

The Benefits of a Zero Import Duty on Gold

The import duty on gold was 1% in 2011-12 and was increased to 10% in 2013. The then Finance Minister had gone on record to state that this increase was temporary in nature and that it would be decreased in the near future, however, the rate of 10% import duty still continues. The increase of the import duty was an attempt to decrease the consumption of gold by testing the price elasticity of demand.

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Unfortunately, the Department of Revenue, Ministry of Finance, now looks as the import duty as a source of funds for the Government. This means that any reduction in the import duty would have an impact on the National Budget that is formulated and presented by the Hon'ble Finance Minister and his team. Currently, an amount of

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approximately Rs. 20,000 crores is collected from the import duty levied on gold imports and, obviously, such a large amount is difficult to forgo by the Ministry.

While the earlier the reason prescribed for raising the import duty on gold was the current account deficit and the reduction of gold imports, now the issue is purely financial loss to the exchequer. Sadly, the 'thinkers' and the policy makers do not seem to understand nor appreciate that this high import duty actually stands in the way of businesses migrating to the official sector; something that is of prime importance to the Government. Moreover, reducing the import duty would increase exports exponentially, but this seems to be a 'link' that no Government agency seems to appreciate.

On another tangent, I have been criticized by many of my industry compatriots of highlighting the fact that approximately 6000-9000 tons of gold jewellery lies in the form of inventory across the value chain of the gold industry. The GOI launched the Gold Monetisation Scheme with an intention of procuring gold deposits of un-utilised gold with the household and temples in the nation. Although the GMS has had a limited success thus far, the

moot point is that there has never been any mention of this large quantity of gold that lies ready for sale in the form of inventory with the members of the gold industry. Surely, this behoves some focus and thought!

The Hon'ble Prime Minister has, on numerous occasions, spoken of a desire of boosting exports. He has even gone so far as suggesting that a jewellery brand be created like Swiss watch brands or Swiss chocolates, so that India is able to increase the value addition of its gold jewellery exports. But what he does not know, (quite frankly there is no way that he would know), but as all members of the gold industry would agree, we are simply unable to export due to a complicated process, as laid out in the Handbook of Export Procedures. An export transaction requires a stamp on the invoice by a Customs Appraiser who is located only in a few cities. Moreover, exports can only be made in multiples of one kg, which means that B2C, (business-to-customer), sales are not possible, as individual customers buy smaller quantities of gold. Thus, if the GOI seeks to increase the value addition on the exports of gold jewellery, it must enable B2C export transactions

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is not possible from India. The policies framed by the GOI do not seem to be in sync with the aspirations of the Hon'ble Prime Minister, although on a host of occasions a few other Ministers have echoed the sentiment of creating a jewellery brand.

The looming question remains as to 'how the reduction of the import duty to zero would help boost gold exports'? Quite frankly, it would simply increase the size of the market by expanding the borders from only India to the entire world. The Indian jeweller would no longer look at merely the Indian subcontinent as his

market, but the entire world as the proverbial 'oyster'. The 6000-9000 tons would, with a single stroke, become saleable in the international markets, smuggling would stop completely as it would become an unprofitable venture, and businesses would be compelled to report financial transactions on their own accord, (gold in the grey market would be more expensive).

Other benefits would also accrue, such as replacing Dubai as the 'Jewellery Capital' of the world and restoring India's legacy. And not to mention that it would help the concept of 'gold tourism', where international travellers would come to India to buy gold jewellery. All in all, this would help make India synonymous with gold jewellery, just as Switzerland is for chocolates and cheese.

And no, the zero import duty would not apply for the import of gold jewellery. ■



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