

Recommendations that emerged from India International Gold Convention 2016

Issue-1: Lack of standardisation and traceability of standard gold bars offered by domestic refineries

The government of India has done a commendable job in starting hallmarking exercise in 1999. This along with other development initiatives ensured transparency in pricing of gold and transparency in quality of gold to the end-consumer.

When the scheme was conceived there was an assumption that PGM trace in gold jewellery is absent. However, it has been increasingly felt that PGM traces in gold alloys are a real challenge. Also, it is found that the refined gold bars from some of the refiners are tainted with PGM traces. Given these, it is important that regulatory mechanism needs to cover all refiners.

Recommendation: Bring all refiners under BIS and ensure standardisation and traceability of standard gold offered in the market.

It is important that all refiners be brought under BIS and no refiner should be authorised to sell gold bars without BIS stamping, serial number, refinery name and the same be presented in invoice for track and trace. This would eliminate sub-standard gold bullion bars coming into the market leading to problems in jewellery in subsequent stage.

Issue-2: Prepare the CPTCs for Compulsory Hallmarking

Compulsory hallmarking of jewellery is a great initiative of Government of India. While the objective is laudable, current operational practises need to be thoroughly studied and improved upon. The World Gold Council has clearly brought out infirmities in the current system, most of which are due to implementation issues.

CPTCs are keen on technology upgradation, especially, in the areas of detecting and quantifying PGM traces in gold jewellery. However, many of these technologies are very expensive and the current business model of CPTCs does not make them viable to adapt. Government may look at a technology upgradation fund for CPTCs. Besides, there is also a need to upgrade skill-levels of CPTCs, which also require government support. This is much needed and would help protect the interest of the consumers.

Also, mechanisms need to be put in place to ensure that professionalism of CPTCs does not hamper commercial or business viability.

Recommendation: Technology upgradation fund and skill upgradation fund for CPTCs.

Issue-3: Gold monetisation scheme not taking off due to operational issues at banks and technical challenges

The flagship scheme of Government of India launched by Shri Narendra Modi on November 5, 2015 has created a lot of positivity. Every stakeholder is committed to making the scheme a success. However, some structural and operational hurdles exist.

- (a) PGM contamination in jewellery and bullion bar is a real issue and a reality. The CPTCs are not well-equipped to quantify the PGM traces in jewellery with the existing technology. This would result in over-reporting of gold content in the deposited gold at CPTC's end and under-recovery at the refinery end.

Therefore, in the initial stages till CPTCs are fully equipped, it is **recommended that final purity and weight of fine gold in deposited jewellery be arrived at refiner's end only. This is in line with the best international practices.**

- (b) Banks have signed MoU and are eager to proceed with GMS. However, certain operational hurdles need to be overcome. Detailed rules on accounting for gold deposited under GMS be issued to banks. The present guideline is not specific on date of redemption (as there are two dates – one the date of issue of receipt by CPTC and the second is the date of issue of certificate by the bank), accounting for interest accrued and so on. Also, detailed guidance on how banks would fulfil the final settlement in gold is needed (especially for small parcels).

Thus, it is recommended that a meeting be convened by RBI with all the banks to address the above challenges and resolve them.

- (c) BIS approved jewellers (estimated at 13000 currently) may be included as aggregators to reach out to larger population in the mobilisation of gold deposits. However, that current scheme may need to be modified suitably to facilitate that.

A stakeholder meeting between the leading jewellery associations and the ministry is recommended to discuss and finalise the modalities. Banks should be included in all such discussions, as the final decision would be with banks.

Issue-4: Indian Gold Coin not available widely

Although the Indian Gold Coin has been designed and minted and marketing programme has commenced as envisaged, product placement close to the customer is yet to happen. Thus, a great deal of potential sale is foregone.

Recommendation: Rope in banks and Post-office to increase reach and availability in first phase. Include more partners from financial services industry at later stage.

It is requested that ministry looks into the channel and distribution related issues and resolve them to place the Indian Gold Coin within the reach of masses. Banks and Post-offices are best options to start with. It could later be expanded to other channels in financial services industry. The last mile challenge, if removed, would make the Indian Gold Coin project of the honourable prime minister a resounding success.

Issue-5: Custom duty computational challenges increase costs and are litigation prone

The current manner of declaration of tariff value of gold in USD once a fortnight and subsequent declaration of RBI reference rate, makes the entire computation of customs duty as well as its settlement long-drawn and litigation prone.

Recommendations: It is suggested that customs duty be declared in Indian rupees once a month (at the rate as declared by the government basis some benchmark international price and RBI reference rate for USDINR). This would make compliance hassle-free and avoid sudden spurt in prices as seen today.

Expected outcome: The current practice of setting tariff value once a fortnight and a separate notification for currency value result in huge operational difficulties. The proposed solution is revenue neutral for the government and would save the pain of administrative overhead both at the government and at the industry level.

Issue-6: High first point tax leading to parallel trade

The current customs duty on standard gold import into the country is 10%. On a high value product such as gold, such high duty level on the first point of entry into the country, provides huge incentive for smuggling. The World Gold Council estimates annual value of Smuggled gold at 150 metric tonnes valued at Rs. 45,000 crores. The revenue loss to the government on account of parallel channel is about Rs. 4500 crores per year.

Recommendation: Rationalise customs duty on standard gold imports at 5 - 6%

Rationalise customs duty on standard gold import from current level of 10% to 5 - 6%.

In line with the rationalisation of customs duty on gold, rationalise the import duty (counterveiling duty) on gold dore and maintain a minimum differential of 1% between gold dore and standard gold.

Expected outcome: Smuggling will reduce by over 80% from the current level of about 150 tons. Official business would increase compliance and the revenue loss on account of duty reduction will be made up by the increase in revenue through increase of official imports by at least 75% within 12 months.

Recommendation: Restrict total taxation on gold and gold products (other than BCD) to a maximum of 2% ad valorem under GST to ensure highest compliance

Currently, there is one percent excise duty and one percent VAT on gold jewellery. Government is requested to maintain the same rate under GST regime also.

Expected outcome: High level of compliance. Revenue neutral and overall revenue collection from gold jewellery sector would increase by 200% in 3-year time.

Together, total taxation on gold and gold product be restricted to a maximum of 7 to 8% (Basic customs duty of 5% and GST of 2%).

About India International Gold Convention (IIGC) 2016

IIGC is the largest and industry neutral platform where annually over 500 bullion industry participants from over 25 countries come, discuss industry issues, resolve difference and reshape industry. Foretell Business Solutions Private Limited, a media company based out of Bangalore, has been maintaining the platform for 13 continuous years (since 2004) and supplementing it with information dissemination through its web portal www.bullionbulletin.in and print magazine "Bullion Bulletin" in English, Hindi and Gujarati.

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- London Bullion Markets Association (LBMA)
- World Gold Council (WGC)
- All India Refiners and Mints Association
- The All India Gems and Jewellery Trade Federation (GJF)
- The Bullion and Jewellers Association, Delhi
- India Gold Policy Centre, IIM Ahmedabad

List of speakers: <http://goldconvention.in/speakers.html>

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