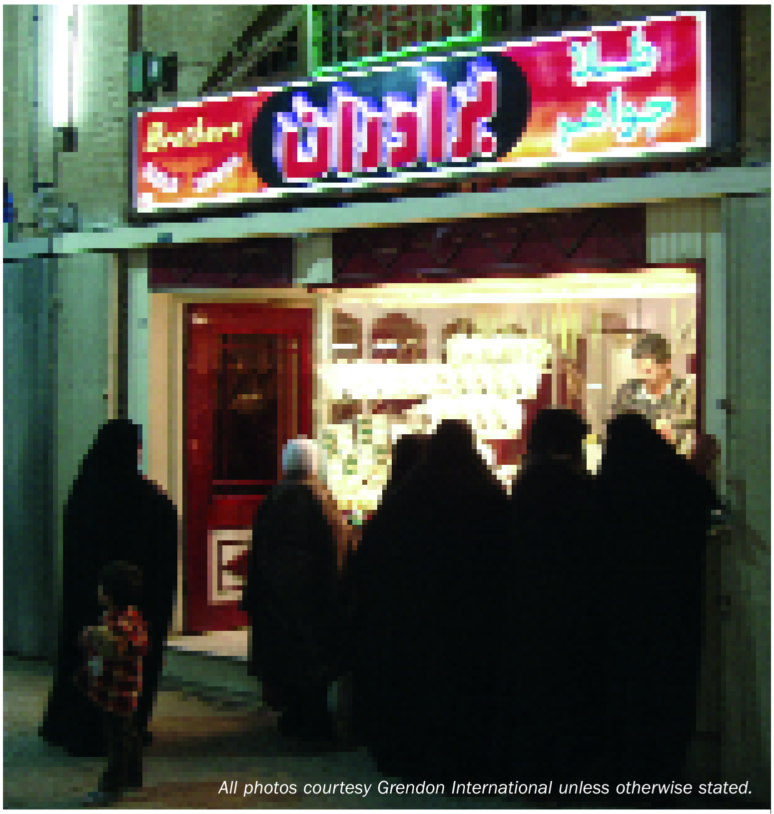
Iran – A Major Gold Market in Hiding

By Nigel Desebrock, Director, Grendon International Research Pty Ltd

An extensive study of the Iranian gold market – the first in 25 years since the Islamic Revolution in 1979 – indicates that Iran has been a major gold consuming country in recent years. Supportive internal economic factors, limited investment opportunities and a heightened sense of national insecurity following the US-led invasion of Iraq have all contributed to the country's growing interest in gold.

The study, commissioned by the World Gold Council and supported by the Iran Trade Promotion Organization and the Australian Trade Commission (Tehran), was undertaken by Grendon International Research (GIR) between June 2004 and July 2005.



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Although women self-purchase and receive much jewellery, it is not normally visible in public places.

In GIR's view, the Iranian gold market has been greatly underestimated in recent years because it has not been on the international radar screen. Had other research companies been able to explore the market, analyse its trade structure and been exposed to the breadth and depth of the market at first hand, the experience would inevitably have led to further investigation among relevant trade entities in countries that supply Iran with bars and jewellery unofficially.

According to GIR's conservative estimate, total gold consumption in the form of jewellery, net bar hoarding and coins, including the recycling of an indicative 35 tons of scrap, appears to have been at least 139 tons in 2004, having grown from 109 tons (2002) and 119 tons (2003).

GIR's jewellery consumption estimate of 118 tons (2004), including unofficial imports, would also rank Iran as the world's sixth largest gold-jewellery-consuming country in 2004 – after India, USA, China, Turkey and Saudi Arabia.

These unexpected findings are the outcome of three fieldtrips to Iran, totalling eight weeks, when GIR was able to meet 73 government and trade entities, not only in Tehran but also in the major cities of Tabriz (west), Mashhad (east), Esfahan (central) and Shiraz (south), and in smaller cities such as Rasht (north) near the Caspian Sea.

The findings are also the outcome of fieldtrips (three weeks) to Dubai and Turkey – Iran's main suppliers of bars and imported jewellery – where GIR interviewed 48 relevant trade entities. Reconciling the perspective of trade entities in Turkey, Dubai and Iran represented a crucial test, as conservative research takes into account the lowest common denominator.

Orientation

Iran is bordered by seven countries: Iraq, Azerbayjan, Armenia, Turkmenistan, Afghanistan, Pakistan and, importantly, Turkey – whose border with Iran is 499 km. Across the Persian Gulf, Iran also faces Dubai, the well-known conduit of bars and jewellery to countries throughout the Middle East.

The size of the Iranian gold market is not really surprising (in hindsight), given the country's large population of 69 million, which is similar to that of Turkey. Over the past 20 years, its population has grown by

Persian KIng with Sword – Gold has been part of the culture of Iran for more than 5,000 years. During the period of the ancient Persian Empire (550-330 BC), its eastern capital Persepolis (the ruins are near Shiraz) was famous as being the "richest city under the sky".

When the city was sacked by Alexander the Great in 330 BC, oral history recorded that he used 7,000 pack animals to carry away a reputed 120,000 talents (around 300 tonnes)* of exquisite Persian gold ornaments and jewellery, bars and Daric coins.

** According to the National Museum of Iran, the gold purity of fabricated gold was typically around 90% at that time.*

57%, with its urban proportion now around 65%. Over the past ten years, Iran's growth – in particular of Tehran, the hub of Iran's national gold market – has been exponential, its population increasing by almost 80%, from 7 to 12 million.

Outside Iran, it is not widely recognised that there are seven significant ethnic groups, each with its own language. Persians, who speak Farsi, account for 51% of the population. To understand more clearly the relationship between the Turkish and Iranian gold markets, it is relevant that Azerbayjanis, who speak a Turkish dialect and live mainly in the Iranian provinces that border Turkey, account for 24%. Smaller ethnic groups include Kurds (7%) and Arabs (3%).

The large size and growth of the Iranian gold market can also be viewed in the context of supportive economic factors. Over the past three years, formal GDP growth has averaged 5 to 7%. Annual inflation has ranged between 14 and 17%. The rial has devalued by 25% in US dollar terms. The black economy is substantial. And, understandably, there is a great sense of national insecurity.

As stressed by Iranians, there are also limited opportunities to invest surplus funds or savings outside "land and gold".

Role of Government

For more than 20 years, following the Islamic Revolution in 1979, the official view of government institutions had been that gold was a "luxury" product, and consequently the gold industry did not warrant significant government attention. However, the Iranian gold market is now so large that several government initiatives are being taken to monitor and support the gold jewellery industry, the most notable of which are detailed below.

Licenses – In 2005, a major programme was initiated to license the many unlicensed gold jewellery fabricators, wholesalers and retailers. It is envisaged that, over time, every trade entity will be allocated an "ID code" for inclusion in all transaction documents.

Hallmarking – In 2005, the Institute of Standards & Industrial Research of Iran introduced a system whereby every jewellery fabrication unit will be obliged to apply stamps recording its "ID code" and the Institute's new symbols for the three authorised caratages: K22, K18 and K14. It is likewise envisaged that, over time, all gold jewellery fabricated in Iran will be hallmarked in this way.

Exports – The Iran Trade Promotion Organization is embarking on a programme to support the export of Iranian gold jewellery. The Export Development Fund for Gold, Jewellery, Silver & Watches of Iran, established in 2005, has opened a representative office in Dubai. Gold jewellery exports have historically been low, with less than four tons exported in 2004.

Import duty on gold bars – The 4% duty on official bar imports, applied since March 2003 on bars imported for domestic sale by the Central Bank and by banks that might wish to act as authorised importers, is reported to be under review. If the 4% duty is reduced, the unofficial import of bars, on which the market largely relies, would be curtailed.

Central Bank of Iran – The Bank, supportive of the GIR research project, has adopted a policy of transparency, not least in revealing for the first time its annual import of bars for domestic auction from 1996 until March 2003, when auctions ceased due to the bank's bar imports becoming subject to duty – there was no trade interest in buying bars at a premium of at least 4% above the international gold price. In 1996, the bank had been authorised to act as the importer of bars (400 oz) for auction to the trade in controlled quantities.

As regards gold jewellery, imports are prohibited unless authorised by the Central Bank and the Ministry of Commerce, and the imports are subject to a 10% duty.

Gold Jewellery

The size of the jewellery market is reflected in the number of jewellery retail outlets. According to a survey (conducted by the Iran Trade Promotion Organization in each of Iran's 30 provinces in 2005 as part of the GIR study), there are at least 15,500 outlets.

According to trade entities, the number has increased by around 20% over the past five years, notably in the major cities. It can be noted that GIR's conservative estimate of jewellery consumption in 2004 represents an average sale per retail outlet per business day of only 30g.

Gold latticed medallion, weight: 95 g
Place of discovery: Kurdistan
Period: Achaemenid (550 - 330 BC). In 550 BC, Cyrus the Great founded the first Persian Empire when he united the Persians and Medes. The Period came to an end when Alexander the Great defeated Darius III in 330 BC. *Source: National Museum of Iran*

A small retail shop in an Iranian bazaar can display much jewellery. There are more than 15,500 jewellery shops in Iran.

Consuming Views

Iran's cultural commitment to gold jewellery as an investment – according to representative comments by retailers in the GIR study.

(NB: In Iran, the word "gold" stands for gold jewellery).

"Gold is bought mainly for investment … gold bought 10 to 20 years ago has saved our lives."

"Women buy gold because they see it as a reserve asset."

"All farmers, large or small, buy gold."

"A wedding without gold is meaningless."

Scrap bars with variable weights and purities are widely traded, once assayed by a private Assay Laboratory. They are normally priced in rials per mesghal (4.6083g), a traditional Iranian unit of weight.

K18 is the dominant caratage, accounting for around 85% of total jewellery consumption. The bangle is the most important product category, accounting for around 50% of the total market. Although traditional jewellery accounts for about 70% of national sales, there is growing demand for European-style jewellery (30%), much of which is unofficially imported.

Gold jewellery is bought as an adornment, but the investment dimension is extremely important. Personal self-purchases account for around 60% of total consumer purchases, followed by weddings (25%) and other gifts (15%).

Seasonal demand by region varies, but for most regions purchases tend to be higher in March (prior to the start of the Persian New Year on 21 March), and over the four-month period, June to September, when many weddings normally take place.

The fabrication of gold jewellery is largely concentrated in five cities: Tehran, Esfahan, Tabriz, Mashhad and Yazd. Although there are at least 6,000 fabrication units according to the Iran Trade Promotion Organization survey, the market relies heavily on small units employing five or fewer workers. The bulk of fabricated output is distributed by more than 600 wholesalers nationwide, but dominated by the wholesalers in Tehran, who are reported to account for around 70% of the wholesale market.

Gold Bars

Apart from imported bars, mainly 995-purity kilobars, an unusual feature of the market is its parallel reliance on large quantities of tradable scrap bars, usually made from old gold jewellery.

These crude bars, normally in the shape of rods, have variable lengths, weights and purities. They are made by more than 100 small melting units, working in association with a similar number of small private assay laboratories that mark the bars with the correct purity so they can be actively traded, and used with confidence by jewellery fabricators.

Another unusual feature is that bullion dealers continue to price their bars in rials per mesghal, a traditional Iranian unit of weight (4.6083g). The standard gold price, within the trade, is also quoted in rials per mesghal, but at a millesimal gold purity of 705 – reflecting the pre-Revolutionary period when most gold jewellery was K17, now no longer a legal caratage. At the consumer level, however, the price of gold and gold jewellery is quoted in rials per gram.

Gold Coins

Gold coins are widely bought for private investment purposes and as gifts. Over the past 25 years, 22 million Azadi gold coins (139 tons) have been issued, averaging 5.6 tons per year. The coins, issued annually since 1979, are available in three sizes: 1, $\frac{1}{2}$ and $\frac{1}{4}$. The 1-Azadi coin (8.135g, 90% gold purity) is the most widely circulated. There are more than 100 coin dealing shops nationwide, and many jewellery retailers also buy and sell coins.

Perspective and Regional Implications

A subsidiary finding of the Iranian study also casts doubt on the widely reported growth of gold jewellery consumption in Turkey in 2003 and 2004.

During GIR's fieldtrip to Turkey, relevant trade entities observed repeatedly that, since the US invasion of Iraq in early 2003, much of the dramatic increase in the official quantity of bars imported into Turkey – from 129 tons (2002) to 214 tons (2003) and 251 tons (2004) – had been due to a surge in the re-export of bars, not only to Iran, but also to other countries in the region, including Iraq, Syria, Armenia, Azerbayjan, Saudi Arabia, Afghanistan and Pakistan.

One reason was that the US invasion had created a heightened sense of national insecurity and demand for gold in several of these countries, alongside the fact of many people no longer wanting to hold US dollars.

To support their view, relevant trade entities also observed that, from their perspective, while Turkish coin fabrication and jewellery exports had increased, the quantity of imported bars used to fabricate jewellery for domestic consumers (i.e., Turkish residents and foreign tourists) had largely been static in 2003 and 2004, compared to 2002, although there had been a 10 to 20% growth in the first six months of 2005.

In summary, the Iranian study indicates that the importance of Iran to the international gold market has been overlooked in recent years, and that Turkey has greatly expanded its role over the past three years as a conduit of bars to Iran and other countries in the region. ■

Nigel Desebrock

established Grendon International Research , Pty Ltd (GIR) in 1989, an Australian-based company that focuses on the gold industry. In addition to its consultancy work, GIR has published several industry reference works – including The Industry Catalogue of Gold Bars Worldwide *(1998) and* An Introduction to the Indian Gold Market *(2002) – and stages exhibitions worldwide, most recently at the Houston Museum of Natural Science, in 2005.*

Nigel was educated in South Africa and at Oxford University. He previously worked in London and Johannesburg for the gold marketing arm of the Chamber of Mines of South Africa, where he became Manager, Investment Division (Worldwide), and for Gold Corporation, owned by the Government of Western Australia, where he was a Board Director and Managing Director, GoldCorp Australia.