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The Glittering Paradox: Unveiling India's Gold Policy Evolution And Its Enduring Flaws

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THE GLITTERING PARADOX: UNVEILING INDIA'S GOLD POLICY EVOLUTION AND ITS ENDURING FLAWS

RAMAKRISHNAN PADMANABHAN, CHANDAN SATYARTH
AND SUNDARAVALLI NARAYANASWAMI

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EVOLUTION OF INDIA'S GOLD POLICIES: FROM RESTRICTION TO TRANSPARENCY

India's gold-related policies and regulations have undergone significant changes over the years, gradually shifting towards a more streamlined and transparent framework. In February 2018, the Hon'ble Finance Minister announced in the Union Budget that the Centre would develop a comprehensive gold policy, aiming to establish gold as a recognized asset class, similar to shares, bonds, property, and commodities. The Government will also establish a system of consumer friendly and trade efficient system of regulated gold exchanges in the country. Gold Monetization Scheme will be revamped to enable people to open a hassle-free Gold Deposit Account [1] .

Recent initiatives, such as the Indian Gold Coin and proposed hallmarking regulations, setting up of an International Bullion Exchange in GIFT City, aim to create a trusted standard for gold transactions in India. In addition to the above initiatives, a report titled 'Transforming India's Gold Market' by NITI Aayog was submitted to the government in February 2018, that focused on the five core areas:

- Make in India in Gold
- Financialization of Gold
- Tax and Duty Structure
- Regulatory Infrastructure
- Skill Development and Technology Upgradation [2]

Further we explore the evolution of these policies since Independence.

THE RESTRICTION PHASE (1947 - 1962)

During this period, policies focused on regulating gold supply and domestic prices while curbing smuggling.

- The Foreign Exchange Regulation Act (FERA) of 1947 controlled foreign exchange transactions and the import/export of currency and bullion.
- In 1956, India transitioned from a gold-backed proportional reserve system to a minimum reserve system for currency issuance, requiring the RBI to maintain specific gold and foreign exchange reserves of Rs 200 crore, with at least Rs 115 crore in gold [3].
- The first gold bond scheme was introduced in 1962 to boost public funding amid international border disputes that drained foreign reserves.

THE PROHIBITION PHASE (1963 - 1989)

In 1962, the government-imposed restrictions on gold production and transactions, leading to the Gold Control Act of 1968. This aimed to address excessive gold imports that devalued the Indian rupee. The

1 https://pib.gov.in/Pressreleaseshare.aspx?PRID=1518569.

2 https://www.niti.gov.in/transforming-india-gold-market.

3 https://www.mygoldguide.in/look-india%E2%80%99s-gold-policies.

objectives of the Act were to reduce the price of gold, to reduce the demand for gold for ornaments, to bring out the hoarded gold and to check its smuggling.

- The Gold Control Act prohibited manufacturing gold jewelry above 14 karats and limited individual gold holdings.
- Desai's Gold Control Act prohibited Indian citizens from owning gold coins and bars. All existing gold had to be converted to jewellery and declared to the authorities.
- This act resulted in an unprecedented increase in gold smuggling, black market, drug trafficking and tax evasion. Corruption became an integral part after the act [4].
- The Gold Control Act was in execution for 27 years. The act not only failed to bring out in open the hoarded gold but also failed to achieve the objectives. Only people benefited from this act were the greedy sarrafs and corrupt officials [5].
- Out of the 17460 lakh gms. of hoarded gold only 0.15% i.e. 27.46 lakh gms. was deposited in the government treasury in lieu of gold [6].
- Initiatives like the Voluntary Disclosure of Income and Wealth (Amendment) Ordinance of 1975 encouraged people to disclose undeclared wealth.
- Other measures included gold auctions (1978) and gold bonds to reduce smuggling and budget deficits.

THE LIBERALIZATION PHASE (1990 - 2011)

This phase marked the deregulation of the gold industry.

- Due to strong agitation the government was forced to modify the act from time-to-time. The Gold Control Act was revoked in 1990, allowing free gold imports and generating income from import taxes.
- The Non-Resident Indian (NRI) scheme (1992) and Special Import License scheme (1994) enabled NRIs to bring gold into India.
- By 1997, several banks were authorized to import gold.
- The Gold Deposit Scheme (GDS) of 1999 mobilized idle gold, allowing gold holders to earn interest.
- Post-2002, banks could sell gold coins, and by 2008, even post offices sold gold.
- The launch of Gold Exchange Traded Funds (ETFs) in 2007 digitized gold investment, ensuring quality, flexibility, and secure storage.

THE INTERVENTION PHASE (2012 - 2013)

The global financial crisis of 2008 renewed consumer interest in gold, tripling its prices. By 2010, India's total gold demand soared to 1,001.7 tons [7]However, global uncertainties and domestic Current Account Deficit (CAD) issues between 2012 and 2013 led to further policy interventions to curb gold demand.

- The import duty on gold was raised from 2% to 10% [7].
- A ban was imposed on the import of gold coins and their sale through banks and post offices.

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[4] https://www.livemint.com/Money/lpiP9XsSoplSkQCLJZSO0O/Two-nations-two-gold-control-acts-One-worked-one-didnt.html

[5] Swarnkar, S. (2009, January). The gold control act of 1965, its socio-economic implications. In Proceedings of the Indian History Congress (Vol. 70, pp. 1181-1191). Indian History Congress.

[6] Morarji Bhai Desai, Finance Minister, Loksabha Proceeding, dates 2 1 August, 1 968, p. 354.

[7] https://www.mygoldguide.in/look-india%E2%80%99s-gold-policies.

- The 80:20 rule was introduced, requiring importers to export 20% of imported gold before bringing in new consignments.

THE TRANSPARENCY PHASE (2014 - 2018)

During this period, the government promoted transparency across economic sectors.

- The 80:20 rule was withdrawn, and the ban on importing gold coins was lifted in 2014.
- In 2015, the Gold Monetization Scheme was relaunched, and Sovereign Gold Bonds were introduced, offering interest on paper bonds.
- The Indian Gold Coin (IGC) was launched in 2015.
- By 2016, PAN disclosure became mandatory for purchases above Rs 2 lakh, a 1% excise duty was levied on jewellers with a turnover of over Rs 12 crore, and the 1% excise duty on branded gold coins with 99.5% purity was abolished.
- The 2018 Union Budget announced a comprehensive Gold Policy to develop gold as an asset class, establish regulated gold exchanges, and revamp the Gold Monetization Scheme for hassle-free Gold Deposit Accounts.
- In the Union Budget 2020, the establishment of an International Bullion Exchange in GIFT-IFSC was announced which eventually was launched in July 2022.

These developments reflect the government's efforts to create gold policies that benefit gold buyers in India.

CURRENT SCENARIO:

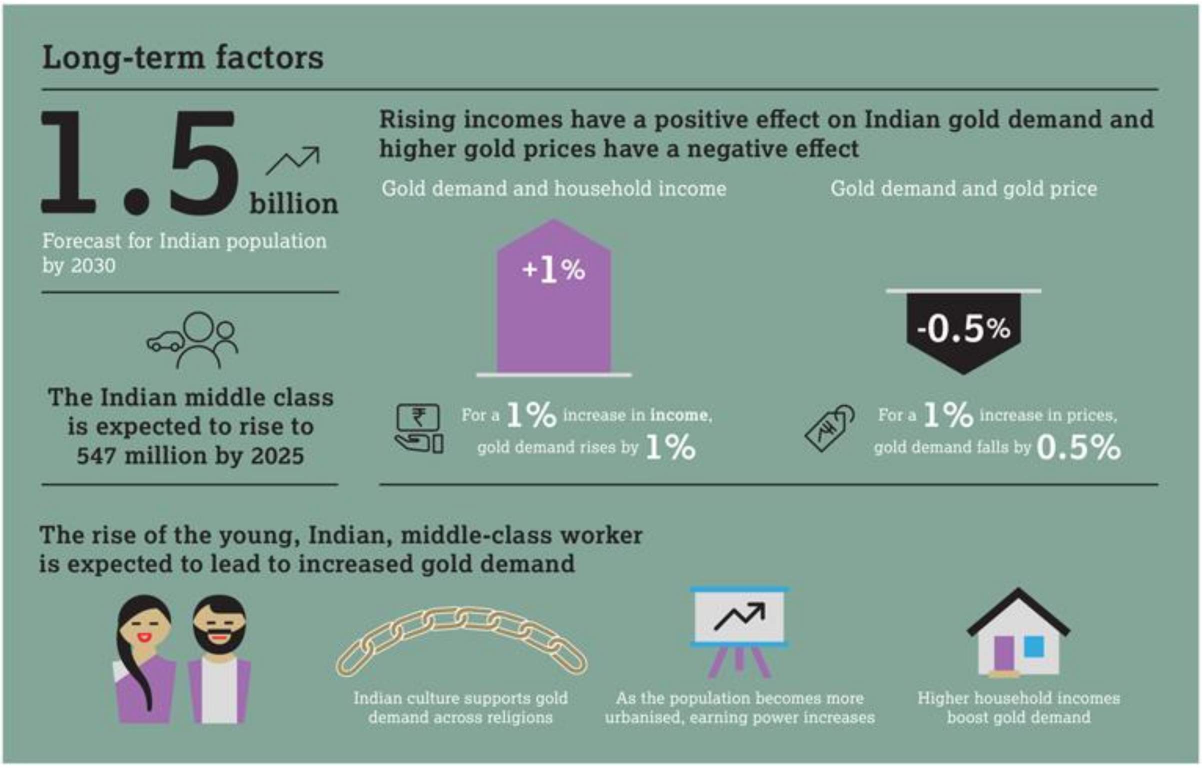
The past few years have seen an upsurge in the gold prices due to multiple reasons like tension within Middle East countries, health crisis due to COVID-19, geopolitical instability due to Russia-Ukraine war and Israel-Hamas war, rising crude oil prices, persistent inflation, interest rate cuts in the US making gold a safe haven for investors.

In July 2024, the Hon'ble Finance Minister announced in the Union Budget to reduce the custom duty on gold by 6%. The import duty on gold is reduced from 15% to 11% [8].

[8] https://www.indiabudget.gov.in/doc/bh1.pdf.

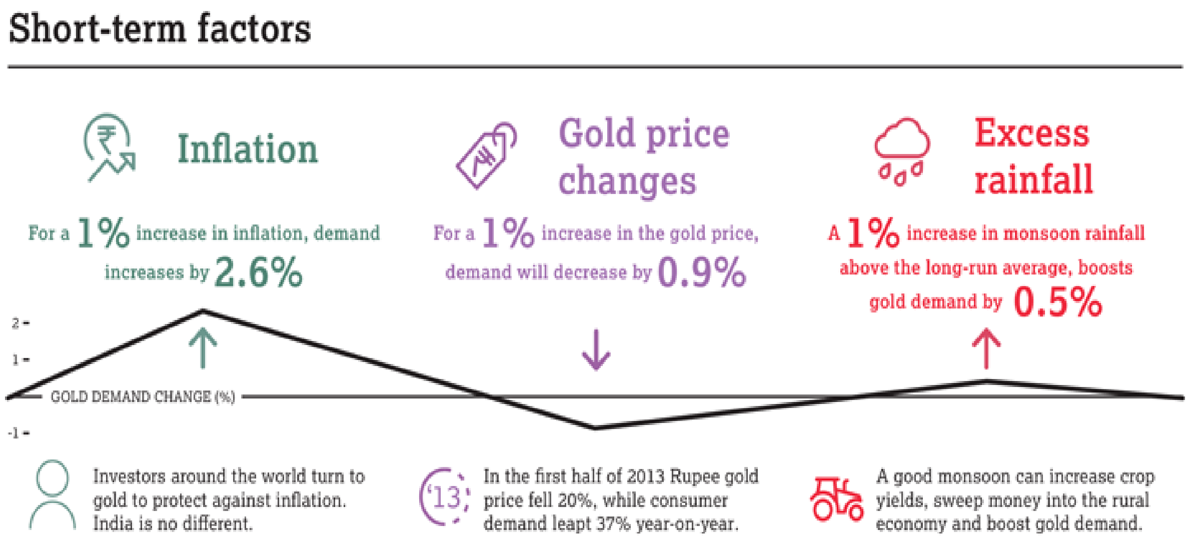
Factors affecting Indian gold demand:

Figure 1: Long-term factors affecting Indian gold demand



Source: https://www.gold.org/goldhub/research/india-gold-market

Figure 2: Short-term factors affecting Indian gold demand



Source: https://www.gold.org/goldhub/research/india-gold-market

Although the successive Governments over the years, especially over the last 10 years have tried the best to create a transparent market, there have been certain flaws in the implementation of the announcements that were made over a period of time. Below are the policies which have played a huge role in the evolution of the precious metals ecosystem in India.

GOLD REFINERS AND DUTY BENEFITS: A GOLDEN STRATEGY OR A MISSTEP?

Incorporated in India on **18 January 2008**, MMTC-PAMP India Pvt. Ltd. is a joint venture between PAMP SA, Switzerland and MMTC Limited, a Government of India Undertaking. MMTC Limited, India's largest public sector trading organization, engages in trading various commodities, including precious metals. The refinery's founders had an impeccable reputation, backed by a Swiss-based parent company.

Leveraging this reputation, the refinery benefited from a lower customs duty rate as per budget explanation post March 01, 2011, at Rs. 140 per 10 grams [9] and as per the Notification No. 21/2011-Customs dated March 01, 2011, while the standard gold imports by banks were at Rs. 300 per 10 grams as per press release from the Government of India[10] issued on August 13, 2013. Such a huge benefit for a single refiner!

Following the Budget of 2012, banks faced an increased duty of 4% on imported bullion bars, whereas refineries importing doré paid a reduced 2% duty based on gold content. This 2% concession was granted despite the minimal value addition of approximately 0.50% when doré is refined into bullion bars, which starkly contrasts with the minimum 3% to 3.5% value addition required for exporting plain jewellery. Subsequently, the duty on standard bars imported by banks was further raised to 6% effective from January 21, 2013. It was subsequently increased to 8% and then 10% as of August 13, 2013[11], as detailed in the press release issued on that date. In case of gold doré the BCD was increased to 4% [12] vide Customs Notification No. 01 dated 21st January 2013 and the Central Excise was made to 5%[13] vide Central Excise Notification No. 01 dated 21st January 2013. This meant that the differential became 1% instead of the earlier 2% benefit which the refiners were enjoying.

Yet, between 2011 and 2013, banks witnessed a significant decline in their market share as business gravitated towards a single foreign refinery, which was not publicly listed. This shift was compounded by the state governments of Uttarakhand and Himachal Pradesh offering VAT and excise refunds to lure new refiners, transforming Rudrapur in Uttarakhand into a favoured destination. These emerging refiners, however, lacked sourcing guidelines and did not adhere to global acceptable standards on responsible sourcing. Even today, 9 out of the 44 refiners licensed by the Bureau of Indian Standards [14] remain in Uttarakhand, transitioning from the VAT to the GST regime. These refineries were primarily established to capitalize on tax exemptions and customs duty benefits, rather than promoting responsible sourcing of gold doré. Yet, MMTC-Pamp was enjoying a near monopolistic situation in the bullion markets.

In the Union Budget 2016-17 the BCD on doré imports were increased to 8.75% [15]while the Central Excise duties were increased to 9.5%. [16] However, there was a hue and cry from MMTC-Pamp with news paper articles claiming that ***"Budget 2016 may result in closure of gold refining units in India."***[17] This was a battle of market share between MMTC-Pamp and the others who had refineries in Uttarakhand enjoying VAT and excise exemptions. The outcry especially by MMTC-Pamp had a significant impact, leading to the

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[9] https://www.indiabudget.gov.in/budget2011-2012/ub2011-12/cen/cusexplanatory.pdf

[10] https://pib.gov.in/newsite/PrintRelease.aspx?relid=98129

[11] https://archive.pib.gov.in/newsite/PrintRelease.aspx?relid=98129

[12] https://www.indiabudget.gov.in/budget2012-2013/ub2012-13/cen/cus1212.pdf

[13] https://www.seair.co.in/custom-notifications/notifications-issued-in-the-year-2013-notification-no-012013-dated-21st-jan-2013-654.aspx

[14] https://www.bis.gov.in/wp-content/uploads/2022/01/Refinerieslatestlist_18012022.pdf

[15] https://www.indiabudget.gov.in/budget2016-2017/ub2016-17/cen/cus1216.pdf

[16] https://www.indiabudget.gov.in/budget2016-2017/ub2016-17/cen/ce1216.pdf

[17] https://economictimes.indiatimes.com/news/economy/policy/budget-2016-may-result-in-closure-of-gold-refining-units-in-india/articleshow/51193555.cms?from=mdr

amendments of Central excise rates to 9.35%[18] as per Notification No. 22/2016 dated May 5, 2016. This created a differential of 0.65%[19] between Standard bars (at 10%) and gold doré, which continues to this day.

Successive governments since 2008, over the years, appear to have misplaced their focus by prioritizing gold refining to supply the domestic market, resulting in the bureaucracy becoming entangled with a few select refiners. This approach overlooked the opportunity to foster self-sufficiency within the global precious metals' ecosystem. Consequently, the Government support extended to refiners in form of stakeholder consultations may have facilitated the interested parties to promote their own interests rather than the development of the precious metal's ecosystem in line with global best practices.

The LBMA undertakes the due diligence on Responsible Sourcing through third party audits under the aegis of the OECD Due Diligence Guidance (OECD-DDG) [20]for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Being a country with a fully convertible currency, these refiners do not have the need to have to setup refineries in exclusive economic zones.

Earlier Indian jewellers were allowed to sell old, hallmarked jewelry with 4-digit hallmarking. After 31st March 2023, Bureau of India Standards (BIS) has mandated the 6-digit alphanumeric Hallmark Unique Identification Number (HUID) of gold jewelry or gold artefacts. The Hallmarking of Gold Jewellery and Gold Artefacts Order, 2022 has been successfully implemented in 288 districts of India[21]. In the Union Budget 2024-25, government has reduced the custom duty on gold to 6% [22].

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[18] https://www.seair.co.in/central-excise/notifications-issued-in-the-year-2016-notification-no-222016-dated-5th-may-2016-187605.aspx

[19] https://www.gold.org/goldhub/research/indias-gold-market-reform-and-growth

[20] https://mneguidelines.oecd.org/Alignment-assessment-of-industry-programmes-with-the-OECD-minerals-guidance.pdf

[21] https://pib.gov.in/PressReleasePage.aspx?PRID=1904262

[22] https://www.indiabudget.gov.in/doc/bh1.pdf

EXAMPLES OF MAJOR GLOBAL REFINING/TRADING CENTRES

Switzerland is the cradle of refining for gold of the world as it refines 70% of the world's gold [23]. Doré moves from South America and Africa to Switzerland to the **four major LBMA accredited refinery groups in Switzerland**.

Dubai promotes the refining activities in a **Free Zone**. In November 2021, The Ministry of Economy of UAE launched the UAE Good Delivery (UAEGD) guidelines, which took over from the existing Dubai Good Delivery (DGD) guidelines. The Ministry also established the Emirates Bullion Market Committee in its pursuit to create a gold supply chain that is both responsible and transparent.

It may be noted in the below **Chart 1**, how much gold has been imported from these two jurisdictions which if would have been enabled in India through a PLI scheme may have made India a global refining hub. In the years from 2009 till 2024, it is observed that around 67.44 % (Switzerland:47% UAE:12.95% South Africa:7.49%), of the total gold imports are from these three jurisdictions. From Switzerland and UAE mostly in form of bullion bars. It may also be noted that presently there are only 5 LBMA refiners based in Switzerland[24] , 3 UAE Good Delivery Refiners [25]based in Dubai and 1LBMA refiner based in South Africa[22] who are supplying the bullion into Indian markets either directly or indirectly.

[23] https://www.bullionstar.com/blogs/bullionstar/the-worlds-largest-precious-metals-refineries/#:~:text=Valcambi%20has%20a%20gold%20refining,and%20Rand%20Refinery%20600%20tonnes

[24] https://www.lbma.org.uk/good-delivery/gold-current-list

[25] https://www.lbma.org.uk/publications/spotlight-on-the-uae/chapter-3-refineries-and-bullion-dealers

CURRENT STATUS OF REFINING IN INDIA

Given below are the total production details of gold produced by Hindalco and Hutti Gold Mines Limited (HGML) during the May 2023[26]: The supply of doré from Hutti mines (Karnataka) is very limited.

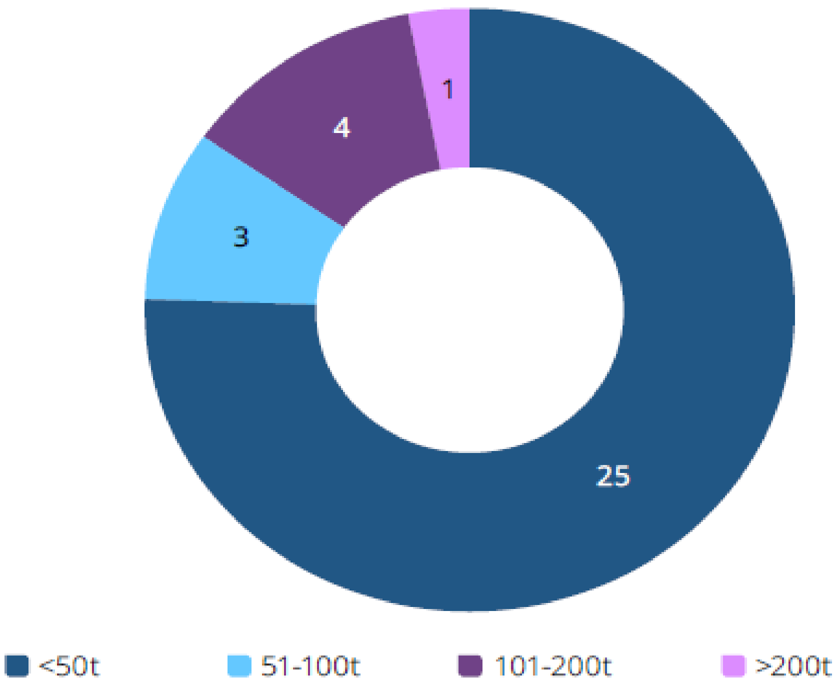
(Unit: Kg)

Name of the Company	Production in May, 2023
Hutti Gold Mines of HGML	78.32
UTI Gold Mine of HGML	9.61
Hira-Buddinni Gold Mine of HGML	6.30
Hindalco	970
Total	**1,064.23**

In India, currently, there are 43[14] refineries certified by the Bureau of India Standards (BIS). The capital expenditure of these refiners is estimated to range between 50 lakhs and 250 crores and annual refining capacity between 8 tonnes and 300 tonnes. As per IGPC-IIMA, the combined capacity of these refiners is estimated to be approximately 2,100 tonnes. The WGC report on India's Gold Market: Reform and growth published on December 12, 2023, states that a total organised refining capacity of 33 refiners comes to1800 tonnes approximately. The informal sector accounts for an additional 300-500 tonnes[19].

[26] https://mines.gov.in/admin/storage/ckeditor/_for_the_Month_of_May_2023_1689232034.pdf

India's gold refineries by capacity (tonnes)

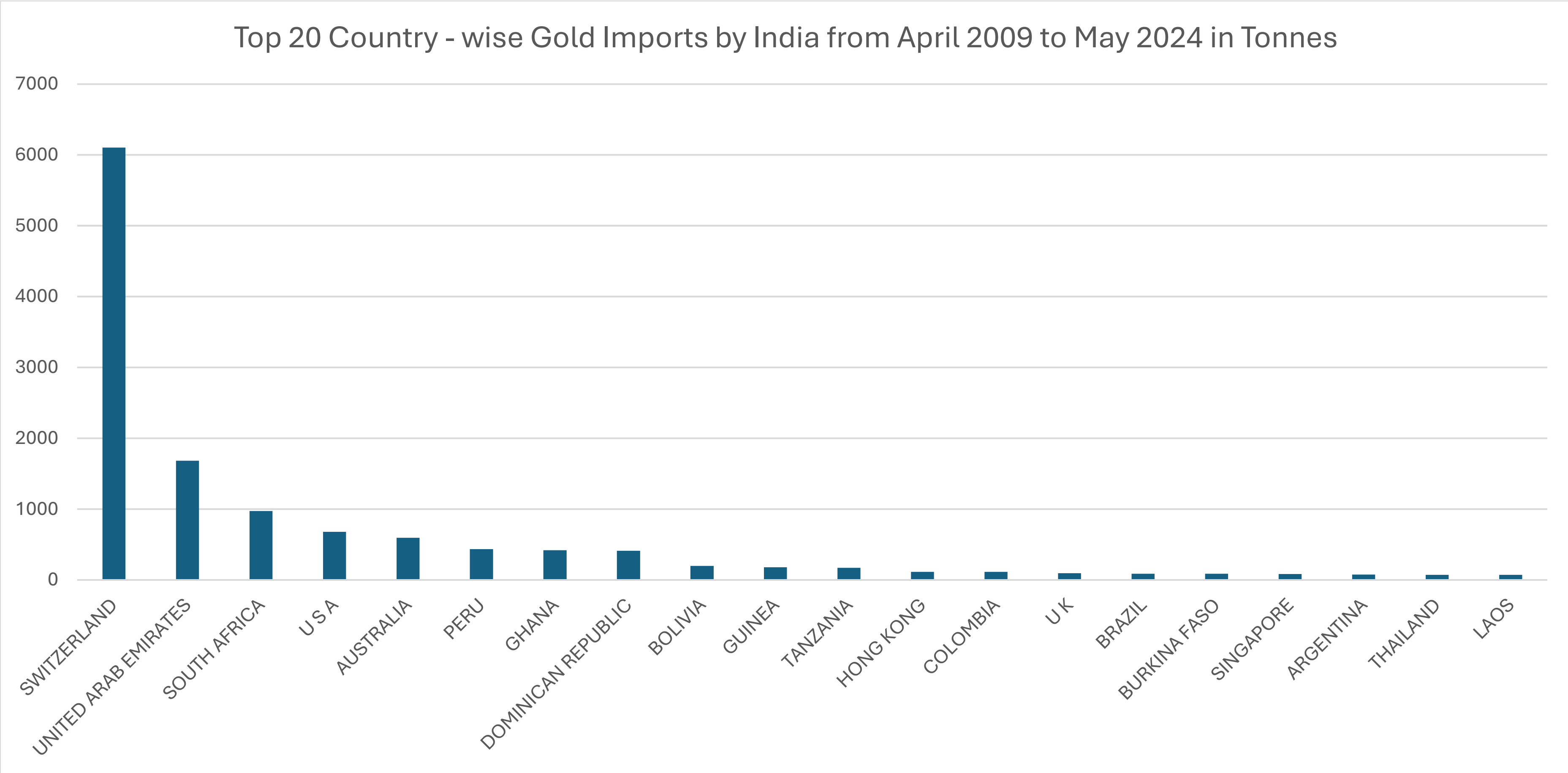


Note: As of January 2022.
Source: Metals Focus, World Gold Council

Suggestions: To augment the capacity and support the manufacturing activity, employment generation apart from foreign exchange earnings and global acceptability the government may have prioritised the implementation of Production Linked Incentive (PLI) scheme to encourage these refiners to manufacture in India and boost exports. Additionally, efforts to facilitate the flow of Indian banks' working capital to subsidize interest rates for domestic bullion bar manufacturing, with a heightened focus on bullion exports, might have added value. Global leaders in the refinery business, such as Switzerland and Dubai **(Chart 1)**, have either emphasized responsible sourcing and incentivized refiners operating in free zones, as seen in Switzerland and Dubai. This approach would have aimed to enhance the global acceptance of Indian refined bars, prioritizing quantity and responsible sourcing aligned with OECD Due Diligence guidelines on supply chain integrity.

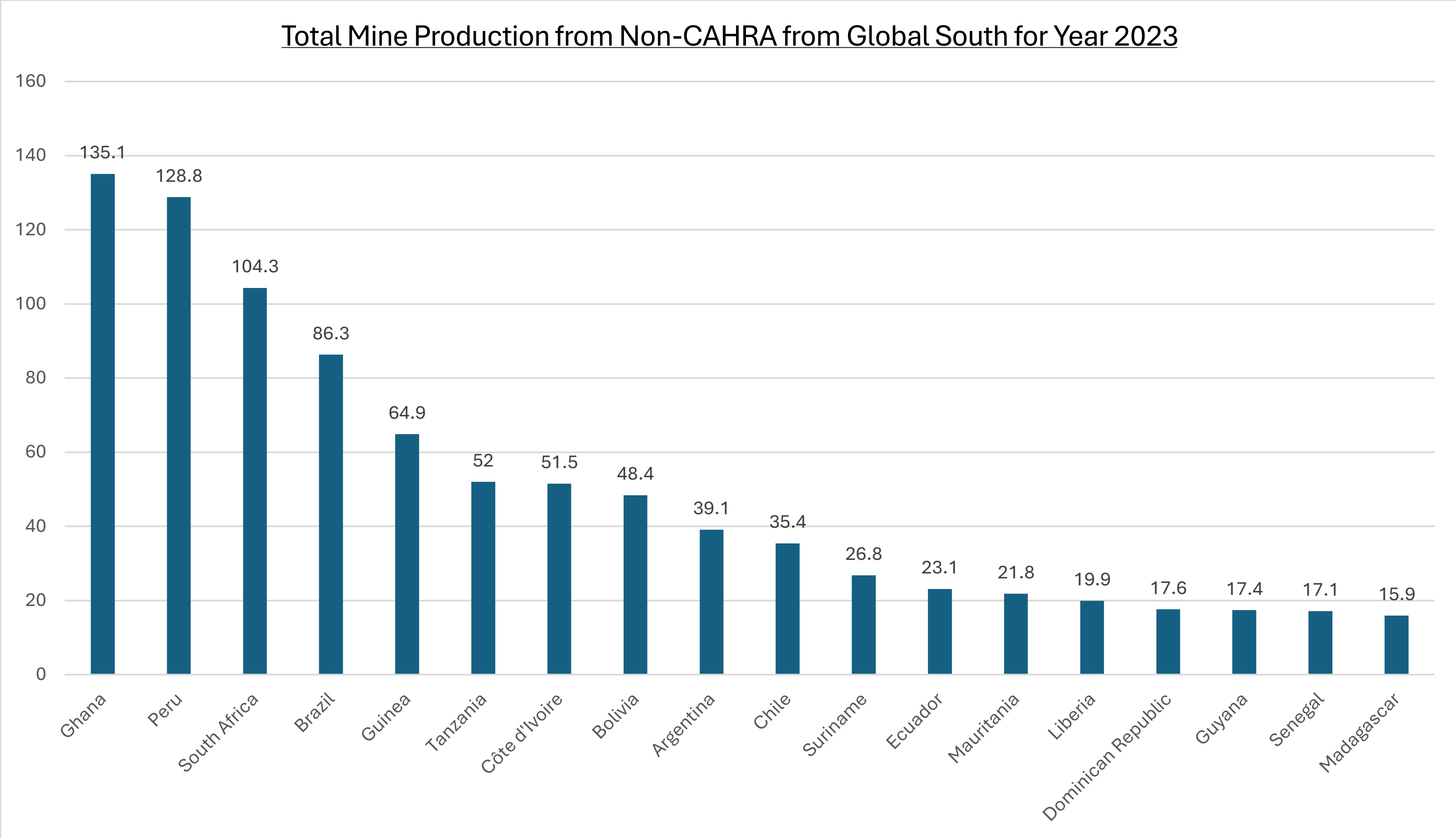
This may have also supported the Global South Countries **(Chart 2)** to supply gold ore or doré from mines to India. Rather than offering duty concessions on imports, cash incentives could have been provided to promote exports of bullion bars manufactured by Indian refiners adhering to responsible sourcing norms. Unfortunately, it appears that bureaucratic decision-making faltered in this regard.

Chart 1



Data Source: DGCIS

Chart 2


Total Mine Production from Non-CAHRA from Global South for Year 2023
160
140
120
100
80
60
40
20
0
135.1
128.8
104.3
86.3
64.9
52
51.5
48.4
39.1
35.4
26.8
23.1
21.8
19.9
17.6
17.4
17.1
15.9
Ghana
Peru
South Africa
Brazil
Guinea
Tanzania
Côte d'Ivoire
Bolivia
Argentina
Chile
Suriname
Ecuador
Mauritania
Liberia
Dominican Republic
Guyana
Senegal
Madagascar

THE RBI'S GOLD DILEMMA: BANKS, BULLION, AND THE 20:80 CONUNDRUM (2013-2016)

The Reserve Bank of India has been a cautious regulator regarding gold and gold imports. Despite gold's equivalence to foreign currency and its adverse impact on the current account deficit, the RBI's regulatory stance has been reserved. It would be wise for the government to consult the RBI on all gold-related issues, treating gold on par with foreign currency. This would ensure that import and export policies are strictly controlled by the central bank, like the practices in Chinese markets. Further we examine the evolution of the RBI Circulars, Notifications, and guidelines on this matter.

POST LIBERALISATION (1997-1999)

1997: AUTHORIZATION FOR GOLD IMPORT [27]

Nominated Agencies and Banks: In 1997, nominated agencies and banks were authorized to import gold. Specifically, on November 8, 1997, seven banks were given nominated bank status as per an RBI press release. These banks included Bank of India, Canara Bank, Indian Overseas Bank, Allahabad Bank, Bank of Nova Scotia, Standard Chartered Bank, and ABN Amro Bank. This move aimed to streamline and regulate the gold imports, ensuring that only recognized and trustworthy institutions could undertake such activities. The duty on such imports was Rs. 220 per ten grams of gold.

1998: DIVERSIFICATION OF GOLD IMPORT METHODS

RBI Circular on March 6, 1998: The Reserve Bank of India (RBI) issued a circular under A.P. (G.P. Series) Circular No. 7, [28] permitting additional modes of gold import beyond outright purchase on a D/P (documents against payment) basis. The new methods included:

- Import of gold on a loan basis
- Import of gold on an unfixed price basis
- Import of gold on suppliers' credit/buyers credit basis
- Import of gold on a consignment basis

Gold Loans to Exporters: On December 31, 1998[29], another significant change was introduced. Nominated banks were permitted to lend gold loans to exporters of jewellery, with interest rates linked to international interest rates in gold. This move was formalized through DBOD.No.IBS.1519/23.67.001/98-99, facilitating better access to gold for exporters and supporting the growth of the jewellery export sector.

2002-2005 - FACILITATING DOMESTIC MANUFACTURING & HEDGING

2002: INTRODUCTION OF GOLD FORWARDS

Gold Forwards for Hedging: On October 26, 2002, through DBOD.No.IBS.817/23.67.001/2002–03[30], the RBI introduced gold forwards as a hedging tool. It permitted authorized banks to enter into gold forward contracts not exceeding six months. This was aimed at mitigating price risks in gold and silver, providing manufacturers and traders with a mechanism to protect against market volatility.

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[27] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=18755

[28] https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=1757# - Scroll down

[29] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=7701&Mode=0

[30] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=936&Mode=0

2005: EXTENDED GOLD LOAN PERIODS

Extension of Loan Periods: A circular dated February 18, 2005 (A.P. (DIR Series) Circular No. 34) [31]extended the gold loan period from 120 days to 240 days (i.e. 60 days for manufacture and export and remaining 180 days to fix the price and repayment). This extension allowed banks to finance gold loans for a longer duration, thereby providing more flexibility to borrowers.

Loans to Domestic Jewellery Manufacturers: On September 5, 2005, the RBI issued a circular (RBI/2005-06/155 DBOD.No.IBD.BC.33/23.67.001/2005-06) [32] allowing nominated banks to extend gold loans to domestic jewellery manufacturers who were not exporters, subject to specific conditions. This policy change aimed to boost the domestic jewellery manufacturing sector by providing easier access to gold financing.

2007-2012 REGULATORY CHANGES AND VOLATILITY

2007: CHANGES IN DOMESTIC GOLD LOAN TENOR

Increased Loan Tenor: On April 3, 2007, the RBI issued a circular (RBI/2006-2007/302 DBOD.No.IBD.BC.71/23.67.001/2006-2007)[33] that increased the tenor of domestic gold loans from 90 days to 180 days. This adjustment provided more time for borrowers to manage their finances and repay the loans.

Prohibition on Tie-up Arrangements: On May 8, 2007, the RBI prohibited tie-up arrangements with non-nominated banks/co-operative banks/ non-banking financial companies for retailing of imported gold/gold coins due to compliance issues as outlined in RBI/2006-2007/388 DBOD.IBD.BC.95/23.67.002/2006-07[34]. This measure was intended to ensure better regulatory compliance and prevent potential abuses in gold loan practices.

2012: FURTHER EXTENSION OF GOLD LOAN PERIODS

Extended Loan Period for Exporters: In 2012, the RBI extended the gold loan period for exporters from 240 days to 270 days (i.e. 90 days for manufacture and export and remaining 180 days to fix the price and repayment)[35] vide RBI Circular RBI/2011-12/ 411 A.P. (DIR Series) Circular No. 83 dated February 27, 2012. This extension aimed to provide additional support to exporters in managing their gold financing needs.

2013-2014 IMPORT RESTRICTIONS – THE ERA OF CONFUSION

2013: MEASURES TO REDUCE GOLD IMPORTS

RBI Announcements in May 2013: On May 13, 2013, the RBI issued A.P. (DIR Series) Circular No.103, which outlined several measures to reduce gold imports[36]. It restricted the import of gold on consignment basis by banks, only to meet the genuine needs of the exporters of gold jewellery. These measures were based on recommendations from the Working Group on Gold, led by Chairman Shri K.U.B. Rao[37], aimed at

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31 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=2132&Mode=0

32 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=2499&Mode=0

33 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=3387&Mode=0

34 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=3506&Mode=0

35 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=7024&Mode=0

36 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=7977&Mode=0

37 https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/RSIS060213FLS.pdf

aligning gold import regulations with other imports to create a level playing field and reduce gold imports. Key points included:

- Authorizing banks to import gold on a consignment, unfixed price, and loan basis.
- Allowing export-oriented units (EOUs) and units in Special Economic Zones (SEZs) in the gems and jewellery sector to import gold directly using letters of credit (LCs).
- Extension of Provisions in June 2013: On June 4, 2013, the RBI vide RBI/2012-13/520 A.P. (DIR Series) Circular No.107 extended the earlier provisions to all nominated agencies, premier, and star trading houses authorized by the Government of India to import gold. [38]The import of gold on a consignment basis was only permitted to fulfil the requirements of gold jewellery exporters. The Letter of Credit (LC) opening required a 100% cash margin basis for gold imports, and imports had to be on a Documents against Payment (DP) basis, with exceptions for exporters of gold jewellery.
- Further Restrictions in June 2013: On June 27, 2013, the RBI issued Circular No.122[39], which restricted private nominated agencies/ nominated banks from importing gold on an unfixed price basis and suppliers/buyers credit basis. It mandated adherence to prescribed cash margins and Documents against Payment (DP) basis for all gold imports, and the continuation of gold imports on a loan basis solely for on-lending to jewellery exporters.
- Introduction of 20:80 Scheme in July 2013: On July 22, 2013, the RBI introduced the 20:80 scheme via Circular No.15[40], which required that a minimum of one-fifth of every gold import lot (in any form/purity including import of gold coins/dore) be reserved exclusively for export purposes. This scheme aimed to regulate the gold import process and ensure a portion of the imports was directed towards exports.
- Clarifications in August 2013: On August 14, 2013, the RBI provided detailed operational aspects of the 20:80 scheme through Circular No.25[41]. Customs authorities were tasked with overseeing the implementation of this regulation on a port-by-port basis.

2014: WITHDRAWAL OF THE 20:80 SCHEME

- Operational Clarifications in February 2014: On February 14, 2014, the RBI issued Circular No.103, providing operational clarifications for the allocation of gold by nominated banks and agencies[42]. The circular clarified that imports under the Advance Authorisation / Duty Free Import Authorisation (AA/DFIA) scheme would be outside the purview of the 20:80 scheme and accounted for separately.
- Further Operational Details in May 2014: On May 21, 2014, the RBI issued Circular No.133[43], detailing the import of gold under the 20:80 scheme by Star Trading Houses and Premier Trading Houses[44], aligning their status with nominated banks. **This decision on the eve of the new government formation had raised questions subsequently.**[45]
- Withdrawal of the 20:80 Scheme in November 2014: On November 28, 2014, the RBI[46] decided to withdraw the 20:80 scheme, providing operational clarity for the post-20:80 scheme era.

[38] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8020&Mode=0

39 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8072&Mode=0

40 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8252&Mode=0

41 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8312&Mode=0

42 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8745&Mode=0

[43] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8893&Mode=0

44 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8893&Mode=0

[45] https://indianexpress.com/article/explained/the-8020-scheme-what-is-it-and-who-benefitted-from-it-nirav-modi-mehul-choksi-pnb-fraud-5087295/

[46] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9370&Mode=0

2015: POST-20:80 SCHEME CLARITY

- Operational Clarity in February 2015: On February 18, 2015, the RBI [47]issued operational clarity for the post-20:80 scheme era, ensuring a smooth transition and continued regulation of gold imports and loans.

The regulatory landscape for gold imports in India, shaped significantly by the RBI's evolving policies, reflects a journey of cautious liberalization, strategic interventions, and adaptive measures. The phased approach to regulations, from authorizing specific banks for gold imports to introducing and later withdrawing the 20:80 scheme, demonstrates the RBI's commitment to maintaining economic stability while supporting the gold and jewellery sectors. As the regulatory framework continues to evolve, the lessons learned from this period provide a valuable foundation for future policymaking in the precious metals' ecosystem.

CHALLENGES OF THE BULLION DESKS IN NOMINATED BANKS

There are challenges with bank participation in the gold market, particularly with the consignment model, which has likely made banks overly reliant on suppliers setting prices for them. Additionally, most nominated banks have not advanced up the value chain by holding gold in their books, despite the enabling provisions of the RBI Circular RBI/2014-15/91 DBOD.No. Ret.BC.11/12.01.001/2014-15 dated July 01, 2014.[48] The current comfort zone for banks and their personnel, where a simple markup is added to run operations, has allowed large global banks (for e.g., JP morgan Chase Bank, Standard Chartered Bank, ICBC Standard Bank PLC, ANZ Banking Group, HSBC Bank etc.), with specialized teams to dominate price setting through hedging on over-the-counter markets or commodity exchanges like the CME Group. These global banks often act as clients of their own subsidiaries, which function as brokers and make the markets on the COMEX. However, the recent RBI Circular RBI/2023-24/120 DoR.AUT.REC.74/24.01.041/2023-24 dated February 9, 2024, enabling Indian nominated banks to hold positions in gold [49]may serve as a wake-up call, encouraging them to shift from the comfortable consignment model to actively playing the role of price makers.

One of the reasons why the Gold Monetisation Scheme hasn't gained significant traction especially amongst nominated banks in the private sector is because their bullion desks were not actively involved in the Treasury and ALM administration when it comes to gold and sourcing gold deposits from resident Indians. Also, the lack of products such as Gold Savings Accounts and Gold Accumulation plans which augment the Gold Monetisation Scheme to promote gold as a financial product has not been given a thought by regulators.

As one may observe from **Chart 3** below, the private investment which may include bars , coins and gold backed ETFs is approximately 47500 tonnes which is one of the major reasons how the foreign banks have been able to deliver gold on consignment or loan basis as supply to the Indian nominated banks. Central banks are also major clients of certain foreign banks for procuring the gold for the purpose of augmenting their foreign exchange reserves.

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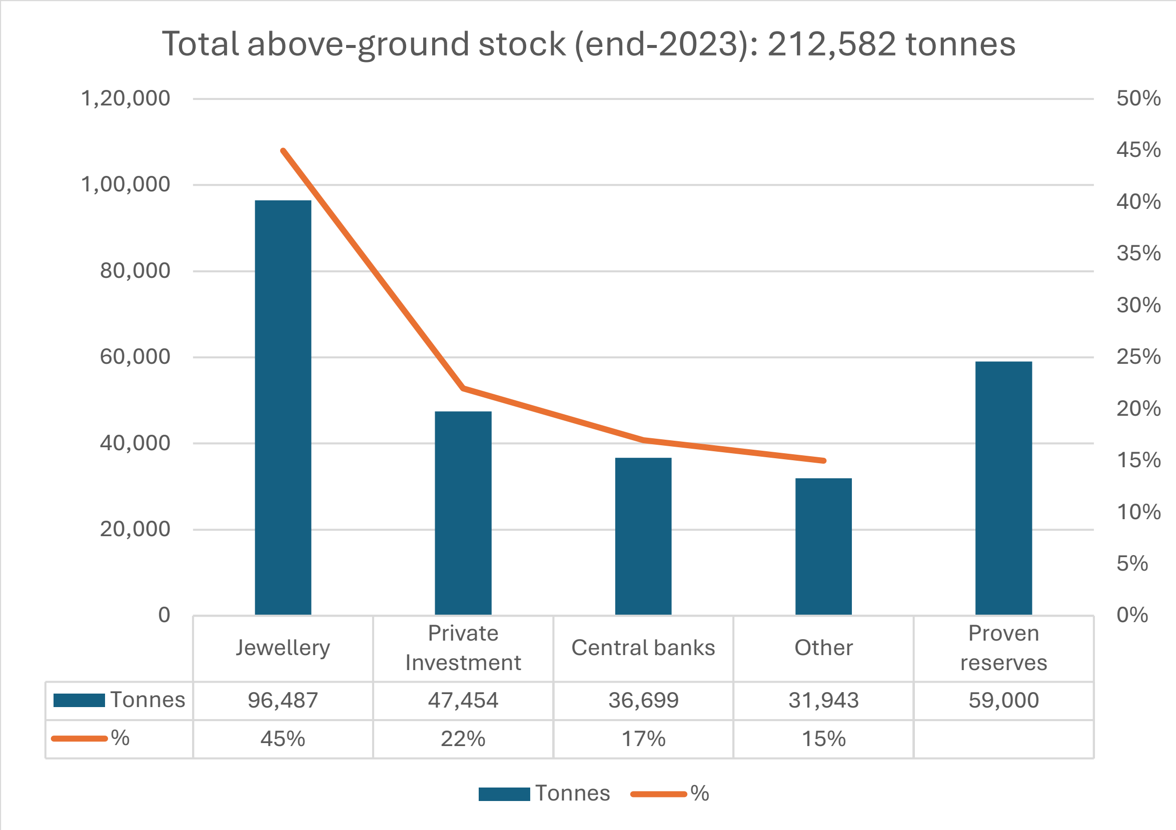
[47] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9573&Mode=0

[48] https://www.rbi.org.in/commonperson/english/Scripts/Notification.aspx?Id=1476

[49] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12606&Mode=0

Chart 3



Source: WGC

Also, if nominated banks were required to participate in imports solely through the exchange mechanism, as permitted by the RBI on a Documents Against Payment basis, the actual imports might be significantly reduced. This is because the current consignment model allows certain market participants to exploit customs tariff rates to generate substantial profits, even though the supplying banks are taking exposures on the nominated banks. Moreover, the consignment model lacks transparency, with supplying banks, nominated banks, and their clients engaging in OTC dealings, which are generally opaque in nature, offering different prices to different customers. Additionally, end clients with access to foreign suppliers can route transactions through the nominated bank of their 'choice', raising concerns about potential underhand dealings that could go unnoticed by internal risk management teams and the RBI.

DUTY DISPARITY: LEVERAGING INDIAN POLICY FOR LEGITIMATE DUTY CIRCUMVENTION

BACKGROUND

Since 2012, there have been changes in the gold policy enabling market players to import gold in other forms such as doré, findings, platinum alloy, etc. As the customs duty tariffs were increased for gold in bullion form, the market players have been trying to import gold in other forms to get a lower landing cost. This has led to market distortions and malpractices such as import of gold in other forms and remelting after import, as bullion bars suffer higher taxes when imported directly by the organised players.

In India, the presence of complex and varied duty structure in gold poses challenges, resulting in price discrepancies within the domestic market. These duty structures also impact the trade volumes on IIBX which can only permit transactions on import in form of bullion bars. The challenges for the exchange to generate the trade volumes through imports are tied to the imposition of specific duties on gold that is imported in various forms [doré, studded jewellery, unstudded jewellery, gold findings, doré from Least Developed Countries (LDCs), etc.]. The gold imported in different forms is subsequently refined into gold bars intended for sale within India.

Market participants exploit the various duty structures allowed under the Foreign Trade Policy and Free Trade Agreements with different countries to circumvent the intended purpose of these policies and agreements.

CRAFTING LEGITIMATE SMUGGLING: EXPLOITING INDIAN GOVERNMENT POLICY LOOPHOLES OVER TIME

INDIA-SOUTH KOREA FREE TRADE AGREEMEN,2010

The methods of legitimate ways to circumvent duties have been happening from 2017. One of the first was imports of gold coins from South Korea at a very low duty when the gold duties were at 10%. Under the India-South Korea free trade agreement enacted in 2010, India initially allowed duty-free imports of gold and silver items. However, to offset the equivalent excise duties on domestically produced gold and silver jewellery, a 12.5% countervailing duty was imposed.

With the introduction of the Goods and Services Tax (GST) on July 1, the countervailing duty was eliminated as the new tax system replaced excise duties. Gold now incurred only a 3% GST. This change made importing gold via South Korea profitable, given its duty-free status, while India continued to impose a 10% basic customs duty on gold imports from other countries.

As a result, gold imports from South Korea surged to $339 million between July 1 and August 3, compared to $70.5 million for the entire fiscal year 2016-17[50].

On August 14, 2017, the Directorate General of Foreign Trade (DGFT) banned the export of gold items above 22 carats vide Notification No.21/2015-2020[51], amid concerns that traders were exploiting the South Korea route. They were suspected of importing gold at lower costs and re-exporting it at higher prices without substantial value addition.

Indian industry has failed to benefit from this agreement as India's trade deficit with South Korea rose to US dollar 14.57 billion in FY23 from US dollar 9.39 billion a year ago[52]. In 2024, negotiations were conducted regarding upgrading the Comprehensive Economic Partnership Agreement (CEPA) between India and South Korea.

INDIA-ASEAN FREE TRADE AGREEMENT

Since 2017, there have been numerous instances of exploiting loopholes in the India-ASEAN FTA through multiple imports.[53]

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[50] https://www.livemint.com/Money/oGmSPwfq9DB8jO3N5mpGLN/Why-India-banned-gold-imports-from-South-Korea.html

[51] https://content.dgft.gov.in/Website/NotificationNo.21(e).pdf

[52] https://www.business-standard.com/economy/news/talks-on-upgrading-india-s-korea-fta-may-conclude-in-2024-korean-envoy-124022800814_1.html

[53] https://timesofindia.indiatimes.com/city/hyderabad/bizman-customs-officials-in-legal-battle-over-import-of-350-kg-gold/articleshow/70321862.cms

The Directorate General of Foreign Trade (DGFT) later enforced 'restrictions' on specific HSN codes, effectively closing the loophole. However, the increase in duty to 15% since 2021, has heightened the incentive to exploit these loopholes.

One of the most important HS codes for importing gold was in form of gold findings under HS Code 7113 wherein 'gold findings' were imported. "Gold or silver findings" means a small components like hook, clasp, clamp, pin, catch, screw back used to hold the whole or a part of a piece of jewellery.

Large amounts of gold and silver findings were imported through the Indonesia route[54].In FY 2022-23 the Central Board of Indirect Taxes and Customs (CBIC) had seized 3481 kg of gold amounting to Rs 1947.27 crore[54]. This was however, plugged by customs increasing the duty to a total of 15% with AIDC being increased vide Notification No. 05/2024-customs dated January 22, 2024.[55] Also, gold findings import other than under India- UAE India UAE CEPA was placed under 'restricted' category[56] vide DGFT Notification No. 17/2024-25 dated June 11, 2024. This meant that gold findings from any route was placed under 'restricted' category for HS Code 71131912, 71131913, 71131914, 71131915.

It may be noted that there is also the potential for imports of platinum alloy, unwrought platinum, or other semi-manufactured forms of platinum under HS Codes 71101110, 71101120, and 71101900, with a gold content exceeding 80%, possibly from Indonesia and other ASEAN countries in the near future.

IMPORT FROM LDC (LEAST DEVELOPED COUNTRIES) – TANZANIA AND OTHERS

It may be noted that the import of gold findings has significantly increased in the month of February 2024, from Tanzania post the implementation of Central Board of Indirect Taxes and Customs (CBIC) notification dated January 22, 2024[57]. It is important to note that Custom notification on India's Duty-Free Tariff Preference (DFTP) Scheme for Least Developed Countries (LDCs) dated June 16, 2023[58], states "Tanzania" as a Least Developed Country.

The notification states the following:

The Decision to provide Duty Free Quota Free (DFQF) access for LDCs was an outcome of the WTO Hong Kong Ministerial Meeting, held in December 2005. This decision as given in Annex F of the Hong Kong Ministerial Declaration inter alia requires all developed-country Members, and *developing-country Members declaring themselves in a position to do so*, to:

(a) Provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability.

(b) Members facing difficulties should provide market access for at least 97 per cent of products originating from LDCs defined at the tariff line level, by 2008 or no later than the start of the implementation period. In addition, these Members shall take steps to progressively achieve compliance with the obligations set out

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[54] https://www.thehindu.com/business/Industry/the-hike-in-import-duties-for-gold-silver-findings-explained/article67785532.ece

[55] https://taxinformation.cbic.gov.in/view-pdf/1009996/ENG/Notifications

[56] https://content.dgft.gov.in/Website/dgftprod/e9abdef7-ef51-439e-b7fe-1e50607d8700/English.pdf

[57] https://taxinformation.cbic.gov.in/view-pdf/1009994/ENG/Notifications

[58] https://commerce.gov.in/wp-content/uploads/2023/07/Annexure-I-Brief-on-DFTP-Scheme-for-LDC-as-on-16.06.2023-2.pdf

above, taking into account the impact on other developing countries at similar levels of development, and, as appropriate, by incrementally building on the initial list of covered products.

(c) Developing-country Members are permitted to phase in their commitments and shall enjoy appropriate flexibility in coverage.

(d) Preferential rules of origin applicable to imports from LDCs are required to be transparent and simple and contribute to facilitating market access.

Some refiners were importing gold doré at 'zero' duty from LDC especially Tanzania wherein being large refiners they had exclusive access to mines such as North Marra mines operated by Barrick Gold Corporation[59]. This gave a significant advantage to those refiners whose supply lines were intact and who had the benefit of 90-day time to fix the price of the imported gold doré[60]. It is understood that the renewed licenses issued to refiners explicitly state that LDC exemptions do not apply to doré imports from these jurisdictions.

Before DGFT Notification No. 17/2024-25 dated June 11, 2024[61], there was significant import of gold from Tanzania, which has now been restricted. However, there is a possibility that platinum alloy, unwrought platinum, or other semi-manufactured forms of platinum under HS Codes 71101110, 71101120, and 71101900, with a gold content exceeding 80%, may soon begin to be imported duty-free from Tanzania and other LDCs[62]. The latest is the import of gold findings at a lower duty. Estimates suggest that 300-500 kg of gold is being imported daily[62].

GOLD TURNS TO PLATINUM – A DISCOVERY BY INDIA

Chapter Note 5 and Note 6 of Chapter 71 of the Customs Tariff Act which is aligned with the Harmonised System of Nomenclature (HSN) enumerates about the constitution of precious metal content in a product and classifies it accordingly, the said chapter note is produced below:

"5. For the purposes of this Chapter, any alloy (including a sintered mixture and an intermetallic compound) containing precious metal is to be treated as an alloy of precious metal if any one precious metal constitutes as much as 2% by weight, of the alloy.

Alloys of precious metal are to be classified according to the following rules:

(a) an alloy containing 2% or more, by weight, of platinum is to be treated as an alloy of platinum.

(b) an alloy containing 2% or more, by weight, of gold but not platinum, or less than 2% be weight, of platinum, is to be treated as an alloy of gold.

6. Except where the context otherwise requires, any reference in this Schedule to precious metal or to any particular precious metal includes a reference to alloys treated as alloys of precious metal or of the particular metal in accordance with the rules in Note 5 above, but not to metal clad with precious metal or to base metal or non-metals plated with precious metal"

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[59] https://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/gold-dealers-disquiet-over-imports-from-africa/articleshow/101466858.cms?from=mdr

[60] https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10201 – C.11.2

[61] https://www.dgft.gov.in/CP/?opt=notification

[62] https://www.business-standard.com/markets/commodities/zero-duty-gold-dore-imports-from-ldcs-take-glitter-off-domestic-market-124012100386_1.html

As per rule(a) above, an alloy of two precious metals containing 2% or more of platinum is to be treated as an alloy of platinum.

Further rule (b) provides an alloy of gold and platinum containing 2% or more of gold but where platinum is less than 2% to be treated as an alloy of gold. On harmonious reading of rule(a) and (b), an alloy containing 2% or more of platinum will qualify as an alloy of platinum and an alloy containing 2% or more of gold, but not containing 2% or more of platinum shall be treated as an alloy of gold.

It is to be noted that the above definition of 'platinum alloy' flows from the World Customs Organisation.[63]

However, it is our Indian traders who have uniquely discovered how to exploit this loophole—an extraordinary skill unmatched anywhere else in the world.

It is important to note that Indian traders are classifying an alloy with more than 2% weight of platinum as platinum alloy, even if it contains over 80% gold. For example, if the alloy has 96% gold and 4% platinum, it is permitted to classify the import as platinum alloy.

As per market sources the Indian players focus on the 'platinum' alloy, by quickly analysing the various FTAs and coordinate with respective players in other jurisdictions to mix a small amount of platinum with a large amount of gold, effectively circumventing the duties applicable in India.

Currently, the most active route for importing platinum alloy is under the India-UAE Comprehensive Economic Partnership Agreement (CEPA) and the imports from Least Developed Countries (LDCs) at zero duty. Additionally, new routes are being operationalized via Indonesia under the India-ASEAN Free Trade Agreement (FTA), expanding the avenues for duty-free or reduced-duty imports.

Cues may be taken from the US Customs and Border Protection, to control the imports of platinum alloy and the duty circumvention. The Informed Compliance Publication issued in September 2015, states the explanation for Note 5(a) that [64]:

Given Note 5(a), it follows that the classification of an alloyed product other than the ferroalloys (Ch. 72) and the master alloys (Ch. 74), will vary depending on the metal which predominates by weight. For example, if an alloyed product consists of 36% metal "A", 34% metal "B", and 30% metal "C", by weight, then that item would be classified under the heading that provides for metal "A", because it predominates by weight over each of the other metals

The General Explanatory Note in the document also states that[64]:

alloys of base metals with as much as 2% (or more) by weight of a precious metal (silver, gold and platinum) are not classified in a chapter for non-ferrous metals. Such items, along with any base metal item clad with precious metals, are classified within (Ch. 71). The Note also indicates that alloys of base metals of Section XV that are combined with non-metals or with the metals of heading 2805, HTSUS, are classified as alloys of base metal provided that the total weight of said base metals equals or exceeds the total weight of the other elements present. They are otherwise generally classified in heading 3824, HTSUS.

Note that the addition of alloying elements to a pure metal does not necessarily render it an alloy.

Therefore, the long-term solution to avoid circumvention of duties on gold by declaring imports as 'platinum' alloy would be:

i. Impose IGCR Rules 2022 for end user
ii. Permit imports of platinum alloy only for 'Actual User'

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[63] https://www.wcoomd.org/-/media/wco/public/global/pdf/topics/nomenclature/instruments-and-tools/hs-nomenclature-older-edition/2007/hs-2007/1471_2007e.pdf?la=en

[64] https://www.cbp.gov/sites/default/files/assets/documents/2016-Mar/ICP%20Basic%20Forms%20of%20Non-Ferrous%20Metals-Shurn%20Revision%20Sept%2010%202015.pdf

iii. Mandate the payment of duties as per the weight/content of the majority metal in the alloy
iv. Place 'Platinum' alloy as a 'Restricted' item even for an 'Actual User'

UNRAVELING INDIA'S REGULATORY WEB: IS THE EXCHANGE MECHANISM OUTLANDISH?

BACKGROUND TO THE ESTABLISHMENT OF INTERNATIONAL BULLION EXCHANGE

NITI AYOG COMMITTEE REPORT ON TRANSFORMATIONAL GOLD POLICY

The establishment of an International Bullion Exchange in the GIFT-IFSC (Gujarat International Finance Tec-City - International Financial Services Centre) can be traced back to the NITI Ayog Committee Report on Transformational Gold Policy in February 2018[65]. The objective behind this initiative was to create a centralized platform, serving as the primary intermediary, for all gold imports and exports. This International Bullion Exchange at GIFT-IFSC aims to facilitate trading activities similar to international spot exchanges like the Shanghai Gold Exchange. The International financial services centres (IFSCs) offer the advantage of an internationally oriented regulatory regime with necessary exemptions from capital controls to make the global contracts / trading feasible.

The NITI Ayog Committee recommended the setting up of a Bullion Exchange in the GIFT-IFSC so that can provide the following:

- Allow import of gold in India through GIFT City.
- Create a set of vaults in GIFT-IFSC for gold that adhere to standards set by the regulator.
- Vaults to work with the proposed Bullion Exchange being setup in India for distribution of the same in the local markets.
- Allow trading with global markets, which can create a vibrant marketplace that helps in price discovery, with potential for India to be the price setter in the gold.

In the Budget 2020, Hon'ble Finance Minister of India announced for setting up an International Bullion Exchange at the IFSC in GIFT City, Gandhinagar, Gujarat. In 2020, amidst the global pandemic, following the establishment of the International Financial Services Centres Authority (IFSCA) as the unified regulator for GIFT City, significant efforts were made to develop state-of-the-art infrastructure for bullion trading.

IGPC (IIMA) – IFSCA WORKING GROUP

IFSCA and India Gold Policy Centre (IGPC) at IIM- Ahmedabad created a working group in September 2020 under the chairmanship of Prof Arvind Sahay, IIM-A (Chairperson, IGPC) on setting up an International Bullion Exchange (IBE) in GIFT-IFSC. The final report was submitted in January 2021. The Committee had representation from various stakeholder groups including international and domestic banks, vaulting and logistics service providers, jewellers and bullion dealers, industry / trade associations, global and Indian gold refineries, World Gold Council and the IFSCA.

The focus of the Working Group, apparently, was to give recommendations on setting up an international Exchange for facilitating trading in gold through spot and deferred contracts (akin to Shanghai Gold Exchange i.e. SGE – SGEI) and define the enablers for making such an exchange successful and sustainable in the broader context. Some of the major recommendations of the Working Group were:

[65] https://www.niti.gov.in/sites/default/files/2019-06/Report_GoldMarket.pdf

- International Bullion Exchange (IBE) should be well capitalised and should have a share capital of Rs. 675 crores. At least 5 to 10% stake from Central government to provide strong sovereign backing that can be liquidated after three years.
- Primary membership: International Banking Units (IBUs) in IFSC and the institutions (agencies and banks) nominated by DGFT and RBI to import gold.
- Secondary membership: International trading companies, domestic precious metal refining companies (defined as Qualified Refiner), and Indian corporates with net worth of US $10 million, and a record of report a net profit for last five consecutive years.
- The contract of minimum quantity should be of 5 kgs for both 100 gram and 1 kilogram contract. The pilot should be run on a T+0, T+1 and T+2 contract for all deliveries happening only from IFSC vaults. During launch it may be considered to launch a rolling contract with T+10.
- A contract for India Refined Gold may be considered for listing separately and GIFT-IFSC can be made a conduit to export domestic refined gold.
- Initiate collaboration with the Customs to develop a Customs Automated System and the Risk Management system at IFSC i.e. ICEGATE.
- The international supplier or the International Banking Unit with office at IFSC would be able to trade gold through the IBE within the IFSC and for delivering to the DTA, to export gold from IFSC to a different country and to service with their products to institutions in the DTA.
- IBUs be allowed to open client accounts to trade on the IBE, and also to trade on own account by developing an interface with exchange, to facilitate trade execution and live monitoring of client exposure.
- An incentive structure needs to be worked out that motivates or necessitates the participants to carry out trades at IBE:
- Incentivise transaction through IBE with a customs duty on imported refined gold that may be at a concessional rate lower by 0.30% (the then customs duty differential was 12.50% and Working Group recommended 12.20% for import through the exchange).

The Working Group provided the following goals for the IBE over a three-year horizon from the launch:

- Become a platform for Indian banks to enter the league of global bullion banks
- Become an important medium to track transaction of at least 50,000 major jewellers (if all imports are routed through IBE)
- FDI inflow in precious metal refining with the dual benefit as a consumption and trading market with risk management, products & financing on par with western markets.
- Make India a global storage hub for vaulting of precious metals in the ‘eastern’ world.

IFSCA’S BULLION EXCHANGE REGULATIONS AND ESTABLISHMENT OF IIBX

In November 2020, the IFSCA notified the Bullion Exchange Regulations. In 2021, five major Market Infrastructure Institutions (MIIs), namely the National Stock Exchange (NSE), India International Exchange (India INX), Multi Commodity Exchange (MCX), National Securities Depository Ltd (NSDL), and Central Depository Services Ltd (CDSL) came together to establish the India International Bullion Exchange (IIBX), a unified exchange platform designed for trading and clearing of bullion at GIFT-IFSC.

The exchange ownership is vested with the India International Bullion Holding Company (IIBH) which is in turn owned by the five MIIs as mentioned above. The holding company has also assumed control of the depository, i.e. India International Depository IFSC Ltd. (IIDI), responsible for dematerialization of the bullion in the form of Bullion Depository Receipts (BDRs) which are backed by the bullion stored in the internationally recognized vault managers namely Brinks Global Services, Malca-Amit JK Logistics, and Sequel Logistics Ltd. present in IFSC and empanelled by the IFSCA.

The IIBX was formally inaugurated by the Hon'ble Prime Minister, Shri Narendra Modi, on July 29, 2022.

CURRENT STATUS OF PARTICIPATION IIBX

While the India-UAE CEPA facilitates gold and silver imports via IIBX, allowing TRQ holders to import gold at concessional duty and qualified jewellers to import silver similarly, the volumes are significantly lower compared to those imported by nominated banks or doré refiners into India. Navigating through persistent multiple duty structures, policy loopholes, and the consignment model employed by nominated banks feels like attempting to divert a river into a canal (i.e. the IIBX model), when the mighty Ganga flows endlessly—a seemingly futile endeavour. Even though the RBI has permitted nominated banks to participate on IIBX, there must still be a compelling business case to adopt this model, especially when the consignment model has already been established and has made banks and their personnel comfortable.

THE CASE FOR MANDATING FOR IMPORTS OF GOLD THROUGH IIBX

To increase volumes on IIBX, it is essential that it is seen as a public good infrastructure (universal exchange) for creating a bullion / precious metal ecosystem.

The consignment system seems to be working well for India as it provides high degree of flexibility to the end user (timings of pricing and taking delivery, gold metal loan etc) on behalf of whom the imports are carried out by nominated banks / agencies. With the obvious advantages of consignment model, the market participants – suppliers, banks and end users (jewellery manufacturers and bullion dealers) would either need a minimum incentive (e.g. in terms of a lower import duty) or the force of a clear mandate to move from bilateral / Over-the-Counter market to the exchange model of imports.

It may also be pertinent to note that since the overseas suppliers bear the price risk (till fixed) and also the cost of funding and storage of metal (till it is actually bought / borrowed under GML/ taken out), this would be reflected in the premium / price charged by the supplier from the end user – that itself may vary based on the negotiation power of the end user directly with the overseas supplier. The flexibility and simplicity of consignment model come with the inherent opacity, and it may be useful to gather the relevant granular data to examine whether it is resulting in a higher final cost for the overall gold import of the country. Further, under the consignment model, Indian nominated banks by not taking any price risk on their balance sheet in respect of imports, merely act as commission agents and stay away from the value-added banking and risk management services (involving lending / trading / hedging).

On the other hand, the foreign bullion banks are not inclined to participate until there is an active presence of Indian banks / IBUs on IIBX - as nominated banks or as members of the exchange (TM/TCMs).

Given the aforementioned factors, it could be essential to initiate the enforcement of import mandates and provide a gliding path to guide market participants toward embracing a transparent exchange platform, both in international side (IFSC) regulated by IFSCA and domestic markets through gold exchanges regulated by SEBI, by directing all gold related imports and trading through the respective exchanges. To begin the journey toward transparency, a logical first step could involve **making gold/silver imports under India-UAE CEPA mandatory through IIBX.**

Without government support, this exchange is likely to fail unless there is a clear mandate to ensure all gold and silver imports for transparency, regulatory oversight, and price discovery through IIBX. It's unrealistic to compete for liquidity with established exchanges or Over-the-counter markets like LBMA, Shanghai Gold Exchange, or CME Group (COMEX) without such a mandate. Once mandated, nominated banks would participate, ensuring a unified flow regulated by strict oversight and immediate data availability.

DEVELOPMENT OF THE PRECIOUS METALS EXCHANGE MODEL – A GLOBAL PERSPECTIVE

It has been observed that in jurisdictions like China and Turkey the exchange model has thrived because of clear thought process that all transactions related to trading and delivery of precious metals **are either mandated or incentivised through the exchange**. In Turkey it is mandated that all bullion is to be traded on Borsa Istanbul (BI), while the absence of VAT (equivalent to customs duty currently at 13%), on Shanghai Gold Exchange has enabled the OTC markets to move into the exchange ecosystem.

It is important to note that globally the government and the regulators were taking note/stock of the fact that large transactions are being negotiated in a model which may be of benefit to a few players both on supply side as well as on the demand side, which may be detrimental to the development of the larger ecosystem.

Therefore, steps were being undertaken to ensure all transactions in gold, silver etc are done through an exchange model to ensure transparency.

CHINA - SHANGHAI GOLD EXCHANGE (SGE)

SGE is the largest physical bullion exchange in the world, located in Shanghai China. SGE was established in October 2002 by People's Bank of China ("PBOC") upon approval by State Council and supervised by PBOC[66]. It facilitates trading in gold, silver, platinum, and palladium contracts. The SGE operates as a centralized exchange with electronic trading platforms. It provides a variety of trading mechanisms, including spot trading, deferred trading, and options trading. The SGE plays a vital role in China's efforts to establish Shanghai as an international financial hub and has been instrumental in increasing China's influence in the global bullion market.

While, in case of the SGE, it has been the banks who are the primary drivers and the liquidity providers, market makers, margin custodians and members of the exchange apart from being the key importers of gold and silver. The involvement of banks in the SGE contributes to the overall efficiency, liquidity, and stability of the exchange, facilitating the trading of precious metals in China's domestic and international markets. The Shanghai Gold Exchange has a main board as well an international board named as Shanghai Gold Exchange International (SGEI) setup as a subsidiary of the SGE. SGEI is similar to India International Bullion Exchange (IIBX). SGEI was established to serve the global market and provide international investors and market participants with access to gold-related financial products and services. It was established in 2014[66].

The Shanghai Gold Exchange International (SGEI) offers a range of dedicated physical gold contracts designed specifically for international gold investors. These contracts are listed and traded on the exchange. The SGEI has established a certified precious metals vault as part of its infrastructure to store the physical metal that backs these gold trading contracts.

This certified vault, located within the Shanghai Pilot Free Trade Zone (FTZ), is separate and distinct from the SGE's network of gold vaults, which primarily serve the domestic Chinese gold market. The SGEI vault is ring-fenced and operates independently. It houses the gold that supports the trading conducted on the SGEI.

One notable advantage of the SGEI certified vault being situated in the Shanghai Pilot FTZ is that the gold stored within it can freely enter and exit the FTZ without being subject to customs restrictions. For customs purposes, the **FTZ is considered to be outside of China,** allowing for the smooth importation and exportation of gold.

[66] https://en.sge.com.cn/eng_about_Overview

In summary, the SGEI offers specific physical gold contracts for international investors, backed by a certified precious metals vault located in the Shanghai Pilot FTZ. This arrangement ensures the secure storage of the physical metal supporting the gold trading activities on the SGEI, with the added benefit of **easy importation and exportation due to the FTZ's customs status.** In a general sense, a free trade zone refers to a designated area within an economy that permits goods to be imported, stored, processed, and re-exported with minimal customs intervention.

Although the SGEI and SGE are physically separate entities, but they operate under the same umbrella ('The Exchange'). Since the SGEI is known as the International Board (IB), the SGE is sometimes referred to as the Main Board of the Exchange.

The main objectives of SGEI are:

- to internationalise membership of the Exchange (given that international members can trade both international and domestic contracts on the SGE),
- **to introduce offshore Renminbi and other convertible currencies into SGE trading activity,**
- to improve gold price discovery, trading volumes and liquidity on the Exchange, and to strengthen exchange trading in advance of the launch of an RMB Gold Fixing (the Shanghai Gold Fixing auction was launched in April 2015),
- **to boost internationalisation of the Chinese currency,**
- to enhance Shanghai as a gold re-export center and ultimately make Shanghai Asia's premier gold re-export center,
- to boost activity in the Shanghai FTZ and the Shanghai International Financial Center.

It's trading volume in June 2024 for gold was 4,419,986.10 kg amounting to 2,424,497,149,600 RMB[67].

SGE – SGEI: RENMINBI LINK

The SGEI provides Renminbi-denominated physical gold contracts specifically tailored for international members and their customers. Due to the limited liberalization of the Chinese gold market and restrictions on gold exports from China, the gold underlying these international products needs to be kept separate from the domestic Chinese gold market. To accommodate this, the SGEI is located within the Shanghai Free Trade Zone (FTZ), which is treated as outside of China for customs purposes. This allows the gold underlying these contracts to be imported into and exported from the FTZ without complying with domestic Chinese customs procedures.

International members of the SGEI and their customers also have the ability to trade Main Board SGE products. However, gold associated with Main Board contracts must remain in the Chinese domestic market and cannot be withdrawn from SGE-certified vaults by international members or customers.

Similarly, domestic members of the SGE and their customers can trade International Board gold contracts but are prohibited from withdrawing the gold related to these contracts from the Shanghai Free Trade Zone (i.e., the SGEI-certified vault) unless they hold a license from the People's Bank of China (PBOC) that permits them to import gold into the domestic Chinese gold market.

The Chinese currency, the Renminbi, is traded in two versions: onshore Renminbi (CNY) and offshore Renminbi (CNH). Onshore Renminbi (CNY) is traded in the domestic Chinese market, and the PBOC determines the reference rate for CNY daily, aiming to control its fluctuations within a 2% band through intervention when necessary.

CNH represents the Renminbi when traded in offshore accounts, and CNH is fully convertible into other currencies. The PBOC also occasionally intervenes to influence the rate of offshore Renminbi.

[67] https://en.sge.com.cn/upload/file/202407/03/Data%20Highlights--June%202024.pdf

CNY and CNH are not separate currencies but rather two versions of the same currency. However, they have different exchange rates against other currencies, such as the US Dollar.

Both International Board and Main Board gold contracts can be traded using onshore and offshore Renminbi. Consequently, with the launch of the SGEI, the Exchange (SGE and SGEI) now facilitates a connection between the onshore and offshore Renminbi markets. Domestic SGE members and their customers can trade SGE and SGEI products using either onshore or offshore Renminbi, and likewise, international members of the SGEI and their customers can trade SGEI and SGE products using either onshore or offshore Renminbi.

MEMBERSHIP OF THE SGEI

To become an international member of the SGE, an entity must be registered outside of the People's Republic of China (PRC). For instance, the entity could be registered in locations like Hong Kong or the Shanghai Pilot Free Trade Zone. Consequently, entities such **as China Construction Bank Shanghai Free Trade Zone Branch and Bank of China (Hong Kong) Limited are categorized as international members of the SGE**. Below are the banking members of the Shanghai Gold Exchange International:

List of banking branches as members of SGEI[68]		
Chinese Entities	Foreign Entities incorporated in China	Foreign Entities not incorporated in China
1. Bank of Beijing Shanghai Branch 2. Bank of Communications Co., Ltd. Shanghai Pilot Free Trade Zone Branch 3. Shanghai Pudong Development Bank, Shanghai Pilot Free Trade Zone Branch 4. Bank of Shanghai Shanghai Pilot Free Trade Zone Branch 5. Industrial Bank Co., Ltd. Hong Kong Branch 6. Industrial and Commercial Bank of China, Shanghai Pilot Free Trade Zone Branch 7. China Everbright Bank, Shanghai Pilot Free Trade Zone Branch 8. China Construction Bank Shanghai Pilot Free Trade Zone Branch 9. China Minsheng Bank Shanghai Pilot Free Trade Zone Branch 10. Agricultural Bank of China Co., Ltd. Shanghai Pilot Free Trade Zone Branch	28. ANZ Bank (China) Company Ltd. Shanghai Pilot Free Trade Zone Sub-Branch 29. HSBC Bank (China) Company Ltd. Shanghai Pilot Free Trade Zone Sub-Branch 30. United Overseas Bank (China) limited Shanghai Pilot Free Trade Zone Sub-branch 31. BNP Paribas China Limited	32. Standard Chartered Bank (Hong Kong) Limited 33. Australia and New Zealand Banking Group Limited 34. Sberbank (Switzerland) AG 35. Public Joint Stock Company Bank "Otkritie Financial Corporation" 36. VTB Bank (Open joint-stock company) 37. ICBC Standard Bank Plc 38. UBS AG 39. Bank of Taiwan 40. Standard Chartered Bank 41. JP Morgan Chase Bank, N.A. London Branch 42. Kuveyt Turk Participation Bank INC. 43. Bank Julius Baer & Co. Ltd 44. United Overseas Bank Limited 45. Deutsche Bank AG, London Branch

[68] https://en.sge.com.cn/membership_ListofMembers_internationalboard

11. Bank of China (Hong Kong) Limited 12. China Zheshang Bank Shanghai FTZ Branch 13. Bank of Ningbo Shanghai Branch 14. Bank of Communications Co., Ltd. Macau Branch 15. China Everbright Bank Company Limited Hong Kong Branch 16. Bank of China Shanghai, Pilot Free Trade Zone Branch 17. Industrial and Commercial Bank of China (Macau) 18. Bank of China Limited Macau Branch 19. Shanghai Pudong Development Bank Co., Ltd. Singapore Branch 20. Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch 21. Bank of Tianjin Co., Ltd. Shanghai Branch 22. Bank of Communications Co., Ltd. Hong Kong Branch 23. China Merchants Bank, Shanghai Branch 24. Pingan Bank, Shanghai Pilot Free Trade Zone Branch 25. China CITIC Bank, Shanghai Branch 26. Bank of Communications Co.,Ltd. 27. China Bohai Bank Shanghai Pilot Free Trade Zone Branch		

IMPORTING GOLD – AUTHORISATION AND LICENSING IN CHINA

Generally, in China only entities granted an Import and Export License for Gold and Gold Products can import gold into the Chinese domestic gold market, and only the PBoC can issue such a license. The 'Measures' state that:

"For the import and export customs clearance of gold and gold products as included in the Catalogue for **the Regulation of the Import and Export of Gold and Gold Products, the Import and Export License of the**

People's Bank of China for Gold and Gold Products issued by the People's Bank of China or a People's Bank of China branch shall be submitted to the Customs[69]."

In practice, **only financial institutions are granted licences to import Standard Gold (bullion bars) into China**. The 'Measures' state that:

"An applicant for the import and export of gold ... shall have corporate status, ... it is a financial institution member or a market maker on a gold exchange approved by the State Council[69]."

Currently, 13 financial institutions are approved by the PBoC to hold a gold import license. Four of these are foreign banks, the other nine are Chinese banks:

Chinese Banks	Foreign Banks
1. Industrial and Commercial Bank of China (ICBC) 2. China Construction Bank (CCB) 3. Bank of China 4. Agricultural Bank of China 5. Bank of Shanghai 6. China Minsheng Bank (CMB) 7. Industrial Bank 8. Shenzhen Development Bank (SDB) / Ping An Bank 9. Everbright	1. HSBC Bank (China) Ltd 2. Australian and New Zealand Bank (China) Company Ltd 3. Standard Chartered Bank (China) Ltd 4. United Overseas Bank (UOB)

In September 2015, Zijin Mining, a prominent gold mining company in China, achieved a significant milestone as it became the first non-financial domestic company authorized by the PBoC to import gold into the country. **This regulatory shift by the PBoC indicates a desire from Chinese authorities to foster the growth of Chinese gold mining companies, like Zijin, China National Gold Group, and Shandong Gold Group, through encouraging them to pursue gold import licenses[69].** This encouragement aims to facilitate the importation of gold produced in their overseas mining operations, aligning with the trend of Chinese companies acquiring mines internationally.

List of financial members in the main board of the SGE conducting operations as intermediary[70]:	
1. Industrial & Commercial Bank of China Co.,Ltd 2. Agricultural Bank of China Co.,Ltd 3. Bank of China Co.,Ltd 4. China Construction Bank Co.,Ltd 5. Bank of Communications Co.,Ltd 6. Postal Savings Bank of China Co.,Ltd 7. China Citic Bank Co.,Ltd 8. China Everbright Bank Co.,Ltd 9. Hua Xia Bank Co.,Ltd 10. China Minsheng Banking Co.,Ltd 11. Shanghai Pudong Development Bank Co.,Ltd 12. Guangdong Development Banking Co.,Ltd 13. Ping An Bank Co.,Ltd 14. China Merchants Bank Co.,Ltd 15. Industrial Bank Co.,Ltd 16. Evergrowing Bank · Co.,Ltd	17. Bank of Shanghai Co.,Ltd 18. Bank of Ningbo Co.,Ltd 19. Shanghai Rural Commercial Bank Co.,Ltd 20. Xiamen Bank Co.,Ltd 21. Bank of Beijing Co.,Ltd 22. Fudian Bank Co.,Ltd 23. Shenzhen Financial Electronic Settlement Center Co.,Ltd 24. Guangxi Financial Electronic Settlement Service Center Co.,Ltd 25. China Gold Coin Group Co., Ltd. 26. China Golddeal Investment Co., Ltd 27. China Zheshang Bank Co., Ltd. 28. Jiangnan Rural Commercial Bank 29. SICHUAN TIANFU BANK CO., LTD

69 https://www.bullionstar.com/gold-university/chinese-cross-border-trade-rules gold#:~:text=China's%20gold%20trade%20rules%20are,holds%20these%20gold%20import%20licenses.

70 https://en.sge.com.cn/membership_ListOfMembers_MainBoard

TURKEY – BORSA ISTANBUL

Turkey imports around 180 Tonnes of gold annually [71]and it is the world's fourth largest gold consumer, accounting for about 6% of the global demand. It is estimated that Turkish households have at least 3,500 Tonnes of gold. Gold is intimately linked to the Turkish culture, like in India. Gold is gifted during almost all-important life events and it is used as a medium of exchange even today. Investors use it as an inflation and currency hedge. Turkey's jewellery fabricating skills are exemplary, and it has significant jewellery exports. Many international brands source their designer jewellery products from Turkey. Like India, Turkey faces significant shortage of local production to match the demand. It has a small but growing gold mining industry. The domestic gold production was about 39 Tonnes[19] in 2022, leaving a large gap between domestic demand and production. According to Global Data, Turkey is the world's twentieth-largest producer of gold in 2023, with output up by 26% (i.e. 49.14 Tonnes)[72] from 2022.

POLICY EVOLUTION

Till about 1980s, the gold sector in Turkey was highly regulated. Several reforms overtime has modernised the gold sector in Turkey. Some of the key reforms are given below:

- Turkey started to significantly liberalize gold trade from 1993. In 1995, it established the Istanbul Gold Exchange (IGE) to provide a price discovery mechanism and to ensure the quality of gold. IGE offered spot contracts in gold and later launched gold futures and options. The IGE had been very successful in creating a link between precious metals markets and financial markets and enhanced its position as a regional financial centre. The IGE prices quickly established the benchmark price for gold in Turkey.

- In 2011 **Turkey started monetising its stock of gold a**nd started to further integrate gold into its financial system. As part of the gold monetization, it allowed:

    a. commercial banks to hold part of their required domestic currency reserves in either foreign currency or gold and

    b. buy and sell gold coins and jewellery. The substitution of high-yield Turkish lira with gold for reserves made banks more stable. This has created an incentive for commercial banks to draw gold from the households into the banking system and banks aggressively promoted gold current accounts, gold accumulation plans, gold structured products, and a range of lending products. Some of the products include:

        (i) gold accounts which allow savers to trade gold, Turkish lira and foreign currencies
        (ii) interest bearing fixed term gold savings accounts and
        (iii) gold-dispensing ATMs so consumers can easily buy hallmarked bars.

- By the end of 2013, commercial banks held around 250 Tonnes, equivalent to $10.4 billion worth of gold. While most of the stock was accumulated from investors switching from Turkish lira and foreign currency into gold accounts, it also included 40 Tonnes of household stock of gold. The proportion of recycled gold had been rising in the Turkish market as shown in the below table. The recycling is supported by the establishment of LBMA accredited refineries.

[71] https://www.niti.gov.in/sites/default/files/2019-06/Report_GoldMarket.pdf

[72] https://www.mining-technology.com/data-insights/gold-in-turkey/?cf-view

Gold recycling volumes of top six countries (tonnes)

Country	2017	2018	2019	2020	2021
China	143	146	169	189	168
India	88	87	120	96	75
Turkey	85	113	116	75	52
Italy	80	77	86	87	80
United States	82	81	85	72	78
Egypt	76	47	50	50	44
World	1,111	1,132	1,273	1,292	1,150

Note: Gold recycling captures scrap generated in the country of origin. It excludes scrap generated as a result of the exchange of old for new jewellery at the retail level. It also excludes production/process scrap.
Source: Metals Focus, World Gold Council

- In April 2013, the IGE was merged with the Istanbul Securities Exchange (IMKB) and Futures and Options Exchange (VOB). These together created Borsa Istanbul (BIST) and succeeded in creating an efficient structure to boost Istanbul as a financial centre. **BIST serves as a gateway for gold imports. BIST is also responsible for licensing gold importers and assayers, and for maintaining the quality of gold imported through it. Gold traded on BIST is tax-free. This has laid the foundation for financialization of gold as a part of Turkey's financial system.**
- The responsibility to manage the activities of former IGE led to the formation of Precious Metals and Diamonds market (PMDM). Earlier only members of PMDM can import non-standard and standard (minimum of 995 purity) gold bars. After regulatory changes in February 2021, majority of non-standard gold bars have been imported outside the exchange to avoid withdrawal and exchange trading fees.

List of banks as members in the Borsa Istanbul[73]	
1. AKBANK T.A.Ş.	17. TÜRKİYE HALK BANKASI A.Ş.
2. AKTİF YATIRIM BANKASI A.Ş.	18. TÜRKİYE İŞ BANKASI A.Ş.
3. ALBARAKA TÜRK KATILIM BANKASI A.Ş.	19. TÜRKİYE VAKIFLAR BANKASI T.A.O.
4. ANADOLUBANK A.Ş.	20. VAKIF KATILIM BANKASI A.Ş.
5. BURGAN BANK A.Ş.	21. YAPI VE KREDİ BANKASI A.Ş.
6. DENİZBANK A.Ş.	22. ZİRAAT KATILIM BANKASI A.Ş.
7. HSBC BANK A.Ş.	23. DÜNYA KATILIM BANKASI A.Ş.
8. ICBC TURKEY BANK A.Ş.	24. HAYAT FİNANS KATILIM BANKASI A.Ş.
9. NUROL YATIRIM BANKASI A.Ş.	25. KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ
10. QNB FİNANSBANK A.Ş.	26. T.O.M. KATILIM BANKASI A.Ş.
11. ŞEKERBANK T.A.Ş.	27. DESTEK YATIRIM BANKASI A.Ş.
12. T. EMLAK KATILIM BANKASI A.Ş.	28. GOLDEN GLOBAL YATIRIM BANKASI A.Ş.
13. T.C. ZİRAAT BANKASI A.Ş.	29. TERA YATIRIM BANKASI A.Ş.
14. TÜRK EKONOMİ BANKASI A.Ş.	30. ALTERNATİFBANK A.Ş.
15. TÜRKİYE FİNANS KATILIM BANKASI A.Ş.	31. ODEA BANK A.Ş.
16. TÜRKİYE GARANTİ BANKASI A.Ş.	

There are 107 members on the Precious Metals Market (PMM), **including 31 banks (domestic and foreign)**, 33 currency offices, 25 brokerage houses, and 18 metal producers / marketing companies[73]. Borsa Istanbul also hosts a 'Diamond and Precious Stone Market, and 57 of the diamond market members are also members of the Precious Metals Market. Borsa Istanbul is also an Affiliate of the London Bullion Market Association (LBMA).

[73] https://www.borsaistanbul.com/en/sayfa/2690/general-informations

Gold Markets/Exchanges in the World Trading Volumes *

	2023
Borsa İstanbul	0.11
COMEX	38.94
Shanghai Futures Exchange	11,81
Shanghai Gold Exchange	1,26
All other exchanges **	2,66

* Volumes represent daily averages in US$ billion.

** Includes: Dubai Gold & Commodities Exchange, ICE Futures, US Metals, Bursa Malaysia, Moscow Exchange - RTSX, Tokyo Commodity Exchange.

Sources: GOLDHUB TRADING VOLUME (https://www.gold.org/goldhub/data/trading-volumes)

GOLD POLICY: IS INDIA HEADING TOWARDS 'AMRITKAAL' WITH FLAWED IMPLEMENTATION?

In recent years, despite reforms and ambitious initiatives like establishing exchanges to enhance transparency in the gold ecosystem, significant time has been consumed by corrective actions and a lack of clear government direction. The corrective actions included the decisions taken during the intervention phase (2012-2013), the transparency phase (2014-2018) and the RBI circulars, notifications and guidelines post 2012 till date.

Some of the aspects of gold policy that require corrective action may include the Free Trade Agreements with different countries and trade blocs, different government of India notifications to tackle the import of gold exploiting the India Government Policy loopholes.

A review may be timely of the NITI Aayog Report on Transformation Gold Policy issued in February 2018, the recommendations of IGPC-IIMA working group and the subsequent launch of India International Bullion Exchange (IIBX) and its future.

The Government must act swiftly to address the challenges and resist the influence of stakeholders that may interfere in the policy decisions on high-value commodities like gold and silver.

There's a need for decisive steps that may cause short-term disruptions but promise long-term benefits for the nation. These steps may include:

a. Enabling government policies and PLI scheme for refining of gold ore or doré to boost manufacturing activities and increase employment opportunities and substituting the import of standard gold from countries like Switzerland and others by adopting globally acceptable sourcing guidelines under OECD Due diligence guidance and supply chain integrity.

b. Realize the potential of AatmaNirbhar Bharat in refining by enabling the export of standard gold bars which have been recognized as globally acceptable, and help India earn foreign exchange.

c. Addressing the issue of import of gold by resident entities exploiting the multiple duty structures by reviewing the existing Free Trade Agreements and having a uniform lower rate of import duty for gold and a higher rate of GST that may ensure better compliances.

d. Nudge Indian Banks and their bullion desks to increase participation on IIBX activate their roles in the Treasury and ALM administration for gold and silver.

e. Nudge the regulators and the banks to focus on the upstream value chain through long term financing agreements with global gold mine companies and refiners (Indian and Global), to support refining activities.

f. Enabling provisions from the regulator for banks to be permitted to hold gold as a part of CRR.

g. Enabling provisions from the regulator to for banks to open gold savings accounts and gold accumulation plans leading to financialisaton of investment gold.

h. Address the issue of import of gold in other forms (for e.g. platinum alloys), by mandating the payment of duties as per the weight/content of the majority metal and other provisions.

i. Mandating the import of Standard gold and Silver solely through IIBX.

It's crucial to bring clarity to the market by taking the abovementioned decisions and evolve the Indian precious metals ecosystem responsibly, ensuring its rightful place in the global arena during the ‘Amritkaal’ and support India to be developed by 2047.

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