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11-3-2021

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Cardozo International & Comparative Law Review

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Recommended Citation

Shefer, Ned, "A (Very Short) Introduction to the Art Storage Business and the Modern Luxury Freeport" (2021). *CICLR Online*. 30.

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A (Very Short) Introduction to the Art Storage Business and the Modern Luxury Freeport

Updated: Nov 17, 2021

By: *Ned Schefer*



In 2020, the impact of the COVID-19 pandemic on the global art market looked dire: international sales of artwork totaled \$50.1 billion for the year, a 22% contraction from 2019,[1] and businesses in the arts sector, like auction houses and commercial galleries, laid off an average of 25% of their staff.[2] However, the actors who primarily power the art market—high-net-worth private individual collectors—managed for the most part to emerge from the turmoil with the value of their collections intact.[3]

Collectors' good fortunes are reflected in their optimism about the art market's short- and long-term prospects, optimism they say will inspire them to buy: "[60% of collectors surveyed] were planning to purchase more art works" in the coming year.[4] Moreover, when collectors do buy, they are spending more per artwork than they have in years past, another indicator of a resilient market.[5] This upward trend in spending persisted despite the pandemic and has leaped dramatically in the first half of this year.[6] And while some collectors are

selling, many say that they plan to hold on to their artworks while they await changes to their home country's tax policies or the improvement of their artists' markets.[7]

One result of a collecting climate that favors a longer time-horizon is the need for professional art storage services to hold the paintings, sculptures, and other valuable objects that comprise an often substantial portion of collectors' wealth.[8] Specialized warehouses operated by dedicated fine art storers now exist in large cities across the globe, offering their clients high-touch "concierge" storage services.[9]

Competition between service providers hoping to attract lucrative contracts from a limited pool of major art collectors has led to a sort of luxury arms race, with the major storers expanding infrastructure and services to try to distinguish themselves from their rivals.[10] Companies sell themselves on the sophistication of their security systems, the sensitivity of their climate controls, and the size and variety of their storage units. Once they have addressed safety and security—collectors' cardinal and most practical concerns—art storage businesses in the United States have historically found themselves fresh out of inducements to attract business. Without novel selling points, the companies fall back on a reliable marketing standby—client service, emphasizing their ability to accommodate the "unique and specialized needs" of each client[11] and to "protect the value and integrity of treasured assets." [12]

But not all art storage facilities are so limited in the scope of benefits they can promote to potential customers. An art storer who can promise not only that a collector's property will be maintained with the utmost professionalism but also that the collector will accrue a financial benefit has an obvious advantage over a service provider whose facilities are identical but cannot promise the same perk. In fact, there is a category of art storage company that can entice business by offering just such a financial benefit in the form of significant tax advantages. These privileged art storers operate in specially-designated "freeport" zones, a freeport being "a special kind of port where normal tax and customs rules do not apply." [13] "Owners do not have to pay import or export taxes when they ship to and from those locations[,] relief that, in light of the value of the artworks and scale of duties levied by some nations, can provide enormous savings to collectors." [14] Simply put, the collector class's consistent appetite for tax avoidance has led to the proliferation of freeports in the 21st century.

The quintessential modern luxury freeport is operated by the Geneva Free Port and Warehouses Company Ltd. (*Ports Franc et Entrepôts de Genève SA*), founded by the government of the canton of Geneva in 1888.[15] The original 19th-century warehouses were used to store perishable and semi-perishable commodities like "cereal crops, tobacco, alcohol, and tea," suspending duty and tax payments while these goods made their way to markets in Switzerland and abroad.[16] Thus, the arrangement benefitted both parties; the commodity producers and merchants able to delay their tax payment until an actual sale had secured the revenue to pay it, and the Geneva Free Port company (owned by the municipal government), which profited directly from storage and service fees, and indirectly from the influx of goods and capital attracted to the city by the scheme.[17]

The goods the Geneva warehouses had originally been built to store, like grain and tobacco, could be kept in storage for only a limited amount of time before spoiling or going stale.[18] But some far-sighted wealthy Genevans recognized that non-perishable assets "such as jewellery, gold and antiques" were not barred from the Free Port and could also be stored tax-free.[19] A Swiss trader who bought diamonds in Antwerp and statuary in Florence, or a Swiss art collector who bought post-Impressionist paintings in Paris, could eventually choose to have their purchases delivered to a Free Port warehouse duty-free, rather than to their office or residence, via the customs house.

It is not difficult to understand the appeal freeports have to the individuals and entities that patronize them as a means of avoiding taxes to preserve wealth. Slightly more nuanced is the value gained by a sovereign government that trades a narrow application of its tax power in exchange for an appeal to "global trade" and a bid "to establish itself as a haven for international wealth." [20] Whether free ports have been successful in achieving these goals on behalf of their host nations, and whether those goals are even the right ones for nations to pursue, remain important questions that any government regulator considering extending freeport status to a jurisdiction within its territory should consider before making a determination.

Ned Schefer is a Staff Editor for CICLR. He attended Princeton University, where he received an A.B. in English and a Certificate in American Studies. Prior to law school, Ned worked for six years at a leading auction company in New York City.

[1] Clare McAndrew, Resilience in the Dealer Sector: A Mid-Year Review 2021 22 (2021).

[2] Margaret Carrigan, *With Unemployment at an Historic High, America's Art Workers Band Together*, Art Newspaper (Sept. 4, 2020), <https://www.theartnewspaper.com/2020/09/04/with-unemployment-at-an-historic-high-americas-art-workers-band-together>.

[3] *Art Market Update: Spring 2021*, Bank Am. Priv. Bank (Mar. 15, 2021), <https://www.privatebank.bankofamerica.com/articles/art-market-update-spring-2021.html>.

[4] McAndrew, *supra* note 1, at 102.

[5] *Id.* at 76.

[6] *Id.*

[7] *Id.* at 102.

[8] Daniel Grant, *As Art Collections Grow, So Do the Places That Stash Them*, N.Y. Times (Nov. 13, 2018), <https://www.nytimes.com/2018/11/13/business/art-storage.html>.

[9] *Id.*

[10] *See, e.g., Services*, UOVO, <https://uovo.art> (last visited Oct. 8, 2021) (providing a “complete suite of art services, including transportation and shipping, installation, packing, and collection management.”). *See also* the website of N.Y.C.’s other leading art storage company—Crozier Fine Arts—for the extensive list of services above and beyond standard warehousing. Crozier Fine Arts, <https://www.crozierfinearts.com> (last visited Oct. 8, 2021).

[11] *Storage*, UOVO, <https://uovo.art> (last visited Oct. 8, 2021).

[12] Crozier Fine Arts, *supra* note 10.

[13] *Trade: Freeports and Free Zones*, U.K. Inst. Gov’t, (July 22, 2021), <https://www.instituteforgovernment.org.uk/explainers/trade-freeports-free-zones>.

[14] Graham Bowley, *Art Collectors Find Safe Harbor in Delaware’s Tax Laws*, N.Y. Times (Oct. 25, 2015), <https://www.nytimes.com/2015/10/26/arts/design/art-collectors-find-safe-harbor-in-delawares-tax-laws.html>.

[15] Erik Post & Filipe Calvão, *Mythical Islands of Value: Free Ports, Offshore Capitalism, and Art Capital*, 9 Arts 100, at 5 of 19 (2020).

[16] *Id.*

[17] Ruya Worthy, *The Impact of Free Ports on the Art Market*, 25 Art Antiquity & L. 253, 257 (2020).

[18] *Id.*

[19] *Id.*

[20] *Id.* at 258.