EX-YU LUBES BEFORE & AFTER THE BREAKUP

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Gross Domestic Product Growth Projections

Country	2015	2016	2017	2018
Bosnia & Herzegovina	1.9%	2.3%	3.1%	3.5%
Croatia	1.0%	1.4%	1.7%	2.0%
Macedonia	3.2%	3.4%	3.7%	3.7%
Montenegro	3.4%	2.9%	3.0%	2.9%
Kosovo	3.0%	3.5%	3.7%	4.0%
Serbia	0.8%	1.8%	2.2%	3.5%
Slovenia	2.4%	2.1%	2.0%	2.0%

Source: World Bank

The Balkan lubricants markets have shrunk significantly in the last several years. Not only have economies in the region faltered, but the influx of imported products has also led to depressed prices, low profits for marketers and hurdles in covering their costs, a consultancy found.

From 2008 to 2013, the region's market dropped at a rate of 14 percent annually. Since then, it has experienced slight growth of 1.6 percent each year, Zorica Davidovic, head of Belgrade-based Bargos Loa consultants, told *Lubes'n'Greases* in an interview in March. "In the past, lubes were considered highly profitable products; now they have become commodities," Davidovic said.

Ex-Yugoslavia, Then and Now

Looking back, the region's lube market was supported by a healthy economy in the former Yugoslavia, one of the top European economies in the 1980s. Times have changed since then, and the area now comprises seven countries, some of which are still recovering from the country's bloody breakup in the 1990s. The markets include Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia as well as Kosovo, an autonomous territory that gained independence from Serbia in 2008.

"Until 1990, the former Yugoslav lubricant market was comparable to that of Western Europe, both in terms of quality and consumer demands.

Lubricant Consumption, 2014

Country	Lubricant Consumption (t/y)	Population	Domestic Producers	Foreign Brands
Serbia	30,000	10,225,000	6	90
Montenegro	4,500	617,000	0	34
Bosnia & Herzegovina	20,000	3,725,000	3	45
Macedonia	7,000	2,007,000	1	20
Croatia	21,000	4,500,000	1	25
Slovenia	15,500	2,000,000	2	18

Source: Bargos Loa

Back then, the country consumed around 240,000 tons of lubricants annually. In the past two decades, there have been considerable changes caused by the disintegration of Yugoslavia, wars and the Western sanctions [against Serbia in the 1990s]," Davidovic said.

The bloc of countries (excluding Kosovo with its fragile economy), consumed 98,000 tons of lubricants in 2014, according to Bargos Loa. In the same year, Serbia consumed 30,000 tons, followed by Croatia and Bosnia that consumed around 20,000 tons each. In 2014, Slovenia consumed 15,500 tons of lubricants, while the smaller economies of Macedonia and Montenegro consumed 7,000 tons and 4,500 tons, respectively. These numbers include brake fluid consumption as well, Davidovic said.

The consultancy has monitored the region's lubricant market extensively and found that the dire situation in the industry in the last two decades led to the creation of smaller companies that manufacture under suspicious circumstances. "In the region [primarily in Serbia, Macedonia and Kosovo], there are dozens of producers that work in an outdated way, with no guarantee of quality, without appropriate professional staff, no labs, no certifications," she said. She added that the industry still suffers from the lack of investment, obsolete equipment and markets closed to the region's production.

The region's leading lube marketers are Serbia's Nis and FAM, Bosnia's Optima and Tehnosint, Croatia's Ina, Slovenia's Olma and Macedonia's Makpetrol. These companies weathered the gloomy years of civil war and weak economies. At least 80 other brands are available from smaller producers, Davidovic said. "The smaller ones such as Adeco, Dinara-Romanija, Altis Chemicals or Bell Chemicals, all from Serbia, recorded either stagnation or a decline in lending," according to the consultancy.

Country Outlook

Serbia is the largest lubricant market in the former Yugoslavia. The country consumed around 100,000 tons of lubricants in the late 1980s. In the following two decades, demand dropped to 45,000 tons, said Bargos Loa, citing data from the Serbian Chamber of Commerce. From 2011 onward, the market decline continued at a rate of 14 percent annually to 30,000 tons consumed in 2014.

The Serbian Chamber of Commerce expects slight growth of 1.6 percent onward. "In 2015, lubricant production in Serbia is expected to amount to 15,000 tons. Imports could reach about 30,000 tons and exports around 9,000 tons," Davidovic said.

She added, "The country's lube market feels the pressure of the fierce international competition from global brands. The multinationals have reduced the price of high-quality products, and various regulations hamper domestic lube manufacturers."

The companies dominating Serbia's lubricant market, and the wider region as well, are Belgrade-based Nis, owned by the Russian oil major Gazprom Neft, Krusevac-based FAM and state-owned Oil Refinery Belgrade, the oldest lubricant producer in Serbia, established in 1934.

Croatia's sole lubricant producer, Ina Oil Co., is one of the largest lube marketers in the former Yugoslavia. In 2009, it employed around 16,000

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people, according to Bargos Loa. In 2008, Hungarian oil major Mol became a majority owner of Ina.

"In 2013, Mol shut down Ina's lubricant blending plant in Rijeka, one of the two lube facilities operated by the company. The other plant is in Zagreb and is the only lube production site in Croatia right now," Davidovic said. In 2014, Ina produced around 9,000 tons of finished lubricants.

Bosnia and Herzegovina's market is dominated by two major lube producers – Rafinarija ulja Modrica and Tahnosint. The former is owned by the Russian oil major Zarubezhneft and produced 14,000 tons of finished products in 2011, according to Bargos Loa.

The Modrica site also features a 65,000 t/y API Group III base oil refinery, the only source of Group II and III in Southeast Europe. In 2015, the company expanded its blending facility and produced 11,000 tons of finished products, according to Modrica. Also, it expects a major revamp of its hydrocracking unit in the coming years.

"In 2015, Modrica's Russian owner created a new company to distribute finished products. It resulted in a significant loss of market share in Serbia. In addition, they did not succeed in renewing the contract with Nis, so they cannot sell through their gasoline stations. However, they could offset the loss with increased export abroad," Davidovic said.

Bosnian Tehnosint is a medium-size enterprise, with 50 employees and a blending plant with a capacity of 15,000 t/y, she added. In 2014, the plant located in Laktasi produced 3,500 tons of finished products.

Slovenia has one independent lube producer, Olma. At its blending plant in the outskirts of Ljubljana, it produced

9,000 tons of finished products in 2015, according to Bargos Loa. "Olma aims to market its products in Southeast Europe, primarily in the former Yugoslavia. To my knowledge, they aim to become the leading manufacturer in the field of metalworking fluids and hydraulic fluids," Davidovic said.

Macedonia is the southern-most country in the former Yugoslavia. It has fractured lubricant manufacturing, with many small producers that hold a portion of the market while most of the country is supplied by imported products. The country's largest marketer is Makpetrol, a fuel and lubricants distributor with an extensive network of 124 gasoline stations. In 2015, the company supplied the Macedonian lube market with 400 tons of motor and industrial oils, Makpetrol said.

The largest base oil supplier in the Balkan region is the Hungarian oil major MOL, while the only naphthenic suppliers are Nynas and Petronas.

Metalworking Fluids: A Case in Point

The great recession significantly impacted economies in the Balkan region. "Consider the case of the declining demand of metalworking fluids," Davidovic explained. "These products are a specific and distinctive indicator of the industry's growth and the general trends related to industrial lubricants." She added that the biggest shock from the economic crisis in the region culminated in 2009 and 2010, when the automotive and shipbuilding industries were devastated.

"When the production of passenger cars, trucks and other transport equipment declines," she said, "there is a corresponding decline in base metal demand, as well as a decline in various industrial metal products, including lubricants used in vehicle manufacturing." However, the situation has changed in the last couple of years, according to Bargos Loa.

"Slovenia and Croatia became part of the European Union, while the other countries were forced to adopt EU legislation such as REACH. The most influential factors are higher demands of original equipment manufacturers and environmental regulations," Davidovic said. "We can conclude that in the long term the region's lubricants consumption could stagnate or even increase slightly." □

Newsmakers

Construction Nears for Kazakh Lubes Plant

Russian oil major Lukoil will break ground on its new blending plant in Almaty, Kazakhstan, in the spring of 2016, the company said in an interview. Lukoil head Vagit Alekperov announced the plans to build the U.S. $80 million, 100,000 metric ton per year blending plant in 2013. However, the company postponed its efforts due to Kazakhstan's restriction on the import and export of base oils and finished lubricants to and from the country.

"In 2015, the Russian and Kazakh energy ministries reached an agreement for lifting the ban for supply of raw materials to the future plant," Roman Milash, general director of Lukoil Lubricants Central Asia (LLCA), said. "The agreement stipulates open Kazakh borders and access to neighboring markets, including the largest one in China."

In 2015, LLCA opened a representative office in Urumqi, the capital of Xinjiang Uyghur autonomous region, Northwest China. The region borders Kazakhstan, and Almaty is only 300 kilometers from the border. "We expect to start selling our products in this region very soon, and by 2018 we will have prepared solid ground for mass sales of finished lubricants coming from our new plant in Kazakhstan," Milash said.

Lukoil said that the facility will become the largest lubricant production and logistics complex in Central Asia. "We will have a modern training center and a high-tech lab to prepare industry specialists. Early on, we expect to considerably strengthen LLK International's positions in the region, thanks to our logistical advantage,

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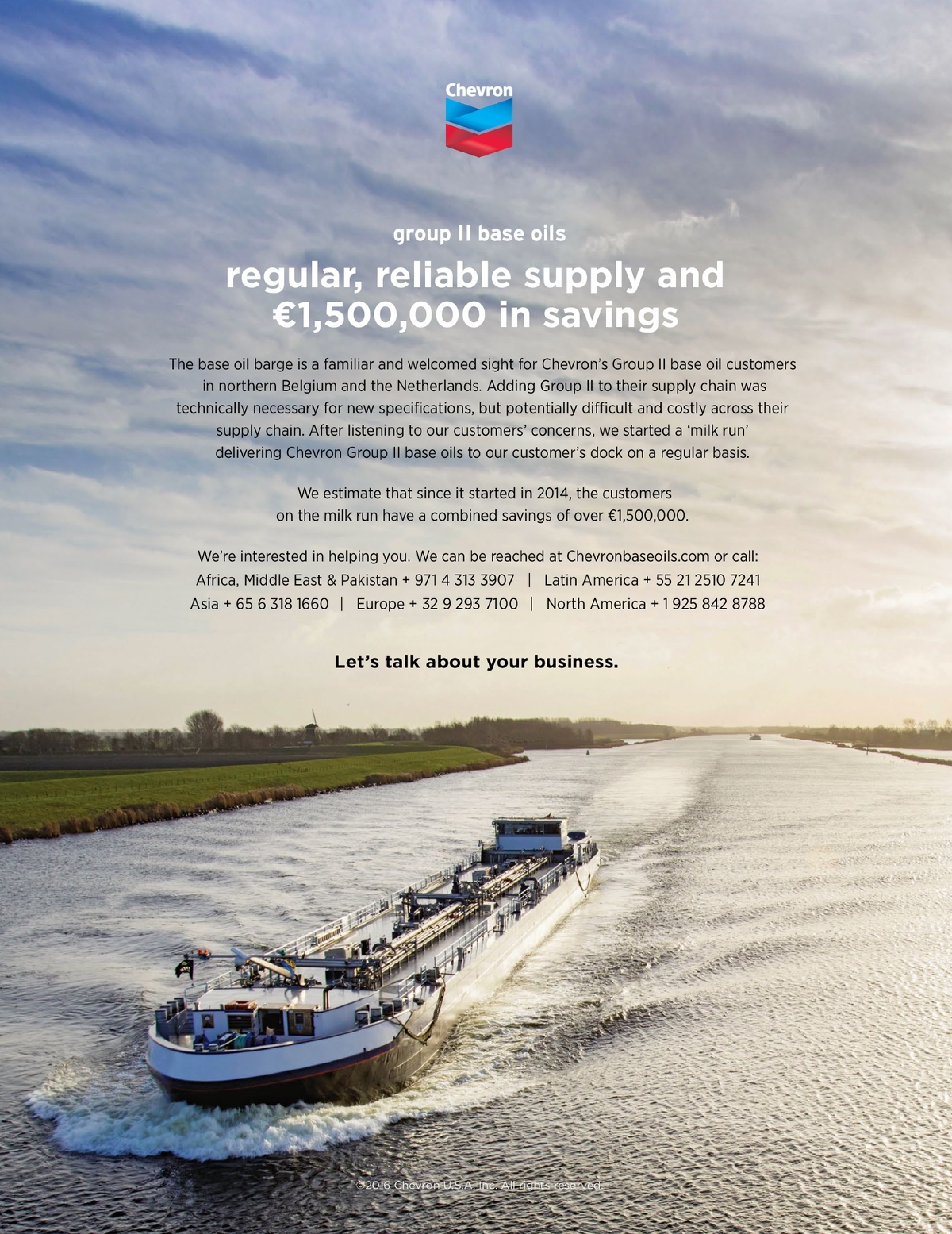
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