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Argus Executive Summary, Global Base Oil report 2025

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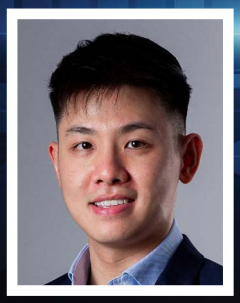

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2025 has been a tumultuous year for the base oils and finished lubricants industry. Geopolitical upheavals, tariff negotiations, as well as vessel attacks and the threat of increased sanctions have all impacted trade flows and base oil spot prices.

However, the headline grabbing news has had a more minimal impact on the industry than expected. The imposition of tariffs caused more limited disruptions than anticipated and mostly on associated commodities such as chemicals and additives. The key spot price drivers of the year are more related to conventional supply, demand and feedstock dynamics. Stricter regulations, in the form of more stringent emission standards in both the EU and US are also likely to impact future demand.

Maintenances in Asia-Pacific curbed availability and supported prices. Once these ended and stocks rebuilt spot prices dropped. New capacity ramping up in China removed a key outlet for volumes, especially from South Korea and Taiwan, further added downwards pressure on prices. Further, the ramping up of a hotly anticipated refinery expansion in Singapore had the market in a flurry. With market participants across the globe pondering the impact of the additional volumes and the pricing strategy.

But these volumes, at the time of writing, are yet to hit the spot market. The impact on market pricing also remains uncertain as supplies from the producer are termed up in the short term and typically priced at a premium compared with other supplies.

The key word to describe the base oil spot market in the US is oversupply. Maintenances at key refineries in the first half of the year added some price support. However, once these ended inventories began to build

and pricing dropped. This was further exacerbated by weaker than usual demand, even during the peak summer driving season. This was mostly owing to several factors including economic uncertainty and a drop in engine oil consumption. Expectations of lower pricing and weaker demand in key export outlets is also adding downward price pressure.

Unless something drastic happens, spot prices look to continue to trend downwards into the new year. European buyers are focused on term discussions, which are anticipated to be prolonged and even breach the New Year. Refiners continue to see volumes grow as demand fails to pick-up in line with seasonality owing to a weak economic outlook and poor performing industrial and manufacturing sectors.

More hurricane inventories in the US will likely be released in November, baring any major storm occurrence. Despite maintenance at a key Group II/III refinery in the fourth quarter, US export volumes will likely remain plentiful. Suppliers will also discount volumes to draw down on inventories before the start of the new financial year. This is to avoid increased taxes on stock.

Group I and II volumes from Asia-Pacific will face increased competition from these US volumes and buyers will negotiate hard to strike a deal. These volumes will continue to target Indian buyers as demand rises as transport and logistic activities resume post monsoon season. A maintenance at a key Group I refinery in the Middle East will also see demand increase in the region. This is especially important as regional alternatives will be curbed as sanctions are being implemented on Iranian supplies.

The year ahead

Base oil prices are set to face more downward pressure in the months ahead as seasonal demand wanes further and as supply availability rises. This time round, an expected decline in crude oil and transport fuel values will likely add further pressure on base oil prices.

Lubricant consumption across numerous developed countries has already extended its decline as more premium-grade base oils are used in formulations. Higher quality lubricants have extended oil-drain intervals and a lubricant's lifespan, diminishing the volume of lubricants and base oils required. Such a trend is expected to persist in the years ahead as more countries adopt more stringent engine oil specifications and emission standards.

At the same time, manufacturing and industrial activity in key regions remain weaker than usual because of numerous geopolitical shocks and a prolonged high interest rate environment. Any prolonged disruption is set to further weigh on industrial and marine lubricant demand.

Even so, economic activity will likely receive a boost with an expected drop in US federal fund rates, even if recent rate declines had provided only limited support to economic activity. Expansionary monetary policies typically boost base oils demand, which have historically tracked GDP growth.

But rising supply availability of base oils will likely outweigh any support from firmer demand. The base oils market remains structurally oversupplied, particularly for Group II base oils. Key net exporting regions like Asia-Pacific and the US have relied on key outlets such as India, China, southeast Asia, Africa and Latin America. But supply in those markets is increasingly saturated as freight rates decline and producers compete for market share.

A light round of scheduled plant maintenances for 2026 is set to exacerbate the supply overhang. Currently, only six base oil plants globally are scheduled for maintenance. A heavier round of plant maintenances in 2024 and 2025 suggest that most plants will only require a maintenance or catalyst change in the next three to five years.

At least 3.7mn t/yr of new Grp III to be added by 2030

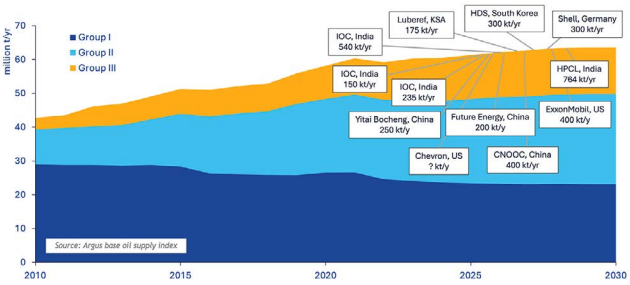

Figure 1: *Projected Group III growth by 2030.*

Yet supply is set to rise structurally in the years ahead. This includes re-refined Group I, virgin Group II, Group III, Group III+, naphthenics, and PAOs. At least 5mn t/yr of nameplate capacity will be added by 2029, or about 8pc of global nameplate production capacity.

This will outweigh any rise in base oils demand over the same period.

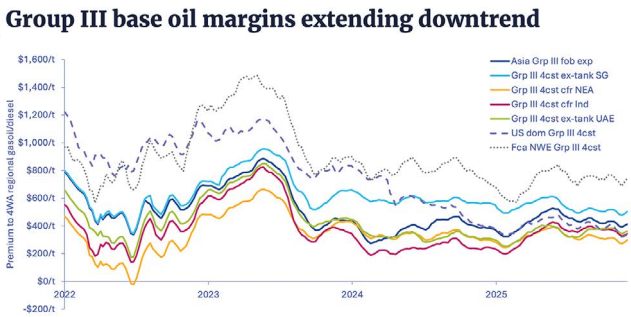

Figure 2: *Group III Base Oil margins extended downtrend.*

In addition to base oil fundamentals, an expected decline in crude and refined product prices because of a rise in OPEC+ production has prompted and will likely further prompt buyers to hold back purchases to limit their exposure to any price drop. OPEC+ will boost oil production by 137,000 b/d in December, matching increases from October and November. This decreases the cost and opportunity cost of base oils production.

Supply still key market driver

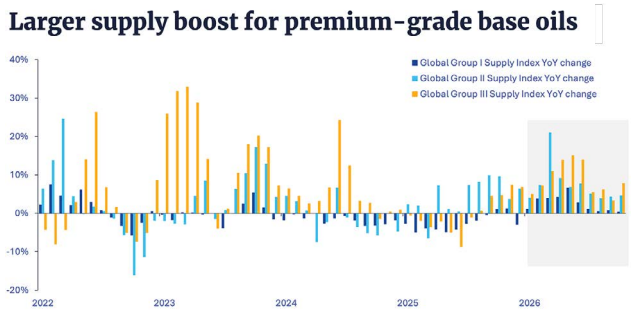

Figure 3: *Supply boost for Premium Grade Base Oils.*

A heavy round of scheduled maintenances in Asia mainly drove spot prices upwards in the first half of the year, especially for Group I. An estimated 330,000t of Group I base oil production was cut from the market, in that period. The refineries affected by maintenances stretched across the region, including both ENEOS Kainan and Mizushima plants, Idemitsu's Chiba plant, Thailand's IRPC and China's state-owned Sinopec, among others. Firm demand from the marine sector for finished lubricants drove demand particularly for heavy grades. But the trend reversed in the second half of the year and spot prices faced downward pressure when refineries ramped up production.

Producers then prioritised heavy-grade output over light grades, for both Group I and II base oils, as margins were more attractive. Spot supplies were readily available and prices weakened. The price spread between light and heavy grades for Group I and II base oils narrowed in the second half of the year to $183/t and $178/t from $246/t and $254/t respectively. This is as light grades became scarce, even leading to upward price pressure in the fourth quarter.

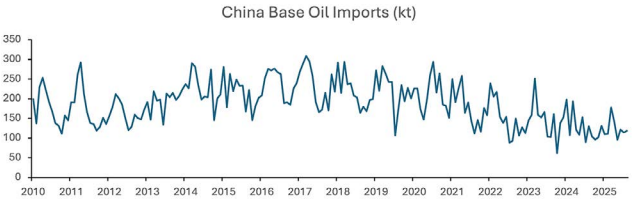

Figure 4: *China Base Oil imports.*

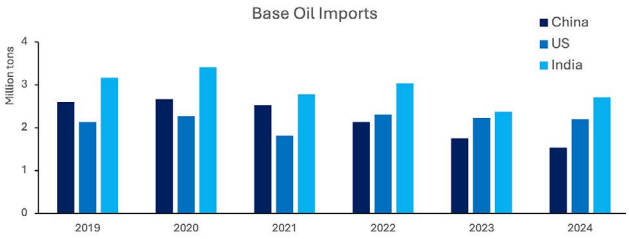

Figure 5: *Base Oil imports comparison between China, the USA and India.*

The loss of China as a key importer for base oil volumes out of Asia-Pacific, especially for premium grades has been a key factor. The country is becoming more and more self-sufficient in terms of production with an estimated 3mn t of Group II/III capacity coming online over the past five years. Exports out of South Korea to China decreased by 50% between 2020 to 2024, dropping to 500,000t in 2024, Global Trade Tracker data show. And fell by 34.5% in the first half of the year compared to the five year average to 258,635t. Suppliers in Asia-Pacific have had to look to markets further afield to move their surplus volumes.

The quality of the base oils output at domestic Chinese refineries is also improving. Some are even securing EU Reach accreditation and could look to target European buyers with their surplus.

Vessel attacks in the Red Sea further exacerbated the surplus of premium grades in the region. Freight rates surged as additional insurance premiums were added. Shipments through the Suez Canal were also limited and vessels had to divert through the Cape of Good hope. This lengthened voyage times and limited

arbitrage shipments to Europe but also to the US. But a maintenance at South Korean refinery SK Enmove's Ulsan plant, as well as more limited availability out of S-Oil's Onsan refinery helped mitigate some of the surplus availability.

Supply recovered in Europe on the year with minimal maintenances and disruptions affecting Group I production. However, demand remained below year ago levels, impacted mostly by a weak economic outlook and lower performance in the manufacturing and industrial sector. This led to lower finished lubricant sales so despite structurally tight availability, spot prices trended lower.

Argus estimates only around 70,000t of Group I nameplate production capacity in Europe was cut in 2025, compared with around 700,000t in 2025. This was mostly owing to the permanent closure of the base oils unit at Italian integrated firm ENI's 600,000t/yr unit in Livorno, Italy.

Demand, however, did not recover in line with production, owing to a weak economic outlook and hampered by industrial demand. The HCOB eurozone manufacturing purchasing managers' index (PMI) was 49.8 in September, after 50.7 in August. The latter was the first reading above 50, which indicates expansion, since July 2022. Showcasing the weak industrial and manufacturing demand for finished lubricants and in turn base oils.

But there are some positive signs for the future, in terms of investment. Germany have announced they will invest EUR500bn in infrastructure, as well as 3.5% of their GDP in defence spending by 2029. Such spending will likely boost finished lubricant and base oil demand. The German armed forces have already placed an initial order for over 1,400 military vehicles. The most popular military tanks, such as the M1 Abrams, Leopard 2, Challenger 2 and T-90 typically use between 100-300 litres of finished lubricant per year in peacetime. With the latest order this will accounts for an increased for 420,000 litres per year.

Further, there is a correlation between increased industrial investment and base oil demand using Spain as a case study. In 2008 Spain had EUR39.8bn in contract tenders for infrastructure spend, this included spend for roads, rail, airports, ports across its different regions. This was cut drastically to EUR7.2bn in 2012 and then rose to EUR18.5bn in 2019. In the later period, base oil and finished lubricant consumption rose by 15%.

Expansion Announcements:

New capacity of announcements see the production of premium base oils surge by 2030. Group II capacity in India, the Mideast Gulf and Asia will surge to an estimated 1.8mn t/yr. While Group III production in these regions will also expand to 1.7mn t/yr of capacity.

But it not just the east that will look to become more self-sufficient in terms of their premium base oil needs. ExxonMobil announced their Group III expansion out of Baytown, US, with a reported production startup of 400,000t/yr by 2028. The Group III block slate will include 4cst and 6cst at 100oC and cater to North American buyers.

Chevron will also produce Group III/III+ out of their Pascagoula refinery to cater to European customers. At the time of writing it was as yet unknown the capacity of Group III+ to be produced, nor the associated yield loss of other products. But production is anticipated to come online in the fourth quarter 2026.

This will increase Group III capacity in North America, which currently accounts for around 4% of its nameplate production capacity.

Another net importing region of premium base oils is Europe with an announced conversion of Shell's Wessling plant in Germany. The plant will be converted to a Group III base oils unit with an estimated capacity of 300,000t/yr by 2028.

Hotly anticipated ExxonMobil's Jurong plant expansion has finally materialised this year. Test batches have hit the market and announcements of production ramping up and coming online by the end of 2025. PK Orlen also announced a Group II expansion at their Gdansk plant for up to 450,000t/yr with start-up slated for the second half of 2026.

Premium base oil output will rise considerably with these announced expansions and conversions. The combination of steadier demand, rising supply availability, and lower feedstock and competing fuel values is expected to weigh on base oil values for

2026, with average global Group I, II and III prices forecast to decline by approximately 5pc versus levels in 2025.

But it must be noted that the Group II bright stock equivalent EHC350 max is not a perfect substitute for Group I bright stock and cannot be interchanged easily. The company markets the supply at a premium to Group I bright stock. The market views the supply as a complimentary product, rather than a substitute.

Risk Factors & Challenges

Despite the numerous grandiose announcements, executive orders and tweets that have published throughout the year by the President's office. The base oils and finished lubricant market has seemingly come out unscathed from the tariff announcements. These have mostly impacted linked industries such as additives and auto parts, as refined products are exempt. However, the most recent sanction announcements in the fourth quarter from not only the US, but the UK and EU are likely to have an overall larger impact not just on base oils but on feedstock slates and competing fuels.

Lubricant additives subjected to US tariffs

Base oils and finished lubricants escaped the brunt of tariff announcements, as refined products they are exempt. However, chemicals and in turn additives did not. The globalised nature of the supply chain for additive packages meant they could be hit several times by tariffs in the assembly of the packages.

Some additive packages are made up of up to 20 components collected and packaged across the globe, and so are heavily impacted by the tariff announcements. A tariff surcharge was imposed on all additive packages, by several key manufacturers, amounting to around 1% increase in April, which can be adjusted or removed at any time. But fears over continued disruptions associated with tariff announcements has incentivised additive manufacturers to re-evaluate their supply chains. Some are looking to localise production, limiting the impact of tariffs, and reduce the impact on finished lubricant pricing. This is also key to ensuring security of supply and the likelihood of disruptions should geopolitical tensions rise again. This also limits the amount of movements globally for additive package assembly, further ensuring supply chain security.

Repercussions of US tariffs on auto parts

To promote increased domestic car production in the US, President Trump announced a varying tariff between 10-25% on foreign cars and auto part imports. This was implemented and then amended throughout the year with some rebates issued till 2027.

The tariffs failed to take into consideration the interconnectedness of North American car assembly. And the cross-border trade between its neighbours, most notably Canada and Mexico.

Before a car is fully assembled in the US, the auto parts can cross the Mexico-Canadian borders up to an estimated eight times. The part will be then subject to the tariff duty each time the border is breached, incurring considerable additional charges.

Despite the main goal of the tariff was to drive auto manufacturing in the US, vehicle production estimates have taken a hit. These were revised down in North America for 2025 to 14.7 million units, compared to 15.4 million units in 2024, data from automotive original equipment manufacturer Magna International show.

Vehicle exports to the US will also be affected by the tariff. The US accounted for 22% of new vehicle exports from the EU in 2024, according to ACEA data. Accounting for 757,654 new vehicles amounting to EUR38.9billion. The UK will also be affected, with the US accounting for 17% of total UK car exports in 2024, data from SMMT show. Following negotiations the US has now has imposed a quota of 100,000 vehicle imports from the UK yearly from January 2026 that would be subject to the lower tariff rate of 10%.

The overall increased costs and more limited vehicle exports will likely hamper finished lubricant demand at the factory fill stage. Finished lubricant sales have been trending lower in the US and likely be exacerbated further on an uncertain demand outlook.

Cost of rare earths in limelight

Another factor to take into consideration in car manufacturing is the impact of export controls on rare earths and high-performance rare earth magnets. China accounts for just over 60% of mined supply and more than 90% of rare earth refining and production of rare earth magnets. These are

an important factor to take into consideration and key driver of the energy transition, vital for EV and automotive production in general.

Rare earths are a subset of the critical mineral category – a term often used by governments to show that a mineral is important to economic and national security. Supply chains often represent a logistical and strategic vulnerability to international buyers because China controls the majority of the supply. Disruptions at any stage of the supply chain has potential to impact buyers and manufacturers globally.

Obtaining export licences from China is a very slow and arduous process, with potential customers having to provide a lot of sensitive information regarding buyers and end-use to the Chinese government. The issuing of them is also totally at the discretion of the Chinese government. Licences are also time bound and for restricted volumes, making the process especially difficult.

On 4 April, China put export controls on high-performance rare earth magnets including those for car production – this was 2 days after the announcement of the US-China reciprocal tariffs. A subsequent round of rare earth export controls in October has been postponed by a year, but the original April controls remain in force. Some auto manufacturers underwent production line halts earlier this year because of the export controls, and they remain a risk factor going forward.

These affect not just EVs but automotive manufacturing as a whole. Global companies are trying to re-route some of their supply chains away from China but is immensely difficult given their dominance in the market place. While China's export restrictions have been relaxed slightly since November, the licencing process and export controls still remain a major disrupter blocker to rare earth trade flows. Should geopolitical tensions rise again, it would in theory be easy for China to curb availability which would hamper exports and car manufacturers could undergo delays again.

EU eyes removal of US Group II import duties

The EU, as part of the ongoing tariff negotiations with the US, has proposed the removal of the 3.7% import duty on Group II base oils.

Freight rates from the US Gulf Coast (USGC) to Europe have been falling since the summer. Argus-assessed freight rates for 40,000t specialised chemical tankers from USGC to ARA dropped by 15.2% from August to October to average $38.08/t. While 5,000t part cargo assessed freight rates also fell by 10.2% for the same period to average $69.50/t. Feight rates typically rise in the fourth quarter in line with seasonal norms as vessel activity increases ahead of the Christmas holidays. But the overall price trend looks to weaken further especially as the US and China have reciprocally suspended costly port fees for a year on the 30th of October. This comes two weeks after the US began to implement fees on Chinese-built and owned vessels calling at US ports. China reciprocated with fees on vessel with at least 25% US ownership, exempting those built in China, calling at Chinese ports. The proposed US fees would have applied the majority of the global fleet. Chinese-built ships made up 56% of global deadweight tonnage in 2024, according to China's Ministry of Industry and Information Technology. While US flagged or built ships made up 0.4% of the global fleet in 2019 according to statistics from the US Bureau of Transportation.

Should the duty be removed, and the likelihood that freight rates will continue to weaken, more US volumes are likely to target European buyers. These supplies will in turn compete with more competitively priced volumes from Asia-Pacific, as well as domestically produced supplies. ExxonMobil has an estimated 1mn t/yr Group II plant in Rotterdam, however, European buyers still rely on imports as Group II production only accounts for 13% of nameplate capacity. Volumes from South Korea are typically used as a negotiating tool by European buyers to lower spot bids from other suppliers. These volumes typically carry fewer approvals and European blenders are more tied to formulations.

US volumes carry more approvals and rising volumes targeted European buyers throughout 2025. A steady contracted flow of volumes from Phillips 66, though their official distributor, provided an additional supplier to the market. Fewer volumes out of Asia-Pacific were offered on the European market, likely as maintenances earlier in the year curbed availability. Then vessel attacks in the Red Sea, increased voyage times, and rising freight rates continued to discourage arbitrage shipments.

Journey times from South Korea to Europe increased by an estimated 11 days to total 48 days as vessels diverted round the Cape of Good hope. This is the alternative route for vessels as they bypass the Suez Canal to avoid vessel attacks by Yemen-based Houthi militants. Houthi militants attacked several vessels throughout the year passing through the Red Sea. The militant group announced they were targeting all vessels with ties to Israel. Despite the signed peace agreement between Israel and the Gaza-based terrorist group Hamas on 10 October, the Houthis have vowed to continue naval attacks. Though additional war risk premiums on vessels have started to decline, shipowners are in no hurry to return their vessels to the high risk area in the Red Sea.

Should disruptions in the Red Sea persist, and the removal of the import tariff be implemented, we are likely to see more surplus US volumes target Europe. Especially as European volumes continue to be priced the highest globally. European Group II N600 spot prices were assessed at an average $411/t premium to bulk volumes of US-origin throughout 2025. And a $344/t premium over bulk volumes out of Asia for grades with a similar viscosity.

But the duty removal the forms part of a wider proposal of related products for tariff reductions. The legislative proposals are, at the time of writing, with co-legislators so the timing of implementation will depend on the progress made by each co-legislator.

Constraints at Mexican border

The Mexican government announced new rules for tank trucks transporting fuels such as diesel, gasoline and LPG on 23rd September. The goal is to reduce illicit fuel distribution and required all vehicles with transportation and distribution permits to be equipped with an active GPS tracking system. Further all vehicles also needed to display a visible QR code issued by the national energy commission. The new rules are likely to make the transport of base oils and additives more difficult, as railcars will be affected as well.

Some US sellers into Mexico are unwilling to invest the capital spend needed to upgrade their trucks and railcars to remain compliant. These sellers are also looking to alternative markets to ship their volumes.

US sellers would have to look into either segregating certain railcars into being compliant with the regulations in Mexico, or upgrade their entire fleet. There are also concerns around data security with the availability of GPS and tracking data.

Mexico is heavily dependent on the US for its base oil imports, accounting for 43% of US base oil and finished lubricant exports in 2024 at 2.2mn t, Energy Information Administration (EIA) data show. This made up 39% of total US exports Jan-August 2025 at 1.6mn t.

Issues with securing import permits have been a constant headache for US base oil and lubricant suppliers. And supplies have been building at the border as the delays are causing disruptions. Should these issues persist, US suppliers could look to sending their excess base oils further afield into west coast south America, west Africa, India and the Mideast Gulf.

Base oil demand in Brazil is increasing as the persistent supply overhang has finally been absorbed in the market. This was due to a fire that hit Brazilian lubricants producer and distributor Moove's lubricants plant in Ilha do Governador in Rio de Janeiro. he fire did not hit the plant's infrastructure, tanks and warehouses, but struck the factory's production area, according to the company. Moove holds an estimated 17% of Brazil's market share, making it the second largest company in the sector. Further, a reported 12-30 day maintenance at state-controlled producer Petrobas's 239,000 b/d Duque de Caxias refinery (Reduc) from 28 Ocotber will limit availability and buyers will have to look to imports to cater to demand.

The arbitrage remains open for volumes from both the US and Asia to target Brazilian buyers. Export bulk volumes are assessed at a $333/t and $338/t premium above domestic Brazil spot prices for Group I SN 500 end October. Brazilian buyers typically favour volumes from the US given their geographical closeness. But growing supplies in Asia and more limited outlets could see increased volumes target South America despite the longer voyage times.

Disruptions await from new sanction package

The UK government imposed sweeping sanctions targeting Russia's largest producers, Rosneft and Lukoil, 51 tankers and LNG carriers, on the 15 of October. Indian refiner Nayara Energy was also part of

the sanctions package, as Rosneft carries a 49% stake in the company. As well as four Chinese port and terminal operators, Shandong Baogang International Port, Shandong Haxin Port, Shandong Jingang Port and National Pipeline Group Beihai LNG. These were cited for their involvement with sanctioned vessels and projects.

The new sanctions "strike at the heart of Putin's war funding, directly targeting Rosneft and Lukoil, two of the world's biggest energy companies, which together export 3.1mn b/d," the UK government said. "Rosneft alone is responsible for 6pc of global and nearly half of all Russian oil production."

The EU also announced a sanctions package on products derived from Russian crude refined in non-EU countries. As part of its 18th sanctions package this summer for implementation on 21 January 2026.

President Donald Trump followed suit and imposed blocking sanctions on the 22 October to Rosneft and Lukoil. Foreign buyers had until the 21 November to cease all purchases and transactions with the two entities, the guidance issued by Treasury's sanctions enforcement arm, the Office of Foreign Assets Control (OFAC), said.

The main impact this is anticipated to have is not necessarily on base oil imports, but rather diesel imports and refiners' move to optimise transport fuel yields.

India and Turkey are the main buyers of Russian seaborne crude shipments. Some Russian crude supplies refineries in Hungary and Slovakia, most notably Mols 195,000t/yr Group I plant in Szazhalombatta, via the Druzhba pipeline. But these refineries already have existing exemptions from the initial sanctions packages on the onset of the Russia-Ukraine conflict as they are landlocked.

The main refineries that will be affected in Turkey will be Tupras' 227,000 b/d Izmit refinery, and its 238,000 b/d Izmir plant. While in India, private-sector Reliance's 1.24mn b/d Jamnagar refinery will also be affected as they all frequently import Russian crude and are key exporters of products to the EU. Diesel imports from Turkey and India, for example, account for an estimated 10pc and 15pc respectively of total EU and UK consumption, Vortexa data show.

The EU later clarified the announced sanctions will be applicable under two provisions. The importer must provide evidence from the refinery that it has segregated production lines and different tanks for both Russian and non-Russian crude. Alternatively, the importer can present evidence that the product shipment from the refinery is a minimum of 60 days after the receipt and processing of Russian crude.

Larger refineries are likely to be able to continue to process Russian crude, as they have the capacity to segregate productions lines. They will then be able to supply the EU with products derived from the non-Russian crude lines. Russian crude accounts for an estimated quarter of Reliance's feedstock and Jamnagar has four crude units. As a result, the company may not have to make too many adjustments to its operations to meet the EU's newly announced sanction requirements.

But some of the Turkish refineries are likely to find it more challenging to segregate the streams between non- and Russian crude. The plants are smaller, making it harder to split operations into Russian and non-Russian lines. They are also more reliant on Russian crude compared with Indian refineries and dependent on the EU as an export outlet for products.

Either way Europe will have to turn towards increased diesel imports from the US and the Middle east to make up the shortfall. Several unplanned refinery shutdowns this year across Asia-Pacific, North America, and Europe has tightened diesel supply. As well as the permanent closure of three refineries in Europe in the first half of 2025 have lifted refining margins. US and Saudi imports to EU and the UK accounted for 25% and 20% of total diesel imports respectively in October, Vortexa data show. This was the highest month for imports from the two countries since December 2024.

Base oils compete with fuels such as diesel over the feedstock vacuum gasoil. Refiners will prioritise output on the most attractive margin, and can even return some lighter-grades into the fuel pool. Should diesel margins continue to rise, refiners are likely to increase fuel production tightening base oil availability.

Despite the laxer sanction requirements on third countries, Indian refineries are already pivoting away from Russian crude imports. Three state-owned

refineries already cut their intake of Russian Urals, ahead of the November deadline. Indian private-sector Reliance Industries bought around 14 mn bl of spot crude in October, following the sanction announcement, to replace Russian Urals.

Some Indian refiners already increased spot purchases of US crude ahead of the sanction threat. Several tenders were announced for September to October delivery totalling 10.5 million barrels, well above the usual 1-2 million barrels typically purchased by the state refiners.

Automotive lubricant consumptions accounts for approximately 55% of total lube demand in 2024. Argus expects up to 8pc of global lubricant demand to be destroyed by 2030, should IEA's forecast be met by that period. Ultimately impact on base oils remains uncertain, depending on how refineries tweak output streams. Transport fuels remain key output for oil producers. Hybrids also still need some engine oils.

Stricter emission standards announced earlier this year in the US and EU will also have an impact on base oil demand. The International Lubricant Advisory Committee (ILSAC) seventh generation of motor oil specifications, announced on 31 March. While the Euro 7 standard will be phased in from 29 November 2026 till 1 July 2031. Both standards build on their predecessors with more stringent requirements, overall spurring demand and need for high quality lubricants to improve fuel consumption and a more efficient engine reducing emissions output. All this translates into the need for a lower viscosity, high viscosity index base oil with superior oxidation stability and a boost for premium finished lubricants.

Conclusion

Disruptions continue to plague the base oils and finished lubricants industry in 2025. These are however becoming a common theme in recent years given globalisation of the industry. From the onset of the Covid-19 pandemic to the Russia-Ukraine conflict, structural shifts, and macroeconomic shocks, it remains premature to tell what is in store for 2026. But there are indications for those with access to the latest market intelligence.

The impact of the renewed sanctions on Russia have resulted in support for competing fuel prices. With the drop in Group I demand, this is spurring some European refineries to cut base oil production in favour of diesel output. This however comes at a time when Polish refiner PK Orlen has announced a 60-day refinery-wide maintenance at its 250,000t/yr Group I Gdansk plant in the first quarter of 2026. The proposed removal of the 3.7% import duty on Group II shipments from the US is set to boost flows from the US to Europe – coinciding with a planned Group II expansion within Europe and a recent capacity expansion in Singapore. A structural rise in production capacity and lower freight rates is also expected to boost competition and facilitate exports to Europe.

Europe will likely remain self-sufficient for Group I and continue to rely on imports for its Group III requirements, until at least 2028, when domestic nameplate production capacity is scheduled to expand. But rising premium-grade base oils production in the US and the Mideast Gulf in 2026 is expected to prompt producers in those regions to target higher-priced markets like Europe.

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