



Dubai: City of Gold

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As the world's central banks are printing fiat currency at an unprecedented scale, governments are becoming increasingly worried that people will seek refuge to safe stores of value, the value of which cannot be inflated away. The possession of gold by individuals as an alternative store of value is seen to interfere with centrally directed monetary policies. For this reason, the US Roosevelt administration in 1933, in one of its first bills, banned the possession of gold. Buying gold is a vote of no confidence in the ability of governments and their central banks to maintain the purchasing power of paper money. In 2011, we saw the first restrictions being enacted in various countries. In Austria the purchase of gold was limited to EUR15,000 at a time. In France, cash purchases of precious metals worth more than EUR450 were prohibited. In 2012, in India, the world's largest gold consumer, banks were prohibited from giving out loans to buy gold, the Reserve Bank of India increased the loan-to-value ratio required for gold loans given by Non-Bank Finance Companies (NBFCs), and import duties on gold were increased.

Meanwhile Dubai takes another path. Dubai is sometimes called the "City of Gold" because of its stunning transition from an unknown village to one of the fastest growing cities in the world, synonymous with success, prosperity, and free trade.

Restrictions abroad are an opportunity for Dubai to enhance further its status as one of the most important gold trading hubs. Dubai has experienced growth spurts many times in the past, triggered by restrictions on trade and misguided regulation in other

countries, by offering a free trading, business friendly, freewheeling alternative. Dubai became a gold trading hub in the 1950s due to the import ban on gold instituted by the Nehru government in India in 1947, which lasted until 1992. The ban, of course, did not result in stopping imports but merely in raising the gold retail prices in India. Traders in Dubai benefited from the ban by importing gold from the US and the UK and "informally" re-exporting it to India where it sold for double the price (often paid in the form of silver).

Now Dubai has about a 29% market share of global gold trade. Dubai's gold trade has consistently grown each year from 2003 to 2011, with a nine year average growth rate of 28% in terms of weight. In the first half of 2012, the total amount of gold imported into Dubai was at 421 tonnes valued at USD20.1 billion while export volume was at 310 tonnes and valued at USD16.3 billion.

The UAE's most important export markets for gold are India, Malaysia, Turkey, Switzerland and Nepal. There are around 1,100 jewellers and jewellery trading companies in Dubai. Dubai's tax-free status has made it one of the cheapest places in the world to buy gold. Imports of unwrought gold (which includes gold powder, coins, bars and bullion) are exempted from the 5% customs duty, which applies to most imported goods, as well as gold in semi-manufactured form. Also there is no VAT or direct tax, which helps to keep prices down.

There are three main areas to buy gold in Dubai. The Gold Souk, located in Deira, the oldest part of town, is still the main place to go. It has over 400 shops. Electronic display boards were

recently installed to show shoppers current gold prices of 18 karat, 21 karat and 24 karat gold. The prices are updated four times a day. If you are not planning to buy gold, just go for the atmosphere. The Gold and Diamond Park which can be found on Sheikh Zayed Road is another alternative. It is not as busy as the Gold Souk however they also stock a large variety of gemstones and of course diamonds. Finally Dubai Mall, the world's largest mall, has its own indoor gold souk with familiar brands available.

Dubai might have started as a simple re-export hub for gold, but this proved to be only a facilitator for the introduction of a slate of services related to the gold trade.

The Dubai Multi Commodities Centre (DMCC) freezone which was set up in 2002 has played an instrumental role in this. The authority of the freezone was given a mandate by the government of Dubai to enhance commodity trade flows through the Emirate by facilitating the provision of the appropriate physical, market, financial infrastructure and services required.

Gold refineries and jewellery-making facilities have been set up in the Emirate, importing gold, including scrap, and melting it down to produce gold bars. Dubai now has seven gold and precious metal manufacturing companies, three gold refineries, and four gold and precious metal testing labs. The freezone hosts Emirates Gold, the largest refiner and bar manufacturer of precious metals in the Middle East.

DMCC also hosts the Dubai Gold and Commodities Exchange (DGCX). It was launched in 2005 as the region's first commodity derivatives exchange. DGCX is the region's largest and leading derivatives exchange, where future contracts can be traded in gold and silver, base metals, oil, and currencies. DGCX volumes have been growing at approximately 70% annually for the last seven years. Up to October 2012, it recorded a year on year growth of 142% with a year to date volume of 7.8 million contracts.

In 2009, the DMCC Authority commenced operations of the largest vault in the UAE. The vault is used for storing precious metals and gems and is open to local and foreign banks, corporates, and HNWLs and uses the latest security equipment and inventory management systems. It is protected 24 hours a day and seven days a week by dedicated operational security and surveillance teams and offers state-of-the-art vaulting facilities. A direct link with Dubai's police helps ensure the fastest possible emergency response.

The vault is operated by Brink's Global Services, a company with a 150-year history in vault operations and secure transportation.

In 2004, DMCC successfully developed and managed the Dubai Commodities Receipt (DCR). The DCR addressed a gap in the regional commodity trade finance industry by enabling storage operators to issue electronic warehouse receipts on behalf of commodity owners with stored goods. The commodity owners could then pledge the receipts in favour of financiers in return for financing. DCR facilitated approximately USD1 billion worth of transactions across commodities such as oil, precious metals, steel, cotton and agricultural products. In February 2012, DMCC launched an enhanced version of the DCR system under the new brand name 'DMCC Tradeflow'. At the core of the platform stands the electronic central registry of ownership for commodities. The Tradeflow system is accessible through a secure web-based interface. Tradeflow allows physical inventories that are stored in certified warehouses and vaults in the UAE to be converted into negotiable warehouse receipts, also called warehouse warrants. A warehouse warrant is a document that proves that a particular amount of goods is being stored and can be supplied to a buyer. From within the Tradeflow system warehouse keepers can electronically issue what is termed DMCC Tradeflow Warrants which confirm that the goods held in the warehouse are of the specified quantity and quality and will remain so while stored at their facility. This warrant is then recorded in the central registry. The electronic warrants represent undisputed proof of ownership of the underlying goods. The ability to represent the legal title of goods stored in a warehouse provides the ability to transfer ownership of the assets to another party without the goods ever leaving the storage facility. Within Tradeflow the warrants can be electronically transferred. The portal allows for security interests to be registered by financiers against the stored goods. The assets can also be used as underlying collateral to secure financing from banks. Commodity owners can even, from within the system, send requests for financing to financiers.

All parties using the Tradeflow portal will have to become members and bind themselves to the terms of the Corporate Access Agreement. There are different membership categories. Firstly, there are the owners of the stored commodities (so-called "owner-

members") which can be resident or non-resident companies. Then there are the "storage operators" members; these are the warehouses in which the goods are stored and which issue the Tradeflow warrants. The above mentioned vault operated by Brink's is one of these. Banks can sign up as "financier-members" who can verify ownership of the goods and register security interests against it. Finally, there are the membership categories of warehouse inspector and quality inspector.

It is interesting to note that the gold backed warrants that are issued by warehouses participating in Tradeflow are essentially the electronic equivalent of bank notes as originally conceived. Bank notes were first introduced in 7th century China and they represented nothing more than negotiable receipts issued by trusted persons in exchange of coins.

In 2012, DGCX selected the DMCC Tradeflow system as the sole provider to handle all of the physical delivery needs. The DMCC Tradeflow registry allows clearing members and trading participants of DGCX to transfer the title of stored goods as physical settlement of trades and contract close.

Another initiative of DMCC in 2012 was the launching of the "UAE Gold Bullion Coins" series. The coins which come in three editions followed the success of the gold coins of the "Visions of Dubai" series which was launched in 2007. The 24-karat UAE Gold Bullion Coins are available in four denominations weighing 1 oz, 1/2 oz, 1/4 oz and 1/10 oz. DMCC is currently in discussions with the UAE Central Bank to designate the UAE Gold Bullion coins as the first legal tender gold coins in the Middle East. This status would enhance the desirability of these coins because within the EU gold coins are only exempt from VAT in case they are (or have been) legal tender in the country of origin.

In summary, the gold trade and gold industry keeps on growing in Dubai, and a wide range of sophisticated related services is being offered now and more are being added all the time. At a time when many are concerned about the security of the banking system, endless creation of fiat paper money, asset protection and confidentiality, Dubai's future looks golden indeed.



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