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

REPORT OF THE SELECT COMMITTEE ON MINES AND ENERGY

ON THE

THE PETROLEUM AGREEMENT BY AMONG THE GOVERNMENT OF THE REPUBLIC OF GHANA, THE GHANA NATIONAL PETROLEUM CORPORATION (GNPC), THE SWISS AFRICAN OIL COMPANY LIMITED AND PET VOLTA INVESTMENTS LIMITED IN RESPECT OF ONSHORE/OFFSHORE KETA DELTA BLOCK

MARCH, 2016

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), THE SWISS AFRICAN OIL COMPANY LIMITED AND PET VOLTA INVESTMENTS LIMITED IN RESPECT OF ONSHORE/OFFSHORE KETA DELTA BLOCK

1.0 INTRODUCTION

The Petroleum Agreement by and among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC), the Swiss African Oil Company Limited and Pet Volta Investments Limited for the Conduct of the Petroleum Operations was laid in Parliament on Tuesday, 1st March, 2016 by the Hon. Minister for Petroleum, Hon. Emmanuel Armah-Kofi Buah in accordance with Article 268 of the 1992 Constitution.

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

2.0 DELIBERATIONS

The Committee met with the Hon. Minister for Petroleum, Mr. Emmanuel Armah-Kofi Buah and his deputy, Hon. Ben Dagadu and Officials of the Ministry to discuss the Petroleum Agreement. In attendance were Officials of the Petroleum Commission, the GNPC and Representatives of the Standing Government Negotiating Team.

The Committee expresses its gratitude to the Hon. Minister and his Deputy and the Officials for their attendance and for assisting in the deliberations.

3.0 REFERENCE DOCUMENTS

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

i. The 1992 Constitution;

ii. The Standing Orders of Parliament;

iii. The Petroleum Commission Act, 2015 (Act 821);

iv. The Income Tax Act, 2015 (Act 896);

v. The Ghana National Petroleum Corporation Act, 1983 (PNDCL 64);

vi. The Petroleum (Exploration & Production) Act, 1984 (PNDCL 84);

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, 2012 (L.I. 2204).

4.0 BACKGROUND

4.1 The onshore exploration of the Keta Basin has not seen much exploration activities since the late 1960s when a string of five wildcat wells were drilled by Volta Petroleum, Union Carbide and other operators. These operations revealed oil shows in the Keta-1 well drilled offshore and gas shows in the onshore Dzata-1 well.

4.2 For this reason, the onshore and transitional area in the Basin has been open to applications for several decades and interested companies have visited GNPC Data Room to review geological and geophysical data over the area. Amongst the companies that have recently visited the Data Room to review G&G data is the Swiss African Oil Company Limited (SWAOCO) which did so between 2011 and 2012.

4.3 Following the review, the Swiss African Oil Company Limited submitted an application for exploration and production rights over the area covering about 3,000 sq. km in July, 2012. The application was subsequently evaluated by GNPC and Petroleum Commission.

4.4 After the evaluation of the application in 2013, SWAOCO was found to have met the minimum criteria by providing relevant documentation and accordingly the application was submitted to the Minister for Petroleum.

4.5 This was followed by a further evaluation of supplementary documents submitted by the applicants in February and May, 2015 by the Block Application Evaluation Committee. The outcome of the process was again submitted to the Minister for consideration.

4.6 The application was thereafter forwarded to the Government Negotiation Team to negotiate the terms of the Petroleum Agreement. The outcome of the negotiation culminated execution of the Petroleum Agreement between the Government of Ghana and the Contractor.

It therefore became imperative to lay the Petroleum Agreement in Parliament for its ratification in accordance with Article 268 of the Constitution.

5.0 PARTIES TO THE AGREEMENT

The parties to the Agreement are the Swiss African Oil Company Limited, the Pet Volta Investments Limited and the Ghana National Petroleum Corporation.

5.1 Swiss African Oil Company Limited

The Swiss African Oil Company Limited (SWAOCO) was incorporated in Ghana on 17th May, 2010 as an upstream exploration and production company. The registered office of the Company is located at the Regimanuel Estate Platinum, Asafena Crescent Number 10, KADTA 5325, Accra.

Its parent company, Swiss African Petroleum Company A.G (SWAPCO) is incorporated under the laws of Switzerland.

5.2 Pet Volta Investments Limited

The Pet Volta Investments Limited (PVIL) is an indigenous company incorporated in Ghana on 3rd April, 2012 and has its registered office at Manet Court H11, Spintex, P. O. Box 17162 Accra.

5.3 Ghana National Petroleum Corporation (GNPC)

The Ghana National Petroleum Corporation (GNPC) is a public Corporation established by the Ghana National Petroleum Corporation Act, 1983 (PNDCL 64). Per the objects of the Corporation, GNPC has the right to undertake exploration, development and production of petroleum over all Blocks declared for petroleum operation. The Corporation is further authorized by the Law to enter into associations by means of Petroleum Agreements with Contractors for the purpose of exploration, development and production of petroleum.

6.0 INTEREST STRUCTURE

6.1 The parties have agreed that interest in the Block be held as follows:

i)	SWAOCO	-	85%
ii)	Pet Volta	-	5%
iii)	GNPC (carried interest)	-	10%

6.2 Apart from the above, the GNPC would be entitled to acquire additional interest of ten percent (10%) in the Block in the event of commercial discovery.

7.0 THE CONTRACT AREA

The proposed Contract Area is approximately 3,000 sq. km and lies in water depth ranging between Om and 50m. It is located within the Keta Basin and covers the southern-most part of the Volta Delta and transitions into offshore. The Area is located north of the Keta Block previously licensed to Eni/Afren.

8.0 KEY PROVISIONS OF THE PETROLEUM AGREEMENT

Some of the key provisions in the Agreement are:

8.1 Duration of the Agreement

The Petroleum Agreement would be effective for a total of 25 years including the exploration period of six and half (6½) years. However, the Agreement expires after the exploration period if no commercial discovery is made.

8.2 Exploration Period

The exploration period is six and half (6½) years and is divided into three phases as follows:

i. Initial Exploration Period

The initial exploration period has been agreed to cover two (2) years. During the period, the Contractor commits to acquire, process, interpret 1,100 sq. km of 2D Seismic Data and drill one (1) exploration well.

The Contractor has also undertaken to expend at least Forty Million United States Dollars (US$40,000,000.00) for the conduct of the minimum work obligations.

ii. First Extension Period

The first extension period would cover two (2) years within which the Contractor shall acquire, process, interpret 150 sq. km of 3D Seismic Data and drill one (1) exploration well.

The Contractor's minimum expenditure obligation is Forty Million United States Dollars (US$40,000,000.00).

iii. Second Extension Period

During the Second Extension Period which covers one and half (1½) years, the Contractor shall conduct geological and geophysical studies and drill one (1) exploration well.

The Contractor's Minimum Expenditure obligation for the work is Twenty Million United States Dollars (US$20,000,000.00).

8.3 Relinquishment

Per the terms of the Agreement, the Contractor has undertaken to relinquish thirty percent (30%) of the Contract Area at the end of the Initial Exploration Period. At the end of the first extension period, the Contractor shall further relinquish thirty per cent (30%) of the original Contract Area. At the end of the Second Extension Period, the Contractor will be required to relinquish the remaining contract area except development and production areas.

8.4 Decommissioning and Environmental Management Fund

The Petroleum Agreement provides for the establishment of a Decommissioning and Environmental Management Fund which will be managed by the Contractor and GNPC. Part of revenues derived from oil and gas production from the field will be set aside to build up the Fund. The purpose of the Fund is to facilitate the implementation of the Decommissioning Plan and to provide funds to address environmental accidents that may occur during petroleum operations. The Contractor will further provide an insurance cover to cater for any shortfall in the Fund.

9.0 FISCAL PROVISIONS

9.1 The Petroleum Agreement contains fiscal provisions which include royalties (13%), corporate income tax (35%), additional oil entitlements and interest in the block through the participation of the GNPC. The details are as shown in the following Tables:

Table 1: Details of Fiscal Elements

Item	Agreed Terms	
	Onshore	Offshore
Royalty Oil	13%	12.5%
Royalty Gas (Domestic)	6%	6%
Royalty Gas (Export)	7.5%	7.5%
Initial GNPC Participation	12%	12%
Additional Participation	10%	10%
Additional Interest (Farm out)	15%	15%
Income Tax	35%	35%

9.2 Additional Oil Entitlements

Table 2: Details of Additional Oil Entitlements in the Agreement

Rate of Return	Entitlements
<12.5%	NIL
≥12.5% ≤17.5%	10%
≥17.5%≤22.5%	12.5%
≥22.5%≤27.5%	20.0%
≥27.5%≤32.5%	25.0%
≥32.5	27.5%

9.3 Surface Rentals

Table 3: Details of Surface Rentals

Period		Rent Payable Per Annum
Initial Exploration Period	(0 – 3 years)	US$50/sq. km
First Extension Period	(3 – 4.5 years)	US$100/sq. km
Second Extension Period	(4.5- 6 years)	US$100/sq. km
Development and Production Period	(Beyond 6 years)	US$200/sq. km

10.0 OBSERVATIONS

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

10.1 Competitive Fiscal Package

The Committee noted that the fiscal package achieved under the Petroleum Agreement is compares favourably with those obtained in respect of existing Agreements where recent discoveries have been made. Table 4 compares the fiscal elements in the Agreement under consideration with those under the Blue Star and Eni Blocks.

Table 1: Comparison of Fiscal Terms

Item	SWAOCO		Blue Star – Heritage Keta	Eni-Keta
	Onshore	Offshore		
Royalty Oil	13%	12.5%	10%	10.0%
Royalty Gas (Domestic)	6%	6%	6%	5%
Royalty Gas (Export)	7.5%	7.5%	NIL	NIL
GNPC Carried Interest	12%	12%	11%	10%
Additional Interest	10%	10%	9%	15%
Additional Interest (F/O)	15%	15%	11.6%	NIL
Income Tax	35%	35%	35%	35%

10.2 Capabilities of the Contractor

Regarding the capabilities of the Contractor, the Committee found that SWAOCO has assembled strong technical team with vast experience in oil and gas exploration and production. The company's technical team is led by experts who have several decades of operating experience by working for companies such as Tullow, Exxon Mobil, Amoco, Noble Energy, Marathon, Anadarko, BHP Billiton, Philips Petroleum, Occidental and Amahan Energy Development. The Management Team has had work experiences with credible institutions such as World Bank, Texas A&M University, Petroleum Corporation of Jamaica, and Geo Praka (Schlumberger). The Contractor has also through a Technical Services Agreement brought on board AGR Group, a company with a strong track record in oil and gas exploration and production as its technical partner. In view of the above technical background, the Committee believes that the Contractor is capable of performing its obligations under the Agreement.

10.3 GNPC's Obligations under the Agreement

The Committee again noted that the Contractor has agreed to fund the entire cost of petroleum operations until the commencement of production. However, GNPC will be required to pay for its 10% Additional Participating Interest or pay 15% Additional Participating Interest when the Contractor farms out after a commercial discovery is made. Such payments will cover GNPC's proportionate share of Development and Production costs excluding Exploration Costs.

10.4 Training and Technical Support

The Committee further noted that upon the ratification of the Petroleum Agreement, the Contractor has agreed to pay the amount of One Million United States Dollars (US$1,000,000.00) to GNPC as a training allowance of for each contract year. A one-time payment of One Million Five Hundred Thousand United States Dollars (US$1,500,000) will further be paid to the Corporation within Thirty (30) days of the coming into effect of the Petroleum Agreement. On the issue of the basis for maintaining the GNPC as recipient of the training and technology support under this Agreement, the Committee was informed that negotiations for the Agreement was concluded before the ministerial directive to make the Petroleum Commission the recipient of such training and technology support.

10.4 New Features of the Petroleum Agreement

The Committee observed that the Petroleum Agreement maintains the new provisions introduced in the recent petroleum agreements to ensure that Ghana optimizes the benefits derived from oil and gas and to strengthen the monitoring of petroleum operations. They include stabilization clauses, provisions against pre-award attachments, approval of work programmes and budgets by the Joint Management Committees (JMC) and ring fencing of petroleum costs.

10.5 Performance Guarantee

The Committee noted that provisions have been made in the Agreement to ensure the performance of the obligations of the contractor through the posting of a performance bond. The Agreement mandates the Contractor to furnish the GNPC with a Performance Bond or Guarantee from an entity with an acceptable investment grade credit rating. The Bond shall have the value of Forty Million United States Dollars (US$40,000,000.00) to cover the Minimum Expenditure Obligation for the initial exploration period.

10.6 Concerns regarding consideration of new Petroleum Agreements

During the Committee's deliberations, some Members were of the view that the Petroleum (Exploration and Production) Bill, 2014 should have been passed into law before any other petroleum agreement could be considered. The Hon. Minister however explained that the Petroleum Agreements under consideration have improved terms as compared to existing Agreements.

11.0 CONCLUSION AND RECOMMENDATION

In the event of commercial discovery, the different fiscal elements would provide the State approximately 71% - 80% of the net oil depending on profitability. Besides, a significant oil discovery in the area will support the generation of employment and economic growth and further stimulate exploration activities within the Keta Basin which is currently minimal.

In this regard, the Committee recommends to the House to adopt its Report and to ratify the Petroleum Agreement by and among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC), the Swiss African Oil Company Limited and Pet Volta Investments Limited for the Conduct of the Petroleum Operations in accordance with Article 268 of the Constitution.

Respectfully submitted.

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HON. AMADU BUKARI SOROGHO
CHAIRMAN, SELECT COMMITTEE
ON MINES AND ENERGY

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PEACE FIAWOYIFE (MS.)
CLERK TO THE COMMITTEE

MARCH, 2016