

SPECIAL REPORT ON LATIN AMERICA

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Latin America Petrochemicals and Chemicals 2023

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LATIN AMERICA'S COMPETITIVENESS CRITICALLY TESTED DURING DOWNCYCLE

A sink for imports

Some chemical industry protagonists we met with in Latin America called it the worst crisis since 2009, and they are probably not wrong. Corrections in petrochemical prices were expected, yet the speed and sharpness of the relapse surprised the industry. A reduction in margins started in 2019, but the pandemic distorted the cycle, putting on hold the construction of world-scale petrochemical plants and playing with consumption behaviors as economies closed and restarted. Today, those capacities in Asia and the US that have been years in the making have come onstream, over-supplying the market. As a net importer of chemicals, Latin America (Latam) is absorbing a fair share of that product, putting pressure on its own domestic producers.

In the competition with Asian and American products, Latam producers are at a disadvantage due to a shortage of feedstocks, which are also more expensive than elsewhere. Brazil, which has a majority naphtha feed, is particularly vulnerable since naphtha prices are pegged to crude oil prices, which have been consistently high over the past two years. Additionally, the price of energy, and in particular of natural gas, is also currently 10 times higher than in Asia, according to Marina Mattar, director of corporate affairs at Unigel,

the country's largest ammonia producer and the only manufacturer of urea and ammonium sulfate: "We are paying around US\$14 per million btu, while in the US it is between US\$1.5 and US\$2, and in Asia it is US\$1.5 or even less. While there has been new regulation in the gas market, there is not enough infrastructure to distribute the gas, so new companies are not investing."

However, ethane crackers, which dominate in Mexico and Argentina, bring a cost advantage over naphtha crackers. "As producers of PE from ethane, we have a very important competitive advantage against naphtha crackers, which represent about 70% of all global crackers," commented Stefan Lepecki, CEO at Braskem Idesa, which supplies almost a quarter of Mexico's PE.

In a low-commodity market, those companies with clear differentials and added-value solutions that can offer something different instead of chasing buyers for the same molecules are better-off. In the end markets, from packaging to agriculture, food, pharma, automotive, construction, and others, demand is not altogether that bad. For specialty players, the current downturn could also be an opportune time for co-creation with their customers. With an eye on more value-addition, Dow, for example, has recently inaugurated its first innovation center in the region, in Jundiaí, close to São Paulo. Dow is leaning in on close-knit collaborations with customers, said Javier Constante, president for Dow Latin America.

Growth in the region is expected to speed up in 2024, with positive GDP growth projections in the top largest economies at 1.2% (Brazil), 2.1% (Mexico), 1.1% (Argentina), and 1.8% (Colombia), according to OECD. The general impression is that the market has hit rock bottom and a gradual recovery is expected. ■



Marina Mattar, Director of Corporate Affairs, Unigel



Stefan Lepecki, CEO, Braskem Idesa



Javier Constante, President, Dow Latin America



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SUSTAINABILITY

Betting on bio-based

If there is a light at the end of the long, winding tunnel of the petrochemical downcycle, it flickers green. Or at least, this is what every petrochemical player we interviewed for this edition seems to think. For every negative figure in the sales of olefins, aromatics, and other basic chemicals, there is a ray of hopeful growth in products with a green component. The bioplastic market has been growing at around 14% yearly, but it is poised to triple over the next five years, informs Townsend, a consultancy.

For Braskem, the region's biggest player, sales of products with a recycled content grew by 144% in 2022 versus the year before. For Eastman, sustainable materials have also seen double-digit growth recently. In the specialty space, Vantage noted a high demand for sustainable beauty and personal care items.

With an abundance of bio raw materials, Latin America brings surprising advantages in green chemistry. "More than 80 years ago, Paulínia became a pioneering site for bio-based ethanol. Today, Paulínia is preceded by its reputation as the site with the largest CO₂ capture project in Latin America, reburning 4.5 million t/y of equivalent CO₂," said Daniela Manique, CEO of Latam and president global business COATIS for Solvay (Rhodia), one of the largest players in Brazil.

Brazil is the second largest producer of ethanol, after the US, the two countries together accounting for 82% of the world's product. While the US's ethanol comes from corn, Brazil relies on its vast sugarcane plantations. Besides sugar, Brazil is also the biggest producer of soy and one of the biggest suppliers of animal fat, both raw materials in the production of biodiesels. In the last decade, Brazil has quadrupled its biodiesel production to 6.8 million cubic meters in 2021. Also, Colombia, Guatemala, Honduras, Brazil and Ecuador are in the top 10 largest palm oil producers. Higher demand for animal fats, used cooking oils, and vegetable oils have been noted by terminal operators like Vopak, which has a dominant market share of 80% in heated capacity for bio-based feedstocks in Brazil. Analysts expect 10% CAGR in the biodiesel market, according to GrandView Research.

The region is understandably excited by the opportunities created in these new niches, but challenges abound. For example, regulations in the blending requirements for biofuels have been inconsistent and contradictory for finers. Regional governments have tended to update these requirements depending on fluctuations in the oil price, leaving farmers confused. Moreover, the production of soybeans, which is the main feedstock for biofuels in Latam, is vulnerable to climate conditions. This year, the methanol market in Argentina, associated with the production of biodiesel, has suffered, said Martina Azcurra, executive manager of chemicals at YPF Química: "A prolonged drought this year has severely affected soybean production. Biodiesel producers will not be profitable this year, which has pushed down methanol sales in the local market."



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Edison Terra, VP Olefins and Polyolefins (South America), Braskem

As for the ethanol-to-ethylene-to-polyethylene value chain, the largest producer of bio-ethylene in the world, Braskem, has increased its production by 30%, from 200,000 t/y to 260,000 t/y, but this is still 10 times smaller than the world's biggest petroleum-based ethylene plant. Braskem is keen to advance both the scale and value of its bio-based ethylene platform. It will almost double the production of bio-PE through a new plant in Thailand as part of a JV with SCG Chemicals, one of the leading Thai petrochemical companies: "Sugar cane-based ethanol feedstock will be supplied from Brazil, with the possibility to eventually develop local value chains with ethanol from the Thai sugar cane industry to improve CO2 footprint even further," Edison Terra, VP olefins and polyolefins South America at Braskem, told GBR.

Additionally, starting from its bioethanol technology, Braskem has made downstream



Daniela Manique, CEO Latam & President Global Business COATIS, Solvay (Rhodia)

advancements in more complex molecules like ethylene vinyl acetate copolymer, adopted by 60 footwear brands in the world, and it has launched Sustainea, a JV with Japanese player Sjitz, to produce bio monopropylene glycol (MPG) and monoethylene glycol (MEG), a raw material for polyethylene terephthalate (PET). Next, it has announced partnerships to produce carbon negative bio-based PP in the US.

The other constraint is, of course, cost. Bio-naphthas are significantly more expensive compared to their petroleum counterparts. The premium has to be covered by brand owners, who pass it on to consumers. And finally, aggregating various sources of animal fat or vegetable oils and then transporting them to bio-refineries around the world comes with its own carbon footprint, which needs to be weighed against the equivalent of producing from a fossil fuel source.

THE ACQUIRED GREEN: RENEWABLES AND RECYCLING

When it comes to the energy transition, Latam countries have not been at pains to commit to net zero targets in the manner of their counterparts in the northern hemisphere. If anything, they have under-committed given many can boast of using the cleanest energy mixes globally, with Paraguay heading the list at 100% clean power, Uruguay at 91%, and Brazil in the top 10 with an 80% green grid. In fact, KPMG ranked Chile and Brazil in the top 20 globally in its 'Net Zero Readiness Index.' With vast lands, year-round sun, and huge windy coastlines, Latin America is an ideal spot for green electricity generation. Brazil leads the way with the most investments in the energy transition, with US\$12 billion worth of investments in 2021, the ninth largest in the world, according to the Visual Capitalist.

"Last year, consulting firm Whey Carbon conducted a study that measured the levels of GHG within the industry, with a focus on carbon dioxide, and found that the Brazilian chemical industry emits between 5% to 35% lower emissions compared to Europe, and between 15% and 51% compared to the US and Asia," commented André Passos Cordeiro, president at ABIQUIM (Associação Brasileira da Indústria Química).

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Juan Pablo Ceballos, CEO, Petroquímica Rio Tercero (PR3)

Many companies in the region have signed power purchase agreements (PPAs) and invested in renewables in recent years, including Braskem, Ecopetrol, Profertil, Unipar, Unigel, PR3, and Air Liquide. But their focus goes beyond cleaning their footprint, targeting explicitly the production of hydrogen, ammonia, methanol, and chemicals, which become “green” when produced from renewables. Electricity, in such examples, becomes a feedstock. For example, Argentinian player Petroquímica Rio Tercero (PR3) signed a PPA with energy supplier YPF Luz for 30% of its energy needs from solar power, which will also help it produce green chlorine and caustic soda.

The game-changer for the region will be in the large-scale production of green fuels like hydrogen, ammonia, methanol, as well as bio-based fuels. Brazil is best positioned for the production of hydrogen. EDF Renewables has a portfolio of 1.4 GW of installed capacity, as well as a big pipeline of another 5 GW of solar and wind onshore opportunities and almost 7 GW of wind offshore projects. Brazil and the Netherlands are looking to develop a green hydrogen corridor between the Pecém Port (Brazil) and the Port of Rotterdam. Also, TotalEnergies, Brazilian state-owned petroleum company Petrobras, and Casa dos Ventos, the leader in the supply of wind and solar energy in the country (with 12 GW in the pipeline), also signed a JV to investigate opportunities in low-carbon hydrogen. While the importance of green energy is an opportunity for some countries like Brazil or Chile, for others is a challenge. Mexico, the region’s second-largest economy, lacks not only a

renewable energy mix but also the policy tools and incentives necessary to create it.

Growth in recycling across Latam will be determined by regulations, technology and improvements in the collection of waste linked to changes in waste disposal behaviors. Regulations in the region are starting to look a lot more like those in Europe. Modeled after similar legislation in Italy and Spain, two new legislations have entered into force in Colombia: A ban on single-use plastics and a tax of around 20% on single-use plastic packaging, but they both come with various exceptions, explained Daniel Mitchell, executive president at Acoplásticos, the association representing the plastics value chain in the country: “A ban sounds alarming, but it does come with many exceptions, including on bags, cutlery, disposables, or straws, as well as products that meet certain circularity conditions.”

Collection is the weakest link in recycling. It is because of poor collection that plastics like polystyrene (PS) have one of the lowest recycling rates globally.

Finally, the third constraint is technology. José Fernandes, VP of performance materials technologies Latin America at Honeywell, thinks there is no perfect solution for the recycling of most plastics, but if mechanical and advanced recycling can be combined, most plastics are recyclable. However, multinationals rarely choose Latam to invest in large recycling facilities, prioritizing bigger markets like the US and Europe. The task of investing in local recycling goes to leading local players. Braskem has invested in its first fully owned mechanical recycling facility in Indaiatuba, where 250 million packaging units will be converted into 14,000 tons of PE and PP. Braskem also acquired a majority stake in Wise Plásticos, a Brazilian mechanical recycler, where it wants to double its capacity to 50,000 t/y by 2026. Braskem wants to sell 1 million t of products with recycled content by 2030.

In Argentina, YPF is pivoting in advanced recycling, with two flagship projects; a modular pyrolysis plant with a capacity of 300-700 t/y and an industrial one, with a capacity of 30,000 t/y equivalent of crude yearly. Using a process called pyrolysis, YPF aims to obtain pyrolysis oil, a feedstock from which it can make petrochemicals. ■

BRAZIL

An industry punching below its weight

In raw terms, Brazil has everything that the chemical industry could wish for: A large economy powered by a proportionally large population and land area, as well as plenty of natural resources of both the dirty and clean kind. The world’s 11th biggest economy, seventh biggest population, and fifth biggest land area has groomed a suitably top-ranking industry, the sixth biggest globally, with net sales of US\$142 billion in 2022. But the sheer size of the Brazilian chemical industry belies stagnant production volumes and underwhelming investments over the past 20 years; investments trended downward to a mere US\$600 million in 2021 from a peak of US\$4.8 billion in 2012, according to ABIQUIM (Associação Brasileira da Indústria Química).

The one figure that has been going resolutely up in the past 20 years is the industry’s current trade deficit, climbing from US\$10.1 billion (2002) to US\$56 billion (2022). Brazil is both the largest exporter and importer of petrochemicals in the region. So why does the country revert to imports instead of local production? High costs of feedstocks, energy, logistics and taxation help explain the trend. Principally, the price of natural gas has been the bane of the local industry. At around US\$14 per million btu, the cost of natural gas is among the highest in the world.

“The Brazilian industry are price takers, not price markers in the global market. The high prices of natural gas, which drive the high costs of propane, ethane and other basic products, leave us completely exposed,” said André Passos Cordeiro, president of ABIQUIM.

Even though Brazil has increased its gas production threefold in the last 15 years, only about half of the gross production is commercialized, mostly due to a lack of available infrastructure, informs S&P Global. The chemical industry is the largest industrial gas consumer in Brazil, but with the industry stagnating, gas



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André Passos Cordeiro, President, ABIQUIM

demand has also stagnated, disincentivizing further developments. It is due to this mutually reinforcing, double investment apathy that the Brazilian industry is vulnerable not only to the high costs of natural gas but also to import dependencies on natural-gas-derived raw materials like methanol and urea. Since Brazil is one of the largest agricultural producers globally, with a ravenous appetite for fertilizers (made from urea), the country

has become the second largest importer of urea globally. Between 80% and 90% of Brazil's nitrogen-based fertilizers are currently imported.

However, the development of three pre-salt discoveries by Equinor at the BM-C-33 project in the Campos basin in Rio de Janeiro state could finally provide the long-awaited boost for the fertilizer sector. This year, energy giant Equinor, together with Repsol Sinopec Brasil and Petrobras, announced a final investment decision for US\$9 billion to develop the offshore project, while the two main gas operators in the country held tenders to develop a pipeline to bring the gas onshore, close to the Port of Açú. Joao Braz, chief commercial officer and head of commercialization at Port of Açú, the country's second-largest port by cargo volume, sees the development as a game-changer: "Once in operation, 16 million m3 of gas/day will reach the Cabiúnas shore close to our port," he said.

The port is planning to start with an ammonia and urea plant with a capacity



Joao Braz, Chief Commercial Officer and Head of Commercialization, Port of Açú

of 1.38 million t/y of urea, and eventually integrate the ammonia and urea plant within a green hydrogen cluster developed within the port area. Today, the largest ammonia producer in the country is Unigel, which also has its eyes on the production of green fertilizers and has kick-started the construction of the first industrial-scale green hydrogen and green ammonia production plant in Brazil, due to begin production in 2024. ■

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MEXICO

A potential as big as the current deficit

The Mexican chemicals industry's trade deficit of almost US\$21 billion is an illustration of both the industry's structural constraints and of its room to grow. It is in this kind of half-full, half-empty glass exercise that McKinsey, together with the industry's main association, ANIQ (Chemical Industry Association of Mexico), engaged in earlier this year, delimitating between the two scenarios with a big "if": If the industry continues on its current path, Mexico might be importing US\$40 billion worth of chemicals by 2035; if, however, it could tap into its current potential, the industry could almost double its size by 2035.

The commercial deficit represents about 30% of demand, but the domestic industry could meet demand if it operated at capacity. Right now, the Mexican chemical sector only operates at around 60-70% capacity, leaving a big gap in the market. Its underperformance is caused by a lack of feedstocks supplied by the country's national oil company, Pemex.

Andrés Manuel López Obrador (AMLO), the country's president, has made Pemex – and Mexico's self-sufficiency in energy – an important part of his six-year mandate since 2018. One of his pet projects was the construction of a new refinery in his home state of Tabasco, a project that exceeded its initial budget of US\$8 billion by almost half and that observers criticized as a white elephant, stemmed out of political intuition rather than any solid cost-benefit underpinning studies.

The result of the 2024 elections will have a deep impact on the Mexican chemical industry since it will dictate the future of a highly contested energy reform (the so-called Energy Sovereignty Policy) initiated by AMLO, which aims to reverse the liberalization of the industry achieved by Obrador's predecessor and grant more power to CFE (the national electricity company) and Pemex.

The other big factor for the future of Mexico's chemical industry will be nearshoring. In many ways, nearshoring is replacing the traditional outsourcing philosophy that has allowed producers to make products in offshore locations, predominantly in China, at cheaper costs. The attractiveness of China started to bend in 2018, amidst retaliatory trade tariffs between Washington and Beijing. About 66% of US annual imports remain subject to tariffs averaging 19%, according to the Peterson Institute for International Economics. In 2022, the rupture between the two countries materialized at the logistical level, with long delays of critical Chinese supplies putting at risk various sectors in the US. Suddenly, the pandemic changed the rules, and the low cost of Asian countries lost some appeal. By contrast, Mexico offered the ideal destination. Mexico found itself benefiting more and more from investments diverted to its shores but with a final destination in the US. Nearshoring could generate a US\$35 billion increase in US-bound Mexican exports, according



Martin Sack, Regional Head Americas, Leschaco

to the Inter-American Development Bank. Asked whether Mexico is ready for the new investments, Martin Sack, regional head for the Americas at Leschaco, said: "Nearshoring-driven investments came to Mexico faster and bigger than anyone anticipated. This suggests a positive outlook for the country, but there remain important caveats about the overall logistics setup, especially when it comes to adding more volumes to ports, airports, or roads." ■

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ARGENTINA

The 'Dead Cow' (Vaca Muerta), more alive than ever

Vaca Muerta has been present in every GBR edition about Argentina, year after year. Readers must bear with us. The giant formation, the size of Belgium, is hard to ignore. The passing of time has not taken away its significance as the second-largest shale gas deposit in the world (with an estimated 308 trillion cubic feet of gas) and the fourth-largest shale oil deposit (believed to contain 16 billion barrels). It took almost 100 years since its discovery in Patagonia before it produced its first barrel, in 2019. But since then, developments have come a lot faster, bringing Vaca Muerta to life. All going well, the fields could pump up to 1 million barrels per day (bpd) in the coming years.

In anticipation of the Latin American Petrochemical Meeting held in São Paulo in November, APLA executive director Manuel Díaz said: "With the development of Vaca Muerta, there will be a mix of raw materials available and an opportunity for the reduction of trade deficits."



Manuel Díaz, Executive Director, APLA



Martina Azcurra, Executive Manager, Chemicals, YPF Química

Vaca Muerta could be the answer to Latin America's feedstock shortages, which have been the main cause of petrochemical production declines all the way from Mexico to Patagonia over the last 15 years. The quality and price of Vaca Muerta's reservoirs are said to rival those that drove the shale boom in the US. Particularly, the natural gas from its non-conventional sources has high ethane and propane content, up to three times higher than that found in conventional resources, and thus ideal for the development of downstream chemicals. Argentina's gas price, at around US\$3.5 per million btu, is about four times lower than Brazil's. However, while extraction is cheap, the infrastructure to transport it is not.


On the production front, this year Argentina hit an all-time record high of 631,103 bpd oil production, according to Oil Price. The national oil company, YPF, but also foreign supermajors like Shell and Chevron, have allocated multi-billion-dollar budgets in upstream operations. Representing YPF, Martina Azcurra, executive manager for chemicals at YPF Química, the chemical arm of the integrated player, shared with GBR that almost half of the company's US\$5 billion capex this year will go into the development of Vaca Muerta.

Argentina has big plans to, first of all, become self-sufficient in natural gas supply, before moving on to exporting to the region. For that, it will require significant investments in infrastructure; the current pipelines are already operating at capacity, while fracking equipment and utilities are scarce. According to Reuters, there are only eight active fracking crews at Vaca Muerta, way below the 280 currently active in the US. This year, YPF committed to fund 40% of takeaway capacity. Also, Argentina just inaugurated a new major pipeline connecting the massive shale gas deposit to the province of Buenos Aires, which currently relies on imported LNG during the winter months. Authorities said the 537-km pipeline, known under the name of President Néstor Kirchner Gas Pipeline (GPNK), will add 11 million cubic meters of gas per day, as reported by Reuters.


The reduction of imports, coupled with the development of export capacities in both LNG and petrochemicals, would bring much-needed support to Argentina's dollar reserves at the Central Bank, which have depleted to an alarming level this year, especially after one of the worst droughts of the century impacted its agricultural sector – a world-leading exporter in soy oil, flour, and corn. According to Consultancy.lat, Argentina will miss out on US\$19 billion in export

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revenue this year, creating severe dollar shortages. This has pushed inflation even higher into the triple-digit range.

Vaca Muerta's oil and gas resources are seen as the silver bullet that could help Argentina's trade balance, but, at the same time, the development of upstream and transportation projects require dollar availability, especially for the servicing sector and equipment importers. Hoping to give investors more confidence, the government is pushing for an LNG bill that would provide the markets with some stability.

In the petrochemical space, import restrictions have distorted the market. Hyperinflation and dollar shortages have led the government to impose a mechanism that requires importers to apply for a special permission. This mechanism has resulted in lower imports (by volume) and higher domestic sales, with mixed effects. Indeed, the trade deficit has been reduced; Argentina normally imported 40% of its chemical needs, whereas today, local producers supply 87% of the market, according to Adrián Schwartz, president at Grupo Simpa, the largest distributor in the Argentine plastics value chain. However, the reduced import dependency conceals the fact that the demand itself has shrunk.

After a surprising victory against Peronist Sergio Massa, Argentina's new president-elect, Javier Milei, has pledged to dollarize the economy, privatize YPF, and critically reduce public spending, an approach that observers have described as "economic shock therapy." Argentina is once again bracing for tumultuous change, more vulnerable to internal risks rather than external ones. ■

DISTRIBUTION AND TRADING

Latam, a distribution market par excellence

Distributors exist to add value to their suppliers and customers by either solving problems or avoiding that problems appear in the first place. By this logic, the more problems there are, the more opportunities to add value. This is probably why, in the Latin American region with its vast geographical span, incohesive regulations, currency constraints, logistical hurdles, and many other problems, the third-party chemical distribution market is so popular. "Our role as distributors is to continue delivering safe and reliable supply to meet demand. Doing this day after day is not as easy as it sounds," said Jorge Buckup, president for Latin America at Univar Solutions.

In the middle of suppliers and buyers, distributors, and to a lesser extent traders, tend to mirror the dynamics pertaining to these two markets. This "when you jump, I jump" relationship has meant that distributors have followed the opportunities provided by Brazil's scale, Mexico's nearshoring, and Central America's niche markets. Recently, it has also meant that when producers fall and commodity prices shrink to 20-year lows, distributors are left with expensive stock, which they are forced to get rid of at lower prices. To make up for lower profits, they need bigger volumes. According to Mark Phillips,

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Jorge Backup, President Latin America, Univar Solutions



Jan Krueder, CEO, Química Anastacio



Germán Torres, President, Brenntag Essentials Latin America

chief operating officer at Tulstar, an Oklahoma-based distributor of transformer oils for the power industry, distributors find themselves trapped between large inventories and languid off-takers and are struggling to strike a delicate balance between having enough and not too much stock. The current environment pits sound cost prudence against the sector's instinctive growth drive.

To increase volumes (and therefore to capture a bigger share of the market) distributors must continue investing – this is the philosophy adopted by most players in the market. How they spend, however, differs broadly.



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One direction has been to expand geographically. The distribution model is, by virtue of its nature, an expandable business at lower capex compared to producers, which has allowed distributors originating from different parts of Latam to grow territorially and replicate the successes achieved in one market into the next.

To offset a low investment mood in its native Chile, Grupo Reno, one of the largest distributors of solvents in Chile, has progressively expanded to Argentina and Peru, and this year it has opened new operations in Paraguay, and next year it plans to expand to Colombia. “In recent months, we had a few of our big customers closing production in the country. Because Chile is an open economy, some manufacturers prefer to import rather than produce locally, which is a big challenge for distributors. The situation is complex, but we have been able to maintain stable growth by developing new segments and managing bigger volumes,” commented Claudio Gorichon, CEO at Grupo Reno.

While some focused on new countries, others looked at improving their operational efficiencies, leveraging previous investments, or adding higher-value products to their portfolios. The boldest are also actively on the hunt for acquisitions. Univar completed two acquisitions in the region, most recently of specialty chemicals distributor ChemSol, with a presence in Costa Rica, Guatemala, El Salvador, Panama, and Honduras. After organically expanding in Argentina and Mexico, Química Anastacio has also been rumored to be looking for an acquisition opportunity in 2024, which would be the first in the company's history. Anastacio's CEO Jan Krueder confirmed the rumors: “We are indeed considering a potential acquisition in 2024 that would speed up and simplify our expansion on the Pacific side.”

Valued at US\$22 billion in 2021 and projected to reach US\$34 billion by 2030 according to Verified Market Research, the Latam chemical distribution sector remains on the right track for continued growth, though the difficult market will filter out the less competitive players. Larger players with a bigger grip on different markets seem to be better positioned against market turbulence. On the other hand, agility, which tends to come in smaller packages, is prized above all else in a challenging market like this. The risks are there, but, as Germán Torres, CEO of Brenntag Latin America, said: “If you know how to calculate and navigate the risks, if you put resources in the right places, Latin America is a place where one can grow faster than in most others in the world.” ■

LOGISTICS

Traditional business cools off, bio-feedstock business heats up

The logistics sector allows us to look at most of the mega-themes discussed throughout this report. The availability of logistics determines the feasibility of investments (like those driven by nearshoring), and the future investments planned by logistics providers, such as in new capacity for biofuels, is a good indicator of where the region's chemical industry is heading to.

Logistics costs are said to have dropped by about 40% compared to last year. This is a bitter-sweet figure for the chemical industry because, although it pays less for freight, for example, it cannot reap higher profits due to the low levels of demand. In 2023, both chemical suppliers and manufacturers at various end industries are sitting on high inventories and looking to destock. This has led to lower demand for the transportation of chemical goods, with both imports and exports slowing down, as ISO operators were quick to notice. However, a bearish consumption market has pushed up the demand for storage, benefiting terminal and warehouse operators offering storage services. For example, Vopak, the world's largest tank storage company, saw a 14% increase in EBITDA in the first half of the year compared to the same time last year, and occupancy rates at 91%. Andino Holdings, which also offers storage through its Andinterinals business, also noted high occupancy and little available tank space in the industry.

Quoting the Spanish saying "A río revuelto, ganancia de pescadores," literally translated as "Troubled waters, fisherman's gain," Andino's CEO, Peter Staartjes, insists that there are opportunities even during difficult times. One of these is in bio-based feedstocks, which Andino, Vopak, Hoyer, as well as other logistics players, are capitalizing on. While traditional markets like oil and chemicals see lower volumes, demand for animal fats, ethanol, used cooking oil, soy oils, and also hydrogen and ammonia is on the rise. Vopak, for example, has allocated a global capex of US\$1 billion in new energies and sustainable feedstocks by

2030. In Brazil, specifically, it has commissioned multiple expansions at its Alemoa Terminal, where it stores fuels, ethanol, chemicals, base oils, but also vegetable oils and renewable feedstocks. By 2024, Vopak will operate at a capacity of 300,000 cubic meters. Vopak currently has an 80% share of heated capacity at Alemoa, which allows it to handle bio-based feedstocks. Also operating the Alemoa Terminal in the Port of Santos, Stolthaven Terminals is investing in two new piers at the Port, as well as exploring opportunities in feedstocks for biodiesel production.

Brazilian ports are similarly running big projects to accommodate for low-carbon fuels, notably at the Pecém Port, which is planning the creation of a hydrogen corridor between Brazil and the Netherlands (Port of Rotterdam). With the feed located in Latin America, major biorefineries being built across the world (with the largest most recently announced to be based in Panama - Biorefineria Ciudad Dorada, 180,000 bdp), and the US as the fastest growing end-market, demand for the trans-



Peter Staartjes, CEO, Andino Holdings

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Vopak is developing infrastructure solutions for the energy transition, focusing on zero- and low-carbon hydrogen, ammonia, plastics recycling, CO₂, long duration energy storage, biofuels and sustainable feedstocks.

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