

# The new KG scam

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“Money and commerce are in my blood” was the proud **proclamation made by Prime Minister Narendra Modi to Japanese investors** during his visit to Japan in 2014. This is perhaps one of those rare occasions when he did not exaggerate or embellish. An exemplar of this unique trait of Mr. Modi’s is the “KG scam”. Gas is a vaporous substance, as we all know. To pretend to extract non-existent gas requires extraordinary skill and sleight. And to banish all of it into thin air later is even more masterful. This is what the KG scam is all about. It is a tribute to the Prime Minister’s dexterity that this Rs. 19,700 crore scam as estimated by five reports of the Comptroller and Auditor General of India (CAG) over the past five-six years is still unknown to the nation.

## **Eleven years later**

On June 26, 2005, Gujarat Chief Minister Narendra Modi announced that Gujarat State Petroleum Corporation (GSPC), a State government public sector corporation, had **>discovered India’s biggest gas reserves in the deep waters of the Krishna Godavari (KG) river basin**. He said the discovery was 20 trillion cubic feet worth Rs. 2,20,000 crore. It caught the entire nation by surprise. Officials in the Ministry of Petroleum were flummoxed by this bold claim. Mr. Modi further, in his characteristic flamboyance, promised the nation that GSPC would start production in December 2007 and make our nation energy independent. It is 2016 now, nearly 11 years since that grandiose announcement by Mr. Modi. There has been zero gas recovered yet from the KG basin. Yes, zero. Why? Because there is no gas there. GSPC spent Rs. 19,700 crore during this period, ostensibly looking for the missing gas.

Of course, the exploration of natural resources such as oil and gas is always fraught with discovery uncertainties. Even the best global companies have gone searching for such resources and returned empty-handed. So, what is the purported fraud here? Yes, oil exploration is always an expensive and risky proposition. Yet, it is also the norm that when one realises that there is no or minimum oil or gas to be found, one either stops exploration immediately or reduces costs appropriately. But that is not what GSPC did, as the below sequence of events show.

For such an important and sophisticated exploration activity, GSPC's technical partner was a two-person company called GeoGlobal Resources incorporated in Barbados, the land that is known more for Gary Sobers and now Carlos Brathwaite. GeoGlobal, in turn, entered into a partnership with Roy Group in Mauritius, the land that is more famous as a tax haven than as an oil exploration haven. This entire quest for gas in the KG river basin by GSPC smelt fishy from the beginning. Recall Mr. Modi's tall promise in 2005 of gas being extracted and produced in 2007? Not in 2007, but in June 2009, this fishy joint venture entity did produce something — a field development plan report for recovering gas from KG basin! So, a full four years after the announcement and two years after the expected production year, GSPC produced a report of few hundred pages that supposedly articulated how it planned to extract gas from the KG basin. But between the announcement of the discovery of the gas in 2005 to producing a plan document on how to extract that gas, GSPC had borrowed Rs. 4800 crore in loans from public sector banks and other financial institutions. Surely, it didn't cost Rs. 4,800 crore to produce a report, so why was so much money borrowed even before a plan was finalised to extract the supposed gas from the KG river basin?

The development plan in 2009 acknowledged that Mr. Modi's claims were lofty and cut its expectations of gas reserves by 90 per cent. More importantly, the development plan also admitted that this entire gas exploration operation is futile and should not be undertaken if the gas that is recovered cannot be sold above \$5.7mmbtu. At that time, the approved selling price of gas was only \$4.2mmbtu. Hence, this whole operation was unviable and a waste to begin with. This should have been abandoned right then. Yet, the-then Modi government in Gujarat, as explained below,

constructed an elaborate plan to borrow money to be handed out as contracts to various dubious entities under the auspices of GSPC.

### **Non-existent gas**

This joint venture entity decided to procure platform rigs to fish for non-existent gas in the KG basin. It awarded this critical contract for platform rigs to a company called Tuff Drilling that had zero experience in providing drilling rigs. In fact, Tuff Drilling was set up only in 2007, much after that bombastic claim of India's largest gas discovery by Mr. Modi. Up to March 2015, more than Rs. 5,000 crore had been spent in expenses to Tuff Drilling and other such entities. A total of Rs. 19,700 crore has been spent by GSPC on KG basin gas exploration activity over the past decade and no gas has been found. What's worse is even if gas had been found, it would have incurred huge losses to the company since its selling price was lower than its costs. Surely, the self-proclaimed messiah with an astute sense of commerce knew that it made no business sense to carry out an operation where the selling price is lower than cost price? Now, where did GSPC get all its money from?

GSPC, which was incorporated in 1979, did not have any loans on its books as on March 31, 2007. Between 2008 and 2015, it had borrowed a staggering Rs. 19,720 crore in loans from 13 public sector banks together. This money was evidently used to farm out contracts to dubious entities whose motives are entirely questionable. It is then a little 'rich' for the Prime Minister now to wax eloquent about bad loans and industrialists who milk nationalised banks. It is no surprise that our PSU banks are facing the loans crisis that they are now, with borrowers such as GSPC that borrowed money for no apparent business purposes.

The KG scam is a depressing story of how a State PSU was used to whip up fake claims of gas discovery and then be used as a platform not to extract gas but money, by handing out contracts to related entities in the garb of gas exploration. In the 2015 audit report of GSPC, the CAG lambasts the company for indulging in futile and unviable business activities with reckless borrowing. This and other misdemeanours of GSPC have been repeatedly highlighted by CAG reports over the past

several years. Not a word has been heard in the media about the shady functioning of the GSPC over the years. This is not some politically motivated charge. Every piece of information in this article has been pieced together through careful analysis of various publicly available documents such as the GSPC's Initial Public Offering prospectus filed with Securities and Exchange Board of India in 2010, various CAG reports of course, filings of GeoGlobal Resources with the Securities and Exchange Commission in the United States, records of Ministry of Corporate Affairs, and so on.

This scam, and there is no other word to describe it, is a matter fit for an inquiry by a sitting Supreme Court judge.

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