

**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 AMONG THE GOVERNMENT OF
THE REPUBLIC OF GHANA, THE GHANA NATIONAL
PETROLEUM CORPORATION (GNPC), CAMAC ENERGY
GHANA LIMITED, BASE ENERGY GHANA LIMITED, AND
GNPC EXPLORATION AND PRODUCTION COMPANY LIMITED**

IN RESPECT OF THE

**EXPANDED SHALLOW WATER TANO BLOCK OFFSHORE OF
THE REPUBLIC OF GHANA**

MARCH, 2014

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1.0 INTRODUCTION

The Petroleum Agreement among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC), Camac Energy Ghana Limited, Base Energy Ghana Limited and GNPC Exploration and Production Company Limited in respect of the Expanded Shallow Water Tano Block Offshore of the Republic of Ghana was laid in Parliament on Thursday, 27th February, 2014 by the Hon. Minister of Energy and Petroleum, Mr. Emmanuel Armah-Kofi Buah in accordance with Article 268 of the 1992 Constitution.

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

2.0 DELIBERATIONS

The Committee met with the Hon. Deputy Minister for Energy and Petroleum, Mr. Benjamin Kwaku Dagadu to consider the Agreement. Officials of the Ministry of Energy and Petroleum, the Ghana National Petroleum Corporation (GNPC) and the Petroleum Commission were also in attendance to assist in the deliberations.

The Committee is grateful to the Hon. Deputy Minister and the Officials for their assistance during its deliberations.

3.0 REFERENCE DOCUMENTS

The Committee was guided by the following 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

Early 2010, Camac Energy Inc. and Base Energy Ghana Limited visited the GNPC data room and subsequently submitted a joint application for exploration and production rights over the Expanded Shallow Water Tano Block (ESWT) which hosts the North & South Tano oil and gas fields and the West Tano oil discovery.

The Ministry of Energy and Petroleum received four (4) other applications for the same Shallow Water Tano Block. However, the proposals in the application submitted by Camac Energy Ghana Ltd and its Partner were adjudged superior to the others and were therefore approved by the Minister.

Article 268 of the 1992 Constitution requires that all Agreements or Leases involving natural resources shall be ratified by Parliament.

It is in fulfillment of the constitutional requirement that the Hon. Minister for Energy and Petroleum laid in Parliament the Petroleum Agreement among the Government of the Republic Of Ghana, the Ghana National Petroleum Corporation (GNPC), Camac Energy Ghana Limited, GNPC Exploration and Production Company Limited and Base Energy Ghana Limited in respect of the Expanded Shallow Water Tano Block Offshore of the Republic of Ghana for its ratification.

5.0 THE APPLICANTS

5.1 The Contractor

Camac Energy Ghana Ltd, Base Energy Ghana Ltd, and GNPC Exploration and Production Company Limited are collectively referred to as the Contractor in the Agreement.

5.1.1 Camac Energy Ghana Ltd.

Camac Energy Inc (Camac Energy), the parent company of Camac Energy Ghana Ltd, is an independent oil and gas exploration and production company focused on energy resources in Africa and South America. The Camac Energy was founded in 1986 in Houston, USA. It was incorporated in Ghana on August 16, 2012. Its registered address is 1st Floor Teacher Hall Complex, Education Loop, Adabraka-Accra.

Camac Energy Ghana Ltd., the Operator of the ESWT block if awarded, has an asset portfolio consisting of eight licenses which covers an area of 41,000 km² and operates two blocks, OML 120 and OML 121, offshore Nigeria. The blocks are located in water depths ranging from 200m to 500m.

Production is currently on-going from OML 120. Crude oil reserves for both OML 120 and the adjoining OML 121, are estimated at approximately 2 billion barrels. Camac Energy owns 60% interest in each block. The Oyo field, which is located in OML 120, commenced production in 2009. The field is producing over 20,000 barrels of oil per day.

In Kenya, Camac Energy is the Operator with 100% interest in two onshore blocks L1B and L16 and two offshore blocks, L27 and L28. These are all exploration assets. Camac Energy has also been awarded two blocks, A2 and A5 offshore Gambia.

5.1.2 Base Energy Ghana Limited

Base Energy Ghana Limited is a wholly owned Ghanaian company. The company was established on November 17, 2009. Base Energy is an independent Ghanaian upstream oil and gas company.

The company is focused on acquiring interest with significant upside potential in undiscovered, discovered and under-discovered oil and gas assets. Its registered address is 4th Floor, Heritage Towers, Ridge, Accra.

The shareholders of Base Energy Ghana Ltd are Energy West Limited (75%) and African Soft Limited (25%).

Energy West Limited, a Ghanaian company, was licensed to carry out bulk distribution of petroleum products in Ghana. Chase Petroleum has been importing, exporting and distributing petroleum products in Ghana and West Africa over the past decade.

5.1.3 **GNPC Exploration and Production Company Limited**

Explorco is a subsidiary of GNPC established under the PNDCL 64. It was set up as a key vehicle for transforming GNPC into a fully commercial entity in which Ghanaians would hold commercial interest in exploration and production assets. Per the Agreement, Explorco will hold a commercial interest of 25% in the Block.

5.4 **The Ghana National Petroleum Corporation (GNPC)**

The GNPC is a Public Corporation established by the Ghana National Petroleum Corporation Act, 1983 (PNDCL 64). The Corporation by virtue of the PNDCL 84 has the right to undertake exploration, development and production of petroleum over all Blocks declared open for petroleum operations by the Minister for Energy and Petroleum. It is further authorized to enter into association with Contractors for the purpose of exploration, development and production of petroleum by means of Petroleum Agreements.

Accordingly, the GNPC has entered into an association with the Camac Energy Inc. (the Operator), Base Energy Ghana Ltd and Explorco for the Block.

6.0 **THE INTEREST STRUCTURE**

6.1 The interest structure of the partners is as follows:

Camac Energy (Operator of the Block)	
Base Energy Ghana Limited	90% Participating Interest
Explorco	
GNPC	10% Initial Carried Interest

The GNPC may elect to have additional paying interest of 10% in the event of discovery of oil in commercial quantities.

7.0 THE CONTRACT AREA

The proposed Contract Area is of a size of 1,508 km² and bounded on the north by the Ghana Coastline, on the west by the Maritime Border with Cote D'Ivoire, on the south by the Deepwater Tano Block and on the east by the West Cape Three Points Block.

A number of oil and gas discoveries are located within the area applied for. They include the North Tano oil & gas field (1980); the CTS-1X gas discovery (1989); the NWT-1X heavy oil discovery (1989); the Tano discovery and further south, the South Tano fields. These discoveries require appraisal and the appraised field need to be developed expeditiously.

Regarding the exploration history of the Contract Area, the Basin was covered by different vintages of 2D seismic data totaling about 18,000 line km. However, only 1,160 line km lie within the area with an average grid of about 5km by 7km. 3D seismic data coverage in the basin totaled about 16,000 sq. km. The North and South Tano 3D seismic (CGG) covers an area of 814 sq. km in the larger part of the area applied for. Eighteen (18) wells have been drilled in the area.

GNPC commissioned several studies in the area for which there are technical reports. They include the Chemical Bank Report, Halliburton report and the GAPS report.

8.0 DURATION OF THE CONTRACT AND WORK PROGRAMME

The Petroleum Agreement is for a total of 25 years if a commercial discovery is made under Article 23 of the Agreement. However, the Agreement expires after seven (7) years if no commercial discovery is made within that period.

8.2 Work Programme

Article 4 of the Agreement commits the Contractor to a minimum exploration programme in three phases comprising the Initial Exploration Period of Two (2) years, one and half (1½) years for the First Extension Period and another one and half (1½) years or two and half (2½) for the Second Extension Period.

8.3 The detailed Work Programme and the minimum financial commitments are as follows:

i) **Initial Exploration Period**

This would last for a period of two (2) years. At this stage, the Contractor would be required to reprocess existing 2D and 3D Seismic Data over the applied contract Area (about 1,508 km²) and drill one (1) Exploration Well. The Contractor's Minimum Expenditure Obligation for the work during this period is Thirty Million United States Dollars (US\$30,000,000.00).

ii) **First Extension Period**

This stage is to last for a period of one and half (1½) years. During this period the Contractor would be required to drill one (1) Exploration Well; conduct geological and geophysical studies; and to expend a minimum expenditure of Thirty Million United States Dollars (US\$30,000,000.00).

iii) **Second Extension Period**

This would last for one and half (1½) years during which the Contractor would be required to drill one (1) Exploration Well; conduct geological and geophysical studies; and to also commit a minimum expenditure of Thirty Million United States Dollars (US\$30,000,000.00).

The exploration operations are required by the Agreement to commence as soon as practicable latest by 60 days after ratification of the Agreement by Parliament.

8.0 RELINQUISHMENT

The Contractor would be required to relinquish Twenty-Five per cent (25%) of the original Contract Area at the end of the Initial Exploration Period and Twenty-Five per cent (25%) of the remaining Contract Area after the First Extension Period. At the end of the Second Extension Period, the Contractor would be required to relinquish the remaining Contract Area except for any discovery and/or development and production areas.

9.0 PERFORMANCE BOND

Upon the coming into effect of the Agreement, the Contractor will provide a number of security-guarantees to demonstrate its financial capability to perform its work obligations under the Agreement.

Under the Proposed Agreement, the Contractor will provide a Performance Bond/Guarantee within Ninety (90) days after ratification of the Petroleum Agreement from an entity with an Investment Grade Credit Rating from either Moody's Standard & Poor (S&P) or Fitch acceptable to the GNPC. The Performance Bond/Guarantee will have a value of Thirty Million United States Dollars (US\$30,000,000.00) to cover the Minimum Expenditure Obligation for the Initial Exploration Period.

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 and other Entitlements

On royalties and other entitlements, the State would benefit from oil and gas production at the rates provided in the Table 1 below.

Table 1: Royalties and other Entitlements under the Agreement

Entitlement	Percentage
Royalty – Oil	12.5%
Royalty - Gas	7.5%
GNPC – Initial Carried Interest	10%
GNPC - Additional Interest	10%
Corporate Income Tax	35%

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:

Table 2: Additional Oil Entitlements under the Agreement

Rate of Return	Additional Oil Entitlement
12.5%	0%
12.5% ≤ 17.5%	12.5%
17.5% ≤ 22.5%	15%
22.5% ≤ 27.5%	17.5%
27.5% ≤ 32.5%	22.5%
≥32.5%	30.0%

10.3 Surface Rentals

The Contractor would also pay surface rentals in respect of the remainder of the Contract Area at the beginning of each Contract Year (Article 12) of the Agreement. The details are as shown in Table 3 below:

Table 3: Annual Surface Rentals under the Agreement

Phase of Operation	Annual Surface Rentals
Initial Exploration Period	US\$50/km ²
First Extension Period	US\$100/km ²
Second Extension Period	US\$100/km ²
Development and Production Period	US\$200/km ²

11.0 TRAINING AND TECHNICAL SUPPORT

To ensure the establishment of programmes to train Ghanaians for work in petroleum operations and also for transfer of management and technical skills required for efficient conduct of petroleum operations, the Contractor has committed to make two payments to the GNPC for the stated purpose.

The first is a lump sum of Two Million United States Dollars (\$2,000,000.00) as training allowance to be paid within 30 days after the effective date of the Agreement. The second payment is in respect of an amount of One Million United States Dollars (\$1,000,000.00) per each Contract Year.

12.0 LEGISLATIVE AND REGULATORY PROVISIONS

It was noted that new legislations or regulatory changes that will have an impact on the Petroleum Agreement after it has been approved are anticipated (Art. 12.1 &12.2). For example the proposed Petroleum (Exploration and Production) Bill will modify certain aspects of the Petroleum (Exploration and Production) Law 1984 (PNDCL 84) under

which this Petroleum Agreement has been negotiated. Such changes may not apply to this Petroleum Agreement but to subsequent ones after the law comes into force.

Recent legislations that have been enacted and have an impact on the Petroleum Agreement include the Local Content and Local Participation Regulations, 2013 (L.I. 2204), which seeks to maximize the value-addition and job creation, and to develop local capacity as well as the Petroleum Commission Act, 2011 (Act 821) to regulate and manage the utilization of petroleum resources and to co-ordinate the policies in relation to them.

The setting up of the Ghana Gas Company Limited, wholly State entity with the responsibility to build, own and operate infrastructure required for the gathering, processing, transporting and marketing of natural gas resources in the country also changes the existing landscape in the haling of gas under the Petroleum Agreements.

13.0 DECOMMISSIONING AND ENVIRONMENTAL MANAGEMENT FUND

The Petroleum Agreement further makes provision for the establishment of a Decommissioning and Environmental Management Fund for the purpose of decommissioning and environmental management. A portion of the revenues from the production from the contract area will be paid into the Fund and will be used in financing decommissioning and any environmental accidents that may occur in the course of petroleum operations.

As further security and in the event that the money accrued in the Decommissioning and Environmental Management Fund is not adequate to cover costs of decommissioning and any environmental incidents that may occur during operations, the Contractor will be required to take an insurance cover to cater for any shortfall in the Fund.

The Fund will be jointly managed by the Contractor and the GNPC.

14.0 JOINT MANAGEMENT COMMITTEE

Per Article 6 of the Agreement, a Joint Management Committee (JMC) will be established by the GNPC and the Contractor not later than 30 days upon the effective date of the Agreement.

The purpose of the JMC will be to oversee and supervise petroleum operations to ensure full compliance with the Work Programmes and Development Plans. It is also to ensure that cost accounting, expenses and maintenance of records and reports relating to petroleum operations are carried out in accordance with the Agreement and procedures generally accepted in the international petroleum industry.

15.0 OBSERVATIONS

15.1 Improved Fiscal Regime

The Committee noted that fiscal terms negotiated have improved substantially over existing Agreements. The royalty rate was increased from 10% to 12.5% while surface rental per square km. has almost doubled when compared with the Oranto Petroleum Agreement covering acreage offshore the Saltpond Basin with similar water depth and characteristics. The improved fiscal elements under the Agreement give the State approximately 73% to 79% of the net oil depending on profitability of the project (i.e. the total oil produced less exploration, development and production costs).

The Committee found this to be consistent with Ghana's strength as an oil producer, the determination to get more out of the resource endowment and a reflection of the work done by GNPC within the Block. The enhanced fiscal regime would therefore lead to increase in revenues generated from petroleum operations in the Block to the State if a commercial discovery is made.

15.2 Local Participation

It was also noted that the equity participation of indigenous Ghanaian Companies in the Agreement was 13.5%. This was observed to be higher than the requirement prescribed in Regulation 4(2) of L.I. 2204 which provides that "There shall be at least a five percent equity participation of an indigenous Ghanaian company other than the Corporation to be qualified to enter into a petroleum agreement or a petroleum license". The Committee commends the Ministry and the Government Negotiation Team for ensuring that this essential provision in the L.I. 2204 was adhered to in the Agreement.

It viewed this as an important step in integrating the petroleum upstream industry into the Ghanaian economy while positioning indigenous Ghanaian Companies to play a leading role in the near future. It however urged the sector Ministry and the Petroleum Commission to continuously monitor the local partners to ensure that local partners are not engaged in fronting for international oil companies in order not to defeat the purpose of the local participation.

15.3 Favourable Dispute Resolution Regime

An important feature of the Petroleum Agreement noted by the Committee was the prohibition against the attachment of Government assets in the case of a dispute prior to the final arbitral award. The Committee found this provision very useful and averred that in light of potential damages associated with petroleum operations, Attachments could cripple the ability of the State and/or GNPC to carry on its Governmental functions and/or business. It further indicated that Attachments can be extremely coercive which may weaken the State's positions during arbitration. Moving forward, the Committee urged the Ministry to make this provision a permanent feature of Petroleum Agreements of the State.

15.4 Liability for Capital Gains Tax

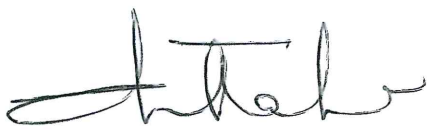
The Committee opined that in the sale or transfer of petroleum assets, the State which is the resource owner deserves to benefit from any gain made. In the light of this, it noted with commendation the explicit incorporation of liability to capital gain tax into the Petroleum Agreement. The provision is not subject to the stabilization clause and anticipates the coming into force of the proposed new law on petroleum taxation. In the opinion of the Committee, the capital gains tax provision would prevent speculators from making money at the State's expense and would maximize the returns to the State in the event of transfer of petroleum assets.

16.0 CONCLUSION

16.1 Having diligently discharged its mandate as required by the Standing Orders of the House, the Committee is satisfied with the provisions of the Petroleum Agreement.

16.2 It therefore recommends to the House to adopt this Report and ratify the Petroleum Agreement among the Government of the Republic Of Ghana, the Ghana National Petroleum Corporation (GNPC), Camac Energy Ghana Limited, Base Energy Ghana Limited, and GNPC Exploration and Production Company Limited in respect of the Expanded Shallow Water Tano Block Offshore of the Republic of Ghana in accordance with Article 268 of the 1992 Constitution.

Respectfully submitted.



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



.....
PEACE FLAWOYIFE (MS.)
CLERK TO THE COMMITTEE

MARCH, 2014

