

CoverStory

India hopes for more sparkle

WITH LABOR COSTS SHOOTING UP AND A RESTRICTIVE TAX, DIAMANTAIRES PIN THEIR HOPES ON NEW BUDGET

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This new year, Vipul Shah's wish list is longer than usual. With Indian Finance Minister P Chidambaram to table the budget on Feb 28, Shah, chairman of the Gem and Jewellery Export Promotion Council (GJEPC), the nearly five-decade-old organization created to consolidate the Indian gem and jewelry industry, is hoping for government measures that will bring more sparkle to the sector. The export of cut and polished diamonds, a major foreign exchange earner, fetched over \$17 billion last year.

As Shah keeps an eye on budget prognoses from his office in India's finance capital Mumbai, others around the world too are awaiting the new policy statements. They include Mordy Rapaport, director at Rapaport Diamond Report, the jewelry industry standard for the pricing of diamonds.

Rapaport says the Indian government policy will impact the diamond trade worldwide.

"India is an extremely powerful player in the diamond trade and their drastic policy moves of late have caught people off guard," Rapaport told *The Bourse*, the Dubai-based diamond newsletter. "An example of their policy decisions and (their) evident effects is the 2 percent duty on the importation of polished diamonds, deterring outsiders from participating in this market."

Keeping this in mind, GJEPC has urged the government to allow a duty-free import quota for cut and polished diamonds, to the tune of 15 percent of last year's exports since "the levy of the 2 percent duty on cut and polished diamonds in January 2012 (resulted) in lowered trading activity in India."

In its pre-budget recommendations, GJEPC has also asked for setting up special notified zones for import and trading of rough diamonds. These zones, it says, will attract international mining companies and traders to sell rough diamonds in India.

Furthermore, it wants the gem and jewelry industry to be declared a zero-rated indirect tax regime with all duties collected as service, value-added and general sales tax to be refunded as duty drawbacks; and the establishment of a special fund under the central bank. The fund should be sized between \$3-5 billion and be meant for refinancing borrowing by export industries whose imports are more than 70 percent of their exports.

The most important item on the wish list is a more benign tax



Above: The Bharat Diamond Bourse seeks to strengthen the fragmented diamond industry by offering all the infrastructure they need under one roof. Currently, 75 percent of diamonds exported through Mumbai are done here. **Right:** A model displays a diamond necklace at a jewelry show in Mumbai. India is the world's largest exporter of cut and polished stones with exports fetching over \$17 billion in 2012.

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assessment procedure. "While the industry would like a presumptive taxation regime in the long run, it (requests) the Finance Ministry to start by reducing the net profit to 2.5 percent of turnover instead of 6 percent for computation of income tax, as mandated under the Benign Assessment Procedure," Shah says. "We are hopeful that the ministry will pay heed to this long overdue policy change..."

India remains the largest importer of rough diamonds and the largest exporter of cut and polished diamonds, with the industry employing over 1 million people. The hub of the cutting and polishing industry is Surat, a city in western Gujarat state, known as the "diamond capital of the world."

"Indian exports of cut and polished diamonds account for 60 percent of the global trade by value, 80 percent by carat and 92 percent by pieces. It means 12 out of every 13 diamonds traded in the world are cut and polished in India," says Anoop Mehta, president of Bharat Diamond Bourse.

The last four decades saw remarkable growth as exports rose from \$28 million in 1966-67 to \$43.2 billion in 2011-12.

"The industry was growing at 8 to 10 percent annually and to sustain that it needed infrastructure, security as well as greater efficiency," says Mehta. "In 1991, land was bought to establish a bourse that would offer all facilities under one roof."

The original diamond and gold

trading hub, Zaveri Bazar, lies in South Mumbai, a maze of narrow lanes crammed with shops and offices ranging from diamonds to real estate agents to garments. As the industry grew, diamantaires began to move out, concentrating in the nearby Opera House area.

The vulnerability of the fragmented industry was exposed in 2010 when Mumbai was rocked by bomb blasts. Zaveri Bazar and the Opera House area were among the targets.

The attacks made traders realize the wisdom of moving into a fortified center which would have all the infrastructure they needed under one roof — from banks to customs and clearing agents.

"Earlier, you had to spend half a day sending diamond parcels to shippers in cars with armed escorts," says Mehta. "Today, you can do everything at Bharat Diamond Bourse. Since the three years it has been established, 75 percent of the diamonds exported through Mumbai are done via this bourse."

The industry lost some of its sparkle last year with the US, which accounts for about 40 percent of India's exports, mired in financial difficulties and the falling Indian rupee reaching an all-time low of 57.33 against the US dollar. Last year saw a 37.3 percent drop in diamond exports, thanks also to the import duty.

Ironically, last year was the first time India hosted the World Dia-

mond Congress. At the 35th edition of the event in Mumbai, Russell Mehta, managing director of Rosy Blue (India), a leading diamantaire, described yet another major challenge to the industry — the diamond's "shrinking wallet share."

"The share of the wallet for our industry is falling as electronics, holidays and other luxuries make inroads into our territories," Mehta said. "Our industry has even underperformed other luxury goods."

From 1999 to 2011, the luxury goods market saw 77 percent growth while the diamond industry expanded by only 26.5 percent. Mehta blamed the industry's shoestring advertising budget for that.

"In the late 1990s, De Beers would spend about \$200 million on generic diamond promotions, which works out to about \$350-450 million today," he said. "Apple alone spends over \$1 billion only on advertising, Microsoft spends over \$1.6 billion..."

Another pressing concern is the availability of rough diamonds.

"The world production of diamonds is going down," says GJEPC's Shah. "No new mines are coming up. Ensuring a steady supply is the biggest challenge."

In 2012, India imported 150.41 million carats of rough diamonds. Only a tiny part was directly bought from producing countries like Australia, Botswana, the Democratic Republic of Congo and the Russian Federation. The rest came from trading centers like the EU, UAE, USA, Israel and China.

Ironically, the first diamond in the world was discovered in India more than 3,000 years ago. One of the largest and most famous diamonds in the world, the Koh-i-noor, was excavated from the Kollur mines in South India's Andhra Pradesh state and is now part of the British crown jewels. And the diamond which made headlines last year — the "Archduke Joseph" sold at a Geneva auction for \$21.47 million — was from India's famous Golconda mines.

However, now the domestically produced diamonds are mostly from the Panna mines in Madhya Pradesh, yielding about 10,000-15,000 carats a year. But fresh explorations are on, the prospectors including British-Australian giant Rio Tinto with its Bunder project in Madhya Pradesh.

The fourth challenge to India's diamond industry is labor. The industry has been finding that the days of cheap labor are over.

"Labor prices have gone up in the last few years by 50 percent," says Bharat Diamond Bourse's Mehta. "There is also an uncertainty about the availability of labor. The next generations are not coming to the industry, preferring to opt for construction, agriculture or government schemes that guarantee jobs."

For impetus, the industry is exploring new markets and strategies.

"We are looking at promoting diamond-studded jewelry," Shah says. "India accounts for 8 to 10 percent of the global jewelry trade — and we are going out to new destinations."

GJEPC takes part in major trade fairs around the world — from the Bangkok Gems and Jewelry Fair, Jewellery Arabia in the Middle East, and Hong Kong Jewellery and Gem Fair to Jewellery Shanghai. Besides, it hosts three major shows, the India International Jewellery Week, the India International Jewellery Show, and Signature.

Like other players in the diamond trade, India too realizes the potential of the Chinese market. GJEPC has organized five Indo-China Buyer-Seller Meets with the last one held in Beijing in November. It saw over two dozen Indian companies interact with Chinese manufacturers and retailers to develop, according to GJEPC, "a better mutual understanding of business and ... relationships."