



Empresa de Pesquisa Energética

SPECIAL REPORT

Distribution and resale margins

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Empresa de Pesquisa Energética (EPE), or Energy Research Office, is a government-owned entity, attached to the Brazilian Ministry of Mines and Energy. The purpose of EPE is to provide energy information, studies and research that support the planning of the national energy sector.

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Distribution and resale margin

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Distribution and resale margins

Brazil's Energy Research Office (Empresa de Pesquisa Energética - EPE) prepared this Special Report in order to help clarify, to group of potential investors and other stakeholders, the distribution and resale margin, their composition and their impacts on the product prices.

1. Introduction

The Brazilian fuel market is formed by producers, formulators, importers and exporters, distribution companies, Transporters-Resellers-Retailers (TRR), retailers and consumers. These agents and their typical relationships are exemplified in Figure 1.

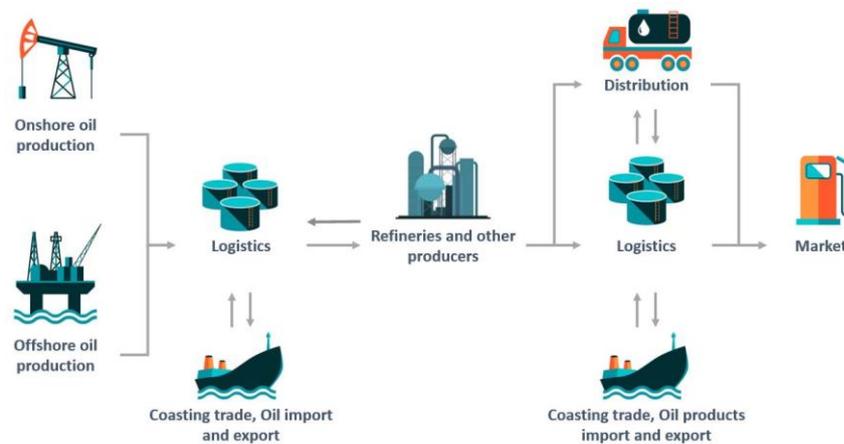


Figure 1: Economic agents and the liquid fuel market flow

Source: Adapted from [EPE \(2020\)](#).

It is worth noting the importance of all agents in the fuel pricing in Brazil, a subject that a large part of the population is unaware of. Seeking to change this dynamic, EPE started a series of studies with the objective of clarifying the topic and better informing society about several aspects related to fuel pricing. In this document of the Fuel Price Series, a qualitative survey of the composition of gross sales margins occurs, including the stages of distribution and resale. Further analyzes are underway for the remaining links in the chain and the taxes levied on fuels.

From the price offered to the consumer, the portions called distribution and resale margins play an important role in the composition. One should note that, when not stated otherwise, these margins are gross margins, containing the costs of the distribution and resale and the respective net margins that are associated with profit. Figure 2 shows, in a simplified way, the price composition charged by distribution and resellers companies.

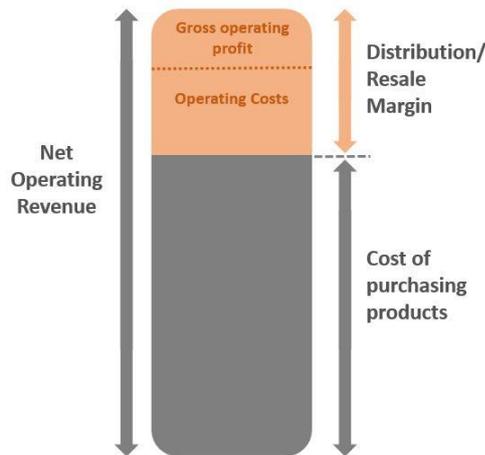


Figure 2: Price fixing used by distribution and resellers companies

Source: Adapted from [EPE \(2019\)](#).

Distribution and resale margins for each fuel sold in Brazil are free to vary, depending on the different cost and market structures of each product, as indicated in [Ministry of Mines and Energy \(2018\)](#).

This document comprises of two chapters, one on the composition of the distribution margins and the other on the resale margins. Both chapters begin with the definition of gross margin, later subdividing into sections to list the main fixed and variable costs of each segment. Then, final remarks are made, highlighting the most relevant aspects.

2. Composition of distribution margin

Unlike net or profit margin, the gross distribution margin consists of revenue from the sale of the product(s), less the acquisition costs thereof¹. Gross profit, in turn, is the gross margin minus the operating costs of the activity. The main fixed costs and expenses and the variables resulting from the fuel distribution stage will be described below.

2.1. Fixed costs and expenses

Fixed costs and expenses often associated with a fuel distribution company are:

¹ In practice, the purchase price of oil products includes the collection of taxes levied on fuels, such as the ICMS (value-added sales tax), since the producer is the tax substitute (responsible for the early collection of the other links in the chain). It should be noted that, after a decision by the Federal Superior Court (STF, 2016), the ICMS collection carried out in previous stages of the chain was understood as partial, with the possibility of further complementation/refund of the tax depending on pump prices ([COMBUSTÍVEL BRASIL, 2018](#)).

- Leasing and renting - expenditure on renting the area occupied by the distribution company: not only the operational area, but as a possible administrative area. Condo and rental of vehicles and/or equipment expenses are also included;
- Financing - cost of capital for the investment made by the distribution company.
- Insurance - expenses for the payment of vehicle insurance, life insurance for employees, third parties, against fire and others;
- Labor - expenditure on the labor force, from paid wages, through hazardous premiums, meal allowances, overtime, nighttime premiums, social charges, labor risk contingencies, among others;
- Legal costs - expenditure to comply with legislation and regulations (environmental controls, environmental licenses, operating permits, firefighters' inspection reports, tax and legal costs, etc.);
- Depreciation/Amortization - costs with the amortization of buildings or improvements, machinery and equipment, vehicles, tanks, containers (in the case of a LPG distribution company), among others;
- Taxes - comprise fees, taxes and contributions applicable to a distribution company (such as property and automobile property taxes, and net profit contribution), in addition to Union Contribution.

2.2. Variable costs and expenses

The variable costs and expenses that can be attributed to a fuel distribution company are:

- Expenditure with utility companies - water, sewage, electricity, telephone and internet services.
- Storage - costs that occur when a distribution company uses another company's tanks or spheres to store products in its custody.
- Quality and marketing - costs with sampling, laboratories, and expenses with personnel training, among others. It is often related to guarantee the quality of the products sold, in addition to the marketing carried out with the end consumers so that they choose a resale linked to their distribution company.
- Operational material - costs with workers' uniforms, personal protective equipment (complying with Ministry of Labor standards), materials used for bottling liquefied petroleum gas (LPG) and with the requalification of containers (in the case of a distribution company of this product), etc.
- Pumping costs - when different companies form a pool to manage a base, tariffs are proportional to the volume handled.
- Banking expenses - expenses with banking services and the transportation of valuables.
- Credit expenses - expenditure on sales made with different payment terms, default costs, etc.
- Taxes on biofuels - the distribution company is often responsible for the collection of ICMS of all hydrated ethanol chain. Within this fuel chain, there is, also, a tax on distribution of both social contribution, PIS and COFINS.

- Freight - freight costs for incoming products, as well as the transfer between bases.
- Third-party services - expenses incurred to services provided to the distribution company. Expenses with training may be included before one has access to the operational area, provision of cleaning and maintenance services, surveillance and concierge, expenses with mail and transport of pouches, provision of stationery and reprography services, among others.

3. Composition of resale margin

Gross fuel resale margins are comprised of revenue from sales, less the amount spent on acquisition thereof. Thus, this logic differs from the concept of net margin, associated with profitability related to the product's selling price. This, in turn, accounts for total revenue, less costs and expenses arising from the activity. Below, the main costs and expenses of fuel resale in Brazil² are highlighted.

3.1. Fixed costs and expenses

Fixed costs and expenses often associated with fuel resale activities are:

- Land - the land used for the retail station can be owned by the resale partner(s), purchased for the construction of the project or, even leased, generating a fixed cost;
- Flag - in case the fuel station is flagged, there is a contract with the distribution company: contemplating the exclusivity of product supply, minimum replenishment of stock, application of the distribution company's visual identity, marketing plans, among others;
- Construction - cost of capital to reward the investment made to build the station;
- Insurance - insurance of the location, product stocks, equipment, among others;
- Labor³ – expenses with the employees of the company, from the salary paid, passing through dangerous premiums (30% of the salary), meal allowance, overtime, nighttime premiums, other social charges, labor risk contingencies, among others;
- Legal costs - expenses related to complying with the legislation, whether for environmental controls and licenses, operating permits, firefighters' inspection reports, rate for checking fuel pumps, among others;

² This document does not consider the costs associated specifically with the resale of Compressed Natural Gas (CNG), but only with liquid fuels sold in Brazil. Although it is not the object of this analysis, it is worth mentioning that the resale business model may include other opportunities, such as convenience stores, bakeries, car wash, markets, engine oil changes, snack bars, etc.

³ It is important to note that the self-service station is common in other countries: where the customer fills up the vehicle and pays at the pump or at convenience stores. Although this type of establishment reduces labor costs, with the possibility of offering fuel at lower prices, in Brazil, there is legislation (Law No. 9.956/2000) that prohibits self-service due to security issues, with the justification that the activity requires a minimum of training and, also, for social aspects, since there is a concern to protect the employment of thousands of gas station attendants ([BRASIL, 2000](#)).

- Vehicle fleet - for a LPG resale, the purchase of vehicles must be taken into account to deliver the cylinders to the customer;
- Depreciation/Amortization - costs with the amortization of buildings or improvements, machinery and equipment, vehicles, among others;
- Taxes - comprise fees, taxes and contributions applicable to a resale (such as property and automobile property taxes, and net profit contribution), in addition to Union Contribution;
- Regulatory expenditures - include the replacement of fuel pumps according to [INMETRO legislation \(2016\)](#), the obligation to clearly inform the origin of the fuel sold (with different forms if the station is flagged or white flag); the analysis of each tanker compartment that contains the fuel to be received; the provision of analysis equipment such as a thermometer, standard measure and measuring ruler; materials for fuel analysis; the preparation of the fuel price panel; among others.

3.2. Variable costs and expenses

Here, some variable costs and expenses that can be attributed to a fuel retail station will be presented.

- Freight - an important cost in the purchase of fuels and, in the case of LPG resale, an important expense for delivery to customers;
- Utility companies - expenditure with water, sewage, electricity, telephone and internet services.
- Operational expenditures - those related to transportation of values (not mandatory), unions, accounting, maintenance of the site and equipment, among others;
- Operational material - here, expenses are included with workers' uniforms, personal protective equipment (to meet the standards of the Ministry of Labor), among others;
- Financial expenses - in general, these expenses refer to card transactions, since most of the sales made use this means of payment, be it credit or debit. For debit card transactions, the receipt period is up to 01 business day, whereas for credit transactions, this period can reach 33 days.

4. Final remarks

Price composition presents a complex structure, being affected by the exchange rate, producer price, and international oil prices, among others. This document presented the most relevant components of costs and expenses for the liquid fuel distribution and resale sectors. This analysis did not aim at a quantitative bias, but only qualitative to support a better understanding of the topic.

One should note that this document is part of a proposal by EPE, with an introductory character, to reduce the asymmetry of information regarding Brazilian fuel pricing, providing support to national energy planning.