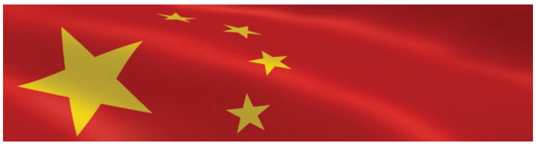
China



Base Oil and Lubricant Report

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The strong economic growth in China has helped to create one of the biggest and fastest growing base oil and lubricant markets globally. Lubricant growth has been fuelled by strong rising demands from the automotive industry and transport. The growing manufacturing and machinery sectors have also supported significant growth in the Chinese lubricant market. However the lubricant market is also fiercely competitive with many national and local lubricant manufacturers with their different brands and grades.

Looking ahead, the Chinese base oil and lubricant markets are likely to continue expanding at steady rates of 3 to 4% for the next few years. Growing demands from the automotive industry and transport sectors should offer significant growth opportunities in the Chinese lubricant market. However, the high prices of synthetic and bio-based lubricants are expected to be hurdles for future market growths. The growing demands for higher quality automotive lubricants will also require new supplies of high quality base oils and lubricants. These will promote the demands for Group II and Group III base oils plus PAOs. Lubricant suppliers in China are also progressively replacing their Group I with Group II lubricants. The base oil supply patterns are also expected to continue to undergo wide ranging changes in China.

On the commercial and marketing fronts, the Chinese lubricant industrial sector has also entered a new era. The importance of a strong brand and its competitiveness have become increasingly important. It is now critical for lubricant companies to have good market and branding strategies which will help them to establish distinctive brand positions supported by good channel constructions with strong customer supports in the fiercely competitive Chinese lubricant market. These are key requirements to enable the lubricant companies to remain competitive and have a sustainable future in China's competitive lubricant market.

On the environmental side, China is also planning to phase in some of the most stringent fuel economy requirements over the coming years to cut CO_2 emissions. A good example is that for passenger cars the fuel economy limits are likely to be increased from the 2015 figures of 6.9l/100 km to 5l/100 km in 2020 and then to 4l/100 km in 2025. These limits are comparable to the latest requirements in the EU and US markets. These more stringent fuel economy requirements will pose challenging targets for OEMs in China. These will also encourage the OEMs to consider the use of higher quality low viscosity lubricant grades to improve fuel economy. It is also critical to strike the right balance between engine reliability and fuel economy performances. These would mean that the thinner higher quality lubricating oils must still be able to deliver excellent wear protection together with lower viscosities in order to succeed in the fiercely competitive Chinese lubricant market in future.

Currently the consumer lubricant segment appears to be the best performing market segment in China. Looking ahead, there are also good opportunities for growth in the industrial and commercial segments as well. Lubricant companies will need to have good market intelligence of the different market segments so as to take advantage of new emerging opportunities. The lubricant companies must also be prepare to adapt to new governmental regulations and societal requirements so as to continue to prosper in the modernizing Chinese lubricant market.

About the Author

Henry KH Wang is an international adviser, author & speaker with extensive high level business experience globally. He was director of Shell in China and SABIC in Riyadh. He is also directors of various companies and are advising leading companies and universities plus international agencies globally. He is invited to speak at leading universities and business schools plus international conferences globally.