Brexit's Impact on the U.K.'s Auto Lube Market

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On March 29, 2019, the United Kingdom will leave the European Union. If a withdrawal agreement has been reached and ratified between both parties, then the U.K. will enter a transition period during which it will need to agree on trading terms with the EU. (At the time of writing, the agreement was yet to be debated and voted on in the U.K. Parliament.)

If there is no deal, both parties must agree to extend the two-year notice period issued by the U.K. under Article 50 of the Lisbon Treaty, or the U.K. will crash out of the EU on a "no deal" basis.

If this were to happen, what would be the impact on the U.K. lubricants market and, more importantly, the supply of finished lubricants between the U.K. and the EU?

The U.K. lubricants market is heavily tied to the EU. The application of a single market under EU rules of tariff-free borders between all 27-member states and the U.K. has meant that national and even international lubricant companies have been able to view the EU as one continent and generate economies of scale. This, in turn, has allowed them to deliver an improved service to their customers and an enhanced financial situation in the absence of any significant market growth. Although there are pockets of growth in high-quality, synthetic and higher-margin products, Europe overall remains a low growth, mature market for lubricants.

The U.K. is currently the second-largest lubricants market in Europe, behind Germany, similar to France and just ahead of Italy. A market size of 565,000 metric tons per year in the U.K., of which 50 percent is automotive applications, is still of significant size.

But just as the automotive sector passes components several times between borders as they are assembled, so too does the lubricant market rely on the passage of components passing across borders to make up finished formulations.

In 2018, the EU was a net importer of API Group II base oil. Around 2.4 million tons were brought into the bloc, including a significant quantity from Chevron's Pascagoula plant in Mississippi, United States, as well as more recently from the Middle East.

The U.K. itself is not self-sufficient in Group II base oil or additive components. The majority of these have been imported over recent years as the U.K. has moved from being a manufacturer and blender of products to become a national importer and blender of components or even importer of finished lubricants.

National blenders in the U.K. do still exist. But their numbers have declined over the past 20 years, when the industrial northwest of England alone boasted 250 local blenders. Increasingly additives, as well as base oils, are also being imported. Clearly, developing a national market to be more self-sufficient over the short term to address a lack of an agreement on terms of trade between the U.K. and EU is a significant challenge.

Some companies operating in the U.K.'s automotive sector have already begun to look at European mainland plants to continue supplying the European market. Jaguar Land Rover announced it would move production of its Discovery model to Slovakia in June. The impact of this on the related automotive lubricants is as yet unclear.

Current advice from the United Kingdom Lubricants Association, the U.K.'s industry trade body, is for lubricant companies to develop but not yet implement contingency plans for a 'no deal' situation. Companies should also consider their level of stockholding, especially over the short-term. The message is to be prepared for whatever happens.

Lubricant initial-fill suppliers such as Fuchs, Shell or ExxonMobil may follow the switch in automotive production to outside the U.K., which would mean either switching production of finished lubricants to mainland Europe or ensuring U.K. finished lubricants would need to continue to be guaranteed supply to original equipment manufacturer partners across U.K. and EU borders.

For service-fill partners, there is more flexibility in the siting for the supply of product, which is less reliant on a single point of operation.

Brexit is arguably one of the most significant challenges the U.K. has faced since the Second World War. It is also the biggest hurdle the European common market has ever had to overcome. It presents real issues for the EU itself, which is caught between discouraging contagion among other member states thinking about leaving and wishing to retain access to the U.K. market for the benefit of its remaining member states.

Like all major negotiations, this one is certain to go down to the wire and perhaps beyond it. In the end, economic common sense must overcome political differences. The two parties must reach an agreement for the benefit of their own economies and perhaps, more importantly, for each other's. □

David Wright is secretary of Verification of Lubricant Specifications, based in the United Kingdom. Contact him at admin@ukla-vls.org.uk