

 <p>BASE OIL AND LUBES MIDDLE EAST</p> <p>BLM 10-11 APRIL 2019 Dubai, UAE</p>	<h1>Base Oil & Lubes</h1> <h2>Middle East 2019 (BLM 2019)</h2> <p><i>Managing Change and Identifying Opportunities in an Oversupplied Market</i></p> <hr/> <p>10-11 April 2019, Dubai, UAE</p>	<p><i>Hosted & Sponsored by:</i></p>  <p>إينوك enoc</p> <p><i>Organised by:</i></p>  <p>CONFERENCE CONNECTION</p>
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Lubes ‘N’ Greases – 30 April 2019

Headwinds Cloud Lubricant Outlook

BY MARK TOWNSEND

DUBAI, United Arab Emirates – At approximately 38 million tons last year, the global lubricant market remains one of the most profitable areas in the oil and gas value chain, according to industry insiders.

They estimate sales prices of lubricants are almost four times those of larger volume refined products and earnings before interest and taxes are 20 to 30 times that of those products. But for how long? According to consultancy Bain & Co., between 2020 and 2023 electric vehicle battery-pack costs could fall to U.S. \$100 per kilowatt hour, two to five years earlier than most analysts currently predict.

If accurate, that will make electric vehicles cost competitive to internal combustion engine vehicles, Bain contends. Meanwhile, Sia Partners estimates passenger car motor oil demand could fall by as much as 40 percent by 2040 if targets for emissions and some EV forecasts prove accurate. Pressure is rapidly mounting on the lubricant industry to innovate and adapt to technological and behavioral changes sweeping the market.

During the **Base Oil and Lubes Conference** organized by **Conference Connection**, Benoit Mahe, Sia Partners’ senior consultant and Geeta Agashe, president of Geeta Agashe & Associates, provided insight into the issues disrupting lubricant sales and consumption levels. At the macro level, Mahe said, regulations that implement the 2015 Paris Climate Conference climate change commitments could have a strong impact on lubricant demand, as would replacement of polluting technologies and societal change amid increasing awareness of climate change.

The meteoric rise of China's economy made it one of the world's two largest lubricant markets and helped buoy global lube demand, but an economic downturn there could dampen lube demand. Lastly, the ubiquity of low-margin mineral base oils, which account for 84 percent of all base oils, is another factor adding to market imbalances.

Mahe told delegates several global factors will shape future business. In the transport sector, calls for reduction of carbon emissions and growth of EVs could drag down PCMO demand by as much as 40 percent by 2040, though new lubricant applications could offset the fall. The freight transportation sector might also be transformed by 2040 with the electrification of the road. Sia Partners expect wider adoption of vehicles similar to Tesla's Semi, a battery-powered truck.

Meanwhile, increased passenger mobility and growth in car sharing could tend to increase lubricant consumption. "Shared mobility is increasingly used, and that pushes forward drain intervals with consequences for lubricant markets," Mahe said. In industrial lubricant markets, the rise of renewables such as wind energy will increase the need for turbine oils and demand for EV batteries will expand metals mining requiring new lubricant applications. Elsewhere, the so-called Industry 4.0 revolution and growth in robotics as well as 3D printing will spur new demand for lubricants and greases.

Agashe cited many of the same potential disruptors but also pointed to technological improvements in the lubricant industry that include extended engine oil drain intervals, fill-for-life automatic transmission fluids and grease applications. But new technology such as dry machining, and microlubrication have undoubtedly changed the lubricant landscape. The developments signal the wider industry that it must evolve by adding value and devising new applications. Still, the global lubricant market is expected to continue growing until 2025, but will begin to decline in superseding years. By 2040 Agashe expects the market to be approximately 33 million tons.

Even so, technological evolution is driving the increasing commoditization of lower specification products, with margins increasingly squeezed. By 2030 Agashe estimates 3 million tons of lubricants will be lost from the market. "That will primarily be first-fill or factory-fill volumes and some demand for metalworking fluids will be eroded as newer cars move to aluminum or even thermoplastics." There is also a discernible shift from business-to-consumer marketing to business-to-business marketing, and companies should

reassess their route to market Agashe said. Customers are increasingly savvy with social media, an area where many lubricant marketers have lagged.

But despite gloomy forecasts, there are opportunities. Companies such as Total and Fuchs are already working with EV manufacturers on new applications including battery cooling fluids, copper wire drawing fluids and first-fill greases, Agashe added. Companies nimble enough to adapt early to change will likely benefit from doing so, she said. Shell Lubricants has partnered with Uber in India beyond plain vanilla oil changes, offering Uber drivers vehicle maintenance, gadget repair and account/payment services. Meanwhile, Uber and ride sharing competitor Lyft have joined forces with U.S. fuel retailers that include ExxonMobil and Shell, providing driver partners savings at the pump.

The lubricant industry may experience a spate of mergers and acquisitions as companies attempt to enter new segments. Agashe identified the fleet management market as a potential hybrid, where lubricant companies can extend their reach.

Predicting the future is difficult, but one thing is certain: It is unlikely to be business as usual.