

**Causes of Decline in Gem and Jewellery Exports**  
**from India**  
**FY2005 – FY2017**

**A Brief Report**

**Submitted by**  
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## Causes of decline in exports of gem and jewellery: A Snapshot

Time Span	Year	GEMS & JEWELLERY		Reasons of Decline in Exports
		Exports in USD Billions	Growth %	
2004-05 to 2008-09	2004-05	13.76	30.16	<p><b><u>Global Factors</u></b></p> <ul style="list-style-type: none"> <li>Eruption of global crisis and slowing down of economic growth and import demand in India's major export destinations for G&amp;J products: USA and Europe</li> </ul> <p><b><u>Domestic Factors</u></b></p> <ul style="list-style-type: none"> <li>Appreciation of rupee affected G&amp;J exports</li> </ul>
	2005-06	15.53	12.84	
	2006-07	15.98	2.93	
	2007-08	19.69	23.20	
	2008-09	28.41	44.28	
	<b>Average (5 years)</b>		<b>18.68</b>	
2009-10 to 2013-14	2009-10	28.72	2.36	<p><b><u>Global Factors</u></b></p> <ul style="list-style-type: none"> <li>Double dip global economic recessions due to fall out of PIGS economies</li> <li>Withdrawal of USA- GSP benefit from India</li> <li>Withdrawal of GSP benefit from India transferred to developed countries to grow further</li> </ul> <p><b><u>Domestic Factors</u></b></p> <ul style="list-style-type: none"> <li>Re-imposition of MAT/DDT for SEZs units</li> <li>Appreciation of Rupee effect till 2012</li> <li>Introduction of 80:20 gold import scheme.</li> </ul>
	2010-11	42.35	47.44	
	2011-12	46.37	9.51	
	2012-13	42.99	-7.30	
	2013-14	41.39	-3.72	
	<b>Average (5 years)</b>		<b>40.36</b>	
2014-15 to 2017-18	2014-15	41.27	-0.30	<p><b><u>Global Factors:</u></b></p> <ul style="list-style-type: none"> <li>Decline in export growth of G&amp;J products is well synchronisation with India's overall exports growth</li> <li>Slow recovery in major export destinations</li> <li>Contraction in demand in emerging markets</li> </ul> <p><b><u>Product Specific Factors</u></b></p> <ul style="list-style-type: none"> <li>Introduction of GST</li> <li>Levy of import duty on cut &amp; polished diamonds in January 2012</li> <li>Duty drawback benefit is not available for silver jewellery exports</li> <li>Unavailability of natural pearls in which India has been a dominant exporter and rise in demand of South Sea pearls (Tihatian) in the international market which is majorly available in China resulted in fall in exports of natural pearls from India.</li> <li>Unavailability of rough coloured stones as the raw material</li> <li>Ban on export of rough tanzanite gem led to scarcity of this gemstone</li> <li>Decline in import demand of UAE for gold which is importing 99.9% of India's exports of gold</li> </ul>
	2015-16	39.28	-4.80	
	2016-17	43.41	10.51	
	2017-18	41.54	-4.30	
	<b>Average (5 years)</b>		<b>41.38</b>	

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|--|--|--|--|---|
|  |  |  |  | <ul style="list-style-type: none"><li>▪ Average prices of gold declined during the FY2018</li><li>▪ Implementation of VAT of 5% in UAE w.e.f 1<sup>st</sup> January 2018 distressed India's exports of gold jewellery to the country</li><li>▪ Banning of articles of gold beyond 22 carat has affected the export of gold jewellery &amp; gold medallions.</li><li>▪ Foreign banks refusal for selling gold to Nominated agencies.</li></ul> |
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## Gem and Jewellery Exports: Overview

Gem and Jewellery Industry has witnessed mixed trend during the last decade majorly due to various global factors, domestic factors and the product-specific factors. As per the provided table India's exports of G&J was rising remarkably at the rate of 22% (average) which declined to 9.66% during the period from 2009-2014 and further to 0.28 % during the period from 2014-2017.

***However, this is to be noted that India's exports growth of gem and jewellery sector has been well synchronised with the overall exports of the country as the average growth of India's total exports was recorded at 23.9% to 13.4% to 3.8% during the specified periods.***

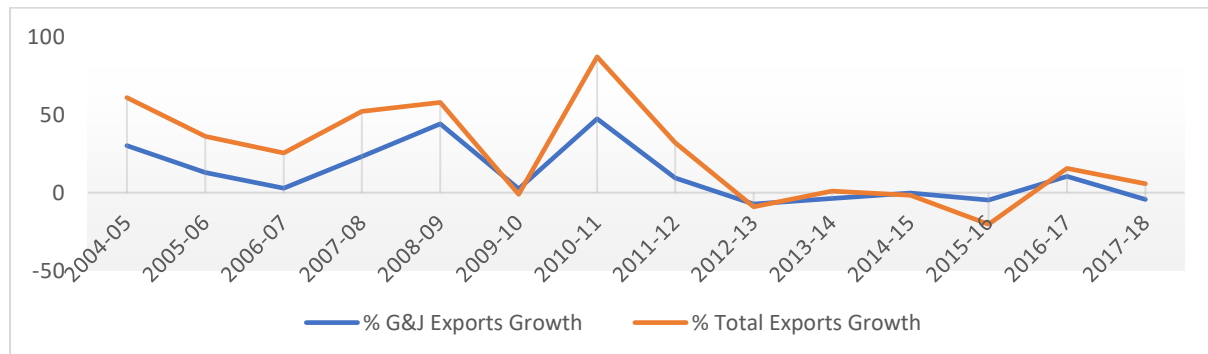
The **table 1 and figure 1** depicts the synchronisation pattern of India's total exports and G&J exports growth of the country which are moving in the same direction due to the global and domestic developments:

**Table: 1**  
**India's Total Exports vis-à-vis Gem and Jewellery Exports Growth during different time period**

Time Span	Year	Gem and Jewellery Exports		Total Exports	
		Exports in USD Billions	Growth %	Exports in USD Billions	Growth %
2004-05 to 2008-09	2004-05	13.76	30.16	83.5	30.8
	2005-06	15.53	12.84	103.1	23.4
	2006-07	15.98	2.93	126.4	22.6
	2007-08	19.69	23.20	163.1	29.1
	2008-09	28.41	44.28	185.3	13.6
	<b>Average (5 years)</b>	<b>18.68</b>	<b>22.68</b>	<b>132.28</b>	<b>23.9</b>
2009-10 to 2013-14	2009-10	28.72	2.36	178.7	(-) 3.5
	2010-11	42.35	47.44	249.8	39.8
	2011-12	46.37	9.51	305.9	22.5
	2012-13	42.99	-7.30	300.4	(-) 1.8
	2013-14	41.39	-3.72	314.4	4.7
	<b>Average (5 years)</b>	<b>40.36</b>	<b>9.66</b>	<b>269.84</b>	<b>13.4</b>
2014-15 to 2017-18	2014-15	41.27	-0.30	310.3	(-)1.3
	2015-16	39.28	-4.80	262.0	(-) 15.5
	2016-17	43.41	10.51	278.8	5.17
	2017-18	41.54	-4.30	303.37	9.98
	<b>Average (5 years)</b>	<b>41.38</b>	<b>0.28</b>	<b>288.61</b>	<b>3.8</b>

Source: Provided Table

**Figure -1 Global recession and India's Total Exports vis-à-vis Gem and Jewellery Exports Growth**



Source: DGCIS, compiled and analysed by GJEPC

## A. Global Factors

### 1. Global economic crisis

Sluggish demand in India's major export destinations, EU and US which constitute around 40% in India's total exports has been a major cause of dismal export growth since the outbreak of global financial crisis in 2008. In the present scenario though these advanced nations are recovering, while the pace of their recovery is too slow to support India's exports to grow rapidly and steadily.

**Table -2 – USA and Europe % share in India's exports of G&J**

Years	USA % share in India's exports of G&J	Europe % share in India's exports of G&J	Combined % share of USA & Europe in India's G&J exports
2004-05	29.7%	14.6%	44.3%
2008-09	16.01%	12.5%	28.51%
2013-14	18.81%	9.4%	28.21%
2017-18	24.10%	9.3%	33.4%

Source: DGCIS, compiled and analysed by GJEPC

### 2. Withdrawal of USA- GSP benefit from India

India has been Beneficiary Developing Country (BDC) to USA GSP Program since long and its various jewellery products were earlier included in the list of GSP eligible products on account of being highly labour intensive and export oriented. This has resulted in eventual rise in exports of jewellery products to USA especially during the years 2003-2007 and further benefited the Indian economy in terms of generation of employment, income, upliftment of the weaker section of the society, growth of the industry and overall development of Indian economy.

However, this is noted that as India has become a more successful exporter of jewellery products and its export volumes have increased, it has become more vulnerable to exclusions under the competitive need limitation. Several jewellery items (HSUS 71131929 and 71131950) to which competitive need limitation waiver (CNL) had originally granted in 2001 was revoked in 2007 and for another jewellery category (HSUS 71131925) CNL waiver was revoked in 2009 on account of crossing the CNL limit of GSP imports in USA. Furthermore, few more silver and gold jewellery articles (HSUS 71131150 and HSUS 71131921) were excluded from list of products eligible for GSP benefit. Thereafter, India's jewellery exports to USA under the GSP declined as rapidly as they had grown.

**Table – 3 Jewellery Products Excluded from the GSP Program**

HS Code 8 Digit	71131150	71131921	71131925	71131929	71131950
Products	Silver articles of jewellery and parts	Gold rope necklaces and neck chains	Gold mixed link necklaces and neck chains	Gold necklaces and neck chains (except of rope or mixed links)	Precious metal (except silver) articles of jewellery & parts, whether or not plated or clad with precious metal
CNLS Exclusion	2009	2009	2009	Before 2001	Before 2001
Waiver Granted			2001	2001	2001
Waiver Revoked			2009	2007	2007
MFN Tariff (2018)	5%	5%	5.8%	5.5%	5.5%

Source: Harmonized Tariff Schedule of the USTR (2018), Revision 4

**Impact** - From the table this is apparent that after gradual withdrawal of US-GSP benefit, USA imports of the major G&J commodities to USA including gold jewellery have decelerated continuously.

**Table – 4 USA Import from India (US\$million)**

Products	HTS No.	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Precious metal (except silver) articles of jewellery & parts, whether or not plated or clad with precious metal	7113.19.50	2,211	1,901	1,014	883	1,001	1,044	1,029	1,110	1,121	1,247	1,398	1,291
Gold necklaces and neck chains (except of rope or mixed links)	7113.19.29	89	266	197	56	45	53	49	44	50	41	63	78
Gold mixed link necklaces and neck chains	7113.19.25	6	26	64	66	33	5	4	5	6	5	4	5
Gold rope necklaces and neck chains	7113.19.21	0	3	60	71	47	21	15	23	24	23	17	10

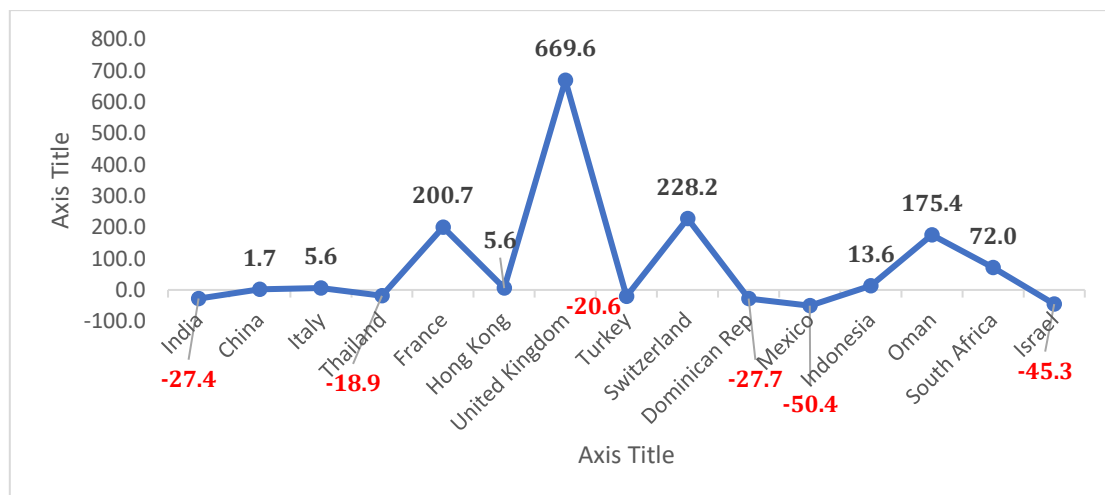
Source : USITC

### 3. Withdrawal of GSP benefit from India transferred to developed countries

This is to be noted that withdrawal of GSP benefit from India will merely transfer to the other developed/fastest developing countries like China as observed in case of post withdrawal of GSP benefit from Jewellery products during the years 2007, 2008 and 2009. Withdrawal of GSP benefits from India's jewellery products has resulted in decline in Imports of articles of jewellery (HS Code-7113) from India to USA by around (-)27% to during the period 2007-2017 (figure-2).

While, USA imports from the other developed or Non GSP program benefitting countries like China, Italy, France, Hong Kong, UK, Switzerland, Oman and South Africa have recorded a growth 1.7%, 5.6%, 200%, 5.6%, 670%, 228%, 175% and 72%.

**Figure -2 USA import growth of Jewellery Products (HS-code 7113) for different countries in 2017 as compared to 2006**



Source : USITC

## B. Domestic Factors:

### 1. Re-imposition of MAT/DDT for SEZs units

Withdrawal of exemption from MAT w.e.f 1<sup>st</sup> April 2012 and from DDT i.e. 1<sup>st</sup> June, 2011 on account of the erosion of tax base drastically impacted exports from all the SEZs of the country including the SEEPZ, Mumbai form where gem and jewellery products are exported majorly. This has made operating in Domestic Tariff Area (DTA) more beneficial as compared to operating within SEZs and thus negatively impacted the morale of exporters including the G&J exporters.

**Table-5 - SEZ Exports: FY2006 - FY2017**

Years	Exports		Growth over previous year (INR)
	(Value in Rs. Crores)	(Billion USD)	
2005-2006	22,840	5.08	-
2006-2007	34,615	7.69	52%
2007-2008	66,638	14.81	93%
2008-2009	99,689	21.71	50%
2009-2010	2,20,711	46.54	121.40%
2010-2011	3,15,868	69.3	43.11%
2011-2012	3,64,478	76.01	15.39%
2012-2013	4,76,159	87.45	31%
2013-2014	4,94,077	81.67	4%
2014-2015	4,63,770	75.84	-6.13%
2015-2016	4,67,337	71.38	0.77%
2016-2017	5,23,637	78.07	12.05%
2017-2018	2,66,773	41.44	13.39%

Source: sezindia.nic.in

This is along with the SEZs Act 2005, the government incorporated a specific provision in relation to SEZs units under the Income Tax Act 1961 (the Act) through the Finance Act 2005, whereby it was specifically provided that liability in relation to MAT (18.5%) and DDT (16.995%) shall not arise on SEZs units i.e. developers/units within SEZs were made totally exempted from payment of MAT and DDT.

### 6. Appreciation of Rupee

The country was taking the benefit of slow depreciation of currency during the period of mid-2005 to mid-2006. However, turnaround (appreciation) of rupee since August 2006 discouraged overall exports of the country including of gem and jewellery. This is after the year 2012 Indian rupee has started showing a sign of depreciation which helped Indian exports to grow during that time period (Figure 3).

**Figure – 3 Rupee Appreciation Trends since 2008**



### **8. Introduction of 80:20 gold import scheme:**

In the financial year 2013-14 when the 80:20 gold import scheme was introduced and restrictions were placed on all nominated agencies/banks on import and supply of gold to exporters and in the domestic market, substantial decline of 35% was witnessed. Post withdrawal of the scheme in November 2014, import of gold surged to some extent.

### **9. Introduction of Goods and Services Tax (GST)**

The jewellery trade struggled with the introduction of the new taxation system, GST in many ways, which are described here below product-wise :

#### **Cut & Polished Diamonds**

Implementation of GST Regime from 1st of July has seen serious operational challenges for the small manufacturers and exporters from the diamond sector who mainly come from small towns and villages in Gujarat and Maharashtra :

- Implementation of GST Regime from 1st of July has seen serious operational challenges for the small manufacturers and exporters from the diamond sector who mainly come from small towns and villages in Gujarat and Maharashtra
- Recently the demand is slow in consuming markets like US and Europe which means that the diamond pipeline is full of inventories due to which the exports are slowing down.

#### **Gold Jewellery**

- Initially the Nominated agencies totally stopped import of gold after implementation of GST from 1<sup>st</sup> of July as there was confusion in the valuation of gold on which GST would be paid during imports and subsequent exports and fixation of price.
- The nominated agencies has increased premium manifolds for supply of gold to exports due to uncertainty in interpretation of law for fixation of GST as described in the previous point.



- 3% GST payment upfront against imports means high amount of capital blockage for exporters and small exporters are not having the capacity to garner such funds a net result of which is they have stopped exports totally
- Availability of Gold is also an issue as a number of nominated agency has stopped supplying gold to exporters after promulgation of GST. Imposition of 5% Import duty at UAE against import is also affecting the sector

**Statistical Update depicting impact of GST**

**Table -7 Gold Jewellery Exports - July 2017 - May 2018**  
**Value in Rs Crores**

	<b>Exports excluding SEZ 1st July 2017 to May 2018</b>	<b>Exports excluding SEZ 1st July 2016 to May 2017</b>	<b>% Growth /Decline</b>
A	12862.15	15179.06	
B	7190.23	7880.23	
C= A+B	20052.38	23059.29	-13.04

Source: GJEPC

## **C. Product Specific Causes**

### **10. Fall in silver jewellery exports:**

- India has lost cost competitiveness in the world market in silver jewellery products. This is on account of change in buying selling pattern of silver jewellery products in the international market which is now majorly transacted at the international exhibition platforms. Since, India's participants of silver jewellery products do not get any duty drawback benefits for selling their products in the exhibition therefore encounter with the challenge of lack of cost competitiveness at the international forums leading to relatively less sales in the exhibition as compared to their counterparts.
- Due to the recent banking challenge which has further intensified the challenge of access to the bank finance has been another major cause of decline in silver exports from India.
- Export of Silver jewellery from Surat SEZ & Hyderabad SEZ during the month of August 2017 has reduced substantially when compared with monthly export from same SEZs during April/July 2017. The average monthly Export of silver jewellery from Surat SEZ during April / July was US\$ 236.81 million (in August 2017 it is US\$ 52.02 million) and from Hyderabad SEZ it was US\$ 207 million (in August 2017 it is US\$ 4.45 million only)

### **11. Fall in pearls exports:**

- This is on account of unavailability of natural pearls in which India has been a dominant exporter and rise in demand of South Sea pearls (Tihatian) in the international market which is majorly available in China has resulted in fall in exports of natural pearls from India.

### **12. Fall in coloured gem stones from India**

- This is due to unavailability of rough coloured stones as the raw material India's exports of finished coloured gem stones have witnessed a fall in the recent times. The reason of lack of availability of the rough coloured gem stones is the mining policies of the major exporting markets of the rough stones which are imposing additional restriction pertaining to the exports of rough colored gem stones in the world market including India. Thus scarcity of raw material which is scaling up the prices is an additional challenge for Indian exporters of coloured gem stones to maintain the price competitiveness for their final products.
- **Ban on export of rough tanzanite**

The Government of Tanzania has put a ban on the export of rough tanzanite weighing one gram or more. The ban on export of rough tanzanite gem stone and the under developed cutting and polishing industry of Tanzania has led to a situation of scarcity of this gemstone in the international market. The Indian gemstone industry had expressed their concern before the Government of India that this ban has rendered thousands of cutting and polishing workers jobless in Jaipur, India. The manufacturers of jewellery from India are unable to accept the orders of jewellery studded with tanzanite. It has also been highlighted that this ban will create a scarcity in supply of cut and polished tanzanite and will lead to switch over of demand towards other similar coloured gemstones which will be a loss to both Tanzania as well as India.

The Indian gems and jewellery industry had also offered to help in capacity building by training master craftsmen of Tanzania who can further train and prepare skilled labour force in Tanzanian gem cutting and polishing industry.

### 13. Fall in exports of gold

- **Steep decline in exports to UAE in terms of value and quantity**

India's 99.9% of gold exports flows to only UAE; hence decline in import demand of UAE from India resulted in steep decline in India's overall exports of gold during the FY2017-18 which remained continued in the month of April 2018. The table below depicts that during the FY2017-18 India's gold exports to UAE in value terms declined by (-) 72.21% from US\$5397.45 million in FY2017 to US\$1499.86 million in FY2018.

**Table – 8 India's total gold exports vis-à-vis UAE position**

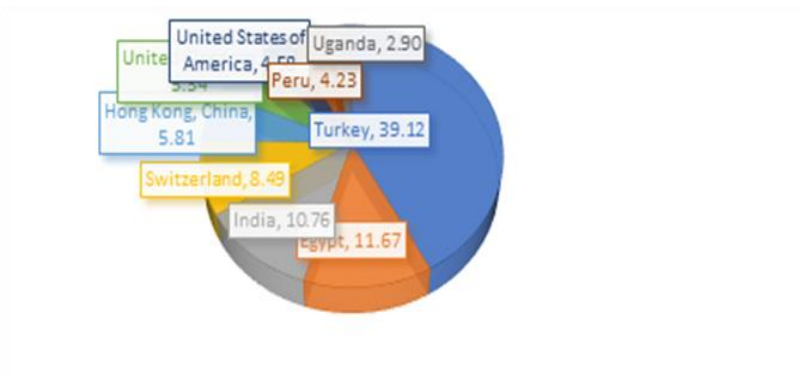
Particulars	2016-2017	2017-2018
India's gold exports to UAE (US\$million)	5397.45	1499.86
% growth (y-o-y)	9.04	-72.21
India's total gold exports (US\$million)	5397.45	1499.9
UAE % share in India's gold exports	100%	99.99%

Source: DGCIS

While, Turkey and Egypt exports to UAE rose substantially and the countries replaced India as UAE’s top most source of imports of gold in the world market. Presently Turkey and Egypt comprise of 39% and 11.7% share in UAE imports of gold as compared to India’s share of 10.8% (As per UN Com Trade, 2017 Data).

The Council is of the opinion that the recent developments in Indian G&J industry which includes refusal of foreign banks for selling gold to India’s major nominated agencies has generated apprehensive environment in the industry resulting into declined exports of gold to its export destinations.

**Figure – 4 %share of different countries in UAE imports of gold**



Source: UN Comtrade, 2017

▪ **Average prices of gold declined during the FY2018**

As per the RBI, average price of gold during the FY2018 reported a fall from Rs. 29,665 per 10 grams to Rs. 29,300 per grams which was reflected in terms of decline in total export value of gold from India during the said period.

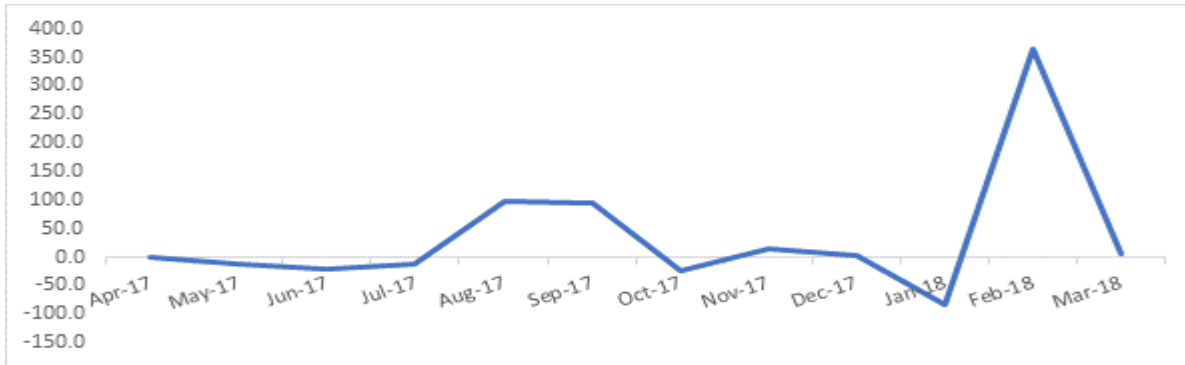
***Hence, combined effect of fall in exports of gold (in quantity and value terms) to UAE and fall in average prices of gold per grams during the FY2018 have been the major causes of decline in overall exports of gold from India.***

**14. Subdued performance of exports of gold jewellery**

▪ **Implementation of VAT in UAE**

Implementation of VAT of 5% in UAE w.e.f 1<sup>st</sup> January 2018 distressed India’s exports of gold jewellery to the country. As the UAE accounts for around 60% share in India’s total exports of gold jewellery and imposition of additional burden of taxes escalated cost of India’s products in UAE market leading to reduced margins and overall decline of gold jewellery exports from the country (figure).

**Figure – 5 India’s Jewellery Exports to UAE : April 2017 – March 2018**



Source: DGCIS

- **Restrictions on Fictitious exports**

This is due to vide notification No. 21/2015-2020 dated 14<sup>th</sup> August, wherein the Government has only permitted export of gold jewellery containing gold of 8 carats and above upto a maximum limit of 22 carats in order to curb the fictitious exports of jewellery containing gold of 24 carats caused a decline in exports of gold jewellery from India. Earlier the practice of exporting jewellery in the form of medallions without doing any value addition was merely shifting from the HS Code 7108 to the HS code 711319 and producing an erroneous status of exports of jewellery products from the country. But restricting the exports of 24 carats jewellery inevitably removed fictitious exports and thus during the FY2017-18 declined exports of jewellery products are reflected.

- **Foreign banks refusal for selling gold to Nominated agencies**

Indian manufacturers/exporters have been struggling with the challenge of unavailability of gold as raw material for making finished jewellery products. While, the recent stringent decision taken by the foreign banks for not selling the gold to the select nominated agencies in India has been a further setback to jewellery exporters in terms of hampering the entire value chain of manufacturers in the G&J sector and ultimately the exports of gold and gold jewellery.

- **Gold Medallions & Coins**

The decision of banning of articles of gold beyond 22 carat has affected the export of gold jewellery & gold medallions from Bangalore Air Cargo as 90% of exports is mainly to UAE. The average monthly export of gold jewellery & medallions from Bangalore port during April / July 2017 was US\$ 367.43 million. However, the export during the month of August has substantially declined to the tune of US\$ 4.16 million.