

Gems and Jewelry Industry seeks Budgetary Relief

Proposes enhanced Dollar liquidity, lower lending rates, 2-year tax holiday, Turnover Tax and Import Duty reductions

Mumbai, June 11, 2009: In the recently held discussions with the Honorable Finance Minister, Shri Pranab Mukherjee, representatives from various export sectors put forth their issues, problems and expectations from the forthcoming budget. Representing the Gem & Jewellery industry, Mr. Vasant Mehta, Chairman, Gems and Jewelry Export Promotion Council (GJEPC), presented a plan that would not just help the Industry sustain its leadership position but enable it to grow.

Outlining the challenges being faced by the Industry - which included the threat from the growing influence of a highly competitive China; worldwide fall in demand; the increasing unemployment of its highly skilled and world-class workforce; and the volatility of Gold prices – Mr. Mehta presented a series of corrective measures that need to be implemented immediately to give a fresh thrust and boost to the G&J Industry.

The charter of expectations sought Government intervention as under:

- Increasing the flow of dollar liquidity to the industry which has a projected need of at least \$3-4b in the coming year. Such additional dollar finance may be made available from the foreign exchange reserves of the country.
- Domestic funding at internationally competitive rates (LIBOR based) as opposed to the high interest rates being charged by the Banks at present. This can be facilitated with an interest subvention of 2%.
- The interest subvention of 2% on Rupee finance to be extended for Dollar finance also.
- Citing the peculiar nature of the Industry, characterized by daily price fluctuations, as a major cause for taxation dispute, the GJEPC has proposed the levy of a flat 1% Turnover Tax in place of all forms of current direct taxes, thereby doing away with arbitrariness, confusion and delays in finalization of tax returns. Owing to recessionary pressures, income on export earnings should be made tax-free for the next two years.
- Export credit limits sanctioned by the banks as on 01 April 2008 to exporters of the Gem & Jewellery Industry should be continued till 31 March 2011.
- The lack availability of duty free gold in many parts of the country severely constrains small exporters who find it difficult to procure their primary raw material and are unable to be competitive in the International markets. As a relief

to them, the introduction of a duty draw back scheme for Gold Jewelry exports has been proposed by the GJEPC.

Emphasizing the need for these measures to be implemented on an immediate basis, Mr. Vasant Mehta said, *“The recession has not only debilitated the Industry from inside, but has also led it to the precipice of non-competitiveness and loss of market share. The implementation of these measures will enable us to bounce back and re-establish our pre-eminence in the International markets and also ensure the long-term growth of the Industry. We are hopeful of a positive response to our recommendations and look forward to seeing these reflected in the coming budget.”*

In another meeting called for by Honorable Minister of Commerce & Industry, Shri Anand Sharma, Mr. Mehta tabled some of the measures required to provide relief to the Industry. These include reduction in import duty on machinery from 10% to 5%; reduction in import duty on Plain Gold Jewellery below 22k from 10% to 5%; removal of import duty on Rhodium and Rough Coral; and Reduction in import duty on Precious Metal Scrap from Rs. 257.50 per 10 gram to Rs. 100 per 10 grams.

India is the world’s largest manufacturing centre for gems and jewelry and the Industry contributes over 12% to the total export earnings of the country and employs 1.5 million workers who are considered to be highly skilled and amongst the best in the world. The recent recession has rendered over 3-4 lakhs workers jobless with many hanging up their tools to pursue other avenues. The GJEPC has proposed the setting up of a long-term welfare fund jointly with the Government, with the aim of providing these workers with employment guarantees, training and other benefits.

Notes to Editor

The Gem & Jewellery Export Promotion Council is an all - India apex body for Gem & Jewellery representing 5,500 members. Set up in 1966, it operates under the supervision of the Ministry of Commerce & Industry, Government of India.

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Gem & Jewellery Industry's PRE BUDGET RECOMMENDATIONS
made to Ministry of Finance and Ministry of Commerce & Industry,
Govt. of India

1) Increase in liquidity to the Industry

- ❖ The existing credit limits sanctioned to the exporters of Gem & Jewellery industry by the banks as on 01/04/2008 should be continued and extended to exporters with good track record (except for those whose accounts have been declared as NPA) till 31/03/2011 without putting additional conditions for providing such loans.
- ❖ In the prevailing global economic down turn, the demand of gem & jewellery products are dropping resulting in the severe piling of stocks. This is putting pressure on profit margins of the exporters as their interest burden is increasing and the working capital credit limits are getting blocked.
- ❖ The entire Industry operates on dollar transaction while sanctioned limit are calculated by financial institutions in Indian Rupee. Due to current rupee depreciation, Industry is facing 25% drop in credit facilities.

2) Introduction of Presumptive Tax/ Turnover Tax as a permanent solution

- ❖ Introduce presumptive tax/ turnover tax at realistic and practical rate for Indian Diamond Sector as long term permanent arrangement, in place of benign tax which has been informally accepted by the Finance Ministry.
- ❖ At present there is a Benign Assessment Procedure for assesses declaring a profit of 6% or more of the turnover from the activity of manufacturing and trading of diamonds.

3) Rationalization of interest rate at par with the international interest rates

- ❖ In addition to the RBI stipulated interest at LIBOR + 3.5%, banks are charging various other amounts such as handling charges, commission, which increases the cost of credit to approximately 6% to 7%. Hence, RBI to make dollar finance available at LIBOR + 1% to the banks financing the Gem & Jewellery Industry up to 31st December 2011.
- ❖ Availability of finance by the banks to Gem & jewellery Industry at rate of interest at par or below the international rates.
- ❖ Extension of Interest Subvention up to 31/12/2011

4) Export Income to be made tax free for 2 years

- ❖ The Industry proposed income from export to be made tax free by declaring 2 years Tax Holiday for export earnings from all types of Direct and Indirect taxes including income tax.
- ❖ Proper & prompt refunds to be made against the Indirect Taxes paid by exporters on account of Service Tax, VAT and other local taxes like Octroi etc.

5) Introduction of Duty Drawback Scheme for Gold

- ❖ With a view to curtail the hindrances as experienced by gem & jewellery exporters during the procurement of precious metals from the nominated agencies, the Duty Drawback Scheme on Gold may be introduced @ Rs 100/10 gm
- ❖ At present the gem & jewellery exporters are facing severe problems in the procurement of gold at smaller and medium centres across the country. Few of the nominated agencies are actively playing their role in procuring precious metal from the overseas companies and distributing the same amongst the exporters. They are also hesitant in supplying gold in smaller denominations in smaller centres.

6) Introduction of National Skilled Manufacturing Employment Guarantee Scheme (NSMEGS)

- ❖ This new scheme NSMEGS may be introduced for the Gem & Jewellery Industry on the lines of the National Rural Employment Guarantee Scheme.
- ❖ The proposed main objective of this scheme is to enhance livelihood security in skilled manufacturing sector of our Industry by providing at least 100 days of guaranteed wage employment in a financial year to gem & jewellery artisan in a manufacturing unit.