

The Success of Diamond Cutting and the Failure of the Gold Refining Industry



There is virtually no difference in the business models of diamond cutting and gold refining. Yet, while India shines in the diamond cutting industry globally, it has little to offer to the gold refining industry of the world. In both cases, raw material is mined and is imported into the country for further product development. So successful are we in the case of diamond cutting that today, more than 92% of the world's diamonds are cut and polished in India. The diamond cutting industry epitomises 'using the strength' of the nation, (read: cheap and large work force), to its advantage and in propelling the nation in becoming the global leader of the industry. Despite the similarities in the industries, unfortunately, this success has not been replicated in the case of gold refining.

Before attempting to make India an international destination for gold refining, it is imperative to first comprehend the landscape of gold refining. To start with, the quantity of gold mined, (unrefined gold is called gold doré), annually, is less than the global refining capacity. This means that there are more refineries globally than gold doré available. Thus, acquiring of gold doré is a challenge for most refineries, but we shall get to that later.

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Old gold jewellery which is bartered for new jewellery or sold back is the other source for gold refining. While this enterprise flourishes in the domestic market, India plays a negligible role in the international gold refining market due to a host of disabling factors which can be easily overcome if a cohesive and comprehensive approach is adopted whilst solving issues related to gold refining.

Coming back to methods of acquiring gold doré: the most effective way would be to bargain for gold doré while entering trade negotiations with gold producing countries. Gold refiners are often small enterprises,

thus making it impossible to acquire gold doré on their own. If the Ministry of Commerce and Industry were to include this in their 'to-do' list and strive to acquire gold doré, gold refining in India would get a huge boost.

Before tackling the gold recycling market, it is crucial to first understand the shortcomings of the current policies and to amend the same so that they are supportive of gold refining. Currently, the export of 24 ct gold bars and coins has been prohibited. The reason cited for this is 'round-tripping', but this is a regressive approach, as stopping trade can never be the approach to adopt whilst addressing any concern. This disposition is creating a major hurdle in the development of the gold refining industry.

The view of any policymaker should not be based on a negative perception and fear. Moreover, it is of utmost importance to recognise that a few people may take advantage and flout the rules, but the majority do not, as they are honourable and seek to build an enterprise based on reputation and ethics. Additionally, to restrict exports of gold bars and coins also curbs the ability of increasing foreign exchange for the country. Clearly, such type of



policies need to be replaced with ones that permit and enable trade.

Once exports of gold bars and coins are permitted, the other issue which needs to be addressed is that of payment of import duty. Currently, gold imported attracts an import duty of 12.5%, which must be paid by the importer. Gold doré has an import duty of 11.85%. This difference is aimed at boosting the gold refining industry of the nation.

As such, payment of this import duty has a huge negative impact on the cash flows of the refiner. To ease this, the GOI should simply permit the refiner to import the gold doré by tendering an indemnity bond/ promissory note to export the gold within a stipulated timeframe. This would also aid refineries in procuring recycled gold from overseas, as gold doré is in short supply. The 'freeing-up' of cash flow would also have an enormous impact on the profitability of the business of gold refining, as it would be tantamount to reducing the investment required for conducting the operations of the refinery.

The Government has been vocal about developing rural areas thereby stopping the migration to urban areas. They may consider setting up of gold refineries as a solution to

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this issue by encouraging refineries to be established in rural areas. The presence of a robust and healthy refining industry would also help in making the gold mining industry more lucrative, as the end product, (read: bars and coins), could be produced within the nation.

Incidentally, the development of the gold refining industry would also help in the development of the jewellery industry. Refineries also help in the development of alloys and solders which are used while manufacturing jewellery. Bringing new technologies

would help manufacture jewellery of internationally accepted quality which, in turn, would help increase exports of gold jewellery.

The Watal Committee Report, "Transforming India's Gold Market", released by NITI Aayog deals with the subject-matter of gold refining comprehensively. The Report has made recommendations to help uplift the gold refining industry and both the suggestions made are endorsed by the Watal Committee Report. As NITI Aayog is the 'think-tank' of the Government, methinks the gold refiners' trade associations should only be insisting on the implementation of the recommendations of the Watal Committee Report. Doing so would help India in becoming the international destination for gold and gold jewellery.

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