

CONSULTATION PAPER – LUBRICANT MARKET

Lubricants are used mainly to reduce friction and wear that occurs between two moving surfaces as well as to reduce operating temperatures, minimize corrosion of metal surfaces and keeping out contaminants. The lubricant market comprises of lubricants and greases derived from mineral oil or synthesized from chemical compounds for automotive, industrial and marine applications. It is regulated primarily under the Ceylon Petroleum Corporation Act No. 28 of 1961 by the Ministry of Petroleum Resources Development with the advice and assistance of the Public Utilities Commission of Sri Lanka.

Presently, the market is liberalized but an authorization is required to import, export, blend, produce, distribute, supply or sell lubricants which is granted only to qualified parties – a selection process was last conducted in 2006/2007. Currently, thirteen (13) parties and twenty two (22) brands have been authorized - list of authorized parties and respective brands as well as market share in 2016 is attached. There is a duty differential between imported and locally produced lubricants, which has become a contention between importers and producers. Authorization is also granted for the import of specialty lubricants primarily for own use that are not imported by the market participants.

Original Equipment Manufacturers (OEM) recommend the quality of lubricants required to be used. Lubricants are formulated differently for gasoline (petrol) engines, diesel engines, four-stroke motorcycle engines, two-stroke motorcycle engines, automatic transmissions and gear boxes. The quality of the lubricant required for your vehicle can be identified from the owner's manual or obtained from the OEM's local agent or the internet. Standards are denoted using categorization by organizations such as the American Petroleum Institute, Japanese Automotive Standards Organization etc.

Lubricants degrade during its use and need to be changed periodically as recommended by the OEM. Such used lubricants should be disposed without harm to the environment and should not be re-used unless reclaimed properly as the original properties will otherwise be lost and cause damage to the engine. There are adulterated lubricants as well as unauthorized brands of lubricants in the market. However, unaware of the correct selection and substandard lubricants, consumers may opt for cheaper lubricants or give full discretion to the service station. Unlike substandard fuel which will be noted almost immediately, the effect of using substandard lubricants will only be noted years later after it has caused much damage to the engine.

However, in the absence of a regulator there is no effective and independent mechanism for enforcing quality standards and protecting the interests of consumers.

Issues

1. Quality

Substandard lubricants can be found in the market, and the primary reasons as well as proposed remedial actions are identified below.

- a. Adulteration of lubricants – formulate mechanism (attached) for investigation and prosecution by the Sri Lanka Police in consultation with the Ministry of Petroleum Resources Development and Public Utilities Commission of Sri Lanka as well as other relevant agencies (applies to item c below as well)
- b. Recycling and reuse of used lubricants – formulate guidelines for re-refining used lubricants (attached) as well as mandate that used lubricants must be hand over to parties authorized to re-refine or parties possessing requisite technology/processes and an environment license for disposal of used lubricants
- c. Importation of unauthorized lubricants – formulate guidelines (attached) to be strictly followed by relevant agencies such as the Import & Export Control Department, Sri Lanka Customs and market participants

2. Price

Unfair prices can be charged due to barriers to competition, and the primary reasons as well as proposed remedies are identified below.

- a. Duty differential between imported and local produced lubricants - revise the duty structure taking into consideration local value addition and investment by local blenders, and in the interim maintain the effective duty differential at ten percent
- b. Infrequent calling of requests for qualification – appointment of standing technical evaluation and procurement committees to review applications as and when they are received subject to entry criteria approved by the Cabinet of Ministers

Consultation

In view of the above, the Public Utilities Commission of Sri Lanka (PUCSL) wishes obtain comments from any person or group of persons who may be affected or are likely to be affected by the proposed remedies that the PUCSL intends to recommend to the Government.

Authorized Parties and Respective Brands

Brand(s)	Company	Nominee
 (Caltex, Chevron, Texaco, Lanka)	Chevron Ceylon Limited	Chevron Lubricants Lanka PLC
 (Servo)	Indian Oil Corporation Limited	Lanka IOC PLC
 (ExxonMobil, Mobil, Cat)	ExxonMobil Asia Pacific Pte. Ltd.	McLarens Lubricants Limited
 (Valvoline)	Ashland LLC.	United Motors Lanka Limited
 (Shell)	Shell Markets (Middle East) Limited	N. M. Distributors (Pvt) Limited
 (BP, Castrol)	BP Middle East LLC	Associated Motorways Limited
 (Laugfs)	Laugfs Holdings Limited	Laugfs Lubricants Limited
 (MAK)	Bharat Petroleum Corporation Limited	TVS Automotives (Pvt) Ltd
 (Motul)	Motul	Transmec International (Pvt) Limited
 (Greatwall, Sinopec)	Lubricant Company Sinopec Corporation	Interocean Lubricants (Pvt) Limited
 (Toyota)	Toyota Tsusho Corporation	Toyota Lanka (Pvt) Limited
 (Total, Elf)	Total Oil India Private Ltd	Navaloka Petroleum (Pvt) Limited
 (Hyrax)	Ceylon Petroleum Corporation	

Market Share (Sales Quantity) - 2016

