CHANGING FORTUNES

Group I base oils, once the mainstay of base oil supply across the globe, has seen a downturn in recent months. We talk to Samantha Wright, Markets Editor, ICIS, to find out what the 2020 prospects are for the group.

Samantha Wright
Markets Editor
ICIS

"The primary role of ICIS editorial is to report on market prices, in this case base oils prices, as well as supply and demand trends. We cover the European, Asian and US regions for base oils, speaking to key players to gauge sentiment on both prices and market fundamentals."

By Cameron Roberts

Group I base oils have historically dominated the conversation. The chief advantage it has historically relied upon is that its production costs are comparatively low when compared to higher quality counterparts, though Group II production is now cheaper than Group I. However, with the rising popularity of Group II globally, there has been a decline in the usage of Group I.

But the real question is: Is 2020 the year Group I dies?

To find out I spoke with Samantha Wright, Markets Editor, ICIS, who shared insights on Group I's future, where the base oil is showing promise and how the industry may alter in the coming years to reflect a changing supply/demand market picture.

THE PROSPECTS

Though industry sentiment on Group I has been changing at a rapid rate, the sheer scope of the base oil's reach means that it will be unlikely to die out entirely. However, a symbolic death could be on the horizon – with depleting interest in the group and Group II becoming more economically viable for many buyers.

Despite this, Wright suspects we haven't seen the last of Group I yet, saying: "In general, while there has been a weakening of Group I, we don't see that it's going anywhere anytime soon.

"The European Group I market in 2019 has been on the weak side, but I don't think that it's on the way out in the region just yet. It's taken a hit from increased demand for Groups II and III, and we do expect this trend to continue as Group II takes a larger share of the market in 2020."

Far from its weakened status in Europe, Wright suggests other regions may react differently, with Africa and Asia being on opposite ends of the demand scale for Group I.

"Regions like Africa are allowing Group I to flourish. At our African Base Oils event in 2019, it was made very clear by the market that Group I will bear the brunt of base oils demand in that market. This is because of a combination of a growing economy and a projected industrialisation in the continent.

"On the other side of things, in Asia there have been low margins and weakened demand for Group I. This could be behind the reduction of production of Group I in the region.

"The European Group I market in 2019 has been on the weak side, but I don't think that it's on the way out in the region just yet."

"As of yet there haven't been any major production cuts for Group I in Europe. Should this happen somewhere down the line there could be a shift in trade flows. If the global base oils market were to see a downturn, we could possibly see an increase in domestic production in Africa. Although it's not something we're seeing yet, domestication of the Group I market may become necessary as global demand decreases in the long term."

TIMES ARE CHANGING

The current state of the base oils market does allow some areas for Group I to succeed, but what does the future look like for the group? Wright suggests that Group II will continue to slowly eat into Group I's market share. This is largely being driven by the automotive industry, which requires higher-quality base oils for use in engine oils.

"It's difficult to say when Group I will truly be phased out, the only certainty is that Group II has shown growth that threatens Group I's market share. I would say that Group I will have a place somewhere in the base oils market for a very long time to come, it's just that place will get smaller and more specialised.

"The motor oil sector is very much the key driver towards the move to Group II. Regulations in the automotive sector have been pushing motor oils to be more efficient and economical. Lubricants specifications have been changing to reflect this, meaning that the higher performing Group II and III have become more desirable in this sector."

Opportunities do exist for Group I producers to succeed in this volatile market, but only if they are able to keep abreast of the conditions that are altering buying habits. Wright details what the main factor is that experts in the space need to keep an eye on – with IMO 2020 taking the top spot.

"The important thing for experts in this industry is to keep watching the prices – there are a lot of changes happening across the market, not just on Group I.

"IMO 2020 is shifting the industry in a big way. We are already seeing refineries changing their output to reflect the fact that they have to create more low-sulphur fuel oil. This is expected to impact the feedstock availability in the market in a big way, IMO is changing the industry drastically, so it's important to keep a finger on the pulse of market movements."

IRAN/US RELATIONS

While macro trends for Group I may more heavily involve its relationship with Group II, it is still subject to global-political fluctuations. This was demonstrated during the recent straining of US/Iranian relations.

I spoke to ICIS Senior Editor, Izham Ahmad, to find out how the incident impacted Group I globally:

Izham Ahmad
Senior Editor
ICIS Pricing Editorial

"Iran is a major Group I base oils producer in the region and there are currently four refineries actively producing base oils, mainly for the engine oil lubricant industry.

"Not all are actively exporting base oils but those that do typically move their cargoes to destinations such as the United Arab Emirates (UAE), Iraq and India.

"Still, supply of Group I base oils in the main Middle Eastern trading hub of Dubai remained sufficient to meet immediate needs in the onshore market, sources in the region said."

MARINE DEVELOPMENTS

There is an area in which Group I continues to dominate the conversation in a big way. The marine fuels sector relies upon Group I for lubrication formulation for the main fuel type Trunk Piston Engine Oil (TPEO).

TPEO contains asphaltenes, a polyaromatic that can become built up in engine oil – resulting in a black sludge-like material building up. This can cause myriad issues including: choked oil galleries, oil starvation and hot corrosion of piston crowns*.

Historically marine fuels have relied heavily on Group I base oils. This is because Group I can be combined with additives that can handle the build-up of asphaltenes while still protecting the engine from its adverse effects.

The lower solvency of Group II base oils makes it difficult for the group to offer the same benefits to marine base oils, therefore Group I looks to remain strong in this sector for the foreseeable future.

*https://www.infineuminsight.com/en-gb/articles/marine-engines/growth-of-group-ii/

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