Chapter – 7

EVALUATION OF MMTC'S PRECIOUS METALS DIVISION

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Chapter 7

EVALUATION OF MMTC WITH REFERENCE TO PRECIOUS METALS DIVISION

7.1 Introduction

Change is a constant phenomenon. Nothing is unaffected in this material world and our country is no exception. There have been a lot of changes in our society in recent years and one of the major changes is the economic policy of our country in the early nineties. It has brought a transformation in our thinking, living and social structure. With the advent of liberalization of economic policies the whole consumer market has seen changes right from the concept of product development to marketing. Jewellery is also one sector, which has transformed and developed enormously in recent years.¹

Jewellery has been part of the Indian civilization since ages. Excavations at Mohenjodaro and other sites of the Indus Valley Civilization have unearthed a wealth of ornaments. The Ramayana and the Mahabharata abound with descriptions of ornaments. India was the leading exporter of gemstones; particularly diamonds by the third century B.C. Gold was usually imported into the country, a practice prevalent even during the Mughal period.

Even in present Indian society the importance of gold jewellery has not dwindled even a bit, and it is evident from the fact that India remains the biggest consumer of gold. Gold jewellery is still considered a major component of 'Streedhana' in India. Nowhere else has the relationship between man and metal been so intense and so vibrant. The glitter and glamour of jewellery has dazzled the Indian psyche over the years and its lure has intricately woven itself into the very fabric of our cultural ethos.

India has probably the largest treasure of unknown and uncatalogued jewellery, most of which is tucked away in the private collection of erstwhile royal families and of course, in our numerous temples. Hyderabad, Jaipur, Gwalior, Kashmir, Jodhpur, Kapurthala and Patiala are legendary for their collection of state and personal heirlooms.

The origin of jewellery goes back to the earliest time of Indian history and is intertwined with the Indian civilization. The jewellery belonging to the Indus Valley civilisation is in a class by itself and a wide range of gold ornaments, anklets, girdles, collar-type ornaments, armlets, foot ornaments and finger rings. The designs, motifs and workmanship of the jewellery of this age are said to cover nearly all the styles of traditional Indian jewellery that are still in vogue today. Gold jewellery and precious stones appreciate in value along with inflation. Hence jewellery reflects real worth; as it is non-perishable and its value keep constantly rising.

India has a rich tradition and finely honed art of crafting beautiful jewellery by hand. Indian gems and jewellery are in high demand because of their unique designs.
In India, the demand is for heavy gold jewellery, whereas women of the West prefer the more delicate type of jewellery, which is studded with diamonds and coloured gemstones.

Since ancient times, jewellery has been an integral part of our culture and tradition. Ever since civilizations have formed, both men and women have decorated themselves in some form or the other. In India these personal adornments took the form of beads, stones, shells, bones and metals. They were roughly decorated, handmade or carved items. But now, with the advent of new technology, jewellery design has finally come of age. Exquisitely crafted jewellery has always been a treat for the eyes, but the process by which it is made is extremely intricate and delicate. Jewellery constitutes one of the fastest growing export industries in India today.

Indian artisans, whose skill spring from the country’s age old culture and heritage, are becoming a very valuable source in recent years for the economy as they contribute significantly to exports and help in earning valuable foreign exchange for the country. India enjoys the advantage of having artisans of a superior caliber, with ancient knowledge passed on through generations. The skill is inherited in the family and it does not need a special schooling or training for excelling in craftsmanship. The Indian jewellery design heritage is famous all over the world. Our centuries-old expertise in cutting, polishing and processing diamonds and coloured gemstones is being put to good use by gems and jewellery industry. This industry has sustained its development and growth on the strength of its specialization in the cutting and polishing of very small gemstones.
In the Indian society, jewellery fulfills many functions, and wearing it has several implications. It is also regarded as security and a good investment, because of its easy convertibility into cash. Further, it is no longer treated as an investment or a hedge against inflation; new markets can be explored by radical methods like branding and image creation.

Gold and silver are not just any metals; they are precious metals. Gold, if not silver, has the unique characteristic of being a global currency and a sizeable bearing on the country's foreign exchange and, therefore, on the country's financial and monetary policy that is largely decided by the RBI, in consultation with the Finance Ministry. The policies that are required to regulate the bullion trade fall largely under the jurisdiction of the apex bank. However, while the RBI Act is silent on these issues, it is through the provisions of the Banking Regulation Act that the bullion trade in India is regulated and monitored.

The government through RBI maintains control on the import of gold. Since 1996-97, the import of gold and silver has been allowed only through the 19 nominated agencies including public and private sector banks (like State Bank of India, Corporation Bank, Canara Bank, Bank of Nova Scotia, ABN Amro, HSBC, ICICI Bank, HDFC Bank and few others), MMTC, HHEC, State Trading Corporation (STC) and Power Equipment Corporation (PEC).

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The budgetary policy is also trying to help the gems and jewellery sector. The measures such as convertibility, tax free profits, simpler administration and higher exchange earnings in EEFC account (Exchange Earning Foreign Currency Account) are expected to boost the export prospects further.

A new policy was announced on January 27, 2004 on decanalisation of bullion but was later shelved. The nominated banks and exporters continue to import gold. In case there is decanalisation of bullion imports in future, questions may crop up on the role of the canalizing agencies: Will they continue to be part of monitoring gold and silver imports in the country, or will they be made redundant? So, any fresh changes in monitoring of bullion imports will have implications on the working of not just these nominated agencies, but also on all those thousands of bullion traders and jewellery exporters in the country.3

MMTC is one of the agencies nominated by the government of India for importing precious metals (gold, silver and platinum) for supply to exporters and domestic customers under Outright Sale, Loan and Replenishment Schemes. It is a leading supplier of bullion (gold and silver) to jewellery exporters and domestic users since 1988, and is playing the role of a catalyst.4

Since MMTC had gone through several negative experiences with its customers for diamond it is not actively involved in diamond/coloured stones. India is

3Ibid., p. 10

the biggest consumer of gold in the world and MMTC's major contribution of Precious Metals Division comes mainly through gold jewellery.

If the operations of MMTC are analyzed then it is to be noted that the turnover of Precious Metals Division plays an important role, which can be seen below in Table 7.1.

**TABLE 7.1**

Precious Metals Division's share in the company's total turnover (1998-99 to 2003-04)

(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Company's overall turnover</th>
<th>Precious Metals Division turnover</th>
<th>Precious Metals Division's share in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>42527</td>
<td>26801</td>
<td>63</td>
</tr>
<tr>
<td>1999-00</td>
<td>46971</td>
<td>26393</td>
<td>56</td>
</tr>
<tr>
<td>2000-01</td>
<td>53017</td>
<td>30042</td>
<td>57</td>
</tr>
<tr>
<td>2001-02</td>
<td>72436</td>
<td>48725</td>
<td>67</td>
</tr>
<tr>
<td>2002-03</td>
<td>62259</td>
<td>30679</td>
<td>49</td>
</tr>
<tr>
<td>2003-04</td>
<td>90992</td>
<td>54832</td>
<td>60</td>
</tr>
</tbody>
</table>

Table 7.1 and Graph 7.1, indicates that for the past six years since 1998-99 to 2003-04, except in the year 2002-03, the Precious Metals Division has contributed more than 50 per cent of the company's turnover. Hence, Precious Metals Division is taken as a case study for the present research work. An attempt has been made to evaluate the turnover of Precious Metals Division with the overall turnover of the company.

### 7.2 Gems and jewellery industry profile

The craze for gems and jewellery is as old as the human race itself. Gems and jewellery comprising diamonds, gold jewellery, silver jewellery, precious and semi-precious stones, pearls and synthetic stones constitute a growth potential export sector. Export of all items of these product group taken together have increased phenomenally during the last few decades. The product group of gems and jewellery makes significant contribution to the country's overall export earnings and remains in
the forefront of foreign exchange earnings. The gems and jewellery industry is playing a major role in the growth of the Indian economy today. It accounted for 18 per cent share of India's total exports in 2003-04.5

The industry is highly export-import oriented, labour-intensive and employment-oriented. Realizing its enormous export potential, for growth and comparative advantage both in terms of manufacturing infrastructure as well as traditional expertise, the Ministry of Commerce, Government of India, declared gems and jewellery as a major thrust sector for export promotion. Indian gems and jewellery are acknowledged all over the world for their exquisite craftsmanship on one hand and for cut, shape and polish of gemstones on the other hand. This sector consists of three sub sectors i.e. gold jewellery and coloured gemstones and others. Percentage wise share of these sub sectors in the total export of gems and jewellery is 80 per cent, 15 per cent and 4 per cent respectively.

Gems and Jewellery industry is mainly concentrated in Maharashtra, Gujarat, Uttar Pradesh, Rajasthan, Tamil Nadu, West Bengal and Kerala. Gold jewellery making is spread throughout the country with every village having a family of goldsmiths. Modern state-of-the-art machinery and computerized operations have lent a cutting edge to both the diamond processing and jewellery manufacture. India had been the largest buyer of gemstones, rough diamonds and precious metals for value addition and exports besides providing a large market for jewellery and cut diamonds.

5Dr. Satya Sundaram, I., loc cit.
The diamond processing industry has spread from the state of Gujarat, which accounts for almost 80 per cent of the diamonds processed in India, to other states; Surat, Ahmedabad and Bhavnagar are the diamond centers in Gujarat. Many diamond-processing units have been set at Mumbai in Maharashtra. There are also diamond-processing units at Trichur in Kerala, Coimbatore in Tamil Nadu, Jaipur in Rajasthan and also in Goa. There are several ports in India from where MMTC has carried on its gems and jewellery export; the analysis of portwise export during the period under study is as follows:

### TABLE 7.2

#### Port-wise exports of gems and jewellery

(1997-98 to 2001-02)

(Value: US $ in million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>5061.82</td>
<td>5661.43</td>
<td>7451.15</td>
<td>6949.07</td>
<td>6647.12</td>
</tr>
<tr>
<td>New Delhi</td>
<td>253.51</td>
<td>238.62</td>
<td>240.79</td>
<td>297.03</td>
<td>279.03</td>
</tr>
<tr>
<td>Jaipur</td>
<td>118.00</td>
<td>147.05</td>
<td>162.96</td>
<td>164.94</td>
<td>182.80</td>
</tr>
<tr>
<td>Chennai</td>
<td>14.23</td>
<td>14.93</td>
<td>19.57</td>
<td>20.50</td>
<td>21.74</td>
</tr>
<tr>
<td>Cochin</td>
<td>4.01</td>
<td>7.63</td>
<td>3.18</td>
<td>3.00</td>
<td>5.06</td>
</tr>
<tr>
<td>Coimbatore</td>
<td>7.55</td>
<td>6.38</td>
<td>8.66</td>
<td>13.70</td>
<td>10.29</td>
</tr>
<tr>
<td>Bangalore</td>
<td>49.52</td>
<td>40.45</td>
<td>49.83</td>
<td>48.44</td>
<td>59.77</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>-</td>
<td>1.08</td>
<td>13.63</td>
<td>12.71</td>
<td>14.21</td>
</tr>
<tr>
<td>Calcutta</td>
<td>2.59</td>
<td>1.47</td>
<td>50.36</td>
<td>53.88</td>
<td>61.88</td>
</tr>
<tr>
<td>Surat</td>
<td>0.94</td>
<td>1.25</td>
<td>1.15</td>
<td>46.69</td>
<td>119.11</td>
</tr>
<tr>
<td>Sub Total</td>
<td>5512.17</td>
<td>6120.29</td>
<td>8001.28</td>
<td>7609.96</td>
<td>7401.01</td>
</tr>
<tr>
<td>Export of Rough Diamonds</td>
<td>48.60</td>
<td>80.84</td>
<td>134.76</td>
<td>157.19</td>
<td>142.15</td>
</tr>
<tr>
<td>Sales to Foreign tourists</td>
<td>13.45</td>
<td>10.54</td>
<td>8.98</td>
<td>12.34</td>
<td>12.94</td>
</tr>
<tr>
<td>Total</td>
<td>5574.22</td>
<td>6211.67</td>
<td>8145.02</td>
<td>7779.49</td>
<td>7556.10</td>
</tr>
</tbody>
</table>

Source: Office records of Gems and Jewellery Export Promotion Council.
Mumbai continues to be the main trading center for exports of gems and jewellery as seen in Table 7.2. It clearly shows that Mumbai has been exporting the maximum since 1997-98 to 2001-02. Its contribution was US $ 2803.9 million in 1990-91, US $ 5061.82 in 1997-98 and US $ 6647.12 in 2001-02. Thus, it can be seen that its contribution has been 91 per cent in 1997-98 and 88 per cent in 2001-02 out of the total exports from all the ports.

India’s gems and jewellery industry includes two sectors namely, the Export Processing Zones (EPZs) comprising 100 per cent export-oriented units, and the Domestic Tariff Area (DTA) which caters not only to domestic needs but also to international markets as well. In fact, the DTA accounts for as much as 63 per cent of India’s jewellery exports. Liberal concessions from the government have been applicable to EPZs since their inception in 1974; but gradually, the concessions are being extended to the DTA. 6

Taking various difficulties and roadblocks in its stride at home and braving unexpected odds overseas, the multi-billion dollar Indian gems and jewellery industry has made rapid strides since its inception in 1966. India is an important player in the international gems and jewellery industry. During the past 39 years, the industry has grown from a sapling to a multi-branch banyan tree. 7 Having achieved a leadership position as the foremost supplier of cut and polished diamonds to the world, the industry here has forward integrated into jewellery manufacture for exports. Year


after year India notched an impressive growth rate in jewellery exports. Though a fairly new entrant into the international jewellery market, India has seen jewellery exports increase from US $ 203 million in 1990-91 to US $ 1135 million in 2000-01. However, this forms only a miniscule 1.4 per cent of the estimated world jewellery market (for both plain and studded) of US $ 80 billion.8

In spite of severe competition from countries like Belgium and Brazil, India has of late, emerged as the fastest growing jewellery exporter in the world, averaging a growth of around 45 per cent per year over the last one decade. The industry’s performance during the last one decade or so is remarkable indeed, viewed particularly in the context of innumerable hiccups, roadblocks and an unfavourable business environment like spate of party failures and bankruptcies imposing a huge financial burden on several exporters, the vexed issue of ‘conflict diamonds’, a disastrous slowdown of the US economy, the murderous terrorist attack on the twin towers of the World Trade Center in New York, the anthrax phenomenon, the war on Iraq and the SARS (Severe Acute Respiratory Syndrome) scare. Interestingly, despite these odds, exports of Indian gems and jewellery products have continued to scale new peaks.

Indian designers have made a mark on the world jewellery scene and won recognition for design development as well. Their ability to adapt and innovate demonstrates the strength of the Indian jewellery industry, which is a thousand year

8"For The Trade Only", loc cit.
9"Scaling new peaks", loc cit.
old industry. All aspects of jewellery making are advancing towards international standards with relative ease. It is only a matter of time before India becomes the most sought after jewellery center, and has the same position in the international jewellery market that it enjoys in the diamond and coloured gemstone market, globally.

The government too has played a progressive role and its pragmatic policies have boosted the industry’s own efforts. In recent years, the jewellery industry has been earmarked as one of the thrust areas for export, and appears to have a sparkling future ahead of it.

The product group of gems and jewellery makes significant contribution to India’s overall export earnings and remains in the forefront of foreign exchange earners. Today, gems and jewellery industry contributes around 17 per cent of India’s exports. Diamonds account for 80 to 93 per cent share in the total exports of gems and jewellery. In fact cut and polished diamonds remain the single largest item, which has made significant contribution to the export effort of this sector. The other two main items, though distantly following diamonds, are gold jewellery and coloured gemstones together accounting for 6 to 18 per cent share of the total exports of gems and jewellery. Today, India’s jewellery industry has made rapid strides in terms of machinery and design development and has a savvy marketing thrust. Its quality, designs and management are on par with world standards. Our export growth in the field of jewellery is praiseworthy. There is tremendous growth potential in this segment.\textsuperscript{10}

The gems and jewellery industry in India employs around 1.5 million workers serving over 0.1 million gold jewellers and over 8000 diamond jewelers, of these 90 per cent are located in the DTA, manufacturing plain gold jewellery as well as diamond-studded jewellery. There is a possibility of another two lakh workers gaining employment in studded and plain jewellery sector, once the various schemes announced by the government for promoting gold, platinum, silver jewellery exports takes off and the world is free from the clutches of severe recession.

The gems and jewellery industry is highly sensitive to government policies. Gold demand has increased significantly since the early 1990’s because of the significant change in government policies. India is recognized as a global leader in this industry. The major supplier countries to India include South Africa, Switzerland, Australia, Hong Kong and UAE. The gems and jewellery sector is highly import oriented. Import of items constituting raw materials for this industry, namely rough diamonds, rough precious and semi-precious stones, pearls, gold and synthetic stones have also grown over the years. In terms of directional pattern, Indian gems and jewellery are exported to a large number of world markets like, the USA, UAE, UK, Singapore, Kuwait, Japan, Belgium, Germany, Bahrain, Canada, Switzerland, Australia and Hong Kong. Over the last many years, the US has remained India’s largest market with its share shooting up from US $ 156.41 million in 1997-98 to US $ 647.02 million in 2001-02.¹¹

India is the only center, which offers a truly mind-boggling variety of gems and jewellery suited for the need of every market in the world. Here cutting edge

¹¹“Scaling new peaks”, loc cit.
technology merges perfectly with highly developed design skills that have won the Indian designers a number of awards in the prestigious international jewellery design competitions like those organized by the De Beers and the World Gold Council. Here the large skilled and trained workforce and vast resources of polished diamonds and coloured gemstones are available at extremely competitive rates, making quality jewellery, available in attractive price ranges. Sparkling diamonds, multi-hued gemstones, scintillating jewellery - contemporary India has it all, making it the ultimate source.\(^{12}\)

The Indian market is not indifferent to changes in the international market of gems and jewellery. To focus on the negative side of the gems and jewellery industry it is plagued with limited technology; lack of investment in infrastructure for hallmarking and assaying, absence of design and development for fashion jewellery to meet the requirements of the advanced countries, very few joint ventures and multiple taxation. The designs of Indian jewellery are very traditional and heavy making them unacceptable as everyday wear. Hence, Indian exports are low compared to those of Thailand, Indonesia and Turkey. Nevertheless, the fact still remains that India is the largest consumer of gold and there is enormous potential for boosting exports of gems and jewellery.\(^{13}\)

There is an urgent need to focus on publicity campaigns, organization of exclusive shows, participation in international fairs and export on consignment sales.


\(^{13}\)Dr. I. Satya Sundaram, *loc cit*
basis. The artisans of gems and jewellery should adopt new designs, which need to be renewed periodically. The Indian manufacturers should also enter into joint ventures with American and European producers. This sector has to gear up itself for export production, product development, overseas sales strategies and marketing practices compatible with those followed by the leading exporting countries.\textsuperscript{14}

The latest EXIM Policy has provided some incentives to the industry. Now there are no licences required for importing rough diamonds. Measures like allowing banks to operate overseas branches in SEZs will definitely help the industry.

The Indian gems and jewellery needs to gear up for competition from China, Italy and Thailand in case the tariff barriers against imported jewellery are removed and cheaper and modern jewellery enters the market. Also, manufacturers should move to SEZs and the government should give tax incentives to jewellery manufacturers to make them competitive in the international market.\textsuperscript{15} India's gems and jewellery industry is well placed with its high export potential. The industry's steady growth is attributed to pragmatic liberalization policy.

The international market for jewellery is placed at US $ 80 billion, but India's share is only around US $1 billion. Of course, our country has yet to make a mark in this segment. We have not been able to tap the European market for jewellery, as we

\textsuperscript{14} Dr. Sadashankar, Saxena and others (ed). Thrust sectors in India's Exports, New Delhi: Common Wealth Publishers, 1990, p. 12.

\textsuperscript{15} Dr. I. Satya Sundaram, loc cit.
were unable to manufacture and match the high-class jewellery requirements in these markets.

In terms of directional pattern, while Indian gems and jewellery are exported to a large number of world markets, the USA, Hong Kong, Belgium and Japan are the major export destinations. These four markets accounted for about 74 per cent share in India's total exports of this thrust sector in 1997-98. USA is the largest buyer of Indian gems and jewellery with 38 per cent share followed by Hong Kong (23 per cent) and Belgium (12 per cent). Other important destinations for India's gems and jewellery exports are Israel, UAE, UK, Thailand, Singapore and Switzerland. The industry is looking at newer markets such as Europe and Australia to reduce the over-dependence on the US market.  

From the long-term point of view, South Africa, Australia and Pacific Rim countries too offer promising export markets. The traditional importing countries also have huge market potential, which can be further tapped by exporting items catering to changing fashion and design. Indian manufacturers are diversifying into the jewellery area in a bid to further capitalize on India's competitive strength of a low cost and highly skilled labour. Established Export Processing Zones at SEEPZ (Mumbai) and NOIDA (Delhi) have geared up to compete effectively against Thailand and China by adopting state-of-the-art technology in the industry. 


17 Indian Gems and Jewellery industry, the back bone of economy, Spectrum, MMTC Quarterly House Magazine, April 2003, p. 6.
An important feature of this industry is its high labour-intensity. India has a strong base of 1.5 million artisans working for this sector. India enjoys the advantage of cheap labour and artisans of a superior caliber, with ancient knowledge passed on through generations. The skill is inherited in the family and it does not need a special schooling or training for excelling in craftsmanship. The Indian jewellery design heritage is famous all over the world. We have no dearth of talented designers. Our centuries-old expertise in cutting, polishing and processing diamonds and coloured gemstones is being put to good use by gems and jewellery industry. This industry has sustained its development and growth on the strength of its specialization in the cutting and polishing of very small gemstones.

The gems and jewellery industry provides a shining example of achieving international competitiveness. Gems and jewellery exports from India were modest at Rs. 2 crores in 1960-61 and Rs. 22 crores in 1966-67, the year in which the industry’s export promotion body, The Gem and Jewellery Export Promotion Council (GJEPC), was set up. The exports of the commodity group gems and jewellery more than doubled to Rs. 45 crores in 1970-71. The years thereafter were all milestones in the growth of exports, the reasons being the growth-oriented progressive EXIM policy, simplification of procedures and stoppage of harassment by various authorities.

The gems and jewellery export from India is increasing over the years. The following Table 7.3 and Graph 7.2 shows yearly increase of gems and jewellery items from 1997-98 to 2001-02.
### TABLE 7.3
India’s net exports of gems and jewellery items
(1997-98 to 2001-02)

(Value: US $ in million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cut and Polished diamonds</td>
<td>4492.7</td>
<td>5026.1</td>
<td>6647.82</td>
<td>6186.7</td>
<td>5971.91</td>
</tr>
<tr>
<td>Coloured gem stones</td>
<td>132.81</td>
<td>178.63</td>
<td>204.92</td>
<td>203.36</td>
<td>182.69</td>
</tr>
<tr>
<td>Gold jewellery</td>
<td>839.48</td>
<td>846.15</td>
<td>1087.37</td>
<td>1149.95</td>
<td>1166.83</td>
</tr>
<tr>
<td>Pearls</td>
<td>3.92</td>
<td>3.91</td>
<td>4.01</td>
<td>2.58</td>
<td>2.63</td>
</tr>
<tr>
<td>Non-gold jewellery</td>
<td>34.88</td>
<td>57.79</td>
<td>48.58</td>
<td>56.09</td>
<td>64.34</td>
</tr>
<tr>
<td>Synthetic stones</td>
<td>2.34</td>
<td>2.41</td>
<td>2.62</td>
<td>1.63</td>
<td>2.4</td>
</tr>
<tr>
<td>Costume fashion jewellery</td>
<td>6.08</td>
<td>5.26</td>
<td>5.96</td>
<td>9.65</td>
<td>10.21</td>
</tr>
<tr>
<td>Sales to foreign tourists</td>
<td>13.45</td>
<td>10.54</td>
<td>8.98</td>
<td>12.34</td>
<td>12.94</td>
</tr>
<tr>
<td>Export of rough diamonds</td>
<td>48.6</td>
<td>80.84</td>
<td>134.76</td>
<td>157.19</td>
<td>142.15</td>
</tr>
<tr>
<td><strong>Total Exports</strong></td>
<td>5574.2</td>
<td>6211.7</td>
<td>8145.02</td>
<td>7779.49</td>
<td>7556.1</td>
</tr>
</tbody>
</table>

Source: Office Records of Gem and Jewellery Export Promotion Council

### GRAPH 7.2
Net exports of gems and jewellery
(1997-98 to 2001-02)
The figures in the Table 7.3 and Graph 7.2 show an increasing trend, wherein the exports increased to US $ 5574.2 million in the year 1997-98, US $ 6211.7 million in the year 1998-99, and US $ 8145.02 million in the year 1999-00. However, the exports fell down to US $ 7779.49 million in the year 2000-01 and further down to US $ 7556.1 million in 2001-02 due to the World Trade Centre episode on September 11, 2001.

Diagram 7.1 shows item-wise exports of gems and jewellery for the year 2001-02, wherein cut and polished diamonds have the maximum share at 80 per cent, followed by gold jewellery at 15 per cent, rough diamonds 2 per cent, coloured gem stones at 2 per cent and non-gold jewellery at 1 per cent.

Gems and jewellery exports from India amounted to nearly one fifth of the country’s total exports in 2001-02. The industry has registered a dramatic growth of 153 per cent after a decade, and has made rapid stress in terms of machinery and
design development. During the last three decades or so, the Indian gems and jewellery has graduated from a dispersed cottage industry into a modern and mechanized, large-scale industry. Today our industry is comparable to the best in the world.\textsuperscript{18}

The gems and jewellery industry, representing more than 7000 exporters, had a share of 11 per cent in world exports and a share of 18 per cent in India's exports in 1998-99. Over 70 per cent of the world exports of cut and polished diamonds in cartage are processed in India. In value terms, India's share is about 50 per cent in world exports of cut and polished diamonds. The expansion in the mining of rough diamonds in various countries and the increase in world trade in cut and polished diamonds and diamond studded jewellery are attributed to the growth of the diamond industry in India during the last four decades.

The industry is getting equipped to the requirements of the Western market with an intention to earn substantial foreign exchange. Today, each product of this giant industry represents a unique combination. The skill of artisans honed over generations fuses with the spirit of the new age entrepreneur. The state-of-the-art manufacturing facilities form a fitting environment to produce quality products with a touch of class. Indian jewellery has had a tradition of being beautifully handcrafted coming with a precious promise, a special spirit and boundless beauty. Behind the most intricately fabricated and eye-catching designs of Indian jewellery, lie the unseen hands of an expert craftsman.

\textsuperscript{18}"Indian Gems and Jewellery industry, the back bone of economy", Spectrum, MMTC Quarterly House Magazine, April 2003, p. 6.
Exhibitions are organized by the government to encourage them not only to market their products, but also to adapt their skills to the changing tastes of the Indian and global consumer. MMTC has a rich experience in organizing these kind of exhibitions both in India and abroad.\(^\text{19}\)

In spite of the progress achieved so far, India has a long way to go. It still has to attain high levels of quality control with respect to mass-produced casting jewellery. India has thus several advantages over most countries since it has the expertise, the creativity and the workforce in almost every field of gems and jewellery. If properly nurtured, the industry is not only in the position to scale the 2010 target of US $ 16 billion three years earlier but can certainly cross the US $ 20 billion mark by 2010.\(^\text{20}\)

7.2.1 Gems and Jewellery industry: in the forefront of globalisation

In the gems and jewellery industry, the cottage-based diamond processing and jewellery making units compete with modern factories using state-of-the-art machinery and computerized operations. Modernization and technology absorption through capital goods imports have given a cutting edge to both diamond processing and jewellery manufacture in India. As a step in operational integration, more and more diamond manufacturers have set up jewellery manufacturing units as well, creating an invaluable synergy in the gems and jewellery industry.

\(^{19}\)"Indian Gems and Jewellery industry, the backbone of economy", \textit{loc cit.}

\(^{20}\)"Scaling new peaks", \textit{loc cit}
The Indian gems and jewellery units have set up a worldwide network of offices in Antwerp, New York, London, Tokyo, Hong Kong, Singapore, etc. Indian gems and jewellery units are found in every hotspot on the diamond industry map of Europe, Japan, USA, Israel, South East Asia and the Middle East.

The phenomenal growth in gems and jewellery industry exports is a record among the large Indian export sectors. In fact, the gems and jewellery industry presents itself as a perfect case study for discussing how to build competitiveness of Indian industries. The diamantaires and jewellery makers and their devoted and skilled artisans have shown that even an unorganized industry can achieve the true spirit of globalisation by integrating itself with the world gems and jewellery industry.

7.2.2 Socio-economic contributions of gems and jewellery industry

The Indian gems and jewellery has proved its mettle in international competitiveness. Simultaneously, it has also made significant socio-economic contributions:

1) Employment generation with low investment

The investment required for creating employment in the diamond processing and jewellery-making units is quite low. Employment generation in other industries call for heavy investments.
2) **Hard currency foreign exchange earnings**

   The countries to which India exports gems and jewellery are among the hard currency areas. The industry contributes continuously to the country’s foreign exchange reserves.

3) **Pollution-free industry**

   Diamond processing and jewellery manufacture do not pollute the environment, neither air nor water.

4) **Environmental friendly industry**

   Being an import-based industry, it does not deplete natural resources and also leaves the flora and fauna in tact.

5) **Assists in urban decongestion**

   Through decentralized location, the gems and jewellery industry helps in the removal of unemployment in the rural sector, prevention of migration to cities and the avoidance of slums in the urban areas.

6) **Low power consumption**

   The gems and jewellery manufacturing processes do not aggravate the country’s energy problems.

7) **No burden on the country’s transport infrastructure**

   The raw materials and the finished products are of high-value but of low weight. They do not put any burden on the country’s road, rail, sea or air transport.\(^\text{21}\)

---

7.2.3 Organizations for gems and jewellery industry

Primarily there are two main organizations promoting exports of gems and jewellery to different countries in the world. These organisations are as under:

1) The Gems and jewellery Export Promotion Council (GJEPC)

The Gems and jewellery Export Promotion Council (GJEPC) set up in 1966, is the apex body of the industry in India. The Gems and jewellery Export Promotion Council operates under the supervision of the Ministry of Commerce, Government of India, and elected representative of the industry. It has nearly 7000 members. The Gems and jewellery Export Promotion Council has its head office at Mumbai, and regional offices at New Delhi, Jaipur, Surat and Chennai. Since its inception, the Council has been taking steps at regular intervals to promote exports of gems and jewellery products, viz, diamonds, precious/semiprecious stones, coloured gemstones, gold jewellery, pearls, non-gold jewellery, synthetic stones and costume/fashion jewellery.

The various initiatives taken by the Council to promote exports of gems and jewellery *inter alia* include participation in trade fairs both within and outside the country, organizing buyer-seller meets, sending the sales-cum-study teams abroad and dissemination of information on the latest trends in exports of gems and jewellery. As a major share of the jewellery produced in the country is handcrafted, the Council is actively engaged in promoting gems and jewellery exports from the country by imparting training in various aspects of jewellery manufacturing and designing through its various agencies, e.g., Jewellery Product Development Centres, Gem
Testing Laboratories and Indian Institute of Gems and Jewellery. The Council has also been appointed as the nodal agency in India under Kimberly Process Certification Scheme.\textsuperscript{22}

2) Gems and jewellery complex within SEEPZ (Santacruz Electronics Export Processing Zone)

SEEPZ was initially established with a view to exploit the growing world trade in electronics. It came into being in September 1974 on about 100 acres of land taken on a 99-year lease from the state government of Maharashtra in the Marol Industrial Area, Mumbai. SEEPZ has a vast commercial, industrial and social infrastructure. Various facilities such as factory space, power, water, in-zone customer clearance, warehousing, communication, canteen, etc., are provided within the zone.

Although SEEPZ was initially set up for 100 per cent export production of electronics, during 1986-87 the government decided to create a gems and jewellery complex in SEEPZ for the 100 per cent export of gems and jewellery items. Various concessions and facilities have been granted to those who set up production in the zone. At present 51 gems and jewellery units are in operation. A large number of applications for new units are pending since 1989-90 for want of space. A building is under construction through the self-financing scheme, which will accommodate 32 new projects in the gems and jewellery sector.

Gems and jewellery sector contributes to more than 50 per cent of SEEPZ exports. Taking view of this fact, the government has simplified export procedure

wherever possible and several other promotional measures have been implemented. SEEPZ jewellery units contributed Rs. 458 crore (54 per cent) to the total gold jewellery exports of Rs. 846 crore from India during 1998-99.

There are gems and jewellery units in SEEPZ for which raw gems and jewellery items are purchased from MMTC and finished products of gems and jewellery are exported to other countries. The following Table 7.4 and Graph 7.3 shows item-wise import and export for the period under study.

**TABLE 7.4**

Gems and Jewellery import and export from SEEPZ
(1997-98 to 2001-02)

(US $ in million)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>IMPORTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rough Diamonds</td>
<td>22.81</td>
<td>23.14</td>
<td>60.61</td>
<td>37.11</td>
<td>46.35</td>
</tr>
<tr>
<td>Gold Bars</td>
<td>84.48</td>
<td>64.52</td>
<td>35.68</td>
<td>25.31</td>
<td>89.46</td>
</tr>
<tr>
<td>Stonnes</td>
<td>0.74</td>
<td>0.48</td>
<td>1.22</td>
<td>0.73</td>
<td>1.87</td>
</tr>
<tr>
<td>Cut and Polished Diamonds</td>
<td>123.50</td>
<td>135.84</td>
<td>173.88</td>
<td>182.53</td>
<td>210.85</td>
</tr>
<tr>
<td>Silver Bars</td>
<td>0.27</td>
<td>0.11</td>
<td>0.19</td>
<td>0.46</td>
<td>0.05</td>
</tr>
<tr>
<td>Platinum</td>
<td>0.92</td>
<td>1.22</td>
<td>10.67</td>
<td>4.84</td>
<td>8.23</td>
</tr>
<tr>
<td><strong>Total Imports into SEEPZ</strong></td>
<td>232.72</td>
<td>225.31</td>
<td>282.25</td>
<td>250.98</td>
<td>356.81</td>
</tr>
<tr>
<td><strong>EXPORTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cut and Polished Diamonds</td>
<td>45.96</td>
<td>78.52</td>
<td>29.15</td>
<td>56.79</td>
<td>41.66</td>
</tr>
<tr>
<td>Gold Jewellery</td>
<td>339.13</td>
<td>406.16</td>
<td>525.29</td>
<td>507.47</td>
<td>504.25</td>
</tr>
<tr>
<td>Silver Jewellery</td>
<td>7.12</td>
<td>7.12</td>
<td>0</td>
<td>0.51</td>
<td>0.51</td>
</tr>
<tr>
<td>Platinum</td>
<td>1.62</td>
<td>7.71</td>
<td>7.32</td>
<td>8.13</td>
<td>7.21</td>
</tr>
<tr>
<td><strong>Total Exports from SEEPZ</strong></td>
<td>393.83</td>
<td>499.51</td>
<td>561.76</td>
<td>572.9</td>
<td>553.63</td>
</tr>
</tbody>
</table>

Source: Office Records of Gems and Jewellery Export Promotion Council.
Table 7.4 and graph 7.3 highlights the contribution of imports into SEEPZ and exports from SEEPZ. In 1998-99 the imports showed a fall to US $ 225.31 million, but the exports increased to US $ 499.51 million. Import and export both increased to US $ 282.25 million and US $ 561.76 million respectively in 1999-00. In 2000-01, imports reduced to US $ 250.98 million and exports reduced to US $ 572.9 million. There was a reverse trend in 2001-02, whereby imports increased to US $ 356.81 million and exports decreased to US $ 553.63 million.
Diagram 7.2

Imports into SEEPZ: 2001-02

Diagram 7.3

Exports from SEEPZ: 2001-02

Diagram 7.2 shows imports into SEEPZ for the year 2001-02, wherein the share of cut and polished diamonds was at the maximum at 59 per cent, followed by gold bars at 25 per cent, rough diamonds at 13 per cent, platinum at 2 per cent, and stones at 1 per cent. Similarly, Diagram 7.3 shows exports of gold jewellery from
SEEPZ for the year 2001-02, wherein the share of gold jewellery was the maximum at 91 per cent.

### 7.2.4 Gems and Jewellery export promotion measures by government

Some of the recent export promotion measures taken by the government are as follows:

1. There is duty-free import of consumables for metals other than gold and platinum up to 2 per cent of free-on-board (FOB) value of export.
2. There is duty-free re-import entitlement of the rejected jewellery up to 2 per cent of the FOB value of export.
3. Duty-free import of commercial samples has been raised to Rs. 1 lakh from Rs. 60,000.
4. Import of gold of 18 carat and above has been allowed under replenishment scheme.
5. Diamond Dollar Account Scheme (DDAS) has been extended to diamond-studded jewellery exporters having an average annual turnover of Rs 5 crore or above during the preceding three licensing years.
6. DDAS holders are now allowed to operate up to five bank accounts.
7. Non-DDAS holders are allowed to supply cut and polished diamonds to DDAS holders, which could be counted towards discharge of their export obligations or entitlement for a replenishment licence as the case may be.
8. With a view to facilitate certification/grading by international laboratories/agencies, cut and polished diamonds weighing 0.50 carat and above are permitted for export.

9. Exporters are given more flexibility under the Gold Loan Scheme wherein they are allowed to fix the price and repay the gold loan within 180 days from the date of export subject to the price being confirmed by the final buyer and the nominated agency supplying the gold.

10. Permission has been granted to the exporters to personally carry gems and jewellery of a value not exceeding US $ 2 million confirmed by the final buyer and the nominated agency supplying the gold.

11. The foreign buyer scheme wherein precious metals can be supplied free of cost to the Indian manufacturers for job working has been extended to exporters having an annual average turnover of Rs 5 crore during the preceding three years.

12. Facility of personal carriage of gems and jewellery of export and import parcels has been provided at the airports in Bangalore, Delhi, Mumbai, Kolkata and Chennai.

13. A modern laboratory at SEEPZ, Mumbai, has been set up to exclusively service exports through network grading by the International Gemological Institute (IGL), the largest independent gem certification institute in the world.

14. A gems and jewellery cluster has been set up at Surat (Gujarat) under the Industrial Infrastructure Upgradation Scheme of the Department of Industrial Policy and Promotion, government of India, for enhancing competitiveness of the domestic industry by providing quality infrastructure through public and private partnerships.  

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7.3 Gold jewellery industry profile

Out of the total precious metal jewellery market, 80 per cent represents gold jewellery. Gold is known for its beauty, scarcity and almost mystical appeal. It has been the metal best known as a metal of eternity, purity and power through history. It is a status symbol for women. The love of gold is deep rooted in Indian psyche from time immemorial because of the pride of place the yellow metal has in India’s social, cultural and religious life. Gold has an added dimension to its intrinsic value, as it is widely held as a financial asset.

At present, Karnataka is the major gold producing state in India. The estimated gold reserves in the country are placed at 8.7 million tonnes with a total gold content of 64.93 tonnes, of these Karnataka possesses 5.8 million tonnes of gold ore reserve with a total metal content of 49.24 tonnes. The total estimated gold ore reserves in the country are placed at 148.5 lakh tonnes with a total content of 81.06 tonnes.

In the year 2000 India’s consumption of gold was the highest at 855.2 tonnes as compared to the other countries. Its consumption increased from 18 per cent in 1996 to 26 per cent in 2001. The main reason why gold markets have only just begun to get savvy is that the Gold Control Act (GCA) bogged them down for almost three decades (1962-1990). The GCA clamped down on who could hold gold, how and where. Scrapping the Act in 1990 was the first in a line of policy changes that compelled a series of long overdue changes.
The total export of gold jewellery from India to major countries was US $ 161 million in the year 1990-91. Indian hand-made jewellery has a large ethnic demand in various countries with sizeable Indian emigrant population such as the USA, UAE, UK, Singapore, Hong Kong, Germany, Kuwait, Belgium, Bahrain, South East Asian countries, Canada and so on. It can be seen in the Table 7.5 that since 1997-98 to 2001-02, India’s major exports were to USA, followed by UAE and UK. With imported or domestically processed studding (diamonds and precious/semi-precious stones) and findings (jewellery components), Indian machine-made jewellery industry will also generate demand from non-ethnic jewellery markets abroad.

TABLE 7.5
Export of gold jewellery from India to major countries
(1997-98 to 2001-02)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>U.S.A</td>
<td>156.41</td>
<td>436.55</td>
<td>598.6</td>
<td>646.21</td>
<td>647.02</td>
</tr>
<tr>
<td>U.A.E</td>
<td>150.39</td>
<td>139.07</td>
<td>168.22</td>
<td>230.13</td>
<td>234.04</td>
</tr>
<tr>
<td>U.K</td>
<td>89.17</td>
<td>80.34</td>
<td>98.21</td>
<td>102.1</td>
<td>85.96</td>
</tr>
<tr>
<td>Singapore</td>
<td>23.46</td>
<td>19.77</td>
<td>30.87</td>
<td>39.59</td>
<td>44.99</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>21.32</td>
<td>43.97</td>
<td>36.49</td>
<td>37.58</td>
<td>12.99</td>
</tr>
<tr>
<td>Germany</td>
<td>4.48</td>
<td>25.48</td>
<td>27.3</td>
<td>19.49</td>
<td>11.95</td>
</tr>
<tr>
<td>Kuwait</td>
<td>21.59</td>
<td>21.63</td>
<td>11.22</td>
<td>13.31</td>
<td>12.77</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.67</td>
<td>10.28</td>
<td>28.09</td>
<td>8.18</td>
<td>1.56</td>
</tr>
<tr>
<td>Bahrain</td>
<td>6.52</td>
<td>12.15</td>
<td>5.79</td>
<td>2.37</td>
<td>0.95</td>
</tr>
<tr>
<td>Others</td>
<td>35.90</td>
<td>63.83</td>
<td>97.17</td>
<td>69.88</td>
<td>127.12</td>
</tr>
<tr>
<td>Return Consignments</td>
<td>-10.56</td>
<td>-6.92</td>
<td>-14.59</td>
<td>-18.89</td>
<td>-12.52</td>
</tr>
<tr>
<td>Total Exports</td>
<td>510.91</td>
<td>846.15</td>
<td>1087.37</td>
<td>1149.95</td>
<td>1166.83</td>
</tr>
</tbody>
</table>

Source: Office records of Gems and jewellery Export Promotion Council.
The unique advantage of India for the manufacture of diamond-studded gold jewellery is the availability of small commercial quality cut and polished diamonds. Had it not been for India's polished diamonds, studded jewellery would have remained a prerogative of the affluent. With the small commercial quality diamonds, of which almost 100 per cent are at present processed in India, it is possible to manufacture moderately priced studded gold jewellery for world markets. However, this advantage has not been exploited by India. Other countries import cut and polished diamonds from India to manufacture studded gold jewellery. It is an anomalous situation that where India exports Rs. 15,501 crore worth of polished diamonds, its share in studded jewellery exports is very negligible.

In fact, many few jewellery-manufacturing centers have come up in Hong Kong, Singapore and Thailand, besides the traditional centers in the USA and Europe. These centers prospered by exporting studded jewellery using Indian-cut small commercial quality diamonds. At the same time, the Indian jewellery industry stagnated without exploiting this unique advantage.

With improvement in jewellery technology and increasing openness in the jewellery trade, consumers are feeling more assured of the quality and authenticity. An immediate fallout is that primary gold has ceased to be the only form of gold purchase for investment.

Gold comes into India via three sources: the NRI scheme, the Special Import Licence (SIL) and the smugglers route. In the 1993 budget the finance ministry had introduced the scheme to allow NRIs to import gold up to 5 kg under concessional
duty to help stop illegal entry of the yellow metal. This allowed citizens and non-resident Indians (NRIs), who have stayed abroad for six months, to cart in 5 kg of gold after paying 15 per cent (Rs.220 per 10 gm) on import.

The various schemes under which exports of gold jewellery takes place are:

a) Conversion deals against supply of gold by foreign buyers of jewellery.

b) Sales in approved exhibitions abroad,

c) Export of gold jewellery through replenishment,

d) Establishment of special export-oriented complexes for gold jewellery and,

e) Exports through free trade zones.24

India has a negligible share in the world jewellery market. The gems and jewellery industry feels the time has come for it to make a gradual switch over to jewellery. So far the emphasis has been on exporting diamonds to the parties abroad who use them for jewellery. In the process, the Indian exporters have not been able to take the best of the value addition on final jewellery items. This lapse is being corrected, though belatedly.

The industry circles feel it would have done much better had it not been for the long persistence of the Gold Control Act. The GCA prevented the licensed gold dealer from holding more than 400 grams/two kilograms, depending on the number of artisans he employed. During this period, the industry had to depend on unauthorized gold imports. Such unauthorized imports of gold reached nearly 6,441 tonnes by

1990. A substantial portion of this was used for jewellery making. Thus, the original purpose of the GCA to control the hoarding of gold and to stop unproductive investment in the yellow metal did not succeed. All it did was affect the jewellery industry until it was repealed.

With various government initiatives in recent years, export of gold jewellery has also increased in recent years. In order to give relief to gold jewellery sector, in consultation with the Ministry of Finance and RBI, the gold import policy has been completely liberalized and the duty structure on import of gold has also been rationalized. Now gold can be freely imported by four nominated agencies and eight authorized banks for both exports and domestic market and a uniform duty of Rs.220 per 10 gram will be levied for sale of gold in the domestic market. This bold step was taken to give a boost to our gold industry so that India can compete with others to increase its world share of gold jewellery exports. In order to give boost to this sector measures have been taken in the EXIM Policy 2002-2007 as described in Chapter 2.25

7.3.1 Highlights of the Indian gold market

1) India is the cornerstone of the world's physical gold market due to the remarkable gold consumption by Indians.

2) It fabricates annually more than 1000 tonnes of gold jewellery; approximately 30 per cent of the gross amount of gold jewellery is fabricated worldwide.

25Pawan Kumar Garga, op. cit., pg. 105.
3) More than 95 per cent of gold imported for the domestic market is in the form of small cost bars weighing 10 tolas (3.75 oz) widely known as TT bars or biscuits.

4) Eight major gold refiners in Switzerland, South Africa, UK and Australia produce most imported TT bars.

5) The official import of gold bullion for the domestic market occurs through two authorized government schemes such as, Non-Resident Indian Scheme (NRI Scheme) since 1992 and Open General License Scheme since 1997.

6) The OGL Scheme was authorised to 20 banks consisting of 2 Public Sector banks, 3 Private Sector banks, 5 Foreign Banks and 4 Public Sector Undertakings, which accounted for 99 per cent of official imports in the year 2001.

7) In the Indian gold market government allowed duty-free import of gold for re-export purposes as jewellery items.

8) The Indian Government closely monitors the import, export, distribution, fabrication retailing and private ownership of gold.

9) For the last 27 years i.e. from 1963 to 1990, gold control ruled and the Gold Control Act regulated the domestic market. Private gold ownership was restricted to jewellery.

10) Since the repeal of the Gold Control Act in the year 1990, the Government has adopted pragmatic policies designed to increase the share of official gold import, optimize its revenue from customs duty, stimulate the export of gold jewellery, improve the overall quality of gold jewellery fabricated in India, and encourage the recycling of gold jewellery through the Gold Deposit
Scheme (1990), the hallmarking initiative in 2000 and on-going support for gold jewellery exporters.

11) Around 85 per cent of gold jewellery is mostly handmade indicating major role of manual labour in gold industry. Only 15 per cent of the gold jewellery is machine made, however this percentage is increasing day-by-day.

12) There are about three million active goldsmiths and ancillary workers. A goldsmith typically has the capacity to fabricate 10 gm of carat jewellery per day. Mumbai is regarded as the largest fabrication center due to its high output of machine-made jewellery. Other major centers include Kolkata, Ahmedabad, Rajkot, New Delhi and Coimbatore.

13) There are approximately 300,000 traditional gold jewellery outlets mainly family owned businesses. Large, retail chains of branded jewellery have emerged since mid 1990's. The retail chains focus on selling fashionable, lightweight studded jewellery as a fashion accessory, at fixed prices. Altogether they account for less than 1 per cent of the jewellery market.

14) The Bureau of Indian Standards (BIS), the National Standards Body of India launched its long-term scheme to encourage the voluntary hallmarking of gold jewellery in April 2000. This scheme is known as the BIS Certification Scheme for hallmarking of gold jewellery, which is supported by the Reserve Bank of India.

15) In the year 2002, there were twelve assaying and hallmarking centers authorized by BIS to provide services to 275 certified jewellers.  

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7.3.2 Policy measures by the Indian government for the gold industry

The extent of government regulation of the gold industry has varied greatly, reflecting different policies adopted over the following periods:

1947-1963

Although the import and export of gold was banned under the FERA in March 1947, the private ownership of gold and the way domestic gold industry operated were subject to few restrictions. In 1956 there was nationalization of Kolar Mines in Karnataka.

1963-1990

The domestic gold market was rigorously controlled as per the provisions of Gold Control Act. Private gold ownership was restricted to gold jewellery and gold coins already in circulation. Owning gold bars became illegal and gold jewellery fabricators and retailers were strictly regularized and required licences to operate. The manufacture of minted bars and medallions was prohibited and the forward sale of gold was banned. Due to these changes in gold market almost all bullion dealers stopped trading officially. In order to manufacture new jewellery, the gold industry was obliged theoretically to rely entirely on the recycling of old gold scrap.

1990

In June 1990, the Gold Control Act was repealed since the unofficial import of gold for sale had not stopped and the government realized that the Act had impeded
but not controlled the gold industry. Accordingly, restrictions on the private ownership of gold fell away and trade participants no longer required licenses to operate domestically.

1992

From March 1992, official import of gold for the domestic market was allowed. NRI’s were allowed to import up to 5 kgs every six months, which increased to 10 kg in January 1997. Custom duty on imported gold bullion was applied at the initial level of Rs. 450 per 10 gms, but reduced to Rs. 220 in April 1992. The FERA provisions were withdrawn in 1993.

1994

As per Special Import License from April 1994, the authorised exporters were allowed to use their overseas earnings to import specified goods, which include import of gold. The scheme came to an end in April 2001.

1997

In the year 1997, Capital Account Convertibility Committee was set up and MMTC was permitted to trade in gold and silver. Government allowed nominated agencies to import gold under OGL.

1999

As per the Gold Deposit Scheme, in October, the SBI was authorized to accept gold from the public to enable depositors to earn interest on their gold holdings (3 per cent-4 per cent) and the banks to use the gold, after refining, for domestic market
purpose, mainly for gold loans to the jewellery fabricators. Subsequently, more than five other banks were authorized. In 1999 import duty rose to Rs. 400 per 10 grams from Rs. 250 per 10 gms of gold. NRI’s were allowed to bring 10 kgs of gold after payment of duty.

2000

Certification Scheme for hallmarking of gold jewellery was introduced in the year 2000. BIS (Bureau of Indian Standards) initiated this Voluntary Scheme involving independent entities to act as assaying and hallmarking centers, and certified jewellers to use the centers for hallmarking purpose. In 2000 FERA and FEMA were scrapped.27

7.3.3 Indian demand for gold

India is known to be the largest consumer of gold jewellery by volume in the world. No one can beat an Indian in this aspect and, therefore, India has the distinction of being the world’s largest bullion consuming and using country. The total gold holding in the form of jewellery, bars and coins was 643 tonnes in 2004. India is also the largest fabricator of gold. Perhaps India’s penchant for gold and gold jewellery has prevented her from becoming the number one jewellery exporter; as a result we have not been able to replicate our success story of diamond exports in the field of jewellery exports.

Given the weakness for gold and also silver among Indians, they have been buying, storing, saving and also hoarding both these precious metals more than anyone else in the world. It is estimated that gold holdings among Indian households at current market value is about 2.5 times the current equity holding of US $ 80 billion, which means, some US $ 200 billion – or a whopping 29 per cent of our gross domestic product – is locked away in vaults and household almirahs.

Gold is purchased in India mostly for the personal adornment. It is also bought as an asset to provide security and savings. With the ever-volatile equity and fixed markets, people look at gold as a safe investment option. Gold is valued in India as a saving and investment vehicle and is the third most preferred savings instrument after bank deposits and insurance. Pledging gold for immediate money is much easier without legal formalities. The craze for gold is common among the public, rich or poor, literate or illiterate, and for obvious reasons the demand for gold will continue to increase.

As per World Gold Council the quantum of gold stored, saved and hoarded by Indians over generations is estimated to be massive 15,000 tonnes, the largest hoarding in the world accounting for about 10 per cent of the worldwide stock. Interestingly, despite this massive hoard of gold, India annually imports over 500 tonnes of gold each year, a large part of which is added to the existing vast hoard. In addition to this, even the RBI has in its vaults around 350 tonnes of gold as part of the

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28Saikat Neogi, "All that glitter is gold", Hindustan Times, August 9, 2005.

country’s foreign exchange reserves. At current market values, gold accounts for 10-15 per cent of the Indian household’s balance sheet.\textsuperscript{30}

Although diamond exports started picking up in the seventies/eighties, gold jewellery could not take off due to the Stringent Gold Control Act. The former finance minister, Morarji Desai, tried to regulate the gold trade by slapping the Gold Control Act, which had to be repealed in 1990. A country, which boasts of a goldsmith in every village, could not manufacture jewellery and export it in view of this law. No modern technology/technical know-how was imported.

After the repeal of the Gold Control Act, gold jewellery exports started picking up. The EPZs set-up their base across the country started attracting jewellery manufacturers who quickly set-up their base in these complexes and started exporting jewellery which was in demand in the Western markets and within a short span of 10 years India’s jewellery exports jumped from US $ 203 million in 1990-91 to US $ 1.1 billion in 2000-01. However, India has to still go a long way before she can challenge the numero uno position of Italy, which presently holds 32 per cent market share in the world, as compared to India’s share of approximately 8 per cent.

The dual status of gold both as commodity and currency makes it an ideal saving instrument in India, where gold plays an important role in almost half of the country’s economy, which is known as the parallel economy. Little wonder, therefore, that majority of India’s trade in gold and gold jewellery – wholesale as well as retail –

\textsuperscript{30}Saikat Neogi, \textit{loc cit.}
is done in cash and neither the government nor the RBI can do anything about this all-pervasive menace.

The government set up the Capital Account Convertible Committee in 1997, allowing the 19 nominated agencies to import gold and silver in 1999, introducing the hallmarking of gold in April 2000, permitting trading in futures of gold and silver in February 2003. This move to deregulate and decanalise the import of bullion is very much in this line of government's efforts to infuse winds of liberalization of gold and silver trade in the country. However, one of the moot question here is how free and liberalized would the bullion trade be if the government does not allow exports of gold in bullion form in addition to the jewellery exports?31

Whether India will still be absorbing 25 per cent of the world's annual gold production ten years from now, is an uppermost question today. The study argues that profound economic and social changes are occurring in India, which will affect gold demand. It also identifies threat to gold from diamonds from other consumer goods and services and from the perceptible westernization of Indian society among the country's wealthier segments.

According to the past, without more vigorous support and more careful considerations of the highly complex socio economic dynamics of contemporary Indian society, this formerly captive audience for gold may well slip away faster than

can be imagined. As long as the practices of ‘streedhan’ and dowry remain widespread, gold jewellery may enjoy an important role in the society.

Social changes are a major contributor to the change in jewellery trends. As Indian women too are becoming increasingly independent because of their entry into jobs and professions, their desire for newer and contemporary designs has increased. She wants to buy jewellery, which she can wear for her work place and at the same time, which shows her individuality. White gold and silver are also becoming popular nowadays because of their compatibility with western outfits and good combination with color stones.  

The natural beauty, brilliance, malleability and resistance to tarnish have made this yellow metal to attain a coveted position and increased acceptability among the people. With the limited supply of gold, the introduction of platinum, which is costlier than gold as a substitute, could not win the hearts of people. Perhaps the elegance of gold itself places a high value for it as it has become part and parcel of human life and is exhibited for beauty and results in cultural elevation. Therefore the demand for gold is ever increasing.

With liberalization of gold policy, smuggling has stopped making good business sense. NRIs can now bring into India gold upto 10,000 gms as part of their baggage once in every six months, provided they have stayed abroad for a continuous

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33 Dr. V.K. Somasundaram, _loc cit._
period of six months. The Indian gold boom triggered by the liberalization of the gold market in 1990, released a pent up demand for gold at the time when economic growth also took off. With the rupee gold price also rising year after year until 1997, gold purchases soared. The demand for gold in 1997 was around 750 tonnes. To meet this large demand nearly 70 per cent of gold had to be imported from overseas. Between 1998 and 2001, Indian gold demand reached a platform, holding between 700 and 800 tonnes a year, while 2002 has seen a sharp downturn due to a new high in world prices of gold.\(^4\)

As a traditional business in Indian gold market, there has been import of gold bars from different countries and export of gold jewellery items to different countries in which MMTC has been playing an important role. Table 7.6 gives an idea of this increase in import as well as export during the study period.

<table>
<thead>
<tr>
<th>TABLE 7.6</th>
<th>Export of gold jewellery and import of gold bars</th>
<th>(1997-98 to 2001-02)</th>
<th>(US $ in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>839.48</td>
<td>846.15</td>
<td>1087.37</td>
</tr>
<tr>
<td>Imports</td>
<td>405.70</td>
<td>394.8</td>
<td>438.79</td>
</tr>
<tr>
<td>Value Addition</td>
<td>433.78</td>
<td>451.35</td>
<td>648.58</td>
</tr>
</tbody>
</table>

Source: Office records of Gems and jewellery Export Promotion Council.

\(^4\)Preeti Chaturvedi, "Indian Demand For Gold", *loc cit.*
Table 7.6 and Graph 7.4 highlights the import of gold bars and export of gold jewellery from India during the period 1997-98 to 2001-02. Before the study period, that is, in 1990-91, export of gold jewellery was US $ 203.01 million, which increased to US $ 839.48 million in 1997-98 and it further increased to US $ 1166.8 million in 2001-02 with a growth rate of 475 per cent in one decade. Similarly, import of gold jewellery in 1990-91 was US $ 138.97 million, which increased to US $ 405.70 million in 1997-98, and it further increased to US $ 543.41 million in 2001-02 with a growth rate of 291 per cent in one decade. However the growth rate of exports is more than the imports, which is a good sign for the gold jewellery industry of the economy.

The export of gold jewellery items is an important aspect of Indian gold market because it brings export earnings to the nation. There are several EPZ's established by the government of India. Table 7.7 shows the EPZ-wise figures of gold jewellery export during the study period.
TABLE 7.7  
India’s exports of gold jewellery – EPZ wise  
(1997-98 to 2001-02)  
(US $ in million)

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Export of Jewellery</td>
<td>839.48</td>
<td>846.15</td>
<td>1087.37</td>
<td>1149.95</td>
<td>1166.8</td>
</tr>
<tr>
<td>SEEPZ</td>
<td>339.13</td>
<td>406.16</td>
<td>525.29</td>
<td>507.47</td>
<td>504.25</td>
</tr>
<tr>
<td>MEPZ</td>
<td>0.70</td>
<td>1.58</td>
<td>2.44</td>
<td>2.52</td>
<td>1.68</td>
</tr>
<tr>
<td>NOIDA</td>
<td>-</td>
<td>28.71</td>
<td>30.03</td>
<td>40.59</td>
<td>0</td>
</tr>
<tr>
<td>DTA</td>
<td>499.65</td>
<td>409.7</td>
<td>529.61</td>
<td>599.37</td>
<td>660.87</td>
</tr>
</tbody>
</table>

Source: Office records of Gems and Jewellery Export Promotion Council.

Table 7.7 shows increasing export of gold jewellery during the study period comprising of four major EPZs. It can be seen that SEEPZ and DTA are the main areas of export.

The Indian gold market is known to be very price-sensitive. It is mainly the demand and supply that determine the price of gold at the international level.\textsuperscript{35} Unlike other goods, the supply of gold cannot be increased as and when demand goes up because in all the gold excavating countries, production has been consistently stable over the years. The demand for gold has increased manifold mainly due to increase in global population and the multifarious uses of gold.\textsuperscript{36}

\textsuperscript{35}Dr. Somasundaram, V.K., op. cit., p. 9.

Indian consumers’ gold demand was 511 tonnes when average price was US $387.0/oz in 1996 and the demand zoomed to 688 tonnes in 1997 when average prices were US $331.3/oz. It was at the highest-ever level of 774.4 tonnes in 1998 when price averaged US $294.1. Thereafter, the demand was stable in the range of 723 and 730 tonnes with price averaging in the range of US $270 to US $279.1.\textsuperscript{37}

Hardly 5 per cent of the demand for gold for fabrication in jewellery in India is for exports. The balance 95 per cent is for domestic sale of gold jewellery at the retail outlets and for industrial purpose. Many socio-economic factors are responsible for the insatiable demand for gold jewellery in India. Gold jewellery is an important item of personal and family wealth in India, which is bequeathed and passed on to sons and daughters. In India, gold assumes the highest relevance during the marriages. With as many as 8 million weddings every year, almost 50 per cent of the annual sale of gold is marriage-related. In fact, more than 70 per cent of gold purchases are attributed to marriages because jewellery is accumulated for this period over the years. Every marriage, in India, involves the gift of a minimum of 30 to 50 gms of gold jewellery. There are other occasions such as the birth of a child, name-giving ceremony, etc., when gold jewellery is gifted.\textsuperscript{38}

Gold and gold jewellery are also regarded as an investment to fall back upon during financial crisis. It can be easily converted into cash, either through sale or through pledging for taking loans. Saving and investing in gold and gold jewellery

\textsuperscript{37}Saikat Neogi, \textit{loc. cit.}

\textsuperscript{38}Preeti Chaturvedi, “Indian Demand For Gold”, \textit{loc. cit.}
can be done in fragments and piece-meal, in contrast to real estate properties. This convenience suits small savers and investors in urban and rural areas.

The prosperity of the rural rich gets converted into investments in gold and gold jewellery. Therefore, India is one of the biggest markets for gold jewellery. The vast and growing market for gold jewellery provides the base for expanding export production. This base consists of 25,000 licensed gold dealers and 450,000 certified gold smiths spread in over 600,000 villages of this sub-continent. They have imbibed in them centuries of old traditions in jewellery making that can provide millions of design ideas for a resurgent Indian gold jewellery exporting industry.

India has tremendous potential, not yet exploited, for jewellery exports. The leading gems and jewellery exporters believe that what has been achieved in diamond exports can be achieved in gold jewellery export too. India has many natural advantages to accomplish this. India has, at present, perhaps the largest artisan force spread throughout the country for making jewellery in the world. Practically, every village boasts of a family of goldsmiths, having a very long tradition of jewellery making.

7.3.4 Role of gold in the Indian economy

The economics of gold is enmeshed in several socio-economic problems in India. For instance, the smuggling of gold, drug trafficking, foreign exchange leakage, black market in foreign currencies, under and over-invoicing in export and import trade, unaccounted income and wealth, black or parallel economy and tax evasion are
issues in one way or other linked to the purchase, sale and holding of gold and gold jewellery in India. Since gold forms part of the reserves of the Reserve Bank of India, it has implications for money supply and price levels.

The prohibition on the import of gold existed in India ever since 1947. The Gold Control Order 1963 and the Gold Control Act 1968 contained tight controls on the gold-related activities. However, the Gold Control Act failed in curbing the domestic demand for gold jewellery. The insatiable demand for the yellow metal continued to grow. The Gold Control Act also failed to control the smuggling of gold. The Act placed hurdles in the export production of gold jewellery in India, when countries such as Italy were riding ahead in world gold jewellery exports.

The Gold Control Act placed severe restrictions on goldsmiths, gold dealers and gold jewellery exporters. The quantitative restrictions did not permit large quantity production for satisfying overseas orders, which were usually large. The Act did not allow a certified goldsmith to receive more than 100 gms of standard gold for manufacturing jewellery. A certified gold smith was not allowed to possess a stock of more than 300 gms of primary gold at any time. The quantity of primary gold in the possession of a licensed dealer was limited between 400 gms and 2 kgs depending on the number of artisans employed. There existed a legal ban on transactions between one dealer and another. The Act also required gold dealers to operate from licensed premises only. This restriction was a hurdle to exports, as foreign buyers could not visit widely scattered places of manufacture for inspection and buying.
The Gold Control Act was abolished in 1990, the year in which the Government of India had to transfer 40 tonnes of gold to London and swap for foreign exchange to tide over the country’s balance of payment crisis. India had hibernated during the gold control era and missed the opportunities for gold jewellery exports while even smaller Asian countries like Thailand and Malaysia could record quantum jumps in gold jewellery exports. The prospects for gold jewellery exports from India have now brightened.

After the abolition of the Gold Control Act, the Government introduced further reforms. Import of gold was allowed on payment of customs duty. Subsequently, the import of gold was brought under Open General Licence (OGL) by designated agencies. The designated agencies for the purpose are Minerals and Metals Trading Corporation of India (MMTC), State Bank of India (SBI), State Trading Corporation (STC), Handicrafts and Handlooms Exports Corporation (HHEC), Bank of India (BOI), Indian Overseas Bank (IOB), Canara Bank, Allahabad Bank, Bank of Nova Scotia and Standard Chartered Bank.

These measures have created ample supply of gold for export production. Those exporters availing zero duty status under replenishment scheme for exports continued to get gold under the old schemes. What is now required is to help Indian jewellery to be price competitive in the international markets. The following steps will help the growth of gold jewellery exports: availability of gold for export production through the eligible agencies at international prices, permission to import gold under OGL by all those who hallmark their jewellery (authenticate the purity of gold) and the introduction of uniform sales tax in all the states.
7.3.5 Gold prices on upward march

In 1922, a gram (22 carats) of gold was sold for Rs. 2. This price rose to Rs 2.64 in 1931, resulting in just 32 per cent increase in nine years. But in the next 16 years, gold touched Rs. 13, showing an increase of 492 per cent. The price went down to Rs. 11 in 1952 and then steadily rose to Rs. 16 in 1972. Suddenly in one year, the price doubled and it was Rs. 34 in 1973. In 1986, the price was Rs. 206 and in 1990, it rose to Rs. 345. The metal prices have been increasing steadily from Rs. 446 in 2001 to Rs. 562 in 2003 and were at Rs. 618 in 2004. Considering gold price movements in the last 82 years from 1922 to 2004, the first 50 years' rise shows only eight times increase, whereas the next 32 years recorded an unprecedented hike by around 39 times.

The reasons for the hike in gold price are: gold continues to command a lion's share in the physical assets, gifting gold jewellery at the time of marriage is a common feature among Indians, rise in the Indian population, restrictive supply of gold, the social set-up affixes special status of gold in all the functions and ceremonies, used in temples as offerings, gifted as a part of sales promotion technique in commercial organizations, and bumper prizes in gold have become a common phenomena.

Global prices of gold hit seven-year highs on September 25, 2003 and the ripple effect was felt on the domestic bullion markets as well. Gold prices in the country touched 16-year high at $ 449.15/oz on November 22, 2004. The primary reasons for this spectacular spurt were global terrorism, rising oil prices and a
weakening of US dollar, forcing the investors to seek safety in gold. At the same time, increased demand from China, Japan, India and West Asian countries changed demand-supply equations in gold. India and China are traditionally big consumers of gold. But of late, Japan too has been purchasing substantial quantities of gold. Since time immemorial gold has been considered as ‘safe haven’ but the Indian mode of investment in this metal in the form of jewellery is flawed.39

7.3.6 India to become a gold trading hub

With the prices of gold hitting new heights, the metal has found renewed interest as an investment option. Unlike popular belief, investing in gold in the form of jewellery is highly unprofitable. The reason is the hefty making charges and the high probability of impurities. Most Indian investors prefer to buy their gold from the local jeweller who claims to sell 22 carat gold though the actual purity could be as low as 15 carat.

Therefore, if one is looking to invest in the metal from an investment point of view then it makes more sense to buy gold coins or bars from reputed banks like ICICI or State Bank of India or organizations like MMTC. They offer 5 gms or 10 gms 24 carat gold coins that come with a certification of 99.99 per cent purity. These coins have been introduced by the banks for retail purposes; the coins are inserted in the purity certificate and then laminated. The advantage of buying gold from these

39Dr.V.K.Somasundaram, loc cit.
banks and in the form of coins or bars is that one can be sure of the purity and the same can be sold back to the bank or other buyers minus any making charges.

ICICI Bank would be launching a product called the Gold Account. This account will work like a savings account for the investor. The investor can deposit money into the account as per convenience and that money will be converted into gold by the bank as per the rate applicable for that day. The investor will be allowed to withdraw minimum 5 gms gold.

Another product, which has not yet been introduced in India, is a gold certificate where the investor can buy gold from the bank and is issued a certificate stating the quantity of gold held. This will lead to paperless gold and will encourage gold to be used as an alternate currency. This product has taken off in South-East Asian countries, but till recently Indian banks were not allowed to hedge their gold portfolios and this product was not launched. With forward contracts finding flavour in India, this could be seen in the Indian market as well. It is always advisable to diversify one's portfolio and gold can be an attractive investment avenue with an advantage of easy liquidity. The idea is to invest in a pure and simple form of gold if the aim is to maximize returns.

The Commerce and Industry Minister Kamal Nath has constituted a 12-member inter-ministerial panel headed by Commerce Secretary S.N. Menon to recommend measures to turn the country into a major gold trading hub. The Committee has representation from the ministries of finance and consumer affairs, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI),
Forward Markets Commission, Bullion Association, National Commodity and Derivative Exchange and the Associated Chambers of Commerce and Industry of India (ASSOCHAM), apart from nominees from Gems and jewellery Export Promotion Council and Directorate General of Foreign Trade. The objective is to make India a gold trading hub on par with UK, Switzerland, Dubai and Hong Kong.40

7.4 Silver jewellery industry profile

Historically, silver was more widely used in coinage than gold, being in greater supply and of less value, thus being practical for everyday payments. Most nations were on a silver standard until the late 19th century with silver coin forming the main circulating currency. But after the gold rushes, the silver standard increasingly gave way to gold. Silver was gradually phased out of regular coinage, although it is still used in some circulating coins and especially in American, Australian, Canadian and Mexican bullion coins for investors.

Silver possesses working qualities similar to gold, enjoys greater reflectivity and can achieve the most brilliant polish of any metal. Consequently, the silversmith's objective had always been to enhance the play of light on silver's already bright surface. Pure silver (999 fineness) does not tarnish easily but to make it durable for jewellery, it is often alloyed with small quantities of copper. It is also widely used with base metals in gold alloys. Sterling silver, at a fineness of 0.925, had been the standard of silverware since the 14th century, particularly in the manufacture of

40Dr. V.K. Somasundaram, loc cit.
“hollow-ware” and “flatware”. Plated silverware usually has a coating of 20-30 microns, while jewellery plating is only 3-5 microns.41

Silver differs from gold in several respects, the foremost difference being the fact that, unlike gold, silver is both an industrial metal and a precious metal used for jewellery as well as an investment. Apart from traditional use of silver for jewellery and household articles, the metal is being widely used in photography (substantially by Hollywood), medical photo imaging, decorative objects, superconductors, anti-fouling paints, electronics, bactericides and wood preservatives. According to a rough calculation, the annual demand for silver has already crossed 800-million-ounce mark. However, there is not enough supply to match this demand, which is steadily growing. Unlike gold, there are very few silver mines in the world and most of the silver (around 75-80 per cent) that is brought to the market is mined as a by-product of copper mining, gold mining or zinc and lead mining.

There are huge stocks of gold, India having the largest quantity of the precious yellow metal and several Central Banks in the world holding huge reserves of gold, maintained from the days of the gold standard. But, there is no such huge stockpile of silver held by these banks. Of course, the US government had more than 6 million ounces of silver during the World War II but now it has none. In fact, it had to buy silver from the market to mint the silver eagles.

41Dr. V.K. Somasundaram, loc cit.
Thus, the gap between demand for and supply of silver continues. According to the latest (2003) report of the Silver Standard Resources, “in the calendar year 2002, silver demand exceeded supply by approximately 50 million ounces – it being the 14th consecutive year of supply deficit”. Looking at the current rate of inventory depletion (around 90 million ounces a year), it is feared that all the available silver will be gone.

### 7.4.1 MMTC’s silver trade

MMTC started its silverware products in September 1999 with the brand name ‘SANCHI-Silver’. This business was a step in the direction of forward integration of MMTC’s silver bullion business. MMTC carried out several surveys in the market and found that no branded silverware products were available to the customers willing to buy the merchandise. Branded silverware was available either in the higher segment, which was totally out of reach for the general public, and non-branded products were available in the local market, which did not guarantee purity and good finish of the product.

MMTC launched its brand to cater to the segment of those buyers who were willing to pay a reasonable price for purity and good finish of the product. Sterling Silverware (925.0 fineness) was the benchmark in purity and good finish with appropriate packaging duly hallmarked by MMTC after complete analysis and testing in its own Assaying and Hallmarking Center. From just four products in the year of launch, the range of silverware has grown to more than 60 items covering all types of silverware and tableware items. MMTC also has products that are handcrafted from
artisans of Jaipur in the oxidized range. SANCHI has slowly come to occupy a distinct place in the hearts of its patrons as a wonderful product to be gifted to near and dear ones on all-important occasions and also as an 'Expression of Love'.

Delhi presently is a major market for silverware as far as MMTC is concerned. MMTC has been successful in competing and taking sizeable corporate orders from reputed companies like NPTC, Engineers India Ltd., APEDA, LT Overseas, PCRA, IOC, etc. The standards laid down by its terms of strict quality parameters like purity, packaging, hallmarking and friendly customer service has won MMTC a regular clientele.

Under the umbrella of SANCHI, MMTC has also diversified into the business of refining and sale of unrefined silver. They have long-term agreements with Shri Mata Vaishno Devi Shrine Board for refining and assisting in sale of the silver received by the Board as offerings from the devotees. The Shrine Board and MMTC are working towards opening an outlet in the Holy premises for the ultimate benefit of the devotees. MMTC also has aggressive plans to market SANCHI silverware from its website in due course.42

7.5 Platinum jewellery industry profile

Platinum, as a precious metal for jewellery, is currently enjoying a re-birth, yet its beginning goes back to almost 3000 years, when it was first discovered by the

ancient Egyptians. In the late 1800's platinum importance increased, as many of the
world's leading jewellers, including Cartier, Tiffany, and Faberge designed their
legendary jewels in platinum. There is a growing demand worldwide, for platinum
jewellery, today, outside just the bridal category, as customers appreciate its unique
qualities and understated look. Its rarity is clear from the fact that some fifteen times
more gold is mined each year. Therefore, it commands a significant price premium
over gold and in jewellery, is used in a purer form.

Platinum occurs in association with other rare metallic elements known
collectively as the platigroup metals, which include – platinum, iridium, palladium,
ruthenium, rhodium and osminium. Jewellery platinum is typically an alloy of 90per
cent platinum with 10per cent iridium as hardener. Rhodium is used primarily as
plating metal to give platinum a bright hard finish. Platinum’s purity ensures that it is
hypoallergenic, which means it is perfectly compatible with any skin type. The purity
of platinum also ensures that it does not tarnish or lose its rich white luster. Platinum
being a strong and durable metal, holds gemstones securely forever and can be worn
daily, since it exhibits little or no material loss, even after prolonged wear. Platinum’s
neutral colour enhances a stone’s brilliance and depth.43

The rarest, purest and most precious of metals, it is currently fashionable with
the return of “white” jewellery. Very famous in the Deco period, platinum had
disappeared from the jewellery scene for a few decades. Today, the opening of new
mines and more sophisticated mining techniques has boosted platinum’s big return.

43Divya Bhasin, “All that Glitters is not Gold”, The Gems and Jewellery Magazine of
Platinum, first used in the modern era for jewellery by Louis Cartier of France and Faberge of Russia around 1850, reached its first peak of popularity in 1920s and second in 1990s. Louis Cartier presented a Paris collection made entirely with the white metal and it was he who invented the famous “a jour mounts”, which enhanced the brightness of the gems and was made possible by platinum’s extraordinary ductility and its incredible resistance. As a ‘white wave’ swept the world, making the metal once again a leader in fashion jewellery, it is a puzzle why platinum was almost non-existent in India, the world’s largest consumer of gold, till recently.

Though platinum may seem relatively young, it has a long history and its own legends. The ancient Egyptians and South American Incas prized it. France’s Louis XVI proclaimed it the only metal fit for royalty. The world’s famous diamonds, including the Hope, Jonker I and the Koh-I-Noor, are secured by the permanence of platinum. Platinum reached its peak of popularity in the early period of the 20th century when it was the preferred metal for fine jewellery in America. Demand then faded as industrial applications took market share. However, the rise in the popularity of platinum jewellery over the past two decades has been remarkable. Japan was long the traditional source of platinum jewellery demand, but double digit growth rates over the past several years in both China and North America now makes these two markets highly important. All three combined count of over 90 per cent of the world’s total platinum jewellery demand.

In the early twenty first century platinum has become a favourite choice of global celebrities like Madonna, Jennifer Lopez, Sarah Michelle Geller and Ashley
Judd. They feel that nothing less than the platinum is appropriate. Rather Madonna, the material girl declared platinum as the “metal for moms”.

The popularity of platinum is evident not only in jewellery but also in other products like dinner and flatware, clothing, cosmetics, cellular telephones and cars. The unique chemicals and physical properties of platinum make it an essential ingredient in a wide range of industrial and environmental applications. Platinum is virtually impervious to corrosion and has a melting point of 3,215 degrees Fahrenheit. It plays a vital role as a catalyst in a wide variety of environmental processes and in high technology providing hard disks with extra memory properties and being a vital part of the process of producing computer screens.

Platinum’s price has tended to run to a premium over gold, largely due to the tighter balance between supply and demand and also because platinum is considered a strategic metal and is used in industry, telecommunication, agriculture and manufacturing cardiac valve and medicine. There is little free platinum available to meet demand and as a result the price has risen significantly. Platinum jewellery is costlier than gold because of its rarity. If it were possible to gather together all the platinum ever mined from the earth, it would barely fill a medium sized room.

More than sixty per cent of jewellery purchases are rings and they are especially appreciated by women aged 18 to 24. For them, the purchase of “important and meaningful” rings should disregard expense, and be attractive, precious and last forever, and the ideal combination is platinum and diamonds. Ninety three per cent
of Japanese girls mark their engagements with a platinum and diamond ring. Japan is the most important platinum jewellery market.

In rising markets platinum normally develops a significant premium over gold, because of the following:

- It is much rare – less than 200 tonnes of platinum is mined every year compared to over 2000 tonnes of gold. In addition there are significant stocks of gold in both government and private hands.
- There is a strong industrial and jewellery demand for the metal.
- Buying platinum is also an easy way to invest in worldwide growth because the metal is essential to the economy's domestic market and export markets.
- Platinum globally is highly regarded as the metal chosen by top designers wishing to express their creativity in most precious of metals.
- Its weight does not diminish with time unlike other precious metals and can be passed on from one generation to another. Therefore, if a consumer wants variety and a true value, the choice naturally veers towards platinum.

Over the last five years, the demand for platinum jewellery has grown faster than any other metal in the global market. This is primarily because of the advantages platinum has over the other conventional jewellery metals like gold and silver. Platinum being twenty times rare and stronger than gold or silver, stone settings on the metal is more secured. It's silky polished surface and its weight conveys a feeling of sheer luxury. It is also extremely resistant to everyday wear and tear. Manufacturing platinum jewellery needs special technology and skills and only a few companies in the country have such facilities.
7.5.1 India’s platinum jewellery profile

Platinum jewellery had been prevalent in India in the 1930s and 1940s. But in the 1950s, the popularity of gold surpassed platinum as base metal for diamond jewellery. Platinum is available in very pure form, its acceptance as a metal for jewellery is growing despite being one of the most expensive materials. The Indian consumer has an additional choice of precious metal – a metal that is naturally white, pure (platinum is 95 per cent pure – in fact the purest of precious metals available to the consumer); rare (30 times more rare than gold) and eternal (it can withstand wear and tear and is timeless). Platinum and diamond are ideal “mates” as no metal is strong enough like platinum to securely hold a diamond.

In India, not many are manufacturing platinum jewellery, because it needs special technology, and only few companies in the country have such facilities. Platinum, one of the hardest metal available, has a very high melting point (around 2,000 degree Celsius), which makes it difficult for goldsmiths with normal kilns to craft jewellery out of platinum. The degree of fineness is the amount expressed in thousandths of pure metal contained in a piece of jewellery. A platinum ring is made up of 950 thousandths of pure metal and 50 of alloy, whereas for an 18 carat gold ring the proportion is of 750 thousandths of pure metal and 250 of alloy. The degree of fineness is engraved, or rather embossed, by law on each piece of jewellery. Platinum is processed to a grade of 900/000, i.e. each 1,000 gm of jewellery metal contains 900 grams of pure platinum (90 per cent). This is indicated by the ‘Pt 900’ hallmark stamped on each item of jewellery.
In India, though the material itself is very precious and very rare, high customs duty on platinum import (effectively 20 per cent) is one of the reasons for its high retail price in India (it is about Rs. 1200 per gram). India’s consumption is very little, its export of finished platinum jewellery accounts for one per cent of the world market. Platinum is best suited to diamonds and other stones because of its strength and durability, but Indian women do not like it because of its ‘silver’ look. In the last few years the preference for white gold and platinum has been increasing and spreading across the world markets in jewellery.

Manufacturing of platinum jewellery in India was, till recently an expensive proposition. The main reason behind this was high cost of machinery where the level of precision delivered has to be accurate and flawless in view of precise handling required for this metal. The exorbitant duty on platinum also pushed up prices. These reasons discouraged manufacture of platinum jewellery in India.

Global demand for this has been rising for a while now and Indian manufacturers preferred to cater to markets abroad. Now that they have managed to successfully market gold jewellery, Indian jewellery manufacturers are also now manufacturing platinum jewellery for export markets.

At present, India’s share of the global market for platinum is small (less than 1 per cent). This is the direct result of the lack of availability of a suitable range of well-priced platinum jewellery of guaranteed quality. Dedicated jewellery manufacturers, who have built a strong reputation in the export market are convinced that there is abundant skilled labour in the country and is capable to turn the designs.
in to quality finished pieces with the result that the Indian market has a lot of potential for growth.

In India there are only few manufacturers, who follow a hallmark-based system designed to maintain authenticity in the quality of platinum used in the range of platinum jewellery designs. In Mumbai the main distributors are Popley and Sons, Tribhuvandas Bhimji Zaveri (Zaveri Bazaar), Danabhai, Jaipur Gems, Ghanasingh and Sons, Tanishq, Vijay Jewellers, Beautiful Boulevard, VN Jeweller, Notandas and Intergold. The Delhi distributors list include – Bholasan Jewellers, Khanna Jewellers, Ashwini Kumar’s Mehrasons, Punjab Jewellers, Lalsons, Santram Mangatram, Naqsh and Tanishq.

This growth in the export market has also led to a spurt in local demand for platinum jewellery. In the branded jewellery sector, more and more players are introducing their own lines for platinum jewellery.

Most of these collections cater to an extremely brand conscious segment of the urban populations, often described as the Class 1 diamond buying consumers. They are being offered elegance of design and lightness of metal. In view of this, demand for platinum jewellery is expected to outstrip demand even for white gold jewellery, seen as an alternative to platinum. Rates have also been reduced from 80 per cent to around 11 per cent, making platinum affordable for use as jewellery.  

Platinum Guild International (PGI) started its Indian operation in September 2000. India has a vibrant jewellery market and the overall jewellery market is growing at anything between 15 per cent and 20 per cent. The market for platinum jewellery is continuously growing with increased consumer confidence, a wide network in terms of availability and competitive pricing. In India however, the market for platinum jewellery is in a nascent stage whereas in overseas, the market is more mature.  

7.5.2 Future world demand for platinum

New clean air legislation in the United States (Tier II Emissions Standards) and in many of the world’s fastest growing economies is significantly increasing the total amount of platinum group metals used in automobiles.

Platinum is essential for the wide range of products that are being consumed in nations that are experiencing rapid gains in income. Hence, world platinum use per unit of world economic output has risen rapidly in the past decade.

Platinum jewellery has gone from being a thing of the art deco past to being all the rage in North America and China. The largest economy in the world and the largest country in the world are seeing tremendous growth in platinum jewellery demand. This is in addition to Japan’s relatively stable consumption of the white metal for jewellery purposes. While growth has been strong, overall market share is

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*Kiran Manral, "Pure, Rare, Eternal Platinum", Economic Times, July 15, 2005.*
still low — meaning that these trends of increasing demand are sustainable for some time to come.

Platinum is used in a rapidly increasing array of products, from industrial refrigerators to spark plugs. The small amount of platinum used in each product means that the firms that manufacture them and the consumers that buy them are relatively insensitive to significant increases in the price of platinum.

Platinum has a medicinal value too. “Plating” is the name given to the homeopathic remedy obtained from platinum. When administered properly, it recirculates effective energy warms up interpersonal relationship and slowly dissolves anxiety and tension.

Investment demand by individuals around the world is rising. Many are attracted to the vastly improving fundamentals in the platinum market. In rising markets, platinum normally develops a significant premium over gold. Platinum has historically tended to be more expensive than gold because it is considerably rare and has more extensive and irreplaceable applications.  

Although platinum as a precious metal has been around for over two billion years, a concerted effort to promote this metal has been made only recently with the setting up of Platinum Guild International (PGI) headquartered in London in 1975.

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In India, platinum and diamond combinations are very popular whereas in China, apart from the platinum-diamond combination, jade is sought after. In Germany, platinum chains are becoming longer and geometric in appeal. Rich colours that complement the natural whiteness of platinum are gaining popularity. In Italy exquisite platinum brooches studded with precious stones in the shapes of miniature animals and insects are a huge draw. Coral, turquoise and white stones are gaining wide acceptance in platinum settings. Tiaras are making a comeback. Japan is greatly influenced by international brands and geometric designs as well as motifs are much in demand. In the US, platinum jewellery has moved to “long and linear” and chains have become multi-layered. Globally, platinum offerings are primarily on a bridal platform and this will continue in the future.47

7.5.3 MMTC’s platinum trade

MMTC has started trading in platinum just recently that is, in 2002, since there was no demand for platinum jewellery till recently in our country. Slowly gradually the demand is picking up and there is a lot of scope and potential seen recently for this metal. In order to exploit this potential, MMTC, one of the nominated agencies for import of platinum has started importing platinum of 99.95 per cent fineness since 2002 and has imported fifty kilograms of platinum for manufacturer exporters. Earlier nominated agencies were not allowed to import more than 90 per cent fineness platinum, but ever since the demand of platinum increased 99.9 per cent

47Kiran Manral, loc cit.
fineness are allowed to import as per the amended EXIM Policy 2002. MMTC imports platinum in the denomination of one kilogram.

In India demand for platinum is increasing so also the imports of platinum is increasing in quantity for the year 2003, it is almost double of what was earlier imported. MMTC may also try to supply OGL manufacturers as well as DTA exporters.

7.6 Company profile

MMTC Ltd. was established in 1963 as a Government of India enterprise. It started trading in gold in 1986 under the existing schemes of the Handicrafts and Handlooms Exports Corporation of India Limited/State Bank of India, which involved exporting jewellery through its business associates. Simultaneously, in terms of the decision taken in the 198th Board of Directors meeting held on 30 August 1986, MMTC liaised actively with Government in policy matters relating to establishment of special export-oriented jewellery complexes notified by Government under Export Import (EXIM) Policy 1985-88. MMTC was assigned the role as a nominated agency to make available duty-free gold to the exporters of the country in terms of the EXIM policy provisions. Since 1988-89, MMTC has been the biggest supplier of gold to the exporters in the country. Such an import at globally competitive rate with ‘off-the-shelf’ delivery has enabled the exporters to get duty-free gold readily available which helped increase export of jewellery from the country.
Under the successive EXIM Policies beginning from the term 1985-88 onwards, MMTC has been trading in gold to help export of jewellery. Under various schemes of the EXIM Policies, MMTC was supposed to import gold and supply it to approved gold jewellery manufacturing units which were mainly 100 per cent Export Oriented Units and also those situated in the Export Processing Zones apart from those in Domestic Tariff Area. MMTC could give gold to these units on loan basis or on outright sale basis subject to the condition that the export of jewellery made out of this imported gold was made within three months from the date of sale or loan. Under the various schemes, 86,096 kgs of gold was imported by MMTC during the period of 9 years beginning with 1988-89 and ending with the year 1996-97. Out of this, 83,731 kgs of gold jewellery was stated to have been exported out of the country up to 1996-97.

Gems and jewellery exports constitute a substantive part of Indian exports. Keeping in view untapped potential in this segment, the Government of India in furtherance of the objectives envisaged under the EXIM Policy 1988-91 assigned public sector undertakings including MMTC an important and pioneering role in the Gold Trade Scheme under the EXIM Policy 1992-97. This was obviously a deliberate decision to minimize the chance of the scheme being misused, a possibility which could not be ruled out keeping in view the immense demand for the commodity in the domestic market and its susceptibility to black marketing.

MMTC traded actively under the following schemes formulated by the Government of India (GOI) under EXIM Policy 1988-91 and 1992-97:
i. Scheme for export under Domestic Tariff Area (Para 88C of EXIM Policy 1992-97)

This scheme for export promotion and replenishment of gold was included in EXIM Policy 1988-91 as well as 1992-97. MMTC was declared nominated agency for trade under this scheme for supply of gold in DTA only under EXIM Policy 1992-97. This scheme was operated through various Regional Offices (ROs) and Sub Regional Offices (SROs) except SEEPZ and Noida Export Processing Zone (NEPZ).

ii. Scheme of export from Export Oriented Unit (EOU)/Export Processing Zone (EPZ) complexes (Para 88E of EXIM Policy 1992-97)

According to the provisions of this scheme formulated under EXIM Policy 1988-91 and continued in 1992-97, gold of 0.995 or 0.999 fineness could be made available in units in the 100 per cent EOU/EPZ complexes. MMTC operated this scheme through its offices at Jhandewalan (New Delhi), NEPZ (Noida) and SEEPZ (Mumbai) for import and supply of gold to units.

iii. Scheme of export of jewellery against gold supplied by foreign buyers (Para 88A of EXIM Policy 1992-97)

This scheme was included in EXIM Policy 1988-91 as well as 1992-97. The foreign buyers could supply gold in advance, free of charge for manufacture and ultimate export of jewellery where export orders are placed on nominated agencies viz, MMTC/HHEC/STC or any other agency nominated by government of India. Exports could be made by the nominated agencies either directly or through their associates. This scheme was operated by MMTC from its SRO Jhandewalan.
iv. Scheme of export of display/sale at approved exhibitions (Para 88B of EXIM Policy 1992-97)

The scheme was included in the EXIM Policy 1988-91 and 1992-97. Under the scheme, jewellery could be exported for holding exhibitions abroad and unsold jewellery was to be brought back to India within 45 days. Fresh gold was required to be imported to replenish the stock sold. This scheme was also operated by MMTC from SRO Jhandewalan.

MMTC is India’s largest general trading company who started importing gold bullion since 1989. It has opened four retail jewellery outlets: at Mumbai’s Sahar international airport (1996), in metropolitan Mumbai and Chennai (2001), and in Trivandrum (2002). The Sahar International Airport retail showroom at Mumbai has tied up with Airport Authority of India (AAI) and the lease rentals are linked to the turnover of the duty free outlets. A minting unit has manufactured MMTC minted bars and medallions since 1995, as well as customized medallions for government and corporate entities. MMTC has a hallmarking unit in Mumbai and Delhi wherein gold is tested and benchmarked in accordance with the internationally accepted fire assay method. It sells only hallmarked jewellery in its showrooms and does hallmarking for other retail outlets on consignment basis. It offers assaying and hallmarking services since 1987, registered by the Bureau of Indian Standards as an authorized Hallmarking Centre in June 2000. MMTC plays an important role in the promotion in jewellery through exhibitions and attendance of jewellery fairs worldwide. It sources jewellery from Rajasthan, West Bengal, Tamil Nadu, Gujarat and Kerala.\footnote{Nigel Desebrock, \textit{op. cit.}, p. 74.}
MMTC Limited, one of the public sector undertakings, is an autonomous body, engaged in gold-related activities and falls under the administrative control of the Department of Commerce. The other public sector undertakings authorized to import gold bullion are: PEC Ltd., HHEC of India Ltd., and STC of India Ltd. The gold-related activities of Public Sector Undertakings are supervised by the Ministry of Commerce and Industry (not the Reserve Bank of India). Like banks, they import and wholesale bullion to large domestic dealers. Unlike banks, they can loan imported gold to domestic fabricators and retailers. They can also sell “unfixed” gold for a longer period, normally eleven calendar days.49

The official import of gold bullion for the domestic market occurs through two authorized government schemes:


Since 30th August 1997, 24 banks and public sector undertakings have been authorized to import gold. Although commonly referred to as the “Open General Licence” scheme, it is restricted to authorized entities only. There are four categories of authorized importers:


*Ibid., p. 72.*
• **Public sector undertakings:** MMTC Ltd., PEC Ltd., STC of India Ltd., and HHEC of India Ltd.

• **Private sector banks:** Global Trust Bank, ICICI Bank, HDFC Bank.

• **Foreign banks:** ABN-AMRO Bank, Bank of Nova Scotia, Standard Chartered Bank, Commerz Bank, HSBC.

The Reserve Bank of India (RBI) has authorized 20 banks in the three bank categories to import gold under the OGL scheme. The Indian Government has a shareholding in 11 of the public sector banks. The RBI is a major shareholder of the State Bank of India.

Prior to the introduction of the OGL scheme in August 1997, nominated PSU's had been allowed to import gold for specified purposes. HHEC has been importing gold since 1982, MMTC since 1989, STC since 1997 and PEC since 1998. Initially, HHEC and MMTC (alongside the State Bank of India) were permitted to import gold bars, but only for re-export as jewellery.

In 1994, however, the role of MMTC expanded. In April 1994, when the Special Import Licence (SIL) scheme enabled authorized exporters to import part of their earnings in gold, MMTC was allowed to trade SIL's and import bars to meet requirements. In November, when an amendment to the NRI scheme allowed NRI's to import up to 5 kgs of gold bullion every six months (the amount was subsequently increased to 10 kgs in January 1997), MMTC (and the State Bank of India) established bonded warehouses in Mumbai and New Delhi to service requirements. The warehouses were subsequently closed down in 1998 when NRI imports declined.
In 1997, when authorized banks were allowed to import gold for sale in the domestic market, public sector undertakings were also permitted to do so.

As MMTC is supervised by the Ministry of Commerce and Industry, it is able to offer gold-related services that banks do not. These services enable them to compete with banks that have the advantage of in-house access to favourable exchange rates, interest rate and bank charges. For the domestic market, banks can only loan gold accumulated through the Gold Deposit Scheme. MMTC however, has been able to use imported gold for this purpose since 1998. MMTC offers substantial quantities of loan, mainly to dealers for a short period (typically 30 days), against a bank guarantee of 110 per cent of the value of gold loan and annualized interest of around 6 per cent (fluctuates as per market conditions). Currently, the annual cumulative total of loans exceeds 70 tonnes. While banks are restricted to offering their customers a maximum unfix period of five calendar days, MMTC is able to offer an unfix period of eleven calendar days, and sometimes more.50

It is a common practice in India to import gold bars from different countries to convert into gold jewellery items. This import is made by different agencies including MMTC. Table 7.8 gives an idea of total imports of gold in India as well as imports through MMTC.

50Ibid., p. 58.
TABLE 7.8
Import of gold bars into India by MMTC
(1997-98 to 2001-02)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports by MMTC (Rs. in crores)</th>
<th>Imports by India (Rs. in crores)</th>
<th>Per cent share of MMTC in total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>744.00</td>
<td>1508.32</td>
<td>49</td>
</tr>
<tr>
<td>1998-99</td>
<td>805.53</td>
<td>1668.74</td>
<td>48</td>
</tr>
<tr>
<td>1999-00</td>
<td>713.40</td>
<td>1906.02</td>
<td>37</td>
</tr>
<tr>
<td>2000-01</td>
<td>679.82</td>
<td>2274.12</td>
<td>30</td>
</tr>
<tr>
<td>2001-02</td>
<td>589.41</td>
<td>2742.23</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Gems and Jewellery Export Promotion Council.

GRAPH 7.5
Import of gold bar into India by MMTC
(1997-98 to 2001-02)

Table 7.8 shows total import of gold bars in India and import of gold bars through MMTC so that the share of MMTC for this activity can be highlighted during
the study period. As seen in Table 7.8 the imports of gold by MMTC has declined from Rs. 744 crores in 1997-98 to Rs. 589.41 crores in 2001-02. It shows a declining trend the reason being introduction of OGL scheme wherein RBI authorized 20 banks in the three bank categories to import gold. The percentage share of gold imports by MMTC in comparison to total gold imports of India has also reduced from 49 per cent in 1997-98 to 21 per cent in 2001-02. This decrease in MMTC’s share of import of gold bars is also shown in Graph 7.5.

7.7 Trends in MMTC’s gems and jewellery trade

MMTC is one of the nominated agencies and a leading supplier of bullion jewellery to exporters and domestic users in India since 1988. The main activities of the Precious Metals Division are import of gold and export of jewellery. It has been one of the fastest growing divisions of the company. It has 18 outlets all over India for supply of bullion off-the-shelf. MMTC is India’s largest bullion trader. It imports around 50 tonnes of gold and 400 tonnes of silver annually, and is authorized by the Government of India for duty-free import of gold, silver and platinum for supplying to the exporters in India. Having established itself as a leading retailer of quality jewellery, MMTC is also an agency for overseas jewellery exhibitions.

The operation of this division involves duty-free import of gold and silver for use by jewellery exporters in DTA/EPZ/EOU areas and import of gold and silver against Special Import Licence for domestic consumption. Gold and silver is imported from reputed international suppliers listed with the London Bullion Market Association. Gold is sold in the form of TT bars, kg bars and other denominations and
silver in standard bars and granules. MMTC arranges imports of gold/silver/platinum on consignment basis in bulk from supply sources abroad and makes “off the shelf delivery” to customers through a wide network of offices all over India.

The Government of India has allowed 10 commercial banks to import gold into the country; this has created substantial competition for MMTC, as these banks are able to transact the business at lower costs as compared to MMTC. These banks have advantages over MMTC of not having to incur remittance fees, vault rentals and some other incidentals, since they have access to banking facilities owned by them, while MMTC has to rely on other banks for these services.

MMTC has redefined purity by being one of the pioneers to sell hallmarked jewellery in India since 1994, besides ensuring adequate exposure to the unique and unparalleled traditional Indian craftsmanship to the world through exhibitions and trade. MMTC and BIS have been working in unison to enhance customer awareness in this area. MMTC imports gold on consignment basis from LBMA, accredited suppliers like UBS, Commerce Bank, Bank of NOVA SCOTIA and Credit Suisse (first Boston).

MMTC has been active in exporting jewellery through its duty free shops at international airports in Mumbai, Chennai and Thiruvananthapuram, thereby supporting the government’s thrust of promoting gems and jewellery exports from India. Presently, MMTC has a wide network of outlets across the country for reaching imported gold/silver/platinum to customers. MMTC has opened four new outlets at Abu Road in Rajasthan, Shirpur in Maharashtra, Vijaywada in Andhra Pradesh and
Ambala in Haryana. With these the total number of bullion sales outlets add to eighteen.

MMTC is the custodian of Bharat Diamond Bourse at Mumbai. It is also the nodal agency for import of rough diamonds from Russia under the Protocol of Intentions signed between India and Russia. MMTC also operates four duty free showrooms at Mumbai, Chennai and Thiruvananthapuram offering exquisite jewellery to transiting passengers.

MMTC introduced a new range of branded silverware (SANCHI), which has been widely accepted. The Medallion Manufacturing Unit of MMTC minted medallions for Department of Culture brought out by them to mark the winding off celebration of the 50th year of India’s Independence besides a number of job orders from various corporate clients including the Millennium Coin on behalf of Ministry of Tourism. MMTC has an Assaying and Hallmarking Unit with facilities matching international standards at Jhandewalan, New Delhi.

MMTC is a designated agency for conducting overseas exhibitions particularly in the Middle East countries like Kuwait, UAE, Bahrain. MMTC’s exhibitions showcase Indian made jewellery in these markets and sales made in these exhibitions contributes to valuable foreign exchange earnings for the country.51

MMTC accounts for about 10 per cent of the gold sales all over India. The Precious Metals Division (earlier known as gems and jewellery division) is one of the core divisions contributing substantially to the performance of the company as a whole. Out of MMTC's total turnover of Rs. 7244 crore in 2002 the Precious Metals Division had contributed Rs. 4873 crore, which amounts to 67 per cent. This itself signifies the importance of this division and thus the curiosity to study this division.

The turnover of Precious Metals Division and the turnover of the company along with the percentage share of the Precious Metals Division in the total turnover of the company, since its inception from 1987-88 to 2003-04 is shown in Graph 7.6 and Table 7.9

**TABLE 7.9**

*Turnover of the Precious Metals Division since its inception (1987-88 to 2003-04)*

(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover of Precious Metals Division of MMTC</th>
<th>Turnover of MMTC</th>
<th>Percentage share of Precious Metals Division in the total turnover of the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-88</td>
<td>413</td>
<td>28941</td>
<td>1</td>
</tr>
<tr>
<td>1988-89</td>
<td>597</td>
<td>38800</td>
<td>2</td>
</tr>
<tr>
<td>1989-90</td>
<td>1278</td>
<td>50973</td>
<td>3</td>
</tr>
<tr>
<td>1990-91</td>
<td>1694</td>
<td>56230</td>
<td>3</td>
</tr>
<tr>
<td>1991-92</td>
<td>2359</td>
<td>81158</td>
<td>3</td>
</tr>
<tr>
<td>1992-93</td>
<td>4747</td>
<td>51224</td>
<td>9</td>
</tr>
<tr>
<td>1993-94</td>
<td>7938</td>
<td>32173</td>
<td>25</td>
</tr>
<tr>
<td>1994-95</td>
<td>13240</td>
<td>52626</td>
<td>25</td>
</tr>
<tr>
<td>1995-96</td>
<td>16372</td>
<td>62240</td>
<td>26</td>
</tr>
<tr>
<td>1996-97</td>
<td>20420</td>
<td>47385</td>
<td>43</td>
</tr>
<tr>
<td>1997-98</td>
<td>21822</td>
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<td>49</td>
</tr>
<tr>
<td>1998-99</td>
<td>26801</td>
<td>42527</td>
<td>63</td>
</tr>
<tr>
<td>1999-00</td>
<td>26393</td>
<td>46971</td>
<td>56</td>
</tr>
<tr>
<td>2000-01</td>
<td>30042</td>
<td>53017</td>
<td>57</td>
</tr>
<tr>
<td>2001-02</td>
<td>48725</td>
<td>72436</td>
<td>67</td>
</tr>
<tr>
<td>2002-03</td>
<td>30679</td>
<td>62259</td>
<td>49</td>
</tr>
<tr>
<td>2003-04</td>
<td>54832</td>
<td>90992</td>
<td>60</td>
</tr>
</tbody>
</table>

GRAPH 7.6
Turnover of the Precious Metals Division
(1987-88 to 2003-04)

Considering the topic of study, theoretical data, tables and diagrams, the role of Precious Metals Division of MMTC is significant in the performance of the corporation. In this regard the following hypothesis was set for the study:
"MMTC’S Precious Metals Division contributes more than 50 per cent in the overall turnover of the organization."

To prove the above hypothesis, some statistical techniques are used like – Fisher’s test for variation between two data sets and Pearson’s Correlation Coefficient between the turnovers of Precious Metals Division and MMTC as a corporation engaged in import and export activities. Descriptive statistics is given in Table 7.10.

### Table 7.10
**Descriptive Statistics**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Statistics</th>
<th>Precious Metals Division’s turnover</th>
<th>MMTC’s total turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mean</td>
<td>18138</td>
<td>53805</td>
</tr>
<tr>
<td>2</td>
<td>Median</td>
<td>16372</td>
<td>51224</td>
</tr>
<tr>
<td>3</td>
<td>Std Error</td>
<td>4058</td>
<td>3954</td>
</tr>
<tr>
<td>4</td>
<td>Std Dev.</td>
<td>16731</td>
<td>16302</td>
</tr>
<tr>
<td>5</td>
<td>Variance</td>
<td>279933750</td>
<td>265754669</td>
</tr>
<tr>
<td>6</td>
<td>Coeff. Var.</td>
<td>92</td>
<td>30</td>
</tr>
<tr>
<td>7</td>
<td>Lower 95per centCL</td>
<td>9536</td>
<td>45423</td>
</tr>
<tr>
<td>8</td>
<td>Upper 95per centCL</td>
<td>26741</td>
<td>62187</td>
</tr>
<tr>
<td>9</td>
<td>25th Percentile</td>
<td>2027</td>
<td>43631</td>
</tr>
<tr>
<td>10</td>
<td>75th Percentile</td>
<td>28422</td>
<td>62250</td>
</tr>
<tr>
<td>11</td>
<td>Minimum</td>
<td>413</td>
<td>28941</td>
</tr>
<tr>
<td>12</td>
<td>Maximum</td>
<td>54832</td>
<td>90992</td>
</tr>
<tr>
<td>13</td>
<td>1st Smallest</td>
<td>413</td>
<td>28941</td>
</tr>
<tr>
<td>14</td>
<td>1st Largest</td>
<td>54832</td>
<td>90992</td>
</tr>
<tr>
<td>15</td>
<td>Range</td>
<td>54419</td>
<td>62051</td>
</tr>
<tr>
<td>16</td>
<td>Count</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>17</td>
<td>Skewness</td>
<td>0.84</td>
<td>0.78</td>
</tr>
<tr>
<td>18</td>
<td>P(Skewness)</td>
<td>0.12</td>
<td>0.15</td>
</tr>
<tr>
<td>19</td>
<td>Kurtosis</td>
<td>0.06</td>
<td>0.57</td>
</tr>
<tr>
<td>20</td>
<td>P(Kurtosis)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

1. **Fisher’s F-test:**

F-test is generally known as the variance ratio test and is mostly used in context of analysis of variance, a technique developed by great statistician R. A. Fisher. For test of hypothesis of equality amongst several sample means the F-test is
considered to be more appropriate. F-test initially was used to verify the hypothesis of equality between two variances. In fact, F-test is a test of significance concerning two sample variances. It is based on F-distribution and is concerned with the F-ratio (or the variance ratio) rather than the difference between variances.32

F-test, here is used for the equality of variances of two sets of Data – V1 (Variance of Precious Metals Division’s turnover) and V2 (Variance of MMTC’s total turnover).

For this the null hypothesis (Ho) is:

Ho: Variances of MMTC's overall turnover and Precious Metals Division's turnover are equal (i.e. V1 = V2)

Alpha = Level of Significance = 5per cent (i.e. we are 95per cent confident that there will be equality between both the data sets)

Now the test statistic is:

F (observed) = 0.918
F (critical) = 2.333
Degrees of Freedom 1 = 16
Degrees of Freedom 2 = 16

Where:

F (observed) is the test statistic calculated from available data.
F (critical) is the table value at 5per cent level of significance.
Degrees of Freedom 1 is the total number of the years minus 1
Degrees of Freedom 2 is the total number of the years minus 1

Conclusion:

1. As $F$ (observed value) < $F$ (critical value) at 5 per cent significance, accept $H_0$.

2. At the level of significance $\alpha = 0.050$ the decision is to not reject the null hypothesis of equality of the variances. In other words, the inequality $(\text{Variance}_1 \not< \text{Variance}_2)$ is not significant.

From the above test it can be concluded that the variances of both the data sets are equal. Thus, the hypothesis stands accepted.

2. Pearson's Correlation Coefficient:

The coefficient of correlation symbolically denoted by ‘$r$’ is another important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. There are several methods of finding the coefficient of correlation and the researcher has chosen the Karl Pearson's coefficient of correlation to analyze the data.\(^5\)

Karl Pearson's method is most widely used method of measuring the relationship between two variables. This coefficient is based on the following assumptions:

a) There is a linear relationship between the two variables, which means that straight line would be obtained if the observed data were plotted on a graph.

b) The two variables are casually related which means that one of the variables is independent and the other one is dependent.

c) A large number of independent causes are operating in both the variables so as to produce a normal distribution.\(^4\)

\(^5\)Ibid., p.228.

\(^4\)Ibid., p.231.
This test is used in this study for showing the correlation between two data sets - Precious Metals Division's turnover and MMTC's overall turnover. The following Table 7.11 shows the working for Correlation Coefficient.

### Table 7.11

**Pearson's Correlation Coefficient**

<table>
<thead>
<tr>
<th>Year</th>
<th>X: Precious Metals Division's turnover</th>
<th>Y: MMTC's overall turnover</th>
<th>X^2</th>
<th>Y^2</th>
<th>X * Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-88</td>
<td>413</td>
<td>28941</td>
<td>170569</td>
<td>8375811481</td>
<td>11952633</td>
</tr>
<tr>
<td>1988-89</td>
<td>597</td>
<td>38800</td>
<td>356409</td>
<td>1505440000</td>
<td>23163600</td>
</tr>
<tr>
<td>1989-90</td>
<td>1278</td>
<td>50973</td>
<td>1633284</td>
<td>2598246729</td>
<td>65143494</td>
</tr>
<tr>
<td>1990-91</td>
<td>1694</td>
<td>56230</td>
<td>2869636</td>
<td>3161812900</td>
<td>95253620</td>
</tr>
<tr>
<td>1991-92</td>
<td>2359</td>
<td>81158</td>
<td>5564881</td>
<td>6586620964</td>
<td>191451722</td>
</tr>
<tr>
<td>1992-93</td>
<td>4747</td>
<td>51224</td>
<td>22534009</td>
<td>2623898176</td>
<td>243160328</td>
</tr>
<tr>
<td>1993-94</td>
<td>7938</td>
<td>32173</td>
<td>63011844</td>
<td>1035101929</td>
<td>255389274</td>
</tr>
<tr>
<td>1994-95</td>
<td>13240</td>
<td>52626</td>
<td>175297600</td>
<td>2769495876</td>
<td>696768240</td>
</tr>
<tr>
<td>1995-96</td>
<td>16372</td>
<td>62240</td>
<td>268042384</td>
<td>3873817600</td>
<td>1018993280</td>
</tr>
<tr>
<td>1996-97</td>
<td>20420</td>
<td>47385</td>
<td>416976400</td>
<td>2245338225</td>
<td>967601700</td>
</tr>
<tr>
<td>1997-98</td>
<td>21822</td>
<td>44734</td>
<td>476199684</td>
<td>2001130756</td>
<td>976185348</td>
</tr>
<tr>
<td>1998-99</td>
<td>26801</td>
<td>42527</td>
<td>718293601</td>
<td>1808545729</td>
<td>1139766127</td>
</tr>
<tr>
<td>1999-00</td>
<td>26393</td>
<td>46971</td>
<td>696590449</td>
<td>2206274841</td>
<td>1239705603</td>
</tr>
<tr>
<td>2000-01</td>
<td>30042</td>
<td>53017</td>
<td>902521764</td>
<td>2810802289</td>
<td>1592736714</td>
</tr>
<tr>
<td>2001-02</td>
<td>48725</td>
<td>72436</td>
<td>2374125625</td>
<td>5246974096</td>
<td>3529444100</td>
</tr>
<tr>
<td>2002-03</td>
<td>30679</td>
<td>62259</td>
<td>941201041</td>
<td>3876183081</td>
<td>1910043861</td>
</tr>
<tr>
<td>2003-04</td>
<td>54832</td>
<td>90992</td>
<td>3006548224</td>
<td>8279544064</td>
<td>4989273344</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>308352</strong></td>
<td><strong>914686</strong></td>
<td><strong>10071937404</strong></td>
<td><strong>53466808736</strong></td>
<td><strong>18946032988</strong></td>
</tr>
</tbody>
</table>
The formula for Pearson's Correlation Coefficient is:

\[
    r = \frac{N(\sum XY) - (\sum X)(\sum Y)}{\sqrt{[N(\sum X^2) - (\sum X)^2][N(\sum Y^2) - (\sum Y)^2]}}
\]

\[r = 0.540\]

This indicates that there is a positive correlation between the Precious Metals Division’s turnover and MMTC’s overall turnover.

**Descriptive statistics**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std Dev.</th>
<th>Std Err</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>X: Precious Metals Division's Turnover</td>
<td>18138.35</td>
<td>16731.22</td>
<td>4057.92</td>
<td>17</td>
</tr>
<tr>
<td>Y: MMTC’s overall turnover</td>
<td>53805.06</td>
<td>16301.98</td>
<td>3953.81</td>
<td>17</td>
</tr>
</tbody>
</table>

In this we have calculated Mean (Average), Standard Deviation (this is used for variation - square root of variation, i.e. what is the variation within the set of data.) Standard error (SE) or standard error of the mean (SEM) is the standard deviation of a population divided by the square root of the sample size; \( SE = \frac{s}{\sqrt{N}} \).

The general definition of standard error is that it is equal to the standard deviation of a parameter (e.g. the mean) or of a statistic; standard error is thus synonymous with standard deviation for parameters or statistics. Since the population variance is seldom known, we usually substitute the sample standard deviation; \( SE = \frac{s}{\sqrt{N}} \) and \( N \) is the total number of years.
Correlation Matrix (R)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>X: Precious Metals Division's turnover</th>
<th>Y: MMTC's overall turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>X: Precious Metals Division's turnover</td>
<td>1</td>
<td>0.540</td>
</tr>
<tr>
<td>Y: MMTC's overall turnover</td>
<td>0.540</td>
<td>1</td>
</tr>
</tbody>
</table>

This Matrix shows that the correlation between X: Precious Metals Division's turnover and Y: MMTC's overall turnover.

**t Statistic**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>X: Precious Metals Division's turnover</th>
<th>Y: MMTC's overall turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>X: Precious Metals Division's turnover</td>
<td>-</td>
<td>2.441</td>
</tr>
<tr>
<td>Y: MMTC's overall turnover</td>
<td>2.441</td>
<td>-</td>
</tr>
</tbody>
</table>

A t-test can be used to compare the mean of a single sample to 0 (or any hypothesized population mean) or to compare the difference between two means with 0 (or any hypothesized population mean difference).

A t-test uses the t-distribution and the calculation \( t = (X - m) / sx \) where \( X \) is the mean of the sample, \( m \) is the population mean and \( sx \) is the standard error of the sample which is taken as a good estimate of the standard error of the population (sx).
The matrix of t values associated with the correlation coefficients is used to
determine the statistical probability of each correlation e.g. the t value for the
correlation coefficient of X and Y is 2.441 and this is used to determine the P value
for the same relationship presented in the next table.

**Correlation Significance (P)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>X: Precious Metal Division's turnover</th>
<th>Y: MMTC's overall turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>X: Precious Metals Division's turnover</td>
<td>-</td>
<td>0.029</td>
</tr>
<tr>
<td>Y: MMTC's overall turnover</td>
<td>0.029</td>
<td>-</td>
</tr>
</tbody>
</table>

The matrix of significance levels for the correlation coefficients gives the
probability of obtaining the observed r-value for correlation e.g. the significance level
for the correlation coefficient of X and Y is 0.029.

**Graph 7.7**

Scatter Plot

![Scatter Plot Image]

\[ y = 0.5258x + 44267 \]

\[ R^2 = 0.2912 \]

X : Precious Metals Division's turnover
Scatter diagram is a diagram representing two series with the known variable i.e., independent variable plotted on the X-axis and the variable to be estimated i.e., dependent variable to be plotted on the Y-axis. The scatter diagram shows that there is a close linear positive relationship (since the dots going upwards from left to right in the diagram form approximately a straight line) between the two variables.\textsuperscript{55} Graph 7.7 shows the correlation between $X$ and $Y$ with trend line and equation of line is:

$$(y = ax + b)$$

Now we take the equation $y = 0.5258x + 44267$, Where $Y =$ MMTC's overall turnover,

$X$: Precious Metals Division's turnover is known, $a = 0.5258$ and $b = 44267$

From the equation of line, we can have MMTC's overall turnover, when we know the turnover of Precious Metals Division.

From the above statistical tools, we can say that there is a correlation between MMTC’s overall turnover and Precious Metals Division’s turnover. From the year-wise contribution of Precious Metals Division in MMTC’s overall turnover we can say that the Precious Metals Division’s turnover is increasing. In the last few years from 1998-99 to 2003-04, the share of Precious Metals Division’s turnover in MMTC’s overall turnover has been more than 55 per cent on an average.

\textsuperscript{55}Ibid., p. 209.
Year-wise description since inception (1987-88 to 2003-04) of the Precious Metals Division is given below:

1987-88

During this year the exports of cut and polished diamonds, gemstones and gold jewellery were around Rs. 413 million, accounting for 1per cent of the company’s turnover, which amounted to Rs. 28941 million. Import turnover of rough diamonds and emeralds, which were supplied to exporters of cut and polished diamonds and gems was Rs. 381 million. Gold jewellery worth Rs. 16.2 million was exported from MMTC to 100 per cent export oriented gold jewellery complexes at Delhi and Mumbai. The first ever major primary source purchase of rough diamonds was made by MMTC from Angola when the Corporation participated in a ‘sight auction’. Another significant breakthrough achieved was the purchase of entire marketable rough emeralds from Zimbabwe.

In the Bharat Diamond Bourse, operating under the sponsorship of MMTC, nearly 50,000 parcels for exports were handled. For the first time, MMTC participated in a jewellery exhibition at Doha, Qatar where sales of Rs. 10 million were made. MMTC also sponsored a modern diamond cutting and polishing factory in Mumbai to accelerate production through modern technology in the diamond cutting and polishing industry in India.  

__MMTC’s Annual Report 1987-88__
1988-89

During the year 1988-89 exports of cut and polished diamonds, gemstones and gold jewellery reached a record level of Rs. 597 million compared to Rs. 413 million in the previous year contributing 2 per cent in the company’s turnover of Rs. 38800 million. The 100 per cent export oriented gold jewellery complexes in Delhi and a unit at SEEPZ Mumbai, sponsored by MMTC enabled the Corporation to export gold jewellery worth Rs. 57 million during the first full year of operation. The action initiated to bring in more units to operate in these complexes as well as creation of necessary facilities, both in terms of providing gold as well as other financial assistance, led to substantial growth of these exports. MMTC’s strategy of participation in trade fairs as a market penetration exercise gave dividends.57

1989-90

Exports of diamonds, coloured stones and gold jewellery increased from Rs. 597 million in 1988-89 to Rs. 1278 million in 1989-90 amounting to 3 per cent of the company’s turnover of Rs. 50973 million. Specially, export of gold jewellery made a quantum jump from about Rs. 57 million in the preceding year to Rs. 751 million accounting for 27 per cent of India’s exports. This was because the corporation organized the first-ever buyer-seller meet for gold jewellery in Dubai. It sponsored the Jewellery Complex at Jhandewalan in Delhi that made further progress during the year and most of the units became fully operative.58

57MMTC’s Annual Report 1988-89

58MMTC’s Annual Report 1989-90
1990-91

During the year 1990-91 the turnover of the company was Rs. 56230 million. Although the export of diamonds, coloured stones and jewellery increased to Rs. 1694 million, up by 33 per cent from Rs. 1278 in 1989-90 the contribution in the turnover of the company remained constant at 3 per cent. The Corporation continued to remain the largest exporter of gold jewellery in the country, accounting for nearly 30 per cent of India’s total exports of jewellery. Exclusive exhibition-cum-sale of selected Indian jewellery organized in Dubai and Singapore resulted in a sale of about Rs. 40 million and substantial value addition. In this year the Corporation also acquired land in Salt Lake City to organize a special jewellery complex in Calcutta, similar to the Jhandewalan complex sponsored by the Corporation in Delhi. The performance in exports of cut and polished diamonds and coloured stones was also impressive, being 22 per cent and 53 per cent respectively higher than the previous year.59

1991-92

Export of diamonds, coloured stones and jewellery increased to a record level of Rs. 2359 million in 1991-92, up by 39 per cent from Rs. 1694 million for the year 1990-91. Inspite of this the contribution in the total turnover remained constant again at 3 per cent since the turnover was Rs. 81158 million. In gold jewellery, the Corporation retained the position of the exports in the country, accounting for 22 per cent of India’s total exports. The Corporation supplied gold worth Rs. 670 million to exporters in 100 per cent EOUs in Delhi, Noida, Madras, Mumbai, Cochin and Calcutta. Exclusive exhibition-cum-sale of Indian studded jewellery was organized twice in Singapore/Malaysia and once each in Indonesia and the UAE during the year, 59 MMTC’s Annual Report 1990-91
resulting in across the counter sale of more than Rs. 60 million. An exclusive exhibition of studded silver jewellery was also organized in the UK.\(^6\)

1992-93

The division recorded an all time high turnover of Rs. 4747 million during 1992-93 contributing 9 per cent in the total turnover of Rs. 51224 million. The phenomenal increase in turnover was achieved despite various odds both at national and international level. During this year MMTC was appointed as the authorized agency for import of gold for jewellers in Export Processing Zones and Domestic Tariff Areas. Efforts were also made to commence sales of gold at Bangalore and Ahmedabad, to go in for joint ventures for production of gold jewellery and to extend direct purchase of diamonds and precious stones from primary sources by taking mines on lease, production by joint ventures.\(^6\)

1993-94

During this year, the division registered the highest ever turnover of Rs. 7938 million, up by 67 per cent over the previous year. The contribution to the total turnover also increased to a remarkable 25 per cent although the turnover of the company reduced to Rs. 32173 million as compared to the previous year. Export of gold jewellery accounted for Rs. 3063 million. MMTC remained to be an active and dominant player in export of diamonds, gems and gold jewellery from India, besides being an authorized agency for import of gold for jewellery manufacturers in EPZs/EPUs/DTA.

\(^6\)MMTC's Annual Report 1991-92

\(^6\)MMTC's Annual Report 1992-93
In order to broaden its gold and jewellery activities, MMTC opened new gold vaults in Bangalore and Ahmedabad. MMTC also participated in jewellery exhibitions organized in Jakarta and Singapore and business worth Rs. 35 million was secured.62

1994-95

During this year, the division posted the highest ever turnover of Rs. 13240 million again representing a growth of 67 per cent over the previous year's performance. The contribution to the turnover of the company remained constant at 25 per cent though it increased to Rs. 52626 million. Exports of gold increased to Rs. 3661 million, registering a 20 per cent growth, compared to Rs. 3063 million during the previous year. MMTC had been an active and dominant player in export of gold and jewellery from India. Besides, the company is one of the nominated agencies of the Government of India for import and supply of gold and silver to exporters operating from the various EPZs as well as DTAs. During this year, MMTC commenced import of gold and silver against Special Import License (SIL) for supply to the customers in the domestic sector.

The import of gold was over 20 metric tonnes and silver, 270 metric tonnes. The company opened new gold vaults at Hyderabad and Vizag to reach its services to the customers in these areas. It set its own facilities at Jaipur for cutting and polishing of precious and semi-precious stones, thus, adding value to these products. In order to create a marketing base for export of jewellery from India, MMTC had organized

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62MMTC's Annual Report 1993-94
jewellery exhibitions in Kuwait, Malaysia and Singapore. The company also successfully ventured into the sale of jewellery in the domestic sector. The very first domestic exhibition of plain gold and studded jewellery was held at Delhi in December 1994. This exhibition drew incredible response from the customers. This was followed by another domestic exhibition at Mumbai in March 1995. This too was a run-away success in terms of both response as well as sales.\(^\text{63}\)

1995-96

The division maintained its heady growth rate and achieved a record turnover of Rs. 16372 million, representing a growth of 24 per cent over its previous year's stupendous performance. The turnover of the company also increased to Rs. 62240 million in which the division's contribution was 26 per cent. Bullion operations continued to be the mainstay of the division, and accounted for a total business of Rs. 14395 million. Sale of bullion against Sil accounted for Rs. 5320 million, a growth of 120 per cent over the last year. Bullion sales for export of jewellery accounted for Rs. 8709 million, a growth of 25 per cent over the previous year.

During this year, MMTC imported 30 tonnes of gold and 400 tonnes of silver, as against 20 tonnes of gold and 270 tonnes of silver during 1994-95. MMTC continued to be the single largest bullion trader in the country. The company's overseas office at Dubai was actively involved in bullion trade. Silver consignments were routed by sea via Dubai as a cost effective alternative and a means to ensure regular supply to MMTC's valued customers. It was during this year that the company

\(^{63}\text{MMTC's Annual Report 1994-95}\)
opened an international standard duty-free jewellery showroom at the Sahar International Airport Departure lounge, at Mumbai. The response from the passengers passing through the Mumbai airport had been quite impressive. During this year, it also organized jewellery exhibitions overseas at Doha, Jakarta and Dubai. The third domestic exhibition was organized by MMTC at Delhi in September 1995. This exhibition grossed the highest sale ever of Rs. 5 crores, over five days.⁶⁴

1996-97

This year too the company maintained its excellent growth rate and achieved a record turnover of Rs. 20420 million, representing a growth of 25 per cent over its performance in 1995-96. From a modest figure of Rs. 2359 million in 1991-92, the turnover achieved in 1996-97, is the highest ever recording a growth of 766 per cent over the five-year period. Bullion operations continued to be the mainstay of the division, and accounted for a total business of Rs. 19777 million.

During this year an in-house manufacturing facility was commissioned at Jaipur. The company sold jewellery worth Rs. 36 million through its own showroom at Sahar International Airport’s Departure Lounge at Mumbai. This outlet was of immense advantage to the jewellery units in SEEPZ, Mumbai, in marketing their jewellery.

MMTC also organized an overseas jewellery exhibition in Kuwait and gold jewellery worth Rs. 203 million. It organized the fourth domestic jewellery exhibition

⁶⁴MMTC’s Annual Report 1995-96
at Delhi in October 1996, which grossed the highest ever sale of Rs. 150 million, in only seven days.\textsuperscript{65}

\textbf{1997-98}

This division set a new record during 1997-98, by achieving a turnover of Rs.21822 million, an increase of 7 per cent over 1996-97 performance level. The turnover of the company for the year was Rs. 44734 million with the division’s contribution increasing to 49 per cent. This growth in sales was recorded despite steep fall in international prices of gold and liberalized import policy of the Government of India resulting in larger number of nominated agencies dealing in bullion imports. Amongst all the agencies nominated by the Government of India, MMTC remained the largest supplier of bullion to the exporters of gold and silver jewellery in India. The group also sold 266 tonnes of silver and 49 tonnes of gold during this year.

MMTC opened a retail jewellery showroom in Mumbai in October 1997. The showroom offered a wide variety of machine-made studded and hand-made jewellery of traditional and contemporary designs from various parts of the country.

It was during this year that the government of India authorized MMTC to manufacture and market commemorative gold medallions to celebrate the Golden Jubilee of India’s independence. On this occasion, MMTC brought out commemorative ten grams gold medallions in 24 carat purity. These medallions were

\textsuperscript{65}MMTC’s Annual Report 1996-97
marketed by MMTC directly as well as through selected branches of the Bank of India.

The commemorative medallions were marketed throughout India and abroad by a cost effective multi-channel; multi-dimensional advertising package entitled “Freedom Enshrined in Pure Gold”. These medallions were released on 15th August 1997 and during the six and a half months period, 65,000 medallions were sold for a value of Rs.377 million. The captive medallion-manufacturing unit of MMTC at Jhandewalan Jewellery Complex (JJC) contributed immensely in producing medallions of international standards. During this year, over 40,000 medallions were manufactured, some of which were against job orders from Government Departments and public sector undertakings.

The duty-free jewellery show room at Sahar International Airport at Mumbai continued to excel and outperform their past performance. It had strengthened MMTC’s foray into the domestic gold and jewellery business. It helped reinforce MMTC’s image as a major player and a reliable supplier of certified and hallmarked jewellery. This sales outlet meant to service visiting passengers through this Airport, posted sale of jewellery valued at Rs. 62 million representing a growth of 72 per cent over previous year performance level.

During the year, MMTC participated in jewellery exhibitions held in Kuwait, Doha, Bahrain and Abu Dhabi generating a turnover of Rs. 303 million. In all these exhibitions, jewellery manufactured by in-house manufacturing facility at Jaipur were also displayed and sold along with jewellery from other associates.
In order to improve ready availability of bullion to customers across the country, one more delivery center was made operational at Chennai during the year. By promptly serving the demands at short notice, these centers successfully contributed to a growth of 4 per cent in sale of bullion during 1997-98 as compared to previous year’s performance.66

1998-99

In the year 1998-99, this group set a milestone by achieving a record turnover of Rs. 26801 million, an increase of 23 per cent over the last year’s turnover of Rs. 21822 million. The contribution of this group in the turnover of the company of Rs. 42527 million was 63 per cent. This turnover was achieved despite all-round global depression, steep fall in international prices of gold and liberalized import policy of the government of India resulting in thirteen agencies/banks dealing in bullion imports.

During the year, the captive medallion manufacturing unit of MMTC minted silver medallion for Department of Culture brought out by them to mark the winding up of the celebrations of the 50th year of India’s Independence, besides a number of job orders from various corporate bodies. By opening new gold vaults at Cochin, Hospet and Ludhiana in 1998-99, MMTC continued with its commitment to provide “off the shelf” gold to customers across the country. Innovative schemes of gold supply fetched better market penetration. Sales of jewellery through duty-free outlet

66 MMTC’s Annual Report 1997-98

420
of MMTC and through overseas exhibitions generated an export turnover of Rs.202.80 million in 1998-99.67

1999-2000

This division of MMTC achieved a turnover of Rs.26393 million during 1999-2000 as against Rs.26801 million reported for the year 1998-1999, registering a decline of 2 per cent from the preceding year. The turnover of the company increased to Rs. 46971 million and the division’s contribution reduced to 56 per cent. Business reduction in this activity was due to the overall decline in the value of import of gold into the country by 3.5 per cent following with fall in the international prices of gold.

During the year, the in-house medallion manufacturing facility of MMTC achieved a record turnover of Rs.20 crores. A new range of millennium medallions was released to celebrate the arrival of the new millennium. MMTC also introduced a new range of branded silverware, SANCHI, and achieved a modest turnover of Rs.58 lakhs during the year.

A new Bullion Delivery Centre was opened at Raipur to cater to gold customers across the country and to a vast cross-section of the bullion market. Export sales of diamonds, gold and jewellery including from duty-free showrooms and overseas exhibitions, amounted to Rs. 760 million during the year.68

67MMTC’s Annual Report 1998-99
68MMTC’s Annual Report 1999-00
2000-2001

During the year 2000-2001, the company’s turnover increased to Rs. 53017 million with a contribution of 57 per cent from this group, which achieved a turnover of Rs. 30042 million, registering an increase of 14 per cent over the preceding year. The division widened its network of sale outlets for bullion, medallions, standard gold products and SANCHI brand silverware. Export sales of jewellery – both gold and studded, including from duty-free shop, amounted to Rs. 187.53 million during the year. The year saw upsurge in sale of branded silverware – SANCHI that achieved a turnover of Rs. 6.95 million.

The assaying and hallmarking facility set up by the company handled 25 per cent of all articles hallmarked in India. MMTC also successfully bagged allocation of five additional duty-free shops, three at Mumbai International Airport and one each at Chennai and Thiruvananthapuram against stiff competition.  

2001-2002

The turnover of the group during 2001-2002 was Rs. 48725 million registering an overwhelming growth of 62 per cent over the turnover of Rs. 30042 million during the previous year. The group showed the maximum contribution of 67 per cent in the total turnover of Rs. 72436 million for this year. The turnover of the group includes export turnover of Rs. 56.23 million achieved through the sale of jewellery from duty-free shops at Mumbai and Chennai International Airports, Rs. 220.47 million by organizing exhibition of Indian studded jewellery in Kuwait, Rs. 17.40 million from

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69MMTC’s Annual Report 2000-01
domestic sale of jewellery, Rs. 23.43 million from sales of “SANCHI” silverware and Rs. 54.82 million from domestic sale of gold/silver medallions/silver/gold bars.

The group was successful in registering this growth despite general trade environment having been adversely affected following September 11, 2001, which resulted in gold and silver prices fluctuating worldwide thereby creating impact on consumer’s buying sentiment.  

2002-2003

During this year, the group showed a decline in the turnover by 37 per cent over the previous year. The turnover achieved by the Precious Metals division during 2002-03 was Rs. 30679 million as against Rs. 48725 million in the year 2001-02. The overall turnover of the company was Rs. 62259 million in which the group showed a decline in contribution to 49 per cent compared to the previous year. This comprised of jewellery exports through MMTC’s duty-free shops amounting to Rs. 74.07 million, sales at overseas jewellery exhibition of Rs. 1.95 million, import of gold valued at Rs. 27716.43 million, import of silver valued at Rs. 2481.42 million as also domestic sales of jewellery, silver medallions, gold medallions, gold bars and “SANCHI” silverware worth Rs. 405.18 million.

The decline in sales turnover was due to overall decrease of bullion imports in India, which was adversely affected by various factors like US-Iraq conflict, spread of SARS, high volatility in international prices of bullion and the weakening of US

\footnote{MMTC’s Annual Report 2001-02}
Dollar. The group faced the adverse effects to some extent by taking timely strategic decisions like, organizing domestic jewellery exhibition in Delhi after a gap of nearly six years, opening of new bullion centers to increase services to customers, aggressive marketing of “SANCHI” silverware, enhancing focus on sales from duty-free shops and also by increasing focus on customer service/satisfaction. MMTC enjoys the position of market leader in the Indian bullion trade having flexibility to operate from various centers spread all over India, offering value added product and services besides maintaining lasting relationship.\(^1\)

**2003-04**

During this year, the contribution of the division in the total turnover of the company of Rs. 90992 million, increased to 60 per cent. The group made a significant contribution for the year 2003-04 by achieving a turnover of Rs. 54832 million through diversified activities comprising of Jewellery exports through MMTC’s duty free outlets amounting to Rs. 86.50 million, sales at overseas jewellery exposition of Rs. 505.80 million, import of diamonds at Rs. 27.62 million, platinum at Rs. 102.51 million, gold at Rs. 51809.31 million, silver at Rs. 1933.20 million as also domestic sales of silver medallions at Rs. 70.27 million, gold bars/medallions at Rs. 235.88 million, SANCHI silverware at Rs. 45.38 million and jewellery worth Rs. 15.30 million. The performance of the group registered exceptionally high growth of more than 79 per cent over the preceding year.

\(^1\)MMTC’s Annual Report 2002-03
The overwhelming performance of the group was the result of strategic decisions encompassing opening of new bullion centers in cities like Surat, KASEZ Kandla, operating franchise scheme for "SANCHI" silverware, commencing online sales of medallions and silverware and offering value added products/schemes.\textsuperscript{72}

Thus, it can be concluded that the Precious Metals Division's contribution in the total turnover of the company has been praiseworthy. Its contribution in the total turnover has increased 60 times ever since its inception. In 1988-89 the contribution in the total turnover was a nominal 1 per cent, which increased to 60 per cent in 2003-04.

Though diamond has been the largest contributor in the gems and jewellery industry MMTC's dealing in diamond is very nominal the reason being that the company had burnt its fingers in the past suffering heavy losses. Thus, presently its focus is majorly on gold jewellery.

To get a realistic view of the present scenario of MMTC a survey of about fifty clients of MMTC was conducted. The findings of the survey are that all the customers purchased gold in 1 kg bar form, 98 per cent of the customers purchased gold for converting them into plain and studded jewellery and the remaining 2 per cent purchased it for making decorative coatings on vases, watch straps etc. The monthly requirement of gold of the various customers ranges between 2 kgs and 200 kgs per month. 20 per cent of the customers deal only with MMTC, for the supply of

\textsuperscript{72} MMTC's Annual Report 2003-04
The customers interviewed have been purchasing gold from MMTC from minimum one year to maximum twelve years. 98 per cent of MMTC’s customers export plain and studded jewellery to countries like UK, UAE, USA, Dubai, Europe, Middle East, Hong Kong, Singapore, Far East, Belgium, Japan. Very few customers purchase gold for the local market. 99 per cent of the customers buy gold under the loan scheme and the rest purchase it either through replenishment or outright purchase scheme. 50 per cent of the customers of MMTC take part in the exhibitions conducted by MMTC, 30 per cent take part in the exhibitions conducted by IIJS and the rest don’t take part in any exhibitions. 80 per cent of the clients find the registration procedure of MMTC simple, easy to follow and less complicated. The rest find it very cumbersome.

The survey highlighted the following:

1) Most of the clients are unhappy with the services offered by MMTC.

2) They find the service charges (commission) to be very high.

3) The rate of interest compared to other nationalized and foreign banks like Nova Scotia, are very high and not competitive.

4) The delivery procedure of gold is a very lengthy and a time-consuming process. There are often delays in fulfilling their requirements.

5) The pricing and invoicing system is not clear and transparent for any layman to understand which has led to confusions regarding the same.

6) There is high level of bureaucracy prevailing in the system.
7) The staff is transferred from one branch to the other, so it becomes difficult for them to understand their job and the customer well.

8) The clients find the 50 per cent deposit payment too taxing.

9) Office hours are not flexible unlike the other competitive banks.

10) The period given for repayment of loan is too short.

11) The policies and rules followed by MMTC are not customer-friendly.

12) Refund payments are pulled on for a long period.

13) The clients find separate bank guarantees for OGL and DTA too taxing.

14) The entire system of functioning is complicated and not transparent, streamlining is badly required.

7.8 Conclusion

In spite of the above problems the present clients are willing to continue with MMTC hoping that things will improve, moreover they are assured of the quality been sold by MMTC. Nevertheless an improvement measure has to be taken at the earliest if MMTC wants to survive in this competitive world.

In order to consolidate its position further, MMTC can go for futures and forward contracts to hedge against price fluctuations, backward integration by importing gold, ore and concentrates, focus on sales of silverware and medallions under franchise concepts, open new bullion centers, expand supply base, offer value addition and increase customer focus.
To achieve the export target of US $16 billion by 2007, the gems and jewellery industry needs to diversify, strengthen R&D, lay emphasis on diamond-studded jewellery, develop internationally accepted designs, participate in more trade fairs both within and abroad, use more of semi-automatic machines for reducing the wastage, strengthen the infrastructure with regard to fashion forecast and design innovation, and conduct market surveys in the potential markets by specialised institutions such as Indian Institute of Foreign Trade. Besides, it needs to keep an eye on the developments taking place in China, which is a serious threat to the Indian industry because of its large manpower.