

STATEMENT ON ISSUES WITH GAS INFRASTRUCTURE DEVELOPMENT
Read by Asare Otchere-Darko, Danquah Institute, at News Conference at the
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Friends of the media, the Danquah Institute called you here to the Accra International Press Centre today, Wednesday, December 21, 2011, for a very good reason. First, Ghana is positioned to be the world's fastest growing economy this year and this has been made possible by the singular fact that 2011 marks Ghana's maiden full year as an oil-producing economy. Beyond the lifting of crude oil, Ghana stands to build a multi-billion dollar petrochemical industry from the monetisation of its natural gas. Ghana's probable gas reserves are estimated to be in excess of 4,845 billion cubic feet. This is significant enough for us to pay particular attention to how the natural gas line of our petroleum sector is being developed.

Also, this is the year in which we have seen the presence of oil inspiring an unprecedented loan rush with billions of dollars worth of loan agreements tabled before Parliament. There are \$4 billion worth of loans currently awaiting approval. The most alarming aspect of this loan rush is that very little financial scrutiny is done to evaluate and ascertain their value-for-money credentials. This loan rush has the potential to unleash the kind of corruption never before witnessed in Ghana.

As we speak, the Finance Committee in Parliament is deliberating over the first subsidiary agreement and on-lending agreement in relation to the Master Facility Agreement (MFA) for the \$3 billion term loan between the Republic of Ghana and the China Development Bank (CDB) Corporation. This is specifically the \$1 billion subsidiary agreement for the Early Phase Ghana Gas Infrastructure Project; deployment of aerial (helicopter fleet) and ICT-enabled surveillance and monitoring facilities and; upgrade of access roads and bridges in certain parts of the Western Region.

When in August, the MFA was criticised by the Danquah Institute and others for its oddity in calling on the legislature to approve an omnibus loan, which was low on details, the response of the Executive was that each one of the 12 Subsidiary Agreements will be brought before the House and with details of specific projects for consideration and approval. Friends of the media, we have looked at the first such Subsidiary Agreement and we regret to announce that it has even less details about the projects to be financed than what was contained in the MFA.

Informatively, the document concedes at Clause 4.1 (iv) of the Parliamentary Memorandum: "This is a template subsidiary facility agreement in relation to each eligible project proposed to be financed under a Subsidiary Agreement." Thus, Parliament is being asked to scrutinise and approve merely a template. This alarming development is seriously undermining one of Parliament's most important duties: financial scrutiny of bills or loan agreements brought before it. The poverty of details in the Subsidiary Agreement points to two possibilities: either it is deliberate to avoid the facts from being probed or that it merely exposes the hurried, reckless, slapdash and incompetent manner in which loans have been presented for approval in recent times.

But, there are more worrying issues. According to the accompanying memorandum from the Minister for Finance & Economic Planning, Dr Kwabena Duffuor, "The approval of the Western Corridor Gas Infrastructure Project Subsidiary Agreement will ensure implementation, **without further delay**, of the Early Phase Gas infrastructure Project. This

project has become urgent in order to curtail the re-injection, and reducing the flaring of gas at the Jubilee Field that has been going on for much longer than originally anticipated.”

On the face of it, it may seem a reasonable submission. Yet, it is instructive to note that after being three years out of schedule, Government is now saying it wants to avoid any “further delay”.

The Jubilee partners, for instance, knew, per their programme, that by November 2010, they would be producing oil, so they set out competently to acquire the FPSO before time. Government of Ghana, which owns the commercial interest in Ghana’s natural gas, also knew that as soon as oil production starts, the country stands to benefit from its associated gas and so ought to have proceeded with competence and urgency in making the necessary preparations.

The Plan of Development (POD) for Jubilee states that approximately 20 million standard cubic feet per day (MMscfd) of associated natural gas produced from Jubilee will be used as fuel for power generation for the FPSO. The POD provides that 30% of the remaining gas will be re-injected into the reservoir to maintain pressure, with the remaining 70% being off-taken by GNPC for commercial purposes onshore. It is this 70 percent that is now being wasted due to delays. Friends of the media, revenue from this gas infrastructure alone can, if well-harnessed, pay for the entire \$3 billion Chinese loan in five years.

But, the Government continues to fail to even live up to its own revised and extended timetable. According to Government’s own Gas Infrastructure Project Document, submitted to the Energy Minister, Dr Joe Oteng-Agyei, on May 18, 2011, the overall goal is to ensure that natural gas, associated gas and Natural Gas Liquids (NGLs) produced in Ghana “are effectively and efficiently processed into clean fuels and feedstock for domestic and export market, as well as for the development of petrochemical industries, fertilizer and power generation in Ghana, with the view to substantially reduce and/or eliminate flaring of gas.” This goal is to be pursued in two phases, with the “Phase 1 to be delivered within 18 months [from May 2011 when gas re-injection starts] and the Phase 2 project delivered within 36 months [commencing May 2011]. However, the Front End Engineering Design (FEED) for the full fledged gas processing plant is included in the Phase 1 project.”

But funding for both FEED, estimated between \$5-\$7.5 million, and the Engineering Project Management (EPM), ranging between \$63-\$80 million, which was initially awarded to Messrs Toyo, and with work due to start last October, have been delayed. Funding for the Front End Engineering (FEED), was supposed to be ready by the end of last September for work to start October 1, 2011. This important contract, awarded to Messrs Technip by Dr Kwesi Botchway’s National Gas Development Task Force, has not yet started and there is no clear sign as to when it will start. What this means is that the Phase 2 project, which should open our economy to that exciting multi-billion dollar gas feedstock monetisation avenue, necessary for a petro-chemical industry in Ghana, is also being played with. Indeed, Government’s own Gas Infrastructure Project Document which envisaged the disbursement of the CDB loan facility by August this year, describes the situation as “critical”, predicting that, for the Early Gas Production Plant in Phase 1, “commissioning will be completed together with the onshore pipeline on 2nd August, 2013.”

Also delayed is funding for the Phase 1 of the gas plant, which experts have estimated to cost \$550m, but Government is quoting a much higher figure, placing the full cost of completing

Phase 1 currently at \$1.1 billion. The question that must be asked is this: what stopped this multi-billion loan-loving government from contracting a \$1.1 billion loan earlier to fund this important, money-generating gas infrastructure project?

Due to this unpardonable delay on the part of Government, it has gone ahead to take a very desperate and disturbing decision to sidetrack its own programme to now focus on “accelerated gas to power, comprising mainly of the gas processing plant and gas transmission pipeline from Domunli to Aboadze/Effasu.” This option means we are not likely to have production of liquid gas for the first three years of oil production. This waste of liquid gas alone would cost the state at least \$400 million in lost revenue in the first two years. This is because Government, for three years, refused to heed to expert advice to proceed wisely by pushing for a simultaneous development of all three elements of the basic gas infrastructure, namely, (1) the offshore pipeline linking the raw gas from the Jubilee FPSO to shore; (2) the onshore early phase gas processing plant and (3) the onshore pipeline from the processing plant to Aboadze.

A typical gas plant, as can be seen at the Point Lisas industrial estate in Trinidad & Tobago, processes the raw gas into 3 commercial products: lean gas (for power generation), LPG (comprising propane and butane) for domestic and increasing vehicular use in Ghana and condensates (or natural gasoline) for the Tema Oil Refinery. According to Government’s own programme lineout, prepared this year, at the end of Phase 1, apart from the gas processing plant being able to produce 70-150 million standard cubic feet per day of lean gas for power generation at Aboadze and Effuse, “about 600 metric tons per day of LPG is produced for domestic and export, where necessary; that about 160 MT per day of condensate is produced for Tema Oil Refinery to further process into light gasoline for blending into the gasoline pool.”

\$1.1BN WORTH OF AVOIDABLE REVENUE LOSSES

Based on what we see on the world market today, a 240 MMcfd (million cubic feet per day) of gas could result in some \$438 million annually from the lean gas for power generation and over \$200 million annually from the associated liquids, such as LPG. Industry experts estimate that every day that Ghana either flares gas or is unable to utilise the associated natural gas from Jubilee for power translates into \$1.2 million a day in lost revenue. This means that for this year the avoidable delays in the development of the gas infrastructure will cost the country a minimum of **\$638 million**. As we will explain later, already some \$412.6 million in corporate taxes appear to have been lost to the state from Jubilee and another \$66.6 million from understated oil proceeds. Thus, in total, Ghana stands to lose some **\$1,117.2 million** in 2011 alone.

We want to tell the nation, particularly Parliamentarians, that the Subsidiary Agreement facility before them today, although the price tag of \$1bn remains the same, involves less work than the details of the agreement, as scantily spelt-out in Clause 4.2 (i) of the memorandum would make them believe. Thus, we risk paying more for less work.

We are therefore calling on Government to come clear on these:

- (i) What is the proposed Early Phase gas plant providing in terms of products?
- (ii) What is the actual cost of this limited gas infrastructure development?
- (iii) Can they use the administrative delay in getting things done to justify the decision to sacrifice valuable liquids (LPGs and condensates) recovery for a fast-track schedule when they have had this project for 3 years now?

From our investigations, what caused the three-year delay could be summed up in two words: political indecision. A kind of political indecision that was worsened by a scramble among the power blocs in the ruling party for control of the petroleum sector, leading to several MoUs, etc being signed with companies who only ended up with worthless pieces of paper.

LACK OF TRANSPARENCY IN SINOPEC DEAL

It may be recalled that in his 2011 State of the Nation address, the President said, “As we join the ranks of oil-producing countries and thank the Almighty for the many gifts he has bestowed upon this nation, I assure Ghanaians that this Government will account for every pesewa of the oil revenue”. In our view, Government will only truly be accounting for every pesewa of the oil revenue, if it allowed the fundamental principle of openness and accountability to be part of every process of our emerging oil and gas arrangements and developments.

Ghanaians, including Parliamentarians had to learn indirectly from the media last month that the China Petroleum & Chemical Corporation (Sinopec) signed an agreement with the Ghana National Gas Company for the completion of the first phase of the gas infrastructure project. The circumstances under which this contract was awarded to Sinopec is unknown but must be known. What is also perplexing is that, after all the delays, Government did not go for an open, competitive tender but to sole source Sinopec, after signing earlier agreements with the Japanese and Trinidadians, among others. Gas is such a profitable venture that we did not need to tie ourselves down to any inflexible transaction with the Chinese or any other entity for that matter. It is regrettable that even today, with oil, the leadership of Ghana continues to sell the nation short.

On November 24, 2011, Chief Executive Officer of the Ghana National Gas Company (Ghanagas), Dr George Sipa-Adjah Yankey, said that while the gas infrastructure will be funded from the \$3 billion CDB facility approved by Parliament in August this year, Sinopec “will pre-finance the start of work pending the release of the funds by the CDB.” This, on the face of it, may seem a good idea, however, what it does is to commit the people of Ghana to a deal with Sinopec which we know nothing about and this is even before Parliament considers and gives approval to the material Subsidiary Agreement. Government must make the details of the contract with Sinopec immediately available to the public, through Parliament, before it goes on its own to commit the national purse to any such secretive financial arrangement.

Again, we see problems with the payment methods for the contractor, Sinopec (like all the others), under the CDB loan. The Master Facility Agreement, and as restated in Clause 5.2 of the First Subsidiary Agreement facility of \$1 billion in relation to the Western Corridor Gas Infrastructure Development, states that in respect of the borrower (Ghana) issuing a utilisation request in respect of amounts to be paid to a Republic of China contractor, “the Utilisation Request must specify that the proceeds of the Loan shall be disbursed by the Lender directly to an account of that PRC Contractor...” This means, after Ghana Government have had very little say on which contractors benefited from this commercial loan facility, it must leave then it to the Chinese bank to pay directly the contractors.

This provision might not have been too bad if details of the specific contracts were made public or if the contract was awarded on the basis of a competitive tender process. To

reiterate, also worrying is the fact that the current arrangement with Sinopec does not include the one project that has the potential to eventually generate in excess of \$1 billion annually, and tackle the country's recent difficulties with the procurement and supply of LPG, in the process.

Since gas is a potential milk cow for the economy, a commodity which the country owns outright and, if well optimised through monetisation, would generate revenues far in excess of our share from crude oil, the expectation was that Government would have stood the development of the gas infrastructure alone, and prioritised it right from the onset, rather than boxing it in a complex web of loans and projects.

The head of Ghanagas, in a *Reuters interview*, this week, put the cost of Sinopec's contract at \$700 million. But, we know that the price of the prefabricated plant Sinopec intends to bring to Ghana to install is put at \$550 million. This requires some further explanations by Government. Are we been cheated with \$150 million?

LEGAL STATUS OF GHANA GAS

This brings us to a fundamental issue of legitimacy of the Ghana National Gas Company itself. Until now, it was TOR that used to complain that the Ghana National Petroleum Company has virtually made it redundant by taking back the responsibility of lifting oil from abroad for domestic consumption. What we have detected with Ghanagas is that it is not only doing a similar thing to GNPC, this time, but that it appears to be breaching the Ghana National Petroleum Corporation Act, 1983 (PNDCL 64), which set out GNPC. We at the Danquah Institute do not see any legal basis which has led to Ghanagas, which was not created by any Act of Parliament to all of a sudden assume the statutory role of GNPC.

Let us look at some relevant functions and objectives that this law outlines for the GNPC?

Section 2 provides that:

(1) The objects of the Corporation are to undertake the exploration, development, production and disposal of petroleum.

(2) "This includes but is not limited to"

(a) promote the exploration and the orderly and planned development of the petroleum resources of Ghana;

(b) ensure that Ghana obtains the greatest possible benefits from the development of its petroleum resources;

Section 29 defines "petroleum" as crude oil or natural gas or a combination of both;

"petroleum operations" means exploration, development, production, transportation and disposal of petroleum.

"petroleum product" means any product derived from petroleum by any refining treatment process.

In order to achieve the objectives of the GNPC spelt out in Section 2, Section 3 provides the Corporation (now company) with powers to do the following:

(c) purchase, lease, establish, complete, expand, repair and manage such factories, plants, installations and facilities as are necessary in connection with the exploration, development, production and disposal of petroleum and subject to such approval as may be required by any enactment, provide and manage road, marine and aviation communications as well as means of transport and other facilities;

(f) to execute agreements with purchasers for the export of crude oil and natural gas.

Moreover, since Government has an obligation to confirm to Parliament that the CDB funds will be on-lent to the project sponsors or implementers of the various beneficiary projects of the CDB financing, including Ghanagas, it is important that the relationship between GNPC and Ghanagas is sorted out before Government proceeds any further with the gas infrastructure project. Otherwise, any agreement between Ghanagas and Sinopec, or any other entity, may be illegal. Perhaps, anticipating this, the Subsidiary Agreement stipulates under Clause 9 (Representations) that “[t]he entry into and performance by each of the Borrower and/or sponsor (as the case may be) of, and the transactions contemplated by, the Projects Documents to which it is a party do not and will not conflict with any law or regulation applicable to it.” Clearly, the decision to make the Ghana National Gas Company the implementing company of the project contravenes Sections 2 and 3 of PNDCL 64. For parties to this agreement to ignore this fundamental statutory issue at their own risk.

THE ILLEGALITY OF THE 15 YEAR COLLATERAL

The same can be said of Tranche A of the MFA which uses petroleum proceeds as collateral for a period of 15 years. Section 18 (7) of the Petroleum Revenue Management Act, 2011 (Act 815) states: “The Annual Budget Funding Amount may be used as collateral for debts and other liabilities of Government for a period of not more than ten years after the commencement of this Act.” In our view, since the MFA was considered and approved by Parliament as a whole, Government cannot pick and choose which aspect is legal and implement it when clearly a significant half of the approved facility conflicts with Act 815. The parties to the contract should better take note of this and proceed to cure it or proceed to their own detriment.

Speaking on BBC’s Africa Have Your Say on Thursday, 7th May 2011, President Mills said **“every pesewa of the oil revenue will be accounted for.”** President Mills said with the sour experiences in countries where oil has become a curse rather than a blessing, **“there shall be no substitute for honesty”** in handling the situation in Ghana. Mr President let your words be your action:

1. Make available the details of the agreement with Sinopec.
2. Explain why you think it is competitive and how that contract was awarded.
3. Provide Ghanaians with details of the pre-financing arrangement with Sinopec.
4. Tell Ghanaians what the Early Phase Gas Infrastructure Project will contain.
5. Stop the illegality with Ghanagas and regularise their operations with the appropriate amendment to PNDCL 64.

6. Stop the illegality by cancelling the MFA and presenting a new one that does not breach the law on collateralisation as provided in Act 815.
7. Withdraw the \$1bn Subsidiary Agreement currently before Parliament to bring it back with the necessary details that will allow MPs to do justice to their constitutional mandate on financial scrutiny.

NOTES TO EDITORS

Srn	ITEM	UNIT	QUARTER 1	QUARTER 2	QUARTER 3	TOTAL
1	Total volume of Lift	Barrels	4,627,701	5,970,237	6,966,962	17,564,900
2	o/w GOG/GNPC	Barrels	995,259	994,691	990,770	2,980,720
3	o/w Partners	Barrels	3,632,442	4,975,546	5,976,192	14,584,180
4	GOG/GNPC Lift		1 st	2 nd	3 rd	
5	Date of GOG/GNPC Lift	d/m/y	9 th March, 2011	25 th June, 2011	3 rd August, 2011	
6	Reference Price per barrel	US\$	112.604	115.476	110.37	
7	Market Price per barrel	US\$	112.084	116.276	110.67	
8	Marketing Cost per barrel	US\$	0.08	0.08	0.08	
9	Gross Receipt from GOG/GNPC Lifting*	US\$	112,189,579,115.54	115,579,115.44	109,569,254.30	337,337,945.26
10	o/w Royalties	US\$	31,055,938.00	31,994,219.00	30,330,589.00	93,380,746.00
11	o/w Carried & participating Interest	US\$	81,133,637.52	83,584,896.44	79,238,665.30	243,957,199.29

- A GNPC publication of 10th July, 2008 indicated the Government of Ghana had as its total state shares, **38,209 (38.2%) barrels out of every 100,000 barrels produced**. Thus, as the volume of crude oil lift increases over the period, Government of Ghana shares per the volume of lift should also show corresponding increases.
- Table 1 indicates that there were 29% and 50% increases in volume over Quarter 1, Quarter 2 and Quarter 3, respectively. Government of Ghana shares have on the other hand witnessed reductions with 995,259 barrels being Ghana's shares for the 1st quarter; 994,691 barrels for the 2nd quarter; and 990,770 for the 3rd quarter. This implies that the volume of lift has been understated by 601,978 barrels valued at **US\$66,620,905.30**.
- Applying the parameters published by GNPC to the total volume of lift of 17,564,900 barrels so far produced and sold, Ghana should have received a total of 6,709,792 barrels representing 38.20% but only had 2,980,720 barrels representing 16.96% made up of Royalties, carried and participation interests.
- Also, Ghana is being denied the built up tax element of 3,729,072 barrels that has accrued so far, and by direct implications windfalls valued at US\$189,063,950.00, which Ghana was expected to earn from it. The total value Ghana lost, can be put at **US\$412,696,398.00**