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EDITORIAL

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Ambani's Gas War on Indian State

- Piyush Pant

There is nothing new in tycoons, business houses or corporate having a close relationship with the Indian Prime Ministers from time to time. If you look back on the Nehru era, it is clear that while Nehru talked a great deal about socialism, he never did anything to really affect the business interests. Despite Nehru's public castigations of business, his particular brand of socialism did not require annihilation of private sector. Nehru, in fact was a close friend of industrialists like Shri Ram, Singhania and Tata. Though Indira Gandhi too displayed her socialist leanings, she had many industrialists in her close circle, the most prominent among them Mr. Swaraj Paul. Similarly Rajiv Gandhi had Dhiru Bhai Ambani as his buddy and it is said that Dhiru's polyester yarn monopoly was established during Rajiv's tenure. And Dhiru's two sons Mukesh and Anil Ambani are said to have had friendly relations with Rajiv's wife Sonia and exerted great pressure on her party's tamed Prime Minister Manmohan Singh in order to have exclusive rights over gas basins (Krishna-Godavari) and higher price for the gas extracted. Allegations have been leveled against Manmohan Singh of changing ministerial portfolios at the behest of the Reliance group. It has been claimed that the group deliberately 'squatted' on reserves of natural gas and curtailed production in anticipation of higher prices that are administered by the government, to the detriment of the interests of the country's people. The report of the Comptroller and Auditor General of India had also made an adverse comment on it. In the report former CAG Vinod Rai had alleged that the contract between the government and Reliance Industries Limited was deeply flawed, thereby encouraging excessive capital expenditure and lowering potential benefits to the exchequer.

This phenomenon of crony capitalism and loot of natural resource (Gas this time) in India has been vividly discussed by eminent journalist Paranjoy Guha Thakurta in his latest book titled 'GAS WARS'. He writes-"The phrase 'resource curse' signifies how the presence of natural resources in developing countries, whose economies depend on such minerals or forests, have contributed to corruption, conflict and the absence of democratic governance. It may be argued that the resource curse has not been present in India in its most acute forms as it has in certain countries in Africa. But what has been truly amazing about the controversies relating to the extraction of natural gas from the Krishna-Godavari basin was the brazen manner in which the interests of the largest privately-owned company in India were sought to be equated with 'national interests' by the government."

The book 'GAS WARS' highlights cases of crony capitalism that allowed the Reliance group to blatantly exploit loopholes which were consciously retained in the system to benefit it. The book points out how, even when laws and policies appeared fair, rational and reasonable, the way in which these rules and procedures were framed and implemented by bureaucrats acting at the behest of their political masteries exposed the deep nexus between business and politics in India

This issue of **INFOPAK** presents the summary of the book **'Gas Wars'**.

Gas Wars: Crony Capitalism and the Ambanis

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Bird's Eye View

In this book, the main writer Paranjay highlights cases of crony capitalism in India that allowed the Reliance group to blatantly exploit loopholes which were consciously retained in the system to benefit the group. They point out how, even when laws and policies appeared fair, rational, and reasonable, the way in which these rules and procedures were framed and implemented by bureaucrats acting at the behest of their political masters exposed the deep nexus between business and politics in India.

Even as "Gas Wars" tells the story of how a corporate conglomerate, in this case the country's largest, has benefited from the way government policies are structured, it lays bare the alarming facts of a natural disaster waiting to happen due to the ruthless exploitation of the country's natural resources in order to swell the fortunes of a few. The book also highlights the examples of those within the government establishment who have refused to be intimidated by the rich and the powerful, and who have against all odds valiantly attempted to uphold the interests of the people of India.

In the **Preface**, the writer says that natural gas that lies below the ocean bed in the Bay of Bengal along the southeast shores of India off the basin of two great rivers, the Krishna and the Godavari, has become the subject of considerable controversy. Sections within the government of India, including the office of the Comptroller and Auditor General (CAG) of India, a Constitutional authority mandated to oversee public finances, have been sharply critical of the manner in which another wing of the government, the Ministry of Petroleum and Natural Gas (MoPNG), designed contracts and tailored rules to favour the country's large privately-owned corporate conglomerate, Reliance Industrial Limited (RIL), headed by India's richest man Mukesh Ambani.

The writer further says that there have been claims that the group deliberately 'squatted' on reserve of natural gas and curtailed production in anticipation of higher prices that are administered by the government, to the detriment of the interests of the country's people. The CAG has alleged, among other things, that the contract between the MoPNG and RIL, was limited flawed, thereby encouraging excessive capital expenditure and lowering potential benefits to the exchequer.

The writer also says that the business empire controlled by the Ambani family got divided on account of sibling rivalry between Mukesh Ambani and his younger brother, Anil.Over the tussle regarding wresting control over reserves of natural gas that are below the ocean bed along the basin of the two greatest rivers of southern India. Much of the tussle was over India's natural resources, about how the resources were intended to be mined, marketed and monetized. The available information pointed to rather questionable deals relating to KG gas and how RIL was fleecing the country in connivance with particular government functionaries.

By 2010, the CAG had begun conducting an audit by hydrocarbon production-sharing contracts. The CAG report tabled in September 2011, did not quantify the losses to the state exchequer caused by RIL, but its insinuations were clear: the company had reaped huge profits thanks to the acts of commission and omission of a number of influential ministers and bureaucrats. The exchequer had been cheated because the government had failed to act as an impartial custodians of resources that belong to the people of India.

India's oil and gas exploration and production sector used to be dominated by two government-owned companies, the Oil and Natural Gas Corporation (ONGC) and Oil India Limited (OIL) . The public sector Gas Authority of India Limited (now GAIL) effectively controls much of the transportation of natural gas in the country. From the early-1990s onwards, private companies have become increasingly important in this sector. Reliance Industries Limited (RIL) is one of the biggest players in the natural gas sector since the discovery in 2002 of substantial reserves of natural gas in the KG basin.

In Chapter I, titled **Sibling Strife**, the dispute between the two Ambani brothers was intimately related to the utilization and pricing of resources, in this case, natural gas that is the property of the people of India. In 2012, the Comptroller and Audit General (CAG) of India accused the government of allocating coal bearing acreages to specific companies in a non-transparent manner. However, the tussle to control gas from the KG basin was unique in the sense that the rivals were corporate conglomerates led by two brothers. The dispute between the two oligarchs over the manner of utilization and pricing of natural gas provides a big picture of the manner in which India's post-1991 economic liberalization programme degenerated into forms of crony capitalism.

In 1999, the MoPNG announced a New Exploration Licensing Policy (NELP), under which a consortium (referred to as the 'contractor' in government documents), comprising RIL, and its partner Niko Resource Limited of Canada, became the successful bidder for exploration deepwater block KG-DWN-98/3 (later christened the KG-D6 block; D6, for Dhirubhai 6). In April 2000, a production-sharing contract (PSC) was signed between the ministry and the contractor. In July 2002, Dhirubhai died without leaving a will. In October that year, substantial reserves of natural gas were discovered in the KG-D6 block. Two years later, in June 2004, RIL entered into an agreement with the Uttar Pradesh government to set up the 'world's largest gas-based power plant' at Dadri, near Delhi, which would use KG gas that would be transported through pipelines across a distance of over 1,800 km from Andhra Pradesh to Uttar Pradesh.

After a 'settlement' between warring brothers in June 2005, the Reliance business empire was partitioned: the Mukesh group acquired control over the gas exploration and extraction business while the Anil group acquired the power generation business. Mukesh also promised to supply gas for Anil's Dadri power plant at a price of $2.34 (for around Rs. 114) per million British thermal units (mBtu).The envisaged quantum of gas supply was to be 28 million standard cubic metres a day (mscmd) for a period of 17 years. But when RIL applied to the MoPNG for the approval of this gas price, the ministry refused to approve the price on the ground that it had the right to determine the price of a natural resource. Soon a legal battle ensued between the two brothers with the government later becoming a participant.

In September 2007, an empowered group of ministers (EGoM) headed by Pranab Mukherjee (then minister for external affairs and also had been a close acquaintance of Dhirubhai) approved the price of RIL's gas at $4.20 per mBtu. Over the next year and a half, the brothers quarreled publicly, as well as in the Bombay High Court, over who should have access to KG gas and at what price. In March 2009, the Petroleum Ministry finalized gas allocation from the KG-D6 block for fertilizer and power companies, and for other users. Under gas utilization policy, Anil's Dadri plant did not receive any allocation.

On 15 June 2009, the Bombay High Court ruled in favour of RNRL, (Anil), stating that RIL, (Mukesh) should honour the June 2005 family agreement to supply gas at $2.34 per mBtu in accordance with the original terms of the contract and urged the two companies to arrive at a 'suitable agreement' or to turn to their mother Kokilaben for arbitration. In July, RIL filed a petition in the Supreme Court against the Bombay High Court judgement. On 18 July, the government chose to intervene by filing a special leave petition contending that natural gas is national property, that the government has sovereign rights over its use, and argued that the court ought to declare the July 2005 family agreement null and void. Later, the government was to amend its petition in the Supreme Court clarifying that it no longer wanted the family agreement to be declared null and void on the ground that it was a private agreement that was of no direct concern to the government while re-asserting its sovereign rights on pricing and use of gas.

The younger brother decided to aggressively hit out against his older sibling. For over six months from July 2009 onwards, Anil Ambani publicly accused the MoPNG of pandering to RIL's 'excessive greed', accusing his older brother's company of 'gold-planting' the KG gas project to reap undue financial benefits, and the government of obliging RIL, at the expense of RNRL, and the public sector National Thermal Power Corporation (NTPC), one of the India's biggest power-generating utilities, and others.

Reliance Natural Resoueces Limited issued a series of front-page advertisements in most leading Indian newspapers claiming that the government, especially the petroleum ministry, was favouring RIL and that its policies were causing he losses to the exchequer. The advertising campaign is believed to have cost RNRL Rs 15 crore, or the equivalent of $3 million. The Bombay High Court judgement provoked strong reactions.

The writer further says that the petroleum minister Murli Deora then contended that the gas did not belong to either of the two Ambani brothers, but to the government. The minister would have been more accurate had he stated that the gas belong to the people of India. The crucial question, therefore, was whether the government was indeed acting on behalf of the people of India as a custodian of national resources, or as a partisan participant. If indeed the gas belonged to the government and the contract between RIL and RNRL, was less than favourable to the larger public interest, why had the government not cancelled the contract?

The decision of the highest court of the land would go far beyond the contractual dispute between the two companies, and determine the fate and financial fortunes of several fertilizer and power companies, including the state-owned NTPC which was hopeful of using substantial quantities of gas from the KG basin at relatively inexpensive rates to generate electricity. India's highest court also had to interpret the validity of a PSC between the government, which is the custodian of all natural resources in the country, and a private operator (RIL) that had been granted permission to extract that resource.

On 20th July 2009, the Supreme Court stated that it would begin hearing the case. There was high drama during the initial hearings. On 9 September, while replying to RIL's petition, RNRL had alleged that the Mukesh group was changing its position on the memorandum of understanding (MoU) drawn up at the settlement that had laid down specific rules for the de-merger of assets and business of the undivided Reliance group. A few days later, RNRL asked the court to implead the public sector NTPC as a party in the dispute because it believed its own interests coincided with those of NTPC. Two days later, the court was urged to dismiss the government's petition. On 1 October, NTPC received a setback when the Supreme Court dismissed its appeal challenging the Bombay High Court order allowing RIL to amend its petition in a separate dispute with NTPC on the price of KG.

Challenging the Bombay High Court judgement, RIL sought to undermine RNRL's claims to the gas on the ground that the latter had not been able to set up a power plant ready to receive gas. RIL's lawyer Salve argued that RIL could not supply gas at $2.34 per mBtu as that would be tantamount to violating government policy. RIL also argued that the higher price of gas would help the government earn higher revenue. On 8 December, RNRL filed a fresh affidavit arguing that there would be no loss to the government if KG gas was sold at $2.34 per mBtu instead of a price of $4.20 per mBtu and the higher price decided by the EGoM would merely serve to increase RIL's profits. But the three-judge bench of the Supreme Court led by the outgoing Chief Justice of India, K.G. Balakrishnan, had ruled in favour of the Mukesh heads.

It was hardly surprising that RIL's shares zoomed while the value of the RNRL scrip, as also other companies in Anil's group like Reliance Power, crashed on the stock exchanges. The text of the judgement contained a sharp indictment of the government's policy of privatizing control over the country's natural resources. The battle, dubbed a modern-day Mahabharata, was not yet over. One episode had ended. Another was about to start.

The writer says that it can be contended that the government allowed private companies to enter the oil and gas exploration and extraction business not on account of paucity of funds or inadequate knowhow. The money could have been raised and the technology bought by the profitable public sector companies, such as the ONGC and OIL, had the government really wanted this.

It was evident from the judgement that glaring gaps exist in India's energy policy framework. To point out that the government has a legal right over India's natural resources and no private agreement, including the one signed between the two Ambani brothers and their mother in June 2005, can override such a sovereign right, is a no-brainer. There are more important questions that remained unanswered. Is the government, as custodian of the resources that belong to the people of India, acting in a way that benefits the majority? Or are its policies primarily aimed at promoting powerful business interests? How have the policies of economic liberalization and privatization degenerated into different forms of crony capitalism.

The writer further says that the court's order opened doors wide open for corporate lobbyists to influence government policies. Many saw this as contributing to corruption and crony capitalism in the extraction of minerals (including hydrocarbon) even as ministers swore by the virtue of ;economic liberalization'.

However, within weeks of the 7 May 2010 Supreme Court judgement, an important development took place. On 19 May, the cabinet more than doubled the government administered prices of natural gas to the level of $4.20 per mBtu from $2.34 per mBtu, ostensibly on the ground that government-owned companies were incurring losses on their sale of gas. This suited the interests of not just public sector undertakings like ONGC and OIL but notably RIL as well.

As for the Ambani versus Ambani saga, the drama was far from over although there were frequent claims that the brothers had patched up.

In Chapter II, titled **Gas And War**, the writer points out that from January 1980 till October 1984, when Indira Gandhi was assassinated, several government policies were ostensibly framed or 'designed' to help Reliance group. Licenses and permits were generously doled out.

The year 1986 was a crucial year for Dhirubhai. He suffered a stroke in February that year. A few months later, the *Indian Express* began publishing a series of articles attacking the Reliance group as well as the Indira Gandhi for favouring the Ambanis. These articles were co-authored by Arun Shourie who, ironically, as Union Minister for Disinvestment in the Atal Behari Vajpayee government, presided over the sale of 26 percent of the equity capital of the former public sector company, India Petrochemicals Corporation Limited (IPCL), to the Reliance group in May 2002. By gaining managerial control over IPCL, the Reliance group was able to dominate the Indian market for a wide variety of petrochemical products.

Shouri's co-author for the famous series of anti-Reliance articles was Chennai-based chartered accountant S. Gurumurthy who happens to be closely affiliated to the Rashtriya Swayamsevak Sangh (RSS). The articles, written by Shouri and Gurumurthy in the Indian Express, meticulously detailed a host of ways in which the government of the day had gone out of its way to assist the Ambanis. The article provocatively claimed the Ambanis had 'smuggled' a plant. Another story detailed how companies registered in the tax haven, Isle of Man, with ridiculous names like Crocodile Investments, Iota Investments and Fiasco Investments had purchased Reliance shares at one-fifth of their market prices. Most of these firms were controlled by a clutch of non-resident Indians who had the same surname, Shah. Yet another article detailed how the group had been the beneficiary of a 'loan mela' - a number of banks had loaned funds to more than 50 firms that had all purchased debentures issued by RIL.

The relationship between the Indian government and the Ambanis reflected new vistas of the intertwining of business and politics. From the early 1990s onwards, the government's policies of liberalization weakened its ability to control privately-owned corporations. What continued from the days of the centrally controlled Indian economy, however, was that loopholes in the law and in the fine-print of rules were deliberately created by senior bureaucrats at the behest of their political masters to assist industrialists who would then, in turn, covertly fund the election campaigns of politicians. While an influential few among India's corporate captains successfully exploited this business-politics nexus, the less well-connected barely survived.

The writer further says that in the days of the license raj, Dhirubhai Ambani, more than most of the fellow industrialists, understood the importance of 'managing the environment', a euphemism for keeping politicians and bureaucrats happy. By the time the Reliance group's fortunes were on the rise in the 1980s, the Indian economy had become more competitive.

Precisely what happened to the rivals of Ambanis was an important new dimension to the nexus between business and politics. Some of the competitors are: A company called Swan Mills or, for that matter, Kapal Mehra, who headed a corporate group named Orkay, and who was raided by tax personnel and jailed. Another business rival of the Ambanis, Nasli Wadia of Bombay Dyeing, became a pale shadow of what he might have been had his entrepreneurial ambitions been fulfilled., Even the undivided family headed by the late Ram Nath Gienka, with its then control of the Indian Express chain of newspapers, which conducted a relentless campaign against the Reliance group in 1986-1987, split into three factions after his death. Few had the gumption to oppose the Ambanis, just as the overwhelming majority of journalists preferred not to be critical of Reliance. The bureaucracy too, by and large, favoured the Ambanis, and not merely because many *babus* had got accustomed to receiving lavish hamper on Diwali.

Around 1986, the policy tide turned against Dhirubhai for a brief period. Rajiv Gandhi, who became the country's prime minister after his mother's death, was reportedly not exactly enamoured of the Ambanis. His then lieutenant, finance minister Vishwanath Pratap Singh almost obsessively took on Indian businessmen for their corrupt and illegal practices. To further their own interests, corporate rivals Wadia and media baron Goenka joined hands to put a spoke in Dhirubhai's growth. In those years, one was either with the Ambanis or against them. Few could have imagined then that a similar corporate battle would be fought over a decade and a half later, from late-2004 onwards, and that this time the antagonists would be Dhirubhai's own two sons, Mukesh and Anil.

The dispute was about who owned the gas, the government or the Ambanis, and therefore, who would have the right to fix the price of gas. Ownership would also influence to whom Mukesh's company could sell the gas, and in what quantities. For Anil it was a do-or-die battle. To scuttle Deora's plans, the Prime Minister Manmohan Singh was brought into the picture. As a result of Diktat from the prime minister, Deora was reportedly forced to stay away from the conflict. Moreover, to bolster support for Anil, the issue kept cropping up in Parliament through politician and parties friendly to him. Frenzy was generated in the mass media, and the dispute hogged headlines to keep the pressure on legislators and policymakers.

The writer further says that the dispute had its fallout in mid-2008, when Prime Minister Manmohan Singh was frantically defending in the Lok Sabha (lower house of India's Parliament) a no-confidence motion against his government over Indo-US nuclear agreement. The combined strength of the Opposition, the numbers in Parliament did not stack up comfortably in favour of the UPA. That was when Amar Singh, then general secretary of the Samajwadi Party (SP), assured the Prime Minister of his help. First, Amar Singh got his party chief Mulayam Singh Yadav and the party's MPs to vote in favour of the ruling UPA government at the centre. Thereafter, he initiated moves to woo independent MPs and others, who were against this nuclear deal, to support UPA government. Rumours flew fast; money apparently played an important part in this game, which was eventually won by the UPA on 22 July 2008 in a nail-biting finish. The point to note here is that Amar Singh and Mulayam Singh were close friends of Anil

However, even before the MPs voted on the motion on 22 July 2008, Amar Singh thought the political iron was hot enough to strike, to help his friend Anil, and target the latter's enemy, Mukesh. He presumed the government would ensure a favourable policy regime for Anil. He dashed off a series of letters to the Prime Minister. In one such letter, the then general secretary of Samajwadi Party urged the government to impose a 'windfall tax' on private refiners. including Mukesh's RIL. A 'windfall tax' was a policy tool to prevent refiners from earning 'super-normal' profits in the event of a rise in global crude oil prices, and therefore those of petroleum products like petrol, diesel, and liquefied petroleum gas (LPG). Such a move would have seriously dented RIL's profits and reduced its stock market valuation.

Sensing that his younger brother was gaining an upper hand in the ongoing political shadow-boxing, on 14 July 2008, Mukesh separately met Prime Minister Manmohan Singh, finance Minister Chidambaram and petroleum minister Deora. He explained that the idea of imposing a windfall tax was based on an erroneous assumption that refiners made windfall profits every time the price of crude oil and petroleum products rose.

When the UPA government sailed through the confidence motion with the help from the Samajwadi Party, the match seemed to be fixed in Anil's favour.

Towards the middle of 2009, the Supreme Court prepared to hear the tripartite gas dispute between Mukesh, Anil and the government. Anil had to make a few mid-course corrections. He realized that the government which was not allowed to become a party to the legal dispute by the Bombay High Court, could play a greater role in the Supreme Court. Worse, he apprehended that the government could derail his legal game-plan by supporting Mukesh's contentions, which, as subsequent events proved, did indeed happen. By maintaining that the government had the right to fix the price of the gas and also select its own buyers, the petroleum ministry could snip through the private agreement signed between the two Ambani brothers in June 2005. It could say that Mukesh was bound to sell the gas at \$4.20 per mBtu, and not at \$2.34 per mBtu, and only to those firms decided by the government rather than to Anil. Anil had decided he would fight it out and made Deora his prime target.

On 15 July, Anil wrote to the Prime Minister stating 'you may direct the petroleum ministry and the other relevant departments to cease from overtly and covertly attempting to intervene in our commercial dispute with RIL. The letter was written after Deora made a public statement that the gas from the KG-D6 basin of RIL belonged to the government, and not to either Mukesh or Anil Ambani.

Anil upped the ante at the shareholders' meeting of Reliance Natural Resources Limited (RNRL), held in south Mumbai on 28 July 2009. He alleged that the petroleum ministry was abetting the 'plain and simple greed' of RIL. "It is evident that the biased stance commenced in 2006, coinciding with the changes in the ministry", he said. The change that Anil was referring to was Deora replacing Mani Shankar Aiyer as the petroleum minister in January that year.

Anil went on to allege that the petroleum ministry had acted without consulting the rest of the cabinet and claimed that the ministry's stand on the production sharing contract relating to extraction of KG gas was contrary to the decisions taken at the broader, collective wisdom of several other ministers, including, inter alia, the ministers of finance, law, power and fertilizers'. One view expressed in the EGoM was that the terms of the contract were skewed in favour of RIL and against the interests of the government; this view was subsequently endorsed by the Comptroller and Auditor General of India.

The following day, the Samajwadi Party MPs raised the gas issue in the Lok Sabha. Mulayam Singh said that the government was denying gas to power projects in his home state of Uttar Pradesh. The government should tell us the reason behind not allocating gas to UP, he demanded. During the debate, Mulayam Singh said that the petroleum ministry was trying to benefit 'one individual' (meaning Mukesh Ambani) and that the SP was only worried about the face of power projects proposed to be set up in UP, and not about the differences between the Ambani brothers. Over the next couple of days, Anil gave several interviews to newspapers. Jounnalist-commentator M.J. Akbar took up cudgels on his behalf. Akbar hinted that Deora was a biased party in the gas dispute.

The final nail in Deora's coffin was sought to be driven by Anil through a high-profile, nationwide advertising campaign spread over a week. One of the advertisements stated that the government was helping Mukesh earn 'super-normal profits of Rs. 50,000 crore,' (or around $10 billion) and that the petroleum ministry was acting against the country's interests and those of the consumers. He also alleged that the Petroleum Ministry has intervened in a commercial dispute over gas supply between two corporate, and its stand support the KG-D6 monopoly gas producer, Reliance Industries.

Deora tried to assuage the feelings of Mulayam Singh, Amar Singh, and their party MPs. He told Parliament that Anil Ambani's proposed power plant in Dadri will not be starved for gas. ' the intention of the government is clear. We will allocate gas to the Dadri project subject to availability, and the plant will be treated on the same footing as other plants placed under similar circumstances.'

RIL completed the government's defence when it claimed that it would not earn 'super-normal profits' of Rs 50,000 crore at a gas price of $4.30 per mBtu. At the same time, the company claimed that Anil's power project would stand to gain an additional profit of Rs 3,50,000 crore if the price of gas was fixed ar $2.34 per mBtu. The reason advanced was that as the Dadri plant had not been completed, Anil would trade in gas: buy from RIL and sell it at higher prices to third parties, and earn an extra Rs 21,000 crore a year for 17 years. For observers, what seemed downright venal was that Mukesh and Anil were fighting only to earn huge profits at everyone else's expense. The battle between the Ambani brothers had become extremely acrimonious had been evident even earlier.

The conflict between the Ambani siblings had many other sensational dimensions. V.K. Sibal, a technocrat who formerly headed the directorate general of hydrocarbon (DGH), had charges of corruption leveled against him by the Central Bureau of Investigation (CBI). Sibal, who used to head the human resource division in the public sector Oil India Limited, was appointed to the coveted post of director general of the DGH in 2004, where he remained for five years. The DGH is a technical wing of the petroleum ministry; it decides which domestic or foreign companies are awarded contracts for exploration of oil and gas, and is also supposed to regulate their activities.

Though Sibal faced allegation of favouritism soon after he took charge as DGH, it was only in October 2009 that his acts of omission and commission came under the spotlight. The Anil Ambani group moved the Supreme Court accusing Sibal of unduly favouring the older Ambani sibling's company. On 6 October 2009,Sibal shocked many by writing to the Home Ministry a letter. What Sibal essentially insinuated was that his life was in danger because of then ongoing battle between the Ambani brothers over gas. Anil Dhirubhai Ambani Group (ADAG) retaliated by claiming before the Supreme Court that Sibal had not acted as an impartial regulator but helped RIL 'gold plate' its capital investments for the KG-D6 basin. At the annual general meeting of RNRL's shareholders, Anil said that RIL's capital expenditure of Rs 45,000 crore was way above what it should have been.

Anil maintained that there was a purpose behind hiking capital expenses. The intention was to benefit RIL, and lower the profits that accrued to the government. The contract between RIL and the government allowed the former to recover the entire capital expenditure before the government received any meaningful revenues from its share of gas. Therefore, if RIL could overstate its expenditure, it could make consumers pay a higher price for the gas, reduce the government's share of profits, and earn super-normal profits for the company.

The CAG denied that it had cleared RIL's increase in capital expenditure. It maintained that its work to audit the expenses had been stalled by several companies, including RIL, which had refused to give the CAG detailed information that it had sought. It was only after this disclosure that RIL, apparently with reluctance, agreed to another audit, but only as a one-time exercise.

Simultaneously, Anil's camp successfully established a nexus between Sibal and RLI. This was revealed in several articles, including those published in the *Pioneer* and *Tehelka* weekly. Shantanu Guha Ray writing in *Tehelka* (3 October 2009) reported that RIL had 'helped organize a stay in Mumbai' for Sibal's daughters and 'furnished a flat acquired by Sibal's daughter in Mumbai with white goods'.The weekly magazine claimed to possess documents 'that clearly explain how RIL acquired a small firm, Whitesnow Trading Private Limited, and used it as a front company to buy this flat for Sibal's daughter's use. The article also alleged that P.M. S. Prasad who then headed RIL's oil and gas division and L. V. Merchant, RIL's chief financial controller 'spent a good Rs 6.5 lakh towards furnishing and installation of white goods in the flat'.

The then DGH also sought to deny that he had favoured RIL. In a hurt tone, Sibal stated: "I do not understand as to why you should link purely official responsibilities with bona fide personal dealings. I am sure you can understand the hidden agenda of the people behind these allegation…." There may have been a truth in V.K. Sibal's assessment about being targeted by the Anil Ambani group, but this was hardly the first time that he had been accused of being partial towards RIL and Mukesh Ambani. In 2007, it had been alleged in media reports that he had a close personal relationship with RIL's P.M.S. Prasad. What, however, seemed more serious was when Sibal argued that although the state-owned ONGC had emerged as the top contender for 20 blocks under NELP-VI, it should not be awarded the contracts for 12 of them on account of its 'unsatisfactory' track record. Instead, these 12 blocks should be handed over to the second-best bidder, in the event of foreign firms not showing any interest in them. If the DGH's recommendations had been accepted, the greatest beneficiary would have been the Mukesh Ambani-controlled RIL.

On 28 October 2009, Sibal finally relented and requested voluntary retirement from service. On 2 July 2011, the CBI registered a criminal case against him and six of his former collegues in the DGH for allegedly receiving kickbacks in the form of cash and 'luxurious' hospitality for favouring an American company, GX International, that had been awarded a contract for conducting speculative seismic surveys in areas with potential reserves of oil and gas for exploration. Sibal was reportedly questioned for several hours after CBI officials conducted raids on his premises as well as those of the other accused in Delhi, Mumbai, Noida, and Dehradun.

At least one important government official had become a victim in the battle between the Ambani brothers.

In the chapter titled **Murky deals, Muddy waters**, the writer says that after the initial euphoria over the discovery of the 'world's largest gas reserve' in 2002 by Reliance Industries Limited (RIL) in the Krishna-Godavari (KG) basin had died down for a few years, until, that is, the summer of 2007 when the offshore gas fields in the KG basin bounced back into the news. Over and above questioning the manner in which the price of gas had been determined, the capital expenditure approved by the government for the development of gas reserves by RIL became a contentious issue .Members of Parliament demanded a Central Bureau of Investigation (CBI) probe into the allegedly dubious way in which capital expenditure had been approved.

The writer says that RIL's Initial Development Plan (IDP), which envisaged capital expenditure of $2.4 billion, had been submitted to the Directorate General of Hydrocarbon (DGH) in May 2004 and approved in November that year. The IDP, meant to develop two gas discoveries - Dhirubhai-1 and 3-in the deepwater block then called KG-DWN-98/3, has also projected a production of 40 million standard cubic metres per day (mscmd). RIL literally stepped on the gas once Murli Deora replaced Mani Shankar Aiyar as Union Minister for Petroleum and Natural Gas in 2006. It submitted a revised development plan in October that year seeking to double gas production from 40 mscmd to 80 mscmd through an Addendum to the IDP (AIDP). The AIDP proposed by RIL envisaged an increase in capital expenditure by more than three and a half times to $8.8 billion. The DGH acted extraordinarily fast. It took only 42 days to approve this plan. Since the increased production target was not even proportional to the increase in capital expenditure, the term that started doing rounds was that RIL was allegedly 'gold-plating' its capital to fleece the government.

The writer further says that the United Progressive Alliance (UPA) government headed by Prime Minister Manmohan Singh was going through a turbulent phase. So when the gold-plating charges was flung by Left MPs in the Lok Sabha, Singh promptly asked the Prime Minister's Economic Advisory Council (EAC) to look into the controversy.

The EAC reacted promptly and stated: "RIL has twice revised the capital expenditure (capex) without a proportionate increase in projected revenues. Higher capex and /or lower rates of extraction of gas would also reduce the pre-tax investment multiple on the basis of which the profit petroleum is shared between government and RIL." The Council's report even asked the Ministry of Petroleum and Natural Gas (MoPNG) to 'take appropriate action to put in place suitable mechanisms for proper scrutiny of capex, development expenditure and production profiles to ensure that gains to government are maximized under profit-sharing arrangements.

It was, in fact, this EAC's report that first brought the Production Sharing Contract (PSC) signed between the contractor (RIL and Niko) and the government (MoPNG) into the spotlight. This was the same PSC that would be severely criticized bt the Comptroller and Auditor General (CAG) of India four years later.

The union government stands to lose thousands of crores of rupees due to gold-plating of capital expenditure by contractors. Highly placed government sources involved in resolving the issue told *Realpolitik* that RIL's capital expenditure hike from Rs 20,000 crore to Rs 36,000 crore would result in additional profit of about Rs 16,500 crore to RIL. In addition to this, RIL will recover an additional capital cost to nearly Rs 15,000 crore. The recovery of additional cost and the increase in profit will together generate about Rs 31,000 crore for RIL with new capital expenditure of Rs 36,000 crore approved by the government.

Even as the Ambani siblings wrangled over the spoils of their father's empire, a RIL official stoked the fire by rubbing the public sector National Thermal Power Corporation (NTPC) the wrong way. The RIL official P.R. Sharma, on June 17, 2006 wrote to the Chairman and Managing Director of NTPC, C.P. Jain: "As a result of the risk review carried out and indications from lenders, RIL has concluded that the risk profile in the NTPC gas supply purchase agreement (as currently proposed) does not meet RIL's requirements and would set an unfavourable precedent for RIL, in future.' What Sharma meant was that RIL would no longer supply 132 tBtu (trillion British thermal units) of natural gas (or 12 mscmd) for the corporation's Kawas and Gandhsr plants.

The next morning, the two Ambanis called for a truce. Among other things, Anil was to receive gas supply for his Dadri plant at the same price of $2.34 per mmBtu at which Mukesh's RIL would give it to NTPC. In case RIL's contract with NTPC fell through, Anil's Reliance Natural Resources Ltd (RNRL) would get the same amount of gas, that is, 12 mscmd in addition to his own quota of 28 mscmd. Mukesh had pre-empted the pact and wanted to scuttle the deal with NTPC over low prices so that he could later refuse to supply gas to his younger brother. As both NTPC and Anil went to court, the government washed its hands off the matter. Deora invoked the PSC clause and expressed his inability to mediate since 'the government cannot impose differential pricing if the market can bear higher price.

As the controversy over RIl's capital expenditure and the price of gas heated up, in September 2007, Prime Minister Manmohan Singh attempted to resolve the stalemate. He formed an empowered group of ministers (EGoM) headed by the then Minister of External Affairs Pranab Mukherjee, who has never disguised his proximity to the Ambani family. The EGoM fixed the price of gas at $4.20 per mBtu. Here was scenario where the DGH was expressly doing RIL's bidding and the ministerial group was making things easier for the gas extractor. One could not be sure whether the government was out to appease the contractor, or whether the latter was arm-twisting the former. All links between the government and the RIL were circumstantial. But the coincidences were too stark to be ignored. One of these was the set of uncanny similarities between the presentation made by Mukesh Ambani's company and the report submitted by MoPNG to the EGoM during Deora's stint as petroleum minister. Veteran Rajya Sabha MP. Abani Roy of the RSP got wind of it and drew attention of Pranab Mukherjee to this 'coincidence', Roy's letter was ignored.

With RIL sticking to its guns and the MoPNG echoing the company's position, it was all most *fait accompli* that the EGoM's decisions would go in favour of Mukesh Ambani's company. On 7 September 2009, P.M.S. Prasad, the head of RIL's oil and gas business gave a detailed interview to *Business Standard* refuting all the allegations that had been leveled against the company. He further said that after gas was discovered in the KG basin in October 2002, nearly a year later, in September 2003, RIL put in a bid to supply gas to the public sector NTPC. Since RIL wanted to 'develop the field as quickly as possible', they put together the IDP at the prevailing prices, which came up to around $2.5 billion'. At that point of time RIL had estimated gas reserves at 5 trillion cubic feet (tcf), but as the company drilled more wells and conducted 'geotechnical investigations' the estimates were revised upwards to between 10tcf and 11 tcf. He said that when the company reported this higher estimate to the petroleum ministry, the DGH asked them to go ahead and produce more. Prasad added that the company scaled up its production plan from 40 mscmd to 80 mscmd and that is how the capital cost went up to $5.5 billion. Similar views were also expressed by B.K. Gamguly, president and chief operating officer (business operations) at RIL. He denied allegations of 'gold plating'claiming that while capital expenditure had increased four times, gas output too had doubled implying that more investments had to be made to produce the gas.

Ganguly claimed that the gas production started in April 2009 but by the middle of 2010, pressure was lower than expected. He said his technical team was disappointed when the flow of gas from KG-D6 field did not increase to anticipated levels. He added that thereafter, the company 'acted prudently' and stopped capital expenditure from early-2011 onwards. This, according to Ganguly, 'unfortunately' landed RIL 'in an arbitration with the government.'

The writer says that in the first half of the 2011, just when it appeared as if the disputes between RIL and sections of government over various issues, including the quantity of gas produced from the D6 block in the KG basin, was blowing over, and the suddenly the leak of the draft report of the CAG hit the headlines once again in the middle of 2011. Suddenly, KG gas was again in the news.

The writer further says that articles based on the CAG's draft report, first printed by the *Times of India* and then by *Hindustan Times,* reiterated the allegations that had earlier been made and apparently vindicated the position of those who were arguing that the PSC was heavily weighed against the public interest and loaded in favour of RIL. The draft CAG report also laid bare the alleged nexus between RIL and the MoPNG. This report not only had comments, observations and recommendations, it was stinging in its criticism of the government's policies on extraction of gas from the KG basin in general and the PSC signed between the government (that is, the MoPNG) and the contractor (RIL) in particular.

RIL was to later claim that the CAG, a Constitutional authority set up to oversee public finances, had used the benefit of hindsight to drill huge holes in the deal between the company and the government. The heat generated by the earlier CAG report on the 2G (second generation) telecommunications spectrum scam had not yet died out, when this was leaked out to the press. Both the reports had pointed out how the government lost out on revenues since corporate houses had been allowed to make use of loopholes in the processes used to award contracts, or in the contracts themselves. These scams were about favours granted, about cronyism.

While the CAG report looked at the RJ-ON-90/1 and Panna-Mukta and Mid and South Tapti fields, the bulk of the document dwelt on the KG-DWN-98/3 block, better known as KG-D6 block.

RIL was allowed to enter the second and third exploration phases without relinquishing 23 percent of the total contract area at the end of the first and second phase. The government had approved the entire contract area of 7,645 square kilometers as 'discovery area' thus enabling RIL to avoid relinquishment. This was 'land-grab' of a different kind.

The writers says that the CAG did not simply want to confine itself to criticizing RIL. Ita final report was precise. Every flaw or infringement was pegged to the relevant clauses in the PSC that had been signed between RIL and the government. The report documented both flagrant violations of the PSC by the contractor as well as alleged acts of negligence and connivance on part of the MoPNG, as well as the regulator, the DGH.

The CAG report found that RIL had signed major equipment procurement contracts during 2006-2007 and 2007-2008 that were on the basis of single financial bids. The CAG report added: "We also found serious deficiencies in the award, on a single financial bid, of a ten year hiring contract for $1.1 billion for a Floating Production, storage and Offloading (FPSO) vessel from Aker Floating Production (AFP)."

The auditor came across instances, where multiple vendors were pre-qualified but when technical bids were received, 'all vendors (except one) were rejected, and the contract was finally awarded on a single financial bid'.

The CAG report looked extensively at the issue of non-relinquishment of the areas. It examined the issue chronologically and pointed out violations of the PSC. The CAG did not find the response of the ministry to the draft report to be tenable, and dismissed it as merely repeating the 'opinions of the contractor'. The report of the government auditor clearly pointed out that officials of the DGH and the MoPNG seemed to be hand-in-glove with RIL.

The writer further says thaTaking back 95t many observers argued that the report of the CAG that was critical of the contract signed by the government with RIL, had a major 'flaw'. These observers stated by refusing on this occasion to quantify the losses to the exchequer, the CAG had inadvertently played into the hands of the government. At a time when scams were surfacing at a disturbing rate, this was one scandal which did not come with a huge number attached to it. The CAG had claimed in its November 2010 report that the presumptive or national losses in the 2G scam could be as high as Rs 1,72,000 crore or around $30 billion at the then prevailing rates, while the corresponding figure in the Coalgate scandal had been calculated at Rs 1,86,000 crore or approximately $33 billion in the CAG's report presented in the Parliament in August 2012. It was thus difficult for the government's detractors to attach an appropriate amount as losses to the exchequer in the case of the KG gas controversy. The CAG report was, after all, essentially a long roster of irregularities.

Even in September 2011 when the CAG report was tabled in Parliament, most political parties in the opposition remained silent on the issue. Beside Tapan Sen, a MP from CPI(M), no other lawmaker raised even a murmur at the juncture. The CPI(M) issued a statement that was virtually ignored by large sections of the media. The party demanded the following on the basis of the CAG's findings:

- Taking back 95 per cent of the exploration area illegally retained by the RIL in gross violation of the PSC.
- Imposing penalties on RIL for gold-plating contracts and cornering almost the entire share of the profit petroleum.
- Immediate prosecution of the former DGH and other involved officials.
- Investigation into the role played by the petroleum ministry.
- Bringing major modifications in the hydrocarbon PSCs to prevent such misuse.
- Review NELP.

The CAG report only confirmed the lacunae he had been pointing out.

Suddenly, it seemed as if the events of the winter 2010 were revisiting RIL. The output at the KG-D6 fields dipped in the third week of September 2011. RIL produced 44.5 mscmd of natural gas during the week ending on 5 September as against 44.8 mscmd produced a month earlier. The slanging match continued too. Minister of State for Petroleum & Natural Gas R.P.N. Singh had stated in Parliament the previous month, that output from

KG-D6 was now short of the 70.39 mscmd envisaged as per the field development plan approved in 2006. 'The contractor (RIL) was advised by (oil regulator) DGH to expeditiously drill more development wells in D1 and D3 fields as per FDP in order to enhance gas production in KG-DWN-98/3 block,' he stated.

The question then arose as to whether the government would take RIL to task. In mid-November came news reports that the MoPNG planning to link recovery of cost to capacity utilization at the D6 block. The was probably aimed at protecting the exchequer's share of future revenue from the sale of gas from the block. At that stage, RIL seemed oblivious of the whole matter.

A notice was served on RIL in November 2011 by the MoPNG to restrict 'cost recovery' from KG-D6 based on the lower-than-expected capacity utilization, as much as $1.85 billion-out of the $5.69 billion investment already made-would be disallowed and arbitration initiated to recover it from RIL, the *Press Trust of India* reported the same day, quoting people close to the development.

The then solicitor-general of India, Rohinton F. Nariman, added that the MoPNG would need to 'fully ascertain the time periods in which and the manner in which the contractor has already made recoveries..' Nariman added that 'in the event the contractor does not agree to reverse cost recoveries already made =, the government will have to take recourse to the dispute resolution provisions set forth in Article 33 of the PSC (production sharing contract).' The legal opinion also noted that RIL had not met production commitments to which it had agreed. The AIDP submitted by RIL projected a gas production of 61.88 mscmd from 1July 2010 and 80 mscmd from 1July 2011, whereas the company at time only producing 35 mscmd from the block.

RIL realized it had been tripped up and was quick to react. RIL challenged the government. The company announced on 28 November 2011 that it had begun arbitration proceedings.

In the chapter titled **The KG Basin is "Sinking?**, the writer refers to the KG delta's unique topography, a very gradual rise from the sea, which also makes it particularly vulnerable to the effects of sea level rise, a consequence of global climate change. The Fourth Assessment Report's warnings in 2007 portend that 'more extreme draughts, floods, and storms, would become commonplace, often in the same areas'. Such indeed is the grim climatic prognostication for Andhra Pradesh in general and the KG deltaic region in particular.

For example, in 2009, the state experienced a severe drought due to the failure of the monsoons, which resulted a major setback to agricultural production. There were unprecedented floods which affected as many as five million people and destroyed whatever little crop had been left standing in several areas in the river Krishna basin.

The writer further says that by 2009, the problem of land subsidence in the fragile deltaic region had become a major issue. In June 2008, the NGO Krishna Godavari Delta Parirakshana Samithi, Bhimavaran, West Godavari of Andhra Pradesh filed a writ petition (No. 13341/08) in the Andhra Pradesh High Court calling for government action to check land subsidence that was taking place as a consequence of offshore oil and gas exploration. Apprehensions about the delta land subsiding first started with 'evidence' coming in the form of fresh groundwater in wells turning saline. Farmers began noticing this only around 2008-2009.

It is contended that natural gas extraction in the offshore and onshore KG basin over the last decade--in some areas, oil and gas production has been going on for over two decades-has slowly led to a deterioration in the quality of ground water by making it saline and unfit for drinking or farming.

In the KG basin, rocks stretch upto depth of nine kilometers and hydrocarbons are found at an even greater depth of nine kilometers below the surface of the sea. It is this offshore drilling for oil and gas that causes indiscriminate environmental damage. Experts are of the view that offshore production of natural gas would have its impact over distance of tens of kilometers extending on to the onshore delta land.

In the KG delta region, even the surface water in drinking water tanks or fish tanks in some southern parts of the region are reportedly contaminated with saline groundwater oozing from below the surface of the ground. 'Oozing of old sea water is a confirmation of subsidence,' said Prof Krishna Rao, adding that in some parts of the East Godavari district, land go up to around ten kilometers from the coast has become unproductive due to soil salinity caused by invasion of sea water through drains and the oozing of saline water from below the ground.

Taking serious note of the issue of land subsidence on account of gas extraction, the high court in its ruling on 29 June 2009 asked the Union Ministry of Environment and Forest (MoEF) to set up an expert sub-committee to examine, among other environmental aspects, the core-issue of land subsidence. The MoEF sub-committee submitted its report on 23 October 2009.

On a trip to New Delhi as an expert appointed by the Union Public Service Commission in June 2012, Prof Krishna Rao rued: 'We presume the MoEF sub-committee's report was presented to the high court … but no one really knows. The case is dormant….there has been no movement of late.

Prof. Rao told the lead writer of this book in Visakhapatnam that he is not sure if the 'silence' about the land subsidence issue is ominous. By design, whether those who may have protested have been 'bought' by up interested people and whether the case pending in the Andhra Pradesh High Court will be followed to its logical conclusion. In a sense, Prof Krishna Rao is not exactly alone. With him is Dr. E.A.S.Sarma, a former bureaucrat. Dr Sarma is that rare breed of bureaucrat who has been fighting corruption throughout his professional career and thereafter.

Following the Andhra Pradesh High Court's directive to the MoEF, Dr Sarma (who is convener of a society called Forum for Better Visakha, which is a coalition of civil society organizations and concerned citizens) wrote a series of letters to various authorities, including the Prime Minister of India and the Chief secretary of Andhra Pradesh. Although none of his letters elicited any response of worth. Dr Sarma persevered. In a letter dated 9 November 2010 to S.V.Prasad, chief secretary, government of Andhra Pradesh, he wrote: "I have written several letters to the Chief Minister and state government officials on the likely disaster that the ongoing gas development projects in the KG basin will cause to the fertile land stretches of the Godavari districts that constitute the lifeline for the state's economy….During the (Andhra Pradesh High Court) proceedings, it came to light that neither the Ministry of Petroleum nor the Ministry of Environment and Forest (MoEF) had bothered to look into the possibility of land subsidence, while pushing through clearances for the gas development projects. The state government has remained blissfully indifferent to the likelihood of land subsidence, despite being repeatedly cautioned about it by technical experts and the farmers of the KG basin.

The MoEF expert group's report has not ruled out land subsidence in the KG basin. In fact, it has indicated that it could occur….."

Again there was no response. On 3 may 2012, Dr Sarma wrote to the secretary, ministry of environment and forest and secretary, ministry of petroleum, government of India, enclosing his earlier letters, stating:

"I have corresponded with the state government, the MoEF and the Ministry of petroleum on the question of land subsidence in KG Basin as a result of natural gas development by RIl and its adverse impact on agricultural activity in the fertile 'rice bowl'….

Dr Sarma further says, in his letter, that there is increasing ground level evidence of land subsidence taking place in the KG Basin as a result of gas development by RIL.

Such land subsidence has already started affecting the irrigation drainage channels in the basin and the agricultural activity, quite significantly. The farmers have already started feeling the increased cost burden that could be indirectly attributed to land subsidence. Such land subsidence has also affected the quality of the ground water aquifers in the area by increasing their salinity.

Instead of addressing the root cause of the deterioration of agricultural activity, the state government is in a hurry to incur infructuous expenditure on 'modernization' of the irrigation system that will benefit only the contractors.

The environment ministry and petroleum ministry have collectively failed in addressing this problem and its overall impact on the economy of Andhra Pradesh. RIL has not cared to identify the magnitude of the problem as it is primarily interested in quickly recovering its investment and earning windfall profits without addressing the larger destruction that is wrought on the environment of the region and the economy of the state".

This letter too met with similar fate.

In the chapter titled **Indian Style Crony Capitalism**, the writer refers to Veritas Investment Research, a Canada-based forensic accounting firm. Veritas' debut research of its new India-oriented group was provocatively titled 'Brothers in Arms: Misappropriating a Fortune'.

Though the Veritas report does not dwell on the Krishna-Godavari project, the year 2011 and 2012 were years of setbacks for all that ill-started venture: output drops, cancellations, government penalties, arbitration, shareholder concerns and, consequently, sliding share prices. As the winter of 2011 wound down, the offshore gas-fields promise much more to Reliance. In fact, global dynamics appeared to be favouring Mukesh Ambani. As the United States started squeezing Iran, the rise in the prices of fossil fuels, including natural gas, gathered momentum. Reliance complained of discrimination as the Indian government procured gas at higher rates from overseas suppliers, nearly three times what the government had set as an administered price, with estimates ranging upwards of $13 per mBtu of liquefied natural gas for March 2012 delivery. In a letter to the government, Reliance Industries argued: "We wish to exercise our contractual right to market natural gas on the basis of arm's length competitive sales to the benefit of all parties, including the government.

The Prime Minister's Office was considering legal opinion before undertaking a hike. By the end of March, it had been established that the ministry of petroleum and natural gas (MoPNG) was opposed to any increase in the administered price of natural gas.

The hits kept coming, one blow followed another. Reliance and its British partner BP plc had sought permission from the government to undertake concept validation in 16 gas discoveries in the D6 block, but their request was turned down on 20 April 2012. For the week ending, 1April 2012, the level of production from the D6 fields dropped by 0.20 million standard cubic metres per day (mscmd), to 33.89 mscmd, a status report submitted to the ministry revealed, and that included output of 6.37 mscmd from the Mahanadi (MA) field in the KG basin.

The decline of fortunes of KG D6 for Reliance was a trend that was to continue through the beginning of its summer of reckoning in 2012. The clash of wills between the government of India's MoPNG and RIL reached a new level. The ministry slapped a whopping penalty on RIL and its partners of an amount nearly equal to Rs 6,600 crore for their inability to meet production targets that had been set earlier. That shortfall meant that Reliance was refused recovery of investments costs, amounting $1.462 billion. By the end of June 2012, information about the prospects of the gas fields appeared bleaker than what had earlier been predicted. By June, gas output from D6 kept falling, averaging just over 31 mscmd.

In the meantime, the fall in gas output from D6 block of the KG basin prompted a letter from former powr secretary and economic affair secretary to the government of India E.A.S.Sarma to U.K. Sinha, chairman of the regulator of the country's capital markets, the Securities and Exchange Board of India (SEBI). Sarma wrote that information about the fall in gas output from the KG basin should have been disclosed by the RIL management to its shareholders much before it actually did. Urging SEBI to examine the issue, he referred to three key issues of contention: as a result of the non-disclosure of information relating to the fall in gas output, what had been the loss to the investors who have invested their hard-earned savings on the premise that the quantum of gas deposits/reserves was much higher? Had RIL transacted in its equity on the basis of inflated reporting of gas deposits and their value? What action should SEBI take to safeguard the interests of RIL's shareholders?

These questions which were raised at this time remain unanswered. There were other questions to follow. There were apprehensions that the government of the day was following a line on the pricing of domestically produced natural gas which could only lead to unbridled profits for one corporate firm at the cost of India's consumers.

The writer further mentions that Sunday, 28 October 2012, morning's edition of 'The Hindu' ran an exclusive article by Sujay Mehdudia with the following banner headline: "Manmohan set to end Reliance on Jaipal for oil and gas". The subtitle made things amply clear: 'Minister has been resisting Mukesh Ambani on gas prices, audit'. The first line read: "S. Jaipal Reddy-the minister who took on Mukesh Ambani in a regulatory battle on gas prices that saved the exchequer thousands of creores of rupees-is set to be divested of the crucial petroleum and natural gas portfolio, the Hindu has learnt.

Mehdudia's article went on to state how the minister 'resisted' pressures and 'rolled back' the vice-like grip that RIL had begun to exert over the MoPNG during the tenure of Murli Deora. Jaipal Reddy had questioned the 'steep decline' in gas output from the KG-D6 gas block. The ministry officials had doubts since in 2011-2012, it was expected that RIL's output should have averaged around 70 mscmd whereas it stood much lower at 42 mscmd and by 2012-2013 it had dropped further to 25 mscmd, resulting in a loss of Rs 45,000 crore (approximately $90 billion) to the exchequer. Each unit drop in production of gas meant a loss of 210 megawatt (MW) of power generation. Gas-based power plants in various part the of the country with an aggregate installed capacity of nearly 20,000 MW, financed with bank guarantees worth Rs 30,000 crore, were lying idle without gas. In addition, the fall in gas output from the KG basin meant lower production of fertilizers resulting in higher imports and higher subsidies. The unnamed official quoted in Mehdudia's article wondered if gas production was being deliberately suppressed in anticipation of a higher administered price.

The writer further says that it was argued in the Hindu article that Jaipal Reddy was able to block RIL's demand to hike prices of domestically-produced natural gas well before the date for revision, that is, 1 April 2014. The company was penalized for its failure to maintain gas output, and an expenditure of $1.46 billion (or cost recovery) was disallowed. The article claimed that there was tremendous pressure on Jaipal Reddy but he was able to withstand it. Mukesh Ambani had been lobbying 'Raisina Hills' and there was concurrent pressure on the petroleum ministry from other ministries, pressure within EoPNG as well as from Prime Minister's Office to revise the price of gas. When the issue was referred to the attorney general of India for his advice, he came back saying that 'it was a matter of policy and not law' and that the April 2014 deadline for gas price revision was still valid. The official quoted argued that minister Jaipal Reddy resisted the move to increase the price of gas as it would lead to a 'loss of $6.3 billion to the exchequer and put a huge burden on the common man, the famers and the fertilizer industry in the shape of a sharp hike in the price of power and fertilizers'. That was not all, Jaipal

Reddy brought RIL 'under the scrutiny of the Comptroller and Auditor General' (CAG) in the face of the company's insistence that it was a private corporate entity and that its accounts could not be scrutinized by the government auditor. The ministry told RIL that if they refused to submit to CAG scrutiny, they could face non-approval of their investment plans for field development of satellite oil and gas fields in the KG basin.

On Saturday, 27 October 2012, Jaipal Reddy was told by Sonia Gandhi, Chairperson of the ruling United Progressive Alliance (UPA) and president of the Indian National Congress, that the following day, that is Sunday 28 October 2012, his ministerial portfolio would be changed. He has been moved from as minister for Petroleum and Natural Gas to a minister for Science and Technology.

Jaipal Reddy's removal from the post of petroleum minister and his replacement by Moily was much commented upon. The Left saw in his removal the hand of powerful corporate interests, meaning Reliance. On 1 November 2012, Sitaram Yechury, MP of the CPI(M) said the Cabinet reshuffle had completed a process of placing pro-corporate ministers in key economic ministries to aid the 'neo-liberal politics that the Prime Minister is bent upon pursuing'. The following day, Gurudas Dasgupta, CPI MP, wrote to the Prime Minister asking that a fresh notice be served on RIL to restrict cost recovery by the company for the shortfall in gas production from the KG-D6 block.

Gurudas Dasgupta was not alone. M.Venkaiah Naidu of the right-wing nationalist Bharatiya Janata Party (BJP) also issued a statement saying the Cabinet reshuffle had been done under pressure from 'a corporate group'.

Activists Arvind Kejriwal and Prasant Bhushan described, before the media in a conference held in Constitution Club, government's deal with Reliance on natural gas from the KG basin as a 'classic case of crony capitalism'. They alleged that the company was blackmailing the government to increase gas prices by 'almost stopping' gas production and 'hoarding like petty traders' so that consumers would be forced to 'buy gas from abroad'.

They slammed the Prime Minister for his apparent sympathy for RIL. After requests for a hike in gas prices were turned down several times by the petroleum ministry under Jaipal Reddy. RIL approached the PM who then asked the petroleum ministry to seek the 'Attorney General's opinion on whether gas prices could be increased midway as demanded by Reliance'. The activists pointed out that the public sector NTPC did not get any support from the government when the Pranab Mukherjee-headed EGoM cleared RIL's request for a hike in the gas price from \$2.34 to \$4.2 per mBtu.

The activists referred to more important points. What was RIL's actual cost of production? They pointed out that at the rate of \$2.34 per mBtu, RIL had signed 'contracts with NTPC and RNRL' for '17 years', which would mean that they would have envisaged making 'adequate profits' at that rate. They also questioned RIL's right to divest a '30 per cent stake in 21 out of 29 oil blocks to British Petroleum', which in effect had meant selling off ownership rights of gas belonging to the people of India'.Mukesh Ambani was so restless that Jaipal Reddy had to be transferred out.

On 24 May 2013, CPI MP Dasgupta convened a media conference during which he circulated excerpts from a note dated 14 May prepared for the Cabinet, together with a letter he had written to the Prime Minister. In it he alleged that the ministries of finance, petroleum and natural gas and the Planning Commission were colluded to push the price of natural gas from the D6 wells in the KG basin (that were being operated by RIL) way above what had been recommended by the committee headed by Dr Chakravarthi Rangarajan, chairman of the Prime Minister's Economic Advisory Council.

According to Dasgupta, Moily was facilitating RIL's 'loot of the country's natural resource'. He added that if Moily's formula for gas pricing was accepted, the government's subsidy burden would increase in the five-year period by Rs 76,000 crore with RIL's profits going up by Rs 68, 400 crore'. Dasgupta claimed that if the price of gas was increased from \$4.2 per mBtu to \$14 per mBtu, over a five-year period, the public exchequer would have to bear an additional subsidy outgo of Rs 180,000 crore (around \$30 billion assuming an exchange rate of Rs 60 to one US dollar) while RIL would earn an additional profit of RS 162,000 crore (over \$25 billion).

The Finance Ministry headed by Chidambaram had suggested a price of \$13.3 per mBtu for 2014-2015 and \$14 per mBtu for the next two financial years (2015-2016, 2016-2017) using the price of liquefied natural gas imported from Qatar through long-term contracts as a benchmark.

In fact, Dasgupta pointed out that it was the Planning Commission headed by Ahluwalia that had recommended the switch to an 'international pricing formula' for the 13th Plan period as demanded by RIL'.

The day after Dasgupta's media conference, on 24 May 2013, there was a strong reaction from the petroleum minister to the CPI MP's allegation. Moily extended the argument that price revision was essential to spur investment in oil and gas exploration and production so that 'production reaches optimum levels and all explorable reserves are put to production expeditiously.

The petroleum ministry's press note highlighted the fact that natural gas imported by India in the form of LNG had a landed price of between $14 and $15 per mBtu which was more than double the proposed revision in the gas price. The outgo of subsidies would double or treble if the power and fertilizer industries in the country were depend on imported LNG as feed stock (raw material) There was also a second, short, innocuous press release from the petroleum ministry the same evening (24 May) announcing new gas finds by RIL.

Unfortunately, the similar thing happened in 2010, when RIL had announced fresh gas reserves just after the 7 May Supreme Court judgement and the 19 May 2010 hike in the administered prices of gas from $2.34 per mBtu to $4.2 per mBtu, ostensibly to ensure that public sector companies (and not just RIL) remained commercially viable.

The writer further says that even as the war of words between minister Moily and MP Dasgupta had begun, the regulator of the oil and gas sector, the directorate general of hydrocarbons (DGH) was reporting decline in gas output by RIL from KG basin. On 1 June 2013, the Hindustan Times reported that DGH had stated that natural gas production at the deepwater KG-D6 had 'dropped to less than 15 mscmd, the lowest since starting output in 2009. RIL had drilled wells in the D1 and D3 fields but only 18 of these wells were producing. Thereafter, seven more wells-or half of the total of 22 wells-were shut down.

As May 2013 rolled into June, the verbal slanging match between Dasgupta and Moily intensified and became increasingly acrimonious.

Earlier, in March 2013, the ministry had moved a draft proposal for the consideration of the EGoM, now headed by defence minister A.K.Antony, for revising gas prices for both the public sector oil companies and RIL based on the Rangarajan Committee's recommendations. The Cabinet Secretariat had returned the proposal saying that the new formula was not covered under the EGoM's reference. It was then that the petroleum ministry sent the same proposal, with some modifications, to the Cabinet Committee on Economic Affairs (CCEA). Dasgupta alleged that the draft note had been prepared by Reliance, approved by Moily and then signed by a junior officer in the ministry. The MP alleged that the minister was 'spearheading the scam for Mukesh Ambani with the blessings of finance minister P. Chidambaram and Planning Commission deputy chairman Montek Singh Ahluwalia'.

Within a week, Moily found it necessary to come up with a second rebuttal. The minister alleged that opposition to the gas price was coming from a 'powerful lobby' of importers of crude oil and LNG which did not want India to reduce its imports of oil and gas. The minister implied that a conspiracy was afoot to slow down the country's natural gas extraction facilities, since, without the 'incentive' of a higher price, the gas producing companies would simply not explore more.

The government's critics claimed that Moily's argument's had a serious flaw. Dasgupta and others alleged that RIL was effectively sitting over some of the major natural gas finds in India's recent history and holding the government to ransom by lowering gas production. The government, in turn, was 'incentivising' RIL to spur investment in gas exploration and production by increasing the price of gas. But Moily was unfazed by such criticism. In an interview, he said that there were people with vested interests 'who do not want us to reform our energy sector so that we remain dependent on imports.

The spat between Moily and Dasgupta threw up fresh discussions on important issues relating to gas from the KG-D6 field. When Dasgupta spoke to journalists on 18 June 2013, alleging that the petroleum minister was going slow on concluding the arbitration proceedings against RIL seeking to recover the penalty of $1 billion imposed upon the company (on the advice of the Solicitor General of India) when Jaipal Reddy was petroleum minister. Dasgupta claimed that the MoPNG was 'deliberately' not acting on the recommendations of the DGH that RIL 'surrender 86 per cent of the area of the KG basin block' including eight new gas discoveries since the firm had overshot the time allotted to it for developing area. Dasgupta pointed out that the CAG had also made similar remarks about RIL's alleged 'land grab' on the bed of the ocean in the Bay of Bengal and that petroleum minister Moily was now trying to 'sabotage' the arbitration process.

As the debate on the price of gas raged, the lead author of this book interviewed Vinod Rai, former Comptroller and Auditor General of India (CAG), on a programme broadcast by Lok Sabha Television on 9June 2013. Rai, who had demitted office on 22May 2013, was asked to comment on the situation in which the CAG's office was asking for data from RIL but the company was reluctant to provide the data saying it was not supposed to give it.

So, what could the CAG do if the private operator, in this instance, RIL, refused to part with its data, the question was repeated. Rai responded that this did not concern the CAG at all. 'It is the government which has made the request that we conduct the audit. So, the responsibility is on the government to ensure that the records are provided.

Towards the end of June 2013, the value of the rupee had fallen to a record low of Rs 60.72 to one US dollar. The price of compressed natural gas had been hiked by the government. The Cabinet was going to take a decision on the administered price of gas, a decision that was bound to generate a huge controversy.

In the Chapter titled **Price of Gas: End-Game or New Beginning?**, The writer states that on 27 June 2013, the government of India decided to effectively double the administered price of domestically produced natural gas to $8.4 per mBtu with effect from 1 April 2014 by accepting a new price formula based on certain recommendations made by an official committee headed by Dr Chakravarthy Rangarajan, chairman of the Prime Minister's Economic Advisory Council and a person known to be close to Dr Manmohan Singh himself.

With this decision, the major gas producing companies in India, the private sector RIL, and the public sector ONGC and OIL stood to gain substantially in terms of profits earned. At the same time, gas-based electricity was expected to become more expensive. Those in charge of a number of gas-based power plants with large idle capacities were far from happy and they were not alone in feeling this way. Subsidies to manufacturers of fertilizers are also expected to rise, since natural gas is the main raw material or feedstock used for the production of urea, the most widely used fertilizer in India. The increase in the price of gas went beyond what the petroleum ministry had initially suggested, that is a price of $6.67 per mBtu, which too was opposed by the power and fertilizer ministries.

On 27 June meeting of the Cabinet Committee on Economic Affairs (CCEA), regarding the issue of gas pricing, turned out a stormy one. Finance Minister P Chidambaram, deputy chairman of the Planning Commission Montek Singh Ahluwalia and Petroleum Minister Veerappa Moily, were all in favour a steep increase in the price of gas from $4.20 per mBtu. They wanted the price of the gas to be raised to $11 per mBtu against $8.4 per mBtu which was eventually agreed upon. This group was also supported by law minister Kapil Sibal and commerce and industry minister Anand Sharma.

Ranged against this group of so-called neo-liberal hawks were, S. Jaipal Reddy, minister for science and technology, power minister Jyotiraditya Scindia, fertilizer minister Srikant Jena and rural development minister Jairam Ramesh. They argued that a higher administered price of gas would not automatically and expeditiously lead to new discoveries of gas and higher output. That had certainly not been the country's experience with RIL between 2008 and 2012, they said.

The left which had been campaigning against the proposed hike, cried foul. Gurudas Dasgupta fulminated and reiterated what he had been saying when he crossed with the petroleum minister in the run-up to the government's decision to hike gas prices, namely, that this was the 'biggest' scam of its kind and aimed at helping one company, RIL. He said that the hike would lead to an increase in power tariffs by Rs 2 per unit (kilowatt hour) and increase urea prices by Rs 6,000 a tone. Dasgupta said the Left would 'stubbornly oppose' the decision inside and outside Parliament.

Even the BJP, which otherwise favours 'market friendly' policies like the Congress, agreed with the Left though the party's position on the issue was less strident. A statement released by the BJP's spoke-person Prakash Javadekar said: " The twin factors of the depreciating rupee and the government's decision to double the natural gas prices will hit the common man the most. The common man, already reeling under ever-rising prices, was expecting some relief from the government. Instead of offering such a relief, the government has once again targeted him with a big dose of price rise…"

Mr Venkaiah Naidu, BJP MP and former party president said that this was an 'anti-farmer' decision. Chief Minister of Tamil Nadu, J. Jayalalitha also criticized the hike, saying that the 'decision seemed to favour a particular large firm' which instead of 'facing action for drawing lesser gas than guaranteed from the KG-D6 basin' would only 'benefit from it'. Although she did not specifically mentioned Reliance by name, there was no doubt about the identity of the 'particular large firm' she was referring to.

The writer further mentions that the Outlook cover story (15 July 2013) which stated that it was ironical that no major political party (barring the YSR Congress) in Andhra Pradesh was protesting against the gas price hike while recalling how the state's former chief minister Y.S. Rajasekhara Reddy (YSR) had unsuccessfully tried to obtain more gas from the KG basin for users in his state. The late Chief Minister had told Outlook's Madhavi Tata in 2006: 'Gas is a natural resource, a property of the nation, not a private company's.'

YSR said that he had raised this issue in the state assembly as leader of the opposition when N. Chandrababu Naidy was chief minister of Andhra Pradesh, at a time when KG basin blocks had come up for auction. Whereas the Gujarat government's GSPC (Gujarat State Petroleum Corporation) had bid for blocks on that occasion, YSR felt his state government should also have done so. By not participating in the auction, YSR alleged that Naidu's government had 'compromised the state's future'. After YSR became chief minister in 2004, he promised free power to farmers in his state. However, Outlook wrote that 'such was the tussle between Reliance and YSR that files related to laying of pipelines moved at 'snail's pace'. In 2008, YSR said he would not call for a reduction in the price of gas as the Union government was bound by a contractual obligation under the NELP with operators (like RIL). After he was re-elected in 2009, the YSR government reopened the issue and a letter was written to the PMO urging that at least ten per cent of the gas produced from the KG basin should be given to the state on a 'preferential basis'. Nothing did, of course, come out of these entreaties.

Outlook quoted a spokeperson of RIL, seeking to deflate the charge that the price hike was effected to benefit the company by saying: 'Our production will go up only in mid 2017-2018'. The publication said that three years down the line, with new discoveries, RIL would no longer remain a marginal player but 'could emerge as the biggest gas producer in the country'. It also highlighted how the government had selectively 'cherry-picked' the Rangarajan Committee's recommendations to devise a formula that 'is unique to India: no other gas-producing country has devised such a convoluted way to reward exploration companies'. The government had also departed from the committee's suggestions for a monthly review of prices and equated the price of domestic gas with that of imported LNG, which has additional cost burdens of liquefaction, transportation and re-gassification.

While B.K. Chaturvedi, a member of the Planning Commission, who was on the Rangarajan Committee, defended the government's formula to Outlook, he admitted that a higher price of gas would impact the cost of producing electricity and fertilizers.

The magazine also carried a short article by former petroleum secretary, T.N.R.Rao who started off by asking a pertinent question: 'Why did your market-friendly policymakers revert to the much-maligned administered price only for gas, while batting for market prices for all else?'. He described the episode as a 'classic case of policy capture by a corporate' and added that 'an effete government got inveigled into impleading itself into the Ambani family feud on the pretext of gas being a national asset'. Tracing the background to recent developments, the retired bureaucrat pointed out how the government 'bailed out one sibling from both a private commitment and an inconvenient bid at $2.34/mBtu to the NTPC tender' and also 'cheated the country of Malaysian LNG at $3.4/ mBtu'. The last reference was to the Indian government not going in for a contract to buy liquefied natural gas from Malaysia. Rao alleged that the government 'rewarded the truant contractor' (meaning RIL) with a billions of dollars' to BP (British Petroleum), 'only to see the reserves evaporated by over 80 per cent'. He added that neither the buyer (BP) nor the owner (the government) demurred while 'the custodian of our reservoirs, the DGH, has been deafeningly silent'. Dripping vitriol, the former petroleum secretary said that for this 'vanishing act', the contractor has been further rewarded by doubled price, on a dubious formula concocted by a body unlettered in oil /gas, making it the highest wellhead price for gas anywhere in the world.

While writing in the *Economic and Political Weekly (EPW)* (13 July 2013) E.A.S. Sarma argued that by doubling the administered price of gas using very questionable methodology, like a similar decision taken in 2009, the government had compromised economic reasoning at the alter of crony capitalism and political expediency. In the absence of a homogeneous gas marker which throws up a market price, the only option should have been for an independent, professional and quasi-judicial regulator to compute efficiency-based costs and determine the price on the basis of a reasonable return. Instead, a group of ministers had taken a decision which could transfer up to Rs 26,000 crore a year to producers, especially benefiting one private company, RIL. With the falling rupee, there could be more outflows from the exchequer in the future, he contended.

Describing the government's logic that a higher gas price would encourage exploration and production as 'dubious', Sarma changed track in his EPW article to highlight how local farmers were complaining about land subsidence due to gas extraction, which was under adjudication in the Andhra Pradesh high court. On the issue of higher subsidies on power and fertilizers, he said it was ironical that the gas price hike came at time when the government had recently allowed private power producers to pass on the cost of imported coal to electricity utilities, throwing to the winds the tender ethics of an elaborate competitive bidding process adopted by the utilities.

Sarma, who spent much of his working life as a bureaucrat, found it truly amazing that even as global gas markets were looking downwards, India's 'gas policy analysis seem to be looking upwards'.

In the chapter titled **Politics of Crony Capitalism**, the writer says that as the 16th general elections in India approached, the issue of crony capitalism, with specific reference to Reliance Industries Limited headed by Mukesh Ambani and the price of natural gas extracted from the basin of the Krishna-Godavari rivers in southern India, gained considerable political traction. The Aam Admi Party and the Left loudly and repeatedly alleged that the Union Government was being controlled by India's richest man with the country's two largest political parties, the Indian National Congress and the Bharatiya Janata Party, in his pocket.

Not surprisingly, the issues of crony capitalism, gas prices and the favours allegedly granted to those controlling India's biggest privately- owned corporate conglomerate, could be easily linked and neatly fitted the political agenda of many of those opposed to the Congress and the BJP.

On 11 March 2014, as the country went into election mode, a bench of Supreme Court comprising Justices B.S. Chauhan, Jasti Chelameswar and Kurian Joseph started hearing petitions calling for a stay on the gas price increase and cancellation or termination of the government's contract with Reliance. The petitioners questioned the government's justification of why RIL should get the benefit of the new price even before it 'compensated' the people and the government for not delivering on its promised output of gas at the existing price.

Colin Gonsalves, advocate for Dasgupta, accused RIL of deliberately hoarding gas and said that the drastic shortfall in production needed to be investigated. He said that investments worth Rs 40,000 crore in gas-based power plants in Andhra Pradesh alone had been adversely impacted. These allegations were denied by RIL's lawyers led by Harish Salve. In a written submission to the court by legal firm Parekh and Company, the company questioned the CAG's observations by arguing that government auditors had scrutinized expenditure amounting to less than one pre cent of the total contract cost being recovered and had arrived at erroneous conclusions.

AAP's leader Arvind Kejriwal, when he was chief minister of Delhi for 49 days, lodged a First Information Report (FIR) dated 11 February 2014 against Mukesh Ambani, Union minister of petroleum and natural gas M.Veerappa Moily, former petroleum minister Murli Deora and the former director general, DGH, V. K. Sibal, for alleged conspiracy and collusion to defraud the exchequer. Kejriwal wrote a letter to Prime Minister Manmohan Singh, in which he repeated the allegation that RIL had 'deliberately' curtailed production from the offshore KG gas fields to exert pressure on the government to hike the price of gas. Further he claimed that government had failed to act against RIL even after the CAG pointed out instances of negligence on the part of the company.

He further claimed that RIL's partner Niko Resources of Canada, was selling gas to Bangladesh at $2.34 per unit on the basis of a 25-year contract to supply gas at that rate. He alleged that RIL's cost of production of a unit in 2000-2010. He said that the impact of the hike would cost the country a minimum of Rs 54,500 crore every year and allow RIL to make a future windfall profit of up to Rs 1, 20,000 crore, RIL denied all these claims. Kejriwal remarked that Mukesh Ambani represented crony capitalism, and that the Ambani brothers do not allow anyone to do business and taken over everything.

Moily described Kejriwal as an ignorant about how the government functions. Kejriwal's 'ignorance' was also sought to be highlighted by the former Shell India head and Brookings India chairperson Vikram S. Mehta in an article titled 'Fuelling Ignorance' (Indian Express, 15 February 2014). Mehta took up cudgels for the Rangarajan Committee and said that its decision was based on sound economic logic. Mehta wrote that it is the public sector entity ONGC that would be the main beneficiary since it produced 85 per cent of domestic gas and therefore, the government would be a major recipient of the international profits generated by the price hike.

In an article titled 'The gas price conundrum' published in The Hindu (19 February 2014) former member of the Petroleum and Natural Gas Regulatory Board Sudha Mahalingam said that the gas price hike will increase food inflation since over a third of the gas produced in the country is consumed by the fertilizer industry. By increasing costs of producing fertilizers, the government's subsidy bill will go up significantly: 'That means, transferring money from the exchequer to the private gas producer's pocket via the fertilizer subsidy or facing a drastic drop in food grains output,' she wrote.

The Central Electricity Authority (CEA) told the government that the hike in the price of gas will make electricity from gas-fired plants 'unaffordable' for state power distribution companies and such projects to languish. The CEA also highlighted that revising tariffs every quarter as suggested by the new gas pricing regime was impractical since state electricity regulators declared tariffs for a full year and almost all such regulators have already declared their tariffs for the fiscal year 2014-2015. At the current gas price of $4.2 per mBtu, a gas-based power plant which is running at 30 per cent of installed capacity will end up paying between $5.6 and $6.5 per unit after loading value added tax and costs of transportation. The effective price would work out to at least $10 per unit, it was contended.

Even the Prime Mnister's right-hand man and redoubtable poster-boy of Indian neo-liberal economics, Planning Commission Deputy Chairman Montek Singh Ahluwalia acknowledged that power tariffs would have to be raised-by between 50 paise and 85 paise per kilowatt hour to support the production of 28 gigawatt (GW) of gas-based electricity and this could be treated as an 'opportunity cost' by consumers.

In an article dated 7March 2014, posted on its website, Akshay Mathur, head of research and geo-economics and fellow at Gateway House, wrote that market-linked prices determined by the Rangarajan Committee's formula, have limitations in the context of Indian business and market realities and the consumer's purchasing abilities.

On 12 February, an article in the *Millennium Post* by Sujit Nath brought back into public memory the well-known nexus between government officials and RIL that facilitated the rise of the Ambanis. He wrote how RIL employed a large number of government officials with connections to the oil and gas industry and alleged that the company had been in possession of crucial documents of the ONGC on gas finds in the KG basin at least six months before RIL placed its bids in 2000.A staff officer to ONGC's director, exploration, Ravi Bastia was the conduit for these documents. Nath claimed, adding that Bastia joined RIL soon after the company won the bid to extract gas from the KG basin. It may be recalled that S.L. Khosla, who was chairman and managing director of ONGC between May 1990 and September 1992, joined RIL the day he retired. The newspaper highlighted how the RIL-funded Observer Research Foundation had employed a number of former bureaucrats, including the incumbent Lieutenant Governor of Delhi, Najeeb Jung, who was once an officer of the prestigious IAS and who served as joint secretary, exploration, in the petroleum ministry when the Panna-Mukta oilfield contracts were awarded to RIL.

For some time now, many corporate captains in India have considered themselves infallible. In a perceptive article in the Business Standard (26 February 2014), Mihir S. Sharma recalled how the Indian government had increasingly become 'for, of and by its biggest businessmen'. He recalled how RIL kept claiming that there was not enough gas in the fields till the government was pushed to come up with a 'formula' that used import prices of gas in Japan to set the wellhead price of gas in the Bay of Bengal. He pointed out how other industrial houses were arm-twisting government regulators by recalling how in the middle of February, the Tata and Adani groups reneged on their promises of supplying power from 'ultra-mega' power plants in Gujarat to state-owned utilities at a fixed tariff. This happened with the alleged connivance of the electricity regulator which asked buyers of power to pay an extra Rs 830 crore to the Adani group company and Rs 330 crore to Tata Power. It was also decided that in the future, electricity would be sold at a higher price than what the Tata and Adani group companies had agreed to when they won competitive bids to operate these plants. This concession was justified on various grounds, including the fact that imported coal from Indonesia had become more expensive following tax changes in that country. The companies had failed to foresee this development. But did not have to take the hit for their incompetence, Sharma wrote. This was after all, crony capitalism at its best.

As allegations and counter-allegations flew thick and fast, petroleum minister Moily continued to staunchly defend himself. On 24 February, in a 13-page letter to Prime Minister Singh, he wrote that the RIL contract for KG-6 gas fields could not be terminated till the arbitration on the issue of output lagging targets was completed. The minister said that it was economically unviable to produce from several gas fields of both RIL and ONGC at the rate of $4.2 per mBtu. For the first time, Moily mentioned the cost incurred by ONGC to produce a unit of gas, which was $3.6 per unit-more than the current price of $4.2 (see ET, 24 February 2014).

Even as the government kept harping on the need to go along the arbitration route to resolve its disputes with RIL, writing in *Outlook magazine* (3 March 2014), Lola Nayar stated that petroleum ministry officials put the responsibility for the delay in appointing the third arbitrator squarely on RIL. These unnamed officials also said that RIL was exerting pressure on the government to finalize the issue of furnishing a bank guarantee to smoothen the way for the issuance of a notification for the price hike. It may be recalled that in the face of criticism, the government had agreed to ask RIL to furnish a bank guarantee equivalent to the incremental revenue that it would earn as a result of the new price of gas, with the understanding that the guarantee would be en-cashed if it was conclusively established that RIL hoarded gas or deliberately suppressed production from the D1 and D3 fields in the KG-D6 block from 2010-2011 onwards. Nayar wrote that petroleum ministry officials would rather not have RIL dictate terms on the bank guarantee but draft a format for the guarantee that would hold till the final arbitration decision. *The Times of India* (22 February 2014) reported that Moily had presumed that the bank guarantee issue would be cleared by 10 February but this had not happened because officials in his ministry were nervous and were slowing down the process by double-checking each and every word in the fine print to ensure that there were no procedural lapses that could land them in trouble if there was an investigation in the future.

It was not unexpected that bureaucrats in the MoPNG and other ministries should have been extra-cautious in dealing with RIL.

As Moily and others have pointed out time and again, a hike in the price of gas would benefit not just RIL. ONGC and the government would arguably be bigger beneficiaries. It was calculated that with the administered price of gas doubling to around $8.4 per mBtu, ONGC's turnover would swell by an impressive Rs 16,000 crore, of which nearly two-thirds would accrue to the government by way of higher taxes, royalties and dividends with the public sector corporation keeping a 'net retention' of around Rs 5,200 crore. At the same time, it has been argued that even with a price of $8.4 per mBtu, many gas reserves (including some in the basin of the Mahanadi river off the coast of Odisha, north of the KG basin) would remain commercially unviable. Missing from this discourse was of course, the consumer who will stand to lose once the prices of electricity and fertilizers rise besides the government who has to foot the higher subsidy bill by incurring higher deficits.

Meanwhile, the CAG has reportedly come out with fresh draft audit reports that RIL has crossed the approved spending limit on the KG-D6 block where it is operating. The Management Committee for the D1 and D3 fields and the DGH had failed in their regulatory duties, the CAG observed, according to Shine Jacob writing in the *Business Standard* (3 February 2014).

What placed a spoke in the wheel of the government's intention to double the administered price of gas was an intervention by the Election Commission of India. On 13 March 2014, the newly-appointed petroleum secretary Saurabh Chandra met the Chief Election Commissioner (CEC) V.S. Sampath seeking the commission's approval to announce the hike in the price of gas with effect from 1 April 2014 for a period of five years. On 20 March, Kejriwal had complained to the Election Commission that the government's decision to increase the price of gas was tantamount to a corrupt electoral practice and would violate the model code of conduct that comes into force after elections are announced. The following day, Election Commissioner H.S. Brahma said the 'urgency' of the going ahead with the decision would be examined, while his senior CEC Sampath remarked that the decision to hike gas prices could be put on hold for another two months.

The lead writer concludes that as we close this incomplete chronicle of how a single corporate conglomerate led by an oligarch fine-tuned the art of crony capitalism in collusion with particular politicians and pliant bureaucrats, it is important to emphasize that within the same government establishment there are functionaries who have refused to be intimidated and who have against all odds valiantly attempted to uphold the interests of not just the exchequer but the people of India.

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