REPORT OF THE STANDING COMMITTEE ON GOLD AND OTHER PRECIOUS METALS

RESERVE BANK OF INDIA
BOMBAY

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Chapter 1

Introduction

1.1 The Indian precious metals scenario has been undergoing significant changes during the past few years and the Government has been liberalising the restrictive policies regarding these metals which have been in place for more than four decades since independence. The Gold Control Act, 1968, which replaced the earlier Gold Control Rules, 1963, had placed constraints on every aspect of gold and thwarted all free market activities in gold through its very stringent provisions. What with the demand for gold increasing in line with the increasing population and rising levels of income and the official avenues for its import being non-existent, import by illegal means had steadily increased during the past three decades. The Gold Control Act was finally repealed in 1990. From March 1992, the Government allowed the import of gold by Non-Resident Indians and Returning Indians upto 5 kg per person subject to some conditions. This step helped reduce to an appreciable extent, the quantum of gold that was being brought in clandestinely though it could not eradicate the menace. On similar lines, import of silver by NRIs and Returning Indians upto 100 kg was permitted from February 1993. In March 1994, another route for official import of gold and silver was opened when the Government allowed import of these precious metals by the holders of Special Import Licences.

1.2 In keeping with this liberalisation, the Government has also extended fresh incentives to exporters of gold/studded jewellery. The supply side constraints have almost been completely removed for them. However, the Government has not formulated a clear and comprehensive policy with regard to gold, silver and other precious metals and there is a need for such a cohesive policy. On the infrastructural side, the bullion trade needs to be further developed and importantly, regulated without prejudice to the liberalisation process, so as to bring the Indian bullion trade on par with its counterparts in the developed nations. On the export front, it is necessary to eliminate all the remaining constraints to export of gold jewellery so that the exporters are encouraged to garner a larger share for the nation in the huge global gold-jewellery market.

<u>Formation of Standing Committee</u>

1.3 Against this backdrop, the Governor approved on July 23,1993 the proposal of the then-Executive Director, Shri P.B.Kulkarni, to form a Standing Committee on Gold and Precious Metals, comprising officials drawn from DEIO, ECD, DEAP and DESACS, to consider an approach to the formulation of a national gold policy and to recommend to the Bank's Management necessary action points for consideration by the Bank as well as by the Government of India. At a later stage, the Ministry of Finance, Government of India was also associated with the Committee through the nomination of one of its senior officers as a member

1.4 The initial composition of the Committee was as follows :

1)	Shri P.R.Anantharaman, Chief General Manager, DEIO	-	Chairman
2)	Dr.R.B.Barman, Officer-in-Charge, DESACS	-	Member
3)	Smt.R.M.Vasanthakumari, Director, DEAP	-	"
4)	Shri P.Yesuthasen, Dy. Gen. Manager,ECD,CO	-	"
5)	Shri Rajeet Mitter, Director(EE),MOF,GOI	-	"
6)	Shri R.Sethuraman, Director, Gold Management Division, DEIO	-	Convenor

When Shri Yesuthasen resigned from the Bank's service in August 1994, Shri V.S.Sharma, Deputy General Manager, ECD was nominated as a member of the Committee in his place. Likewise, Shri Rajeet Mitter's place in the Committee was filled by Shri Rajeeva Misra towards the end of May 1995 on the former's official posting out of India. The Committee wishes to place on record the valuable contributions made by Sarvashri Yesuthasen and Rajeet Mitter to its deliberations.

Areas for Consideration

1.5 In the absence of specific terms of reference, the Committee decided to look into all aspects relating to the precious metals scenario, especially gold, and to make recommendations for its improvement, wherever possible. It was also recognised by the Committee that, above all, it is the Government's policies that will determine the future development of the gold market in the country. The areas identified for specific discussion and recommendation were :

(i) Regulation and development of wholesale bullion markets in the country.

(ii) Development of refining capacity and accreditation of refineries.

(iii) Introduction of the system of hallmarking as a consumer protection and export-promotion measure.

(iv) Formulation of policy relating to import of precious metals and export of gold jewellery.

(v) Examination of the desirability of commercial banks participating in the wholesale bullion market.

(vi) Formulation of schemes for mobilisation of gold from public and its deployment.

(vii) Introduction of gold-linked instruments.

1.6 The Committee held eight meetings during its term. In its first meeting held on September 30, 1993, the Committee decided upon the broad strategy of action to be followed and in the subsequent meetings, background papers on some of the areas to be considered were presented and detailed discussions were held.

Interaction with Gold Trade and Jewellery Exporters

1.7 The Committee had the benefit of interaction with the gold bullion trade and gold jewellery exporters. The feed-back received from these sources was useful in formulating the views of the Committee with regard to development and regulation of bullion trade, import of gold and export of gold jewellery.

Secretarial Support

1.8 The secretarial support to the Committee was provided by the Gold Management Division of the Department of External Investments & Operations. The Committee wishes to record its appreciation and thanks to Sarvashri H. N. Tarachandani, Deputy General Manager, K.Ganesh, Bazil Sheikh, Murali Radhakrishan, Assistant General Managers and A.K.Sharma, Manager for helping in the preparation of background papers on various matters for the consideration of the Committee.

Chapter 2

Need for a National Gold Policy

2.1 From time immemorial, gold has been playing a very important role in the social and cultural lives of the people all over the world. As it has always symbolised wealth, the desire for the acquisition and possession of gold has been unceasing through human history. Macro-economically speaking, it is an integral part of the foreign exchange reserves of most countries. Given gold's quasi foreign exchange attributes, many countries have adopted specific policies for dealing with its various aspects in order to derive the maximum possible benefit. In India, the policy in respect of precious metals was liberalised only recently to remove some of the stringencies that existed since independence. It would, therefore, be desirable to assess the need to evolve a comprehensive national policy covering all aspects relating to gold in order to take advantage of the emerging opportunities.

2.2 Gold has peculiar features not associated with any other commodity. For long, it has served as the international medium of exchange. At present, it is a reserve asset of immense utility as was proved recently in the case of Iraq, which sold about 50 tonnes during the Gulf war in 1992 to augment its warchest. Nearer home, it was by leasing out a part of our gold holdings that we managed to overcome the 1991 Balance Of Payments crisis. The above-the-ground world stock of gold has been estimated at slightly more than 125,000 tonnes while the annual fresh supply from mines is about 2300 tonnes. Of the total stock, nearly 30 per cent is held by the official sector as part of reserves. In modern times, gold has acquired the status of a financial asset and as such, it is held in the portfolios of not only monetary authorities but also in those of private investment funds. In the years to come, gold may acquire further importance through its unique status as a financial asset without a reciprocal liability.

2.3 In the domestic context, the known facts can be viewed from a different angle. Firstly, India possesses about 8000 tonnes of gold (including the official reserves of about 400 tonnes), constituting about 6.5 per cent of the world's above-the-ground stocks. Secondly, while the annual mine production in the world is about 2300 tonnes, India imports about 250 to 300 tonnes of gold every year, through both official and unofficial channels. In other words, India imports annually, for its domestic consumption alone, more than 10 per cent of the annual world gold production. Thirdly, the annual foreign exchange outgo on account of gold imports amounts to about US$3.5 billion. Fourthly, the huge domestic demand vis-a-vis the negligible production has not only given rise to smuggling and related anti-social activities but has also led to a reduced emphasis being placed on exports of gold jewellery. The annual turnover of the country's gold trade is reported to be in the region of Rs.25,000 crore which translates to about 4 per cent of our GDP at current prices. Fifthly, India can boast of a substantial base of skilled artisans. While the erstwhile Gold Control Administrator's last report for the year 1989 indicated the total number of registered goldsmiths at about 4 lakh, the actual number of goldsmiths in the country may be much higher.

2.4 All the above factors would seem to point to the need to have a fresh look at the current gold policy and to evolve a National Gold Policy. An overall approach covering all the issues relating to gold in its entirety rather than a piece-meal approach would appear to be called for in the formulation of national policy as envisaged.

Gold Policy in India

2.5 The official gold policy uptill the late 80's was one of rigid State control on all aspects - be it trading, import, jewellery manufacture, ownership, investment or refining. Ground realities and public attitudes were not taken into consideration. A strict regimentation was imposed by the Government through the Gold Control Act and the Rules framed thereunder. However, with the repeal of that Act in 1990 and the introduction of the scheme for gold imports by NRIs and Returning Indians in February 1992, the bullion market was freed from this stranglehold.

2.6 While there is no integrated policy as such on gold, specific guidelines do exist for various sub-sectors. These injunctions were evolved over a period of time to meet certain specific historical needs. A brief outline of the existing policies is given below :

i) Exports : Import of gold for the purpose of export after value addition is allowed. No import duty or sales tax/octroi is charged on gold imported for export purposes. There are certain criteria regarding value addition and minimum margins which the exporters are expected to fulfil. Income from exports is tax-free. The Gem & Jewellery Export Promotion Council plays a promotional role with the help of the Government. The task of importing and supplying the metal to exporters has been assigned to State Bank of India, MMTC Ltd. (formerly known as Minerals and Metals Trading Corporation) and Handicrafts and Handloom Export Corporation. In order to boost the export of gold jewellery, the Government has also extended a number of concessions to the exporters.

ii) Imports : Till recently, import of gold for purposes other than exports was banned. In 1992, a scheme for import of gold by NRIs and Returning Indians, subject to a ceiling of 5 kg per person against payment of import duty at Rs.220 per 10gm in foreign currency, was introduced by the Government. The eligible NRIs were also given, from November 1994, an option to buy gold after their arrival in India, from State Bank of India or MMTC under the same terms and conditions to obviate certain risks associated with the process. From April 1994, holders of Special Import Licences too, were allowed to import gold at the same concessional duty as applicable to the NRI Scheme.

iii) Acquisition and Holding of primary Gold : With the repeal of the Gold Control Act in 1990, there are now no restrictions on acquisition and holding of gold in any form.

iv) Mining of Gold : Domestic production of gold is so low (about 2 tonnes per annum) that it does not have any impact on gold markets. Recently, the Government has relaxed the rules relating to mining of many minerals, including gold, (which hitherto had been the sole preserve of the Government), to allow the private sector to participate in mining ventures. Consequently, a few foreign mining companies have entered into joint ventures with some Government agencies to prospect for gold in the country.

v) <u>Policy relating to Bullion Markets</u> : There are no controls or restrictions on private trading in gold and silver in the country and the Government does not interfere with the market activities.

2.7 Notwithstanding the more pragmatic policy pursued by the Government in recent times, the present gold scenario in the country contains a few major disquieting features :

(i) Smuggling continues unabated, though on a reduced scale. The NRI and SIL schemes have not been able to put a stop to this illegal activity.

(ii) The inflow of gold under the NRI import scheme may be at the cost of alternate forex inflows. However, this aspect needs detailed examination.

(iii) Though the export of gold jewellery has increased in terms of volume (US$ 486 million in 1994-95), it constitutes only about 1 per cent of total world gold jewellery market.

(iv) Private acquisition and hoarding of gold is rising inexorably every year.

(v) The domestic production of gold, such as it is, has declined further over the years and constitutes an insignificant proportion of the total annual supply.

(vi) The Gold Bonds Scheme, 1993, although conceived by the Government as a measure to mobilise privately-held gold, was viewed by the public more as an immunity offer than as a genuine scheme aimed at dishoarding.

2.8 Though very few countries have framed an explicit 'National Gold Policy' as such, many have consciously taken steps to use gold for the betterment of their economies. The UK, which has no significant gold production, sets standards for the gold trade in the entire world and influences the global price of gold.

Likewise, Switzerland has developed into a major market for physical gold. Singapore opened a gold market in 1969 as a part of its national strategy to transform this tiny State into an important world financial centre. Today, it is a major gold distribution centre for the entire South East Asia. Similarly, Dubai, after starting out as the main source of illegal gold import into the Indian sub-continent, has now become a major gold market. Thus, strategic thinking on the part of the Government can transform gold from being our country's scourge into a source of its welfare. India's special advantages such as geographical location, high level of demand, size of holding, traditional artistry, etc. would need to be exploited fully if our gold-affinity is to be transmuted into an economic opportunity from the economic threat that it remains today.

Objectives of National Gold Policy

2.9 The National Gold Policy should aim to ensure that all its components relating to import of gold, export of value-added items in the form of jewellery, acquisition, holding and trading of gold, etc. move in harmony towards the achievement of the overall objective of economic growth. The broader goals of the National Gold Policy could be :

(i) the productive utilisation of the country's idle gold holdings,

(ii) the reduction of illegal gold imports to curb smuggling activities and hence, 'hawala' dealings, and

(iii) the encouragement of the export of gold as a value-added item.

2.10 It may not be difficult to achieve these aims. The country has a huge stock of private holdings most of which is idle. By introducing innovative gold deposits schemes on the lines of the savings or fixed deposit schemes of banks or the unit schemes of mutual funds, some of this idle stock could be mobilised. The gold thus mobilised, could be loaned to jewellers for their making of ornaments for exports as well as for domestic consumption. The greater availability of gold within the country would reduce considerably, the demand for imports. Likewise, steps could be taken to increase the quantum of recycled gold thereby reducing the demand for fresh gold. Introduction of fashion jewellery of lower caratage (of say, 12 or 14 carats) on a large scale may help in scaling down the demand for high-carat gold and more importantly, lead to the gradual adoption of the yellow metal as an item of adornment rather than of investment as it is today. It is also necessary to draw up a long-term strategy to develop India into both a major gold jewellery exporter and an integrated bullion market.

Chapter 3

Gold Policies of Some Selected Countries

3.1 Gold continues to occupy a pivotal position in the forex reserves of many countries, though the world had abandoned the 'gold standard' days far behind. While the gold producing countries have benefited from this natural resource and devised suitable policies to continue to derive the maximum benefits therefrom, many non-producing countries too have identified the opportunities offered by gold and exploited them. The efforts of the private sector in these countries are also well supported by the respective Governments by means of policy measures. The experiences of some of the countries are briefly outlined in the following paragraphs.

3.2 U.K.: UK has no gold production base but it has developed into the most important gold market, setting the standards for the entire world. The history of gold in the UK is closely linked with that of the Bank of England. When London developed into a leading gold market at the beginning of the 19th century, the world's official as well as unofficial gold transactions came to be routed through the Bank of England. This position changed with the start of the First World War. The London market became prominent again in the early 60's with the creation of the gold pool. Though the collapse of the gold pool in 1968 and the abolition of gold-dollar parity in 1971 seriously damaged the London market, it regained its pre-eminence in the 80's, helped by suitable changes in the U.K Government's policies. The major change was the abolition of exchange control regulations in 1979 which enabled the residents to buy and sell gold freely without any restrictions. These policy changes coincided with a period of intense activity in the gold market in the context of a double digit inflation. This resulted in many international banks and investment houses flocking to the London market.

3.3 The traditional informal control of Bank of England (BOE) over the gold market was formalised under the 'Financial Services Act' in 1986. A code of conduct for the members of the London Bullion Market Association (LBMA) was drawn up and a number of sub-committees of the LBMA were constituted to look after different aspects of gold trade. The activities of the LBMA members were also periodically reviewed by the BOE. The Bank has also become a repository for much of the gold in the London market and it regularly participates in the market on behalf of other central banks who maintain gold accounts with it. BOE also provides support to the 'leasing market' by lending part of its reserves to other central banks or LBMA members. The UK is also the base of two major gold refineries. By making hallmarking of jewellery compulsory in the country, the Government has ensured that only quality products are sold to the public.

3.4 Switzerland: Switzerland came into prominence in gold matters for the first time during the temporary closure of the London market in 1968 after the collapse of the gold pool arrangement. Three leading Swiss banks, viz. Union Bank of Switzerland, Credit Suisse and Swiss Banking Corporation, seized the opportunity to form the Zurich Gold Pool for marketing gold.

Switzerland has since developed into a major market both for physical wholesale gold and for portfolio investment in gold. South Africa and some other countries sell their mined gold through the Zurich Pool. About 1000 tonnes of gold passes through Switzerland every year with spin-off benefits for the country. The nation's airlines, Swiss Air, in which the three major Swiss banks have a substantial shareholding, has expanded, in consequence, to become one of the largest transporters of gold in the world. Due to the advantage of anonymity vouchsafed by the Swiss banks, hordes of private investors maintain gold accounts with them. Further, no tax is levied by the Government on retail gold sales in the country. The image of Switzerland as a leading gold market is also reinforced by the Swiss National Bank's holding of about 2500 tonnes of gold in its reserves. Four major gold refineries, all approved by the LBMA, are active in this country.

3.5 Italy: Italy is the foremost manufacturer and exporter of mass-produced carat gold jewellery. About 70 per cent of the jewellery manufactured in the country is exported, with the USA being the major importer. Italy consumes about 300 tonnes of gold every year for jewellery fabrication alone. It has pioneered the leasing market in gold, realising that the fabricators find it cheaper to borrow gold for a working inventory than to borrow money to buy gold. It was the first to fashion advanced technology for the mechanical manufacture of chains and produces more machine-made chains than any other country. Domestic retail gold sales attract VAT at about 20 per cent.

3.6 USA: Even though USA is the second largest producer of gold in the world and holder of the largest quantity of official sector gold since many years, the development of the US gold market commenced only after 1975 when private citizens were given the right to acquire gold through the scrapping of a ban that had been in place since 1934. The Commodity Exchange Inc. of New York (COMEX) established in 1977, has developed into the most significant market for derivatives. Its turnover exceeds that of all the other exchanges of the world put together, in terms of both world-wide participation and value traded. Taxation rates for retail gold sales vary from State to State in this country. Gold coin sales are not taxed in some of the States. There is no tax on bullion. The financial institutions are free to trade in gold which provides depth to the bullion market.

3.7 Japan : The Japanese annual production of gold is negligible - about 5 to 6 tonnes - but its annual gold import for private investment varies between 100 and 150 tonnes. The surge in the Japanese investment demand stemmed mainly from (i) tax considerations associated with the establishment of a green card system which enabled the Government to closely monitor private investment returns, (ii) removal of restrictions on private ownership, (iii) rapid development of marketing facilities including setting up of exchanges like Tokyo Commodity Exchange (TOCOM), (iv) initiation of banks and brokerage houses into offering gold in the form of coins, small bars and gold certificates, (v) increasing gold consciousness in the country, (vi) increased use of gold in the fast-paced electronic industry and in dentistry and (vii) minting of special gold coins to commemorate important events in the Japanese Royal family. Gold is subject to about 3 per cent VAT in Japan.

3.8 <u>Singapore</u>: Singapore's gold market was launched on 1st April 1969 by the Government as part of its deliberate strategy to make this city-state an important financial centre in the world. This has been a free market since 1973. Investment demand comes primarily from foreign investors. Hallmarking is in vogue but is not compulsory. Singapore has developed essentially as a physical market and it serves as a distribution centre for the South- East Asian Countries and the Indian Sub-Continent.

3.9 <u>Hongkong</u>: Hongkong has emerged as an entrepot through which the Far-East Asian Countries channel their overall surplus or demand on to the world market. The Government took an active role in promoting Hong Kong gold trade as part of its strategy to increase its attractiveness as a financial centre. Free gold imports are permitted since 1974.

3.10 <u>Turkey</u>: Turkey has a lot in common with India. Privately held gold is estimated at about 5000 tonnes. The Government actively promotes the gold industry. The central bank of Turkey maintains a monopoly over the import of gold. The imported gold is supplied to the market through exchange houses and banks. Jewellers are allowed to import semi-fabricated gold against export orders. The central bank also operates as a broker in the official market. Turkey is in the process of setting up a national gold exchange. Its jewellery exports have registered a quantum jump in recent years. The Capital Market Board of Turkey has prescribed trading rules and collaterals for gold trading.

3.11 Pakistan: Pakistan allows the import of gold by its residents on payment of an import duty of 2 per cent. The scheme was introduced in 1989 with a duty of 5 per cent which has been progressively reduced to 2 per cent now. Pakistan imports about 60 to 70 tonnes annually, mainly from Dubai.

3.12 Nepal: Nepal had formulated a scheme in February 1993 for import of gold and silver similar to the Indian NRI Scheme. However, the terms and conditions are more liberal. The import duty is about 5 per cent. Upto 10 kg of gold and 150 kg of silver could be imported at a time. As the consumption demand in Nepal is meagre, the imported gold is mostly smuggled out to India.

3.13 Dubai : Dubai has become the sixth largest gold market in the world under fortuitous circumstances. The rigid gold policy followed by India led to a flourishing smuggling activity and the Dubai government, seizing the opportunity, provided the base for such activities on its soil. Through gold handling charges alone, Dubai earns a fortune every year. The bulk of the gold brought into our country originates from Dubai.

3.14 It could thus be seen that official policies have been instrumental in defining the role of gold in a nation's economy. In many cases, the Governments have not only laid down the macro-economic policies but also overseen their implementation at micro level. If India is to develop its potential as a major gold market, the Government has to devise policies for developing as well as regulating the bullion trade on a sound footing.

Chapter 4

Gold Jewellery Exports

4.1 The Committee noted with satisfaction the recent steps taken by the Government and the industry to increase the export of gold and studded jewellery. It has been estimated that the world market in these items is of the order of US$40 billion. However, India's share thereof is only about one per cent. According to the Gem & Jewellery Export Promotion Council, the total export of gold and studded jewellery during 1993-94 and 1994-95 amounted to US$367.35 million and US$485.78 million, while the total gem and jewellery exports (including diamond exports) during the two years worked out to US$ 4139.26 million and US$ 4674.68 million respectively. Considering the cheap labour costs and the abundance of skilled artisans available in the country, there remains a large scope for increasing our jewellery exports. The Government has duly recognised this potential and designated jewellery exports as a thrust area. But a wide gap still exists between intentions and actual policies.

4.2 The Gold Management Division of the Reserve Bank of India contacted a cross-section of jewellery exporters to ascertain their problems and to solicit their views on solving them. After considering the issues involved, the Committee is of the view that there is a need for formulating a long-term promotional and marketing strategy that would encompass the various aspects of India's gold jewellery exports. It would like to make the following recommendations for consideration by the authorities.

4.3 A major handicap faced by small exporters is that they do not have any representative agency in the importing countries to take care of their marketing needs and also to attend to servicing/repairing of the items exported by them. They are not able to access retail outlets directly and hence have to sell their goods to wholesalers in the importing country who make huge profits by lending their brand names. It would, therefore, be desirable to set up nodal agencies in the importing countries on behalf of the Indian jewellery exporters to render them the necessary help.

4.4 These agencies could help the Indian exporters to identify and enter into manufacturing and marketing ventures abroad, attract foreign investment in India's gold jewellery export sector and generally function as the overseas representatives for the Indian exporters. Smaller exporters will be benefited if these nodal agencies could set up 'technical' cells to take care of minor repairs/servicing required by the importing parties and to act as their marketing allies. The major aim of these agencies should be to assist the Indian exporters to bypass the wholesalers (to whom sales are made now) and directly make forays into the international retail trade and to develop Indian brand identities. The agencies should also help the Gem and Jewellery Export Promotion Council (GJEPC) and its members by providing direct and speedy information on design trends and possible policy changes abroad. This concept would help in improving the international perception and standing of India's jewellery products and contribute significantly to increased exports. The expenses incurred by these nodal agencies could be met by the exporters themselves through a separate Fund to be set up by the Gem and Jewellery Export Promotion Council which may be called

'Gold Jewellery Export Promotion Fund'. The Council could finance part of the amount and the exporters could contribute a nominal amount, say 1 to 2 per cent of their annual profits to the Fund. It is understood that the Council has unutilised funds and reserves. It is suggested that this balance could be partly utilised for meeting the expenses of these nodal agencies.

4.5 There is a need to give a fillip to tourist purchases of gold jewellery in India, i.e. organised informal exports. The products of Export Promotion Zones (EPZs) could be permitted to be sold at international airports, five-star hotels, popular tourist resorts, etc. against forex at appropriate value addition rates. Establishment of 'souks' for sale of jewellery exclusively for foreign tourists in conveniently located spots of popular tourist resorts/cities could be considered. The potential in tourist sales has not been exploited in full so far. The jewellery made by jewellers in the Domestic Tariff Area (DTA) zone carries no guarantee of purity or quality, due to the absence of the hallmarking system. As such, tourists generally harbour grave suspicions about buying jewellery in India. EPZ made jewellery, being oriented towards exports, would offer a more suitable range for selection to the tourists. In this connection, it is worth noting that Turkey, very much alike India in its attitude to gold until recently, now derives a major part of its exchange earnings in jewellery from sales to tourists.

4.6 A comparative study of the performance of jewellery export units in various EPZs could be undertaken by the Gem & Jewellery Export Promotion Council so as to pave the way for the detection and removal of any region-specific deficiencies that may exist.

In view of the size of the international market for gold and studded jewellery and India's great potential, a concerted drive for further expansion and proliferation of the EPZ model is needed.

4.7 A hallmarking facility must be set up at the earliest, within the EPZ ramparts at least, if not for the entire gold trade so that the quality check of the products exported from these areas is put on a scientific footing and the products are stamped with the seal of the hallmarking authority. These agencies could then achieve international recognition and be accredited by the importing nations. This acquires greater importance in the context of our major/regular markets having established hallmarking arrangements. At present, the Customs officials are carrying out the quality (purity) check. This verification is not recognised by the importing nations who insist on their own elaborate quality verification procedures that are both time-consuming and suggestive of their lack of trust in the way we do these things. The hallmarking system could be extended to domestic markets in due course as a consumer protection measure.

4.8 A National School of Jewellery Design with arrangements to tap the expertise of international designers/trend setters requires to be established, preferably with branches in the major jewellery - making centres in India. Since design is the single most important factor that determines high value-addition and brand-identity, this school should possess enough inputs and expertise to offer updated courses on modern jewellery-design. The Gem & Jewellery Export Promotion Council could be charged with this responsibility. For this purpose, the assistance of the World Gold Council could, perhaps, also be sought.

4.9 It may be considered whether exporter-jewellers could be urged to adopt the ISO 9000 series standards. As at present, the Bureau of Indian Standards (BIS) has prescribed standards for manufacture of gold alloys, assay and chemical analysis. No standards exist for evaluating the excellence of gold jewellery products. Though the export items are, in many cases, highly individualised items, BIS standards, if established, will confer recognition on a jewellery exporting company's casting/processing/finishing facilities and its quality control system, thus improving the marketability of the products made thereat. Exporters who fulfil the stipulated requirements could be recognised by official certificates of quality. The matter of adoption of ISO standards may be taken up by the GJEPC with the Bureau of Indian Standards.

4.10 At present, there is a committee on gold jewellery exports within the Gem and Jewellery Export Promotion Council to look into the issues related to gold jewellery exports and to review policy and procedural aspects. Given the vast scope for improving gold jewellery exports, concerted action with regard to marketing is required. However, as cut and polished diamonds account for nearly 80 per cent of the total gem and jewellery exports of our country, most of the Council's attention is given over to matters relating to diamonds exports. The Council could be advised to entrust its committee with the additional responsibility of collecting and collating information on international markets in a scientific manner so that the following requirements are met :

(i) Carrying out of on-going research on the nature and components of the gold jewellery export trade in the country vis-a-vis the international gold jewellery export scenario. For example, in the context of worldwide jewellery market, a study of the modality/technology of India's jewellery manufacturers and exporters, their range, designing, quality and pricing needs to be made on a continuous basis.

(ii) The exporters should also be given up-to-date information in the policy scenario prevailing in the international markets on an ongoing basis. Indian exporters of gold jewellery should be given timely information about facilities and concessions offered abroad to enable them to start joint ventures, subsidiaries, etc. in the appropriate countries.

(iii) Information on probable alternative destinations through re-routing of Indian exports so as to bypass the quota regimes set up by some importing countries could also be gathered.

(iv) A closer liaison with the World Gold Council with regard to these inputs may be beneficial.

4.11 There seems to be some scope for improving and speeding up the verification process by the Customs Department that precedes export. Where the Customs officials dispute the actual quantum of value-addition shown by the exporter in the case of only a few pieces out of a large-value consignment, procedures could be evolved for releasing the export consignment for dispatch after making a note of the dispute which could be resolved amicably subsequently.

4.12 A simplified Customs document as applicable to other EPZ products (like electronic items) which permits temporary export/import of goods for a short duration (not meant for sale) without the necessity of raising bonds or depositing amounts for duty or filing several Customs documents may be extended to cover the gems and jewellery export sector as well, to enable exporters to take out samples for export promotion purposes more freely.

4.13 Farming out of certain routine operations by the units in the Export Promotion Zones (EPZs) to Domestic Tariff Area (DTA) units could be permitted with due verification procedures. For example, it is understood that diamond-cleaving, cutting, etc. could be more profitably got done outside the EPZs. This will also obviate the need for exporters to invest in expensive machinery which may be used only infrequently.

4.14 It is suggested that early steps may be taken to implement those of the above recommendations which do not involve major policy, statutory or procedural changes so that at least the minor irritants to the exporting community could be removed. This may also act as a morale booster and encourage them to put in more efforts on the export front.

Chapter 5

Import of Gold and Silver

5.1 India is one among very few countries in the world where a truly enormous amount of gold is in private possession. The Bombay Bullion Association has estimated the private holdings in the country to be about 7600 tonnes valued at about US$90 billion (Rs.3,00,000 crore) at the rate of $380 per troy ounce. Our annual consumption of fresh gold is increasing year after year and is of the order of about 250-300 tonnes per annum. With the demand for the yellow metal increasing in tune with the increase in population, our thirst for gold is unlikely to be quenched for many years to come.

5.2 The demand for gold is inextricably linked to the social customs prevailing in the various parts of our country with the result that even the poorest section of our society probably own at least a few pieces of gold ornament. At the higher rungs of the social strata, it is used for displaying wealth as much as for hiding it. With the demand being assured and persistent, the number of shops dealing in gold jewellery is, predictably enough, on the rise. While the demand is heavy, the internal production of the metal has been negligible. At the beginning of the century, the Indian gold mines produced about 25 tonnes per annum which has now dwindled to a measly 2 tonnes. Though some new sites with gold-bearing veins have been located by the Geological Survey of India, total production is not expected to exceed 10 tonnes in the near future.

5.3 The only alternative source of supply for gold is, therefore, imports. In the context of the precarious foreign exchange reserves position obtaining hitherto and in view of the priority being accorded to the development of an industrial base which, in turn, required foreign exchange for import of capital goods, the Government had till recently proscribed the official import of gold so as to conserve the scarce forex resources. The Gold Control Act which was in place for nearly 25 years stringently regulated all aspects of gold like trading, jewellery manufacture, possession by individuals, etc. But even such severe measures failed to change the public mind-set deriving from the habits and customs instilled in them through many centuries. As a result, an alternative source to meet the demand developed which has wrought havoc on our economy. This was the illegal imports which flourished during the past few decades circumventing the rigid controls, with their inevitable negative fall-out for the social and moral fabric of the country. Our entire requirements were being met, until recently, only through smuggling activities. The Gulf countries which supplied gold to India have enriched themselves at our expense and have developed a flourishing gold market in their countries.

Import Policy in the Past

5.4 The Government had followed a very restrictive policy on the import of gold since independence in order to curb forex outgo that such import entailed. Gold was treated as a luxury-item under the taxation policies. However, official import of gold was allowed for the purpose of re-export on value-addition. No other official route was open for bringing in gold either as bullion or jewellery. Indians residing abroad too, were not allowed to bring ornaments and dispose them off during their visits to their motherland. Consequently, domestic gold prices always ruled significantly higher than the international prices, providing smugglers with the necessary incentive for smuggling the metal in.

Recent Changes in Gold and Silver Import Policy

5.5 In these circumstances, a fresh breeze blew in during February 1992 with the Hon. Finance Minister announcing in the Lok Sabha during his budget speech for 1992-93, a relatively liberalised scheme for gold import. Under the scheme, non-resident Indians and Indians returning from abroad after a stay of not less than 6 months, were allowed to bring in gold upto 5 kg. once in 6 months as part of their personal baggage. Customs duty at Rs.450 per 10 gm., was payable in any convertible currency. The duty was subsequently reduced to foreign currency equivalent of Rs.220 per 10 gm. On similar lines, silver imports by NRIs were allowed from 8th February 1993. The maximum quantity importable was fixed at 100 kg per person with duty at Rs.500 per kg payable thereon in any convertible currency. The total quantum of gold and silver imported under these schemes upto April 1995 is about 448 tonnes and 4465 tonnes and the revenue earned thereon as import duty about Rs.993 crore and Rs.224 crore respectively. However, smuggling also continued unabated. Trade circles estimate that about 100 tonnes of gold is being brought in annually through the illegal channels.

5.6 The Government further relaxed the gold scheme recently to mitigate the security hazards faced by the NRIs in carrying gold with them. The NRIs now have the option to bring the gold with them or import it within 15 days of landing in India or purchase it from authorised agencies in India against payment in foreign currency. State Bank of India and MMTC Ltd. have been authorised by the Government to import gold on consignment basis for sale to the NRIs eligible under this scheme. The agencies have initially opened counters at Delhi and Bombay for this purpose and may, at a later date, extend the sales to other cities that have international airports. There is no other change in the terms and conditions of the scheme.

5.7 By way of further liberalisation of the policy on gold and silver imports, the Government's EXIM policy statement for 1994-95 permitted holders of Special Import Licences to import gold and silver on payment of the prescribed customs duty (Rs.220 per 10 gm for gold and Rs.500 per kg for silver) out of their EEFC accounts. Initially, the scheme elicited a good response from the importers, with about 5 tonnes of gold being imported during May as well as June 1994. However, with the addition of more items to the list of 'approved' items importable under these licences, the premium on the Special Import Licences went up considerably, rendering import of gold under this scheme unviable. MMTC Ltd. is a major operator under the scheme and continues to supply gold and silver to the local market.

Forex Accretion

5.8 With the liberalisation and opening up of the Indian economy, more foreign exchange is flowing into the country and the country's forex reserves are currently of the order of US$20 billion. The increased forex flows mainly arose from better export performance of Indian companies, portfolio investments by

Foreign Institutional Investors (FIIs) and Foreign Direct Investments. The rapidly increasing forex reserves have posed a problem of reserve management for the country. The large inflow of dollars directly led, in the recent past, to increased money supply which in turn created inflationary pressures in the economy. If the forex deluge continues, we may shortly be faced with the challenge of its optimal management. Many suggestions have been made by eminent economists to tackle this issue. Dr.D.R.Pendse, one of our well-known economists, had come out with a suggestion to tackle the problem of excessive forex accruals by linking it with our insatiable demand for gold in a 'two birds with one stone' strategy.

Dr.Pendse's prescription

5.9 Dr.Pendse suggested that the FIIs may be permitted to bring in gold instead of foreign currency, sell the gold in the country and utilise the proceeds for their investments in the capital market. This, according to him, would be anti-inflationary. Money supply will not increase as there is no exchange of rupees for dollars. Further, the excess purchasing power would be mopped up from the market which is bound to have an anti-inflationary impact on the economy. A quasi-forex asset in the form of gold would be brought into the country, which could be tapped by suitable schemes, if and when the necessity arises. The FIIs may be interested in the proposal as the domestic price of gold is about 20 per cent more than international prices and even after paying for freight, insurance, import duty (at the concessional rates applicable to NRIs), other local taxes, etc., they may be left with about 10 per cent profit margin, apart from their investment profits. The scheme, if implemented, would possibly result in more gold flowing into the country. The domestic prices would, as a result, edge closer to international levels until the point of synchronicity is reached when it would no longer be profitable for FIIs to bring in gold. The FIIs may then resume bringing in forex. Thus, a market mechanism would be created that would keep the domestic prices more in tune with global prices. If the Government should deem it necessary, the scheme could easily be wound up with only a minimal fall-out on foreign investors. Other advantages would be that such imports will certainly curtail the smuggling menace besides plugging the leakage of revenue for the governments.

Alternative proposal

5.10 The Committee considered Dr.Pendse's suggestion, but was not in favour of it. It felt that the suggestion, if implemented, would result in undue benefits for the FIIs. The Committee, however, felt that there does exist a need for a further relaxation of the import policy. It was of the opinion that instead of allowing free import of gold and silver by placing them on OGL as frequently demanded by the bullion trade, a limited relaxation can be made in the case of select Bullion Associations in the country, allowing them to import gold and silver subject to a prescribed annual ceiling. The duty may be allowed to be paid in rupees but at slightly higher rates of import duty, say Rs.300 - Rs.350 per 10 gm. for gold and Rs.650 - Rs.750 per kg. for silver. Another alternative would be to permit some canalising agencies like MMTC and SBI to import the metal for sale in the market. Import duty in rupees as at rates indicated above could be levied. This scheme could operate independent of the existing schemes.

5.11 These measures would greatly reduce smuggling and 'havala' transactions. Further, as the imports will be official, accretion of revenue to the Government by way of customs duty, sales tax, octroi, etc. is assured. The Committee felt that gold should not be treated as a luxury-item as has been done hitherto, as the demand for it emanates from all strata of society. If legal means are not available, people would always try to secure it through illegal channels resulting in the inevitable outflow of forex. It would be prudent to keep open more legal channels if only for curbing the flourishing parallel economy.

Chapter 6

Market Development and Regulation

6.1 It is a truism that India is a vast country comprising many regions, each with its distinct social customs and cultural practices. The one thing that unites all regions, apart from religion, is a shared affinity for gold and gold ornaments. Depending on the local customs and the demand and supply realities, bullion markets have evolved variously, over a period, at many centres in the country. However, these centres do not have uniform trading practices, although there are some common features. The annual turnover in the bullion trade is reported to be about Rs.25,000 crore and the value of annual imports of gold, both legal and illegal, is about Rs.11,000 crore. This hefty import bill has its obvious impact on the 'balance of payments' of the country. Further, the country's bullion trade can boast of human resources on an awesome scale, with lakhs of people, mostly skilled artisans, engaged in this industry.

6.2 Presently, there is no regulation or control over the activities in the bullion markets. Their dealings are mostly shrouded in secrecy. As a major consumer of gold and silver in the world, India has the potential to develop into an international centre for bullion trade. If India is to realise this potential, it is necessary that the domestic market is unified and regulated and that nationally uniform trading practices are introduced. Standardisation and integration of the markets will help remove the deficiencies and discrepancies that presently afflict the various markets. Apart from prescribing uniform procedures relating to the various aspects of bullion trading like price fixing, booking of orders, settlement, delivery, etc., it is also necessary to ensure that the prescribed procedures are followed in the market. For this purpose, suitable institutional arrangements to monitor the market have to be made. However, any regulation proposed should be in consistence with the current liberalisation and reform policies of the Government.

Standardisation of Bullion Market Practices

6.3 A study of the trading practices in the Bombay bullion market reveals the following deficiencies. It is possible that similar problems are prevalent in other centres as well.

(i) There is no official exchange for bullion trading. Transactions are conducted between dealers through the mechanism of brokers who go around various establishments in order to strike a deal. This practice could lead to manipulation. Moreover, as these brokers are not registered with the Bombay Bullion Association or any other authority, there is no control over their activities.

(ii) Daily price fixing is done by a Committee of about 7 leading bullion dealers. Price quotations are obtained from the fix committee members' individual offices. The fix price is, thereafter, arrived at by averaging out the quotes. There is thus, a time-lag between the securing of quotes from the different members of the fix committee and the finalisation of the fix, which could vitiate the fix price.

(iii) As there is no official Exchange, trading is not done at a single place (i.e. on the floor of an Exchange) although such a facility exists in the premises of the Bombay Bullion

Association. The trading ring became non-functional following the ban on forward trading.

(iv) There are no specified rules or codes of conduct for the traders.

(v) The period of settlement is 7 days as compared to 2 days in most other centres in the country as well as in the international markets. It is understood that a State statute permits spot transactions to be settled within 7 days. This provision has apparently been utilised to have a 7-day settlement norm in practice. It is also possible that this is a ruse to partly circumvent the ban on forward trading. For instance, a dealer may not be able to fulfil a large order immediately but could reasonably be expected to honour the contract in 7 days' time.

6.4 The deficiencies indicated above could perhaps be rectified if trading practices are standardised. The Gold Control Act is no longer in force and besides, further liberalisation of gold imports may be in the offing. A larger inflow of gold into the country could, therefore, be expected in the next few years. Forecasts by the Gold Fields Mineral Services and the World Gold Council also point to India's increased consumption of gold and silver in the near future. The proposed regulation should, therefore,,encompass standardisation of market practices, drawing up of a code of conduct for members covering such matters as market ethics, disclosure norms, resolution of conflicts of interests, etc., and the development of an efficient enforcement mechanism for imposition of penalties and disqualifications, wherever necessary. Suitable institutional framework has also to be devised to perform the regulatory function. The regulatory body/agency should also take the lead role in developing the market and implementing standard practices that would lead to transparency in dealings, investor protection and market efficiency.

6.5 The Committee would like to offer the following pointers towards the prescription of trading norms for the wholesale trade in the physical markets. These norms are based, mutatis mutandis, on the norms of the London Bullion Market which has a long experience in bullion trading. Some of these are already being followed in the markets. These norms should, however, be discussed with representatives of the bullion trade on a country-wide basis before introduction. The standardisation of market practices can be broadly classified under two heads, namely, physical and forward trading.

6.6 **PHYSICAL TRADING**

(1) Prices

Prices could be quoted in Rupees per 10 gm. Special quotes could be made available on request (e.g.:rupees against tola bars)

(2) Settlement

The settlement period shall be two days from the date of contract for spot transactions.

(3) Trading lot

The trading lot should be 500 gm and in multiples thereof. The minimum lot size could be increased once the practices are standardised in all the bullion markets of the country.

(4) Fineness

Gold of fineness 995 and above shall be considered standard gold.

(5) Marks

Serial number, fineness and assay mark of the melter and assayer should be found stamped on the bars. The melters and refiners would have to be on the approved list of the Bullion Association and the criterion for inclusion in the list could be based on turnover, net worth, etc. These modalities can be finalised in consultation with the representatives of the bullion trade.

(6) Fix Procedure

In the initial stages, Fix Committees consisting of a few selected members, say 5 to 7, of the Bullion Associations should be formed at the four major centres, viz., Bombay, Calcutta, Madras and New Delhi to fix the gold prices daily for the respective centres and adjoining areas. This mechanism could gradually be extended in stages to other important bullion trading centres. The fix committees could quote an opening price and a closing price at 11 a.m. and 3 p.m. respectively. The fix timings could vary at different centres depending on local conditions. These fixes would normally determine trading, though the prices may vary during the course of the day according to the number and quantity of buy/sell orders, ready availability of gold in the market, etc. It would be desirable to change the fix committee members every year.

(7) Fix mechanism

The fixing shall invariably be accomplished at one place i.e., on the premises of the Bullion Association offices concerned, where all the fix committee members may assemble for the purpose. The practice now obtaining, of a messenger going round to collect the quotes from disparate locations may be discontinued. The requisite infrastructural facilities would need to be created in the Association offices for this purpose. Based on the 'fix', dealers could offer two-way quotes for buying and selling gold.

(8) Delivery

Delivery shall be effected within 2 working days from the date of contract. The venue shall be the selling dealer's office unless otherwise specified in the contract. The mode of performance of the contract should be physical delivery of the bars.

(9) Customer Orders

Customer orders could also be taken by a dealer. The acceptance of customer orders would entail the following:

(i) Applicability of price - The prices to be charged would be based on the prevalent market rate at the time of taking orders.

(ii) Transparency- To make the transactions transparent, the dealers would be required to indicate in their records the market price at which the order was booked.

(iii) Limits for buying and selling- If a customer specifies quantity and price limits or ranges for buying and selling, these should be strictly adhered to.

FORWARD TRADING

6.7 Forward trading in gold has been banned in the country since 1962. However, with India's liberalisation of gold imports, the domestic demand as well as supply have surged. The differential in the international and domestic prices of gold has declined perceptibly from over 60 per cent in the days prior to February 1992 when the liberalisation of gold imports began, to about 20 per cent currently. Forward trading could help in maintaining price stability as well as act as a price hedge. However, further liberalisation towards permitting an even less restricted import of gold albeit subject to duty, tax etc., is a pre-requisite for forward trading to be free from excessive speculation. The Government had appointed a Committee with Prof. Kamal Nayan Kabra as its Chairman to examine the feasibility of introducing forward trading in some select commodities, including gold and silver. The Committee submitted its report to the Government in September 1994. It recommended the introduction of forward trading in about seventeen commodities including silver but not gold. It is understood that the Committee felt that forward trading in gold may be considered later, after watching for some time the performance of forward trading in silver. The recommendations of the Committee have not yet been officially accepted by the Government. The procedure suggested by the Committee for introducing futures trading in these commodities can be set on course only after a number of statutes have been amended. This is expected to take some time. Once forward trading in gold is allowed and the forward market develops healthily, futures and options could also be introduced.

Mechanism of Forward Trade

6.8 A few suggestions on the mechanism of forward trade in bullion (when permitted) to be followed are given below. The concerned Bullion Associations may oversee the operation of forward trading in each of the centres.

(1) Period

Forward contracts for bullion could be entered into for periods of one, two , three, six and twelve months.

(2) Quantity

To start with, the minimum forward trading quantity could be one kilogram of gold. Once the system of forward trade stabilises and the bullion market develops, the minimum lot can be increased.

(3) Margin requirements

The application of margin requirements needs to be discussed with the trade. The prescription of margins for forward trading in bullion is envisaged so as to curb speculative operations by dealers. Whenever the daily official closing rate of any forward contract is quoted above its official starting rate by a specified amount (to be decided by the Association), every member who has outstanding purchases should be required to pay to the Association a suitable margin amount on all his outstanding contracts at a rate prescribed by the Association. Likewise, whenever the daily official closing rate of any forward contract is quoted below its official starting rate by a specified amount, every member who has outstanding sales shall pay the prescribed margin amount on all his outstanding contracts. The amount of margin money to be deposited with the Bullion Association may be determined by the respective Associations themselves subject to a maximum contract value. The Associations could also pay a nominal interest on the margin money received from the members. These margins should be repaid to the member once he has squared up his position. Failure to deposit margin money should invite penal action from the Association. The stipulations on margin requirements should be strictly enforced by the Association.

(4) General rules

(i) No member or his representative shall transact business after business hours or on a holiday.

(ii) All transactions shall be carried out in the place of business of the member.

(iii) Only bars bearing marks of approved refiners and assayers shall be accepted in delivery.

(iv) If the mark of an approved refiner or assayer is not imprinted on the bar, a certificate of assay from an approved refiner or assayer shall accompany the bar.

(v) No bar shall be deemed good delivery' if it does not conform to the conditions at (iii) and (iv) above.

(vi) If any member contravenes the above rules, the Association may impose a monetary penalty and/or suspend the member from transacting any further business till such time as may be decided by the Committee.

Institutional Arrangements and Regulatory Authority

6.9 A few suggestions regarding the institutional arrangements essential for the purpose of regulation of the trade, standardisation of trade practices, development of the market and co-ordination of the activities of the organisations/agencies involved in bullion trading are given below:

(i) It may be expedient to form a separate body with statutory powers for regulating and overseeing the bullion operations in the country. This body could be styled as the Gold Management Board. This Board could be a focal point of reference for various matters in respect of bullion. It should be a policy-framing body at the national level and should undertake developmental activities for the improvement of the market. The routine trading should be monitored by the Bullion Associations themselves who would need to be self-regulating agencies vested with powers to regulate the domestic market, through direct intervention, if need be, to stabilise prices or to prevent wide fluctuations that may lead to speculative activities. It would also be desirable to vest in the Board prospective powers to regulate forward trading in bullion as and when it is allowed. Presently, the Forward Markets Commission monitors the forward trade in respect of all commodities. However, for the sake of uniformity, both spot and forward transactions in the bullion market alone should be governed by the same body, viz, the Gold Management Board. The composition of the Board could be decided in consultation with the Bullion Associations.

(ii) The various Bullion Associations functioning in the country should be registered with the Gold Management Board which would be the apex agency.

(iii) Dealers, brokers and commission agents should get themselves registered with the respective Bullion Associations which shall frame rules and guidelines for their operations.

(iv) The Board should take early steps to integrate the domestic markets. This would help in matching supply and demand. For example, excess supply in one centre could be diverted to meet the demand in other centres. Close liaison with Railways and Airlines, insurance companies, couriers, postal authorities and police (for special security measures) would be necessary for the safe movement of the precious metal.

(v) In order to monitor the bullion operations in the international markets and keep in touch with the latest developments, active liaison with overseas institutions like Bank of England, Federal Reserve Bank of New York, London Bullion Market Association, Gold Fields Mineral Services, World Gold Council and other central banks and institutions active in the bullion market would have to be maintained. The Gold Management Board would be ideally suited to maintain such contact.

(vi) The Board should strive to introduce modern communication tools in the bullion trade so that trading could be screen-based. This will result in more transparency in trading.

6.10 The organisational structure for the various agencies involved in the bullion trade could be as under:

Gold Management Board
!
Bullion Associations
!
Members, i.e., dealers
!
Consumers

6.11 The agenda for the institutional agencies could be described as under :

Bullion Associations

(i) To adopt a self-regulatory role in independent markets which will function under their guidance.

(ii) To implement the policy directives given by the Board.

(iii) To oversee market operations and adherence to the Code of Conduct.

(iv) To attend to price fixing in the morning and evening.

(v) To ensure registration with it of dealers, brokers and commission agents.

(vi) To implement the conditions, procedures, penalties, etc. for trade operations and collecting margins for forward trading, as and when forward trading is introduced.

Gold Management Board

(i) To function as the overall supervisory authority under statutory provisions.

(ii) To evolve a Code of Conduct for the market.

(iii) To draw up a uniform set of trading practices for dealing in bullion.

(iv) To draw up the Good Delivery conditions for bars acceptable in trading.

(v) To draw up a list of acceptable refiners and assayers whose bars would be recognised as Good Delivery bars.

(vi) To maintain a close liaison with the various ministries of the Central Government and State Governments in regard to fiscal and trade related measures.

(vii) To set standards of quality for refineries in India with a view to ensure the implementation of the norms of 'good delivery' etc.

(viii) To influence the domestic market for ensuring price stability.

(ix) To undertake promotional and developmental activities relating to the bullion market.

Chapter 7

Other Issues

7.1 The Committee considered the other identified issues and recommends as follows :

Upgrading/Developing Refining Capacity

7.2 At present, gold is refined mainly in Bombay where a few refineries like the India Government Mint, National Refinery and NM Refinery are active. Some private refineries are also operating elsewhere in the country but their capacity and operations are very limited. It may be added that none of the refineries in India is LBMA recognised. There is, therefore, a need to upgrade and increase India's refining capacity. The standardisation of the refining process at the refineries in the country can be entrusted with the India Government Mint, Bombay which is the country's most experienced refiner. This presupposes the fact that the IGM, Bombay itself has to begin by completely modernising itself. In addition, establishment of new refineries in the private sector with state-of-the-art technology could be encouraged. For this purpose, the assistance of reputed foreign refineries can be sought. According to the estimates of the Gold Field Mineral Services, more than 90 tonnes of old gold scrap was refined and fabricated into new jewellery in India during 1994. The world scrap supply touched a record level of 593 tonnes during 1994, of which the Middle East and the Indian Sub-continent accounted for nearly 362 tonnes. If a modern, LBMA approved refinery is set up in India, current wastage levels in the country could be brought down. Besides, gold scrap from the neighbouring countries could also be imported for refining at a cost. This will, in the long-term, help develop India into an international bullion trading centre. Indian refineries could, over a period, develop the expertise to manufacture gold bars of international standards and aspire for recognition by the LBMA. It is envisaged that the proposed Gold Management Board should be in charge of all the developmental work involved.

Hallmarking of Jewellery

7.3 It is widely recognised that the jewellery fabricated and sold in India as 22 carat gold is seldom of that caratage. In many cases, a piece of jewellery that is claimed by the sellers to be of 22 carat purity may not be even of 20 carat purity. Though the buyers in the country are fully aware of such blatant sharp practice, they have no option but to buy these lower-purity jewellery at higher-carat rates as no reliable facility/arrangement exists to guarantee the purity of gold used in the manufacture of gold jewellery. This problem is a common feature of all the jewellery made for local consumption whether sold to locals or to tourists. In the case of our exports, most of the importing countries have in place an arrangement for instituting the most stringent quality checks. Goods not conforming to these criteria are liable for outright rejection. In view of this, many large exporters are careful to ensure quality and stick to the stipulated purity. However,the foreign importer subjects Indian consignments to time-consuming verification processes and is unwilling to place any trust in the Indian exporters. A few unscrupulous exporters also help deepen the world's scepticism about Indian jewellery products.

7.4 Hallmarking is a method by which samples of manufactured jewellery are subjected to a quality check and the approved lots are stamped with the official mark to certify the caratage as assayed. Hallmarking is compulsory in many western countries as well as in South East Asian countries. As our exports are not hallmarked, these are subjected to detailed purity checks resulting in the delayed realisation of export proceeds. By making hallmarking compulsory for jewellery exporters, this delay can be eliminated. In the domestic market, hallmarking will ensure consumer protection. The matter was taken up with the Government of India two years ago but the Government was not inclined to the introduction of the hallmarking system at that time as it felt that the trade was not in favour of this measure. However, many bullion traders themselves have since been demanding compulsory hallmarking. The Committee, therefore, feels that the Government should reconsider their decision and introduce compulsory hallmarking of jewellery as early as possible. This measure will help in eliminating corrupt practices and ensure that the consumers get a fair deal. The growth of illicit income would also be greatly curtailed.

Participation of Commercial Banks in Bullion Market

7.5 The Committee felt that the time is not yet ripe to permit commercial banks to participate directly in the bullion market. Much of the trading in bullion is still shrouded in secrecy as contraband gold forms a large part of the traded volume. Until the market is fully open, it may not be desirable to allow banks to deal in bullion matters. State Bank of India, however, is already in the market as a canalising agency for the supply of gold to NRIs and exporters.

Mobilisation of Gold from the Public

7.6 The Gold Bonds Scheme introduced in 1993 mobilised about 41.12 tonnes of gold. It was expected that the gold held by the individuals would be invested under the scheme, since the private holding of gold in the country is estimated to be of the order of 7600 tonnes. In practice, however, many investors purchased gold afresh from the market to subscribe to the scheme in order to avail of the amnesty facilities provided under the scheme by the Government. Further, since the scheme was floated by the Government, the mobilised gold had to be assayed only by the India Government Mints. This process took them more than 18 months to complete. Consequently, the issue of bond scrips to subscribers was also delayed, leading to investor and press criticism. The mobilised gold too has not yet been put to any profitable use by the Government. The Committee is of the view that in the future, such schemes should be floated by agencies like Mutual Funds which have more flexibility in their operations. The mutual funds have a widespread agency network and have experience in mobilising public subscriptions for specified schemes. The gold so mobilised could be offered to jewellers as working capital (in the form of gold instead of funds) in order to make the schemes economically viable. The borrowers could be made to repay in gold so that the funds are not exposed to price risks.

Gold-Linked Instruments

7.7 People buy jewellery in the country mostly as a form of investment and as an inflation-hedge. The adornment motive is fast being eroded by security risks. In the past, gold held paramountcy, being perceived as the asset of last resort. Besides, alternative investment avenues were lacking. In the present context of proliferating investment options, gold price-linked instruments, if made available in the market, may prove popular among people who would prefer paper gold to physical gold. Such a change in mind-set will go a long way in reducing the physical consumption of gold and, more importantly, its import which totalled nearly 300 tonnes in 1994.

Chapter 8

Summary of Recommendations

8.1 There is a need for an integrated national policy on gold, covering trading, import, jewellery export, investment, refining, etc., even though guidelines exist for a few sub-sectors. (Para 2.4)

8.2 Nodal agencies may be set up by the Gem & Jewellery Export Promotion Council (GJEPC) in major importing countries to act as the overseas allies of the medium and small jewellery exporters in India. These agencies should help the exporters by providing information inputs on new designs, assisting in the marketing of their products and carrying out minor repairs of the jewellery already sold, when required. Importantly, such agencies should aim at taking Indian jewellery exports direct to the retail markets abroad in order to maximise profits. The expenses of these nodal agencies could be met through a 'Gold Jewellery Export Promotion Fund' created with contributions from the Gem and Jewellery Export Promotion Council and the individual exporters. (Para 4.3 and 4.4)

8.3 The products of jewellery units in the Export Promotion Zones may be allowed to be sold to foreign tourists at international airports, five-star hotels and tourist resorts against foreign exchange at appropriate value-addition rates. Setting up of modern 'souks' for jewellery sales, exclusively to foreign tourists, at convenient locations in popular tourist destinations in the country may be considered. (Para 4.5)

8.4 A comparative study of the export performance of the jewellery units situated in various EPZs may be undertaken by the Gem and Jewellery Export Promotion Council with a view to simulate the more successful models elsewhere in the country. (Para 4.6)

8.5 Hallmarking facilities may be set up within the EPZ ramparts, for a start, so that Indian jewellery exports can be made readily acceptable in terms of quality to the importing countries. (Para 4.7)

8.6 A National school for jewellery design with arrangements to tap the expertise of international designers/trend-setters, may be set up with branches in the major jewellery-making centres in the country. The Gem and Jewellery Export Promotion Council could also consult the World Gold Council in this regard. (Para 4.8)

8.7 It may be considered in consultation with the Bureau of Indian Standards (BIS) whether standards can be established on the lines of ISO 9000 for machine-made plain/studded gold jewellery. The facilities installed in the manufacturing premises, quality control systems available as well as the professionalism of the production process could be assessed and standards prescribed. Exporters who fulfil such criteria could be recognised by official certification of quality. The Gem and Jewellery Export Promotion Council may take up this issue with the BIS. (Para 4.9)

8.8 The GJEPC's committee on gold jewellery exports may be asked to concentrate more on marketing and related aspects of gold jewellery, as the major part of the Council's attention is currently devoted to diamond exports which constitute more than 80 per cent of the total gem and jewellery exports of the country. The Committee may also carry out ongoing research on the nature and components of gold jewellery export trade in the country vis-a-vis international gold jewellery export scenario. Further, GJEPC may collect systematic data on the profiles of products and of modalities of India's jewellery manufacturers and exporters with reference to the nature of the exporting firm, range, designing, quality and pricing. Similarly, the Council should also build up a modern data-base on the policy/demand scenario prevailing in importing countries and in countries that compete with India in jewellery exports. Such information requires to be obtained and maintained on a systematic basis so as not only to help our exporters perform optimally in India but also to assist those of the exporters as may be inclined to set up joint ventures/subsidiaries in other countries. (Para 4.10)

8.9 Some procedural changes in the valuation process of the export consignments of jewellery by the Customs Department could be made to speed up the process and release the consignments quickly. Where a dispute arises as to the pricing and therefore about the value-addition of a few pieces in a large consignment, procedures should be evolved to release the consignment for dispatch without holding it back and the discrepancy should be settled later through subsequent follow-up action. Simplified customs documents applicable for temporary export (not for sale) of electronic items should be extended to cover gem and jewellery exports sector as well to enable exporters to take out samples for export promotion purposes. (Para 4.11 and 4.12)

8.10 Farming out of some routine operations like diamond-cleaving, sawing, etc.,to operators in the Domestic Tariff Area by the EPZ entrepreneurs may be permitted with due safeguards. This will obviate the need for the exporter to invest in expensive machinery that would remain an idle asset for most of the time as the cleaving/sawing process is resorted to only infrequently. (Para 4.13)

8.11 Import policy for gold and silver should be further liberalised to put an end to smuggling and 'havala' activities. Select Bullion Associations in the country or some canalising agency like State Bank of India or MMTC may be allowed to import gold and silver subject to some annual ceiling that could be prescribed. Duty on such imports may be charged at slightly higher rates than the rates applicable to NRI imports. The import duty may be payable in rupees and could be fixed at about Rs.300-350 per 10 gm for gold and Rs.650-750 per kg for silver. (Para 5.10)

8.12 It is desirable to regulate the bullion market and introduce uniform trading practices all over the country in view of the high turnover in the bullion trade and the country's potential to become an international centre for bullion trading. (Para 6.2)

8.13 Certain deficiencies are seen in the trading practices in the Bombay market which could be prevalent in other centres as well. Standardisation of the market practices would lead to transparency in dealings, investor protection and market efficiency. (Para 6.3 and 6.4)

8.14 The following norms could be prescribed for wholesale trade in bullion. (Para 6.6)

(i) Prices should be quoted in rupees per 10 gm. Special price per tola bar could also be furnished on request.

(ii) The settlement date should be 2 days from the date of contract for spot transactions.

(iii) The trading lot may be in multiples of 500 gm with a starting minimum of 500 gm.

(iv) The gold should be of minimum 995 fineness to be considered as standard gold.

(v) Serial number, fineness and assay mark of the melter and assayer should be stamped on the bar.

(vi) The melters and refiners should be on the approved list of the Bullion Associations and such approval should be based on their turnover, infra-structure, technology and net worth.

(vii) A Fix Committee of about 5 to 7 members drawn from major gold trading houses should be formed for fixing gold prices in the major centres. The Fix Committee should quote daily opening and closing prices at, say, 11 AM and 3 PM respectively. The necessary infrastructure should be established in the respective Bullion Association offices for the Committee members to assemble and fix the price.

(viii) Customer orders should be accepted by a member/broker on the basis of market rate prevailing at the time of taking the order. This price should be recorded and other quantity/range limits indicated by the customer should also be adhered to.

8.15 It is desirable to introduce forward trading in gold as a price hedging mechanism after further liberalisation in the gold import policy of the Government. (Para 6.7)

8.16 The following norms could be prescribed for forward trading in gold as and when it is introduced. The Bullion Associations may oversee the operation of forward trading in the respective markets. (Para 6.8)

(i) The period for forward trading contracts should be one,two,three,six and twelve months.

(ii) The minimum quantity for trading may be fixed at 1 kg.

(iii) The Forward margins should be prescribed and duly collected by the Bullion Associations. Such margin should apply to all outstanding purchases/sales when the official closing rate of a forward contract is more/less than the official opening rate.

(iv) Nominal interest should be paid on members' margin money and the margin money should be repaid to the member on his squaring his position.

(v) Failure to deposit margin money should be penalised by the Association.

(vi) No member or his representative should be allowed to transact business after business hours or on a holiday.

(vii) Only bars bearing marks of approved melters and assayers should be made acceptable delivery. In the absence of such mark, a certificate of assay from an approved melter/assayer should be insisted upon.

(viii) Any contravention of the above rules should be made punishable with fine and/or suspension from trading.

8.17 Institutional arrangements need to be made for regulation and standardisation of bullion trade practices and for co-ordination with other agencies. (Para 6.9)

8.18 A separate body styled as the 'Gold Management Board' should be set up and this body should be given statutory powers to oversee wholesale bullion operations and provide a focus to the trade. The Board should take early steps to integrate the domestic markets. The Board should also maintain liaison with other agencies like Railways, Airlines, Insurance companies, Police, etc., for the safe movement of the precious metal within the country. (Para 6.9)

8.19 The Board should be responsible for framing policy. The day-to-day trading shall be monitored by the Bullion Associations. These Associations shall be self-regulating. (Para 6.9)

8.20 The Board shall be statutorily empowered to intervene in the market to stabilise prices and discourage excessive speculation. (Para 6.9)

8.21 The Board should be authorised to regulate forward trading in gold as and when it is introduced in the country. (Para 6.9)

8.22 The various Bullion Associations in the country should be required to register themselves with the apex body, viz. Gold Management Board. (Para 6.9)

8.23 Dealers, brokers and commission agents should get themselves registered with the respective Bullion Associations. (Para 6.9)

8.24 Active liaison should be maintained by the Board with overseas institutions like the Bank of England, the Federal Reserve Bank of New York, the London Bullion Market Association, Gold Field Mineral Services Ltd. and other central banks and institutions active in the bullion market so that the Board can keep in touch with latest developments in the international bullion markets. (Para 6.9)

8.25 The Board should examine and take steps to upgrade the standard and quality of the refineries in the country. (Para 7.2)

8.26 Hallmarking of gold jewellery should be introduced in the country at the earliest as a measure of consumer protection. (Para 7.4)

8.27 The granting of permission for the participation of commercial banks in bullion trading may be deferred till the import of gold is more freely allowed. (Para 7.5)

8.28 The implementation of any future schemes for the mobilisation of gold from the public should be entrusted to agencies like mutual funds, which have greater flexibility in their operations. The mobilised gold could be offered to jewellers for meeting their inventory needs in order to make the schemes viable. (Para 7.6)

8.29 Gold-price-linked instruments may be made available in the market as an investment avenue to wean the public away from physical gold. (Para 7.7)

(P.R.Anantharaman)
Chairman

(R.B.Barman)

R M Vasanthakumari
(Smt R.M. Vasanthakumari)

(Rajeeva Misra)

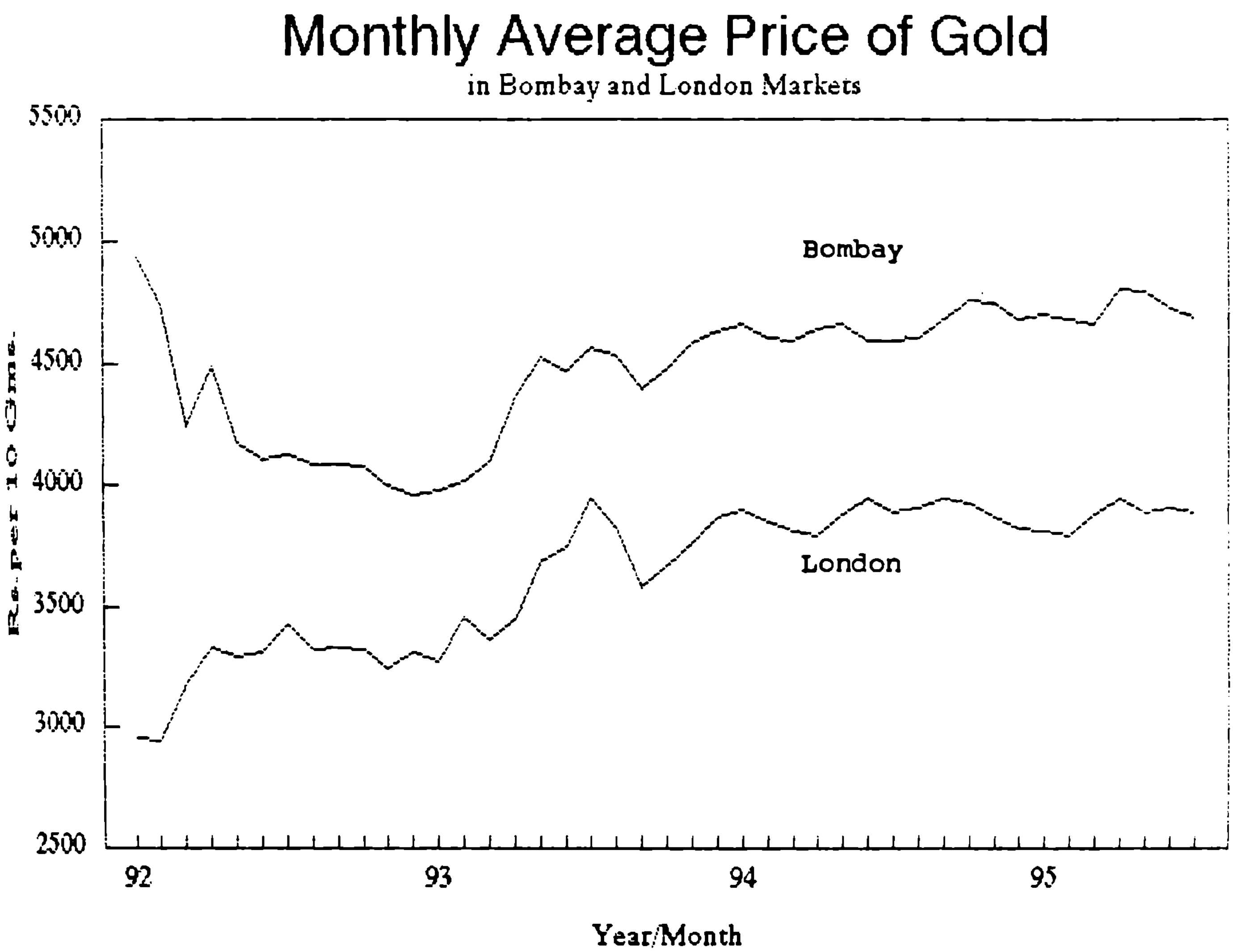
(V.S.Sharma)

(R.Sethuraman)
Convenor

Bombay
August 24, 1995

Monthly Average Price of Gold in Bombay & London Markets

Month/Year	Bombay	London		Spread between Bombay and London Markets	
	Rs. per 10 Grms.	$ per troy oz.	Equivalent Rs. per 10 Grms.	Absolute	Percentage
JAN 92	4930.84	354.33	2953.14	1977.70	66.97
FEB	4737.79	353.85	2948.29	1789.50	60.70
MAR	4247.79	344.64	3178.62	1069.17	33.64
APR	4491.16	338.94	3333.00	1158.16	34.75
MAY	4177.47	337.68	3297.81	879.66	26.67
JUNE	4109.00	341.12	3318.24	790.76	23.83
JULY	4127.76	352.91	3432.93	694.83	20.24
AUG	4092.52	343.61	3326.99	765.53	23.01
SEP	4085.86	345.41	3337.76	748.10	22.41
OCT	4078.72	343.83	3321.39	757.33	22.80
NOV	4001.35	335.62	3246.39	754.96	23.26
DEC	3965.59	335.26	3309.75	655.84	19.82
JAN 93	3977.93	329.64	3273.35	704.58	21.52
FEB	4024.94	329.66	3462.25	562.69	16.25
MAR	4094.52	330.78	3360.19	734.33	21.85
APR	4359.78	342.15	3444.89	914.89	26.56
MAY	4521.68	366.77	3695.13	826.55	22.37
JUNE	4465.57	371.42	3750.34	715.23	19.07
JULY	4560.59	392.19	3957.54	603.05	15.24
AUG	4530.79	378.83	3822.72	708.07	18.52
SEP	4401.95	355.27	3584.98	816.97	22.79
OCT	4480.71	364.18	3674.89	805.82	21.93
NOV	4583.11	373.83	3772.27	810.84	21.49
DEC	4635.78	123.41	3872.67	763.11	19.70
JAN 94	4659.52	386.88	3903.95	755.57	19.35
FEB	4605.48	381.92	3853.90	751.58	19.50
MAR	4597.76	384.14	3820.47	777.29	20.35
APR	4641.86	377.27	3800.22	841.64	22.15
MAY	4665.38	381.41	3885.63	779.75	20.07
JUNE	4594.56	385.64	3948.99	645.57	16.35
JULY	4597.42	385.49	3890.77	706.65	18.16
AUG	4603.91	380.35	3911.88	692.03	17.69
SEP	4682.17	391.58	3950.12	732.05	18.53
OCT	4755.08	389.76	3931.76	823.32	20.94
NOV	4748.05	384.38	3877.49	870.56	22.45
DEC	4676.46	379.55	3828.77	847.69	22.14
JAN 95	4700.00	378.79	3820.47	879.53	23.02
FEB	4681.64	376.64	3800.22	881.42	23.19
MAR	4660.65	382.12	3885.63	775.02	19.95
APR	4804.90	391.03	3948.99	855.91	21.67
MAY	4795.00	385.22	3890.77	904.23	23.24
JUNE	4731.27	387.56	3911.88	819.39	20.95
JULY	4689.15	386.24	3896.45	792.70	20.34


Monthly Average Price of Gold
in Bombay and London Markets
5500
5000
4500
4000
3500
3000
2500
Rs. Per 10 Gms.
Bombay
London
92
93
94
95
Year/Month

GOLD : DOMESTIC SUPPLY & DEMAND

(in tonnes)

Supply			Demand		
	1993	1994		1993	1994
1.Production			1. Industrial		
Hutti	1.018	1.184	a) Electronics	1	1
Bharat	0.734	0.640	b) Zari	12	12
Hind. Copper	0.443	0.056	c) Medicines/Foils	1	1
(Sales)			d) Others	6	7
Total(Say)	2	2			
			Total Industrial	20	21
2.Imports			2. Jewellery fabri-		
a)NRI Scheme	116	158	cation	460	540
b)SIL scheme	.....	19			
c)Exports Scheme			3. Investor	113	123
MMTC	12	16	demand		
HHEC	1	1	4. Exports	20	27
SBI	7	10			
d)Other imports	105	97			
3.Recycled gold	370	408			
4.Sale by Customs	....	0.196			
Total Supply	**613**	**711**	**Total Demand**	**613**	**711**

DATA ARE AS ASCERTAINED FROM THE INDUSTRY.

THERE ARE NO OFFICIAL ESTIMATES FOR GOLD DEMAND IN INDIA, OTHER IMPORTS AND RECYCLED GOLD.

DATA ON JEWELLERY FABRICATION AND RECYCLED GOLD INCLUDE STOCK-IN-TRADE WITH JEWELLERS

COUNTRY-WISE EXPORT OF GOLD JEWELLERY – 1994-95

Country	Value (Rs.crore)
UAE	300.80
USA	256.13
UK	148.03
Hongkong	71.17
Kuwait	66.46
Singapore	42.88
Malaysia	18.39
Germany	7.31
Canada	4.90
Qatar	4.75
Oman	4.02
Others	18.62
SEEPZ exports **	575.59
TOTAL	1519.04 (US$485.70)

Source : Gem& Jewellery Export Promotion Council

* : Provisional

** : break-up not available

Import Of Gold and Silver Under NRI Scheme

Period	Gold		Silver	
	Quantity (tonnes)	Duty Realised (In Rs.crore)	Quantity (tonnes)	Duty Realised (in Rs. crore)
1991-92 (Mar.92)	0.12	0.55		
1992-93 (Apr.-Mar.)	132.35	298.72	648.29	32.44
1993-94 (Apr.-Mar.)	109.51	241.76	2778.79	139.45
1994-95 (Apr.-Mar.)	186.81	410.98	1010.64	50.63
1995-96 (Apr.95)	18.84	41.45	27.37	1.37
TOTAL	447.63	993.46	4465.09	223.89

Demand for Gold Fabrication in Selected Countries

(tonnes)

Country	1985	1990	1991	1992	1993	1994
Europe & America						
Italy	261.6	395.9	430.2	473.3	452.3	450.5
Germany	57.7	77.5	80.8	76.8	73.5	72.0
Switzerland	29.2	54.1	50.9	43.3	39.7	45.6
France	23.4	39.9	39.5	43.6	44.6	42.2
UK & Ireland	37.8	50.6	43.3	40.1	38.8	41.8
Russia & CIS	99.7	122.9	96.7	66.2	55.6	61.1
USA	182.0	215.9	202.1	219.4	233.4	236.6
Middle East						
Saudi & Yemen	51.6	70.0	112.5	158.6	148.5	125.4
Turkey	76.2	133.4	104.6	118.7	137.6	93.0
Egypt	56.5	69.0	56.2	62.7	49.5	56.0
Gulf States	25.9	22.4	33.8	48.0	37.6	35.8
Iraq,Syria&Jordan	15.0	29.5	35.7	40.6	33.3	34.2
South Asia & Far East						
India	174.3	240.6	233.7	303.8	282.0	369.8
Pak &Afghanistan	18.0	31.8	35.0	35.0	36.0	36.5
Japan	131.1	204.8	267.9	190.3	218.8	184.4
Taiwan	31.6	97.6	119.4	164.1	133.1	121.7
Indonesia	40.0	84.1	62.1	79.0	74.0	112.0
Hong Kong	20.0	52.0	81.6	99.1	89.3	87.9
Thailand	14.0	85.5	77.1	81.0	80.0	78.7
South Korea	10.5	67.2	72.6	73.0	75.7	77.5
Malaysia	9.9	45.0	67.0	99.0	82.0	75.4
China	–	45.2	135.9	199.9	183.5	215.1

Source : GFMS