POLICY BRIEF - SIMPLIFIED ANALYSIS OF THE PETROLEUM AGREEMENT AMONG THE REPUBLIC OF GHANA, GHANA NATIONAL PETROLEUM CORPORATION (GNPC), A-Z PETROLEUM PRODUCTS GHANA LIMITED AND ECO ATLANTIC OIL AND GAS GHANA LIMITED IN RESPECT OF THE DEEPWATER CAPE THREE POINT WEST OFFSHORE BLOCK

Introduction

For a country to benefit from its petroleum wealth, its government must take decisions that will ensure that an appropriate share is received from petroleum production. The government's challenge then is to ensure that exploration and production are carried out in an efficient manner through a robust petroleum contract. The provisions of a petroleum contract such as fiscal terms, local content, amongst others are therefore of absolute relevance as they define government's take and citizens' benefits.

It is quite interesting that most citizens of Ghana, as primary owners of the country's petroleum resource, are not privy to the terms of petroleum contracts signed with oil companies. Petroleum contracts, even if accessible, are quite technical and complex to understand. Yet, if governments will succeed in managing such a resource for current and future generations, citizen participation is crucial. This simplified analysis is therefore intended to equip Ghanaians with relevant information on the petroleum contracts entered into on their behalf; to deepen public oversight and accountability. The analysis examines the terms and provisions in the petroleum contract signed in 2014 with A-Z Petroleum Products Ghana Limited and Eco Atlantic Oil and Gas Ghana Limited (Contractor Parties/Contractor); taking into consideration the contract area, fiscal provisions, local content and participation, and other important provisions. With a comparison of other contracts from previous years, the analysis will address the changes in the provisions, the implications and possible reasons for the changes.

A. Contract area

The contract area is the Deepwater Cape Three Point West Offshore Block covering a total area of approximately 944 square kilometres (km^2). It is adjacent to the Jubilee Oil Field which is producing a little over 100,000 barrels of oil per day. The contract area has water depth between 800m and 2,000m and shares a northern boundary with Eni S.p.A.'s block, a western boundary with Hess Corporation's block, and southern boundary with Lukoil's block, all of whom have had recent discoveries.

B. Fiscal Provisions

Fiscal provisions define the proportionate share of production that goes to government which in turn is the source of government's revenue for national development. The fiscal provisions hinge mainly on the participating and carried interests, royalties and corporate taxes. Petroleum tax is a key instrument by which a government affects and controls economic decisions for both the country and contracting parties. The fiscal provisions of a petroleum contract thus affect a company's profits and the investment attractiveness of host countries. An outline of the fiscal terms in this contract is shown in the table below:

Table 1: Fiscal Terms

Fiscal Terms	Value (%)
Oil Royalty	12.5
Gas Royalty	12.5
Initial Participating interest	13
Additional Participating Interest	≤20
Corporate Income Tax (CIT)	35

GNPC's initial and additional interests in this contract are improvements from previous contracts over the years. An example of such previous contracts is the petroleum contract between the government of Ghana and Heliconia Energy Ghana Limited in 2005, which gave GNPC only 10% initial interest and additional interest of up to 5%. This contract, on the other hand, gives GNPC 13% and up to 20% initial and additional interests respectively. Royalty rate is also relatively higher compared to previous contracts. Subject to nominal and real global crude oil prices, production capacity and other factors, the fiscal terms of this contract will potentially yield higher government take than previous contracts when commercial production begins.

C. Financing of Development Costs of GNPC's Additional Participation

In the event that GNPC acquires an additional participating interest (of up to 20% as stipulated in this contract), GNPC shall be required to contribute the corresponding proportionate share to all development and productions costs incurred with respect to the additional interest. GNPC is not liable to contribute to any exploration and development operations costs with respect to the additional interest. Once GNPC notifies the Contractor of its decision to acquire an additional interest, GNPC can elect to have the Contractor advance part or all of GNPC's total proportionate share of the development costs. This provision affords GNPC to acquire an additional interest even when it has inadequate funds at the beginning of the contract as it is not required to pay for exploration and development costs associated with the additional interest.

D. Local Content and Participation

The primary objective of local content provision in petroleum contracts is to maximise the benefits of oil resources for citizens through job creation, as well as building local capability in the oil and gas value chain. Under this contract, the contractor is required to pay to GNPC one million two hundred and fifty thousand US Dollars (US$1,250,000) to establish training programmes for Ghanaian personnel for the efficient conduct of petroleum operations. This amount is better compared to other contracts over the years, as well as some contracts signed in 2014 – same year when the contract under review was signed. For instance, in 2014, the contract signed between the government of Ghana and Brittania-U Ghana

Limited required the Brittania-U to pay five hundred thousand US Dollars (US$500,000) for such training programmes.

However, local participation is not encouraging as these two Contractor Parties (Eco Atlantic Ghana Limited and A-Z Petroleum Products Ghana Limited) are wholly owned by foreign companies. Ghanaian authorities must thus review the adherence of Contractor Parties to the provisions of Ghana's Local Content Law to boost employment and income levels within the oil and gas sector.

Other important provisions

- Unlike previous contracts, the premium payable to GNPC in addition to the reimbursement of all expenses incurred in undertaking appraisal is counted as cost of petroleum operations (Article 9.2). This reduces the taxable income of the Contractor thereby reducing tax accruing to government.
- In accordance with Section 16.2 of the Petroleum law – 1984; PNDCL 84, special provisions are made in this contract for natural gas whereby natural gas produced in association with crude oil is the property ofGNPC (See (Article 14). . In addition to this, the Contractor cannot flare or vent natural gas except it is provided for in an approved development plan, during production testing operations, when flaring is required for operational saftey and the safety of persons engaged in petroleum operations, or as otherwise authorised by the Minister of Petroleum (the Minister). However, in future contracts, the option of authorization by the Minister should be reviewed to only when the natural gas is not in commercial quantities. The rationale is that the current discretion granted the Minister of Petroleum can lead to flaring of large volumes of natural gas which could otherwise beused for power generation or other useful economic purposes.
- The contract also makes provision for additional oil entitlement to be paid to the government if the post tax rate of return pursuant to the contract exceeds a targeted level. In the absence of windfall tax in Ghana, this provision is progressive especially in times of crude oil price hikes. This provision must continue for subsequent contracts.

Conclusion

Conclusively, this contract is an improvement on previous contracts over the years, as it addresses some of the loose ends in previous contracts. There are better fiscal provisions that promise to give Ghanaians better remuneration from the oil wealth. The local content provision is an improvement as there is an increased investment to train more Ghanaians to participate in upstream and downstream oil and gas activities. However, local participation is not encouraging. Ghana needs to review local participation in the petroleum sector to make room for more locally owned companies to take part in upstream petroleum activities.