



PIAC

ISSUE PAPER II

THE ROLE OF GNPC
IN THE UPSTREAM PETROLEUM INDUSTRY:
CHALLENGES AND PROSPECTS

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1.0

INTRODUCTION

The Ghana National Petroleum Corporation (GNPC) was established in 1983 by the Provisional National Defence Council Law (PNDC) 64, as part of efforts to promote the discovery and extraction of crude oil and gas in Ghana. The Law also defined the mandate of GNPC, which was generally to undertake the exploration, development, production, and disposal of petroleum in Ghana.

Specifically, the objects of the Corporation, as outlined in Section 2 of PNDC 64, include:

1. Promoting the exploration and the orderly and planned development of the petroleum resources of Ghana.
2. Ensuring that Ghana obtains the greatest possible benefits from the development of its petroleum resources.
3. Obtaining the effective transfer to Ghana of appropriate technology relating to petroleum operations.
4. Ensuring the training of citizens of Ghana and the development of national capabilities in all aspects of petroleum operations.
5. Ensuring petroleum operations are conducted in such a manner as to prevent adverse effects on the environment, resources and the people of Ghana.

Under section 3 of PNDC 64, the GNPC is also required to, among others:

1. Advise the Minister of Energy on matters relating to petroleum operations.
2. Engage in petroleum exploration and production agreements and other petroleum contracts either alone or in association with others.
3. Enter into petroleum exploration and production agreements and other petroleum contracts providing for the assistance, participation, or co-operation of contractors in connection with petroleum operations.

4. Buy, sell, trade, store, exchange, import or export petroleum and for this purpose, acquire or operate any installations, facilities or means of transportation.

GNPC was set up with the main mandate of being a commercial player while interacting with different categories of stakeholders. However, in practice, it also performed de facto regulatory and managerial functions under the supervision of the Ministry of Energy. However, after the establishment of the Petroleum Commission in 2011, these managerial and regulatory functions were transferred from the GNPC to the Commission. The Commission and the Ministry of Energy currently handle all matters relating to policies, granting of licenses and permits, local content and participation, and compliance monitoring. Therefore, GNPC's sole focus is now acting as the Ghanaian State's representative in all Petroleum Agreements (PAs) and engaging in other joint ventures.

Section 10(1) of the Petroleum Act, 2016 makes GNPC the main commercial wing of the Government of Ghana's participation in the upstream petroleum industry by making the Corporation a partner in all PAs with IOCs through its initial carried interest and, where applicable, additional participating interest. The acquisition of the additional interest comes with the sharing of the costs incurred in conducting petroleum activities other than exploration costs.

GNPC and IOCs have since the late 1980s been engaged in various seismic data acquisitions, exploration, development and production activities from various Fields in Ghana. In recent times, GNPC has focused on its commercial mandate by forming joint ventures and other forms of cooperation with international or local partners, particularly with IOCs and major supply chain companies. GNPC has a subsidiary, GNPC Exploration and Production Company (GNPC Explorco), in line with GNPC's strategic ambition "of building a stand-alone operatorship capacity". During Ghana's first-ever competitive licensing round, GNPC was also allocated one (1) block to explore on a sole risk basis or in partnership with a strategic partner to build its capacity and oversee all petroleum reserves. GNPC has also sought to increase its share of equity in some fields over the years. For instance, in 2021, GNPC acquired the commercial interest of Anadarko in the Jubilee and TEN fields through the creation of a new subsidiary,

Jubilee Oil Holdings Limited (JOHL).

GNPC has been performing its roles listed above since its inception and has made significant progress, including ensuring that Ghana gets its fair share of oil proceeds. The Corporation has been engaged in several corporate social responsibility programmes in its areas of operation.

However, many concerns have been raised regarding the operations of the Corporation and their impact on the upstream petroleum sector. The rest of the paper focuses on key challenges and prospects facing GNPC as a National Oil Company (NOC).

1. Revision of PNDC Law 64

NOCs are facing unprecedented pressures from the energy transition, which is the long-term shift away from fossil fuels towards cleaner and more sustainable sources of energy. The energy transition is driven by various factors, such as the growing awareness of climate change and its impacts, the increasing demand for energy access and security, the declining costs and improving performance of renewable technologies, and the changing consumer preferences and social expectations. The energy transition poses an existential threat to NOCs, as it could reduce the demand and value of their core products, expose them to environmental, social, and governance (ESG) risks and liabilities, and undermine their competitive advantage and market share. The making of an effective NOC amid the energy transition is a complex and challenging task that requires strategic vision, innovation, and adaptation. To survive and thrive in the transition, NOCs need to rethink their strategies and business models and explore new opportunities and markets.

It is worthy of note that the Law that established GNPC is almost 40 years old. The law was established at a time when there was no petroleum activity and GNPC was used as a special purpose vehicle (SPV) to begin prospecting for economic activities in the industry. The industry has since that time (40 years ago) evolved into a thriving one with three production fields (Jubilee, TEN, Sankofa), as well as new fields coming on stream (Jubilee South-East) and several other offshore explorations at various stages of development and onshore exploration (Voltaian Basin). After almost 40 years since its enactment, this law must be reviewed and amended to reflect the current role and international best practices of the industry. The review is also critical to direct and allow the NOC to be able to operate efficiently and effectively within the sector. GNPC's role has evolved to become a key commercial player. It is expedient that the Law that established the Corporation be reviewed.

The review will seek to strengthen and promote, among others, these critical aspects of the NOC:

- **Strengthening the core business:** This will help optimise the existing operations, improving efficiency and productivity, reducing costs and emissions, enhancing resilience and reliability, and investing in high-quality and low-carbon assets. It also allows GNPC to maintain their profitability and cash flow, while also contributing to the global climate goals and meeting the social expectations of its stakeholders.
- **Diversifying into new energy sectors:** Expanding into renewable energy, such as solar, wind, hydro, and biofuels, as well as other low-carbon or carbon-neutral technologies, such as hydrogen, carbon capture and storage, and electric vehicles. This will allow GNPC to leverage its existing capabilities and resources, such as engineering and project management skills, access to capital, and land and infrastructure assets, while also creating new revenue streams and markets, and enhancing its ESG performance and reputation.
- **Transforming into energy providers:** The provision of integrated energy solutions to customers, such as electricity generation and distribution, energy efficiency and management, and energy trading and marketing, are some of the ventures an amendment can open the Corporation to.

2. Funding of GNPC from PHF

The Petroleum Revenue Management Act (PRMA) states that all petroleum receipts, which consist of Royalties, Carried and Participating Interest (CAPI), Surface Rentals, and Corporate Income Taxes, among others, must first be paid into the Petroleum Holding Fund (PHF) before they are disbursed based on a stated formula. The PRMA added that disbursements from the PHF be done in the following order of priority:

- a. GNPC
- b. Annual Budget Funding Amount (ABFA)
- c. Ghana Petroleum Funds (GPF), namely comprising the Ghana Stabilisation Fund (GSF) and Ghana Heritage Fund (GHF)

d. Exceptional Purposes Transfers (if any)

Payments to GNPC are purposely to fund the operations of the Corporation, the development of the NOC to become a standalone operator in the industry and finance the Corporation's cash call obligations on the producing fields based on its equity stake spelt out in the PAs. The PRMA assigns two levels of funding to GNPC:

- Level A – Equity Financing Cost from the payment of oil receipts into the PHF.
- Level B – Operational Expenditure (currently pegged at 30% of CAPI).

3. Delay in Releases to GNPC¹

PIAC, in previous reports, has reported incidences where the Corporation was unable to meet cash calls from Joint Venture (JV) partners, causing partners to lift GNPC's share of crude oil to defray these costs. According to Section 16(4) of the PRMA, as amended, it is the obligation of the Minister for Finance to:

“ensure that the Bank of Ghana transfers to a national oil company, the relevant portion of the revenue due to that national oil company under subsection (2) not later than three working days after the receipt of petroleum revenue into the Petroleum Holding Fund.”

However, it has been noted in The Annual Petroleum Reports of the Ministry of Finance that this provision has not been met several times. For instance, regarding 2020 liftings, as many as 50 days and not less than 21 days elapsed from the dates of receipts into the PHF of revenues from the current oil fields to the dates of disbursement to GNPC². This implied that the statutory obligation of the Minister for Finance to ensure payments to the NOC within three days of receipt of oil lifting funds in the PHF was not fulfilled³.

¹ Excerpt from Tsikata, T., 2022. Role and Contribution of the Ghana National Petroleum Corporation (GNPC) as a National Oil Company: A Reflection. In: T. Acheampong & T. Stephens, eds. Petroleum Resource Management in Africa. Cham: Palgrave Macmillan.

² [2020-Annual-Petroleum-Report.pdf \(mofep.gov.gh\)](https://mofep.gov.gh/2020-Annual-Petroleum-Report.pdf)

³ https://www.piacghana.org/ova_doc/piac-2023-semi-annual-report-1910/

It has been argued that the reason for the delay is the fact that payments to the GNPC are treated as normal payments from government funds and not directly from the PHF, as required by the Law. Regulation 9 of the Petroleum Revenue Management Regulations, 2019, LI 2381 provides:

“(1) In furtherance of sub-Section (4) of Section 16 of the Act, a national oil company shall present an invoice to the Ministry for the portion of revenue due a national oil company within twelve days of the lifting of the crude oil.

(2) On the receipt of the petroleum revenue into the Petroleum Holding Fund, the Minister shall request the Controller and Accountant General to instruct the Bank of Ghana to pay the national company within three days.”

This requirement for an invoice to be submitted to the Minister is a claim on the PHF, a distinct public fund established under the PRMA. The request by the Minister for Finance to the Controller and Accountant General to instruct the Bank of Ghana to pay the NOC is no way to ensure payment within three days as the Minister for Finance is required under Section 16(4) of the PRMA.

This also erroneously treats the funds received in the PHF as if they were Government funds under the Controller and Accountant General who, therefore, must be asked to instruct the transfer. It is also argued that even if GNPC is administratively required to submit an invoice, there is no reason why such an invoice cannot be directed to the PHF itself with the Minister for Finance kept in copy.

It should also be noted that Section 3(5) of Act 815: “For this Act, petroleum revenue paid into the Petroleum Holding Fund shall not be treated as part of the normal tax revenue for purposes provided for in relevant laws of the Republic; and used as a basis for the determination of any statutorily earmarked funds.”

The procedure that Regulation 9 of LI 2381 introduces also does not reflect the order of priority of disbursements provided for in Section 16(1) of Act 893. Thus, the Regulation, which is at variance with the operation of statute, namely Act 815, as amended, is invalid. This anomaly must be cured.

4. Time-Bound Support from PHF

The PRMA mentions that the NOC is to be funded for 15 years following the start of commercial production of crude oil, following which it will no longer be supported with funds from the PHF. This means that after 2026, GNPC will no longer receive funding from the PHF. Given the challenges that confront the Corporation, it may not be able to survive without government support if the enactment is implemented. One way for GNPC to be more resourceful, financially, while promoting autonomy and flexibility, is for the government to desist from imposing additional responsibilities and obligations on the Corporation.

An additional way to ensure secured funds is for the NOC to communicate and collaborate with the state and other stakeholders, such as regulators, investors, customers, employees, suppliers, and communities, to align their expectations and interests, and to secure their support and participation. While at this, the Corporation also needs to advocate for and influence the policies and regulations that affect their transition, and to demonstrate their contribution and value to society and the economy.

It is therefore critical that the Corporation revises its strategy with this condition in mind whilst conducting its operations.

5. Indebtedness of State and other Government Agencies

The Committee reported that as of the end of 2022, GNPC's total guarantees and payment receivables amounted to US\$1.14 billion. These represent payments and guarantees made on behalf of the Government of Ghana, State-Owned Enterprises (SOEs), national and local infrastructure projects, and outstanding indebtedness associated with gas supplied to the Ghana National Gas Limited Company (GNGLC). The concerns gathered by PIAC from its public outreach and engagements at the districts and regional levels (sub-national) suggest the fear by a section of Ghanaians that the Corporation is subject to political capture, which often compels it to undertake quasi-fiscal expenditures and advances to other parastatals which ordinarily should be the preserve of the central government. These expenditures fall outside the core mandate of the Corporation and constrain the objective of the NOC in its bid to become a standalone commercial operator in the industry. For example, as of the end of 2022, total expenditure on the various Gas Enclave roads in

the Western region stood at US\$124.66 million. The Committee has made recommendations that GNPC desist from making such payments in favour of the government and its agencies whilst calling for urgent action to retrieve funds owed to the Corporation. This situation starves the Corporation, which is being funded by the PHF, of funds to honour cash calls and cater for its core mandate and its development. Though it is believed some agencies approach GNPC to fund their programmes and projects, PIAC calls on GNPC to desist from such practices and commit more funds to its mandate and development.

6. Corporate Social Responsibility Activities

Another concern raised by various stakeholders, including PIAC, is the Corporation's Corporate Social Responsibility (CSR) activities. For instance, an amount of US\$3 million was used to sponsor Ghana's national football team (The Black Stars) from 2013 to 2015. Also, US\$44.48 million was spent on the Sustainability and Stakeholder Relations and GNPC Foundation in 2020. Though spending on CSR is a good initiative, the core mandate of the Corporation needs to be pursued in terms of investments as well. Given the situation that the Corporation is unable to meet cash calls in certain situations and its indebtedness to the Corporation by state organisations, it is essential that GNPC reviews its CSR activities and commit more funds to its cash calls, its mandate and its development, given that from 2026, its funding from the PHF will cease.

GNPC has also responded that this spending is in line with its broader developmental mandate as a NOC as specified under Sections 2 and 3 of PNDCL 64 which includes the mandate to:

1. Ensure that Ghana obtains the greatest possible benefits from the development of its petroleum resources;
2. Ensure the training of citizens of Ghana and the development of national capabilities in all aspects of petroleum operations; and
3. Engage in such other activities, either alone or in association with others, as may be necessary or desirable for the carrying out of petroleum operations.

All these mandates as stated can be sustainable if the NOC becomes a viable standalone commercial operator when it is weaned of PHF support. It is therefore in the immediate interest of GNPC, and ultimately, Ghana if GNPC concentrates on its core mandate and develops into the viable standalone operation envisioned so they can perform their CSR activities from profits they generate rather than from receipts from the PHF. More so, when the law requires that in three years, 2026, their funding from national petroleum receipts will end.

7. Corporate Governance

The appointment to the GNPC Board is governed by PNDCL 64 which allows all board members to be appointed by the President of Ghana, on the advice of the Minister for Energy. It is believed that persons often affiliated with the ruling administration are appointed to the Board. The Board also does not have any institutional representation, unlike other Organisations such as the Petroleum Commission Board which has representation from the Environmental Protection Agency, the Institution of Geoscientists, and three other persons, one of whom must be a woman.

Also, it has been noted that PNDCL 64 does not provide enough details on the qualifying criteria to be appointed to the board of GNPC, including technical competency in the extractives industry. Hence, the law is often used as an avenue by the ruling administration to ensure the Board is filled by persons with strong allegiances to the party who may not have the technical competence or experience in the extractives industry to provide strategic direction to the NOC.

This supports the call for the review of the GNPC Act established about 40 years ago.

8. Non-payment of all Revenues realised by GNPC subsidiaries into the PHF.

The GNPC has argued that revenues made by its subsidiaries, specifically the Jubilee Oil Holding Limited (JOHL), are not petroleum revenue and therefore cannot be paid into the PHF⁴. This position is not tenable because the GNPC is an NOC and its subsidiaries by their nature are also public petroleum institutions.

⁴[GNPC clarifies non-payment of JOHL revenues into PHF and Litasco loan transaction - MyJoyOnline](#)

More so, the JOHL was set up with public funds and it derives its legal authority to function also from the GNPC (established by statute), therefore revenues generated by JOHL (and any other subsidiary of GNPC) are public revenue and must be managed under the appropriate legislation (PRMA, as amended, LI 2381, among others), as reiterated by PIAC in several meetings with GNPC and the Finance Committee of Parliament, and also in its statutory reports⁵.

⁵[PIAC demands parliamentary intervention on JOHL's failure to pay oil proceeds \(citinewsroom.com\)](https://citinewsroom.com)

3.0 PROSPECTS

1. Institutional Strengthening

For GNPC to be able to address the challenges discussed above, there is a need for it to be strengthened as an Organisation. GNPC needs to operate with a well-defined strategy, policies and procedures devoid of bureaucracies and political influences worthy of a world-class IOC. The Corporation needs to strengthen decision-making using the bottom-up approach. The focus of GNPC should be its core commercial mandate.

Given the global quest for a Net-Zero Carbon Agenda in the energy transition Agenda, GNPC must ensure Ghana obtains the greatest possible benefits from the development of its petroleum resources and that petroleum operations are conducted sustainably for the benefit of Ghanaians.

The abandonment of oil fields by IOCs due to the energy transition should not curtail GNPC's efforts to derive maximum value from its hydrocarbons. The Corporation needs to focus its resources on optimising oil and gas production from existing producing fields and discoveries.

This would involve using innovative technological approaches and enhanced oil recovery techniques, including carbon capture utilisation and storage (CCUS). To succeed, it is good that the Corporation builds a strong relationship with key stakeholders including domestic finance partners to invest in the industry whilst financiers in developed nations are withdrawing investments. The role of Parliamentary oversight is key in ensuring that GNPC focuses on its mandate and attains the maximum best for Ghana.

2. Stand-alone Operatorship

In its Strategic Plan, GNPC planned to become a standalone operator by 2019 and a world-class operator by 2027. Having been part of all petroleum agreements in Ghana, it is the expectation that GNPC has acquired the necessary experience and technological capacity that will enable it to become a stand-alone international operator. However, this was not realised in 2019 and has not been the case as of the end of 2023.

There is still an opportunity for GNPC to grow to become an International Oil Company. Having been given the role of a standalone operator in the Voltaian Basin, this gives GNPC the needed basis to gather all necessary technical expertise in its current association with IOCSs to apply it towards the development of the Voltaian Basin. This initiative, if successful, can be an avenue to launch GNPC into other potential African markets.

Given the increasing investor reluctance to fund hydrocarbon investments due to the energy transition, Ghana must build its NOC to become a stand-alone world-class operator to handle significant portions of the nation's activities in the upstream industry, to avoid the situation of hung resources. The energy transition also poses an existential threat, as it could reduce the demand and value of the NOC's core products, expose the organisation to environmental, social, and governance (ESG) risks and liabilities, and undermine its competitive advantage and market share.

4.0 CONCLUSION

The 1992 Constitution of Ghana mentions that the petroleum reserves of the country belong to the citizens of Ghana and are to be managed on behalf of Ghanaians by the President of Ghana. The Committee commends GNPC for its role in managing Ghana's interest in all upstream petroleum activities for over 30 years since its establishment, however, the NOC must start refocusing on its core mandate, and increase its efforts at becoming a viable stand-alone operator. Being the National Oil Company of Ghana, it is incumbent on the Corporation to always seek the welfare of Ghana in all its operational activities. As a national body, like any other growing institution, its challenges must be carefully considered and addressed for the betterment of all Ghanaians.

Additionally, to survive and thrive in the energy transition, the GNPC needs to rethink its strategies and business models and explore new opportunities and markets. The making of an effective NOC amid the transition is a daunting but achievable task, that requires vision, innovation, and adaptation. NOCs that can successfully navigate the energy transition can not only survive but also thrive and become leaders and partners in the global energy system.

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