

When it comes to stepping beyond their own borders, Chinese additive companies have a distinct advantage over much of that country's lubricants industry. China's government regards mineral oil based lubricants and greases to be national strategic materials, and places restrictions on their export. By contrast, additive components, additive packages and synthetic oils are classified as "chemicals," and their manufacturers thus have freer access to global markets.

Given this open door to the world's lubricant markets, it was only a matter of time before Chinese additive companies would emerge from the origins of their domestic market onto the international stage, and try to turn the tables on the "big four" additive companies, all of whom have been developing a presence in China.

As attractive as the burgeoning Chinese market is, the world stage offers Chinese additive companies the opportunity to sell higher added-value products. It also, China-based competitors acknowledge, makes investment in research and development pivotal to their sales strategy, in order to compete with established multinationals such as Afton Chemical, Chevron Oronite, Infineum International and Lubrizol.

To discover how they are approaching this challenge, analysts with The Strategy Works, a U.K.-based market research firm, recently conducted in-depth interviews with three leading Chinese additive companies who have made exports a key platform of their strategy. They are:

- Tianhe Chemical which is headquartered in the city of Jinzhou, in the northern coastal province of Liaoning. Formed in 2007, its predecessor companies began making lubricant additives in

# China's Additive Makers Target Exports

By MICHAEL HERSON





*Inside Jinzhou Kangtai's additives plant.*



*G.S. Ravi, Tianhe Chemical*

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*Eric Chen, Hangzhou Sungate*

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1992. Components they sell include zinc thiophosphates, ashless dispersants, detergents and extreme pressure additives, and they also make packages for engine oils, gear oils and industrial lubricants. It claims to rank at number five in global lubricant additive sales.

- Jinzhou Kangtai Lubricant Additives Co. Ltd. began making lubricant additives immediately upon startup in 1998. Their head offices are also in Jinzhou city, and they make detergents, dispersants, antiwear agents, rust inhibitors, antioxidants and more, as well as additive packages.

- Hangzhou Sungate has specialized in lubricant additives since 2003, and has operations centered in Hangzhou, on China’s central coast. They make additive packages for engine oils, gear oils, hydraulic fluids and marine engine oils, plus antioxidants, detergents, corrosion inhibitors, viscosity index improvers and other components.

### Export Tonnage

Collectively the three companies designate a substantial proportion of their capacity as exports. With Hangzhou Sungate it’s 65 percent, for Tianhe it’s more than 50 percent, and with Jinzhou Kangtai 25 percent.

To put this into perspective, Tianhe reports an additives manufacturing capacity of 200,000 metric tons per year, and Jinzhou Kangtai reports a capacity of 18,000 tons. (Sungate does not disclose their capacity.)

In terms of sales, Tianhe is by far the largest in this trio, with an annual turnover of \$700 million. Just over 50 percent of this is designated as additives, as they also have a profitable fluorochemicals division.

Next in size is Jinzhou Kangtai with \$119 million turnover from additives, and Sungate is much smaller. The Strategy Works estimates that these three companies are collectively exporting nearly \$200 million of additives annually.

Both of the top two producers are investing in new capacity. Tianhe has announced the addition of another 25,000 tons of blending capacity at a

new plant in Singapore, which is currently under construction and due to open in 2015. G.S. Ravi, CEO of Tianhe’s additives division, explains the rationale behind the expansion abroad. “A lot of customers in the Asia-Pacific region prefer that we have another plant due to business continuity reasons,” he says. “So we are now putting together a complete plant to address this business continuity planning issue.”

Meanwhile, Jinzhou Kangtai is adding a further 100,000 tons of capacity which is due to come on stream in 2017 in a new 170,000 square meter facility, which will make them a much more significant export player.

### Components or Packages?

In parallel with Tianhe’s export drive, Ravi confirms the switch in emphasis from components to a four-point R&D thrust on additive packs. “While we continue to market our components, we have now put together a dedicated team for the development of packages which have already been tested and the results are extremely encouraging, to the extent that we have already got approval from large multinational oil companies.”

Peigen Yu, general manager of Jinzhou Kangtai, confirms that single components are this company’s main focus, supplemented by packages. “In 2013, the sales of single components occupied 60 percent of total sales, and the rest — 40 percent of sales — were from packages.” Yu reports that Jinzhou Kangtai has developed a patent for a light-color quenching oil additive package.

Eric Chen, sales director of Hangzhou Sungate, outlines a similar product profile: “We are focused on components for the global market. We have packs as well, but for those we are mainly focused on the Chinese local market,” he says.

### R&D Investment

Investment in R&D is a pre-condition for those companies wishing to target European or North American customers, due to the long lead-times required for engine testing to get prod-

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*Tianhe Chemical could float an IPO in Hong Kong soon.*

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ucts approved to the highest-tier engine oil performance levels.

Recognizing this, Tianhe is rapidly expanding their R&D base and planning to acquire an R&D center in Bangalore, India. Due to open later this year, it will be staffed by over 100 research specialists. Ravi confirms that Bangalore is one of a number of planned global research locations where Tianhe

will consolidate synthesis, analytical, performance testing, tribology and even engine test cells (“between six and eight,” according to Ravi).

Jinzhou Kangtai also has testing facilities, which incorporate engine simulation test equipment, abrasion resistance test equipment, oxidation test equipment, element analysis and more. Chen reports that Hangzhou Sungate is mostly focused on developing antioxidant, extreme pressure/antiwear, detergent and dispersant additives, with some special emulsifier/demulsifier products, too.

### Sales Regions

Tianhe has established overseas warehouses in Dubai and Singapore to serve a growing customer base in the Middle East and Africa (currently 45 percent of export sales), Europe, the United States and Japan. Ravi reports a breakthrough in the United States has been achieved with the addition of a new distributor, Houston-based Soltex Inc., and newly recruited experienced industry sales personnel. Two large European customers have extended Tianhe’s access into other global markets and “most of our components now have REACH accreditation,” states Ravi.

Jinzhou Kangtai’s international business mainly focuses on the Middle East and Southeast Asia, as well as Germany, U.K., the Netherlands, Japan and Korea. With all products being shipped from China, they favor using distributors, and these account for 50 percent of sales ver-

sus 50 percent direct sales.

Hangzhou Sungate is focussed on the United States, Europe and Russia as the main markets, indicates Eric Chen.

### Impending Flotation

The largest two additive companies interviewed both have plans to float public offerings, in Hong Kong later this year (Tianhe), and in Shanghai at some unnamed date (Jinzhou Kangtai).

Tianhe has already attracted foreign investment — a private equity arm of Morgan Stanley took a \$300 million stake in 2012 — and recently lodged an A1 filing on the Hong Kong stock exchange indicating an intention to list. Ravi expects a prospectus will shortly be available. The Wing Fung Financial website in Hong Kong is listing the prospective valuation of the entire company at U.S. \$7.8 billion, and financial reports say the Hong Kong offering is aiming to raise \$1 billion.

Whatever the outcome of the planned IPOs, Chinese additive companies have already moved outside their borders onto the global stage, and defending the domestic market is no longer the sole priority. As Ravi succinctly puts it: “Tianhe is not a Chinese company, it’s a company with production in China.” ■



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