

## Spotlight: Petrobras' new commercial strategy for fuels

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The Brazilian state-run firm will no longer be subject to mandatory subordination to the import parity price.



Brazil's federal oil firm [Petrobras](#) has announced a new commercial strategy to define gasoline and diesel prices.

According to the firm, this means the end of mandatory subordination to the import parity price ([PPI](#)), maintaining alignment with competitive prices by sales cluster considering its participation in each market and the optimization of its refineries.

The strategy uses market references such as customers' alternative cost, as well as the value to be prioritized in pricing and the marginal value for Petrobras.

The alternative cost considers the main supply alternatives, whether they are supplies of the same or substitute products (i.e., ethanol), while the marginal value is based on the opportunity cost depending on the various alternatives for the company, like production, imports and exports of the product and/or the oils used in the refining process.

CEO Jean Paul Prates said that the new model does not mean moving away from the international price benchmark.

"When the market abroad is heated for oil and its derivatives, with unusually high prices, this will be reflected in Brazil because 'making Brazilian prices' means taking our advantages into account, but without disregarding the international context," he told a press conference.

Mateus Haag, an analyst at Guide Investimentos, said that the marginal value is very good guidance as it prevents the company from selling fuels at a financial loss.

"This means that if Petrobras is importing, it will be based on the import price. If it's refining, it will be based on the refining price," he told BNAmericas.

But Haag emphasized that the effects on Petrobras and the country will depend on how strict the adjustments are. The greater the disparity between the price sold in Brazil and the international market, the more effects will likely be seen, including a drop in consumer prices in the short term.

In an extreme case, in which Petrobras lowers prices too much at its refineries, private plants might have to reduce their output or even halt production.

"Petrobras itself would end up having to increase its production or even start importing fuel at a much higher price abroad and selling it at a cheaper price here at a loss," Haag underlined.

But he added that Prates is very experienced in the area and confirmed that Petrobras won't stray too far from international prices. "So I hope that there's a reduction in fuel prices, but that it's not so significant as to generate losses for Petrobras and even for the Brazilian economy."

Mahatma Ramos dos Santos, director of petroleum, gas and biofuels association Ineep, highlighted that Petrobras will avoid passing on international volatility to the domestic market, but without disregarding international prices and the exchange rate.

"The revision was urgent and necessary. The PPI not only allowed extraordinary gains for the company's shareholders in recent years, but resulted in the explosion of fuel prices in the domestic market, penalizing Brazilian consumers above all," he said in a statement.

The new guidelines indicate lower domestic price volatility, while international commercial and geopolitical elements will continue to influence Petrobras' commercial policy, Ramos dos Santos said.

Luiz Henrique Sanches, of LHS Consultoria e Treinamento and former director of the Manguinhos refinery in Rio de Janeiro, said that the information released by Petrobras lacks content. "It's just a smokescreen, trying to disguise what will really be done, to please the 'big boss' [the federal government]"

and use the company as a political tool once again," he told BNamericas.

Paulo Valois and Aurélio Amaral, partners at law firm Schmidt Valois Advogados, said that Petrobras' new strategy will result in higher gains or losses for the company given its new refining prices versus the cost of importing derivatives.

They added that the change could lead to legal disputes if the new policy is completely out of line with the costs incurred by the company, generating successive losses without economic rationale and in contradiction to its corporate purpose.

Mines and energy minister Alexandre Silveira said that Brazil has advanced in terms of economic freedom.

"We went from a policy of 'ties' that prevented greater competition and, consequently, better gains for the consumer, to a policy of commercial freedom that I hope will be practiced by the other oil companies, following the example of Petrobras. Besides following an appropriate commercial policy to compete domestically, it will make prices more attractive to the consumer and reduce the impact on inflation," he said in a statement.

Moments after announcing the new strategy, Petrobras reduced diesel and gasoline prices at its refineries. The average sale price of diesel to distributors will be cut by 0.44 reais/l (US\$0.089) from 3.46 reais/l, while gasoline will be reduced by 0.40 reais/l to 2.78 reais/l.

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