



**IN THE SECOND SESSION OF THE SIXTH PARLIAMENT OF
THE FOURTH REPUBLIC OF GHANA**

REPORT OF THE COMMITTEE ON MINES AND ENERGY

ON THE

**PETROLEUM AGREEMENT BY AND AMONG THE
GOVERNMENT OF THE REPUBLIC OF GHANA, THE GHANA
NATIONAL PETROLEUM CORPORATION (GNPC) AND THE
SAHARA ENERGY FIELDS GHANA LIMITED**

IN RESPECT OF THE

**SHALLOW WATER CAPE THREE POINTS BLOCK
OFFSHORE OF THE REPUBLIC OF GHANA**

JULY, 2014

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PETROLEUM AGREEMENT BY AND AMONG THE GOVERNMENT OF
THE REPUBLIC OF GHANA, THE GHANA NATIONAL PETROLEUM
CORPORATION AND THE SAHARA ENERGY FIELDS GHANA
LIMITED IN RESPECT OF THE SHALLOW WATER CAPE THREE
POINTS BLOCK OFFSHORE OF THE REPUBLIC OF GHANA**

1.0 INTRODUCTION

The Petroleum Agreement by and among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation and the Sahara Energy Fields Ghana Limited in respect of the Shallow Water Cape Three Points Block Offshore of the Republic of Ghana was laid in Parliament on Thursday, 17th July, 2014 by the Hon. Minister of Energy and Petroleum, Mr. Emmanuel Armah-Kofi Buah in accordance with Article 268 of the 1992 Constitution.

The Petroleum Agreement was referred the Select Committee on Mines and Energy for consideration and report pursuant to Orders 156 and 188 of the Standing Orders of Parliament.

2.0 DELIBERATIONS

The Committee met with the Hon. Minister for Energy and Petroleum, Mr. Emmanuel Armah-Kofi Buah and his deputy, Mr. Benjamin Kwaku Dagadu to consider the Agreement. Officials of the Ministry of Energy and Petroleum and the Ghana National Petroleum Corporation (GNPC) were in attendance to assist in the Committee's deliberations.

The Committee is grateful to the Officials for their attendance and for offering clarifications on issues raised at the meeting.

3.0 REFERENCE DOCUMENTS

The Committee referred to the under-listed documents during its deliberations:

- i. The 1992 Constitution of the Republic of Ghana;
- ii. The Standing Orders of Parliament;
- iii. The Ghana National Petroleum Corporation Law, 1983 (PNDCL 64);

- iv. The Petroleum (Exploration and Production) Law, 1984 (PNDCL 84);
- v. The Petroleum Income Tax Law, 1987 (PNDCL 188);
- vi. The Petroleum Commission Act, 2011 (Act, 821);
- vii. The Environmental Protection Agency Act, 1994 (Act 490);
- viii. The Environmental Impact Assessment Regulations, 1999 (L.I. 1652); and
- ix. The Petroleum (Local Content and Local Participation) Regulations, 2013 (L.I. 2204).

4.0 BACKGROUND INFORMATION

The Sahara Energy Fields Ghana Limited (SEGFL) signed a Seismic Agreement with the Ghana National Petroleum Corporation on 3rd December, 2008 to acquire and interpret 1,000 sq. km of 3D Seismic over a portion of the open Shallow Water Cape Three Points (SWCTP) Block. The area covers 1,500 sq. km. the 3D data was acquired by the Geco Emerald of Western Geco between 17th March and 3rd May, 2009. Under the terms of the Seismic Agreement, SEFGL is entitled to a first right of refusal for the award of exploration rights over the SWCTP Block. Having satisfied the obligations of the Agreement, the SEFGL exercised its option right by applying for exploration and production rights over the Block in 2010.

After the approval of the application by the Minister in July, 2012, the Government Negotiation Team thereafter commenced negotiations in September, 2012 and concluded negotiations in July, 2014.

5.0 BACKGROUND INFORMATION OF THE APPLICANT

5.1 Sahara Energy Fields Ghana Limited (SEFGL)

The Sahara Energy Fields Ghana Limited (SEFGL) BVI is owned by the Sahara Group of Nigeria. The Sahara Group of Nigeria was incorporated in 2003 in the British Virgin Islands and has portfolio of assets in the Niger Delta. The SEFGL holds considerable equity in the Group's Nigerian exploration licences ranging from 24% in OPL 286 to 100% in OPL 274 and 228. SEFGL is a partner in four non-operated offshore blocks and also

an operator of two onshore blocks in Nigeria. All the Blocks have prospecting licences.

The SEFGL is an upstream exploration and production arm of the Sahara Group. The core business is to explore and develop oil and gas assets in established and emerging frontiers. It was established in 2003 and began operations in 2004. The Company has interest in the following assets as either an operator or partner:

i.	OPL 274 Western Onshore Niger Delta	-	100%
ii.	OPL 286 in Deep Water Nigeria	-	26%
iii.	OPL 284 in Deep Water Nigeria	-	45%
iv.	Tsekelewu Marginal Field (OML 40)	-	45%

5.2 The Ghana National Petroleum Corporation (GNPC)

The GNPC is a Public Corporation established by the Ghana National Petroleum Corporation Act, 1983 (PNDCL 64). By virtue of the PNDCL 84, the Corporation is authorized to undertake exploration, development and production of petroleum either alone or in association other Exploration and Production Companies.

6.0 SHARE STRUCTURE OF THE PARTIES

The shareholding structure of the parties is as follows:

i.	Sahara	-	85%
ii.	Sapholda	-	5%
iii.	GNPC	-	10%

7.0 THE CONTRACT AREA

The proposed contract area lies within the Offshore Cape Three Points Sub-Basin which is the eastern extension of the Tano-Cote d'Ivoire Basin located in the western part of the offshore sedimentary basin as per the attached Map. The Shallow Water Cape Three points Block has an area of approximately 1,500sq. Km. The water depth within the Block ranges from about 10m to about 110m.

8.0 DURATION OF THE CONTRACT

The Petroleum Agreement will become effective for twenty-five (25) years if commercial discovery is made (Article 23 of the Agreement).

9.0 EXPLORATION PERIODS AND WORK PROGRAMME

The Agreement provides for the Exploration Period of seven (7) years (Article 3 of the Agreement). The subdivision of the exploration period and the accompanying Work Programme and Minimum Expenditure Obligations are as follows:

9.1 Initial Exploration Period (1 Year and 9 months)

During Initial Exploration period, the Contractor has undertaken to conduct geological and geophysical studies on 1,000 sq. km. of 3D Seismic Data and drill one (1) Exploration Well.

The Minimum Expenditure Obligation to be expended by the Contractor to carry out the work in the Initial Exploration period is Thirty-Two Million United States Dollars (US\$32,000,000).

9.2 First Extension Period (1½ years)

During this period the contractor will conduct geological and geophysical studies and drill one (1) Exploration Well. The Contractor will be required to expend on the work the amount of Twenty-Five Million United States Dollars (US\$25,000,000) within this period.

9.3 Second Extension Period (1 ½ years)

Within this period, the Contractor would conduct geological and geophysical studies and also drill one (1) Exploration Well. It will further expend Twenty-Five Million United States Dollars (US\$25,000,000).

9.4 The remaining exploration period may be granted by the Minister for Energy and Petroleum.

10.0 FISCAL TERMS

In the event of commercial discovery of oil in the Contract Area, the following fiscal benefits will accrue to the State under Article 10 of the Agreement.

10.1 Royalties under the Petroleum Agreement

As part of the fiscal terms, the State stands to benefit from royalties in the form of oil and gas if commercial discovery is made (Article 10 of the Petroleum Agreement). The details of the royalties are provided in the Table 1.

Table 1: Royalties under the Agreement

Entitlement	Percentage
Royalty – Oil (Shallow Water)	12.5%
Royalty - Oil (Domestic Gas):	5%
Royalty – Export Gas	7.5%

10.2 Additional Oil Entitlements

In the event of commercial oil discovery, the State will receive Additional Oil Entitlements upon the attainment of agreed Rates of Return under Article 10.2 of the Agreement as shown in Table 2 as follows:

The State will receive Additional Oil Entitlement upon the attainment of agreed rates of return as follows:

Table 2: Additional Oil Entitlements under the Agreement

Rate of Return	Additional Oil Entitlement
<12.5%	0%
≥ 12.5% ≤ 17.5%	8%
≥ 17.5% ≤ 22.5%	12%
≥ 22.5% ≤ 27.5%	15%
≥ 27.5% ≤ 32.5	22.5%
≥ 32.5	30%

10.3 Surface Rentals

The Contractor shall also pay to the State surface rent in respect of the Contract as shown in Table 3.

Table 3: Annual Surface Rentals under the Agreement

Exploration/Development Phase	Surface Rentals per annum
Initial Exploration Period	US\$50/sq. km
First Extension Period	US\$75/sq. km
Second Extension Period	US\$100/sq. km
Development and Production Period	US\$200/sq. km

11.0 RELINQUISHMENT

The Contractor will be required to relinquish 25% of the original Contract Area at the end of the Initial Exploration Period and a further 25% of the Contract Area at the end of the First Extension Period. At the commencement of the Second Extension Period, the Contractor shall be required to surrender the remaining contract area if after the end of the period, no oil discovery is made.

12.0 DECOMMISSIONING AND ENVIRONMENTAL MANAGEMENT FUND

Provision is made in the Petroleum Agreement for the establishment of a Decommissioning and Environmental Management Fund to be managed jointly by the Contractor and the GNPC. A portion of the revenues from the production from the field will be set aside to build up fund to be used in financing the decommissioning plan and any environmental accidents that may occur in the course of petroleum operations.

For further security, in the event that the fund accrued in the decommissioning and Environmental Management Fund is not adequate to cover the cost of decommissioning or any environmental incident that may occur, the Contractor is required to take an insurance cover to cater for any shortfall in the Decommissioning Fund.

13.0 PERFORMANCE BOND/GUARANTEE

For the purpose of demonstrating its financial capability, the Contractor has agreed to furnish the GNPC a Performance Bond/Guarantee from an entity with an Investment Grade credit rating acceptable to the GNPC. The credit rating should be drawn from a globally accredited entity (such as the Moody's Standard & Poor's (S&P)), or Fitch. The Guarantee shall have a value of Twenty-Five Million United States Dollars (US\$25,000,000) to secure the fulfillment of the Minimum Expenditure Obligation for the Initial Exploration Period.

14.0 TRAINING AND TECHNICAL SUPPORT

The Contractor has agreed to pay to the GNPC the amount of Five Hundred Thousand United States Dollars (\$500,000.00) to be paid by the end of each contract year as training support. Additionally, a one-time technology support of One Million United States Dollars (\$1,000,000.00) is to be provided while a further Two Million United States Dollars (US\$2,000,000) is to be paid upon notice of commercial discovery of oil.

15.0 OBSERVATIONS

The Committee made the following observations during consideration of the Draft Agreement:

15.1 Improved Fiscal Regime

The Committee noted that the Petroleum Agreement provides improved benefits to the State compared to earlier Petroleum Agreements. For instance, whilst the COLA Block which is in the same basin and has similar features provided for royalty oil of 10% that of Sahara offers 12.5% of royalty oil. Further comparison is shown in Table 4 below:

Comparison of the Economic Terms between Cola & Sahara

Entitlement	Percentage	Sahara
Royalty –	10.00%	12.5%
Royalty - (Export Gas)	-	7.5%
Royalty – (Domestic Gas)	-	5%
Initial GNPC Participation	10%	10%
Additional Participation	17.5%	15%
Income Tax	35	35%

Additional Oil Entitlement

Rate of Return Thresholds	Percentage	Sahara
12.5% - 17.5%	12.5%	8%
17.5% - 22.5%	15%	12
22.5% - 27.5	17.5%	15%
22.5% - 50.0%	-	-
27.5% - 32.5%	22.5%	22%
>32.5%	27.5%	30%

15.2 Provisions Regarding Pre-Award Attachments

The Committee noted that the Petroleum Agreement makes provision for the prohibition attachment of assets of the State in the event of dispute prior to the final arbitral award. Pre-award attachment is a relief that is sought by a party to a dispute against the assets of the other party before the final determination of substantive issues in arbitration. The purpose of the injunctive remedy is to enable the applicant secure the enforcement if given in that party's favour. The inclusion of this clause in the Petroleum Agreement will prevent the assets of the State and the GNPC both local

and foreign, being attached and thus free the country of the cost involved in getting such attachments set aside.

15.4 Ring fencing of Petroleum costs

It was also noted that, the Petroleum Agreement makes provision that prohibits the Contractor from allocating petroleum costs incurred in one contract area to another which is not the case under existing Agreements. Thus, such a provision would prevent the contractor operating in more than one contract area from allocating petroleum costs from unsuccessful blocks to successful ones thereby reducing the State's return in successful areas. This will ensure that the risk of further exploration borne by the Contractor and not the State. The Committee deemed this provision very important given the interest in Ghana's basins from oil companies especially in cases where existing companies have applied for additional blocks.

15.5 Assignment of Interest

The Committee noted that the Agreement provides that the Contractor shall not assign its interest in the Block either directly or indirectly without prior written consent of the GNPC and the Minister for Energy and Petroleum (Article 25 of the Agreement). The Agreement however makes provision for the Contractor to assign its interest in the Block to its wholly owned Affiliate Company by given notice to the GNPC and the Minister. The State is empowered by the Agreement to impose reasonable conditions when giving the consent as may be appropriate under the circumstances. This will go a long way to secure the full benefit of the State in the event of assignment to third parties.

16.0 CONCLUSION

Having diligently scrutinized the Referral, the Committee is satisfied that the terms of the Petroleum Agreement are in conformity the Provision of the 1992 Constitutions, the Ghana National Petroleum Corporation Law, 1983 (PNDCL 84) and other relevant laws relating to petroleum exploration and production in force in the country. The Committee is also of the view that the terms of the Agreement will inure to the interest of the State.

The Committee therefore recommends to the House to adopt this Report and ratify the Petroleum Agreement by and among the Government of the

Republic of Ghana, the Ghana National Corporation and the Sahara Energy Fields Ghana Limited in respect of the Shallow Water Cape Three Points Block Offshore of the Republic of Ghana.

Respectfully submitted.



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HON. KWABENA DONKOR (DR.)
CHAIRMAN, COMMITTEE
ON MINES & ENERGY



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PEACE FLAWOYIFE (MS.)
CLERK TO THE COMMITTEE

18th JULY, 2014

**ANNEX 1-
CONTRACT AREA**



