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## Hiding Art in Freeports

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# Hiding Art in Freeports

By: Wendy Li



In *Tenet*, one of Christopher Nolan's time and reality bending movies, we are introduced to freeports. Robert Pattinson's character, Neil, must steal something from a freeport and in a few scenes, through his time in the freeport's vaults, we learn a bit on why freeports exist and what people store in them. In a tour, the guide tells Neil that clients can store anything in the freeports and the vault that they walk through holds expensive collections of paintings and artifacts. The items are "shipp[ed] to and from other freeports without customs inspection."<sup>[1]</sup> From there, we are brought on a chaotic journey as the characters try to pull off the perfect heist through the freeport's vaults.

Freeports, similar to the one in *Tenet*, actually exist and have been around for centuries. Freeports, or free trade zones, are specifically designated areas inside or around the boundary of a country but are considered separate entities for the purpose of customs.<sup>[2]</sup> The taxes on the items within the freeports are either substantially cut or waived completely because they haven't technically entered that country or are considered to be just transiting through.<sup>[3]</sup> Some freeports started out as warehouses to store grain provisions, wood, coal, and other necessities for living. As time went on, people started to place

more valuable items such as cars and wine barrels.[4] They gave importers a way to store goods and defer taxes until the goods were finally shipped to a buyer.[5]

Today, there are about 3,500 freeports around the world that exist beyond any government's tax jurisdictions and they store a variety of items from raw materials to priceless art.[6] They also practice anonymity such that outside parties do not know the contents of the freeports and the owners of those items. The freeport in Geneva is one of the largest and oldest freeports and it holds around 1.2 million art pieces. By comparison, the largest museum in the world, The Louvre, has around 380,000 pieces of art (not including its collection in the Musée National Eugène-Delacroix).[7] Recently, in the wake of the COVID-19 pandemic and Brexit, the United Kingdom planned to build new freeports to potentially attract investment to areas that "need it most." [8]

Countries have used free trade zones and freeports as ways to spur economy activity, recovery, and growth, especially countries with developing markets. Studies have shown that they can stimulate growth by making it easier to import goods and help improve businesses' operational environment.[9] By establishing free trade zones, a country can promote its economic competitiveness and attract outside investments and businesses to use the area as a base for operations. Businesses that operate within the area surrounding freeports ultimately can lower their operational costs due to a lower threshold for customs and duty and tax exemptions.[10]

There are, however, downsides to the existence of freeports. A popular story from 2017 showcases how the anonymity and tax exemption aspects can lead to tax avoidance and a government's inability to collect revenue. The Salvador Mundi by Leonardo Da Vinci was auctioned off at a New York auction house for \$450.3 million. However, New York has not collected any tax revenue from the purchase as the painting was not found in New York again and paintings moved out of the state are not taxed.[11] Prior to that it was sold in a transaction that was also not taxed because it was all done in a freeport.[12] Elsewhere, places like the Geneva freeport have seen laundering schemes. There, art dealers can smuggle illegally excavated antiques from other countries and hide them in the freeport facilities.[13] Another issue is money laundering. Anonymity provides clients with the opportunity to conceal the true flow of cash.[14] One way to launder money is to purchase art with cash from criminal activities and wait for the art to appreciate. Once appreciated, one could sell the art within a freeport which would not require any reporting requirements while recovering the initial cash investment.[15]

Governments around the world are grappling with how to address issues such as tax avoidance and money laundering and they have been working with different strategies to address the issues. In 2016, Switzerland introduced laws aimed to address such issues which require increased transparency in freeport art storage and sales and certainty over the legal origin of objects and the proceeds used to purchase them.[16] The customs agents in Geneva now require customers to submit a list of artworks stored in the freeport and the facilities are subject to random checks. Elsewhere, in Luxembourg, operators of the Luxembourg freeport have been subject to anti-money laundering provisions since 2015. In 2022, the United States Treasury suggested that there should be reforms in the art market given the market's vulnerability to money laundering and other financial crime, especially with the use of freeports. The report argued that dealers should better vet their clients, report suspicious activities, and to improve transparency overall.[17]

**Wendy Li is a Staff Editor at CICLR.**

[1] Tenet (Syncopy 2020).

[2] Port Technology Team, *What is a Freeport?*, Port Technology International (Apr. 16, 2021)

<https://www.porttechnology.org/news/what-is-a-free-port/> [<https://perma.cc/7LE6-RA69>].

[3] *Id.*; see generally Leena Kim, *Where the Superrich Store Their Art to Avoid Taxes*, Town & Country (Dec. 24, 2020)

<https://www.townandcountrymag.com/leisure/arts-and-culture/a35032655/what-is-a-freeport-art-collections/>

[<https://perma.cc/6JGA-HXHM>].

[4] Marie-Madeleine Renauld, *Geneva Free Port: The World's Most Secretive Art Warehouse*, The Collector (May 1, 2021)

- <https://www.thecollector.com/geneva-free-port-the-worlds-most-secretive-art-warehouse/> [<https://perma.cc/Z5AV-YPCG>].
- [5] Renu Zaretsky, *Does the World Need Tax-Advantaged Art Freeports?*, Tax Policy Center (Feb. 2, 2022) <https://www.taxpolicycenter.org/taxvox/does-world-need-tax-advantaged-art-freeports> [<https://perma.cc/55T4-ZBCL>].
- [6] *Id.*
- [7] *The Museum's Entire Collection on One Platform*, Louvre, <https://www.louvre.fr/en/explore> [<https://perma.cc/5CX6-7PRA>].
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- [9] Rong-Her Chiu, Taih-Cherng Lirn, Chia-Yi Li, Bing-Yan Lu & Kuo Chung Shang, *An Evaluation of Free Trade Port Zone in Taiwan*, 27 *The Asian J. Shipping and Logistics* 423 (Dec. 2011).
- [10] *Id.*
- [11] David D. Kirkpatrick, *A Leonardo Made a \$450 Million Splash. Now There's No Sign of It.*, N.Y. Times (Mar. 30, 2019) <https://www.nytimes.com/2019/03/30/arts/design/salvator-mundi-louvre-abu-dhabi.html> [<https://perma.cc/L9UU-SJB7>].
- [12] *Id.*
- [13] Katie L. Steiner, *Dealing With Laundering in the Swiss Art Market: New Legislation and Its Threats to Honest Traders*, 49 *Case W. Res. J.Int'l.* 351, 361 (2017).
- [14] Patricia Cohen, *Valuable as Art, but Priceless as a Tool to Launder Money*, N.Y. Times (May 12, 2013) <https://www.nytimes.com/2013/05/13/arts/design/art-proves-attractive-refuge-for-money-launderers.html> [<https://perma.cc/3A4Y-JVJJ>].
- [15] Steiner, *supra* note 13, at 363.
- [16] *Id.*
- [17] The Dep't of the Treasury, *Study of the Facilitation of Money Laundering and Terror Finance Through the Trade in Works of Art* (2022).