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Turkey's Market Weathers Tariffs

BY MARK TOWNSEND

DUBAI, United Arab Emirates – Base oil imports to Turkey dropped sharply in recent years due to a government clampdown on previously widespread dodging of fuels taxes. The nation's base oils and finished lubricants markets continue to chug along, according to one supplier, despite the implementation of hefty import tariffs.

Turkey imported 400,000 metric tons of base oils last year, far less than in 2011, when an estimated 1.2 million tons of base oils were reported imported, according to Istanbul-based Ekin Kimya. Previous levels were misleading because they included large amounts that were illegally blended and sold as diesel or gas oil.

"In 2012 there was huge interest in the Turkish lubricant market, but that was due to the misuse of base oils," said Kerem Tercan, Ekin Kimya's lube oil division manager.

Ankara reined in the black market activity by introducing taxes designed to make costs of importing base oils and finished lubricants similar to fuels. The levies amount to U.S. $300 per ton for base oils, $500 per ton for lubricant additives and $300 per ton for finished lubricants, Tercan said.

Approximately three months ago the government introduced new legislation meant to encourage recycling, imposing an additional $100 per ton levy that is added to the lubricant's selling price. The government also requires that companies storing base oils or lubricants in bonded areas will pay relevant taxes.

Still, Ekin Kimya – which imports Chevron base oils and acts as distributor for both Chevron Phillips Chemical and Chevron Oronite – believes Turkey's lubricant market can weather the storm. Turkey's substantial vehicle market as well as its strategic position between Europe and Asia make it a go-to location for the import and re-export of base oils and lubricants. The total vehicle parc was around 22.8 million units last year. In addition to the 12.9 million passenger car fleet, the country has 4.8 million commercial vehicles, 3.3 million motorcycles and 1.8 million tractors. Local refiner Tupras produced approximately 177,000 tons of API Group I base oils in 2017, Tercan said, adding that the market consumes an estimated 600,000 tons of base oil.

In 2017, the latest year for which figures are available, 243,000 tons of automotive oils were sold in Turkey, including 204,000 tons of engine oils and 39,000 tons of transmission oils. Overall lubricant demand grew 4.3 percent over the previous year.

At 124,000 tons, the heavy-duty engine oil market is Turkey's largest category. The country consumed 76,000 tons of passenger car engine oils in 2017 and 4,000 tons of two-stroke engine oils.

The country consumed 190,000 tons of industrial lubricants, as well as 22,000 tons each of greases and marine oils. Hydraulic oils were the largest category in the industrial segment, with 85,000 tons, followed by 35,000 tons of process oils, 14,000 tons of transformer oils, 10,000 tons of gear oils and 8,000 tons of metalworking fluids.

Speaking at the **Base Oil and Lubes Middle East Conference organized by Conference Connection** here earlier this month, Tercan said the average vehicle age in Turkey is 13.1 years and the age of the fleet is limiting a shift to higher quality lubricants.

Turkey has adopted Euro 5 automobile emissions standards, but lube blenders are mostly supplying lower mid-tier products.

"Sales are showing the market is consuming API SL and ACEA A3/B4 specification products, and for [heavy-duty engine oils] the volume is coming from CI-4 and SAE 15W-40, but is switching to 10W-40 grades," Tercan said. Yet, of the 12.9 million passenger car fleet in 2018, just under 3 million units were more than 21 years old, while almost 3.3 million other vehicles were between 11 and 20 years old.

Although the finished lubricant sector is intensely competitive, two companies have a strong grip on the market with a combined share nudging 40 percent. Petrol Ofisi, which was acquired by Vitol in 2017, claims 19.9 percent of sales and is closely followed by Shell at 19.8 percent. Other majors with a significant share include BP (13.6 percent), Total (9.5 percent), Opet Fuchs (6.4 percent) and Lukoil (5.4 percent), Ekin Kimya estimates.

Local Turkish companies make up the remaining 25.4 percent, with more than 100 licensed lube oil blenders, but not all are blending lubricants, Tercan added. In the last seven years the number of lubricant blenders fell from a peak of 400 to the current level of 100.

Last year's currency crisis, which saw the Turkish lira tumble by almost 30 percent, has taken a toll on local lubricant blenders. "Domestic lube oil blenders cannot calculate their costs accurately as materials are priced in foreign currency," Tercan said. That has forced Turkish lubricant blenders to increasingly look to exports to sustain earnings. Major markets for Turkish lubricants include the Middle East, the Asia-Pacific region and South America.