



REPUBLIC OF GHANA



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Ghana launches 2016 EITI and Commodity Trading Pilot Reports

Accra, October 1, 2018. The Ministry of Finance and the Multi-Stakeholder Group (MSG) of the Ghana Extractive Industries Transparency Initiative (GHEITI) have produced and will formally launch the country's 2016 mining, oil and gas EITI audit and Commodity Trading Pilot reports, published on August 30th, 2018. The MSG is a tripartite body made up of Government, Industry and Civil Society that has the responsibility of steering the affairs of GHEITI. The mining report brings to thirteenth (13th), the total number published since Ghana acceded to the initiative in 2003. For oil and gas, the 2016 report is the sixth (6th) since the initiative was extended to cover the sector. For the Ghana Commodity Trading pilot report, this is the second EITI commodity trading report that is being published globally after Indonesia.

The reports, which are published in conformity with the EITI Standard adopted by the Peru Global EITI Conference in 2016, goes beyond the mere reconciliation of payments and receipts, to include contextual information such as summary description of the legal framework and fiscal regime, the sector's contribution to the economy, production and export data, state participation in the extractive industries, revenue allocations, sustainability of revenues, license registers and license allocations to mention but a few.

Commenting on the 2016 reports ahead of the Launch on 2nd October, 2018, the Chief Director of the Ministry of Finance, Mr Patrick Nomo, said: "It hasn't been easy at all, especially with the introduction of the Commodity Trading pilot report, but due to tireless efforts and dedication, the reports are finally ready".

He explained that, the compilation of the GHEITI 2016 reports had suffered some setbacks, occasioned by the non-disbursement of approved funding from development partners, and more particularly by the impact of the electoral cycle on the country's fiscal space.

He reiterated that: "The reports this time around provide better context, which in my view will help address most of Ghana's 2016 validation corrective actions and lead to a more informed debate on what contribution the extractive sector is making to our nation's development; and what policy reforms are necessary to address challenges faced by both government and industry; so that the extractive enterprise becomes a win-win venture for both resource owner and investors".

The Oil and Gas companies that participated in the 2016 reconciliation exercise were: Tullow (Ghana) Limited; Kosmos Energy Ghana; Ghana National Petroleum Corporation (GNPC); Anadarko WCTP (Ghana) Limited; Petro SA; Ghana Gas Company Ltd, Eni Ghana and Aker Energy.

A few companies were excluded from the exercise because they did not meet the materiality threshold of US\$150,000 established for the exercise during the scoping phase. They are; Vanco Ghana Ltd (Shallow Water Basin); Amerada, and Tap Oil Ltd.

On the government's side, reporting entities whose data were reconciled with those of the companies were: Ghana Revenue Authority; GNPC; Ministry of Finance /Bank of Ghana; Petroleum Commission; and Ministry of Energy.

For the mining audit, 14 companies made up of 12 gold mining, 1 bauxite and 1 manganese took part in the exercise.

State agencies which provided data and information for the mining audit were: Ghana Revenue Authority; Office of the Administrator of Stool Lands; Minerals Commission; Municipal and District Assemblies within the areas of operation of the mines; Ministry of Lands and Natural Resources; and Ministry of Finance.

Key Findings – Oil and Gas

1. Four IOCs did not submit templates for the 2016 GHEITI Report. These were Tullow Ghana Ltd, Anadarko, Petro SA and Heritage E&P Ltd. The absence of Tullow Ghana Ltd and Heritage Ltd which made cash payments reduced the coverage for the 2016 report by 11%.
2. The GNPC did not provide information on data licence fees during preliminary information gathering (scoping/inception) phase. Thus, data licence fees was not included in the materiality determination. Data licence fees was however included in the Corporation's 2016 financial statements as income.
3. Oil and gas companies pay surface rents based on self-assessments. This delays the payments unduly.
4. As at the end of 2016, ten (10) companies were in default of surface rental payments amounting to GHS181,152,708 or US\$1,548,592.

Key Findings – Mining

1. The Minerals Commission provided data for reconciliation which included permit fees, processing fee, consideration fees and mineral right licences. The data was a marked improvement on the 2015 dataset. However, consideration fees also included other fees and licenses which had many components. The IA had to rely on supporting documents mainly provided by companies to resolve discrepancies.
2. Presently, mining companies pay royalty at the rate of 5% on gross revenue, except for those with stability/development agreements that pay between 3% and 5%. The payment is irrespective of the mineral being produced. Bulk mineral producers that need minimal processing before shipment and those engaged in gold production, that undergo relatively more processing, all pay the same rate.
3. Mining companies without development/ stability agreements pay royalty at 5%. Gold producing companies with stability/ development agreements paid royalty at a rate of 3% in 2016. i.e. AngloGold Ashanti and the Newmont groups. Minerals and Mining Law, Act 703, section 49 states that “the Minister on the advice of the Commission may enter into a development agreement under a mining lease with a person where the proposed

investment by the person will exceed US\$500 million. Section 49 of Act 703 gives the Minister room for discretion in the expenditure of the proposed US\$500m. The observation is that there are no regulations concerning who qualifies for a development agreement. For example, how long should the proposal be allowed to materialize? And should the agreement commence only when the US\$500m mark has been reached? What constitutes the US\$500m. Does it include exploration costs? Should the counting for US\$500m commence after a commercial find has been made?

Key Findings – Commodity Trading

1. It is possible to produce a commodity trading report for oil sales in Ghana that contains reconciled data from both GNPC as the seller and the buyers for the period 1st January, 2015 to 31st December, 2017. It should be noted that one buyer (Litasco) did not provide any data for this report.
2. There is a high level of correlation between the data received from GNPC, the buyers, GRA and Bank of Ghana. We identified seven discrepancies, all minor and none material to the overall accuracy of the data. Four of these discrepancies were easily resolved as they were simply errors in completion of the template. Of the three remaining discrepancies, two are highly immaterial, leaving only one discrepancy of equating to just 0.2% of the value of the lifting in question. Although there are plausible explanations for all three of these discrepancies, there was no receipt of corrections or explanations from the parties who supplied the inconsistent data.
3. From the high level of correlation of the data, it can be concluded that there are no systematic issues with the collection and reporting of data on GNPC oil sales.
4. The need for GNPC and the buyer companies to seek senior manager approval for the release of data to the consultants caused delays to the data collection process.
5. While the buyers provided the name of the entity that acted as buyer, none provided beneficial ownership (BO) information on that buyer entity on the template despite the fact buyers were requested to provide BO information.
6. The governance arrangements concerning GNPC's oil sales are good but there is scope for improvement to anticipate future growth in volume of oil sales. There is a clear legal basis for GNPC's activities and for the roles of other institutions in the process. There is also clear legal framework for governing the flow of revenues received.
7. GNPC has a clear buyer selection process with criteria for scoring each potential buyer to ensure only high quality buyers are pre-qualified to participate in the sales process. The buyer selection process also ensures that buyers with a strong local presence are preferred as 30% of the score weighting is allocated to local content. However, the criteria provide only guidance and the weightings may be adjusted to take into consideration specific circumstances. This introduces a degree of subjectivity into the buyer selection process.

8. Approximately two-thirds of GNPC's oil sales in 2015-2017 were destined for China in the first instance. This is largely as a result of the role Unipecc played as it accounted for 15 of the 22 liftings in that period. The composition of buyers was more diverse in 2017 with Unipecc accounting for just over half of liftings. The trend towards a more diverse range of buyers is likely to persist as GNPC seeks to market an increasing volume of oil that falls outside its term contract with Unipecc.
9. GNPC offers four pricing options to potential buyers, all of which are based on dated Brent prices. As a result, achieved prices for Jubilee and TEN crude oil have usually been in line the average dated Brent for the same period. We identified some specific liftings where the achieved price was not in line with dated Brent, and some of these may warrant further investigation.
10. All of GNPC's natural gas sales are into the domestic market and to Ghana Natural Gas Company. These sales are all at the same price of \$2.90/MMBtu which is calculated on a formula set by the seller - GNPC. Gas production is likely to increase but there is unlikely to be international gas sales in the near future. GNPC is likely to renegotiate the gas price as gas production reaches plateau level.

The full reports are available on: www.gheiti.gov.gh

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