Project ACE

Activating Commodity Trading Ecosystem in IFSC

August 2025

Report of Expert Committee

On

Positioning GIFT IFSC as Global Commodity Trading Hub

August 2025

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Preface

The global commodity trading landscape is a dynamic and integral part of the international financial ecosystem. For India, the strategic importance of commodity trading cannot be overstated. As one of the world's largest importers of key commodities such as crude oil and metals, India remains highly exposed to global price volatility, supply chain disruptions, and geopolitical uncertainties. Unlike other major economies such as China, which actively mitigate these risks by investing in upstream assets and controlling significant portions of their supply chains, India has limited strategic leverage in international commodity markets.

Currently, India's commodity trading landscape operates in a fragmented and sub-optimal manner. The absence of a globally competitive trading ecosystem within the country forces many large transactions and financial services to be routed through offshore jurisdictions. This '**offshoring**' of trade not only limits India's ability to influence global commodity pricing and policy but also leads to loss of valuable economic activity, employment, and tax revenues.

Recognizing these challenges and the strategic opportunity they present, the Government of India established the International Financial Services Centre (IFSC) at GIFT City with the vision to "**onshore the offshore**" by creating a globally competitive platform for cross-border financial services. Positioned as a strategic financial hub, **GIFT IFSC** offers a conducive environment characterized by liberalized capital flows, favourable tax regimes, and robust governance standards. This makes it an ideal location to develop into a **Global Commodity Trading Hub** that can rival the likes of Singapore, Dubai, Hong Kong, and Switzerland.

Global financial centres such as Hong Kong, Singapore, etc. initially started as commodity trading hubs that led to growth in financial activity and contributed significantly in development of these centres as Global Financial Centres. Also, these commodity trading hubs have played key role in facilitating supply chain finance, which in turn have been critical for wider distribution of goods manufactured in the respective regions as has been noted for jurisdictions such as China, Southeast Asia, etc. India being one of the largest growing economies with ambition to become developed nation by 2047, requires multiple engines of growth including the exports and access to cost efficient resources, which is possible only if Indian companies can play role in price making of global commodities.

Considering this, it is inherently required that a commodity trading hub be established in India where merchant trading and other required activities can be undertaken.

Drawing lessons from established global commodity trading hubs, India has a unique opportunity to position GIFT IFSC as a world-class commodity trading centre. These hubs have leveraged strategic geography, supportive regulatory frameworks, advanced financial ecosystems, and robust infrastructure to dominate global commodity flows. With similar strategic advantages—such as a growing economy, right policy interventions, and a vision to onshore the offshore financial activities—India is well-placed to build a competitive commodity trading ecosystem at GIFT IFSC. By doing so, it can reduce its external dependencies as well as emerge as a key node in the global commodity trading network.

To explore this potential, IFSCA had constituted an **Expert Committee on Positioning GIFT IFSC as a Global Commodity Trading Hub** (hereinafter referred to as "the Committee") in May 2024. This report is the culmination of the Committee's extensive deliberations, global benchmarking studies, and consultations with industry experts and stakeholders. It provides strategic recommendations aimed at building a world-class trading ecosystem in GIFT IFSC.

The establishment of a robust commodity trading hub in GIFT IFSC aligns seamlessly with India's long-term economic ambitions, particularly the vision of **Viksit Bharat 2047**—a developed India by the 100th year of independence. A well-functioning commodity trading ecosystem will serve as a cornerstone for this vision by strengthening supply chain resilience, improving price discovery, attracting foreign investment and cementing India's role in the global economic landscape by enhancing its position in global trade. It will also support the growth of ancillary sectors such as logistics, finance, and technology, thereby creating a multiplier effect across the economy.

The Committee hopes this report serves as a strategic guide for policymakers, regulators, and industry stakeholders in building a resilient, inclusive, and globally competitive commodity trading framework for India's future.

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Letter of Transmittal

1st August, 2025

Shri K. Rajaraman
Chairperson, IFSCA
GIFT CITY
Gandhinagar

Sir

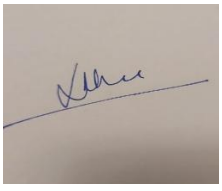
Report of the Expert Committee on Positioning GIFT IFSC as a Global Commodity Trading Hub

We are pleased to submit the Report of the Expert Committee on "Positioning GIFT IFSC as a Global Commodity Trading Hub". The Committee was constituted to examine the potential of GIFT IFSC in becoming a globally competitive center for commodity trading.

The report presents a comprehensive analysis of global commodity trading practices, evaluates the current regulatory and infrastructure framework at GIFT IFSC, and offers strategic recommendations to position it as a leading global commodity trading hub.

We hope that the findings and recommendations in this report will contribute meaningfully to the policy framework and support the long-term vision of IFSCA to develop a strong global connect and focus on the needs of the Indian economy as well as to serve as an international financial platform for the entire region and the global economy as a whole.

We sincerely thank you for entrusting the Committee with this responsibility.



Rajeev Kher
Chairman

List of Expert Committee Members

SN.	Committee Members	Capacity
1.	Mr. Rajeev Kher Former Commerce Secretary, Government of India Former Member, Competition Appellate Tribunal	Chairman
2.	Mr. Ashok Kumar Executive Director and Chief Marketing Officer, Oil and Natural Gas Corporation Ltd. (ONGC)	Member
3.	Mr. R V N Vishweshwar Then Executive Director (Corporate Finance and Treasury), Indian Oil Corporation Ltd. (IOCL)	Member
4.	Ms. Nalini Malhotra Executive Director (Finance and Accounts), Gas Authority of India Ltd. (GAIL)	Member
5.	Ms. P Shanthi General Manager (Commercial), National Mineral Development Corporation (NMDC)	Member
6.	Mr. Rajesh Somani MD & CEO, Global Smart Comtrade Pte Ltd., Singapore	Member
7.	Mr. Ashok Gautam MD & CEO, India International Bullion Exchange IFSC Ltd. (IIBX)	Member
8.	Mr. Kaveesh Syal Head of Operations, OVL Overseas IFSC Ltd.	Member
9.	Mr. Bharat Gupta Senior Vice President & Head - Trade and Structured Finance, Asia, Europe, Middle East and Africa, Olam Global Agri Pte Ltd.	Member

10.	Mr. Girish Bajaj Chief Treasury & Insurance, Tata Steel Ltd.	Member
11.	Mr. Srinivas Tuttagunta Chief Operating Officer, Reliance Industries Ltd.	Member
12.	Mr. Michael Skinner Global Head of Metals, StoneX	Member
13.	Mr. Sachin Gupta Country Head & CEO, Trafigura India Pvt Ltd.	Member
14.	Mr. Raman Walia Executive Director, Head of Commodities Sales, APAC, J P Morgan Chase Bank N.A., Singapore	Member
15.	Mr. Manish Goel Head – Bullion Desk, ICICI Bank	Member
16.	Mr. Jayesh K Shah Director and Chief Financial Officer, Arvind Ltd.	Member
17.	Mr. V Lakshmikumaran Founder and Managing Partner, Lakshmikumaran & Sridharan Attorneys	Member
18.	Mr. Sandip Shah GIFT City Company Limited	Member
19.	Mr. Suresh Swamy Partner, Price Waterhouse & Co LLP, GIFT City	Member
20.	Mr. Ramaneesh Goyal Deputy General Manager, IFSCA	Member Secretary

Acknowledgements

The Committee extends its sincere gratitude to Shri K. Rajaraman, Chairperson, International Financial Services Centres Authority (IFSCA), for providing the Committee with an opportunity to make recommendations on positioning GIFT IFSC as Global Commodity Trading Hub.

The Committee is deeply appreciative of the continuous encouragement and guidance provided by Shri Pradeep Ramakrishnan, Executive Director, IFSCA and Shri Ashutosh Sharma, Chief General Manager, IFSCA. The Committee would like to place on record its deep appreciation for the excellent support and insights provided by the team from Department of Metals and Commodities, IFSCA, comprising Shri Ramakrishnan Padmanabhan – General Manager, Shri Ramaneesh Goyal - Deputy General Manager and Ms. Sonia Varma - Assistant Manager.

Lastly, the Committee extends heartfelt appreciation for the team at Price Waterhouse & Co LLP, comprising Mr. Suresh Swamy, Mr. Amit Bharatkumar Oza, Ms. Radhika Netravali, Ms. Nivitha N., and Ms. Lavisha Solanki, in organizing meetings, maintaining minutes, and assisting in the preparation of this report. Their coordination and extensive support were instrumental in the finalization of our recommendations.

Executive Summary

Commodity trading is a dynamic and essential component of the global financial landscape, supporting economic activities and ensuring the availability of vital resources. Its origins trace back centuries, evolving from ancient barter systems to sophisticated modern markets. The establishment of organized exchanges, such as the Dojima Rice Exchange in 1730[1], laid the foundation for today's global commodity exchanges. Over time, these markets have become increasingly complex, shaped by technological advancements and the growing interconnectedness of the world economy.

Evolution of the Indian Commodity Market

India's commodity market has also evolved significantly, transitioning from barter systems to organized exchanges. The journey began in 1875 with the establishment of the Bombay Cotton Trade Association. Today, the Indian commodity market is primarily driven by exchanges like the Multi Commodity Exchange (MCX) and the National Commodity and Derivatives Exchange (NCDEX).

Shift of Major Traders to Global Hubs

In recent years, there has been a notable shift of major commodity traders from India to international hubs such as Dubai, Singapore, and Hong Kong. These global trading centers offer attractive locations, easy access to credit, seamless banking, favorable legal and regulatory environments, and fiscal incentives tailored to the needs of the commodity trading sector.

India's Trade Dependency and Strategic Challenges

India is highly dependent on international traders for essential imports such as crude oil, making it vulnerable to global market fluctuations and geopolitical risks. Unlike China, which secures its supply chains by investing in upstream assets through state-owned enterprises, India lacks significant control over such resources, limiting its influence over supply and pricing.

Strategic Imperatives for India: Building Global Trading Hubs

To strengthen its position in global trade, India should prioritize the development of global trading centers and invest in upstream assets. Establishing trading hubs can streamline

trade processes, attract foreign investment, enhance domestic competitiveness, and drive economic growth by providing the necessary infrastructure, regulatory frameworks, and financial services to support international commerce.

Alignment with India's Vision of Viksit Bharat

The development of a robust commodity trading ecosystem is also intrinsically linked to India's broader economic aspirations, particularly the vision of 'Viksit Bharat'—a developed India by 2047. Trade, encompassing both exports and imports, is a cornerstone of economic growth. Exports drive development by opening new markets, generating revenue, enhancing productivity, and fostering specialization, while imports provide access to essential products, services, and technologies that may not be available domestically. This symbiotic relationship makes trade indispensable for sustained economic progress.

Over the past decade, India has demonstrated remarkable growth in its export sector. From 2013-14 to 2023-24, exports surged from USD 466.22 billion to USD 778.13 billion[2], reflecting double-digit growth despite global supply chain disruptions, geopolitical tensions, and volatile commodity prices.

In 2024-25, India's exports reached USD 820.93 billion[3], underscoring the resilience and upward trajectory of India's trade economy. Notably, the percentage of growth of exports to GDP has remained consistently positive over the years, and future projections indicate continued robust growth, with exports expected to reach USD 2 trillion by 2030, and ~USD 10 trillion exports and the economy targeting a USD 30 trillion milestone by 2047.

To realize these ambitious targets, India must focus on several strategic priorities:

- ***Global Integration***: Deepen engagement with international markets to enhance liquidity, price discovery, and overall market efficiency.
- ***Economic Diversification***: Broaden the economic base beyond traditional sectors to stimulate growth in emerging industries.
- ***Capital Contribution***: Attract substantial capital inflows to support the infrastructure necessary for sustained growth.
- ***Foreign Participation***: Encourage international players to participate in domestic markets, thereby deepening liquidity and fostering innovation.

- ***Export Competitiveness***: Develop platforms that minimize price volatility and enhance India's competitiveness in global markets.

Enabling commodity trading is a pivotal step toward achieving these objectives. By facilitating seamless commodity trading, India can attract international investors and traders, boost foreign investment, and enhance market liquidity. This influx of capital will help develop robust financial markets, stabilize commodity prices, and reduce volatility. A well-regulated trading hub will also improve price discovery, ensuring that prices accurately reflect market conditions and reducing the risk of manipulation. These advancements will benefit both producers and consumers by providing transparent pricing and fostering a fair-trading environment.

Opportunity for India: GIFT IFSC as a Global Commodity Trading Hub

The success of global commodity trading hubs has created an opportunity for India to position its first IFSC, established in GIFT City, as a Global Commodity Trading Hub. These competitive hubs have demonstrated the potential to tap into the vast and growing commodity trading ecosystem, and GIFT IFSC can leverage this by benchmarking against leading centers such as Singapore, Hong Kong, Dubai, and Switzerland.

Established in 2015, GIFT IFSC aims to 'onshore the offshore' by creating a favorable tax and regulatory environment. It is well-positioned to develop into a leading commodity trading hub by adopting best practices from established global centers.

In recognition of the potential and necessity of enabling commodity trading from IFSC, an expert committee was set up for **Positioning of GIFT IFSC as a Global Commodity Trading Hub** (hereinafter referred to as the 'Committee') in May 2024 to provide recommendations on establishing GIFT IFSC as a Global Commodity Trading Hub.

What should commodities cover

One of the key questions discussed by the Committee was the definition of "commodities." Specifically, the Committee considered whether the term should be limited to raw materials or expanded to include processed, semi-processed, finished, or even branded goods. The recommendation is to adopt a broad definition of commodities.

Rather than maintaining a positive list—which would require continual updates—or implementing an approval mechanism to review each commodity traded (which could lead to procedural delays and hinder trader's ability to respond quickly to market opportunities), it is suggested that a

negative list approach be adopted. Under this system, all commodities would be permitted for trade except those specifically prohibited.

Naturally, there should be a general prohibition on commodities that are illegal to trade in India, those that threaten national safety and security, or those already barred from trading, such as items listed under Convention on International Trade in Endangered Species (CITES) and Special Chemicals, Organisms, Materials, Equipment and Technology (SCOMET). This approach would provide clarity, reduce administrative burdens, and support a more dynamic trading environment.

This approach will also align with the current practice. When an overseas commodity trader conducts business with India, the Indian importer is subject to local customs clearances and is permitted to clear only those goods which are allowed for trade in India. This fundamental process will remain unchanged even if the trader is now located in GIFT IFSC.

The key recommendations of the Committee are summarized below:

1. Regulatory Recommendations:

Enabling Commodity Trading:

1.1. ***Commodity trading contract*** *should be notified as 'financial product' and* ***commodity trading*** *along with* ***merchanting trade*** *as 'financial service'* by the Central Government under section 3(d)(vi) and section 3(e)(xiv) of the IFSCA Act, 2019.

Alternatively, ***commodity*** *may be notified as 'financial product' and* ***commodity trading*** *and* ***merchanting trade*** *as a 'financial service'* under section 3(d)(vi) and section 3(e)(xiv) of the IFSCA Act, 2019 respectively.

1.2. Simultaneously, *other commodity trading related activities also need to be defined. Such activities include* ***Warehousing*** *and* ***Commodity broking*** *and these should be notified as 'financial service'* by the Central Government under section 3(e)(xiv) of the IFSCA Act, 2019.

1.3. **Commodity derivatives:** IFSCA Act, 2019 inter alia includes 'securities' under the list of permissible financial products. Further, as per IFSCA Act, 2019, words and expressions used and not defined therein shall have the meanings respectively assigned to them in those Acts as mentioned in the First Schedule of the said Act. Currently, the Securities Contracts Regulation Act, 1956 (SCRA) governs commodity derivatives which notifies a list of commodities for issuance of derivatives. This list consists of only 104 commodities, bifurcated in segments and creates ambiguity in terms of the permissibility of issuing commodity derivatives with certain commodities as the underlying. Therefore, for the purpose of enlarging the scope of commodities on which derivatives can be issued, the power to notify such list of commodities may be vested with IFSCA for which necessary amendments can be made in SCRA. An amendment may be proposed in Section 2 (bc) of SCRA for this purpose.

1.4. Further, to enable issuance and trading of **Over-the-Counter Commodity Derivatives** by eligible participants in IFSC, an amendment to clause (ba) to section 18A of SCRA may be proposed on the following lines:

"(ba) regulated by the International Financial Services Centres Authority established under section 4 of the International Financial Services Centres Authority Act, 2019, in an International Financial Services Centre and issued by

(i) a Foreign Portfolio Investor, or

(ii) *any financial institution set up in any International Financial Services Centres as far as the underlying for such contract is an eligible commodity/good as notified by the International Financial Services Centres Authority for the purposes of Commodity Trading.*

2. **Foreign Trade (Development & Regulation) Act, 1992:** Units set up in the International Financial Services Centre (IFSC) are treated as foreign entities from a FEMA perspective. In other words, FEMA provisions do not apply unless these units interact with Indian entities. However, the Foreign Trade (Development & Regulation) Act, 1992 applies to IFSC units, making them subject to trade policies outlined in the Foreign Trade Policy by the Directorate General of Foreign Trade (DGFT).

DGFT's notification dated February 29, 2024, defines merchanting trade as shipments between foreign countries without passing through Indian ports. To promote global

commodity trading in IFSC, it is recommended that the definition provided by IFSCA should apply to such entities rather than DGFT's definition.

3. **Reserve Bank of India (RBI) regulations:** RBI Master Direction on Import of Goods and Services[4] imposes certain restrictions on merchanting trade such as the entire merchanting trade transaction (MTT) should be completed within an overall period of nine months and there should not be any outlay of foreign exchange beyond four months. Further, the trade should result in profit. In other words, loss trades are not permitted. Note that the commodity traders who will be set up as IFSC units will be treated as non-resident from an exchange control standpoint and ideally, would not be subject to the above regulations. However, if they are dealing with Indian banks having operations in IFSC (IBUs), those banks may still be guided by the above master directions. Therefore, it is imperative to clarify that these regulations do not apply to the commodity trader nor to the IBUs in IFSC.

4. **Permissibility for hedging risks for the group entities**: The Foreign Exchange Management (Foreign exchange derivative contracts) Regulations, 2000 allow units in Special Economic Zones (SEZs) to engage in commodity exchange contracts outside India to hedge price risks for export/import, but these contracts must be isolated from financial contracts involving their parent or subsidiaries. The Framework issued by IFSCA for Finance Company/Finance Unit undertaking the activity of Global/ Regional Corporate Treasury Centres (GTC Framework) permits finance companies in IFSCs to conduct derivative transactions to hedge risks on their books or those of group entities. However, finance companies/finance units in IFSC are required to adhere to the FEMA regulations where they render services to group entities in India. Therefore, finance units in GIFT IFSC aiming for centralized hedging for Indian group entities face constraints under current FEMA regulations. It is recommended that FEMA regulations be amended to facilitate GIFT City's development as a global financial hub.

5. **Permitting Banks in IFSC to undertake commodity trading:** Banks in IFSC are restricted from trading in commodities, except for bullion and precious metals. This limitation prevents them from offering a full range of commodity trading and risk management services, making the IFSC less competitive compared to global financial centers like the UK and Singapore, wherein banks can trade a wider variety of commodities. It is recommended to allow banks in IFSC to engage in broader commodity trading which would enhance market liquidity, attract more participants,

and support the development of a more dynamic and comprehensive commodities market.

6. **Regulatory Framework:** It is recommended that IFSCA issues a detailed regulation governing trading in commodities which could include provisions for requirement for licenses, standardized contracts, maintenance of books, records and furnishing accounts, conduct of commodity trading, risk management policies, monitoring mechanisms etc.

7. **Permit re-invoicing in IFSC:** It is recommended to permit re-invoicing for the trades pertaining to commodities to be carried out in IFSC. This will enable multinational commodity trading companies to centralize the billing and settlement functions.

8. **Direct Tax Recommendations**

   8.1. **Taxation Incentives:** There is a need to clarify taxation policies beyond the 10-year tax holiday for entities in GIFT IFSC. To attract talent and investment, the Committee proposes extension of the 10-year tax holiday beyond 10 years to 25 years or at least till 2047 which aligns with India's timeline of being 'Viksit Bharat'.

   8.2. **Taxation of individuals shifting to IFSC:** In order to attract experienced commodity trading professionals residing overseas to relocate to GIFT IFSC, it is recommended that individuals who are presently non-residents and who become resident of India only for the purpose of exercising employment with commodity traders in IFSC and carry expertise in certain areas as notified by IFSCA, should be taxed at concessional rates.

9. **SEZ and GST Recommendations**

   9.1. **SEZ Rules - Exemption from filing of documents:** It is recommended that the SEZ Rules, 2006 be amended to exempt IFSC entities from filing customs documents (Bill of Entry, Shipping Bill, IGM, EGM) for transactions where the commodities do not physically enter Indian territory. This would significantly enhance the ease of doing business for IFSC-based commodity trading entities.

   9.2. **Establish warehousing and logistics facilities:** It is recommended to set up dedicated zones for warehousing. Further, having dedicated areas of the ports

such as Kandla and Krishnapatnam as deemed IFSC ports in order to enable third party exports and re-exports is recommended. It is recommended to enable provisions similar to Rule 19A of the SEZ Rules, 2006 for commodities as well. Separately, recommendation from the GST Council in the 55th meeting to expressly clarify that movement of goods within FTWZs will be exempt from the scope of "supply" should be implemented.

10. Other points for consideration

10.1. Financing Innovations: The Committee proposes several measures to enhance financial services in IFSC. Permitting pre-shipment credit from IFSC to support exporters seeking pre-shipment financing. Issuers should be encouraged to list Trade Finance bonds on IFSC exchanges as a dedicated financial product for commodity traders. To address regulatory ambiguities surrounding structured finance, a negative list of prohibited financing products should be established, allowing financial institutions to offer all other products. Additionally, enabling the securitization of commodity-based assets is recommended to provide additional market liquidity, with an appropriate regulatory framework to support such activities in IFSC.

10.2. Use of commodities as underlying to fund trades: Banks should fund trades using the commodities as the underlying security (similar to shipping finance), which is the norm for banks which fund global trades.

11. Macro Recommendations

11.1. Permissibility of voyage charters and Right of First Refusal (ROFR): It is suggested that commodity trading entities within the IFSC may be granted the opportunity to engage ships solely on voyage charter basis to effectively fulfill their trade obligations. Further, as an incentive, the Government should offer a ROFR for purchasing from commodity trading entities in IFSC vis-à-vis procuring from offshore entities.

11.2. Encourage overseas banks and financial institutions to establish presence in IFSC: The Committee emphasizes on encouraging overseas banks and financial institutions to establish a presence in IFSC to enhance supply chain finance availability for commodity traders. Additionally, banks in IFSC should be

permitted to offer credit solutions at par with the options available overseas at competitive rates.

11.3. Entering into Free Trade Agreements (FTAs): India should enter into FTAs with various countries which would enable GIFT IFSC to offer commodity traders in IFSC seamless, barrier-free access to global commodities, enhancing competitiveness and attracting international traders. This would strengthen GIFT IFSC's position as a premier trading hub and drive economic growth.

11.4. Promote Risk Management Products in IFSC: It is recommended to promote risk management products in the IFSC by facilitating the trading of futures, options, and other derivatives on the IFSC exchange to manage price risks. Further, commodity traders should be allowed to hedge risks on international trade exchanges, fostering a liquid and competitive market. Additionally, customization of OTC derivatives should be enabled to meet specific needs and credit risk instruments like credit default swaps should be available to mitigate counterparty default risks.

11.5. Central Bank Digital Currencies (CBDCs): It is recommended to leverage the potential of CBDCs to enhance trade finance. IBUs can leverage the programmability of CBDCs to provide a trusted, transparent and efficient supply chain solution to commodity traders in IFSC. By combining trade and payment information, the CBDC can be programmed according to payment conditions to become a new form of trade finance instrument.

11.6. Other Financial/ Risk Management Aspects: Promoting IFSC to become the gateway for India to attract global factoring companies to develop the factoring space in India is recommended. Promoting International Trade Financing Services (ITFS) platforms could also be encouraged from IFSC. Separately, IFSCA can consider conducting regular risk assessments of commodity traders to identify potential vulnerabilities and areas of concern. Furthermore, it should encourage and protect whistle-blowers and leverage advanced technology solutions to monitor trading activities and promote fair trade.

11.7. Build operational efficiency: The Committee emphasizes the development of advanced trading platforms integrated with international markets to provide seamless global trading opportunities. Additionally, it is recommended to leverage

Public-Private Partnerships (PPP) models to attract investment and expertise from the private sector.

11.8. **Reaching out to Indian diaspora of commodity traders:** Indian commodity traders have established trading entities outside India due to factors like strategic location, infrastructure, favorable taxes, and regulatory environments. IFSC as a commodity trading hub can consider engaging with these traders, addressing their concerns, and encouraging them to open offices in IFSC.

11.9. **Workforce Development:** Creating an attractive environment for skilled professionals through tax incentives, quality residential and educational facilities, and continuous learning opportunities are recommended.

11.10. **International Cooperation:** Forming alliances with other global trading hubs, engaging in trade agreements, and collaborating with international financial institutions are proposed.

11.11. **Combating Fraud in Commodity Trading:** Emphasizing robust risk management and fraud prevention measures, the Committee recommends best practices such as avoiding circular transactions, verifying documentation, and leveraging technology for surveillance. Further, the IBUs in IFSC can consider using the recommendations made by the Swiss Trading & Shipping Association (STSA) as a baseline to reduce the potential for future losses and ensure the sustainability of commodity trading activities.

By implementing these strategies and leveraging its unique advantages, GIFT IFSC can position itself as a leading global commodity trading hub, enhancing India's role in global trade and contributing to the country's economic growth.

नवारंभः अन्यारंभस्यांतादायाति|

A new start always marks the closing of a prior beginning.

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1: Introduction to Commodity Trading

1.1. Commodity trading is one of the oldest economic pursuits of human civilization owing to the barter system wherein commodities were exchanged between parties to satisfy their needs. Over the centuries, commodity trading evolved from being mere barter exchange to being physical trade to being hedgers and risk takers market. It has become an essential part of the capital market, providing arbitrageurs, speculators and hedgers the platform to reduce risks and simultaneously gain from the volatility of the market.

Initially driven by barter exchange, commodities market saw the use of denominations in the form of metals, especially gold and silver, in order to complete the buy and sell transaction. This standardized the transactions undertaken in commodities by providing representative value for each commodity. Subsequently, the markets started organizing themselves into smaller bands/groups, etc., specializing in the trade of certain commodities. These bands/groups met at regular intervals to trade at pre-decided prices with other groups to trade their necessities and simultaneously gain from their specific market. This led to formation of the now popularly known trade markets and further cemented the floor for the modern era commodity exchanges.

Over the years, commodity trading has seen dramatic changes due to multiple factors such as increased productivity, soaring technical innovations affecting consumption and production patterns, innovative transportation methods, etc., which, in turn, have widened the scope for international commodity trading.

1.2. While there are various forms and elements in which commodities are traded today, broadly, commodities can be categorized into two – (a) agricultural and (b) non-agricultural (such as metals, coal, etc.). Initially, commodities market was a spot market where commodities were bought and sold at the current market price and goods were physically delivered. Over time, this market evolved to cater to the dynamics of the market. In order to understand the same, let's take a scenario where a baker buys wheat for her day-to-day business. The baker, due to heavy rainfall, is afraid of the rise in the

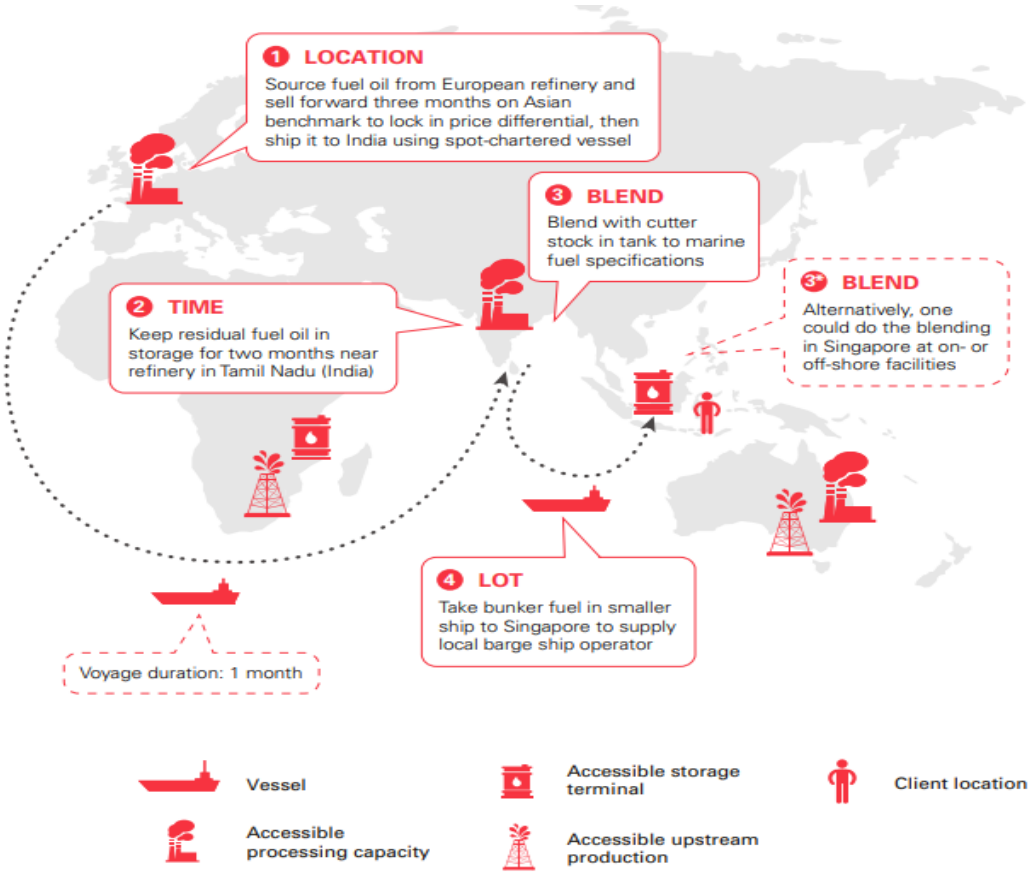
price of wheat. In order to hedge herself from this price fluctuation, the baker makes a deal with the wheat farmer today to buy her crops at an agreed price in the future. This is how forward market took shape, where traders started hedging themselves from price fluctuations owing to unforeseen factors.

Gradually, a new class of market players started developing, which started placing bets on such movement in the prices of a commodity and made profits or losses on the variation in actual price without getting involved in the actual purchase or sale of the underlying commodity. This class gave birth to the cash-settled futures market.

These are the preliminary forms of the market that further evolved into modern era commodity trading hubs with the help of technological innovations, infrastructural developments, climate changes, globalization, etc.

Commodities are rarely produced and consumed in the same place or at the same time. Production occurs in specific resource-rich locations that may be less accessible and far away from major consumption centres. Consumption patterns can quickly shift as can production output in particular locations. Supporting this global model of production and consumption is a complex value chain including refining, processing, storage and shipping. This value chain ensures that the right commodity is delivered to consumers in the right form (e.g. the right quality grade or mix), in the right place (e.g. at the ‘factory-door’ rather than thousands of kilometers away) and at the right time (e.g. just-in-time to match seasonal or other unexpected fluctuations in demand).

An example of energy commodity trading in action is provided below:



Source:https://www.phillipcapital.com/sites/default/files/inline-files/IES_CommoditiesWhitePaper_FA_2017.pdf

As can be seen from the above pictorial representation, in the evolving global economic landscape, international commodity trading has become indispensable to the global economy, acting as a crucial driver for the supply chains, price discovery, and economic resilience. With the global economy becoming more inter-connected, seamless cross-border commodity transactions are no longer a luxury but a necessity.

नास्ति विद्यासमं चक्षुः|

There is no vision like knowledge

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2: Historical Background

2.1. Origin

Trading in commodities originated between 4500 BC to 4000 BC[5] in Sumer (Iraq) wherein clay tablets were used for keeping a track of day-to-day delivery, inventory, etc. Even Greeks and Romans had organized marketplaces where commodities were bought and sold. These markets served as hubs for trading in goods like olive oil, wine, and spices.

During the Middle Ages, trade routes such as the silk road facilitated the exchange of commodities between Asia and Europe, bringing spices, silk, and other goods to markets. Even the modern-day trading exchanges have a lineage of more than 200 years. One of the oldest trading exchanges can be traced back to 1611 in Amsterdam, known as The Hendrick de Keyser Exchange[6], which was used primarily for trading goods. This exchange existed for well over 200 years, and during that time, it grew into a foundation for the development of Amsterdam and the contemporary Netherlands.

The world witnessed its first commodity future exchange[7] in 1730 when the Tokugawa shogunate authorized a spot market to trade rice bills and a futures market to trade representative brands of rice on a book in Dojima. This marked the inception of an official market known as Dojima Rice Exchange, which formed a base of today's membership and clearing system. This exchange laid down the primary structure for today's futures exchange markets. Further, establishment of various exchanges such as,

Dojima Rice Exchange

Chicago Board of Trade (CBOT), New York Mercantile Exchange (NYMEX), Shanghai Futures Exchange (SHFE), European Energy Exchange (EEE) and London Metals Exchange (LME) widened the commodity markets and their scopes.

It is pertinent to note that CBOT and NYMEX are both controlled by the CME group, being the world's largest future's exchange operators.

2.2. The Rise of commodity market in India

Commodity market in India was institutionalized in 1875 when the Bombay Cotton Trade Association was established. This was followed by the establishment of the Bombay Cotton Exchange Ltd., in 1893, which was later followed by the establishment of futures markets in edible oilseeds complex, raw jute, jute products and bullion. In fact, even the first organized futures trading was set up in the early 20th century with the establishment of the East Indian Jute Association Ltd in 1927.

However, even with a rich history of the futures and forwards trading, these associations faced several restrictions from the then governing authorities including ban on trading derivatives on certain commodities.

Subsequently, the year 1952 witnessed the enactment of the Forward Contract (Regulation) Act (FCRA) which was followed by the establishment of the Forward Markets Commission (FMC) in 1953 by the Ministry of Consumer Affairs and Public Distribution. However, the FCRA was repealed in September 2015, owing to the merger of FMC with the Securities and Exchange Board of India (SEBI). This merger was majorly undertaken due to multiple factors affecting the FMC which, amongst others, included limitation of powers to enact regulations, regulate intermediaries, investigate and impose stringent monetary penalties and a trigger from the collapse of National Spot Exchange Ltd (NSEL) in 2013 owing to the scam involving irregularities in trading and warehousing practices. Currently, the SCRA governs the trading in commodity derivatives in India.

Since 2016, India's commodity market has undergone significant transformation, driven by regulatory reforms and global integration. Owing to changes made in SCRA in 2018, a single exchange was allowed to operate various segments, such as equity, equity derivatives, commodity derivatives, currency derivatives, interest rate futures and debt, etc. Subsequently, National Stock Exchange (NSE) and BSE Limited (BSE), each launched a specialized segment for commodity trading. SEBI's oversight further brought enhanced transparency, attracting mutual funds, Portfolio Management Services (PMS), and retail investors.

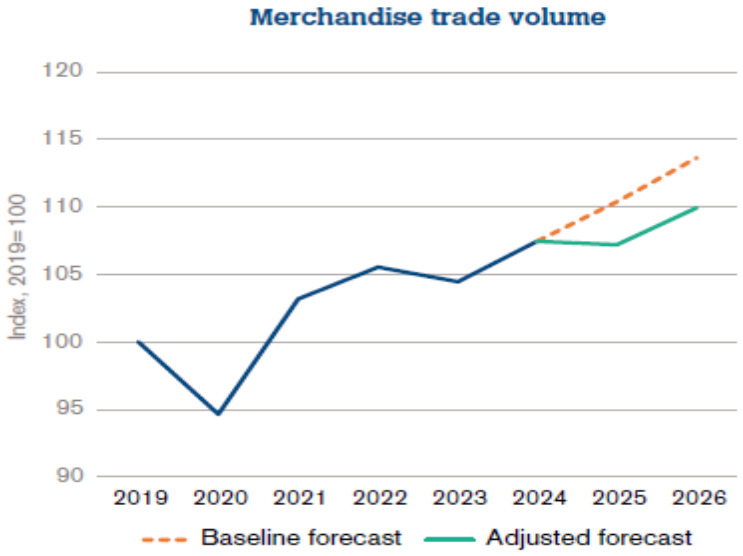
Currently, majority of commodity trading in India is undertaken on Multi Commodity Exchange (MCX) and National Commodity and Derivatives Exchange (NCDEX). However, none of the contracts traded on these exchanges are denominated in foreign currencies, resulting in limited hedging capabilities.

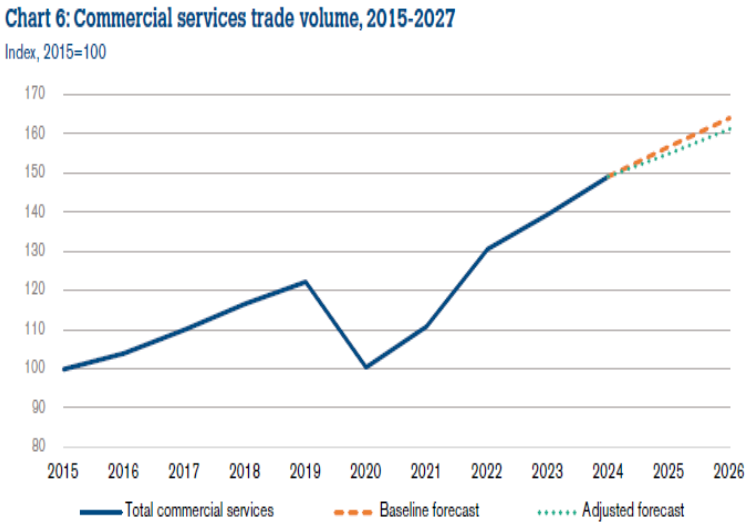
A key milestone in this transformation is the establishment of international platforms at GIFT City IFSC, including India International Bullion Exchange (IFSC) Ltd. (IIBX) for bullion, marking a strategic move towards global positioning of India in Commodity Trading. With growing emphasis on digital infrastructure, Farmers' Producer Organization (FPO) participation, and smart warehousing/vaulting, the ecosystem is becoming more inclusive and tech driven.

Looking ahead, India's commodity market is poised for deeper integration with global exchanges like London Metals Exchange (LME) and Chicago Mercantile Exchange (CME), expansion into green commodities (including hydrogen and lithium), and increased adoption of AI, blockchain, and Internet of Things (IoT)—transforming it into a dynamic, globally competitive trading landscape.

2.3. The Global Scenario

In 2024, world goods and commercial services exports were USD 33.12 trillion[8]. Further, the value of world merchandise trade in terms of export was marked at USD 24.43 trillion and that of commercial services was USD 8.69 trillion. The graphs below depict the change in the world exports over the years along with the forecast for upcoming year.





Source: https://www.wto.org/english/res_e/booksp_e/trade_outlook25_e.pdf

In terms of the share in global merchandise trade, China, the USA and Germany accounted for approximately 30%. Further, India's ranking in the global merchandise and commercial services trade has seen a significant shift over the past years (refer table

below for the top countries in terms of share in global merchandise trade and commercial services).

Appendix Table 1: Leading exporters and importers in world merchandise trade, 2024

Billion US$ and %

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	China	3,577	14.6	6	1	United States of America	3,359	13.6	6
2	United States of America	2,065	8.5	2	2	China	2,587	10.5	1
3	Germany	1,683	6.9	-1	3	Germany	1,425	5.8	-3
4	Netherlands	921	3.8	-2	4	United Kingdom	816	3.3	3
5	Japan	707	2.9	-1	5	Netherlands	812	3.3	-4
6	Korea, Republic of	684	2.8	8	6	France	750	3.0	-5
7	Italy	674	2.8	0	7	Japan	743	3.0	-5
8	Hong Kong, China	646	2.6	12	8	Hong Kong, China	704	2.8	8
	Domestic exports	34	0.1	60		Retained imports [1]	184	0.7	0
	Re-exports	612	2.5	11					
9	France	640	2.6	-2	9	India	702	2.8	4
10	Mexico	617	2.5	4	10	Mexico	644	2.6	4
11	United Arab Emirates [1]	603	2.5	6	11	Korea, Republic of	632	2.6	-2
12	Canada	568	2.3	0	12	Italy	615	2.5	-4
13	Belgium	536	2.2	-6	13	Canada	573	2.3	0
14	United Kingdom	513	2.1	-2	14	United Arab Emirates [1]	539	2.2	14
15	Singapore	506	2.1	6	15	Belgium	513	2.1	-8
	Domestic exports	215	0.9	1					
	Re-exports	291	1.2	10					
16	Chinese Taipei	474	1.9	10	16	Spain	472	1.9	0
17	Switzerland	447	1.8	6	17	Singapore	459	1.9	8
						Retained imports [1]	168	0.7	5
18	India	443	1.8	3	18	Chinese Taipei	401	1.6	12
19	Spain	424	1.7	0	19	Poland	379	1.5	2
20	Russian Federation	417	1.7	-2	20	Viet Nam	379	1.5	16
21	Viet Nam	403	1.7	14	21	Switzerland	369	1.5	1
22	Poland	380	1.6	0	22	Türkiye	344	1.4	-5
23	Australia	341	1.4	-8	23	Thailand	307	1.2	6
24	Brazil	337	1.4	-1	24	Malaysia	300	1.2	13
25	Malaysia	330	1.4	6	25	Australia	296	1.2	3
26	Saudi Arabia, Kingdom of	305	1.2	-5	26	Russian Federation [2]	295	1.2	-3
27	Thailand	301	1.2	5	27	Brazil	278	1.1	10
28	Indonesia	265	1.1	2	28	Indonesia	234	0.9	5
29	Czech Republic	263	1.1	3	29	Czech Republic	232	0.9	0
30	Türkiye	262	1.1	2	30	Saudi Arabia, Kingdom of	232	0.9	12
	Total of above [3]	**20,332**	**83.2**	**-**		**Total of above [3]**	**20,391**	**82.4**	**-**
	World [3]	**24,431**	**100.0**	**2**		**World [3]**	**24,747**	**100.0**	**2**

Source: https://www.wto.org/english/res_e/booksp_e/trade_outlook25_e.pdf

Appendix Table 3: Leading exporters and importers of commercial services, 2024

Billion US$ and %

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	United States of America	1,077	12.4	8	1	United States of America	787	9.9	9
2	United Kingdom	645	7.4	11	2	China	608	7.7	11
3	Ireland	519	6.0	20	3	Germany	550	6.9	6
4	Germany	465	5.4	4	4	Ireland	467	5.9	11
5	China	444	5.1	17	5	United Kingdom	399	5.0	11
6	Singapore	395	4.6	10	6	Singapore	351	4.4	8
7	France	391	4.5	6	7	France	339	4.3	2
8	India	374	4.3	11	8	Netherlands	306	3.9	5
9	Netherlands	329	3.8	4	9	India	268	3.4	9
10	Japan	223	2.6	9	10	Japan	240	3.0	6
11	Spain	219	2.5	12	11	Switzerland	215	2.7	12
12	Switzerland	179	2.1	10	12	Italy	161	2.0	7
13	United Arab Emirates [1]	176	2.0	…	13	Korea, Republic of	161	2.0	7
14	Canada	158	1.8	3	14	Canada	158	2.0	5
15	Italy	154	1.8	5	15	Belgium	157	2.0	-1
16	Luxembourg	153	1.8	3	16	Sweden	124	1.6	9
17	Belgium	143	1.7	-5	17	Luxembourg	123	1.6	2
18	Korea, Republic of	138	1.6	11	18	Denmark	120	1.5	7
19	Denmark	126	1.5	9	19	Spain	111	1.4	16
20	Sweden	118	1.4	12	20	Australia	107	1.4	7
21	Poland	117	1.3	7	21	United Arab Emirates [1]	106	1.3	…
22	Türkiye	115	1.3	8	22	Brazil	101	1.3	17
23	Hong Kong, China	109	1.3	12	23	Saudi Arabia, Kingdom of	94	1.2	6
24	Austria	94	1.1	5	24	Hong Kong, China	90	1.1	14
25	Israel	83	1.0	2	25	Austria	87	1.1	4
26	Australia	83	1.0	9	26	Russian Federation	80	1.0	6
27	Thailand	71	0.8	27	27	Poland	74	0.9	12
28	Mexico	62	0.7	11	28	Thailand	73	0.9	12
29	Portugal	61	0.7	8	29	Chinese Taipei	71	0.9	11
30	Chinese Taipei	58	0.7	9	30	Mexico	70	0.9	-6
	Total of above	**7,279**	**83.8**	**-**		**Total of above**	**6,599**	**83.2**	**-**
	World	**8,687**	**100.0**	**9**		**World**	**7,935**	**100.0**	**8**

Source: https://www.wto.org/english/res_e/booksp_e/trade_outlook25_e.pdf

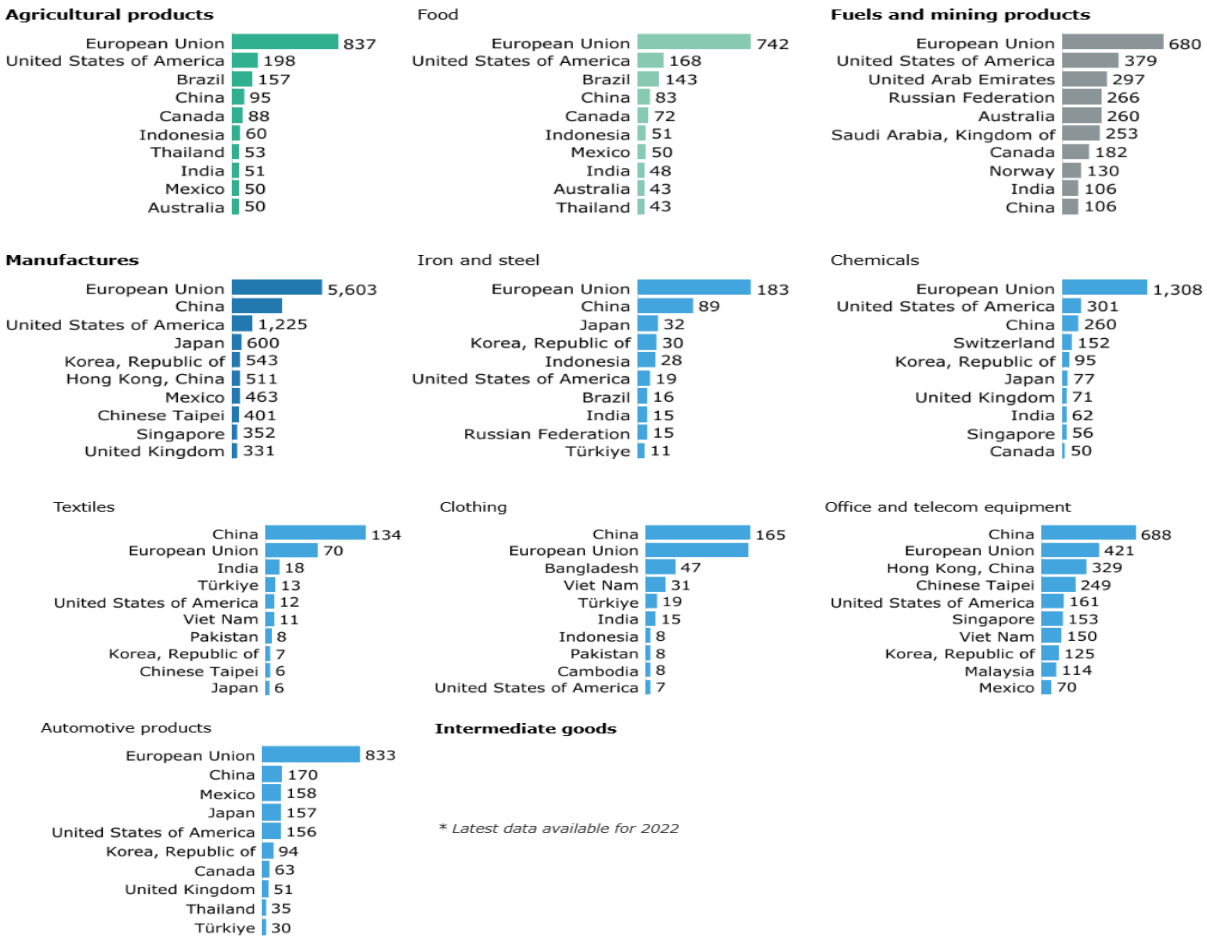
As can be analyzed from the above tables, in terms of production and consumption of merchandise, China was the largest exporter (USD 3.58 trillion) while the United States remained the largest importer (USD 3.36 trillion). Further, the USA was both the largest

exporter (USD 1.08 trillion) and the largest importer (USD 787 billion) for commercial services in 2024[9].

In spite of various events such as the pandemic-related disruptions, the Russia-Ukraine war, economic and political tensions between the USA and China leading to the tariff impositions and various other factors, the commodity trading still witnessed growth.

Further, a jurisdiction wise analysis of the product groups and sub-groups provided by the World Trade Organization (WTO) for 2023 depicts that China is amongst the top 5 exporters of the major commodity segments while India stands among the top 10 exporters in some of the segments[10].

Top 10 exporters of selected product groups and subgroups
2023, Value (US$ billion)

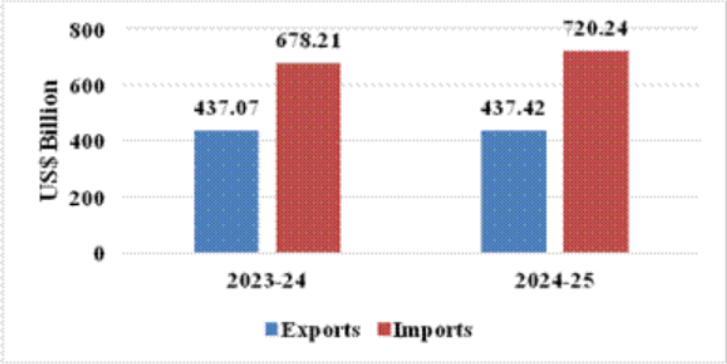


Note: Main product groups are in bold.
Source: WTO. Total merchandise value and volume trade estimates are produced jointly with UNCTAD.

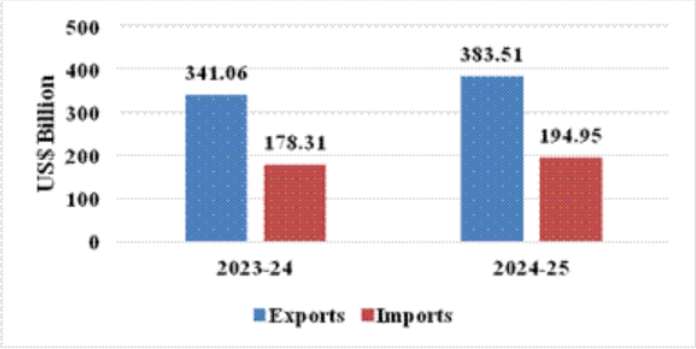
2.4. Indian Scenario

India's overall exports were USD 820.93 billion[11] in FY 2024–25. The merchandise exports accounted for a share of almost USD 437.42 billion, while services contributed around USD 383.51 billion. India's overall imports were USD 915.19 billion in FY 2024–25. Further, the merchandise imports amounted to USD 720.24 billion and service imports to USD 194.95 billion.

Merchandise exports in FY 2023-24 and FY 2024-25



Service exports in FY 2023-24 and FY 2024-25



Source: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2122016

Further, as per the statistics provided by the Data Dissemination Portal of Directorate General of Commercial Intelligence and Statistics (DGCIS), the share of export of Micro,

Small, and Medium Enterprises (MSME) specified products in all India exports during FY 2024-25 was 45.73%[12] which increased to 45.79% by May 2024[13].

As per the estimation of the expert committee on MSME constituted by RBI in 2019, the overall credit gap in MSME sector is in the range of INR 20 to 25 trillion[14] (~USD 250 to USD 312.5 billion). As can be observed from these figures, a major segment of commodity traders in India is typically bogged down by non-availability of easy credit, which coupled with stringent regulations, creates multifaceted issues.

Such global and regional complexities in the commodity markets make risk management a critical factor of business performance. Managing the risk, safeguarding profitability, navigating volatility and complying with ever-evolving regulatory framework keep the commodity markets dynamic.

यस्तु संचरते देशान् यस्तु सेवेत पण्डितान् ।

तस्य विस्तारिता बुद्धिस्तैलबिन्दुरिवाम्भसि ॥

He who travels the world and associates with the wise, his intellect expands.

***

3: Global Landscape of Commodity trading

Even with the dynamic and volatile trading ecosystem, multiple jurisdictions thrived, establishing themselves as today's leading global commodity trading hubs. Commodity trading hubs established in various jurisdictions such as Singapore, Hong Kong, Dubai and Switzerland have become pivotal in the international trade of commodities due to their strategic locations, favorable regulatory environments and advanced financial services sectors. These hubs facilitate the trade of a wide range of commodities including metals, energy and agricultural products, and are supported by a robust ecosystem that includes financial institutions and banks. These institutions play a critical role in providing the necessary financial infrastructure, services, and products that enable and enhance commodity trading activities.

In order to develop GIFT IFSC as a global commodity trading hub, there is a need to study and benchmark the global best practices followed by the leading commodity trading hubs. A brief analysis of some of the leading commodity trading hubs highlighting their key regulatory and infrastructural offerings have been encapsulated in the subsequent paragraphs.

3.1. Singapore

A global trading powerhouse, Singapore, as a commodity trading hub, houses around 400 global traders with an offshore trade of USD 1.6 trillion.[15] Singapore offers a vibrant trading ecosystem which, combined with the robust infrastructure and global connectivity, makes it accessible to unparalleled global trading opportunities for traders worldwide.

3.1.1. Strategic Location and Infrastructure

Singapore's strategic location at the crossroads of major shipping lanes has made it a key logistics and trading hub. It has over 200 shipping lines connecting to 600 ports worldwide and over 100 airlines serving over 100 countries.[16] The Port of Singapore is one of the world's busiest ports and is equipped with state-of-the-art facilities for the storage and handling of commodities. This, combined with its world-class port infrastructure and logistics services, facilitates the smooth flow of commodities which has contributed to it developing as a global commodity trading hub.

3.1.2. Regulatory Environment

- Singapore has a strong, transparent, and efficient regulatory framework that instills confidence in traders and investors. The Monetary Authority of Singapore (MAS) is known for its clear regulations and proactive approach to innovation and financial technology.
- Further, the Singapore International Arbitration Centre is amongst the world's top 5 arbitral institutions and is the most preferred arbitral institution in the Asia-Pacific.[17]
- Singapore has established a detailed regulatory framework for trading of commodities, with the aim of ensuring transparency, fairness, and integrity in the commodity markets.
- Singapore's Commodity Trading Act, 1992[18] (referred to as 'Act' in this section) is administered by the Enterprise Singapore Board (Board), which is responsible for the approval, licensing, and supervision of commodity market participants and trading activities.
- At the heart of the Act is a broad definition of **"commodity"** which *means any produce, item, goods or article that is the subject of any —*

  (a) commodity forward contract;

  (b) leveraged commodity trading;

  (c) contract made pursuant to trading in differences; or

  (d) spot commodity trading,

and includes an index, a right or an interest in such commodity, and such other index, right or interest of any nature as the Board may, by notification in the Gazette, prescribe to be a commodity; but does not include any produce, item, goods or article that is the subject of a commodity futures contract and any index, right or interest in such produce, item, goods or article.

- The Act does not simply say, “A commodity is wheat, oil, gold, etc.” Instead, it defines “commodity” by describing the types of contracts or trading activities in which the item is involved. According to it, a "commodity" is any product, item, good, or article that entities trade using certain types of contracts or trading methods.

- Further, **“Spot commodity trading”** means the purchase or sale of a commodity at its current market or spot price, where it is intended that such transaction results in the physical delivery of the commodity.

- This focus on physical delivery distinguishes spot trading from other forms of derivative trading where settlement may be purely financial.

- The Act sets out a licensing regime for commodity brokers, spot commodity brokers, trading advisers, and pool operators, as well as their representatives. No person may act in these capacities without the appropriate licence, and the Board has the power to grant, renew, or revoke licences, impose conditions, and refuse applications on grounds such as not meeting the fit and proper criteria, unsatisfactory financial standing, unsatisfactory past performance or expertise, etc. Exemptions from obtaining a licence is available for certain categories of persons, such as those trading with accredited investors, and for banks and certain approved companies.

- Licensed brokers and pool operators are required to keep proper accounts and records, segregate customer funds and submit audit report as directed by the Board. There are strict rules against the destruction or falsification of records and auditors have broad powers to examine books and seek information. Further, commodity trading advisers and pool operators must make full disclosure to their subscribers, customers and applicants regarding all open commodity market positions taken or held and provide regular statements and annual reports

- The Act contains robust provisions to prevent market abuse, including prohibitions on false trading, bucketing, price manipulation, and the use of fraudulent or deceptive devices. The Board has emergency powers to maintain orderly trading, including the ability to suspend trading, liquidate positions, or set trading limits in times of market

disturbance. It may also require the production of records, conduct investigations and inspections, and issue directions to market participants to ensure compliance.

- Further, penalties for breach of the Act are significant, with fines and imprisonment possible for offences such as unlicensed activity, market abuse and failure to comply with regulatory requirements. Directors and managers of regulated entities have a duty to ensure compliance and may be held personally liable for offences.

- Overall, the Act provides a comprehensive and rigorous framework for the regulation of commodity trading, with a strong emphasis on market integrity, customer protection and the prevention of financial crime.

3.1.3. Favorable Tax Regime

- Singapore offers a competitive tax environment, including tax incentives for commodity trading companies, which helps to lower the cost of transactions and operations for traders.

- As an incentive to the global trading companies, Singapore's Income Tax (Concessionary Rate of Tax for Global Trading Companies) Regulations 2016 provides certain approved global commodity trading companies with a concessional tax rate of 5% or 10% on their income for a period of 5 years (discussed below). Further, the income arising to companies set up in Singapore are subject to corporate tax at the rate of 17%.

Singapore's Global Trader Programme (GTP)[19]

The GTP was launched in June 2001 by International Enterprise Singapore as an incentive programme designed to encourage international trading companies to choose Singapore as the base for their global trading activities. GTP provides a concessionary tax rate of 5%, 10% or 15% on qualifying income for 5 years. The key conditions are enumerated below.

Qualifying trading income includes:

- Income from physical trading;

- Brokering of physical trades;
- Derivative trading income; and
- Income from structured commodity financing activities.

Eligibility

- Established companies engaged in international physical trading looking to set up their trading operations in Singapore.
- Companies should have an international trading and distribution network, and a good track record.
- Able to commit to the following in Singapore:
  - Conduct significant trading activities;
  - Employ skilled professionals;
  - Perform strategic functions such as strategic management, compliance and risk management, financial management, and logistics management functions; and
  - Make significant use of Singapore's banking and financial services, logistics, arbitration, and other supporting services.

3.1.4. Financial Services:

- Banks in Singapore offer a wide range of services including pre-export and prepayment finance, warehouse finance and other customizable solution.

- The Singapore Exchange (SGX) provides a platform for trading in commodity derivatives.

- Further, the Association of Banks in Singapore has set up a Trade Finance Registry (TFR) to detect and mitigate duplicate financing, particularly in commodity trade, and especially with regard to the detection and mitigation of trade fraud.

- MAS launched Financial Services Industry Transformation Map (ITM) in 2017 with a strong focus on the innovation and technology adoption and developing a world class workforce. The key strategies behind formation of the ITM are to enhance the asset class strengths, digitalize financial infrastructure, catalyze Asia's net zero-transition, build innovative and responsible financial ecosystem and foster skilled and adaptable workforce[20]. Further, its past performance has been significant. From 2016 to 2020,

its value-added growth was 5.7% as compared to the targeted rate of 4.3%. It also created 4,100 net jobs combined with a productivity growth of 2.9%.

- Currently MAS has launched the Financial Services ITM 2025 with an aim to further strengthen Singapore's position as an international financial centre in Asia.[21]

3.1.5. Innovation and Technology:

- Singapore is at the forefront of adopting blockchain and other technologies to streamline trade finance processes.
- Commodities Intelligence Centre, established as a joint venture between ZALL Smart Commerce Group, Global eTrade Services (GeTS) and SGX aims to provide an integrated suite of online systems and services to help businesses in decision making process through business data, technology and services.
- The Singapore Government actively promotes fintech innovation that can benefit the commodity trading sector.

3.1.6. Talent and Expertise

- Combined with a high quality of life, and a highly international, multi-lingual local employee base (particularly in both English and Mandarin), Singapore offers a talent pool that possesses the knowledge and cultural awareness to facilitate trading with the world's largest growing markets such as China, India and Association of Southeast Asian Nations (ASEAN).
- In order to build, extract and attract skilled talent in the commodity trading segment, the Singapore Management University's International Trading Institute has set up an International Trading Track (ITT) programme in 2007 as a joint initiative by leading commodity industry partners, Enterprise Singapore, etc.

3.2. Abu Dhabi

The United Arab Emirates (UAE) has emerged as a prominent hub for financial innovation, drawing global corporations, investment banks, fintech companies, private equity and venture capitalists, asset managers, and advisory firms. This attraction is due

to its dynamic, diverse business environment and outstanding lifestyle offerings including the strong presence of Abu Dhabi Global Market (ADGM). Abu Dhabi, the capital city, hosts the ADGM, an international financial center and free zone which was established in 2015. ADGM provides a tax-friendly environment, facilitates connections to both Eastern and Western markets, and houses some of the world's largest sovereign wealth funds.

3.2.1. Strategic Location

- ADGM extends across Al Maryah and Al Reem Islands, covering a total area of 14.38 million sqm[22], making it one of the largest financial districts in the world. The location on Al Maryah Island provides convenient access to key transportation hubs, including Zayed Port and Abu Dhabi International Airport.
- Further, Abu Dhabi is central to the world's fastest growing markets with 60% of global GDP[23] within seven hours travel time, so it is an ideal and central location to coordinate group financial operations and liquidity management.

3.2.2. Regulatory Environment

- The Financial Services Regulatory Authority (FSRA) is responsible for the authorization, supervision, and enforcement of financial services firms operating within the ADGM. The ADGM has established a comprehensive regulatory framework for spot commodity activities[24], overseen by FSRA. This framework is designed to address the unique risks and challenges associated with spot commodity markets, which have traditionally operated with minimal regulatory oversight. The ADGM's approach aims to enhance transparency, market integrity, and sustainability, while also addressing concerns related to market abuse, financial crime, and anti-money laundering.
- At its core, the ADGM framework defines a spot commodity as: ***"Spot Commodities"*** *means any physical or energy good of a fungible nature that is capable of being delivered, which is, or can be, traded on a secondary market.*
- Spot commodities are sold for cash and promptly delivered upon settlement, distinguishing them from futures contracts or other financial instruments. The

framework does not cover services, currencies, real estate rights, or intangible items, and it specifically excludes digital, virtual, or tokenized rights over a spot commodity.

- The FSRA only permits regulated activities involving ***"Accepted Spot Commodities".*** *"Accepted Spot Commodity" means a spot commodity that, in the opinion of the Regulator, meets the requirements that permit a Regulated Activity to be conducted in relation to it.*

- For a commodity to be accepted, the authorized person must demonstrate that it meets strict standards for responsible and sustainable sourcing, including adherence to internationally recognized certification standards. The FSRA places particular emphasis on due diligence over mandatory labour, environmental impact, and supply chain controls, and it requires mechanisms for third-party audits and grievance mechanisms.

- The market fundamentals of the commodity, such as liquidity, transparency, and fair and orderly trading purposes, are also considered, as are the soundness of delivery and storage mechanisms. Storage and delivery facilities used for spot commodities can be located inside or outside ADGM, but in all cases, the authorized person must show that these facilities meet standards equivalent to those of ADGM. This includes providing details of the facility's service agreement with the authorized person, ensuring legal enforceability, and arranging for independent third-party audits of inventories and infrastructure. The FSRA expects robust governance arrangements to avoid conflicts of interest and requires that any outsourcing of delivery or settlement functions to third parties be subject to thorough due diligence and ongoing oversight.

- Custody arrangements for spot commodities are distinct from storage and delivery. An authorized person providing custody must ensure the secure holding of each accepted spot commodity, with regular reconciliations and, where necessary, third-party verification of proposed physical custodial arrangement. Insurance is also required to protect against risks such as theft, fraud, natural disasters, and default.

- A key focus of the ADGM framework is the prevention of money laundering and terrorist financing. The FSRA requires full compliance with UAE federal laws on anti-money laundering and countering the financing of terrorism, as well as adherence to international best practices, including FATF recommendations. Authorised persons must adopt a risk-based approach, regularly assessing and mitigating risks associated with their activities. This includes conducting customer due diligence on clients and beneficial owners, monitoring transactions, and providing complete transparency to

its financial institutions. The FSRA does not consider it appropriate to use simplified customer due diligence for conducting regulated activities using accepted spot commodities.

- The framework also addresses the risk of market abuse. The FSRA extends its market abuse provisions to cover accepted spot commodities traded on recognized investment exchanges, multilateral trading facilities, or organized trading facilities. These venues are required to operate effective market surveillance programs which are robust, regularly reviewed and enhanced.

- In terms of operational requirements, authorized persons must demonstrate that they have substantive resources and “mind and management” located within ADGM. This includes having adequate commercial, governance, compliance, market surveillance, operations, technical, IT, finance and HR functions based in the jurisdiction.

- The application process to become an authorized person involves several stages, including due diligence discussions with the FSRA, submission of a formal application, in-principle approval, final approval and operational launch testing. The FSRA closely supervises authorized persons once licensed, requiring frequent meetings, ongoing assessments and undertaking thematic reviews. Fees for authorisation and supervision are set at levels reflecting the risks and supervisory demands of spot commodity activities.

- In conclusion, ADGM has developed a robust regulatory framework for spot commodity activities, ensuring market integrity, transparency, and sustainability while addressing crucial challenges such as market abuse, financial crime, and anti-money laundering which in turn effectively strengthens its position as a leading international financial center.

3.2.3. Regulatory regime and Free Zones

- ADGM also has an independent judicial system, with its own courts and tribunals. ADGM courts and its judiciary are modelled on the English judicial system thereby providing a consistent, well-regarded, and widely accepted legal framework and judiciary[25].

- ADGM provides a tax friendly environment, with 0% tax rate on qualifying income, no restrictions on repatriation of profits and access to the UAE's broad Double Tax Treaty

network[26]. ADGM offers 100% foreign ownership and a flexible "toolbox" of internationally aligned structuring solutions thereby helping businesses to meet their needs.

3.3. Hong Kong

3.3.1. Gateway to China

Hong Kong serves as a gateway for international investors to access the Chinese market, including its commodity trading activities. The proximity to China provides unique opportunities for arbitrage and access to Chinese commodities and consumers.

3.3.2. Regulatory and Legal Framework

- The Hong Kong Monetary Authority (HKMA) ensures a robust regulatory framework for financial institutions. The legal system, based on English Common Law, is transparent and provides a high level of investor protection.
- Further, the Securities and Futures Ordinance[27] of Hong Kong governs laws relating to financial products, the securities and futures market and the securities and futures industry.
- While the Ordinance does not govern spot trading in commodities, it defines "spot contract" as a contract for the sale of any type or combination of types of securities, commodity, index, property, interest rate or currency exchange rate under the terms of which the settlement of the contract is scheduled to be made within the longest of the following periods—

(a) if the contract is—
   i. entered into in Hong Kong, 2 business days after the date of entering into the contract; or
   ii. settled outside Hong Kong, 2 days on which each settlement facility necessary to settle the transaction is open for business, after the date of entering into the contract;

(b) the period generally accepted in the market for that type or combination of types of securities, commodity, index, property, interest rate or currency exchange rate as the standard delivery period.

Further, Hong Kong has specific laws to govern certain specific/reserved/ dutiable/strategic commodities.

3.3.3. Financial Services:

Hong Kong's banks are well-versed in providing trade financing, letters of credit, and other essential services for commodity traders. The Hong Kong Stock Exchange (HKEX) offers futures and options contracts on metals and other commodities.

3.4. Dubai

Dubai’s commodity trading market was initially driven by fish and pearl trading. The hub saw its boom from the discovery of oil and its subsequent exports. Dubai’s strategic location, top class infrastructure, and business-friendly environment have attracted traders from other commodity hubs like London and Switzerland. The city has major commodities exchanges such as the Dubai Gold and Commodities Exchange (DGCX) and the Dubai Mercantile Exchange (DME), which focus on energy and precious metals.

Dubai’s success is also attributed to its stable ecosystem, expedient geopolitical stance, making it an attractive destination for global businesses. With their continual efforts in economic diversification, Dubai has significantly reduced its dependence on oil and has developed itself as the leading commodity trading hub in the world.

3.4.1. Strategic Position and Free Zones

Dubai's strategic location between Asia, Europe and Africa makes it a central hub for commodity trading. The establishment of free zones like the Dubai Multi Commodities Centre (DMCC) offers benefits such as 100% foreign ownership and no taxes.

3.4.2. Regulatory Environment

- The Dubai Financial Services Authority (DFSA) regulates financial services in the Dubai International Financial Centre (DIFC), providing a secure environment for banks and traders. Dubai has a relatively flexible regulatory regime that attracts international banks and financial institutions.

- The establishment of free zones with benefits such as 100% foreign ownership, 0% tax rate on qualifying income, 100% capital repatriation, fast and easy business set up procedures and no currency restrictions, has been a significant draw for commodity trading companies. Further, the government of Dubai has shown strong commitment to developing UAE as a global commodity trading hub through strategic investments in infrastructure and the creation of commodity exchanges like DGCX.

3.4.3. Financial Services

- Dubai's banks are known for their expertise in precious metals trading, structured trade finance and Islamic finance. DGCX is a leading derivatives exchange in the region.

Case study: Financing through Bill of Lading

A trading company in Dubai undertakes a trade of ammonia from Qatar to Singapore. The goods are shipped from Qatar and the bill of lading is issued to the order of the shipper. Where the bill of lading mentions the name of the shipper and such bill is yet to be endorsed to the trader, banks in Dubai in some instances have rejected the receipt of payments on suspicion of merchanting trades/ layering instead of checking the veracity of the transaction by conducting International Maritime Bureau (IMB) checks. Moreover, this has resulted in banks asking that the account be closed for further transactions causing undue hardships.

The case highlights the critical importance of efficient and alternative verification process by banks in international commodity trading. By adopting a combination of checks and technological solutions, IBUs in GIFT IFSC, can offer solutions that overcome the challenges currently being faced by commodity traders in Dubai.

3.4.4. Talent and Expertise

In order to hone the skills of the upcoming generation, DMCC has formed the Almas Graduate Programme to attract and develop talented UAE national graduates and prepare them to become top performers and future business leaders. Since the inception of DMCC, more than 100,000 people have been living and working in DMCC's Jumeriah Lake Towers district[28].

3.4.5. Setting up a unit in DMCC

While DMCC is a free trade zone with various incentives and facilities, setting up and operating a unit there is cost intensive. The following table captures the various components of the indicative cost structure for units in DMCC:

Component	Cost structure (AED)[29]
Company set up	~ 34,185
Employment and visa services (if required) (1-year to 2-year visa)	~1,687 to 2,972.5
Leasing services	~16,000 to 70,000
Personnel cost	Differs based on employee education, skills and experience

3.5. Switzerland

With over 900 commodity trading companies[30], Switzerland is considered as one of the leading global commodity trading hubs across the world. Its major share of trade largely comprises oil and petroleum, metals, minerals, agricultural products, etc., and is a market leader in trading sugar, cotton, oilseed, coffee and cereals. These commodity trading companies employ a robust workforce of ~10,000 people.

3.5.1. Political and Economic Stability

- Switzerland's long-standing political neutrality and economic stability make it a safe haven for investors and traders, which is particularly attractive in the volatile world of commodity trading.
- Switzerland has a strengthened base of industry associations such as the SUISSENÉGOCE which provides a bridge between the government and the community of traders thereby facilitating a doorway for a hassle-free trading environment. Further, such associations also provide education and training to the upcoming trader community.

3.5.2. Financial Expertise

- With a history of banking and financial services, Switzerland has a deep pool of financial expertise and a sophisticated financial services sector that supports commodity trading activities. Further, in order to reduce the technical barriers arising on international trades, Switzerland has introduced three instruments namely[31],
  - the autonomous harmonization of Swiss technical regulations with those of the most important trade partners;
  - the conclusion of international agreements to this effect; and
  - the autonomous application of the Cassis de Dijon principle.[32]

3.5.3. Legal and regulatory framework

- The country’s legal system is known for its efficiency, and the protection it offers to businesses, including strong contract enforcement and arbitration mechanisms. ROHMA (Swiss Commodity Market Supervisory Authority) is the regulatory authority for commodity markets in Switzerland.
- The Commodities Act which is the governing act for commodity trading in Switzerland, sets out four aims to which the law is intended to contribute:
  - the reduction of the resource curse in commodity-rich developing countries;
  - the mobilization of resources for development and poverty reduction in commodity-rich developing countries;

- the maintenance of Switzerland's good reputation as a fair and responsible market in which to trade; and
- the guaranteed adherence to human rights law and international environmental law.

Further, Switzerland levies a direct federal corporate income tax (CIT) of 8.5% on profit after tax, resulting in a direct federal CIT rate on profit before tax of approximately 7.83%. In addition to the direct federal CIT, each region/ canton has its own tax law and levies cantonal and communal corporate income and capital taxes at different rates. Therefore, the tax burden of income (and capital) varies from canton to canton. The overall range of CIT on profit before tax for federal, cantonal and communal taxes is between 11.9% and 20.5% which varies depending on the location of company.[33]

Case study: How lack of seamless banking challenges trading

Background: ABC Company, based in Dubai, is a prominent player in the commodity trading market. With a focus on efficiency and strategic logistics, the company has established a robust supply chain that involves the offloading of significant quantities of urea in Mozambique, which is then transported to various destinations. As part of its operations, ABC Company recently offloaded a substantial shipment of 15,000 tonnes of urea at Barra, Mozambique. The company's strategy involves distribution of this urea to fertilizer producers and sellers located in Zambia. To accomplish this, ABC Company utilizes a fleet of 30 trucks, which forms the backbone of its distribution network within the region.

The logistics of such an operation are complex and require meticulous documentation to ensure compliance with both financial and regulatory requirements. ABC Company faces a significant challenge in this area. The bank in UAE, which is responsible for processing payments to the cargo company that transports the urea, mandates the submission of detailed documentation for each truck involved in the transportation process. This includes shipping documents, packing lists, invoices, and other relevant paperwork, all of which must be filed and uploaded separately for every truck. The requirement for extensive documentation has led to considerable delays in the payment process. These delays have, in turn, affected the company's relationship with the cargo company which now requests a 50% advance payment of the transportation cost. This demand for upfront payment has resulted in a working capital blockage for ABC Company, impacting its financial fluidity and potentially its ability to operate efficiently.

The case of ABC Company highlights the critical importance of efficient documentation and payment processes in international commodity trading.

By adopting a combination of process improvements, technological solutions, and strategic financial planning, IBUs in GIFT IFSC can offer solutions that overcome the challenges posed by the current documentation requirements, thereby ensuring timely payments to its clients and optimal utilization of working capital for all the stakeholders involved.

3.6. Comparative analysis on the current landscapes of the commodity trading regions

The success of global commodity trading hubs like Singapore, Abu Dhabi, Switzerland, Hongkong, Dubai is not accidental but the result of a combination of strategic location, favorable regulatory and fiscal policies, robust infrastructure, and a focus on developing a skilled workforce. Besides historical reasons, the large production or substantial consumption in that country/region, large storage, blending and import/export facilities are reasons for these countries subsisting as global commodity trading hubs. **In the initial period, to attract commodity trading entities from neighboring regions, IFSCA could consider providing incentives and create some USPs.**

Further, financial institutions and banks in these global commodity trading hubs provide a comprehensive suite of services that are essential for the efficient functioning of the commodity markets. While these commodity trading hubs offer innovative financial products and services tailored to the needs of commodity traders, as discussed above, some of these are also plagued by issues such as high cost of operations and lack of ease of dealing with banking institutions. **IFSC, as a jurisdiction, has a lower cost of operations as compared to the established commodity trading hubs. This should act as a significant attraction for commodity traders. However, this, in itself, may not be sufficient to encourage commodity traders to set up their base in IFSC.**

Thus, IFSC, to position itself as a global commodity trading hub, should consider emulating the positive aspects of the above discussed hubs while offering better ease of doing business and banking solutions. To implement the same, as an initial step, there is a need to understand the methods and elements of commodity trading that can be possibly enabled from IFSC. To analyze the same a comparative analysis of the current landscapes of certain commodity trading regions is required.

3.6.1. DMCC Commodity Trade Index 2024

The DMCC Commodity Trade Index 2024[34] evaluates and ranks ten leading commodity markets based on their impact in global imports and exports of primary commodities. The index also assesses which global locations can expect to maintain their status as a trading

hub. It incorporates ten indicators to produce an index score for the USA, Netherlands, Singapore, the UK, the UAE, Switzerland, Hong Kong, China, South Africa and Nigeria.

The index looks at three major factors important to commodity trade via ten individual sub-indicators which are as follows-

A. Locational and trading partner factors

1. Headquarter locations of major commodities trading houses
2. Proximity to markets (based on commodity export data)
3. Commodity trade partner tariffs on primary goods

B. Commodity endowment factors

1. Tons of oil exported annually
2. Hub's share of global commodity trade for coffee, grains, sugar, gold, diamonds, soya beans, tea, cotton, silver, animals and animal products and plastic
3. Natural resource rents as a share of GDP

C. Institutional factors

1. Financial services infrastructure
2. Attractiveness of the tax regime
3. Strength of regulatory enforcement
4. Logistics performance

The DMCC Commodity Trade Index 2024 results are as below:

Country	Commodity endowment factors	Locational and trading partner factors	Institutional factors	Index Score 2024	Index Rank 2022
United States	63%	54%	59%	59%	1
United Arab Emirates	77%	8%	66%	50%	2
Switzerland	12%	59%	69%	46%	4
Singapore	2%	52%	78%	44%	7
Hong Kong SAR, China	12%	29%	83%	41%	6
The Netherlands	6%	54%	59%	40%	3
United Kingdom	23%	38%	53%	38%	5
China	28%	34%	42%	34%	8
South Africa	16%	7%	32%	18%	9
Nigeria	28%	3%	0%	10%	10

An analysis of the above table shows that USA lead the 2024 Commodity Trade Index with the score of 59% driven by several factors including its increased share in gold since 2022 and the presence of major commodities traders like Cargill and Koch Industries. Further, UAE ranked second covering 50% of the index owing to the strong oil supplies, strong performance in trade logistics and attractive tax regime.

To become a leading commodity trading hub, GIFT IFSC must align its capabilities as a financial services center—including its infrastructure and regulatory standards with those of established global hubs. This alignment is crucial for IFSC to compete effectively with other regions.

3.6.2. Comparative Cost Analysis

One of the factors used for analysis of major commodity trading hubs by DMCC is locational and trading partner factors which include as a criteria - 'Headquarter locations of major commodities trading houses'.

An important element relevant for commodity traders in choosing a jurisdiction for headquartering their entity would be the cost of operating. To analyze the same, we have provided an indicative comparison of the cost of operating for commodity traders in GIFT IFSC vis-à-vis two major commodity trading hubs viz. Singapore and Dubai, for reference:

Particulars	Amount (USD)		
	Singapore	Dubai	GIFT IFSC
Licensing and Operational cost (refer note 1)			
Regulatory license cost	5,000	12,000	28,500
Employee cost (based on the minimum employee required)	1,600,000	1,500,000	175,500
Rental cost (for leasing 1,000 sq ft)	79,800	100,000	23,400

Banking cost			
Letter of credit (LC) - Opening cost (refer note 2)	18,000	14,000	18,000
LC - Usance cost (refer note 2)	18,000	14,000	18,000
Requirement of collateral/ margin for LC (refer note 3)	Yes	Yes	Yes
Insurance cost (refer note 4)			
Marine Insurance	6,000	6,000	6,000
Taxation			
Direct tax	Under GTP: 5%, 10% or 15% on their income for a period of 5 years; Companies set up in Singapore are subject to corporate tax at the rate of 17%	9% subject to certain conditions	100% tax exemption for any 10 consecutive years out of 15 years
Indirect tax	9% GST on Singapore local procurement and consumptions. GST Credit available for refund.	The general VAT rate in the UAE is 5% and applies to most goods and services, with some exemptions.	Not applicable on transactions undertaken by IFSC with entities in IFSC or outside India
Total cost	**1,726,800**	**1,646,000**	**269,400**

Assumptions:

1. Tentative cost of one Long-Range 1 (LR1) cargo trading
2. Free on Board: USD 90 per Metric Tonnes (MT)

3. Cost and Freight: USD 110 per MT
4. Freight: USD 12 per MT
5. Gross margin: USD 8 per MT

Notes:

1. **Licensing and Operational Cost** - This varies across different free trade zones. In larger zones such as DMCC or Jebel Ali Free Zone Authority (JAFZA), the costs tend to be higher, while smaller and newer free trade zones have much lower rates. Trading activities are permitted based on the type of license acquired, and the fees for these licenses differ among free trade zones depending on the commodities involved.

2. **The LC issuance/ Usance Cost** - The rate is negotiable. For large corporations, it might be as low as 0.50% per annum, whereas, for smaller companies, it could reach up to 1% per annum or even higher. Large corporations can centrally negotiate a rate with insurance companies. The cost may not necessarily be influenced by the trading center.

3. **Requirement of a collateral** - It relies on the company's credit appetite. Large companies might not be required to provide any collateral, while smaller companies might need to offer over 140%. This is contingent upon the local or global balance sheet and the lender's credit assessment of the borrower.

4. **Insurance Cost** – Insurance rates can be negotiated. Generally, marine insurance costs range from 0.05% to 0.1% of the cargo value. In addition, credit insurance costs typically vary from 0.1% to 0.3% of the invoice value.

An analysis of the above table shows that GIFT IFSC is a cost-effective jurisdiction as compared to other commodity trading hubs.

अस्माकं कार्याणि अस्मान्सावधीकरिष्यंति।

Our actions will only define us

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4: Why Commodity trading from IFSC

4.1 Modern Global Trade: The Role of the US Dollar

The US dollar plays a pivotal role in today's global trade, and its dominance can be traced back to several key historical and economic developments. Before 1971, the value of the US dollar was directly tied to gold, a system known as the gold standard, which meant that the US government guaranteed that it would exchange dollars for a specific amount of gold. In 1971, President Richard Nixon announced that the USA would no longer convert dollars to gold at a fixed value, effectively ending the gold standard. This move, known as the "Nixon Shock," allowed the dollar to float freely against other currencies.

After World War II, the Bretton Woods Agreement had already established the US dollar as the world's primary reserve currency, pegged to gold, while other currencies were pegged to the dollar. Even after the gold standard was abandoned, the dollar retained its central role in global finance due to the size, stability, and trust in the US economy and its financial institutions. Approximately 90% of global trade transactions are conducted in US dollars, meaning that most international trade agreements, including those for commodities like oil, are priced and settled in dollars. The pricing of crude oil in US dollars, known as "petrodollars," is a significant factor reinforcing the currency's dominance.

4.2 Economic Influence and Global Stability

The US dollar is the primary reserve currency held by central banks around the world, with countries holding large reserves of dollars to manage their own currency’s value and to facilitate international trade. The dominance of the US dollar gives the USA significant economic influence, allowing it to borrow at lower costs and run trade deficits more easily. The dollar's stability provides a reliable medium of exchange and store of value for

international trade, contributing to global economic stability.[1] Nations with fully convertible currencies can easily participate in the global economy. Convertibility allows for seamless international trade and investment, as businesses and investors can easily move capital in and out of the country. It also facilitates foreign investment as investors have confidence that they can repatriate their profits without facing currency controls. Countries benefit from being part of global value chains (GVCs). By participating in GVCs, countries can specialize in specific segments of production where they have a comparative advantage, leading to increased efficiency and productivity. This participation can result in job creation, technology transfer, and economic growth. To fully benefit from GVCs, countries need to have the right financial systems and skills. Robust financial systems ensure smooth transactions and investments.

4.3 India's Trade Dependency

India relies heavily on international traders for essential commodities like crude oil, importing a significant portion of its crude oil needs from other countries. The procurement of crude oil often involves dealing with international traders who have equity stakes in various global oil projects for e.g., Vitol, Trafigura, Gunvor group, etc. This reliance can make India vulnerable to global market fluctuations and geopolitical tensions that can affect the supply and price of crude oil.

Upstream assets are crucial for securing a stable supply of essential commodities. China's strategy of investing in and controlling upstream assets through state-owned enterprises like China National Petroleum Corporation (CNPC) has enabled it to secure its supply chains and exert significant influence over global trade. This control allows China to add immense value to its economy and enhance its economic security. Unlike China, India does not control many upstream assets, which are resources at the source, such as oil fields and mines. This in turn reduces its influence over the supply and pricing

[1] The committee has taken note of the emergence of alternative currencies as potential reserve currencies, observing a gradual shift in the global economic landscape away from the long-standing dominance of the US Dollar. This transition is being propelled by geopolitical developments and economic strategies, especially against the backdrop of a declining percentage of foreign exchange reserves held in US dollars globally. Central banks around the world are responding by diversifying their holdings, with increased usage of bilateral local currency for trade settlements, adoption of the Chinese renminbi gaining traction, despite its relatively modest share of global reserves. Recognizing the diplomatic and economic pressures, countries such as China and Russia have been leading efforts to establish parallel financial systems as alternatives to dollar dependence. The committee noted China's strategic expansion into Middle Eastern and global markets through the yuan, as well as the utilization of the yuan by other Asian nations for international transactions, marking a trend towards de-dollarization. The ongoing pursuit of a more balanced and diversified global financial system, driven by an evolving geopolitical landscape, may redefine reserve currency allocations in future, posing challenges to the historical dominance of the US Dollar.

of essential commodities, making it more dependent on international markets and traders. Investing in upstream assets is vital for economic security, as it can decrease dependence on international markets and allow countries to impact global commodity prices.

To enhance its global trade stance, India should focus on strategic developments like creating global trading centers and investing in upstream assets through these trading centres. Developing global trading hubs, similar to Hong Kong, can significantly help India secure its interests and benefit from global trade. These trading centers act as focal points for international commerce, providing a platform for businesses to engage in trade, finance, and investment activities. They streamline trade processes by offering necessary infrastructure, regulatory frameworks, and financial services, attract Foreign Direct Investment (FDI) and portfolio investment by providing a conducive business environment and enhance the competitiveness of domestic businesses by providing access to global markets and advanced financial instruments. A thriving trading hub can drive economic growth, generate employment, foster innovation, and increase trade volumes.

4.4 Need for a Global Commodity Trading Hub in IFSC

Given India's perceived challenging regulatory and tax environment, among other things, many Indian business groups have chosen to establish subsidiaries in overseas jurisdictions that offer full currency convertibility and a more streamlined operational framework. **Annexure 1** provides a list of such entities that are established overseas. The international trading hubs, where these subsidiaries are set up, provide ease of doing business, allowing companies to conduct cross-border transactions and manage capital flows with minimal restrictions. As a result, a significant portion of trading activities by Indian entities is currently being conducted from abroad. By aligning its offerings with those of established international hubs, the GIFT IFSC can attract Indian groups to relocate their trading operations back to India, thereby fostering domestic economic growth, enhancing financial sector development, and strengthening India's position in global value chains.

GIFT IFSC was established in 2015 to 'onshore the offshore' and develop into an international financial services hub. GIFT IFSC plays a pivotal role in India's strategic development by serving as a global trading and financial hub. GIFT IFSC provides a robust regulatory framework that aligns with international standards, facilitates seamless

financial transactions and trade, offers a wide range of financial services including banking, insurance, and capital markets, attracts global financial institutions, and provides tax incentives and regulatory benefits to businesses, making it an attractive destination for international trade and investment.

Entities set up in GIFT IFSC are treated as non-resident from an Indian exchange control standpoint, operating beyond the applicability of FEMA regulations. This unique status grants them the benefits of full convertibility, making GIFT IFSC an ideal location for setting up and thriving in commodity trading.

Beyond the advantage of full convertibility, GIFT IFSC offers a range of other benefits. These include significant tax incentives, such as a 100% tax holiday for any 10 consecutive years out of the first 15 years of operation.

Additionally, GIFT IFSC boasts state-of-the-art infrastructure and business amenities, promotes skill development by attracting global talent and fostering a culture of innovation and excellence. Together, these initiatives can position India as a significant player in the global economy, driving sustainable growth and economic security.

It is pertinent to note that trade finance has been enabled for banks in IFSC. Further, IFSC has also recently prescribed a framework for ship leasing, a progression to which is permitting commodity trading from the IFSC.

The IFSC in India, without global commodity trading being enabled, remains incomplete for several reasons.

Firstly, **limited market access** is a significant issue. Without global commodity trading, IFSC's market access is limited which hampers the development of a robust and diverse trading ecosystem. Enabling global commodity trading would open doors to international participants, increasing market liquidity, depth, and competitiveness.

Secondly, there are **missed investment opportunities**. Global commodity trading attracts foreign investments and establishes partnerships with international firms. Without such opportunities, the IFSC has been missing out on significant capital inflows, hindering its potential for economic growth and job creation.

Thirdly, IFSC faces **incomplete risk management**. Commodity trading involves inherent risks, including price volatility and supply chain disruptions. At present, the IFSC limits itself from the availability of sophisticated risk management tools and hedging

instruments. This leaves market participants without comprehensive risk mitigation strategies, hindering their ability to manage exposure effectively.

Challenges faced by Indian commodity traders

Foreign Exchange Management (Hedging of Commodity Price Risk and Freight Risk in Overseas Markets) Directions, 2022 offer a structured framework for Indian commodity traders to manage their overseas market risks, though it presents several practical challenges in implementation.

The complexity in classifying exposures—especially when dealing with multi-input products or non-transparent pricing—poses significant hurdles. Furthermore, the framework restricts hedging for indirect exposures to a limited set of base metals, i.e., aluminium, copper, lead, zinc, nickel and tin, leaving many commodities uncovered. Access to sophisticated/structured hedging instruments is also limited to larger entities (listed entities, their wholly owned subsidiaries, or unlisted entities with net worth above INR 200 crore), potentially excluding smaller traders. Additionally, traders face an administrative burden in maintaining comprehensive documentation to satisfy banks' requirements for hedging alignment. Separately, the use of standby letters of credit or guarantees is restricted to one-year term with frequent renewals, adding another operational challenge to the mix.

Permitting commodity trading from GIFT IFSC will help resolve the major issues faced by the traders in India thereby allowing them to hedge their risks without any complexities.

Additionally, there is **limited price discovery**. Participation of international traders and investors will promote price discovery in IFSC.

Moreover, there is **reduced competitiveness in IFSC**. Global commodity trading hubs like Singapore, Switzerland, and Dubai have established themselves as major players in the international commodity market. At present, the IFSC risks falling behind in terms of competitiveness, innovation, and market influence. It is essential for the IFSC to position itself as a global player to attract international participants and remain relevant in the rapidly evolving commodity trading landscape.

Lastly, there are **missed integration opportunities**. Commodity trading requires seamless integration with global markets and trading hubs. Without global commodity trading, the IFSC misses out on opportunities for collaboration, information sharing, and knowledge transfer with major commodity trading nations. This limits the potential for learning from international experiences and leveraging global expertise.

India as a price maker of commodities in global trade

In global economic trades, a price maker is an entity that has the power to influence or set the price of its goods or services, rather than simply accepting a price determined by market forces. This typically happens when it has significant market share, product differentiation, or a monopoly in a particular industry.

For Indian entities to be price makers rather than takers, they need to control significant amounts of volumes across the trade chain, from upstream/ sourcing to downstream/ selling through the trade differentials along the value chain including shipping, processing, blending and other way points in the chain.

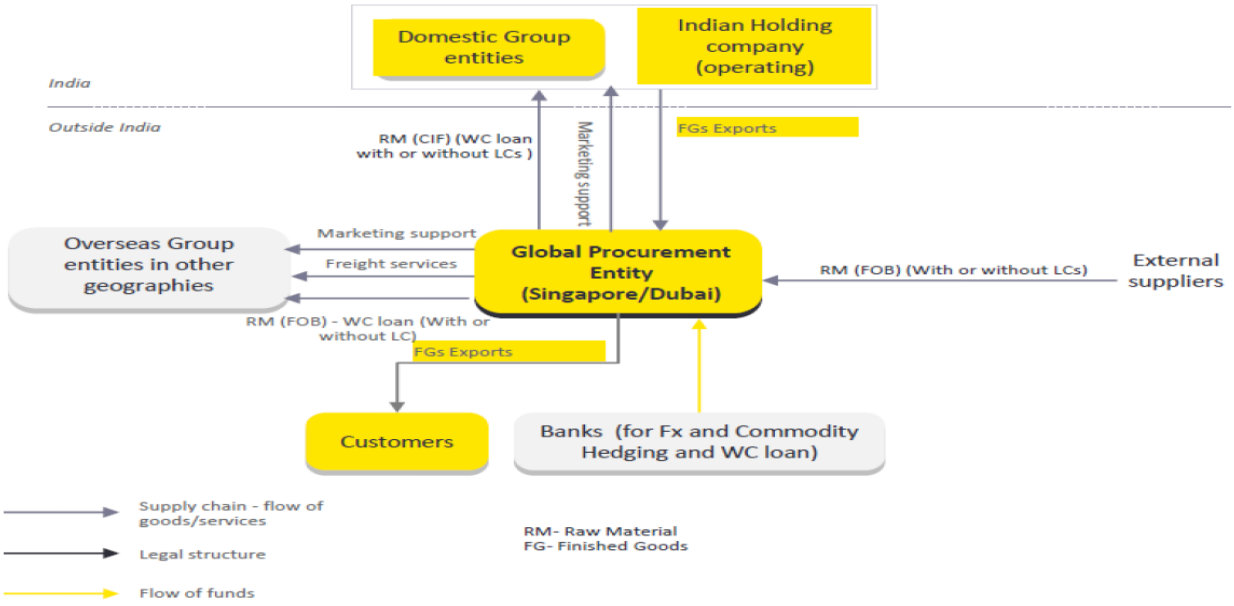
Indian entities are currently acting as procurement platforms for requirement of India centric demand. While this affords them a degree of volume due to size of the economy, these entities lack the ability and expertise to execute large scale global trade with price optimization.

The presence of a suitable ecosystem such as the one in GIFT IFSC, with tax and regulatory parity, is of paramount importance for Indian entities to scale up operations to global level. Over time and given the growing Indian economy, Indian entities are well placed to capture significant market share and global volumes of various commodities through GIFT IFSC, which will enable them to have a degree of power to act as price makers.

4.5 Sectoral case studies

Case Study – I: Typical business model of a manufacturing company having an offshore global trading center

Business model



- The Global Procurement Entity (GPE) based outside India, as part of its core operations, enters into procurement contracts with external vendors for key raw materials typically on a Free on Board (FOB) basis. This means the vendor's responsibility ends once the goods are loaded at the port of origin. To ensure seamless delivery to group companies, the GPE independently arranges for shipping (enters into contracts for hiring ships with global shipping companies) and insurance services, converting the FOB transaction into a complete CIF (Cost, Insurance, and Freight) arrangement. The GPE then re-invoices the material to group entities --- both domestic (in India) and overseas --- on a CIF basis, reflecting the full landed cost of the material. In doing so GPE also earns a markup on its value-added costs such as freight, insurance and other associated services basis the regulatory guidelines.

- GPE also provides marketing services for its exports on behalf of both domestic and overseas group entities. Acting as a centralized marketing arm, the GPE facilitates customer outreach, manages export logistics, and supports contract execution across global markets.

- GPE sources finished goods from its Indian holding company (operating) and sells the same to customer outside India. In doing so, it earns margin on the sales price.

  GPE acts as the central borrowing unit for working capital (WC) financing from banks. It raises WC loans—often backed by letters of credit (LCs) to fund the procurement of key raw materials from external suppliers. This centralized financing approach ensures that individual group companies do not directly borrow from banks; instead, the GPE manages the end-to-end procurement and financing, optimizing both credit terms and operational efficiency across the group.

- In the current model, the GPE centrally manages the hedging of foreign exchange, commodity prices, and freight costs for the entire group. Since GPE handles cross-border procurement, arranges international shipping, and re-invoices group companies in different currencies, it is naturally exposed to various financial risks. To mitigate these, GPE assumes responsibility for managing fluctuations in exchange rates, global commodity price movements, and freight rate volatility. This centralized hedging approach ensures that group entities are shielded from market uncertainties, allowing them to receive goods at stable and predictable costs while enabling consistent financial planning and budgeting across the organization. Any hedging gain/(loss) is passed on to the group companies in India and overseas as part of CIF invoicing.

  Document flow

- GPE receives the Bill of Lading, Invoice, Certificate of Origin, and Certificate of weight from the external supplier, along with the freight invoice and Bill of Lading from the shipping company. The Bill of Lading is endorsed in favour of the domestic entity in India or overseas entity for whom the purchase is made. GPE then computes the CIF price and raises an invoice to the respective domestic or overseas entity. All the relevant documents are forwarded to the concerned entity, which subsequently arranges for the clearance of goods into the home country.

- With respect to exports from entities in India, GPE sources finished goods from its Indian holding company on an FOB basis and sells them to customers outside India. For this, it receives the Bill of Lading, Invoice, Certificate of Origin, and Certificate of Weight from the holding company. Additionally, GPE enters into a shipping contract for transporting the goods and delivering them directly to its overseas customers. The Bill of Lading is endorsed in favour of these customers, and they are invoiced on a CIF basis.

Case Study – II: International trading in oil

- International energy trading is a complex and dynamic field that involves the movement and exchange of energy commodities such as crude oil, natural gas, and refined products across global markets. At its core, the process begins with international negotiations, where parties from different countries agree on terms of sale, pricing, delivery schedules, and quality standards. These negotiations require a deep understanding of geopolitical factors, regulatory environments, and cultural differences to secure favorable and sustainable agreements.

- The trading process itself is divided into physical and financial components. Physical trading encompasses the actual buying, selling, and delivery of commodities, requiring careful co-ordination of logistics, shipping fleets, and storage facilities to ensure timely and efficient transport. In parallel, paper and derivatives trading involves financial instruments like futures and options, which are used to hedge against price volatility, manage risk, and provide liquidity in the market.

- Risk management is another critical aspect of international energy trading, addressing both financial risks—such as price fluctuations and currency changes—and operational risks, including logistical delays and regulatory shifts. Effective risk management strategies, often supported by advanced digital infrastructure and participation in global exchanges, enable traders to protect their positions and capitalize on market volatility. The integration of digital platforms and real-time analytics further enhances transparency, efficiency, and security, making international energy trading a highly optimized and resilient sector.

Existing trade methodology for Oil companies

- The current trade methodology for importing crude oil/products is carried out through term contracts and spot purchases/spot purchase tenders. Product exports are carried out through term contracts and spot sales/spot sale tenders. The approach for spot purchase/sale involves performing import of crude oil/feedstocks and export of products to address deficits or surpluses arising from changes in product demand, refinery operating rates/maintenance or to tap favorable opportunities in the market. Spot purchases involve arranging for import of crude oil with near term delivery. The premiums/discounts can vary based on market conditions. Similarly, spot sales for exports are made for near-term product loading.

- Spot tenders with rigid conditions such as laydays (the earliest date within the laycan period when the vessel can arrive at the port and begin loading a cargo), pricing periods, and product specifications, limits the ability to customize offerings based on the specific requirements of end markets. Hence, a spot tendering system can limit price discovery and the PSU oil companies using tenders may not be able to get the benefit of higher premium by producing products meeting specific end user requirement and delivering the product in different parcel sizes, etc.

Commercial oil trading and storage

- Crude oil is sold by the Middle East with destination restriction. No sales are allowed by buyers to other parties without the permission of the Middle East National Oil Companies.

- Carrying inventory purely for trading purposes can involve huge costs given the value of shipments (Very Large Crude Carrier [VLCC] oil cargo is about USD 150 million, Long Range-1 High Speed Diesel [LR-1 HSD] cargo is about USD 50 million. Besides the cargo, there is cost of storage and interest thereof to hold the cargo). Even in the international oil market, oil storage is mainly done in government owned Strategic Petroleum Reserves (SPR). Companies hold inventories mainly for operational requirements or to meet government mandates. Some excess products or crude oil availability is traded off ex-storage tanks from time to time.

- Third party trading done by oil trading companies is mainly of cargoes that are yet to be loaded.

- Storage and trade by commercial enterprises would be feasible when they aggregate large requirements of multiple end users that are dependent on imports for meeting their product requirement. In such cases, some volume in the storage tanks can be traded based on surplus availability.

Overall, while the current system ensures operational responsiveness, it offers limited flexibility and strategic advantage in dynamic market conditions. The diagram below reflects the six typical trading archetypes.

Six Types of Trading Archetypes

Typically, the product portfolio of oil companies may be structured so as to consist of ~50-80% from third party trading and can also have a derivative volume of ~10X of physical volumes (all commodities).

Investment Strategies in Global Oil and Gas sector

Globally, oil and gas investments are undertaken under joint venture mode for sharing of associated risks. The joint ventures can be incorporated (IJV) or unincorporated (UJV). UJVs are more common in the oil and gas industry and come with the added benefit of equity oil and gas lifting entitlements leading to regular cash flows (as compared to periodical dividends from IJVs). Oil and gas investments involve production sharing contract (PSC) between the host government and oil companies. Oil companies sign a joint operating agreement (JOA). The agreements identify the Operator (one of the participants selected by the oil companies) and the other oil companies invest as non-operators.

When any party enters the project at a later stage, one of the existing parties sells all/part of its rights and obligations in the project to such willing company. Such opportunities are generally structured by way of acquiring:

(i) **Option 1**: a participating interest (PI); or
(ii) **Option 2**: acquiring shares of an SPV/company holding the PI.

From the energy security perspective, it is eminently preferable to have entitlement to equity oil and gas as this provides a valuable right to nations to use the oil and gas for meeting their energy requirements especially in times of wars and other national emergencies. Substantial lifting rights also provide the ability to influence the market.

However, currently, only acquisition of shares in a company is permitted for GIFT IFSC entities which limits the investment to an IJV only. Consequently, entities in IFSC would be forced to look at holding the investments in UJVs either directly from mainland India or from SPVs overseas to leverage the fiscal and regulatory efficiency available in those overseas jurisdictions.

It is recommended that commodity trading units in IFSC should be permitted to invest in UJVs with a view to acquire off take rights and other similar rights from the assets specified in the UJV agreement from GIFT IFSC thereby strengthening the nation's energy security, enhancing standing in the global oil and gas markets, and also enable GIFT IFSC to onshore the offshore.

Why an Oil Company may need a trading desk in GIFT IFSC?

Oil companies may consider establishing a trading desk in the GIFT IFSC as a forward-looking move which may align with both their core business strengths and the evolving dynamics of the global energy market. The key considerations on the basis of which the companies may evaluate positively on the need for a trading desk in GIFT IFSC are as below:

- **Synergy with in-House Capabilities:** Oil companies in India possess a robust pool of in-house talent across technical, chartering, operations, and risk management domains. By leveraging these existing competencies, companies can seamlessly integrate trading activities with their core businesses. The trading desk would not only complement the primary operations but also enable asset-backed trading, allowing the companies to optimize the value of their physical assets through sophisticated market participation.

- **Business Leverages and Operational Advantages:** Setting up a trading desk in GIFT IFSC requires relatively low capital investment, making it cost-effective expansion. The desk would facilitate several business leverages, including:

    - **Blending**: The ability to blend different grades of crude and products to maximize value.
    - **Freight Optimization**: Enhanced control over shipping logistics, reducing costs and improving delivery efficiency.
    - **Regional Arbitrage**: Exploiting price differentials across regions to generate additional margins.
    - **Distress Cargo Handling**: The capability to manage and profit from distressed cargoes.
    - **Best Practices**: Adoption of global best practices such as multiple negotiation strategies, discreet market entry, and optimal market timing to enhance profitability and risk management.

- **Future-Readiness and Strategic Flexibility:** A trading desk in GIFT IFSC will position the companies to be future-ready. It will foster the development of bilateral relations and build capabilities to handle complex scenarios such as force majeure events, distress purchases or sales, and premium sales. Furthermore, the desk can easily pivot to trading in emerging commodities, including chemicals, electricity, hydrogen, and ammonia.

- **Government of India Support and International Opportunities:** Oil companies especially PSUs stand to benefit from strong Government support, particularly in securing government-to-government contracts with neighboring countries such as Bangladesh, Sri Lanka, and Mauritius. Additionally, opportunities facilitated through the Ministry of External Affairs (MEA) in countries like Maldives, Myanmar, and Namibia can be more effectively pursued and managed through a dedicated trading desk in GIFT IFSC.

- **Sustainability and Resilience:** The trading desk will create a new, sustainable revenue stream thereby enhancing resilience to market disruptions and volatility. By continuously developing intellectual capital within the organization, the Oil companies can ensure they remain adaptive and innovative in a rapidly changing global market.

The Chinese experience

China's economy has significantly benefited from commodity trading over the past few decades. The country's rapid industrialization and urbanization have driven a massive demand for various commodities, including oil, coal, iron ore, and agricultural products. Some key pointers and statistics that highlight how China has benefited from commodity trading are enumerated below:

Economic Growth and Industrialization

China's GDP growth has been closely linked to its commodity consumption. The country has been the world's largest consumer of many commodities, which has fueled its industrial growth. For instance:

- **Fuel and Mining products:** China's export of fuel and mining products stood at USD 106 billion in 2023 making it one of the top 10 exporters in the product[35].
- **Iron Ore**: China is the world's largest importer of iron ore, accounting for over 70% of global imports. In 2020, China imported 1.17 billion metric tons of iron ore, valued at approximately USD 127 billion.[36]
- **Coal**: China is also the largest consumer and producer of coal. In 2020, China produced 3.84 billion tons of coal and imported 304 million tons[37].

Trade Surplus and Foreign Exchange Reserves

China's involvement in commodity trading has contributed to its trade surplus and accumulation of foreign exchange reserves. The country has leveraged its manufacturing capabilities to export finished goods, while importing raw materials. This trade dynamic has helped China build substantial foreign exchange reserves, which stood at USD 529.91 billion as of December 2020.[38]

Infrastructure Development

Import of commodities like steel and cement has been crucial for China's infrastructure development. Massive infrastructure projects, such as the Belt and Road Initiative (BRI), have required significant amounts of raw materials such as steel and cement.

The development of BRI led to creation of avenues for import trade. The China Import Development Report 2021, states that from 2014 to 2021, China's imports from the 64 countries participating in the BRI increased from USD 483.4 billion to USD 776.5 billion with an average annual growth of 8.7%.[39]

Evolution of Chinese state-owned National Oil Companies (NOCs)

Chinese NOCs have undergone a significant transformation over the past few decades, evolving from domestically focused entities into influential players on the global energy stage. Initially, the sector was dominated by three large state-owned enterprises tasked with developing China's domestic oil reserves, building and operating extensive pipeline networks, and managing the country's increasingly sophisticated downstream operations. These companies were also responsible for filling and maintaining China's strategic petroleum reserves, ensuring national energy security.

As China's economy expanded rapidly, domestic oil demand began to outstrip local production capabilities. This shift compelled Chinese NOCs to look beyond their borders, becoming major investors in the global upstream sector. They established a presence in international oil exploration, production, refining, and trading, integrating themselves into the global supply chain.

Since 2014, the trading arms of PetroChina and Sinopec—ChinaOil and Unipec—have notably increased their activity on global trading platforms such as the Platts window.

The key objectives for this are:

- to obtain best price on global markets for imports / exports
- to become more dominant in global benchmarks and impact global oil prices actively
- to become a price maker in global oil markets, implying a greater presence across global supply chain

Looking ahead, China's NOCs are planning to further consolidate their influence by building an oil pricing center in the Asia-Pacific region, particularly targeting countries along the BRI. This strategic move aims to establish China as a central hub for oil pricing in the region, further enhancing its role and impact in the global energy landscape.

Conclusion

China's economy has reaped substantial benefits from commodity trading, driving its industrial growth, infrastructure development, and energy security. The country's strategic approach to securing raw materials and its dominant position in global commodity markets have been pivotal in sustaining its economic growth.

The success story of China provides a compelling case for India to enable commodity trading from IFSC. By adopting best practices from various commodity trading hubs, India can create a thriving commodity trading ecosystem in GIFT IFSC.

4.6 Enabling Commodity Trading from IFSC: A Catalyst for India's Viksit Bharat Mission

Global commodity trading plays a crucial role in the economic development of a nation by acting as a catalyst for economic activities and ensuring the availability of vital resources. Commodity markets have adapted to the complexities of modern economies, facilitating international trade and providing platforms for price discovery, risk management, and liquidity. Supporting trade processes, attracting foreign investment, and enhancing competitiveness, commodity trading contributes significantly to economic growth. It offers opportunities for arbitrage, speculation, and hedging, fostering trade linkages critical for sustainable progress.

The trading ecosystem plays a crucial role in the economic growth of any nation. Export activities contribute to development by expanding markets, generating revenue, enhancing productivity, and facilitating specialization, thereby becoming integral to economic progress. Conversely, imports are essential for accessing products, services, and technology that a country may lack the resources to produce. Thus, trade is invaluable for its multiple benefits.

India has witnessed considerable growth in exports from 2013 to 2023. From 2013-14 to 2023-24, India's trade economy experienced double-digit growth, with exports increasing from USD 466.22 billion to USD 778.13 billion[40]. Despite various challenges such as global supply chain disruptions, geopolitical issues, and fluctuating commodity prices, exports continued to grow to USD 820.93 billion[41] in 2024-25.

Even India's export performance relative to GDP has consistently been positive over the years and is projected to retain its positive growth (see table below)[42].

Year	Exports to World (USD Bn)	GDP (USD Bn)	Exports of Goods and Services (% of GDP)
2010	275	1,708	16
2011	375	1,823	20
2012	448	1,828	24
2014	466	2,039	22
2015	469	2,104	22
2016	416	2,295	18
2017	440	2,651	16
2018	499	2,703	18
2019	538	2,836	19
2020	526	2,672	19
2021	497	3,150	16

2022	676	3,390	20
2023	778	3,732	21
2030	2,000	6,993	28
2040	5,504	18,978	29
2047	10,408	34,692	30

India aims to achieve USD 2 trillion in exports by 2030[43] and ~USD 10 trillion exports and a USD 30 trillion economy by 2047[44] making it 'Viksit Bharat'. To achieve these targets, India needs to focus on several key strategies:

- **Global Integration**: Engage with international markets to improve market liquidity, price discovery, and efficiency.
- **Economic Diversification**: Expand economic activities beyond traditional sectors to stimulate growth in emerging areas.
- **Capital Contribution:** Ensure substantial capital inflows to support infrastructure development needed for growth.
- **Foreign Participation:** Encourage participation from international players to deepen market liquidity.
- **Export Competitiveness**: Develop platforms to minimize price volatility, boosting competitiveness in global markets.

The targets envisioned for making 'Viksit Bharat' are huge. Enabling commodity trading from the IFSC can act as a strategic move and significantly smoothen the path to achieve the vision.

For IFSC to establish itself as a global commodity trading hub, it must adjust and implement key regulatory changes to support the development of a robust trading ecosystem. The upcoming chapter offers a detailed overview of the proposed tax and regulatory recommendations for making GIFT IFSC a global commodity trading hub.

युक्ति युक्तं प्रगृह्णीयात् बालादपि विचक्षणः।
रवेरविषयं वस्तु किं न दीपः प्रकाशयेत्॥

The wise should learn to accept wisdom from anybody.

***

5: Enabling commodity trading from IFSC

5.1. Existing definition of financial product and financial services in the IFSCA Act

The International Financial Services Centres Authority Act, 2019 (IFSCA Act, 2019) regulates financial products/ financial services in IFSC. For an activity to be enabled in IFSC and regulated by IFSCA, it is a pre-requisite for it to be notified as a financial product/ financial service in IFSCA Act, 2019.

5.1.1. As per section 3 clause (d) of the IFSCA Act, 2019, “financial product" means—

(i) securities;
(ii) contracts of insurance;
(iii) deposits;
(iv) credit arrangements;
(v) foreign currency contracts other than contracts to exchange one currency for another that are to be settled immediately; and
(vi) any other product or instrument that may be notified by the Central Government from time to time.

5.1.2. As per section 2 clause (e) of the IFSCA Act, 2019, "financial service" means—

(i) buying, selling, or subscribing to a financial product or agreeing to do so;
(ii) acceptance of deposits;
(iii) safeguarding and administering assets consisting of financial products, belonging to another person, or agreeing to do so;
(iv) effecting contracts of insurance;
(v) offering, managing or agreeing to manage assets consisting of financial products belonging to another person;
(vi) exercising any right associated with a financial product or financial service;
(vii) establishing or operating an investment scheme;

(viii) *maintaining or transferring records of ownership of a financial product;*
(ix) *underwriting the issuance or subscription of a financial product;*
(x) *providing information about a person's financial standing or creditworthiness;*
(xi) *selling, providing, or issuing stored value or payment instruments or providing payment services;*
(xii) *making arrangements for carrying on any of the services in sub-clauses (i) to (xi);*
(xiii) *rendering or agreeing to render advice on or soliciting for the purposes of—*
(A) buying, selling, or subscribing to, a financial product; or
(B) availing any of the services in sub-clauses (i) to (xi); or
(C) exercising any right associated with a financial product or any of the services in clauses (i) to (xi);
(xiv) *any other service that may be notified by the Central Government from time to time;*

5.2. Proposed definitions/amendments for enabling commodity trading including derivatives, and provision of related services

5.2.1. Enabling commodity trading as a financial product / financial service

Alternative I	**Alternative II**
a) Financial product: Commodity trading contract ***Commodity trading contract*** *shall mean a contract for purchase or sale of a commodity, that is intended and capable of being delivered.* ***Note*** *- IFSCA may provide a list of commodities/goods for the purpose of such contracts. To do so, IFSCA may notify a negative list including goods mentioned in CITES and SCOMETS list[45] for commodities and permit trading of all the remaining commodities.* **b) Financial services***: Commodity trading including merchanting trade*	**a) Financial product:** Commodity ***Commodity*** *shall mean and include any physical or energy good, item or produce that is capable of being delivered and traded.* **b) Financial services:** • *Commodity trading* • *Merchanting trading* ***Commodity trading*** *shall mean purchase or sale of a commodity.* ***Note*** *- IFSCA may provide a list of commodities/goods for such purpose. To do so, IFSCA may notify a negative*

Commodity trading *shall mean purchase or sale of a commodity.* ***Merchanting trade*** *shall mean trade involving shipment of commodities from one country to another country, or shipment of commodities within one specific foreign country, through an intermediary in IFSC.*	*list including goods mentioned in CITES and SCOMETS list for commodities and permit trading of all the remaining commodities.* ***Merchanting trade*** *shall mean trade involving shipment of commodities from one country to another country, or shipment of commodities within one specific foreign country, through an intermediary in IFSC.*

To develop India into a merchanting trade hub, the FTP 2023 has introduced provisions for merchanting trade which ***will allow Indian entrepreneurs to convert certain places like GIFT city etc. into major merchanting hubs*** *as seen in places like Dubai, Singapore and Hong Kong*[46]

- **Directorate General of Foreign trade (DGFT)** vide its notification dated 29 February 2024[47] has provided for the revised definition for merchanting trade as follows:

  "Merchanting trade" involving shipment of goods from one foreign country to another foreign country without touching Indian ports, or shipment of goods within one specific foreign country, involving an Indian intermediary is allowed subject to compliance with RBI guidelines, except for goods/items in the CITES and SCOMET list."

- As per the **FEMA Master Direction – Import of Goods and Services**[48], *"For a trade to be classified as Merchanting Trade, goods acquired shall not enter the Domestic Tariff Area"*

- Goods which are permitted for export and import under the prevailing Foreign Trade Policy of India can only be involved in merchanting trade transactions. Merchanting trade is not permitted for goods/ items mentioned in the CITES and SCOMET list[49].

- Further, under merchanting trade transactions, both the legs import and export must be routed through same Authorised Dealer Bank. AD banks are not permitted to issue Letter of Comfort/ Letter of Undertaking for supplier's/ buyer's credit.

- Both import and export under the merchanting trade transaction should be completed within the period of 9 months and there should not be any outlay of foreign exchange beyond 4 months. The commencement of merchanting trade will be effective from the date of shipment/export leg receipt or import leg payment, whichever is earlier. The completion date would be the date of shipment /export leg receipt or import leg payment; whichever is the later.

- Further, the merchanting trade is required to result in profit which shall be determined by subtracting import payments and related expenses from export proceeds for the specific trade transaction.

5.3. Current regulation/ law for derivatives

- As mentioned above, currently, the IFSCA Act, 2019 includes inter alia "securities" as a financial product. As per section 3(2) of the IFSCA Act, 2019, "Words and expressions used and not defined in this Act but defined in the Acts specified under column (3) of the First Schedule to this Act shall have the meanings respectively assigned to them in those Acts".

- The first Schedule of the IFSCA Act, 2019 inter alia includes SCRA. Thus, for the purpose of definition of "securities" under the IFSCA Act, 2019, one needs to refer to the SCRA.

- As per section 2(h) of the SCRA, "securities" includes "derivatives".

- Further, as per section 2(ac) of the SCRA "Derivative" includes

(A) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

(B) a contract which derives its value from the prices, or index of prices, of underlying securities;

(C) Commodity derivatives…."

- Commodity derivatives are in turn defined under section 2(bc) of the SCRA to mean a contract—

  (i) for the delivery of such goods, as may be notified by the Central Government in the Official Gazette, and which is not a ready delivery contract; or

  (ii) for differences, which derives its value from prices or indices of prices of such underlying goods or activities, services, rights, interests and events, as may be notified by the Central Government, in consultation with the Board, but does not include securities as referred to in sub-clauses (A) and (B) of clause (ac).

- Therefore, currently only commodities which have been notified by the Central Government are eligible to be the underlying for the purpose of commodity derivatives. This may be restrictive for commodity traders in IFSC. An example for this is as below:

  - The current list of goods[50] as notified under SCRA includes Natural Gas under 'Energy' commodities. A restrictive view may be possible that this would not include Liquified Natural Gas (LNG).

  - A trader engaged in LNG will have significant exposure, and in essence LNG is re-gasified to form Natural Gas.

  - Similarly, the current list under SCRA does not include Liquified Petroleum Gas (LPG) or its constituents Propane and Butane. This would again act as a hindrance for oil and gas companies if they are to follow the SCRA list.

- Therefore, for the purpose of enlarging the scope of commodities on which derivatives can be issued, the power to notify such list of commodities may be vested with IFSCA for which necessary amendments can be made in SCRA as discussed below.

5.3.1. Enabling issuance and trading of Commodity Derivatives in IFSC

Over-the-Counter Commodity Derivatives

As per Section 18A of the SCRA, "contracts in derivative shall be legal and valid if such contracts are—

(a) traded on a recognized stock exchange;

(b) settled on the clearing house of the recognized [stock exchange; or]

in accordance with the rules and bye-laws of such stock exchange.]

(ba) regulated by the International Financial Services Centres Authority established under section 4 of the International Financial Services Centres Authority Act, 2019, in an International Financial Services Centre and issued by a Foreign Portfolio Investor.

(c) between such parties and on such terms as the Central Government may, by notification in the Official Gazette, specify."

From the above reading of Section 18A, commodity derivatives, being securities, which are traded over-the-counter shall not be legal and valid unless they are issued by an FPI, if so eligible, in an IFSC. In order to enable issuance and trading of Over-the-Counter Commodity Derivatives by eligible participants in IFSC, an amendment to clause (ba) to section 18A of SCRA may be proposed on the following lines:

"(ba) regulated by the International Financial Services Centres Authority established under section 4 of the International Financial Services Centres Authority Act, 2019, in an International Financial Services Centre and issued by

(i) a Foreign Portfolio Investor, or

(ii) any financial institution set up in any International Financial Services Centres as far as the underlying for such contract is an eligible commodity/good as notified by the International Financial Services Centres Authority for the purposes of Commodity Trading.

Exchange-traded Commodity Derivatives

No enablement is required for Exchange-trade Commodity Derivatives, as far as the underlying is commodities/good notified by the Central Government. However, to enable launch of exchange-traded derivatives on commodities/goods other than those notified by the Central Government, it may be proposed that for the purposes of exchanges in IFSC, such list may be notified by the IFSCA, similar to the one proposed for the purposes of Commodity Trading above. For this purpose, amendment may be proposed in Section 2 (bc) of SCRA.

5.4. Enabling activities related to commodity trading

Sr.No	Financial Services
1.	***Warehousing*** ***Warehousing*** *shall mean activity of storing and handling of permissible commodities for the purpose of commodity trading.* *For this purpose, IFSCA may authorize any unit authorized under SEZ Rules to warehouse commodities for the purpose of commodity trade and such units shall be deemed to be in an IFSC.*
2.	***Commodity broking*** ***Commodity broking*** *shall mean execution of orders to buy or sell contracts for commodity trading on behalf of the clients.*

सर्वदा रक्षां कुरु सर्वत्र सर्वदा |
Always provide protection everywhere at all times.

***

6: Specific measures/ incentives required to position GIFT IFSC as a Commodity Trading Hub

As discussed above, the development of global commodity trading hubs is a multifaceted phenomenon driven by a combination of fiscal and non-fiscal factors such as tax incentives, customs efficiency, legal and policy frameworks, regulatory environments, operational efficiencies, and geopolitical stability all of which culminate into a certain location becoming center for commodity trading. These hubs facilitate the efficient exchange of commodities on a global scale, contributing to the interconnectedness of international markets. For the development of GIFT IFSC as a commodity trading hub, the following measures and incentives are recommended:

I. Regulatory Recommendations

6.1. Foreign Trade (Development & Regulation) Act, 1992: The units set up in IFSC are treated as outside India from FEMA perspective and accordingly all FEMA provisions are not applicable to them other than in cases where these units transact with the Indian entities.

However, the Foreign Trade (Development & Regulation) Act, 1992 is applicable to units in IFSC. Thereby, all trade related policies set out in Foreign Trade Policy by DGFT are applicable to units in IFSC. DGFT vide its notification dated 29 February 2024 provides the revised definition for merchanting trade as follows (emphasis supplied):

"Merchanting trade involving shipment of goods from one foreign country to another foreign country ***without touching Indian ports****, or shipment of goods within one specific foreign country, involving an Indian intermediary is allowed subject to compliance with RBI guidelines, except for goods in the CITES, or under SCOMET"*

Thus, as per this notification, for a trade to qualify as a merchanting trade, it should necessarily not touch the Indian ports. For encouraging global commodity trading entities

to set up base in IFSC, it is necessary to provide a carve out to the effect that for the units undertaking merchanting trade through IFSC, the definition as provided by the IFSCA shall be applicable instead of the definition provided by the DGFT (mentioned above).

Moreover, from time to time, the Government of India has been imposing restriction on exports (stipulation that some share of the volume exported should be sold in the domestic market) despite the country being surplus in products. Such restrictions do not augur well for any commodity trading hub and it should be clarified that these restrictions are not applicable for commodity trading entities in IFSC.

6.2. **Reserve Bank of India (RBI) regulations:** RBI Master Direction on Import of Goods and Services (FED Master Direction No. 17/2016-17)[51] imposes certain restrictions on merchanting trade such as the entire MTT should be completed within an overall period of nine months and there should not be any outlay of foreign exchange beyond four months. Further, the trade should result in profit. In other words, loss trades are not permitted. Note that the commodity traders who will be set up as IFSC units will be treated as non-resident from an exchange control standpoint and ideally, would not be subject to the above regulations. However, if they are dealing with an Indian bank having operations in IFSC, those banks may still be guided by the above master directions. Therefore, it is imperative to clarify that these regulations do not apply to the commodity trader nor to the banking units in IFSC.

6.3. **Permissibility for hedging risks for the group entities**: Regulation 6 (iii) of the Foreign Exchange Management (Foreign exchange derivative contracts) Regulations, 2000 states that a unit in SEZ may enter into contracts in a commodity exchange or market outside India to hedge the price risk of the commodity of export/ import, subject to the condition that such contract is entered into on a **'stand-alone'** basis. Further, the term ‘stand-alone’ is explained in the Regulation as follows:

'stand-alone' means that the unit in the SEZ is completely isolated from financial contracts with its parent or subsidiary in the mainland or within the SEZ(s) as far as its import/export transactions are concerned.

Separately, the GTC Framework as issued by IFSCA on 04th April, 2025 allows a finance company/ unit setup in IFSC to undertake derivatives transactions (both OTC and exchange traded) within IFSC or outside to hedge the risk on its own books or the risk on the books of its group entities. However, the framework stipulates that FEMA regulations are to be followed wherever the group entities are resident in India.

Thus, a finance company/unit established in GIFT IFSC (an SEZ) intending to implement a centralized hedging model as part of permissible activities under the GTC Framework to hedge the commodity risk for its parent or group entities (which are residents in India) would face significant constraint to undertake such activities.

Thus, it is recommended to amend the aforementioned FEMA regulation since it would act as hindrance in evolving GIFT City as a global financial hub.

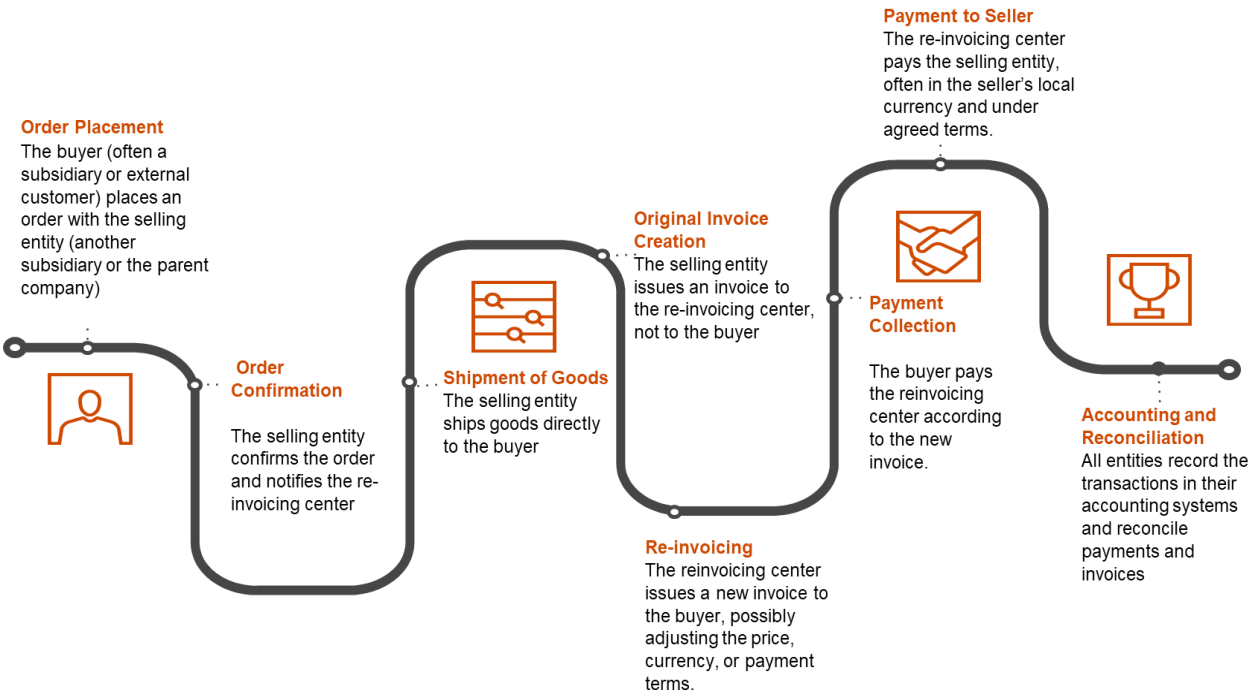
6.4. **Permitting Banks in IFSC to undertake commodity trading:** At present, section 8 of the Banking Regulation Act, 1949, along with the International Financial Services Centres Authority (Banking) Regulations, 2020, prohibits banks from dealing in goods, with the exception of bullion and specie. This regulatory limitation significantly constrains the ability of banks in the IFSC to participate in the trading of a wider array of commodities, such as energy products, agricultural commodities, and industrial metals. Moreover, this restricts the Indian banks to act as a counterparty to transactions involving commodities other than bullion and specie.

The current restrictions impede the development of a robust and comprehensive commodities market within the IFSC. Banks are unable to offer a full suite of trading and risk management solutions to their clients, which in turn limits the attractiveness of the IFSC as a global financial hub. In contrast, foreign banks operating in leading international financial centers such as the United Kingdom and Singapore are permitted to undertake commodity trading activities. This regulatory flexibility has contributed to the growth and dynamism of their respective financial markets.

Allowing banks in the IFSC to participate in commodity trading would not only enhance the range of services available to market participants but also foster greater liquidity and depth in the commodities market in IFSC. This would be instrumental in meeting the evolving needs of clients, including corporates, institutional investors, and other market participants who require sophisticated risk management and hedging solutions.

6.5. **Regulatory Framework**: A robust yet detailed regulation tailored to meet international standards can attract global players. The regulation for governing trading in commodities could include provisions for requirement for licenses, standardized contracts, maintenance of books, records and furnishing accounts, conduct of commodity trading, risk management policies, monitoring mechanisms, etc.

6.6. Permit re-invoicing in IFSC: Re-invoicing is where an intermediary entity—often a group company or a specialized re-invoicing center—acts between the original seller and the final buyer. This entity purchases goods from the original seller and then sells them to the final buyer, issuing a new invoice in the process. Re-invoicing centers are typically located in jurisdictions that offer regulatory, tax, or operational advantages, such as IFSC. The typical steps involved in the process of re-invoicing have been depicted in the below diagram:



Permitting re-invoicing from GIFT IFSC will offer a multitude of benefits for commodity traders in IFSC as discussed below:

- **Centralized Billing and Settlement**: By routing all transactions through a single entity in the IFSC, multinational commodity traders can centralize their billing and settlement functions. This streamlines operations, reduces duplication, and enhances control over cash flows.

- **Currency Risk Management**: Commodity trades often involve multiple currencies. A re-invoicing center can consolidate these into a single currency, reducing exposure to currency fluctuations and simplifying hedging strategies.

- **Operational Efficiency**: Centralizing administrative functions such as invoicing, payment processing, and documentation in the IFSC can lead to significant cost savings and improved efficiency.

- **Regulatory and tax advantages**: GIFT IFSC offers a favorable regulatory and tax regime, simplified compliance requirements, and access to international financial markets.

In summary, establishing a re-invoicing center in GIFT IFSC would allow commodity traders to optimize their global operations by centralizing key functions, managing risks more effectively, and leveraging the unique advantages offered by the IFSC environment.

Case Study: Navigating Regulatory Challenges in the Indian Trading Sector

Background:

In the dynamic landscape of international trade, entities often establish specialized units in strategic locations to optimize their operations. An Indian trading entity, seeking to leverage the benefits of the IFSC in India, seeks to set up a unit within the IFSC to manage its trade bookings before exporting them to an overseas entity.

Challenges:

The RBI has stipulated in its Master Direction on the export of goods and services that the realization of export proceeds must be completed within 9 months from the date of export. This directive applies to all export transactions, including those considered as deemed exports to the IFSC unit. The stringent timeline for realization of proceeds places a significant burden on the entity's cash flow management and necessitates efficient tracking of receivables.

Further, banks play a crucial role in the monitoring of export transactions. They are mandated to track each export transaction against the realization of proceeds using the Export Data Processing and Monitoring System (EDPMS). This system is designed to ensure compliance with the RBI's export realization norms. However, the requirement for detailed mapping and reporting can be cumbersome and resource-intensive for the trading entity. It requires a high level of accuracy and timeliness in reporting, which can be challenging to maintain consistently.

This acts as deterrent to the smooth functioning of the trading entity's operations. The need to adhere to the 9-month realization deadline for export proceeds can lead to increased operational pressure and potential liquidity constraints. Additionally, the obligation to comply with the EDPMS reporting requirements adds to the administrative workload and necessitates robust internal processes to ensure accurate and timely compliance.

This highlights the Indian trading entity's challenges in dealing with deemed exports to its IFSC unit and the complexities of navigating regulatory frameworks in international trade.

II. Direct Tax Recommendations

6.7. **Taxation incentives**: The Government of India has already offered a consecutive 10-year tax holiday (out of a period of 15 years) for entities in GIFT IFSC. There is, however, no clarity with respect to taxation in the pre and post-tax holiday period. An entity setting up presence in a new jurisdiction would typically look for a long-term clarity with respect to taxation to determine the business viability. Thus, the Government should consider extension of the 10-year tax holiday beyond 10 years to 25 years or atleast till 2047 which aligns with India's timeline of being 'Viksit Bharat'.

6.8. **Taxation of individuals shifting to IFSC**: Individuals having commodity trading experience are currently residing in commodity trading hubs such as Singapore, Hong Kong, UAE and Switzerland. Some of these jurisdictions do not levy personal income-tax while in other jurisdictions, personal income-tax is lower than in India. The differential tax rate may act as a deterrent for the individuals to shift to IFSC. Accordingly, individuals who are presently non-resident and who become resident of India only for the purpose of exercising employment with commodity trader in IFSC and carry expertise in certain areas as notified by IFSCA should be taxed at concessional rates.

III. SEZ and GST Recommendations

6.9. **SEZ Rules - Exemption from filing of documents:** Under the Indian Customs Act, 1962, the requirement to file a Bill of Entry or Shipping Bill arises only when a vessel or goods physically enter or leave Indian territorial waters or a customs port. Similarly, the filing of Import General Manifest (IGM) and Export General Manifest (EGM) is mandated only for vessels arriving at or departing from Indian ports. However, Rule 29A and 29B of the SEZ Rules, 2006, as amended, require that for leasing or trading of ships and aircraft or aircraft engine by IFSC entities, the vessel or aircraft or aircraft engine must be brought to a designated customs port or area in India and the relevant customs documents (Bill of Entry, Shipping Bill) must be filed, even if the transaction is between two foreign jurisdictions and the vessel or aircraft or aircraft engine does not physically enter the Indian territory. This compliance has a direct adverse impact on the ease of doing business for shipping and aircraft units in IFSC.

Further, India, as a signatory to the WTO Trade Facilitation Agreement, has introduced the Sea Cargo Manifest and Transhipment Regulations, 2018 (SCMTR), to simplify and expedite customs procedures. Regulation 4(3) of these Regulations require that the cargo declaration forming part of the IGM be filed before the vessel departs from the last port of call, facilitating advance processing and clearance. Even if goods are not unloaded in India but are being trans-shipped through Indian ports, they must be accounted for in the IGM with consignee details. However, if the vessel does not enter Indian territorial waters or an Indian port, these requirements do not apply under the Customs Act or SCMTR.

In view of the above, it is recommended that the SEZ Rules, 2006 be amended to exempt IFSC entities from filing customs documents (Bill of Entry, Shipping Bill, IGM, EGM) for transactions where the vessel or aircraft or aircraft engine or commodities do not physically enter Indian territory, in line with the Customs Act and India's obligations under the Trade Facilitation Agreement. This would significantly enhance the ease of doing business for IFSC-based shipping, aircraft and commodity trading entities.

6.10. Establish warehousing and logistics facilities: Establishing world-class warehousing and logistics infrastructure is essential for the physical handling of commodities. IFSCA can work on setting up dedicated zones for warehousing with state-of-the-art facilities for storage, quality control, and inventory management. It is recommended to have areas of the ports such as Kandla and Krishnapatnam as deemed IFSC ports in order to enable third party exports and re-exports and for enabling warehousing.

Further, in case where the commodity buyer is in India, Free Trade Warehousing Zones (FTWZ) can warehouse these goods. An illustrative reference is made to Rule 19A of the SEZ Rules, 2006 (SEZ Rules). By way of deeming fiction, the SEZ Rules treat a Unit authorized to store an underlying asset (i.e., bullion for the purposes of Rule 19A) to be in IFSC. There does not appear to be a requirement that these are to be physically located in IFSC.

Similar deeming provisions should be notified in the SEZ Rules for other commodities to enable commodity trading from IFSC. In such a case, it is of crucial importance that the Letter of Approval (LOA) granted to the Unit expressly states that the Unit is authorized to store the commodities in connection with commodity trading.

Further, to facilitate trade and encourage FTWZ, GST Council, in its 55th meeting recommended insertion of clause (aa) in entry 8 of Schedule III of the CGST Act

retrospectively from 1 July 2017 to expressly clarify that movement of goods within FTWZs will be exempt from the scope of “supply”. However, this recommendation has not yet been notified. Enabling the same will further facilitate and encourage the cross-border trade ecosystem.

IV. Other points for consideration

6.11. **Permit pre-shipment credit from IFSC:** Exporters are inclining towards pre-shipment financing and to support this, allowing pre-shipment credit from IFSC should be considered.

6.12. **Enable Trade Finance bonds**: As an initiative, issuers can be encouraged to list Trade Finance bonds on the exchanges in IFSC as a specific finance product for commodity traders.

6.13. **Remove the fog around structured finance:** There is a lack of regulatory clarity on types of structured financing products that can be offered from IFSC. It is recommended to provide a negative list of financing products so that the financing institutions can provide all the other products to their clientele in IFSC.

6.14. **Enable securitization**: Commodity-based assets could be pooled and securitized to provide additional liquidity to the market. A regulatory framework for permitting this should be enabled in IFSC.

6.15. **Permissibility of voyage charters:** It is suggested that commodity trading entities within the IFSC may be granted the opportunity to engage ships solely on voyage charter basis to effectively fulfill their trade obligations.

6.16. **Use of commodities as underlying to fund trades**: Banks should fund trades using commodities as the underlying security (similar to shipping finance), which is the norm for banks which fund global trades. The bill of lading (or such similar security) is typically endorsed in favour of the bank, and this serves as the primary security for funds lent to trading companies against bank lines. While Indian banks do use this method to an extent for imports by banks being joint owners of import cargos especially to end users, funding for international trades requires different skill set and capabilities. This includes the ability to monitor the value of commodities and also the ability to liquidate and realize the value should it be required.

V. Macro Recommendations

6.17. **Right of First Refusal (ROFR) to entities in IFSC:** Government purchases account for a large portion of trade undertaken. As an incentive for setting up commodity trading entity in IFSC, the Government should offer an ROFR for purchasing from commodity trading entities in IFSC vis-à-vis procuring from offshore entities. This would provide a huge impetus for entities to set up their commodity trading base in IFSC.

6.18. **Encourage overseas banks and financial institutions to establish presence in IFSC:** Encouraging overseas banks and financial institutions to establish presence in IFSC can increase the availability of Supply Chain Finance (SCF) for commodity traders in IFSC. Additionally, banks in IFSC should be permitted to offer credit solutions at par with the options available overseas at competitive rates.

6.19. **Entering into Free Trade Agreements (FTAs)**: Currently, India has established bilateral trade agreements, encompassing Trade in Services, with several countries, including Singapore, South Korea, Japan, Malaysia, Mauritius, the UAE, and Australia, as well as with the Association of Southeast Asian Nations (ASEAN) through FTAs. In March 2024, India signed the India-European Free Trade Association (EFTA) Trade and Economic Partnership Agreement (TEPA). Moreover, recently India has concluded a landmark FTA with UK after three years of negotiations. Presently, India is involved in FTA negotiations, including Trade in Services with, the EU, Oman, Peru, and Sri Lanka[52].

India should enter into FTAs with various countries which would significantly benefit commodity traders by enabling seamless sourcing of commodities without the hindrance of trade barriers such as tariffs, quotas, and restrictive regulations. By reducing or eliminating these obstacles, FTAs would create a more open and competitive trading environment, allowing commodity traders in GIFT IFSC to access a wider range of products at competitive prices. This increased access would not only enhance the efficiency and profitability of trading operations but also attract more global players to establish their presence in GIFT IFSC. Ultimately, such agreements would strengthen GIFT IFSC's position as a leading international trading hub, fostering economic growth and increasing its appeal to both domestic and international commodity traders.

6.20. **Promote Risk Management Products in IFSC:** Risk management is crucial in commodity trading to hedge against price volatility, currency fluctuations, and other risks.

Facilitating trading of futures, options, and other derivatives over IFSC exchange can help manage price risk. Even allowing traders to hedge their risks on international trade exchanges should be enabled to further create a liquid and competitive environment. Further, enabling customisation of OTC derivatives can be enabled in IFSC to meet the specific needs of commodity traders. Separately, to address credit risk, instruments such as credit default swaps and other credit risk mitigation tools should be made available, reducing the potential for counterparty default. By implementing these strategies, IFSC can effectively support the diverse risk management needs of commodity traders.

6.21. Central bank digital currencies (CBDCs): CBDCs are a digital form of a country's fiat currency, which is issued and regulated by the nation's central bank. Unlike decentralized cryptocurrencies which operate without a central authority, CBDCs are centralized and represent a digital equivalent of a country's existing national currency. CBDCs can bring in the next wave of innovation by reimagining existing service offerings and enabling next-generation trade and supply chain finance. Driven by the configuration of the CBDCs and the data captured in CBDC infrastructure, the supply chains can avail the credit or liquidity of anchor enterprises in a better way. IBUs can leverage the programmability of CBDCs to provide a trusted, transparent and efficient supply chain solution to commodity traders in IFSC. By combining trade and payment information, the CBDC can be programmed according to payment conditions to become a new form of trade finance instrument.

As a use case, the Monetary Authority of Singapore (MAS) is considering multi-CBDC common platform as a potential solution to solve the issues in cross-border payment by acting as a global settlement layer for participating banks.[53]

6.22. Encourage entrance of factors: Factoring has not picked up in India as such considering the limited number of players (8 registered NBFC Factors[54]) in India. The IFSC can become the gateway for India to attract these global factoring companies to develop this space in India.

6.23. Promote ITFS Platform in IFSC: Currently, IFSC houses multiple ITFS platforms to facilitate trade financing by providing access to multiple financiers using technology platforms. It is recommended to promote the ITFS platforms to enable commodity traders to have ease of access to multiple financiers on a single platform.

6.24. Risk-based supervision: IFSCA can consider conducting regular risk assessments of commodity traders to identify potential vulnerabilities and areas of concern. IFSCA should

prioritize their supervision efforts based on risk profiles, focusing on companies with higher risk factors.

6.25. **Whistle-blower protection:** Establishing mechanisms to encourage and protect whistle-blowers who come forward with information about illicit trades is yet another protective measure for promoting fair trade. Providing legal safeguards and incentives for individuals to report suspicious activities without fear of reprisal could be considered.

6.26. **Technology-driven surveillance:** IFSCA can leverage advanced technology solutions, such as data analytics, artificial intelligence, and machine learning, to monitor trading activities, detect patterns of illicit trades, and identify potential red flags.

6.27. **Build operational efficiency**: Infrastructure development such as state-of-the-art trading platforms, warehousing, and logistics facilities can be crucial for development of a global commodity trading hub. Policies to ensure high-speed connectivity and uninterrupted power supply are also important. IFSCA can collaborate with global technology providers to develop and implement advanced trading platforms. These platforms should be equipped with high-frequency trading capabilities, robust security measures, and should support a wide range of commodities. The authority can also ensure that these platforms are integrated with international markets to provide seamless global trading opportunities. Additionally, it is recommended that IFSCA can leverage Public-Private Partnerships (PPP) models to attract investment and expertise from the private sector. These partnerships can be instrumental in building infrastructure and can also help in sharing the risks and rewards associated with the development of such facilities.

6.28. **Reaching out to Indian diaspora of commodity traders**: A multitude of Indian commodity traders have set up their commodity trading entities outside India owing to a number of factors such as strategic location and infrastructure, favorable tax regimes and regulatory environment. As an initial step to positioning IFSC as a commodity trading hub, IFSCA could consider having discussions with such Indian commodity traders to assuage their concerns, if any, and encourage them to set up commodity trading offices in IFSC. A list of the Indian commodity traders that undertake operations from overseas is provided in **Annexure 1** to the report, for reference.

6.29. **Initiate the development of skilled workforce**: A skilled workforce is the backbone of a commodity trading entity. While some of the aspects forming a part of the below

recommendations are already in the works, for the sake of completeness, some of the points are reiterated below.

IFSCA could consider implementing the following for attracting and developing a skilled workforce for evolving into a commodity trading hub:

- Ensure the availability of quality residential areas, international schools, healthcare facilities, and recreational options to enhance the quality of life for professionals and their families.
- Collaborate with top educational institutions to tailor courses and curriculum that meet the specific needs of the commodity trading sector. For e.g., the University Grants Commission (UGC) should grant approval to the Indian Institute of Foreign Trade (IIFT) to operate its flagship MBA programme from its campus in GIFT City.
- Create opportunities for continuous learning and professional development through workshops, seminars, and access to global best practices.
- Offer tax incentives and exemptions that are attractive to both domestic and international professionals.
- Launch a global branding campaign to highlight the advantages of working in India's IFSC and its potential as a commodity trading hub.

Attracting a skilled workforce to the IFSC requires a comprehensive approach that not only focuses on financial incentives but also on creating an ecosystem that supports professional growth, offers a high quality of life, and provides a conducive environment for innovation and entrepreneurship. By implementing these strategies, IFSCA can position the IFSC as a competitive and attractive destination for global talent in the commodity trading sector.

6.30. International Cooperation: International cooperation is vital for the integration of the commodity trading hub in IFSC into the global trading ecosystem. This would involve:

- Forming alliances with other commodity trading hubs and exchanges to facilitate cross-listing and mutual recognition of trading standards.
- Engaging in bilateral and multilateral agreements to foster trade relations and ensure market access for traders.

- Collaborating with international financial institutions and banks to provide the necessary financial services, such as credit facilities, trade finance, and currency exchange.

The table below presents a summary of the key recommendations alongside the corresponding responsible authority:

Major regulatory and tax recommendations

Regulatory Recommendations

Particulars	Proposal	Authority
Notification of commodity trading as a financial product / financial service	**Commodity trading contract** should be notified as 'financial product' and **commodity trading** and **merchanting trade** as 'financial service' by the Central Government under section 3(d)(vi) and section 3(e)(xiv) of the IFSCA Act, 2019. Alternatively, **commodity** may be notified as 'financial product' and **commodity trading** and **merchanting trade** as a 'financial service' under section 3(d)(vi) and section 3(e)(xiv) of the IFSCA Act, 2019 respectively.	Ministry of Commerce and Industry/ Ministry of Finance/ IFSCA
Notification for enabling other commodity trading activities as financial service	• Warehousing • Commodity broking should be notified as 'financial service' by the Central Government under section 3(e)(xiv) of the IFSCA Act, 2019.	Ministry of Commerce and Industry/ Ministry of Finance/ IFSCA
Need for a negative list of commodities for issuance of	Currently, the SCRA governs commodity derivatives and has notified a list of commodities for issuance of derivatives. This list consists of only 104 commodities,	Ministry of Finance/ IFSCA

commodity derivatives	bifurcated in segments and creates ambiguity in terms of the permissibility of issuing commodity derivatives with certain commodities as the underlying. Therefore, for the purpose of enlarging the scope of commodities on which derivatives can be issued, the power to notify such list of commodities may be vested with IFSCA for which necessary amendments can be made in SCRA.	
Enablement of OTC derivatives on commodities	To enable issuance and trading of Over-the-Counter Commodity Derivatives by eligible participants in IFSC, an amendment to clause (ba) to section 18A of SCRA may be proposed on the following lines: *"(ba) regulated by the International Financial Services Centres Authority established under section 4 of the International Financial Services Centres Authority Act, 2019, in an International Financial Services Centre and issued by* *(i) a Foreign Portfolio Investor, or* (ii) *any financial institution set up in any International Financial Services Centres as far as the underlying for such contract is an eligible commodity /good as notified by the International Financial Services Centres Authority for the purposes of Commodity Trading.*	Ministry of Finance/ IFSCA
Regulatory Framework for trading in commodities	Issuance of a detailed regulation for enabling, regulating, monitoring and supervising commodity trading in IFSC.	IFSCA

Permit re-invoicing by commodity traders	Permit re-invoicing by commodity traders set up in IFSC – to be included in the regulatory framework for commodity traders.	IFSCA
Definition of merchanting trade as provided by IFSCA should apply	Carve out should be provided from applicability of the DGFT Notification No. 62/2023 (which defines merchanting trade) for IFSC units undertaking commodity trading. Instead, the definition of 'merchanting trade' as provided by IFSCA should apply. Further, relaxation from export-related restrictions is recommended.	Ministry of Commerce & Industry, DGFT
Clarification on applicability of RBI Master Direction on Import of Goods and Services	RBI Master Direction on Import of Goods and Services (FED Master Direction No. 17/2016-17) imposes certain restrictions on merchanting trade such as the entire MTT should be completed within an overall period of nine months and there should not be any outlay of foreign exchange beyond four months. Further, the trade should result in profit. Commodity traders who will be set up as IFSC units will be treated as non-resident from an exchange control standpoint and ideally, would not be subject to the above regulations. However, if they are dealing with an Indian bank having operations in IFSC, those banks may still be guided by the above master directions. Therefore, it is imperative to clarify that these regulations do not apply to the commodity traders nor to the banking units in IFSC.	RBI/IFSCA
Amendment to Foreign Exchange Management (Foreign Exchange	The GTC Framework issued by IFSCA permits units in IFSC to undertake permissible activities such as hedging on behalf of its group entities subject to	RBI/IFSCA

Derivative Contracts) Regulations, 2000	adhering to the FEMA guidelines. Further, the FEMA (Foreign Exchange Derivative Contracts) Regulations, 2000, restricts a unit set up in an SEZ to undertake hedging of risk contracts for its parent or subsidiary entity. This regulation restricts a unit set up in IFSC as a global treasury centre from undertaking hedging of price risk of the commodity of export/ import for its group entities set up in India or in an SEZ. Therefore, an amendment is required in the FEMA regulation in this regard.	
Allowing banks to trade in commodities	Amendment to Section 6 / Section 8 of Banking Regulation Act, 1949 to permit banks in IFSC to engage in commodity trading in goods in addition to bullion and precious metals.	RBI/IFSCA
Permit pre-shipment credit from IFSC	Exporters are inclining towards pre-shipment financing and to support this, allowing pre-shipment credit from IFSC should be considered.	RBI/IFSCA
Permissibility of voyage charters	Commodity trading entities within the IFSC may be granted the opportunity to engage ships solely on voyage charter basis to effectively fulfill their trade obligations.	Ministry of Shipping / Ministry of Finance/ IFSCA

Tax Recommendations

Particulars	Proposal	Authority
Direct Tax Recommendations		
Taxation incentives for units in IFSC and reduced tax rates for traders set up in IFSC	Extension of the 10-year tax holiday beyond 10 years to 25 years or at least till 2047.	Ministry of Finance, CBDT
Taxation of individuals shifting to IFSC	Non-resident individuals who become resident of India only for the purpose of exercising employment with commodity trader in IFSC and carry expertise in certain areas as may be notified by IFSCA should be taxed at concessional rates.	Ministry of Finance, CBDT
Indirect Tax Recommendations		
Movement of goods within Free Trade Warehouse Zones to be exempt from the scope of supply	GST Council, in its 55th meeting recommended insertion of clause (aa) in entry 8 of Schedule III of the CGST Act retrospectively from 1 July 2017 to expressly clarify that movement of goods within FTWZs will be exempt from the scope of "supply". However, this recommendation has not yet been notified. Enabling the same will further facilitate and encourage the cross-border trade ecosystem.	Ministry of Finance, CBIC

SEZ Recommendations

Particulars	Proposal	Authority
Exemption from filing requirements	Goods bought and sold by commodity traders in IFSC should not be subject to laws in relation to filing of documents like bill of entry, shipping bill, IGM, EGM, etc. where the vessel or goods do not physically enter Indian territory.	Ministry of Commere, Ministry of Finance, CBIC
Establish warehousing and logistics facilities	Rule 19A the SEZ Rules by way of a deeming provision treats a unit in IFSC authorized to store an underlying asset (i.e., bullion) to be in IFSC. This deeming fiction available under Rule 19A of the SEZ Rules should be modified to include reference to permit storing of any permitted commodities under the IFSCA's commodity trading framework.	Ministry of Commerce and Industry

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Money is the driving force behind all labor

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7: Finance – Pillar for development of commodity trading hub

Finance plays a pivotal role in the world of commodity trading, serving as the lifeline that fuels the various activities within this sector. It provides the necessary liquidity and capital allocation required for the efficient functioning of commodity markets. Traders rely on financial instruments and credit to hedge against price volatility, secure inventory and manage risks associated with the supply and demand fluctuations inherent in commodity trading. This is evident from an analysis of the financial composition of the major commodity trading companies which is attached as **Annexure 2** to the report.

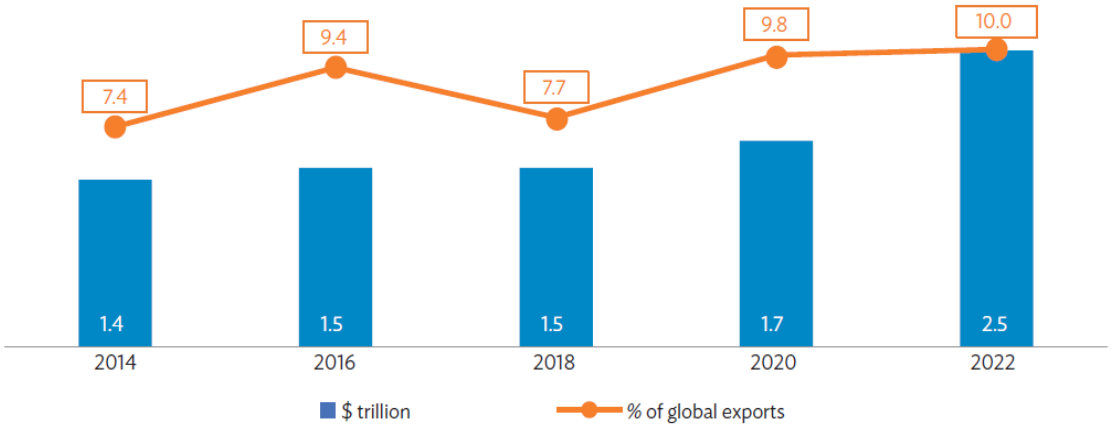
Moreover, finance enables the leveraging of positions, amplifying the purchasing power of market participants and allowing for larger scale transactions that might otherwise be unattainable. This leveraging, while increasing potential returns, also introduces a layer of complexity and risk, necessitating sophisticated financial risk management strategies. The key functions and aspects of finance in a commodity trading ecosystem are discussed below.

7.1. Capital and Leverage

One of the primary functions of finance in commodity trading is to provide the necessary capital required to facilitate trades. Traders often operate with significant leverage, meaning they use borrowed funds to amplify their trading capacity. This leverage can increase potential returns, but it also raises the risk profile of trading activities. Access to finance allows traders to not only engage in larger transactions than would be possible with their own capital alone but also provides a base for its supply chain to work proficiently without any hurdles.

However, the current global scenario reflects a huge gap in trade financing. The Asian Development Bank's (ADB) publication on trade finance gap in 2023[55] stated that the global trade finance gap was USD 2.5 trillion for FY 2022 as compared to USD 1.7 trillion

in FY 2020. Over the years, the gap in global trade finance has widened due to these factors and has reached approximately 10% of the global trade exports amounting to USD 2.5 trillion[56] which is enumerated in the graph below:



Sources: ADB. 2023 Trade Finance Gaps, Growth, and Jobs Survey—Banks; and World Trade Organization. WTO Data. https://data.wto.org/ (accessed 19 July 2023).

7.2. Risk Management

Risk management is another critical aspect of finance in commodity trading. Given the volatile nature of commodity prices, traders need to employ financial instruments to hedge against potential losses. These instruments can include:

- **Futures contracts**: Agreements to buy or sell a commodity at a predetermined price at a specified time in the future.
- **Options**: Contracts that give the buyer the right, but not the obligation, to buy or sell a commodity at a certain price within a specific time frame.
- **Swaps**: Financial agreements to exchange cash flows or other financial instruments, often used to manage exposure to fluctuations in commodity prices.

By using these and other derivatives, traders can protect themselves against price swings and other risks inherent in the commodity markets.

7.3. Liquidity and Market Efficiency

Finance contributes to liquidity in the commodity markets. A liquid market is one where large transactions can be executed quickly without a significant impact on the price of the commodity. This liquidity is essential for the efficient functioning of the markets, as it ensures that prices reflect the true supply and demand dynamics. Financial institutions and investors provide the capital that supports this liquidity, enabling traders to enter and exit positions with ease.

7.4. Financing the supply chain and end consumer

Commodity producers and consumers also rely on finance to stabilize their operations. Producers, such as farmers or mining companies, may require financing to cover the costs of production before they can sell their goods on the market. Similarly, consumers of commodities may need financing to secure large purchases. For example, an airline might use financing to pre-purchase fuel, locking in prices and ensuring a steady supply.

7.5. Investment and Speculation

Finance also facilitates investment and speculation in the commodity markets. Investors and speculators provide capital and assume risk with the expectation of earning a return. Their activities can introduce additional capital into the market, which can help with price discovery and the allocation of resources. However, speculative activities can also contribute to increased volatility in commodity prices.

In conclusion, finance and risk management is integral to the functioning of commodity trading. It provides the necessary capital and management strategies to ensure smooth sail of trading operations, contributing to market liquidity and stability and supporting the commodity trading ecosystem.

7.6. Challenges faced by Commodity Traders from financing perspective

- **Risk Perception:** Commodity trading is perceived as a high-risk activity due to price fluctuations, geopolitical tensions, and the cyclical nature of commodities markets. This perception increases the risk premium and often leads to stringent lending criteria by financial institutions.

- **Collateral Issues:** Lenders typically require collateral to mitigate the risk associated with credit. However, the nature of commodities as collateral is complex due to issues like perishability, storage costs, and quality degradation, which can deter banks from accepting them as security.

- **Regulatory Environment:** The regulatory framework governing commodity trading in India is considered stringent, with frequent changes that may affect the creditworthiness of traders. Compliance requirements can also increase the cost of borrowing.

- **Information Asymmetry:** There is often a lack of transparent and reliable information about commodity markets and traders' financial health, which leads to credit rationing by financial institutions.

- **Limited Specialized Financial Products:** There is a scarcity of financial products tailored to the specific needs of commodity traders. Traditional loan products may not align well with the cash flow patterns and hedging strategies of these traders.

As a culmination of the above, Indian companies are establishing trading hubs in Dubai and Switzerland.

7.7. Key stakeholders in development of a commodity trading hub

In order to develop a Global Commodity Trading Hub, the pivotal role to manage the financial ecosystem and risk management ecosystem is undertaken by the following stakeholders:

7.7.1. Banks

Banks play a pivotal role in the development of a commodity trading hub. They provide the necessary capital and financial services that enable traders to conduct their business. This includes offering trade finance solutions that help to mitigate the risks associated with commodity trading, such as price volatility and counterparty risk. Banks also offer letters of credit, which are essential for international trade, as they guarantee payment to

the seller upon the fulfillment of specified conditions. Apart from the above, banks even provide ancillary services in the form of advisory and investment solutions.

Moreover, banks are involved in the provision of hedging instruments such as futures, options, and swaps, which are used by traders to manage price risks. By facilitating these financial instruments, banks help traders to lock in prices and margins, which is crucial for the stability and predictability of the trading environment.

7.7.2. Financial Institutions

Apart from banks, financial institutions such as investment funds, insurance companies, and financing platforms also contribute significantly to the development of a commodity trading hub. These institutions provide liquidity to the market, making it easier for participants to enter and exit trades. They also invest in commodities as an asset class, which can bring additional capital into the market.

Separately, commodity exchanges are particularly important as they provide a regulated marketplace where commodities can be traded. They establish standardized contracts, which help to reduce the complexity of trading and increase transparency. This, in turn, attracts more participants to the market, increasing its depth and liquidity.

7.7.3. Other Stakeholders

There are several other stakeholders that play a pivotal role in the development of a commodity trading hub. These include:

- **Insurance Intermediaries:** Insurance intermediaries play a pivotal role by securing insurances for its clientele, evaluating and implementing alternative means of funding for potential losses, risk management strategies and claims management.

- **Exchanges:** Majority traders use currency bonds as a means of financing their operations. Accordingly, offering of debt securities will be yet another factor for facilitating trade from IFSC.

- **Regulatory Bodies**: They create a favourable regulatory environment that is conducive to trading. This includes implementing clear and fair rules, ensuring market

integrity, and protecting investors. A strong regulatory framework is essential for attracting international traders and investors.

- **Government**: The Government can support the development of a commodity trading hub through infrastructure investments, tax incentives, and the establishment of free trade zones. These actions can make the jurisdiction more attractive to commodity traders.

- **Technology Providers**: They offer the platforms and tools necessary for efficient trading. This includes trading software, market data services, and communication networks. The availability of advanced technology is crucial for the real-time execution of trades and for providing market participants with the information they need to make informed decisions.

- **Logistics and Storage Companies**: Efficient logistics and storage solutions are essential for the physical movement and safekeeping of commodities. These companies ensure that commodities are transported and stored securely, which is vital for maintaining the quality and value of the goods being traded.

- **Legal and Consulting Firms**: They provide expertise in the complex legal and commercial aspects of commodity trading. This includes contract negotiation, dispute resolution and compliance with international trade laws.

The development of a jurisdiction into a commodity trading hub is a multifaceted process that requires the coordinated efforts of banks, financial institutions and other stakeholders. Each plays a unique role in providing the financial services, regulatory environment, infrastructure, technology and expertise necessary for a vibrant and efficient commodity market. The synergy between these stakeholders can lead to the establishment of a robust trading hub that benefits the local economy and contributes to the global commodity markets.

उद्यमेन हि सिध्यन्ति कार्याणि न मनोरथैः |

न हि सुप्तस्य सिंहस्य प्रविशन्ति मुखे मृगाः ||

Tasks are accomplished through effort, not by mere wishes.

***

8: Combating Fraud in Commodity Trading

8.1. Banks deal with international players and are faced with significant risk and frauds. Certain bad elements engage in round tripping and layering of transactions which brings disrepute to the whole industry. However, banks have to put in place a mechanism to prevent and detect fraudulent transactions. Preventing and detecting fraud in commodity trading requires a multi-pronged approach that includes regulatory reform, improved risk management practices, technological innovation, and a strong ethical culture. These learnings continue to shape the policies and practices of banks to safeguard against future fraudulent activities in commodity trading.

Case Study: The Winsome Diamonds Fraud

In 2013, Punjab National Bank (PNB) found itself at the center of a financial storm. At the heart of this scandal was Winsome Diamonds and Jewellery Ltd., a company that had built a facade of legitimacy, only to be revealed as the architect of one of the largest bank frauds in Indian history. The fraud, amounting to INR 6,800 crore (approximately USD 1 billion), was a textbook example of how complex financial manipulations can exploit systemic weaknesses and deceive even the most seasoned institutions. Winsome Diamonds, under the leadership of Jatin Mehta, employed a series of fraudulent tactics that allowed it to siphon off funds from PNB and other banks. The company's modus operandi involved a combination of fake exports, over-invoicing, and collateral rehypothecation.

1. Letters of Credit (LCs):

The scheme began with Winsome Diamonds securing Letters of Credit (LCs) from a consortium of banks which included PNB to purchase gold from overseas bullion banks. This gold was then converted to jewellery and sold to overseas buyers. These LCs were supposed to guarantee payment once the gold was shipped. Winsome Diamonds colluded with shell companies controlled by Mehta, presenting fake shipping documents to PNB. The gold either never existed or was of significantly lower value, yet PNB, trusting the paperwork, paid out on these LCs. The funds were then diverted, leaving the bank with nothing of substance to show for its money.

2. Fake Exports and Round-Tripping

To justify the inflow of gold, Winsome Diamonds created a series of fake export transactions. These were either to related entities abroad or entirely fictitious buyers. The proceeds from these fake exports were apparently round-tripped—sent out of the country and then brought back as fresh investments or loans. This complex web of transactions obscured the fraudulent activities and gave the appearance of a thriving business, further enabling Winsome Diamonds to secure more credit.

3. Overvaluation and Collateral Rehypothecation

In another layer of the fraud, Winsome Diamonds grossly overvalued its stock of gold and diamonds. This inflated valuation was used to secure even more loans from PNB and other banks. Moreover, the same collateral was often pledged multiple times to different banks—a practice known as rehypothecation. This meant that when the fraud was uncovered, multiple banks found themselves holding the same, often non-existent, collateral, leading to significant financial losses across the board.

4. Misuse of Packing Credit

The Packing Credit Loan (PCL), intended to finance legitimate export activities, was another tool in Winsome Diamonds' fraudulent arsenal. Instead of using the funds for their intended purpose, the company siphoned them off for personal use or to cover up earlier fraudulent activities. This misuse further deepened the financial hole that PNB and other lenders found themselves in when the fraud was finally exposed.

The scheme began to fall apart when Winsome Diamonds started defaulting on its loan repayments. Alarm bells rang, and PNB, along with other creditors, initiated a forensic

audit. The audit revealed the massive discrepancies in the company's financial records, exposing the elaborate fraud. The revelations led to a financial crisis for the banks involved, with PNB facing particularly severe losses.

Report on Trade-Based Money Laundering: Trends and Developments

The Financial Action Task Force (FATF) and the Egmont Group published a report in December 2020[57], which provides a comprehensive analysis of trade-based money laundering (TBML) and trade-based terrorist financing (TBTF). It examines current risks, techniques and trends and highlights the challenges faced by both public and private sectors in detecting and combating these illicit activities. The report draws on input from financial intelligence units, law enforcement, private sector institutions, and multilateral bodies, aiming to enhance understanding and improve responses to TBML and TBTF.

Key Findings

- Complexity and Exploitation of Trade: International trade is inherently complex, involving interconnected global supply chains. Criminal groups, professional money launderers, and terrorist financiers exploit this complexity to move illicit funds, launder proceeds of crime, finance terrorism, and evade sanctions.

- Persistent and Evolving Techniques: TBML techniques identified in earlier FATF studies—such as under/over-invoicing, misrepresentation of goods or value, and phantom shipments—remain prevalent due to their adaptability. These techniques are particularly effective when there is a complicit relationship between the importers and exporters.

- Exploitation of Trade Finance: Amongst the payment methods adopted for international transactions, it is noted that open account[58] and documentary collection[59] methods are commonly exploited, as they often involve less oversight from financial institutions.

- Vulnerable Sectors and Products: Both high-value, low-volume (e.g., precious metals, vehicles) and low-value, high-volume (e.g., textiles, agricultural products) sectors and products can be exploited to launder the proceeds of crime. Sectors

with wide pricing margins, extended trade cycles, or difficult-to-examine goods are particularly at risk.

- Use of Shell and Front Companies: These entities are often used to obscure beneficial ownership and facilitate the integration of illicit funds.

- Third-Party Intermediaries: The use of unrelated third parties in payment settlement processes adds layers of complexity and distance from the original illicit activity.

- Emerging Risks: Newer methods include surrogate shopping[60] networks, infiltration of legitimate supply chains[61], and the use of alternative financial institutions or informal value transfer systems.

- Other constraints: Further, lack of awareness, limited domestic and international cooperation, fragmented data, and difficulties in verifying trade documentation and fair pricing are yet other challenges that create a loophole for entities to undertake TBML.

Recommendations:

The report suggests the following to reduce TBML practices:

- Increase Understanding and Awareness

  - Enhance knowledge of TBML and TBTF schemes (particularly identifying and assessing the risks involved) among public and private sector stakeholders.
  - Use National Risk Assessments (NRAs) to identify and communicate TBML risks, including sector-specific vulnerabilities.
  - Provide targeted training and guidance to financial institutions, designated non-financial businesses and professions (DNFBPs), and other relevant parties.

- Strengthen Domestic and International Cooperation

  - Improve coordination and information sharing among financial intelligence units, law enforcement, tax authorities, and other relevant agencies which will enable them to detect and analyse possible TBML schemes.

- Given that TBML investigation may involve multiple agencies across various jurisdictions, establishing an interagency working groups or taskforces focused on TBML.
- Foster international cooperation for timely information exchange and joint investigations.

- Leverage Public-Private Partnerships (PPPs)

  - Develop PPPs to facilitate knowledge sharing about existing ML/TF typologies, identifying new and emerging risks and exchange information.
  - Use PPPs to improve the quality of suspicious transaction reporting and to address sector-specific risks (e.g., automotive, precious metals).

- Enhance Data Collection and Analysis

  - Integrate and analyze trade, financial, and customs data to identify anomalies and suspicious patterns.
  - Employ advanced IT solutions, such as analytics, artificial intelligence, and machine learning, to process large datasets and detect TBML schemes.

- Role of Customs and Trade Authorities

  - Recognize customs services as key players in detecting TBML, given their access to trade documentation and knowledge of supply chains.
  - Foster cooperation between customs and financial intelligence units, including joint training and information sharing.
  - Establish dedicated units within customs to focus on trade fraud and TBML.

- Tailor Measures to Domestic Context

  - Adapt best practices and recommendations to fit the specific risk profile, legal framework, and resources of each jurisdiction.
  - Use findings from NRAs and sectoral risk assessments to prioritize actions and allocate resources effectively.

The report emphasizes the need for vigilance, cross-sector collaboration, and continuous adaptation to evolving TBML and TBTF risks. It provides a toolkit of

strategies and best practices that can be tailored to different jurisdictions and sectors, with the overarching goal of strengthening the global response to trade-based financial crime.

In light of the significant frauds in the sector, ten major banks from Switzerland's commodity and trade finance sector finalized a best practice guide aimed at avoiding a repeat of the fraud and insolvency scandals that shook the sector. The resulting guide published by Swiss Trading & Shipping Association (STSA) in 2021 recommended certain measures/ steps to reduce the potential for future losses and ensure the sustainability of commodity finance activities. Some of the key recommendations are as follows:

- In many of the fraud related cases, allegations had arisen around circular trade arrangements, where each leg is financed by a bank, but the cargo ends up in the hands of the initial seller. Such transactions are often used primarily as a means of generating working capital. The STSA guide recommends banks to abstain from financing circular transactions which aim at creating liquidity and suggests that they "raise as a red flag" attempts to do so by traders.

- In terms of documentation, the guide recommends that banks should perform random checks to confirm bills of lading are genuine and use technology to track vessel movement in order to ensure voyage timings are in line with the expected underlying trades.

- Where financing is provided against copies of bills of lading, banks should generally seek receipt of the original documents. The guide says banks should not finance copy bills of ladings older than 10 days, or 30 days for crude cargo, from shipment date.

- It also recommends that banks put in place a procedure around warehoused goods, including maintaining the right to carry out periodic third-party checks. Inventory documents should be received directly from the warehouse and verified electronically.

- If multiple banks are financing inventory in the same location, or at sea, the association suggests they use the same inspection company.

- Other means of financing, such as borrowing base facilities, should be restricted to larger clients.

A summary of the recommendations made in the guide can be referred to at link.

A quick analysis of the IFSC Banking Handbook was made to see whether it incorporates all or any of the above-mentioned points. The Committee observed as follows:

IFSCA Banking Handbook	Measures/Steps
Circular Trade Arrangements	The IFSCA Banking Handbook does not explicitly mention circular trade arrangements. However, it emphasizes the importance of identifying and managing conflicts of interest and ensuring that transactions are conducted on an arm's-length basis. For example, the "Conflicts of Interest" module (COIN) in the Conduct of Business Directions (COB) requires IBUs to identify, prevent or manage, and disclose conflicts of interest to ensure that the interests of clients are not adversely affected.
Random Checks on Bills of Lading	The IFSCA Banking Handbook emphasizes the importance of due diligence and verification in various contexts. For example, the "Credit Risk" module (CERS) in the Prudential Directions (PRU) requires IBUs to implement and maintain a Credit Risk Management Policy.
Receipt of Original Documents	The IFSCA Banking Handbook emphasizes the importance of maintaining accurate and reliable records. For example, the “Recordkeeping” section under the “Systems and Controls” module (SYSCO) in the General Directions (GEN) requires IBUs to make and retain records of matters and dealings, including accounting records and corporate governance practices.
Procedure Around Warehoused Goods	The IFSCA Banking Handbook emphasizes the importance of managing operational risks, including those related to outsourcing and third-party services. For example, the "Operational Risk" module (OPRS) in the Prudential Directions (PRU) requires IBUs to implement and maintain an Operational Risk Management Policy that includes due diligence for selecting

	service providers and managing and reporting the risks associated with outsourcing.
Use of the Same Inspection Company	The IFSCA Banking Handbook does not explicitly mention the use of the same inspection company for multiple banks financing inventory in the same location. However, it emphasizes the importance of cooperation and coordination among financial institutions. For example, the "Supervision" module (SUP) in the General Directions (GEN) highlights the importance of supervisory cooperation and coordination with home regulators and other relevant authorities.
Borrowing Base Facilities for Larger Clients	The IFSCA Banking Handbook emphasizes the importance of managing credit risk and ensuring that credit decisions are made on an arm's-length basis. For example, the "Credit Risk" module (CERS) in Prudential Directions (PRU) requires IBUs to implement and maintain a Credit Risk Management Policy.

While the recommendations made by the STSA can be used as a baseline by the IBUs, as an initial step, to promote GIFT IFSC as a Global Commodity Trading Hub and simultaneously to promote a vigilant banking and financing environment, it is recommended that IBUs may start with financing back-to-back trading.

Back-to-back trading is a common practice in international trade and commodity markets. In this arrangement, a trader or intermediary enters into two simultaneous and matching transactions: one to purchase a commodity or asset from a supplier, and another to sell the same commodity or asset to a buyer. The key feature is that the purchase and sale are closely linked in terms of quantity, price, and timing, so that the intermediary does not take on significant market risk or hold inventory for an extended period. On gaining enough experience and confidence, they may shift to providing various other financing products to commodity traders.

However, branches of foreign banks set up in IFSC having adequate experience in financing commodity trades could immediately provide the different credit line facilities normally extended to commodity trading entities.

Abbreviations

Short Form	Meaning
AD	Authorized Dealer
ADB	Asian Development Bank
ADGM	Abu Dhabi Global Market
AED	United Arab Emirates Dirham
AfCFTA	African Continental Free Trade Area
APR	Annual Performance Report
ASEAN	Association of Southeast Asian Nations
BSE	Bombay Stock Exchange
CBDCs	Central Bank Digital Currencies
CBOT	Chicago Board of Trade
CIT	Corporate Income Tax
CITES	Convention on International Trade in Endangered Species
CNPC	China National Petroleum Corporation
CTRD	Commodity Trading Regulatory Division
DFSA	Dubai Financial Services Authority
DGCIS	Data Dissemination Portal of Directorate General of Commercial Intelligence and Statistics

DGCX	Dubai Gold and Commodities Exchange
DGFT	Directorate General of Foreign Trade
DIFC	Dubai International Financial Centre
DMCC	Dubai Multi Commodities Centre
DME	Dubai Mercantile Exchange
DTA	Domestic Tariff Area
EDPMS	Export Data Processing and Monitoring System
EEE	European Energy Exchange
EGM	Export General Manifest
FATF	Financial Action Task Force
FCRA	Forward Contract (Regulation) Act
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FMC	Forward Markets Commission
FSRA	Financial Services Regulatory Authority
FTWZ	Free Trade Warehousing Zones
GAIL	Gas Authority of India Limited
GIFT	Gujrat International Financial Tech-city
GST	Goods and Services Tax
GTP	Global Trader Programme

GVC	Global Value Chain
HKMA	Hong Kong Monetary Authority
HKEX	Hong Kong Stock Exchange
IBUs	IFSC Banking Units
IEC	Importer-Exporter Code
IFSC	International Financial Services Centres
IFSCA	International Financial Services Centres Authority
IGM	Import General Manifest
IIFT	Indian Institute of Foreign Trade
IMB	International Maritime Bureau
ITFS	International Trade Financing Services
ITM	Industry Transformation Map
ITT	International Trading Track
LCs	Letters of Credit
LDC	Louis Dreyfus Company
LME	London Metals Exchange
MAS	Monetary Authority of Singapore
MCX	Multi Commodity Exchange
MMTPA	Million Metric Tonnes Per Annum
MSME	Micro, Small, and Medium Enterprises

MTT	Merchanting Trade Transaction
NCDX	National Commodity and Derivatives Exchange
NFE	Net Foreign Exchange Earnings
NSE	National Stock Exchange
NYMEX	New York Mercantile Exchange
OTC	Over The Counter
OVL	ONGC Videsh Limited
PCL	Packing Credit Loan
PNB	Punjab National Bank
PPP	Public-Private Partnerships
RBI	Reserve Bank of India
RCEP	Regional Comprehensive Economic Partnership
ROFR	Right of First Refusal
SCOMET	Special Chemicals, Organisms, Materials, Equipment and Technology
SCF	Supply Chain Finance
SCRA	Securities Contracts (Regulation) Act
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SGX	Singapore Exchange

SHFE	Shanghai Futures Exchange
STSA	Swiss Trading & Shipping Association
TFR	Trade Finance Registry
UAE	United Arab Emirates
UGC	University Grants Commission
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization

Annexure 1

A list of some of the Indian commodity trading entities who are set up overseas is provided below:

S. No	Name of the Company
1	Adani Global FZE, Dubai
2	Adani Global Pte Ltd, Singapore
3	Reliance Global Energy Services Pte Ltd, Singapore
4	Reliance Industries (Middle East) DMCC, Dubai
5	Aditya Birla Global Trading Pte Ltd, Singapore
6	GAIL Global Singapore Pte Ltd, Singapore
7	IOCL Singapore Pte Ltd, Singapore
8	Wilson International Pte ltd, Singapore (SPIC group)
9	Sarda Global Trading DMCC, Dubai
10	JSW International Transcorp Pte Ltd, Singapore
11	Jindal Commodities FZE, UAE
12	Jindal Global Trading DMCC, UAE
13	Robust International Pte ltd, Singapore (Mahesh Timbers, Gandhidham)
14	Avani Resources Pte Ltd, Singapore
15	VM Salgaocar & Bro. (Singapore) Pte Ltd, Singapore
16	Renuka Commodities DMCC
17	Lacay Shipping Pte ltd (Friends group)
18	Sun International FZE (Sun group India / Fertilisers)
19	Tata International Chemicals Pte ltd, Singapore
20	Tata International Singapore Pte ltd, Singapore

Annexure 2

To understand how large commodity traders fund their activities, an analysis of the composition of liabilities used to finance their commodity trading activities has been made in the ensuing paragraphs.[62]

2.1. Glencore Plc and its subsidiaries

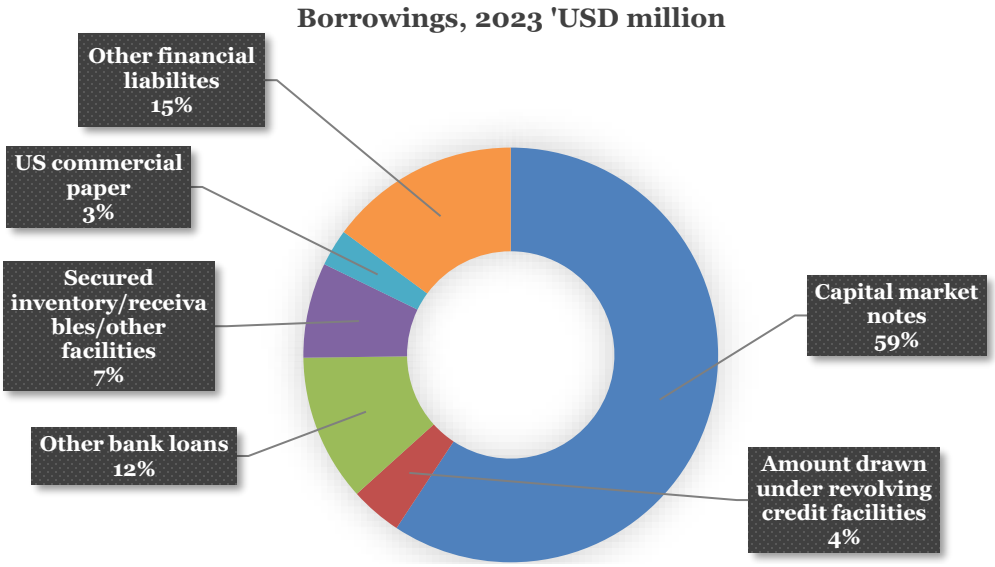
Glencore plc and its subsidiaries (Glencore') is one of the world's largest global diversified natural resource companies and a major producer and marketer of more than 60 commodities that advance everyday life. Its industrial business navigates the metals and energy markets, producing multiple commodities from over 60 industrial assets. This involves:

- exploration, acquisition and development;
- extraction and production; and
- processing and refining.

Further, its marketing business involves the movement of commodities as under:

- logistics and delivery; and
- blending and optimization.

During the year 2023, Glencore had total borrowings of USD 36,114 million[63]; the funding composition of which is charted below.

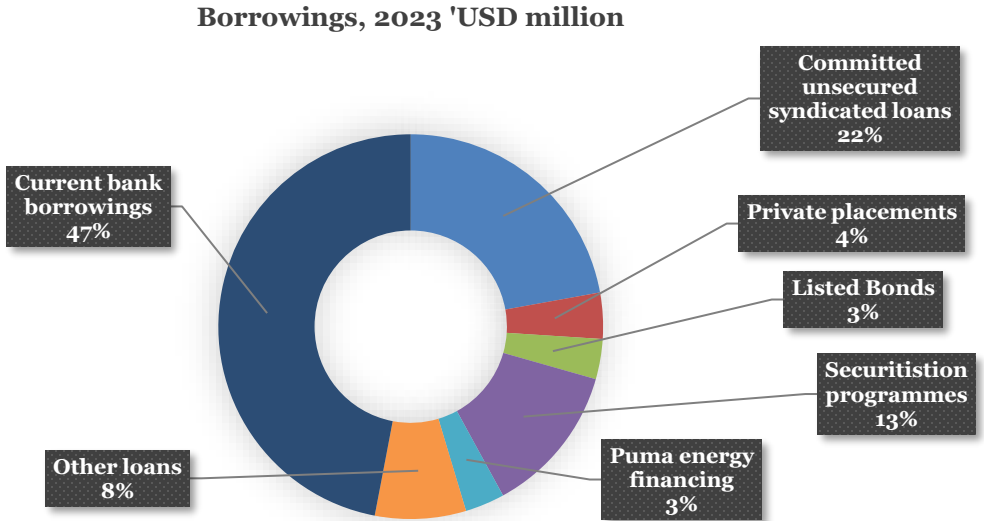


Approximately, 59% of the funding composition comprises capital market notes which consist of currency bonds i.e., USD bonds, Swiss franc bonds, Sterling bonds, Euro bonds, etc.

2.2. Trafigura Group Pte. Ltd.

Trafigura Group Pte. Ltd. and its subsidiaries ('Trafigura') are involved in trading in crude and petroleum products, power and renewables, non-ferrous concentrates, refined metals and bulk commodities such as coal and iron ore. It also invests in assets, including through investments in associates, which have strong synergies with its core trading activities. These include storage terminals, service stations, metal warehouses, industrial facilities and mines.

During the year 2023, Trafigura had total debt of USD 34,367 million[64]; the funding composition is elaborated below.



Trafigura is majorly financed from short-term bank borrowings which cover approximately 47% of the funding compositions. Majority of its day-to-day trading activity is financed through uncommitted, self-liquidating trade finance facilities, while corporate credit facilities are used to finance other short-term liquidity requirements, such as margin calls or bridge financing.

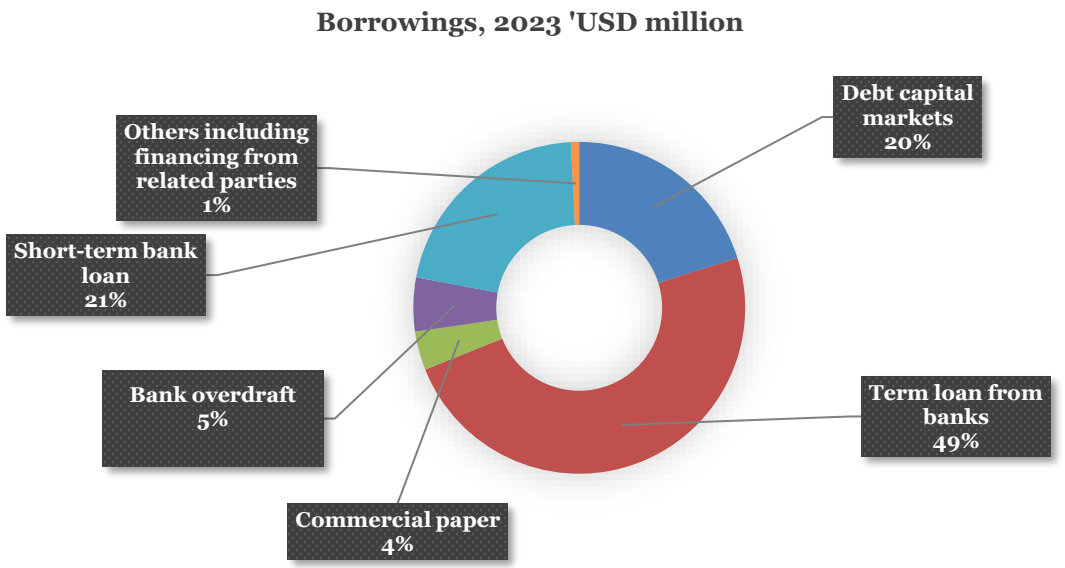
Trafigura utilizes derivative financial instruments to hedge its primary market risk exposures, which are primarily risks related to commodity price movements and, to a lesser extent, exposure to foreign currency exchange rates and interest rate movements. Commodity derivative contracts may be utilized to hedge against commodity price risk exposures in relation to physical purchase and sales contracts, including inventory. Commodity swaps, options and futures are used to manage price and timing risks in conformity with the group's risk management policies.

2.3. Louis Dreyfus Company

The Louis Dreyfus Company (LDC) is a global agri-business firm involved in agriculture, food processing, international shipping, and finance. It is one of the leading agricultural commodity traders in the world, trading a wide range of products, including oilseeds, grains, juice, fertilizers, cotton, sugar, rice, coffee, dairy, and metals. LDC is also

committed to sustainability and innovation, aiming to create a responsible supply chain from farmers to end-consumers.

During the year 2023, LDC's total financial liability was USD 6,289 million[65], the funding composition is elaborated below.



LDC is majorly financed by the bank loans in the form of term loans comprising 49% and short-term bank loans of 21% of the funding composition.

Comparative Analysis

An analysis of the above graphs reveals that the financial composition of major trading firms such as Glencore, Trafigura, and LDC deploy diverse funding strategies tailored to their operational needs. Each firm's financial strategy reflects its unique market position and operational requirements, with Glencore focusing on long-term capital market funding, Trafigura on flexible short-term bank facilities, and LDC on a mix of term and short-term bank loans.

Global trading firms strategically employ a diverse range of financial instruments to effectively manage their operations, mitigate risks, and maintain liquidity in the face of market volatility. These instruments typically include long-term capital market products, short-term credit facilities, trade finance solutions, as well as derivative instruments for risk management. Long-term capital market instruments, such as multi-currency bonds,

are crucial for securing stable and predictable financing, enabling firms to hedge against interest rate fluctuations and currency risks while supporting large-scale, capital-intensive activities. Short-term credit facilities, including revolving credit lines and syndicated loans, provide the flexibility needed to quickly adapt to changing market conditions, ensuring that firms can access immediate liquidity to finance ongoing trading activities, inventory, and other operational needs.

Separately, trade finance and payables management play a pivotal role in optimizing working capital, with firms leveraging trade payables as a source of short-term financing and utilizing advanced trade finance products, such as invoice-backed securities, to convert receivables into cash flow, thereby maintaining liquidity. Additionally, the use of derivative instruments for hedging against commodity price fluctuations, interest rate changes, and foreign exchange movements is integral to stabilizing cash flows and safeguarding profit margins. GIFT IFSC should encourage a comprehensive suite of tailored financial products that cater to varied needs of commodity traders. This can help attract and support global trading firms, enhancing their ability to operate efficiently and securely in a highly dynamic and competitive global market which would culminate into GIFT IFSC becoming a global commodity trading hub.

Annexure 3

3.1. The Terms of Reference of the Expert Committee are as under:

a) To explore the potential advantages that could be derived to GIFT IFSC financial ecosystem by positioning GIFT IFSC as a Global Commodity Trading Hub (includes physical trade, Merchanting Trade as well as derivatives – OTC and Exchange-traded),
b) To study global policies, programs and policies of leading jurisdictions in this regard,
c) To propose steps to promote GIFT IFSC as a Global Commodity Trading Hub by studying how key global commodity trading centres operate, and specially identify areas with strong synergies for the GIFT IFSC financial services industry,
d) To explore enabling Merchanting Trades/Transactions through GIFT IFSC entities,
e) To develop legal, regulatory and policy frameworks, as well as incentive structures, necessary to position GIFT IFSC as a Global Commodity Trading Hub,
f) To identify key groups of commodities such as metals - precious / base / rare earth; energy / hydrocarbons; agricultural commodities, etc. that should be given higher priority for developing IFSC ecosystem, and
g) To discuss any other matters and offer recommendations relevant to the positioning of GIFT IFSC as a hub for Global Commodity Trading.

For ease of operations, the scope has been divided between two sub-committees as follows:

- Sub-Committee 1: Sub-Committee on Physical and Merchanting Trades in Commodities and

- Sub-Committee 2: Sub-Committee on aspects relating to Financial Ecosystem and Risk Management Ecosystem in Commodity Trading.

Annexure 4

4.1. Details of Sub-Committee 1 Meetings held

Date of the meeting	Timing
03 July 2024	2:00 pm to 3:10 pm IST
26 July 2024	5:00 pm to 6:20 pm IST
7 August 2024	4:30 pm to 6:00 pm IST

4.2. Details of Sub-Committee 2 Meetings held

Date of the meeting	Timing
05 July 2024	2:00 pm to 3:00 pm IST
01 August 2024	4:30 pm to 6:00 pm IST
05 August 2024	4:30 pm to 6:00 pm IST

4.3. Details of the Committee Meetings held

Date of the meeting	Timing
18 June 2024	3:00 pm to 5:00 pm IST
25 November 2024	3:00 pm to 5:00 pm IST
2 June 2025	12:15 pm to 2:15 pm IST

4.4. Details of the one-to-one meetings held with commodity traders

Date of the meeting	Timing	Name of the entity
23 August 2024	10:00 am to 10:45 am IST	Metallica International
23 August 2024	1:30 pm to 2:30 pm IST	Aditya Birla Global Trading
26 August 2024	11:00 am to 12:00 pm IST	Wilson International Trading Private Limited
26 August 2024	12:00 pm to 1:00 pm IST	Friends Salt Work and Allied Industries
06 September 2024	11:30 am to 1:00 pm IST	Gas Authority of India Limited (GAIL)
06 September 2024	12:30 pm to 1:45 pm IST	Economic Laws Practice (ELP)
06 September 2024	4:00 pm to 4:30 pm IST	ONGC Videsh Limited (OVL)
06 September 2024	4:30 pm to 5:45 pm IST	Bharat Petroleum Corporation Limited (BPCL)
02 December 2024	4:30 pm to 5:15 pm IST	Tata Steel Limited

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[29] https://dmcc.ae/members/support/schedule-charges

[30]https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Rohstoffe.html

[31]https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Technische_Handelshemmnisse.html

[32] The «Cassis de Dijon principle» stipulates that a product which complies with the technical regulations of the EU, a member state of the EU or that of the EEA, and is legally placed on the market in one of these member states, may in principle be placed on the Swiss market without any further controls

[33] https://taxsummaries.pwc.com/switzerland/corporate/taxes-on-corporate-income

[34] https://www.futureoftrade.com/the-future-of-trade

[35] https://www.wto.org/english/res_e/statis_e/statistics2023_e.htm

[36] https://english.www.gov.cn/archive/statistics/202102/23/content_WS603461cfc6d0719374af94fd.html

[37] https://www.stats.gov.cn/english/PressRelease/202101/t20210119_1812521.html

[38] https://www.cbc.gov.tw/en/cp-448-126108-f4b66-2.html

[39] https://www.adb.org/sites/default/files/publication/961616/adr-vol41no1-13-enhancing-enterprise-integration-prc.pdf

[40] https://www.pib.gov.in/PressReleasePage.aspx?PRID=2122016

[41] https://www.pib.gov.in/PressReleasePage.aspx?PRID=2122016

[42]https://www.phdcci.in/wp-content/uploads/2024/04/Viksit-Bharat@2047-A-Blueprint-of-Micro-and-Macro-Economic-Dynamics.pdf

[43] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1912572

[44]
https://worldtradescanner.com/Vision%20fro%20Viksit%20Bharat%20@2047%20An%20Approach%20Paper.pdf

[45] The CITES and SCOMET list is available as Appendix-2 and Appendix-3 respectively under Schedule 2 - Export Policy - ITC(HS) 2022 at link

[46] Press Release: Press Information Bureau

[47] Notification No. 62/2023 - DGFT

[48] https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10201#C25

[49] The CITES and SCOMET list is available as Appendix-2 and Appendix-3 respectively under Schedule 2 - Export Policy - ITC(HS) 2022 at link

[50]https://www.sebi.gov.in/legal/gazette-notification/mar-2024/notification-for-list-of-commodities-under-scra-1956-dated-march-01-2024_82030.html

[51] https://www.rbi.org.in/scripts/BS_ViewMasDirections.aspx?id=10201#C25

[52] https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=2088048

[53] https://www.mas.gov.sg/news/speeches/2022/two-problems-for-fintech-to-solve

[54] https://rbidocs.rbi.org.in/rdocs/content/PDFs/NBFCsandARCs10012023.PDF

[55] https://dx.doi.org/10.22617/BRF230334-2

[56]https://www.adb.org/publications/2023-trade-finance-gaps-growth-jobs-survey

[57]https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade-Based-Money-Laundering-Trends-and-Developments.pdf.coredownload.inline.pdf

[58] open account transaction is a sale where the goods are shipped and delivered before payment is due. Payment is usually made by a set time period, anywhere between 30 and 90 days after receipt of the good or service.

[59] In documentary collection, the exporter requests payment by presenting shipping and collection documents for the traded goods to its financial institution (FI). The FI then forwards these documents to the importer's FI, who then transfers the funds to the exporter's FI, who will subsequently credit those funds to the exporter.

[60] Surrogate shopping networks involve individuals or networks of shoppers purchasing desired goods on behalf of wealthier individuals, ostensibly to circumvent customs controls or other forms of tariff restrictions.

[61] In this case, the entity purchases a stake in a legitimate business, which may or may not be struggling financially, and continues using its supply chain as a method of integrating illicit cash into the financial system.

[62] For the purpose of the analysis, we have not included trade other payables and lease liabilities.

[63] Glencore – Annual Report 2023; https://www.glencore.com/.rest/api/v1/documents/static/d09d8212-4a9f-4034-b2d4-49152e5a0aff/GLEN-2023-Annual-Report.pdf

[64]Trafigura – Annual Report 2023; https://www.trafigura.com/news-and-insights/publications/financials/2023/2023-trafigura-annual-report/

[65] LDC – Integrated Report 2023; https://www.ldc.com/wp-content/uploads/LDC_IR2023-Single-Pages_secured.pdf