



INTERNATIONAL MONETARY FUND

Calculation of Quota for the United Arab Emirates

Prepared by the Middle Eastern Department and the  
Treasurer's Department

(In consultation with the Legal Department)

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1. Background material on the economy

Six of the seven Arab Emirates, known until recently as the Trucial States, lie on the south coast of the Gulf extending some 400 miles from the base of the Qatar Peninsula eastward to the Musandam Peninsula on the Gulf of Oman. The names of these Emirates, running from west to east, are Abu Dhabi, Dubai, Sharjah, Ajman, Umm al Qaiwan and Ras al-Khaimah (see map). The seventh Emirate, Fujairah, is situated on the Batinah Coast of the Gulf of Oman. All the Emirates are coastal settlements with the exception of Ajman, which possesses inland territorial enclaves, and Sharjah, which has dependencies on the Batinah Coast of the Gulf of Oman. Topographically the Emirates and their enclaves are very varied. The coastal fringe merges into a belt of desert sand which in turn gives place to a broad gravel plain, narrowing in the north of Ras al-Khaimah where foothills come down almost to the coast. To the east of the plains there is a rugged chain of mountains. The climate is hot and humid for most of the year. Between May and October temperatures range between 100 and 120 degrees Fahrenheit in the shade with excessive humidity. November to April provide the most pleasant part of the year. Rainfall is infrequent and varies considerably from year to year, ranging from one to five inches. Little natural fresh water is available on the coastal fringe which is flat, barren and sandy. Good water in relative abundance is restricted to a small number of oases and the submountainous regions of Ras al-Khaimah and Fujairah. The two most important oases are the Liwa, which lies to the south of Abu Dhabi, and Buraimi, which is divided between Abu Dhabi and the Sultanate of Oman.

In the latter part of the eighteenth century, the Gulf region became an important link in the chain of Britain's trade with India mainly through the initiative of the East Indian Company, a private company incorporated by Royal Charter at the end of the seventeenth century. In 1820 following many years of hostilities at sea, the British concluded a successful peace treaty with the Trucial Shaikhs, securing British merchant ships in the Gulf area. Owing to the interest of other powers in the Gulf region toward the end of the nineteenth century, Britain entered in 1892 into separate but identical "Exclusive Agreement" with the Trucial Shaikhs. By virtue of this agreement the British Government became responsible for the external affairs of the states as well as their protection against foreign invasion.

It was not until early 1968, following the British Government's statement that British forces would be withdrawn from the Trucial States, that the first attempt of a federation among the Emirates was proposed. On February 27, 1968 the rulers of the seven Trucial States and the rulers of Bahrain and Qatar met in Dubai and agreed, in principle, to the formation of a federation to take effect from March 30, 1968. This agreement provided the basis for drafting an acceptable constitution and established a Supreme Council composed of the nine rulers, with exclusive legislative authority. After three years of frustrated negotiations, Bahrain and Qatar opted out of the federation and declared themselves independent states in the second half of 1971. Shortly thereafter, Abu Dhabi, Dubai, Sharjah, Ajman, Umm al-Qaiwan and Fujairah agreed to form the United Arab Emirates (U.A.E.), which was officially declared on December 2, 1971. The seventh state, Ras al-Khaimah, joined the U.A.E. in February 1972. The formation of the U.A.E. ended all the past treaties of friendship and protection with the British Government. The U.A.E. was admitted to the United Nations on December 9, 1971.

The U.A.E. has a total area of about 30,000 square miles and a total population of approximately 250,000 in 1971. The composition of the population is largely Arab, but a sizable proportion is not indigenous. There are also large communities of Iranians, Baluchis, Indians and Pakistanis. The principal language is Arabic, and Islam is the religion of the vast majority of the population.

## 2. Economic survey

### a. Introduction

The seven Emirates comprising the U.A.E. vary widely in size, population and resources. Abu Dhabi and Dubai (discussed in Sections 3 and 4, respectively) are the most important in economic terms as well as in terms of population. Together they account for approximately 60 per cent of the population and over 90 per cent of the total resources of the Federation. Abu Dhabi, also the largest in area, is an important producer of crude oil. Its oil revenues amounted to \$373 million in 1971 and are expected to exceed \$500 million in the current calendar year. The prosperity of Dubai is mainly attributed to its importance as the principal commercial center and entrepot for the United Arab Emirates with buoyant markets in the Gulf area, Iran, Saudi Arabia and the Indian sub-continent. Furthermore, the recently discovered crude oil is assuming importance as an additional source of income. Dubai's oil revenue is estimated to have increased from about \$3 million in 1969 to over \$50 million in 1971.

The other five Emirates, with an estimated population of less than 100,000, do not produce oil as yet and are relatively poor. Most of the population depend for their livelihood on small-scale agriculture and fishing.

b. Oil

Petroleum Development (Trucial States) Ltd.,<sup>1/</sup> a subsidiary of Iraq Petroleum Company, was the first to start oil exploration in both Abu Dhabi and Dubai. In 1951 the company abandoned its Dubai concession, after drilling a dry well, and concentrated on its Abu Dhabi onshore concession. By the early 1960s oil was discovered in commercial quantities and exported by ADPC and Abu Dhabi Marine Areas (ADMA) which were granted an offshore exploration concession in 1953. The Japanese-owned Abu Dhabi Oil Company, which was granted an offshore exploration concession in December 1967, is expected to start production at the end of 1972 at the rate of 40,000-50,000 barrels per day from its Mubarraz field (40 miles west of Abu Dhabi). Three other concessionaires (two onshore and one offshore) have not struck commercial oil yet.

Abu Dhabi's oil production increased from less than one million long tons in 1962 to 44 million tons in 1971. In 1972 production is expected to reach 50 million long tons.

The Dubai onshore concession, relinquished by Petroleum Development (Trucial States) Ltd. in 1951, was taken over in 1963 by an American firm which formed Dubai Petroleum Company (DPC) as an operating subsidiary. In the same year Dubai Marine Areas Limited (DUMA), owned by British and French interests, acquired an offshore exploration concession. Dubai started exporting oil from the Fatah offshore oilfield in late 1969. The ownership of the original offshore exploration concession underwent many changes. At the end of 1970 DPC operated the offshore concession for a multi-national group of companies owned by American, German, French and Spanish interests, the latter two acting together as Dubai Marine Areas Limited. Production increased from one half million long tons in 1969 to over six million long tons in 1971.

Oil exploration concessions were granted to various oil companies in all the remaining Emirates except Fujarah. No commercial strikes have as yet been made.

c. Federal finance

The Federal Ministry of Finance, Economy and Industry is responsible for the preparation and execution of the federal budget. The first such budget prepared for the fiscal year 1972 (same as calendar year) balances revenues and expenditures at BD 19.9 million.

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<sup>1/</sup> In July 1962 the company's name became Abu Dhabi Petroleum Company (ADPC).

Table 1. United Arab Emirates: Summary of 1972 Budget Estimates  
(In thousands of Bahrain dinars)

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A. <u>Revenues</u> , <sup>1/</sup> of which:	19,900
Abu Dhabi	16,500
Dubai	3,000
Sharjah	181
Ajman	29
Umm al-Qaiwain	33
Fujairah	57
Ras al-Khaimah	100
B. <u>Expenditures</u>	19,900
Current expenditure	15,356
Development expenditure, of which:	4,544
Allocations for new projects	(3,464)
Completion of ongoing projects	(1,080)

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Source: Federal Ministry of Finance, Economy and Industry, Abu Dhabi, United Arab Emirates.

<sup>1/</sup> Each Emirate contributes 10 per cent of its revenues to the federal budget.

Federal revenues for fiscal 1972 were confined to contributions from the seven Emirates at the rate of 10 per cent of their annual revenues. Abu Dhabi, the richest of the Emirates, contributed 82 per cent of total revenues and Dubai about 15 per cent. Article 126 of the Transitional Constitution of U.A.E. (1971) gives the Federal Government powers to introduce federal taxes and other fees and charges for services rendered. These potential revenue resources may be used to supplement federal revenues in the future.

The major part of federal expenditures, about BD 15.4 million (75 per cent of total) was allocated for current expenditures and the balance (BD 4.5 million) for development expenditures. The large current expenditure allocations are due mainly to the establishment of the federal administrative machinery and to staffing. About 3.5 million was allocated for new projects relating mainly to housing, roads, water and electricity, health and educational services for the poorer Emirates. About BD 1 million was allocated to finance the completion of projects in progress. These relate to various projects undertaken by the Trucial States Development Board established in 1965 by the Trucial Council to promote development of the Emirates infrastructure and health services. The Fund was financed by contributions from Britain, Bahrain, Abu Dhabi and Qatar and most of its development schemes were designed to meet the needs of the five poorer Emirates.

d. Banking and currency arrangements

At the present time the U.A.E. uses currencies issued by two neighboring states, namely Bahrain and Qatar. The gold parity of the Bahrain dinar (issued in 1965) was fixed at 1.86621 grams of fine gold<sup>1/</sup> and that of the Qatar/Dubai riyal<sup>2/</sup> (issued in 1966) at 0.186621 gram of fine gold. The 100 per cent gold and foreign exchange cover for the initial issue of each of the currencies was fully subscribed by Bahrain and Qatar. The total currency in circulation in the U.A.E. is very difficult to estimate because both currencies are interchangeable and readily acceptable in all the Emirates. Available data indicate that in 1970 about 73 per cent (BD 13.6 million) of the total Bahrain dinars in circulation were in Abu Dhabi and approximately one half of the Qatar/Dubai riyals in circulation were in Dubai. The U.A.E. is expected to issue its own currency to replace the BD and QDR in the near future.

Commercial banking services in the U.A.E. are carried out by branches of foreign banks and in recent years by local banks. These banks operate without control or supervision. There are 12 multi-national banks in Abu Dhabi and 14 in Dubai. The other five Emirates are estimated to have about 20 bank branches. The growth in banking activity is mainly a reflection of the growing importance of Dubai as a trading center and the impact of high and rising oil revenues in Abu Dhabi.

e. The external sector

The combined foreign trade data for Abu Dhabi and Dubai, adjusted for inter-Emirate trade, is taken as an approximate indication of the foreign trade of the U.A.E. This approach is justified on the grounds that the other five Emirates do not have exports of any significance. Furthermore, most of their import demand is met from re-exports from Dubai and Abu Dhabi.

Exports of Abu Dhabi consist almost entirely of crude oil. Prior to the advent of crude oil in Dubai in 1969, its exports, mainly dates and dried fish, were very small. Until 1970 available re-export data were for Dubai only. These are underestimated because there is no legal requirement for declaring exports or re-exports except in the case of livestock. Imports are substantial because, in addition to the requirements of re-export trade, virtually all requirements of capital and consumer goods including foodstuffs are imported. Both the supply sources and the goods imported are very diversified. The major suppliers are the United Kingdom, Japan, the United States, Switzerland, India, the Federal Republic of Germany and Hong Kong.

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<sup>1/</sup> Following the devaluation of the U.S. dollar, the rate is Bahrain dinar (BD) 1 = US\$2.28.

<sup>2/</sup> Following the devaluation of the U.S. dollar, the rate is Qatar/Dubai riyal (QDR) 1 = US\$0.228.

A summary of foreign trade data is presented in Table 2 below. During the four years ended 1971 total exports (including re-exports) increased at an annual rate of 35 per cent. During the same period import value increased at an annual rate of 24 per cent. Increased production and high demand for oil in recent years substantially increased the combined trade surplus of the two Emirates. As no data on invisibles, transfers and capital movements are available, a meaningful balance of payments estimate for the U.A.E. cannot be prepared. There are no foreign reserves of the U.A.E. as a political entity. No data are available on foreign exchange holdings of individual Emirates except Abu Dhabi and Dubai. Abu Dhabi's holdings (mainly sterling assets) are estimated at the equivalent of SDR 151 million at the end of 1971. Government deposits with the domestic banking system in Dubai, which may be considered foreign assets of the Emirate, amounted to the equivalent of SDR 10.5 million at the end of 1971.

Table 2. United Arab Emirates: Summary of Foreign Trade<sup>1/</sup>

(In equivalents of millions of special drawing rights)

	1967	1968	1969	1970	1971
1. <u>Exports, of which:</u>	<u>218.5</u>	<u>290.8</u>	<u>351.1</u>	<u>445.7</u>	<u>727.5</u>
Crude oil <sup>2/</sup>	206.0	271.4	332.1	420.5	692.2
Non-oil exports	1.2	1.2	1.3	0.6	1.9
Other, including re-exports	11.3	18.2	17.7	24.6	33.4
2. <u>Imports</u>	<u>130.9</u>	<u>225.1</u>	<u>308.9</u>	<u>270.9</u>	<u>311.1</u>

Sources: Data supplied by Abu Dhabi and Dubai authorities.

<sup>1/</sup> Based on trade data for Abu Dhabi and Dubai adjusted for inter-Emirate trade.

<sup>2/</sup> Staff estimates based on volume of crude oil exports and discounted posted prices.

The Emirates follow a liberal trade policy. With very minor exceptions import licenses are not required. Imports from Israel are prohibited. Imports by the Government and the oil companies are duty free. Dubai applies an across-the-board duty of 4.625 per cent ad valorem on all imported goods except foodstuffs (rice, flour, wheat, sugar) which pay 2 per cent. In Abu Dhabi, fresh fruits and vegetables, livestock, sheep, horses, birds, seeds, dates, books, newspapers and magazines are duty free. All imports from country of origin are charged at the rate of between 1-2

per cent. Imports from countries other than country of origin pay at the rate of 5 per cent. Other import duties are 25 per cent on alcoholic beverages, 2 per cent on re-exports and 1 per cent on all goods in transit.

The U.A.E. is within the scheduled territories of the sterling area and responsibility for exchange control rested until independence with the British Political Agency. Presently the commercial section of the British Embassy is temporarily responsible for this function until the appropriate federal authority is nominated to take over. In practice, banks are authorized to make payments in foreign exchange for all imports without reference to the exchange control authorities. There is no restriction on current or capital transfers within the sterling area. Furthermore, authority is freely given for the remittance of profits to countries outside the sterling area. Expatriates employed in the area may normally remit up to 75 per cent of their salaries to countries outside the sterling area.

After the currency realignment in December 1971, the gold parity of the two currencies circulating in the U.A.E., namely, the Bahrain dinar and the Qatar/Dubai riyal, remained unchanged. The rate for the U.S. dollar in relation to the Bahrain dinar is US\$2.28 = BD 1 and in relation to the QDR is US\$0.228 = QDR 1.

### 3. The economy of Abu Dhabi

Abu Dhabi is the largest and wealthiest Emirate in the U.A.E. It lies on the south shore of the Gulf and has a coastline of some 400 kilometers stretching from the border of the State of Qatar in the west to that of the Emirate of Dubai in the east. To the south, Abu Dhabi extends inland through desert country for a distance varying from 200 to 300 kilometers to an undefined frontier with the Kingdom of Saudi Arabia. Apart from the oasis of Al-Ain (part of the Buraimi oasis) on the Sultanate of Oman border to the west and the Liwa oasis to the south, mainland Abu Dhabi is barren and sandy. The Emirate also contains numerous small islands, the most important being Das Island, an oil loading terminal, and Sadiyat, which encompasses the Arid Lands Research Centre which is a joint venture between the University of Arizona and the Government of Abu Dhabi for growing vegetables and agricultural research. The output of Sadiyat is presently estimated to meet about 85 per cent of Abu Dhabi town's vegetables consumption. Abu Dhabi Town itself, from which the Emirate takes its name, is an island now joined to the coast by a bridge. The population of Abu Dhabi is estimated at about 80,000 concentrated mainly in the oases areas and in Abu Dhabi Town. In recent years the expatriate population of Abu Dhabi has been increasing through the immigration of Indians, Pakistanis, Iranians and other Arabs from various Middle Eastern countries.

Prior to the discovery of oil and its commercial exploitation in the early 1960s, the economy of Abu Dhabi depended largely on small-scale agriculture in the oases, fishing and pearling. With the advent of oil, the economy of Abu Dhabi was completely transformed and became primarily dependent on oil production and oil revenues. Income from oil has enabled the Emirate to finance large investments in infrastructure projects and social services.

At the present time two companies are producing oil in Abu Dhabi, namely, ADPC and ADMA. A third, Abu Dhabi Oil Company (AOC), is expected to start production toward the end of the current year. ADPC, the largest concessionaire, has been producing crude oil from its onshore Murban oil-field 100 miles to the southwest of Abu Dhabi Island since 1963. A 70-mile pipeline connects the two separate domes at Murban (Bab and Bu Hasa) to the tanker terminal at Jebel Dhanna on the Gulf Coast. By the beginning of 1974, ADPC plans to double its present production and export capacity to reach 1.3 million barrels per day. ADMA, which started exporting crude oil in 1962, has two offshore producing fields (Zakum and Umm Shaif) linked by a pipeline to the Das Island export terminal situated approximately equidistant from Abu Dhabi Island and the coast of Qatar. The daily average production of ADMA during 1971 was 357,000 barrels a day; the company plans to raise its total export capacity to about one half million barrels a day by the end of 1972. ADMA's owner companies--British Petroleum (66.7 per cent) and Compagnie Francaise des Petroles (33.3 per cent)--are also participating with a Japanese consortium to develop El Bunduq oilfield in the offshore border area between Abu Dhabi and Qatar. If and when El Bunduq starts commercial production, revenues will be equally shared between Abu Dhabi and Qatar. As was indicated earlier, Abu Dhabi's other three concessionaires--the Phillips-Agip-Aminoil Group onshore, the Japanese-owned Middle East Oil Company (MEOC) onshore, and the Amerada Hess/Pan Ocean Group offshore--have not had success in finding commercial oil.

As is indicated by Table 3 below total oil production in Abu Dhabi expanded rapidly in recent years. In the five years ended 1971 production increased at an annual compound rate of 21 per cent. Almost all production is exported to Japan, Britain, United States and the European Economic Community. In the first four months of 1972 crude oil exports amounted to 124.3 million barrels, 24 per cent higher than the corresponding period of the previous year.

Table 3. Abu Dhabi: Crude Petroleum Production and Income  
(Production in millions of long tons; income in millions  
of U.S. dollars)

	ADPC	ADMA	Total Production	Income
1962	--	0.8	0.8	2.8
1963	0.1	2.3	2.4	6.4
1964	6.0	2.9	8.9	12.4
1965	9.0	4.3	13.3	33.2
1966	12.0	5.0	17.0	99.8
1967	12.2	5.9	18.1	105.0
1968	14.9	8.7	23.6	153.0
1969	16.8	11.5	28.3	191.1
1970	20.1	12.7	32.8	230.5
1971	27.1	16.9	44.0	373.1

Sources: Data supplied by the authorities in Abu Dhabi and Petroleum Information Foundation, Paper No. 12, August 1971.

Abu Dhabi is a member of the Organization of Petroleum Exporting Countries (OPEC). The terms of the original concessions to ADPC and ADMA were changed in 1966 to approximate OPEC terms and were amended to incorporate the terms of the Teheran Agreement<sup>1/</sup> and the recent Geneva Agreement.<sup>2/</sup>

<sup>1/</sup> The Teheran Agreement is a five-year accord between 22 international oil companies and Governments of six oil producing countries on the Persian Gulf that came into effect on February 15, 1971. The main provisions of the Agreement are stabilizing the income tax rate for the oil companies at 55 per cent, an immediate increase in posted prices of 35 U.S. cents per barrel and a schedule of further increases in the posted prices over the period of the Agreement.

<sup>2/</sup> The Geneva Agreement, which was supplemental to the Teheran Agreement, increased posted prices by 8.49 per cent effective January 20, 1972. Another provision related to periodic revision of posted prices according to an agreed index which represents, in percentage terms, the average appreciation of the currencies of nine major industrialized countries vis-a-vis the U.S. dollar since April 30, 1971, and without prejudice to the terms of the Teheran Agreement.

An important recent development was the establishment of the Abu Dhabi National Petroleum Company (ADNPC) by Law No. 7 (1971) effective November 27, 1971. The main objectives of ADNPC are threefold: firstly, to act on behalf of the Government in taking up Abu Dhabi's option for participation in recent concession ventures when commercial production is established. This is in accordance with the terms of the concessions agreements with ADOCO and the other three companies referred to earlier. Secondly, ADNPC will take up any participation in the major concessionaries--ADPC and ADMA--which may be negotiated by Abu Dhabi within the framework of OPEC. Presently, the six Gulf members of OPEC are asking for a minimum initial participation of 20 per cent. Thirdly, ADNPC will be responsible for the supply, distribution and marketing of oil products in Abu Dhabi presently carried out by British Petroleum, Shell and Caltex. Demand for oil products in Abu Dhabi is currently running at about 4,000 barrels per day (b/d). ADNPC is planning the construction of a 15,000 b/d, \$30 million refinery near Abu Dhabi. The refinery is scheduled for completion in the second half of 1974, with full operation to begin in 1975.

Projects planned by the Ministry of Petroleum and Industry include a \$15 million cement factory, a petrochemical project and a sulphur recovery plant and sulphuric acid unit.

In recent years over 95 per cent of Abu Dhabi's revenues come from royalty and income tax payments by the two producing oil companies. Payments were made directly to the Ruler who withheld 25 per cent and passed the rest to the Government. From July 10, 1971 the Ruler reduced his share to 10 per cent of total oil receipts. Total oil revenues (Table 3) were modest to start with but increased substantially in recent years and amounted to about \$373 million during 1971. This is due mainly to increased production and increased posted prices and income tax rates on the companies' net profits in the last two years. By contrast other revenues from customs duties and other sources for the same date were about \$17 million, or about 5 per cent of government oil receipts.

As may be seen from Table 4 below, despite the rapid increase in revenues, Abu Dhabi moved from a position of surplus in 1967 to that of deficit in both 1968 and 1969, due mainly to substantial increases in both current and development expenditures. In the two years ended 1971, current expenditures maintained their upward trend while development expenditures declined by 28 per cent in 1970 and were estimated to have increased by about 9 per cent in 1971. Following a large budget deficit in 1969, a surplus of about BD 14 million was realized in 1970 and a substantial surplus of BD 57 million was estimated for 1971.

Table 4. Abu Dhabi: Government Finances

(In thousands of Bahrain dinars)

	Actual				1971 <sup>1/</sup>
	1967	1968	1969	1970	
1. <u>Revenues</u>	41,059	55,443	68,088	86,145	168,000
Government oil receipts <sup>2/</sup>	37,194	53,705	63,269	82,698	159,906
Customs receipts	177	370	727	637	900
Interest and dividends	653	656	600	596	2,175
Grants from H.H. the Ruler of					
Abu Dhabi	2,007	--	2,453	--	--
Other	1,028	712	1,039	1,678	2,000
2. <u>Expenditures</u>	32,818	59,335	82,036	72,008	111,000
Current expenditure	16,023	28,823	36,041	38,683	75,000
Development expenditure	16,795	30,512	45,995	33,325	36,000
3. <u>Surplus or deficit (-)</u>					
(1-2)	8,241	-3,892	-13,948	13,601	53,981
4. <u>Financing</u>	8,260	-4,043	970	2,879	53,038
Proceeds of foreign loans	--	--	--	-536	-3,019
Cash in hand and at banks (increase or decrease -)	1,383	-3,238	-1,688	3,162	41,339
Abu Dhabi Investment Board (increase or decrease - in assets)	6,877	-805	2,658	253	14,718
5. <u>Discrepancy (3-4)<sup>3/</sup></u>	-19	151	-14,918	10,722	943

Source: Ministry of Finance, Finance Department, Abu Dhabi.

<sup>1/</sup> Budgetary estimates.

<sup>2/</sup> Excluding the Ruler's share estimated at over 25 per cent of total payments by oil companies up to July 1, 1971 and 10 per cent thereafter.

<sup>3/</sup> Reflects extrabudgetary operations; the figures for 1969 and 1970 reflect the impact of a receipt in 1969 of oil revenue amounting to BD 9.1 million due in 1970.

With the exception of oil companies, there was little development expenditure and no development planning in Abu Dhabi prior to 1968. A five-year plan covering the period 1968-72 was proclaimed by the Ruler of Abu Dhabi in March 1968. The plan envisaged a total investment outlay of about BD 296 million, of which over 75 per cent was allocated for infrastructure projects, industry, low-cost housing, schools, hospitals and agriculture. The record of implementation of the plan was characterized by substantial shortfalls which resulted primarily from technical and administrative problems related to the preparation and implementation of projects. A Planning Board was established in 1969 to evaluate and approve the various projects and to supervise the implementation of the plan. In 1970 development expenditure declined sharply primarily because of a standstill imposed by the Board on the approval of new projects as a result of deterioration in the Government's liquidity position. Development allocations for 1971 were estimated at BD 36 million, about 9 per cent higher than the previous year's actual development expenditures. The largest allocations were for payment of compensation to Abu Dhabians whose land was required for public purposes, the port project and the construction of a surfaced road to the frontier of the Emirate of Dubai.

Abu Dhabi Investment Board was established in February 1967 to invest the Emirate's surplus revenue in foreign assets. The Board was based in London. The total value of investment held by the Board increased from BD 6.9 million (\$14.5 million) at the end of 1967 to about BD 9 million (\$18.9 million) at the end of 1970.<sup>1/</sup> Total foreign asset holdings of Abu Dhabi including the Investment Board were estimated at BD 71.8 million or SDR 151 million at the end of 1971.

Prior to the adoption of the Bahrain dinar in 1966, the Indian rupee and later the Gulf rupee, with the same value as the Indian rupee (13.33 rupees equal 1 pound sterling), was legal tender in Abu Dhabi. Abu Dhabi made no foreign exchange contribution to the initial assets of the Bahrain Currency Board. However, in order to acquire Bahrain dinars, Abu Dhabi pays the full value (plus a small commission) in sterling to the Bahrain Currency Board. Bahrain dinars circulating in Abu Dhabi were estimated to have increased from BD 2.4 million in 1966 to BD 13.6 million, or 73 per cent of total circulation in both Bahrain and Abu Dhabi at the end of 1970.

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<sup>1/</sup> The foreign asset holdings of the Board are mainly medium-term British Government securities and United States corporate stocks.

Abu Dhabi has an active commercial banking sector consisting of nine branches of foreign banks,<sup>1/</sup> one local bank (National Bank of Abu Dhabi) and two Dubai banks (National Bank of Dubai and Bank of Oman). Deposits in these banks stabilized at about BD 31 million in 1967 and 1968, declined by 32 per cent to BD 20.5 million in 1969 and amounted to BD 22.2 million at the end of 1970. In the three years ended 1969 government deposits declined consistently as a result of the substantial increase in current expenditures. Development expenditures also increased substantially in the three years ended 1969 and declined in 1970 for reasons already discussed. A sizable part of the banks' assets is invested abroad while their local lending operations, mostly for trade and construction purposes, have expanded rapidly, increasing from about BD 8 million at the end of 1967 to BD 19 million at the end of June 1971. Foreign banks operate under a license from the Ruler of Abu Dhabi and there are, at present, no regulations covering commercial banking activities in Abu Dhabi.

Recent monetary developments in Abu Dhabi are summarized in Table 5. Following an increase of nearly 28 per cent in 1968, money supply declined sharply (17 per cent) in 1969 and more or less stabilized in 1970. Currency in circulation, which increased by about BD 8 million (78 per cent) in 1968, maintained an upward trend at a slower rate of 31 per cent in 1969 and about 8 per cent in 1970. Monetary expansion in 1968 was mainly associated with sizable increases in government expenditures and increased claims on the private sector. The decline in money supply in 1969 was associated with a substantial decline in net foreign assets which more than offset the expansionary impact of the increase in the net domestic assets of the banking system. In 1970, while net foreign assets increased by about BD 3 million, claims on the private sector declined by about 34 per cent, reflecting some slowdown in the level of economic activity resulting from reduction in government development expenditure.

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<sup>1/</sup> Of the nine, three are British, one is American, two are Pakistani, two are Iranian and one is Jordanian.

Table 5. Abu Dhabi: Monetary Survey and Factors  
Affecting Changes in Money Supply

(In millions of Bahrain dinars)

	December 31			
	1967	1968	1969	1970
Foreign assets (net) <sup>1/</sup>	31.8	31.7	10.1	13.3
Claims on Government (net)	-8.5	-5.3	-3.6	-6.8
Claims on private sector	8.3	15.6	28.6	19.0
<u>Assets = Liabilities</u>	<u>31.6</u>	<u>42.0</u>	<u>35.1</u>	<u>25.5</u>
Currency in circulation <sup>1/</sup>	5.4	9.6	12.6	13.6
Demand deposits	<u>22.4</u>	<u>25.9</u>	<u>16.9</u>	<u>15.4</u>
Total money	27.8	35.5	29.5	29.0
Quasi-money	0.1	2.1	2.2	n.a.
Other items (net)	3.7	4.4	3.4	-3.5
<u>Changes in:</u>				
<u>Money</u>		<u>7.7</u>	<u>-6.0</u>	<u>-0.5</u>
Currency in circulation		4.2	3.0	1.0
Demand deposits		3.5	-9.0	-1.5
<u>Quasi-money</u>		<u>2.0</u>	<u>0.1</u>	<u>-2.2</u>
<u>Money and quasi-money</u>		<u>9.7</u>	<u>-5.9</u>	<u>-2.7</u>
<u>Domestic assets (net)</u>		<u>9.8</u>	<u>15.7</u>	<u>-5.9</u>
Claims on private sector		7.3	13.0	-9.6
Claims on Government (net)		3.2	1.7	-3.2
Other items (net)		-0.7	1.0	6.9
<u>Foreign assets (net)</u>		<u>-0.1</u>	<u>-21.6</u>	<u>3.2</u>

Sources: Data supplied by the Abu Dhabi authorities and Bahrain Currency Board reports.

<sup>1/</sup> Estimated currency in circulation in Abu Dhabi; equivalent amounts have been added to foreign assets (net).

As already indicated, Abu Dhabi's recorded exports are exclusively crude petroleum. In the five years ended 1971 the estimated value of crude oil exports tripled (Table 6), due mainly to increased production and exports, and the increased demand for oil in Western Europe and Japan--the main importers of Abu Dhabi's crude oil. Data on re-exports were only available for 1971. These include most significantly (85 per cent) oilfield equipment, machinery, vehicles, building materials, cigarettes and tobacco exported to Saudi Arabia and other Gulf States.

Table 6. Abu Dhabi: Summary of Foreign Trade

(In equivalents of millions of special drawing rights)

	1967	1968	1969	1970	1971
1. <u>Exports, of which:</u>	<u>206.0</u>	<u>271.4</u>	<u>327.3</u>	<u>379.2</u>	<u>633.0</u>
Crude oil <sup>1/</sup>	206.0	271.4	327.3	379.2	624.5
Re-exports	n.a.	n.a.	n.a.	n.a.	8.5
2. <u>Imports</u>	<u>30.7</u>	<u>65.3</u>	<u>124.5</u>	<u>74.0</u>	<u>98.6</u>

Sources: Data supplied by the Abu Dhabi authorities, and Foreign Trade Statistical Reports, 1969-71, Customs Department, Abu Dhabi.

1/ Staff estimates based on volume of crude oil exports and discounted posted prices.

Imports increased from about SDR 31 million equivalent in 1967 to a peak of SDR 115 million in 1969, declined sharply (by about 40 per cent) in 1970 and revived in 1971. The increase in imports in the three years ended 1969 was due to substantial government current and development expenditures which increased the demand for capital goods as well as consumer goods. In 1969 about 64 per cent of total imports were machinery, vehicles, building materials, spare parts and electrical goods. Foodstuffs accounted for about 7 per cent of total imports. In 1970, while foodstuffs declined marginally, capital goods and building materials declined substantially owing mainly to the decline in government development expenditures. In 1971 the recovery in imports was due to a large extent to a sharp rise in the importation of oilfield materials and equipment and other items, namely, foodstuffs, tools, hardware and textiles. Between 1969 and 1971 the United Kingdom, the United States, Japan, the Federal Republic of Germany, Italy and Holland were the major suppliers of Abu Dhabi contributing on average about 70 per cent of total imports. Imports from Dubai amounted to about 9 per cent in 1971, compared with 5 per cent in 1970 and 7 per cent in 1969.

Large and rising oil exports have enabled Abu Dhabi to enjoy substantial trade and payments surpluses in recent years. Available data on foreign exchange holdings of Abu Dhabi are summarized in Table 7 below.

Table 7. Abu Dhabi: Foreign Assets Holdings

(In equivalents of millions of special drawing rights)

	1967	1968	1969	1970	1971 <sup>1/</sup>	1972 <sup>2/</sup>
Government deposits with local banks (net of liabilities)	17.9	11.1	7.6	14.2	101.0	n.a.
Foreign financial investment <sup>3/</sup>	<u>14.5</u>	<u>12.8</u>	<u>18.3</u>	<u>18.9</u>	<u>49.8</u>	<u>n.a.</u>
Total	32.4	23.9	25.9	33.1	150.8	211.9

Source: Ministry of Finance, Finance Department, Abu Dhabi.

<sup>1/</sup> Estimates.

<sup>2/</sup> End of March 1972.

<sup>3/</sup> Held mainly by Abu Dhabi Investment Board.

As indicated earlier, Abu Dhabi follows liberal trade policies and charges very low customs duties. There is no exchange control legislation in Abu Dhabi. Commercial banks observe prescription of currency requirements broadly similar to those of other parts of the sterling area. The gold content of the Bahrain dinar, which is legal tender in Abu Dhabi, remained unchanged since 1965 and the Bahrain dinar is pegged to the pound sterling.

#### 4. The economy of Dubai

Dubai, the second most important Emirate in the U.A.E. in terms of economic resources, is situated on the Musandam Peninsula and has a total area of approximately 1,500 square miles and a population estimated at between 60-70 thousand people. The population is mainly Arab, but there is a large Iranian element and many Baluchis, Pakistanis and Indians, together with a relatively small European and American community.

Prior to the advent of oil and its exportation in late 1969, Dubai's prosperity derived primarily from trade. Dubai Town is well situated for trade as the creek on which it is located provides good harborage. This favorable geographical location, enhanced by liberal trade policies, enabled

Dubai to become the principal commercial center and entrepot serving large and buoyant markets in the Gulf area, Iran and Saudi Arabia. Dubai is also famed for its gold trade. In recent years, annual gold imports from the United Kingdom, France and Switzerland were estimated at over 200 metric tons valued at about \$1.2 million per metric ton. Most of this gold found its way to the Indian subcontinent. The annual rate of return on gold operations is estimated at about 15 per cent.

Many years after the start of oil exploration in Dubai, production and exportation commenced in late 1969 from (offshore) the Fateh field, about 100 kilometers northwest of Dubai Town. Production increased from one-half million long tons in 1969 to over six million long tons in 1971. Oil revenues in the form of royalties and income tax are paid by the companies directly to the ruler of Dubai, and they are not published. These revenues were estimated to have increased from about \$3 million in 1969 to over \$50 million in 1971 (see Table 8).

Table 8. Dubai: Crude Petroleum Production and Income

(Production in millions of long tons; income in millions of U.S. dollars)

	Production	Income <sup>1/</sup>
1969	0.5	3.2
1970	4.2	27.9
1971	6.4	50.2

Source: Middle East Economic Digest, London, January 14, 1972.

<sup>1/</sup> Staff estimates.

Dubai has substantial offshore oil reserves. The companies operating the offshore concession (see page 3) plan to increase the present production capacity of 125,000 barrels per day (b/d) to 300,000 b/d by 1973. The total cost of this operation is put at \$79 million. Fateh oilfield has a unique underwater storage system based on the principle that oil is lighter than water. The underwater dome-shaped tank, 270 feet in diameter, with a holding capacity of 500,000 barrels of oil, was built by an American firm at a cost of about \$5.8 million. During 1972 two similar storage tanks will be installed thus increasing the storage capacity at Fateh oilfield to over 2 million barrels. Additionally, a new platform capable of loading 100,000 barrels per hour will be installed to enable Fateh to handle 300,000-ton tankers.

In 1970 the Ruler of Dubai granted a partnership of Buttes Oil and Gas Company (offshore concession holders in Sharjah) and Clayo Petroleum Corporation a 1,994-square kilometer concession onshore and offshore.

Although Dubai is not a member of OPEC, OPEC agreements on taxes and posted prices are put into effect by private agreement between the companies and the Ruler of Dubai. These include the agreement to raise the tax rate on companies' profits by 5 percentage points (from 50 per cent to 55 per cent) effective November 14, 1970, the Teheran Agreement effective February 15, 1971 and the Geneva Agreement effective January 20, 1972.

Table 9. Dubai: Government Finances

(In thousands of Bahrain dinars)<sup>1/</sup>

	1967	1968	1969	1970	1971
1. <u>Revenues</u>	<u>1,827</u>	<u>2,852</u>	<u>5,024</u>	<u>16,843</u>	<u>27,407</u>
Oil <sup>2/</sup>	--	--	1,524	13,300	23,886
Customs receipts	1,613	2,607	3,200	3,048	2,797
Transfers from H.H. The Ruler of Dubai	96	89	--	--	--
Other	118	156	300	495	724
2. <u>Expenditures</u>	<u>1,674</u>	<u>2,721</u>	<u>3,751</u>	<u>5,227</u>	<u>8,613</u>
Current expenditure	1,447	2,459	3,600	4,466	4,571 <sup>3/</sup>
Development expenditure	227	262	151	761	4,042 <sup>3/</sup>
3. <u>Surplus or deficit (-)</u> <u>(1-2)</u>	<u>153</u>	<u>131</u>	<u>1,273</u>	<u>11,616</u>	<u>18,794</u>

Source: Data supplied by the authorities in Dubai.

1/ BD 1 = QDR 10.

2/ Staff estimates.

3/ Budgetary estimates.

There is no published budget for the Emirate of Dubai; neither is there a distinction between the Ruler's funds and those of the Emirate. Apart from customs receipts and, more recently, oil revenues, the Ruler has had various sources of income. The receipts from the Post Office, the Land Registration Department and the water operation all go directly to him.

The Dubai Electricity Company is a private enterprise, but the Ruler has a share in it. The Ruler also has his own real estate business and is believed to invest in other trade ventures. The Ruler reallocates part of these revenues, on an ad hoc basis, for development projects. Therefore, both revenues and development expenditures shown in Table 9 above are incomplete. A general guiding fiscal principle in Dubai is to keep current as well as development expenditures within the limits of available resources. It has also been the Ruler's policy to restrict the expansion of government administration in order to keep current expenditures at a low level.

Dubai has already achieved some degree of economic development reflected in the construction of roads, a modern airport and the provision of essential public services. Dubai's major development project, the BD 27 million Port Rashid, which was started in 1968, is expected to be completed some time in 1973. When completed, the new harbor with its 15 deepwater berths and 12 transit sheds will greatly increase Dubai's capacity to handle an expanded volume of trade. To enhance Dubai's trading position further, a free zone is planned in the new port and the already low levies on imported goods will be reduced by one half. Other projects include the extension of the airport runway, a 393-bed hospital and a 1,700-foot dual carriage linking both sides of the creek. Plans are presently being discussed for a 500,000-ton dry dock, a feasibility study of which was prepared by a British firm.

Prior to the adoption of the Qatar/Dubai riyal (QDR) in late 1966, the Indian rupee and later the Gulf rupee, with the same value as the Indian rupee (13.33 rupees equal 1 pound sterling), was legal tender in Dubai, except for a short period (March to September 1966) when the Saudi Arabian riyal temporarily circulated. The QDR was defined as equal to 0.186621 gram of fine gold,<sup>1/</sup> and fully backed by a reserve fund consisting of gold, sterling assets or other convertible currencies. The Qatar and Dubai Currency Agreement of 1966 specified a 100 per cent cover ratio as a minimum and 110 per cent as a maximum. The Qatar and Dubai Currency Board, established under the same Agreement, was entrusted with the issue and redemption of the new currency against payment of sterling in London and the management of the currency reserve fund. The currency cover was fully subscribed by Qatar. Qatar/Dubai riyals circulating in Dubai, estimated at 50 per cent of total circulation in both Qatar and Dubai, increased from QDR 65 million (BD 6.5 million) in 1967 to QDR 87 million (BD 8.7 million) in 1971 or by about 34 per cent.

Dubai is served by 14 banks, three of which are predominantly locally owned, two multinational banks and nine branches of foreign banks.<sup>2/</sup> Banks operate under a license from the Ruler and there are no regulations governing banking activities in Dubai. Banking operations are primarily related to financing imports and re-exports. Despite a high prime rate (9½-12 per cent) and a high ratio of lending to local deposits in recent years (about 160 per cent), there was no shortage of credit because commercial banks utilized local deposits in foreign exchange and head office facilities in times of need.

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<sup>1/</sup> The gold parity of the QDR has not been changed.

<sup>2/</sup> Two British, two American, two Iranian, two Pakistani and one Jordanian.

Recent monetary developments are summarized in Table 10. Demand deposits accounted, on average, for almost 70 per cent of total money supply during the period 1967-71. Monetary expansion in 1968 was mainly associated with increased claims on the private sector for financing imports which increased by nearly 60 per cent. Imports of gold were also estimated to have increased by the same percentage, from 105 metric tons in 1967 to 167 metric tons in 1968. The rate of monetary expansion slowed down in 1969, more or less stabilized in 1970 and picked up in 1971. In both 1969 and 1970, the rate of growth of imports decreased and was reflected in the slow-down of the rate of credit expansion. In 1971 the substantial increase in net foreign assets and claims on the private sector were the main factors behind the monetary expansion.

Table 10. Dubai: Monetary Survey and Factors Affecting Changes in Money Supply

(In millions of Bahrain dinars)

	December 31				
	1967	1968	1969	1970	1971
Foreign assets (net) <sup>1/</sup>	12.6	16.8	9.5	7.5	20.6
Claims on Government	-0.9	-0.8	-1.7	-1.3	-4.9
Claims on private sector	12.0	23.0	34.0	40.7	51.3
<u>Assets = Liabilities</u>	<u>23.7</u>	<u>39.0</u>	<u>41.8</u>	<u>46.9</u>	<u>67.0</u>
Currency in circulation <sup>1/</sup>	6.5	7.3	7.6	7.6	8.7
Demand deposits	<u>10.9</u>	<u>16.6</u>	<u>16.8</u>	<u>17.8</u>	<u>22.6</u>
Total money	<u>17.4</u>	<u>23.9</u>	<u>24.4</u>	<u>25.4</u>	<u>31.3</u>
Quasi-money	5.4	12.8	14.2	16.1	27.1
Other items (net)	0.9	2.3	3.2	5.4	8.6
<u>Changes in:</u>					
<u>Money</u>		6.5	0.5	1.0	5.9
Currency in circulation		0.8	0.3	--	1.1
Demand deposits		5.7	0.2	1.0	4.8
<u>Quasi-money</u>		<u>7.4</u>	<u>1.4</u>	<u>1.9</u>	<u>11.0</u>
<u>Money and quasi-money</u>		<u>13.9</u>	<u>1.9</u>	<u>2.9</u>	<u>16.9</u>
<u>Domestic assets (net)</u>		<u>9.7</u>	<u>9.2</u>	<u>4.9</u>	<u>3.8</u>
Claims on private sector		11.0	11.0	6.7	10.6
Claims on Government (increase -)		0.1	-0.9	0.4	-3.6
Other items (net)		-1.4	-0.9	-2.2	-3.2
<u>Foreign assets (net)</u>		<u>4.2</u>	<u>-7.3</u>	<u>-2.0</u>	<u>13.1</u>

Sources: Data supplied by the Dubai authorities and reports of Qatar and Dubai Currency Board.

<sup>1/</sup> Estimated currency in circulation in Dubai; equivalent amounts are added to foreign assets (net).

Dubai's recorded imports increased at an annual compound rate of about 22 per cent in the four years ended 1971. The year-to-year increase in imports slowed down considerably during 1970, owing mainly to marketing difficulties, and picked up again in 1971 (see Table 11 below).

Table 11. Dubai: Summary of Foreign Trade<sup>1/</sup>

(In equivalents of millions of special drawing rights)

	1967	1968	1969	1970	1971
1. <u>Exports, of which:</u>	<u>14.5</u>	<u>22.1</u>	<u>26.2</u>	<u>70.5</u>	<u>99.0</u>
Crude oil <sup>2/</sup>	--	--	4.8	41.3	67.7
Non-oil exports and re-exports	12.4	20.2	19.5	25.4	28.6
Transshipments	2.1	1.9	1.9	3.8	2.7
2. <u>Imports</u>	<u>100.2</u>	<u>159.8</u>	<u>193.6</u>	<u>201.4</u>	<u>222.2</u>

Sources: Statistics reports for the years 1967-70, Port and Customs Department, Government of Dubai, and data supplied by the Dubai authorities.

<sup>1/</sup> Excluding imports and re-exports of gold.

<sup>2/</sup> Staff estimates based on volume of crude oil exports and discounted posted prices.

Re-exports and transshipments averaged about 13 per cent of total imports during the period 1967-71. This grossly overestimates the value of retained imports for Dubai which has a population of between 60-70 thousand people. It has been generally estimated that 70 per cent of total imports are re-exported. The major suppliers are the United Kingdom, Japan, the United States, Switzerland, the Federal Republic of Germany, India, Pakistan and Hong Kong. Dubai's imports show great diversity; they include capital goods, consumer durables, household goods and foodstuffs. Gold imports which are not recorded come mainly from the United Kingdom, France and Switzerland. In the seven years ended 1971, on average, Dubai's annual gold imports were estimated at more than 160 metric tons. Since 1970, annual gold imports were estimated at about 237 metric tons and valued at about \$285 million. The large balance of trade deficits incurred by Dubai were partly financed by earnings from the re-exportation of gold.

Government deposits with the domestic banking system shown in Table 10 may be considered as foreign assets of the Emirate. These deposits rose from the equivalent of BD 1 million in 1967 to BD 5 million (SDR 10.5 million) in 1971.

Dubai maintains very liberal trade policies. There are no licensing requirements for imported goods apart from arms and ammunition, pesticides and cultured pearls. Prohibited goods include obscene literature, narcotics and goods of Israeli origin. A uniform ad valorem customs duty of 4.625 per cent is levied on all goods imported by land or sea except alcoholic beverages (25 per cent) and rice, flour, wheat and sugar which are charged a reduced rate of 2 per cent. A rate of 2 per cent applies to airborne imported goods, re-exports and transshipments.

There is no exchange control legislation in Dubai. Commercial banks operating in Dubai observe prescription of currency requirements broadly similar to those of other parts of the sterling area. The gold content of the Qatar/Dubai riyal, which is legal tender in Dubai, remained unchanged since 1966 and the riyal is pegged to the pound sterling.

5. Suggested range of quota

Quota calculations for the United Arab Emirates are based on data ending in 1967 and on Set I formulas used in connection with the Fifth General Review of Quotas.<sup>1/</sup> This set of formulas includes national income, reserves, and exports and imports as variables reflecting international trade. Calculations based on Set II formulas, which substitute current receipts and payments for exports and imports, have not been attempted as complete balance of payments data are not available. Some of the data used for the calculation of the quota range have been estimated and certain adjustments have been made in other data submitted by the U.A.E. authorities. These estimates and adjustments are discussed below.

Most of the data employed for quota calculations relate to the two largest of the seven Emirates forming the U.A.E., Abu Dhabi and Dubai. National income data used in the calculation include an estimate of national income for the five smaller Emirates (amounting to 5.2 per cent of the total). As the U.A.E. had not been formed in 1967, no data relating to foreign reserve holdings exist. To include this formula component in the calculations, foreign assets of Abu Dhabi and Dubai at the end of 1967 have been derived from monetary and fiscal statistics, as shown in Table 15.

The trade data submitted by the U.A.E. authorities consist of export and import data for Abu Dhabi, an oil-producing state, and for Dubai, which reflect a substantial amount of entrepôt trade and may be presumed to include imports into the other Emirates of the Federation. In accordance with procedures adopted in the past, two types of adjustment have been made to the trade data.

(1) The bulk of the U.A.E.'s export earnings is derived from oil exports of Abu Dhabi. For purposes of quota calculations, the proceeds arising from oil exports are reduced to take into account the direct investment income payments made by oil companies to their parent companies abroad.<sup>2/</sup> Data on direct investment income payments abroad are not available for Abu Dhabi. However, the authorities have submitted data on the Government's oil revenues, and the staff has assumed, as in the case of Qatar and Bahrain, that investment income of oil companies is approximately equal to government oil revenues and that about 80 per cent of investment income has been paid to foreign oil companies abroad. On the basis of this estimation, the ratio of direct investment income payments to Abu Dhabi's oil export proceeds was equivalent to 28.2 per cent. Taking into account that the average of direct investment income payments made by Fund members for the period 1963/67 was 10 per cent of exports, the staff has reduced the oil export proceeds of Abu Dhabi by 18.2 per cent.

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1/ See Data Bearing on Fund Member Quotas (SM/69/58, 5/8/69).

2/ For similar adjustments, see EB/CM/Bahrain/72/1 (2/11/72) and EB/Qatar/72/1 (2/2/72); see also Data Bearing on Fund Member Quotas (SM/69/58, 5/8/69), p. 2.

(2) Approximately four fifths of recorded imports of the U.A.E. during the period 1963/67 were accounted for by imports into Dubai. However, the bulk of Dubai's imports, which are recorded for the purpose of customs duty collection, is re-exported to neighboring countries. Exports, including re-exports, are not subject to official recording; however, it is known that most re-exports are shipped to countries not forming part of the U.A.E. An adjustment has been made to exclude this entrepôt trade.<sup>1/</sup> It has been estimated that about 70 per cent of Dubai's imports are re-exported to countries outside the Federation. Taking into account that on average about 10 per cent of all Fund members' imports are re-exported, imports and estimated exports of Dubai have been reduced by 60 per cent of imports.

The basic data used in the quota calculations are shown in Table 12.

Table 12. United Arab Emirates: Basic Data  
Used in Quota Calculations

(In millions of SDRs)

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National income (1967)	239
Reserves (as of 12/31/67)	34
Imports, c.i.f. (average 1963/67)	37
Exports, f.o.b. (average 1963/67)	119
Variability of exports	17

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The results of quota calculations on the basis of these data are shown in Table 13, suggesting a quota range of SDR 14-24.

Table 13. United Arab Emirates: Quota Calculations

(In millions of SDRs)

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Bretton Woods formula, reduced	14
Bretton Woods formula, reweighted	
Scheme III	20
Scheme IV	33
Bretton Woods formula, linear and reweighted	
Scheme M4	28
Scheme M7	33
Average of lowest two Bretton Woods formulas, reweighted	24

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<sup>1/</sup> For similar adjustments, see EB/CM/Bahrain/72/1 (2/11/72) and EB/CM/Southern Yemen/69/1 (3/19/69). see also Data Bearing on Fund Member Quotas (SM/69/58, 5/8/69), p. 2.

In accordance with the procedures followed in connection with the Fifth General Review of Quotas,<sup>1/</sup> the results of quota calculations are increased by 25 per cent, thereby yielding a calculated quota range of SDR 18-30 million.

This range of quota is not only comparatively wide, but the level of the calculated quotas is relatively high. To a considerable extent, both the wide range of the calculated quota and the size of each of the calculated quotas is due to a relatively large factor for the variability of export receipts. Variability of export receipts for the U.A.E. amounted to 14.3 per cent of total export receipts, compared with 3.5 per cent for all Fund members in the calculations undertaken for the purposes of the Fifth General Review of Quotas, and to 5.4 per cent for oil-producing countries in the Middle East.

This relatively large variability component is the result of applying the customary procedure in calculating variability--namely, one standard deviation from the medium-term trend--when export receipts are increasing in step-like fashion from one level to a very much higher level owing to the mining of newly discovered oil deposits. Under these circumstances, the variability as normally calculated in the Fund does not effectively measure fluctuations of export receipts around the trend. Furthermore, the comparatively wide range of the quota calculations is due largely to the differing weights given to the variability component in the Bretton Woods formula, on the one hand, and the reweighted and modified formulas, on the other.

It would not be appropriate on this occasion to introduce a new concept of variability in the quota calculations. However, it does not seem inappropriate to recalculate the quota range on the basis that variability of export receipts of the U.A.E. bear the same relationship to total export receipts as in other oil-producing countries in the Middle East.<sup>2/</sup> A recalculation of quotas on this basis, increased by 25 per cent to take account of the general increase in quotas under the Fifth General Review of Quotas, yields a range of SDR 13-18 million. Taken together, these two sets of calculations suggest a maximum range of quota for the U.A.E. of SDR 13-30 million.

Table 14 lists a group of Fund members whose quotas range between SDR 13-32 million, together with the variables used in the calculations. From this table it can be seen that a quota for the U.A.E. at the upper range of the calculations would be too high. National income and reserves of the U.A.E. are the 13th and 14th lowest and foreign trade the 11th lowest of the 20 members and prospective members included in the table. While export proceeds of the U.A.E. exceed those of 15 countries, imports are the 2nd lowest in the group.

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<sup>1/</sup> Additional Calculations Bearing on Fund Member Quotas (SM/69/88, 6/16/69).

<sup>2/</sup> This procedure was followed in the case of Iraq: see EB/CQuota/Iraq/64/1 (7/30/64).

Table 14. United Arab Emirates: National Income, Reserves, Foreign Trade, and Population of United Arab Emirates and Selected Member Countries with Quotas of Between \$13-32 million

(In millions of SDRs: population in millions)

	Quota	National income 1967	Reserves end of 1967	Imports (average 1963-67)	Exports	Foreign trade	Variability of exports 1955-67	Population (latest available data)
Compo, People's Republic of	13	159	2	69	45	114	4	1.0
Fiji	13	152	24	66	52	118	6	0.5
Malawi	15	194	19	62	43	105	2	4.6
Malta	16	162	101	100	23	123	1	0.3
Haiti	19	286	2	39	37	76	3	5.0
Paraguay	19	414	8	53	49	102	4	2.4
Somalia	19	130	11	48	35	83	2	2.9
Guyana	20	190	18	102	103	205	5	0.8
Mauritius	22	136	26	75	74	149	10	0.8
Jordan	23	504	241	159	26	185	2	2.4
Guinea	24	230	10	51	52	103	7	3.9
Honduras	25	510	23	126	121	247	6	2.6
Sierra Leone	25	235	16	96	83	179	12	2.5
Malagasy Republic	26	646	40	137	94	231	6	7.0
Ethiopia	27	1,265	60	138	105	243	7	25.1
Liberia	29	174	1	113	130	243	11	1.1
Costa Rica	32	569	18	162	120	282	6	1.8
Bahrain	15-17	68	56	65	64	129	5	0.2
Qatar	18-20	220	126	30	133	163	8	0.1
United Arab Emirates		239	34	37	119	156	17	0.2

Sources: Data Bearing on Fund Member Quotas (SM/69/58, 5/8/69); Fiji - Calculation of Quota (EB/CM/Fiji/71/1, 2/5/71); Bahrain - Calculation of Quota (EB/CM/Bahrain/72/1, 2/11/72); Qatar - Calculation of Quota (EB/Qatar/72/1, 2/2/72); and International Financial Statistics.

Table 14. United Arab Emirates: National Income, Reserves, Foreign Trade, and Population of United Arab Emirates and Selected Member Countries with Quotas of Between \$13-32 million

(In millions of SDRs: population in millions)

	Quota	National income 1967	Reserves end of 1967	Imports (average 1963-67)	Exports	Foreign trade	Variability of exports 1955-67	Population (latest available data)
Congo, People's Republic of	13	159	2	69	45	114	4	1.0
Fiji	13	152	24	66	52	118	6	0.5
Malawi	15	194	19	62	43	105	2	4.6
Malta	16	162	101	100	23	123	1	0.3
Haiti	19	286	2	39	37	76	3	5.0
Paraguay	19	414	8	53	49	102	4	2.4
Somalia	19	130	11	48	35	83	2	2.9
Guyana	20	190	18	102	103	205	5	0.8
Mauritius	22	136	26	75	74	149	10	0.8
Jordan	23	504	241	159	26	185	2	2.4
Guinea	24	230	10	51	52	103	7	3.9
Honduras	25	510	23	126	121	247	6	2.6
Sierra Leone	25	235	16	96	83	179	12	2.5
Malagasy Republic	26	646	40	137	94	231	6	7.0
Ethiopia	27	1,265	60	138	105	243	7	25.1
Liberia	29	174	1	113	130	243	11	1.1
Costa Rica	32	569	18	162	120	282	6	1.8
Bahrain	15-17	68	56	65	64	129	5	0.2
Qatar	18-20	220	126	30	133	163	8	0.1
United Arab Emirates		239	34	37	119	156	17	0.2

Sources: Data Bearing on Fund Member Quotas (SM/69/58, 5/8/69); Fiji - Calculation of Quota (EB/CM/Fiji/71/1, 2/5/71); Bahrain - Calculation of Quota (EB/CM/Bahrain/72/1, 2/11/72); Qatar - Calculation of Quota (EB/Qatar/72/1, 2/2/72); and International Financial Statistics.

A comparison of the economic variables indicates that the overall economic dimensions of the U.A.E. are broadly comparable to those members whose quotas range up to about SDR 20 million. In the light of these considerations and also taking into account the relatively large margin of uncertainty inherent in the statistics relating to the U.A.E., the staff suggests that a quota within the range of SDR 15-20 million would fit reasonably well into the present structure of Fund quotas.

#### 6. Gold subscription

The staff are informed by the U.A.E. authorities that the U.A.E. itself does not hold any external reserves but that the gold subscription would be financed domestically through a budgetary appropriation levied proportionately on each of the constituent units of the Federation. As can be seen from Table 15, the aggregate external assets are substantial for two of the constituent units for which data are available. Furthermore, these external assets have risen sharply over the last few years and, as noted earlier, the overall balance of payments is strong.

In the light of these factors, it would seem appropriate that the U.A.E. be asked to pay the equivalent of 25 per cent of its quota in gold.

Table 15. Abu Dhabi and Dubai: Foreign Assets, 1967-71

(In millions of SDRs)

	1967	1968	1969	1970	1971
<b>Abu Dhabi</b>					
Government balances	17.9	11.1	7.6	14.2	101.0
Abu Dhabi Investment Board	14.5	12.8	18.3	18.9	49.8
<b>Dubai</b>					
Government balances	1.8	1.8	3.6	2.7	10.5
Memorandum item:					
Government surplus	0.3	0.3	2.7	24.4	39.5

Sources: Qatar-Dubai Currency Board, Annual Reports and data submitted by the Abu Dhabi and Dubai authorities.