Politics of Oil and Gas in Ghana

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Abstract
The discovery of oil should transform economies, since oil revenues can be invested in infrastructure and the non-oil sector. Whilst oil discovery has transformed the economy of countries such as Indonesia, Norway and UK, the story is different in Sub-Saharan Africa. Available evidence in countries like Angola, Equatorial Guinea, and Nigeria suggests that economic growth has an inverse relationship with oil production. Some researchers have attributed this to lack of quality institutions and the politics surrounding oil production. In this study, we take a critical look at the politics of oil production in Ghana and its potential implications for the oil sector and national development.

Keywords
Oil resource governance, oil production, Ghana, accountability, transparency

Introduction
Many research works on extractive resources have focused on the contradictions related to oil discoveries and production (Gelb et al., 1988; Karl, 1997; Karl, 1997), with some concentrating on how it leads to poor economic growth (Auty, 1993; Roll, 2011; Sachs & Warner, 1999). Additionally, others have looked at how natural resource discovery and production causes high levels of poverty (Ross, 2003, 2007) and civil war (Collier & Hoeffler, 1998), and furthermore, how natural resource leads to authoritarian rule (Ross, 2001; Wantchekon, 1997).

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Regarding the literature on the oil and gas sector in Ghana, earlier studies including new studies on the sector have focused on how to manage people’s expectations (Asante, 2009; Gyampo, 2011), how to utilise the proceeds to save the country from the resource curse syndrome (Asafu-Adjaye, 2009; Gyampo, 2014), how to handle the inter-sectoral impacts of oil production (Asafu-Adjaye, 2010), the challenges facing the sector within the first 100 days of oil production (Gyampo et al., 2011), preventing the oil curse in Ghana and the contribution of civil society organisation (Debrah & Graham, 2015).

These earlier studies and new studies do not look at the politics of oil and gas and the potential implication it could have on the sector. Politics in the view of Lasswell (1936) is the process of who gets what, when and how. More so, David Easton (1981, 1990) defines politics as the authoritative allocation of values or resources. In essence, politics denotes the complex activity of disagreement and reconciliation concerning such issues as the authoritative allocation of values in society. The realm of politics is dynamic, and it deals with such subjects as the state, power and public policy. Nonetheless, this article uses politics to mean the desperate claims that political parties and institutions such as chieftaincy make on Ghana’s oil, the debate on who found the oil and who owns it and who can best manage the resource for the economic and social transformation of the country. It is in this regard that this article seeks to discuss the politics of oil and gas in Ghana since commercial production began on 15 December 2010.

The point must be made that Ghana, in relation to other African states, is seen to perhaps have strong institutions. According to Gyimah-Boadi (2009), the state has strong judiciary and legislative branches and a democratic executive branch that is regularly changed through generally free and fair electoral means.

Nonetheless, given the potential of oil discoveries and production to degenerate into conflict, like the cases of Sudan, Nigeria and other countries in the developing world, it is significant to undertake a study on the politics of Ghana’s oil and gas sector because the ‘politicking’ serves the foundation for the management and mismanagement of the sector by politicians. This certainly could create a recipe for corruption and conflict.

Already, the major political parties in Ghana, the National Democratic Congress (NDC; ruling party) and the New Patriotic Party (NPP; opposition party), have all expressed keen interest in the sector and how they intend to utilise its proceeds for economic transformation. Indeed, the opposition NPP has been accusing the ruling NDC of mismanaging the oil and gas sector. The NPP has publicly discussed how it will use proceeds from the sector to transform the economy when elected in the 2016 general elections. It is from this background that this article critically examines the politics that is rife in Ghana’s infant oil and gas sector and the possible challenges it poses to the oil sector itself, good governance, democracy and development in Ghana.

The article undertakes a historical overview of oil discovery in Ghana and discusses the resource curse thesis as taxonomy for analysis. It reviews the legal and institutional framework of the sector and discusses the politics of oil and gas with its potential implications. The article ends with some concluding remarks and policy recommendations.
Historical Background

Undisputedly, oil exploration in Ghana is not a recent phenomenon. Contrary to a popular misconception, Ghana has a fairly ‘checkered history’ of petroleum exploration going back over a century (Gyampo, 2011; Osei, 2011). The history of oil in Ghana could be categorised into four phases or stages. According to Manu (2011, p. 8), these are the initial phase, which was made up of onshore exploration that took place between the years 1896 and 1969; the second phase, which was concentrated on offshore exploration which occurred between the years 1970 and 1984; the third phase, which was between the years 1985 and 2000, that is, in 1985 when the government saw the need to establish Ghana National Petroleum Corporation (GNPC) to be part of the exploration at the forefront and later on in 2000, the mandate ended and the fourth stage is from 2001 to date during which period, the GNPC was to focus on its main function of collaborating and facilitating the quest for commercial quantities of hydrocarbon deposits and other extractions.

Subsequently, the year 2008 was devoted to appraisal works (finding out how much oil could be produced from the field) and developing a plan for the Jubilee field. After such appraisals, it was estimated that the field would be producing 120,000 bpd by the end of 2011 (Manteaw, 2011). The field was named Jubilee because the oil was discovered 50 years after Ghana’s independence. It is situated 60 km offshore between the Deepwater Tano and West Cape Three Points blocks. Equity partners of the Deepwater Tano block are Tullow with 49.95 per cent, Kosmos with 18 per cent, Anadarko with 18 per cent, Sabre Oil and Gas with 4.05 per cent and GNPC with 10 per cent carried interest, whilst West Cape Three Points block is operated by Kosmos with 38.875 per cent with the subsequent partners Anadarko with 30.875 per cent, Tullow Oil plc with 22.896 per cent, GNPC with 10 per cent participating interest, E. O. Group with 3.5 per cent and Sabre Oil & Gas Holdings Limited with 1.854 per cent working interest (Kosmos Energy Ghana, 2015).

The Jubilee field is appraised to have potential revenue estimated at about US$ 1 billion per annum on an average crude oil price of US$ 60 per barrel. For instance, the lifting of 995,259 barrels of crude oil from the field in March 2011 year was expected to yield US$ 110 million for the country (Ghanaweb, 2011). Again, the International Monetary Fund (IMF) has conjectured that over the period 2012–30, Ghana’s revenues from the field’s oil and natural gas production would reach as high as US$ 20 billion (IMF, 2008).

Theoretical Framework: The Resource Curse Thesis

The literature on the resource curse is complex and multidimensional with divergent and convergent views. The resource curse ‘basically says that countries rich in natural resources are less well off in terms of economic growth and development more generally than countries without such an abundance of natural resources’ (Roll, 2011, p. 9). It was early works of scholars such as Sachs and
Warner (1999, p. 46) that presented a case for the resource curse by doing a study of ‘an inverse association across countries between natural resource abundance and economic growth over the period 1970–1990’. A major manifestation of the resource curse is known as the ‘Dutch Disease’, which refers to a situation in which a large inflow of foreign revenue leads to the overvaluation of a country’s currency as natural resource (gold, diamond, oil) prices surge, causing a decline in manufacturing industry such as agriculture. Although conventional wisdom maintains that it is important to specialise in specific industries and sectors, the Dutch disease situation rather tends to reduce the total levels of export or focus exports on particular sectors such as gold, diamond, gas and oil, and marginalising other manufacturing sectors like agriculture and service which have more conducive long-term economic growth.

Some other manifestations of the resource curse argued in the literature are that natural resource abundance increases the chances of these developing countries in, first of all, experiencing poor economic growth (Auty, 1993; Danquah, 2009, pp. 8–10; Gelb et al., 1988; Gylfason, Herbertsson, & Zoega, 1999; Leite & Weidmann, 1999; Neumayer, 2004; Roll, 2011; Sachs & Warner, 1995); secondly, causing high level of poverty (Ross, 2003, 2007); thirdly, leading to authoritarian rule (Ross, 2001) and finally, leading to civil war (Collier & Hoeffler, 1998, 2005; Collier, Hoeffler, & Soderbom, 2004). However, the degree of harmony on the various resource curse findings is increasingly questioned and contested by various studies over the years, making it much more complex and multidimensional. For instance, Ross’s (2001) thesis that oil hinders democracy has been challenged because it did not sufficiently admit the multifaceted nature of the dependent variable, which is democracy (Oskarsson & Ottosen, 2010). Again, the concept of the resource curse is contested by a number of scholars such as Davis and Tilton (2005). According to them, there have been instances whereby rich mineral deposits have given developing countries opportunities, which in some cases have been utilised wisely to encourage development, yet in other cases have been abused. Looking at such a situation, they argue that the suitable public-policy question is not should we or should we not promote mining in the developing countries; but, instead, where should we encourage it to ensure that it contributes to economic development and poverty alleviation (Davis & Tilton, 2005).

Also, a major point worth noting is the role of institutions in contradiction with the works of Sachs and Warner (1997) that institutions are not necessary in understanding the manner of growth in resource-dependent countries. Karl (1997) and Mehlum et al. (2008) have maintained that the extent of the ‘curse’ is contingent on the existing institutional framework as well as, as argued by Auty (1993), policy choices. For instance, Karl (1997) has opined that institutions are essential in explaining the resource curse and that the fortune of oil-exporting countries must be understood in a context in which institutions shape economies.

Discussing these different theoretical and empirical dimensions, the evidence suggests that the resource curse is complex and is manifested in different ways. It is against this background that this article seeks to discuss the politics in Ghana’s infant oil and gas sector and the implications thereof.
Legal and Institutional Framework

Manteaw (2011) suggests that in the formation of a governance framework for the economy of a country, the country needs to articulate its vision in terms of what contribution that sector would play in the nation’s economy, and it must do so in the form of a policy document. This policy then serves as a guide in developing the legal regime, which invariably will follow the objectives set out in the policy document, and after the laws have been enacted, there would be the need for regulation of the laws (Manteaw, 2011). Furthermore, the policy, legal and regulatory framework within which natural resources are exploited determines whether or not the resource owner maximises the benefits from their resources (Manteaw, 2011).

Also, any oil revenue management law (like other laws) must be adapted to the needs, institutions and legal framework of the country it is meant for. Drafting (of any law) must take place within the parameters of the local legal system and must take account of existing laws and practices. In Ghana, apart from the constitutional requirement, there are a number of laws that have been passed to regulate the oil and gas sector. These are as follows: the Petroleum Exploration and Production Act 1984 (PNDCL 84), the Ghana National Petroleum Corporation Act 1983 (PNDCL 64), the Petroleum Income Tax Act 1984 (PNDCL 188), the Energy Commissions Act 1997 (Act 541), the National Petroleum Authority Act 2005 (Act 691), the Petroleum Commission Act 2010 (Act 821) and the Petroleum Revenue Management Act 2011 (Act 815).

Oil and Gas Politics in Ghana and Its Implications or Consequences

Politics is said to be ubiquitous (Leftwich, 1984); this statement happens to be true relating it to the oil and gas sector of Ghana. Politics in Ghana has never been the same since the oil discovery in 2007.

According to data available online, Ghana had received US$ 2,810,112,010.22. In 2011, the allocations were made to four areas. The annual budget fund amount (ABFA), which received 37.6 per cent. GNPC received 46.83 per cent of the 2011 allocation (Figure 1). This was to help capitalise GNPC for further exploration. The rest was shared between the Heritage and Stabilisation funds. The same pattern was followed in 2014. However, in 2014, the ABFA received 35.6 per cent, whilst GNPC received 15.74 per cent.

The oil discovery in Ghana has been characterised by numerous instances of politicisation from the former to the present government. For example, NPP under the leadership of President John A. Kufuor claimed that it was their time that God blessed Ghana with oil in 2007, Ghana’s golden jubilee year, hence the name of the first oil field ‘Jubilee field’, where production began in December 2010. However, other accounts state that the oil was discovered during the time of ex-President Kwame Nkrumah who set up the Tema Oil Refinery (TOR) due to the detection of oil at the Western Region of Ghana. Again, the ruling NDC has
also claimed that it was during President Jerry John Rawlings’ regime that the GNPC which was headed by Mr Tsatsu Tsikata started the process of oil exploration and that the NDC discovered oil before they left office in 2001. The point is that both NPP and NDC argue that their governments put the necessary policies and steps in place for the oil discovery in 2007. The interesting aspect of this disagreement and early politicking in the sector is that though the Provisional National Defence Council (PNDC, a military regime led by J. J. Rawlings which metamorphosed into NDC in 1991) put in place some laws to allow for the exploration such as PNDCL 84, PNDCL 64, PNDCL 188, the fact remains that it was during the NPP’s administration that Ghana discovered a substantial amount of oil. However, the NPP administration from 2001 till 2008 when they lost the general elections to NDC also put in place measures to facilitate the future discoveries. Nonetheless, it was during the NDC administration that Ghana began oil productions. We argue that it was through the effort of both the parties that Ghana discovered oil (led by NPP in 2007) and it was during NDC rule that Ghana began official oil production on 15 December 2015.

We do recognise that the debate about who found the oil still lingers on, but what matters is who can help the country make the best out of the revenues that would be generated from the sector for the ordinary Ghanaian to benefit. The caution is that if care is not taken, the issue of who found the oil could be blown out of proportion and might lead to some contention and misunderstanding, particularly during election campaign. This could happen because the major parties would do anything to win the vote of the electorate even on the spurious argument that they (whether NPP or NDC) found oil and began its production and that it would be appropriate to be re-elected to continue with what was started.

Along similar lines, the chiefs and the people of the Western Region of Ghana believe that the oil was discovered in their region and so made a call to government
to allocate 10 per cent of the revenues from the sector to them for the social and economic development of the region. They followed this call to government by sending a petition to parliament for consideration. The spokesperson Nana Kobina Nketiah argued that their petition is an ‘act of desperation’ after years of marginalisation faced by the region (myjoyonline, 2010). He claimed that though the region is endowed with several rich minerals such as gold, cocoa and timber, it is ranked as one of the poorest regions in the country (myjoyonline, 2010). Furthermore, these chiefs lamented that having given up on the revenue from the gold, they have the right to make a demand on the oil revenue for the direct social and economic benefits of the people in the region (myjoyonline, 2010). The chiefs dismissed the claim that their demands could create division in the country, stating that they were only demanding a mere 10 per cent of the revenue, whilst the entire country had 90 per cent. This claim might seem irrelevant for now, but it could have future repercussions looking at general poverty levels and high rates of unemployment in the country. Already, the major source of livelihood in the Western Region, which is fishing, is facing a challenge since the discovery of oil in the region. The interest of the young people in the community has been shifting from fishing to the seemingly booming oil industry. Also, due to the location of the rig offshore, most of the fishes in the area move to the rig since they are attracted to light, and the fishermen and fishmongers in the community keep complaining about it since they have been banned from going a certain distance to the rig to fish, making it difficult for them to make ends meet.

More prominently, oil and gas featured visibly in both 2008 and 2012 general elections campaign and promised to feature the more in the next election, which will be in 2016. For instance, during the 2008 general elections, oil featured conspicuously as a major contesting issue; it was silently driving the agenda of the various campaigns by the political parties due to the revenues it was to bring into the national coffers (The Chronicle, 2012). Again, during a debate organised by the Institute of Economic Affairs held in the Western Region in 2012 just before the elections, both NPP and NDC made mention of how they intended to use the petrodollar. The NPP presidential candidate pointed to the fact that oil revenue would be a major source of funding for their free Senior High School education policy and quality health care for all Ghanaians. The NDC on the other hand have on their priority list infrastructure development, which they have captured in their 2012 manifesto which states that ‘Our infrastructure development will be intensified to accelerate the transformation of Ghana into a full middle-income status’, hence showing the dichotomy in how the two front runners of the 2012 general elections sought to use the oil revenue (The Chronicle, 2012). Nonetheless, the two agreed on the commercialisation and development of the gas from the sector.

The NPP manifesto for the 2012 general elections campaign addressed the energy sector by stating that the party intended to exploit the gas resources to increase energy supply, so that by the end of 2016 it will spread rural access of electrification to 90 per cent (Ghanaweb, 2012). Again, the NPP flag-bearer (Nana Addo Dankwa Akufo-Addo), in his quest to garner support for NPP’s claim to the discovery of oil, stressed that it was the reforms in the governance structure initiated by the previous NPP (President J. A. Kufuor’s) government administration
that led to the discovery of oil in commercial quantities in the year 2007 (Ghanaweb, 2012). Furthermore, the NPP flag-bearer stated that NPP’s policy on the petroleum sector would focus on the continued exploration for more oil and gas reserves and ensure transparency in the operations of Ghana’s oil fields and outputs. According to NPP’s manifesto, the party was going to enact laws that will improve the legal regime for petroleum exploration, production and services to improve Ghanaian involvement in the oil and gas sector (Ghanaweb, 2012). Additionally, the NPP flag-bearer stated that NPP was to enter into partnership with the private sector to actively pursue the potential of building another refinery and processing plant in Ghana. The more interesting one was that NPP promised to make the Western Region the hub of the oil and gas industry by developing services and institutions related to the industry in the region. This promise in our view was to placate the chiefs and people of Western Region since they had requested for a 10 per cent of the oil revenue. Finally, the party promised to introduce an ‘Accelerated Oil Capacity Development Programme’ which was to target training of Ghanaians in high job creating sectors, including fabrications and installations, manufacturing of equipment and construction of oil and gas infrastructure (Ghanaweb, 2012).

It is important to note that all these campaign policies and plans are promising and exciting, yet the politics in this infant sector appears to be early and copious. Nonetheless, the relevance of the resource curse thesis in this regard cannot be neglected. First of all, both the parties in their manifestos are suggesting what is known in economic development as resource-led development, which is the situation in Malaysia, Trinidad and Tobago, where they spend their oil revenue on industrial development and education respectively. This notwithstanding, the challenge however is that should Ghana become over-reliant on oil revenues, it would have serious effect on the economy of the country leading to a situation where other sectors could suffer and create conditions for the oil curse phenomenon. Secondly, for major political parties in the country, to have such high stakes in the oil and gas sector is a bit troubling and could pose serious problems for the state in future. The unbridled attention paid to the oil and gas sector adds value to the argument that resources have a long-standing undermining effect on African democracies. The fear is that of greedy multinational lobbyists who could fuel pre-election and post-election political tensions in future elections by sponsoring the chase of power for these political parties, which could have a devastating effect on the democratic credentials of Ghana.

**Conclusion and Policy Recommendations**

In summary, politics in the oil and gas sector is rife and caution needs to be taken to manage the sector well. The main concern is that if it is not managed well, it could lead the country to some unrest and potential violence. The following are some policy recommendations for consideration if Ghana wants to manage the politics that already exists in this infant industry. Firstly, Ghana should have a national policy plan for the utilisation of the oil revenue. The document should be
detailed on how much the oil revenue would contribute to the development of the set development plan. According to the Petroleum Revenue Law (ACT 815), the ABFA, which is taken from the Petroleum Holding Funds to support annual government projects and programmes, should be allocated in line with a long-term plan of the country. However, since such a plan does not exist, there is the potential for wasteful spending and allocation to several projects at the same time which can lead to cost and time overruns. Secondly, this national policy should be limited to some social interventions such as education, agriculture and health sector. This is because recent studies by ACEP (Africa Centre for Energy Policy) revealed that there is a finance gap in education and agriculture. If these gaps are not addressed, then they can affect agricultural output and the quality of education. The gap has been created by the reduction in donor support due to the attainment of middle-income status by Ghana. Therefore, the oil revenues can be a timely replacement to boost educational infrastructure and agriculture modernisation. Thirdly, the discretionary powers of the finance minister should be limited by giving a criterion for the selection of the project. Fourthly, the institutions mandated by law to monitor transparency and accountability in the sector like the Public Interest and Accountability Committee (PIAC) and the Auditor Generals Department must be strengthened through training and financial resources.

Note
1. Retrieved February 2015, from ouroilmoney.org

References


