

# Modest Growth Seen for Biolubricants in Europe

The increased supply of high-performing, cost-competitive green base oils in the context of government regulations is driving biolubricants market growth globally. Moreover, this market, supported by industry interest in developing innovative green formulations for various end users, is forecast to outpace the growth of finished lubricants. However, growth rates of biolubricants vary by region, and despite

relatively strong progress, penetration of biolubricants is limited. The reasons for this relatively limited uptake of biolubricants include high prices as well as a lack of high-performing formulations that are on par with conventional lubricants and suitable additives.

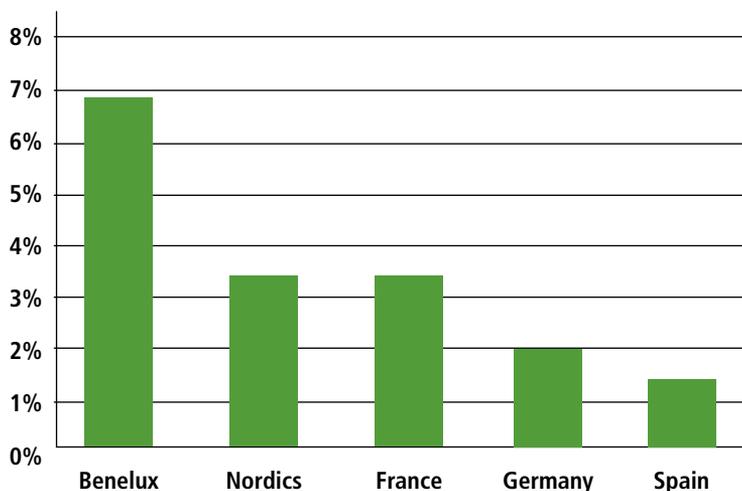
North America and Europe are the most important markets for biolubricants. Together, the two regions account for 85 to 90 percent of the

global market. While the most significant regulation passed in North America to date is the Vessel General Permit (VGP), Europe long has had a number of labels, regulations and mandatory purchase requirements for biolubricants.

The European Ecolabel (EEL) is the primary pan-European label used to define biolubricants. EEL has stringent renewable content and biodegradation criteria. About 45 to 70 percent renewable content is required based on the product application. Also, each component of the lubricant that exceeds 0.1 percent has to be evaluated for biodegradation.

Products covered under EEL include hydraulic fluids, tractor fluids, grease, chainsaw oils, wire rope oils, two-stroke engine oils and gear oils. EEL will gradually become the green label of choice for biolubricants in Europe and, by extension, become a reference point for formulators in Asia and the Americas. Global original equipment manufacturers are already said to be referring to this label when shopping for biolubricant base oils and finished lubricants.

**Bio-Lubricant Market: Five-year CAGR by Country, 2013 - 2018**



Source: Kline 2014 forecast

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The largest consumer of biolubricants in the world is the United States, closely followed by several European countries, such as Germany and the Nordic quartet (Sweden, Denmark, Norway and Finland).

Valued at over U.S. \$200 million, the German market is the leading consumer of biolubricants in Europe. Hydraulic fluids, the largest product category, are used in construction, forestry and agriculture, as well as smaller industrial applications. German biolubricant demand is estimated to grow just above 2 percent per year for the next 10 years.

Key growth drivers are expected to be biolubricants for applications such as transformer oils, new product development in line with OEM specifications and expansion of existing ISO product lines leading to increased varieties. The growth of the biolubricants market in Germany has been aided by its Blue Angel label and the FNR (Fachagentur Nachwachsende Rohstoffe) subsidy scheme.

The Blue Angel label is one of the oldest in the industry and has provided a common definition and reference point for biolubricants sold in the country. Though no longer active, the FNR subsidy scheme kick-started the biolubricants market in Germany by providing subsidies to certain biolubricant products.

The Nordic region is the second-largest biolubricants consumer in Europe, with Sweden being the largest consumer among Nordic countries. Sweden's biolubricants demand is driven by a high share of forestry acreage (70 percent) and enforcement by forestry associations. Sweden and Finland remain mostly focused on the forestry sector for biolubricants, while Denmark is focused on the off-shore and marine segments and Norway on transformer oil applications.

Biolubricants in the Nordic region

are forecast to post moderate growth for the foreseeable future, driven mainly by anticipated new public procurement directives for the public works and construction sector, gradual conversion to green transformer oils in other Nordic countries based on best practices from Norway, and marine and off-shore lubricant demand in Denmark. The dominant standard in the region is the Swedish Standard, which applies to hydraulic fluids and greases and covers biodegradability, toxicity and renewable content.

The Benelux market is forecast to exceed all other European markets in growth. Initially spurred by government regulations, this market will be driven by environmentally conscious contractors in off-highway applications and by the broad availability of high-quality hydraulic fluids for various applications that meet or exceed conventional performance levels. This allows lubricants to be used in environmentally sensitive zones that are often the focus of government-related standards and codes.

Since 2010, Duurzaam Inkopen (or sustainable procurement) has been the guiding principle for various government bodies in the Netherlands. Different government bodies have different biolubricant penetration targets in the procurements they make. A tax saving scheme promotes the use of biolubricants among owners of mobile equipment. Despite these incentives, higher prices and OEM approvals are limiting growth.

The biolubricants market in France constitutes less than 1 percent of the overall finished lubricants market. The reasons for the limited penetration of biolubricants include a lack of federal procurement requirements, smaller size of the construction industry – usually a significant consumer of biolubricants – and budget constraints in the agriculture sector. Biolubricants are used mainly in environmentally sensitive

applications, where there is a degree of self-regulation through associations, specifically in waterways, forestry and alpine regions. For example, the VNF (the Inland Waterway Association) aims for 100 percent usage of biodegradable hydraulic fluids in all dams, sluices and gears in the next five years.

Overall, the Spanish government continues to emphasize the environment, and Kline forecasts the Spanish biolubricants market to experience modest growth until 2023. The key growth drivers will be applications featuring health, safety, agriculture and waterworks, as well as metalworking fluids, such as cutting fluids used in automotive production. Spanish reliance on renewable energy, such as wind turbines, will provide opportunities for bio-gear oils.

Leading suppliers vary by region due to niche product offerings and established distribution networks. Statoil and Binol are the largest players in the Nordic biolubricants market, while Fuchs and Panolin are the largest in Germany.

Kline's outlook for the biolubricants market growth in Europe remains positive. Growth will continue to reflect individual country regulations, domestic raw material supply and available product technology. While regulation can be an incentive for growth, increasing customer interest is driving blenders to develop biolubricant products. Moreover, regulation by itself, without related enforcement, attractive product offerings in terms of price and performance, will not contribute to the segment's growth. There will continue to be a degree of trial and error as suppliers explore and develop market niches. Successful product launches can subsequently be scaled up and rolled out into other markets, as can be seen across Europe currently. □

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