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Gasoline & Diesel Prices in Colombia: Looking at the FEPC and the Future of Subsidies

Posted On November 25, 2023 By : Rupert Stebbings

In terms of gasoline prices, 2023 has been a landmark year in Colombia. The country, after over a decade, has pulled on its big boy (or girl) pants and started acting like a grownup nation.

Ironically the Fuel Price Stabilization Fund (FEPC) — which looks like a policy out of Cuba, Venezuela, or Bolivia — was devised and maintained by conservative governments. And, even more ironically, is being dismantled by President Gustavo Petro, who to some in Colombia is akin to the second coming of Vladimir Lenin.

These are strange times.

Although gasoline prices have increased rapidly (70%-80% depending on where you live), the FEPC deficit will still end 2023 at around \$5 billion dollars — money that Colombia doesn't have and never had. According to the Regional Centre for Energy Studies (CREE), in Bogota, the yearly cost of the fuel subsidy in 2022 was enough to finance the public education system for five years.

The other key takeaway from CREE is who is actually benefiting from the fuel subsidies: 50% of the money was ending up in the pocket of the richest 10% of Colombia's population — the same 10% who drive large-engine, gas-guzzling 4 x 4s. That is, of course,

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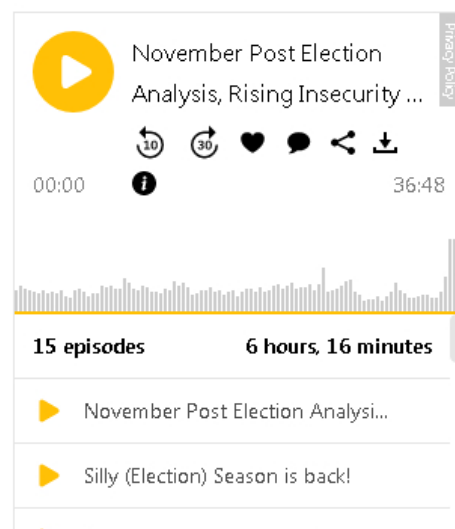
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their right — but pay for it

Over recent years, to keep this deficit under some sort of control, **Ecopetrol** dividends have been used to pay off some of the debt. The hope is that, over the coming years, with subsidies removed — or at least greatly reduced — there will be more working capital for the company. This has been mentioned by the company during results presentations.

Gasoline is only part of the problem though. In fact, by the end of 2023, it only will be about 15% of the \$5 billion USD problem.

The rest is diesel — and, by 2024, that will be dominating the headlines.

While there are some private users of the ridiculously cheap diesel (at \$2.34 USD per gallon compared to \$3.72 USD per gallon for gasoline), the Finance Ministry has already put the transport companies on notice that their sector will be next as they pay an even lower \$1.87 USD. The Finance Ministry met with the transport companies earlier this month and stated that, *if* there is no increase in the price of diesel, this will add another \$2.6 billion USD to the FEPC by the end of 2024.

The issue is, of course, that the truck companies are militant by nature and far from averse to blocking roads and downing tools in order to get their way. They also carry a heavy political lobby.

So while the FEPC has at least stabilized, the problem still needs a lot of work. The recent decline in the price of oil, combined with a lower Colombian peso print, has helped bring gasoline prices to the government's international norm target.

But 2024 will be another story.

Analysts, economists, and others are in accordance with Petro's policies and, hopefully, one day, subsidies will be a policy of the past.

Then, Colombia can enjoy free-market fuel prices — and take an important step to being a true free-market economy.

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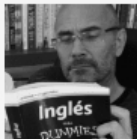
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About the Author

Prior to becoming the BVC's (Colombia's stock exchange) International Account Manager, London native Rupert Stebbings spent 13 years opening the Colombian equity market to foreigners. All this after a spell "stateside" in NYC. Rupert's opinions are his own and not necessarily those of Finance Colombia or the BVC.



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