IMANI
Center for Policy & Education

Green Economy Brief

IMANI on the Atlantic Lithium Deal

13th December 2023

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IMANI has been following with keen interest the intense debate generated by the decision of the government of Ghana to:

1. Grant a lease to Australian mining startup, Atlantic Lithium, to mine and sell Ghana's lithium in exchange for 13% ownership in the mine and 10% of the sales (revenue); and
2. Authorise the country's sovereign minerals fund, MIIF, to invest $32.9 million of Ghana's gold income in Atlantic Lithium to help fund the project in exchange for 6% in the local asset and 3% of the parent company.

These two transactions are connected and must be analysed together at all times.

IMANI would like to start off by congratulating the eminent citizens whose involvement in the debate have truly elevated it. Former Chief Justice, Sophia Akuffo, and Dr. Kwakye, both of the IEA, come to mind. As also do Professor Ransford Gyampo of UG-Legon, Dr. Sam Jonah, Messrs Fui Tsikata and Kofi Ansah, Mr. Sam Okudzeto, and, even more recently, leading Clergy and Sheikhs.

IMANI has been steadily building a "green economy" practice for some time now, so this debate is very timely. IMANI affiliates like Bright Simons, who wrote two essays (links in the footnote), and, well before the controversy, Theo Acheampong, who published a treatise on Ghana's green economy prospects (also referenced in the footnotes) continue to assist in this regard.

As the debate gets broader and deeper, some citizens could find themselves lost in the weeds. The purpose of this pilot brief is to recenter the discussion on the key issues that have been raised by civil society organisations like IMANI, the IEA, and ACEP. In doing so, we will also react, albeit briefly, to some of the arguments that have come up.

1. The IEA was right to emphasise the relative gains to the investor, Atlantic Lithium, and to Ghanaians as a people. Nobody in this conversation disputes the truism that Ghanaians have not benefited from the country's mineral wealth. None can deny that since 1897 when Obuasi gold was signed away to foreign investors under colonial rule, efforts to add value to the country's raw materials have failed. Everybody accepts this. Whilst there is value in obtaining precise numbers, any illustrative calculations will still come to the same point.

2. The noted investment lawyer, Fui Tsikata, and former Minerals Commission chief, Kofi Ansah, have helpfully provided a simple schema for calculating how much Ghanaians will earn from the lithium mined versus the investor assuming the total revenue was GHC100. We reproduce it for those who have yet to read their essay: *1) Royalty plus levy equal to 11% of GHC100 or GHC11 2) Income tax of GHC24.5 3) Dividend of GHC6. These add up to GHC41.5 for government vs. GHC39.5 for the investors. The two amounts together totalling GHC81 can be taken as proxy for the annual direct monetary benefit derived from the project for the government and the investors*. Whilst the simplification makes it easier to follow the logic, some vital points can be lost. For example, the revenue may well be 200 GHS but inflated costs and complicated financing structures could lead to taxable profit staying at 45.5 GHS. The 1% community fund that has been added to the contractual 10% royalty may not be managed by a public trust but by proxies of the company, reducing the amount that truly goes to the "people". The dividend of 6 GHS depends on board control, and boards can choose not to declare dividends, etc. So, whilst the illustrative numbers are useful, just like the IEA's, everything depends on the assumptions, and how they are refracted through the contract.

3. We were very happy to read that Messrs Tsikata and Ansah are aligned with the rest of us on the need to insert a mechanism in the agreement such that if the economic gains change dramatically, which could happen given the huge uncertainties in the lithium and lithium products space, Ghana's revenue share and equity will correspondingly increase. Likewise, we align with the two prominent commentators on the need to set up a price discovery index for the lithium sales for determining the revenue base from which royalties calculations are derived rather than leave it to opaque, non- arm's length, transactions, which the current contract does.

4. We also continue to press the case that there is nothing in the way the contract has been drafted that will increase the odds of lithium refining happening in Ghana in a way that will boost value addition, quality jobs, public revenues and local businesses. The current drafting simply says that the company will only refine based on the "outcome" of a scoping study. Our position is that the common expectations of both the government and the company as to what conditions must exist before refining will be possible must be indicated in some form to enable

tracking. Whether it is profitability level, raw lithium availability, electricity pricing and availability, tax waivers for complementary imports, or whatever may be required, the text should be clear so that civil society and others can monitor progress towards value addition, which everyone agrees is essential considering Ghana's history with mining.

5. In the same light, "refining" should be clarified so that the public will know what end-products or intermediaries are in line with the country's value addition strategy. There are several stages in the refining process of lithium. Value is unfortunately not added uniformly at every stage. Refining *spodumene concentrate* (the planned product from the Ewoyaa mine) into *lithium sulphate monohydrate* will count as "refining" but the contributions that will make to skills growth, public revenues, green jobs etc., are different from refining the concentrate into battery-grade lithium hydroxide. It is important that the expectations are set out clearly in the agreement so that we can all maintain vigilance.

6. A major aspect of this whole transaction is Ghana's decision to buy, through MIIF, more stake in Atlantic Lithium, at a cost nearly twice the amount of money the company's own backers initially invested in Ghana before getting their mining lease. In a document circulated to the press called, "Atlantic Lithium Equity Investment", MIIF made the emphatic claim that, *"Even before any disbursal, the value of MIIF's equity investment is up 31% from the locked in price of US$0.26.* ***MIIF has already made a 31% gain on its planned investment****."* (Emphasis theirs). This analysis, with due respect, is wholly erroneous. The highest price of the stock this year was on January 27th, when it sold for $0.417. MIIF committed to buying at $0.26 and though it hasn't paid for it or sold any shares, it has already declared a "gain" of 31% because for a short period of time, the stock price was $0.34. By that same measure, one can argue that the stock is a money-losing asset since based on today's (13th December, 2023) price of $0.255, it has already lost nearly 40% of its value year to date. MIIF needs to marshall more rational arguments to convince the country of the sense in buying at that price when many of the company's management held stock options whose expiry dates were extended to allow them to buy the stock at much lower prices (eg. $0.15).

7. MIIF also claimed that: *"The proposed offer by Assore to buy Atlantic for £0.33 (US$ 0.42) per share in cash valued Atlantic equity at £222m (US$ 280.1m).* ***This translates into a valuation of US$ 691.6m for the Ewoyaa Project****. This places the current valuation of MIIF's $27.9m investment into Ewoyaa at US$41.5m (6% of Ewoyaa); representing a 48.75% potential increase in value."* (Emphasis theirs.) Again, respectfully, this analysis is porous. The offer to buy, whilst an important signal, was not accepted. The more tangible implied equity pricing must come from the Piedmont transactions. Piedmont has been financing the project in exchange for the right to buy half the concentrate produced. It has so far paid an implied price of less than one-third of what MIIF is claiming the mine is worth. The country should not be in a headlong rush to overpay. Equally, IMANI argues for the need for a proper anti-dilution clause, not a right to participate in future raises/placements since fiscal constraints mean that any such right will not be regularly exercised. Ghana will end up with its stake diluted as has happened with all the international gold companies we used to own stakes in but currently don't even own up to 0.1%.

8. IMANI has seen copies of presentations and marketing materials shared by Atlantic Lithium at various high-profile events and roadshows in which it claims to have been offered a 10-year tax holiday and a special electricity tariff that will save it up to 50% of energy costs. We have also heard some Ghanaian officials deny this. Either there are indeed such secret agreements or Atlantic Lithium, a listed company on a regulated exchange, is blatantly deceiving investors. Neither scenario bodes well. It raises fundamental credibility issues that must be resolved.

As Parliament gets ready to deliberate on the agreement, expect CSOs to champion the cause of Ghanaians.

There can be no compromise of the position that the agreement, as currently drafted, does not meet public expectations. The government will do well to listen.

Notes:

https://brightsimons.com/2023/12/09/why-ghanas-first-lithium-agreement-shouldnt-be-ratified-as-is/

https://brightsimons.com/2023/12/11/abusing-truth-in-ghanas-lithium-deal/

https://eiti.org/sites/default/files/2022-07/FINAL%20REPORT_Ghana%20Critical%20Minerals_CLEAN_30.05.22.pdf

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