and solve some of the problems that humanity faces. In oil and gas, we are working with Ecopetrol to develop polymers to improve the flow of heavy and extra heavy oil. We have also developed new products for the paint and construction industries that are alkyl phenol-free. Our other main initiative has to do with the creation of an internal entrepreneurship program to close the life cycle of the products. At Andercol we have focused on chemical recycling of PET packaging, expanded polystyrene, and others. ■

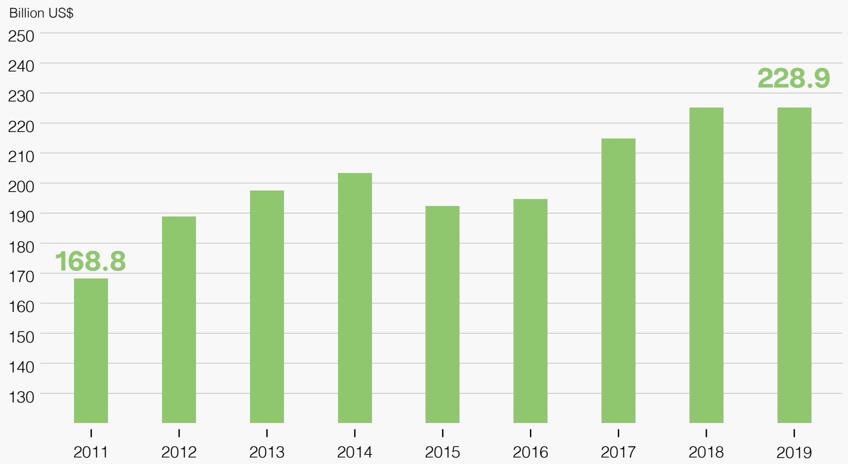
PERU AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Lima
GDP
US$228.9 billion
GDP GROWTH
2.6%
TOTAL INVESTMENT (% OF GDP)
22.1%
GROSS NATIONAL SAVINGS (% OF GDP)
20.2%
CURRENT ACCOUNT BALANCE (% OF GDP)
-1.9%

GDP EVOLUTION IN US DOLLAR VALUE

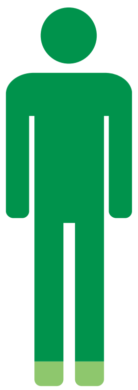
Source: IMF



DEMOGRAPHIC DATA

Source: IMF, data for 2019

POPULATION
32.2 MILLION



UNEMPLOYMENT RATE
6.7%

GDP GROWTH

Source: IMF

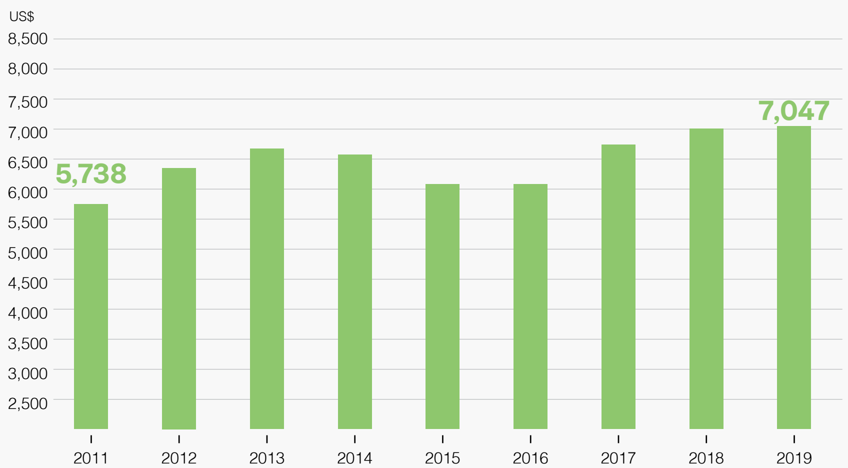
GDP PER CAPITA
US$7,047

GDP PER CAPITA (PPP)
US$14,719

INFLATION RATE
2.2%

GDP PER CAPITA IN US DOLLAR VALUE

Source: IMF



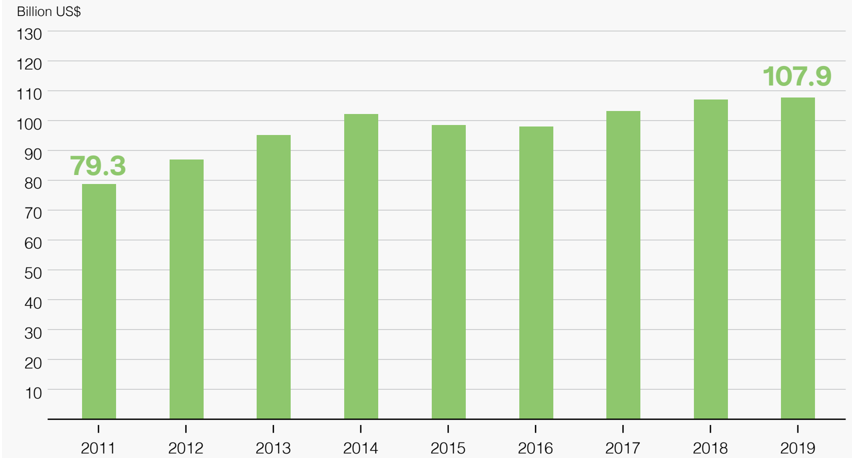
ECUADOR AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Quito
GDP
US$107.9 billion
GDP GROWTH
-0.5%
HEAD OF STATE
President Lenín Moreno
TOTAL INVESTMENT (% OF GDP)
24.7%
GROSS NATIONAL SAVINGS (% OF GDP)
24.7%
CURRENT ACCOUNT BALANCE (% OF GDP)
0.01%

GDP EVOLUTION IN US DOLLAR VALUE

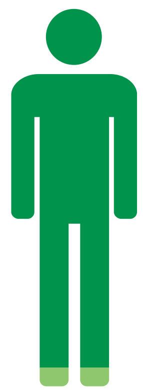
Source: IMF



DEMOGRAPHIC DATA

Source: IMF, data for 2019

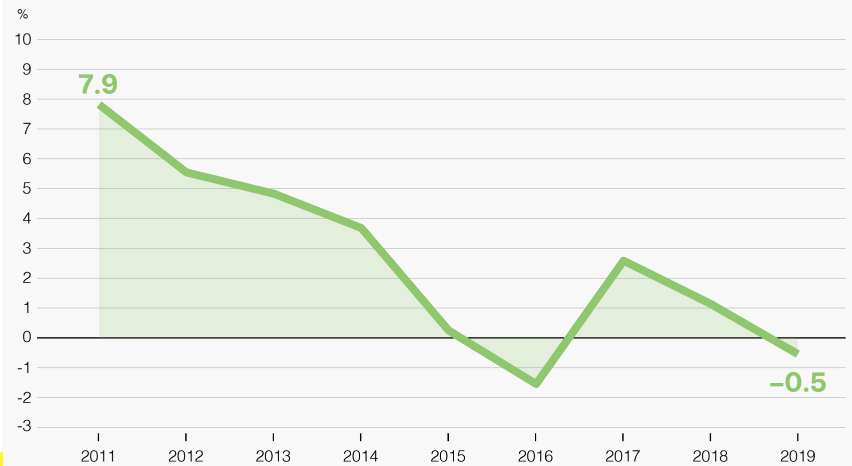
POPULATION
17.3 MILLION



UNEMPLOYMENT RATE
4.3%

GDP GROWTH

Source: IMF



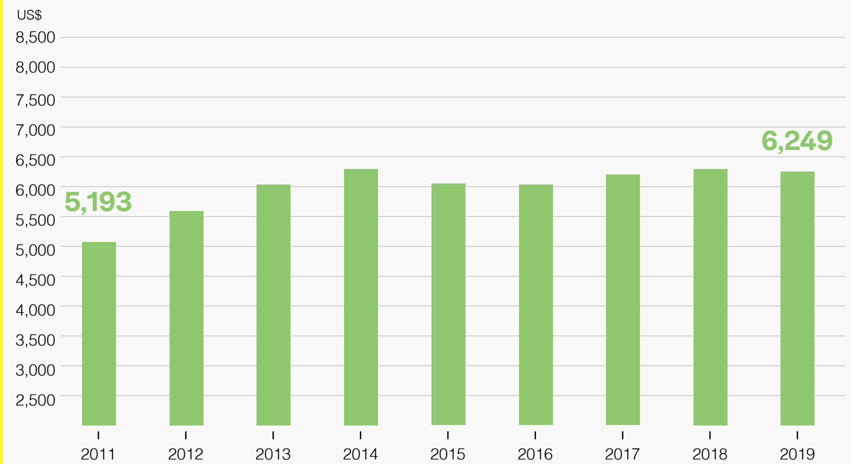
GDP PER CAPITA
US$6,249

GDP PER CAPITA (PPP)
US$11,743

INFLATION RATE
0.4%

GDP PER CAPITA IN US DOLLAR VALUE

Source: IMF



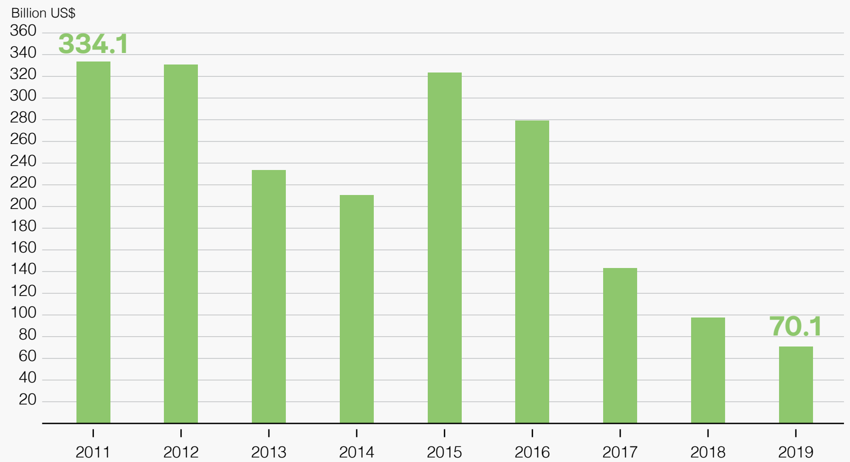
VENEZUELA AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Caracas
GDP
US$70.1 billion (2019)
GDP GROWTH
-35%
HEAD OF STATE
President Nicolás Maduro

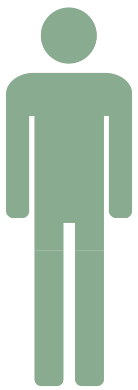
GDP EVOLUTION IN US DOLLAR VALUE

Source: IMF



DEMOGRAPHIC DATA

Source: IMF, data for 2019

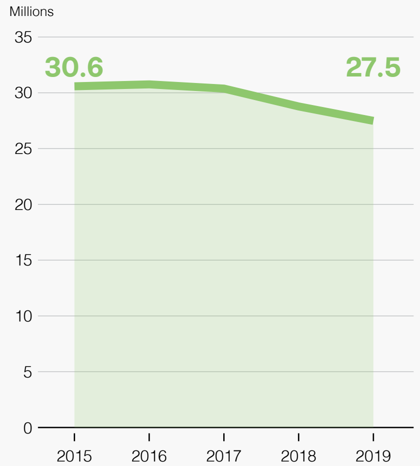


POPULATION
27.5 MILLION

UNEMPLOYMENT RATE
n/a

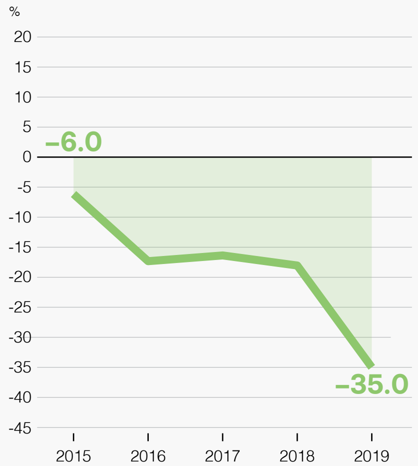
POPULATION

Source: IMF



GDP GROWTH

Source: IMF



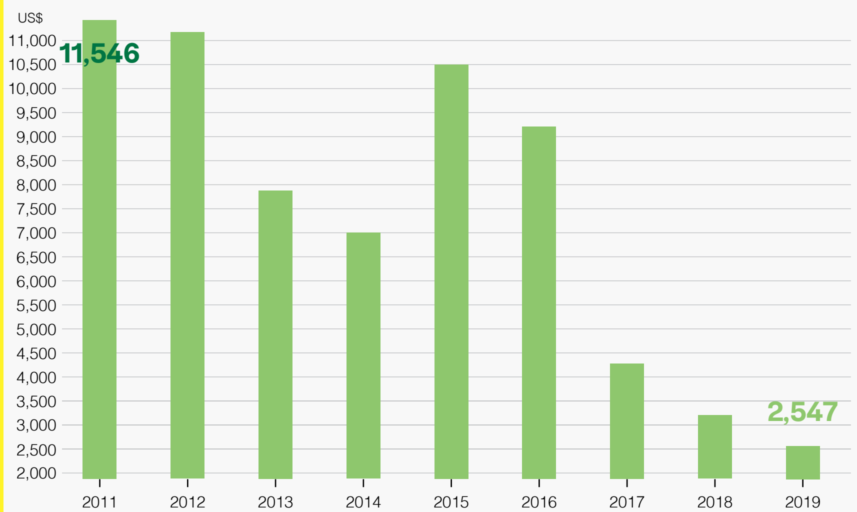
GDP PER CAPITA
US$2,547

GDP PER CAPITA (PPP)
n/a

INFLATION RATE
200,000%

GDP PER CAPITA IN US DOLLAR VALUE

Source: IMF



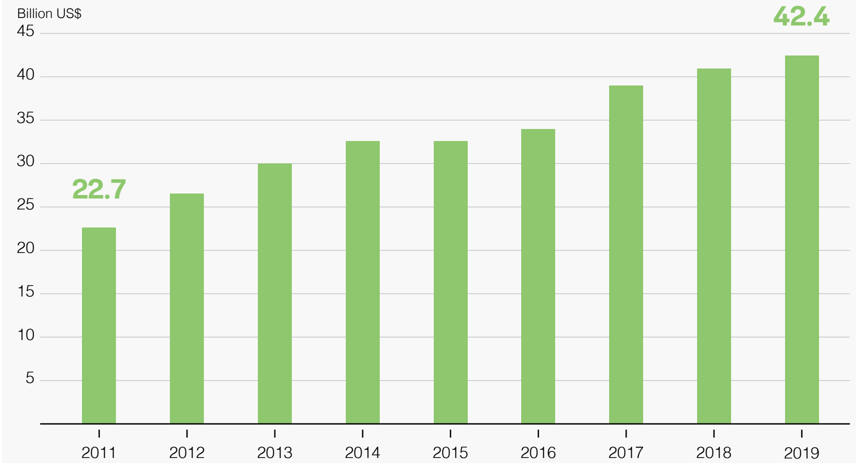
BOLIVIA AT A GLANCE

Source: IMF, data for 2019

CAPITAL
Sucre / La Paz
GDP
US$42.4 billion
GDP GROWTH
3.9%
HEAD OF STATE
President-elect Luis Arce
TOTAL INVESTMENT (% OF GDP)
20.7%
GROSS NATIONAL SAVINGS (% OF GDP)
15.7%
CURRENT ACCOUNT BALANCE (% OF GDP)
-5%

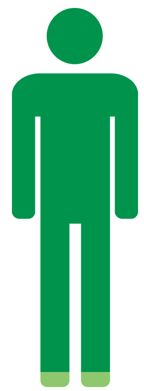
GDP EVOLUTION IN US DOLLAR VALUE

Source: IMF



DEMOGRAPHIC DATA

Source: IMF, data for 2019

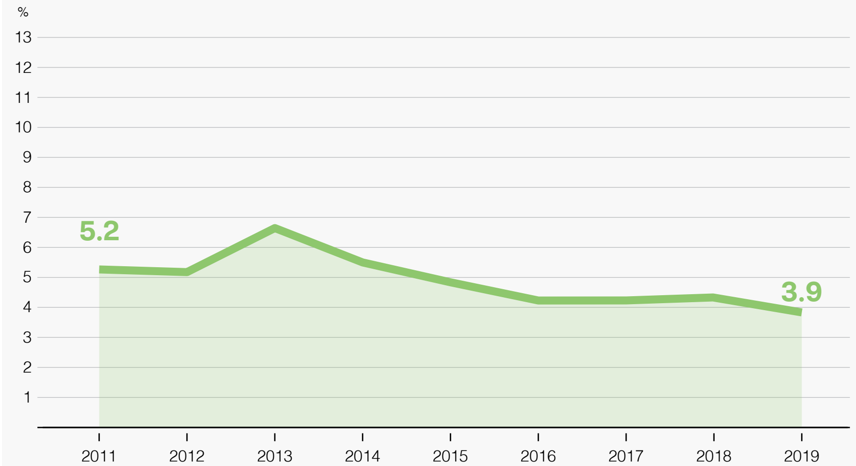


POPULATION
11.5 MILLION

UNEMPLOYMENT RATE
4%

GDP GROWTH

Source: IMF



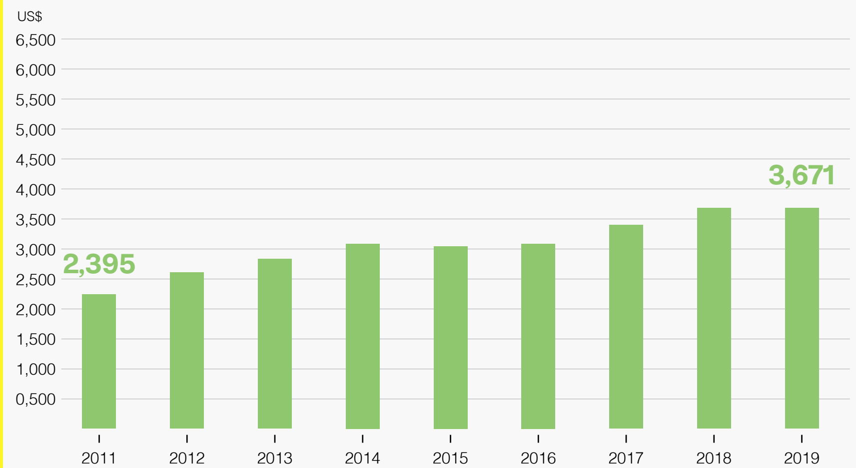
GDP PER CAPITA
US$3,671

GDP PER CAPITA (PPP)
US$8,172

INFLATION RATE
1.7%

GDP PER CAPITA IN US DOLLAR VALUE

Source: IMF



CHEMICAL DISTRIBUTION AND LOGISTICS

"Latin America is a large market but challenging, and not necessarily easy to do business in. The region has good technology, a trained workforce and a strong regulatory framework, but we still need relevant basic reforms to help businesses and economies thrive."

- Jorge Buckup,
President Latin America,
Univar Solutions

Image courtesy of GTM Holdings

Chemical Distribution

INDUSTRY ADAPTS THROUGH DIVERSIFICATION AND CONSOLIDATION

In times of crisis, strong companies tend to survive, adapt and gain market share. Throughout the past two years of economic volatility and social contagion across South America, this trend has led to a substantial uptick in M&A activity. Latin America's chemical distribution market is made up of a combination of global players, such as Univar Solutions, Brenntag and Helm, and regional companies adept in handling the unique challenges of Latin American business. These include Pochteca, GTM, and Química Anastacio, among others. The landscape of chemical distributors operating in Latin America is diverse and diffuse. However, the market was becoming more concentrated prior to the onset of Covid-19 and this looks to continue going forward.

One example is full-line portfolio distributor Brenntag's push to increase synergies and market presence in areas such as specialty chemicals and specific niche markets, like food, nutrition and personal care. Over the last six years, the company acquired five businesses in Latin America, including its latest deal to acquire Quimisa in Brazil.

According to Rodrigo Gutierrez, CEO of GTM Holdings: "Consolidation is a global trend in almost every market and chemical distribution is not different. In Latin America consolidation is not simple, as it is a market with significant volatility across the board and some players may be reluctant to participate in it. GTM is used to volatility and we enjoy the challenges of Latin America. We believe that we are in a unique position to consolidate smaller competitors, especially given how Covid-19 has affected the cash flow of some of them."

Eugenio Manzano, executive director of Pochteca, agreed: "Latin America continues to have a very fragmented chemical distribution industry with hundreds of small regional players. The challenging economic environment, open borders, government regulations, economy of scale requirements in order to be competitive, ecommerce and digitization and low commodity prices will certainly result in more mergers and acquisitions in our region. As we have always done, we will evaluate any attractive growth opportunity that we come across."

One particular impetus that is driving organic and inorganic growth is digitalization. The pandemic necessitated the adoption of digital innovation and, in a flash, it has universally become an essential component of a company's growth strategy. "Digitalization is going to significantly change the chemicals industry," said Björn Steckel, EVP of Helm's chemical business in the Americas.

There is a notion that Latin America is destined to follow China's lead in embracing digitalization and possibly even setting up e-commerce type platforms similar to what Alibaba has done with its portal called 1688. Steckel elaborated: "In China we already see much more advanced B2B digital trading platforms than in Europe or the Americas. I expect to see many more transactions being done automatically. Right now, everyone is launching his own platform, whether it is distributors and producers, then you also have independent platforms that try to incorporate both producers and customers with very limited success so far. Nevertheless, the race is still open and the winner will be the one, who is able to connect offline and online business in a seamless way."

German Torres, CEO of Brenntag Latin America, expressed skepticism over the extent to which e-commerce companies could compete in the chemical distribution space, though he acknowledged industry would have to keep a close eye digital developments. "Distributing chemicals is not like buying consumer products. It is not a final product that you can pack in a bag and send immediately. The large e-commerce companies are thinking of chemicals in one way or another, but it is difficult to know how high chemicals are in their list of priorities. Today, you can go online and buy some chemicals in small quantities with many restrictions. While I do not think we will see chemicals flying around anytime soon, there is no doubt that these developments will affect the chemical distribution business," said Torres. 75>>

Jorge Buckup

President Latin America
UNIVAR SOLUTIONS

What has been the impact of the pandemic for Univar Solutions, and which industries are showing more resilience?

The health and safety of our employees and business partners is our number one priority. All the protocols that have been quickly implemented are working effectively and our sites continue to be operational and are virus-free. We rely on our front-line employees, who continue to work effectively at our sites delivering the products and services to our customers. For that, I want to show one more time my appreciation for the work performed by our teams with safety and integrity in the various sites in Latin America. Our employees working from home are highly productive and our capillarity increased dramatically overnight, since our entire commercial organization is now all using technology to serve customers and supplier partners and doing it more efficiently. We are now refining our plans to return safely to the workspace.

Since we have a broad product portfolio serving several markets, our business overall showed a great level of resilience. The increased cleaning standards and higher demand of sanitizers have helped the home and industrial cleaning market, while agriculture, food, and beauty and personal care showed typical resilience.

With the change in business environment and the impact of Covid-19, we recently announced the Streamline 2022 program, which is designed to accelerate growth and increase earnings through a renewed focus on operational efficiency, the integration of our company's digital capabilities, as well as a global approach to the beauty care and nutrition markets.

How does Univar Solutions see the industry transforming with regards to Sustainability?

We have a plan that drives change in support of more sustainable practices. In 2018 we became a signatory to the United Nations Global Compact, reaffirming our commitments to responsible business. We continue to implement the principles set out in our Global Sustainability Policy to minimize environmental impacts and promote resource conservation. To maintain its course, it is crucial that our efforts remain material and allow us to deliver value to all stakeholders.

We see ourselves leading the way to sustainability in the region. Our partnership with the United Nations Development Program (UNDP) to eliminate the use of HCFC (hydrochlorofluorocarbon) in polyurethanes, introducing technologies free of ozone-destructive substances and with low global warming potential, our continuous development work with our supplier partners and customers to introduce clean, green and safer technologies for paints, food, personal care and other markets are few examples of a series of positive impacts we are offering.

> **With the change in business environment and the impact of Covid-19, we recently announced the Streamline 2022 program, designed to accelerate growth and increase earnings through a renewed focus on operational efficiency, the integration of our company's digital capabilities, as well as a global approach to the beauty care and nutrition markets.**

How relevant are specialty chemicals for your business?

The great majority of our business is composed of specialty chemicals that serve markets that demand a higher level of technology and development support. Our customers and supplier partners are supported by 13 Solution Centers in Latin America. We recently invested in a brand-new microbiology laboratory at our site in Osasco, Brazil.

How is digitalization changing business processes for distributors? Could you elaborate on Univar's digital platforms?

Digitalization is a game changer and growth enabler. Our digital strategy is designed to enhance and differentiate the customer experience, reach new markets and customers, and accelerate growth. We already work with ChemPoint in the region, a platform that enables our supplier partners to reach a broad coverage of customers by using innovative technology which offers a different go-to-market, changes customer engagement and provides best-in-class service for certain specific markets. Also, more recently we connected our ERP with a few large customers in order to bring efficiency to the order processing and mitigating any risks.

What is your final message for the delegates of APLA and the audience of Global Business Reports?

Latin America is a large market but challenging, and not necessarily easy to do business in. Our chemical industry is very significant in size and relevant to the economic development of the region and the people living here. Latin America has good technology, a trained workforce and a strong regulatory framework, but we still need relevant basic reforms to help businesses and economies thrive. ■

German Torres

CEO
BRENNTAG LATIN AMERICA

What is Brenntag's footprint in the Latin American region?
In Latin America, as a regional market leader, we connect our suppliers and customers in partnerships that add value and provide tailor-made applications and solutions in marketing and supply chain. Our services aim to create an excellent customer experience and include technical and formulation support, industry and regulatory expertise, as well as advanced digital tools. We cover all market segments and geographies with our strategically located distribution centers and our network of 20 knowledge and application centers.

How has the business changed with the COVID-19 pandemic?
In terms of business performance, the pandemic had only limited impact in our region. We may describe the impact in three different ways: We quickly adapted to keeping our working employees safe; we rapidly adapted our teams, processes and operations to respond to essential industries, and finally, we creatively opened all necessary existing or new communication channels to keep connected with our business partners and clients. I commend the resilience of our organization and all of our employees who have demonstrated an incredible ability to face and adapt to an unexpected event.

Do you plan to continue growing through acquisitions in the region?
We are a full line portfolio distributor and, as such, we continue M&A activity in Latin America. We look at creating synergies and increasing our portfolio or market presence in areas such as specialty chemicals or specific niche markets, like food and nutrition or personal care. Over the last six years, we have acquired five companies, the last of which has been Quimisa in Brazil. Before that, we had acquired Conquímica and SurtiQuímicos in Colombia, and Gafor Distribuidora in Brazil.

Which countries and industries offer more potential for Brenntag?
In Latin America, Brazil and Mexico are the largest markets and the ones that offer the best growth opportunities. In terms of industries, food and nutrition, personal care and agribusiness are the sectors that have a large potential. In the agriculture industry we do special formulated products that we have developed for specific needs and crops. When it comes to the food sector, the challenge for us is to adapt to the different customs of each of the countries.

The two challenges of digitalization are how to manage the substantial high number of transactions and how to manage the distribution channels. We have a solid strategy in information and analytics management, but this must be supported by the infrastructure, the distribution centers and the increasingly specialized supply chain processes. Having a nice website or platform is useless if you cannot deliver.

Do you think the large e-commerce companies will significantly disrupt the chemicals trading business?
Distributing chemicals is not like buying consumer products. It is not a final product that you can pack in a bag and send immediately. I am aware that the large e-commerce companies are thinking of chemicals in one way or another, but it is difficult to know how high chemicals are in their list of priorities. Today, you can go online and buy some chemicals in small quantities and with many restrictions. While I do not think we will see chemicals flying around everywhere anytime soon, there is no doubt that these developments will affect the chemical distribution business and at Brenntag we want to anticipate these changes and be a pioneer in digitalization.
The two challenges of digitalization are how to manage the substantial high number of transactions that the distribution industry produces, and how to manage the distribution channels. We have a solid strategy in information and analytics management, all of which leaves Brenntag well positioned to boost our growth, but this must be supported by the infrastructure, the distribution centers and the increasingly specialized supply chain processes to be managed by the best talent of the industry. Having a nice website or platform is useless if you cannot deliver.

Would you like to add a final message to your industry peers?
We have a clear mission: to continue supporting Latin American industry, being a partner for business continuity in the challenging scenario we have nowadays. Some industries have done well with the pandemic, but others have suffered, and they will need support. As leaders in chemical distribution, Brenntag Latin America will drive all the efforts to continue supporting our clients, suppliers and business partners in general. The region will overcome the situation and Brenntag will emerge stronger. ■

Rodrigo Gutierrez

CEO
GTM HOLDINGS

What is your vision for GTM as the new CEO?
In the last few years, we increased our footprint dramatically; we now have a presence in 11 countries in both industrial and specialty chemicals. For years we have been merging companies of very different cultures in different places, while we also expanded our portfolio in many segments. Our vision is to become the partner of choice for our customers, our principals and our employees. We are building engaged teams that will be strongly supported by processes and systems. Moreover, we are focused on building a closer relationship with our principals, based on constant feedback. The world is changing and demanding new chemistry and we will help to make this happen.

Latin America's economies are not doing well. How is GTM adapting to this?
The scenario was already very challenging last year and at the beginning of 2020. With Covid-19, it has become extremely challenging. 2020 will be a tough year, but we believe that our way of operating, being agile, caring for our customers and keeping a constant dialogue with our principals, will allow us to grow significantly at the bottom line. We are restructuring our organization to become more efficient and disciplined, without losing the necessary flexibility and agility.

Which countries and sectors are driving growth for GTM at the moment?
Before Covid-19, we enjoyed reasonable growth in most of the countries, especially in Brazil, Mexico and Central America. After Covid-19, the Andean Region markets, where oil and gas is a significant component, became more challenging due to the extremely low price of crude oil. In spite of all these problems, our overall Latin America results between January and April were significantly better than in 2019. A lot of that has to do with some past investments that are maturing now, and with recent changes to our operations.

What is GTM's current focus on specialty markets?
Year by year, GTM has been evolving in specialties, but not fast enough. Recently, we changed several aspects of our business, from changing our employees' compensation to measuring the level of adoption of new products in a very strict manner. We constantly think about how to connect our traditional customers to new chemistry that will improve their business too. This is a significant mindset change.

Do you expect to see more consolidation in the Latin American chemical distribution business?
Consolidation is a global trend in almost every market and chemical distribution is not different. In Latin America consolidation is not simple, as it is a market with significant volatility across the board and some players may be reluctant to participate in it. As I always like to say, GTM is not a global company – GTM is a Latin American company. We are used to volatility and we enjoy the challenges of our region. We believe that we are in a unique position to consolidate smaller competitors, especially in the Covid-19 scenario that has affected the cash flow of some of them. ■

Jan Krueder & Matthias Vorbeck

JK: CEO
QUÍMICA ANASTACIO
MV: General Manager
ANASTACIO OVERSEAS

JK

MV

What are Química Anastacio's growth projections for 2020?

JK: Química Anastacio operates in 18 market segments and we see plenty of opportunities to complete more packages coming from suppliers and customers. Currently we have around 1,000 products in our portfolio, which we aim to continue growing with approximately 10 new products per month.

Currently, our key divisions in Brazil are beauty and health, industrial processes, and food. We treat each business segment like an individual company. Our growth projection for 2020 is now more than 15%. Key factors are higher concentration of our sales to "essential" segments, like personal care, household, food, pharma and agriculture, which have been showing a higher demand during the pandemic period and also increase of overall commodity prices in H2 2020.

How do you adapt to the ups and downs of the regional economies in Latin America?

MV: In Anastacio Overseas we believe that simple processes, a light and horizontal structure and a fully transparent relationship with customers and suppliers make the best combination to adapt our company to the current high-volatility scenario. We also believe in leadership based on merits, that is how we get the deepest commitment from all team members and outperformed even during these times of crisis.

Brazil was recovering when the pandemic hit. What is your expectation for Brazil's economy this year?

JK: Government measures like allowing affected companies to put employees on hold, providing them with a public payment in order to keep jobs and incentives like low interest loans and extensions of tax payments have injected money into the economy, reducing the Covid-19 damage. Another positive factor is the interest rates, which decreased to 2% per year, the lowest in history and very attractive for private investment.

GDP contraction in Brazil for 2020 is currently estimated to somewhere close to 5%, which is not so bad, considering the overall situation. On the other hand, we cannot predict how the economy will react in 2021 when government incentives are reduced, as it will not be possible to sustain such high spending. At Anastacio we are doing our homework, being prepared with solid finances and contingency plans for a potentially more pessimistic economic scenario.

Before Covid, how did Anastacio Overseas perform in 2019?

MV: In 2019, our weighted average sales price decreased almost 25%, but due to a volume increase of 56% compared to 2018, we ended the year with a turnover of US$65 million (+20% interannual). We estimate we will end 2020 with sales above US$100 million, even if prices continued falling by 7% or 8%. That practically equals the plans we made when Covid-19 was not even a threat.

There are also projects that materialized in the second half of the year, like opening our operation in Mexico, and the development of our own titanium dioxide brand, AOTiOx. The results of these ventures will gain increasing weight in 2021, when we also expect a recovery of our traditional markets (polyurethanes, resins, building materials, etc.)

APLA celebrates its 40 years in 2020. What have been the main changes you have seen in APLA and the wider chemical industry over the last decades?

JK: APLA has always maintained a deep commitment to integration between producers and channels, suppliers and clients, service providers and business partners. APLA has always been home for the Latin American petrochemical community members willing to connect with others, and worldwide companies looking at this region as their focal point of growth.

We have memories of the APLA since late 90s, and we still consider APLA as the most important event of our sector, even when unfortunately we will only have remote participation this year. The APLA event is a great place and a very efficient way to meet suppliers and distributors from across Latin America. This great networking opportunity not only creates concrete business opportunities, but allows a deep view of the market. ■

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Another essential aspect of maintaining competitiveness in the chemical distribution space is having a skilled and experienced sales team. Remote work has made this task evermore challenging. According to Carlos Marin, CEO of Bandeirante Brazmo in Brazil: "Maintaining continuity with our sales team, who know the products, know the clients and know the market, is key. Anyone can sell a product, but having the technical expertise to support clients takes time, and this is where the value of a good chemical distributor is added. Bandeirante Brazmo can also rely on deeper technical support from manufacturers, relaying complicated information in layman's terms to the end customer."

Despite the deluge of negative headlines over the past months with the pandemic, chemical distributors like Química Anastacio have defied odds and become more profitable. CEO Jan Krueder explained: "Our growth projection for 2020 is now more than 15%. Key factors are higher concentration of our sales to 'essential' segments, like personal care, household, food, pharma and agriculture, which have been showing a higher demand during the pandemic period and also increase of overall commodity prices in H2 2020."

Similarly, Univar Solutions' portfolio was well positioned to weather the challenges of 2020. The company's president for Latin America, Jorge Buckup, reflected on the benefit of their diversification strategy: "Since we have a broad product portfolio serving several markets, our business overall showed a great level of resilience. The increased cleaning standards and higher demand of sanitizers have helped the home and industrial cleaning market, while agriculture, food, and beauty and personal care showed typical resilience."

Eugenio Manzano of Pochteca also pointed to diversification as being a key factor in the resilience of their business. "Our product and segment diversification strategy have helped us to successfully overcome a challenging environment with negative GDP growth in the countries where we operate as a result of Covid-19, compounded by decreasing commodity prices and a complicated oil and gas market."

Another key for Pochteca was to distinguish themselves from competitors by focusing on value add. "We have focused on products with higher added value such as specialties, blends, dilutions and services. Approximately 40% of our product line undergoes some value-adding process. As an example, in the oil and gas sector we are developing new products and applications including chemical blends to aid with drilling, processing and other stages" said Manzano.

Chemical distributors in Latin America have now been subjected to the vicissitudes of the virus for much of 2020. However, through consolidation, digitalization, top quality employees and intelligent business strategy, the industry will pull through. It will also likely be the case that many companies begin the next economic cycle with more resilient businesses that are well positioned for profitability. As the virus wanes and economies across the region resume the work of developing more robust economies, the chemical industry will be instrumental in delivering growth. ■

Björn Steckel

EVP Regional Business Line Steering - Chemicals Americas
HELM

What has been the impact of the pandemic for Helm?
Some industries have been impacted, like the automotive industry affecting our paints and coatings business, but we have been pleasantly surprised by demand. Fertilizers and crop protection have not stopped booming, and in chemicals the impact has generally been very moderate. One of our most important products is mono-ethylene glycol (MEG), which is used in polyethylene terephthalate (PET) bottles, and that has shown stronger demand than expected. The same applies to isopropyl alcohol (IPA), where the crazy demand for hand sanitizer prompted us to source additional product from outside the region.

What are the main obstacles to operating in Latin America?
A big challenge for us is defining the right products, because it is very difficult to understand market dynamics. Another challenge is defining the right market strategies, because in Latin America local prices are often decoupled from international market prices, and that makes it more difficult to establish long-term relationships with certain customers. Finally, you have protectionist duties in countries like Brazil.

How is digitalization going to change your business?
Digitalization is going to significantly change the chemicals industry, and in China we already see much more advanced B2B digital trading platforms than in Europe or the Americas. I expect to see many more transactions being done automatically. Right now everyone is launching his own platform, whether it is distributors and producers, then you also have independent platforms that try to incorporate both producers and customers with very limited success so far. Nevertheless, the race is still open and the winner will be the one who is able to connect offline and online business in a seamless way.
To continue improving at Helm we need stronger IT platforms that eliminate the need for manual orders by phone, e-mail or fax. We have recently made a major investment to install SAP in our headquarters, and the plan is to roll it out internationally, with additional investments to set up automatic data connections with international producers. In addition, we need to learn how to measure digital revenue streams and/or to combine them with the traditional business models we have. ■

Carlos Marin

CEO
BANDEIRANTE BRAZMO

Can you introduce Bandeirante Brazmo?
The current version of Bandeirante Brazmo is the unison of two companies acquired by Grupo Formitex: Brazmo, and Bandeirante. As a result, Bandeirante Brazmo now distributes for companies such as Braskem, Petrobras, Dow, Solvay and Cabot, to name a few. The paints and coatings industry is an important market for us; also cleaning, cosmetics, water treatment and mining. In total, Bandeirante Brazmo serves 30 industries in Brazil, with approximately 500 products. Around 30% of our revenue comes from specialty chemicals, despite this segment making up only 5-10% of product volume.
We have been in the Brazilian market for almost 50 years, and it is a market with its own peculiarities, different to the rest of Latin America. Logistically, Bandeirante Brazmo has four units across in Brazil, from the northeast of the country in João Pessoa, all the way down to Joinville in Santa Caterina, with our biggest base and headquarters in Mauá, very close to São Paulo.

These days it is easier for companies to have direct contact with manufacturers. How can distributors continue adding value?
Anyone can sell a product, but having the technical expertise to support clients takes time, and this is where the value of a good chemical distributor is added. Bandeirante Brazmo can also rely on deeper technical support from manufacturers, relaying complicated information in layman's terms to the end customer. Furthermore, having local knowledge in a country as large and diversified as Brazil adds great value to international clients.

What would Bandeirante Brazmo like to achieve in the next two years, and what is the company's growth strategy?
Although Brazil has gone through a four-year recession and been hit badly by the pandemic, we forecast demand to return to the paint and coatings segment, our biggest market, as well as homecare. The company also intends to stimulate growth in industries we are not as well developed in yet, as this diversification will be key in our aim to be one of the top three distributors in Brazil. ■

The Key Role of Logistics

OUT OF CHAOS COMES OPPORTUNITY

For Latin America to fully recognize the potential of its chemicals industry, achieving a competitive logistics sector will be critical. At past APLA meetings, Latin America has been talked about as one of the most inefficient regions in the world due to the infrastructure deficit and congestion at its terminals. Today, there is still much room for improvement and that presents a great opportunity for the industry. By understanding logistics well, costs will be under control and, given margin pressure in many chemical related industries, logistics is a critical component of running a viable business.
According to Fabiano Machion, general manager South America at Newport Tank: "In Latin America we suffer from an important logistics deficit. This creates high costs and sometimes operations become unfeasible."
These disadvantages become even more acute during challenging times. However, as 2020 has progressed, there is ample evidence of the industry's resilience. Jarl Kåreson Hakvåg, in charge of Odfjell Tankers chartering business in South America, observed: "We saw certain segments spike to historic highs and some segments to be extremely quiet. After April this year, we have seen shipping routes returned to a new normal, but what is new is the rapid change to different volumes and commodities month by month. Through this period earnings have stayed positive and demand for our services seems to be supported at a fundamental level."
Some companies, such as Andino Holdings, are even finding promising opportunities out of the period of disruption. According to company CEO Peter Staartjes: "Due to the pandemic, our Tuxpan terminal is particularly attractive today because of the influx of alcohol for the production of much needed hand sanitizer. Given our marine facility is within trucking distance of the Mexico City area, we provide excellent logistical alternatives to those of rail and truck from the US […] My first thought is that initially Mexico will not be importing as much as it did before COVID, but this is a very large country so if things pick up, volumes will rapidly grow. However, in the interim of all the uncertainty, we predict current players will have exited some key markets, leaving opportunities for Andino to grow its Andikem model (transparent chemical fulfillment services). As they say in Spanish, 'aguas turbias, buena pesca'."
Organizations have also displayed a tremendous amount of adaptability, with many pulling forward digital innovations that initially were not planned to be implemented in such a quick manner. "The digitalization aspect of our business has gained more focus and users have embraced solutions much faster than normal during this Covid-19 outbreak," said Jarl Kåreson Hakvåg.
As a result of economic and pandemic headwinds, change is sweeping the industry in 2020. Martin Sack, regional head Americas at Leschaco, a global freight forwarder with its own fleet of tank containers, asserted: "The chemical sector is also under an ongoing wind of change. Companies are acting globally, mergers and acquisitions became the new normal and emerging markets are increasingly relevant, while logistics has become more important for our customers to remain competitive."
The US-China trade war in 2019 followed by the COVID-19 pandemic in 2020 have caused disruptions in business activity. The industry has now faced two consecutive years of an unpredictable operational environment. In the face of these challenges, logistical efficiency remains as important as ever in the Americas and companies are having to display flexibility. Those that prove capable will be well positioned as commercial activity picks up. "We see huge opportunity to grow at a significant rate (in the Americas). The company is increasingly shifting our attention to a regional focus as customers are looking for regional and integrated solutions rather than country solutions" said Leschaco's Martin Sack. ■

Martin Sack

Regional Head Americas
LESCHACO

» **The chemical sector is under an ongoing wind of change. Companies are acting globally, mergers and acquisitions became the new normal and emerging markets are increasingly relevant, while logistics has become more important for our customers to remain competitive.** «

What was the rationale of implementing a regional structure for the Americas?
Leschaco is well known not only for being a leading, globally acting freight forwarder, but also for having our own fleet of tank containers with more than 5,000 units. This fleet grows every year. At the beginning of 2020, Leschaco put a new layer on our organizational chart to focus on growth within the region. We currently have offices in Brazil, Chile, Mexico and the US, and we also have very strong relationships with external partners in other important countries. Besides strengthening these partnerships, we also would like to increase our footprint in Latin America which might lead to the opening of more offices.
This said, the Covid-19 pandemic had a disruptive impact on our overall growth strategy for the year. After a couple of months with decreasing volumes, we now see signs of recovery in almost all countries. The chemical sector showed a high degree of resilience during the crisis. In comparison to other industries, many chemical products were declared essential and demand remained at high levels.

Chemical imports continue to increase in the main markets in the region (Mexico and Brazil). What does this mean for a freight forwarding company like Leschaco in terms of opportunity?
It is good for our business when Mexico grows their export capacity into Latin America, but we also have more work during the country's times of struggle when they have to rely more on imports. Leschaco remains involved in coordinating transport for the entire supply chain. With the current climate, our industry has to focus more on integrated solutions. It is not only transporting freight from point A to point B, but covering the entire supply chain.

Have you seen any changes in the trade dynamics due to geopolitical aspects such as the trade war between the US and China?
We felt the impact of the trade war in the second half of 2019. Many of our US customers reduced their volumes as they are linked to the trade with China, and exports to the Asian market significantly decreased. When it comes to our business in Mexico, where we are more linked to imports, the trade conflict had a general impact on the economic growth of the country. In terms of Mexico's business with Asia, we saw a smaller growth rate compared to previous years.

What is your strategy moving forward?
Leschaco is present in the major markets in the Americas – Mexico, US, and Brazil, where we see huge opportunity to grow at a significant rate. The company is increasingly shifting our attention to a regional focus as customers are looking for regional and integrated solutions rather than country solutions. Leschaco is a family owned business and we are more flexible than most of our competitors. Our agility and adaptability to the needs of our customers are what differentiates us in the market. Our goal moving forward is to be proactive in the market and take on opportunities with both hands.

APLA will celebrate its 40 years in 2020. What have been the main changes you have seen in the wider chemical industry over the last decades?
Such as other industries, the chemical sector is under an ongoing wind of change. Companies are acting globally, with all the involved opportunities and threats. Mergers and acquisitions became the new normal and emerging markets are increasingly relevant. For our industry it was interesting to see how logistics has become more and more important over the years for our customers to remain competitive.
I would like to congratulate APLA on its 40th anniversary. For our organization the APLA meeting is of highest interest, as we can meet with the entire market, getting insights about trends and outlooks that help us to align our own business strategy. Regretfully, due to the Covid-19 pandemic, we will not be able to meet in person this year. We are all aware that the wellbeing of the participants is priority now, and that virtual communication has become the new normal. Let us keep the fingers crossed that we can return to a normal travel and meeting rhythm in 2021. ■

Peter Staartjes

CEO
ANDINO HOLDINGS

» **I predict very interesting times ahead for us in this industry; there are going to be fewer players and those remaining are going to transform the industry in a way we have never seen before.** «

How has your business evolved over the last year?
We continue to concentrate on a few commodity products where we are very strong, like methanol and sulfuric acid, and we have expanded into ethanol and caustic soda. In Mexico we are seeking to expand our terminal in Tuxpan beyond the handling of easy-chems to also include fuels, primarily diesel and jet fuel. Due to the pandemic our Tuxpan terminal is particularly attractive because of the influx of alcohol for the production of hand sanitizer. We are within trucking distance of Mexico City, so we provide excellent logistical alternatives to those of rail and truck from the US.
Given our flexibility to repurpose our logistical assets, we did not see such a downturn as those distributors caught with large inventories destined to adversely impacted sectors. Though in some areas we saw as much as a 50% reduction in volumes, our contingency plans were executed quickly so as not to furlough a single person from our staff.

How is your Tuxpan terminal in Mexico adapting to new demand trends?
In Tuxpan we have a tank capacity of around 15,000 tons, but now we are able to discharge from barge or vessel directly into tank trucks, so the throughput volume per month is much higher. Besides, we also have had customers asking us to store isotainers in our facility. Even if the whole Covid crisis has alleviated a bit the logistics congestion we saw during 2019, we still foresee a continuous deterioration of Pemex's ability to supply the market. The question is what the situation will be when we come out of this crisis. My first thought is that initially Mexico will not be importing as much as it did before Covid, but this is a very large country so if things pick up, volumes will rapidly grow. In the interim, we predict current players will have exited some key markets, leaving more opportunities for Andino to grow its Andikem model (transparent chemical fulfillment services). As they say in Spanish, 'aguas turbias, buena pesca'.

Could you provide some details about your business in the other Latin American countries?
Peru is primarily a mining market for us. About 70% of mining operators had to shut down during Q2 2020 but as of today, most operations have restarted. We deliver a lot of sulfuric acid and we are also a major player in the methanol market. Other products include methyl isobutyl carbinol (MIBC) which is used for frothing in the flotation process, glycerin and products for the industrial markets.
Colombia is primarily a green energy play for us; as we represent the world's second largest methanol producer most of our focus is on serving the biodiesel industry. Obviously, volumes this year continue to be affected by the severe decrease in road transportation. Since last year we started importing caustic soda for soaps and detergents, where we have seen quite a stable demand. In Ecuador we rely on the shrimp farming industry, where we maintain rolling inventories of aqua-nutrients and yield enhancers.

You have often defended that digitalization will completely transform the chemical distribution business. Has the pandemic accelerated this trend?
It will not be long before the Amazons and Alibabas of the world will push into this industry. The problem is the delivery and logistics aspect. This business is not as simple as procuring and sending a package of paper goods. At Andino we are already testing our e-platform where customers can order products online and suppliers can decide which products they sell to whom and at what price. Others are rolling out similar platforms, but at the end of this process the winners will be those who have the creative minds to put together and manage the door-to-door logistics capabilities to fulfill the orders generated from whichever platform the customers choose. We will rollout first with Mexico, then expand to the other Andikem locations. I predict very interesting times ahead for us in this industry; there are going to be fewer players and those remaining are going to transform the industry in a way we have never seen before. ■

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