Middle East

***Paul Stephenson**, OATS Ltd*

The Middle East includes some of the world's largest oil producing nations and a number of members of OPEC (Iran, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates), making it the critical area for the petrochemical industry. We have also included Egypt, even though in North Africa, it is closely aligned to the Arabian peninsula in terms of oil infrastructure and trade.

GDP in the Middle East is forecast to grow by some 2.4% in 2021, having seen the region's economy shrink by an estimated 4.4% last year as a result of the COVID pandemic which significantly impacted oil demand.

Despite current national dependence on petrochemical income, many countries in the Middle East are focusing on renewable energy and emissions reduction, evidenced by Saudi Arabia's Green Initiative with a 2030 target of cutting CO2 emissions across the Middle East by 60%.

The vehicle parc, manufacturing and sales

Estimates from some analysts forecast a total Middle East total vehicle parc of around 27m by 2023, dominated by passenger cars. While there is an appetite amongst the super-rich for luxury and supercar brands, such as Mercedes, Bentley, Ferrari and Bugatti, Japanese makers dominate mainstream ownership. In particular Toyota, Nissan and Mitsubishi. However, in Egypt, Chevrolet's market share has grown significantly (almost a quarter of the total parc in 2019/20), while Korean brand Hyundai has a strong presence in both Egypt and Saudi Arabia with Kia also present across the region.

In terms of Passenger Car & Light Commercial Vehicles, Iran holds the largest parc in the region with 16.7m vehicles. Saudi Arabia's is close to 11m, also laying claim to the largest new and used car market in the Middle East, followed by Egypt (6.6m), Israel (3.4m), UAE (3.1m) and Kuwait (1.9m).

Regional Vehicle manufacture is limited, with the majority being produced by local car makers or for heavy vehicle sector. Although production volumes are currently low, aspirations are high. The Egyptian Government is setting a 500,000 annual car manufacturing target by 2022, although this is unlikely to be achieved. Saudi Arabia states production volumes of around 300k vehicles annually with plans to invest in its Automotive Cluster and ecosystem, much of it in component manufacture. The UAE is also pushing the benefits of its Emirates' infrastructure, in particular Dubai, in the hope of attracting major automakers, although import for re-export to the region may be the most likely outcome.

Oil production

Oil, gas and the petrochemical industry is the driving force of the Middle East in terms of income, employment and development.

Of the Middle East nations, Saudi Arabia is by far the largest in terms of petro-economics. It is the world's largest exporter of petroleum liquids and, at approximately 12 million barrels per day, the largest oil producer with both on shore and off-shore reserves with more than half held in just eight oil fields (including the world's largest 75bn barrel Ghawar field). Operation of its oil industry, including its nine domestic refineries, is largely run by state-owned Saudi Aramco.

The UAE was the seventh largest oil producer in the world in 2019 and third largest in OPEC, generating four million barrels daily of petroleum and other fluids. Reserves are mainly located in the Emirate of Abu Dhabi and most of the remainder situated in Dubai.

The port of Fujairah is the second largest bunkering port in the world, with significant storage expansion plans to enable three different types of crude to be bunkered, along with a new 250k bpd refining complex to produce fuels which meet the latest IMO sulphur regulations.

Meanwhile, Egypt holds the position of largest non-OPEC oil producer in Africa, with government targets for daily production set at 720k bpd by the end of 2020. Around 60% of the country's crude production comes from the Western Desert, with the Gulf of Suez and Red Sea contributing most of the remainder. Oversight and management of the petroleum sectors falls under five state owned enterprises.

Consumption

Saudi Arabia was the 10th largest consumer of total primary energy in the world in 2016, comprising approximately 63% of crude oil and petroleum products, with natural gas accounting for about 37%.

The UAE relies primarily on natural gas for energy supply. Perhaps surprisingly, given its size, the UAE is also one of the largest global users of electricity per capita. While it plans to add nuclear, renewable and coal fired electricity generation capacity, current shortfalls are met by imports from the likes of Qatar.

Meanwhile, Egypt's oil consumption currently outstrips supply. Additional market tension has been added by a decline in new oil field discoveries which has led to an acceleration in natural gas exploration, helping to ease consumption pressures.

The Lubricants market

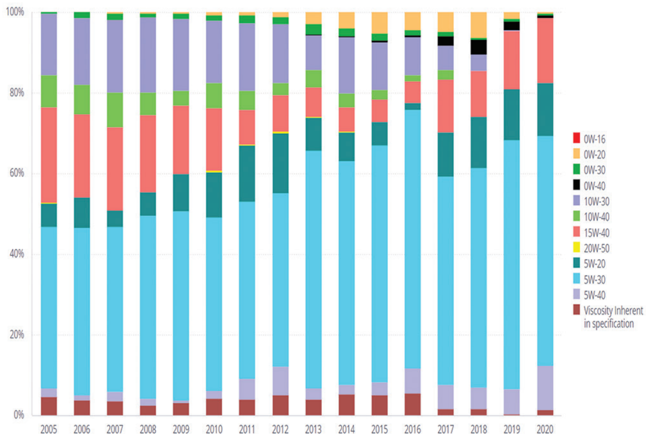
The Middle East and North Africa as a total region is predicted by some industry analysts to be the fastest growing globally over the next five years. Currently the Middle East's lubricants sector is dominated by automotive and transport products, but wiith limited demand for high performance vehicles in some countries, the regional lubricants market is dictated by fuel quality (in particular high sulphur) and relatively poor emissions standards in comparison with other parts of the world.

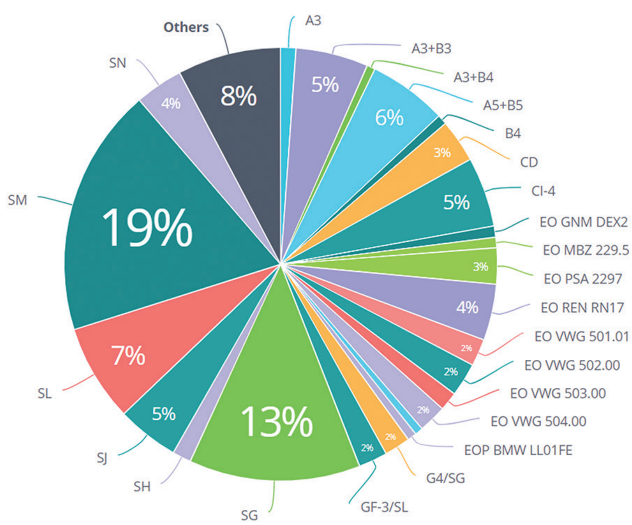
In Egypt and Saudi Arabia, for example, Euro 3 standards are typical, reaching Euro IV at best in Saudi Arabia and UAE, with diesel sulphur levels reaching as much as 10k ppm. Product mixing and adulteration are unfortunately commonplace.

Total lubricants sales in 2020 in Egypt were estimated to be 470 ktons, making it one of the largest markets in both Africa and the Middle East, of which 2/3rds were automotive engine oils. The market is highly concentrated with top 5 accounting for 80% of the market – Exxon Mobil, ENOC/Misr, Copetrole, Shell and TOTAL. Egypt produces base oils locally for its lubricant market, mainly still Group I, and although more synthetic oils are gaining traction in the market, it is still largely a mineral/semi-synthetic market currently.

One of the best selling passenger cars, the Chevrolet TF 2.5L Pick-up, which still has over 160k vehicles on the road and continues to sell well, has a CI-4 15W-40 specification, so this skews what is otherwise a market dominated by SM, SL and SG 5W-30 and 5W-20 specifications. SN and A5+B5 only make up 10% of the parc in terms of primary specification and the European OEM specifications also represent a small percentage – the biggest is RN17 due to Renault's increasing market share, up to 9% in the last three years.

Parc % by Year of Manufacture by significant Viscosities



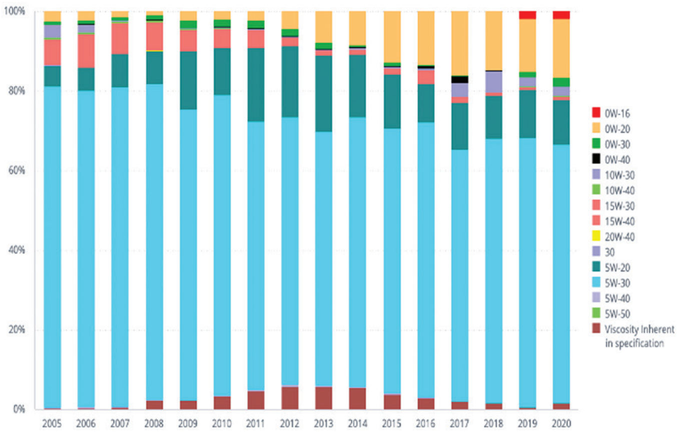


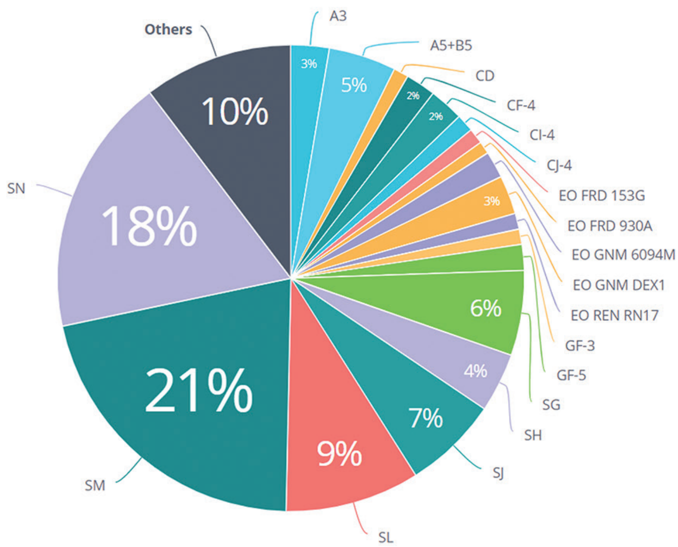
Egypt lubricants by viscosity and grade. Source: OATS

Saudi Arabia lubricants volume in 2020 was estimated to be 311 ktons, and whilst the UAE has a much smaller domestic market, its blending capacity is now over 1.25m tons . Oils such as Process & Metalworking oils have a higher % of the Arabian peninsula market than Egypt, but Automotive still accounts for over 50%. Base oil production focuses more on Group II and III oils, but there is also a significant and expanding blending capability with all the major international and local oilcos investing in capacity – Petromin, ENOC and ADNOC are growing through building joint ventures and strategic partnerships.

In Saudi Arabia, the higher grades represent a much greater share of the primary specifications, with SN , GF-5 and A5+B5 at nearly 30% of the market, and 0W-20 and 0W-16 viscosities at c15% of primary viscosities in the last 2 years. This is due to the dominance of the Japanese OEMs and the preponderance of more premium models. The UAE shows a similar pattern with SN, GF-5 and A5+B5 having a combined share of 37% of primary specifications, albeit generally with 5W-30 or 5W-20 viscosities.

Parc % by Year of Manufacture by significant Viscosities





Saudi Arabia lubricants by grade and viscosity. Source: OATS

In Summary

The Middle East lubricants sector is a complex mixture of high production capacity but relatively limited demand for lubricants in the domestic markets given population size, and despite being home to some of the largest global oil producing nations, the quality of products (both in terms of production and use) are still relatively low. However, its infrastructure and logistics for oil storage and distribution is amongst the most sophisticated in the world.

The economic and political challenges in the region as well as emissions legislation, which is still slow in developing, makes the Middle East lubricants market challenging but with significant growth potential. While fully-synthetic, high performance products have yet to make major inroads in some countries, this is likely to accelerate over the next five years.

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