

Chapter 1: Introduction

1.1 Background

The Gems and Jewellery (G&J) industry occupies an important position in the Indian economy as it is a leading foreign exchange earner and one of the fastest growing industries. The two major product categories of this industry are gold jewellery and diamond. Gold jewellery forms around 80 per cent of the Indian jewellery market while the remaining market demand is of studded jewellery that includes diamond studded as well as gemstone studded jewellery. Gems & jewellery worth ₹ 2,53,940 crore was exported in FY 2014-15, of which cut and polished diamonds (CPD) accounted for ₹ 1,38,463 crore and jewellery exports accounted for ₹ 80,679 crore as tabulated below (Table 1).

Table 1: Import/export of Rough diamond and CPD during FY11 to FY15

Year	Imports of					Exports of				
	Rough diamond	Gold	CPD	other	Total CTH 71	Gold	Jewellery	CPD	Other	Total CTH 71
FY11	48832	184729	95464	21371	350396	5763	37373	131011	24739	198886
FY12	65412	269900	63637	35649	434598	1980	68128	126071	30111	226290
FY13	80115	292153	36652	46936	455856	23765	75073	116233	23388	238459
FY14	98471	166243	35031	45285	345030	18351	65570	147716	20538	252175
FY15	102251	210658	22581	45890	381515	17442	80679	138463	17356	253940

Source: commerce.nic.in, <http://indiabudget.nic.in>

In India over 65 per cent of the World's polished diamonds is manufactured in terms of value, 85 per cent in terms of volume and 92 per cent in pieces. India's diamond manufacturing sector employs about ten lakh people across the country. Majority of the diamond manufacturing activities takes place in Surat, Gujarat. The Bharat Diamond Bourse in Mumbai, a modern trading complex which began its operations in 2010, is the largest bourse in the World, and accounts for nearly 90 per cent of India's total diamond trade. The manufacturing of jewellery and coloured gemstones is centred at Jaipur, which is the World's largest manufacturing center. The effective customs duties were initially reduced for rough diamond and gold from 12.5 percent to 10 percent with effect from 01 January 2007. The effective duty on gold varied from a specific rate of ₹ 300 per 10 grams on 27 February 2010 to 10 per cent w.e.f 13 August 2013. For rough Diamonds effective rate of duty has been kept at 'Nil' since March 2012.

1.2 Administrative structure

The Central Board of Excise and Customs (CBEC), DoR through its Directorates and field formations, is responsible for collection of revenue, border control

and certain trade facilitation measures. The Director General of Foreign Trade (DGFT)/Department of Commerce (DoC) monitors the transaction cost issues and implements various Export promotion schemes for the sector. Gems & Jewellery Export Promotion Council (GJEPC) was set up in 1966 under the aegis of DoC as an apex body to facilitate this sector. It has been mandated as the nodal agency for the Kimberley Process Certification Scheme (KPCS) for imports and exports of rough diamond and maintains the trade information of all certified “conflict-free” rough diamonds. In its Outcome Budget 2013-14, DoC had proposed two new schemes for Gems and Jewellery on PPP Basis. Measurements and indicators of the outcome(s) are yet to be stated. The two proposed schemes are as follows.

- i) Common facility centre: In view of acute scarcity of skilled artisans in G&J sector, a common facility centre on PPP basis was proposed in the 12th Five Year Plan (2012-17) by creating additional facilities to attract the Gems & Jewellery workers in clusters.
- ii) Gem Bourse in Jaipur: It was proposed to develop an international hub of gemstones (Gem Bourse) in Jaipur with facilities such as Customs, Banks, Clearing and Forwarding Agents, etc.

In the Strategic Plan of DoC there is a mention of the G&J sector but the Result Framework Document (RFD) 2013-14 does not mention specific targets/goals/objective for G&J sector though this industry carries one of the highest weights in the export basket of India.

Reserve Bank of India is responsible for regulating the foreign exchange, an important ingredient for international trade.

1.3 Why we chose this topic?

G&J sector covered under Chapter 71 of the schedule I of the Custom Tariff Act, 1975 is India's one of the largest and growing exporting sector, leading foreign exchange earner, employing lakhs of skilled and semi-skilled manpower. It has for a long period enjoyed various duty exemptions and remissions in the Foreign Trade Policy (FTP) in addition to being preferred tariff line(s) under the various free trading agreements. Gold in any form is an asset category and has a high currency and non-currency valuation in India, leveraging its economic potential manifolds. In the run up to the current account deficit crisis (4.9 per cent of GDP in June 2013) gold and jewellery emerged as the second largest contributor to foreign exchange outflow after the Petroleum sector. The 20:80 scheme was introduced to regulate imports, increase exports and maximize foreign exchange earnings from gold and jewellery. This sector was last audited in 2008 which covered the high growth period of the entire Indian economy including this specific

sector. Recommendations were mainly on maintaining a trade database; implementing ICES in Precious Cargo Customs Clearance Centre (PCCCC) earlier known as DPCC; and DTA purchases, physical examination of goods cleared, value addition and Quality of Annual Progress Reports (APRs) in SEZs.

Given the critical and increasingly significant role of the Gems and Jewellery sector during the recent years, audit of its performance was taken up.

1.4 Audit Objectives

The aim of this Performance Audit is to seek assurance on:

- Whether the provisions of relevant Acts and enabling rules and regulations are adequate and in line with the stated objectives of DoC (Chapter 4 of FTP), and DoR, CBEC (Chapter 71 of CTH); and imports/exports are in accordance with of the provisions of Acts, Rules, Notifications, Circulars and Guidelines issued by Government/RBI from time to time.
- Whether benefit of exemptions/concession/remission for import of precious metals and other specified products had been allowed correctly and terms and conditions for granting such benefits were fulfilled.
- The internal control system, monitoring and coordination mechanism were sufficient, proper and appropriate, enabling performance of the objectives and outcome based actions of the Government.

1.5 Audit Sample

This performance audit was carried out in the DoR, DoC, DEA, DGFT, major customs stations and SEZ/EoU units. We scrutinised the records relating to imports and exports under Chapter 71 of CTH for 2010-11 to 2014-15 in all the selected customs stations as per the Stratified Random Sampling Method. A sample of 21,245 bills of entry (BEs) and 13,143 shipping Bills (SBs) out of a total population of 3,26,012 BEs and 11,55,362 SBs respectively were selected for scrutiny. Records of 28 Export Oriented Units (EoUs) out of 34 EoU units, 156 Special Economic Zone (SEZ) units out of 891 SEZ units and records related to 1702 licences out of 6607 licences issued under various export promotion schemes were also selected for scrutiny. Records of 47 Nominated Agencies/Banks/STH/PTH out of 81 Nominated Agencies/Banks/STH/PTH, registered/licensed for import of gold were also audited. Certain related records at the DoR, DoC and DGFT Hqr, New Delhi were also examined.

1.6 Audit Criteria

We bench marked our findings against the extant provisions/guidelines in the following:

- a. The Customs Act/Rules, 1962, The Customs Tariff Act, 1975.

- b. Customs Manual, CBEC's Notifications and Circulars.
- c. Foreign Trade Policy along with Handbook of Procedures with Appendices; Foreign Trade (Development and Regulation) Act, 1992.
- d. RBI Master Circulars on EXIM policies and gold import.
- e. SEZ Act, 2005; SEZ Rules, 2006.