

UPGRADE ALBERTA

Eliminate a Barrier to Jobs and Prosperity, Kick Start Economic Recovery

At the stroke of a pen, the Alberta government can fix a financial barrier that threatens Alberta's prosperity and economic recovery by preventing the growth of oil sands development and additional upgrading of our oil sands resource within the province.

The Canadian Association of Petroleum Producers (CAPP) and its member companies are asking the government to update the existing royalty system with an approach based on market pricing for bitumen.

It's an easy fix with many potential benefits.

What is BVM?

Implemented in 2009, Alberta's Bitumen Valuation Methodology (BVM) was meant to temporarily set a value on bitumen produced in the oil sands until a market-based approach could be implemented, in order to calculate royalties that integrated oil sands operators pay to the government.

BVM only applies to some bitumen. Here's the difference: integrated oil sands operations that process bitumen into a higher-value product are subject to this government-developed BVM formula, but producers selling raw bitumen to refineries are not. BVM has been much higher than free-market pricing for years, incorrectly increasing royalties paid on integrated projects. As a result, BVM encourages producers to sell raw bitumen instead of upgrading it in Alberta, and discourages building new upgraders in the province.

Here's an analogy to help explain BVM

Say the government owns all the grapes and charges royalties to produce grape juice, but the royalties vary. If you sell your juice — at a low price — to an unrelated winery, the royalty is relatively small. But if you use it to make wine in your own on-location winery, the royalty is much higher. As a result, nobody can afford to build a new winery because that elevated royalty wipes out any profit. Meanwhile the foreign winery turns low-value juice into fine wine that generates good, ongoing revenue, and expands to produce even more wine — but at home, the royalty system designed by government that owns the resource — the grapes — encourages producers to just sell juice. The upshot: no new wineries. No jobs. No long-term stable revenue.



More details on the evolution and negative impact of BVM is on CAPP's [website](#).

Alberta's loss is America's gain

BVM is a huge barrier to investment in the oil sands. It penalizes operators who create a value-added product right here in Alberta. Instead, more producers are selling raw bitumen, mostly to the U.S., where it's refined into gasoline, diesel and other products. This means good Canadian jobs have become U.S. jobs. And Alberta's resource is being sold at lower prices instead of being upgraded to create higher-value products that fetch a higher price.

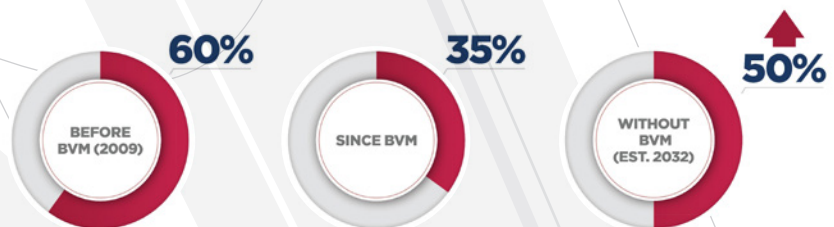
BVM is costing Alberta jobs and opportunities. Major construction projects have been stifled: the last greenfield oil sands development was sanctioned in 2013 - nearly a decade ago. Planned new upgraders and expansions of existing upgraders have been shelved, but oil sands companies have invested more than \$18 billion in upgraders and refineries in the United States.

Upgrading in Alberta: past, present, future

Prior to the introduction of BVM, approximately 60 per cent of produced bitumen was upgraded in the province. Since the introduction of BVM, that volume has dropped to less than 35 per cent.

CAPP is asking the Government of Alberta to adopt the target of upgrading at least 50 per cent of our bitumen in the province in the next ten years. This aligns with Alberta Innovates goal of upgrading 20 per cent of in situ production (approximately 500,000 b/d of partial upgrading capacity) and the Government of Alberta's Recovery Plan.

Fixing BVM will create conditions to allow upgrading of 50 per cent of produced bitumen within the province in the next decade, potentially resulting in investments to create over 500,000 barrels per day (b/d) of additional upgrading capacity.



Raw versus upgraded bitumen

Bitumen is a thick, heavy hydrocarbon. Some oil sands facilities not only produce bitumen but also upgrade it (these are called 'integrated operations'), a process that creates synthetic crude oil and other products that have higher market value than raw bitumen. Today, almost two-thirds of Alberta's production from the oil sands is in the form of unprocessed raw bitumen and about one-third is upgraded synthetic crude oil. This has been a big change since 2009, when almost two-thirds was upgraded synthetic crude oil.





The opportunity: positive outcomes

CAPP is asking the government to scrap the existing BVM and design a method that ensures the royalty for bitumen upgraded in Alberta is based on market value, ensuring a level playing field for integrated producers. Eliminating BVM removes the largest financial barrier to increased upgrading investments in Alberta, a step toward upgrading over half the bitumen produced in the province.

CAPP estimates reaching the goal of upgrading 50 per cent of bitumen in the province could:

- Allow for debottlenecking at existing upgraders, adding 100,000 b/d of upgrading capacity and add an additional 400,000 b/d of upgrading capacity through potential new investments in partial upgraders.
- Create 30,000 construction jobs and more than 11,000 permanent jobs in Alberta.
- Generate an average of over \$700 million in annual government revenue (taxes and royalties) over the life the new assets – 30 years or more.
- Free capacity on existing pipelines, up to an additional 180,000 b/d.
- Create new customers and markets for Alberta's oil sands products.

More capital investment also funds development of technologies that improve environmental performance, such as reducing emissions and fresh water use, and '[beyond bitumen](#)' innovations like [carbon fibre](#).

Pipeline capacity

Raw bitumen must be mixed with lighter hydrocarbons so it will flow in pipelines. The combined volume is about 30% more than bitumen alone. Upgraded bitumen / synthetic crude oil doesn't need to be diluted and upgrading reduces or "shrinks" the volume of the product, which effectively frees half a barrel of pipeline capacity for every barrel of bitumen upgraded in Alberta.

Why address BVM now?

The Government of Alberta committed to review BVM in 2021.

The oil sands resource is Alberta's largest asset and the government has an opportunity to make the most of that resource. Strategic long-term development will drive economic recovery and prosperity but that development needs a supportive government and collaboration with industry to address the serious negative impacts of BVM.

Revising BVM to reflect the market value of bitumen, no matter how it's used or sold, is the most important long-term economic strategy the government can implement. Building new upgraders creates jobs from plumbers to pipefitters, crane operators to technicians. Once in operation, new upgraders employ engineers, millwrights, accountants and more.

Adding value to bitumen through upgrading will mean long-term prosperity in Alberta, consistent with the government's own goals for job creation. Increased government revenues will support health care, education, infrastructure and social programs, and help reduce the province's pandemic-induced deficit. Getting rid of BVM will also enable development of other innovative value-added technologies for Alberta's oil sands products, since BVM applies whenever a producer adds value to raw bitumen.



Short-term impact versus long-term strategy

There's a caveat to scrapping BVM: a short-term reduction in government revenues of about \$150 million per year. Over the long term (30 years or more), this lost revenue can be replaced with increased taxes and royalties of up to \$700 million annually.