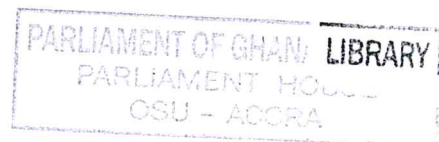


**IN THE FIRST SESSION OF THE SEVENTH PARLIAMENT  
OF THE FOURTH REPUBLIC OF GHANA**

**REPORT OF THE  
FINANCE COMMITTEE**

**ON THE**



**THE 2015 ANNUAL REPORT OF THE PUBLIC INTEREST  
AND ACCOUNTABILITY COMMITTEE (PIAC) ON THE  
MANAGEMENT OF PETROLEUM REVENUES**

*21<sup>st</sup> JULY, 2017*



## **1.0 INTRODUCTION**

The 2015 Annual Report of the Public Interest and Accountability Committee (PIAC) on the Management of Petroleum Revenues was presented to Parliament on 30<sup>th</sup> May, 2017 in accordance with the Petroleum Management (Act 815) and the Standing Orders of the House and was referred to the Finance Committee for consideration and report.

The Committee met with the members of PIAC, the technical team from the Public Interest and Accountability Committee (PIAC), Ghana Revenue Authority (GRA), Bank of Ghana (BoG), Ghana National Petroleum Company (GNPC), Ghana National Gas Company (GNGC) and the Ministry of Finance (MoF) to consider the Referral.

## **2.0 REFERENCE**

The Committee referred to the following documents:

1. The 1992 Constitution of Ghana
2. Petroleum Revenue Management Act, 2011 (Act 815)
3. Standing Orders of Parliament

## **3.0 BACKGROUND**

As part of its mandate, PIAC is required to prepare and publish two reports – semi and annual reports – each year, detailing how much petroleum revenue has been collected during the period under review and how the amount so collected has been utilized. The report is also expected to capture the performance of the Ghana Petroleum Funds (GPFs) and the feedback received from the citizenry during the PIAC public consultations.

In accordance with its mandate, the PIAC has prepared the Annual Report on the management of petroleum revenues for the year 2015.

The 2015 Annual Report is the fifth Report of the Committee. The Report examines cumulatively the distribution and utilization of the petroleum revenues while stressing the point that the revenue could have been more focused in its spread over projects.

## **4.0 OBJECT OF THE REPORT**

The object of the Report is to inform the House and the general public on the management of the petroleum revenues for the year 2015.

## **5.0 OBSERVATIONS**

### **5.1 Oil and Gas Production**

The Report revealed that the total number of barrels of crude oil produced from the **Jubilee field** in 2015 was 37,411,661. Production from the **Saltpond Field** amounted to 41,113 barrels. Total associated gas produced from the Jubilee field was 52,546 MMscf.

### **5.2 Lifting and Marketing**

The Ghana Group lifted 5,730,090 barrels of crude oil from the Jubilee Field in 2015, which represented 15.42% of total production for the period under review.

Total liftings from the Saltpond Field dropped by 71% from 88,201 barrels in 2014 to 25,453 in the first half of 2015, leaving a stock balance of 17,813 barrels of oil.

### **5.3 Petroleum Receipts**

The total petroleum receipts for 2015 amounted to US\$396.17 million (GH¢ 1,449.92 million). This amount was approximately 46% lower than projected revenue (as revised) and approximately 60% lower than revenues that accrued in 2014.

### **5.4 Allocation and Utilisation Of Petroleum Receipts**

A total of US\$387.83 million (representing approximately 98% of total petroleum receipts) was allocated during the reporting period leaving an undistributed balance of US\$8.35 million in the Petroleum Holding Fund as at December 2015. Approximately 33% of the total receipts was given to GNPC in respect of its equity financing cost and net of Carried and Participating Interest.

An amount of US\$239.30 million (representing 61.7% of the net amount of US\$260.97 received by the GoG) in addition to the US\$53.69 million withdrawn from the GSF during the first half of 2015 to shore up shortfall in ABFA, was allocated to the ABFA in 2015, bringing to US\$292.98 million (GH¢ 1,086.28 million) total funds allocated to the ABFA account in 2015 and to US\$1,428.76 million the cumulative allocation to ABFA from 2011-2015.

An amount of US\$21.67 million, representing 9% of net receipt by GoG and 5.59% of total petroleum revenues in 2015, was transferred to the Ghana Petroleum Funds of which Ghana Stabilisation Fund received US\$15.17 million and GH\$6.5 million going to Ghana Heritage Fund.



## 5.5 Indebtedness of Volta River Authority (VRA) to GNGC

The Report revealed that outstanding receivables as at the end of 2015 were US\$234.25 million, with VRA responsible for 97% of debt owed GNGC.

GNGC informed the Committee that they were taking steps to recover the debt. Currently, the Ministry of Energy has entered into a cash waterfall agreement which is to ensure that 85% of gas supplied now is paid. They were hopeful that the matter would be resolved. Where it is not resolved, the Company would resort to other options of either going to court or cutting off supplies to VRA.

## 5.6 Saltpond Production

PIAC informed the Committee that oil production in Saltpond was no longer economical and therefore it had been closed down. Total liftings from the Saltpond field also dropped significantly. The annual production from Saltpond field is currently less than daily production from the Jubilee field.

GNPC confirmed the shut down and indicated that the site is awaiting decommissioning as well as Government's advise on what to do with it.

## 5.7 Hedging of Price as a Policy

PIAC informed the Committee that during the year the various companies sold crude oil at the following average prices in Table 1 below:

Table 1 – Prices per barrel

	Company	US\$ per barrel
1	Tullow	67
2	Anardarko	44.42
3	GNPC	52.36
4	KOSMOS	52.32
5	SOPCL	50.87

From the above, the price per barrel for the Ghana Group and SOPCL compare favourably with those realized by Kosmos and Anadarko. Tullow Ghana Limited however recorded higher annual average price of US\$67 per barrel during the period under review due to its hedging policy.

GNPC explained that prices of crude oil are determined by both the market and time factors. In January, 2015, the price for crude oil was high. But in February of the same year, prices declined. Tullow's high price recorded was because it sold most of stocks in January, 2015 when prices were high.

PIAC also expressed the view that the hedging policy of Tullow contributed to the high prices that it recorded. It therefore recommended that in order to help mitigate the impacts of the volatility of crude oil prices on the world market, the government should consider resuming its hedging programme on crude oil exports.

### **5.8 Royalties**

Total royalties received in respect of the Jubilee Field production in 2015 was US\$104.21 million compared to US\$192.66 million received in 2014, representing a year-to-year decline of 45.9%.

PIAC opined that it was time to relook at the royalties' policies in the country as some countries earn more.

### **5.9 Decline in Liftings by the Ghana Group**

The Report revealed that the liftings by the Ghana Group declined in 2015. The Group lifted 5.73 million barrels of crude oil from the Jubilee Field, which represents 15.42% of total production for the period under review instead of 18.64% it is entitled.

GNPC explained that there was no shortfall as the Ghana group had lifted more barrels in 2014 than it should normally have. In 2014, Ghana Group lifted 21% of total liftings instead of its entitlement of 18.64%. The 2015 liftings declined in order to balance for the earlier increase.

### **5.10 Allocation of the Petroleum funds**

In line with the provisions of Act 893, a total amount of US\$369.17 million was received by the Government of Ghana in 2015 from the Petroleum Sector and distributed to GNPC, the ABFA and the GPFs as shown in Table 2 below:

Table 2 – Allocation of the Petroleum Funds

Item	Amount (US\$)	%
<b>Transfer to GNPC</b>	<b>126,858,754</b>	<b>32.71</b>
<i>o/w Equity Financing cost</i>	65,913,926	
<i>o/w Net Carried and Participating Interest</i>	60,944,827	
<b>GOG Net Receipts for Distribution to ABFA and GPFs</b>	<b>250,958,315</b>	
<i>o/w ABFA</i>	239,295,371	<b>61.70</b>
<i>o/w Ghana Infrastructure Investment Fund</i>	41,876,690	
<i>o/w Ghana Petroleum Funds (GPFs)</i>	21,672,946	<b>5.59</b>
<i>o/w Ghana Stabilisation Fund</i>	15,171,062	
<i>o/w Ghana Heritage Fund</i>	6,501,884	
<b>TOTAL PAYMENTS</b>	<b>387,827,070</b>	<b>100</b>

Table 2 above indicates that GNPC received US\$126.86 million (GH¢463.37 million) out of the total 2015 petroleum receipts, of which US\$65.91 million (GH¢240.07 million) was in respect of its equity financing costs while US\$60.94 million (GH¢223.27 million) was for its share of the net CAPI.

The net amount received by GoG for further distribution in 2015 therefore was US\$260.97 million compared to the 2014 allocation of US\$797.31 million (GH¢2,338.65 million) of which the ABFA received US\$239.30 million (GH¢879.54 million) while the GPFs received US\$21.67 (GH¢ 86.27 million). Approximately 30% (US\$6.5 million) of the transfers to the GPFs went to the GHF while the remaining 70% (US\$15.17 million) went to the GSF.

#### 5.11 Returns on the Ghana Heritage Fund (GHF)

The Committee was informed that the total interest accruing on the GHF is 8.3% a year. BoG explained that the Petroleum Management Act, Act 815 clearly defined the investment instruments for investing the Fund. Some investments have higher returns with its attendant high risks whilst others have low returns with very low risks. The prescribed instruments are however low yielding as they have low returns in order to protect the funds. The Bank called for a basket of instrument options if the Fund is to attract more returns.



### **5.12 Financial assistance to non-core activities**

The Committee noted that contrary to its core mandate, GNPC extended financial assistance to Bulk Oil Storage and Transportation (BOST) Company as well as Tema Oil Refinery (TOR). It also supported the national team, the Black Stars.

It was explained that those assistance were more of a loan to Government as well as strategic support. In respect of BOST, Government realised that the reserve stocks at BOST were running very low and as such there was the urgent need to safeguard it. GNPC was called to assist in this direction. With regard to TOR, the assistance was to enable it buy oil, operate and pay back. However, at the time TOR sold its stocks, prices had dropped significantly, leading to the recorded losses. With regards to the western corridor roads, GNPC indicated that the support was also strategic as without these roads, they would not be able to evacuate the gas from Atuabo. It however stressed that the support was also a loan which would be recovered from Government.

GNPC stressed that the facilities were loans to be paid back by Government and could have been included in the legacy debt with the hope of having them settled.

### **5.13 Support to Black Stars**

In responding to the reason for supporting the national team, GNPC explained that it was mainly to attract investors. Other options available were to advertise on the international media like CNN or BBC. The Black stars option was identified as a cheaper platform compared to the others, particularly after their successful world cup campaign.

## **6.0 RECOMMENDATIONS**

After careful observations, the Committee makes the following observations:

### **6.1 Indebtedness of VRA**

The Committee was not pleased with GNGC's efforts to retrieve its debts as it is likely to adversely affect the operations of GNGC within the nearest future. The Committee therefore recommends that GNGC should take appropriate measures to collect its outstanding debt.



## 6.2 Returns on the GHF

The low interest rate accruing on the Heritage Fund was of great concern to the Committee. The Committee was concerned with the low returns on the Ghana Heritage Fund in that at the current pace of GH¢8.7 million per annum, not much would be yielded over time.

The Committee therefore recommends to the House to urge the Minister of Finance to amend the Law to enable the Bank of Ghana have a mix of appropriate instruments to invest these funds.

## 6.3 GNPC supporting activities not core to their mandate

In respect of GNPC supporting activities outside its mandate, the Committee holds the view that GNPC should stick to its core mandate. It therefore recommends that GNPC should stay away from all activities that do not come under its core functions.

## 6.4 Loans by GNPC to Government

With regards to loans that GNPC has advanced to Government, the Committee agrees with the recommendation by PIAC that GNPC should recover all the loans.

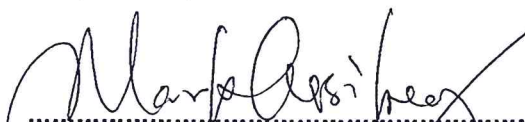
In view of the strategic functions of GNPC and its attendant cash requirements, the Committee further recommends that GNPC should desist from advancing support to Government especially where funds have been provided for adequately.


## 7.0 CONCLUSION

The Committee has carefully considered the Report and is of the view that the Report satisfies the requirements of Act 815. It also urges the various Oil and Gas Agencies and Stakeholders to implement the valuable recommendations in the 2015 PIAC Report as required by Law.

The Committee accordingly recommends to the House to adopt this report and adopt the Annual Report on the Management of Petroleum Revenues by the Public Interest and Accountability Committee (PIAC) for the year 2015.

Respectfully Submitted.

  
.....  
**HON. MARK ASSIBEY YEBOAH (DR)**  
**(CHAIRMAN TO THE COMMITTEE)**

  
.....  
**EVELYN BREFO-BOATENG (MS)**  
**(CLERK TO THE COMMITTEE)**

