

GOLD FOR OIL OR GOLD FOR FOREX?

INTRODUCTION



The geopolitical landscape in 2022 was drastically altered by the Russian-Ukraine war, drawing global attention to its ripple effects on economies and the oil industry. The conflict triggered a surge in crude oil and refined products prices as global markets responded to supply chain disruptions amid the recovery in demand following the covid pandemic.

As international oil benchmarks soared, so did foreign exchange (FX) demand in the emerging markets, intensifying economic strain on import dependent economies such as Ghana. The country, which lacks domestic refining capacity for crude oil, found itself vulnerable to these global shocks; with the country's oil import bill ballooning from \$240 million to \$400 million per month and placing immense pressure on its already fragile FX reserves.

At the same time, Bulk Import, Distribution, and Export Companies (BIDECs) struggled with mounting debts and liquidity challenges,

finding it increasingly difficult to source FX to pay international oil suppliers. This liquidity crisis heightened Ghana's risk exposure and triggering fear within some quarters in government that the country might run out of products as some of the major oil traders were reluctant to add to an already sky-high exposure with the BIDECs.

The root cause of the crisis was clear; Ghana faced an FX liquidity problem.

This looming energy crisis served as the catalyst for the creation of the "Gold-for-Oil" (G4O) program. The government implemented the G4O policy to leverage the country's gold reserves in securing petroleum imports, hoping to alleviate the pressure on foreign exchange reserves.

INTRODUCTION

Conceptually, G4O presented a golden opportunity: if the gold proceeds had been used strictly to provide FX liquidity for oil importers, it could have served as a viable stop-gap measure to ensure payment to suppliers and keep oil flowing into the country uninterrupted.

However, the policy took a costly turn when the government, through the Bulk Energy Storage and Transportation (BEST) Company, ventured into the oil trading business—a domain where it lacked expertise.

Since its implementation in January 2023, G4O has covered only 30% of Ghana's oil needs; a limited scope that raises doubts about its effectiveness in addressing key economic concerns such as fuel price stability, currency depreciation, and inflation in petroleum-dependent sectors.

These limitations, coupled with BEST's foray into oil trading, form the basis for assessing whether G4O has truly been a strategic solution or an avoidable misstep.

Governments nor policy makers are neither gold traders nor oil traders, and their direct involvement in commercial trading has historically proven problematic; evidenced by cases like TOR and BEST. The challenges that emerged under G4O illustrate the risks of state-led interventions in a complex and volatile industry like oil trading.



As Ghana transitions to a new administration, caution must be exercised in determining the future of G4O and whether the nation will repeat past mistakes or adopt a more sustainable approach to securing its energy needs.

REBUTTAL TO CLAIMS ON GOLD-FOR-OIL (G4O) SUCCESS

Dr. Edwin Alfred Nii Obodai Provencal, former Managing Director of BEST, presents a defense of the program's supposed benefits, including claims of fuel price stabilization, economic relief, and transparency.

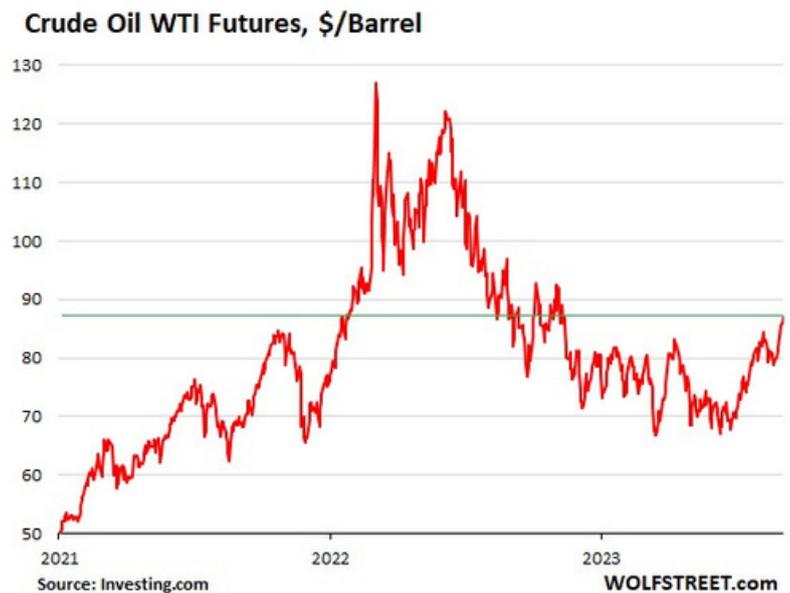
Yet, even a rudimentary review by an elementary economics student swiftly exposes significant flaws in his arguments, calling into question, the supposed ingenuity of his claims. This rebuttal highlights the inconsistencies in his claims and the broader shortcomings of G4O



The 70% Market Forces vs. 30% G4O Supply and its Alleged Impact on Fuel Prices and Inflation

- Dr. Edwin asserts that the G4O initiative was responsible for reducing fuel premiums from \$135/MT to \$65/MT, lowering diesel prices from GHS 23 per liter in November 2022 to GHS 15.45 currently, and contributing to inflation reduction from 54% to 23.5%. However, these claims are flawed.
- The oil market naturally self-adjusts after experiencing significant shocks. As demonstrated in Figure 1, following the Russian-Ukraine crisis, crude prices surged before eventually stabilizing as global markets gradually adjusted to the effect of losing Russian bbls to the European market which were the usual outlet.
- As trade flows re-adjusted, with Russian bbls finding new homes in the east, Latin America and West Africa – we saw the global market correct back to pre-war levels.

Figure 1: Oil Price Movement (2021-2024)



- Notably, the same trend occurred in the gas markets, with gas prices in Europe trading at all time highs as Russia shut off gas supply valves to Europe in retaliation for the sanctions imposed on it.

REBUTTAL TO CLAIMS ON GOLD-FOR-OIL (G4O) SUCCESS

- The Gold for Oil (G4O) program was launched in December 2022, received its first consignment in January 2023 - which represented only 10% of the nation's monthly consumption, aimed to stabilize fuel prices by exchanging gold for petroleum.
- **However, this program cannot be credited with reducing ex-pump prices during that period.** Data from Graphs 2 and 3 indicate that crude oil prices had already been declining, dropping from \$96.04 per MT in the second pricing window of November 2022 to a new low of \$74.27 per MT by June 2023.
- Similarly, international market prices reported by Platts for petrol and diesel fell from \$968.25 and \$1,096.98 per MT to \$828.70 and \$691.41 per MT, respectively.
- Consequently, ex-pump prices mirrored the downward trend in international markets. Petrol and diesel prices fell from GHS 16.57 and GHS 23 per litre, respectively, in the first pricing window of November 2022 to GHS 11.90 and GHS 11.96 in June 2023, as illustrated in Graph 4.
- This supports the view that the international market played a significant role in reducing prices well before the initial 10% G4O import reached the Ghana domestic market.

Figure 2: Crude Oil Price Movement (2021-2024)

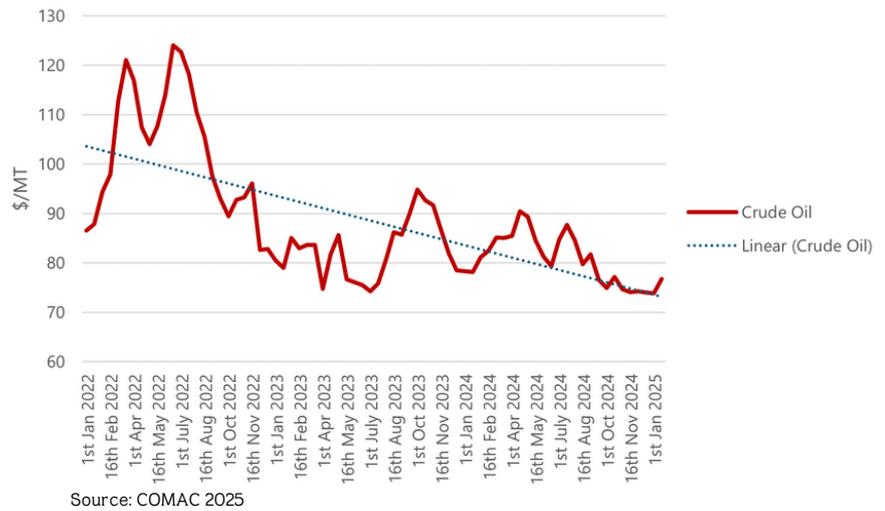


Figure 3: Product Platt Price Movement (2022 – 2025)

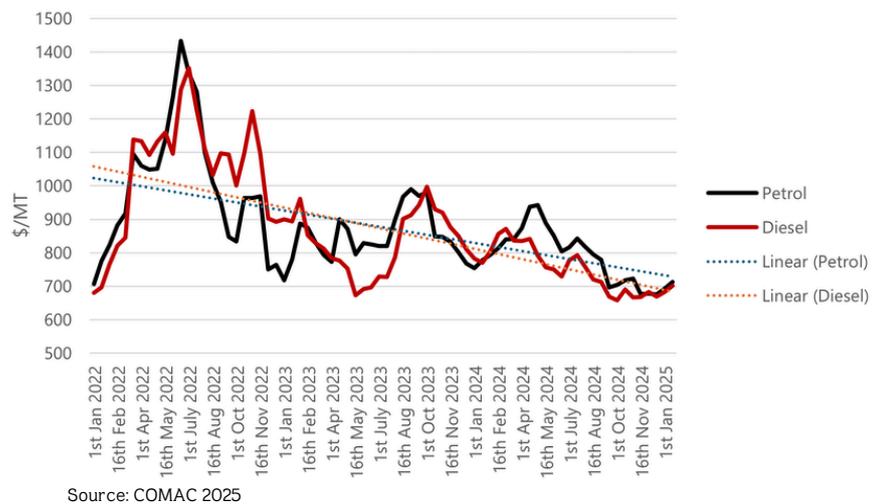


Figure 4: Ex-Pump Price (2022 – 2025)



REBUTTAL TO CLAIMS ON GOLD FOR OIL (G4O) SUCCESS

- Claiming that the G4O import is responsible for the decline in inflation from 54% in 2022 to 23.5% in 2025 (as illustrated in Figure 5), is fundamentally flawed.
- Given the marginal impact of the G4O on reducing ex-pump prices and its dwindling import volumes from its inception in 2023 through the end of 2024, it is difficult to attribute a 50% drop in inflation over two years solely to this initiative.
- Moreover, other significant factors, such as measures to control food inflation (a primary driver of overall inflation), were also at play during this period.
- Additionally, the program only covered about 30% of national fuel consumption, leaving the majority of imports subject to standard market conditions through Bulk Oil Distribution and Export Companies, confirms market forces beyond G4O played a much larger role in price fluctuations and inflation.
- The data clearly show that ex-pump prices continued to mirror global price movements during the period, highlighting that the Gold for Oil program played a minimal role in reducing ex-pump prices and, by extension, inflation.

Figure 5: Inflation, Yearly change rate (%), 2022 - 2025



Source: Ghana Statistical Service Data

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Fast forward to 2025, the recent increase in pump prices reinforces the theory that, the persistent correlation between rising crude oil prices, a weakening cedi and pump prices.

This indicates the exchange rate fluctuations driven by international market forces remains the dominant factor; a challenge that the G4O program failed to address.



Fuel Shortages and Laycan Challenges

We have on good authority information that some BIDECS were importing oil at much lower premiums and prices than those offered by BEST through the G4O program. This price disparity naturally led to BEST sitting on a lot of the stocks that they had imported via the G4O scheme, as prices further declined in Q3 2024 resulting in potentially significant losses for the initiative..

This losses in-tuen meant that BEST struggled to remit the necessary proceeds from the oil sales to continue the imports. As a result, the market saw lower utilization of the laycan that the NPA allocated to BEST in Q4 2024, and this ultimately led to low product imports into the country creating concerns about potential fuel shortages at the end of 2024.

Our findings also indicate that BEST was given priority in Laycan allocations for G4O supplies over BIDECS imports. Consequently, due to declining G4O import volumes, many of these Laycan allocations went unused.

This inefficiency placed additional strain on BIDECS, who struggled to secure their own Laycan slots, leading to potential demurrage costs.



BEST's Role: A Strategic Reserves Manager or a Trader?

BEST's primary mandate is to maintain strategic fuel reserves and ensure national energy security. However, under G4O, BEST shifted its focus towards trading, raising concerns about its ability to fulfill this role effectively.

Credible reports indicate significant fuel losses of BIDECS, at BEST storage facilities in Kumasi and the northern regions, with no official explanation or corrective measures taken. If BEST prioritizes profit-making through trading instead of securing reserves, it continues to undermine Ghana's energy security. Calls for an independent audit of BEST's financial performance under G4O, particularly its trading losses, remain unanswered.

Despite majority of Ghana's fuel supply being controlled by BIDECS, transportation and storage inefficiencies at BEST facilities, particularly in Kumasi and northern Ghana; continue to disrupt the fuel supply chain.

Transparency and Accountability Concerns

Transparency is not merely about government involvement; it requires public disclosure of financial records, procurement contracts, and independent audits—none of which have been made readily available.

There is no publicly accessible data on G4O transactions, profit margins, financial risks, or losses. Calls for an independent audit of BEST's management of G4O have been ignored, raising concerns about accountability.

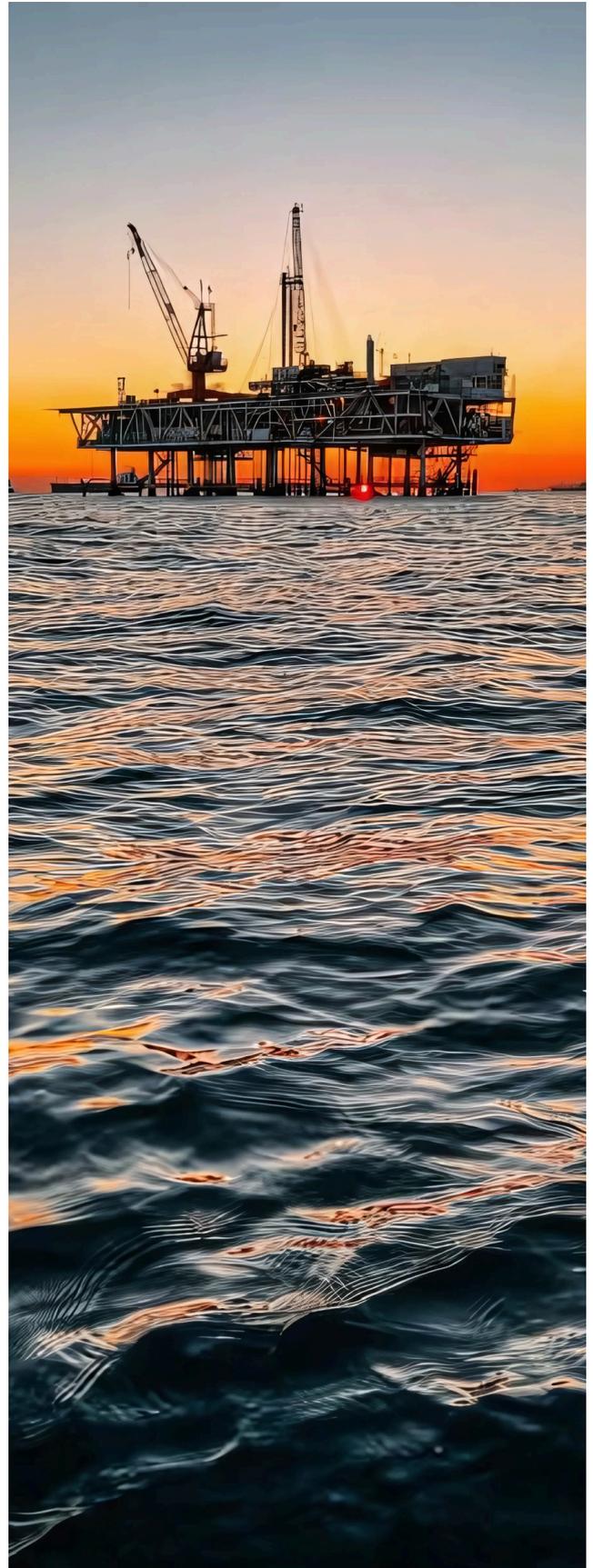
6. Broader Structural Issues Still Unresolved

Even if G4O may have contributed some benefits, it cannot be the silver bullet to address the fundamental issues affecting fuel supply in Ghana's downstream petroleum sector, including:

- **Lack of Refining Capacity:** Ghana remains dependent on imported refined petroleum products due to the inefficiencies at the Tema Oil Refinery (TOR). G4O does not change this fact.
- **Storage and Distribution Deficiencies:** Ghana still lacks adequate strategic fuel reserves, making it vulnerable to global supply chain disruptions. The inefficiencies in BEST's storage network further exacerbate this challenge.
- **Regulatory Bottlenecks:** Policies such as the Zonalization Policy and inefficiencies in the Integrated Customs Management System (ICUMS) continue to add costs to petroleum distribution.

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G4O will not address these challenges.



CONCLUSION: G4O OR G4F

While the Gold-for-Oil (G4O) initiative was introduced as a temporal measure to alleviate Ghana's foreign exchange pressures, its execution (with the oil import element) has raised significant concerns regarding transparency, effectiveness, and long-term sustainability. The policy's limited reach; covering only 30% of the nation's oil needs: has failed to deliver substantial relief to fuel prices, stabilize the currency, or curb inflation in petroleum-dependent sectors.

Moving forward, a shift in strategy is necessary. Ghana must prioritize structural reforms that address the root causes of its economic vulnerabilities. These include:

- **Strengthening Refining Capacity:** Investing in domestic refining infrastructure will reduce reliance on imported refined petroleum, insulating Ghana from global supply chain disruptions and forex volatility.
- **Enhancing Storage and Distribution:** Realign BEST's efficiency to focus in managing fuel reserves and eliminating logistical bottlenecks will ensure a stable and reliable fuel supply.
- **Implementing a Gold-for-Forex Strategy:** Instead of direct commodity swaps, Ghana should leverage its gold reserves to stabilize foreign exchange markets, ensuring that oil importers have access to adequate FX liquidity.
- **Ensuring Transparency and Accountability:** Public disclosure of financial records, independent audits, and clear regulatory oversight will rebuild confidence in government-led initiatives and prevent mismanagement.

The deregulated nature of Ghana's downstream petroleum sector must be preserved, with minimal government interference in oil trading. The new administration has an opportunity to learn from the shortcomings of G4O and pivot towards policies that foster long-term economic resilience.

A full, independent audit of BEST's role in G4O is essential to assess its true impact and ensure that future initiatives are based on sound economic principles rather than short-term political expediency.

The future of the country's energy security and economic stability hinges on this critical choice.

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Ultimately, Ghana must decide: will it continue down the blind path of Gold-for-Oil (G4O), or embrace a more strategic Gold-for-Forex (G4F) model that aligns with global best practices?

The future of the country's energy security and economic stability hinges on this critical choice.

