

Bitumen Royalty-In-Kind

In Alberta, royalties are a share of production from resources the government owns on behalf of Albertans. Under the *Mines and Minerals Act*,

the government has the option to take its royalty share either in cash or in kind. Currently, the government takes its share of conventional crude oil production in kind and collects its royalty share for other resources in cash.

The decision to exercise the in-kind option for bitumen was identified in the 2007 [Alberta Royalty Framework](#) as a way for the Crown to use its share of bitumen strategically to supply potential upgraders and refineries in Alberta, and to optimize its royalty share by marketing those volumes. This program is known as Bitumen Royalty-in-Kind (BRIK).

The [Alberta Petroleum Marketing Commission](#) (APMC) is responsible for implementation of BRIK policy, and has signed a 30-year agreement for processing. [Agreements](#) can be found on the APMC site.

Objectives

- **Foster Value-Added Oil Sands Development**
Alberta could strategically use its royalty bitumen barrels to stimulate value-added activities; (such as upgrading, refining and petrochemical development). The resultant incremental investment would create economic activity and jobs from capital project construction and operations. This would positively impact Alberta's long run economic sustainability and diversify the product portfolio produced in Alberta while allowing the province to hedge its bitumen commodity risk.
- **Enhance the transparency and liquidity in the bitumen market**
Bitumen is a difficult product to market. There is considerable variability in quality depending upon the field from which it is produced, and it requires addition of diluents or upgrading to a synthetic crude oil (SCO) for shipping on pipelines. Today, most bitumen is produced by integrated operators and upgraded to SCO without the sale of bitumen. This means that the market for bitumen is relatively small. The BRIK program includes a market design to facilitate more buyers and sellers of bitumen and a more transparent and liquid market. This will help assist Alberta in getting full value for its royalties.
- **Share in the differential gains, and risks, between synthetic crude oil (SCO) and bitumen**
Historically, there has been a considerable differential between the price of bitumen and SCO. By assuming some risk and cost associated with processing, Alberta could obtain increased revenue compared with taking cash based on bitumen pricing.

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Endorsements

- The [Provincial Energy Strategy](#) says ... "as the production of bitumen from oil sands increase, there is further potential for value-added development in Alberta. This type of development provides numerous benefits for the province – for example, new upgraders and refineries means new, long term jobs and tax revenue on top of royalties the province already receives for the resources."
- The Oil Sands Sustainable Development Secretariat report, [Responsible Actions: A Plan for Alberta's Oil Sands](#) (2009) includes the following strategies:
 - 3.1.2 Use bitumen royalty-in-kind transactions to facilitate and expand an Alberta bitumen market.
 - 3.1.4 Establish a government-led organization to manage Alberta's bitumen royalty-in-kind volumes to maximize the long-term benefits for Albertans.
 - 3.2.1 Leverage bitumen royalty-in-kind volumes to develop value-added oil sands products.
 - 3.3.3 Encourage the development of outbound pipeline systems to open new markets for Alberta's oil sands products.

History of BRIK

A May 2008 Cabinet Report received Government approval to develop a business case for a BRIK and a process for implementation, including issuance of a [Request for Expressions of Interest](#) to utilize BRIK volumes.

[Request for Proposals](#) in 2009 determined the projects, the first is the [North West Partnership's Sturgeon Refinery](#) located near Redwater. Initially, the Alberta government will supply 37,500 barrels per day of bitumen through the APMC, and pay a processing toll to have it refined into diesel and other products. Once all three of the upgrader's planned phases are complete, up to 75,000 of BRIK barrels per day will be supplied for refining. The resulting higher priced product will be sold in the domestic market and exported.

For the second project, the APMC has committed to a 20 year take or pay transportation service agreement with TransCanada's proposed [Energy East pipeline](#). The pipeline project proposes to convert part of the underutilized TCPL mainline natural gas system and add new pipeline in eastern Canada to ship 1.1 million bbl/d of oil from Alberta and Saskatchewan to refineries in Ontario, Quebec and Atlantic Canada. It will also provide access to ports and international markets.

Further Information on BRIK is available in Energy's [history](#) in the 2008-09 sections.