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The West African Gas Pipeline Co (Wapco) suspends flow of gas from Nigeria to Ghana due to Volta River Authority debt owed to Nigerian Gas (N-Gas). Due to gas shortages at the 200MW Sunon Asogli power plant, the government has had to import power from Côte d'Ivoire. Gold Fields Ghana Ltd (GFGL) commits to invest \$2.5 billion in its Tarkwa and Damang gold mines, after reaching a development agreement with the government. The commitment reflects a positive outlook for the gold market since 'Brexit', which may result in the relaunch of the AngloGold Ashanti-operated Obuasi mine. The government reaffirms its commitment to meet its obligations to the International Monetary Fund (IMF) under its \$918m extended credit facility (ECF) programme. The IMF confirms that Ghana is on track to meet its repayment commitment.

Nigeria suspends gas flow to Ghana

The **West African Gas Pipeline Co (Wapco)** has suspended the flow of gas from **Nigeria** to Ghana due to \$180m worth of unpaid government bills.¹ While only a small portion of Ghana's energy needs is supplied via the pipeline, the shutdown has affected power supply. The government has had to import power from **Côte d'Ivoire** due to the stress placed on the 200MW **Sunon Asogli** power plant, which is 100% gas-powered.² Recurrent blackouts and increased power prices have become a major focus for presidential candidates leading up to the 7 November elections.³ Ghana's only other alternative gas source is the **Ghana National Gas Co (Ghana Gas)**-owned **Atuabo Gas Plant**, which is not operational at present.⁴

Nigerian Gas (N-Gas), the main supplier of gas via Wapco, disconnected the supply on 17 June. Ghana's deputy power minister, **John Jinapor**, said that the state-owned **Volta River Authority (VRA)**, the main generator and supplier of electricity in Ghana, has agreed to pay \$46m of the debt, with \$10m already paid.⁵ However, it was reported that N-Gas will only resume supply once full payment is made.⁶ The contractual volume of gas supply is for 90 million standard cubic feet (scf) but N-Gas has repeatedly failed to supply this amount. This failure partially explains why Ghana is reluctant to pay the debt in full.⁷ Ghana president **John Dramani Mahama** (2012-present) had agreed with Nigeria's junior petroleum minister, **Ibe Kachikwu**, to pay \$170m by February 2016.⁸ N-Gas had threatened in October 2015 to cut supply if payment was not made, but no payment was made in February.⁹ Citing gas production cuts in the **Niger Delta** (Nigeria), the Nigerian government stated that supply had completely halted. **Nigerian National Petroleum Corp (NNPC)**, **Shell Petroleum Development Co** and **Chevron Nigeria Ltd** jointly own N-Gas. N-Gas transports gas from Nigeria to **Gabon, Togo** and **Benin** via the Wapco-operated **West African Gas Pipeline**.¹⁰

¹ Multiple sources: Moneyweb, 21 Jun 2016; Ghana Web, 21 Jun 2016; Source, journalist, Accra.

² Ghana Web, 21 Jun 2016.

³ Reuters, 21 Jun 2016.

⁴ Source, journalist, Accra

⁵ Pulse, 21 Jun 2016.

⁶ Pulse, 21 Jun 2016.

⁷ Source, journalist, Accra

⁸ The News Nigeria, 21 Jun 2016.

⁹ Vanguard, 20 Oct 2015.

¹⁰ Ghana Star, 21 Jun 2016.

Ghana at present does not have the facilities to import liquid natural gas (LNG), which would be a viable alternative means to import gas.¹¹ The **Ghana National Petroleum Corp (GNPC)** on 6 June announced it expects to commence LNG imports from early next year, as the company has already begun discussion with several traders.¹² Ghana is near securing a second floating storage and regasification unit (FRSU) through an **Israel-owned Quantum Pacific Capital**-led initiative. In February, the government confirmed that terms were agreed to set up a \$550m operation at **Tema** port together with GNPC – the **Tema LNG Project** – which alone is expected to be able to process 500 million scf.¹³

The VRA already owes total debt of \$1.53 billion, which will make it more difficult for the company to secure capital to clear the additional debt to N-Gas.¹⁴ A VRA source believes that this figure is outdated, and has risen since the initial level of debt was announced in March.¹⁵ Ghana will reportedly issue a \$2 billion 10-year bond at the latter end of 2016 in order to eliminate the debt, funded through a 10% tax on electricity tariffs and a surcharge on petroleum (see *ARC Briefing Ghana June 2016*).

Gold Fields announce \$2.5 billion investment by 2027

Ghana's largest gold producer, **Gold Fields Ghana Ltd (GFGL)**, announced on 6 July that it would invest a further \$2.5 billion in **Tarkwa** (\$2 billion) and **Damang** (\$500m) gold mines between now and 2027.¹⁶ The investment follows the conclusion of a favourable development agreement (DA) with the government in March.¹⁷ The investment will allow for greater gold production at the mines, since a stagnation in production due to declining gold prices and an increased in corporate taxes (from 25% to 35%) had prevented this.¹⁸ The development agreement will ensure that GFGL receives a stable and constant fiscal arrangement, which should contribute to a more predictable investment climate. GFGL vice president for stakeholder relations **David Johnson** said that the achieved tax rate of 32.5%¹⁹ is favourable in more ways than one,

“We need a stable fiscal environment that will help us to make an informed decision as to investments. So, having the development agreement actually helps us a lot in making that decision ... the DA just gives us that level of comfort and certainty. It is not so much of whether the increment is 30% or 20% or 15% corporate tax; it is the certainty over a period because that is what we can plan with.”²⁰

The development agreement is contingent upon the results of a feasibility study for the undeveloped Damang mine.²¹ The agreement provides for fixed 5% royalties and the maintenance of supplementary concession and stooling fees, which have increased significantly in previous years. Reportedly, the reason for GFGL communicating its investment plans is that the contract with the government does not contain a stabilisation clause, as for the **AngloGold Ashanti**-operated **Obuasi** mine, which is currently not operational, under so-called “*maintenance mode*”.²² AngloGold Ashanti is reportedly not paying any tax while the mine is non-operational.²³

¹¹ Source, energy journalist, Accra

¹² Reuters, 7 Jun 2016.

¹³ Multiple sources: Business Wire, 9 Feb 2016; Reuters, 7 Jun 2016.

¹⁴ Ghana Web, 21 Jun 2016.

¹⁵ Source, journalist, Accra

¹⁶ www.goldfields.co.za

¹⁷ www.goldfields.co.za

¹⁸ www.goldfields.co.za

¹⁹ Source, journalist, Accra

²⁰ www.goldfields.co.za

²¹ www.goldfields.co.za

²² Source, journalist, Accra

²³ Source, journalist, Accra

Although gold forecasts vary, gold prices have risen to their highest levels since February 2014 – now at \$1,320 per troy ounce – and have increased 24.6% since January.²⁴ Furthermore, as a result of the so-called ‘Brexit’,²⁵ investors have begun stockpiling gold while the market sees uncertainty in the **British** pound.²⁶ Therefore, analysts have estimated that the price could reach as high as \$1,400 if investors remain risk averse; others claim it will reach \$1,500.²⁷ This makes investment decisions such as GFGL’s more likely, as it does optimistic forecasting.

Ghana reaffirms commitment to IMF repayment

Ghana has recommitted to its **International Monetary Fund (IMF)** extended credit facility (ECF), despite fears that government spending may increase around the November presidential election.²⁸ Ghana may not receive the third tranche of its \$918m IMF package if it does not meet the set targets, which will result in the government struggling to meet its debt obligations.²⁹ Ghana signed a three-year austerity programme in April 2015, agreeing to lower government spending in exchange for the loan to support its balance of payments. Public debt was 71% of gross domestic product (GDP) at the end of 2015, but GDP growth rose to 4.9% in the first quarter of 2016, compared to 4.5% in 2015. The government expects growth to recover to 5.4% this year, while the IMF forecasts growth of 4.5% in 2016.³⁰ There are fears that without the IMF financing, the country would be unable to service its debt requirements. The IMF could refuse to pay the next tranche if the government does not continue to meet its targets. Thusfar Ghana has received \$228m in two tranches. Although finance minister **Seth Terkper** has stated that Ghana will successfully complete the programme through to 2017, Mahama is running for re-election in November and may attempt to increase spending on social services in the lead up to the election.³¹

The IMF in early July confirmed that the government is on track to meet targets for the repayment of its \$918m ECF.³² The government’s commitment to the programme reduces the risk that Mahama will ignore debt obligations in order to increase government spending to boost his re-election bid. Mahama has rarely failed to reiterate his positive record of reducing the government’s budget deficit whilst in office – from 11.5% to 5.3%. Ghanaian media has speculated that the ruling **National Democratic Congress (NDC)** would repeat its historic overspend in the lead-up to the 2012 presidential elections, which more than doubled the budget deficit.³³ Specifically, many civil servants’ salaries rose significantly as the government aimed to increase its chances ahead of the elections.³⁴

Implications

Ghana’s cutoff in gas supplies is indicative of increased public debt. It signals the need for the government to issue a bond soon, as the country begins to suffer from the inability of state-owned enterprises and the government to clear the debt. Ghana’s inability to transform LNG appears equally debilitating while it currently has no alternative to gas supply reductions.

The GFGL announcement is positive for mining in Ghana, due to renewed confidence in gold prices and the evidence that investors are content to commit in the long-term in Ghana when the government makes a favourable deal. The increased confidence in gold prices may also accelerate a restart in operations at the Obuasi mine.

²⁴ www.gold.org

²⁵ United Kingdom (UK) vote by referendum to leave the European Union (EU).

²⁶ The Economist, 25 Jun 2016.

²⁷ Multiple sources: The Economist, 25 Jun 2016; Marketwatch, 26 Jun 2016.

²⁸ Reuters, 27 Jun 2016.

²⁹ Reuters, 27 Jun 2016.

³⁰ Reuters, 22 Jun 2016.

³¹ Reuters, 27 Jun 2016.

³² Reuters, 7 Jul 2016.

³³ The Africa Report, 12 Jul 2016.

³⁴ Reuters, 7 Jul 2016.

Ghana's commitment to the IMF appears unwavering, even during the election period, as the IMF, Mahama and Terkper are keen to reiterate. However, Mahama continues to do poorly in polls, and may reconsider his commitment closer to the elections on 7 November.

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