

# In conversation with...

Lube magazine's editor, Andrienne Philippou, interviews **Victor G Martinez**,  
Global Basestocks and Specialties Sales Director, ExxonMobil



***You began your new role as ExxonMobil's Basestocks and Specialties Global Sales Manager in 2020, in the most challenging year the world has faced in a lifetime; what has been the impact of COVID-19 on the base stocks refining industry and its supply landscape?***

Definitely an interesting time to join the Basestocks and Specialties team, which has clearly sped up my learning curve. As for the industry landscape, prior to the onset of COVID-19, the base stock industry was experiencing an oversupply caused by significant capacity growth and modest demand. For some specific markets, 2019 had some of the worst margins the industry had ever seen.

When COVID-19 hit and countries began lockdowns, transportation fuels demand declined as people stopped driving and flying, and industrial production slowed. This downward turn caused an immediate drop in demand for fuels products, and thus, there was less need for refiners to buy crude for processing.

As a result, the utilisation rates of refineries also reduced, which impacted the availability of the feedstock for base stock production. Multiple refineries around the world completely shut down during this time period and some have already announced these shutdowns as permanent across the industry.

***More directly, how has your role, and the role and functionality of your regional teams, been affected by the challenges brought on by the pandemic? How did you overcome these?***

Beyond the personal disruptions that have affected most individuals across the organisation and our need to demonstrate flexibility and support; we have been able to leverage our global and regional structures to our advantage given our

unique global footprint and our ability to leverage a truly global network to supply our customers across their main markets. Fluid communications at the market level and tight global coordination have allowed us to understand customer pinch points and work together with them to manage unique circumstances the industry is currently facing.

***A year on, we are still feeling the repercussions for the global base stocks market; what is the prolonged impact of this pandemic going to be?***

While we've started to see some recovery in finished lubricant demand, there is still a lot of uncertainty about the virus and its impacts. Refiners are doing everything possible to optimise their sites and continue operations.

It's likely that if a refinery was operating in a strong economic position prior to the pandemic, then it will continue to be profitable throughout, and even after, the pandemic. Specifically, the larger, more complex and integrated manufacturing sites will have more resiliency to market fluctuations because they have the capacity to switch production between products with less cost on investment.

Smaller refineries, however, do not have the same advantages. They tend to have fewer manufacturing capabilities, making it more difficult for them to produce a wide product mix. This results in smaller refineries facing larger margin pressure, likely until long after the pandemic is over.

The supply situation is also something to monitor, as any refineries that were shut down due to the pandemic will be affected. However, since the base stock markets were oversupplied prior to the pandemic, it may still take some time before the markets come back into balance.

***Did COVID exacerbate challenges that were already looming in our industry, e.g., the future of Group I Basestocks production, decreasing Group I demand, major plant closures, consolidations, higher running costs, increased formulator demands and requirements? And how can Group I base oils production survive these challenges in the long term?***

As a whole, COVID-19 did reinforce and hasten some of the underlying issues that we face in this industry. For example, the quick downturn in demand for fuels caused inventories to culminate and refinery margins to drop. The poor demand and oversupply caused several refineries all around the globe to shut down temporarily or, in some cases, completely. Refineries that weren't forced to shut down, were forced to significantly reduce their production in order to remain operational.

During the first several months of lockdown, the reduced supply was initially balanced with the decreased demand, but as that demand started to recover in the late summer of 2020, base stock production began struggling to keep up with customer demands.

From a refining perspective, especially with regard to Group I, there is still some debate about whether we have seen the end of refinery rationalisation, which has a significant impact on base stocks oversupply and the refining margin environment. At ExxonMobil, we believe Group I production will continue given those base stocks still offer unique properties that make them relevant in this industry, particularly their industrial uses.

Specifically for greases, Group I is an essential component for the thickener formation reaction. This is especially important as a thickener's performance significantly affects the performance of a finished grease – including properties like water resistance, dropping point, and tendency to harden. Aside from greases, Group I is also an integral piece for metalworking fluids due to its high viscosity and solvency properties. Other applications where Group I is still important include marine fluids, and wax production (which Group II and III cannot produce).

So, while Group II and Group III are gaining traction,

these critical areas discussed above will ensure that Group I and its coproducts will remain useful and will survive well into the future.

***Were any sectors of our industry left unscathed by the pandemic? Can we recover to match our pre-COVID landscape?***

We do believe the industry demand will recover to pre-COVID levels. The question is when. There is still a lot of uncertainty around impact and management of the COVID 19 pandemic (i.e., 2nd, 3rd, 4th waves and new variants), demand recovery for fuels products; and maintenance activity that was postponed across the industry from 2020 into 2021 and beyond. Third party estimates have a range of outlooks that project this return to pre-COVID levels sometime between late 2021 and 2025 globally for base stocks products.

***You have covered almost every aspect of the Finished Lubricants markets during your long and extensive career. Looking ahead, what are the base stocks supply considerations for lubricant formulators?***

When considering lubricant formulators, oil marketers will want to understand the breadth of that formulator's coverage across multiple additive companies to really get a feel for the kind of security and business continuity that formulator can provide, as well as offering the greatest opportunity for cost optimisation.

Additionally, oil marketers should lean into developing relationships with base stock manufacturers who have globally sourced base stocks. This way, the oil marketer is limiting their operation's exposure to external events (weather, social, environmental, etc.).

***What measures has ExxonMobil taken to mitigate the impact of a global downturn in both supply and demand? And how is the industry going to handle the rate of capacity expansion? Will this lead to rationalisation and increased regionalisation? And what impact will this have on the businesses whose supplies may be limited, lost, or delayed?***

Here at ExxonMobil, we understand the current challenges our industry faces. As a result, we've made our base stock production and supply chain

operations as resilient as possible to meet these newer and demanding challenges.

ExxonMobil's base stocks are produced in efficient refineries with modern conversion technologies, and we remain committed to your base stocks supply, leveraging the strength of our global manufacturing, as well as our expertise and knowledge of the industry.

For base stocks, as operators optimise and adjust their refineries, customers need to be prepared for potential changes in product availability, service offerings, and product specifications.

***So as the industry begins to recover from one of its most challenging periods, how do you see the future for the lubricants sector? And is sustainability the industry's newest challenge?***

At ExxonMobil, we strive to deliver superior results while providing products and services that are essential to the health and welfare of billions of people around the world. How we achieve these results is as important as the results themselves. That is why we are committed to operating our businesses in a responsible and sustainable manner, supplying high-quality products, working to minimise environmental impacts and supporting the communities where we live and work.

**LINK**

**[www.exxonmobil.com/basestocks](http://www.exxonmobil.com/basestocks)**