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Base Oils Beyond the Crisis: Lasting Impacts of the Middle East Geopolitical Un-Certainty

A Webinar for Subscribers to:

LUBES'N'GREASES

October 29, 2026



Before the crisis, the market was long. That buffer is the starting point for recovery.

Surplus across all groups

- Effective utilization only 70–75%
- Group I and II/II+ priced on cost-plus basis

Demand moving to premium grades

- Group III/III+ fastest-growing basestock
- Group II/II+ remains the dominant grade
- Group I shrinking; heavy grades and brightstock stay relevant

Trade is the balancing lever

- Asia and Middle East Group III/III+ surplus served North America and Europe
- North America Group II surplus served South America and Africa
- Europe Group I exported to Africa

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The Middle East crisis created three shock vectors which had multiplicative effect.

Group III/III+ remains the most severely impacted base oil category globally.

I. GROUP III/III+ OUTPUT FY2026

Down 20%

3 ME anchor assets impaired

Damage and shutdowns remove core III/III+ output

II. LOGISTICS DISRUPTED

10–15×

normal war-risk insurance

Hormuz shut; cover withdrawn. Vessels rerouted; stock stranded.

III. FEEDSTOCK IMPACTED

15–16 mbd

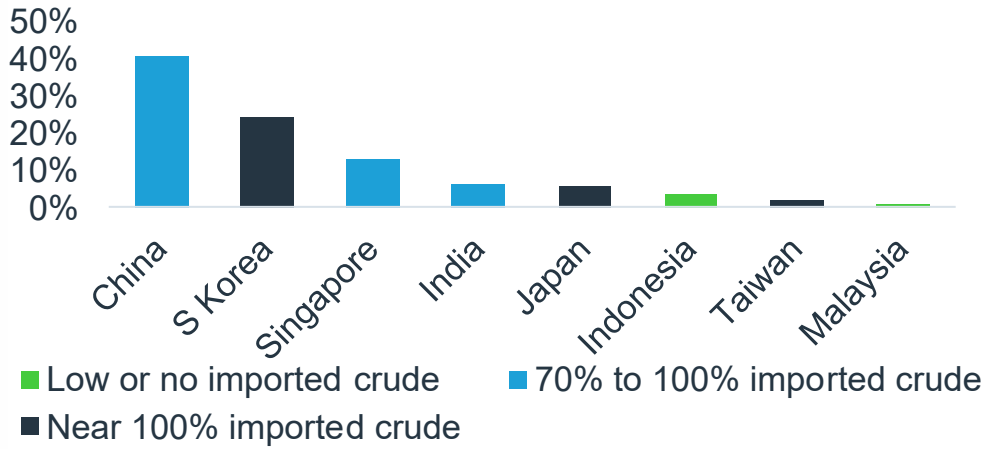
~14–15% of global crude

Global crude/VGO tight. Rates cut: Korea, Japan, Singapore.

The anchor-plant status

1. **BAPCO · Bahrain | Group III**
   Force majeure; output/shipments severely hit. Resume only after reconstruction.
2. **Shell GTL · Qatar | Group II+ / III+**
   Train 2 damaged; ~50% capacity offline. ~1-year full repair; out until repairs complete.
3. **ADNOC · UAE | Group II+ / III**
   Shut; restarted late April. Hormuz constrains shipping; utilization uncertain.

ASIA PACIFIC BASE OIL PRODUCTION SHARE BY COUNTRY AND DEPENDENCY ON CRUDE IMPORTS



REGIONAL EXPOSURE

North America	HIGH
Europe	HIGH
APAC	HIGH
South America	MED–HIGH
Middle East	MED–HIGH
Africa	MEDIUM

Severity reflects combined production, feedstock & shipping exposure

WHAT ARE THE IMPACTS?

PRICE TRANSMISSION
Absence of spot business hampers price discovery.

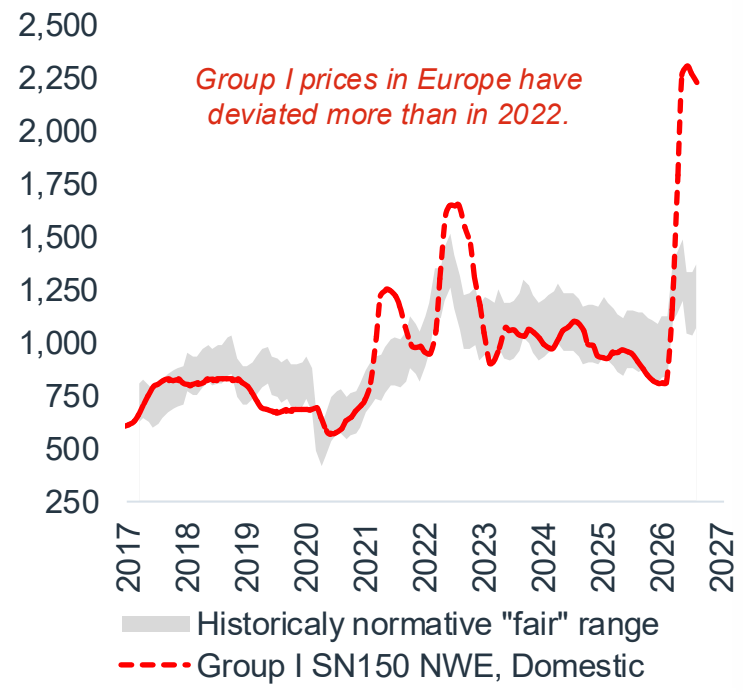
LUBE MARGIN PRESSURES
Base oil, additive, and packaging all have experienced price increases.

TOP-TIER PCMO MOST IMPACTED
PCMO accounts for majority of Group III/III+ demand.

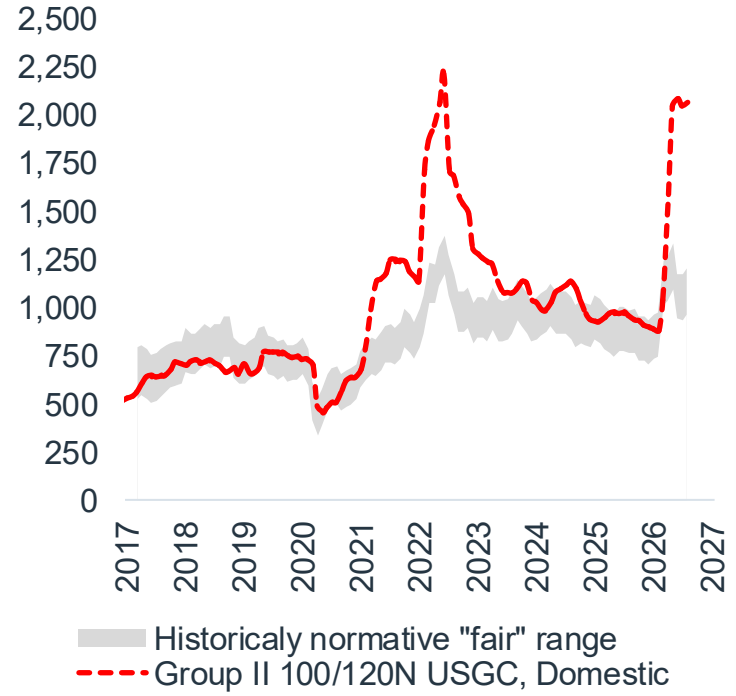
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After some delay at the start of the Middle East crisis, Basestock spot prices spiked, and current prices are substantially above historical "fair ranges" in all key regions.

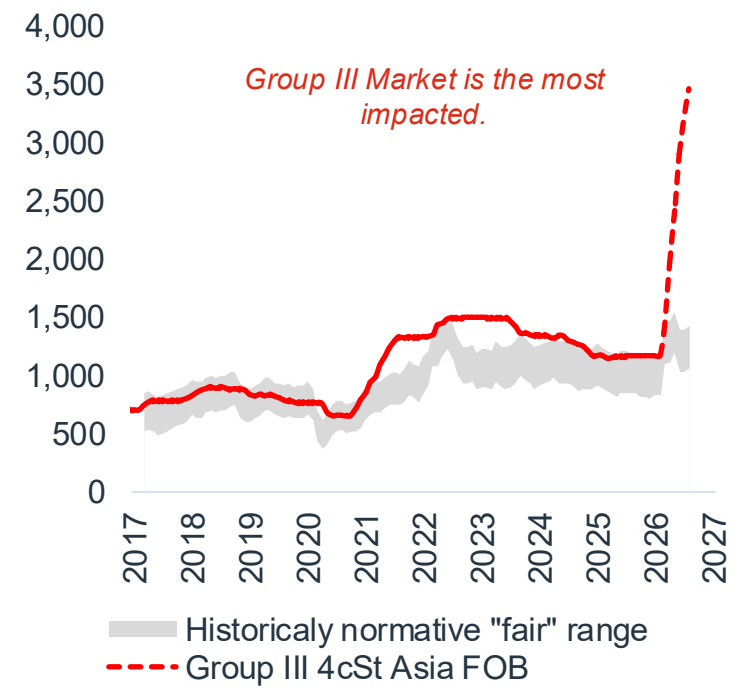
GROUP I EUROPE DOMESTIC MARKET ACTUAL PRICE VS "FAIR" RANGE $/TON



GROUP II USGC DOMESTIC MARKET ACTUAL PRICE VS "FAIR" RANGE $/TON



GROUP III ASIA FOB DOMESTIC MARKET ACTUAL PRICE VS "FAIR" RANGE $/TON



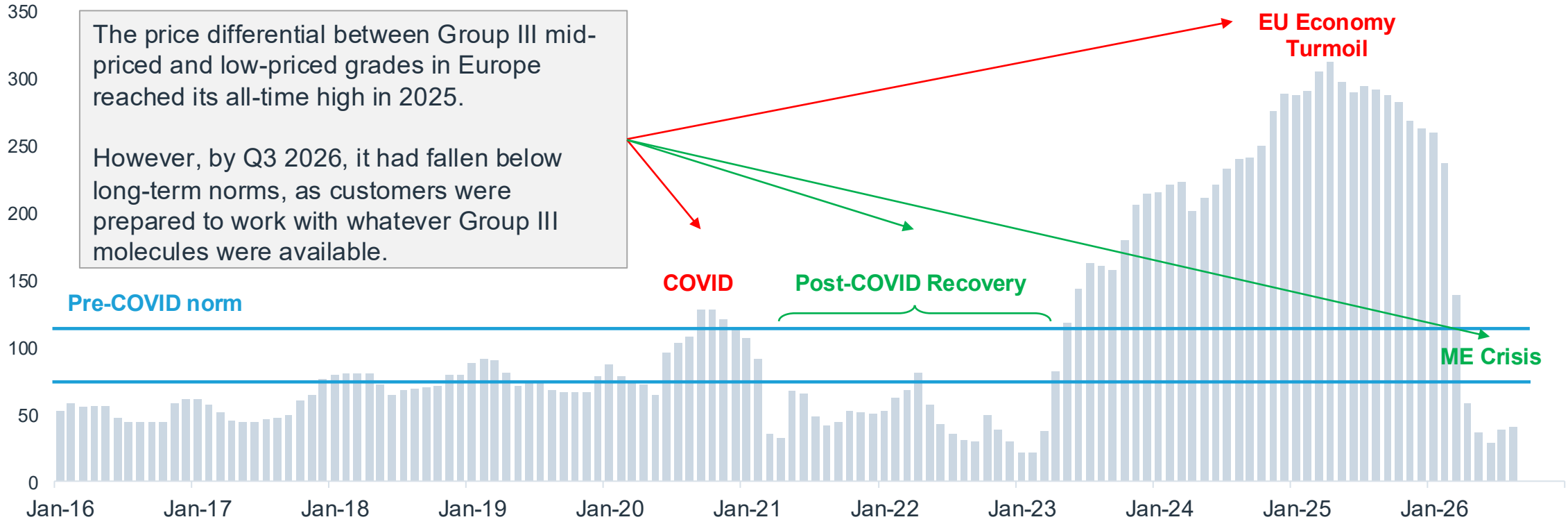
This situation reflects physical constraints on international trade and high uncertainty. While not sustainable in the long term, this market imbalance may continue for the next few quarters.

Source: Kline analysis

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Differential between Group III mid and Group III low has massively decreased.

NWE BASE OIL GROUP III 4CST MID LESS BASE OIL GROUP III 4CST LOW CRACKS
$/TON



Sources: 3rd party price agency, Kline

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The most optimistic case: resolution by Q1 2027, supply begins to normalize by Q2 2027



Resolution

Shipping lanes reopen; risk premium starts to fade

Supply normalizes

Impacted Middle East capacity back online

Rebalancing

Prices move back toward historical fair ranges; normal trade flows resume

Surplus returns

New capacity plus recovered plants create significant surplus

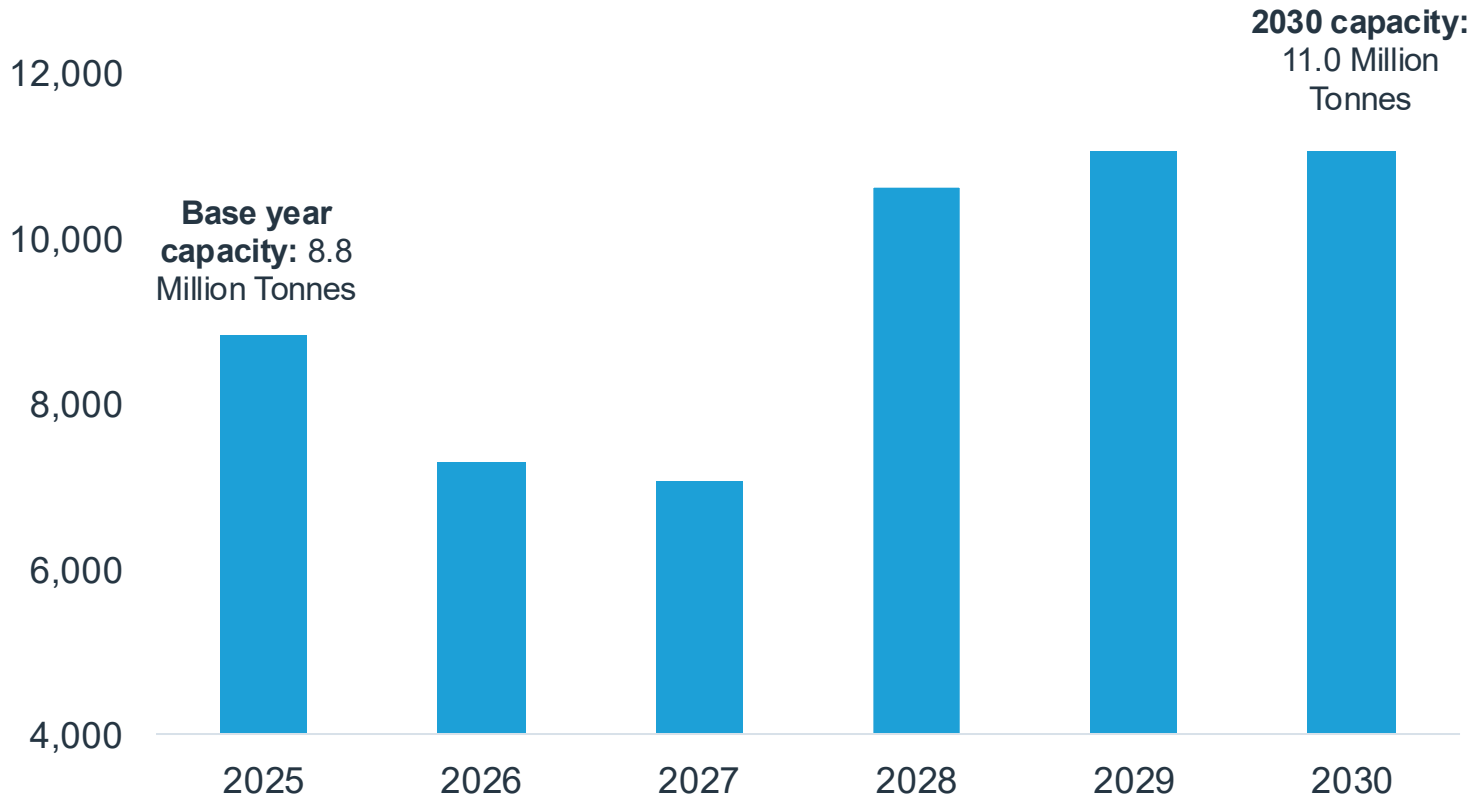
This is a best-case view. Any delay beyond Q1 2027 pushes each milestone out.

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By 2030, about 2.2 million tons of new Group III/III+ capacity will be added.

Depending on the rate and extent of recovery of Middle East plants and supply logistics, the global industry will have significant surplus beyond 2028

GROUP III/III+ NAMEPLATE CAPACITY BY YEAR | KT



KEY NEW PLANT CAPACITY ADDITIONS, 2027-2030

Group	Country	Company
Group III	China	CNOOC
	Germany	Shell
	India	BPCL, CPCL, HPCL, IOCL
	Saudi Arabia	Aramco (Luberef)
	South Korea	Hyundai Shell
	USA	ExxonMobil, Vertex
Group III+	China	Yitai
	USA	Chevron

Supply getting more fragmented.

In 2025 there are 39 plants of which 12 account for 80% of total capacity.

In 2030 there will be 51 plants of which 18 account for 80% of total capacity.

Note: This scenario assumed resolution by Q1 2027 and supply normalized by Q2 2027.

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What is the potential outcome of the Middle East Crisis? We see three possible futures.

POSSIBLE FUTURES
(12-24 Months)

Return to Business as Usual

- Shipping lanes normalize
- Risk premium fades
- Supply approaches pre-crisis levels
- Pricing behavior/mechanism reverts to long-term trend

Chaotic Standstill

- Shipping flows are sporadic
- Risk premiums are elevated
- Overall supply may improve but is unpredictable
- Uncertainty keeps pricing elevated

Fragmented Market

- Certain trade routes become inaccessible for extended period due to sanctions
- Two markets with unique supply, demand, and pricing characteristics emerge.
- More in-region sourcing
- Two markets/blocs drift apart

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Which changes are temporary, and which will stick?

Group III/III+ market

- Disturbed and unpredictable, or back to a comfortable surplus?
- How will trade flows and price behavior change?
- Will 'Middle East risk' perception shape buying?
- Cost optimization or supply security: which drives buyers?
- Long-term interest in Group III RRBO?

Lubricant market

- When and how much demand destruction?
- Drain interval extension and downtrading (synthetic to semi-synthetic)
- Shift from 'OEM approved' to 'meets requirements' products
- Will OEM approvals gain or lose importance?
- Will electrification accelerate demand loss?

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