

Ghana - IFC Investment in Kosmos Energy and Tullow Oil

February 19, 2009

U.S. Position

The United States supports Ghana's efforts to develop its energy resources in a transparent and sustainable manner, and we wish Ghana much success in transforming the discovery in the Jubilee Field into sustained and shared economic growth for its people.

The expensive and inconsistent supply of energy is one of the most important long-term constraints on Ghana's flourishing private sector, dramatized by rolling blackouts in 2007. Production from the Jubilee Field would diversify Ghana's energy input sources and would reduce Ghana's reliance on oil and gas supplies from its neighbors. Further, spikes in the oil import bill in 2008 contributed to large fiscal and current account deficits that now threaten hard-won gains in macroeconomic stability. Domestic hydrocarbon production would reduce Ghana's vulnerability to oil price shocks, and relax a critical constraint on growth and poverty reduction in Ghana.

With respect to transparency and accountability, Ghana's vibrant democracy, active press, and improving governance are all indications that Ghana can avoid the "resource curse" that has plagued its neighbors. In this regard, the U.S. welcomes the project sponsors' plans to disclose publicly information about revenue payments to the government, consistent with IFC policy. There is also ongoing support from multiple donors, including Norway, Germany and the United Kingdom, to support Ghana's capacity in oil revenue management, environmental compliance, and accountability and transparency. Further, this investment is well-aligned with the World Bank's Country Assistance Strategy, which includes support for implementation of the Extractive Industries Transparency Initiative (EITI) in the mining sector, as well as the Natural Resources and Environmental Governance Project.

Despite our strong support for the goals of this investment, the U.S. disagrees with the IFC's rationale that the environmental impact of this investment is limited, site-specific and can be mitigated, and the consequent classification as "Category B". Offshore oil production projects are usually considered likely to have significant impacts. For these reasons, they are typically classified "Category A" by the World Bank (IBRD/IDA) and the EBRD, thus requiring a full Environmental Impact Assessment. Ghana itself requires an EIA for offshore drilling, and one will need to be completed prior to final government approval of this project. Therefore, the U.S. position is that the project should have been classified as "Category A," and a full EIA should have been presented to the Board and the public.

IFC's financial additionality is claimed to be as an "anchor lender" to signal confidence and thereby help mobilize other lenders, particularly in the current credit climate. However, IFC management has indicated that the two sponsors would proceed with the project even if IFC were to withdraw from the transaction. This would seem to negate

the "countercyclical investment role" of IFC and raises the question of IFC's additionality in this project, particularly in a time of financial crisis when the marginal resources of international financial institutions should be directed to projects for which other financing sources are not available.

A final, equally important, aspect of IFC's additionality is environmental – holding the project sponsors to high standards of environmental and social risk mitigation, transparency, and disclosure. While the project does include a number of important mitigation measures, the U.S. sees three important departures from current international best practices. First, the use of a converted single-hulled tanker as the Floating Production Storage and Offloading (FPSO) facility heightens the risk of oil spills; international best practice mandates the use of double-hulled FPSOs. Second, the project will not require the practice that is consistent with high industry standards -- that the tankers that pick up oil be double hulled. Third, the effects of disposing non-water cuttings into the ocean are not well analyzed. The U.S. hopes the authorities in Ghana will consider these issues in its EIA.

In light of the concerns expressed, the U.S. abstained on this investment.