ALLIANCE OF CSOS WORKING ON EXTRACTIVES, ANTI-CORRUPTION AND GOOD GOVERNANCE

23rd September 2021

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

Dear Sirs,

RE: PARLIAMENT MUST INVESTIGATE THE GNPC TRANSACTION WITH AKER ENERGY GHANA

The attention of the Alliance of Civil Society Organizations (CSOs) working on Extractives, Anti-Corruption and Good Governance, hereinafter Alliance of CSOs, has been drawn to a letter by GNPC dated 16th August 2021, addressed to the Speaker of Parliament, the Country Directors of the IMF and World Bank and the Norwegian Ambassador to Ghana.

The letter sought to respond to our press statement issued on 5th August 2021 in which your good office was in copy. Curiously GNPC did not deem it fit to share a copy of their letter with us, the principals on whose statement it was purporting to comment.

You may have noticed that some of the issues raised by GNPC in their response were in fact not in the Statement of the Alliance of CSOs we had earlier sent to you. The differences between the issues in our statement and what the GNPC letter responded to is due to GNPC responding to a draft we did not issue and which they could only have obtained through unauthorised channels. GNPC hastily and carelessly rushed to issue a response to a statement acquired by irregular means without bothering to establish the status of the statement. As a result, it did not only misrepresent our positions but, in effect, distorted the terms of the debate about its intended deal with Aker Energy. Furthermore, the Alliance of CSOs, the supposed authors of the phantom statement GNPC was responding to, were excluded from the addressees of the response. This deliberate exclusion can only be interpreted as indicative of GNPC's discomfort with a direct and principled engagement with a group of citizens asking serious questions about the propriety and fiscal implications of its intended transaction. In addition, our group has received deliberate attacks in the media with subsequent endorsement from the Chief Executive Officer (CEO) of GNPC in his round of interviews.

We, however, take the opportunity to respond to the misrepresentations and distortion of facts by GNPC on the specific issues regarding the proposed transaction, which the Corporation has been unwilling to engage the public on but sought to engage your good office clandestinely without copying us. In addressing our response to you, we do so conscious of the unique role of;

1. **Parliament**: As an embodiment of the aspirations of the people for transparent, participatory and accountable governance – aspirations which the House must endeavour at all times to reflect and fulfil.

2. **The World Bank**: As an investor in Ghana's oil industry as well as the Bank's documented policy commitments to promote transparency in the extractive sector worldwide and in Ghana's oil and gas sector in particular.
3. **IMF**: The Fund's role in the promotion of prudent use of public resources and fiscal stability in general.
4. **Norwegian Government**: The role that The Kingdom of Norway has played and continues to do so as a role model in prudent and accountable management of oil and gas resources, and in view of the fact that Aker Energy is a Norwegian company which is at the front and centre of the impasse.

The two specific issues are as follows:

a. CSOs have been advocating for GNPC to increase its stake in Petroleum Operation

GNPC provides a link directing you to a statement issued in March 2021 in their letter and concludes that CSOs have been advocating for a decade for GNPC to increase its stake in petroleum operations in Ghana. CSOs may not have a homogenous view about the existence, role and value of the national oil company. However, by law, the Corporation is set up to function as a commercial enterprise, and all citizens, the beneficial owners of the oil and gas resources held in trust for them by the State, have the right and responsibility to take an interest in GNPC's operations. A proper scan of the internet (Open Sources) will reveal that the dominant conversation in the past decade has not been an injection of more resources to the Corporation, but the effective utilisation of state subventions – to the tune of US$ 1billion – made to the Corporation, which without question has been abysmal. Therefore, the one weblink provided cannot represent the sum of or the most important conversation within Civil Society on the performance and outlook of GNPC.

On this particular Aker-GNPC transaction, we do not question GNPC's right to pursue a greater stake, but we have grave concerns that the opaque manner in which the deal is being constructed and an excessive valuation of a risky asset will not serve the long-term interests of Ghana.

b. "…the Minister for Energy, in the spirit of transparency, sought authorisation of the Parliament of Ghana in respect of the acquisition concept and a mandate to agree on a purchase price with Aker Energy and AGM."

The statement above is not representative of the totality of the request put before Parliament. For the avoidance of doubt, we have attached relevant documents as exhibits to guide your judgment. Exhibit 1 (Minister of Energy's Memo) and Exhibit 2 (Cabinet Memo) detail what the government wanted Parliament to do. Of particular concern to us is section 1 (iv) of Exhibit 1 and section 2 (iv) of Exhibit 2, which clearly indicate that the GNPC wanted a blank cheque to proceed with the transaction;

> *"Parliament is respectfully invited to consider and approve the following;*
>
> *Provision of a loan not exceeding US$1.65 billion to finance the acquisition at a price to be negotiated which might not exceed US$1.3 billion and GNPC Explorco share of capital expenditure (CAPEX) to Pecan Phase 1 First Oil of US$350 million."*

The above statement is clear enough that the Minister and Cabinet sought the prior approval of Parliament to borrow for GNPC, not a mandate to agree on a price. We have worked on parliamentary approvals for years to understand that not every loan comes to the house with specific term sheet, particularly market-based borrowings. In fact, GNPC did not need

Parliament to conclude what it started without them; valuation of the assets, audit of cost to determine the capital allowance subject to the transaction, and determination of the probable limits of a purchase price. So, what else was left for the Corporation to arrive at a price before going to Parliament?

We deal with specific sub-issues raised by GNPC below;

1. **Valuation of DWT/CTP and SDWT blocks**

The main challenge CSOs have with the valuation is not the qualifications of the firm but the rigour of the assumptions that went into the valuation. Yes, GNPC created the opportunity for us to engage Lambert Energy Advisors, who were contracted to carry out the third-party independent valuation. However, few things stood out from that meeting;

i. Lambert could not tell us who contracted them for the work though we know Aker Energy did, contrary to the claim that GNPC and Aker Energy jointly hired them. In keeping with standard industry practices, GNPC should have retained its own independent advisor to analyse the transaction, rather than sharing an advisor with the selling company.

ii. Lambert was honest about the fact that they could not undertake a reserves audit to validate that the claims around reserves and contingent resources estimates were reasonable. Instead, they claimed to have relied on data provided by GNPC and Aker Energy. We are reliably informed that GNPC has not undertaken an independent reserve audit beyond Aker Energy's numbers.

iii. We questioned how Lambert was able to value the Nyankom discovery within the SDWT block; this is a discovery that has not been appraised. Lambert agreed that it was a legitimate question for GNPC to answer. According to Lambert, they only used Aker and GNPC's assumptions on the initial discovery estimates and applied some risk adjustments.

iv. The price assumption of US$65 per barrel was odd to us. We could not find comparable benchmarks for a long-term horizon and are concerned that the assumption understates the long-term risks to Ghana if such a lofty price is not maintained. Oil companies and investors are increasingly stress-testing projects against long-term prices as low as $40 in order to gauge their viability in a range of scenarios and avoid paying too much based on overly rosy assumptions.

These were critical matters before Parliament that required attention. Parliament's US$1.1 billion ceiling did not account for all the parameters required for a proper valuation. Attempts to evade market-based assessment of the value is the reason GNPC seeks cover in public guarantee to raise financing for the acquisition. We are firm in our assessment of the situation that no serious financial institution will entertain the work done by GNPC to value the asset.

Aker ASA’s publicly available audited financial reports show that the book value of its 50.8% share in Aker Energy at the end of June 2021 was 957 million NOK (~US$107 million) meaning that Aker Energy as a whole had invested about US$211million in its acquisition and in Deep Water Cape Three Points block (DWT/CTP) in which it has a 50% share. This figure should be an accurate, audited representation of Aker Energy’s investment in DWT/CTP. It is not easy to reconcile this number with GNPCs claim that Aker Energy/AGM has spent US$815 million on the licenses.

GNPC’s response to you that a $1.1bn purchase price for the Aker/AGM assets is a ‘$900 million saving viz a vis the Lambert valuation’ is naïve and not a basis for a successful negotiation.

2. **Value of unconfirmed SDWT reserves that may not be developed**

Here, GNPC makes reference to draft comments on CSO’s WhatsApp group which was, in our view, obtained through ill-conceived means. The final statement raised issues about the propriety of assigning significant certainty to reserves that have not been confirmed through appraisal. This concern remains valid today; we maintain our fear that the valuation is based on reserves subject to significant uncertainty.

In a recent interview granted to CitiFM by Dr K.K. Sarpong, the CEO of GNPC, he claimed that appraisal was not needed to establish the actual volumes of oil in place. According to him, all appraised oil fields in Ghana uncovered more resources than initially estimated from discovery wells. Dr Sarpong's position blatantly disregards context risks of about 25 percent recovery rate and established industry practices which justify our worry that GNPC may be paying for resources that may never go into production. Again, Aker Energy, in their appraisal programme submitted to the Petroleum Commission, recognises that the Nyankom discovery's water depth requires new technology. This further increases the risk around the commercial viability of the discovery.

The proposed phased development and breakeven price of US$30/bbl for Pecan development does not answer the concerns we have about the commerciality of the discovered resources in the SDWT block. Again, the breakeven price has its own controversies. In a document (Exhibit 3) submitted to Parliament, GNPC quotes the breakeven price to be under US$40/bbl. They, however, quote a maximum of US$30/bbl in their letter to you. Thus, the determination of the breakeven price is far from conclusive when we juxtapose these numbers against the fact that Aker is still doing geophysical and geotechnical studies on the Pecan field.

3. **Aker Energy’s Cost claims**

Contrary to the claims by GNPC that CSOs are confused about the cost claims by Aker, we seek to clarify our position that Aker's cost claims are over bloated. Aker cannot claim that its share of cost on the Pecan and Nyankom fields is US$400 million (on just five wells). Again, the claim that Aker Energy has spent an additional US$415 million on interest payments and administrative expenses in two and half years during which operational activity was limited is not believable and it is at variance with Aker ASA’s accounts. This should warrant a cost audit by partners, and also the Ghana Revenue Authority.

GNPC's claim that Aker inherited US$893 million of historical costs is not consistent with the tax law of the country (see Sections 62 & 67 of the Income Tax Act, 2015). Aker acquired its stake for US$100 million, and that is the only recognised expenditure in respect of asset transfer from Hess. Aker and Hess did not incorporate these purported costs into the price of *their* transaction for the stake, and we do not comprehend the relevance of the claim to the value of the license today.

Despite GNPC's claim that Hess spent US$1.2 billion, the highest valuation the company had for their field is about US$470 million in 2015 when they farmed out 40% to Lukoil at about US$188 million. Even if Hess spent US$1.2 billion on 12 wells (US$100 million per well), operated for 11 years between 2006 and 2017, it remains intriguing how five wells and operations cost of two and a half years amount to about US$815 million (US$168 million per well).

We agree with GNPC that "**drilling cost tends to be higher during the period of high oil price and vice versa".** In 2012 and 2013, when Hess did its drilling campaign, the average oil price was US$96/bbl. Aker's drilling campaign was in 2019, when oil price averaged about US$57/bbl. Certainly, Aker's campaign should be cheaper than Hess'.

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

We are concerned that GNPC has a problem with our simple calculation of gains to Aker, which was based on their own inflated numbers presented to Parliament and the Economic Management Team as indicated in exhibits 3 and 4. Two cost numbers were evident; US$800 million and US$965 million, which give a margin of US$500 million and US$335 million, respectively. Again, if Aker Energy's declared book value is US$211 million for a 50% interest in DWT/CTP, then the pro-rata value for a 37% interest should be about US$156 million. GNPC's initial proposed acquisition price of US$1.3 billion makes Aker Energy gain over US$1 billion.

5. **Whose money is it anyway?**

We are not myopic, as GNPC suggests. We asked relevant questions about the opportunity cost of state investment, through debt, in petroleum operations against any other form of investment. If the 10,000 jobs GNPC cites are tied to oil production and the public revenue generated from the field, then, logically, these are not necessarily GNPC-induced jobs. Unless the Corporation intends to repeat its practice of wholesale recruitments, which has resulted in the number of its employees ballooning from 256 in January 2017 to 536 in January 2021 with nothing to show for it, that kind of practice will further risk the loan government is requested to procure for the Aker transaction.

GNPC is not opting for financing from the financial market but rather seeking to risk the national budget because the packaging of the transaction is too risky. Otherwise, if the project really had reduced its breakeven price from $48 bbl to under $30 bbl, one would have expected it to be more attractive to investors.

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

The position of CSOs is that the option proposed by GNPC to Parliament does not align with the Corporation's objective to become an operator. The structure of the proposed Joint Operating Company (JOC) holds no promise of making GNPC an operator in any shape or form, as can be seen in exhibits 4 and 5. In fact, the Minister of Energy confirmed to Lukoil that Aker will still operate without material changes (Exhibits 6&7).

Conclusion

The CSOs pushing for transparency and value for money on the proposed Aker energy transaction maintain that GNPC and government have more questions to answer to the Ghanaian people. We are not against the transaction in principle, but we believe the analysis provided in support of the transaction overestimates the market value and does not adequately describe the uncertainty in the project and technical and commercial risks.

If GNPC saw the need to write to provide information to your good office, then they must be interested in open engagement to answer the substantive questions raised by civic actors.

Ultimately, for government to spend more than US$1 billion, the value generated must be comparable to any other investment the State could put those resources to. Our disappointment, therefore, stems from the fact that there is too much focus on the emotional argument about operatorship than value for money and ancillary risks.

The more we hear about the transaction the more worrying it gets. When we called on Parliament to investigate the transaction, we had hoped that Parliament would at least seek to verify the investment figures provided by GNPC. If Parliament had paid attention to our modest appeal, they would have saved the sector Minister the embarrassing letter from Lukoil to the effect that they were not even aware that such a major change to the shareholding and operatorship of the block was happening on their blind side. These are the kinds of practices that kill confidence in the sector and must not be tolerated.

We remain available and able to engage openly to ensure that the interest of Ghana is preserved. In that spirit, your good office could invite Alliance CSOs and GNPC to discuss the details of our position. GNPC assured you that they would engage. But, unfortunately, that is not happening, at least transparently, to discuss the concerns of Civil society.

Yours Faithfully

Yao Graham,

Convener,

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

Box 1: Summary of issues with the transaction

1. **The valuation we have seen from GNPC and Aker overstates the value and understates the uncertainty and downside risks.** The use of high oil price (US$65) and optimistic production projections against a weak adjustment for the threats of energy transitions and production uncertainties subjects the interest of Ghana to significant risk.
2. **The dependence of GNPC on Aker data for analysis and decision making is odd.** Typically, the Corporation is required to do independent verification of resources and data claims by Aker, rather than pretends it has done, for such a transaction in a risky industry. Our request is for GNPC to release any independent Competent Person's Reports on the fields and to articulate the uncertainty in resource recovery and production performance. This should be supported by reasonable worst-case economic model which articulates the down-side risk from the proposed transaction to the Government and people of Ghana.
3. **Akers Cost claims are manufacture for this transaction**. We admit that Aker itself has not spoken to corroborate GNPC's claims on expenditures openly, which starkly contradict Akers reported numbers to shareholders. Aker ASA reported to its shareholders at the end of 2020 that the value of its 50.8 stake in Aker Energy was NOK 957 million (about US$107 million). The same report indicates that the total investment in Aker Energy since its establishment by the TRG (49.2 percent interest holder in Aker Energy) is about NOK 926 million (about US$106 million). Again, the reports quotes Aker ASA's capitalised expenses for explorations at NOK 488 million (US$ 56 million), suggesting a total pro rata exploration cost of about US$ 112 million. These numbers are more realistic and aligned to what CSOs have been insisting on and what the Petroleum commissions has. Therefore, the claim by GNPC that Aker has spent more than US$ 800 million in not credible.
4. **Aker is the reason the field is not under development.** The company has proven to be a speculative investor is all its shape and colours. When its first Plan of development (PoD) was rejected, it had up to the end of April 2019 to resubmit a revised POD. Aker failed to submit the PoD and rather focused on lobbying for changes in laws as explained in our earlier statement. Allowing Aker to operate the field after Hess sold out with Lukoil helpless was travesty of Ghana's oil industry and the proposed operatorship structure makes it worse.
5. **GNPC will not become an operator from the proposed operatorship structure.** The communications about operatorship has not been honest but emotive. GNPC Explorco will donate 4 percent of its 37 percent shares to be acquired to participate in a joint operating company controlled by Aker. The new Joint operating company is not the same as Explorco. So, when does Explorco learn to become an operator under this kind of arrangement?