

Opening Remarks

Simon Weeks

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It is a great pleasure to see so many of you here today. I should like to thank particularly those who have travelled considerable distances from other bullion trading centres around the world to share their experience and knowledge and thereby to contribute to the future development of the Indian bullion market. On behalf of the Management Committee of the LBMA, I would like to express our thanks to all the speakers, the session chairmen and you, the audience, for your participation in this Forum.

The programme for this meeting was put together thanks to the enthusiasm and hard work of two individuals from very different backgrounds, Kamal Naqvi, who chairs our Public Affairs Committee, and our Chief Executive, Stewart Murray. Each of them has a well-known fascination (and no small amount of knowledge) about the great, sprawling, often confusing thing that is the Indian bullion market. I would like to express my thanks to both of them.

Can I also thank the many others who have already provided invaluable assistance in the preparation of this meeting. These include:

- our friends in the RBI for their constant encouragement and constructive comments on the programme as it developed
- the World Gold Council for its efforts in promoting deregulation of the market over the past decade reflected for instance in the excellent study by one of our speakers, Himadri Bhattacharya
- Nigel Desebrock of Grendon International and his sponsors for making available the *Handbook of the Indian Market*, which he completed recently.

I would also like to thank Sukumar Pillai, who many of you know well from his days at the WGC, who has been “our man in India” over the past two months. Being able to rely on his knowledge of the local market has given us great comfort.

I think it is worth my giving you a little of the background as to why we are meeting here today and, in particular, what we are trying to achieve over the next two days.

Firstly, let me say that this is *not* a marketing exercise on behalf of the LBMA and the London Market. Of course, the LBMA is much more global in its outlook than it was just a few years ago and we have been very gratified to see the success of our attempts to broaden the geographical base of our Association. We now have Associates in 15 countries and full Members based outside the UK – even as far away as Australia. But we did not set up this Forum in order to persuade participants in the Indian market to apply for membership of the LBMA.

The size of the Indian market for gold and silver has certainly been one factor in our decision to organise the meeting here. Notwithstanding the weakness of the market in the past year and the normal price-elastic reaction to the recent surge in prices (to call a spade a spade – the virtual collapse in demand for new gold supplies during the past month), there is no doubt that Indians retain a faith in gold and silver as a security for their futures that is unmatched anywhere else on the planet. No amount of lecturing or hectoring by politicians or bureaucrats is going to change that basic fact. Whether as beautifully worked jewellery, heavy weight anklets or ten tola bars buried in the corner of the farm-house, India will continue to be buyers of gold and silver. Of course the market is not static and there is no shortage of industry watchers and analysts to tell us about the changing nature of demand and to fret about the impact on the market of competition from real estate, financial products or luxury goods for the rupee in the consumer’s pocket or in some cases, bank account.

In the future, the range of alternative ways of investing in precious metals will inevitably widen as deregulation continues. Paper gold, Gold Accumulation Plans, deposit schemes and other ways of recycling the huge stock of above-ground gold will all have their opportunities to shine. It is probably fair to say that previous attempts at mobilising the gold held by the Indian population have met with limited success. But they will have a much greater chance if the current obstacles to progress can be overcome with the development of a rational, efficient and secure foundation for the future growth of the business at all levels. This really is a potentially win/win situation – for the trade, the consumer and even for the exchequer. I will not try to describe the benefits of a customs and taxation regime that is accepted by the population rather than being evaded at every turn. And you only have to look at the fantastic success of the Turkish jewellery industry in the export markets since it grasped the nettle of deregulation a decade ago – and incidentally I am delighted that we have such a strong delegation from Turkey with us.

Aside from the importance of the Indian market, what persuaded us to arrange today's meeting was our awareness of the potentially dramatic development in the trading environment in the next few years as a result of truly revolutionary changes in legislation which governs the trading of commodities. This will lead in turn to the need for the trade to set up and to learn to use structures, methods and products which are widely used elsewhere but which are in effect new to India, or at least new to the bullion market. In India, it is no exaggeration to say that a whole generation of dealers has been prevented from engaging in trading practices which in most other markets are regarded as not just normal but essential to the efficient running of a commodities trading business.

Of course, this is not to say that Indians do not make good traders. Anyone with any experience of dealing here knows all too well that they do. The historical record is full of accounts of the skill and business acumen of the sub-continent's traders. And of course some of the more mature representatives of the trade will remember when things were a little less regulated than they have been recently. But it is an unfortunate fact that the Indian bullion trade has missed out on the developments of the last two decades – from the introduction of options in the early 1980s to products such as interest rate swaps and forward rate agreements which have recently begun to have an impact on the wholesale market in London.

Deregulation of the Indian bullion market has been happening for more than a decade now – from the abandonment of Gold Control in 1990 in fact. But in recent years, it seemed that it was being pursued with somewhat less enthusiasm by the authorities. However more recently, a string of announcements by the RBI liberalising many aspects of the financial system suggest that the timing of this meeting is propitious. It is our intention to provide a catalyst for further change but it would be foolish to pretend that we are still pushing on an open door to a bright new deregulated world.

We have gathered together here today and tomorrow an outstanding collection of speakers from both within India and from many other countries. Can I thank them all in advance for the work they have already done in preparing their presentations and for being willing to share their knowledge with us. With their help, we hope to accomplish four objectives:

- Firstly, to understand what the trade in India needs – what the barriers are and if these can be removed, what the potential of various parts of the business would be
- Secondly, to look at the experience in other markets in liberalising and the different models which have been introduced. Valuable lessons have already been learned and I daresay some mistakes have been made along the road. We want to benefit from the former and avoid the latter. Of course, it is not a simple matter of finding a single successful and replicating it here. Every country is different and it is very much up to the trade and the regulators here to find the right combination with which to build a workable and stable system
- Thirdly, to look at the elements of such a system that could be applied here – things like standards, consumer protection and taxation
- Fourthly, we will look ahead at how the market may develop in the coming years.

When we have got through all that – by lunchtime tomorrow – I suspect that we will be feeling a little weary. But our final goal will, I hope, by then be visible. With the benefit of some 20 presentations, a lot of discussion during the networking sessions and feedback from the audience, the final session is intended to enable our panel of wise men to come up with a set of recommendations about the future direction.

After suitable fine-tuning, it is intended to submit these to the Reserve Bank and various Ministries concerned. I think by now you will appreciate that this meeting is no "junket". We want not a talking shop but concrete results. I am very optimistic that with your enthusiastic participation we will achieve them.

And now it gives me the greatest pleasure to introduce our keynote speaker, Mr SS Tarapore. His experience and understanding of the Indian gold market are second to none, and we could not have a better start to our Forum than his review of "The Changing Needs of India's Gold Policy". ■

