Determinants of fuel price control in Brazil and price policy options

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Abstract—The Brazilian economic liberalization in the 1990s led to oil products price deregulation in the beginning of the 2000s. Nevertheless, in practice, the government has been indirectly controlling gasoline, diesel and LPG prices through Petrobras, a state owned company. The comparison of Brazilian oil products prices with international reference price between 2011 to 2014 has shown that domestic prices were set at a lower level during most of the period. Petrobras experienced financial losses by importing products at a higher price then it was able to sell in Brazil. In addition, the company lost revenues by selling the domestic production at lower than international prices. The revenue losses relating to the price controls can explain most of its financial deterioration since 2011. Price policy also had a negative impact on downstream investment conditions. It is essential to design a new fuel pricing policy for Brazil. Since a market-based approach is politically unfeasible, other price smoothing mechanism such as a fuel price stabilization fund was analyzed and proposed to transparent pricing for gasoline, diesel and LPG.

Keywords—fuel prices, oil industry, Petrobras, price policy.

1. OVERVIEW
Fuel prices are deregulated since 2002 in Brazil. However, the government has been using indirect price controls to prevent energy prices to rise and, therefore, avoid inflationary pressure. Since the government is Petrobras’ controlling shareholder, it can influence oil products prices and cushion the impact of international fuel prices volatility on domestic prices. Ex-refinery prices have been recently adjusted upwards at the refinery gate. Nonetheless, domestic prices remained lower than the international prices between 2011 and 2014. This pricing policy has inflicted financial losses upon Petrobras and on the downstream structure of the oil industry. Besides compromising Petrobras’ investment capacity, it constrains private downstream investment. This context highlights the need to develop a new fuel price policy to Brazil. This paper aims to analyze how recent price policy control for gasoline, diesel and LPG affects Petrobras and downstream investment decisions. In this sense, alternative price policies for these fuels are discussed. In addition to this introduction, that will present gasoline, diesel and LPG price composition and the evolution of their market in Brazil, this paper is divided in four other sessions. The second session presents the methodology of the paper. The third session describes the results. The fourth session proposes price policy options and the last session concludes this paper.

1.1 FUEL PRICES IN BRAZIL
Brazilian market liberalization occurred in the nineties and included Petrobras opening its capital and gradual subsidy removal from fuel prices. This led to oil products price liberalization, effectively concluded in 2002 (COLOMER e TAVARES,