3rd GLOBAL GOLD DORE FORUM 2019

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GROWTH OF REFINING IN INDIA & FUTURE PROSPECTS

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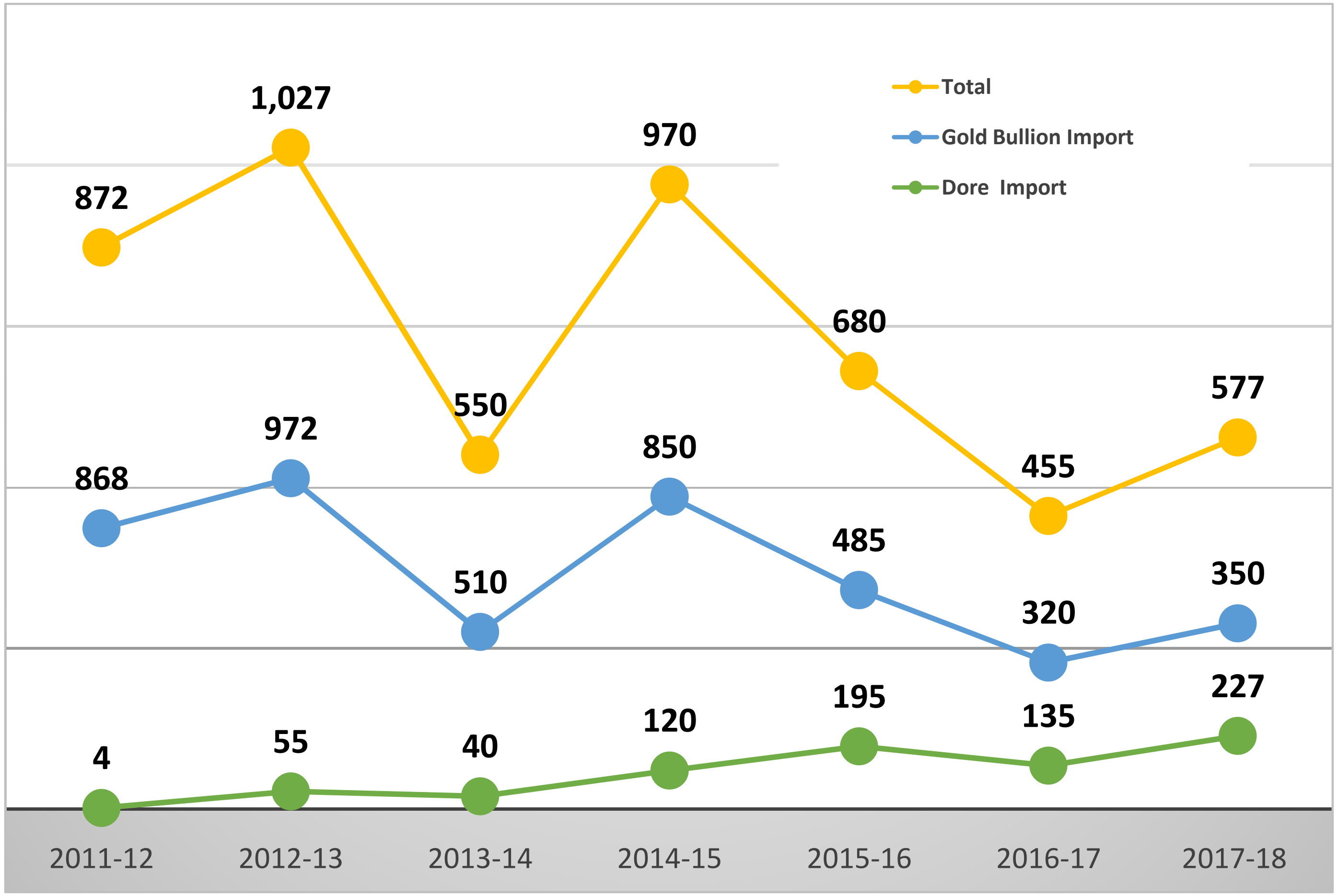
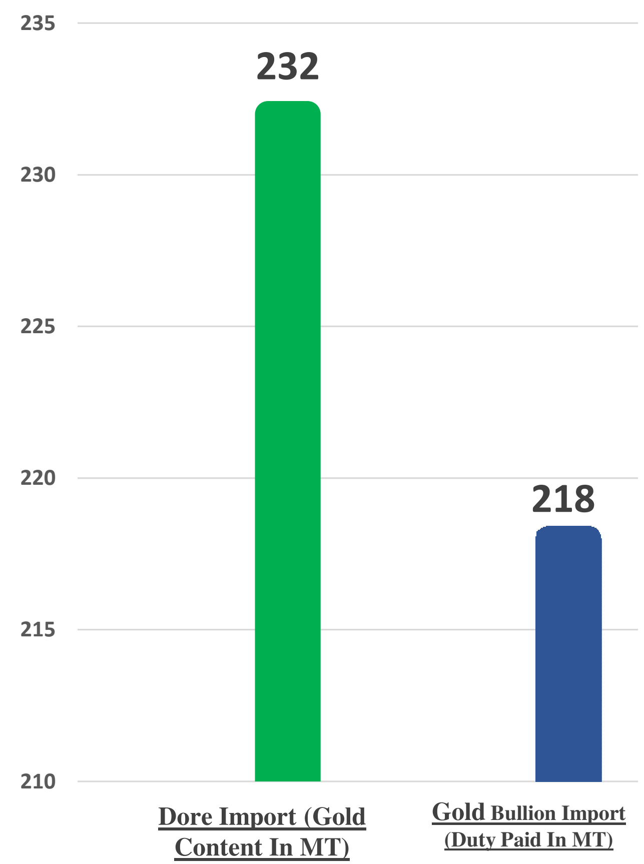
Refinery scenario in India basis mine Dore as feedstock

BIS certified GOLD refineries	• India has 23 BIS certified gold refineries, including ONE LBMA Good Delivery Gold Refinery. • Refinery must be in the business of gold refining for the last one year as on date of its application to BIS for certification.
NABL ISO 17025 accreditation	• The laboratory of the refinery must hold a valid accreditation by NABL in accordance with ISO: 17025 prior to applying for BIS certification.
Dore import regulations	• DGFT issues a quantity-based actual user import license to refineries for import of Dore only to refineries that hold a valid certification from BIS. • Customs has prescribed specific documentation governing import of Dore since its import enjoys a concessional duty treatment. Import of mine Dore with gold content exceeding 95% is not permitted. • Refined output gold must be of purity 995 and above; sliver of 999 purity & above.
Tariff Classification & Duty rate	• Gold Dore: 7108 12 00 . Duty rate 9.35%. Dore with gold content of 2% and above gets classified as Gold Dore Silver Dore: 7106 91 00 . Duty rate 8.5% Gold / Silver Bullion: 10% basis fortnightly tariff value declared by Department of Revenue
IGST at time of import	• Gold / Silver Bullion: NIL • Gold / Silver Dore: 3%

Growth of refining in India vis a vis duty paid gold bullion imports



2018-19 (Apr-Jan)



Market realities

Market uncertainty Feast or famine	• The high incidence of BCD on gold makes tax avoidance attractive. 3% GST on bullion sales further exacerbates the propensity for tax avoidance (the net differential now becoming 13%). • A USD gold price spike / seasonal demand fluctuation / indirect regulatory impact, etc. results in a demand vacuum for duty paid gold in the domestic market. Gold imports can be turned off like a tap. Dore imports?? **Market goes into discount. Refineries offer discount on refined inventory / slow down / stop operations**
Impact on Refineries	• Extra financing cost for inventory (finished, WIP & Dore in transit) . • Payment default for the contracted mine Dore received / en-route / in progress/ refined output in hand. • Default of supply obligations contracted under long-term mine-supply contracts. • Mining companies reluctant to commit to long-term contracts for mine Dore.
Pattern of mine Dore imports	• Domestic refined gold basis mine Dore meets 50% of India's duty paid gold need. Of this, only 50% (sourced by one refinery) complies with, and is independently audited for, Responsible Gold norms. • Average gold content in Responsibly Sourced mine Dore varies from a low 10% to a high 92%. • Average gold content in the balance 50% sourced from ASMs is substantially higher and averages around 94%. • Ghana & Peru together account for the bulk of the supply from ASMs.

Current limitations to growth of refining

Sourcing from ASMs	• Packing list issued by a **Licensed Aggregator** in the country of origin is not acceptable; packing list must be issued by a mining company
Tariff value for gold bullion vs. for gold content in Dore	• Tariff value for gold / silver (bullion/ articles thereof) notified by Dept. of Revenue every fortnight does not apply to gold Dore / silver Dore.
Verifying gold content in Dore for tariff valuation	• Customs draws a random piece from Dore at port of arrival for analysis to compute import duty payable; invoice value is overlooked. This requires a greater degree of homogeneity in the mine Dore and a more accurate representative assay at the mine to minimize the financial impact to refiner.
3% IGST on gold / gold Dore	• 3% IGST does not apply at the time of gold import. • Refiners incur 3% IGST on Dore, which not only adds to liquidity and cash flow but also exacerbates the risk of gold BCD tariff valuation fluctuation between import date and date of sale of refined output.
Refined output transaction with Banks	• Banks are not permitted to **source domestically refined gold / silver bullion from domestic refineries having acceptable quality standards.**
Unallocated gold metal accounts	• Refiners are not permitted to open unallocated metal accounts with overseas banks, hence unable to settle transactions by transfer of metal.
Hedging price exposure	• Refiners are not permitted to hedge on overseas exchanges; can only hedge on domestic commodity exchanges.

Future prospects

Managing Supply Chain	• Special focus on addressing compliance concerns for mine Dore sourced by small refiners from Artisan & Small-scale mines, and from aggregators, who may not comply with any Responsible Gold guidance. Encourage sourcing from bona-fide mines. • OECD is involved in and is backing the industry-driven process of arriving at a consensus draft for Responsible Gold which will allow for mutual recognition and international tradability with requirements in other Exchanges, markets and Banks and investors.
Quality standards	• India Good Delivery Standard, modelled on the lines of LBMA Good Delivery, is work-in-progress. • Refineries shall be encouraged to deliver refined output to an acceptable standard.
Two directional flow of gold	• Enable export of refined bullion to international standards, with internationally benchmarked pricing and in-built safeguards including for customs duty / IGST refund. • Enable toll refining of gold scrap / mine Dore.
Transition from Make in India for India to Make in India for the world	• More than one LBMA Good Delivery refinery in India. • Joint-ventures with overseas mining companies with secure off-take arrangements. • Focus on domestic gold mining / gold monetization scheme.

Conclusion

Consistency of Domestic gold demand cannot be taken for granted. Whereas bullion imports can be turned off like a tap, Refiners have limited ability to cope with a fluctuating duty-paid domestic gold demand. Supply-chain management becomes challenging.

Whereas in theory bullion import can be endless, Doré imports are limited by the relatively small amount of Doré available globally. Supply chain traceability is increasingly a subject of debate.

Growth of domestic gold mining and success of a revamped Gold Monetization Scheme will limit the amount of gold bullion import, with little impact on mine Dore import.

Two-way trade in gold will take refining from Make in India for India to Make in India for the world.