PRESS STATEMENT

By

Alliance of CSOs working on Extractives, Anti-Corruption and Good Governance

Attention:

1. **The Rt. Hon. Speaker of Parliament**
   Parliament of the Republic of Ghana
   Parliament House, Accra-Ghana
2. **The Country Director, IMF**
3. **The Country Director, The World Bank**
4. **The Ambassador, Embassy of the Kingdom of Norway**

PARLIAMENT MUST INVESTIGATE THE GNPC TRANSACTION WITH AKER ENERGY GHANA

The attention of the undersigned members of the Alliance of Civil Society Organizations (CSOs) working on Extractives, Anti-Corruption and Good Governance has been drawn to a proposed transaction between Ghana National Petroleum Corporation (GNPC) and Aker Energy for a farm-in to two oil blocks operated by Aker Energy Ghana limited.

The Corporation and Government cite "***energy transition***" as the anchor for the decision. We agree that the energy transition requires an appropriate policy response, which Ghana may be running late on, but cannot be a guise for poor decisions that threaten the country's economic and fiscal outlook. We are also not opposed in principle Government increasing its stake in natural resource ownership. However, we are concerned about this specific transaction.

After analysing the proposals by GNPC and Government, we are clear in our minds that the transactions, if approved, will short-change Ghana. Therefore, we request Parliament to intervene, given that the deal has gone through all the relevant branches of the Executive[1], ostensibly glossing over important threats of the transaction to the country's fiscal situation.

Background

[1] Attorney General, EMT, Cabinet, Ministry of Finance and Ministry of Energy.

Aker Energy made a comeback to Ghana in 2017 through two acquisitions; South Deep Water Tano (SDWT) block, which Aker exited after its agreement with Ghana was abrogated in 2009, and 50 percent stake in the Deep Water Tano/ Cape Three Point (DWT/CTP) block. Subsequently, Aker dominated the policy environment with enormous demand on Government to amend the governance architecture of the upstream sector for what it deemed an importation of efficient strategy that has worked well for the company in its home country. These demands dominated discussion in the energy sector, particularly because Aker's demands became the Government's call.

Within two years, Aker pushed for and got:

1. The Petroleum (Exploration and production) Act, 2016 (Act 919) and its regulations amended to allow companies to hold on to contract areas at the Energy Minister's discretion rather than automatically relinquishing part of exploration blocks as practiced before the entrance of Aker.
2. Two Petroleum agreements for Aker amended to limit the regulatory powers of the Petroleum Commission (PC) on the activities of the company.
3. Reduced the participation of GNPC Explorco on the SDWT block and capture the amendments to the law and regulations in the agreements.

After getting the State to bend to its demand, Aker has for the past year, been looking for buyers to sell its stake in Ghana without success. It, however, emerged in the second quarter this year that discussions were underway with GNPC for "Resource Backed Lending" (RBL), but not much detail(s) were available to the public for input. However, the Minister of Energy's submission of a memo to Parliament on 30 July 2021 on the transaction provides some information to prompt questioning and investigation into the entire transaction.

In the Memo presented by the Energy Minister and approved by Cabinet, the lawmakers are requested to approve a US$1.65 billion blank cheque for the Government to finalize negotiations with Aker Energy to acquire 37 percent interest in DWT/CTP and 70 percent interest in SDWT. According to the Memo, US$1.3 billion is for acquiring Aker's interest, and US$350 million is for the development cost of Pecan phase 1 to first oil.

For a US$1.65 billion transaction, any prudent investor in the upstream oil and gas business cannot accept the quality and content of the Memo and the supporting documents presented to Parliament (the primary investor in this case). This generates several questions that should elicit adequate probing to safeguard the interest of the country.

Key Questions

We recognised the many questions that can be raised on the transaction as presented to Parliament. However, we focus on six key questions that expose the transaction to be in the opposite trajectory to the interest of the country as follows:

1. **Are the fields really worth US$2 billion?**

GNPC's proposal cites valuations from third-party analysts. However, the valuations ignore the possibility that the oil price might not be as high as assumed, that reserves might be less than assumed or that costs might be higher than assumed. Before development, there is very little certainty about these factors.

For instance, Globally, Ernst & Young found that 65 percent of big upstream projects ran over budget— (and) by a hefty 53 percent on average. Another study noted that all successful new oil producers in Africa, Ghana included, netted less revenue than they expected, partly due to higher costs. GNPC should be familiar with this reality, given Ghana's experience with all three producing fields.

All good analysts will present different valuations given different prices and other assumptions. Instead, this proposal ignores this practice.

2. **How much value is assigned to unconfirmed SDWT reserves that may not be developed?**

One of the main uncertainties is how much actual oil can commercially be extracted from the field. The proposal provides little information on how these prospects are being valued because a lot more work that is technical remains undone. Why is the GNPC betting on these prospects that have not been appraised? The SDWT discoveries risk not being developed if purchased by GNPC. According to the Commission, the water depth is currently between 2700 to 3500 meters with initial discovery information of 127 million barrels of oil equivalent. According to Aker in their Appraisal Program submitted to the Petroleum Commission in 2019, there is currently no qualified technology for such a depth of water and hence will require the development of technology, an independent qualification or approval of such technology before use in SDWT. This will require further investments by GNPC to improve on reserves that have not been estimated as part of this deal. In essence, it may not be commercially viable to develop SDWT, Nyankon discovery, with just an initial estimation of 127 million barrels. Yet, Aker is selling those resources to GNPC as part of the transaction with a promise to fast track the development by 2024.

3. Do Aker's cost claims add up?

Aker claims it has invested about US$800 million so far on the blocks in a document submitted to Parliament. While GNPC claims it has verified the expenditures, it still appears inflated if juxtaposed against the amount of work done by Aker and the value of its acquisition three years ago. Aker Acquired Hess's interest in the DWT/CTP for US$100m in 2018. Before selling its interest to Aker, Hess had appraised the field with estimated recoverable oil of 450 million barrels. In total, Hess drilled 12 wells (seven exploratory wells and five appraisals well). With that amount of work done, the highest valuation Hess got was about US$400 million in 2016 when it farmed out 40 percent to Lukoil and Fuel Trade for the entire field. Akers claim it has spent about US$420 million on five well drilled on the two blocks. In another document presented to the country's Economic Management Team (EMT), the US$420 million relates only to the three wells on DWT/CTP. Given that the DWT/CTP cost is shared among the partners of the block the total expenditure claims for the wells could be in the region of US$600 or US$750 million compared with US$400 million by Hess for 12 wells, depending on which of the documents used. This is very high regardless of which of the information is used.

The remaining US$280million must be accounted for properly. GNPC claims that money was used for "*certain activities essential for establishing resource in the blocks*". This is overly ambiguous and cannot be accepted as a cost with this kind of description which questions the distinction between that activity and data acquisition and studies done as part of exploration and appraisal.

4. Is Aker getting a great deal at the expense of Ghana?

It is worth asking why Aker has struggled to find investors to develop these fields. If few others find the fields attractive, why should GNPC? GNPC is providing a better deal to Aker than it could find elsewhere to raise capital to invest and bear risk. This proposal gives Aker the funds to procure an FPSO at US$600 million and lease to the project for risk-free benefits, finance its development cost for the minimal stake at US$140 million and keep US$560 million in the bank.

With these high-cost claims, Aker makes a profit of about US$500 million on the proposed acquisition value of US$1.3 billion. If the cost is imposed at US$965 million as presented to the EMT, Aker still makes about US$350 million of profit for selling part of its stake in the blocks. The gains for Aker increase astronomically when analyzed on additional information we have, which suggest that the cost of US$420 million being pushed on GNPC is the cost available to the Commission for the entire field, and the prorated cost for GNPC should instead be about US$155 million for the stake.

5. **Whose money is it any way?**

One of the main costs that the proposal ignores is the cost of capital. By lending this money, the government is increasing the national debt by 5 per cent and could increase Ghana's sovereign debt costs while redirecting money that could have benefited other sectors of society. Some of these may have greater long term growth potential and more ability to transform Ghanaian's everyday lives and economic prospects than oil and gas, which creates relatively few jobs for citizens and provided the biggest benefit to a relatively small group of people—for instance, those who work for companies that receive "local content" subcontracts on projects.

The government could charge a high interest to GNPC, but the proposal ignores this cost. GNPC is making a risky bet, but betting the public's money, not their own.

6. **Is it worthwhile, realistic—or even advisable—for GNPC to pay so much public money for the chance to become an "operator"?**

GNPC is attempting to convince Parliament that it will learn to become a world-class upstream operator through this acquisition. However, the structure of the transaction only makes GNPC Explorco a relatively passive "joint operator", with limited opportunity to learn by doing. The proposals we have seen don't accurately detail how Aker would transfer the needed skills, knowledge or technology into Ghanaian hands. Instead, it proposes setting up a Special Purpose Vehicle (SPV), which Aker will control with 60 percent interest, and GNPC Explorco will have 40 per cent. This structure cannot make GNPC the operator it wants to become as the SPV is not the same as Explorco.

Conclusion

The Memo to Parliament is a significant eye-opener for well-meaning Ghanaians to closely monitor the relationship between Aker and the State. GNPC has failed to examine the issues in the transaction properly. The decision to support GNPC to become an operator is not a new conversation. Ten years ago the country decided to support GNPC to become an operator by allocating a portion of oil revenue. So far, about US$1 billion has been given to the Corporation, but it has failed to drill one well. The country needs a clear pathway for supporting the national oil company, rather than using billions of dollars of the public's money in risky bets that might instead go to support Ghana's health, education and economic development. Otherwise, the guise of the energy transition will only be a smokescreen to waste more resources and line the pockets of foreign companies and people who may be short-changing the country deliberately.

We, therefore, request Parliament to institute a full-scale investigation into the transaction to verify the actual cost incurred by Aker so far on the Blocks, clarify the inconsistencies in the presentations by GNPC and allow for open consultation and hearing to provide opportunities for independent expert opinions. We also urge the media to provide adequate space and time for a thorough examination of the issue in the country's supreme interest.

Member Organisations:

1. **Africa Centre for Energy Policy (ACEP)**
2. **Centre for Extractives and Development Africa (CEDA)**
3. **National Coalition on Mining (NCOM)**
4. **IMANI Centre for Policy and Education**
5. **Integrated Social Development Centre (ISODEC)**
6. **Publish What You Pay Ghana (PWYP)**
7. **Ghana Anti-Corruption Coalition (GACC)**
8. **Institute for Energy Security (IES)**
9. **Civil Society Platform on Oil and Gas (CSPOG)**
10. **CSOs Open Licensing Monitoring Group**
11. **Natural Resource Governance Institute (NRGI)**
12. **Chamber of Petroleum Consumers Ghana (COPEC)**
13. **TAMA Foundation**
14. **Oil Watch Ghana**
15. **Institute of Energy Policies and Research (INSTEPR)**