

SHATTERING THE ILLUSION OF “EASY MONEY” IN HEAVY OIL PRODUCTION

SERIES I: A Reality Check: Why heavy oil usually trades at a large discount to Brent?

For years, a persistent narrative has circulated within public and government circles in Albania: that heavy oil extraction is a “gold mine” generating effortless windfall profits. This misconception is a constant source of frustration for industry professionals who manage the complex operational reality of heavy oil fields.

While the oil industry has historically created significant wealth, **heavy oil—particularly production from the Patos-Marinza (PM) field—operates under a fundamentally different economic reality**, defined by high technical complexity, continuous capital intensity, and structurally thin margins.

Through this series, **Bankers Petroleum Albania Ltd. (BPAL)** seeks to provide a transparent, fact-based explanation of the marginal economics of heavy oil production, dismantling the illusion of “easy money” and replacing it with operational and commercial reality.

The Marginal Reality: Lessons from the Orinoco Belt

If heavy oil were an easy path to national wealth, Venezuela—home to the world's largest heavy oil reserves in the Orinoco Belt—would today be among the richest nations on earth. Instead, it stands as a global cautionary tale.

Heavy oil is **high-maintenance by nature**. It requires continuous and substantial capital reinvestment merely to keep production flowing. The crude itself is dense, viscous, and immobile, demanding constant technical intervention and energy input.

When global oil prices exceeded USD 100 per barrel, Venezuela produced more than **3 million barrels per day** from heavy oil. However, once prices declined, margins evaporated. Without sufficient cash flow to fund diluents, maintenance, and specialized infrastructure, production collapsed to **less than 500,000 barrels per day**.

This experience demonstrates a critical truth:

In the heavy oil business, operators are always one price downturn away from the economic red zone.

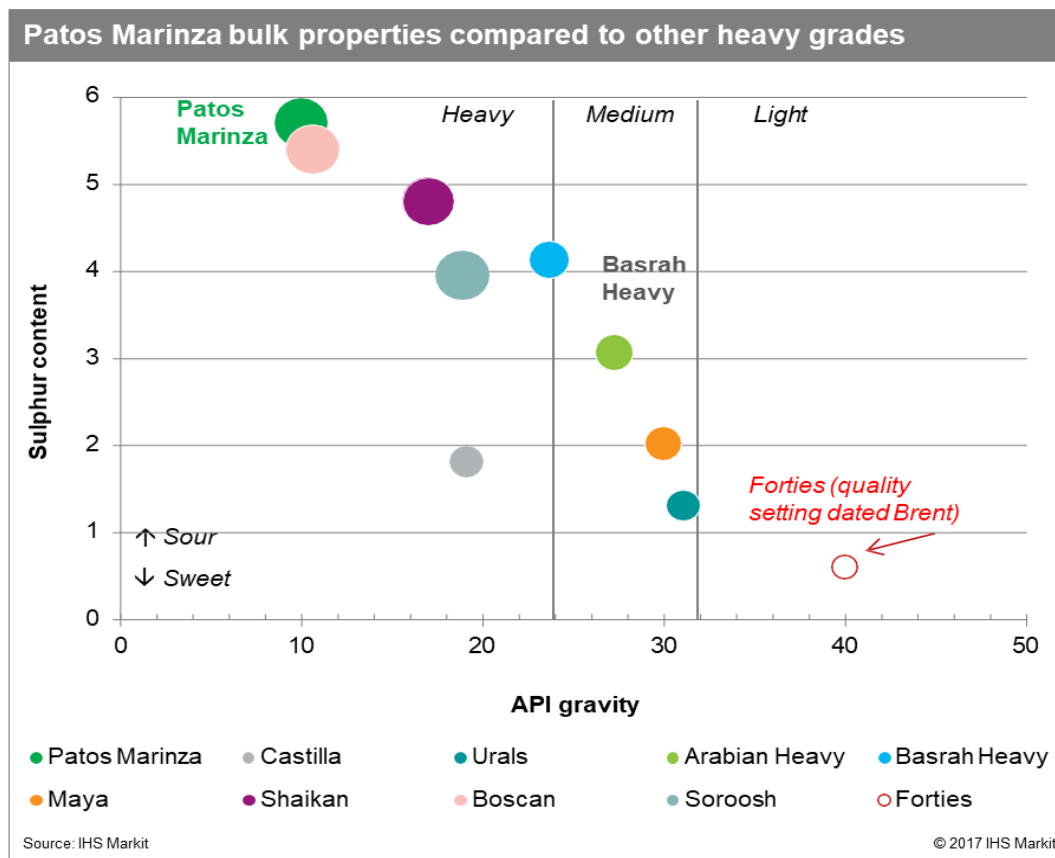
Heavy oil is not a guaranteed windfall—it is a high-risk industrial endeavor.

The Benchmark Trap: Brent vs. Realized Heavy Oil Prices

Oil prices quoted in the media typically reference **Dated Brent**, a light, sweet crude that serves as the global benchmark. Brent's high quality, low sulfur content, and offshore logistics make it inexpensive to refine and easy to transport.

However, **Brent is not the price heavy oil producers receive.**

Below is a **Patos-Marinza-specific explanation** of why Albanian heavy oil trades at a **persistent discount to Brent**, tying global heavy-oil logic to the *exact realities* of Albania's geology, logistics, and market position.



1. Crude Quality: PM Oil Is “Very Heavy + High Sulfur”

Patos-Marinza (PM) crude sits at the **worst end of the quality spectrum**.

Typical PM crude characteristics (2025 latest data):

- **API gravity:** ~8–9° API (very heavy)
- **Sulfur:** ~5–6% (high sulfur)
- **High asphaltenes & metals**

Implication vs Brent (~38° API, ~0.4% sulfur):

- Much **lower yield of gasoline/diesel**
- Much higher yield of **residuals, coke, sulfur**
- Requires **deep conversion refineries** (delayed coking + hydrotreating)

Refiners apply a **quality penalty** that alone can justify a **double-digit USD/bbl discount**.

2. Refinery Reality: Almost No “Natural Buyers” Nearby

This is one of PM oil's biggest disadvantages.

Regional refinery mismatch

- **Albania, Balkans, Eastern Med:** mostly **simple or medium-conversion refineries**
- Few refineries can handle:
 - 8–9° API
 - 5–6% sulfur
- No dedicated nearby **coking refinery** optimized for PM crude

Consequence

- PM oil must compete for:
 - Limited slots at complex refineries
 - Often far away (Italy, Spain, occasionally Asia)

Distance + competition = **buyer leverage** → deeper discount.

3. Small Scale & Poor Blending Economics

Patos-Marinza is **not a large, steady-flow export system**.

- Production scale is small relative to global heavy oil streams
- Inconsistent volumes reduce attractiveness to refiners
- Blending options are limited:
 - Albania lacks abundant local light crude
 - Imported diluent raises costs

Contrast with Canada / Middle East:

- Large, stable volumes
- Integrated blending systems
- Dedicated refinery demand

PM crude is priced as a **“distressed, opportunistic feedstock”**, not a core refinery slate.

4. Logistics & Market Access Penalty

PM oil faces **multiple structural logistics costs**:

Upstream & midstream

- Heavy oil needs heating and conditioning
- Higher storage and handling costs
- Limited domestic infrastructure scale

Export reality

- Must be exported by sea
- Small cargo sizes → higher per-barrel freight
- Less flexibility to wait for better market timing

All extra costs are deducted *before* the refiner's netback → larger Brent discount.

5. Environmental & ESG Penalty (Disproportionately Harsh)

For PM crude, ESG impact is **not theoretical**—it is commercial.

- Very high **carbon intensity per barrel**
- High sulfur → stricter fuel specs in EU markets
- Refiners face:
 - Higher CO₂ costs
 - Sulfur handling and disposal costs
 - ESG financing pressure

Refiners demand an **explicit risk discount**, especially in Europe.

6. Country & Contract Risk Premium (Often Overlooked)

Unlike Canadian or Middle Eastern heavy crude, PM oil carries **non-quality risk**.

Perceived risks:

- Fiscal instability & tax disputes
- Regulatory unpredictability
- Enforcement and payment uncertainty
- Contractual disputes history

Even if oil quality were identical:

Buyers still price in a **sovereign/operational risk discount**.

This matters most when volumes are small and contracts are short-term.

7. What the PM Discount Really Represents

For Patos-Marinza, the discount to Brent is **not just a quality adjustment**.

It is the sum of:

Discount ≈

- Very heavy + high sulfur penalty
- Lack of nearby complex refineries
- Small-scale, inconsistent supply
- High logistics & blending cost
- ESG / carbon penalty (EU-centric)
- Country & contract risk premium

That is why PM crude often trades:

- **\$10–25/bbl below Brent in normal markets**
- **\$25–35+ /bbl below Brent** when:
 - Refinery margins weaken
 - Shipping tightens
 - Political or regulatory tension rises

8. Strategic Implication (Why This Is Structural)

For PM oil, **the discount cannot be “negotiated away.”**

It can only be **managed or offset** through:

1. **Ultra-low lifting costs** (critical for survival)
2. **Stable fiscal & regulatory environment**
3. **Long-term refinery partnerships**
4. **Operational reliability & volume stability**
5. **Blending optimization** (if economically justified)

Any shock to these elements **immediately widens the discount.**

Bottom Line

Patos-Marinza heavy oil trades at a discount to Brent because it sits at the intersection of:

- *Very poor crude quality*
- *Weak regional refinery fit*
- *Small, logistics-constrained exports*
- *High ESG exposure*
- *Country risk perception*

Commercial Optimization Despite Structural Constraints

Despite these physical and market limitations, BPAL has consistently worked to optimize realized prices. Through long-term partnerships with reputable international traders—including **Petraco, Mercuria, Cepsa, Trafigura, Vitol, Eni, BP etc., and—BPAL has progressively improved its realized pricing through leverage of parent company's production from other countries in recent years.**

- Historical average realized price: 60–80% **of Brent**
- Recent years' realized price: 80–85%+ **of Brent**

This performance **exceeds that of comparable heavy oils**, including Venezuelan Boscan's 50–65% of Brent, and domestically produced and sold heavy oil in Albania.

These results reflect commercial optimization—not windfall profits—and remain bounded by the inherent economics of heavy oil.

Addressing Misinformation: Setting the Record Straight

Recent media claims allege that BPAL sells crude to its parent company at an artificial price of USD 40, which is then resold at USD 60.

Such claims are **technically implausible and legally untenable.**

Crude oil trading is a highly regulated activity governed by international **transfer pricing rules, audited contracts, and third-party verification.** BPAL sells exclusively to **independent, globally recognized trading houses**, operating under rigorous compliance and transparency standards.

Every barrel is contractually priced, documented, and auditable.

The Real Crisis: Administrative & Public Illusion of “easy money”

The true threat to heavy oil viability in Albania is not only from underground challenges—it is also from administrative and public illusion of “easy money” in heavy oil production.

While heavy oil margins are naturally thin, they are now being further eroded by a series of escalating fiscal and administrative actions, including:

- Arbitrarily un-recognize petroleum cost to collect additional profit tax & penalties
- VAT refund obstacle
- Ungroundedly levy of ECC tax and royalty on diluent
- Constant administrative interruption of operation

Together, these measures have created an increasingly hostile and unstable operating environment that discourages investment and undermines field sustainability.

Conclusion: Facts Over Fiction

Some misinformation stems from a lack of technical understanding. Other narratives appear driven by deliberate hostility.

BPAL will be committed to **fact-based dialogue, transparency, and open engagement** with authorities and the public.

However, **malicious falsehoods will no longer go unanswered.**

In the forthcoming installments of this series, BPAL will address each issue in detail—one by one—ensuring that stakeholders, policymakers, and the public fully understand the economic reality of heavy oil production in Albania.