Turkey

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With a population of 82 million, half of whom are under the age of 30, Turkey spans both continents defined as Europe and Asia. In fact, its capital city Istanbul (historically Byzantium and then Constantinople) straddles the border, with the line drawn by the Bosphorus Strait which transverses the city and the two continents joined by the Bosphorus Bridge.

In a drive for industrial and economic growth, as well as inward investment, Turkey's GDP peaked at around £685bn in 2013. However, since that boom, the economy has come under pressure with rising inflation and, more recently, unemployment. As a result, GDP fell to near £540bn by 2019 with a growth rate of just below one percent. The pandemic saw a further unsurprising GDP crash in 2020 (-5%), however, some analysts are expecting a dramatic recovery over the next few years, with 2021 alone forecast to deliver five percent growth.

While textiles, iron and steel, construction and machine industry all provide significant income for the country, arguably the most significant sector is the automotive industry, with Turkey representing one of the largest vehicle and parts manufacturers in the world.

Overall, Turkey's economic scale places as the eighth largest in Europe and 17th in the world. While keen to be so, and with part of the country geographically situated in Europe, Turkey is not currently a member of the European Union.

The vehicle parc, manufacturing and sales

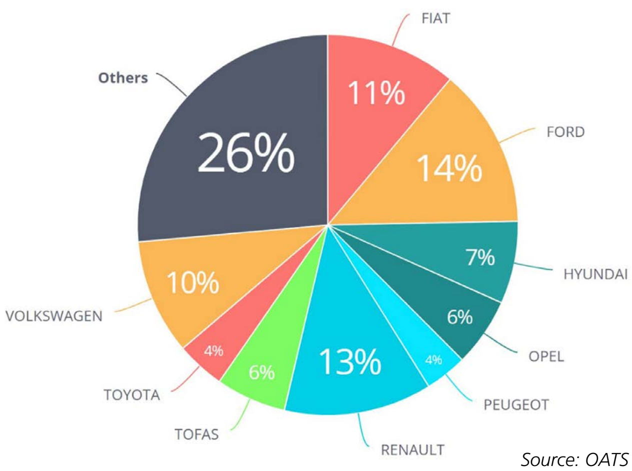
Predominantly based in the North West of the country, with additional plants in the South West, Turkey has become a key player in global and European vehicle manufacturing – both for automakers and component suppliers. In fact, Turkey is the largest export centre for global OEMS outside the European Union, with an average export rate of 85% (equating to a peak of more than one million units in 2017) against a total annual production capacity of almost two million vehicles. It is also a centre of excellence for R&D, with some 184 automotive design centres across the country.

Like the rest of the world, the industry has not been helped by the COVID pandemic, with vehicle production falling by almost 30% in the first half of 2020 with total passenger car production ending the year at 855,000 units.

Turkey has built its automotive industrial strength primarily through Türk Otomobil Fabrikasi A.Ş. (TOFAS), founded in 1968 by Vehbi Koç and now jointly-owned by Stellantis (Fiat Chrysler and PSA) and Koç Holdings, with a further 24% independent shareholders. As a result, the Stellantis marques – in particular Fiat – retain a dominant manufacturing and on-road presence in Turkey, although Toyota and Ford have also invested significantly since 2014 with increased domestic visibility as a result. Commercial vehicles also account for a large slice of Turkey's vehicle output with MAN amongst the largest players. By 2018, Turkey had become the second largest CV producer in Europe.

Apart from TOFAS, the domestic industry is also represented by Turkey's Automobile Joint Venture Group (TOGG) which is set to produce five different domestically designed vehicle within the next five years. The first is due to market in 2022.

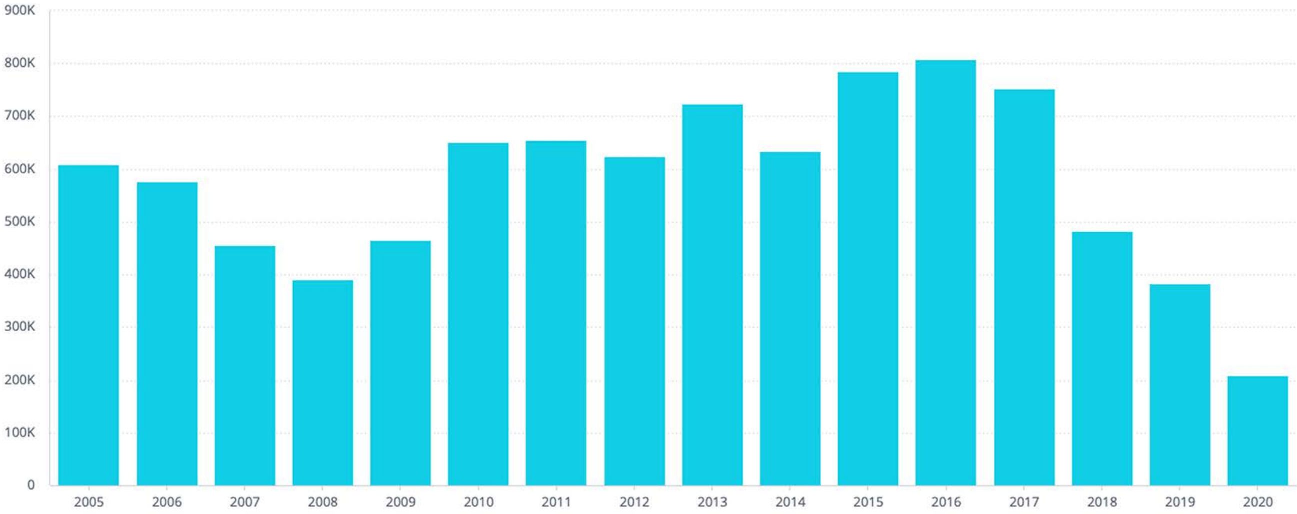
OEM brand share of passenger car and light commercial vehicles in operation up to June 2020



Source: OATS

The four best-selling marques in 2020 were Fiat, VW, Ford and Renault, with Toyota, Opel and Peugeot close behind.

Passenger car ownership in Turkey by year of registration at June 2020 Total Parc=~15.3.4M



Note: 2020 figures are for H1 only. Source: OATS

The component sector is also heavily invested in the country with more than 430 Tier One suppliers having a Turkish presence, including Denso, Bosch, Delphi, Magneti Marelli and Turkey's own Beyçelik Gestamp.

Turkey's total passenger car parc by mid-2020 was 15.3m vehicles. Pre-2005 registrations account from around 4.7 million – approximately 30% of the total parc. Beyond that age group, 2013-17 registrations largely dominate the parc. Set against other European countries, domestic vehicle ownership is significantly lower than most, with an average of around 150 vehicles per 1000.

Despite the country's current economic challenges, this presents a potential major growth opportunity for the car producers and towards the end of 2020, total vehicle sales were accelerating to around 100,000 units per month. Although this dipped dramatically at the start of the year, by March 2021, monthly sales were back to similar levels with a record rise of more than 92%. That said, the numbers are still some way below the 156,000 peak seen in 2017. Forecasts would suggest that sales will remain around current levels into 2022.

Base oil production

Turkey's base oil demand is met predominantly by imports (just over 405m tonnes in 2019), with the domestic market seeing significant over-supply from around 2014 onwards, although this reduced slightly in 2019. However, lubricants exports have helped to offset this imbalance.

Represented by industry body, PETDER, the petroleum sector in particular makes a significant contribution to Turkey's economy. For example, in 2019, indirect taxes alone from the fuel sector reached some £8.2bn. The country has six licenced refineries, of which four are active, with 40% of total output being diesel-based products.

There are 93 distributors and around 13,000 retailers – domestic suppliers Petrol Ofise and Opet being the largest, followed by Shell and BP. While overall automotive fuel consumption fell by almost three percent in 2019 to 36.2m tonnes, diesel use remains 1.5 times greater than petroleum (gasoline), with LPG recently overtaking diesel's popularity.

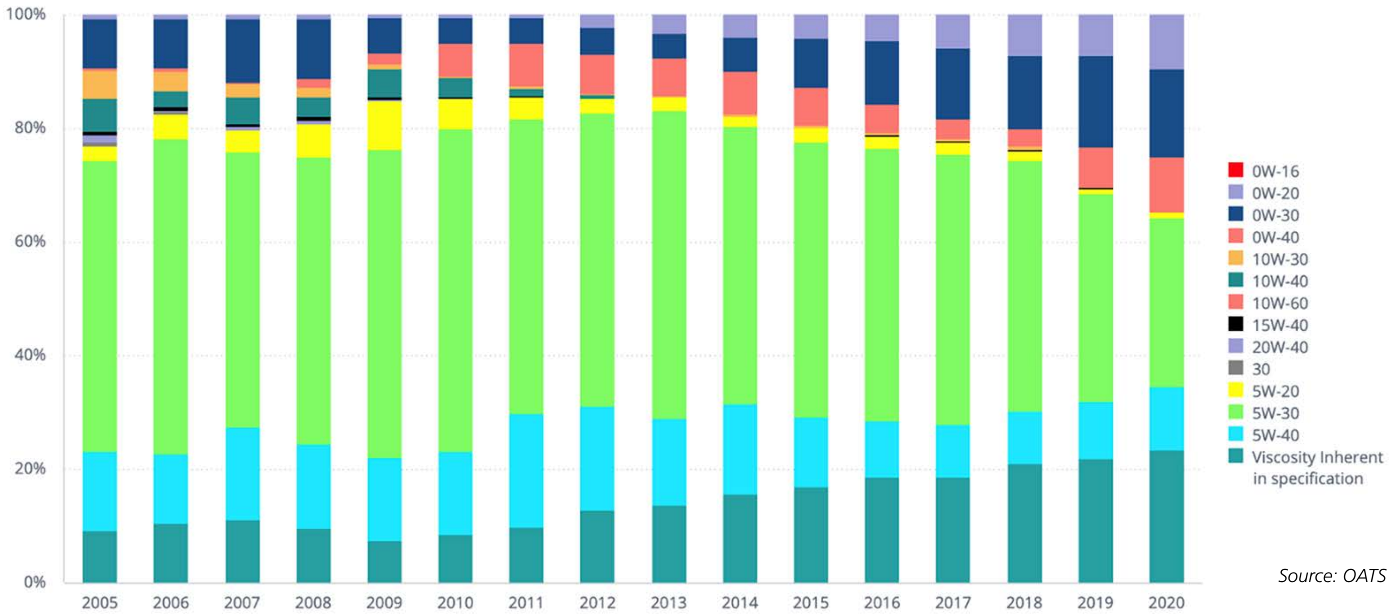
The Lubricants market

The lubricants market in Turkey matches the trends seen across Europe and most of the rest of the world, although the move towards high-performance products is perhaps slower than many countries.

Overall, by the end of 2019, lubricants consumption was at 422,751 tons, down some 4.5% on the previous year, with engine oils making up 206,000 tons (49%) against 182,000 tons (43%) of industrial oils. Marine lubricants also feature at around 20,000 tons a year.

Whilst a little more than 100,000 tons of lubricants and 88,000 tons of additives and preparations were imported in 2019, this was offset by almost 178,000 and 9,300 tons of exports respectively. The key domestic suppliers are Akpet, Lukoil, Atak and Opet, with Shell, BP and Total the main importers.

Parc % by Year of Manufacture by significant Viscosities



Source: OATS

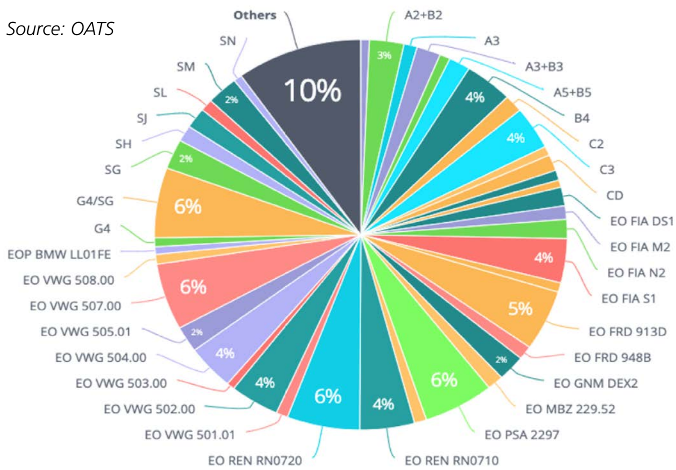
The predominant vehicle lubricants market is for CVs, while industrial oil consumption is led by hydraulic lubricants and processed oils.

Viscosities, again, reflect the general trend of the vehicle parc and the preference for lower-grade lubricants appears to be hard habit to break amongst consumers. Even with 2018 vehicles, 5W-30 is the predominant viscosity of choice, although there is a notable increase in demand for 0W or OEM-specified products as the newest vehicles start to dominate. Certainly 2020 vehicles are now having a notable impact in reducing 5W-30 demand.

In terms of oil specifications, OEM-based products largely reflect brand popularity. The legacy of older TOFAS vehicles along with the newer Stellantis brands, give them specification dominance, along with the Ford, VWG and Renault specifications.

Engine Oil Specification by Car Parc %

Source: OATS



In terms of non-OEM specifications, there is clear evidence that semi and fully-synthetic products are starting to gain ground as the passenger car parc gradually begins to modernise. The 10% "other" illustrated in the table below comprises a number of high-performance, fully synthetic lubricants.

In Summary

Turkey provides something of an enigmatic insight into both the automotive and lubricants sector. Poised between Europe and Asia geographically, and apparently courted by the world's leading automakers and Tier One suppliers, it has the opportunity to influence - and be influenced by – what happens as the OEM and lubricants sectors recover from the impact of the pandemic.

Yet, domestically, the country appears to be significantly behind the rest of Europe and much of Asia in terms of vehicle ownership and its move towards lower-emission, higher-performance products – whether vehicles or lubricants.

The political and economic desire to be a major player in the automotive and petroleum sectors is clear from the proclamations of Turkey's industry bodies and this may well develop over the next five years. However, there is also domestic market disparity as a result of the more slowly-developing economic status of Turkey's overall population, reflected in the age of the vehicle parc. There, combined with an apparent need for educating domestic consumers in an increasingly sophisticated market, could present the next major opportunity - and task - for both domestic and global vehicle and lubricants marketers.

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