

CONSULATE GENERAL OF INDIA SAN FRANCISCO

GEMS AND JEWELLERY – INDIA’S GLITTER

A. OVERVIEW

India has always had an obsessive attraction for gold, gems and jewellery, which is strong till date. This is also evident in the fact that India is the largest importer of gold in the world at 850 tons annually and has emerged as the 6th largest consumer of diamonds in the world¹.

It is only natural, therefore, that India has the largest and best artisan force for designing and crafting jewellery. There is though considerable scope for value addition in terms of capacity building at the domestic front, quality management, etc.².



India has many natural advantages to emerge as the gems and jewellery (GJ) hub of the world. India occupies top position in importing, processing and exporting diamonds. Nearly 50% of the international market is held by India, and gems and jewellery sector contributes nearly 18% in India's aggregate exports.

India has the world's largest cutting and polishing industry, employing around 800,000 people (constituting 94 per cent of global workers) with more than 500 hi-tech laser machines. The industry is well supported by government policies and the banking sector - around 50 banks provide nearly US\$ 3 billion credit to Indian diamond industry.

The market size of Indian GJ industry is dependent to a large extent on international demand as exports based demand comprises 80-90% of the total demand, while domestic demand is in the range of 10-20%. According to ASSOCHAM, in the calendar year 2008, the

domestic market size of GJ sector was USD 2,237.79 million and exports stood at USD 21,200.08 million. However, the total market size of the Indian GJ sector is estimated to shrink by 3.9% to USD 22.3 billion in 2009 (January-December) from USD 23.43 billion in the calendar year 2008, according to an ASSOCHAM Eco Pulse study.³

Since 2008, however, the Indian GJ sector is going through a rough patch and a large number of both skilled and unskilled labourers have been laid-off primarily due to poor demand from the US market. Similarly, there has also been a plunge in the domestic demand, with a jump in raw material cost, gold prices touching record high levels, and high inflation resulting in less disposable income with people.

The government of India has put into effect several major measures to help the GJ trade by



abolishing duties on polished diamonds, reducing the value addition norms for gold and silver jewellery sector exports from 7% to 4.5%, allowing 100% FDI in the GJ sector through the automatic route and setting up Gems and Jewellery Parks and SEZs to promote sectoral investments. The Export Promotion Council for Gems and Jewellery and Star Trading Houses, besides Diamond India Limited, MSTC Limited and STCL Limited have now been added under the list of nominated agencies notified under para 4 A.4 of foreign trade policy for the purpose of import of precious metals. Surat, home to thousands of diamond units, has been recognized as "town of Export excellence".⁴

¹ http://www.craftsinindia.com/indian_handicrafts_history

² <http://www.ficci.com/sector-details.asp?secid=17>

³ http://www.assocham.org/arb/aep/AEP-GJ%20_2_April2009.pdf

⁴ Ibid.

In the new Foreign Trade Policy (2009-2014) announced by Union Minister of Commerce & Industry on 27th August 2009, the following measures were announced for gem & jewellery sector:

a) To neutralize duty incidence on gold jewellery exports, it has now been decided to allow Duty Drawback on such exports

b) Import of Diamonds on consignment basis for Certification/Grading & re-export by the authorized offices/agencies of Gemological Institute of America (GIA) in India or other approved agencies will be permitted

c) To promote export of Gems & Jewellery products, the value limit of personal carriage have been increased from US\$ 2 million to US\$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased from US\$ 0.1 million to US\$ 1 million

d) The number of days for re-import of unsold items in case of participation in an exhibition in USA has been increased to 90 days

e) In an endeavour to make India a Diamond International Diamond Trading Hub, it is planned to establish "Diamond Bourses"

f) With an objective to meet the Dollar Credit needs of exporters, a Committee has been constituted with Finance Secretary, Commerce Secretary and Chairman IBA.

A new scheme under paragraph 4A.2 has been introduced in the Foreign Trade Policy 2009-2014 (FTP) for import of diamonds for certification and grading and re-export thereof. The Director General of Export Promotion, Central Board of Excise & Customs has issued a circular (NO.30/2009-Cus Dated 22nd October, 2009 on these procedure and guidelines. Full text of this circular may be seen at <http://www.gjepc.org/pdf/cus-cir-30-22-10-09.pdf>

Some of the major players in Indian GJ segment include Rajesh Exports, Gitanjali Gems, Subhashish Diamonds, Su-Raj Diamonds, Vaibhav Diamonds, Renaissance Jewellery and Tanishq..

B. Bilateral Developments

Indian GJ sector has been facing a declining market in recent years due to overseas recession and global slowdown. In 2007, US and Hong Kong together comprised a share of 49.67% of total exports of GJ from India, which however, contracted to 35.23% in 2008.

The US alone was the biggest importer of Indian gems and jewellery till 2007, however, the current financial turmoil have led to a slowdown in the demand. In the calendar year 2007, the US share in total gems and jewellery export from India was 25.93% that slipped to 15.28% in 2008.⁵ India's exports of precious stones and jewellery to US have declined by 18.6% in Jan-Dec 2009 compared to the Jan-Dec 2008 period. Similarly US exports of precious stone and metals to India have declined by 8.1% during Jan-Dec 2009 period compared to



Source: KPMG Analysis

corresponding period last year.

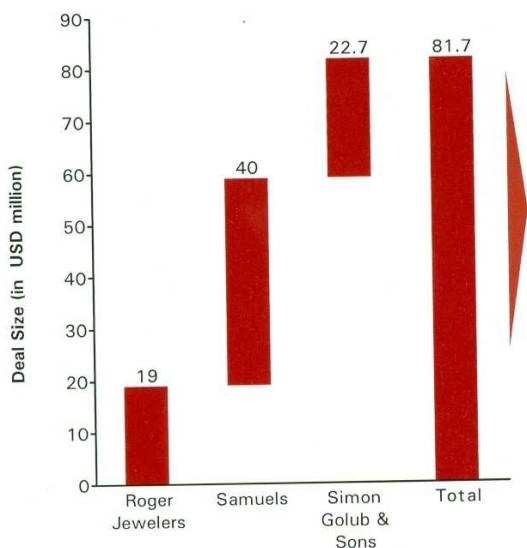
Indian jewellery chain store Tanishq, closed down both its stores in the USA, located in Paramus, N.J., and Schaumburg, Ill., in July 2009 citing poor demand due to the economic downturn. The Illinois store was set up in August 2008, and the New Jersey store in November 2008.

⁵ http://www.assochem.org/arb/aep/AEP-GJ%20_2_April2009.pdf

Diamonds forms the largest portion of US imports from India. In 2008 the US imported \$3.882 billion of diamonds out a total imports of \$5.6 billion gems and jewellery from India i.e. 69%. Diamond imports from India in the period January to December 2009 was \$3.085 billion. Exports to US of articles of jewelry and parts thereof, of precious metal or of metal clad with precious metal (HS Code 7113) during the period Jan-Dec 2009 were \$ 1.296 billion. The amount was \$ 1.503 billion in 2008. platinum, synthetic and restructured precious or semi precious stones, waste and scrap of precious metal and pearls increased in the period from January to October 2009 compared to the corresponding period of 2008⁶.

Indian foreign direct investment (FDI) in the US in GJ sector has been increasing. Renaissance Jewellery Ltd acquired JBR Inc on February 14, 2008 for \$40 million. Dynamix Jewellery Group acquired Jewelamerica Inc. on September 19, 2008. Gitanjali Gems expanded into the US market with the acquisition of Rogers in 2007 for 19 million. It also has a presence in the US in stand alone stores namely Samuels which was bought in 2008 for 40 million.

Major M&A Deals by Indian Players in the US (2006-07)



Sources: 1, 2Media reports;
3 GJEPC; Zinnov Analysis

http://dataweb.usitc.gov/scripts/cy_m3_run.asp?F1=m&Phase=HTS4&cc=5330&cn=Indi..

Shrenuj & Co has acquired 85% stake in US jewelry distributor, Simon Golub & Sons Inc for \$ 22.7 million. Simon Golub & Sons is the fifth largest US jewellery distributor, which gives Shrenuj an access to 2400 retail outlets and chain stores such as Wal-mart and JC Penney. Dinurje supplies about 40% of the merchandise of M&S jewelers in Belmont, a Boston suburb. In addition, Indian jewelers are partnering with US jewelers to develop customized solutions for varied customers needs.

The Indian GJ industry has become an important segment of the US GJ industry's supply chain. Economic benefits to the US economy from the Indian GJ industry include:

- The US economy has made direct gains of approx \$1.8 billion, 13% of net economic gain.
- Indirect gains to the US economy were worth \$ 11.8 billion, 87% of net gain
- Number of direct incremental jobs supported in the US is estimated to be 3700, and indirect jobs supported by the Indian GJ industry is 1600.⁷

C. Recent Developments

Export of gems and jewellery, diamonds and precious metals have been given a special boost by the Ministry of Commerce & Industry.

Minister for major industries, commerce and export promotion food processing, Government of Andhra Pradesh, Mr Kanua Lakshmi Narayana inaugurated the "Saksham PWD" Training Center for Jewellery Manufacturing and Diamond Processing at the Gitanjali Gems factory in Rajiv Gems SEZ in Hyderabad on January 10, 2010⁸. Gitanjali Gems was also awarded the prestigious "Best Employer" national award by the President of India in New Delhi on International Day for Disabled Persons on December 3, 2009. The award recognizes the efforts taken by the company in providing

⁷ Contribution of Indian Industry to the US Economy: Report by IBEF, June 2009

⁸ <http://www.diamonds.net/news/NewsItem.aspx?ArticleID=29579>

training to Persons with Disabilities (PWD) at its unit in the Rajiv Gems Park, Hyderabad.

An International Conference on Gems and Jewellery was held on January 15, 2010 at Mumbai. Organized by FICCI, it created a platform to discuss strategies for growth opportunities and deliberate on the issues and challenges facing the Indian Gems and Jewellery Industry. <http://www.ficci.com/events-page.asp?evid=20271>

Swarna Sutra '10, Jewellery Exhibition was held at The Ashok, New Delhi on January 22-24, 2010. The exhibition brought together high-quality original designs: <http://www.biztradeshows.com/swarna-sutra/>

The 6th Gem and Jewellery India International Exhibition 2010 (GJIIE) was organized by UBM India and Madras Jewellers and Diamond Merchants Association (MJDMA) during 23-25 January, 2010 at Chennai Trade Centre, Chennai. It is a prominent international Business-to-Business Jewellery Exhibition in the region which brings together high quality designs. <http://www.jewelleryfair.in/chennai/home.asp#>

INDIAMART held India International Fashion Jewellery & Accessories Show 2010 at Bombay Exhibition Centre – NSE Exhibition Complex, Mumbai on February 11-14, 2010. The show attracted trade visitors from all over the world including USA, UK, and Canada <http://www.biztradeshows.com/indiamart-iifjas/>

D. Upcoming Events

A. The fourth edition of the South India Jewellery Show (SIJS 2010), a premier business-to-business (B2B) jewellery exhibition, will be held from March 20-22, 2010 at the Sree Kanteerava indoor stadium in Bangalore. It will also host the All India Gems & Jewellery Trade Federation's (AIGJTF) governing board of directors (GBOD) meeting. It is one of the B2B jewellery trade shows in Bangalore and will include educational trade seminars featuring eminent speakers from India and abroad and new product launches and a buyer-seller meet. AIGJTF will have a seminar and a panel discussion. For further information please see : www.sijs.in

B. Hyderabad Jewellery, Pearl & Gem Fair is being organized from 18-20 June 2010 in Hyderabad. The targeted exhibitors are those dealing in: Fine finished jewellery, gemstones, pearls, diamonds, machinery and equipment, software and allied products, silver jewellery, packing and display, related product and service. For further information please see <http://www.jewelleryfair.in/>

C. A list of trade exhibitions can also be seen at the website of the Gems and Jewellery Export Council of India, <http://www.gjepc.org>

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