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# Confused Policies & Corruption can Confound COP27 Aims as Fuel Prices Bite

## Summary for Editors:

- An alliance of African think tanks active in the areas of governance, anti-corruption and energy policy have launched a series of case studies looking at energy sector investments, including those marketed as “pro green”, as funded by “climate finance” or geared towards “the net zero transition” in Africa.
- An executive summary of the first of these case studies, focusing on Ghana’s Tema LNG Terminal project, will be released at a webinar on the “virtual sidelines” of the ongoing COP 27 conference on climate change in Egypt.
  (register at: www.tiny.cc/COP27Convo)
- Other case studies in the works that will be touched on during the webinar are related to the perennially botched Tema Oil Refinery public-private partnerships, and the scandal involving Swiss giant Glencore’s bribing of African officials for access to oil & gas cargoes and other opportunities.
- Poorly planned, badly governed, and/or corrupt energy sector capital projects and investments usually fail, denying African governments of strategic capabilities and flexibilities to address market instability and thus support African consumers during periods such as the present where a cost-of-living crisis is rampaging through Ghana and Africa.
- The Good Governance for Green Growth Alliance of think tanks call for full disclosure, transparency and accountability on projects like Tema LNG Terminal and Tema Oil Refinery PPP, the immediate termination of crony contracts that deepen the energy poverty of citizens and reallocation of any climate finance unlocked as a result of COP 27 to only projects with high citizen and civil society participation subject to total transparency. This is the only way to prevent situations similar to the one unfolding in Ghana, where the national oil company intends to buy LNG at more than $13 from Tema LNG Terminal and retail at the regulated price of $5.99 even as promoters try to market the project as climate-friendly in order to raise funds.
- Development Finance Institutions, Multilateral Development Banks and International Aid & Development Agencies must insist on substantive good governance criteria and reject ESG and Environmental & Social Impact Assessments that are merely check-boxing exercises.
- The Good Governance for Green Growth Alliance strongly links the success of multilateral climate finance programs (such as the famous $100 billion commitment by Global North countries to the Global South) to improvements in the governance of such capital flows as well as a bias towards green development projects that benefits societies as a whole instead of a few project developers and their enablers in government.


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ACEP Africa Centre for Energy Policy

**<u>Full Statement:</u>**

Yesterday, Sunday the 6th of November 2022, the United Nations (UNFCCC) 27th Conference of the Parties (COP 27) got underway at a resort in Egypt. World leaders and their senior officials will convene and confer about climate change for the next twelve days.

President Akufo-Addo of Ghana will lead 226 officials from various agencies of his government to the event. In his capacity as Chair of the Climate Vulnerable Forum, he has painted a picture of a world engulfed by the floods and fires set off by climate change. He has pledged, along with other African presidents, to push for rich countries who pollute the most to release the $100 billion in climate finance promised to poor countries to help them green their economies and adapt better to climate change. The action however is at home.

Discussions about the “energy transition” and “climate finance” are taking place at a time when energy, especially fuel, prices are going through the roof. In the last month and a half, fuel prices in Ghana have dramatically shot up, severely intensifying a cost-of-living crisis.

Ghana already had the highest diesel prices in West Africa. It now has the highest prices for gasoline (“petrol”) too. Breakneck depreciation of the Ghanaian currency, the Cedi, has compounded global factors to precipitate an inflation crisis, which in turn is being fanned by the pass-through of fuel prices into many other prices in the economy creating, in effect, a perfect vicious cycle.

Ghana’s situation hasn’t worsened faster than virtually all of its peers and neighbours only because its intensifying debt and currency crises are damaging its energy sector. It has degenerated at a frightening rate also because of bad policies that increase the risks of corruption, waste resources and curtail the government’s ability to respond to the fuel crisis strategically.

In the last several years, various African countries like Kenya, Malawi, South Africa and Botswana have used strategic fuel stocks as risk management tools, following the lead of richer countries like the US, France, South Korea and the UK. Ghana, too, has a strategic stockpiling policy. Ghana’s policy takes into account its currency volatility problem by emphasising a margin of domestic refining.

The country’s main oil refinery at Tema and the strategic stock company, Bulk Oil Storage and Transportation Company (BOST), have capacity to meet national stockpiling needs in refined products thus offering the government some tools to smooth supply disturbances in moments of high currency fluctuations as the country is currently experiencing. So why does the government appear so bereft of options right now? The reason is simple: Tema Oil Refinery (TOR) and BOST are broke and broken.

In 2003, the government imposed a levy called the TOR Recovery Levy to deal with the chronic indebtedness of TOR, which stood at GH¢430.7 million, and completely retrofit it so it can play its strategic role in the nation's energy architecture. It was supposed to be a temporary affair. Ten years later, more than double the resources needed to deal with the TOR problems had been amassed. Between 2003 and 2020, the public paid GH¢3.8 billion in nominal terms (present worth of about GH¢8.6 billion), yet the outstanding debt of TOR was more than GH¢2 billion in 2021, with other liabilities absorbed by the government. BOST also receives about GH¢470.million annually through levies to maintain its strategic stock infrastructure, yet there are no such stocks. Additionally, the public pays about GH¢3.6 billion in levies on petroleum products to service other energy sector debt every year.

A careful look at the situation will reveal that TOR is unable to be revamped because various politically connected vested interests keep cooking up twisted arrangements for recapitalisation, restructuring, restocking etc that never see the light of day because of all the insider infighting, nepotistic designs, and lack of thorough due diligence. The latest rendition of these schemes is the announcement that a Kenyan investment vehicle will reorganise the refinery and manage it after a thoroughly opaque process fraught with high risks of corruption and cronyism.

The same problems are evident in fuel pricing for power production as well. The Ghana National Petroleum Corporation (GNPC) is tasked with buying natural gas from upstream sources to on-sell to various downstream users, including, via Ghana Gas, the power utilities.

GNPC has been found to engage in strange trading and capital project activities in relation to this simple mandate. Policy think tanks in Ghana have over the last couple of months exposed a scheme whereby GNPC sells power to favoured companies, like Genser Energy, for just $2.79 per MMBTU (a unit of measurement) even though its average cost of procuring gas is $7.9 per MMBTU.

Similar dysfunction can be found in the GNPC's efforts to diversify the country's sourcing of natural gas for strategic and risk management reasons, comparable to what is described above in the case of gasoline and diesel. An affair that the accompanying case study brief we are launching today delves into.

Liquefied Natural Gas (LNG) has been seen for more than a decade as a potential means of building strategic flexibility into Ghana's fuel supply management. Building facilities for handling LNG in Ghana would mean the ability to obtain gas from many parts of the world and store for use whenever circumstances warrant.

Due to poor policy management, insider infighting among politically connected vested interests, and underhand dealings fraught with high corruption risk, Ghana has never been able to benefit from the risk management potential of LNG, something that would have prevented the last power crisis (known locally as "dumsor").

In 2017, a new government inherited two firmed LNG contracts and introduced a third one in the face of the obvious: the country needed one supplier. The Ministry, with the support of USAID, constituted a team of four experts to review the three projects and advise on the optimal option. Three experts recommended Quantum Power Limited (Quantum) because it was the only project that accommodated the potential oversupply in the gas market in the medium term and made provision for a lower-cost regasification module. The project decoupled LNG infrastructure from long-term LNG supply to give the country the flexibility to source LNG based on the need at any particular time.

However, the Ministry ignored the experts' decision and asked the companies to submit fresh bids for the project. Quantum has shown conclusively that underhand dealings took place by revealing the separate offers of the competing companies, including that of the party that was eventually selected, Tema LNG Consortium, and by demonstrating clear evidence of perfidious bid-rigging and procurement abuse, which saw Tema LNG Consortium (Tema LNG) becoming the preferred contractor.

Subsequent events reveal that Tema LNG was the least prepared to develop the project to meet critical supply shortfall before domestic gas from the Sankofa field came on stream. West Africa Gas Limited had already brought a Floating Storage and Regasification Unit (FSRU) to Tema in December 2016. Quantum had completed feasibility studies to deploy an FSRU off the coast of the Tema Port. There is still no technical evidence of the competitive advantage of Tema LNG, and its capacity to deploy LNG in the period it was certainly needed, which made them the preferred option. Nothing beyond political manoeuvring, that is.

Despite considerable opposition from local policy think tanks, the government contracted for the "supply of 290 MMScf/d of gas, with 160 MMscf/d on a firm basis, excluding the volume of supply under the LNG Contract with TLNG". Moreover, the arrangement was on a take-or-pay basis, an approach to contracting the current government has repeatedly denounced as an unjustified practice of a bygone era.

Given that Ghana cannot consume this superfluous annual volume of roughly 84 million MMBTU of gas, the entire venture could very well become a liability on the state. How much are we talking about here?

Despite ample evidence that using the Brent-linked pricing approach for LNG has tended, on average, to result in higher prices in most markets than even spot LNG rates, this is exactly what the government did.

At a price slope of 12.5%, plus premium, both provisions in the original contract signed by GNPC with Tema LNG, the price Ghana would have paid for the Tema LNG gas is about $13.52 per MMBTU had project timelines been met. That is to say, based on average brent crude prices for 2022, and applying the oil-gas conversion factor implied by the Brent-linking formula used in the original Tema LNG deal between the investors and the government of Ghana, the gas pricing would be in the range of $13.52 should the country had been forced to "take or pay" for the gas.

The total liability, therefore, would amount to approximately $1.357 billion on a 2022 annualised basis (price by contracted volume). Using the "firm basis" volume will result in a somewhat lower but still alarming liability of $790 million annually. Given that the price is exclusive of other charges (transmission and regulation), the total cost of LNG to the market will be higher and uncompetitive in a glutted market.

It would have been possible to make the case that such an outcome is a standard prospect of all risky energy contracting. Ghana made a strategic bet, and the market has taken an unfortunate turn. Except that the developments in the lead-up to concluding the Tema LNG deal were anything but above board. The process through which the deal was taken away from Quantum Power and handed over to the well-connected Tema LNG Consortium, which had in its corner the all-powerful Africa Legal Associates, among other brokers, amounted to a complete massacre of good governance standards and opened the entire undertaking to corruption risk. The ever-present risk of corruption in energy trading contexts in the region has been dramatically illustrated in last month’s conviction of Glencore for corrupt oil trading deals in various African countries.

Supposed renegotiations of the original Tema LNG contract remains shrouded in mystery due to continued refusal to publicly disclose contracts of such high public interest, notwithstanding Ghana’s commitment to the EITI standard.

The high energy cost currently experienced in the deregulated fuel sector is part of a broader tapestry of inefficiencies, the more significant part of which is masked by the fact that a large swathe of the energy sector in Ghana is opaquely regulated and drenched in massive, wasteful, indirect subsidies.

For example, whilst GNPC is contractually bound to uptake gas from the Tema LNG Consortium at more than $13 per MMBTU, it is bound by regulation to on-sell it at $5.99/MMBTU to most power utilities in Ghana. Worse of all, it must sell at $4.2/MMBTU to opaquely selected "strategic industries" and, most bizarrely of all, at $2.79 to Genser Energy Limited, an off-grid power supplier to Ghanaian gold mines, all because of fiat orders from Ghana's Energy Ministry, without regard to the role of the official regulators.

These actions are completely uncoordinated with the government's strategy to assign cheaper sources to industrial development. With the more affordable gas sources gone to the politically connected, it leaves the planned Integrated Aluminium Industry (IAI) and Integrated Iron and Steel Industry (IISI) in limbo. These industries thrive on cheap sources of energy that may not be available in Ghana's context, more so if the goal remains the use of relatively cleaner gas-powered thermal power, in line with the climate-smart agenda.

Curiously all the red flags on the LNG terminal, billed as a clean alternative to crude oil based thermal generation projects, were ignored by the Development Finance Institutions (DFIs), who, in this instance, merely used the rosy language of “energy transition”, “climate finance” and “green growth” to fill the pockets of politically connected entrepreneurs. The following DFIs, for instance, have reportedly funded the Tema LNG project: Africa Infrastructure

Investment Managers (AIIM) through its African Infrastructure Investment Fund (AIIF), The UK's CDC Group (now British International Investment, BII), German export credit agency, The African Development Bank through AIIF, and Development Bank of South Africa. Most of these entities were mobilised by London-based Helios Investment Partners, which routinely sources large amounts of capital from DFIs.

The opacity entrenched in the Tema LNG project and the attendant risks is one example of many poorly governed energy projects that take significant resources away from effective development financing.

Taking the above context into account, citizens in Ghana and the rest of Africa observing proceedings as COP 27 gets underway in Egypt ought to exercise a degree of scepticism when they hear the mantra of green growth and climate finance and similar concepts being bandied about as the chief prospects of Africa's salvation.

Until the good governance, accountability, transparency, anti-corruption and broad citizen participation principles originally at the heart of the increasingly cosmetic ESG agenda gets taken seriously, all the noble intentions of the COP process will come to nought. In the same vein, unless DFIs, multilateral institutions and international organisations stop using Environmental and Social Impact Assessments as simple checkboxing exercises, the ordinary citizens of Ghana and Africa can repose no confidence in the much-touted climate finance and "net zero" energy transition agenda.

The alliance of policy think tanks and institutions listed below shall continue to use all legal means to push for total transparency and disclosure in the energy and climate project sectors because only through informed accountability can the UNFCCC COP agenda work for Africa.

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