Lube Report Asia

Growing Asian Markets Tough to Enter

BY JOE BEETON (/SDM/JOE-BEETON-2.HTML) • APRIL 21, 2015

STUTTGART, Germany – Asia-Pacific is thirstier for lubricants than any other region in the world, but tapping into it from the West presents numerous challenges, an executive from Fuchs Petrolub SE told an industry conference here last week.

The dream of a globally homogenous lubricants market is becoming more elusive, as regulatory barriers and regional differences become more pronounced, Fuchs executive board member Lutz Lindemann said Wednesday at the Uniti Mineral Oil Technology Congress.

Global lube demand was 35.4 million metric tons in 2014, not counting marine lubricants, according to estimates by Fuchs Global Competitive Intelligence, and Asia-Pacific accounted for 42 percent of that volume. China is now the largest country market, he added, having grown 50 percent in seven years to nearly 7 million tons last year.

That growth was mostly due to China's booming economy, Lindemann noted. The country's gross domestic product rose by more than 75 percent since 2007, with steel production, automobile manufacturing and chemicals production all expanding quickly. In contrast, global GDP grew only by only half of that of China's rate, at 35 percent in the same time frame, and worldwide lubricants demand actually declined in the past seven years according to Apu Gosalia, Fuch's head of global competitive intelligence and chief sustainability officer.

Fuchs is based in Mannheim, Germany, and is the world's biggest independent lubricant supplier. Its research indicates that India consumed approximately 1.5 million tons of lubricants in 2014, far less than China but still enough to make it the world's third-largest market – behind the United States, which trailed China at around 6 million tons. Lindemann pointed out that India's macroeconomic trends have been similar to China's: GDP grew more than 50 percent since 2007; output of steel, cars and chemicals also swelled significantly.

But while India's lubricant market is significant, Lindemann said, China is the main driver of Asian and global demand. Some might be surprised that the Chinese market has not grown faster given the macroeconomic trends. He pointed to the steep incline of car manufacturing in China from 2007 to 2014 and compared it to the gentler rise of lube demand.

"It would seem that there should be a correlation between lubricants demand and car production," he said. In fact, lube demand has been tamped down by the market's shift toward higher quality products that last longer.

The changing landscape of environmental and safety regulations has presented challenges for lubricant companies and their suppliers throughout the world, Lindemann said, citing for example implementation of the United Nation's Globally Harmonized System (GHS) of Classification and Labeling of Chemicals. But coping with the changes in the Asia-Pacific region has been especially difficult, he said, thanks mostly to regulatory variation between nations.

"Countries can decide which blocks of GHS they would like to implement, and can also add local requirements," Lindemann said. "The number of hazard classes vary from country to country, providing an incoherent landscape. For example, a product not classified in the European Union may be classified in Japan." Furthermore, products must be labelled according to national requirements and in local languages.

In some countries, such as China and Japan, some chemical safety tests must be performed in national laboratories because those test are not accepted globally. Since customs agencies are most often the inspecting bodies for imports, suppliers should check legal requirements of destination countries before shipment.

Simply keeping up with regulatory changes is difficult. With rapidly changing developments in sustainability and toxicological standards, Lindemann said, research and development departments are sometimes forced to take products back to the drawing board if they can't keep up with the changes or fit the import lag into their time-window.

"[It's becoming necessary] to decentralize R&D efforts to cope with the different regions' technology demands and local requirements, with a particular focus on additive technologies," he added. As a result, additional lab capacity may be required at the local level, which adds cost. "The idea of a global market – and global products – deteriorates a bit in light of the changing regulatory markets.

"All in all, the changing regulatory environment leads to a very significant change in product development," he concluded. "It's not clear to everyone, but the need for an additional push in the field of R&D leads to significant product costs."