Ghana Wants to Make Norway Rich (by $1 billion)

Nearly 170 kilometers off the coast of Ghana lie underneath water depths extending to nearly 3.5 kilometers two tracts of suspected oil fields steeped in controversy.

On 30th July 2021, a memorandum from Ghana's Minister of Energy to the country's Parliament muddied the waters even further.

In the 10-page document, supported by a powerpoint-presentation and a rambling thesis on the "global energy transition", the Minister made a case for Ghana to borrow $1.65 billion for onward lending, on commercial terms, to its National Oil Company (NOC), the Ghana National Petroleum Corporation (GNPC) so that the latter can buy higher stakes in two oil blocks operated by two Norwegian companies – Aker Energy and AGM - controlled by billionaire Kjell Inge Rokke.

Aker Energy is a 50:50 joint venture between Aker, a $7.5 billion Norwegian oil company and a family asset holding company, TRG.

Two-thirds of Aker is in fact owned by the same TRG, which in turn is owned by Rokke and his wife. In short, the Rokke family owns more than 80% of Aker Energy. AGM Petroleum is a somewhat simpler affair. In 2018, through Petrica Holdings, TRG acquired all the shares of AGM from Gibraltar-based investors.

With the $1.65 billion, GNPC and its Explorco subsidiary were to spend up to $1.3 billion increasing their stake from 10% to 37% in the oil block operated by Aker Energy (Deepwater Tano/Cape Three Points – DWT/CTP), and from 15% to 70% in South Deepwater Tano (SDWT) operated by AGM. The remaining $350 million would go to finance GNPC's share of the costs in developing the first phase of the Pecan discovery in DWT-CTP.

The Minister's memorandum was written on Friday, the 30th of July (2021). It got to the Speaker of Parliament on Monday, the 2nd of August, and he immediately referred it to a joint committee on Finance and Energy.

This joint committee was able to assemble on the next day, read the perfunctory essays on energy transition, and after 2 hours of deliberations decided that the most important change to be made was to reduce the spending ceiling for the GNPC from $1.3 billion to $1.1 billion.

The Minister's view on how the energy transition has dampened investor sentiment in the fossil fuel industry thereby forcing National Oil Companies (NOCs) to become operators themselves and less dependent on international partners and their expertise, cash and technology was adopted wholesale. The $350 million investment contribution to the development of Pecan until it produces oil, hopefully, in 2024 was left untouched.

On Thursday, the 5th August, a thin 7-point report was signed off by the Committee to officially empower the Government to borrow $1.45 billion for its new adventures in the country's fraught oil story. The Honourable Parliamentarians then departed for their seasonal break until October 19th, 2021.

Thus it was that a struggling West African Country signed off a windfall in hundreds of millions of dollars to one of the richest men from one of the richest countries in the world. How did we get here?

Rokke and his Aker company announced its presence in Ghana in 2008, when in league with politically connected Chemu Power it obtained 85% of the SWDT oil lease. Unfortunately, the political winds changed soon after with the coming into power of a new political party, NDC.

The NDC government felt that Aker had obtained unearned favours from the previous NPP government and latched on to the fact that Aker's local subsidiary had only been incorporated five days after the oil lease agreement was signed on 24th October 2008. The new Energy Minister declared the SDWT lease invalid on December 30th 2009 (a termination agreement was finally signed on 11th November

2011, in view of which GNPC agreed to pay Aker $29 million for data collected on the SWDT block).

SDWT finally unencumbered legally, the GNPC went on a roadshow with data analytics provided by Zebra Data Services in 2012 in search of a minority joint venture partner that will work closely with it in pursuit of the longstanding dream to become an operator capable of leading in the exploration, development and production of oil within Ghana's petroleum basins.

Ten companies responded, three were shortlisted and eventually the Gibraltar consortium of Minexco, Norway's AGR and politically connected MED Songhai were awarded the block following Parliamentary ratification in December 2013.

It is important to note that AGR, the largest consortium partner (49.5%), will later transform into Petrica, and Petrica will later be taken over by Inge Rokke's TRG. Moreover, Petrica's Atle Aamodt Andresen would be a major technical force behind developments in due course. The Norwegians had found their way back in.

In line with the professed goal of using this arrangement to transform GNPC into an operator, 79% of the SDWT block was assigned to GNPC's newly formed subsidiary, Explorco.

Working together, Explorco (GNPC) and its Gibraltor-fronted Norwegian technical partners were expected to spend a minimum of $259 million interpreting 750 square kilometers of 3D seismic data, drill two wells to find oil, and prepare any discovery for development. **Recall that GNPC was the operator of this block at this point in time**.

The talk today then about GNPC needing to borrow large sums of money to "become an operator" is plain nonsense, GNPC has the opportunity to be the operator of a block nearly a decade ago.

In fact, GNPC's attempt at operatorship did not end with SDWT. It has another subsidiary, GNPC Operating Services Company Limited (GOSCO), which operates the

Offshore South West Tano Block (OSWT) and has been doing so since 5th February 2015. For this block, its obligations were scaled down to a requirement to invest, along with partners Heritage and Blue Star, only $32 million in analysing 175 square kilometers of 3D data and in a drilling program for just one exploratory well.

Suffice it to say that GNPC's stints at operatorship of both OSWT and SDWT have been a technical disaster of sheer unproductivity. Being an NOC, it is unlikely that its consistent failure to abide by the terms of the leases and its status as an operator would have attracted any serious action from the feckless regulator, the Petroleum Commission, even if this body was noted for its diligence.

That the Petroleum Commission of Ghana is toothless is easily evidenced. Half of the 18 active oil leases have seen no drilling program at all, despite drilling almost always being a requirement to hold on to a lease.

Two-thirds of lessees are in breach of their contractual obligations, including repeatedly failing to invest the required amount of resources to search for oil.

Even surface rents, amounting to just a few tens of thousands of dollars, are constantly in arrears. In 2016, only five of the 17 lessees/contract holders paid rent. One company by name Oranto/Stone Energy has refused to heed calls to pay rent since 2013. In 2020, the Ghana Revenue Authority acknowledged that it has not been able to locate the company, begging the question how exactly it won a concession in Ghana.

Some of the persistent defaulters in this regard, such as the curiously named Swiss African Oil Company, have never disclosed beneficial owners and appear to have no fulltime management team, and all their agreements and disclosures are signed by "representatives", "attorneys" and "consultants" or "advisors". SWAOCO's presence in Ghana's oil industry is the consequence of a highly opaque regime in which senior politicians have absolute discretion about who to recommend for an oil block for rubber-stamping by Ghana's notoriously pliant Parliament. The refusal to allow competitive bidding for blocks has long been seen as motivated by the need to keep the industry nepotistic.

Recall that the GNPC is a statutory partner of all these regularly noncompliant companies and is often in default alongside them. Ghana's NOC has been receiving millions of dollars in "training allowances" and "technology allowances" from companies operating in the upstream oil sector. It has had ample opportunity as an Operator to *behave like an operator* and acquire the expertise, personnel, technology and credit relationships that are the basic requirements for being an operator. It has consistently failed.

Instead of making core investments in building technical capacity over this period, instead it bought 90% stake in a haphazardly run gold mine (Prestea Sankofa); retained 25% equity in a struggling telecom company (Airtel); acquired 60% ownership in an underperforming hotel in a remote forest reserve; and grabbed a 45% holding in an obscure oil field better known for getting embroiled in Nigerian oil bunkering theft scandals than in producing oil. This oil field – Saltpond Offshore – is so dilapidated that continuous refusal by GNPC to decommission it (despite nonproduction) has been declared an environmental hazard by analysts.

It is clearly not some energy transition or other hifalutin threat over the horizon that Ghana ought to be addressing with feverish intensity but the poor governance and broken management of the petroleum sector.

It is completely safe to disregard any claim about GNPC's recent actions being about the elusive prize of operatorship. What then is going on?

Once it got over its momentary headiness about owning 79% of SWDT, GNPC settled for a more level-headed "joint operatorship" model with AGM. Its "participating interest" (exercised directly and through its subsidiary, Explorco) was pegged in this arrangement at 34%, with rights to take up an additional 15% (and contribute to the proportional costs of exploration and development), meaning a legal entitlement of about 49% if GNPC wished to bear the investment burden. AGM now had 66% (until such a time, if ever, GNPC exercised its rights to take up the 15%).

Somehow, even this "joint operatorship" thing proved too hard to swallow for GNPC. So, on 21st June 2019, the Minister of Energy caused an amendment to be made to the original September 2013 South Deepwater Tano (SDWT) agreement. The parties to the agreement were AGM Petroleum, GNPC and, a newly introduced, Quad Energy, and the effect was to reduce the GNPC's entitlement to 15%. Quad Energy had come to the picture supposedly to demonstrate "local content", yet its Founder was a member of the Aker Board and his co-signor on the agreement was the ubiquitous Atle Aamodt Andresen, the Aker operative who, if you recall, came by way of Petrica. In short, Quad was to all intents and purposes an Aker front.

In the revised agreement stripping GNPC of precious equity, the great prize of operatorship was dangled again, even though at this point the joke must have been getting old even for its spinners:

> 9. GNPC has aspirations of building operatorship capacity. Without prejudice to the rights of the Parties under this Agreement, Contractor is committed, pursuant to the terms of this Agreement, to support GNPC to develop its institutional capacity to enable the State to fulfil such aspirations.

> 21.2 Contractor will assist GNPC in their aspiration to build operatorship capacity through contractual arrangements with GNPC that will enable competence building in an operational environment.

Extracts from the revised GNPC – AGM agreement

The decision to borrow money to take the GNPC stake from 15% back to 70% is therefore a nearly decade long process in which rights already owned by Ghana have been carefully whittled down in order to create a basis to spend money to reacquire them.

The only remaining question is whether in the intervening period, the asset has seen its value improved through investments.

Firstly, before we even bother discussing that point, it bears repeating that GNPC had all the opportunity in the world to retain its rights and contribute to the asset development as an operator or joint operator. Secondly, publicly available information is all one needs to assess the level of investment that has gone into the assets – SDWT, whose history we have amply recounted, and DWT-CTP, which we will say a bit more about shortly.

On 1st March 2018, Aker Energy announced a purchase for 50% of the DWT-CTP block for $100 million. Its main discovery – Pecan – had already been made, plus a number of minor finds. In the intervening period, Aker spent $216 million on the block. A considerably lower amount would have been spent on SDWT, where only two wells have been drilled. Based on TRG filings in Norway, the total investments in both assets are in the range of about $310 million.

In 2020, Rokke decided to put further development on hold on both blocks, and began cancelling some investment commitments even for Pecan, including that for an investment facility called an FPSO it had earlier committed to buying from a Malaysian contractor. It even went further to vacate various properties in Ghana.

Yet, in presentations to the Ghanaian Cabinet and Parliament, GNPC painted the impression that Aker and the previous DWT-CTP block owner, Hess, have jointly invested $811 million developing the asset. This is completely ridiculous, and a blatant misrepresentation, as Hess did not report a large impairment after its sale of 50.8% of DWT-CTP to Aker for $100 million and Aker's spending so far is a matter of public knowledge. The true level of investments AGM-Aker have made in SWDT and DWT-CTP is in the range of $310 million.

When that simple number is taken into consideration, it becomes clear that Mr. Kjell Inge Rokke has **successfully plotted a windfall of as much as $1 billion** after patiently cultivating the Ghanaian political elite for more than a decade.

Of course, GNPC and Rokke are not going to be that transparent about their machinations. Their justification of the valuation of GNPC's share of the resources to be purchased - $2 billion - is based on fantastical projections of earnings to be made if the petroleum discoveries made in both fields eventually come onstream. The $1.1 billion approved by Parliament to be spent is thus made to look like an incredible steal. By an almost magical feat, the windfall of nearly $1 billion is miraculously transposed from the Rokke side of the ledger to GNPC's. But everyone knows this is a ruse.

The company brought in to sprinkle some pixie dust on this dung of a valuation – Lambert Advisory - admitted having spent just two weeks weaving numbers supplied to it by GNPC and Aker together. It had no access to any audited reservoir data. It relied exclusively on the GNPC and Aker estimates. It made a call of the "energy transition" affecting supply but not demand and thus pegged the long-term average oil price at $65 per barrel. Its sensitivity analysis was carefully caveated so as not to affect the preferred GNPC-Aker conclusions.

Though SDWT has only seen one discovery well and the only other well attempted – Kyenkyen-1X – proved so disappointing the partners decided not to report results, Lambert decided to discount the wild volume estimates made by AGM and GNPC of the unappraised field by only 35%. That is to say, from producing 60,000 barrels a day to roughly 40,000. Even heavily appraised fields like ENI's Sankofa struggles to produce that amount of oil in Ghana's difficult waters.

Meanwhile both the Pecan field in DWT-CTP and the Nyankom field in SDWT that are slated for development in the Aker-GNPC plan are far more distant from shore and in much deeper waters than most of Ghana's producing fields. In fact, in some respects, their complexity is unparalled in the immediate neighbourhood.

All the more surprising then that Lambert would also insist on using the same hurdle rate of 10% for both the appraised DWT-CTP and the unappraised SDWT blocks on the basis that Aker is the driver of both projects and therefore its generic cost of capital should be used in the Discounted Cashflow methodology it adopted for the valuation of the two blocks.

When Lambert, during a small meeting with Ghana's Civil Society Organisations on the valuation issue, was asked about the refusal to use recent transaction pricing data for comparable assets in the region, their analyst insisted that any such benchmarking would be inappropriate. Of course, allowing benchmarking would have generated some uncomfortable truths from widely available comparable deals offshore in Angola and Nigeria.

Suffice it to say that when proper reserves classification, project risk analysis, and a sensible long-term price of oil is used, the proper valuation gets closer to the $350 million to $450 million range that many in the Ghanaian CSO movement believe would be prudent given the project history and medium-term picture. The gap between these numbers and the $1.1 billion Ghana is willing to pay is terrifying.

GNPC's previous bumbling on its operatorship quest journey can be largely ignored to the extent that it hasn't saddled Ghana with large debts. This new foray into speculative endeavours with borrowed money, on the other hand, invokes comparisons not with the careful, methodical, and long-stretch transformation experiences of the Saudi Aramcos and Petronases of this world, but with other NOCs much closer to home: Sonangol and NNPC of Angola and Nigeria respectively.

After misadventures similar to the ones GNPC seems so desperate to embark upon, Sonangol's total liabilities are now inching towards $40 billion. It has been forced to rapidly deleverage by frantically divesting itself of burdensome operating assets. NNPC, in a similar situation, has liabilities of more than $10 billion exceeding assets.

Ghana is advised to hasten slowly in this mindboggling plan to increase the wealth of friendly Norwegian billonaires.