GOLD FOR OIL:
A SMART BARTER ARRANGEMENT OR A SMART GOLD STEALING SCHEME?

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Background:

In November 2022, the Ghana Government announced that it had decided to buy petroleum products with gold, as a medium of payment, rather than using the US dollars. The concept, the public was made to understand, was brokered by the Economic Management Team led by Vice President Dr. Mahamudu Bawumia. Government insists that the scheme is a barter trade, meaning that the Government of Ghana will offer a quantity of gold to a commodities trader, in exchange for a quantity of petroleum products.

Objective of the Policy:

The objective of this policy, according to government sources, is to eliminate the large demand for dollars by oil importers - a situation that government blames for the weakening of the local currency (the cedi) and which therefore is responsible for the rising cost of living in the country. In general, government believes that the initiative would:

1. Stem the increasing depreciation of the cedi against the major currencies
2. Tackle the dwindling foreign currency reserves and
3. Reduce the balance of payment in the economy

To further clarify this proposed petroleum trading model, government explains that the process involves the following steps:

(a) The Bank of Ghana provides the needed finance (in cedis) to the Precious Minerals Marketing Company (PMMC),
(b) The PMMC buys the needed quantity of gold from the local market,
(c) The PMMC then sells the gold to a trader and the money (presumably, in US dollars) is put in an escrow account to be used to buy the oil.
(d) The proceeds (of the sale of the petroleum products on the local market) are paid into an escrow account (presumably, in cedis) at the Bank of Ghana to be used for the next round of purchases of gold to continue the Gold-for-Oil cycle.

However, from the above sequence of transactions ((a) to (d)), it is immediately obvious that the whole scheme **is not (and cannot be) a barter arrangement**. By definition, a barter trade is an act of trading goods or services between two or more parties ***without the use of money***. In essence, bartering involves the provision of one good or service (in this case, gold) by one party (in this case, Ghana government) in return for another good or service (in this case, petroleum products) from the other party (in the case, a petroleum products trader). But the scheme presented by the government as a barter trade (as shown above) involves a number of stages where money (cash) transfers are involved and also involves a multiplicity of intermediary actors or agents. Clearly, gold is never exchanged, directly, for petroleum products held by a petroleum dealer, but rather, the products are bought with dollars (obtained from the revenue generated from the sale of the gold to a gold dealer).

Government further argues that the initiative would reduce the ex-pump price of petroleum products in Ghana, by removing the exchange rate factor from the petroleum pricing buildup formula. However, it is not clear how the arrangement would avoid the exchange rate factor from the pricing formula since, as indicated above, the products are still bought with dollars (cash), just as in the normal oil trading practices hitherto undertaken by the Oil Trading Companies (OTCs) and the Bulk Distribution Companies (BDCs). This point is supported by the admission of Hon. Egyapa Mercer, Deputy Minister for Energy, during debates and questions that ensued around the arrival, in Ghana, of the first consignment of 40,000 metric tons of products in February. Readers will recall how vehemently the Deputy Minister argued that **that consignment was paid for with cash and not gold** when he was confronted with the question of how much gold was exchanged for the fuel.

Now, whether the consignment was bought with cash or with gold, its pricing for sale to the Ghanaian consumer must be in compliance with the regulations of the National Petroleum Authority (NPA) which exercises that regulatory function through its prescribed **Petroleum Pricing Formula** (as provided in the Schedule of **L.I. 2186**), that is:

Ex-Pump Price = Ex-Refinery Price + Gov't Taxes/Levies + Dealer's Margins + Other margins.

Where Ex-Refinery Price = Cost of the product + the Cost of Insurance of the product + Cost of Freight of the product (ie, the **CIF**). In other words, the ex-refinery price is set to be equal to the **landed cost** of the product, expressed in cedis.

The question now is: how do we determine the Ex-refinery Price (or the Landed Cost) of the product (in cedis) when its value (landed cost) is now determined **gold equivalent?** Again, how do we make that determination (in cedis) without applying the exchange rate factor when the landed cost is **in dollars** (as before)? Furthermore, how do we avoid the exchange rate associated with the cost of Insurance and the cost of Freight of the product, when all these components of the price build-up are quoted and paid for in US dollars?

Conventional Wisdom to Achieving Reduced Prices at the Pump:

If government's main objective, for this lengthy initiative, is to reduce the rising prices of petroleum products on the Ghanaian market, then the conventional wisdom that has been successfully deployed over the years by all preceding governments, is to simply adjust the values of the components of the formula that constitute the price build-up to achieve desirable price levels at the pump. In that regard, two simple things are done:

i. As a first step and a short term measure, government can reduce its taxes and levies (such as customs and excise duties, ad valorem taxes and levies) in the price build-up. In addition, what the NPP economic thinkers themselves call government's **nuisance taxes**, can, and need to be removed, altogether, from the price build-up. These include the Road Fund Levy, the Sanitation and Pollution Levy, the Special Petroleum Tax and others.
The above measures will reduce overall government revenue but, as the saying goes, "you cannot eat your cake and still have it"! Something must give way, in a balancing act.

ii. The other approach, albeit, longer term, is by getting government's **Economic Management Team** to put on their thinking caps and pursue prudent economic policies that would normalize and strengthen the fundamentals of the macro-economy to shore up the value of the ailing cedi and achieve a more favorable exchange rate from the current abysmal rate of GhC12 - GhC15 to the dollar. After all, it is well known in Ghana that, **"if your economic fundamentals are weak, the exchange rate will expose you".**

Cover for Marketing Illegally Mined Gold?

So, if, the Gold for Oil arrangement is not a barter trade, then what is it?

There are so many unknowns and questions about the scheme that it is difficult to fathom the real motive behind the scheme and who the real beneficiaries are. Indeed, many critical issues remain unexplained. For example, the following questions remain unclear:

- What quantities of gold are purchased on the local market for each consignment of fuels?
- What are the sources of the gold purchased in Ghana?
- At what price is the gold purchased in Ghana?
- Who is the offshore buyer of the gold? In a real barter deal, it is this buyer who should supply the agreed quantities of the petroleum products. But, we know that this is not the case.
- What are the actual quantities of gold sold offshore and what is the revenue obtained from that sale?
- What is the offshore sales price of the gold?
- What is the barter rate of exchange of gold for fuel? Specifically, for example, how much gold was given up in exchange for the 40,000 metric tons of products procured in the first consignment that was delivered in February?
- What is the purchase price of the product?
- Why is government unwilling to put this Gold-for-oil "agreement" before parliament?
- What are the sources of supply of the products? On this particular question, readers may recall that while the Vice President, Dr. Bawumia, claimed that the first consignment of products was bought in the United Arab Emirates (UAE), it turned out that it actually came from the Russian Oil Trading Company (OTC) called Lethasco. Such serious contradictions give room for suspicion.

Indeed, the whole concept of gold-for-oil "smells" of a money laundering scheme - only this time it could be termed as **"gold laundering"**. It appears to have been designed to conceal the origins of the gold purchased for the scheme. In that regard, there is no mechanism to identify and reject gold produced from illegal sources (galamsey). So, in effect, the scheme appears to be mimicking the methods used by drug traffickers to make funds obtained from illegal activities appear legitimate, in the end. Obviously, the scheme perfectly inures to the benefit of the illegal "galamsey" industry as the arrangement could be used to provide a safe and secured passage through government institutions, such as the Central Bank (Bank of Ghana), the PMMC and others of illegally mined Ghanaian gold to be offloaded onto the international market and monies accruing from them laundered by using them to purchase petroleum products for distribution and sale to consumers in Ghana. This way, the unsuspecting Ghanaian consumer of petroleum products has actually been turned into a market for patronizing the proceeds of his own gold, stolen from him by unscrupulous cartel of galamseyers, most of whom are NPP operatives and people in government (including the Jubilee House), as recently declared by, no less a person than, Prof. Kwabena Frimpong-Boateng, the former Minister for Environment, Science & Technology and Innovation, in an exclusive interview granted on March 10, 2023, to GBC News on the missing 500 excavators.

So, is the Gold-for-Oil policy "A Smart Barter Arrangement" or is it "A Smart Gold-Stealing Scheme"?

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