

**REPORT OF THE FINANCE COMMITTEE ON THE
AGREEMENT BETWEEN THE GOVERNMENT OF
THE REPUBLIC OF GHANA AND FR. LURSSEN
WERFT GMBH & CO. KG OF GERMANY FOR AN
AMOUNT OF €28,050,000.00 (US\$37,867,500.00)
FOR THE PURCHASE AND REFURBISHMENT OF
TWO FORMER GERMAN NAVY FAST ATTACK
CRAFT TYPE S143, SETTING-TO-WORK OF THE
SHIPS, SUPPLY OF EQUIPMENT, INVENTORY
AND SPARES, TRAINING OF CREWS AND THE
TRANSPORTATION OF THE SHIPS TO GHANA**

1.0 INTRODUCTION

The Contract Agreement between the Government of Ghana and Fr. Lurssen Werft GmbH & Co. KG of Germany for an amount of *twenty-eight million and fifty thousand Euros* [€28,050,000.00] (US\$37,867,500.00) for the purchase and refurbishment of two former German Navy Fast Attack Craft Type S143, setting-to-work of the ships, supply of equipment, inventory and spares, training of crews and the transportation of the ships to Ghana was laid in the House on Friday 16th July, 2010 in accordance with article 181 of the Constitution.

Pursuant to the Standing Orders of the House, the Agreement was *referred* to the Finance Committee for consideration and report.

The Committee met and considered the Agreement with the Minister of Defence, Hon. Lt. Gen. J.H. Smith (Rtd), Deputy Minister of Finance and Economic Planning, Hon. Seth Terpkor and technical teams from the Ministries of Defence and Finance & Economic Planning and presents this report.

2.0 BACKGROUND

The Ghana Navy was established fifty years ago and has contributed immensely in ensuring Ghana's maritime security. In recent times however, the Navy has had to contend with inadequate logistical support and unserviceable ships. Currently, the Navy has six (6) ships and a small in-shore patrol vessel which are all at various stages of unserviceability due to age and lack of essential parts. The US Government has to date donated seven (7) speed boats to the Ghana Navy. These speed boats however cannot be used for sustained navy operations.

With the nation's Exclusive Economic Zone (EEZ) now spanning over 64,000 square nautical miles and with Ghana's application for extension of the EEZ beyond the 200 nautical miles in view of the recent oil discovery, the present new security challenges will impact on the strategic requirements of the Ghana Navy in particular and the Armed Forces as a whole. There is therefore the urgent need to re-equip the Navy to enable it monitor, contain and defeat any security threats from the maritime domain.

3.0 PURPOSE OF THE LOAN

The purpose of the Agreement is to enable the Ghana Navy acquire two former German Navy Fast Attack Craft Type S143 Ships, refurbished and install them with weapons and also provide supplies, spares and training required for the smooth operation of the ships.

4.0 FINANCING TERMS OF THE AGREEMENT

The terms of the Agreement are as follows:

4.1 PRICE

(a). Basic Contract Price of two Ships (including Setting-To-Work and Training for the Ships)	–	€17,030,000.00
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**(b). Budgetary Additional Contract Price
(including:**

- i. Delivery and Installation of Weapons :€2,180,000

ii. Supply of inventory and spares	:€2,000,000
iii. Provision of supplies and Services	:€840,000
iv. Emergent Works	:€4,000,000
v. Administrative Expenses	: <u>€2,000,000</u>
	<u>€11,020,000.00</u>

TOTAL **€28,050,000.00**

4.2 PAYMENT TERMS

In accordance with article 4 of the Contract Agreement, all payments are to be made directly to the Contractor in EURO on the Contractor's bank account in Germany.

Except for the advance payment installments, all payments due and payable to the Contractor under the Contract shall be secured and made out of an irrevocable, divisible, transferrable and unconditional Letter of Credit to be opened in favour of the Contractor from a Ghanaian bank, confirmed by a 1st class German Bank and payable at the Contractor's discretion. The wording of the Letter of Credit shall be acceptable to both parties.

The **Basic Contract Price** shall be paid out of the Letter of Credit in installments as follows:

- (a) 30% - payable thirty (30) Banking Days after signing of the Contract
- (b) 55% - payable forty (40) Banking Days upon commencement of the Setting-To-Work on the first ship and submission of the original invoice and respective stage certificate.
- (c) 10% - payable forty (40) Banking Days upon commencement of Function tests on the first ship and submission of the original invoice and respective certificate.
- (d) 5% - payable forty (40) Banking Days upon acceptance of the Setting-To-Work of the first ship against submission of the original invoice and the Protocol of Acceptance for the first ship.

The **Budgetary Additional Contract Price** shall be paid out of the Letter of Credit in installments pursuant to article 4.4 of the Agreement as follows:

- (a) 30% - payable thirty (30) Banking Days after signing of the Contract and submission of original invoice and the Refund Guarantee in the amount of this advance payment.
- (b) 25% - payable forty (40) Banking Days upon commencement of The Setting-To-Work on the second ship and submission of the original invoice and a respective Stage Certificate.
- (c) 20% - payable forty (40) Banking Days upon commencement of function tests on the second ship and submission of the original invoice and a respective Stage Certificate.
- (d) 20% - payable forty (40) Banking Days upon Acceptance of the Setting-To-Work of the second ship against submission of the original invoice and the Protocol of Acceptance for the second ship.
- (e) 5% - payable forty (40) Banking Days upon readiness of Transport of both ships against submission of the original invoice and respective Stage Certificates.

5.0 OBSERVATIONS

The Committee observed that as part of efforts to resource the Ghana Navy, Government has received three offers for the acquisition of platforms from three countries namely China, South Korea and Germany.

Firstly, this Agreement currently before the House relates to the acquisition of two former German Navy ships which need to be refurbished at a total contract price of €28,050,000.00. These ships will be delivered to the Ghana Navy 12 months after the start of work.

In addition, four 46m patrol boats are to be purchased from China out of which two will belong to the Department of Fisheries under the Ministry of Agriculture. The boats will however be managed by the Navy. These

four boats will be delivered in a period of 27 months (by September 2012).

Government is further considering the acquisition of two 62m fast patrol boats from South Korea at an estimated cost of US\$131,941,600.00. This Korean package includes a free offer of one Korean Coast Guard boat which is 35 years old. The boats, if requested, would be available in 37 months after the start of construction.

The Committee was informed that the two patrol boats being purchased from Germany are 57m boats manufactured by Fr. Lurssen Werft GmbH Shipyards, who are also the contractors to refurbish the boats.

The Committee was further informed that the two boats are identical to Ghana Navy Ships (GNS) ACHIMOTA and YOGAGA which were also built by the same company (Lurssen).

The Defence Minister, Hon. Lt. Gen. Smith (Rtd) explained to the Committee that even though the ships are 30 years old, they have been refitted several times, adding that a vessel which is regularly refitted can have a lifespan of about 100 years.

The Committee noted that upon the completion of the Naval Slipway in Sekondi, the Ghana Navy would as from next year conduct its refitting here in Ghana.

The same Contractor (Lurssen) has also been contacted to help refit the Navy's old ships. In this vein, four of the old ships would be cannibalized into two since those ships have not been refitted for about 25 years, thus rendering them virtual 'scraps'. This refitting would be done at the Sekondi Slipway upon the slipway's completion.

5.1 TAXES

According to article 3.7.1 of the Agreement, the prices mentioned do not include taxes, duties, fees, penalties or public charges of any kind or name. They also do not include any VAT in Germany or in Ghana.

Any charges levied on any payment in connection with the Contract by any authority in Ghana shall be for the account of the Government of Ghana.

Article 3.7.2 requires the Government of Ghana to obtain the exemption/waiver of all customs duties, and VAT and other charges

levied by tax authorities in Ghana on supplies to be imported into Ghana.

Government is further required to bear any stamp duty connected with the conclusion of the Contract in Ghana. (Article 3.7.3)

6.0 CONCLUSION

Upon thorough examination of the Agreement, the Committee finds that the acquisition of the ships would boost the operational capability of the Navy and strengthen its dominance over the country's Exclusive Economic Zone (EEZ).

The Committee therefore recommends to the House to adopt this report and approve by Resolution, the **Contract Agreement** between the **Government of Ghana** and **Fr. Lurssen Werft GmbH & Co. KG of Germany** for an amount of *twenty-eight million and fifty thousand Euros* (€28,050,000.00) [US\$37,867,500.00] for the **purchase and refurbishment of two former German Navy Fast Attack Craft Type S143, setting-to-work of the ships, supply of equipment, inventory and spares, training of crews and the transportation of the ships to Ghana** in accordance with article 181 of the 1992 Constitution and the Standing Orders of the House.

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI
CHAIRMAN



PEACE A. FIAWOYIFE (MS.)
CLERK

21ST JULY, 2010.