



A Study of The Task Group for Diamond Sector to Make India An International Trading Hub for Rough Diamonds

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ABSTRACT

The Indian Diamond Industry is currently going through a downturn phase. The total exports of cut and polished diamonds during FY 2011-12 and 2012-13 (Apr-Dec) witnessed decline of 17% and 36% respectively. USA is the major market for diamonds as exports to USA are pegged at US\$ 6.1 billion higher than that from Belgium and Israel. Though the diamond sales have bottomed out, the industry is expected to witness positive growth in festive months during October-December 2013. Our share in USA has started declining; the industry strongly believes that USA will continue to be a strong global trading partner. Of lately, there have been reports that China, through governmental interactions and aids, is pushing through direct deals with the African governments for the supply of rough diamonds which would put it in a strong position to merge as a major diamond manufacturer in the world. Dubai has started strongly emerging as global diamond trading centre. Sharing these concerns and to protect the genuine interest of the diamond industry, the Hon'ble Minister directed the Department of Commerce to constitute a Task Group for Diamond Sector to suggest measures to increase the diamond trade and to make India an International Trading Hub for Rough Diamonds .

KEYWORDS

DIAMOND SECTOR , INTERNATIONAL TRADING

1.Introduction :-

Diamond comes from the Greek adamao, transliterated as "adamao", "I tame", "I subdue". The adjective "adamas" was used to describe the hardest substance known, and eventually became synonymous with diamond. Knowledge of diamond and the origin of its many connotations start in India, where it was first mined. The word most generally used for diamond in Sanskrit is transliterated as "vajra". The earliest known reference to diamond is a Sanskrit manuscript, the Arthashastra by Kautilya. The "Ratnapariksha" for Buddha Bhatta is a 6th century treatise on gems. The manuscript summarizes India's knowledge about diamond. For 1,000 years, starting in roughly the 4th century BC, India was the only source of diamonds. World famous diamonds such as Koh-i-noor, the orlof, The great Mogul, Sancy Hope, Floretine, Nassak, regent, Pitli, Nizam etc were the products of India. In 1725, important sources were discovered in Brazil, and in the 1870s major finds in South Africa marked a dramatic increase in the diamond supply. Additional major producers now include Russia, Canada, Botswana, Australia, DR Congo, Ghana etc. Today diamonds are mined in more than 25 countries. Geological processes create two basic types of diamond deposits, referred to as primary and secondary sources. Primary sources are the Kimberlites and lamproite pipes that raise diamonds from Earth's mantle, where they originate. Secondary sources, created by erosion, include such deposits as surface scatterings around a pipe, concentrations in river channels and fluxes from rivers moved by wave action along ocean coasts, past and present. The use of diamonds as gemstones of decorative value is the most familiar use to most people today. Since around 1900, experts in the field of gemology have developed methods of characterizing diamonds and other gemstones based on the characteristics most important to their value as gem.

2. OBJECTIVES OF THE STUDY:

1. To study Composition and terms of Reference of the Task Group in India.
2. To study Taxation Challenges in the Diamond in India.
3. To Evolution of Diamond Industry Taxation In India.
4. To study the status of drinking water in schools.
5. To study Industry Technology and Skill Requirements in India.

3.METHODOLOGY OF THE STUDY:

The study is based on secondary sources of data. The main source of data is various Economic Surveys of India and Ministry of commerce and industry data, The Gem & Jewellery Export Promotion Council (GJEPC), online data base Gem & Jewellery Federation (GJF). SEEPZ Gems and Jewellery Manufacturers' Association (SGJMA), Jewellers Association of Jaipur (JJA). Gem and Jewellery Skill Council of India (GJSCI).

4.The Indian Scenario:

India's gem and jewellery industry is a bright star of the economy, and one of the important foundations of the country's export-led growth. The Industry valued at US\$ 43 billion in the financial year 2011-12, is one of the leading growth sectors of India's export led economy and leading foreign exchange earner accounting for 14% of the total Indian exports during the last financial year.

Diamonds account for 54% of the total gem and jewellery export basket of the industry and India is world's leading exporter of Cut and Polished Diamonds. A major contributor to the creditable performance of the industry is the massive diamond manufacturing sector, which employs nearly one million people across the country. The

industry has grown from its small origins in the 50s and has established itself as the world's largest manufacturing centre of cut and polished diamonds for the last many years, contributing 60% of the world's supply in terms of value, 85% in terms of volume and 92% in terms of pieces. Surat along with Navsari, Bhavnagar, Amreli are known as the diamond manufacturing/processing hub whereas Mumbai is the diamond trading hub.

India is the world leader in diamonds both in quantity and value terms. This preeminent position has been achieved through progressive liberalization of Government policies, entrepreneurship and skilled labour. India has achieved global leadership position in the business of cutting and polishing diamonds also due to its price competitiveness and willingness to work for low margins.

Today, after creating a niche for itself in the diamond world with small diamonds, India is developing skills for cutting and

polishing larger stones and fancy cuts. Indian diamond polishing factories are on par with the world's best employing cutting edge of technology using laser machine, computerized yield planning machines advanced bruiting lathe, diamond impregnated scaives etc.

5. Finding of the study:

Other successful Global Diamond Trading Centres like Belgium, Israel, China and Dubai realizing this offer low and predictable taxation regimes for diamond business. This has meant that despite India's current dominance in manufacturing, it has failed to become a hub for rough diamonds, thus increasing the transaction cost of our exporters in way of travel costs, cost of brokerage and etc. Also small manufacturers suffer more as they do not have the reach and capability to deal with suppliers of roughs in Hong Kong, Belgium, Dubai and etc, thus totally dependent on secondary suppliers.

Table :1
Export of Rough and Cut & Polished Diamonds (Value: US\$ in Million)

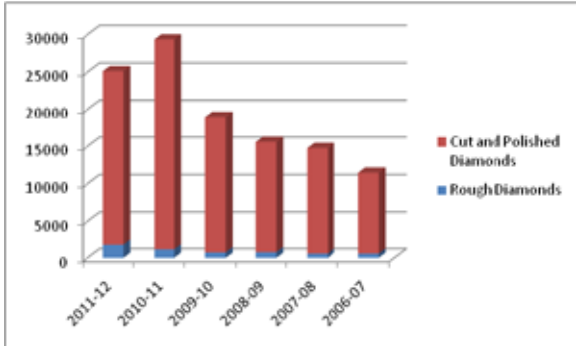
Year	Rough Diamonds	Cut and Polished Diamonds
2011-12	1772	23356
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2009-10	744	18224
2008-09	776	14804
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Source :Gem & Jewellery Export Promotion Council

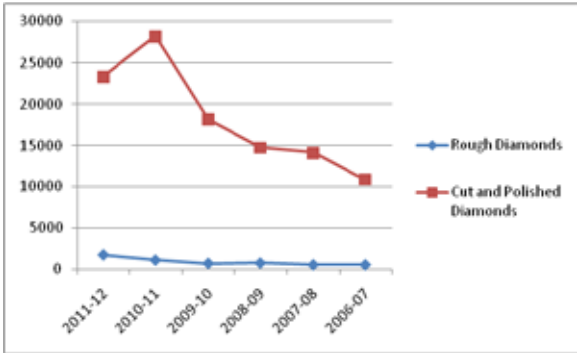
Graph :1



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Source :Gem & Jewellery Export Promotion Council

The major markets for cut and polished diamonds are Hong Kong, UAE, USA, Belgium,

Israel etc. the overall potential for growth in the cutting and polishing industry is limited, mainly due to the restricted supply of raw materials i.e. rough diamonds in the country. However, the diamond trading business, which is centered in Antwerp, Israel, can be attracted to the India, given the large cutting and polishing activity that happens in India and the sizeable domestic market.

For over 50 years, De Beers used to promote diamonds with marketing spends touching over USD 200 million annually. However they have stopped these promotions as their market share of mining of diamonds has dipped from 85% to 35% over the last 10 years. India, which employs over 90% of the people in the trade, happened to be the chief beneficiary of this promotion. Based on such promotions iconic diamond jewellery brands like Nakshatra, Asmi and etc were developed.

In 2009, the GJEPC in association with 27 manufacturers and 85 retailers launched the “Anant” promotion in India to promote diamonds and diamond jewellery as a category. However it was shelved after 1 year due to dearth of funds.

In 2012, the GJEPC has committed to spend USD 10 million over 3 years for promoting diamonds in 2-3 key markets, including India and China. The GJEPC hopes to become the catalyst for other players in the diamond pipeline like rough producers and traders to contribute and make this fund larger, thereby ensuring sustained diamond promotion. Hence the government should earmark funds for matching trade’s contributions into this fund.

In 2011, the Council commissioned the Swiss based branding-Institute CMR AG to conduct a consumer perception survey in Baselworld 2011 to gauge the perception of the “Made in India” Brand. Mr Marco Casanova, head of the institute, made a presentation titled “Perception of Indian Jewellery in European Market” before the Dr. Rahul Khullar, the then Commerce Secretary on 13th July 2011 in New Delhi.

6.SUGGESTIONS AND THEIR EXPLANATION :

1. While the industry would like a Presumptive Taxation regime in the long run, it would request the finance ministry to start by reducing the tax rate for the Benign Assessment Procedure (BAP) to 2.5% to gain industry acceptance, assess the rate of collection of tax, gauge the interest of the industry to opt for such scheme.
2. Allow for duty free re-import quota for cut and polished diamonds to the tune of 15% of the previous year’s exports in value terms .
3. Establishment of a Special Notified Zone (SNZ) for import

of rough diamonds, where net income is fixed and taxes are paid only on invoices raised to Indian companies and not on re-exports.

4. For the Diamond Sector, the system of Honorary Valuation Panels at ports of Surat and Mumbai for any valuation disputes, a mechanism which was operational well prior to Notification no 94/2007 and 95/2007 may be continued with and accordingly added in such notifications for the Special Valuation Branch in case of valuation for diamonds.

5. Looking at the fact that India does not produce rough diamonds and almost 90-94% of the end product of cut and polished diamonds that are manufactured in India gets exported any indirect taxation on the sector will only result to export of taxes, the industry should be declared as zero-rated indirect tax regime and all duties collected in way of Service Tax, VAT or GST should be refunded by way of drawback at the rates computed by way of survey of actual exports.

6. Establish a special fund by RBI to the tune of USD 3-5 billion for the refinance of borrowing given to non-petroleum export industries, which have a high import content of more than 70% of their exports. In case of inability of the Govt. to provide such facilities such sectors should be allowed to arrange for ECB in foreign currency for their working capital requirements for purchase of raw material.

7. 2% interest subvention scheme should be extended for the entire gem & jewellery exporters as it was done in the year 2008-09.

8. Reduce documentation requirements for exports from 23 to 12 copies as suggested and agreed during the previous task group formed for the industry in the year 2006.

7. Conclusion:

At present, many countries who are producing rough gemstones are now insisting on processing of gemstones in their country itself like the Republic of Tanzania has put the ban on export of rough tanzanite gemstones weighing one gram or more so that some value addition is achieved on it in Tanzania. Hence the Indian exporters are left with no choice but to import the preforms of such stones.

Preforms are being imported by the exporters for manufacturing of coloured gemstones. It is mainly the rough coloured gemstones which are also used as raw materials for manufacturing of the finished goods. The Field Formations of Customs in India are neither treating these preforms of precious and semi-precious stones as rough of these gemstones which are duty free nor as cut and polished precious and semi-precious which attract 2% import duty since January, 2012. Customs classify these preforms as "Others" and are imposing 10% import duty on the same.

"Preform" is just a 3rd step out of 8 steps involved in manufacturing of coloured gemstones. From the rough gemstones, the steps involved in manufacturing of cut and polished precious and semi-precious are Marking & Trimming, Sawing, Marking Preform, Calibrating, Sandling/Lapping, Doping, Faceting & Polishing. The definition of preforming as published in "Dictionary of Gems & Gemmology" by Mohsen Manutchehr-Danai is "preliminary shaping of gem substance for lapidary faceting". Since the gemstones are treated as precious cargo by the airlines and their airfreight is quite high, the import of preform saves the cost of airfreight as the undesired portion of the rough like inclusions and other minerals attached to it are removed in steps involved in trimming and Sawing. This makes our exports much competitive in the international market. Thus treating preforms as cut and polished coloured gemstones and imposing duty shall render the exports uncompetitive.

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