

# Gold Vault at the Hong Kong International Airport

By Sam Kwok, Director, HKIA Precious Metals Depository Ltd

**The HKIA Precious Metals Depository Ltd opened in 2009 within the Hong Kong international airport. In this article Sam Kwok describes the main functions of the Depository and how it is playing a key role as a logistics hub and a gateway to the importation of precious metals into China.**

China has overtaken South Africa to become the world's largest gold producer in recent years. But with the country also becoming the world's second-largest gold buyer, it has become clear that what it produces domestically simply could not satisfy all the demands of the Chinese gold investors. The gap is filled by imports from the rest of the world. In 2011, 427.8 tons of gold were imported into China, which marked a sharp increase from the 118.9 tons of 2010. Behind the figures and less obvious to the market watchers is the fact that a lot of the gold that is imported into China actually goes through Hong Kong, the financial and logistics hub that sits right on the doorstep of the world's most populous country. According to the Hong Kong Census and Statistics Department, in the first four months of 2012 alone, a total of 237.2 tons of gold came through Hong Kong. This suggests that the import of gold into China is still growing at a fast pace, and the flow of the metal through Hong Kong continues to gain momentum.

In fact, in the last 150 years, with the exception of the period when China was closed to the outside world because of its internal political upheavals, Hong Kong has always excelled in this role as an 'entrepot' to the mainland. Precious metals and precious stones have been finding their way into the hands of the Chinese buyers by making a port of call in Hong Kong before their final destinations. In the case of gold, because the metal is moved from one country to another mainly by air, a lot of the bullion imported into China is actually stored at the Hong Kong International Airport before it makes the last leg of its journey across the border into the China market.

With its 1.3 billion population, China's emergence as a major destination for gold imports has reinforced the traditional role of Hong Kong as a gateway to the second-largest economy in the world. As a transportation hub, the Hong Kong International Airport is a critical part of this 'entrepot' trade. Half of the

world's population, including those of China and India, lives and can be reached within five hours if the metal is loaded on a plane and sent from the Hong Kong airport. This geographical advantage is augmented by the operational efficiencies of the airport itself, since it has been voted the 'Best Airport in the World' seven times in the last ten years. In 2011, 53.9 million passengers, as well as 3.9 tons of air cargo, made use of the Hong Kong International Airport. Gold bullion, along with silver and precious stones, is amongst the valuable cargo frequently handled at the airport.

But there are other reasons why gold bullion is coming through Hong Kong before it is sold to buyers in China. One of them is that Hong Kong

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Figure 1. Aerial view of the Hong Kong International Airport (HKIA).



Figure 2. HKIA, the busiest international air cargo hub in the world.

does not impose any control on the movements of gold bars in and out of the city; nor are there any taxes levied when moving the metal into Hong Kong, storing the bars there before they are sent to the buyers across the border. This gives Hong Kong a clear edge in its role as a logistics hub and a gateway to the import of precious metals into China. Other factors such as the financial infrastructure that has been put in place in Hong Kong over the years and support services such as the banking, insurance and legal systems that are familiar to financial institutions around the world are also important considerations when it comes to deciding where to store the gold bars.

To strengthen its role in the logistics flow of high-value goods, it was decided that the Hong Kong International Airport should build a state-of-the-art high-security vault for precious metals, particularly for gold bars. The facility, the Hong Kong International Airport Precious Metals Depository, was unveiled by the Financial Secretary of Hong Kong in September 2009. It is operated by a wholly owned subsidiary of the Hong Kong Airport Authority (rated AAA by Standard & Poor's), which in turn is wholly owned by the Hong Kong Government.

The Hong Kong International Airport Precious Metals Depository is located at a highly secure and yet convenient location within the airport to allow easy access by plane and by armoured trucks. Set up as a security company, the facility has been granted a Type 1 security licence by the Security and Guarding Services Industry Authority of Hong Kong. It is therefore subject to the licensing and regulatory requirements of high-security vaults in respect of operational controls and security procedures.

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Since it started offering its services three years ago, the Hong Kong International Airport Precious Metals Depository has focused on providing both long-term and transit storage for LBMA good delivery bars, as well as tael bars that are used in local delivery in the Hong Kong gold market. Silver and other types of precious metals have also been stored at the facility. For LBMA good delivery bars in particular, but also for other precious metals, the Depository has served not only as a storage vault, but also as a physical settlement and delivery venue for traders from around the world. Commodity exchanges like the Hong Kong Mercantile Exchange have made the Depository at the airport the designated physical settlement venue for their gold contracts. Another group of gold investors that has sought out the facility to meet their long-term and often substantial storage requirements are the growing number

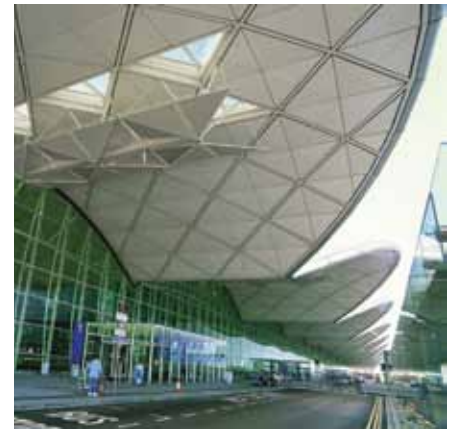


Figure 3. The exterior view of Terminal 1, HKIA.

of Exchange Traded Funds (ETF) that invest in gold. ETF managers and their metal providers have found it convenient as well as cost-effective to store, settle and create additional ETF units at the Depository. In fact, the Hong Kong International Airport Precious Metals Depository is among the few high-security vaults within the region that has the capacity to cater to the deep storage demands of ETF owners. The same rationale underlies the storage arrangements of government institutions, bullion banks, as well as refineries, family trusts, fund managers, etc. that have been making use of the facility at the Hong Kong airport.



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Sam Kwok joined the Hong Kong Airport Authority in 2002. The Airport Authority is responsible for the management of the Hong Kong International Airport, one of the busiest airports in the world. Prior to joining the Airport Authority, Mr. Kwok was the Finance Director of China Overseas Land & Investment Ltd, a company listed on the Hong Kong Stock Exchange, and has a wide range of business interests in the property and construction business of China. Mr. Kwok started his career as an investment banker.