

LUBES'N'GREASES

EUROPE
MIDDLE EAST
AFRICA

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MARKETING MATTERS

Synthetic Lubes: Industry Sweet Spot

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Amid a lackluster overall market for finished lubricants, demand for synthetic passenger car engine oils remains very strong both in Europe and around the world. Once these lubes were reserved for use in high-performance automobiles, makers of which specified synthetics for both factory fill and ongoing maintenance.

In recent years, however, trends such as improved fuel economy and extended drain intervals converged to broaden demand for these fluids. At the same time, supply-side dynamics evolve to create a healthy balance of push and pull market drivers that have stimulated growth of synthetics, especially in Europe.

The Big Picture

Global demand for finished lubricants has declined sharply at the hands of a global recession, but synthetics and synthetic blends have actually gained, going from 0.5 percent penetration in 2007 to 6.1 percent and 4.1 percent of global demand, respectively, today. It seems loyal customers continued to use synthetics throughout the downturn. No doubt many are listening to the growing number of original equipment manufacturer recommendations for synthetics and have bought into arguments that they help improve fuel economy, enabling longer drain intervals.

Europe enjoys the greatest penetration of synthetics. These premium products are estimated to account for 12 percent of all lubricants consumed in the region and a whopping 23 percent in the consumer automotive segment. Use is highest in the European Union sub-region, where superior performance and environmental benefits are especially valued. Consumption in countries such as Germany and the Scandinavian states has reached saturation levels. On the other hand, room for substantial growth remains in places such as Russia, Poland and other countries.

Not Just for Cars

Outside the passenger car engine oil segment, synthetic lubes made fewer inroads historically. Globally, they account for only 6 percent of the commercial automotive category – engine oils used in on-road heavy-duty diesel trucks – and that level is only expected to rise to 9 percent by 2019. Among industrial oils and fluids, refrigeration and compressor oils and metal forming fluids are the applications where synthetics are most commonly selected.

Synthetics account for more than 17 percent of total global refrigeration fluid demand, and that number is expected to climb to 20 percent by 2014 and as high as 30 percent by 2019. Driving this demand will be the



Synthetic engine oils — no longer just for luxury cars.

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Increased demand for consumer air conditioners is one source of increased demand for synthetic lubes.

transportation equipment industry in the Asia-Pacific region and Brazil, which are becoming leading vehicle manufacturing hubs. In addition, a surge will come from growing demand for consumer air conditioning equipment as well as commercial and industrial refrigeration equipment in the developing world.

Asia-Pacific is currently the globe's growth region for total lubricant demand, but it has so far been slow to adopt synthetics. Only 3.5 percent of synthetic lubes are consumed in that region. Even so, as the Asian economies gain momentum, first-time car owners here seem more open to using synthetics compared to more mature markets where preconceived notions on maintenance practices are handed down "father to son" – and often don't include synthetics. Asian car owners view vehicles as prized possessions, and in their efforts to give them the best care, seem more willing to look beyond conventional oils.

Support from Suppliers

On the supply side of the equation, strong growth in API Group III base stock capacity is supporting the move toward synthetics. Significant startups of Group III refineries, including Shell and Qatar Petroleum's plan to start producing Group III base oils at their new Project Pearl gas-to-liquid plant in Qatar, will help to further drive an increase in Group III-based synthetic lubricants. Meanwhile, national oil companies are also now eyeing the market and its barriers to entry. If some of them construct Group III plants, it could dilute the prestige of synthetics and perhaps erode the premium pricing that synthetic base stocks currently receive. Or it could lead to more tiers of synthetic lubes and customers concluding that synthetics are not all equal.

Despite their popularity in Europe, synthetic lubricants still have a relatively small base on the world stage. But demand for them is expected to grow at an accelerated rate in the future. Global demand for synthetics is forecast to increase 5.5 percent annually through 2014, compared with just 2.8 percent for conventional oils.

With support from OEMs and growing awareness among consumers, synthetic lubes should continue to gain popularity in other geographic markets. As base stock supply ramps up to meet demand, this will likely help to broaden synthetics' appeal as a cost-effective, practical alternative to convention oils with tangible long-term benefits. □



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