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

SERIES II: Why Taxing ECC & Royalty on Diluent Misses the Point

A persistent public narrative portrays oil production as effortless wealth: pump it out of the ground and collect taxes. While this image may apply to light crude in certain regions, it has never reflected the physical or economic reality of Albania’s largest oilfield, Patos-Marinza.

The crude oil produced there is ultra-heavy, closer in consistency to asphalt than to conventional oil. In its natural state, it simply cannot flow. Without a technical agent called **diluent**, production is physically impossible.

A simple analogy helps. Cement alone cannot be poured; water must be added to make it flow. No one would argue that water is a final construction product. It is a necessary input. Diluent plays the same role in heavy oil production.

Treating diluent as a finished fuel, and taxing it accordingly, reflects a fundamental misunderstanding of how heavy oil works.

Yet this is precisely what is happening.

What Is Diluent and What It Is Not

Diluent is not burned, consumed, or sold as fuel by the producer. It is injected into the production process to reduce viscosity so that oil can be lifted and transported.

After use, diluent returns mixed with crude oil and is exported or sold to a refinery, where applicable taxes are paid at the appropriate downstream stage.

Globally, heavy-oil-producing countries treat diluent as a **production input**, not a consumed fuel. It is therefore not subject to ECC taxes (excise, carbon, circulation taxes), which are designed for products released for final consumption, such as gasoline or diesel used in vehicles.

Figure 1 Diluent: The Water for Cement

Why Applying ECC & Royalty Here Breaks Basic Economic Logic

ECC taxes liability normally arises when a product is released for final consumption. In the Patos-Marinza case, diluent never enters consumer circulation, however excise tax is in fact levied on domestic diluent, while ECC is applied to the imported. It moves entirely within bonded fiscal regimes, remaining part of a closed production loop.

Nevertheless, excise tax is levied on domestically sourced diluent, and ECC tax is applied to imported diluent, despite neither being consumed as fuel.

This creates a double, and in some cases triple taxation spiral:

- Excise/ECC is effectively paid once when diluent is procured and again when the final consumer purchases the produced crude.
- Royalty tax is paid once when the crude used to produce diluent is lifted from its original oilfield, and again when the same diluent, now mixed into produced oil is treated as royalty-bearing.

This is not how excise or royalty systems are designed to function. It converts a technical necessity into a phantom revenue source, one that exists only on paper.

Diluent should not be subject to royalty because royalty is a payment for the extraction of a natural resource owned by the state. Diluent is not a natural resource extracted from the ground, it is a purchased or imported production input, injected into the production and transportation.

Royalty exists to compensate the state for depleting its subsurface resources.

Diluent does the opposite: it is artificially added into the process.

Taxing diluent with royalty would mean the state is charging on a product it did not own, or produce, nor lose.

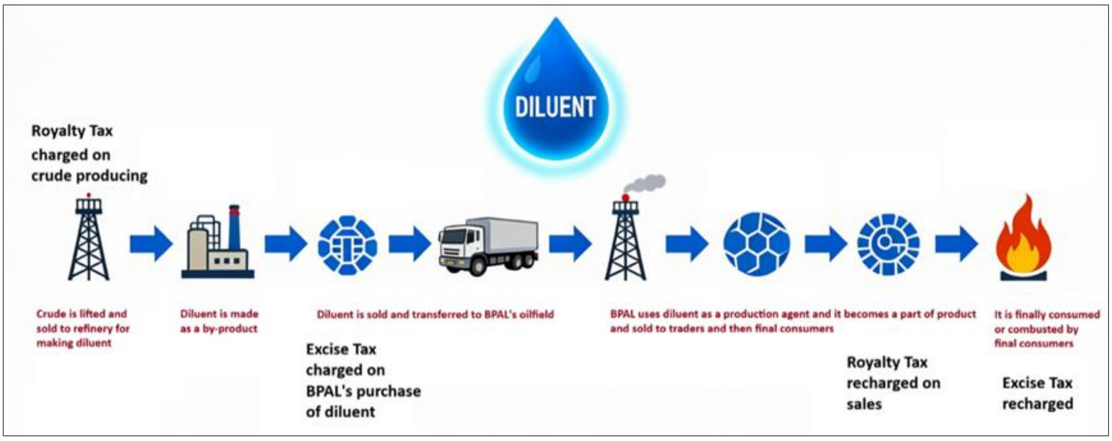

Figure 2 A Tax Perspective of Diluent's Lifecycle

The Three Pillars (In Simple Terms)

1. Royalty Follows the Resource, Not the Tool

Royalty applies to crude oil produced from the reservoir.

Diluent is imported or purchased, then injected. It is neither discovered, extracted, nor depleted. No mining system charges royalty on the water used to wash ore.

2. No Incremental Value Is Created by Diluent

Diluent does not increase reserves, nor does it create new hydrocarbons. It merely allows existing oil to flow. Royalty is paid on what the earth provides, not on what engineers add.

3. Royalty on Diluent Equals Double Taxing the Same Barrel

In the case that diluent is royalty-taxed, it is paid once on the crude that produced the diluent and again when that same diluent is blended into produced oil. This results in the same barrel being royalty-taxed twice, violating basic petroleum-fiscal principles worldwide.

Why This Matters Beyond One Company

This is not a request for special treatment. It is a question of correct classification. Misclassifying a production input as a consumer good undermines the economic foundation of heavy oil development.

The consequences are already visible, and have affected BPAL's previous and current sponsors alike:

- production shutdowns,
- halted exports,
- damaged cash flow,
- increased risk to jobs and state revenue.

As of 2025, BPAL has paid approximately $118 million in ECC taxes and $29 million in mis-levied royalty taxes, under protest, while maintaining that these taxes lack legal and economic foundation and remain subject to final judicial resolution.

A review of historical data reveals a stark economic imbalance: while the Albanian Government has collected approximately $1 billion in various taxes, versus a much lower income distributed to the investor. Bringing in the acquisition consideration, the investor remains deep in the waters. BPAL's history is one of constant disruption, interferences that triggered the Canadian's exit and left the current Chinese investor shouldering a grueling burden. We intend to expose the true financial landscape of BPAL in the upcoming reports, inviting the public to judge whether the money is easy about heavy oil business here.

For the long term, such uncertainty sends a clear signal to international investors: capital may be welcomed, but investment climate and stability would not be guaranteed.

Conclusion

Heavy oil is not easy money, as already addressed in the previous episode. It is complex, capital-intensive, and highly sensitive to fiscal coherence. When production inputs are treated as profits, everyone loses: the investor, the workforce, and ultimately the state itself.

A sustainable energy future requires rules grounded in physical reality and economic logic, not fiscal illusions.

MEDIA Q&A (FOR JOURNALISTS)

Q1: Isn't this just a company trying to avoid paying taxes?

A: No. This is about *how* taxes are applied, not *whether* taxes are paid. Bankers has already paid almost 1 billion dollars to the government. The dispute concerns taxing a technical input that is never consumed as fuel.

Q2: Why should diluent be treated differently from diesel or gasoil?

A: Because it is used differently. Excise taxes apply to fuels released for consumption: cars, heating, generators. Diluent is used inside the production process and returns mixed with crude oil. It never enters the consumer market.

Q3: Doesn't the law say excise applies broadly to petroleum products?

A: Excise laws apply when products are released for consumption. Courts have previously confirmed that technological use in petroleum operations does not meet that threshold. The issue is classification, not exemption.

Q4: Hasn't the Supreme Court already ruled on this?

A: The Supreme Court addressed procedural issues, not the substantive question of whether excise tax applies to diluent used for technological purposes. That substantive issue remains unresolved.

Q5: Why is this important for Albania specifically?

A: Patos-Marinza represents a major share of national oil production, employment, and state revenue. Heavy oil projects are highly sensitive to fiscal stability. Misapplied taxation can make continued production uneconomic.

Q6: Is Albania unique in facing this issue?

A: No. Heavy-oil-producing countries globally: Canada, Venezuela, Colombia recognize diluent as a production input and do not tax it as a consumer fuel. Albania would be an outlier if it did.

Q7: What happens if this approach continues?

A: Reduced production, lower state revenue, job losses, and diminished investor confidence. In the long run, the state collects less, not more.

Q8: What is the company asking for now?

A: A return to internationally accepted practice, standards and basic economic logic: tax final products and profits, not the technical tools required to extract them. Clarity and predictability benefit both the state and investors. We hope this can be resolved through dialogue and respect for international standards. If those standards and basic economic logic are not respected in Albania, international arbitration remains a last resort.