ResearchInChina

China Lubricant Industry Report, 2009

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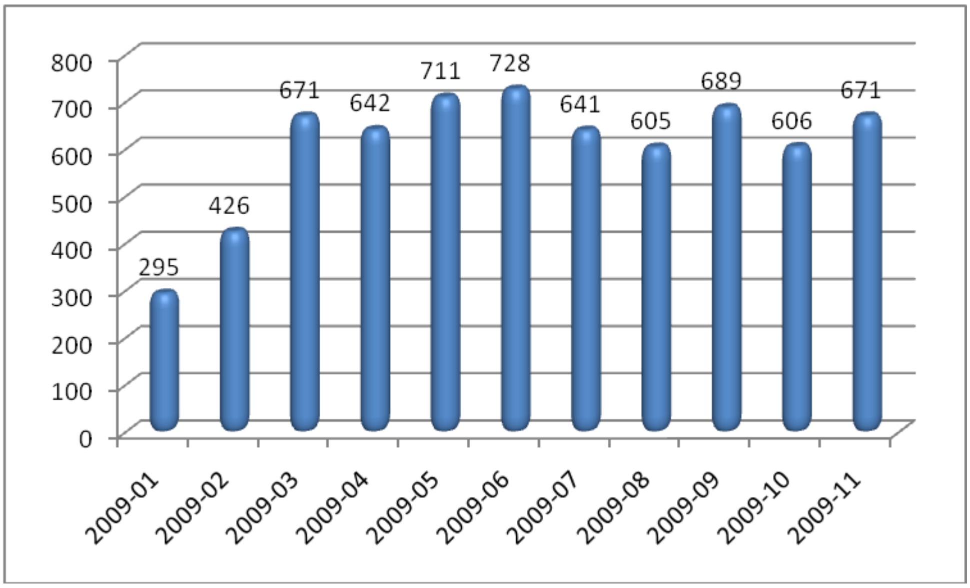
2. China Lubricant Market

The world has increasingly attached great importance to the environmental protection, resulting in building low-carbon economy as the goal of social economical development worldwide. At the eve of Copenhagen Conference, the Chinese Government promised the world for the first time that China would cut the per capital GDP greenhouse gas emissions by 40%-45% in 2010 against the year of 2005. To achieve this, China decided to implement the national Ⅳ emission standards on heavy-duty vehicle from Jan. 1, 2010. Therefore, the issues of emission reduction and oil fueling as well as lubricant industry reform to response these have been placed priority of the industry.

In 2009Q1, the sales volume of lubricant relied on terminal industry decreased by 20%-40% while the second quarter held the line. In the third quarter of the year, the sales volume of lubricant in Asia seemed to show recovery, especially in China, India, Indonesia and Latin America. In China, the growing car sales volume is a driver for the accelerated development of auto lubricant market. From January to November, car output and sales volume was * million and * million respectively, a yr-on-yr increase of *% and *%. The increased car sales volume contributes to the growing lubricant consumption, and the increasingly modernized sedan market calls for higher quality of lubricant products. In 2009, the car sales volume in Brazil, India and China increased by *%, *% and *% respectively.

Lubricant Output in China, Jan-Nov 2009 (Unit: 1,000 tons)



Source: WIND, ResearchInChina

Lubricant Prices in China by Region, 2008-2009(Unit: RMB/ton)

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Source: Treasure Island, ResearchInChina

3. Lubricant Import & Export of China

There was huge demand for Lubricants in China in 2009. In particular, the upgrading of automotive industry has a strong demand for high-end lubricant, while China-made lubricant could not meet the quality requirement. Therefore, China's lubricant took small export but large import.

Lubricant Import & Export of China, Jan-Nov 2009 (Unit: ton)

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Source: China Customs, ResearchInChina

In 2009, S. Korea exported base oil * million tons, up *% from * million tons in 2008. It was still the largest base oil exporter in Asia. According to statistics, the three export destination markets of Korean base oil are India (*tons), China (* tons) and America (* tons).

4. Development of Lubricant Industry

4.1 Development Opportunities for Private Enterprises

The Chinese government has promised that the national greenhouse gas emissions intensity per GDP of China in 2020 will drop 40%- 45% than that of 2005. To achieve the goal, the IV emission standard will be enforced starting from 2011 or 2012. The implementation is going to lead to a disturbance in the entire lubricant industry and pull Sinopec Corp. and CNPC (China National Petroleum Corporation) back to the starting line as same as the private and foreign-invested companies.

The low-carbon economy has put forward higher requirements on the performance of lubricant base oils. This provides a fair opportunity for the private companies to compete with the state-owned enterprises. However, comparing to the private company, CNPC and Sinopec could sell the lubricant base oil I at much lower price. Also, CNPC and Sinopec benefit from the subsidy policy and the internal price clearing mechanism, so no other manufacturers could compete with CNPC and Sinopec on the price of the low-end finished lube oil. In order to control base oil supply by private companies, the rate of operation of oil refinery equipments of the private companies have to be limited at around 70% each year. But as long as the "IV emission standard" era comes, the advantages of the state-owned enterprises such as Sinopec and CNPC will fade away. Since the implementation of the IV emission standard, diesel vehicle must apply CI-4 and CJ-4 diesels, the passenger car must employ SM oil and gasoline, and these high-end lubricants aforementioned all use base oil II and base oil III as the lubricant base oils. But the output of the base oil II and III of two tycoons (Sinopec and CNPC) only account for 10% of all base oils.

Import of Lubricant Base Oils, 2008-2009

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Source: China Customs, ResearchInChina

4.3 Cooperation between Private Enterprises and State-owned Enterprises

There are a variety of lubricants and they enjoy good prospect in production and marketing, and this provides commercial opportunities for a great number of lubricant producers. Private lubricant manufacturers should rely on technologies and their own advantages to closely cooperate with such big enterprises as CNPC or Sinopec. In spite of controlling resources and technologies, CNPC and Sinopec ought to lead the private enterprises actively and convert them into the production terminals, thus realizing the win-win and mutual benefit. There exists competition between private lubricant enterprises and big oil companies like CNPC, there are more opportunities in their cooperation. The users are increasingly in need of diversified lubricant varieties, and existing conventional lubricants can not meet the demand any longer. Although with R&D centers and the ability of developing new products according to the users' demand, large state-owned lubricant manufacturers generally mass-produces conventional lubricants with big production installations. In comparison, the new-type lubricant is little produced and requires special production conditions, and it is hard to be mass-produced like conventional lubricants. Yet, large state-owned lubricant producers can transfer their technologies to private enterprises and regard them as the new product manufacturing bases, thus successfully converting technologies into products and achieving mutual benefit.

5.3 Mobil

Established in 1882 by John Rockefeller and headquartered in Irving, Texas, the United States, Exxon Mobil Corporation is the world's leading oil and petrochemical company. With 86,000 employees, and 14,000 of which are technicians and scientists, it has business in around 200 countries and regions via affiliated companies. It is the world's largest non-governmental oil and gas producer and natural gas distributor, as well as one of the biggest oil refineries. In addition, its daily oil refining capacity of 45 oil refineries in 25 countries has reached 6.4 million barrels. It has 37,000-plus gas stations, one million industrial customers and wholesale customers around the globe, and sells around 28 million tons of petrochemical products in over 150 countries.

Mobil's Financial Data, 2008Q3-2009Q3 (Unit: USD million)

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Source: Mobil, ResearchInChina

Operation Strategy

Lubricant oil, one of Mobil's important investment areas, and Mobil has increased investment in China since Shell acquisition. Currently, Mobil has had over 200 retail stores, and 100 of which are newly opened. In addition, its lubricant oil business has extended to second-tier cities in China, as well as integrated the current outlets in first-tier cities including Beijing, Shanghai and Guangzhou. In the meantime, the two lubricant oil plants respectively in Tianjin and Jiangsu Taicang will supply Chinese market, and the source of raw materials is imported.

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