



INDIAN CHAMBER OF COMMERCE



PAHLE INDIA FOUNDATION
FACILITATING POLICY CHANGE

A **Gold Policy** For India

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Foreword



The Gems & Jewellery sector plays a significant role in the Indian economy, contributing a considerable share of the country's GDP. The sector is an important foreign exchange earner and provides employment to a huge population. The industry has become a major contributor to the government's Skill India initiative. In addition to being an extremely export oriented and labour intensive sector it is also one of the fastest growing sectors of the economy.

Indian jewellery is well known for its intricate design and detailed craftsmanship all over the world. And Eastern India has traditionally been playing a vital role in this sphere. West Bengal for instance has the largest numbers of skilled artisans and goldsmiths in India, given its tradition of jewellery making. The artisans from the State are today spread throughout the country.

Thus, given the importance of the sector as significant revenue earner and employment provider, formulation of a comprehensive gold policy will be welcomed by the industry. The present report A GOLD POLICY FOR INDIA showcases the rationale and objective of such a policy.

We hope that such a policy, on adoption, would lead to an era where both the manufacturers and consumers can take advantage of consumer friendly and trade efficient system of regulated gold exchanges and also contribute to the exchequer of the country.

Indian Chamber of Commerce would continue to work for the development of this sector through policy advocacy and thought leadership by bringing together Industry leaders, Retailers, Exporters & Manufacturers, Policy makers of the Gems & Jewellery sector.

Shashwat Goenka

President

Indian Chamber of Commerce

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List of Abbreviations

BFSI	Banking, Financial Services and Insurance
BGML	Bharat Gold Mines Limited
BIS	Bureau of Indian Standards
CAD	Current Account Deficit
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
CPTC	Collection and Purity Testing Centre
CTT	Commodity Transaction Tax
DEA	Department of Economics Affair
DFS	Department of Financial Services
DGFT	Directorate General of Foreign Trade
DIPP	Department of Industrial Policy and Promotion
ETF	Exchange Traded Fund
FI	Financial Institutions
FOREX	Foreign Exchange
g	Gram
GDP	Gross Domestic Product
GML	Gold Metal Loan
GMS	Gold Monetisation Scheme
GST	Goods and Services Tax
HGML	Hutti Gold Mines Limited
IFC	International Financial Centres
IGC	India Gold Coin

List of Abbreviations

IRDA	Insurance and Regulatory Development Authority of India
LAGJ	Loan Against Gold Jewellery
LBMA	London Bullion Market Association
LTCG	Long Term Capital Gain
NABL	National Accreditation Board for Testing and Calibration Laboratories
NBFC	Non-Banking Financial Companies
NWR	Negotiable Warehouse Receipts
INR	Indian Rupee
NSSO	National Sample Survey Office (Ministry of Statistics and Program Implementation)
OTC	Over-the-Counter
PFRDA	Pension Fund Regulatory and Development Authority of India
RBI	Reserve Bank of India
RSMML	Rajasthan State Mines and Minerals Limited
SEBI	Securities Exchange Board of India
SGB	Sovereign Gold Bond
t	Tonne
TV	Television
UAE	United Arab Emirates
UK	United Kingdom
UNFC	United Nations Framework Classification
USA	United States of America
USD	United States Dollar
WDRAI	Warehouse Development Regulatory Authority of India



1. Rationale for a Gold Policy

India's predilection towards gold is well known and has always been viewed as a complication rather than an opportunity. The Gold Control regime in the 60s was testament to this. In subsequent years, even though the import of gold has been liberalised, the negative perception has not abated. In 2013-14, rising gold imports on account of growing rural and urban demand inflated our gold import bill and our Current Account Deficit (CAD). This was swiftly dealt with by imposing restrictions on import and sale of gold. These had the desired impact but only in the short term. Gold imports in 2017 stood at 855 tonnes¹, which indicates renewed growth in demand for gold. Our calculation suggests that India's demand for gold will be a minimum of 1200 tonnes per year

in 2024 (Appendix 1). Unchecked gold imports will have an unfavourable impact on CAD. An estimated import of approximately 650-700 tonnes of gold in a year is expected to be CAD balanced. This means a demand gap of 450 tonnes. This gap of 450 tonnes is expected to be met by domestic supply i.e. recycling of gold and mining. Concomitantly, the country needs to develop necessary infrastructure and establish a proper value chain for efficient distribution of gold throughout the country.

A comprehensive gold policy for India will not only help bridge this demand gap, but will also help in changing our perception of gold. A gold policy for India will convert complication to opportunity for growth.

¹ GFMS Survey

2. Objective of the Policy

A gold policy must address the concerns of three stakeholders – the policymakers, the traders and the consumers. The objectives of the policy have been divided into five broad heads. Collectively, these would translate into the comprehensive gold policy framework. These are:

- To formulate a course of action for meeting the growing demand for gold
- To increase the value addition of gold to the economy
- For gold to contribute more to the exchequer
- For consumer protection
- To convert gold from an unproductive asset to a productive financial asset

3. Policy Approach

1. To formulate a course of action for meeting the growing demand for gold:

- a. Follow through on the mining target of 100 tonnes as per the Report of the Working Group on Mineral Exploration and Development (Other than Coal and Lignite) for the XII Five Year Plan (2012-17)² constituted by Ministry of Mines, Government of India (Appendix 2)
- b. Draft a policy for recycling of gold in India to ensure that legacy gold comes into formal financial system (Appendix 3). Domestic recycling which roughly stood at 80 tonnes³ in 2015 should be increased to 300 tonnes by 2022
- c. Import policy for gold should be non-restrictive but CAD balanced

2. To increase the value addition of gold to the economy:

- a. Increase employment across the gold value chain from 2.5 million jobs to 5 million new jobs by 2022
- b. Increase the value of exports from USD 8.6 billion in 2015-16 to USD 25 billion by 2022

- c. Increase domestic refining capacity in India from 1450 tonnes in 2015-16 to 2000 tonnes by 2022
- d. India to become “jeweller to the world” (Appendix 4)
- e. Indian handcrafted jewellery to become a brand in itself (Appendix 5)

3. For gold to contribute more to the exchequer:

- a. Reasonable domestic taxation policy that is consumer, trader and investor friendly (Appendix 6)
- b. Align import duties with import policy for gold
- c. Wipe out smuggling by making it non-competitive (Appendix 7)
- d. Bring in unorganised jewellers and refiners into formal channel
- e. Transparency in transactions off gold and gold jewellery

4. For consumer protection:

- a. Establish a transparent price discovery mechanism; ideally, India must have an uniform Indian Price Fix

² Ministry of Mines, 2011, Report of the Working Group on Mineral Exploration and Development (Other than Coal and Lignite) for the XII Five Year Plan (2012-17). Available from http://planningcommission.gov.in/aboutus/committee/wrkgrp12/wg_rep_min.pdf (accessed on 01-03-2018)

³ World Gold Council, 2017, India’s gold market: evolution and innovation, India

- b. Easy access to alternative channels of purchase and sale of gold
 - c. Grievance redressal mechanism for consumers
5. **To convert gold from an unproductive asset to a productive financial asset:**
- a. "Securitisation" of gold through new financial products and constant evaluation of existing products (Appendix 8)
 - b. Create new products to induce consumers to invest their legacy gold
 - c. Encourage formation of specialised financial institutions, such as bullion banks, that deal with only gold (Appendix 9)
 - d. Formulate a vaulting policy for gold (Appendix 10)
 - e. A single regulating agency for policy formulation (Appendix 11)

4. Policy Actions⁴

1. To formulate a course of action for meeting the growing demand for gold:

- a. Create a single window clearance for exploration and prospecting detailed in a proper mining policy
- b. Re-evaluate the framework for Gold Monetisation Scheme (GMS) and the Indian Gold Coin (IGC) to improve recycling ecosystem.
- c. Define gold
- d. Formulate a policy for import of gold dorés, concentrated gold and gold jewellery

2. To increase the value addition of gold to the economy:

- a. Set up jewellery hubs and use e-commerce as a means to reach foreign market
- b. Undertake an extensive survey to identify and tag different types and designs of gold jewellery within the country
- c. Employ active track one diplomacy to ensure that Indian jewellers are given due visibility in jeweller shows abroad
- d. Ensure skill development for intricate jewellery design and development

3. For gold to contribute more to the exchequer:

- a. No capital gains tax for Sovereign Gold Bond (SGB), 80c status for SGB, abolish

Commodity Transaction Tax (CTT) to help increase volumes

- b. Draft import procurement guidelines for gold and a responsible sourcing of gold for India. Allow for only London Bullion Market Association (LBMA) gold to be imported
- c. Make accreditation of all refineries (either LBMA or NABL-BIS), mandatory registration of all those in business of gold to ensure transition from unorganised to organised sector
- d. The gold exchange should record all transactions to stymie any illegal transactions

4. For consumer protection:

- a. Develop a mechanism for uniform price discovery in the country
- b. Move towards standardisation of quality, develop an India Good Delivery Standard at par with the London Good Delivery Standard, mandatory self-certification on all gold jewellery by retail jewellers
- c. Banks to become another channel that will buy back gold coins. Select NBFCs to also be considered for buy back

5. To convert gold from an unproductive asset to a productive financial asset:

- a. Develop new gold backed products and promote digital gold

⁴ See Appendix 12 for a detailed list of recommendations.

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- b. Warehouse Development Regulatory Authority of India (WDRAI) to regulate these bullion vaults. Then negotiable warehousing receipts (NWR) will be possible for trade on exchanges
- c. Develop bullion banking business in India in line with global bullion banking.
- d. Establish a Bullion Board under a Statutory Act and with proper guidelines to regulate all activities pertaining to gold and precious metal

APPENDICES

Appendix 1- Demand Forecasting

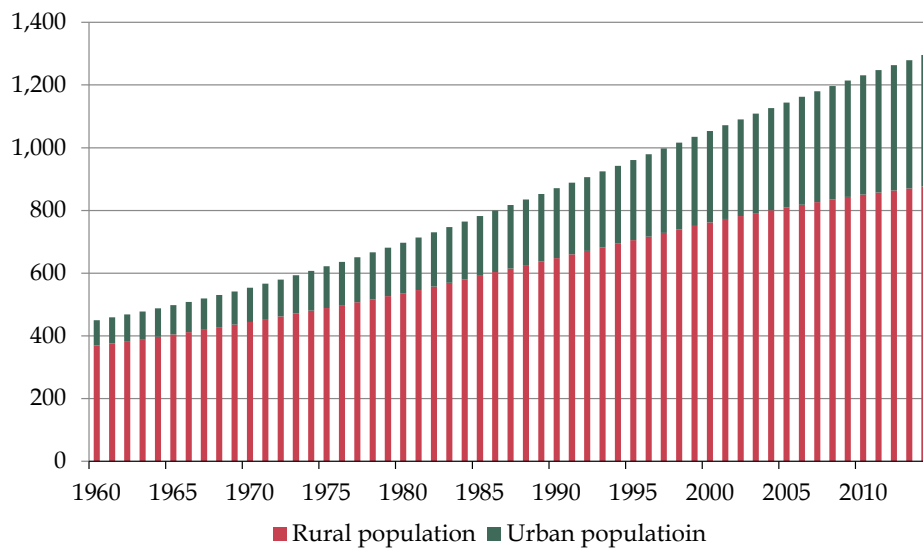
Table A1: Scenario Analysis

Heads	Description	INR/month	INR/year	In grams	In tonnes for India	INR	Number
Price of gold				10		28445	
Per capita household consumption of gold	Rural	232.78	2793.36	1.0			
(72nd Consumption survey)	Urban	494.43	5933.16	2.1			
	Total	1322.97	15875.64	5.6			
Current Scenario							
Total Population							1200000000
Average number of people per household							4.8
Total number of households	2011 Census						250000000
Average consumption of gold by India	2017				1395		
Projections for 2024							
Expected Population	2024						1440000000
Average number of people per household	2011 Census						4.8
Total number of households	2011 Census						300000000
Average consumption of gold by India	2024						
Scenarios (various per capita monthly household consumption of gold)							
Scenario 1				5.6	1680		
Scenario 2				5	1500		
Scenario 3				4.5	1350		
Scenario 4				4	1200		
Scenario 5				6	1800		

Given our expected growth in population, if the monthly per capita expenditure on gold remains unchanged at 5.6g per household, then the estimated demand for gold in 2024 can be approximately 1680 tonnes (Scenario 1) every year. Even if we manage to reduce our monthly per

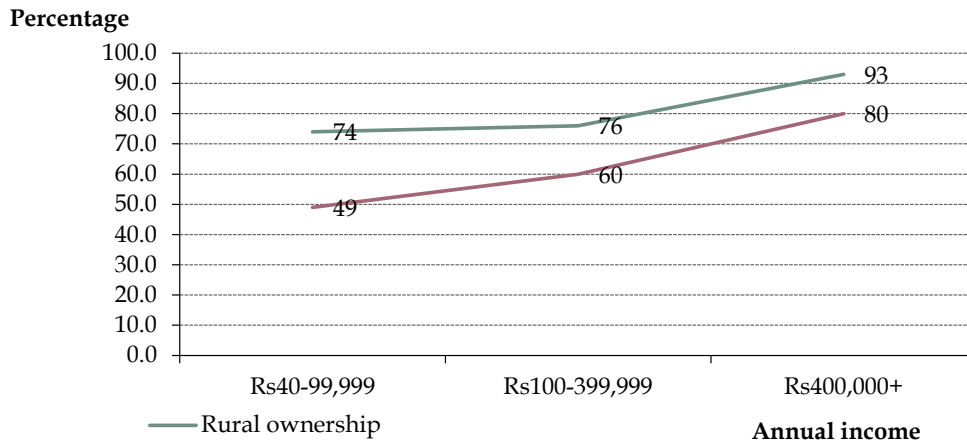
capita expenditure on gold to 4g per household, the expected demand would be 1200 tonnes every year (Scenario 4). Since the NSSO data is captured based on consumption patterns, this figure could also include gold exchanged for jewellery.

Figure A1: Urban versus Rural Population



Source: World Bank; World Gold Council

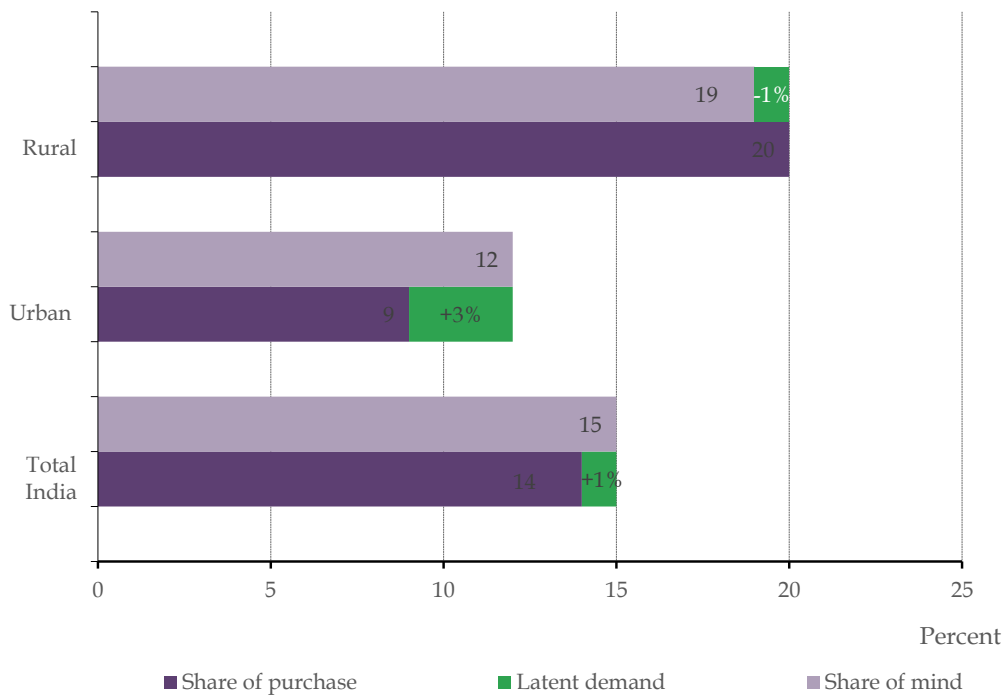
Figure A2: Gold Ownership with Income in Urban and Rural India



Source: TNS; World Gold Council



Figure A3: Latent Demand for Gold



Source: TNS; World Gold Council

Appendix 2 - Mining of Gold in India

Currently, domestic mining in India accounts for less than 1 per cent of India's total consumption of gold. In 2015-16, the production of gold ore in India was 535 thousand tonnes⁵ while the production of primary gold was 1323 kilogram⁶ valued at 321.46 Crore.⁷ The estimated production of primary gold in 2016-17 is 1569.60 kilograms⁸, the value for which is roughly INR 436 crore.⁹ The Annual Report of 2016-17 by the Ministry of Mines suggests 5 operational gold mines (4 Category A and 1 Category B) in the country. The Hutti Gold Mine, in Raichur district of Karnataka is the main mine (Category B mine). It is supplemented by ore from four satellite mines (Category A) of which two are located in Karnataka and one each is located in Andhra Pradesh and Jharkand respectively.

It is quite evident from the above data that despite of India being one of the largest consumers of gold, she doesn't have the capacity to produce her own gold. The Indian gold mining sector is a difficult business for two reasons. First, it involves getting clearance from multiple ministries and obtaining approval may take as long as years. Second, the leasing process in itself is a complex process and can also take years to commence. Hence, this sector attracts only a handful of companies that apply for

the requisite approvals for mining gold in India.

With an ambition to grow India's gold mine production and bring ease in doing business in the mining sector the Government of India, in 2011, formed a Working Group on Mineral Exploration and Development (other than Coal and Lignite) as part of the XIIth Five Year Plan. Section 6 of the Report reads, *"Gold has a high commercial status because it has always been in high demand for its fine jewellery characteristics; enjoys high value even for a very small volume; easily encashable; indestructible and non-corrosive hence lasts forever as a commodity. Because of these qualities gold is often treated as currency. It is important to note that stock of gold in a country's treasury and its annual accumulation lead to growth of a Nation's Gross Domestic Product (GDP)."*¹⁰

The Report further states that, *"...The total Reserve-Base in the country as on 1.4.2011 is 658 tonnes of gold metal. This tonnage is spread over 13 different States of the Country. Out of this tonnage 167 tonnes is categorized as Reserves in the sense they are economically mineable. The remaining about 491 tonnes of metallic gold is classified as resource*

⁵ Annual Report, 2016-17, Ministry of Mines, Government of India

⁶ IBID

⁷ IBID

⁸ IBID

⁹ IBID

¹⁰ Report of Working Group on Mineral Exploration and Development (other than Coal & Lignite), 2011, Ministry of Mines, Government of India

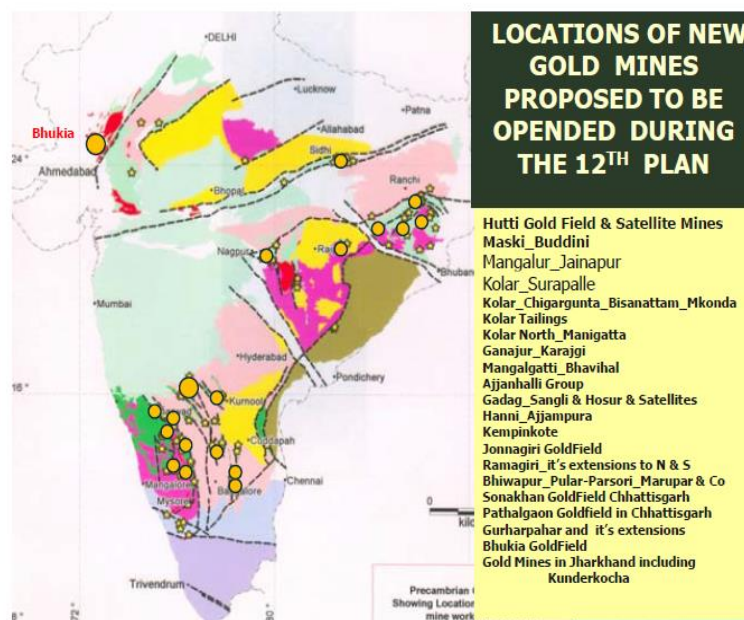
of which 265 tonnes is the actual drilled resources and the remaining 226 tonnes is the projected potential resource which falls under 331/332 UNFC categories.

India's contribution to the world mine production is insignificant being 2.22 tonnes which continues to come from only one major producing mine and its two satellite mines viz. (i) Hira-Buddini and (ii) Uti, all belonging to Hutti Gold Mines Ltd. It is significant to note that a major portion of the country's production of gold comes as a by-product from anode slimes resulting from smelting of copper concentrates indigenously produced in Jharkhand State and copper concentrates imported by 48 Hindalco (Birla Group). The by-product gold in 2007-08 was 12.1 tonnes. In 2010-11 Hindalco produced 7t of gold & 45t of silver. Together with

the primary mine production the total production of gold in the country stood at 9.22 t during 2010-11.

India imported about 963 tons of gold during 2010. The projected imports at the growth rate of 11% from 2012-2017 are 9305 tons at an average of 1861 tons per year. As per World Gold Council estimation, expected gold consumption India during the year 2011, 1167 tons against the 800 tons, projected in 11th plan for the year 2011-12. Considering the production expansions of HGML, BGML and RSMML and opening of new mines from private sector viz. MSPL, Geomysore, Deccan Gold and Manmohan Minerals during the 12th plan period from 2013-14, Gold production is projected at 28.00 tonnes from mines and 16 tonnes from by product totalled 44.00 tonnes by 2015."¹¹

Figure A4: Fig. G10 Locations of new gold mines proposed to be opened during 12th plan period¹²



¹¹ IBID

¹² Report Of Sub- Group-II On Metals and Minerals – Strategy Based Upon The Demand and Supply for Mineral Sector, Page 208

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The Working Group also constituted of two Sub Groups. The Report of the Sub Group II proposed a host of locations for future gold mines in India. A diagrammatic representation of the same is given below:

The Sub Group further recommended that, "... Besides, the 12th Plan period should lay the foundation for development of 33 new mining

centres as listed in Table G18 by facilitating grant of Exploration Licences & Mining Leases faster than happening at the moment. The Govt of India may set a goal to reach an annual mine production of 100 tonnes gold per annum by year 2025."

A comprehensive plan of action¹³ as suggested by the Working Group is given in Table A2.

Table A2: Table G17A Summary of Forecast of Production of Gold during the 12th Plan Period

Location of Mine/ Prospect	2012- 13	2103- 14	2014- 15	2015- 16	2016- 17	Vision 2025-30	Remarks
PSUs							
1) Hutti Gold Mines Ltd	3.30	5.20	6.40	9.40	9.40	16.40	1) Subject to significant expansion & mechanization of the mines; also financial support & speedy clearances from State Govt. 2) Subject to MOM's decision making to call global tenders 3) Subject to resolution of the conflict between RSMML&IndoGold
2) Bharat Gold Mines Ltd. (including Tailings)	-	4.35	5.55	5.75	5.75	05.80	
3) RSMML or IndoGold	-	-	-	2.00	2.00	5.00	
SUB TOTAL	3.30	9.55	11.95	17.15	17.15	27.20	
PRIVATE SECTOR							
1) RMML (MSPL)	-	0.8	1.00	1.00	1.00	5.00	Subject to Speedy Grant of PL's, ML's& other related clearances
2) Geomysore Services (India) Pvt. Ltd.	-	1.72	2.46	6.34	6.98	7.97	
3) Deccan Gold Mines Ltd. & Deccan Exploration Services	-	1.80	3.00	3.00	3.00	4.00	
4) Kundarkocha Gold Mine currently held by M/s Manmohan Minerals	0.10	0.10	0.25	0.30	0.30	0.30	
17 new mines + the currently operating gold mines belonging to Hutti Gold Mines Ltd						28.00	
Total of Mine Production	3.40	13.97	18.66	27.79	28.43	72.47	
Byproduct Gold from Hindalco/ Birla & STERLITE	6.0	16.0	16.0	16.0	16.0	28.00	Subject to Copper smelting capacity expansion & Relief on ED + other tax incentives
GRAND TOTAL	9.40	29.97	34.66	43.79	44.43	100.47	

¹³ Report of Working Group on Mineral Exploration and Development (other than Coal & Lignite), 2011, Ministry of Mines, Government of India, Page 209



Appendix 3 - Recycling Domestic Gold

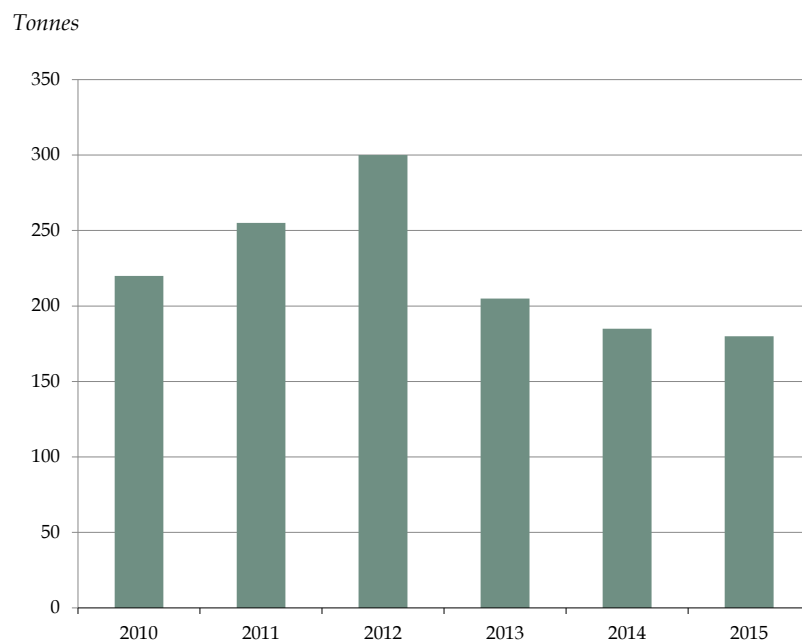
Recycled gold forms an integral part of gold sourcing in India. Old gold jewellery, commonly known as 'legacy gold' is melted down and used as raw material for making new jewellery. Apart from these manufacturing scrap, end of life industrial products are also used as raw material for manufacturing of new gold jewellery. Approximately 1345 tonnes of gold is believed to have been refined between 2010 and 2015.

In order to arrest rising import and widening CAD, recycling of gold should be encouraged and incentivised. One of the possible ways to push recycling is setting up of a scrap gold collection chain. Scrap gold collection chain is an established gold collection mechanism abroad. In this, a scrap gold aggregator collects scrap gold from different channels and sends it to refineries for initial assaying of the gold. Post agreement on quantity, the refinery would melt

down and convert them into standard bricks. The scrap aggregator is usually financed by a bank at a 10 per cent haircut margin. Post refining, the banks purchase the gold from the aggregator and the final settlement is adjusted with the financed amount. If a similar kind of reverse gold procurement chain can be created in India, import of gold can be reduced to a reasonable extent.

Another way to promote recycling of gold will be for banks to participate in the gold auctions held in case of default of loan against jewellery. Currently, banks are not allowed to participate in such auctions. If banks are allowed to participate in the gold auctioning process, banks would be able to procure scrap gold for further recycling. This is part of the larger policy objective of allowing banks to procure gold from domestic markets.

Figure A5: Total Indian old gold recycling, 2010-2015



Source: Metals Focus; World Gold Council

Appendix 4 - Gems & Jewellery and Make in India

Indian jewellery is well known for its intricate design and detailed craftsmanship all over the world. The Indian goldsmith commonly known as karigars excel at creating exquisite ornaments. This can be justified by the export of USD 8.6 billion¹⁴ worth of Indian gold jewellery in 2015-16, of which half had been exported to the United Arab Emirates (UAE). Apart from Hong Kong, the United States of America (USA), the United Kingdom (UK) and Singapore also are large buyers of India made gold jewellery. However, when compared to the total import of gold in the country, the figures seem minuscule. Considering India's expertise in jewellery making and the various styles of gold jewellery made in this country, India should be the jeweller to the world. The jewellery industry should take a cue from a relatively smaller businesses which had created a mark for themselves as leading exporters.

Currently, gems and jewellery sector doesn't feature under the priority list of industries included in the 'Make in India' initiative. An ideal gold policy should push for the gems and jewellery industry to be included in the Make in India programme so that the industry can benefit from the Scheme. The

industry on its part should lessen its dependence on the Government for infrastructure and capacity building for and push for better policy formulation for improving trade. Government policies are likely to be more effective for those sectors where the industry has taken keen initiatives.

An ideal case study is the business model¹⁵ created by Major Saurabh Mahajan of Lord of Battles which makes handcrafted swords, shields and armours to be used as props for making movies and TV shows. This business was able to beat larger foreign competitors from China, Poland and the Czech Republic using machines to produce similar items. These hand-made, hand stitched and hand hammered items had distinct features possible only possible through human craftsmanship and not by the use of machine. As acknowledged by the promoter of the business, skilled craftsmanship and cheap labour are two major factors for the success of the business. The intricate design and realistic looks made major production houses from Hollywood and all over the world to queue up at this shop leaving bigger players behind.

¹⁴ World Gold Council, 2017, India's gold market: evolution and innovation, India

¹⁵ <https://www.usatoday.com/story/news/world/2017/05/20/india-makes-armor-medieval-props-game-of-thrones/101710264/>



Appendix 5 - Geographical Indications for Indian Jewellery Design

India must explore the possibility for patents and geographical indications for certain types of designs and make of jewellery. By virtue of being a large country, jewellery designs are varied and typical to a particular region. This is something that is truly unique to Indian jewellery. Some of these include

- a. Antique Jewellery
- b. Bead Jewellery
- c. Custom Jewellery
- d. Fashion Jewellery
- e. Filigree Jewellery
- f. Gold Jewellery
- g. Handmade Jewellery
- h. Ivory Jewellery
- i. Jadau Jewellery
- j. Kundan Jewellery
- k. Lac Jewellery
- l. Meenakari Jewellery
- m. Navaratna Jewellery
- n. Pachchikam Jewellery
- o. Silver Jewellery
- p. Stone Jewellery
- q. Temple Jewellery
- r. Tribal Jewellery

Appendix 6 - List of Taxes and Duties on Gold

The following are the taxes and duties applicable to the various gold trade and gold based products:

	Capital Gains	Wealth Tax	Dividend Tax	Transaction Tax	Duties
GMS	None	None	None	None	N/A
GML	None	None	None	2.5% - 4% as commission	N/A
Gold Futures	None	None	None	0.001%	N/A
Sovereign Gold Bond	Yes (before redemption)	None	None	None	
Import of Gold Bar	N/A	N/A	N/A	GST 5%	10%
Import of Dore	N/A	N/A	N/A	GST 5%	9.35%
Import of Finished Jewellery	N/A	N/A	N/A	GST 5%	10%
Sale Domestic Gold Jewellery (Retail)	N/A	N/A	N/A	GST 5% over selling price	N/A
Sale Domestic Gold Jewellery (Manufacturing)	N/A	N/A	N/A	GST 5% over selling price	N/A
Mining of Gold	N/A	N/A	N/A	5%	Royalty of 4% of LBMA Price on gold metal in ore



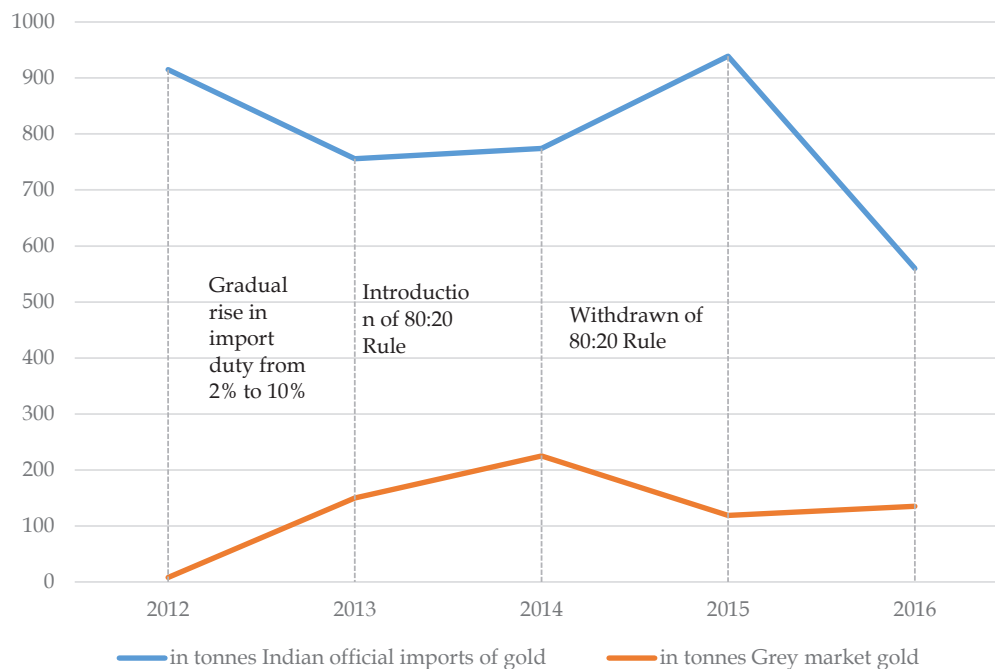
Appendix 7 - Official Gold and Grey Market Gold

On several instances, gradual rise in import of gold has compelled the Government to impose restrictions on gold. Such measures may have brought temporary relief to the Government but were unsuccessful in curtailing the demand for gold. Every time, official supply channels were restricted, grey market supply bustled.

Historically, India adopted a restrictive gold policy between 1962 and 1989, with the infamous Gold (Control) Act being introduced in 1968. Such restrictive policies gave rise to smuggling while grey market supply reached its peak. Fortunately, with the fi-

ancial liberalisation in the early 90s the attitude of the Government towards gold changed which also helped the jewellers and bullion dealers to procure gold through formal channels. In the recent times, the Government of India was compelled to take drastic measures such as hiking of import duty and imposition of 80:20 Rule due to the widening CAD deficit. Although such measure provided temporary relief on paper, grey market trade flourished. This fact can be verified by comparing the official import figures along with grey market supply.

Figure A6: Official Gold versus Grey Market Gold



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The above graph depicts that when import duty on gold was gradually increased between 2012 and 2013, import was controlled to an extent while grey market supply increased. Further introduction of 80:20 Rule controlled import and stabilised CAD but grey market supply saw a substantial spike.

When 80:20 was finally withdrawn in 2014, it saw a sudden spike in import but there was an equal fall in grey market gold. Gold import fell between 2015 and 2016 due to a slowdown in the global economy without any consequential effect on grey market supply.

Appendix 8 - Evaluation of GMS, SGB and Suggestions for New Products

The Gold Monetisation Scheme (GMS) is an overhauled version of the erstwhile Gold Deposit Scheme (GDS) combined together with the Gold (Metal) Loan Scheme (GML). All the stakeholders of the gold industry agree that GMS will have an overall positive effect on their business but consenting to the fact that GMS has failed to take off. Operational and procedural challenges such as lack of trust between banks and CPTCs, collection of gold, deployment of gold, redemption of gold are only few of the many existing problems of GMS. It has to be also taken into cognizance that GMS was never promoted either by banks or by the Government. It is obvious that till the time these operational and procedural issues are addressed, GMS can really take off. For an efficient functioning of GMS, it is pertinent that the entire process of GMS is re-examined and restructured.

On the other hand, the Sovereign Gold Bond (SGB) managed to perform better than its counterparts (GMS and IGC) has been largely successful in gold monetisation. There has been an increasing trend in the demand of SGB over the months. However, certain tweaks such as appropriate tax benefits may encourage investors to take up SGB.

Moreover, the Government should also incentivise gold backed investment products. Initiative must be taken to spread awareness of products such as digital gold, gold derivatives and gold ETFs among retail investors of gold. Furthermore, appropriate incentives such as zero CTT in gold derivatives trading, relaxing LTCG on gold ETFs will encourage people to move

from investing in physical bullions to gold backed products.

To further promote the cause of gold monetisation, the Government should encourage the BFSI to develop innovative gold based products in insurance, pensions, mutual funds etc. The Government should also think of introduction of Rupee-Gold swaps and Dollar-Gold swaps in the market.

However, in the years to come, it will be digital gold that will take centre stage. This is a recent product innovation and one that currently has no regulatory framework per se. Notwithstanding, it has been met with considerable success. Digital gold offers consumers the chance to accumulate gold in smaller denominations (as low as 1g), at their convenience and in a transparent manner. The investments are typically backed by physical gold in the care of custodians and to that extent these products are overseen by SEBI though not directly regulated by them.

Digital gold will facilitate two important changes in monetisation. One, on account of gold holding being dematerialized, transactions will become easier and more efficient since it will only involve a book entry rather than the physical movement of gold. Due to this change, minimum deposit in GMS can be considerably lowered, even to 1g. Any framework that is created for digital gold must facilitate the possibility of consumers being able to dematerialize their existing gold holdings. Dematerialised gold can then be traded on the exchange.¹⁶

¹⁶ Dematerialisation of gold will be an alternative method to integrate above ground gold into the financial system. It is envisaged to be similar to that of gold ETFs. A mechanism through which retail investors may trade in their physical stocks of gold for dematerialised gold or gold ETF units must be considered.

Appendix 9 - Bullion Banking

Despite of being the second largest importer of gold in the world, India does not have any say in gold price-setting in the global bullion market and rather acts as a price setter. China, our closest competitor in gold consumption, currently has 3 specialised banks dealing in bullion i.e. the Bank of China, China Construction Bank and ICBC Standard Bank which are members of ICE Benchmark Administration (IBA) which is responsible for the LBMA Gold Price Fix. China has also set up its own gold price fixing in Yuan known as the Shanghai Gold Benchmarking ending the monopoly of age old LBMA benchmarking and is gradually taking control of the global bullion market operations. The Shanghai Gold Fix already have more participants than the LBMA Gold Fix.

To make itself an active global market participant, India needs to develop bullion banking system in the country. In India, banks have been the mainstay of the financial system. It is therefore unfortunate that they do not play an active role in gold monetisation. Indian banks have been apprehensive largely because gold is not viewed as part the banking business. This is contrary to global experience. Ironically, some of the major foreign banks in India, such as, HSBC, Standard Chartered Bank, JP Morgan and Bank of Nova Scotia, all have strong bullion business arms and are in fact accredited to contribute to the LBMA Gold Price determination. India has failed to exploit the expertise of these banks in developing a strong bullion banking business. A dedicated bullion arm of existing banks or even better, a separate entity such as a bullion bank will bring about the much needed paradigm shift in the domestic bullion market.

At present, only a small number of commercial banks undertake bullion business in the country. This is undertaken by their in-house metal department/ bullion division which is mostly responsible for import of gold and other precious metal. Bullion business for these banks are mostly restricted to a few chosen lines of metal businesses such as import of gold, gold lease (or Gold Metal Loan as it is commonly known as), and loan against gold jewellery (LAGJ). Even the recently launched Gold Monetisation Scheme (GMS) failed to take off as only a handful public sector banks participated in the scheme, of which banks are a critical stakeholder. Domestic banks in India distance themselves from anything apart from the traditional lines of bullion business quoting various reasons such as lack of expertise, less profitability or even regulatory complications. However, one reason to which all banks agreed in unison for not undertaking bullion business is that commercial banks in India do not consider bullion banking as a banking business, and perceive it more like a jewellery business. This justify the need to create a separate segment which will have its core business in bullion and will act as a medium to sync the business of bullion with banking.

The Reserve Bank of India (RBI) has been pragmatic in crafting a new category of differentiated banks – Small Banks and Payment Banks - to cater to niche requirements of the economy, the guidelines for which had been issued on November 27, 2014. At present both, the small banks and payment banks cater to specific requirements of the society, and particularly to those who have limited access to commercial banking system in the country. If the RBI is willing to issue guidelines for a bullion bank,



India may be able to eventually play a more dominant role in the global bullion market. Further, with the Finance Minister's budgetary announcement to formulate a comprehensive gold policy and set up a bullion exchange, it is evident that the Government is proactively pushing to create a transparent and robust bullion dealing system in the country. With this well timed policy intervention, India can soon have its own bullion bank participating in the global price discovery mechanisms. Given India's penchant for gold, the country should have been at the forefront of global bullion market.

With focussed business on bullion, a bullion bank can be a 'one-stop' institution responsible for undertaking lending and borrowing of gold; install a vaulting mechanism, lend logistical support to gold distribution and help as a repository of bullion related data and information. A bullion bank will even further take care of the twin problems of standardisation and price discovery in the domestic market. Most importantly, introduction of a bullion bank, will provide the much needed push to gold monetisation programme. The bullion bank can get into gold-rupee swaps with the commercial banks for GMS, while the commercial banks work as collection centres without worrying about the end use of the collected gold. Also, jewellers are

the only option available for sale of gold to Indian consumers. A bullion bank will have the necessary expertise to buy back gold from retail consumers and will be an alternate option for sale of gold. This in turn will bring back majority of physical gold held through investment back to the financial system. Subsequently, these gold collected through GMS and buy-backs can be recycled to be used for the purpose of GML that too at a cheaper rate thus easing the burden on import. Alternately, they can be also used for minting IGC. The bullion bank will further promote young investors to move to innovative gold backed investment products such as gold savings accounts, gold ETF and gold bonds rather than investment in physical gold. A bullion bank will also play an important role in the global bullion market. The bullion bank will be able to participate in both global and domestic spot and derivative market. This will open doors to major global markets such as London Bullion Market for OTC trade and major derivative exchanges around the world. Provided the right kind of initiative is undertaken, hopefully India can soon have its own bullion bank participating in the global price discovery mechanisms, such as the LBMA benchmarking and the Shanghai benchmarking.

Annexure 10 - Vaulting Policy

To achieve a robust gold ecosystem in India, one of the pre-requisites will be to develop a rigid storage and logistical framework for gold in the country. Warehousing of gold and precious metals, also known as vaulting, is the mainstay of a robust financial and business bullion ecosystem. The need for a regulated vaulting mechanism can be gauged by the fact that the leading countries in bullion business today have all developed and maintain a very high standard of vaulting infrastructure. A regulated and efficient vaulting system will not only promote transparency in dealing but also better distribution of quality gold in the country.

In India, bullion vaulting is still at a nascent stage. In the current scenario, bullion vaults in India are largely unregulated entities. Recently, SEBI has directed the commodity derivatives exchanges trading in bullion to register vaults used by them and adhere to basic vaulting guidelines. The commodity exchanges have been further directed to undertake periodic checks to ensure that these vaults are following the laid out guidelines. Although this is a smart move by SEBI to ensure standards in vaulting, in the absence of a real regulatory authority and rigid compliance mechanism, these frameworks are only 'second best' alternatives in comparison to international vaulting standards. Moreover, this surrogate regulatory system extends only up to vaults under exchanges but fails to govern those used by banks, bullion depositing NBFCs, asset management companies and other FIs dealing in bullion.

The last decades saw several reforms being carried out in the warehousing and storage infrastructure in India. One of the most important ones perhaps was the setting up of the Warehouse Development Authority of India (WDRAI) in 2010 under the Warehouse (Development and Regulation) Act, 2007, vide Gol Gazette Notification dated October 26, 2010. WDRAI is responsible for the development and regulation of the warehousing business, to ensure the negotiability of warehouse receipts and to promote the orderly growth of the warehousing business in the country. Currently, WDRAI regulates only warehouses for storage of agricultural commodities and has notified a total of 149 agricultural and horticultural commodities for issuance of Negotiable Warehouse Receipts (NWRs).

To create a transparent and efficient gold distribution network in India, it is essential that bullion vaults in India are regulated and stringent guidelines are laid down to ensure that only good delivery gold is stored and distributed in the country. A regulated gold vaulting system will also help create and maintain account of allocated gold in the country. Further, this will help in creating a new product, i.e., trading of NWR, on exchanges. To ensure this, WDRAI should extend its regulatory outreach to warehouses (vaults) storing gold and other precious metals. Apart from that, regulation of vaults by WDRAI will also encourage private bullion vaults to get into formal bullion vaulting business in the country.

Appendix 11 - Bullion Board

Under the current regulatory regime, what is conspicuous in its absence are definitive policy objectives. The lack of clear policy objectives has also resulted in gold being treated differently by various policymakers resulting regulatory framework that appears to be an aggregation of several piecemeal regulations. These regulations and policies were meant to meet short term objectives such as curtailing imports or reducing the demand for gold. Under the current regime, gold has been viewed mainly as only a commodity and an unproductive one at that.

A new regulatory regime must be one that encapsulates all characteristics of gold. Currently, as a commodity, gold falls under the purview of the Ministry of Consumer Affairs. Financial products of gold, such as exchange traded funds (ETFs) and gold futures (that have their underlying as gold) come under the purview of SEBI. The procurement of gold comes under the purview of Ministry of Commerce, mainly the Directorate General of Foreign Trade (DGFT) and Reserve Bank of India (RBI). Ironically, the Ministry of Finance, until recently, has had little role to play in the regulation of gold. Refineries are accredited by NABL and quality of gold is regulated by BIS. Defining gold will be an essential step in assigning the responsibility of regulating gold to a single entity.

A list of agencies that currently regulate one or the other aspect of gold are:

- Ministry of Finance – Department of Economic Affairs (DEA), Department of Financial Services (DFS), Department of Revenue, Central Board of Direct Taxes (CBDT), Central Board of Excise and Customs (CBEC)
- Reserve Bank of India (RBI)
- Securities and Exchange Board of India (SEBI)
- Ministry of Commerce and Industry – Department of Commerce, Department of Industrial Policy and Promotion (DIPP), Directorate General of Foreign Trade (DGFT),
- Ministry of MSME
- Ministry of Skill Development and Entrepreneurship
- Ministry of Consumer Affairs and Public Distribution
- Ministry of Mines

With product innovations other regulators who may be co-opted into the system are Insurance and Regulatory Development Authority of India (IRDA), Pension Fund Regulatory and Development Authority of India (PFRDA), and Warehousing Development Regulatory Authority of India (WDRAI).

Appendix 12 - List of Recommendations

Short Term Regulatory Policy Objectives		
	Objective	Impact
1.	Define Gold	Bring clarity in treatment of gold as a commodity, currency and security
2.	Formation of a Bullion Board	Exclusive decision making body for import, export and domestic circulation of gold and gold related products in the country.
3.	Authorise WDRA to regulate bullion vaults	Create standardisation of gold, track movement of gold bullion, help in developing receipt trading and reduce grey market circulation of gold.
4.	Accreditation of Hallmarking Centre	Reduce trust deficit among retail users, increase competency
5.	Permit import of only LBMA gold	Will reduce circulation of non-standardised gold in the economy.
6.	Accreditation of refineries	Will create standardisation and reduce circulation of sub-standard gold.
Medium Term Regulatory Policy Objectives		
7.	Develop an uniform price discovery mechanism	Develop a uniform price setting mechanism in the country. Issue a pan India price which is to be followed for all gold transactions.
8.	Create an Indian Good Delivery Standard	Will bring standardisation in the gold used in the country. Will reduce grey market gold.
9.	Develop a Responsible Delivery Standard in India	Will help in creating a better export market for India.
Long Term Regulatory Policy Objectives		
10.	Allow only accredited refineries to export gold	Will further help in creating a larger export market for India

Short Term Business Policy Objectives		
	Objective	Impact
11.	Raise the number of domestic LBMA refinery from 1 no. to 4 nos.	Will help in increasing production of standardised gold bar domestically, in turn pushing gold standardisation in India. Will boost recycling of gold in the country. Will enhance confidence among gold buyers.
12.	Make self-certification of jewellery compulsory for all jewellery irrespective of jeweller selling the jewellery	End substandard and grey market jewellery business. Will push standardisation and help in appropriate price determination.
13.	Allow for setting up and operation of private vaults	Will enable recording of domestic gold. Will help in receipt trading.
14.	Provide tax break to SGB (Grant Exempt-Exempt-Exempt status)	Will push investors to move away from investing in physical gold and push the sale of SGB, furthering gold monetisation and reducing import.
15.	Minting of IGC to be done only at a LBMA refinery	Will bring IGC at par level with international sovereign coins such as Canadian maple, American Eagle, Chinese Panda etc. Create an export market for IGC.
16.	Allow more distributary agents including all banks (irrespective of undertaking GMS or not) such as jewellers, India Post, NBFCs etc. to sell IGC.	Boost sale of IGC domestically in turn reducing circulation of non-standardised gold coins in the country.
Medium Term Business Policy Objectives		
17.	Raise domestic gold recycling capacity from 150 tons to 250 tons	Will reduce import. Create a market for scrap gold.
18.	Be a decision maker at the LBMA Price Fix and Shanghai Price Fix	Will help in bringing down price of gold in the country. Will help in boosting import.
19.	Set up a mechanism for tracking inferior quality gold circulating in the market	Reduce grey market gold in the country.
20.	Create value addition for handcrafted Indian jewellery abroad	Boost export and create a unique India made product.
21.	Create a brand for India handcrafted gold	Boost export and create a unique India made product.

Long Term Business Policy Objectives		
	Objective	Impact
22.	Raise domestically refined gold, India branded gold jewellery and India Gold Coin (IGC) to global standard and create a brand name for these	Boost export and create a unique India made product.
Short Term Business Policy Objectives		
23.	RBI to authorise setting up of Bullion Banks	Will be a one stop shop for all gold related product. Will help in furthering gold monetisation. Will provide research information regarding gold.
24.	Set up of a Bullion Exchange	Enable transparency, create a price discovery mechanism, and create a vibrant gold market.
25.	Create gold based financial instruments with underlying in domestically recycled gold to be marketed and promoted at IFC/s in India	Will draw FOREX on domestically recycled gold, increasing confidence among domestic and foreign investors.
26.	Allow banks to directly tie up with refineries through a bipartite agreement for GMS	Will enable to bypass the CPTC route and deal directly with refineries which have organised and larger book size. Boost GMS.
27.	Allow jewellers to act as CPTC/assayer for GMS, same as it is done for banks for loan against gold jewellery for GMS	Will boost GMS.
28.	Allow banks to bypass CPTC route for accepting IGC and Suisse coins sold by banks earlier for GMS	Boost GMS
29.	Financial audit of CPTCs should be made compulsory before granting CPTC license for GMS	Will increase banks trust among CPTCs helping GMS to increase.
30.	Allow India Post to participate in GMS	Will boost GMS.



Short Term Business Policy Objectives		
	Objective	Impact
31.	Tenor of GML to go up to 365 days from 180 days	Will induce jewellers to shift from import to GML, thus reducing import.
32.	Bring down rate of interest of GML from current 2.5-4 per cent to match the rate with outright import	Will induce jewellers to shift from import to GML, thus reducing import.
33.	Allow for banks to buy back IGC	Can be used for reselling and can be used for recycling for outright sale and GML.
34.	Provide gold ETFs ELSS status or allow for them to be taxed as equity	Will induce investors to shift from buying physical gold to paper gold.
35.	Allow for banks to use gold as part of their liquidity reserves	Will encourage bank to push for monetisation of gold and take up GMS actively.
36.	Allow banks to participate on commodity exchange	Will enable banks to hedge risk.
37.	A scrap gold collection chain (reverse cycle of gold) is to be established	Will increase domestic recycling of gold by manifold.
38.	Allow for banks to participate in gold - rupee and gold - dollar swaps	Will encourage all banks to take up GMS and then pass on the liability to a specialised bank.

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Our aim is to emerge as a credible, trustworthy and neutral bridge between economic agents like firms, farmers and professionals on the one hand and policy makers on the other and to contribute to bringing the three principle stakeholders viz government, industry and academia on the same page and pulling in the same direction - a key condition for ensuring India's success in global markets. PIF currently has an analytically strong team of dedicated researchers who are self motivated. PIF's highly qualified team specialises in analyzing India's political economy and its engagement across verticals that are relatively underworked areas that will permit PIF to create a niche for itself in the research and think tank space in the country.



Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce operating from Kolkata, and one of the most pro-active and forward-looking Chambers in the country today. Its membership spans some of the most prominent and major industrial groups in India. ICC is the founder member of FICCI, the apex body of business and industry in India. ICC's forte is its ability to anticipate the needs of the future, respond to challenges, and prepare the stakeholders in the economy to benefit from these changes and opportunities. Set up by a group of pioneering industrialists led by Mr G D Birla, the Indian Chamber of Commerce was closely associated with the Indian Freedom Movement, as the first organised voice of indigenous Indian Industry. Several of the distinguished industry leaders in India, such as Mr. B M Birla, Sir ArdeshirDalal, Sir Badridas Goenka, Mr. S P Jain, LalaKaram Chand Thapar, Mr. RussiMody, Mr. Ashok Jain, Mr. Sanjiv Goenka, have led the ICC as its President. Currently, Mr. Shashwat Goenka is leading the Chamber as its President.

ICC is the only Chamber from India to win the first prize in World Chambers Competition in Quebec, Canada.

ICC's North-East Initiative has gained a new momentum and dynamism over the last few years, and the Chamber has been hugely successful in spreading awareness about the great economic potential of the North-East at national and international levels. Trade & Investment shows on North-East in countries like Singapore, Thailand and Vietnam have created new vistas of economic co-operation between the North-East of India and South-East Asia. ICC has a special focus upon India's trade & commerce relations with South & South-East Asian nations, in sync with India's 'Look East' Policy, and has played a key role in building synergies between India and her Asian neighbours like Singapore, Indonesia, Bangladesh, and Bhutan through Trade & Business Delegation Exchanges, and large Investment Summits.

ICC also has a very strong focus upon Economic Research & Policy issues - it regularly undertakes Macro-economic Surveys/Studies, prepares State Investment Climate Reports and Sector Reports, provides necessary Policy Inputs & Budget Recommendations to Governments at State & Central levels.

The Indian Chamber of Commerce headquartered in Kolkata, over the last few years has truly emerged as a national Chamber of repute, with full-fledged offices in New Delhi, Mumbai, Guwahati, Ranchi, Patna and Bhubaneshwar functioning efficiently, and building meaningful synergies among Industry and Government by addressing strategic issues of national significance.



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