

The Investigative Authority preliminarily determines lack of effective competition in the distribution of LP Gas to end users

- *In its Preliminary Opinion it establishes that there are no competition conditions in 213 geographic markets.*
- *In accordance with the process established in the Federal Economic Competition Law (LFCE, per its initials in Spanish) and the sectoral regulation in force¹, if the sense of the Preliminary Opinion is confirmed the Energy Regulatory Commission may establish in those the regulation of compensations, prices or fees.*
- *Between 2016 and 2021 an average increase of 145% was observed on the distributors' gross profit margin at the national level.*

Mexico City, December 1, 2021.- The Investigative Authority of the Federal Economic Competition Commission (COFECE or Commission) preliminarily determined that there are no effective competition conditions in 213 of 220 geographic markets defined for the distribution of liquefied petroleum gas (LP Gas) to end users through distribution plants and tank trucks (pipes)².

In Mexico, LP Gas is the main fuel used by families and businesses to cook, heat water and provide heating in homes. This fuel is acquired from delivery trucks in portable vessels ("cylinders") or through loads made by tank trucks in the installations that consumers have at their domiciles (known as stationary tanks).

This resolution is relevant as the energy markets, such as the one for LP Gas, have an effect across the economy, which implies that when prices increase the costs for producing other goods increase, for example, some foods, which directly impacts on the families' purchasing power, specially of those with lower income. Particularly, in the period between December 2016 and April 2021, the distributors increased their average gross profit margin in 145% at the national level.

Among the elements identified that inhibit competition are:

¹ Article 82 of the Ley de Hidrocarburos [Hydrocarbons Law] (LH) mentions that the prices for public retail of LP Gas will be determined in accordance with market conditions. Article 77 of the Reglamento de las Actividades a las que se refiere el Título Tercero de la LH [Regulation of the Activities referred by Title Third of the LH] mentions that the distribution not linked to LP Gas pipelines will not be subject to price regulation, unless COFECE determines the contrary.

² This market does not encompass the distribution not linked to LP Gas pipelines.

- **High concentration in multiple regional markets.**
- The existence of **entry barriers to these markets for potential competitors** due to high investment costs, such as those related to the establishment and put into operation a distribution plant, the acquisition of a vehicle fleet and portable cylinders, a long-term return (between 3 and 10 years), as well as high sunk costs.
- **Regulatory barriers**, as a high number of standards and legal requirements must be met, which requires the interaction with at least five authorities, both at the local and the federal levels –among them, the Energy Regulatory Commission (CRE, per its initials in Spanish), the Safety, Energy and Environment Agency (ASEA, per its initials in Spanish) and the Ministry of Finance and Public Credit–, which take time to be obtained.
- Moreover, **there are commission agents and clandestine groups and pseudo unions whose conducts constitute a barrier to entry**, as they inhibit or hinder the concurrence of distributors to certain geographic zones, especially in the Metropolitan Zone of the Valley of Mexico.

The Investigative Authority published today the extract of the Preliminary Opinion of this investigation (DC-001-2021). From this moment, the economic agents interested in this procedure may present the statements and arguments that they deem appropriate in order for the Board of the Commission to issue the final resolution of this case.

In accordance with the regulatory framework in force, if the sense of this Opinion is confirmed concerning the lack of effective competition conditions in the distribution of LP Gas to end users through distribution plants and tank trucks in the 213 regional markets, it will correspond to the CRE to establish the regulation for compensations, prices or fees. To this end it requires a prior resolution on the absence of competition conditions by COFECE.

Read the [public version of the preliminary opinion of investigation DC-001-2021](#) or the [extract published in the Federal Official Gazette](#) (DOF, per its initials in Spanish)

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The Federal Economic Competition Commission is responsible for ensuring competition and free market access. In this way, it contributes to consumer welfare and the efficient functioning of the markets. Through its work, COFECE seeks better conditions for consumers, greater output and better services and a “level playing field” for companies

