

Do free ports get along with art?

Today, free ports are not only important for storing works of art and collectors' objects, but also in terms of transactions and heritage management that considerably benefit investors and collectors. Their development, always steady, is now accelerating even more. But what role do they actually play, and how are they meeting an ever-growing demand?

The development of their role and attractiveness

Free ports are warehouses usually located in the areas surrounding a seaport or airport. They have long played a central role in world trade, enabling the temporary storage of merchandise in transit belonging to companies or private individuals. As they are located in free zones, customs legislation applies, and all goods stored there benefit from a specific tax regime. However, their use has gradually changed. They have become special long-term and sometimes permanent storage venues for easily-movable, lasting objects like works of art, antiquities, cars, jewellery and vintage wines. Now genuine "art hubs", their major

clients include museums, collectors, investors, galleries and art dealers. For some, what makes a free port attractive is the ultra-secure storage space provided; for others, it is the advantageous tax system – or both. Their geographical location varies considerably. The most recent free ports opened in Luxembourg, Singapore and London, and the very latest in New York. Various factors have contributed to the attractiveness of free ports, starting with the increase in global wealth, a booming art market and the rise in the price of works. Then a growing number of players began to see works of art as an investment, and as a particular type of asset that performs just as well as shares. These investors no longer want to exhibit the works they own, preferring to keep them in a safe place while their value mounts.

Space and security

The major advantages provided by the various free ports throughout the world are space, security and associated services. For example, those in Geneva, pioneers in this field, have been described as "the





biggest museum in the world". 66 % of their total area – a little over 51,900 m² of warehouse space under Customs authority – is taken up with the works of art and antiquities owned by their tenant clients.

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Likewise, every free port makes a feature of the sophisticated security measures they provide: surveillance cameras, strong rooms, access via biometric readers or retina scanners, air quality monitoring systems and a barcode system for checking the inventories of the goods stored. In addition, there are increasingly varied and sometimes bespoke services, such as the hire of offices and showrooms, crate-packing, transport and delivery activities, expertise and restoration services for works of art, and the provision of sales areas. The New York free port also provides digitisation and on-line exhibition services for private collections.

A tax system suspended in time

Meanwhile, the tax system applying to free ports has the advantage of temporarily suspending customs duties, VAT and sale duty throughout the storage period of the works. However, these works are subject to duties and taxes when they leave the free zone, and to the conditions of their destination country. The advantage thus lies in deferring payment of these rights and taxes to a later date, enabling their owners to build up liquid assets in the meantime. This prerogative can even sometimes become a *de facto* exemption if a work is kept permanently in a free port and never leaves it. In practice, a work may enter the free port, and change hands several times before it

leaves. These private sales, carried out in a tax-neutral framework, take place regularly within these warehouses. Only the most recent owner is then subject to tax, while all the owners in between are not. In addition, the work of art's destination country when it leaves the free port may itself apply an optimised tax system.

Confidentiality

This is the aspect that causes the most problems, particularly when it goes hand in hand with this advantageous tax system. Confidentiality applies to a greater or lesser degree according to the free port in question. This depends on what the free port requires in terms of information about the owners of the works stored, and on the extent and frequency of inventory controls. For example, some free ports want to know the identity of the actual owner of a work, while others are happy with the name of a shell company. Some demand the names of not only their tenants but also their sub-tenants, while others consider the tenant's name alone sufficient. Likewise, some free ports carry out systematic inventories at their site (when the goods arrive and during the storage period). The greater the tolerance over checking inventories and the actual owners of the works stored in a free zone, the more possible the abuse. The introduction of legislation on tax fraud, money laundering, the trafficking of cultural goods and the financing of terrorism does not allow for a high level of confidentiality. For example, the Geneva free ports are today in the headlines because of inter-State complaints for various reasons. Measures have now been introduced to reduce the risks of illegal activities within their warehouses.

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The latest free port to open lies in the Harlem district of New York. It is managed by the company Arcis and has around 10,200 m² of warehouses entirely dedicated to works of art and collectors' objects.