1	Title of the Project	POLICY UNCERTAINTY AND GOLD PRICE IN INDIA	
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3	Affiliation of PI	MANAGEMENT DEVELOPMENT INSTITUTE GURGAON	
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5	Time Line for the Project	From: March-2020	To: February-2022

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Executive Summary

Understanding the factors affecting the gold market has always been an intriguing and stimulating topic for researchers, investors, regulators and policy makers. Many researchers focus on interaction of gold supply and demand (Rockerbie,1999, Ismail, Yahya & Shabri,2009; Apergis 2014), or analyse the role of gold as safe haven, hedge or derivative instrument (Baur & Lucey, 2010; Wang et al., 2011; Bialkowaski, 2015; Cheng, Chen &Lai 2018). But, most of the research is quantitative in nature and considers the consumer sentiment, beliefs etc. for analysis and often ignore the impact of the underlying gold ecosystem which comprises of importers, refiners, traders, manufacturers and retailers. In this report, we are exploring one the most important part of gold value chain- 'the bullion traders' in Indian context. We aim to explore an in-depth analysis of uncertainty and the concerns of bullion traders in India.

The report investigates the business practices followed by bullion traders in India. It provides comprehensive picture of issues and concerns of bullion traders related to existing business environment for bullion trading in India. The report is based on pan-India survey of bullion traders and is an attempt to bridge the gap between perceptions and understanding that policy makers have while designing the policies and what bullion traders expect from them. While, most of the studies regarding the bullion trading is India is secondary data based and quantitative in nature, this study is based on primary data and qualitative in nature. The report provides a new source of data on several aspects of bullion trading in India which can be used as insights by policymakers, traders and other stakeholders of the gold industry.

The report is based on data collected from all types of market participants of bullion trade like bullion dealers, bullion brokers, bullion bankers, bullion fund manager, bullion allied services, refiners and manufacturers. The sample suggests that current regulatory environment causes uncertainty in the gold trade. Policy announcements like monetary policy uncertainty (e.g., RBI MPC/ US FOMC meeting) affect the trade financing decisions. Majority of respondents were of the opinion that India needs to develop an "Indian Gold Delivery standard" similar to loco London which is acceptable to banks and regulatory authority. Also, most of participants preferred hedge through buying on spot price and forward sale simultaneously rather than short sales on the future market. The report provides the insights for data sources that bullion traders rely on for quantitative information related to the Bullion trade. It was found that bullion traders usually have given diversified view on mining potentials in India and its feasibility and effectiveness and almost all agreed that import will remain is the main source of gold in India and it also highlights the challenges faced by bullion traders on policies related to import gold in India both in bullion and dore.

Report also highlights the opinion of various stakeholders to improve the current domestic gold ecosystem and how the dependency on gold imports can be reduced. The report tries to capture the concern about GMS and GML Scheme, BIS mechanism and BIS Hallmarking Act, 2016. The report summarized the opinion on best way to remove arbitrage between Indian and International gold prices and thus dis-incentivize smuggling. The report explores the opinion of bullion traders on the regulatory framework that can ease the bullion trade in India like Gold Board of India, Bullion Exchange of India, Gold Domestic Council or a Bullion Exchange.

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Acknowledgement

The funded research project with IGPC, IIMA, titled as "POLICY UNCERTAINTY AND GOLD PRICE IN INDIA".

It is a two phase study, the first phase report has already been submitted. In Phase I of the study a statistical model was developed for understanding the gold price movement and volatility using the conditional volatility framework encompassing major policy reforms. The interim report based on this phase has already been submitted to IGPC.

The present report summarizes the Phase II of the study. We have tried to explore a more in-depth analysis of the concerns of bullion traders in India. For this qualitative study we have prepared a structured questionnaire to gauge the various concerns and issues faced by Indian bullion traders. Interviews were conducted with bullion traders across India to collect the data.

this report makes following contribution to existing literature. First, it diverges from the existing popular quantitative approach to examine bullion trading as this research is qualitative in approach. The report provides a new source of data on several aspects of bullion trading in India which can be used as insights by policymakers, traders and other stakeholders of the gold industry.

Following journal articles are submitted for publication. The paper 1 has been accepted for publication in the journal Resources Policy. The other paper is under review

Paper 1: Monetary policy uncertainty and gold price in India: Evidence from Reserve Bank of India's Monetary Policy Committee (MPC) review

Paper 2: Impact of Policy Uncertainty on Gold Price in India: Evidence from Multi Commodity Exchange (MCX) India and World Gold Council Prices

We would like to thank India Gold Policy Center, IIMA for giving us this opportunity. Our sincere thanks to Sh. Sudheesh Nambiath, Ms.Minal Marathe, Ms.Mini Nair for helping us in the various stages of the project. We would also like to thank Dr. Faisal Usmani who has helped us throughout the project. We would also like to thank Prof.Dirk Baur at UWA for giving his expert opinion which helped us to improve our study. We would like to thank Mr.Harish Chopra for helping us in designing the questionnaire and providing his inputs at various stages of the project. We would also like to thank bullion traders, bankers, brokers, refiners, manufacturers who provided us inputs through the interviews and were very patient and friendly while answering our questionnaire. We would also like to thank our director, deans, colleagues and staff members at our MDI Gurgaon for motivating and helping us throughout the project. It is because of their constant support and coordination that we were able to overcome the various difficult situations due to the COVID pandemic and finish this project.

Project Title: POLICY UNCERTAINTY AND GOLD PRICE IN INDIA

Phase II Report

ASSESSING THE CONCERNS OF BULLION TRADERS IN INDIA: A QUALITATIVE APPROACH

1. Introduction

Understanding the factors affecting the gold market has always been an intriguing and stimulating topic for researchers, investors, regulators and policy makers. Many researchers focus on interaction of gold supply and demand (Rockerbie,1999, Ismail, Yahya & Shabri,2009; Apergis 2014), or analyse the role of gold as safe haven, hedge or derivative instrument (Baur & Lucey, 2010; Wang et al., 2011; Bialkowaski, 2015; Cheng, Chen &Lai 2018).

But, most of the research is quantitative in nature and considers the consumer sentiment, beliefs etc. for analysis and often ignore the impact of the underlying gold ecosystem which comprises of importers, refiners, traders, manufacturers and retailers. In this report, we are exploring one the most important part of gold value chain- 'the bullion traders' in Indian context. We aim to explore an in-depth analysis of uncertainty and the concerns of bullion traders in India.

1.1 Gold market in India

Traditionally, in India, Gold is considered a safe haven. As per the World Gold Council's (2019) latest reports, India is the world's largest consumer of Gold. The Gold demand in India jumped by 11 percent year-on-year to 523.93 tons in 2018 and 690.4 tonnes in 2019[1]. However, due to Covid Induced lockdown and high prices, the demand for Gold in India in the calendar year 2020 dropped to a 25-year low of 446 tonnes. Yet, gold demand in India during the December 2020 quarter stood at 186.2 tonnes, down a marginal 4 percent compared to the previous corresponding period in 2019 (194.3 tonnes). Also, the investment demand in India increased by 8% year-on-year to 48.9 tonnes in the third quarter of FY 21 as consumers boosted the purchase of gold coins and bars. The gems and Jewellery sector is the second-largest source of total foreign exchange reserves in India. According to the Department for Promotion of Industry and Internal Trade (DPIIT), the cumulative Foreign Direct Investment (FDI) in diamond and gold ornaments from April 2000 to September 2020 stood at US$ 1183.07 million. In the

[1] https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q1-2019

financial year 2020, the FDI inflow in diamond and gold ornaments across India was recorded at around 20 million U.S. dollars. It was a slight decrease compared to the previous year. The FDI inflow into this segment went up and down in the last decade, with its peaks in 2015 and 2018. In FY21, exports of gems & jewellery stood at US$ 16.88 billion, whereas in December 2020, exports of gems and jewellery stood at US$ 2.57 billion.

The sector has played an important role in strengthening the Indian economy and has contributed around 7.5% to India's Gross Domestic Product (GDP) and 14% to India's total merchandise exports. The gem and jewellery sector will likely employ ~8.23 million persons by 2022, from ~5 million in 2020. The Government of India has taken many initiatives to promote the Gems and Jewellery sector. To understand and solve the major issues in the industry, the Government of India has launched Gem & Jewellery Domestic Council, which became operational on May 1, 2019. Also, under the automatic route, the Government of India has permitted 100 percent FDI in this sector wherein the foreign investor or the Indian company do not require any prior approval from the Reserve Bank or Government of India. The introduction of the Gold Monetization Scheme is another step in this direction. It enables individuals, trusts, and mutual funds to deposit Gold with banks and earn interest in return.

Also, the Government has made hallmarking mandatory for Gold Jewellery and Artefacts. Hence, at this point, demand for Gold and supply is one of the fundamental driving forces for an emerging economy like India. Albeit, demand for Gold and supply is subject to regulation and control from time to time from the regulator. The policies related to Gold's import and its quantity and quality appear significant for the gold traders and investors. Moreover, the policy about FDI in the gems and jewellery sector holds important implications for India's gold price. Since Gold is a safe haven and India is one of Gold's highest consumers, proper attention is required from the regulator and policymaker to have a better gold policy. The lack of appropriate policy on the bullion market affects the gold investment and export/import.

1.2 Demand and Supply Scenario for Gold in India

India has always been a leading market for Gold globally. Buying Gold is intertwined with every occasion in Indian culture, like weddings, religious ceremonies, or celebrations. According to WCG, in 2019, demand for Gold in India (See Appendix I) was the second-highest in the world after China's 899.5 tonnes. Further, around 22,000 tonnes of Gold is estimated to be possessed by Indian households, valued at more than $1 trillion (Soundararajan et al., 2014). Kannan and Dhal (2008) suggest that gold demand in India is determined by income level, price of Gold, and other monetary and fiscal variables. Star and Tran (2008) indicate that demand for Gold in India is not affected by per capita income as Indian consumers view Gold as an asset to protect them from volatility and uncertainty in other assets. Soundararajan et al. (2014) found that income level is the most significant factor determining consumer demand in India. It also mentions that given everything constant, for every 1% rise in income, the demand for gold increase by 1%. Here, an important point to be noted is that India is a leading consumer of Gold globally, and imports primarily fulfill the demand for Gold. It can be attributed to insignificant mining and recycling of Gold in India.

1.3 Government Policies and Regulations affecting Bullion Trading in India

As mentioned earlier, India is dependent on imports for meeting the demand for gold. In 2019, India imported 646.8 tonnes of bullion against a domestic supply of 130.6 tonnes (through mine and old scrap) (See Appendix II). Due to large imports, Gold contributes to a high current account deficit (CAD) in the Indian economy, next only to crude oil. In order to reduce the high CAD, bullion market in India is regulated by the government. The brief description of government policies and regulations affecting the gold market in India is given below.

1) **Post-Independence Policy (1947-62):** The FERA Act (Foreign Exchange Regulation Act) was introduced just after the Independence of India in 1947, which banned the import and export of Gold in India (Dash,1999). Kolar gold mines producing 95% of Gold at that time was nationalised in 1956, and in the same year, the proportional reserve system was replaced with a minimum reserve system for the purpose of currency issue (Foster, 1996). The first Gold Bond Scheme was introduced in 1962 to mobilize the Gold held with common people in the country, which resulted in the collection of 16.3 tonnes; here the bonds were issued in exchange of coins, ornaments etc. as the Government wanted people to abstain from purchasing Gold and instead of surrendering their holdings to the Government (Reddy, 1996). The statistical data for this period is not available.
2) **Pre-Liberalization Policy (1963-89):** In 1963, the Gold Control Rules were introduced, which prohibited the manufacturing of gold ornaments of more than 14-carat purity from reducing the public craving for Gold (Rao & Sabha,1964). In 1966 this ban was lifted. In March 1965, a new series of Gold Bonds 1980 was issued. A chance was given to hoarders of unaccounted money to convert into gold bonds (Swarnkar 2009). In October 1965, National Defence Gold Bonds 1980 was introduced, and unlike earlier schemes in which maturity proceeds were in Rupees, these bonds were redeemable in Gold of standard purity. Under the Gold Control Act, 1968, citizens were prohibited from holding gold coins and bars, gold trading was banned, the cap for goldsmiths was 100 gm, and for licensed dealers was 2kg (Shah, 2012). The idea was to control the demand for Gold but it didn't happen and as a result the smuggling (30-70% of actual import) of Gold increased (Shah,2012; Kanungo & Chakrabarti 2021). The Act didn't go through major changes until the Voluntary Disclosure of Income and Wealth (Amendment) Ordinance was introduced in 1975. Further, in 1978 to curb smuggling and remove arbitrage between domestic and international gold prices, the Government started Gold auctions through RBI but discontinued it later in the same year as it was unsuccessful in attaining both the objectives (Reddy,1996).
3) **Post-Liberalization Policy (1990-2011) (Phase 1):** Liberalization in the Indian economy resulted in major changes in gold policy. The Gold Control Act 1968 was revoked in 1990. To meet the evergreen demand for Gold in the country and without wasting scarce foreign exchange for the import of nonessential items like Gold in the country, the Government introduced NRI Scheme in 1992 (Virmani 2001). Under this scheme, NRI was permitted to bring 5 Kgs of Gold in India every six months by paying a nominal duty (Reddy 1996). Till 1996-97, 87% of gold import was through NRI Scheme and rest 13% was through SIL (Special Import Licence) given to exporters (Virmani, 2001). SIL was extended to Gold in 1994, which permits a category of exporters to send back their overseas earning by importing gold bullion, jewellery, and coins (Shashi,2006). In 1997, under provisions of the Banking Regulation Act, RBI (Reserve Bank of India) permitted some scheduled commercial banks to import Gold (Kanjilal & Ghosh,2014). In 1999, the Government introduced Gold Deposit Scheme (GDS) to encourage mobilisation of privately held stock of Gold to reduce dependence on the import of Gold which was later discontinued and relaunched in 2009.
4) **Post-Liberalization Policy (2012-2013) (Phase 2):** The period from 2012-2013 is a significant period from the gold policy point of view in India and therefore requires special attention. According to NITI Ayog Report (pg 96,2018) in order to curb the demand for Gold and control

the record trade deficit at that time, the Government and central bank increased the import duty on bullion repeatedly from Rs.300/10 gm in 2011 to 2% in Jan2012 to 10% in August 2013 followed by suspension of import in 2013. In August 2013, the controversial 80:20 scheme was introduced. Under this scheme, "20%, of every lot of import of gold imported to the country is exclusively made available for the purpose of exports and the balance for domestic use". Proponents of this scheme support the scheme by stating that the Government introduced this scheme to curb gold imports in order to control the big current account deficit and lingering foreign exchange crisis, while according to opponents of the scheme, it encouraged gold smuggling, gold hoarding, and artificial inflation of retail price.

5) **Pre-Demonetization Policy (2014-2016):** Another important event that is directly affecting the Indian economy in the recent past is demonetisation of Rs. 500 and Rs. 1,000 notes in November 2016. We are considering the period from 2014-2016 as the pre-demonetization period. In November 2014, the Government lifted all restrictions on gold import, and 80:20 scheme was also withdrawn[3]. According to Government, the 80:20 scheme could not restrict gold import for which it was aimed at and scrapping it would help reduce the illegal imports of Gold (Celestine, 2014). This scheme has resulted in the illegal record import of around 335 tons Gold in India. (Martin,2019). Moreover, according to CAG (Comptroller and Auditor General of India) Report (March 2015) this scheme has resulted in a loss of Rs.1 trillion to government treasury´[4]. In November 2015, three new schemes were launched. The Gold Deposit Scheme (GDS) 1999 was relaunched as Gold Monetisation Scheme (GMS) to mobilize Gold held with households and to reduce dependence on gold import. Now, GMS comprises GDS as well as GML (Gold Metal Loan) [5]. GMS was not as successful as expected due to small returns, lack of awareness, and reluctance of people to part with physical Gold, and deposits worth only 2% (6410 kg) of annual imports in 2016 (Kundu,2017). Under the GML scheme, the Gold collected under the GMS is profitably lend by the banks to jewellers to meet their inventory requirement (D'Souza, 2015). NITI Aayog, 2018 mentions that despite low-interest rates, few takers of GML and banks were not able to lend the small gold deposits collected under GMS, so banks have refused to accept more gold deposits under GMS. Another scheme launched in November 2015 was Sovereign Gold Bond Scheme to cut the demand for physical Gold and move the portion of domestic savings used to buy Gold towards financial savings (Chaturvedi,2021). The first-ever National Gold Coin was also launched in November 2015. In January 2016, it was made mandatory to quote PAN (Tax Number) by the customer on jewellery purchase above Rs.200,000 to check on black parking money in Gold. Also, 1% Excise duty was imposed on jewellers with a turnover of more than Rs.120 million. A forty-two-day strike was called by jewellers across the country demanding rollback of both. According to jewellers, those customers who are not willing to produce PAN Card will buy from an unorganized sector. It will hit legitimate jewellers and result in an increase in gold smuggling. Later in December 2016, the Government scrapped 1% excise duty on branded gold coins with 99.5%purity. The New Bureau of Indian Standards (BIS) Act was introduced, which made hallmarking compulsory.

6) **Post-Demonetization Policy (2017-Onwards):** Demonetisation resulted in an abrupt surge in gold prices (Gold peaked to Rs.34000/10gm) due to high purchases in the black market (Agarwal, 2018). Gold bars and jewellery were bought at a premium of up to 50% in exchange for banned currency notes (Saghal,2020). But, after the action taken by Income Tax Department, gold prices dropped as demand for Gold came down eventually (PTI, 2017). According to RBI Assessment paper, gold imports declined in December 2016 and January 2017 post demonetization (PTI, 2018). Sovereign Gold Bond Scheme 2017-18 series I, Sovereign Gold Bond Scheme 2018-19 series I were introduced.

1.4 Importing Gold in India

In India, the import of gold and gold dore is governed by the RBI/2013-14/187, AP (DIR Series) Circular No. 25 dated 14.8.2013. As per the RBI Circular, entities notified by DGFT (Directorate General of Foreign Trade) are only permitted to import gold. As per DGFT following entities are permitted to import gold in India

1. Metals and Minerals Trading Corporation Limited (MMTC);
2. Handicraft and Handloom Export Corporation (HHEC);
3. State Trading Corporation (STC);
4. Project and Equipment Corporation of India Limited. (PEC);
5. STCL Limited;
6. MSTC Limited;
7. Diamond India Limited (DIL);
8. Gems & Jewellery Export Promotion Council (G&J EPC);
9. Star Trading House (only for Gems & Jewellery sector) or a Premier Trading House;
10. Any other agency authorized by Reserve Bank of India (RBI).

In India, nominated agencies have the biggest share of bullion import trade. Besides them the Premier Trading Houses (PTH) and Star Trading Houses (STH) contribute significantly. Based on the 'export performance' during the current and previous two years PTH/STH have been reclassified by government as Five Star Export Houses and Four Star Trading Houses. Here, it is worth noticing that while the banks are permitted to import gold on consignment basis, the STH/PTH and nominated agencies can import gold only on direct payment basis. In consignment basis, exporter remains the owner of goods until goods have been sold and receives the payments only after the trade in the local market. For consignment basis, the importers submit proof of evidence and report of utilization to Central Excise Office of India. Also since, October 2017 the STH/PTH are allowed to import gold only for export purposes and not for any domestic purposes.

1.5 Bullion Trade in India: Premium and Discount

India is one of the largest consumers of Gold but price discovery is not that transparent and structured as compared to gold markets like London and Shanghai which are having their own gold exchanges. Due to absence of a formal gold exchange, unlike London and Shanghai, gold prices in India are determined informally with local demand and supply dynamics. Further, there is an influence of local regulations and Gold policies on the final prices. Thus, the role of bullion dealers is crucial in the trade. Based on their relationship and capacity to hedge, they lend gold and contribute towards addressing the gaps otherwise banks would be doing.

The selling price of gold is determined by landed cost + (premium/discount) in the local market. Sometimes, local prices differ significantly from the international gold price due to uncertainty of the INR-USD exchange rate, local taxes, import regulations, and seasonal factors. One of the significant factors that determine premium/discount, is the interaction between domestic demand for gold and the international prices. Here, it should be noted that the inventory held by bullion dealers, manufacturers and retailers also affect premium/discount. Moreover, the demand for gold across states in India is different at a given point of time because of seasonal patterns, customer preferences etc., moreover the state taxes are also different resulting in non-uniform prices across India. Each major trading hub has a local bullion association which notifies the price for both 22k and 24k gold. As a result, gold prices are different in different trading hubs across the country.

1.6 Research Questions

The above literature review suggests that in India, the role of bullion dealers is vital in gold value chain. However, except for a handful of studies by NITI Aayog (2018), WGC Report (2017) there is no documentation of existing practices for bullion trade in India. This report tries to address this gap in literature and is an attempt to collect microdata from bullion traders. The report collects the information, opinion from bullion traders on various issues related to bullion trading in India through structured interviews. Thus, this report makes following contribution to existing literature. First, it diverges from the existing popular quantitative approach to examine bullion trading as this research is qualitative in approach. Second, the report provides a new source of data on several aspects of bullion trading in India which can be used as insights by policymakers, traders and other stakeholders of the gold industry.

2. Data Collection

This section provides the details of the data collection. The data was collected using a structured questionnaire which was administered through interviews via video conferencing using online platforms like Zoom or GoogleMeet. The interviews were conducted during the month of March 2021 to September 2021. The detailed structured questionnaire (Appendix-III) consists of 30 questions and required an average time of 45 minutes to one hour.

2.1 The Sample

All the bullion traders in our sample operate in organized sector and are operating in several locations in India. For the study, 50 bullion traders were approached but only 30 firms have agreed and responded and were finally interviewed online. The sample consists of 19 private limited companies, 2 public limited companies, 5 limited liability partnership and 4 sole proprietorship firms. Figure 1 represents the constitution of the firm.

In bullion market, the market participants can be further classified as bullion brokers, bullion bankers and others. The others include, jewelers, bullion fund manager, bullion allied services, refiners and manufacturers. Based on type of market participant the sample can be classified as: 17 respondents as bullion dealers, 2 respondents are bullion brokers while 1 respondent is bullion banker and 10 respondents are in others category that includes bullion allied services like manufactures and refiners etc. Figure 2 represents sample based on types of market participant.

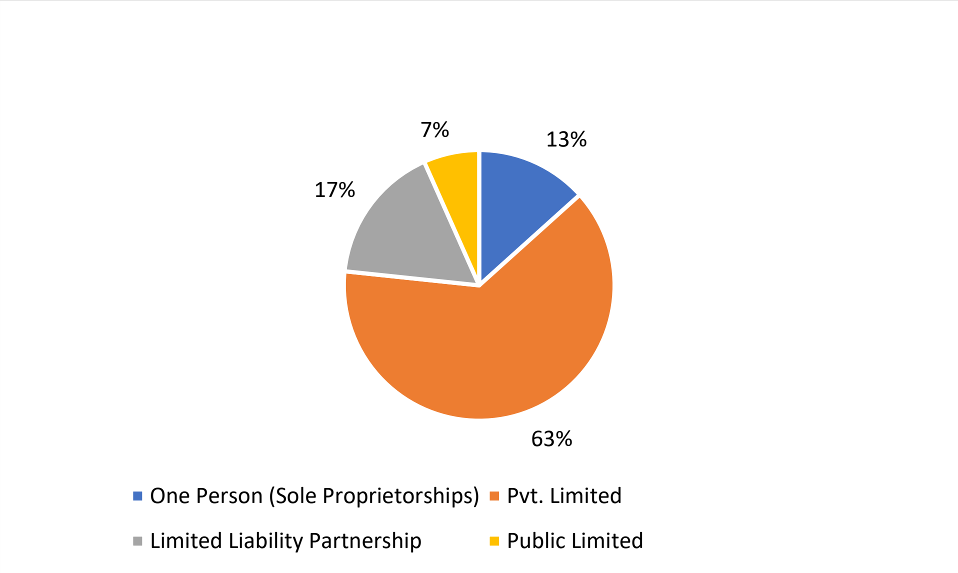


Figure 1 ***Constitution of the Firms included in the Study***

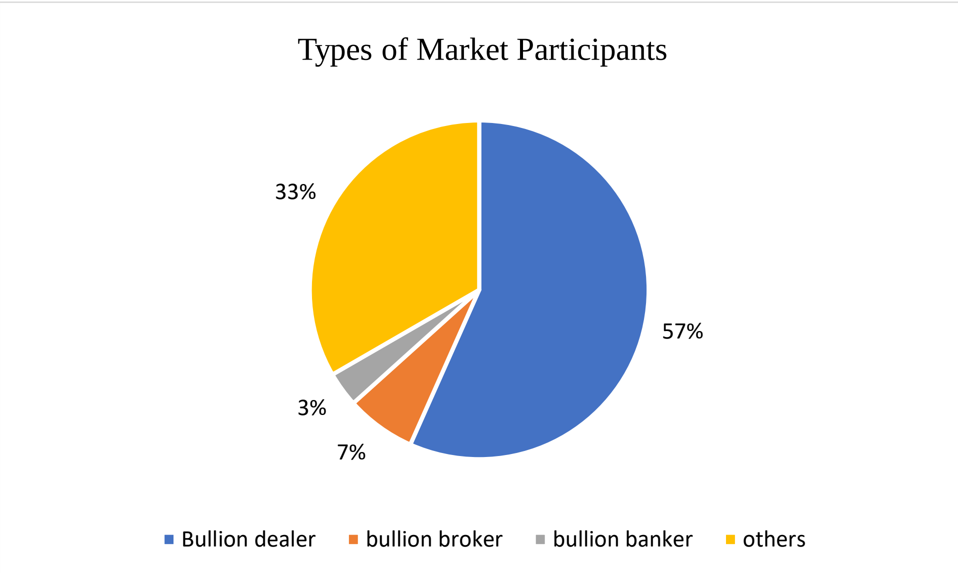


Figure 2 ***Types of Market Participants***

Although, most of the respondent firms operate pan India, yet we have categorized the firms on the basis of their sales office location or area of their corporate office. Technically, the study covered the entire country. Among the firms participated in this study, 8 firms have their corporate office at Mumbai (Maharashtra) which is also regarded as financial capital of the country. Furthermore, 4 firms are based in New Delhi that has second highest representation. 3 respondents represent an important southern state of Tamil Nadu, which has huge corporate and industrial presence in gold industry. Gujarat, Karnataka and Uttar Pradesh each have 2 respondents. Kerala, Rajasthan, Telangana, Haryana, Madhya Pradesh, Odisha, West Bengal, and Uttarakhand have one respondent each. Table 1 and Figure 3 summarizes the data based on corporate sales office of the firm.

Location of Corporate sales office of the Firms			
Tamil Nadu	3	Haryana	1
Kerala	1	New Delhi	4
Rajasthan	1	Madhya Pradesh	1
Maharashtra	8	Odisha	1
Karnataka	2	U.P	2
Telangana	1	West Bengal	1
Gujarat	2	Uttarakhand	1

Table 1: ***Location of Corporate sales office of the Firms***

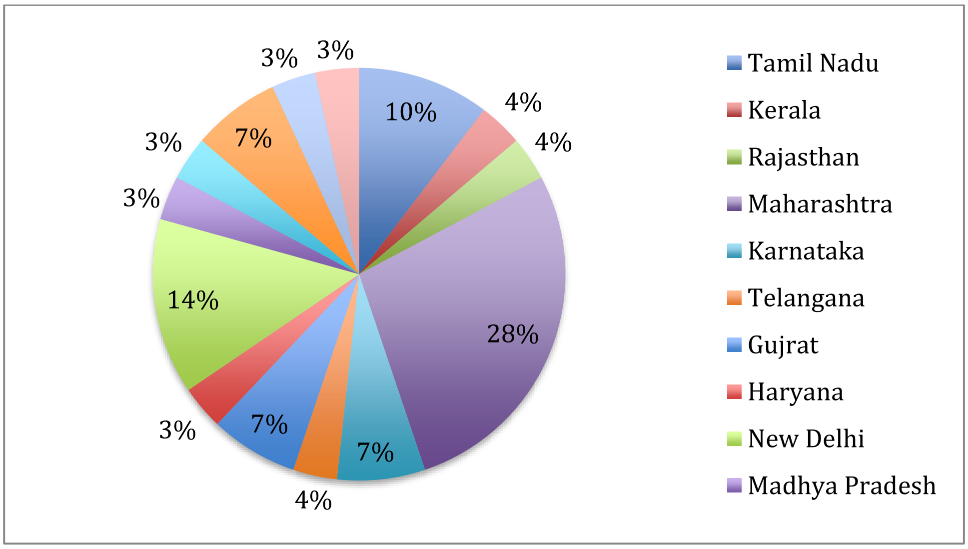


Figure 3 ***Location of Corporate sales office of the Firms***

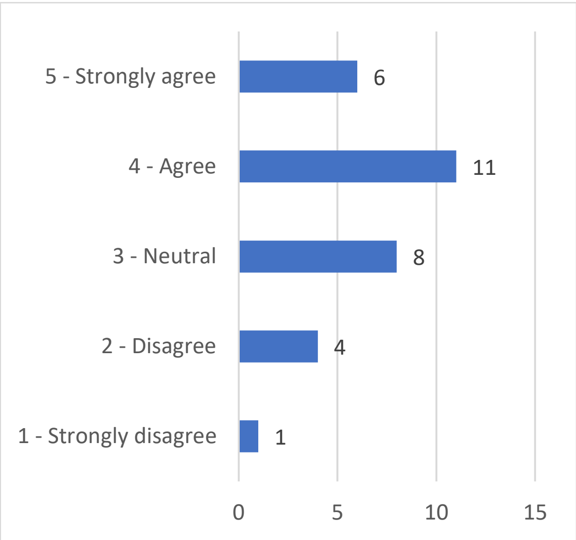
2.2 Responses to the Questionnaire

This section summarizes the response received from various respondents for individual questions. The questionnaire consists of 30 questions (see Appendix III) and this section tries to summarize the responses received from all respondents through bar data visualization.

Following questions to be measure on 1-5 scale

1 - Strongly disagree
2 - Disagree
3 - Neutral
4 - Agree
5 - Strongly agree

Q 1. The current regulatory environment causes uncertainty in the gold trade.



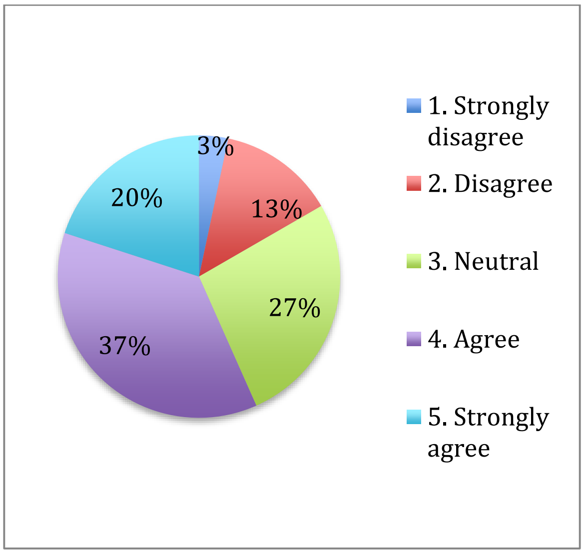


Figure 4 ***Response regarding regulatory environment***

The respondents were asked whether current regulatory environment causes uncertainty in the gold trade in India. Among the respondents, 11 agreed and 6 strongly agreed that current regulatory environment causes uncertainty in the gold trade. 8 respondents were neutral, 4 disagreed and 1 strongly disagreed. Figure 4 represents the data in percentages. 37% respondents agree and 20% strongly agree that current regulatory environment causes uncertainty. 27% are neutral, 13% disagree and 3 % strongly disagree.

Q 2. Do we need to develop an "Indian Good Delivery Standard" similar to LOCO London, which is acceptable to banks and regulatory authority?

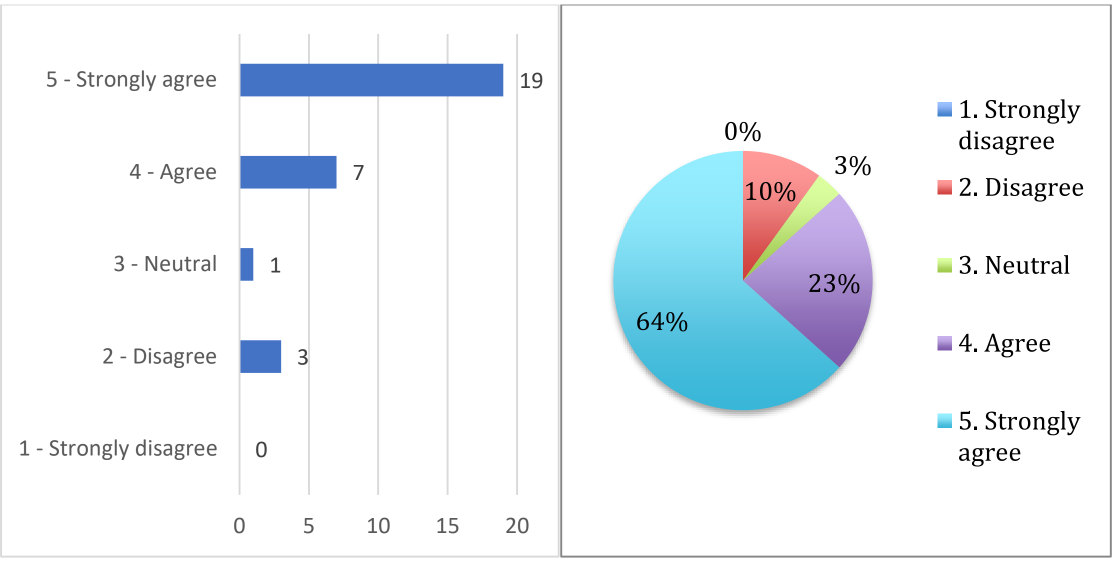


Figure 5 ***Response regarding Indian Gold Delivery standard***

The respondents were asked whether India need to develop an "*Indian Gold Delivery standard*" similar to Loco London which is acceptable to banks and regulatory authority. Majority of the respondent strongly agreed and some only agreed that India need to develop "*Indian Gold Delivery standard*". Figure 5 shows that 19 respondents strongly agree, 7 are agree and 1 is neutral. While 3 respondents disagree and none of the respondents strongly disagreed. In percentage, 64% of the respondents strongly agree, 23% agree and 3% are neutral. While 10% disagree.

Q 3. Does Monetary policy uncertainty (e.g., RBI MPC/ US FOMC meeting) affect your trade financing?

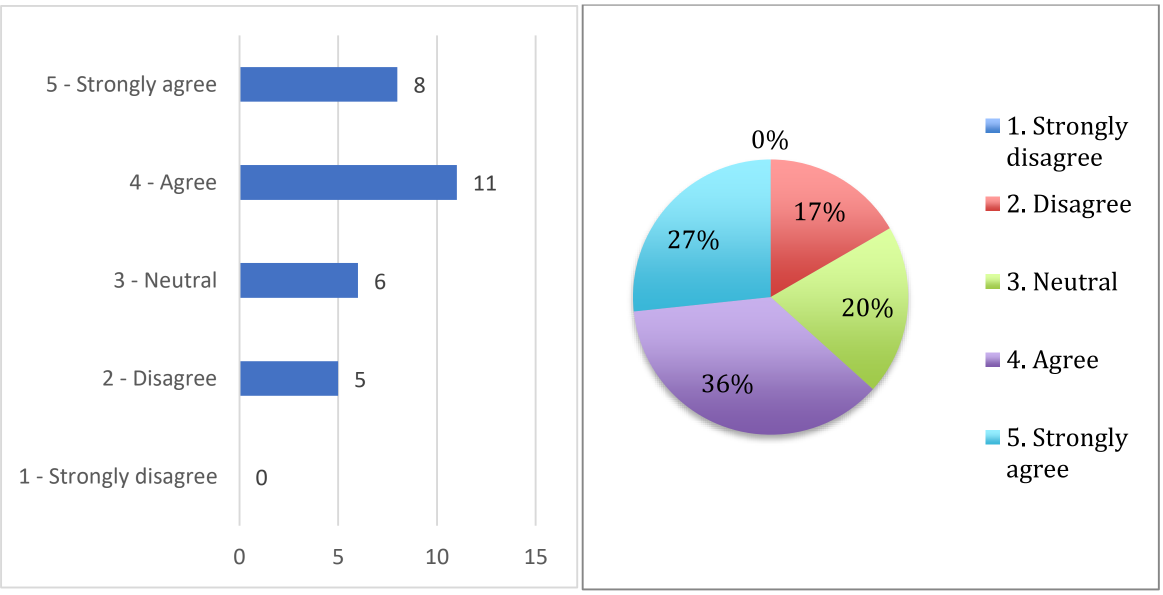


Figure 6 ***Response regarding Monetary Policy Uncertainty***

In the above question, the respondents were asked that does Monetary policy uncertainty (e.g., RBI MPC/ US FOMC meeting) affect your trade financing? Among all the respondents, 8 strongly agreed and 11 agreed with the notion that monetary policy uncertainty affect their trade financing. However, 6 respondents are neutral, and 5 respondents, none are strongly disagreed. Figure 6 explains that 27%

of respondent strongly agreed. Furthermore, 36% of the respondent agreed and 20% are neutral. However, 17% disagreed and none of the respondents strongly disagreed.

Q 4. Which is better

a. **Hedge through buying on spot price and forward sale simultaneously or**
b. **Short sales on the future market**

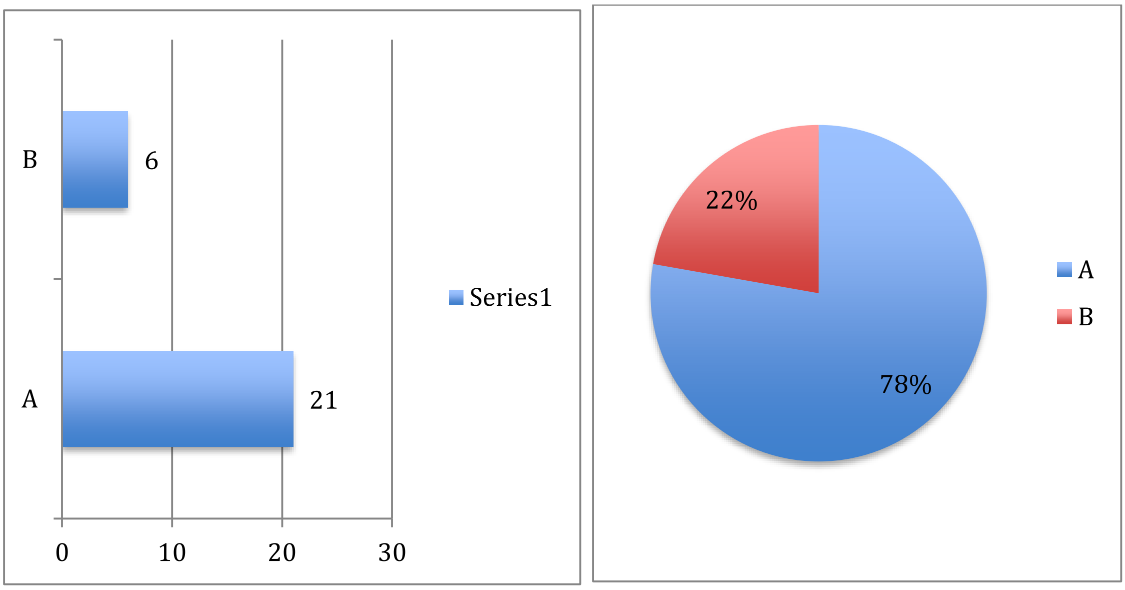


Figure 7 ***Response regarding Hedge through buying on spot price and forward sale simultaneously or Short sales on the future market***

The above question has two parts and respondents are asked to choose better option according to them. Large majority of respondent choose option A that is hedge through buying on spot price and forward sale simultaneously. As shown in Figure 7, among all respondents, 21 respondents have chosen option A. while, 6 respondents have chosen option B that short sales on the future market. In terms of percentage, 78% of the respondent chosen option A while 22% of the respondents chosen option B.

Q 5. What kind of information/data do you generally use?

In response to this question, respondents shared that they use data from different sources like various news sources, reports and websites for information. Many respondents shared that they like MCX, COMEX data platform and various websites to get the information regarding gold spot prices and rupee prices. Some respondents have mentioned that that they use news portals like Thomson Reuters, CNBC Awaz. Investing.com , fastmarket.com. Few respondents have said that they use ticker plant and London metal exchange (LME) for international prices and KITCO. Many have mentioned that they track global macroeconomic data and daily price trends and for the price information. RBI data on import and export and DGCA data, RBI report and spot prices from IBJA were also mentioned by the respondents. The respondents also mentioned market intelligence, industry people, peers, social media news as other source of information.

Q 6. What sources do you generally rely on for quantitative information related to the Bullion trade?

A similar pattern emerges for this open-ended question also like in previous question. Most of the respondent have mentioned the same sources as they mentioned in previous questions i.e., Thomson

Reuters, KITCO, MCX, CNBC COMEX prices etc. Few bullion traders have added some other sources on which they rely for quantitative information. Some respondents have said they also rely on NetDania website, Bloomberg and RSBL SPOT for spot prices. Some respondents have mentioned they look at LBMA and LME (London metal exchange) and world gold council report. Responses indicate that dollor rupee exchange rate and FRED (Federal reserve economic data) are also a significant consideration for bullion traders. Furthermore, some sources of quantitative information for participants are domestic and international suppliers and US Index. One respondent mentioned that they are only concerned in case of any big event or news like FOMC meeting and they are not concerned for price changes on a daily basis.

Q 7. In the context of *Atmnirbhar* Bharat, what are your views on Gold Mining Potential in India rather than importing most of Gold?

Respondents were asked about their opinion and thoughts about Gold mining in the context of ***Atmnirbhar* Bharat.** The respondents of the study have given diversified view on mining potentials in India and its feasibility and effectiveness. Among the respondents many have mentioned that India has mining potential and government should formulate proper policy regarding mining so that it can be expanded and its benefits could be achieved. In this regard one respondent has mentioned that there is no consistent policy on mining in India. Mining needs to come under central government rather than state government just like coal and steel. Proper 5 to 10 years policy is required. One respondent has mentioned that "*What we heard in last 10 to 15 years about mining potentials in India is there are places where gold has been found but they are not mined properly for whatever reasons. Yes, we do have gold reserves but it depends on government when they start mining. Once they take positive steps about this, it will be a very good for gold industry and for Indian economy as well*". One more respondent has added one more thing and told "*Government should incentivize gold mining so that people should come into this business and invest in this business. Government should support mining as we are losing hard earned foreign reserves in importing gold. Mining will be good for trade itself and for economy as well".* The same response was given by one more respondent with an addition that internal sources of gold will help in managing Current account deficit (CAD). Some respondents have mentioned that there should proper survey and exploration for potential mining places. Government should deploy research department to find out places where mining could be done. There should be availability of make in India gold bar all year round. Government should allow export of gold from India then it will be better for our industry. Also, Gold mining is really required in India in current scenario for ***Atmnirbhar Bharat***. One more respondent has mentioned that there are mining potentials in Chhattisgarh, Jabalpur etc. India has potential for mining. With governments support, it can be good for gold industry and for domestic market as well as GDP will improve and foreign reserves will be saved. It will boost refinery and consequently the industry will also grow.

One respondent gave a very novel reason for importing gold. He said, "*We mostly look for import. We import gold from poor countries if we do not import somebody will again conquer them as it happened in history*". One respondent also gave a different view that lots of investment in terms of resources and time is required for mining and therefore gold mining will never replace gold imports in India.

Some respondents were not in favour of domestic mining of gold for various reasons and they doubt the efficacy and effectiveness of investing large resources and time in mining. One respondent has mentioned that more than gold mining, if household gold comes into market that would be much better. Another respondent has mentioned that more than mining, household gold could reduce reliance on gold import. Moreover, some respondent has given strong views against mining in India. One has said that mining is bad and useless. No foreigner will come without proper policy. Another said that mining in India is almost negligible. Mostly, trade is dependent on imports. One more respondent expressed similar view and said gold mining do not have much potential in India. Refining is possible but not much mining. One more respondent has disagreed with the idea of mining promotion and said "*cost of mining is high and opportunities are limited*".

Q 8. How will the following options improve the current domestic gold ecosystem? (On a scale of 1-5,)

Q 8 (a). Zero Import Duty on Gold

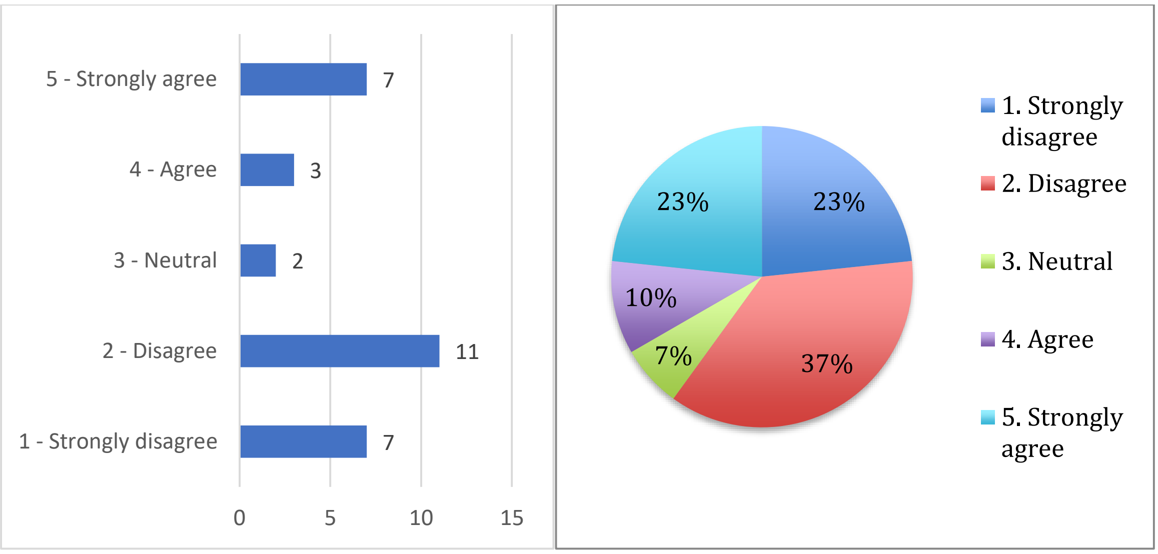


Figure 8 ***Response on Zero Import Duty on Gold***

In question 8 (A), the study asked the respondents about their views on reducing import duty to zero in order to improve the current domestic gold ecosystem. Among the respondents, 7 respondents have strongly agreed, 3 respondents have agreed and 2 were neutral. However, 11 respondents have disagreed and 7 respondents have strongly disagreed.

In percentage terms, 37% disagreed, 23% strongly disagreed. While, 23% strongly agreed, 10% agreed and 3% were neutral. Some of the respondents disagreed only because according to them zero import duty is impossible. They even mention it would be good for bullion traders but it's impossible so they disagreed.

Q 8(b). Gold Board of India under the Ministry of Finance.

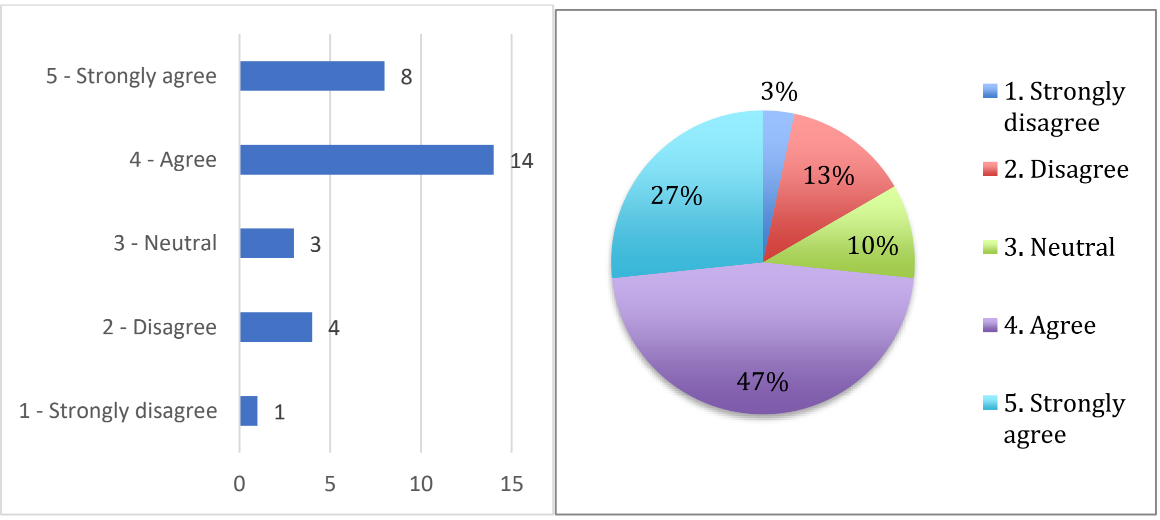


Figure 9 ***Response on Gold Board of India***

In question 8 (B), the study asked if gold board of India under the ministry of finance would improve the current domestic gold ecosystem. Among all, 8 respondents have agreed while 14 have strongly agreed and 3 were neutral. Additionally, 1 respondent has strongly disagreed and 4 respondents have disagreed. In percentage terms, 47% agreed, 27% strongly agreed, 10% neutral. While, 13% disagreed and 3% strongly disagreed.

Q 8(c). Bureaucrats with knowledge of the Gold Industry Gold Board of India

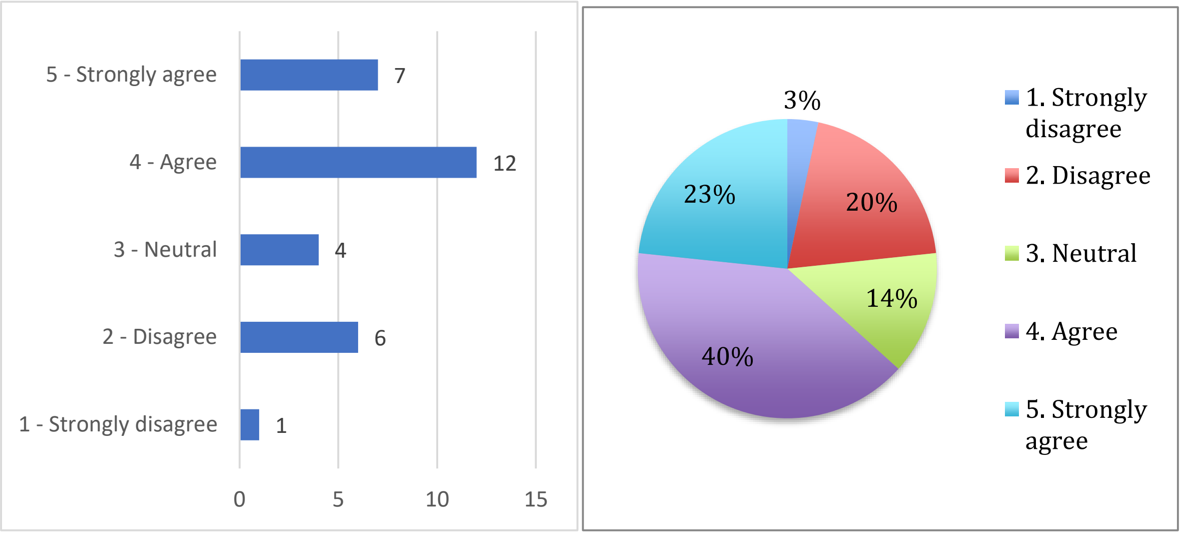


Figure 10 ***Response on Bureaucrats as members of Gold Board of India***

In question 8 (C), the study asked whether bureaucrats with knowledge of the gold industry can improve the current domestic gold ecosystem in India. Among the respondents, 7 respondents have strongly agreed, 12 respondents have agreed and 4 respondents were neutral. While, 6 respondents have disagreed and 1 respondent has strongly disagreed. In percentage terms, 40% of the respondents agreed, 23% respondents strongly agreed and 14% were neutral. However, 20% of the respondents have disagreed and 3% have strongly disagreed.

Q 8(d). A Gold Association or Council recognized by the Government.

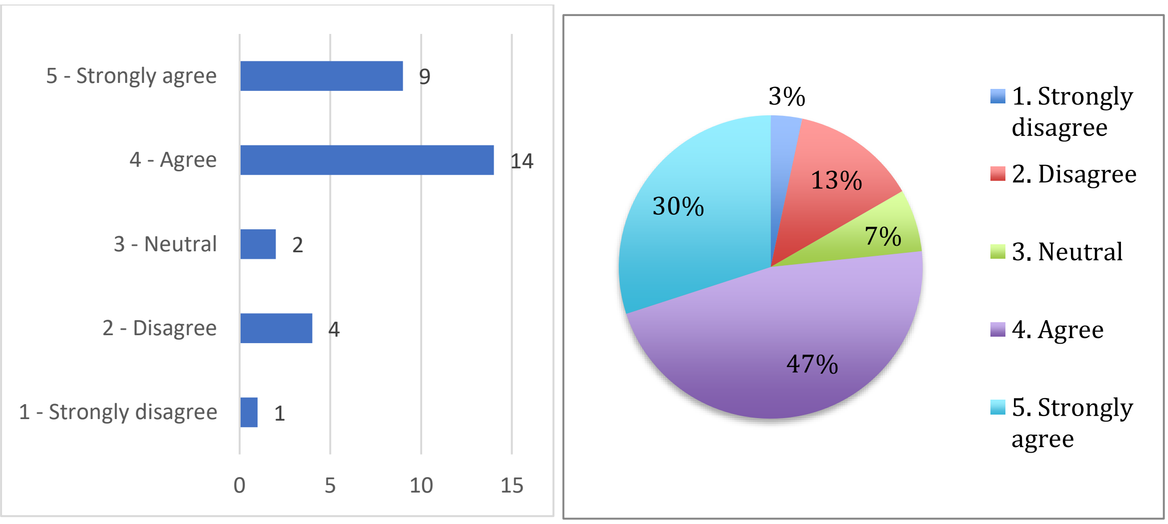
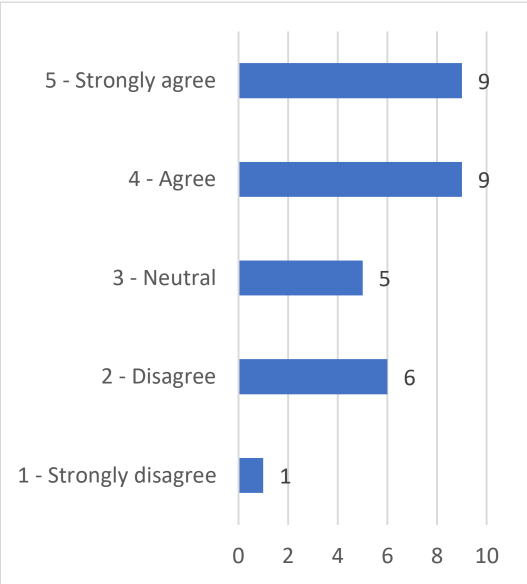


Figure 11 ***Response on Gold Association or Council recognized by the Government***

In question 8 (D), the study asked the respondents whether establing a gold association or council recognised by the government will help in improving current domestic gold ecosystem. Among the respondents, 9 respondents have strongly agreed, 14 respondents have agreed and 2 were neutral. While, 4 respondents have disagreed and 1 respondent has strongly disagreed. In percentage terms, 47% of the respondents have agreed, 30% of the respondents have strongly agreed and 7% of the respondents were neutral. Moreover, 13% of the respondents disagreed and 3% of them have strongly disagreed.

Q 8(e). Changing the perception of the general public towards Gold as an investment rather than a luxury item.



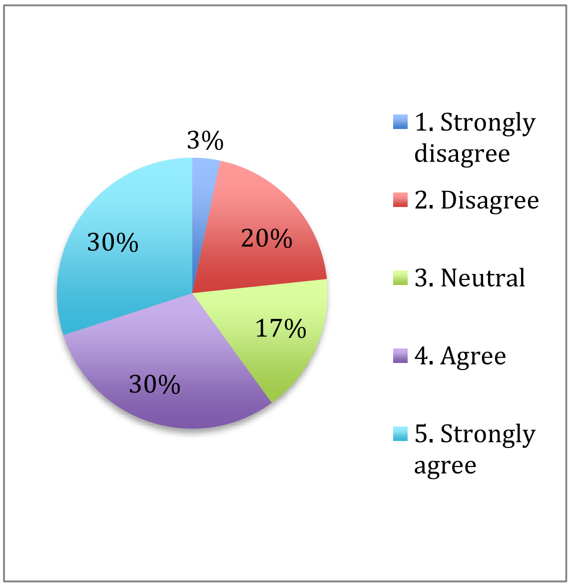


Figure 12 ***Response on changing the perception of the general public towards Gold as an investment rather than a luxury item***

In question 8 (e), the study asked respondents whether changing the perception of the general public towards gold as an investment rather than a luxury item can improve the current domestic gold ecosystem. Among the respondents, 9 respondents have strongly agreed, 9 respondents have agreed also and 5 respondents were neutral. However, 6 respondents disagreed and 1 respondent has strongly disagreed. In percentage terms, 30% have strongly agreed, 30% have agreed while 17% were neutral. 20% disagreed and 3% strongly disagreed. Many respondents who disagreed believe that most of the people buy gold for investment rather than luxury that could help in times need. Beacuase investment in gold have liquidity advantage and it can be converted in cash quickly and easily.

Q 9. Which sources do you rely on to help you anticipate the demand for Gold required in gems and jewellery manufacturing?

Most of the respondents have suggested that they rely on many factors to anticipate the demand of gold requirement in gems and jewelry manufacturing. Majority of the respondent have said that marriage and festive seasons are the major indicator of the demand of gold. One respondent said, "*It is our internal source Gems and jewelry manufacturing depends on lot of factors which helps in anticipating demand for gold like wedding demands and festival demands are major indicators to anticipate the demand for Gold. Since the increase in duty, the demand of gold products is now mostly confined to wedding and festive seasons*". Some rely on past experiences to anticipate future demand. One respondent said, "*We rely primarily on market demand based on customer needs. Seasonal and festivals are also sources of demand anticipation*". Some respondents have mention that they rely on sources like World gold council (WGC), own historical sales data, inflation rates, changes in common man income and employment, GDP, savings, price fluctuation also affects demand. Largely, gold demand in India is seasonal.

Q 10. Can you elaborate more on the B2B and B2C demand for Gold in India?

The study has asked the respondent to elaborate and express their views on the B2B and B2C demand for Gold in India. Many Respondents mentioned that general public creates B2C demand, which consequently creates B2B demand. More precisely, it is B2C demand that generates B2B demand.One respondent from HINDALCO said, "*This B2C leads to B2B demand. They are interrelated. There is 70% demand of jewelry, 30% Industrial demand*". Respondent from Parker bullion has also revealed the same by saying "*B2B are used for investment, arbitration, and hedging. B2B consists of 30% of overall demand. While B2C are for jewelry purposes and it consists of 70 % of overall demand*".

One respondent mentioned that demand of gold is always cyclical in nature. B2B demand is not much impacted by price fluctuations. While, B2C demand is price sensitive. However, Covid-19 and supply disruptions and logistics do have impact on this. The respondent from MMTC mentioned, "*For demand of B2B, we have to look the demand of B2C sector. If there is no demand in B2C sector, you cannot do anything in B2B sector. B2C sells to customers and we sell to jeweler and they sell to ultimate customers. B2C is more important segment than B2B*". Anybody processing for B2B is used in B2C. B2B give low value addition. While B2C give high value addition. Some respondents mentioned that they use B2C demand for future demand projections from customer's feedback. One respondent stated that B2B demand acts as a raw material for B2C demand. Respondent from J J Gold house Pvt ltd. mentioned "*B2B demand mostly relies on industry, manufacturing and jewelers. However, we cannot ignore the demand of B2C. There is huge market for B2C demand also. People usually wish to include gold in their portfolio to balance stock market investment. It also increases B2C demand*". Respondent from HRML believed "*B2C demand is going to be higher in future. As of now, around 5 lakhs stores are there in India. Only 20% market is organized in jewelry sector. Disposable income growth will lead to increase in B2C demand. Consequently, it will also lead to increase in B2B demand*". However, some respondent also mentioned that both B2B and B2C are 50-50 % and both are equal. B2B demands are for miners and importers while B2C demand is for manufacturer and jewelers. One respondent have mentioned that both have unique demand sources and B2B is more efficient than B2C. There is a purity concerns in B2C that needs to be addressed to make it efficient too.

One respondent said that B2B includes products like Gold SIP, Gold ETFs and sovereign gold bonds. The demand of these products has been very good in last few months because of pandemic. B2C business was impacted a lot due to the closure of jewellery shops and people refrain from going out for few months. One respondent said that recent conferences & opinions suggested that demand for light jewelry has increased. Demand for B2B and B2C are either stagnant or reduced. Government regulations have also reduced the demand of gold.

Q 11. Rank the following from 1-5 (1- Highest and 5 lowest) for the best sources for Gold?

- **a. Import**
- **b. Mining**
- **c. Refining**
- **d. Recycling**
- **e. Gold Monetization (Buy-Back)**

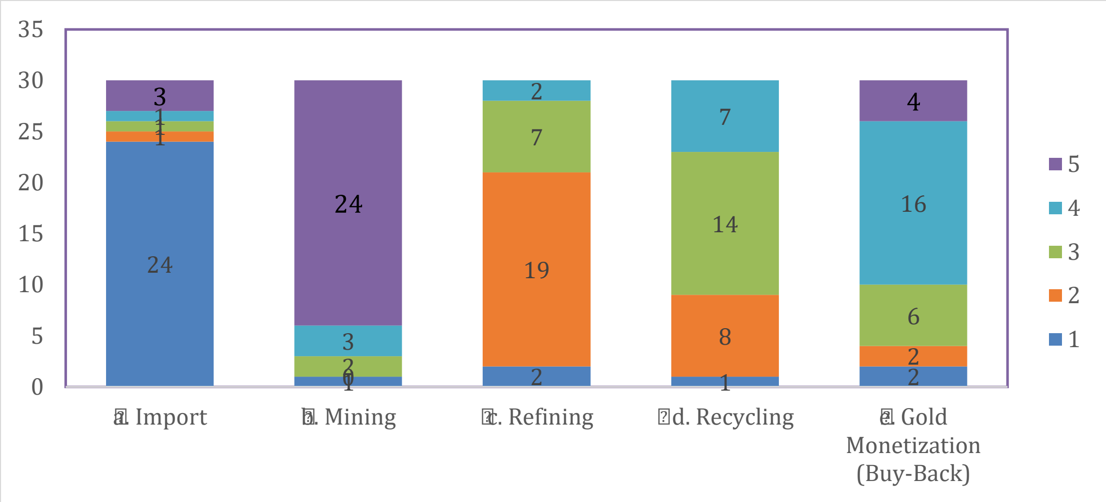


Figure 13 ***Response regarding the best sources for Gold in India***

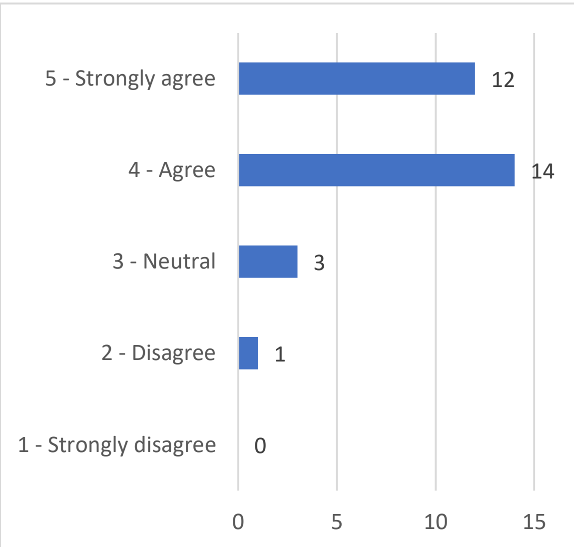
The study has asked the respondents to rank the given options for best sources of gold in India according to their view. Out of the given option the majority has chosen import as the most important and biggest source of gold in India. Among 30 respondents, 24 respondents have chosen import as the biggest source of gold in India. Recycling and refining are the second biggest sources of gold. 19 respondents have chosen refining as the second-best source of gold while 7 respondents have chosen it as third best source. 8 respondents have chosen recycling as second-best source while 14 have chosen it third best source of gold in India. 16 respondents have chosen gold monetisation as fourth best source of gold while 6 have chosen it as third best source of gold. Majority of the respondents have chosen mining as fifth and last source of gold in India. Out of 30 respondents, 24 have chosen mining as smallest source of gold in India.

Q 12. Which of the following, according to you, will reduce the dependency on the gold import?

a. Boosting domestic gold mining capabilities(1-5)

b. Reducing the Import tax on Doré gold (1-5)

Q 12 (a) Boosting domestic gold mining capabilities(1-5)



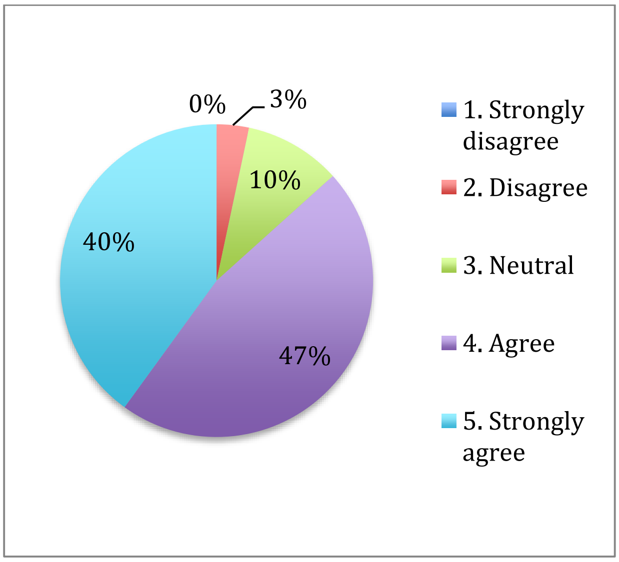


Figure 14 ***Response regarding boosting domestic gold mining capabilities***

In Figure 14, the frequency of the respondent and their rating is mentioned. Among the respondents, 12 have strongly agreed and 14 have agreed with the option of boosting domestic gold mining capabilities. While, 3 respondents are neutral and one disagreed and no one strongly disagreed with this. In the pie-chart above, 40% of the respondents are strongly agree and 47% are agree with option of boosting domestic gold market capabilities. Those who agree are confident and optimistic that India has mining potential. If mining is properly promoted and regulated, it would substitute gold imports upto large extent. However, 10% of the respondent are neutral and 3% disagree. The respondent who disagrees mentioned that boosting domestic mining will incur huge cost and mining potential is also less.

Q 12(b). Reducing the Import tax on Doré gold (1-5)

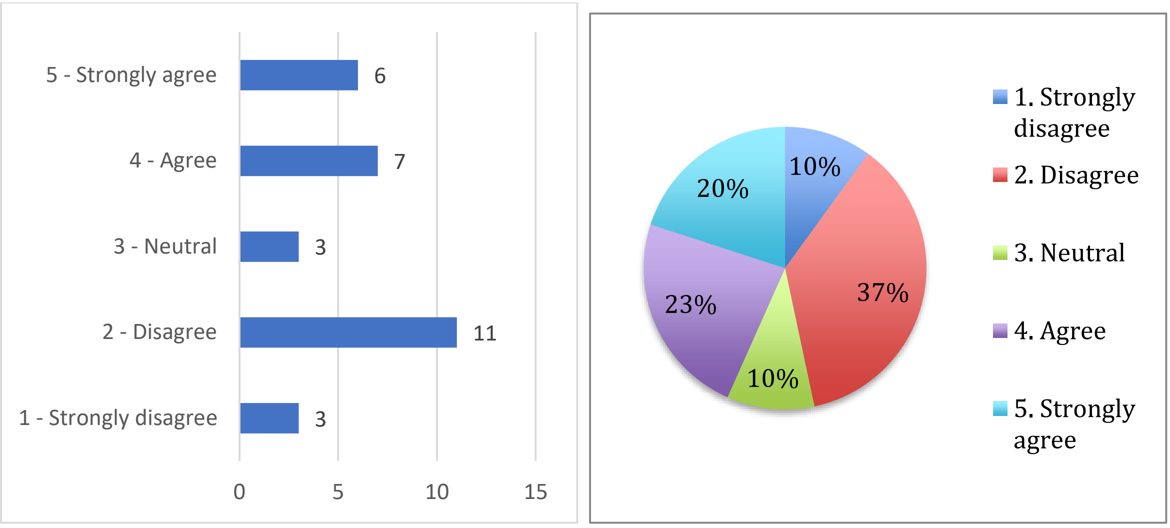


Figure 15 ***Reducing regarding reduction in Import tax on Doré gold***

As shown in Figure 15, 11 respondent disagreed and 3 strongly disagreed with reducing the import tax on Dore gold. While 6 respondents are strongly agreed and 7 respondents agreed with reducing the import tax on Dore gold. 3 respondents are neutral on this. In pie chart above, about 37% diagree and 10% are strongly disagre while 10% are neutral. However, 23 % agree and 20 % are strongly agree with reducing the import tax on dore gold. Respondents do not think that reducing the import tax dore will reduce the dependency on gold import in India.

Q 13. Do you trade in doré Gold? What are the potential opportunities? (Open ended)

On being asked whether they trade in Dore gold, respondents have mixed responses. Some said yes they do trade in dore gold and some said no they do not trade in dore gold. But many respondents have agreed with potential opportunities in trading in gold dore while many have disagreed and mentioned the reason of their disapproval. One respondent said that they trade in dore gold and opportunities are there in refining and converting material for wholesale and retail market. Many respondent said they trade in dore gold and there is huge potential. Some respondents who do not trade in dore gold also mentioned that there are potential opportunities in refining. Some respondents said they cannot import dore gold due to government policy requirement. One respondent said they import Dore Gold. But in India, there are a lot of restrictions on Dore Gold import. There is a need of some relaxation in Dore Gold import policy. One respondent said that they do not trade in dore gold as it is tough to source the dore gold. In international market, genuine traders do not like to supply to Indian traders and they do not want to deal with fraud suppliers. Genuine traders already have long terms agreements with big refiners. Many suppliers are not interested in supplying dore to India because of government policy regulations. One respondent said they have stopped trading in Dore gold because of unconducive laws and regulations and shifted to mainly recycling and refining business. One respondent said they do not trade in dore gold. They just buy it from mining companies from all over the world. They refine it and then they trade it. One respondent mentioned that although they do not trade in dore gold but it has many potential opportunities and it will develop refineries if given permission. Incentives in mining will help a lot and reduce dependence on gold imports.

One respondent from Surabhi bullion said that there is no use of bringing dore gold in India and its not going to bring employment in the country. One respondent gave different view by saying, "*In India, trading in dore gold is not permitted. Real trading happens in abroad. In India almost zero trading happens in dore gold. Dore Gold is not allowed for trading in India. Although it has huge potential provided government allows it. Domestic demand and employment will increase*". One respondent said, "*When we say dore gold, basically, we talk about mining all over the world. Around more than 3500 tons mining happens all over the world. More than 70% are produced by the big mining companies, which are attached with LBMA refiners. Most of the small dore importers are fighting for the remaining 30 %*". One respondent reported, "*We have just established a dore bar refinery. We will start operating it shortly. If we could get regular supply of dore bar through banks consignment, if would reduce risk factor also. And seven-day production cycle will also get reduced*". One respondent said that duty is less on gold dore than on finish gold. Gold dore is nothing but an impure form of gold bar. One respondent said, "*yes, we are into importing dore gold. The problem is that the dore import is highly skewed in India with only one refinery responsible for 50% gold import in India. As government is saying again and again, we want to become gold refining hub, so only credited refiners should be allowed to refine. Moreover, Banks should be allowed to import gold dore on consignment basis and supply it to refiners and registered traders. This will give boost to Indian refining industry*". Some respondent said they not dealing in gold dore but they are researching the potential opportunities. It can further develop refining industries.

Q 14. India should focus on the export of gems and jewellery manufactured in India. (1-5)

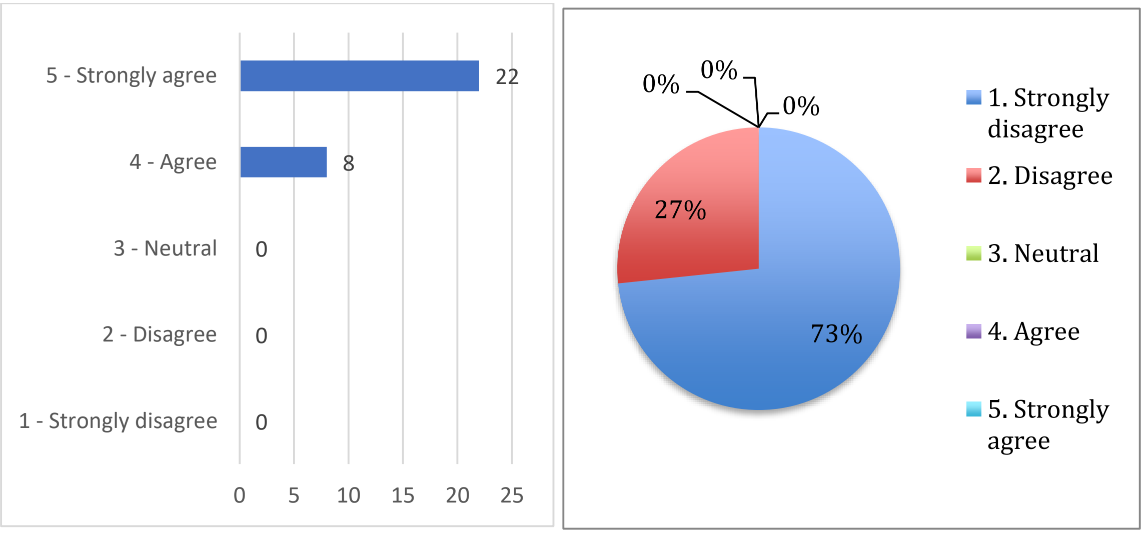


Figure 16 ***Response regarding export of gems and jewellery manufactured in India***

In question 14, the study asked the respondent whether India should focus on the export of gems and jewellery manufactured in India. Among the respondents, 22 respondents have strongly agreed and 8 respondents have agreed. None of the respondents have chosen any other option. In percentage terms, 73% of the respondents have strongly agreed and 27% of the respondents have agreed. All the respondents believe that India should focus on the export of gems and jewellery manufactured in India.

Q 15. On a scale of 1-5, how much do you think will these policy suggestions will give Government the boost for our export of gems and jewellery products

Q 15(a). facilitating shipments through e-commerce

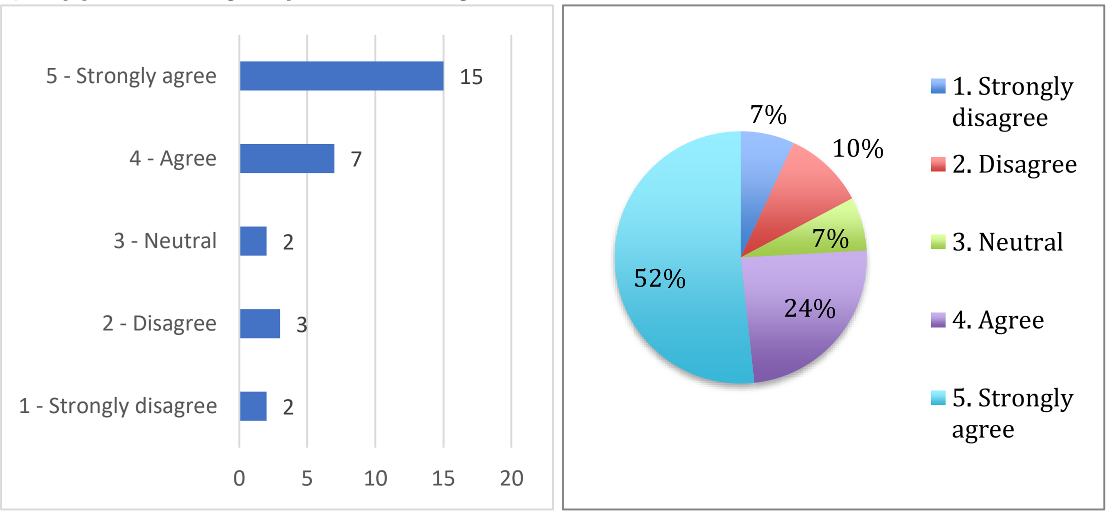


Figure 17 ***Response regarding facilitating shipments through e-commerce***

In question 15(A), the study asked respondent that how much do they think these mentioned policy suggestions will give government the boost for export of gems and jewellery products. The study has mentioned some policy suggestions and asked the respondents to rank them on the scale of 1 to 5. In question 15 (A), which is facilitating shipment through e-commerce, 15 respondents have strongly agreed, 7 respondents have agreed and 2 respondents were neutral. However, 3 respondent have disagreed a 2 have strongly disagreed. In percentage terms, 52% of the respondents have strongly agreed, 24% have agreed and 7% were neutral. While, 10% disagreed and 7 % strongly disagreed.

Q 15(b). Setting up of common facility centres

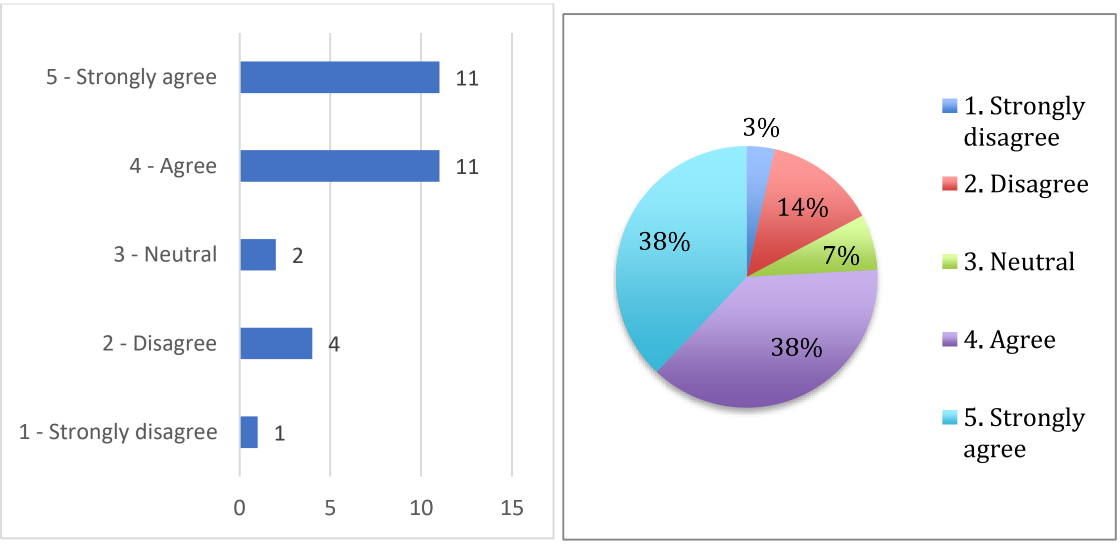


Figure 18 ***Response regarding setting up of common facility centers***

In question 15 (B), the study asked the respondents about their opinion regarding setting up of common facility centres. Among the respondents, 11 resondents have strongly agreed, 11 respondents have agreed and 2 respondents were neutral. While, 1 respondent strongly disagreed and 4 respondents disagreed. In percentage terms, 38% of the respondents strongly agreed, 38% of the respondents have agree and 7% were neutral. However, 3% strongly disagreed and 14% of the respondents have disagreed.

Q 15(c). Easing the working capital financing

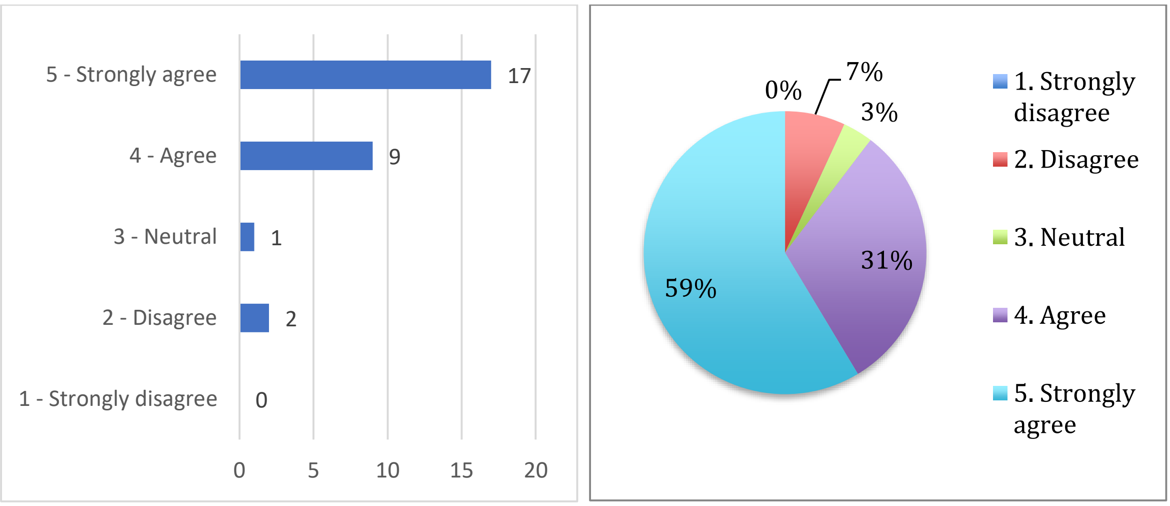


Figure 19 ***Response regarding easing the working capital financing***

In question 15 (C), 17 respondent have strongly agreed and 9 respondent have agreed with easing the working capital financing. While, 2 respondents disagreed and none of the respondents have strongly disagreed. In percentage terms, 59% of the respondents have strongly agreed, 31% of the respondents agreed while 3% were neutral. Additionally, 7% disagreed and none strongly disagreed. Majority of the respondent suggested that easing the working capital finanicng will boost the export of gems and jewellery products

Q 15(d). Lowering duties and taxes

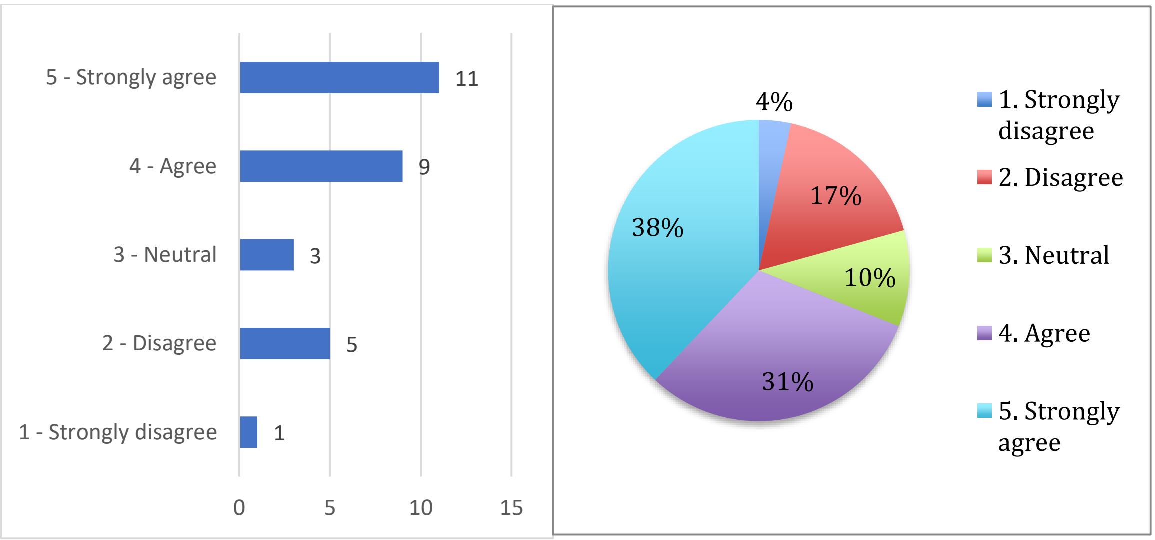


Figure 20 ***Response regarding Lowering duties and taxes***

In question 15 (D), 11 respondents have strongly agreed, 9 respondents have agreed that lowering duties and taxes will boost the export of gems and jewellery while 3 respondents were neutral. On the other hand, 5 respondents have disagreed and 1 respondent has strongly disagreed. In percentage terms, 38% of the respondents have strongly agreed, 31% of the respondents have agreed and 10% of the respondents were neutral. However, 17% of the respondents disagreed and 4 % have strongly disagreed.

Q 15 (e). Any other policy suggestion

In question 15 (E), the study asked respondents for any other suggestions. According to them the government can come up with policies to boost the export of gems and jewellery manufactured in India. The respondent have gave various inputs in this regard. Some of the respondents suggested that there should be less administrative control and quick custom clearance. There should be some industry parks for facilitating manufacturing. One respondent suggested that Government should have a custom duty constant for 5 to 10 years of period. It will make duty structure policy constant and consistent. Many of the respondent reported delay in duty fund blocks fund. They suggested that it should be made easier and government should provide duty passbook that could be very useful and facilitate export also. One respondent suggested that there has to be more industrialization in jewellery sector and promote machine made jewellery rather than hand made. One respondent have said, "*There are certain customs, norms have been built which are difficult to implement and follow. There is requirement of less legal formalities and ease of doing business. Proper encouraging policy is required. Government should ease out certain norms and requirements*". Some respondents reported that they face problems in procuring raw material for manufacturing. One respondent mentioned that many exporters are facing credit issues. Government should make it easy. For example providing credit input in real time. One respondent said, "*Cost involve in setting up BIS hallmarking should be reduced. It will create a lot of demand for genuine products*". One respondent mentioned that ease of doing work, common centers are required to do all work easily and quickly. This will help domestically & foster exports also. Other suggestion given by respondents includes clear and convenient process for gold export and some regular incentive for gems and jewellery exports and promotion through e-commerce. Custom clearance should be made more efficient, proper marketing strategies and trade schemes would also help. Additionally, India should reduce value addition norms and value addition duty as well. Finally, *"promotion is also required because there is a lot of potential but it is not marketed well. If marketed properly, Indian products can do wonders".*

Q 16. How can you make your product more competitive?

When asked about how can you make your product more competitive, more than 50% of the respondent mentioned that better infrastructure is paramount issue. Most of the respondent wants better infrastructure facilities to make their products more competitive. Apart from infrastructure, many respondents also mentioned that innovation can help to face the global competition. Technical advancement and E-Commerce and development of skilled labour would also make Indian products more competitive. One respondent said, "*Quality of the product should be of international standard. Export of refined gold should be allowed. The government should allow us to export refined gold into foreign countries. We can grow our quality by exporting refine gold into international market*". One respondent mentioned that there is need for buyers sellers meet and more trade exhibitions across the globe. There should be a platform form where even small traders are able to sell the products to foreign buyers around the globe. One respondent reported that effectiveness can be improved by educating people, creating awareness, making products available in tier 2 and tier 3 cities and efficient delivery. One respondent said competitiveness could be improved by development of skilled labour. Computer technology like computer aided designs (CAD) and computer aided manufacturing (CAM). Better designs. One respondent said, "*Our artists are quite competitive with decent infrastructure. They have good skills also but they should be able to derive market and demands in overseas market. There* *should be a mechanism that can helps them in recognizing market trends and market discovery*". One more respondent said, "*We have lot of skills, if we use it properly, it can bring lot of customers and we will increase our exports also. We can also do promotion of our products to make it more competitive*". One respondent said, "*India does not have any proper structure to increase the competitiveness of bullion trade. In International market, bullion traders have many options. They can trade in spot and funding is also available to them. In India, funding is not available to bullion dealers and no mechanism to buy and sell on spot prices. Recently introduced changes in GST policy have created many big issues and posing dangers to this industry. Many good dealers of this Industry are blacklisted due to GST filing issues. GST is a huge problem in GST refunds delays that have increased working capital because of fund blockage. TCS will reduce the number of bullion traders*". Some respondents also suggest that products can be made more competitive with ease in government regulation and use of technology in consumption and exports.

Q 17. What is your concern about the present BIS mechanism and BIS Hallmarking Act, 2016? (options)

Q 17(a). Draft rules and regulations that require the jeweller to maintain the records of each ornament hallmarked (1-5)

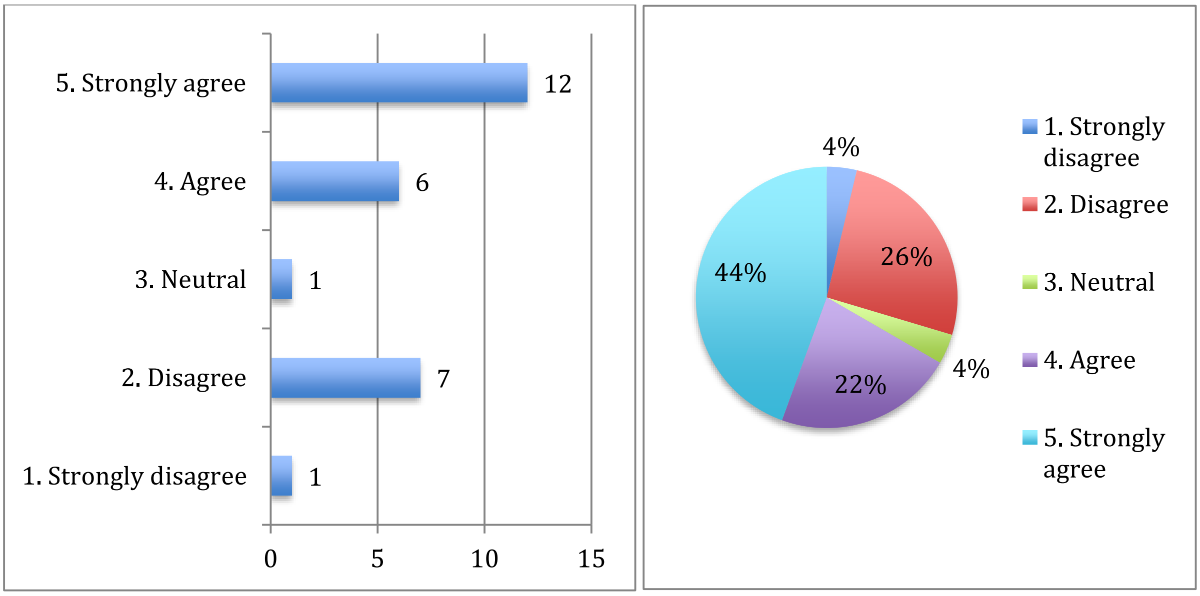


Figure 21 ***Response regarding draft rules and regulations that require the jeweller to maintain the records of each ornament hallmarked***

In question 17 (a), the study asked the respondents about their concerns regarding present BIS mechanism and BIS Hallmarking Act, 2016. For this, the study has given some options and asked respondents to rate it on a scale of 1 to 5. Regarding the response to first option that is draft rules and regulations that require the jeweller to maintain the records of each ornament hallmarked,12 respondents have strongly agreed, 6 respondents have agreed and 1 respondent was neutral. While, 1 respondent strongly disagreed and 7 respondents disagreed. In percentage terms, 44% of the respondents strongly agreed, 22% of the respondents have agree and 4% were neutral. However, 4% strongly disagreed and 26% of the respondents have disagreed.

Q 17(b). The requirement of license for the sale of jewellery (1-5)

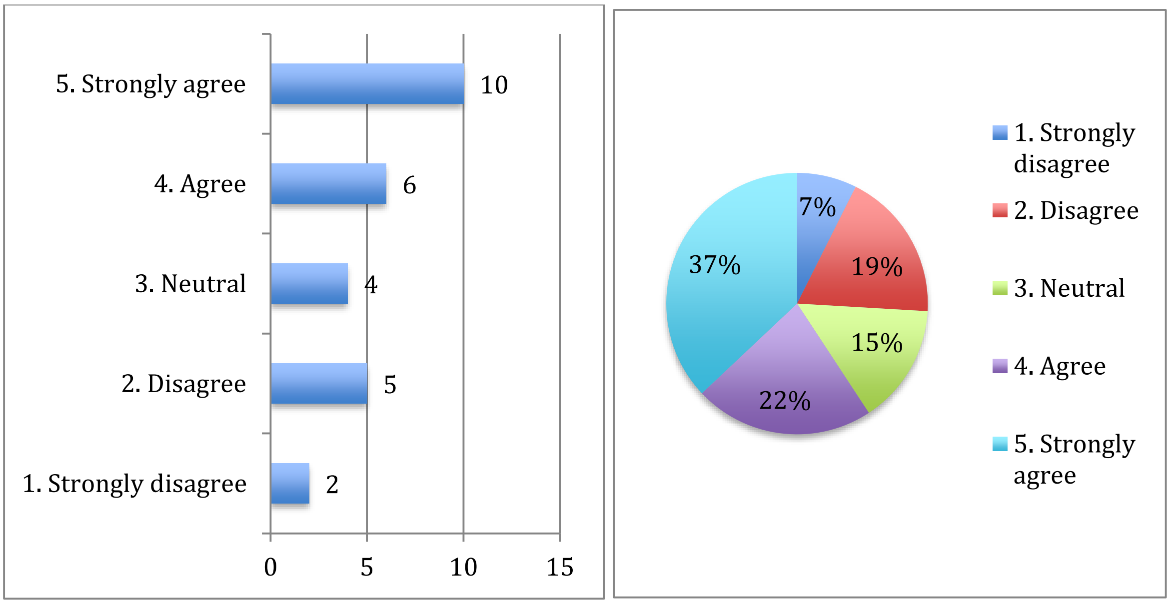


Figure 22 ***Response regarding requirement of license for the sale of jewellery***

In question 17 (b), the study asked the respondents about their perception regarding **the requirement of license for the sale of jewellery.** Among the respondents, 10 resondents have strongly agreed, 6 respondents have agreed and 4 respondents were neutral. While, 2 respondent strongly disagreed and 5 respondents disagreed. In percentage terms, 37% of the respondents strongly agreed, 22% of the respondents have agree and 15% were neutral. However, 7% strongly disagreed and 19% of the respondents have disagreed.

Q 17(c). The threat of criminal charges on under caratage (1-5)

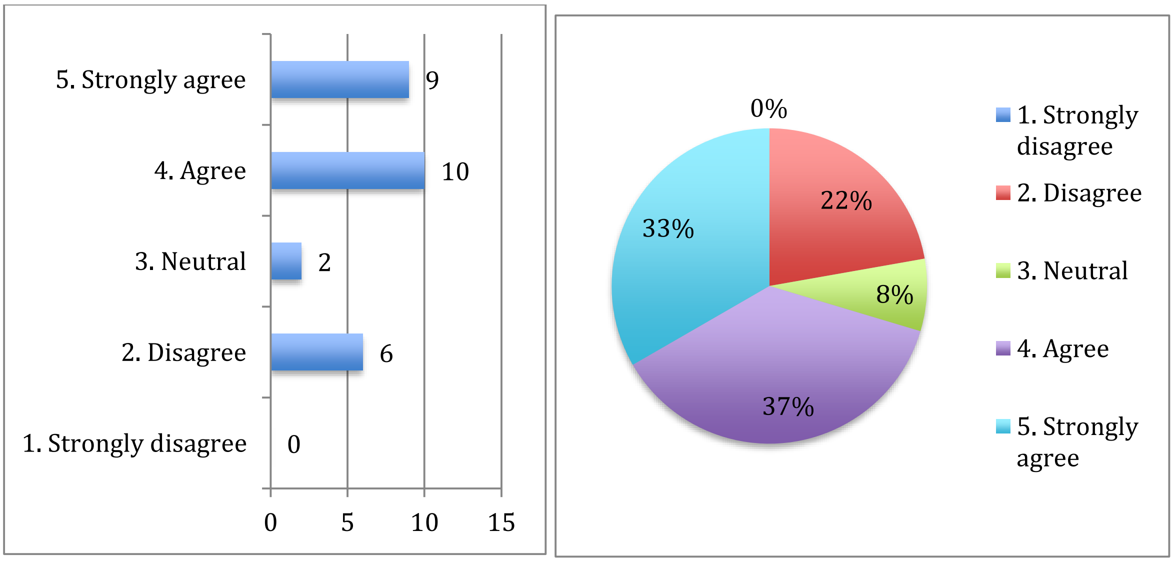


Figure 23 ***Response regarding the threat of criminal charges on under caratage***

In question 17 (c), the study asked the respondents about their concerns regarding the threat of criminal charges on under caratage under present BIS mechanism and BIS Hallmarking Act, 2016. Among the respondents, 9 respondents have strongly agreed, 10 respondents have agreed and 2 respondents were neutral. While, none of the respondents strongly disagreed and 6 respondents disagreed. In percentage terms, 33% of the respondents strongly agreed, 37% of the respondents have agree and 8% were neutral. However, 22% of the respondents have disagreed.

Q 17(d). Open suggestion (Your Suggestions)

In this question, the study also asked the respondent if they wish to add any other point. The respondents have raised some issues regarding present BIS mechanism and BIS Hallmarking Act, 2016. There are some issues in the process and the mechanism that is concerning the bullion dealers , jewellers and manufacturers. There are so many regulations but they are not followed properly. Some respondents suggested that those who spoil the name of the industry and play with people's sentiments should face criminal charges. Furthermore, periodic samples should be collected to check the quality and improvement of BIS system is also required. One respondent reported that lots of duplicate marking is been done. Digital tracking is needed. One respondent expressed his concern and said that there is no big focus on gems and jewellery. There is lack of technology and manpower to impose these measures properly. One respondent has suggested that the biggest problem with BIS hallmarking is that they do not have system of monitoring. And duplicate marking is not effectively discouraged. BIS have given hallmarking centers to even those, who do not have proper monitoring. One respondent gave a comprehensive opinion and said, "*Government has made BIS hallmarking mandatory but its weak on many fronts. People are still not aware of this properly how maintain BIS inventory properly and how to take BIS registration and what are the norms of it. All over the world, only casting jewellery are hallmarked. India has hallmarked handmade jewellery, which is practically not possible. There will be fraud and many more issues will arise. Government should draft policy again by resolving existing issues to make BIS hallmarking successful*". One respondent mentioned that the problem with BIS hallmarking is that many jewellers are selling hallmark jewellery but BIS itself is not very proactive in monitoring the hallmarking centers. One respondent demanded that Hallmarking centers should be made more answerable. There is a lot of corruption at hallmarking level. Quality hallmarking centers are needed. Some respondents suggested that number of hallmarking centers should be increased and it should be mobile. It should have centers in remote areas also. It should be incentivise to open centers in tier 2 and tier 3 cities. Some respondents suggested that BIS hallmarking rules should be there so that good jewellery can be delivered to customers but do not criminalize it. Additionally, reduction of compliance & ease of doing business should be enhanced. Some respondents even suggested that those who supervise manufacturing and processing should take responsibility of under caritage. There should be a body or council who could provide protection to the buyers after sales. It should be notified to general public so that they do not buy from those traders. Penalty should be hard to under caritage refiners. There is too much ambiguity now for this hallmarking system like who will be the responsible in the entire chain if something goes wrong. Like, who will be responsible if a problem of under caritage arises? These concerns have reduced the ease of doing business. One more respondent suggested that there should be something like QR coding and engraving should be introduced like BIS hallmarking and it should be done by government agencies. And it should be made compulsory.

Q 18. What are your views on the GMS and GML?

The study asked the respondents about their views on the GMS and GML schemes. The respondents have given diverse views and suggestions. Some respondents have proposed similar suggestions while some have given very different and unique responses. Some suggested that GMS and GML schemes are still evolving. One respondent said that he endorse everything written in Vatsal committee report. Some respondents suggested, "*Government should associate bullion traders in these schemes. Without this, the chance of success is low. GML is very good project but the renewal should be extended to 1 yrs. instead of 6 months. We are forced to pay when there is no demand*". One respondent said that in GMS, there is huge amount of ambiguity and uncertainty regarding taxing. Capital gain tax should be exempted. In GML, anybody taking GML is taking two risks i.e. price risk and exchange risk. It is on imported gold. Give us 180 days, we have to settle with in that period. There should be a better renewal scheme. One more respondent suggested, "*GMS & GML schemes of Indian government are not so successful in India till now. The quantity and liquidity issues are there. Views of Jewellers and stakeholders are not taken while designing these schemes. Unless jewellers do not involved in this policy, the chances of success will remain negligible*". Weekly or fortnightly change in duty structure causes uncertainty for those who take up GML schemes. There is lack of transparency in GML scheme. One respondent said, "*In both GMS and GML you get interest. Schemes are not getting too much attention and interest due to lack of documents. Number of people does not have proper documents of their gold holding*". One more respondent said, "*In both GMS and GML, income tax is problem. Problem of classification is there. IT exemption is required. NO capital gain tax should be there. GML is good idea*". One respondent reported that GMS could never get launched properly. Public participation is minimal. Designing issues are there. There is a lack of coordination between banks and refiners. Trust issues are there among stakeholders. More government assurance is required. One respondent said, "*On GMS the views are that, if you talk to common people, that they are very scared to do transactions where they think that government will look into his pocket. This is the fear factor that common people have. If government comes asking proof for the gold, I do not think many people will show the proof. Government should specify some quantity and below which no questions will be asked. This assurance will work if government gives it. Banks have no incentive in doing GMS scheme that's why they are not promoting it properly. Government should give some incentives to banks. When GMS came, 15 banks have signed a contract with but only two banks are active now*".

One respondent said GML should be made more practical. As of now, its available to jewelers only but not to industry. GMS is a good scheme. But government should work more on this because it has been less successful so far. Account and producing papers are major hindrances. One more respondent added that GMS should be made more lucrative by increasing interest rate. Up to 6% interest would be appropriate to encourage them. One respondent mentioned that these schemes are related to jeweller not with bullion dealers. Bullion traders should not be included in GML because they will misuse this scheme.

GMS and GML are very good schemes. Now, jewellers can also participate in this. Earlier they were not participating. It will reduce the cost of working capital. Reputed jewellers should be included in the policy making and they should be given more flexibility. There should be more awareness to make GMS & GML a successful scheme. Some respondents suggested that GMS could play a big role in reducing gold import. In India, around 25000 tons of gold lying idle in hands of households and temples. If household gold comes into mainstream, it can be used to extent Gold metal loan by using this gold. If banks could work with us in this regard and ease the functioning of GMS, people will use these schemes more. One respondent said that GMS is a good scheme. The idea behind this is to rotate household gold. If this gold is properly channelized, it will help in reducing gold import. GML is credit scheme for jewellers. People should be given more incentive and this scheme should be well communicated. Some respondent said that they strongly support both products. GML is already doing well in India. However, GMS is not doing well even after some rectifications. Creating more awareness, use of technology and incentivising banks if they achieve some target could encourage these schemes. And more importantly, customers should not be harassed while they declare their family or ancestral gold. This is how GMS could become a good product. One respondent suggested that there is a lot of work needs to be done for GMS and GML. Common people should be made aware of these schemes. Because, there is a lack of awareness about these schemes. Interest rate should be more in accordance with global benchmark. However, one respondent said that GMS is not going well in India. Gold can also be used as a CRR and SLR as money.

Q 19. How can large investment demand be managed and regulated through financial systems?

When asked about how can large investment demand be managed and regulated through financial systems, the opinions of the respondents are not unanimous. There is hardly a consensus on any point. Some participants said that they do not have any problem in this regard and financial system through which get the required finance. Furthermore, It depends on demand but they said they manage it through banks or nominated agency. While some said that there is no such mechanism to finance large investment demand be managed and regulated through financial systems.

One respondent suggested that large investment demand be managed "*by having spot exchange for gold. As of now, there is no transparent pricing mechanism. There is no regular price available for consumers. Just like we get same price for stock all over India through stock market*". One respondent suggested that if we route our trade through exchange, it would help the trade and boost financing also. According to one respondent, Large investment demand can be managed by reducing GST to zero and bring duty structure to 6%. Then more people will buy and sell and this will lead to increase in trade volume. If government removes CTT in future market, it will increase the depth in the future market. If there is no liquidity in the future market, you cannot think of spot exchange. One respondent reported that lot of people are going for GML to manage large investment demands and for working capital. GMS, Associations and bodies can also play role in this. Large investment demand can also be managed through Gold ETFs. One respondent suggested that large investment demand be managed by giving loans and assistances from banks. There is a lot of resistance in financing bullion traders. That attitude should change. One more respondent expressed the same view and said here is lot of restrictions on financing bullion dealers and jewellers because there are negative perceptions about bullion dealers. Consequently, many financing facilities are denied to bullion dealers. Some respondents even suggested that finances are available easily but regulatory framework stops it from happening conveniently and smoothly. One more respondent said, "*There is no system as of now through which we can manage large investment demand. We try to manage it by asking advance payment from customers. And customers give us advance payment also. We try to rotate that advance payment and manage the investment demand*". One respondent suggested that large investment demand would be managed with the establishing of new gold exchange, which SEBI is coming up with. Furthermore, it could be manage through Gold exchange and electronic gold receipt (EGR) concept.

Q 20. What kind of Financing could be helpful for traders to meet their liquidity uncertainty?

The study asked the respondents about what kind of Financing could be helpful for traders to meet their liquidity uncertainty. In this question also, some respondents reported that they do not face any liquidity issue because whatever they sell, they get paid the same day. While, some suggested that they occasionally face liquidity problems. Many respondents suggested that they do face liquidity issues. As of now, there is no mechanism to manage large investment demand. However, Proper arrangements should be made for financing. Many respondents suggested that through GML, metal-to-metal loan from domestic sources would change the ecosystem of financing. And it would be a game changer. One respondent have reported that Bullion traders and jewellers are already in negative list of RBI, when it comes funding. When customers to open account in this they are put into high-risk customers. Furthermore, The banks should classify this business as a priority rather than classifying it as risky business. Because bank financing is only option available to them. One respondent said, "*I feel cash credit is best option. In that we withdraw the amount we need. And deposit back whatever leftover after the execution of trade. I do not know whether its good for banks or not but it's the best thing I could guess. And keep the cost of borrowing down so that more and more jewellers can avail this facility*". One respondent mentioned that there liquidity uncertainty and he endorsed the recommendations of FICCI Report.

One respondent even suggested that seasonal working capital should be given to meet seasonal uptrend in demand. There is no channel as of now but they can create financing opportunities. They should be given finance to pay for 10% custom duty and other requirements. Some respondents suggested that low interest finance or low interest metal loan could be helpful to meet liquidity uncertainty. Financing in dollars can also be helpful. Additionally, one respondent mentioned that system factoring is the best way for financing for traders to meet their liquidity. One respondent said, "*Yes, there are liquidity problem. With this gold exchange coming up, there would electronic gold receipt (EGR) financing and trade financing. These are the good step forward as I suppose. Yes it would help* *in liquidity*". One respondent suggested that Trade financing in not happening in this kind of business. So government should do something. Government should introduce and give LIBOR kind of financing. Some respondents mentioned that they do not think traders need financing. It is very difficult to finance these traders. I strongly disagree in financing traders. If traders are leveraged too much, it can cause a lot of problem. Prices will also shoot up.

Q 21. How active is your participation in ETF?

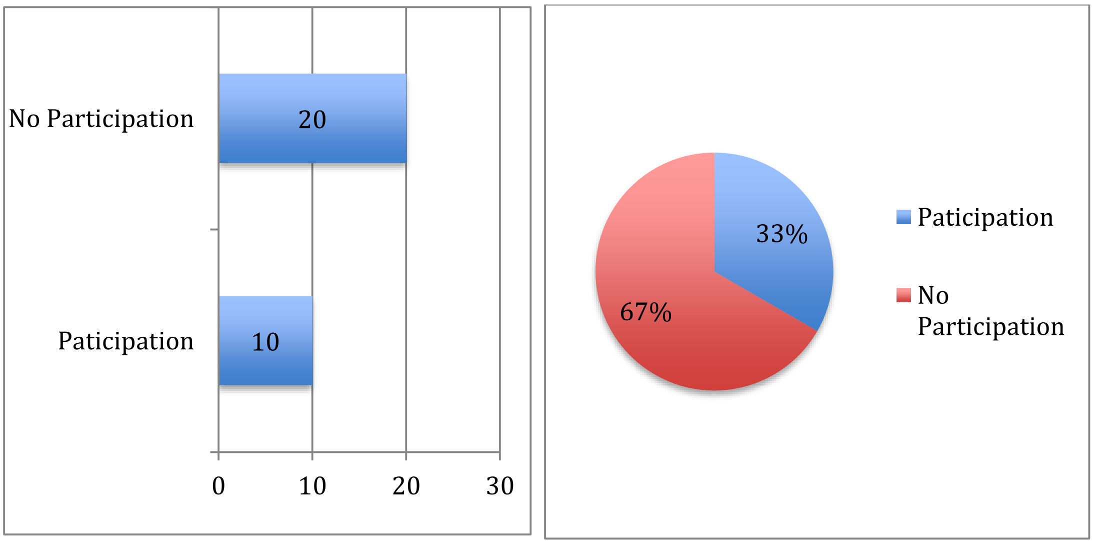


Figure 24 ***Response regarding participation in ETF***

We have asked participants about their participation in Gold Exchange traded funds (ETFs). Many have said that its very good opportunity to invest in gold through ETFs. However only 33 percent of the respondents are active participant of Gold ETFs. The remaining 67 percent have no participation or they have minimal participation. Some of the respondents have said that they used to participate in gold ETFs but they no longer do it. Some non-participant have expressed willingness to participate in future as they think gold ETFs could help in hedging and act as safe haven. Some have raised issue of lack of information and limitation of choices for their non-participation.

Q 22. Do you have specific traders/nominated agencies from whom you buy?
(if, responded willingly to supply this information)

The study has asked respondent that do they have specific traders/nominated agencies from whom they buy. Almost all respondents, who are not nominated agencies themselves, buy from nominated agencies and/or banks. One respondent said, "*Yes we buy from nominated agencies. One of the advantages of buying gold from nominated agency is that you get gold on consignment basis. It's a very comfortable mechanism. Mostly from HTC, MMTC*". One respondent said, "*We cannot import directly. We can import through government channels like MMTC, HTC etc*". One respondent said, "*Mostly we buy from banks. Currently, we buy from Kotak Mahindra bank and IndusInd bank. HDFC, ICICI and YES Bank are also in our list*". One respondent said, "*To import dore gold, we do not need any nominated agency. We import dore gold directly and license was issued by DGFT. When we buy bullion then we need to go to banks like HDFC who have the license to import*". A respondent from HRML said, "*Currently, we are not buying from any nominated agency. We import directly. We have license*". In a nutshell, most of the respondents buy from nominated agencies from government of India. Most of the respondent reported that they buy from MMTC. Apart from this, some most popular choices of the respondent were HDFC, KOTAK BANK, YES bank, PNB, RBL, IndusInd Bank, ICICI Bank and Yes bank. HHEC, SBI, Kotak mahindra. Those who are nominated agencies themselves, buy from foreign suppliers. Some buy from other big bullion dealers. Some respondent said they buy from nominated agencies whoever sells cheaper and some respondents have not disclosed the names of the sources from where they buy gold.

Q 23. How much do the below factors affect the bullion trade (domestic and international)? (Ranking)

a. **Pricing and Demand of Gold bullion**
b. **Availability of Gold Doré, and**
c. **Gold jewellery is subjected to complex taxes.**
d. **Customs duty on import of raw Gold**
e. **Commodity Transaction Tax (CTT)**
f. **Capital Gains Tax.**
g. **Dollar-Rs. Exchange rates**

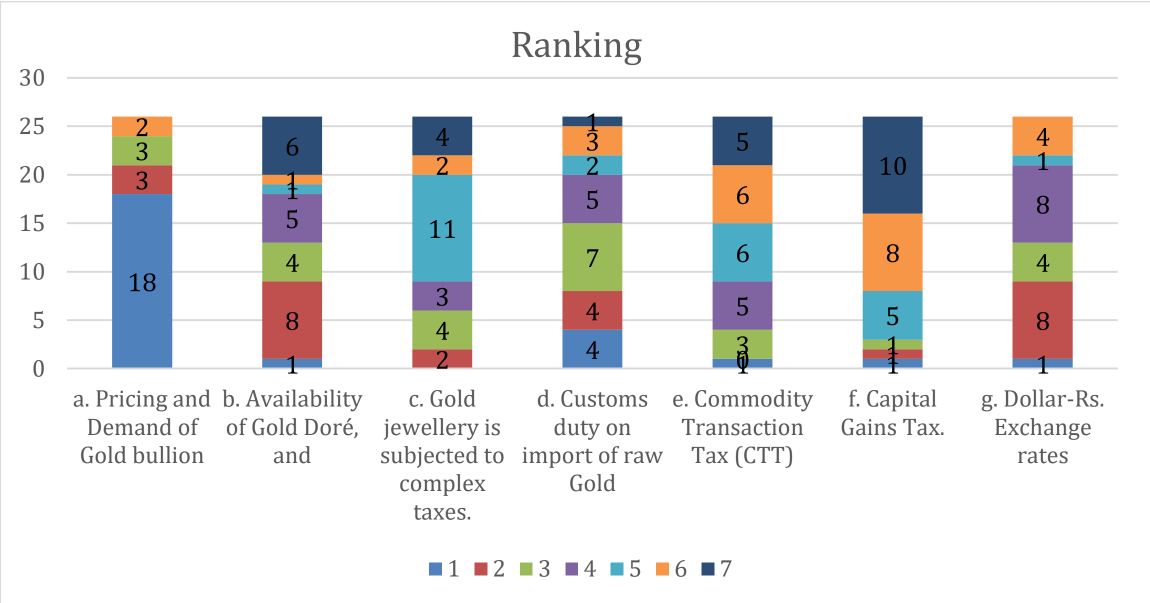


Figure 25 ***Response regarding factors affect the bullion trade***

In the above graph, ranking of of the aforementioned sources is shown. The study has asked the respondents about the factors that affect bullion trade domestically as well as internationally. The seven options has been given and respondents were asked to rank them. Among the respondents, 18 respondents ranked option A that is pricing and demand of gold bullion as their first choice. While, 3 respondents have ranked it second and 3 respondents have ranked it as third most influencing factor. Moreover, 2 respondents have ranked it sixth most influencing factor. Talking about option B that is availability of Gold Dore, I respondent has ranked it first major influencing factor. 8 respondents have ranked it second most influencing factor that affect bullion trade while 6 respondents have ranked it as seventh factor implying it is least effective among all option. 4 respondents and 5 respondents have ranked it third and fourth most influencing factors respectively. Additionally, 1 respondent has ranked it at fifth and 1 has ranked it at sixth rank. Option C, which is gold jewellery is subjected to complex taxes, have ranked by 11 respondents as fifth most influencing factor for bullion trade. While 2 respondents, 4 respondents and 3 respondents have ranked it at second, third and fourth major factors influencing bullion trade respectively. Option D, which is customs duty on import of raw gold, have ranked by 4 respondents as major factor influencing bullion trade and 4 respondents have also ranked at second most influencing factor. 7 respondents have ranked it as third major factor and 5 respondents have ranked it fouth major factor. 2 respondents, 3 respondent and 1 respondent have ranked it as fifth, sixth and seventh major factors respectively. Option E, which is commodity transaction tax (CTT), is ranked most influencing factor by 1 respondent. While, 3 respondents, 5 respondents, 6 respondents have ranked it as third fourth, fifth major factor respectively. Moreover, 6 respondents and 5 respondents have also ranked it as sixth and seventh major influencing factor. Option F, which is capital gains tax, is ranked first, second and third by 1 respondents each. 5 respondents, 8 respondents and 10 respondents have ranked it as fifth, sixth, and seventh major factor affecting bullion trade. Last option G, which is dollar/rupee exchange rates, is ranked 1 by 1 respondent only. 8 respondents have ranked it second major factor and 4 respondent have ranked it as third major factor. 8 respondent have chosen it as fourth major factor while 4 have ranked it as sixth major factor affecting bullion trade.

Q 24. According to you, the best way to remove arbitrage between Indian and International gold prices and thus dis-incentivize smuggling.

In this question, the study asked respondent that what is the best way to remove arbitrage between Indian and International gold prices and thus dis-incentivize smuggling. Majority of respondents have said that custom duty on gold import should be optimum. Although, the respondent differed on what should be the optimum rate.

Some of the respondents even mentioned that smuggling is only happening because of high GST and Custom duty. A respondent from CGR Metalloys said, "*Smuggling could be disincentivised by reducing the duty to a reasonable level. The reasonable rate could be something 3 to 4 or 5%*". However, a respondent from Dwarika Jewellers Pvt. Ltd. (DJPL) said, "*Reduce duty to 6% and GST to zero. The major advantage of Removing GST would be increase in liquidity and volume of bullion trade. Lack of liquidity creates disparity*". Another respondent mentioned that government should reduce import duty. These will disincentivise smuggling. However, it will not eradicate it.

A respondent from Sheth Bhagwandas Vithaldas & Sons said, "*A reasonable duty like 5 % will help in reducing and disincentivising smuggling. One more respondent said that the best way to disincentivise smuggling is to reduce custom duty up to optimal level. Optimal level is 4-6 % including GST*". One respondent said that there should be reduction in duty and something more than 2% is optimal rate. A respondent from Kundan care said, "*According to me, custom duty should be reduced from 10% to 2%. And, GST should be increased*". Few respondents have asked to reduce the Import Duty to zero. A respondent from Mehra & Sons said, "*The only way to disincentivise smuggling is to reduce import duty to zero*". Two respondents have asked to reduce GST and increase custom duty instead. One said, "*GST should be lower. Custom duty should be fixed and higher. Government has already policy for the export but it should give more free hands*". Another said, "*If credit inputs are settled in real time it will reduce smuggling. Secondly, please reduce GST to zero. The 3% GST that you want, please add that to custom duty*". One respondent suggested that government needs to make system better to reduce smuggling. Make the system more transparent. Reducing duty will not make any difference.

One respondent suggested that government should allow and encourage export of refine gold to disincentive smuggling. If we can go to foreign market we can prove that we are as good as you. There are two things that need to be done. First, bring down the duty to zero. Second, allow traders to export freely without any restrictions. One respondent gave a different view by saying, "*We should develop our own official delivery system. It will discourage gold smuggling. Gold is been handled well as of now. We cannot prevent little leakages of smuggling*". One respondent reported that GST and Custom duty make difference between India and International prices. There should be more strictness at the part of custom officers and department. They should be more vigilant to stop smuggling. A respondent from J J Gold House Pvt. Ltd said, "*Government should regulate custom duty properly. When government thinks that there is an increase in gold smuggling, it should reduce the custom duty by 2% immediately. Otherwise, when smuggling does not report much, government should keep the rate unchanged*". One more suggestion came from a respondent who said that too disincentivise smuggling completely, if we make the investment grade gold (that is 24K gold) duty free. This would disincentivise smuggling. And to compensate this revenue loss, what we could do is to increase the GST in the gold jewellery.

Few respondents suggested that system should reward custom officers for their work appropriately then smuggling will be contained. The officer should get some percentage as a reward. Because once the gold comes inside the country it cannot differentiate from other gold.

Q 25. What kind of regulatory framework would you like to propose so that it can ease the bullion trade in India?
(e.g., The Proposed Gold Board of India, The Proposed Bullion Exchange of India, The Proposed Gold Domestic Council) (Open ended).

In this question, the study has asked the respondent about what kind of regulatory framework they would you like to propose so that it can ease the bullion trade in India. The study has also suggested few options but it was open-ended question. The respondents were given choice to mentioned and elaborate their views on this. Most of them have chosen, from the given choice, bullion exchange in India. They said that Bullion exchange of India would be more appropriate thing and it will help in their business and local trade community. One respondent has said that establishing Spot exchange will be the biggest game changer. However, establishing other board or council is supporting things. Most of them have supported the proposed bullion exchange in GIFT city because they think it will improve the business up to huge extent. It will also make business easy. Few respondents also suggested that it would facilitate export also. Bullion dealers would not have to put their money Dubai exchange when they will have option in India. According to respondent from MMTC, "*Bullion exchange for better price discovery. Bullion traders and exporters need to be more educated and make aware about the regulatory framework. Consequently, they can engage with relevant authority or council. Gold board or any other body for educating and better communicating government's policy to traders and investors. Council will also be better*".

Some of the respondents have suggested for gold domestic council or gold board of India, which should come under the ministry of external affairs, that should have the participation of all bullion stakeholders including banks, associations and exchanges. One respondent mentioned that the proposed gold domestic council would ease the bullion trade. It should be like LBMA in India.

However, few respondents oppose the establishment of bullion exchange and said that it would not be effective enough in India. One respondent said, "*Regulatory framework will not serve the purpose if stakeholders of the bullion trade are not consulted and their views incorporated in the framework. Bullion dealers will be out of business if bullion exchange is formed. They will become broker only*". One more respondent suggested that there should be something like board or council but it should be there. So that whenever government wants to bring some policy change or regulation, it should consult the board first. Regulations like TCS are neither well thought out nor formulated in consultation with industry stakeholders. Board or council is necessary so that industry should not suffer due to government's wrong decisions. Bullion exchange will have no impact in this regard.

A respondent from MMTC said, "*My opinion is that there has to be a regulator. The regulator can be gold board of India. Its members and participants should be independent from this community then only it will work. But the members should understand the gold business*". A respondent have suggested that all the stakeholder of the industry should have his or her participation and representation in policy making in right amount. If government wants to promote and regulate business properly, then all stakeholders should be a part of board or council. Retailers should also have a say in policymaking. One respondent suggested that he existing regulations are sufficient as of now. A complete framework is already there. Further regulatory additions will make it more complex. Almost similar suggestion was given by another respondent by saying Trade should be more open. Board cannot control trade. It will only make trade expensive. Additionally, one respondent said gold bar export should be allowed. Then only we can influence international prices.

Q 26. Is establishing a bullion exchange important for the price discovery mechanism in India?

Price discovery is one of the important considerations in establishing bullion exchange. In order to know the respondent's opinion regarding this, the study has asked the respondents whether establishing bullion exchange important for the price discovery mechanism in India. Large majority of the respondent have strongly agreed that bullion exchange is important for price discovery mechanism in India. One respondent from MMTC even said that price discovery is the primary purpose of establishing bullion exchange. Some respondents have agreed but with cautions. They said that exact situation could be ascertained only after implementation because there are lots of variables that determines and affects gold prices. One respondent said establishing of bullion trade is good but if it also several practical problems related to delivery of the gold. There also logistics issues also in this. One respondent have reported that trade is already taking place form the OTC platform and price discovery is already there. Bullion exchange will help it additionally.

One respondent mentioned that exchange will enable price discovery in India, there is no doubt about it. But in India, few big importers get the large chunk of imported gold so they are the ones who decide the price. Guys with heavy pockets can manipulate the prices and it's happening also. One more respondent said that in India prices of bullion are fixed on the basis of import prices. And much will change with this bullion spot exchange. It would not be much beneficial. Exchange is already there which is controlled by SEBI. Respondent from J J Gold house pvt ltd. said, "*Bullion exchange is good and it should be there. There is no problem in that. But there is small gold price difference, which is substantial. There is no major price difference. Exchange will not curb imports and improve regulations*". Respondent from Supreme Gold said, "*Price discovery basically depends on the cost of Import or purchase. Bullion exchange would not do much in price discovery*".

Q 27. What role do you think bullion traders have to play on the proposed spot bullion exchange?

There was no unanimity among the respondents in the response to this question. Some has given relevant answers and some has repeated the same answers as given in the last question. Many respondents have mentioned that if spot exchange comes, Bullion traders will have a lot much bigger role to play. One respondent said that spot bullion exchange will facilitate small traders and retail investors and it will be good for overall market and all kind of market participants. A respondent from Yash ORO said, "*Many people will be attracted towards this. It will open up hedging avenues. It will reduce volatility up to large extent and will make bullion trade safer. It will reduce uncertainty and save people from loosing money"*. A respondent Vardhaman Jewellers said, "*Off course bullion dealers will get its maximum benefits. So, all the rules regulation should formulated with due consultation from bullion dealers. Bullion dealers will play a major part that why they should be included policy making*". One respondent said it would be much beneficial for speculation and hedging. One respondent mentioned that if government does not want to shut the business of bullion dealers, then it should allow bullion dealers to manage the gold of bullion exchange. All bullion dealers should become agent of bullion exchange. Bullion dealer should be able to hedge here in India through this exchange rather than hedging in Dubai. One more respondent said that government should make bullion traders its members and allow them to trade. This will create arbitrage opportunity and boost up demand. Some respondent raised that issue of delivery and availability of gold as major issue in spot exchange of bullion. One respondent said, "*It will play a good role. It will be good for taking care of uncertainty in supplies. Set up of spot Bullion exchange will help in easing out supply constraints. It will definitely help. But, its not the primary requirement and need of the hour*". However, Some respondent have said with establishment of bullion exchange, everything will be sorted out like i.e. price discovery and delivery mechanism.

Some respondents suggested that government should consult stakeholders first regarding policy formulation and running of the exchange. The role of the bullion dealer would depend on policy implementation and functioning of the exchange. One respondent said, "*It will be only be ascertain after policy and norms are framed. Government should take suggestions of stakeholders like IBJA. It should* *not be prepared by Bureaucrats and imposed on industry without consultation*". Bullion dealer can buy and sell at Bullion exchange. Pricing will be very important. If they will offer better pricing, people will buy. It will depend how cheaper gold will become. Additionally, More transparency will be there and it will be better and safer to trade through exchange rather than locally. One respondent said Bullion traders would bring liquidity in the system,

A respondent said, "*It is a good proposal but you also have to look at cost of the transaction. When the government establishes bullion exchange and it mandates that all the import will happen through this exchange two parties will be the first to join it and that would be banks and refiners. India needs to change banking regulations act for that. Storage and delivery issues will arise. Whether seller will store it at one place or many locations. Bullion exchange may enable single price but moving metal will have a cost. The proposal is good but we are far away from it*".

Q 28. Do you agree that by permitting banks to get IGC (Indian Gold Coin) minted, a virtuous cycle of gold re-circulation within the country can be initiated? Thus reducing demand for gold import help lower the cost of IGC and make IGC more attractive option to the general public?

The study also asked participants whether they agree that by permitting banks to get IGC (Indian Gold Coin) minted, a virtuous cycle of gold re-circulation within the country can be initiated? Thus reducing demand for gold import help lower the cost of IGC and make IGC more attractive option to the general public. Some respondent agreed to this and some have disagreed while some has said it would not make any difference. And everyone has given his/her own argument. Some respondent have mentioned that even if banks have to mint coins they have to import it. So they will charge high amounts from customers and it will also not reduce the import burden. It will just allow public to have one more avenue. Respondent from KIFS said, "*Yes, It should be initiated and bank should be allowed to trade in local gold. Banks and RBI should work together to get this rolling. Because, we have lots of local gold laying in India. If we will allow, it will come into circulation*". Some respondent suggested that there is no problem in banks being minting the gold; the problem is where will banks source gold. If banks want to source gold from domestic sources, then duty structure should be reduced to zero. There should certain quantity limit and questions and documents should not be asked if the gold is within that limit. One respondent said that it should be initiated and bank should be allowed to trade in local gold. Banks and RBI should work together to get this rolling. Because, lots of local gold laying in India. If we will allow, it will come into circulation. One respondent stated that government should promote IGC through banks. One respondent mentioned that IGC was good scheme. Better operational channels should have engaged. There should be some temper proof mechanism using technology and relaunch it. Some respondent also agreed that it would reduce the import burden. Respondent from Yash ORO said, "*Actually, banks business is not manufacture gold coins or sell gold coins. Banks should not do this. Let banks handle this activity through certified refiners. Are banks going to assemble their own manufacturing unit and refinery?*". Respondent from MMTC said, "*There are two things to it. First, today what the government has done is that the IGC can only be minted again the GMS route. Now GMS gold, at the end of the maturity can be redeemed in physical. For a short duration you can say my imports are reduced. But when the redemption took place after some years down the line, you have to import. So it is wrong to say that GMS will reduce the gold import. Import will only be lowered when government does not redeem in gold but in cash*". One respondent mentioned that banks should not be given permission to do this. If banks will mint the coins then what would jewelers do? Some respondents disagree because government mostly controls banks and they want that this task to be given to proper organization. It will make banks overburdened. Another respondent said that the problem with the bank is that they sell the coin but do not buy it back. One respondent said that Indian gold coin is sold at premium. Investors may not be happy with the premium charge by Indian gold coin. There are supply side limitations also in India gold coin. Investment in IGC is not good also.

A respondent from Augmont Enterprises Pvt. Ltd said, "*What we think is that the NABL refiners should be allowed to mint IGC not banks. Banks have higher cost of operation. So NABL refiners should be allowed to do this. Banks can have collaborations with refiners*".

Q 29. How COVID 19 has influenced your bullion trade?

As Covid-19 has affected every business around the world, Bullion market participants and bullion industry was also drastically affected. The study has asked the respondent about how covid-19 has affected their business. Most of the respondents have mentioned that covid-19 has ruined their business due to revenue loss. Supply chain disruption, lockdown, and uncertainty have diminished the demand for gold. However, few respondents have reported that they managed to increase their sales and profit because people were buying gold. The crashes in stock markets have also triggered gold buying because of hedging and safe haven attributes of gold. Additionally, according to some respondent, people bought gold for safety and security.

Many respondents have reported disruptions in supply chain and logistics issues due to Covid-19. Lockdown and travel restrictions affected logistics in few initial months drastically. One respondent have reported the use of technology has increased in the industry and trade has also gone online.

Respondent from Surabhi Bullion said, "*During covid-19, there was huge increase in uncertainty. Lot of people bought gold because they thought gold is a safe haven. So, there was good demand even during covid-19*". One respondent has mentioned that bullion industry has benefitted from crashing of stock market around the world. Gold prices have increased because people start buying gold due to its safe haven quality. It was a positive outcome for bullion trade. A respondent from MMTC said, "*After the spread of covid-19, people are relying more on cash rather than gold after going through this. And, that too in his/her almirah not in bank. Because, there was no point in keeping gold at home when was closed. Gold cannot buy you anything directly. People's priorities are changed and they are buying less gold. That is why there was reduction in demand. I have seen this, however, other may have different opinion*". A jeweler has mentioned, "*This crisis has helped in growing business. Because, the demand of gold has increased. This crisis has enabled many honest and law abiding traders to grow their gold business. Covid19 has not affected my business*". A respondent from J J Gold House Pvt Ltd said, "*Covid19 has had a huge impact on bullion trade. Because we have relations with jewellers and jewellers have relation with public. When public is not coming out to buy for marriage and other occasion then demand will diminish definitely. Our business is reduced to 50% due to covid19 and our balance sheet become adverse*". Some respondent reported that they had to pay vault charges because buyers deferred purchases. One respondent mentioned that it has affected sales. It has increased uncertainty in the trade and increase in the cost up to 40%. One respondent mentioned that Covid19 has reduced gold business because people have spent their savings in other expenses like medicines.

Q 30. What is your major concern about the Financing of trade deals?

Lastly, the study has asked the respondents about their major concerns regarding financing of trade deals. Their response was mostly in accordance with level of their participation and size of their operations. Manufacturer and jewelers face less difficulty in getting finance for their trade deals. Bullion dealers and traders do not get finance according to many respondents because lending institutions have negative perception about them. Many bullion dealers and traders have mentioned that banks and regulatory bodies regard their business as speculative in nature and have negative perception about them. However, respondent have raised many concerns and offered some suggestions also.

The respondent from Surabhi bullion said, "*There is not enough funds available. There is not enough liquidity. Banks gives loans to manufacturing but not to bullion traders even if we have collateral. They consider bullion trade as speculation business and they think there is no guarantee in this business. Financing is not available for bullion traders as this industry is in negative list of RBI and Banks do not have government approval*". Respondent from CGR metalloys said, "*Bullion traders never buy gold, they book only on consignment basis. Permitting dore gold to be imported on consignment basis will* *boost trade and demand a lot*". Some respondent have said that financing is required in clearing gold imports. One cannot survive without large financing as the pricing of gold trades is increasing and it takes gold refiners 10 days cycle from importing gold dore to complete the cycle. One respondent have mentioned that financing today is easily available. All the banks have cash surpluses. But the problem is that government does allow banks to finance gold business. You cannot get loan if you mention that you will buy gold or even jewellery. Finance is available for working capital and other things but not for the purchase of gold. Many respondents raise similar point that government does not allow banks to finance purchase of gold. Consequently, many small and medium bullion traders and dealers face financing issues. One respondent said that government should facilitate trade deals by issuing some guidelines and designing proper regulatory framework. One bullion banker has said, "*We as a bank do not find it correct. For banks, liquidity is not an issue. Usually, there is no cash constraint. The whole chain works on cash & Carry*". One respondent has said if taking positions in international market is allowed, by financing trade deals, it would surely benefit the traders. Few respondents have mentioned that GML from domestic sources will be game changer and help in financing trade deals also and GML Need to be more robust. A respondent from Emerald jewellery said, "*Bad experience should initiate corrective measures rather than stopping financing. Banks should be given liberty so that they can find proper controlling mechanism*". Some respondent opposed any kind of financing of trade deals. A respondent from Bangalore refinery said, "*I am against the financing of trade deals. Because people will leverage and it will spoil the market. Banks should not be allowed to leverage someone. No for financing in speculative activities, Yes for financing of working capital*".

3. Conclusion and policy implications

The report investigates the business practices followed by bullion traders in India. It provides comprehensive picture of issues and concerns of bullion traders related to existing business environment for bullion trading in India. The report is based on pan-India survey of bullion traders and is an attempt to bridge the gap between perceptions and understanding that policy makers have while designing the policies and what bullion traders expect from them. While, most of the studies regarding the bullion trading is India is secondary data based and quantitative in nature, this study is based on primary data and qualitative in nature. The report provides a new source of data on several aspects of bullion trading in India which can be used as insights by policymakers, traders and other stakeholders of the gold industry.

The report is based on data collected from all types of market participants of bullion trade like bullion dealers, bullion brokers, bullion bankers, bullion fund manager, bullion allied services, refiners and manufacturers. The sample suggests that current regulatory environment causes uncertainty in the gold trade. Policy announcements like monetary policy uncertainty (e.g., RBI MPC/ US FOMC meeting) affect the trade financing decisions. Majority of respondents were of the opinion that India needs to develop an " Indian Gold Delivery standard" similar to loco London which is acceptable to banks and regulatory authority. Also most of participants preferred hedge through buying on spot price and forward sale simultaneously rather than Short sales on the future market. The report provides the insights for data sources that bullion traders rely on for quantitative information related to the Bullion trade. It was found that bullion traders usually have given diversified view on mining potentials in India and its feasibility and effectiveness and almost all agreed that import will remain is the main source of gold in India and it also highlights the challenges faced by bullion traders on policies related to import gold in India both in bullion and dore.

Report also highlights the opinion of various stakeholders to improve the current domestic gold ecosystem and how the dependency on gold imports can be reduced. The report tries to capture the concern about GMS and GML Scheme, BIS mechanism and BIS Hallmarking Act, 2016. The report summarized the opinion on best way to remove arbitrage between Indian and International gold prices and thus dis-incentivize smuggling. The report explores the opinion of bullion traders on he regulatory framework that can ease the bullion trade in India like Gold Board of India, Bullion Exchange of India, Gold Domestic Council or a Bullion Exchange.

Since Gold is a safe haven and India is one of the largest consumers of Gold needs proper attention from the regulator and policymaker to have a better gold policy. A proper regulatory framework is required for the price discovery mechanism in India which is still lacking. Hence, in this study, we explored one the most important part of gold value chain- 'the bullion traders' in Indian context. The report provides a new source of data on several aspects of bullion trading in India which can be used as insights by policymakers, traders and other stakeholders of the gold industry.

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Appendix

Appendix -I

Source: Metals Focus, World Gold Council										
Consumer demand in India										
Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Tonnes	1,001.7	974.0	914.2	958.6	833.5	857.2	666.1	771.2	760.4	690.4
US$mn	39,436.6	49,213.0	49,052.4	43,492.8	33,934.6	31,972.3	26,786.0	31,171.3	31,0116.0	309112.0

Appendix -II

Indian supply estimates (tonnes)								
	2012	2013	2014	2015	2016	2017	2018	2019
Supply								
Gross Bullion imports	974.5	959.4	994.8	1,065.0	642.1	975.3	871.7	827.4
of which doré[1]	23.2	36.9	84.1	229.0	141.9	250.6	275.9	211.5
Net bullion imports	842.8	876.4	898.6	913.6	551.5	879.0	755.7	646.8
Scrap	118.0	95.8	92.5	80.2	79.5	88.4	87.0	119.5
Domestic supply from other sources[2]	10.0	9.6	9.9	9.2	9.9	8.8	10.5	11.1
Total supply[3]	970.8	981.8	1,001.0	1,003.0	640.9	976.2	853.1	777.4

1 Volume of fine gold material contained in the doré.
2 Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment.
3 This supply can be consumed across the three sectors – jewellery, investment and technology. Consequently, the total supply figure in the table will not add to jewellery plus investment demand for India.

Source: Metals Focus, World Gold Council

Appendix III- Questionnaire

Questions to be asked to the Bullion Traders

Constitution of the Firm:

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1. Name of the firm: ____
2. One Person (Sole Proprietorships)/Pvt. Limited/Limited Liability Partnership/Public Limited
3. What type of market participant are you?

   Bullion dealer/bullion broker/bullion banker

4. Sales Office Locations: ____________________
5. Details of End Customers-traders/retailers/jewellers
   a. Do you have customers who belong to the wholesale jewellery industry/investors/other technology?
6. Gold Trading by Volume in a Year ___________________

Following questions to be measure on 1-5 scale (Explanation needs to be given in language understood)

1 - Strongly disagree
2 - Disagree
3 - Neutral
4 - Agree
5 - Strongly agree

1. The current regulatory environment causes uncertainty in the gold trade.
2. Do we need to develop an **"Indian Good Delivery Standard"** similar to **LOCO** London, which is acceptable to banks and regulatory authority?
3. Does Monetary policy uncertainty (e.g., RBI MPC/ US FOMC meeting) affect your trade financing?
4. Which is better
   a. Hedge through buying on spot price and forward sale simultaneously or
   b. Short sales on the future market
5. What kind of information/data do you generally use? (Open)
6. What sources do you generally rely on for quantitative information related to the Bullion trade? (Open) (Price Trend)
7. In the context of ***Atmnirbhar*** **Bharat**, what are your views on Gold Mining Potential in India rather than importing most of Gold? (Open)
8. On a scale of 1-5, how will the following options improve the current domestic gold ecosystem?
   a. Zero Import Duty on Gold.

b. Gold Board of India under the Ministry of Finance.
c. Bureaucrats with knowledge of the Gold Industry.
d. A Gold Association or Council recognized by the Government.
e. Changing the perception of the general public towards Gold as an investment rather than a luxury item.

9. Which sources do you rely on to help you anticipate the demand for Gold required in gems and jewellery manufacturing? (Open)

10. Can you elaborate more on the B2B and B2C demand for Gold in India? (Open)

11. Rank the following from 1-5 (1- Highest and 5 lowest) for the best sources for Gold?

a. Import
b. Mining
c. Refining
d. Recycling
e. Gold Monetization (Buy-Back)

12. Which of the following, according to you, will reduce the dependency on the gold import?

a. Boosting domestic gold mining capabilities(1-5)
b. Reducing the Import tax on Doré gold (1-5)

13. Do you trade in doré Gold? What are the potential opportunities? (Open ended)

14. India should focus on the export of gems and jewellery manufactured in India. (1-5)

15. On a scale of 1-5, how much do you think will these policy suggestions will give Government the boost for our export of gems and jewellery products

a. facilitating shipments through e-commerce
b. setting up of common facility centres
c. easing the working capital financing,
d. Lowering duties and taxes
e. Any other policy suggestion (Open)

16. How can you make your product more competitive? (infrastructure/innovation/development of skilled labour/global competition) (Open)

17. What is your concern about the present BIS mechanism and BIS Hallmarking Act, 2016? (options)

a. Draft rules and regulations that require the jeweller to maintain the records of each ornament hallmarked (1-5)
b. The requirement of license for the sale of jewellery (1-5)
c. The threat of criminal charges on under cartage (1-5)
d. Open suggestion (Your Suggestions)

18. What are your views on the GMS and GML? (Open Ended)

19. How can large investment demand be managed and regulated through financial systems?

20. What kind of Financing could be helpful for traders to meet their liquidity uncertainty?

21. How active is your participation in ETF? (1-5)

22. Do you have specific traders/nominated agencies from whom you buy? *(if, responded willingly to supply this information)*

23. How much do the below factors affect the bullion trade (domestic and international)? (Ranking)

a. Pricing and Demand of Gold bullion
b. Availability of Gold Doré, and
c. Gold jewellery is subjected to complex taxes.
d. Customs duty on import of raw Gold
e. Commodity Transaction Tax (CTT)
f. Capital Gains Tax.
g. Dollar-Rs. Exchange rates

24. According to you, the best way to remove arbitrage between Indian and International gold prices and thus dis-incentivize smuggling.

25. What kind of regulatory framework would you like to propose so that it can ease the bullion trade in India?
(e.g., The Proposed Gold Board of India, The Proposed Bullion Exchange of India, The Proposed Gold Domestic Council) (Open ended).

26. Is establishing a bullion exchange important for the price discovery mechanism in India?

27. What role do you think bullion traders have to play on the proposed spot bullion exchange? (Open)

28. Do you agree that by permitting banks to get IGC (Indian Gold Coin) minted, a virtuous cycle of gold re-circulation within the country can be initiated? Thus reducing demand for gold import help lower the cost of IGC and make IGC more attractive option to the general public?

29. How COVID 19 has influenced your bullion trade? (Open)

30. What is your major concern about the Financing of trade deals? (Open Ended) (needs to be explained)