TIOL sensitises Govt about circular trading in precious metals; DGFT prescribes higher value addition norms and calls for a match for forex outgo

By TIOL News Service

NEW DELHI, FEB 12, 2005 : TAKING note of the TIOL report on circular trading by some SEZ units in some precious commodities like gold and platinum for taking benefits of differential interest rate between Libor and FD rate in India at the cost of abnormal exposure of our banking system the Government has finally worked out an effective way out. Instead of using the RBI instrument the Govt asked the DGFT to prescribe a higher value addition formula for exports of studded jewellery.

It may be recalled that the TIOL had first highlighted circular trading in gold and the RBI had come out with a detailed guidelines in its response. Then we came out with another report headlined **''**
RBI once again caught napping; After gold, SEZ trading units latch on to platinum exports for circular trading!''.

It was reported with reference to RBI
Circular No 2 (RBI/2004-05/30) that "units have switched over to other precious metals like platinum and palladium and the same circular trading continues between India and Dubai
. Since our policy makers underestimated the market wisdom of such exporters and did not mention trading in other precious metals in that circular a large number of gold exporters saw an escape route in that circular and coolly shifted to exports of platinum group of metals.

It all started with a handful of exporters making a beginning in this trade. Soon, copycats joined them. And then, Development Commissioner got flooded with applications **to amend the LOC to include** these precious metals in the list of commodities in which these trading units intend to transact."

It has been emphasised by DGFT that the
CIF value of gold will be equivalent to the total outflow of foreign exchange on account of gold content in the export product plus the admissible wastage and this will include imported gold and gold procured from other sources used in the export product.

Handbook of Procedures Volume I (2004-09) prescribes the following provisions on Minimum Value Addition:

"The studded jewellery falls under Para 4.56.1(a) of Handbook of Procedures Volume I (2004-09), and accordingly the minimum value addition required for studded gold/ silver/ platinum jewellery of all types is 15%."

Further, Para 4.68 of the Handbook of Procedures Volume I (2004-09) prescribes the formula for calculation of value addition as under:

"Value Addition -Under the scheme for export of jewellery, the value addition shall be calculated with reference to the CIF value of gold/ silver/ platinum which shall be equivalent to the total outflow of foreign exchange on account of gold/ silver/platinum content in the export product plus the admissible wastage. Wherever gold on loan basis has been given, the CIF value shall also include interest paid in free foreign exchange to the foreign supplier."

As stressed by DGFT the abovesaid Para does not talk about CIF value of the imported gold only, rather it talks about total outgo of foreign exchange with reference to the gold content in the export product plus the admissible wastage.

(See full text of DGFT Cir No.18/2004-09 under DGFT category)Â