

Technical Luncheon – Business, Transportation & Marketing
Friday April 23, 2010
11:45 a.m. to 1:00 p.m. – Doors will open at 11:15 a.m.

ConocoPhillips Auditorium, Calgary
401 – 9 Avenue SW, 3rd Floor
Gulf Canada Square

US Duty on Canadian Heavy Crude Exports What are the issues and how are we managing it as an industry

Presented by: Don Murray, Advantage Insight Group Inc.

Over the past few years diluent demand has outstripped domestic supply. The shortfall has been satisfied by importing condensate, pentanes and naphtha from a variety of sources. When this material is imported from non-qualifying countries, or with insufficient documentation, the duty free status of the diluted bitumen is questioned. This has led some companies to voluntarily pay duty to US Customs on their diluted bitumen shipments.

CAPP's NAFTA Compliance Committee has been examining the diluents issue and has been reviewing regulatory clarifications and industry operating practices that could ensure that Canadian diluted bitumen can enjoy the full benefits of the NAFTA agreement. This work has been challenging because there is a lack of clarity on how US Customs will classify imported material that is not accompanied by a NAFTA certificate. There is also a great deal of difficulty in identifying the true nature of all of the material that enters the diluent stream because the system is complex with many commercial decisions influencing the make-up of the condensate diluent pool. These issues are further complicated by the lack of homogeneity in the diluent stream that is delivered to each bitumen blending facility.

If Canadian bitumen does attract US duty, the direct cost of the duty is only \$0.0525 per barrel of diluted bitumen, a relatively small cost to the Canadian bitumen producer. It could have a much larger effect on the Canadian producer though, if the price of Canadian bitumen is discounted when NAFTA certification is not available. This is particularly a concern as Canadian bitumen accesses the more competitive PADD 2 market.

This presentation will discuss the background to this issue, the current state of the NAFTA rules, and some of the options that may be available to the industry either through new initiatives with US Customs or, through opportunities that are available as a result of the Track 3 changes that have recently occurred within the NAFTA agreement.

Don Murray is President of Advantage Insight Group Inc., a Calgary based consulting firm. His current activities include serving as technical advisor to the NAFTA Compliance Committee of the Canadian Association of Petroleum Producers (CAPP) and as advisor to the Canadian petroleum industry's Equalization Steering Committee. As a professional hobby he also does Facilities Management Training and acts as an advisor on Process Plant Start-ups.

Don, past experience has included participation in a number of heavy oil and refining initiatives. During his 35 year career he has been held facilities and Executive Management positions, and has participated in prefeasibility studies, project engineering, plant start-up and operations, marketing, and business analysis for hydrocarbon processing facilities. Don holds a BAsC in Chemical Engineering from the University of Waterloo. He is a professional member of APEGGA and a member of the American Chemical Society.