First One Hundred Days of Oil Production in Ghana

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Gyampo, Ransford, E. V. - Department of Political Science, University of Ghana, Legon
E-mail: vangyampo@yahoo.com or revgyampo@ug.edu.gh
Phone: +233244277275

Kuditcher, Nene-Lomotey - Department of Political Science, University of Ghana, Legon
E-mail: nenelomok@gmail.com

Asare, Bossman E. - Department of Political Science, University of Ghana, Legon
E-mail: bossasare@gmail.com

Abstract
This paper discusses the events and happenings in Ghana within the first one hundred days of oil production. Using elite interviews and media reports, the paper chronicles several challenges and problems including lack of transparency, secrecy, consensus building, discontentment, etc that have occurred in the oil industry. Given that these were the same challenges that characterized the preparatory processes prior to oil production, the paper argues that the challenges and problems of the oil industry within the first
The hundred days of oil production are not mere teething problems but signs of greater challenges to come. The paper concludes on the note that timeous and prompt solution to these challenges is crucial in ensuring that the oil becomes a blessing to the nation in so far as development and promotion of good governance and democracy are concerned.

**Introduction**

Ghana officially commenced oil production in commercial quantities on the 15th of December 2010. However, preparations prior to production in terms of the drafting of appropriate policy, legal and regulatory framework were weak (Gyampo, 2011). Indeed, the nation’s first oil production was undertaken without the guidance of any major legal and regulatory framework. Moreover, much effort was not made to ensure consensus building and transparency in the preparatory processes towards production culminating in a feeling of being sidelined in the preparatory processes by the opposition political parties and Civil Society Organizations (CSOs) (ibid). These gave credence to the paranoia that the country’s oil find could result in a curse. Within the first one hundred days of oil production, that is, from 15th December 2010 to 25th March 2011, several activities and events have taken place in Ghana’s emerging and nascent oil industry that gives cause for concern. These events do paint a picture of a gloomy future and negative impact of Ghana’s oil production on the country’s development as well as pollute her relatively peaceful democratic environment. On the other hand, it has also been argued that in every new and emerging oil economy, there are bound to be mistakes and teething problems that can be easily resolved with time (Paul, 2011). In this regard, the events that may have characterized the first one hundred days of oil production in Ghana may not be necessarily “life threatening”.

Generally, the literature on natural resources have focused on how to sustain development in mineral economies (Auty, 1993) as well as the paradoxes associated with oil discoveries. In this regard the works of (Lynn, 1997), Gelb (1988), and Humphreys et al. (2007), come to mind. Studies on Ghana’s oil discovery in commercial quantities have also mainly focussed on how to manage the expectations of people (Anaman, 2008; Asante, 2009); deal with potential sea-conflicts (Jonah, 2010); utilize the proceeds in order to save the country from the resource curse syndrome (Moss and Young, 2009; Asafu-Adjaye, 2009); inter-sectoral impacts of oil production (Asafu-Adjaye, 2010); as well as critical assessment of preparations that were made.
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before oil production (Gyampo, 2011). Nonetheless, these studies have not focussed on how oil producing countries have fared and events that have occurred in these countries within the first few months of production. Importantly, a thorough analysis of events and happenings in an oil producing country within the first one hundred days of production, for instance, is crucial because it enables one to predict with some degree of certainty the future outcome of the oil find. It is in the light of this that this paper sets out to discuss and analyze events that have taken place in the first hundred days of oil production in Ghana. As coming events cast their shadows, this endeavour is useful in determining with some level of precision whether the activities that have taken place within the first one hundred days could heighten or reduce the possibility of the resource curse syndrome in Ghana.

**Theoretical Underpinning**

When state capacity is low and the abilities of the electorate to monitor and control government activities are weak as the experiences of crony or prebendal states illustrate, the discovery of natural resources in commercial quantities increases competition for control of the state. This leads to political violence and the use of state resources by those who control the state to maintain their hold on political power. In specific terms, state capacity denotes organizational coherence and expertise among the various agencies of the state that lead to the provision of policies and programmes for the benefit of the citizenry. The absence of state capacity is perhaps the main reason why many developing economies continue to lag behind in several human development indicators (Howlett and Ramesh, 2003). In contrast, when a country is resource poor, there is less competition for state control which favors elite cooperation and the maintenance of democratic governance (Chaudhry, 1997). In a one party and no party settings, resource abundance allows the incumbents to increase their political support and consolidate their hold on political power. In essence, the more rents there are, the larger the electoral support for the incumbent government. The interesting case arises when the incumbent faces an opposition in a democratic political competition. In that case, abundance of resource rents may have crucial effects on the outcome of democratic elections and on democratic governance (Lam and Wantchekon, 1999).

If the ability of the state to enforce the law is weak, the incumbent government will tend to have some discretionary power to generate rents and
to distribute these rents to citizens or/and voters. Such leaders tend to be less transparent in handling the proceeds of natural resources. As incumbents, they always have an informational advantage over the availability of the rents and allow it to alter the structure of the budget for electoral gains and not necessarily to activate developmental processes. Informational advantage and politicization of budgets can prove to be decisive in democratic elections and are likely to enhance incumbency advantage (Wantchekon, 2002). In a country like Norway, where budgetary procedures are transparent with limited discretion of the executive, natural resource discovery and abundance does not confer incumbency advantage. However, such transparency is lacking in a country like Nigeria, where the ruling political elites have often strived to use all corrupt means to siphon the oil money for their personal gains (ibid: 7). If the opposition is unable to resort to non-constitutional means such as political unrest to compete for political power, incumbency advantage persists over several electoral cycles and leads to one party dominance. This is the case in Botswana, where as a result of strong rule of law and political high-handedness, even perpetually losing parties have opted to abide by electoral outcomes (ibid: 9). However, when the opposition can use political unrest, one party dominance over oil resources could incite them to use illegal means such as riots or coups to compete for political power. Usually, the opposition criticizes the political elites for corruption, lack of transparency and marginalization. With these charges, they may be prepared to resort to unorthodox means to make the state ungovernable (ibid). The incumbent, anticipating this reaction of the opposition may choose to ban the opposition party or force this party to merge with the ruling party, thereby creating an authoritarian government (Yates, 1996).

Natural resource discovery in abundance could therefore lead to a curse for one of the following reasons: (1) it could allow an already dominant or authoritarian party or a coalition of parties to extend its level of popular support and consolidate its hold on political power; (2) it could generate incumbency advantage and political instability, which could incite the incumbent to adopt repressive policies towards the opposition; (3) it could generate an open and extra-constitutional conflict (civil war), which could result in a dictatorship by the opposition party or the incumbent party as happened in former Zaire, Congo Brazzaville, and Liberia. Against this background, this paper stresses the importance of adequate preparations in a manner that ensures national consensus about how Ghana can manage her oil resources. This would minimize oil’s challenge to the country’s good
governance and democracy. However the argument that natural resource discovery could lead to a curse and threaten good governance and democracies, especially in developing countries is made real and tend to justify the kind of inadequate and opaque preparatory measures Ghana undertook prior to oil production (Gyampo, 2011). Ghana’s current situation fits the theoretical argument as advanced. This is shown in the opacity and marginalization of the opposition political parties as well as CSOs in the preparatory processes. (ibid). More importantly, a thorough analysis of events that have taken place within the first one hundred days of oil production in Ghana raises some skepticism about the future of Ghana’s oil production as a natural resource blessing.

**Analyzing Events that have taken Place in the first Hundred Days**

Ghana officially commenced oil production on 15th December 2010. However, all the issues raised in this paper regarding the weak preparations made, absence of a major legal and regulatory framework that would determine who can tap Ghana’s oil and the conditions and rules under which the resource could be tapped, as well as oil’s challenge to democracy and good governance have not been addressed. The ceremony to start the production graphically illustrated the potency of Ghana’s oil to divide and curse its citizenry. Somehow, the president and his staff failed to assign proper and meaningful roles to his predecessors (particularly former president J.A. Kufuor who played a significant role in getting the investors to invest in the oil industry during his administration, from 2001 to 2009) during this all-important ceremony. Again, the flag bearer and leader of the largest opposition party in Ghana, Nana Akufo Addo, was not invited to the ceremony. This has heightened the feeling of neglect and marginalization by the opposition in Ghana’s emerging oil economy. Without serious efforts to deal with these challenges, the nation may be sitting on a time-bomb.

Moreover, parliament fully passed the Petroleum Revenue Management Bill (PRMB) after several amendments on 2nd March 2011. The memorandum that accompanied the Bill indicated that it was aimed at providing a framework to guide the efficient collection, allocation and management of petroleum revenue for the benefit of current and future generations of Ghanaians (Draft P.R.M.B, 2011). The Bill was to also ensure the overall management of petroleum revenue based on sound and sustainable fiscal policies that transcends political regimes as well as ensure a provision of a clear assignment of responsibilities, from collection to final utilization of
petroleum revenue within a transparent and accountable framework (Daily Graphic, 2011:1-2). The key features of the Bill are the establishment of the Ghana Heritage Fund (GHF) and the Ghana Stabilization Fund (GSF). The GSF is to cushion the impact of price variations on the public or cushion public expenditure capacity during periods of high prices and adverse production changes, while the GHF will provide an endowment to support the welfare of future generations after the underground petroleum has been depleted (Draft P.R.M.B, 2011: 8). Both Funds are collectively referred to as the Ghana Petroleum Funds (ibid).

Given the potency of inappropriate and improper management of revenues from natural resources to create chaos, confusion and derail the development of the state as has been witnessed in many countries, such as Nigeria and Sudan. The passage of the PRMB, though belated, was crucial. However, as the situation was in the preparatory processes prior to oil production, there was not much consensus reached on several issues in the passage of the bill, a situation that creates a serious recipe for conflict (Daily Graphic, 2011:3). CSOs and the minority opposition parties in parliament severely criticized their marginalization in the processes towards the drafting of the bill. The minority again vehemently opposed the blanket collateralization of Ghana's future oil revenue which was contained in clause 5 of the Bill. The controversial Clause 5 of the PRMB - which initially stated that future revenues from oil could not be collateralized and which government sought to amend to allow for collateralization, generated heated debates from the two leading political parties in Ghana’s parliament. The ruling majority, however, insisted on amending the bill to allow the state to use oil revenues as collateral in accessing loans in flagrant disregard of the views of about 80 percent of Ghanaians who opposed the use of oil revenue as collateral (Kennedy, 2010). Indeed, many people in the Western Region of Ghana have since expressed disappointment at parliament’s decision to permit oil-backed loans (Daily Guide, 2010:18). Apart from the argument that if government is allowed to collateralize the oil revenue, there will be indiscriminate borrowing which could create problems for the country’s economy in the future, there is another latent reason why the opposition parties have kicked against collateralization. They have argued that it could be used as a mechanism to perpetuate the ruling elites in power in the sense that it gives them access to loans which could be “misused” for political benefits. They have therefore pledged to “match the ruling party boot-for boot” and ensure that it does not use its access to such oil-backed loans to its advantage in the
2012 elections. Needless to say, such determination psyches and prepares political apparatchiks and party foot-soldiers for conflict.

One other issue that generated intense debate in Ghana’s Parliament during the passage of the PRMB was the request by the chiefs and people of the Western Region for the allocation of ten percent of the oil revenue into a fund for the sole development of the region. The attempt to reach consensus on this was unsuccessful. While the majority kicked against the request on grounds of its potency to breed divisive tendencies in the country (even though the sitting vice president, John Dramani Mahama, on an earlier electioneering campaign trip in the Western Region promised them a ten percent share of the oil revenue), the minority argued that even though the Western Region is endowed with several natural resources and contributes immensely towards the nation’s development, no serious effort has been made to develop the area by successive regimes. Again, the minority argued that since the people of the Region were going to experience and bear the direct brunt of oil production in terms of its adverse environmental impact as the experiences of mining communities show in Ghana and in the Niger Delta in Nigeria, their call for ten percent of oil revenue was legitimate and had to be incorporated in the PRMB. However, with the typical adversarial style that characterizes the conduct of many parliamentary sessions and proceedings, the majority hastily voted against this position and left the minority with no option than to threaten a court action (Daily Graphic, 2011:1-2). This has created discontentment among the chiefs and people of the Western Region (ibid: 3). It would therefore not be surprising if they resort to acts that could sabotage the oil industry and threaten the peace of the area. This is because they vowed to resist any attempt to drill oil in the area without meeting their request during the preparatory processes towards oil production (Gyampo, 2011:12).

Meanwhile, the passage of the PRMB was scheduled to take place hand in hand with the passage of the Petroleum Exploration and Production Bill (PEPB) to provide a legislative framework for oil exploration and production (Fuseini, 2011). Indeed, some have even argued that the latter should have been passed long before the former. As the situation stood within the first hundred days of oil production, there was no law to guide oil exploration and production in Ghana. Who qualifies to explore oil, how to deal with environmental impact of oil production and spillage issues were oblivious to
Ghanaians even though oil production in commercial quantities had commenced in full scale.

Furthermore, Kosmos Energy, a partner in Ghana's oil industry, within the period under review decided to sell its share in the Jubilee Oil Field through an Initial Public Offer (IPO) in the US, rather than selling it to the Ghana National Petroleum Corporation (GNPC). This meant that the GNPC had to compete for the Kosmos shares on the international market, if it still had interest. The GNPC, which holds 13.75 percent interest in the Jubilee Oil Field, last year decided to buy Kosmos Energy's 23.49 shares to increase its stake in the oil find, and the government decided to source for funds from China for this purpose (Ghanaian Times, 2011:1-3). However, at a press conference organized in Accra on 10th March 2011 and addressed by Ato Ahwoi, the Board Chairman of GPNC, he expressed disappointment about the attitude of Kosmos Energy and noted that “GNPC has made several contacts and negotiated with Kosmos Energy but it has refused to sell its shares to us, and it want to do it through an IPO America. Hence, the idea of GNPC buying the Kosmos Energy shares is closed for now." Even though it is conceded that Kosmos Energy has the right to decide who to sell its share to, some Ghanaians have argued that the GNPC should have been given the opportunity to buy the shares as has happened in other oil producing countries to create a semblance of national ownership of such natural resources. In Nigeria, for instance, the Royal Dutch Shell PLC sold four of its on-shore oil blocks to local oil producers eager to snap up Western oil major’s properties as unrest in North Africa and the Middle East had boosted global crude prices (Public Agenda, 2011:7).

Another major challenge is that even though officials were aware of Ghana’s fortunes to join the oil producing countries, no effort was made to boost the capacity of the Tema Oil Refinery (TOR) to be able to refine oil produced within the country. This did not taken place within the first hundred days and one is not sure whether it would be done at all. Technically, even though an oil refinery exists, it has no capacity to refine the country’s oil (Ahwoi, 2011). Given the Ghanaian parliament’s seeming unwillingness to pass the Right to Information Bill, Ghanaians have been kept oblivious regarding the quantity of oil sent out for refinery and the actual quantity that is refined. Moreover, there seem to be conflict of information about exactly how much Ghana’s oil is sold on the international market. In January 2010, it was rumoured that Ghana’ oil was sold below the world market price (USD 70
per barrel as against USD 90) even though Ghana’s oil is of higher quality than most oil being sold on the world market. Officials and the Jubilee Partners (Tullow Oil, Kosmos Energy, E.O Group, Anadarko and GNPC) have, however, refused to publicly disclose exactly how much Ghana’s oil is sold on the world market, giving room for speculations and uncertainties. No effort has also been made within the first hundred days of oil production to publicly disclose the royalties paid to the nation by The Jubilee Partners. This has created suspicion among political elites of the opposition parties. Ghana earned approximately a hundred and ten million dollars from the sale of its first share of crude oil from the Jubilee Field. The GNPC’s lifting of a total of 995,259 barrels of oil came after three previous consignments had been taken by Tullow Oil and the other partners in the venture (Ahwoi, 2011). Even though what the nation earned from the lifting and sale of her oil is known, the royalties that have accrued the nation from the lifting and sale of oil by the other Jubilee Partners remain unknown. Unfortunately, the many Ghanaians who have been “kept in the dark” have been silent either because of apathy or ignorance and have not questioned the political leaders about their lack of information particularly regarding the exact proceeds in terms of royalties from the sale of the oil. With this deficiency, the citizenry are unable to monitor and control the activities of government in so far as issues relating to oil revenue are concerned. The tendency for this situation to erupt into violence after gullible supporters of the opposition have been incited to demand their fair share of the oil revenues as well as the use of resource rents by those who control the state to maintain their hold on political power becomes imminent under such conditions of secrecy. The current situation creates room for embezzlement, and misappropriation as well as other corrupting deals with the nation’s oil resources by unscrupulous leaders (Manteaw, 2009). Within the period under review, the natural resource seems to have conferred some incumbency advantage over the political elites in power. Given the phenomenal institutional weakness in Ghana, leaders have exercised their discretion regarding which information about the oil revenue they would disclose and which one they would conceal from the people. Unfortunately, these are the tendencies that have led to conflict and threatened the existence of several oil producing states (Gyampo, 2011).

Another significant happening within the first hundred days of oil production in Ghana was rent price hikes or increases in rent advance and the ejection of tenants who could not afford the new rent rates by their landlords/ladies. The monthly rent of an average apartment in Takoradi, the capital town of the
Western Region where the oil is produced, was increased from GH¢50 to GH¢500 and tenants were asked to pay three years rent advance in contravention of the nation’s rent control regulations (Arthur, 2011). A single plot of land that was sold for GH¢1,500 before the commencement of oil production was increased to GH¢10,000 (Daily Guide, 2010:18). Some local and indigenous inhabitants who were unable to pay these increases, particularly regarding the rents for accommodation lost their rooms and apartments to foreign investors who could afford to pay such huge rent increases. This has created disenchantment among several residents of Takoradi, particularly those who have lost their accommodation to foreign investors (Arthur, 2011). Given the country’s huge housing deficit, any move to worsen the problem must not be tolerated. Again, the seeming unwillingness and inability of the government to enforce its rent control regulations could lead to a revolt among those who have lost their accommodation against the state or create conflict between them and the foreign investors in a manner that could sacrifice the peace of the region and ward-off investors.

There were also been reported clashes between state security agencies and fisher folks in the oil prospecting area. Instances have been recounted when fishermen returning from sea in Essiama in the Western Region of the country were accosted by the navy, beaten up and their catch taken away from them (Jonah, 2010). In such instances, the poor fishermen had no recourse to justice. Even though this occurred in the preparatory process towards oil production in Ghana, it did not cease within the period under review and there seem to be no serious effort to deal with it. The situation raises concern about a looming sea-use conflict.

Last but not least, the country seemed to have intensified her effort to explore more oil within the period under review. Key projects that were commenced include the appraisal of the Tweneboah Complex, the ENI Sankofa and Deepwater Tano Block. For the implementation of the exploratory activities, an amount of GH¢ 405,495,572.00 was allocated (Budget Statement, 2011: 90). Much as this initiative is commendable, the state has not done well in empowering Ghanaians to be active participants in the oil exploration process. In Uganda, for instance, the government has committed itself to a policy of putting in place domestic industrial infrastructure which would guarantee a significant role for Ugandan entrepreneurs in the exploration and management of crude oil deposits in the country. Without this arrangement,
the government has decided not to be in haste to export the nation’s crude oil (Paul, 2011). Unfortunately, in Ghana, a "Local Content and Local Participation in Petroleum Activities - Policy Framework", which indicates the desire of government to ensure that the control (about 90 percent), as well as benefits in the oil and gas discovery and production will remain with Ghanaians by the year 2020, was still not fully in place within the period under review (ibid). Even though some have argued that it is unrealistic to have the kind of local content policy being proposed, government has not shown any sign of commitment in making such policy proposal realistic.

Conclusion
The first one hundred days of oil production in Ghana was saddled with several challenges and happenings that create scepticism about the contributions of oil to Ghana’s development, democracy and relative peace and tranquillity. With hindsight of the adage that *coming events cast their shadows*, it is reasonably fair and plausible to argue that the current lapses in Ghana’s emerging oil industry represents a sign of major difficulties and problems ahead. To be fair, others have also argued that the happenings within the first hundred days of oil production are mere teething problems of the Ghanaian infant oil industry that may be resolved in a matter of time. However, it is important to point to the fact that there were many lapses in the preparatory processes prior the nation’s production of oil which were left unattended to. Given the weak preparatory processes, lack of consensus, as well as transparency, Ghana was deemed unprepared and not ready to embark on her oil production (Gyampo, 2011). In spite of these challenges, the nation went ahead to pump and export her first oil. Hundred days of oil production has lapsed and issues about lack of transparency, secrecy, consensus building, insufficient legislative frameworks, ignorance, apathy as well as discontents among a section of the Ghanaian population, particularly those from the Western Region continue to be a matter of grave concern to many Ghanaians. If these were some of the problems that led to conflict in many oil producing countries in Africa, such as Chad, Sudan, and Nigeria, one may not be far from wrong in saying that Ghana may gradually be inching towards conflict should there be complacence and failure to promptly deal with the challenges before they become deep seated and assume hydra-headedness and be the recipe for political implosion.
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