

A BUFFER STOCK OF GOLD FOR PRODUCER EXPORTERS

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A scheme to maintain a buffer stock of gold to assist jewellery manufacturers who produce for export has been formulated on the initiative of the EDB together with five other official institutions. In this note Chandrankanthi Dharmadasa, Assistant Director at the EDB, comments on the principles, and operations of the scheme and concludes that it is expected to help increase exports of gold jewellery by 20 - 30 percent in the immediate future.

Jewellery has been identified as a product with much export potential in Sri Lanka. The Export Development Board (EDB) has taken steps to increase the quality as well as quantity of jewellery exports from the first year of its establishment in 1979.

The insufficiency of gold for jewellery production was identified as a major constraint in the jewellery export development programme. The EDB has therefore taken steps to work out a satisfactory solution to the problem.

A series of meetings were held before finally formulating the scheme whereby the State Gem Corporation (SGC) maintains a Buffer Stock. The meetings co-ordinated by the EDB were attended by the representatives of six institutions; namely the Central Bank of Ceylon, Department of Small Industries, Customs, the People's Bank, the SGC and the EDB.

The objective of the scheme is to facilitate the import of gold to ensure that the requirements of manufacturing exporters are met on time, as well as quality maintained. To this end it was agreed to hold a buffer stock of gold for use by the manufacturing exporters.

The State Gem Corporation will hold the buffer stock and have the authority of imports and sales of gold for the purpose. The Corporation would

obtain a block permit from the Import Control Department to import; and monitor the use of gold sold to the manufacturing exporters.

According to the Monetary Law, Section 70 of 1950, only the Central Bank has the power to import gold. The gold imported by the Central Bank is sold to genuine users as craftsmen, through the Department of Small Industries.

However, this system did not bring under its umbrella the development of the export industry. The difficulty in obtaining the necessary types of gold at the required times resulted in many exporters losing export opportunities abroad.

The non-availability of gold has contributed towards large scale smuggling of gold and adulteration, which is detrimental to export production.

These factors were taken into consideration before introducing the Gold Buffer Stock Scheme.

The Gold Buffer stock at the State Gem Corporation will be solely for the use of manufacturing exporters.

The GSC will import gold periodically according to the demands of the trade; and the EDB will, in consultation with the trade, advise the SGC regarding the requirements of the exporters. The Jewellery Manufacturing Producers' Association, established under the auspices of the EDB, would assist the Board in assessing the gold requirements of exporters.

A problem area in making gold freely available is the price of gold. On the one hand, gold prices are heavily subject to price fluctuations. On the other hand there is always a great disparity

between the Central Bank price of gold and the market price of gold.

The exporters were therefore faced with the dilemma of either losing their export orders or holding on and meeting the orders by purchasing gold at exorbitant prices.

It is expected that by placing the responsibility for the Buffer Stock

An independent Assay Office will be established with World Bank assistance to make it compulsory to get all exports from Sri Lanka to be hall-marked and assayed, within the next 3-5 years.

Educating the jewellery manufacturers, particularly with regard to quality, an aspect often neglected, will be given emphasis. Jewellery exports unable to meet quality standards; have been rejected at international markets. Quality requirements are not met, it is understood, mainly because our manufacturing exporters are unaware of the differences in quality.

In the 9 carat range there are as many as 14 different varieties, 6 different varieties in the 14 carat range and 9 in the 19 carat range - according to a chart published by the reputed firm, Johnson Manufacturing Co. Ltd., London.

The mixing process reduces the quality, and by importing different varieties of gold it would be possible to preserve the required quality in production for export.

In countries where production for export is much advanced, the parts known as "findings" in the trade, required for large scale manufacture, are imported. This leaves room for quality and design improvement.

The Buffer Stock Scheme would initially restrict imports to a few varieties of gold but in future it is expected to assist the Sri Lanka jewellery industry to expand by diversifying the imports of raw materials.

The availability of gold regularly, through the Buffer Stock Scheme, is expected to result in the immediate

future, in a 20 to 30 percent increase of Sri Lanka's exports, where output is now around Rs.20 million.

Scheme on the SGC, gold will be made available without posing a problem to the Central Bank.

The gold will be sold to the manufacturing exporters at the prevailing market price. The EDB will underwrite any losses suffered by the SGC owing to price fluctuations.

In the operation of the Buffer Stock Scheme, the EDB would meet the difference of prices due to market fluctuations of gold prices. The State Gem Corporation's loss will be met by a subsidy from the Export Development Fund. This action is taken to give the manufacturing exporters gold at the prevailing world market price.

However, it is expected that stocks would move fast as imports will be made after assessing the requirements of manufacturers.

The scheme ensures that the jewellery thus produced will be exported as the gold purchased by the manufacturing jewellery exporter will be processed and converted to jewellery under a bonded manufacturing scheme.

The gold imported at present is subjected to a 100 percent duty. Imports under the Buffer Stock scheme will not be subject to a duty. Manufacturing exporters will have to make jewellery in bond and will thereby not be required to pay any duty. The Customs Department has agreed to this Scheme