

2018 Budget Highlights on Oil and Gas -Upstream

Penplusbytes-Extractive Department

15th November,2017

Executive Summary

“The 2018 Budget Highlights on Oil and Gas” is a piece put together by the Extractive Team of Penplusbytes. The Minister of Finance, Hon. Ken Ofori-Atta on 15th November, 2017 presented to Parliament, the Budget Statement and Economic Policy for 2018. The Extractive Department of Penplusbytes have presented important highlights relating to the upstream oil and gas sector in Ghana as per the 2018 Budget Statement and Economic Policy.

Highlighting key issues in the sector, this document touches on: A review of the 2017 upstream oil and gas year, petroleum receipts in 2017, commodity prices in world markets, commodity prices, balance of payments, growth, projection of 2018 petroleum receipts and allocations and deliberate interventions by government in the sector.

Ghana’s victory in the favorable ITLOS ruling, and Sankofa producing 1st oil three months ahead of schedule stood out. The sector production from the Jubilee field as at 30th September, 2017 was 24,302,185 barrels, compared to 19,832,097 barrels for the same period in 2016, representing an increase of 23 percent.

It revealed that GNPC lifted six parcels of crude oil in 2017 (consisting of the 36th to 39th Jubilee and the 2nd and 3rd TEN liftings) on behalf of the State and transported a total of 20,545.44 MMscf of gas to GNGC a figure capture as at end of September. The Budget also disclosed that Crude oil prices in 2018 are projected to stay around US\$50.3 per barrel reflecting the higher-than-expected US shale production and production recoveries in Libya and Nigeria.

The projected benchmark crude oil price for 2018 is US\$57.4 per barrel with a Benchmark output of 53.25 million barrels (145,887 barrels of oil per day). Similarly, the gas price for 2018 is projected at US\$3.94 per MMBtu, up from the 2017 estimate of US\$3.03 per MMBtu. The total petroleum revenue for 2018 is estimated at US\$669.4 million, with Benchmark Revenue projected at S\$335.86 million. The total petroleum revenue for 2018 is estimated at US\$669.4 million, with benchmark revenue projected at US\$335.86 million.

Specific government intervention in the ensuing year includes; promulgation of guidelines for competitive bidding rounds for oil and gas blocks, revised model petroleum agreement, data management regulations, health safety security and environment regulations. Also, Government intends to institute a petroleum price risk management programme that will hedge the net exposure of the country to crude oil prices.

1.0 Introduction

The Minister of Finance, Hon. Ken Ofori-Atta on 15th November, 2017 presented to Parliament, the Budget Statement and Economic Policy for 2018. The Extractive Department of Penplusbytes have presented below, important highlights relating to the upstream oil and gas sector in Ghana as per the 2018 Budget Statement and Economic Policy.

1.1 Review of 2017

- Ghana achieved positive developments in the oil & gas sector - favorable ITLOS ruling, and Sankofa producing 1st oil three months ahead of schedule.
- The Ghana Police Service expanded the patrols, accessibility and visibility, set up drones units in all the regions and took delivery of four drones to improve operational efficiency and intensified marine patrols on our waters and sea to protect the oil and gas industry.
- The President recently launched the Accelerated Oil and Gas Capacity (AOGC) programme to bring full realization to continuing Government policy to enhance the human resource capacity in the oil and gas sector, including attracting skilled Ghanaian professionals in the diaspora.
- The Ministry of National Security provided 24-hour security for the Oil and Gas Installations.
- The Public Account Committee deliberated on the Implementation of the local content of the Oil and Gas Sector for 2016.

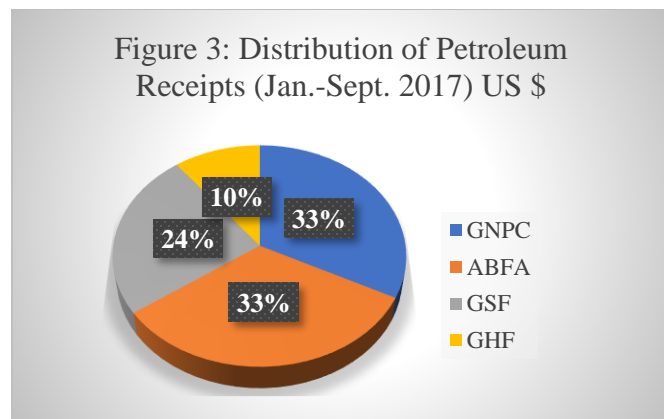
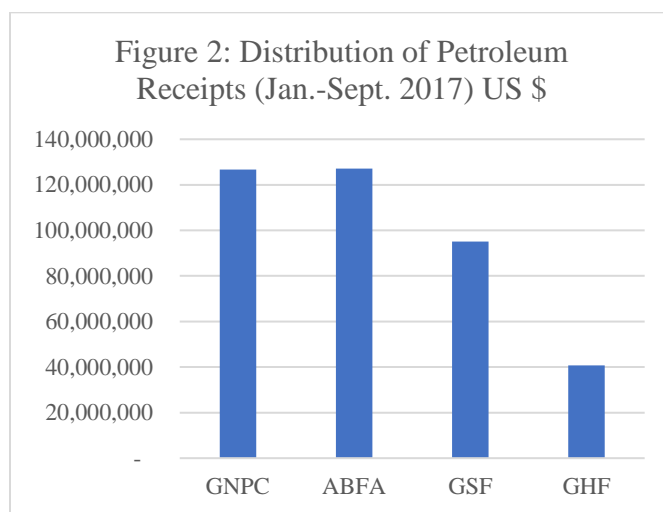
- The Jubilee FPSO turret remediation work is progressing steadily with the interim spread mooring operation successfully executed. The three tug boats aiding the heading control for production and lifting operations on the FPSO Kwame Nkrumah were also released.
- Production from the Jubilee Field as at 30th September, 2017 was 24,302,185 barrels, compared to 19,832,097 barrels for the same period in 2016, representing an increase of 23 percent.
- Jubilee Field production is expected to average 89,000 bopd by end of 2017 (with the postponement of the planned shutdown to 2018 for the remediation works).
- GNPC continued to intensify its exploration activities on the inland Voltaian basin. The Ministry negotiated and signed two contracts with two companies and also completed the environmental impact statement to EPA and all the 24 projects districts.

1.2 Petroleum Receipts in 2017

- As at the end of September 2017, GNPC had lifted six parcels of crude oil (consisting of the 36th to 39th Jubilee and the 2nd and 3rd TEN liftings) on behalf of the State and transported a total of 20,545.44 MMscf of gas to GNGC. Total crude oil lifted was 5.8 million barrels (3.8 million barrels of Jubilee oil and 2.0 million barrels of TEN oil), compared to 2.9 million

barrels (all from Jubilee field) for the same period last year.

- Receipts from crude oil liftings for the period up to September 2017 accrued from the 35th (lifted in December 2016) to the 38th Jubilee liftings and 1st (also lifted in December 2016) to 3rd TEN liftings, amounted to US\$339.3 million (GH¢1,451.4 million). Total petroleum receipts (i.e. proceeds from liftings and other petroleum receipts) as at September 2017 was US\$362.6 million (GH¢1,552.1 million), compared with the receipts of US\$172.9 million (GH¢671.5 million) for the same period in 2016.(See figure 2 below).



Source: MOF/BOG

2.0 Commodity Prices in World Markets

The IMF projects average crude oil prices of US\$50.28 per barrel for 2017 compared to the realised price of US\$42.84 per barrel in 2016. Crude oil prices are projected to dip marginally to US\$50.17 per barrel in 2018, reflecting the unexpectedly-high shale production in the US, relatively high exports from OPEC countries, and production boost in Nigeria, Libya, and Russia. The World Bank’s Commodity Markets Outlook (CMO) of October 2017, however, forecasts a more optimistic price of \$56 per barrel for 2018

3.0 Balance of Payments

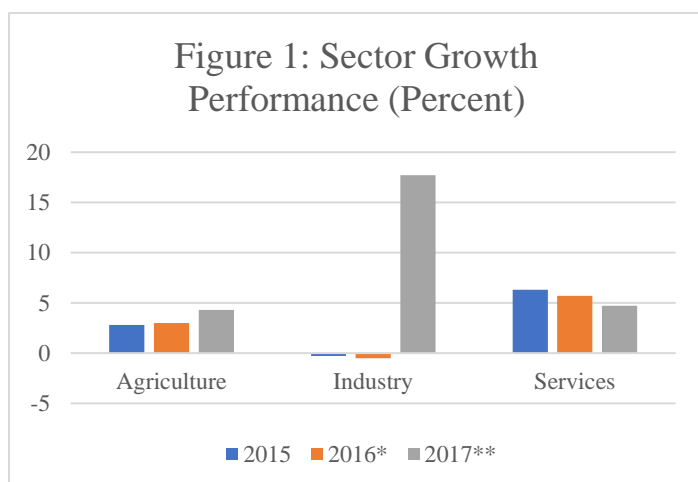
Ghana’s external position strengthened significantly in 2017, due to stronger performance in all three major export commodities—oil, gold, and cocoa, as well as higher capital inflows.

4.0 Growth

The real GDP growth for 2017 is provisionally estimated at 7.9 percent, with non-oil GDP growth of

4.8 percent. This compares extremely favorably with a real GDP growth target of 6.3 percent and a 2016 outturn of 3.7 percent.

At the sectoral level, the Industry Sector recovered from a negative growth of 0.5 percent and is expected to grow by 17.7 percent in 2017 due to increased production in upstream oil and gas. Growth in the Agriculture sub-sector is expected to be broad-based, despite the initial alarm associated with the army worm invasion. The Services Sector remains the dominant sector with an estimated share of 55.9 percent.(See figure 1)



Sources: Ghana Statistical Service/Ministry of Finance *Revised ** Provisional

5.0 Projection of 2018 Petroleum Receipts and Allocation

- The projected Benchmark crude oil price for 2018 is US\$57.4 per barrel with a Benchmark output of 53.25 million barrels (145,887 barrels of oil per day). Similarly, the gas price for 2018 is projected at US\$3.94 per MMBtu, up from the 2017 estimate of

US\$3.03 per MMBtu. This includes gas prices of Jubilee, TEN (associated and non-associated) as well as Sankofa Gyanyame Ntomme (SGN).

- The total petroleum revenue for 2018 is estimated at US\$669.4 million, with Benchmark Revenue projected at US\$335.86 million.
- In line with Section 23(3) of the PRMA, there is a request to cap the Ghana Stabilisation Fund (GSF) at US\$300 million. The reason for the capping is to use the excess amount over the cap to retire existing debt, in line with the Law.

6.0 Monetary and External Sectors

The current account deficit is expected to continue to adjust downwards during the period 2017–2019 in line with further fiscal consolidation and better prospects in oil and gas production. The current account deficit is projected to end the 2017 at 4.8 percent of GDP and further down to 4.6 percent in 2018 and settle at some 4.5 percent in 2019

7.0 Renewable and Alternative Energy Development

In 2018, a Technical and Vocational Education and Training (TVET) in oil and gas and renewable

energy will be launched with the objective of training and developing technical capacities required in the Oil and Gas industry. In addition, a local content legislation for the downstream petroleum industry and procurement guidelines for the upstream sector will be developed. The Ministry will also pursue an Accelerated Oil and Gas Capacity Building Programme in 2018.

8.0 Upstream Petroleum Policy Initiatives 2018

- Government will enhance the petroleum legal framework to deepen transparency and predictability in contracting and operations.
- To ensure full implementation of the Petroleum (Exploration and Production) Act, 2016 (Act 919), government will develop the following regulations and guidelines for the industry:
 - Guidelines for Competitive Bidding Rounds for oil and gas blocks;
 - Revised Model Petroleum Agreement;
 - Data Management Regulations; and Health Safety Security and Environment Regulations.
- Government will collaborate with upstream petroleum operators to support local training and technical institutions to develop the requisite capacity to international standards. This will enable Ghanaians to effectively participate in the oil and gas sector.

8.1 Petroleum Price Risk Management Programme

Government intends to institute a petroleum price risk management programme that will hedge the net exposure of the country to crude oil prices.

8.2 Commercialization of Natural Gas

The Energy Ministry will undertake the following: Completion of the tie-in of the Ghana Gas pipeline and the West African Gas pipeline and associated modification works at both Regulation and Metering Stations (R&M) in Takoradi and Tema

- Completion of the Offshore Receiving Facility (ORF) to receive OCTP gas
- Installation of three Compressors on the existing Ghana Gas pipeline
- Completion of gas pipeline to connect the 450MW Karpower to be stationed in Takoradi to the R&M station in Takoradi; and full implementation of the Gas Master Plan recommendations.

8.3 Energy Sector Regulation Programme

- Following the successful passage of the Petroleum (Exploration and Production) Act, 2016, (Act 919), a draft Data Management and Health Safety and Environment regulations was finalized and will soon be presented to Parliament.

- Guidelines for the bidding of exploration blocks are being developed and is expected to be completed by end of the year. In 2018, the Ministry will coordinate the first bidding rounds for the award of blocks to prospective bidders.

Reference

Ministry of Finance.(2018). The 2018 Budget Statement And Economic Policy Of Government. Retrived from <http://www.mofep.gov.gh/sites/default/files/budget-statements/2018-Budget-Statement.pdf> . Accessed on 15-11-17.

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