

**TEFAF
Art Market
Report 2013**



TEFAF
MAASTRICHT

**The Global Art Market,
with a focus on China and Brazil**

Prepared by Dr. Clare Mc Andrew

TEFAF ART MARKET REPORT 2013

**The global art market,
with a focus on China and Brazil**

**THE
EUROPEAN
FINE
ART
FOUNDATION**

Prepared by Dr Clare McAndrew
Arts Economics

COLOPHON

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FOREWORD

The annual TEFAF Report on the International Art Market has now become an established source for detailed information on national and global art markets.

Dr McAndrew’s research again reveals a strong art market that is weathering the current economic uncertainties.

This year’s Report examines two very different markets, China and Brazil, which have been growing in importance. The former is now narrowly the second largest in the world, having briefly overtaken the United States to take the top place

in 2011. Brazil has potential as a growing source of new wealthy art collectors.

The Report again underlines the importance to dealers of major art fairs, of which TEFAF Maastricht is proud to be a leading example.

We are grateful to Anthony Browne for organizing this annual research programme for TEFAF.

Willem Baron van Dedem	President
Ben Janssens	Chairman

ACKNOWLEDGEMENTS

The information presented in this study is based on data gathered and analysed directly by **Arts Economics** (www.artseconomics.com) from dealers, auction houses, art and antique collectors, art and financial databases, industry experts and others involved in the art trade. Methodological appendices are not included but information on methodologies and data is available directly from Arts Economics (clare@artseconomics.com).

A crucial part of the research involved a global survey of art and antique dealers. I would especially like to thank Erika Bochereau of CINOA (Confédération Internationale des Négociants en Oeuvres d'Art) for her generous help and support in making this survey possible, along with the presidents of the dealer associations around the world. My sincerest thanks and appreciation to all of the individual dealers who took the time to support this research by taking part in the surveys and interviews.

Many thanks to all of the auction houses who also took part in the auction survey. Thanks especially to Laure Camboulives (Christie's) and Tom Christopherson (Sotheby's).

The fine art auction data supplier for this report was Artnet, and my sincerest thanks and appreciation to Thomas Galbraith for his untiring help working with us to solve complex data issues in the art market. Auction data on China is supplied by AMMA (Art Market Monitor of Artron) and my utmost appreciation to Jie Wan and Gloria Guan for their continued support of this research on China.

Finally, my special thanks to Anthony Browne for his time and encouragement in coordinating the research, and for his valuable insights into the art and antiques market.

Dr Clare McAndrew
Arts Economics

CHAPTER 1

SUMMARY OF PRINCIPAL FINDINGS



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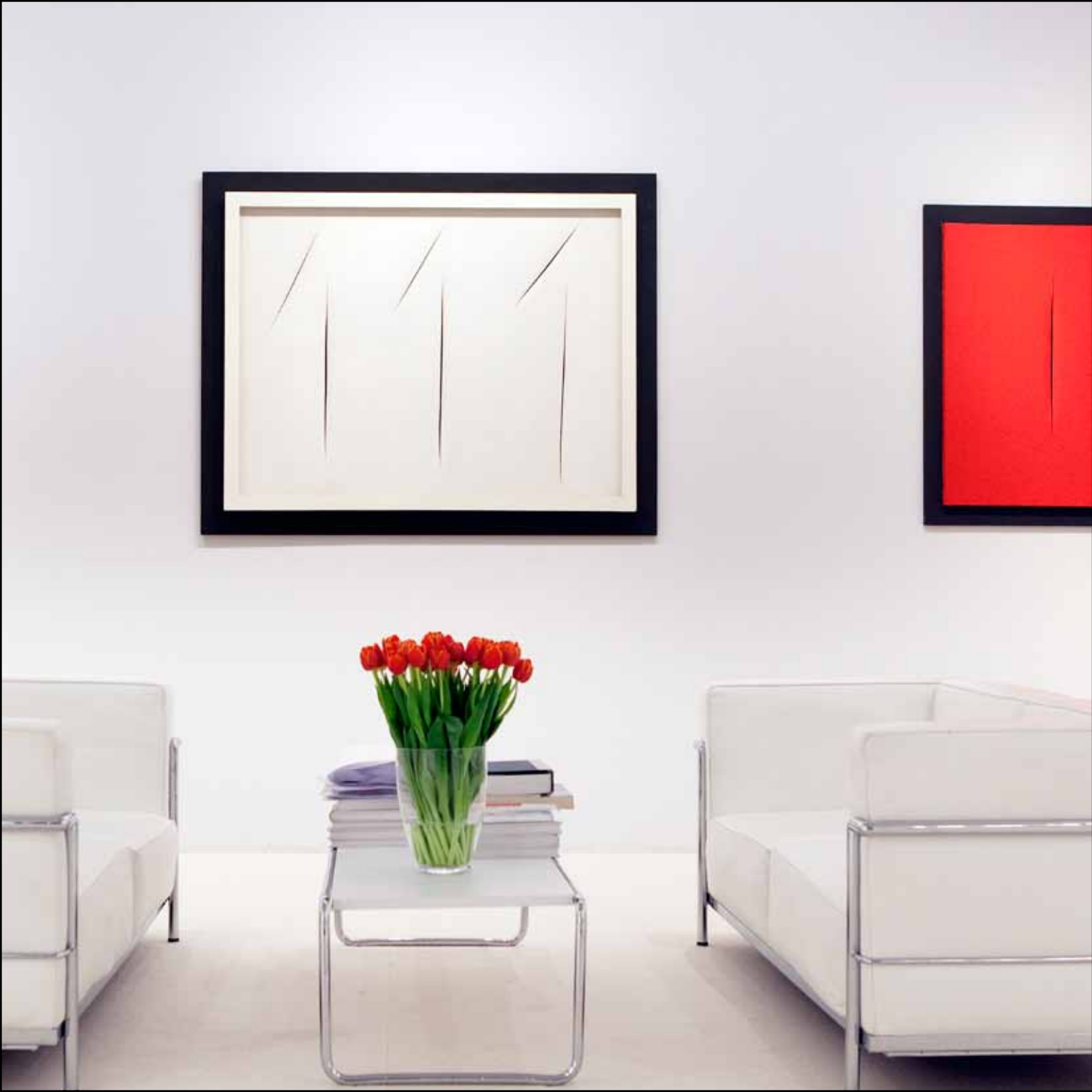
- Slowing economic growth and continuing uncertainty in the global economy filtered down to the art market in 2012 with global sales contracting by 7% to €43.0 billion.
- A key factor in the decline was a slowdown in the Chinese market, with sales falling 24% to €10.6 billion. However, counterbalancing this, the US experienced an uplift of 5% year-on-year to €14.2 billion.
- In 2012, the global reshuffle of market share continued with the US regaining its premier position with a share of 33%, while China dropped to 25%. The UK remained in third place with 23%.
- The volume of transactions in the global art market also decreased over 2012, falling by just under 4% to 35.5 million, down nearly 30% on the boom year of 2007.
- The share of the value of the EU as a whole was fairly stagnant at 36%, and aggregate sales were down 3% on 2011 to €15.8 billion.
- Economic dynamics and political uncertainties have produced volatility in many asset markets with a “flight to safety” and a premium on blue-chip stocks and low risk assets. A similar picture has emerged for art, with the heaviest buying and best performance concentrated at the high end of the market for the best-known artists.
- Fine art dominated decorative art in 2012, but some sectors performed more strongly than others. Post-War and Contemporary art was the largest fine art auction sector, with a 43% share by value, and reaching just under €4.5 billion, its highest ever recorded level.
- The Modern art sector was the second largest with a 30% share of the fine art auction market. After peaking at €3.8 billion in 2011, sales dropped 17% in 2012 to €3.2 billion.

- In 2012, according to the survey, 36% of sales made by dealers were through local or international fairs, an increase of 5% on 2011.
- Sales in the private retail and dealer sector reached an estimated total of €22.2 billion, decreasing by 4% on the previous year. Like auctions, segments of the market fared differently, with the lower end of the market performing most poorly.
- Emerging economies have outperformed mature economies during the last few years, and have generally been able to weather the recession better. In 2012, GDP growth averaged 5.3% in emerging economies, versus 2.2% in the US and -0.2% in the EU.
- Increased wealth per capita and specifically a larger number of HNWIs has led to proportionally more consumption of luxury goods, including art. Despite the rapid growth in wealth in emerging markets, HNWIs make up less than 0.1% of their national populations.
- Despite the rapid growth in domestic sales in some emerging markets, cross- border trade is low compared to the traditional market hubs. New York and London account for the majority of trade with 64% of world imports of art by value and 62% of exports.
- World imports of art reached €14.8 billion in 2011, an increase of 18% year-on-year, although still below the peak of €16.2 billion in 2007.
- World exports rose to €14.4 billion in 2011, an 8% increase year-on-year, but still below the peak of €15.0 billion in 2007.
- Over the last five years the art market in China has been the strongest growing in the world, and the most important of the emerging markets, both in terms of the size of its domestic sales and the international significance of its buyers.

- Auctions have been the main engine of growth and heavily dominate the market, accounting for close to 70% of sales in China. From 2009 to 2011, sales values in the sector increased by over 350%, but declined 30% to €6.9 billion in 2012.
- The largest sector of the auction market in China in 2012 was Chinese painting and calligraphy, with 48% of the market by value and 50% of all lots sold. Ceramics and other decorative arts made up 27% by value in 2012 and 26% by volume.
- There are over 42,000 art, antiques and collectibles business in the retail part of the art market in China, including approximately 6,000 established galleries exclusively selling art and antiques.
- In 2011, China ran a trade deficit in art as it has since 2000, with imports of just over €1.0 billion exceeding exports of €589 million, reflecting its importance worldwide as a buyer of art.
- In 2012, sales in the art market in Brazil were estimated at €455 million, or around 1% of the global art market.
- It is estimated that in 2012, auction houses accounted for just 21% of domestic sales, with dealers and galleries accounting for 79%.
- Brazil's principal significance to the global art market has been through the buying power of its high net worth art collectors, who are growing in number.
- A major stumbling block in the international development of the Brazilian market has been its tax laws and particularly import regulations, which have made it very difficult for Brazilian galleries to sell international art, and for public collections in Brazil to import art or to build international collections.

CHAPTER 2

THE GLOBAL ART MARKET IN 2012



THE GLOBAL ART MARKET IN 2012

Key Findings

- Slowing economic growth and continuing uncertainty in the global economy filtered down to the art market in 2012 with global sales contracting by 7% to €43.0 billion.
- A key factor in the decline was a slowdown in the Chinese market, with sales falling 24% to €10.6 billion. However, counterbalancing this, the US experienced an uplift of 5% year-on-year to €14.2 billion.
- In 2012, the global reshuffle of market share continued with the US regaining its premier position with a share of 33%, while China dropped to 25%. The UK remained in third place with 23%.
- The volume of transactions in the global art market also decreased over 2012, falling by just under 4% to 35.5 million, down nearly 30% on the boom year of 2007.
- The share of the value of the EU as a whole was fairly stagnant at 36%, and aggregate sales were down 3% on 2011 to €15.8 billion.
- Economic dynamics and political uncertainties have produced volatility in many asset markets with a “flight to safety” and a premium on blue-chip stocks and low risk assets. A similar picture has emerged for art, with the heaviest buying and best performance concentrated at the high end of the market for the best-known artists.
- Fine art dominated decorative art in 2012, but some sectors performed more strongly than others. Post-War and Contemporary art was the largest fine art auction sector, with a 43% share by value, and it increased in size by 5% year-on-year reaching just under €4.5 billion, its highest ever recorded level.
- The Modern art sector was the second largest with a 30% share of the fine art auction market. After peaking at €3.8 billion in 2011, sales dropped 17% in 2012 to €3.2 billion.
- Sales in the private retail and dealer sector reached an estimated total of €22.2 billion, decreasing by 4% on the previous year. Like auctions, segments of the market fared differently, with the lower end of the market performing most poorly.
- In 2012, according to the survey, 36% of sales made by dealers were through local or international fairs, an increase of 5% on 2011.

2.1 Art Market Overview

Although individual sectors of the art market have experienced very different trajectories of growth, the performance of the art market as a whole is increasingly tied to the wider economic context, and in particular to the growth and worldwide distribution of private wealth. Slowing economic growth and continuing uncertainty in the global economy filtered down to the market in 2012. This was reflected in cautious buying and selling in many areas and in a strong polarisation of the market, with the best performance continuing to be seen at the top end. The global market as a whole for auction and dealer sales of fine and decorative art and antiques contracted by 7% in value in 2012 reaching a total of €43.0 billion.

The last four years has seen a growing disparity in performance between sectors and countries as the market bounced back from its recent decline. Although the art market fared relatively well during the fall-out from the global financial crisis, 2009 marked a turn around in nearly all major art markets, with global values falling 33%. Despite continued issues and uncertainties in the wider economy, the market rebounded strongly in 2010, especially in China and the US, and this recovery continued in 2011, albeit at a much slower pace with just 8% growth. It reached a high of €46.4 billion, still below the peak of €48.1 billion at the

height of the boom in 2007. The increase in sales during 2011 was driven mainly by strong sales in the Chinese auction market and the rise of fine art sales (over decorative art). In 2012, however, while fine art continued to dominate the market after two years of exceptional increases, growth in the Chinese market slowed significantly leading to a net contraction in the overall value of the global art market.

The value of sales in the Chinese market decreased by 24% to €10.6 billion as demand cooled and less high quality, high priced works appeared on the dominant auction market.¹ However, counterbalancing this sharp decline to some degree and following a relatively poor year in 2011, sales in the US experienced an uplift of 5% year-on-year to a high of €14.3 billion.

Most European markets performed poorly in 2012. Sales were virtually stagnant in the UK, the largest market in Europe, reaching €10.1 billion, while nearly all the other large markets such as France, Germany and Italy experienced a contraction in sales of over 12%. Although some smaller markets achieved positive results, on aggregate sales in the EU as a whole were down 3% on 2011 to €15.3 billion.

The volume of transactions in the global art market also decreased in 2012, falling by just under 4% to

¹ The art market in China is discussed in detail in Chapter 4.

35.5 million. The number of transactions remained substantially above the low point of 31 million in 2009. However they are down nearly 30% on the boom year of 2007. The fall in the global value of sales was much greater than the decrease in volume, indicating that prices in some markets declined, as well as the fact that fewer works came on to the market.

Table 2a. The Global Art Market: Value and Volume of Transactions²

Year	Value (€m)	Volume (m)
2003	€18,631	25.4
2004	€24,385	26.6
2005	€28,833	28.2
2006	€43,331	32.1
2007	€48,065	49.8
2008	€42,158	43.7
2009	€28,335	31.0
2010	€42,951	35.1
2011	€46,351	36.8
2012	€43,023	35.5

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In 2011 and 2012, economic dynamics and political uncertainties around the world produced significant volatility in many asset markets.

The “flight to safety” among investors, particularly at the high end, has meant that there has been a premium on blue-chip stocks and low risk assets such as bonds. A similar picture has emerged in the art market, with the heaviest buying in all sectors concentrated at the high end, with well-established artists with a proven track record achieving the highest prices.

The much more moderate growth and contraction in global art sales over the last two years reflects the fact that sectors and regions of the market have been recovering from the contraction of 2009 at very different rates. Unlike the boom years from 2005 through 2007, when many sectors and regions of the market experienced strong growth, 2011 and 2012 have seen somewhat more mixed fortunes for different countries, sectors and individual businesses, leading to a much more moderate change in the global market as a whole.

The fine art sector has dominated growth and it continues to be where many of the record prices are achieved. China is an exception to some degree. There some of the highest priced lots at auction are in the decorative sector, but, even so, fine art still accounted for the majority of the market by value in 2012.

² Data from 2003 through 2012 is based on actual sales data, estimates and results from polling. Data from 2011 was revised slightly from €46.1 billion to €46.4 billion as data was updated in some smaller markets in 2012.

Table 2b. Growth in Sales on the Global Art and Antiques Market

Year	Change in Value	Change in Volume
2002/03	-16.3%	-1.6%
2003/04	30.9%	4.7%
2004/05	18.2%	6.0%
2005/06	50.3%	13.8%
2006/07	10.9%	55.1%
2007/08	-12.3%	-12.2%
2008/09	-32.8%	-29.1%
2009/10	50.8%	13.2%
2010/2011	8.5%	4.8%
2011/2012	-7.2%	-3.5%
2002 to 2012	93.2%	37.6%
2007 (Peak) to 2012	-10.5%	-28.7%
2009 (Trough) to 2012	51.8%	14.5%

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There were over 400,000 businesses in the art and antiques market in 2012 consisting of auction houses, galleries and private dealers. In addition there is also a small fraction of sales conducted directly by artists and by other agents and consultants. The breakdown between auction and dealer sales varies widely between individual

countries and sectors of the market. But in 2012, dealers had a slightly larger overall share with 52% while auctions accounted for 48% by value.

2.2 The Distribution of the Global Art and Antiques Market

The distribution of the global art and antiques market has changed fundamentally over the last ten years. The emergence of the Chinese market has signalled the end of the virtual duopoly held by London and New York for over 50 years, and other emerging and new markets have also influenced the size and distribution of the art trade. The importance of BRIC³ and other emerging markets to the global economy has been brought into much sharper focus as the world emerges from recession. These economies were not only hit less severely by the global financial crisis, but they have also been recovering much more quickly than mature economies. Growth rates in the BRIC region are nearly five times the current average of the G7 countries, and they are expected to grow at least three times as fast over the next five years.⁴

The wealth effects of this new global infrastructure have fed into the distribution of sales in the art market. The growth in emerging economies has created an immediate injection of high net worth buyers and a more slowly emerging wave of middle-class consumers who are buying art alongside

³ Brazil, India, Russia and China.
⁴ Forecasts for GDP growth are based on data from the IMF.

IN 2012, THE GLOBAL RESHUFFLE CONTINUED. THIS TIME A STRONG YEAR OF SALES IN THE US AND A SLOW DOWN IN GROWTH FOR THE CHINESE MARKET, MEANT THAT THE US AGAIN REGAINED ITS PREMIER POSITION.

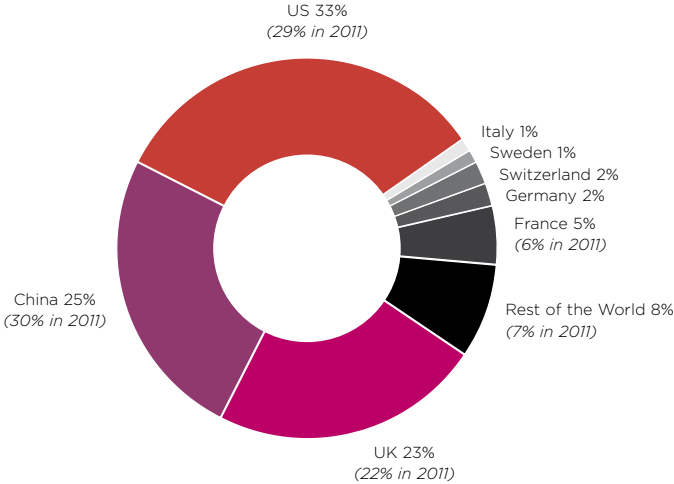
other luxury goods, as their wealth increases. Some centres in the Middle East, Russia, South East Asia and South America have been most notable for generating a greater demand for art, increasing global buying in traditional art market hubs. China, however, has emerged not only as an important buyer, but also as one of the largest markets for domestic sales.

China took over from France as the third largest market worldwide in 2007 and within three years surpassed the UK to become the second largest. This represented a dramatic change in the global infrastructure, given the substantial margin that the UK and US had maintained over other markets for 20 years. While 2010 marked a year of recovery in the US, 2011 was relatively poor, with sales there contracting 6%. China, on the other hand,

experienced a second year of phenomenal growth, with its market more than doubling in value over the two years from 2009 to 2011. This combination of factors saw China edge ahead in the ranks of global market share, rising to a dominant position in 2011 with 30% of the market, just 1% ahead of the US.

In 2012, the global reshuffle continued. This time a strong year of sales in the US, particularly for fine art, and a slow down in growth across the board for the Chinese market, meant that the US again regained its premier position, with a share of 33%, up 4% on 2011 but still significantly less than in 2006 when it reached 46%. China dropped 5% in share to 25%, although it remained ahead of the UK, which was in third place with 23%.

Figure 2a. Global Art Market Share by Value in 2012

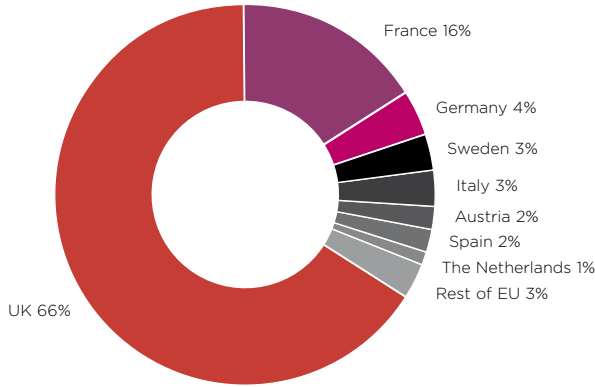


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The share of the EU as a whole remained fairly stagnant at 36%, increasing less than 2% year-on-year. Within the EU, the hierarchy of sales also remained virtually unchanged, with the UK's share increasing from 64% to 66% as the British art market remained stable year-on-year, while France lost 1% share with a 13% decline in sales. Most of the smaller markets in Europe performed poorly in 2012. As in 2011, sales in the middle to lower

priced range, where the vast majority of sales in Europe take place, have performed worse than the top end. Europe's continuing economic problems and debt crisis, particularly in the Eurozone, which slipped back into recession in 2012 after two years of low growth, have led to declining consumer confidence and a cautious investment climate in many markets, including art.

Figure 2b. EU Art Market Share by Value in 2012



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MOST OF THE SMALLER MARKETS IN EUROPE PERFORMED POORLY IN 2012. SALES IN THE MIDDLE TO LOWER PRICED RANGE, WHERE THE VAST MAJORITY OF SALES IN EUROPE TAKE PLACE, HAVE PERFORMED WORSE THAN THE TOP END.



2.3 Auction Sales

Global sales at auction of fine and decorative art accounted for 48% of the market in 2012, reaching €20.9 billion, down from €23.3 billion in 2011, a contraction of 10%. The transparency of prices and the public nature of sales data in this sector of the market has meant that it continues to be the basis for much of the analysis and research on the art market, while information in the dealers' sector is mainly dependent on polling and qualitative research.

As seen in Figure 2c, the decline in auction sales over the year has brought values back to just above those achieved in 2010, when the market had recovered from two years of contraction, after bottoming out in 2009 at €13.1 billion. The value of the auction market is also now on a par with 2006, just prior to its peak of €24.0 billion in 2007. Despite negative growth year-on-year, sales in the auction sector are still more than double their value in 2003, with the cornerstones of growth over the period being the fine art sector and the Chinese market.

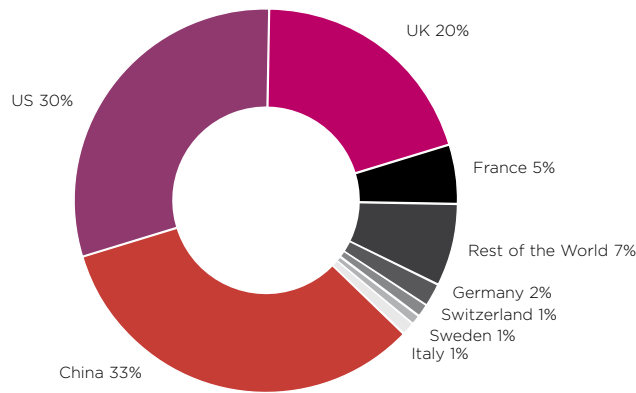
Figure 2c. Global Auction Market 2003 - 2012



© Arts Economics (2013) with data from Artnet and AMMA⁵

⁵ AMMA is Art Market Monitor of Artron.

Figure 2d. Total Auction Market Global Share by Value in 2012



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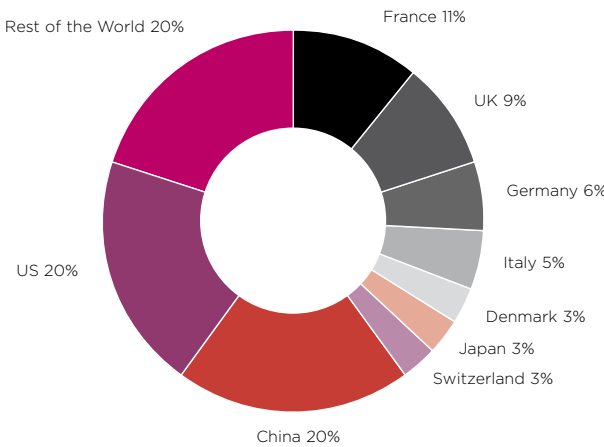
AUCTION SALES ACCOUNTED FOR 48% OF THE MARKET IN 2012, REACHING €20.9 BILLION, DOWN 10% ON 2011.

Table 2c. Growth in Auction Market Turnover 2003-2012

Year	Value	Volume
2003-2007	168.7%	82.6%
2007-2009	-45.4%	5.7%
2009-2010	58.5 %	29.5%
2010-2011	11.8%	26.3%
2011-2012	-10.4%	-8.0%

© Arts Economics (2013) with data from Artnet and AMMA

Figure 2e. Fine Art Auction Market Global Share by Volume in 2012



© Arts Economics (2013) with data from Artnet

It is interesting to note that in 2012 China dominated the global auction market with a 33% share and sales of €6.9 billion. Examining the fine art sector only, auction sales were on par between the US and China, which each had a share of 32%. The EU's share of the auction market in 2012 was 31%, with the UK accounting for two thirds of those sales.

The overall volume of auction transactions decreased by 8% in 2012. Whereas the value

of sales was concentrated in the three largest markets, with China, the US and the UK accounting for 83%, the market share of auction transactions is more dispersed. Figure 2e shows the distribution of transactions in the global fine art auction market in 2012. Although the US and China had the greatest number of transactions, France was in third place with 11%, ahead of the UK, while the whole of the EU accounted for a substantial 45%.

Table 2d examines fine art auction sales, showing that many major markets experienced positive growth in the number of transactions. The EU and the US markets saw the number of transactions decline over 2012, with both markets losing global

share. After a substantial rise of 76% in the volume of transactions in 2011, the number of lots sold in this sector in China was virtually stable in 2012 and China gained 1% global market share.

Table 2d. Growth in the Volume of Transactions at Fine Art Auctions and Global Share - Selected Markets 2009-2012⁶

Country	2009/10	2010/11	2011/12	Share 2010	Share 2011	Share 2012
Austria	19.0%	13.6%	-18.5%	2.8%	2.3%	2.0%
Germany	15.7%	-0.3%	-13.7%	9.3%	6.9%	6.4%
France	5.0%	1.5%	-12.9%	14.2%	11.2%	10.7%
Italy	106.4%	71.0%	-18.1%	4.3%	5.8%	5.0%
Netherlands	31.0%	-1.5%	-22.5%	1.5%	1.1%	0.9%
Sweden	23.6%	-16.1%	0.1%	2.7%	2.0%	2.0%
UK	26.3%	11.1%	-11.1%	11.9%	9.7%	9.4%
Rest of EU	79.3%	9.0%	-1.8%	11.6%	6.7%	8.7%
EU	33.8%	9.0%	-11.3%	58.3%	47.2%	45.3%
Switzerland	5.5%	-3.1%	-10.2%	3.6%	2.6%	2.6%
US	31.4%	7.7%	-6.4%	23.3%	21.2%	20.5%
China	24.4%	75.8%	0.03%	6.2%	19.2%	20.2%
Rest of the World	24.2%	19.1%	-9.4%	8.4%	9.8%	11.4%
TOTAL	30.9%	15.8%	-8.0%	100.0%	100.0%	100.0%

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⁶ Transactions in Table 2d are based on fine art auction data sourced from Artnet. Artnet’s database evolves each year as new auction houses are formed and more auction houses report and publish their results around the world. In 2012, the transactions reported by Artnet may therefore include auction houses that did not exist or report data in 2010 and 2011. To account for this, the change in transactions from 2011 to 2012 uses the new base of auction houses updated for each year. However, market share in 2011 is based on those auction houses reporting to Artnet in 2011, and in 2012, for all auction houses currently reporting to Artnet.

The top end of the auction market remains relatively concentrated, with a few companies accounting for the majority of value. The two premier auction houses of Christie’s and Sotheby’s continued to dominate many sectors and nations in 2012, with a joint turnover of approximately €9.0 billion. Excluding private sales, these two houses accounted for a 36% share of the auction market in 2012.⁷ Christie’s sales were €4.8 billion in 2012, 16% of which were private sales. Private sales at Christie’s increased in value by a reported 26% year-on-year to their highest level in the company’s history. Sales in the US and UK accounted for nearly three quarters of the total value, while sales in Asia declined, with Chinese sales falling by nearly 40%. Sotheby’s sales were €4.1 billion with an estimated 18% in private sales. Auction sales at Sotheby’s were down 10% on 2011 (in dollar terms). While sales in the US were up 11% year-on-year, those in Continental Europe and the UK declined (by 11% and 19% respectively) and sales in Asia fell by a significant 38%.

Chinese auction houses have risen in significance in recent years. Poly International is now the third largest auction house worldwide and in 2012 reported sales of €732 million, nearly half their value (in Euros) in 2011 (at €1.4 billion). China Guardian also announced reduced sales, down more than 50% from €1.3 billion in 2011 to €625

⁷ Private sales are included in the dealer sector in global calculations.

million in 2012. The total auction sales of these top four houses accounted for 42% of the auction market’s global value in 2012.

Arts Economics conducted a global survey of premier and second tier auction houses in 2012. The premier tier auction houses were all classified as large companies with turnover in excess of €50 million. The majority (73%) of second tier houses were small companies with turnover less than €10 million, 18% were medium sized companies with an annual turnover of between €10 million and €50 million, and 10% were large companies.

In terms of employment, in 2012 the top tier houses employed between 200 and 2,250 people worldwide, and all respondents reported that their employment numbers had increased in 2012. The greatest density of employment in the top multi-national auction houses is in the US and UK, with over 60% of employees (down from 74% in 2011), with around 10% in China and other parts of Asia. In the main Chinese auction houses, employment is predominantly local (in Beijing). The survey of the second tier auction houses indicated that the average number of employees was 23, although these ranged from five to 55. The majority of those responding (57%) had kept employee numbers stable, while 36% had increased numbers from 2011, with only 7% reducing them.

FINE ART SALES AT AUCTION DOMINATED DECORATIVE ART AND ANTIQUES IN TERMS OF THE VALUE OF SALES, WITH THE HIGHEST AGGREGATE VALUES AND THE MOST HIGHLY PRICED INDIVIDUAL WORKS.

According to the second tier survey, median sales in 2012 were around €4 million. The average turnover for this sector of the auction market fell by 8% year-on-year. While the majority of respondents (55%) had stable sales, 27% reported lower turnover for the year. Those surveyed were reasonably optimistic about sales in 2013 however, with just over 80% predicting that sales would either be stable or would increase.

On average, around 81% of sales by value in the top tier houses are made at auction (up 2% on 2011), versus about 85% in the second tier (also up 3% year-on-year). Private sales averaged 17% of the turnover of the top tier houses (up 2% on 2011), and only 5% for the second tier.⁸ The remaining sales were made via the online channel, which accounted for an average of only 1% in the top tier houses. Despite its low current share, some auction houses have begun concentrating more on this channel. Christie's launched its first online-only auction in December 2011, and held six online-only auctions in 2012, although these were not high value. In 2013, however, Christie's plans to hold five online-only sales of works by Andy Warhol which will mark the first time the auction house has ever offered online-only Post-War and Contemporary art sales.

⁸ Percentages in these figures (and all numbers quoted in the report) are rounded to the nearest whole number (or one decimal place).

The majority (73%) of auction houses responding to the second tier survey had not done any online sales in 2012. For those that did use this channel, it tended to be a very important part of their businesses, with an average share of 37% of sales (and a range of 30% to 50%).

Many of the second tier auction houses surveyed were based mainly in one or a few locations within national markets. On average, these auction houses reported that 63% of their buyers were local and 37% were from overseas. The importance of foreign buyers increased 7% on the results reported in 2011, when the average was 70% to home nation buyers and 30% to buyers from overseas. The most important overseas buyers for Continental European houses were those in countries in close proximity to their own, and from the US. Whereas in the UK they included more Chinese and US buyers. In the US, key buyers varied but tended to be primarily European and Asian. The large international premier tier houses have buyers from all over the world, although buyers from Europe and US account for the majority of spending. In 2012, spending by buyers from the US was up significantly on 2011 while European buying was stagnant or fell slightly. Expenditure by Chinese buyers also dropped by about a third, reflecting the lower sales values in Hong Kong in the major houses in 2012. In major houses such as Christie's however, despite the fact

that 75% of registered buyers were from the US and Europe, 19% were from Asia, up 1% on 2011 and representing a massive increase in share over the last ten years.

Fine Art Auction Prices

Fine art sales at auction dominated decorative art and antiques in terms of the value of sales, with the highest aggregate values and the most highly priced individual works.⁹ In 2012, the average share of fine art in top tier auction houses was 70% up 3% on 2011, while in the second tier houses, it accounted for 49%, up 1% year-on-year. In many of the smaller, lower tier houses, decorative art continued to account for the majority of sales, with a high number of low value decorative transactions accounting for up to 70% of their annual trading.

⁹ For the purposes of this analysis, fine art includes paintings, sculptures and works on paper (including watercolours, prints, drawings and photographs), while decorative art includes furniture and decorations (in glass, wood, stone, ceramic, metal or other material), couture, jewellery, ephemera and textiles.

Table 2e. Average Auction Prices for Fine Art by Country 2005-2012

Country	2006	2007	2008	2009	2010	2011	2012
Austria	€ 9,652	€ 11,455	€ 9,578	€ 9,204	€ 12,903	€ 9,847	€ 11,224
France	€ 16,433	€ 17,337	€ 11,806	€ 18,534	€ 13,037	€ 13,808	€ 14,440
Germany	€ 8,273	€ 9,757	€ 7,262	€ 6,834	€ 7,144	€ 8,217	€ 8,486
Italy	€ 26,951	€ 23,247	€ 14,295	€ 12,923	€ 8,652	€ 6,417	€ 5,938
Netherlands	€ 14,505	€ 13,732	€ 12,730	€ 12,281	€ 13,577	€ 10,629	€ 12,983
Sweden	€ 9,370	€ 8,777	€ 10,558	€ 6,934	€ 8,897	€ 9,974	€ 11,673
UK	€ 53,283	€ 72,403	€ 72,860	€ 37,579	€ 54,842	€ 56,863	€ 66,001
EU	€ 25,403	€ 29,962	€ 25,995	€ 16,695	€ 18,852	€ 19,041	€ 21,262
Singapore	€ 22,068	€ 31,901	€ 21,975	€ 18,371	€ 20,572	€ 21,295	€ 25,298
Japan	€ 30,676	€ 25,352	€ 12,730	€ 9,817	€ 12,255	€ 6,711	€ 7,900
Switzerland	€ 18,038	€ 17,966	€ 18,278	€ 10,419	€ 16,323	€ 20,367	€ 19,950
China	€13,588	€16,434	€17,902	€17,150	€34,733	€40,820	€31,732
UAE	€ 60,958	€ 52,375	€ 65,509	€ 27,416	€ 50,497	€ 26,009	€ 23,756
US	€ 55,249	€ 62,362	€ 48,337	€ 27,115	€ 42,855	€ 36,057	€ 48,410
WORLD	€ 34,405	€ 39,086	€ 31,372	€ 20,640	€ 30,773	€ 32,445	€ 31,576

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AVERAGE PRICES IMPROVED SIGNIFICANTLY YEAR-ON-YEAR IN THE US, RISING 34%, AND INFLUENCED BY THE FACT THAT SOME OF THE HIGHEST PRICED LOTS OF FINE ART WERE SOLD IN NEW YORK.

Table 2e examines average prices (including the buyers’ premium) in fine art auction sales by country over the last six years.¹⁰ As the value of sales globally fell more than the volume of sales, on aggregate, average prices fell. However, world averages offer little insight into the overall art market as nations and sectors fared differently.

After rising by a substantial 58% in 2010, average prices in the US fell in 2011 by 16%. They improved significantly year-on-year in 2012, however, rising 34%. This advance in averages was undoubtedly influenced by the fact that some of the highest priced lots of fine art sold at auction during the year were sold in New York. These included the top three lots of the year: Edvard Munch’s *The Scream*, which sold at Sotheby’s in New York in May for \$120 million, a new record price for a work at auction, as well as two works by Mark Rothko *Orange, Red and Yellow* at Christie’s New York in May for \$87 million, and *Royal Red and Blue* at Sotheby’s in November for \$75 million. There were also numerous lots sold in New York in the range of €30 million to €50 million during the year.

Many of the major markets in the EU saw a rise in average prices, with the UK increasing 16% year-on-year, while France had more moderate increase

of 5%. Despite some declines in the middle and smaller markets, average prices in the EU increased 12%. While total sales in the UK were stagnant, its fine art auction market rose 3% in value. Like the US, values increased while the volume of transactions fell (by 11%), indicating that the presence of some high value lots had buoyed up averages. Although New York had the highest priced lots and the largest number of them, some very high and record prices were also achieved in London, with works by Modern and Old Master artists selling for well in excess of £20 million at Sotheby’s and Christie’s. A new auction record was also made for the work of a living artist in London when Gerhard Richter’s *Abstraktes Bild* sold for £21 million (€26 million) at Sotheby’s.

Average prices in China more than doubled in 2010 and then increased by a further 18% in 2011, with growth underpinned by a number of high value lots at the major houses in Mainland China and Hong Kong. In 2012 however, they declined by 22%. While a number of lots sold for more than €1 million during 2012, fewer sold for over €10 million than in the previous two years. The number of works selling for greater than 100 million RMB (around €12 million) dropped from 23 in 2011 to five in 2012. (See Chapter 4.)

¹⁰ Average prices in Table 2e are prices including the buyers’ premium at auction for all countries as reported by Artnet (except China). These differ slightly from those reported in previous years, due to the expanded coverage of auction houses, using one source for all years and countries (Artnet) and the inclusion of the buyers’ premium in quoting price instead of the hammer price. The only exception is the prices quoted for China, which are based on data from AMMA. In the Chinese data, fine art is defined as paintings, calligraphy, oils and Contemporary works and China is defined to include Mainland China, Hong Kong, Taiwan and Macao. For consistency, these values also include buyers’ premium.

Table 2f. Changes in Average Fine Art Auction Prices

Country	2006-2012	2008-2009	2009-2010	2010-2011	2011-2012
Austria	16%	-4%	40%	-24%	14%
France	-12%	57%	-30%	6%	5%
Germany	3%	-6%	5%	15%	3%
Italy	-78%	-10%	-33%	-26%	-7%
Netherlands	-10%	-4%	11%	-22%	22%
Sweden	25%	-34%	28%	12%	17%
UK	24%	-48%	46%	4%	16%
EU	-16%	-36%	13%	1%	12%
Singapore	15%	-16%	12%	4%	19%
Japan	-74%	-23%	25%	-45%	18%
Switzerland	11%	-43%	57%	25%	-2%
China	134%	-4%	103%	18%	-22%
UAE	-61%	-58%	84%	-48%	-9%
US	-12%	-44%	58%	-16%	34%
WORLD	-8%	-34%	49%	5%	-3%

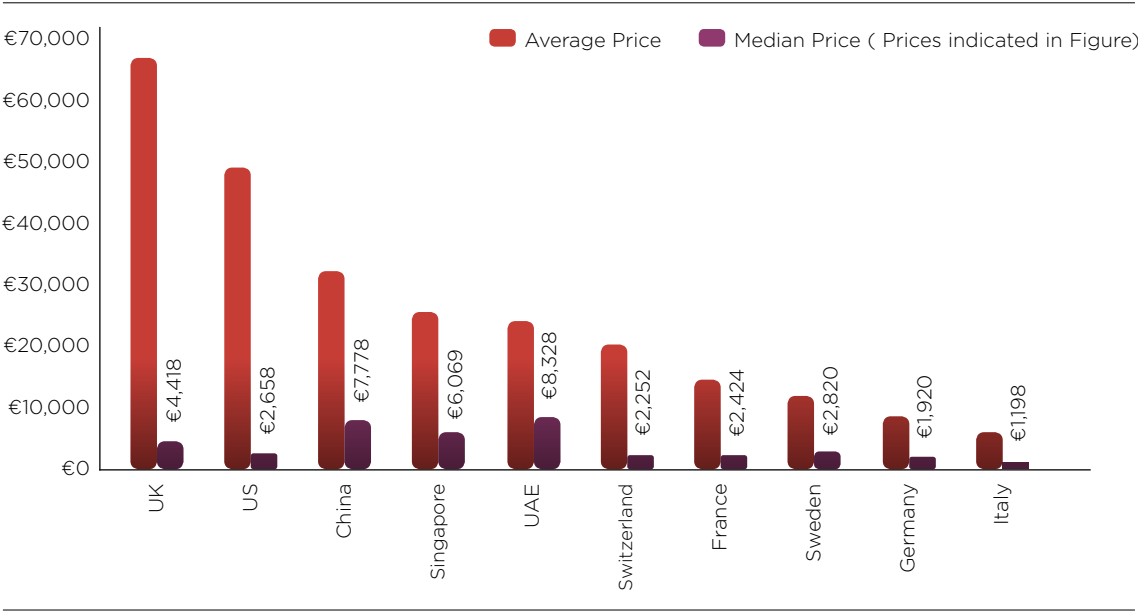
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Average prices in the art market are often skewed upwards by a small number of highly priced sales. In some of the smaller markets, with a low volume of sales, a small number of highly priced sales can push up averages. To gauge trends in prices over time and between markets, the median price is therefore also a useful comparative measure. It is analysed in Figure 2f.¹¹

Averages are generally closer to median prices when prices are distributed evenly around the average. In 2012, as most of the highest priced multimillion dollar lots were sold in the UK and US, the average prices there were significantly greater than median prices, or in other words, the middle of the market is significantly below the average point because of the influence of very highly priced works on average

¹¹ The median is a measure of central tendency that is used when distributions are skewed to get a better idea of where the middle of market is. The median price is simply the price separating the higher and lower halves of the distribution of prices: if prices in the art market were arranged from lowest to highest, the median price is the middle price or centre point along the spectrum. The median can differ from the average, as the distribution of prices may not be evenly spread around the average. If the median is less than the average, it indicates that averages are being pulled upwards by a small proportion of higher value sales while the majority of prices are at the lower end of the price range.

Figure 2f. Averages and Median Fine Art Auction Hammer Prices in 2012



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prices. Median prices in the US and UK in 2012 were only about 6% of average prices, whereas in China and other emerging markets they were between 20% and 35%, demonstrating that although averages are still skewed upwards, the centre of the market was also higher. The highest median price in 2012 was in the UAE (at just over €8,300), reflecting the fact

that it is a smaller market with a low volume of high value sales.

Finally it is also clear from Figure 2f, that despite the large variation in averages, median prices vary less between countries, with all prices shown being less than €10,000 in 2012.



One of the reasons for less variation in median prices is that in all countries, the bulk of the volume of trade at auction (as well as through dealers) takes place at the lower priced end of the market. The predominance of trade at the lower end of the art market in most countries can be determined by examining the market at different price points. Table 2g looks at the value, volume and number of artists whose works sold in different price brackets in the global fine art market in 2012.

The table shows that 93% of all lots sold in 2012 were for less than €50,000, despite only accounting for 19% of the total value of the market. Despite

changes in the market, these shares were virtually unchanged on 2011, both for value and volume. In 2012, 22% of transactions were in the lowest price bracket of less than €1,000, whereas this had been slightly higher, at 28%, in 2011. In both years, sales at this level accounted for less than 1% of the aggregate value of sales.

In 2012, there was a slightly higher concentration of value at the highest end of the market, with sales of over €2 million accounting for 34% of the market's value, up from 29% in 2011, although still accounting for a tiny 0.2% of the number of transactions in both years. 53% of the market's value came from

Table 2g. Share of Lots Sold, Total Value and Number of Artists at Global Fine Art Auctions in 2012 by Price Bracket

Price Bracket	Lots Sold	Value of Sales	Number of Artists
Over €2m	0.2%	33.7%	0.3%
€500,000.01-€2m	0.7%	18.8%	1.0%
€350,000.01-€500,000	0.4%	5.6%	0.9%
€200,000.01-€350,000	0.9%	7.6%	1.6%
€50,000.01-€200,000	5.2%	15.4%	6.9%
€3,000.01-€50,000	43.1%	16.8%	46.7%
€1,000-€3,000	27.5%	1.6%	30.6%
<€1,000	22.0%	0.4%	28.2%
TOTAL	100.0%	100.0%	100.0%

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sales of works priced over €500,000, even though these made up less than 1% of sales and only 1% of total number of artists whose works sold at auction during the year.¹² The very small number of artists whose works achieve higher prices is a feature of the continuing narrow focus of the art auction market in recent years, with a smaller number of artists accounting for an increasingly large share of the value of the market.

Some dealers noted that auction houses have been successful in securing the best works for sale for the small number of blue-chip artists, particularly in the Contemporary and Modern sector. This has forced some dealers to engage more with a wider range of artists, including new or “higher risk” artists in the primary market. Some also started again bringing more of their best works to fairs in 2012, as their confidence increased in the propensity of buyers to spend, lowering the risk of leaving works unsold.

Table 2h looks at the number of lots sold and value of sales by country for works above and below €50,000. In 2012, while 81% of the auction market by value was represented by works sold for over €50,000, only 7% of transactions were above this level.

The largest art markets had the highest share of aggregate value in individual sales above €50,000, with the UK and the US both close to 90%. In 2012, the share of China’s market by value in the higher range was 81%, down 5% on 2011, while the share of the lots sold was down 3%, again indicating a larger number of lower priced lots and fewer high value lots at auction. While all markets had a majority of transactions in the lower end of the market, many of the smaller markets in Europe, such as Austria, the Netherlands, Italy and Spain, also had a majority of aggregate value in lower priced works.

SOME DEALERS STARTED BRINGING MORE OF THEIR BEST WORKS TO FAIRS IN 2012, AS THEIR CONFIDENCE INCREASED IN THE PROPENSITY OF BUYERS TO SPEND, LOWERING THE RISK OF UNSOLD WORKS.

¹² The number of artists in each bracket is the number of individual artists that had works that sold in that price range during the year. The same artist may appear in more than one price bracket, and is counted once in each to arrive at the total.

Table 2h. Auction Sales Above and Below €50,000 in 2012

Country	Number of Lots		Total Sales	
	Lots greater than €50,000	Lots less than €50,000	Value greater than €50,000	Value less than €50,000
Austria	3.8%	96.2%	45.2%	54.8%
Belgium	0.8%	99.2%	22.0%	78.0%
France	4.2%	95.8%	65.2%	34.8%
Germany	2.9%	97.1%	49.3%	50.7%
Ireland	1.1%	98.9%	30.4%	69.6%
Italy	1.6%	98.4%	46.2%	53.8%
Netherlands	4.8%	95.2%	48.2%	51.8%
Spain	1.7%	98.3%	34.7%	65.3%
Sweden	3.3%	96.7%	55.3%	44.7%
UK	11.7%	88.3%	89.7%	10.3%
Rest of EU	1.4%	98.6%	37.1%	62.9%
EU	5.2%	94.8%	77.1%	22.9%
China	15.3%	84.7%	81.1%	18.9%
Japan	2.5%	97.5%	39.4%	60.6%
Singapore	11.6%	88.4%	66.7%	33.3%
Taiwan	19.4%	80.6%	85.6%	14.4%
UAE	12.5%	87.5%	58.2%	41.8%
Norway	4.2%	95.8%	31.8%	68.2%
Switzerland	5.1%	94.9%	74.6%	25.4%
US	7.2%	92.8%	88.9%	11.1%
Rest of World	5.3%	94.7%	61.3%	38.7%
WORLD	7.4%	92.6%	81.2%	18.8%

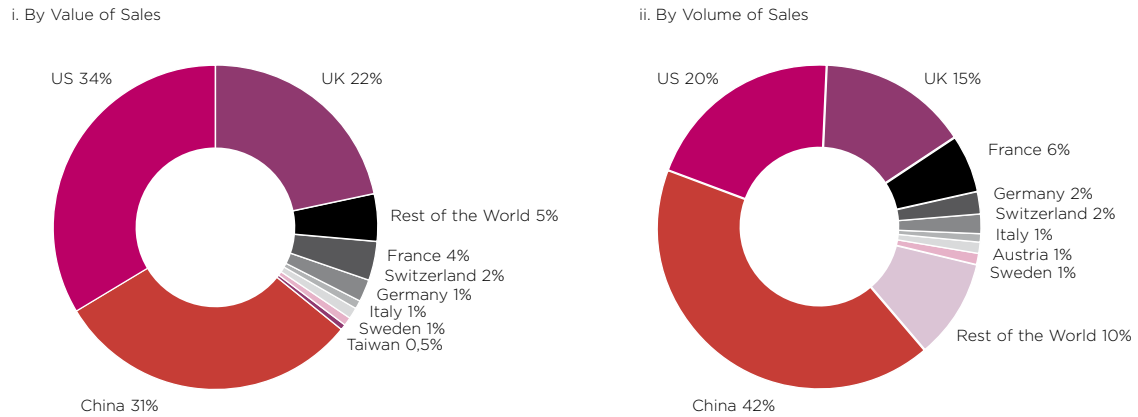
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Figure 2g shows the market share in terms of value and number of transactions in fine art auctions for works sold for more than €50,000 in 2012. The largest markets had the biggest shares in the market for works priced at over €50,000, with the US, China and the UK accounting for a combined 88%. While the US was the largest market by value (with a 34% share against China's 31%), China had by far the largest number of transactions in this sector of the market with a 42% share by volume, more than double that of the US, at 20%.

2.4 Fine Art by Sector in 2012

Fine art dominated decorative art in 2012, but with some sectors of the fine art market performing more strongly than others. The way in which dealers and auction houses categorise the different segments of the fine art market can make comparison difficult. For the purposes of this analysis of the performance of some of the main sectors of the fine art market, the following definitions are used, which are based mainly on the date of birth of the artists¹³:

Figure 2g. Market Share of the Fine Art Auction Market for Works Sold for more than €50,000



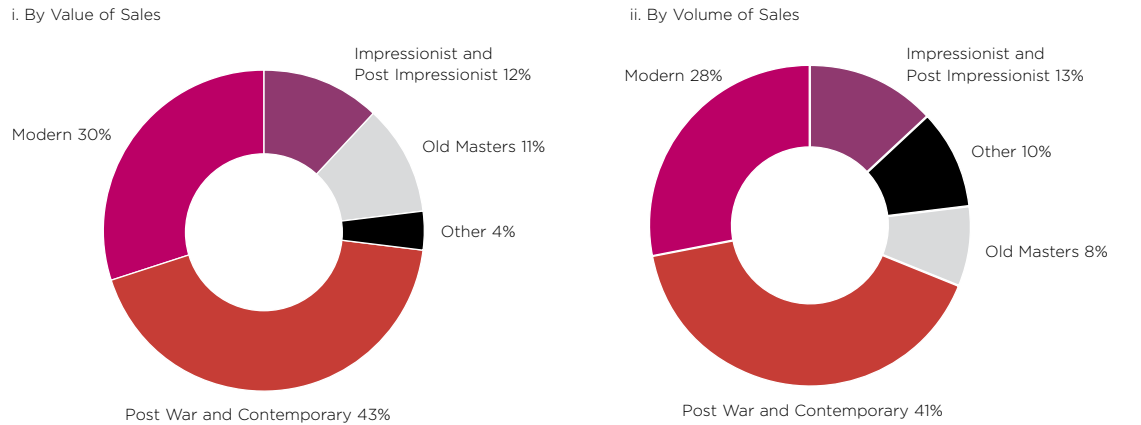
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¹³ While for most artists categorization is based on date of birth, there are also a small number of artists included in different sectors based on their importance to a particular movement of art. Some notable examples include Edvard Munch, who although born in 1863 is included in the Modern sector. Two important Post-War and Contemporary artists are also Francis Bacon (born in 1909) and Mark Rothko (born in 1903).

- a. "Post-War and Contemporary" is defined as artists born after 1910.
- b. "Modern" is defined as artists born between 1875 and 1910.
- c. "Impressionist and Post-Impressionist" is defined as artists born between 1821 and 1874.
- d. "Old Masters" is defined as artists born between 1250 and 1820, or works executed between 1275 and 1850.

The auction market share of each of these sectors in 2012 in terms of value and volume of sales is given in Figure 2h. It shows that the Post-War and Contemporary sector was the largest, with a 43% share by value (up 7% on 2011) and 41% of all fine art auction transactions (also up by 4% on 2011). Together Post-War and Contemporary and Modern made up nearly three quarters of the value of the fine art auctions market in 2012 and accounted for 69% of all transactions.

Figure 2h. Market Share by Sector of the Fine Art Auction Market in 2012



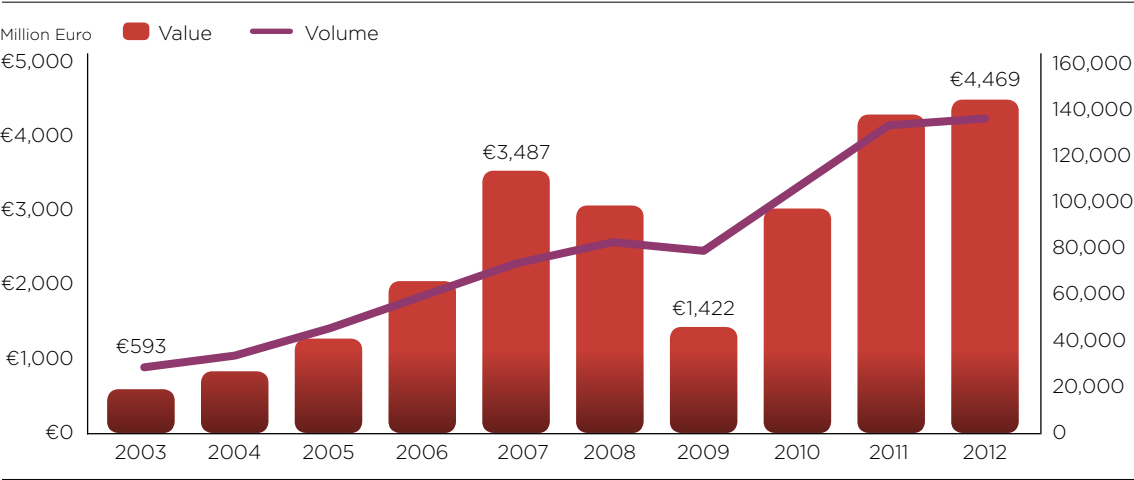
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Post-War and Contemporary Art

The Post-War and Contemporary market has been one of the fastest growing and most volatile sectors in the last decade. Fine art was the driver of growth during the previous boom in the art market, with the Contemporary sector receiving the most attention, due to its exceptional increase in value. From 2003 to the height of the sector’s previous boom in 2007, the market grew over 480% in value (and over 150% in volume), as Contemporary art was one of the main targets of global collectors and investors. As one of the most volatile and

speculative sectors of the market, it was also the most susceptible to any deterioration in individual wealth, and was therefore one of the hardest hit in the recession, with the market losing 60% of its value in the two years to 2009. However the sector bounced back very strongly in 2010 with values doubling, and after two years of growth it had regained aggregate sales well above its pre-crisis levels. Although the market saw only moderate growth of 5% in 2012, it reached just under €4.5 billion, its highest ever recorded level.

Figure 2i. The Post-War and Contemporary Art Sector: 2003 to 2012



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The sector includes many of the highest selling artists of the last few years including Roy Lichtenstein, Andy Warhol and Francis Bacon as well as many other artists with buoyant auction prices and relatively frequent sales. In terms of value however, the sector is concentrated on a relatively small number of artists whose work accounted for much of the overall value of the sector in 2012.

In 2012, the dominant market for Post-War and Contemporary art was the US, with 41% of the market by value and 19% of transactions. Although

2012 saw the US reinstated in premier position with a rise in share of 9% on 2011, it is still down considerably from ten years ago when it accounted for 65% of the sector by value. China was in second place in 2012 with 25% of the value of the market, down from a share of 33% in 2011, when it overtook the US (with 32% in 2011).

The EU accounted for 27% by value, and a substantial 41% of transactions. Although the UK’s share rose 1%, it has remained at around 16% for the last four years, after a peak in 2008 when it

Table 2i. Post-war and Contemporary Art Market Share by Value and Volume and Average Prices in 2012

Country	By Value	By Volume	Average Prices
US	40.8%	19.2%	€ 70,706
China	24.9%	23.4%	€ 35,547
UK	18.4%	7.3%	€ 84,692
France	4.2%	9.2%	€ 15,042
Germany	1.1%	5.3%	€ 6,846
Italy	1.1%	6.6%	€ 5,298
Taiwan	1.0%	0.5%	€ 69,617
Japan	0.7%	2.5%	€ 9,030
Sweden	0.5%	1.9%	€ 9,152
Austria	0.5%	1.6%	€ 9,968
Rest of World	6.8%	22.5%	€ 10,148
WORLD	100.0%	100.0%	€ 33,333

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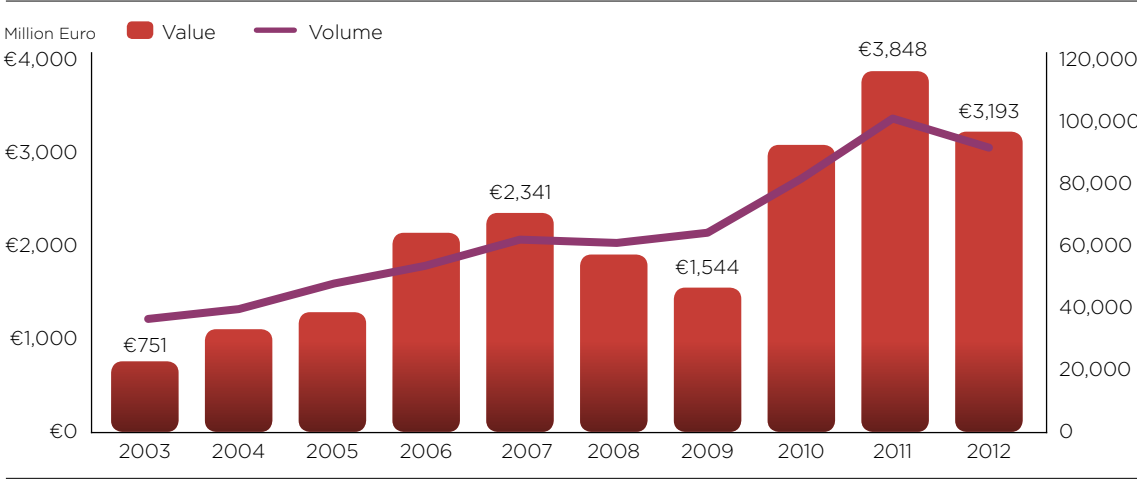
THE POST-WAR AND CONTEMPORARY MARKET HAS BEEN ONE OF THE FASTEST GROWING AND MOST VOLATILE SECTORS IN THE LAST DECADE. IT REACHED JUST UNDER €4.5 BILLION AT AUCTION IN 2012, ITS HIGHEST EVER RECORDED LEVEL.

attained a record high 35% share, nearly rivalling the US. It is interesting to note that the UK had the highest average prices in this sector, due to and a lower volume of high value sales. Both the UK and US have substantially higher average prices than other markets, since the top auction lots in the sector are most commonly sold in London or New York. Average prices in China dropped 34% year-on-year, but they are still considerably above any other smaller markets, such as France or Germany. Sales of the highest priced Chinese lots primarily took place in Hong Kong and Beijing.

Modern Art

The Modern art sector has also seen exceptional growth over the last decade, with many of the top selling artists at auction, including Alberto Giacometti and Pablo Picasso, whose prolific output has helped to keep sales active. From 2003 to 2007, the sector grew over 200% in value and volume, increasing by 70%, as record prices buoyed it upwards during the boom. The Modern sector was the largest in the fine art market before the height of the boom, but was overtaken by Post-War and Contemporary during 2007 and 2008. It contracted for the two years prior to 2009, falling by 34% in value, but then came back very strongly in 2010 and 2011, reaching a high of €3.8 billion, more than doubling in size in two years and far surpassing its previous boom of €2.3 billion in

Figure 2j. The Modern Art Sector: 2003 to 2012



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2007. However sales values fell in 2012 by 17%, as less works came on to the market and average prices dropped 8%.

China retained the lead in this sector in 2012 with a share of 37% as strong sales by artists such as Li Keran and others influenced the market. China had become the largest selling market in this sector in 2010, when its share of 30% of sales just surpassed the US (at 29%). In 2011, China increased its margin ahead of the US with a share of 47% (versus 18%

in the US). The growth of China in the Modern art sector has been phenomenal, increasing from just 2% in 2003.

The US's market share increased 9% year-on-year, although it has fallen considerably over ten years from 42% in 2003. The UK's share increased just 2% in 2012, but it has had a smaller market than the US in this sector over the last ten years. In 2011 the two markets were nearly on par following a relatively poor year of sales in the US. The UK is

Table 2j. Modern Art Market Share by Value and Volume and Average Prices in 2012

Country	By Value	By Volume	Average Prices
China	36.9%	20.4%	€ 63,246
US	26.8%	20.8%	€ 45,082
UK	18.7%	8.4%	€ 77,637
France	5.5%	11.8%	€ 16,417
Switzerland	2.3%	3.5%	€ 22,865
Germany	1.9%	7.3%	€ 9,111
Sweden	0.9%	2.5%	€ 11,842
Japan	0.8%	2.8%	€ 10,554
Italy	0.7%	3.7%	€ 6,340
Austria	0.5%	1.8%	€ 10,358
Rest of World	5.0%	17.1%	€ 10,138
WORLD	100.0%	100.0%	€ 34,965

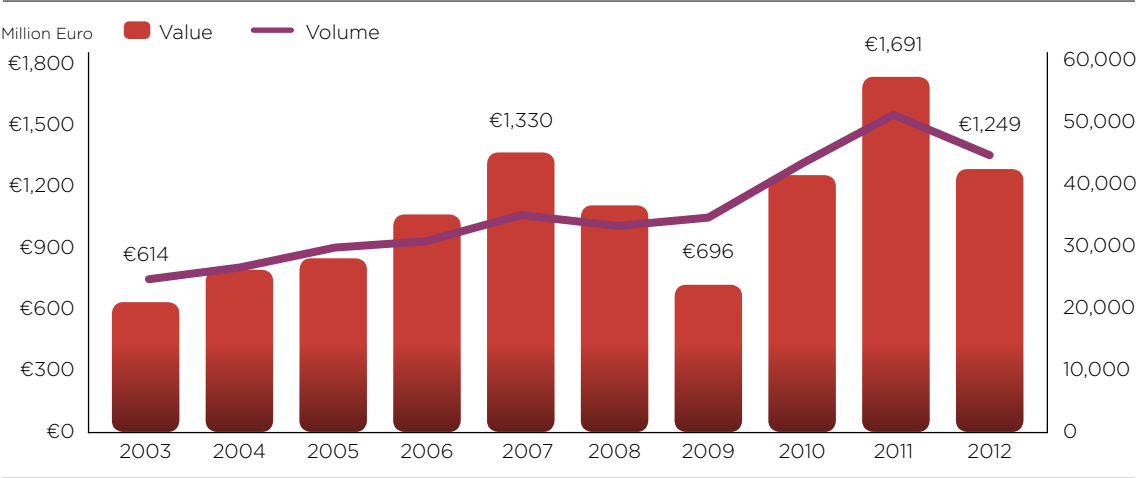
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the key centre for Modern art sales in the EU (with 62% of the value of EU sales), although France has a larger number of lower value transactions. The UK also has one of the highest average prices in the sector globally, with prices three times the EU average. The EU as a whole accounts for 30% of the value of the sector and 46% of the volume of works sold.

Impressionist and Post-Impressionist

Impressionist and Post-Impressionist art represents a smaller sector of the fine art market, with aggregate values and volumes less than half those of Modern art. It includes artists such as Edgar Degas and Claude Monet whose prices were in the top ten highest by value sold in 2012. However it has fewer artists and the supply of major works by top artists is much more limited, decreasing the aggregate value of the sector.

Figure 2k. Impressionist and Post-Impressionist Auction Sales 2003-2012



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Although not as volatile as the Contemporary and Post-War and Modern sectors, sales saw a similar and substantial period of growth between 2003 and 2007, with values rising 116% and the volume of transactions increasing 42%. Even so, the sector was not immune to the contraction of sales that followed. Although the volume of sales only dropped 1%, prices suffered, as lower quality works came to market, leading to a loss of 48%

in the value of the sector over two years to 2009, and reducing it to its lowest point since 2003. Both values and volumes then increased until 2011, with sales reaching €1.7 billion, their highest ever recorded level and up over 140% in two years. Sales contracted year-on-year during 2012, with overall values dropping 26% and volumes falling 14%, leaving the market just slightly above the levels of 2010 at €1.2 billion.



Along with the more typical European and American Impressionist painters, this sector also includes some of the highest value Chinese artists. Qi Baishi has been one of the highest selling artists in China in recent years and has achieved the highest price of any Chinese artist on record, as well as the largest aggregate sales in 2012. Sales of his works along with others from this period have meant that China has achieved the highest share of this sector at auction in the last two years. In 2012, China's 30% share was just 1% ahead of the

US, whereas in 2011 it reached 42% (versus 21% in the US). In 2012, the US increased its share by 8% as sales grew marginally (while sales in China declined).

The EU's share was 34% by value and 54% by volume in 2012, and the UK was again the largest market in Europe, by both value and volume, and the third largest globally. The UK's share peaked in 2008, when it reached 38%, just 1% behind the US, but since then it has lost share each year.

Table 2k. Impressionist and Post-Impressionist Market Share by Value and Volume and Average Prices in 2012

Country	By Value	By Volume	Average Prices
China	29.9%	13.6%	€58,932
US	29.1%	23.7%	€35,115
UK	20.4%	12.5%	€46,821
France	4.5%	11.4%	€11,134
Switzerland	3.9%	3.8%	€28,996
Germany	1.8%	7.8%	€6,437
Sweden	1.7%	2.3%	€20,484
Italy	1.1%	2.4%	€12,825
Austria	1.0%	3.3%	€8,565
Belgium	0.5%	4.2%	€3,147
Rest of World	6.3%	15.0%	€11,890
WORLD	100.0%	100.0%	€28,526

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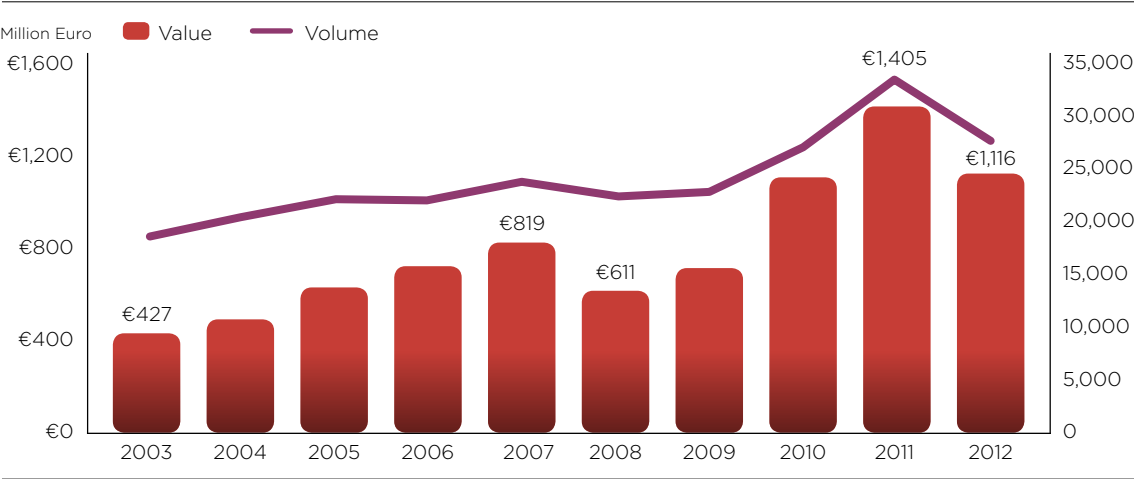
Old Masters

The Old Master sector is the smallest in terms of the volume and value of sales at auction, and has been somewhat less volatile over the last ten years. Although there are many artists in this sector, some of whom were quite prolific, the market is relatively thin at the top end, with high quality works appearing less frequently on the market. The sector grew 92% in value in the five years to the peak of the boom in 2007, with the volume of sales increasing by a more moderate 29%. In 2008

the market contracted, but by less than the other sectors (falling 25%) and for a shorter period of only one year, before resuming growth in 2009, when most others were experiencing their sharpest declines.

From 2008 to its recent peak in 2011 at €1.4 billion, the market has expanded by 130% in value and by just under 50% in volume. However it contracted by 21% in value and 18% in volume in 2012, largely due to a fall in sales in China (where values fell 43%

Figure 2I. Old Master Painting Sales 2003-2012



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year-on-year) and in some other smaller European markets. Nonetheless, sales in the US and UK rose by 14% and 12% respectively.

The sector has traditionally been more conservative than Contemporary and Modern art, and one that requires greater connoisseurship and more experienced collectors. However it has recently seen a substantial revival in interest, from both younger collectors and buyers from emerging markets who see it as a potentially less volatile area in which

to collect, as well as being better value and more moderately priced than more recent art.

As well as what might be considered the more traditional European Old Master painters, Chinese Old Masters have had considerable influence in advancing sales values in the market in recent years, with traditional Chinese painting and calligraphy having been one of the most sought after areas of the Chinese market. In 2012, China had the largest market by value with a share of 35%, although this

Table 2I. Old Masters Market Share by Value and Volume and Average Prices in 2012

Country	By Value	By Volume	Average Prices
China	35.4%	18.7%	€77,657
UK	29.2%	19.1%	€62,515
US	15.7%	15.3%	€42,005
France	6.6%	13.6%	€19,892
Germany	3.9%	11.3%	€14,134
Switzerland	2.1%	4.0%	€21,120
Austria	1.8%	3.7%	€19,624
Italy	0.9%	2.6%	€13,694
Netherlands	0.6%	1.6%	€15,892
Spain	0.6%	1.0%	€23,511
Rest of World	3.3%	9.0%	€14,938
WORLD	100.0%	100.0%	€40,952

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was down from nearly 50% in 2011. The UK was the second largest and remains a key centre for the trade in traditional Old Masters. There were several records in the sector in 2012 in London including Raphael's drawing *Head of a Young Apostle* sold for €37 million at Sotheby's and John Constable's *The Lock* sold for €28 million at Christie's.

2.5 Dealer Sales

Arts Economics polled over 6,000 dealers from the US, Europe, China and South America to establish information and views on their businesses and the art market. Response rates varied between countries and sectors (from 4% to 35%). Given the number of galleries and dealers in fine and decorative art, the response rates increase the risk associated with the statistical validity of the results in some countries. Nonetheless, important insights on the dealer sector as a whole can be gained from the results, as well as from supplementary interviews conducted with dealers.

In 2012, the dealer sector was estimated to account for around 52% of the global market, up 2% from 2011. The dealers' share varied widely between countries with sales of up to 80% in some emerging markets, where the primary sector dominates, and as low as 20% in others where the dealer infrastructure remains underdeveloped. In the large, mature markets such as the UK, France and the US,

the share of private sales by dealers, galleries and other agents was over 55%.

Sales in this sector reached an estimated total of €22.2 billion, decreasing by 4% on the previous year. It is interesting to note that while the average turnover of dealers surveyed in 2012 contracted by just 1% overall (with a stable median year-on-year at €750,000), segments of the market fared differently, with the lower end of the market performing most poorly. The survey indicated:

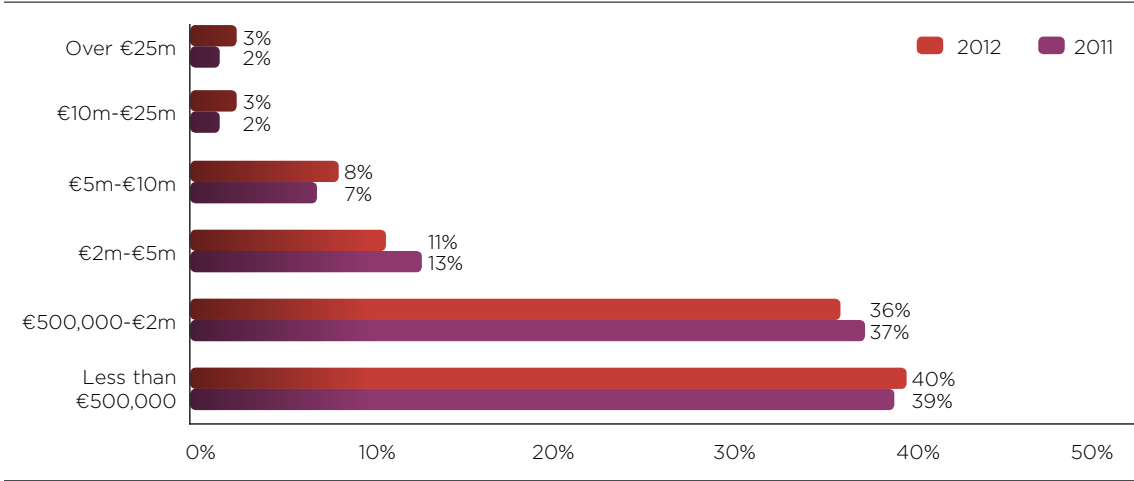
- Dealers with sales under €500,000 in 2012 reported that average turnover fell by 17% year-on-year.
- Dealers with sales of between €500,000 and €2 million reported a decline of 1%.
- Those with sales between €2 million and €10 million also had a decline of 2% on average.
- The top end of the market, where dealers generated sales of over €10 million, reported an average increase in turnover of 55%

This fits with the anecdotal evidence from dealers that the current market continues to be extremely selective in many sectors, with some dealers reporting great difficulty in selling works of low and medium value, while other dealers in higher priced works reported a strong year of sales.

The dealer market is highly fragmented with thousands of businesses worldwide but it is concentrated at the top end of the market in terms of value. In the survey, the top 10% of dealers in 2012 represented more than 60% of the aggregate value of combined sales. However the survey did

not receive responses from some of the largest dealers worldwide, and market research indicates that in fact the level of concentration may be greater, with the top 5% of dealers accounting of the majority of the market's current value.

Figure 2m. Share of Dealers by Turnover in 2011 and 2012



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Although a small percentage of dealers turn over in excess of €50 million per annum, the majority are nonetheless classified as small businesses. The average number of employees in the businesses surveyed was five people, up slightly on 2011. While the majority (66%) had kept numbers employed stable from the previous year, 25% had increased numbers in 2012 and by an average of two people.

In terms of turnover, most were also classified as small companies, with 76% at the lower or micro-end (with turnover of less than €2 million), while only 1% were large companies (with sales of greater than €50 million per annum). Despite changes in the market and the sample of dealers responding to the surveys, the shares of dealers in the different categories of company size has stayed quite stable over recent years, although undoubtedly many dealers have seen fluctuations within these bands in their own businesses.

Looking ahead, most dealers were optimistic that their sales would be stable or would increase in 2013 (with 40% predicting higher results and 37% estimating no significant change on 2012). Some dealers (23%) did however feel that sales would continue to contract this year, with 8% of those predicting they would be much lower, mostly from the UK, France and other parts of Europe.

Dealers were also asked to report their margins for 2012, which on average grew 2% on 2011. The median gross profit in the sector was stable year-on-year at 37%, although it has fallen from a high of 40% in 2009.

In terms of the volume of works sold by dealers, the average number of works sold in 2012 was 208 items, which was slightly higher than the 201 items reported by the same dealers in 2011. These averages tend to be skewed by some decorative art and antique dealers some of whom sell a high volume of lower value items. The median number of works sold in 2012 was 75, which was down 6% on the median of 80 works in 2011.

Sales Channels

The rise of art fairs and the event-driven market place has been a well-documented trend over the last ten years, and it has drastically changed the way many dealers conduct their businesses worldwide. While the art market as a whole has become increasingly globalised and buyers now have the opportunity to shop around both physically and online, the selling side has arguably become more regional, with the market fragmenting into distinct trade blocs specialising in different types and sectors of art. Just as auction sales of Chinese art have, for example, become consolidated in Hong Kong and Mainland China, art fairs have also become more

distinct regional centres for galleries. There are now close to 200 large fairs taking place around the world each year, and although many maintain an international programme, the larger ones tend to cluster galleries by sector and nationality, for example with Chinese art sold mainly in Asian fairs, and Latin American art in Miami and South American fairs. While many small fairs have been launched in new geographical locations over the last few years, there has also been some degree of consolidation in the industry. Art Basel, one of the oldest fairs, which had its first event in Switzerland in 1970, expanded to Miami in 2002 and in 2013 will host Art Basel Hong Kong. Frieze London also expanded its international reach to New York in 2012, as well as adding Frieze Masters in London, diversifying out of the Contemporary sector.

Many dealers noted the increasing importance of fairs to their businesses, with collectors apparently willing to travel long distances to these events, and less willing to visit local and individual galleries. Dealers did however see both positive and negative sides to the trend. While the positives were clearly the ability to access new global collectors as well as providing greater opportunities for networking within the trade, the negatives included escalating costs, pressures on supply and access to fresh material to exhibit, and a lack of focus and capacity for their local businesses. Some dealers reported

THE RISE OF ART FAIRS AND THE EVENT-DRIVEN MARKET PLACE HAS BEEN A WELL-DOCUMENTED TREND OVER THE LAST TEN YEARS, AND IT HAS DRASTICALLY CHANGED THE WAY MANY DEALERS CONDUCT THEIR BUSINESSES WORLDWIDE.

that they were attending up to ten fairs each year in an attempt to focus on an increasingly international audience. However, this was also a significant drain on financial and manpower resources for small businesses, and could make poor results at one or two events devastating to their cash flows.

In 2012, according to the survey, 36% of sales made by dealers were through local or international fairs, an increase of 5% on 2011. While sales at international fairs were down 1% on 2011, dealers appear to have increased their sales at local and domestic fairs, with their share increasing 6% year-on-year. While this increase may be to some extent due to the changing sample of dealers, it also reinforces a trend, reported by some dealers, of pulling back on attendance internationally and focusing mainly on a few key events in the art fair calendar and on local sales. Some dealers also noted that the benefits of attending a fair were difficult to measure, and were not confined only to sales completed there. Some noted that, while they often only managed to cover the costs of exhibiting through sales made at a fair, their participation still had positive consequences in relation to building international contacts and generating follow-up sales, many of which took place up to six months after the fair.

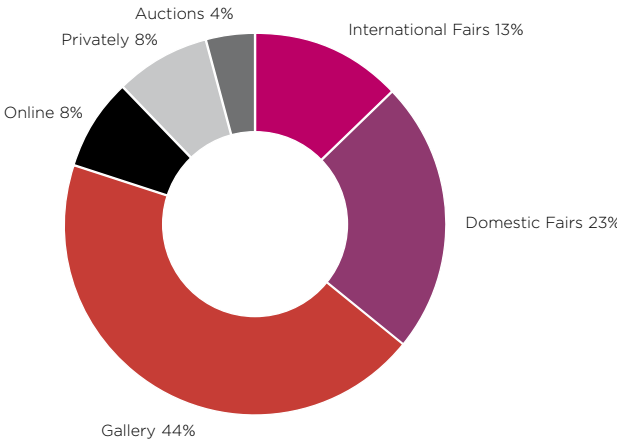
On average, sales through galleries were up 1% on 2011 to 44%, while those conducted privately

and through auctions were down 2% each. Online sales have also become an important part of the sector, although they declined on average by 2% year-on-year to 8%. This average covers all dealers, including those that do not conduct any sales online. Considering only those dealers who made sales via the internet, their average sales through this channel represented 18% of their turnover, and 16% of these dealers made a third or more of their sales online. Some dealers who were more active online had reduced their attendance at fairs as they felt the online platform offered greater opportunities:

“Where the fair used to be a primary buying opportunity, with dealers and their best stock all gathered in the one place at the one time, the internet, dealers’ own websites, and online sales platforms have created virtual fairs 24 hours a day, seven days a week...the entire world of retail sales is changing, even for luxury goods dealers, with increasing numbers of people more and more comfortable making purchases online.”

Because many dealers specialise in one or a few areas of the market, they need to be able to access buyers both locally and globally in order to maintain their businesses. In 2012, on average dealers conducted 70% of their sales locally in the main country in which their businesses were based (up

Figure 2n. Dealer Sales by Sales Channel in 2012



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from 63% in 2011), and 30% elsewhere. The degree of international focus is dependent, to some extent, on the markets dealers operate in. In large markets and international hubs such as the UK, for example, dealers reported that sales were more international, with 40% conducted outside the UK. Whereas in markets such as China and Brazil, external sales were less than 20% on average.

The importance of buyers’ nationalities depends to some extent on market location and market size. Large markets have more trade with each other (for example there is a high degree of inter-trade between the US, the UK and China). But for all dealers, and particularly for those from smaller markets, despite globalisation, their most important overseas buyers tended to be geographically close neighbours or American collectors.

Prices in the Dealer Sector

As is the case with auction houses, the bulk of the trade in the dealer sector takes place at the lower value end of the market, and 2012 was no exception.

Dealers reported that the majority of their sales (77%) were for prices of €50,000 or less, while only 3% were at levels greater than €500,000. This pattern of sales is fairly consistent both across time (with a slightly higher 80% of sales below

€50,000 in 2011 and 3% above €500,000) and across countries. Although the key markets in the US, UK and China had a slightly greater proportion of transactions in the highest brackets, all countries had a sizeable majority of transactions below €50,000.

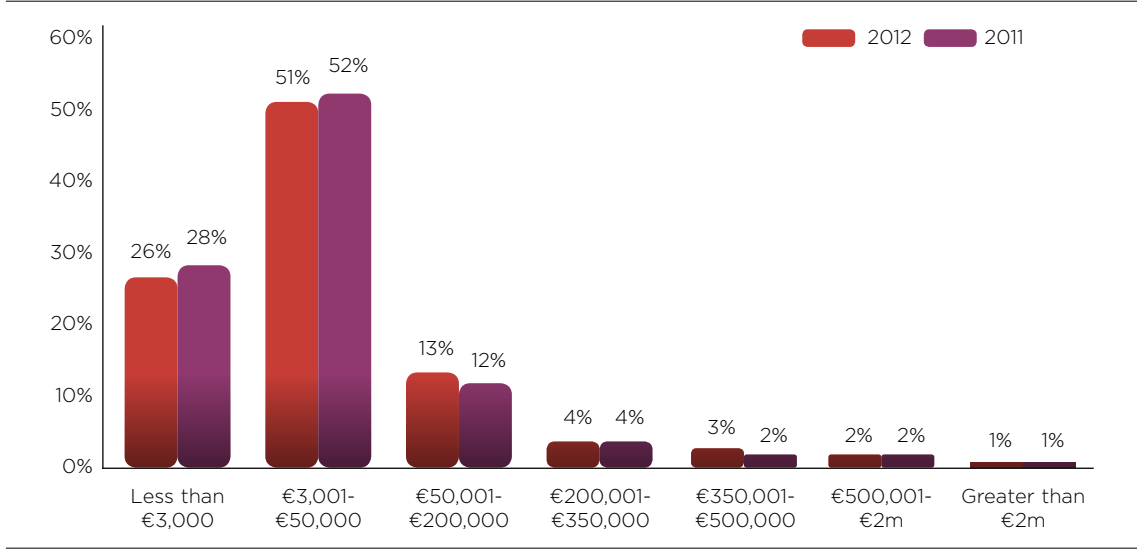
The varied performance of dealers in different price ranges has also been a consistent trend over the last two years. Many dealers reported that the

MANY DEALERS REPORTED THAT THE POLARISATION IN THE MARKET HAD INTENSIFIED OVER THE LAST TWO YEARS, WITH THE VERY TOP END OF THE MARKET PERFORMING WELL, WHILE THE MIDDLE AND LOWER SEGMENTS STRUGGLED MORE TO MAINTAIN REVENUES.

polarisation in the market, which started during the recovery in 2010, had intensified over the last two years. The average turnover figures seem to suggest that the very top end of the market appears to be performing well, while the middle and lower segments are struggling more to maintain revenues. While the general feeling among many dealers at the higher end of the market was that

sales had fully recovered to levels achieved in 2007 and 2008, some in the lower value ends reported that sales have continued to decline in the last two years. As seen above, this lower end is where most dealer businesses around the world are based, and therefore this trend is a continuing cause of concern for many in the art trade.

Figure 2o. Share of Global Dealer Sales by Price Level



CHAPTER 3

THE GLOBAL ART TRADE AND EMERGING ECONOMIES

THE GLOBAL ART TRADE AND EMERGING ECONOMIES

Key Findings

- Emerging economies have outperformed mature economies during the last few years, and have generally been able to weather the recession better. In 2012, GDP growth averaged 5.3% in emerging economies, versus 2.2% in the US and -0.2% in the EU.
- Increased wealth per capita and specifically a larger number of HNWIs has led to proportionally more consumption of luxury goods, including art. The global population of HNWIs increased 60% from 2000 to 2011 to 11 million.
- The Asia Pacific region became home to the largest number of HNWIs in the world in 2011, and it has the second highest share of investable wealth (next to the US).
- Despite the rapid growth in wealth in emerging markets, HNWIs make up less than 0.1% of their national populations, while dollar millionaires are less than 1%. However, the BRIC nations have witnessed some of the fastest growth in average incomes in recent years, which has increased spending on luxury goods, and brought art collecting to a wider section of the population.
- Despite the rapid growth in domestic sales in some emerging markets, cross-border trade is low compared to the traditional market hubs. New York and London account for the majority of trade with 64% of world imports of art by value and 62% of exports.
- World imports of art reached €14.8 billion in 2011, an increase of 18% year-on-year, although still below the peak of €16.2 billion in 2007.
- World exports rose to €14.4 billion in 2011, an 8% increase year-on-year, but still below the peak of €15.0 billion in 2007.
- The US was the largest importer and exporter of art worldwide in 2011, with exports of €5.1 billion just exceeding imports of €5.0 billion, or a trade surplus in art, which it has maintained since 2008.

3.1 Changing Patterns of Wealth

The dramatic increase in its size and the globalisation of the art market over the last two decades has been driven by many factors, including economic conditions, the spread of information and sales online, national and transnational policies and the growth and changing distribution of global wealth.

Although individual sectors of the art market have developed at different rates, at a macro level there has been an increasing correlation between trends in the market as a whole and in the distribution of global wealth. Some of the main buyers in the market in terms of value are the stereotypical high net worth individuals (HNWIs), who participate in other financial and asset markets throughout the world. The growing number of individuals in this category has fuelled greater consumption of luxury products, including art and antiques. The widening global spread of HNWIs has increased the share of spending by international buyers in established art market hubs, such as London and New York, and has also lead to the creation of new and expanding art markets elsewhere.

The superior performance of emerging markets has been the focus of much economics analysis over the last decade. Following various economic crises in the 1980s and 1990s, emerging markets increased their significance in the 2000s, recording strong growth

rates while largely keeping inflation and many other potential problems under control. While the global financial crisis of 2008 and 2009 demonstrated that these economies were not immune to shocks originating in advanced economies, they were able to weather the recession much better, with many returning to strong growth in 2010.

In 2012, world GDP growth slowed from 3.8% to 3.3%, but there were marked differences between regions. In emerging and developing nations, growth averaged 5.3%, while in the European Union there was an aggregate contraction of -0.2%. By the end of 2013, many countries are expected to be showing healthier growth rates, but these will be the least impressive in the developed nations, particularly in Europe, as significant debts and austerity measures impact on recovery. The US, which showed some economic improvement in 2012, is also expected to be fairly stagnant.

Table 3a shows the growth rates of GDP in some of the art markets around the world. It is notable that despite slowing down for two years in 2011 and 2012, as exports slowed due to economic crises elsewhere and internal curbs bore down on speculative activity in its substantial property market, China has shown phenomenal growth over the last decade, with GDP growth averaging over 10% for the ten years to 2012. This is in stark contrast

Table 3a. Growth in National GDP per Annum (%)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Brazil	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7	1.5	4.0
China	9.1	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.2	7.8	8.2
France	0.9	0.9	2.5	1.8	2.5	2.3	-0.1	-3.1	1.7	1.7	0.1	0.4
Germany	0.0	-0.4	0.7	0.8	3.9	3.4	0.8	-5.1	4.0	3.1	0.9	0.9
Hong Kong	1.8	3.0	8.5	7.1	7.0	6.4	2.3	-2.6	7.1	5.0	1.8	3.5
India	4.6	6.9	7.6	9.0	9.5	10.0	6.9	5.9	10.1	6.8	4.9	6.0
Italy	0.5	0.0	1.7	0.9	2.2	1.7	-1.2	-5.5	1.8	0.4	-2.3	-0.7
Japan	0.3	1.7	2.4	1.3	1.7	2.2	-1.0	-5.5	4.5	-0.8	2.2	1.2
Qatar	3.2	6.3	17.7	7.5	26.2	18.0	17.7	12.0	16.7	14.1	6.3	4.9
Russia	4.7	7.3	7.2	6.4	8.2	8.5	5.2	-7.8	4.3	4.3	3.7	3.8
Singapore	4.2	4.6	9.2	7.4	8.8	8.9	1.7	-1.0	14.8	4.9	2.1	2.9
Switzerland	0.2	0.0	2.4	2.7	3.8	3.8	2.2	-1.9	3.0	1.9	0.8	1.4
UAE	-0.7	16.4	10.1	8.6	8.8	6.6	5.3	-4.8	1.3	5.2	4.0	2.6
UK	2.4	3.8	2.9	2.8	2.6	3.6	-1.0	-4.0	1.8	0.8	-0.4	1.1
US	1.8	2.5	3.5	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8	2.2	2.1

© Arts Economics 2013 with data from the IMF * Forecast values

THE WIDENING GLOBAL SPREAD OF HNWIS HAS INCREASED SPENDING IN ESTABLISHED ART MARKET HUBS AND LED TO THE CREATION OF NEW AND EXPANDING ART MARKETS ELSEWHERE.

to the older art markets in Europe, whose national GDP growth has been 1% or less on average in the same period.

Even within the group of emerging economies, some fared better than others, with growth in emerging Asia (and most notably China) remaining high in

all years. Some regions, such as Latin America, were hit harder in the recession due mainly to their closer ties to advanced economies. Nonetheless, some bounced back relatively strongly in 2010 in contrast to earlier episodes of global financial turbulence, when they were vulnerable to massive currency and debt crises.

Figure 3a. The Total Global Population of HNWIs 2000-2012



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The two most striking features of world wealth over the last decade have been its vast increase in size and its changing geography.

The population of HNWIs, defined here as individuals with investable wealth greater than \$1 million¹⁴, was approximately 11 million at the end of 2011, up 62% since 1999/2000, and only declining since then in one year during the lowest point of the global financial crisis in 2008/2009.

By the end of 2011, the worldwide population of HNWIs had increased only slightly on 2010 (by just less than 1%), however some regions fared better than others. For the first time in history, the Asia Pacific region became home to the largest number of HNWIs in the world, with a population of just under 3.37 million, up 2% on 2010, slightly ahead of North America (with 3.35 million) for the first time, and ahead of Europe (with 3.17 million) for the second year running.

Despite the aggregate expansion in the region, the HNWI population contracted in several Asia-Pacific markets in 2011, most notably India and Hong Kong, which had led growth in the previous two years. HNWIs in Hong Kong are traditionally highly exposed to equities, and declines in the stock market there in 2011 contributed to a reduction in the HNWI population by 17%. However strong

growth in Mainland China, meant that China as a whole still experienced a net increase in HNWIs of 5%. The stock exchange rebounded strongly in 2012 in Hong Kong, while contracting significantly in Mainland China, which meant this trend was reversed to some extent in 2012.¹⁵ Besides China, there was also robust growth in Japan, Indonesia, Malaysia, and Thailand. Japan retains the highest share of HNWIs in the region in terms of HNWI population by number (with a 54% share in 2011), followed by China (with 17%).

The US population of HNWIs dropped slightly over the year, although its global share has not been outside a range of 31% to 33% over the last 12 years. In Europe on the other hand, although 2011 showed marginally positive growth in the population of HNWIs, driven by increases in Germany and France, the share of Europe as a whole has dropped from over 37% in 2000 to 29% at the end of 2011. In Latin America the HNWI population grew 5% year-on-year (and over 6% in Brazil, the highest centre for HNWIs in the region), although aggregate wealth in the region declined.

Despite the changes in the distribution by region, the bulk of the HNWI population remains in the three leading economies of the US, Japan and Germany, which account for a combined share of 53%. Table 3b shows that all the major art markets

¹⁴ This definition of what will be referred to as "HNWIs" is that used in Capgemini / RBC Consulting (2013) *World Wealth Report 2012* from which these figures are derived. It measures HNWIs as those with \$1 million or more at their disposal for investing and therefore excludes personal assets and property, collectibles and other consumables. These will be referred to throughout the chapter as HNWIs to distinguish them from the broader definition of "dollar millionaires" used later in the chapter when including property and other physical assets.

¹⁵ By the end of November 2012, the Shanghai SE and Shenzhen SE were down 12% and 19% respectively on the previous year, according to data from the World Federation for Exchanges, whereas the Hong Kong Exchanges were up 24% (after a decline of 17% in 2011). Table 3d below also confirms the reversal of fortunes between Hong Kong and Mainland China in 2012.

have significant HNWI populations. However having a high share of wealthy individuals with substantial money available to invest does not in itself lead to a significant conditions to generate a domestic trade in art is borne out by Japan and Australia. To the extent that wealthy individuals in these countries buy art, it is clear that they make many of their purchases overseas, in New York, London or Hong Kong, with both countries being significant net importers of art.

The combined wealth of global HNWI's has more than doubled since the late 1990s. However between

2010 and 2011, despite the increasing populations, it declined 2% year-on-year to \$42.0 trillion. This overall contraction in wealth while the population of HNWI's grew reflects a greater number of wealthy individuals in the lower end (\$1 million to \$5 million), with a reduction in the ultra-HNWI segments. This was most pronounced in regions where UHNWI's dominate, such as Latin America.

While the US still maintained the highest share of investable wealth worldwide at \$11.4 trillion, Asia Pacific reached second place with \$10.7 trillion. Within that region, Japan accounted for 39% of

Table 3b. HNWI Populations by Country

Population (1,000s)	2010	2011	% Change	Share of the Population
US	3,104	3,068	-1.2%	0.97%
Japan	1,739	1,822	4.8%	1.43%
Germany	924	951	2.9%	1.16%
China	535	562	5.0%	0.04%
UK	454	441	-2.9%	0.71%
France	396	404	2.0%	0.64%
Canada	282	280	-0.7%	0.80%
Switzerland	243	252	3.7%	3.15%
Australia	193	180	-6.7%	0.79%
Italy	170	168	-1.2%	0.28%
Brazil	155	165	6.5%	0.09%
South Korea	147	144	-2.0%	0.29%

total wealth held by HNWI's and China, 25%. The new HNWI's in the region are what can be termed "new wealth", with most making entrepreneurial fortunes from business and industry, rather than through inherited wealth as in the US and Europe.

The contraction in the total global wealth of the HNWI segment was the second drop in the last four years. Investable wealth had rebounded strongly after the crisis of 2008, gaining 19% in 2009 and a further 10% in 2010. However 2011 saw declining

values, as challenging economic conditions and high volatility in global markets caused nearly all areas to contract, with US HNWI's wealth dropping 2%, Latin America contracting by 3% and Europe and the Asia Pacific region falling by just over 1%. Although there are many reasons for this decline, the on-going debt crisis in the Eurozone was a critical factor, not only because local wealth contracted as investors in the region avoided risky investments, but also because of the knock on effects in Asia from reduced demand for Asia-Pacific goods, causing that

Table 3c. High Net Worth Wealth (Trillion US Dollars) 2000-2012

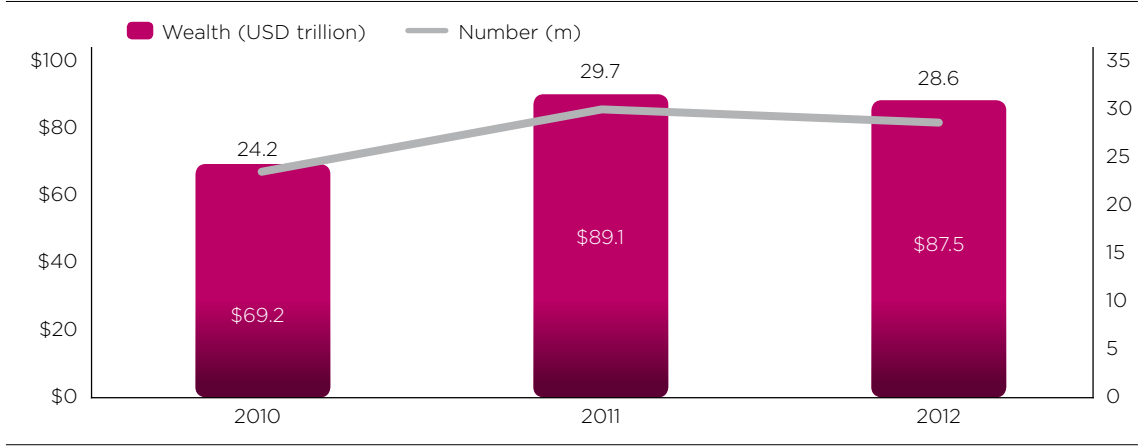
Wealth (US\$ trillion)	Total	North America	Europe	Middle East	Africa	Latin America	Asia Pacific
2011/12	\$42.0	\$11.4	\$10.1	\$1.7	\$1.1	\$7.1	\$10.7
2010/11	\$42.8	\$11.6	\$10.2	\$1.7	\$1.2	\$7.3	\$10.8
2009/10	\$39.1	\$10.7	\$9.5	\$1.5	\$1.0	\$6.7	\$9.7
2008/09	\$32.8	\$9.1	\$8.3	\$1.4	\$0.8	\$5.8	\$7.4
2007/08	\$40.8	\$11.7	\$10.7	\$1.7	\$1.0	\$6.2	\$9.5
2006/07	\$37.2	\$11.3	\$10.1	\$1.4	\$0.9	\$5.1	\$8.4
2005/06	\$33.5	\$10.2	\$9.4	\$1.3	\$0.8	\$4.2	\$7.6
2004/05	\$33.4	\$9.4	\$10.2	\$1.2	\$0.8	\$4.2	\$7.6
2003/04	\$30.7	\$8.9	\$9.3	\$1.0	\$0.7	\$3.7	\$7.1
2002/03	\$28.5	\$8.6	\$8.5	\$0.8	\$0.6	\$3.4	\$6.6
2001/02	\$26.2	\$7.6	\$8.4	\$1.0	\$0.6	\$3.5	\$5.1
2000/01	\$25.5	\$7.5	\$8.4	\$1.0	\$0.6	\$3.2	\$4.8
1999/00	\$24.9	\$8.1	\$6.7	\$1.1	\$0.5	\$3.1	\$5.4



region's economic growth to slow. The US also saw a downgrading of its AAA sovereign debt rating, while Asia was plagued with rising inflation and declining exports. All of these factors contributed to economic uncertainty which caused volatility across many asset markets, leading many investors to adjust their portfolios to protect capital and to switch to more risk averse strategies. Global equity market capitalisation at the end of December 2011 was down 14% (in USD terms) on the same period in 2010, although by the end of November 2012 this had turned slightly positive (with a 3% increase year-on-year).

Individual net worth analysis can also take account of non-financial assets. When the definition of individual net worth includes non-financial assets these 'dollar millionaires'¹⁶ form a much larger group globally, and in 2012 they numbered 28.6 million worldwide. Figure 3b shows the change in the number and wealth of dollar millionaires over the last three years. The number of dollar millionaires and their wealth increased significantly in 2011 (rising by 23% and 29% respectively), but it fell back moderately over 2012, mainly dragged down by continued depressed conditions in Europe.

Figure 3b. Global Population and Wealth of 'Dollar Millionaires' 2010-2012



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¹⁶ The term "dollar millionaires" will be used here to describe the definition of high net worth individuals used in Credit Suisse's *Global Wealth Databooks*, dating from 2010-2012, which is those with net wealth greater than \$1 million, with wealth defined as financial assets plus non-financial assets less debts. Non-financial assets include property, land and other physical assets.

Table 3d. Populations of ‘Dollar Millionaires’ in 2011 and 2012 (1000s)

Country	2011	2012	% Change	Share of Population in 2012
Australia	1,079	905	-16%	5.5%
Brazil	319	227	-29%	0.2%
China	1017	964	-5%	0.1%
China HK	89	92	3%	1.6%
France	2,606	2,284	-12%	4.8%
Germany	1,753	1,463	-17%	2.2%
India	204	158	-23%	0.02%
Italy	1,544	1,170	-24%	2.4%
Japan	3,121	3,581	15%	3.4%
Qatar	24	19	-21%	1.5%
Russia	95	97	2%	0.1%
Singapore	183	156	-15%	4.0%
Spain	400	313	-22%	0.8%
Sweden	485	343	-29%	4.7%
Switzerland	40	43	8%	9.3%
UAE	40	43	8%	1.2%
UK	1,647	1170	-29%	3.3%
US	10,061	11,023	10%	4.7%
WORLD	29,674	28,640	-3%	0.6%

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2012 was beset with economic uncertainties, particularly for Eurozone countries, which created a very poor environment for wealth creation. Economic recession in many European countries, combined with widespread equity price declines and relatively subdued housing markets, all led to contractions in the number of millionaires in many European nations. Slowing economic growth, a cooling property market, and export ties to poorly performing Europe also meant that the number of millionaires in Mainland China decreased, despite there being a moderate increase in Hong Kong. Even so, 2012 saw positive growth of 3% in net wealth on aggregate for the Chinese population as a whole, with China and the US being the only regions showing a positive aggregate growth figure during

the year. The US and Japan, although not free from their own share of economic woes, maintained growth, with their millionaire populations rising 10% and 15% respectively.

While the spending of HNWIs has been critical for art markets in many regions, it is worth noting that in emerging markets such as China and Brazil, increasing prices for art and aggregate sales in the market appear to have been driven by a very small portion of these nations’ populations. As seen in Tables 3b and 3d, in markets such as Brazil and China, HNWIs make up less than 0.1% of the national population, while dollar millionaires are less than 0.5%.

IN EMERGING MARKETS, INCREASING PRICES FOR ART AND AGGREGATE SALES HAVE BEEN DRIVEN BY A VERY SMALL PORTION OF THESE NATIONS’ POPULATIONS, WITH HNWIS MAKING UP LESS THAN A 0.1% SHARE.

Table 3e. GDP per capita: Selected Countries

Country	2002	2005	2008	2010	2011	2012	Growth 2002-12	Projected Growth 2012-15
Australia	\$21,422	\$35,635	\$48,819	\$56,098	\$66,371	\$67,983	217.4%	8.9%
Brazil	\$2,867	\$4,787	\$8,704	\$11,089	\$12,789	\$12,340	330.4%	29.0%
China	\$1,132	\$1,726	\$3,404	\$4,423	\$5,417	\$6,094	438.4%	56.4%
China HK	\$24,351	\$25,999	\$30,926	\$31,786	\$34,259	\$35,961	47.7%	35.1%
France	\$24,414	\$35,107	\$45,789	\$40,939	\$44,007	\$40,690	66.7%	9.7%
Germany	\$24,414	\$33,603	\$44,334	\$40,513	\$44,111	\$41,168	68.6%	11.8%
India	\$481	\$729	\$1,090	\$1,370	\$1,514	\$1,592	230.6%	52.6%
Italy	\$21,573	\$30,607	\$38,883	\$34,154	\$36,267	\$32,522	50.8%	5.4%
Japan	\$31,241	\$35,781	\$37,865	\$42,863	\$45,870	\$46,896	50.1%	12.0%
Qatar	\$28,374	\$50,109	\$79,409	\$74,901	\$98,144	\$100,378	253.8%	5.9%
Russia	\$2,380	\$5,348	\$11,704	\$10,408	\$12,993	\$13,765	478.3%	55.1%
Singapore	\$22,028	\$28,498	\$38,087	\$43,865	\$49,271	\$49,936	126.7%	12.5%
Switzerland	\$39,506	\$51,889	\$69,049	\$69,973	\$83,073	\$77,840	97.0%	1.7%
UAE	\$32,791	\$43,989	\$65,992	\$54,411	\$63,626	\$65,377	99.4%	3.0%
UK	\$27,043	\$38,159	\$43,511	\$36,442	\$38,811	\$38,591	42.7%	23.1%
US	\$36,950	\$42,629	\$46,901	\$46,811	\$48,328	\$49,802	34.8%	20.3%

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Table 3e shows the GDP per capita of various art markets around the world. It is clear from the table that the BRIC nations have witnessed some of the fastest growth in average incomes in recent years. Although the gap between them and other mature Western economies remains wide, strong growth in incomes over the next five years alongside a more modest growth in older economies, will narrow this differential. As the populations in the BRIC countries become wealthier, their spending on luxury goods will increase and this will boost the number of art buyers, bringing collecting to a wider section of the population.

The composition of wealth has been in flux in recent years. An individual's wealth is made up of financial and non-financial assets. Ten years ago, at a global level, financial assets accounted for well over half of a typical household portfolio, but the share declined up to 2008, at which point the global wealth portfolio was equally split between financial and non-financial assets (mainly land and property). In the period since 2008 however as many property markets have declined, the balance again tipped slightly towards financial assets. Many emerging economies have a relatively high proportion of their wealth in non-financial holdings (for example 58% of total wealth in Brazil, 84% in India and 53% in India versus 32% in the US).

These non-financial holdings include property, land commodities and other physical assets as well as art.

Art accounted for about 22% of 'investment of passion'¹⁷ for global HNWLs in 2010/2011, up from 20% in the pre-crisis period, and the share was higher among Europeans (at 27%) and highest of all for Latin American millionaires (at 28%). In times of financial crisis and uncertainty, people tend to lean towards simple, familiar and tangible assets and veer more towards home markets. High net worth investors returned cautiously to the financial markets at the end of 2009, and demand for passion investments, which includes art and antiques, began to grow, especially towards the end of 2009 and into 2010. At the height of the financial crisis in 2008/09, it is interesting to note that allocations to art increased to 25%, as art was seen as an asset that would have more tangible and lasting value, and also as being a means of diversifying out of other poorly performing asset classes. In the last two years, with increased volatility in other asset and financial markets, many HNWLs have increasingly approached their luxury purchases as investments, seeking out those items perceived to have tangible long-term value, most notably art and antiques, which have been seen as the most likely of all such assets to hold or gain in value.

¹⁷ An investment of passion is the term used to describe often rare, luxury, collectible items that investors purchase both for consumption and investment purposes and are passionate about owning and enjoying. They include art, antiques, yachts, jewelry, luxury cars, wine, memorabilia and other valuable collectibles. Shares are quoted from the Capgemini / Merrill Lynch World Wealth Reports (various years).

Research conducted in early 2012 revealed that the allocation of HNWIs specifically to these passion assets¹⁸ averaged around 10%, although this proportion varies widely between countries. Individuals in countries with more volatile or less developed financial and stock markets and with high inflation often hold more assets such as art, precious metals and jewellery as they are seen as being more secure than stocks and as a hedge against inflation. The highest allocations to these assets were found in some of the emerging art markets, including the UAE (18%) China (17%) and Brazil (15%), whereas the more established art markets showed lower allocations (with 7% in the UK and 9% in the US).

All of these trends in wealth indicate a strong potential for an increasing number of private art buyers from emerging markets over the next few years as art and antiques are looked upon both as luxury consumption and as solid investment assets. Reflecting the investment interest in emerging markets, the art fund industry has grown strongly in recent years, particularly in Asia. This industry is estimated at well over \$1 billion in 2012, and over one third of art funds are based in China and Asia (see Chapter 4).

3.2 The Cross-Border Trade in Art

Increased wealth per capita and specifically a larger number of HNWIs has lead to proportionally more consumption of luxury goods, which are both bought domestically and overseas. Greater wealth from buoyant economies in some new art markets has therefore not only raised domestic consumption, but also allowed for greater imports.

Research on luxury consumers in China indicates that almost half of the luxury purchases they make are from overseas markets, driven by greater travel by Chinese and less expensive prices (net of tax) for luxury goods in foreign markets.¹⁹ Total imports of all goods into Mainland China increased by more than 490% from 2002 to the end of 2011, while art imports have grown by over 825%. This contrasts with the much more moderate growth in mature economies such as the US, where all imports grew 73%, but art imports advanced by 33%, or in the UK where the growth in total imports and imports of art was 61% and 104% respectively over the same period.


Over the last decade, emerging art markets such as China and Brazil have opened their economies significantly. Nonetheless, while there have been significant moves to liberalise trade, there are some major trade regulations and policies that persist and have hindered the internationalisation

¹⁸ The research referred to was carried out by Ledbury Research in 2012 into the global purchasing and investment habits of 2,000 HNWIs. The term used in this report to describe investments of passion is "treasure assets", which has an equivalent meaning and covers the same broad categories as investments of passion, that is of art, antiques, coins, wine, luxury cars, jewelry and precious metals. This research was published by Barclays in 2012 in the report *Wealth Insights: Profit or Pleasure. Exploring the Motivations behind Treasure Trends*.
¹⁹ Mc Kinsey and Company (2012) *Luxury without Borders: China's New Class of Wealthy Shoppers take on the World*. Mc Kinsey Insights China: Beijing.

Table 3f. The International Trade in Works of Art (€ million)

	Imports	% Change on 2010	Exports	% Change on 2010	Net Exports
Austria	€118.6	-17%	€150.5	61%	€31.9
Belgium and Luxembourg	€109.3	5%	€64.3	2%	-€44.9
Denmark	€30.5	-20%	€34.6	19%	€4.1
France	€498.7	13%	€1,161.3	54%	€662.6
Germany	€446.4	14%	€909.8	22%	€463.4
Greece	€26.5	-79%	€4.7	87%	-€21.9
Ireland	€6.2	-28%	€11.2	108%	€5.0
Italy	€105.8	6%	€206.8	-4%	€101.0
Netherlands	€87.6	-59%	€78.3	13%	-€9.3
Spain	€88.0	64%	€65.6	5%	-€22.4
Sweden	€26.1	74%	€26.1	-2%	€0.0
UK	€4,675.6	40%	€3,876.1	-6%	-€799.5
Other EU	€188.5	348%	€102.7	155%	-€85.8
EU	€6,411.0	28%	€6,704.1	8%	€293.1
US	€4,965.3	2%	€5,059.7	2%	€94.5
Switzerland	€1,245.4	-5%	€966.0	-6%	-€279.4
Norway	€60.4	-14%	€33.3	50%	-€27.1
China	€1,042.1	70%	€588.8	72%	-€453.3
Singapore	€187.3	24%	€141.9	12%	-€45.4
Brazil	€11.9	109%	€40.7	168%	€28.8
UAE	€26.9	-39%	€23.5	87%	-€3.3
India	€45.1	96%	€199.0	15%	€153.9
Russia	€17.7	106%	€1.7	-32%	-€16.0

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of these markets. Brazil (discussed in greater detail in Chapter 5) maintained a highly protectionist approach to trade as part of import-substituting policies that lasted for half a century. These were reduced significantly in the late 1980s and through the 1990s, but little progress has been made since then. China (discussed in Chapter 4) also operated high import tariffs at the start of the 1990s, although certain specially designated economic zones, such as Hong Kong, had already enjoyed a more liberal regime since the late 1970s. Import tariffs on general trade were more than halved in the early 1990s and then reduced further with China's accession to the WTO in 2001, and imports of art saw a further reduction in charges in 2011. The Middle East, on the other hand, has a relatively free trading regime, particularly through the UAE, although trade remains relatively low and is heavily dominated by imports.

Despite the rapid growth in domestic sales in some emerging markets, there is still a very significant difference in the value of trade carried out in the traditional market hubs and in the new large market centres. It is interesting therefore to analyse the different patterns of trade over the last decade in these contrasting markets.

GREATER WEALTH
FROM BUOYANT
ECONOMIES IN
SOME NEW ART
MARKETS HAS
NOT ONLY RAISED
DOMESTIC
CONSUMPTION, BUT
ALSO ALLOWED
FOR GREATER
IMPORTS OF
ART AND OTHER
LUXURY GOODS.

Figure 3c. World Imports of Art 2001-2011 (Billion Euro)



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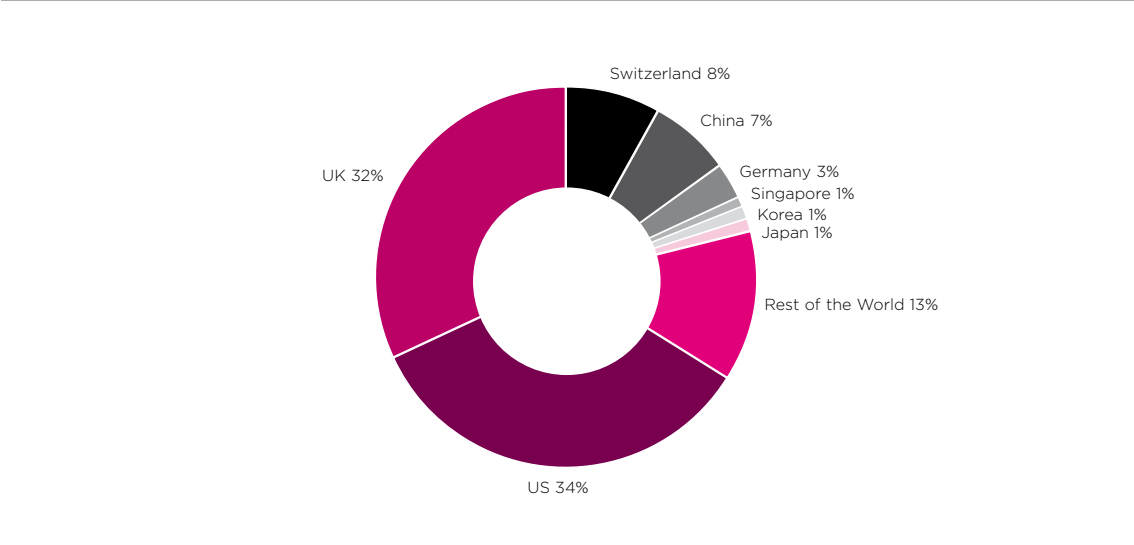
3.3 Imports

World imports of art reached €14.8 billion in 2011²⁰, an increase of 18% year-on-year. This second year of strong growth in imports of art brought their value up nearly 58% from its low point in 2009, although this was still a little below the peak of the market in 2007, when, at the height of the art market boom, imports of art around the world

surpassed €16.2 billion. The two major international trade hubs, New York and London, account for the majority of imports with a combined share of 65% by value. Their large share is due to a significant amount of international buying in these cities. The bulk of imports and exports of art are recorded in these two art centres, even though the final buyers of the imported works may reside elsewhere.

²⁰ Trade statistics come primarily from the United Nations Comtrade Database and Eurostat, and are only made available with a lag of 12 to 18 months in many cases. For consistency and to follow reporting of 2010 data in the previous TEFAF report in 2012, 2011 is analysed as the latest full year with a complete set of trade data.

Figure 3d. Share of the Value of Global Imports in 2011, by Country



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3.4 Exports

World exports have shown a similar path of growth, rising to €14.4 billion in 2011²¹, an 8% increase year-on-year and up 32% from the contraction of 2009. The UK and US together account for the majority of the value of exports of art and antiques (62%), again underlining the importance of London and New York as entrepôt markets in the art trade, with works of art as often as likely to be bought by

European, Asian or Latin American buyers in New York, for example, as they are by US collectors. The success of London and New York as art centres is therefore not only driven by demand for imports (which is fuelled in part by national wealth), but also by the success of these markets in enabling a sufficient concentration of works to be assembled for sale at any one time to attract collectors from around the world. While the internet has reduced

²¹ It is worth noting that imports of art exceeded exports of art by almost €435 million in 2011, which would imply that the world is running a trade deficit with itself, which is not possible as all transactions should involve an equal credit or debit in the accounts of each transacting nation. What this does highlight is some of the problems that arise in collecting and recording trade data, particularly for the art market. The persistent difference in outflows and inflows of art is most likely due to a large part by inconsistencies and inaccuracies and under-reporting and undeclared movements in art in some national records as well as the impact of freeports.

the need for geographical centres in other industries (with the processes of information sharing and matching parties to a transaction carried out successfully online), the importance of exhibitions, fairs, major auctions and an infrastructure of experts has maintained the importance of physical central locations for the art trade.

One of the most noticeable features of the art trade in the last ten years is how little major trends such

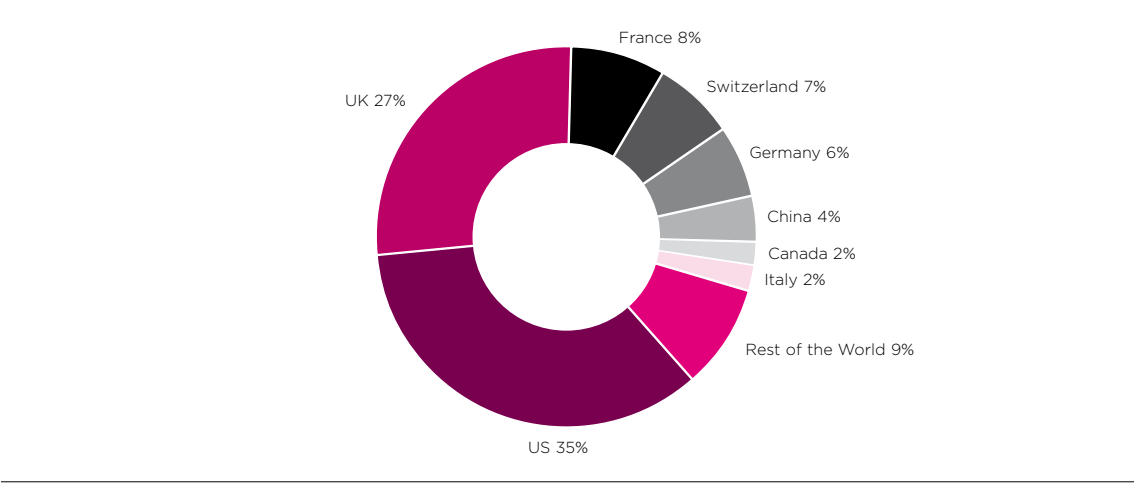
as globalisation and the increasing importance of online sales has actually affected the status of these key market hubs. The US and UK averaged a share of 64% of the value of exports (and 66% of imports) over the decade from 2001 to 2011. While China's share in world trade has risen substantially over the period (from 1% to 4% for exports and 1% to 7% for imports), it is still nowhere near the size of the trade in mature international hubs, despite the greatly advanced size of its domestic market.

Figure 3e. World Exports of Art 2001-2011 (Billion Euro)



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Figure 3f. Share of the Value of Global Exports in 2011, by Country



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DESPITE THE TREND TOWARDS GLOBALISATION, THE US AND UK HAVE AVERAGED A SHARE OF 64% OF THE VALUE OF EXPORTS AND 66% OF IMPORTS OVER THE DECADE FROM 2001 TO 2011.

3.5 The US

The US was the largest importer and exporter of art worldwide in 2011, with exports of €5.1 billion just exceeding imports of €5.0 billion. The US has maintained a trade surplus in art since 2008 and this was at its highest in 2009, when imports contracted significantly by 29% (in Euro terms) while exports only fell by 15%, both affected by recessionary conditions and an unfavourable exchange rate with European markets. Since then however, imports have been increasing each year, and they advanced 6% year-on-year in 2011, while exports also returned to positive growth, increasing 5% in value in 2011.

The main sources for imports to the US in 2011 were countries in Europe, with 62% of the value of imports of art coming from France, the UK, Germany and Italy. France and the UK were the most important in value terms with shares of 27% and 20% respectively, while outside the EU the other important markets included Switzerland and China each with a 5% share of imports.

For exports, the EU markets again dominated as important destinations for art from the US, although Switzerland maintained an equal share with the UK, each with 27% of the value of exports. France was the third most important market with 9% and China had an 8% share.

3.6 The EU

The EU was a net exporter of art in 2011, with a trade surplus of €293.1 million. Imports to the EU totalled €6.4 billion, their highest level in the last ten years after two years of strong advances, increasing 28% year-on-year and up 88% by value from the slump of 2009, when they fell to €3.4 billion. It is also the second year of growth for exports of art from the EU, which grew more moderately year-on-year, increasing 8% to €6.7 billion. The EU held a 43% share of world imports in 2011 (up from 39% in 2010) and 46% of exports (from 45% in 2010).

The UK remains the largest trader of art in the EU with a 58% share of the value of exports and 73% of imports. The UK ran a trade surplus in art up to 2010, but in 2011, imports of €4.7 billion exceeded exports of €3.9 billion, which could indicate that domestic demand outweighed sales in the UK market requiring net imports. It is important to note however that import demand in entrepôt markets such as the UK is not fuelled primarily by national demand but by the existence of the market itself, with the art brought into the UK often just as likely to be bought by buyers outside the UK as British collectors. This change in the trade balance was due to a substantial increase in imports of 46% over the year and was the second year of growth in imports, with values increasing over 125% since 2009 and to their highest total level in over 20 years. The imports

came largely from other major Western art markets, including the US (39%) and Switzerland (19%), while France, Italy and Germany had a combined share of 19%. Exports, on the other hand, contracted slightly in Euro terms (by 2%), although they were still up 62% by value from the bottom of the market in 2009. Exports of art from the UK were largely destined for other larger markets outside the EU, including the US (48%), Switzerland (25%) and China (8%).

France is the second largest trader of art works in the EU with 17% share of exports and 8% of imports in 2011. After two years of contractions exports increased 60% in 2011 to their highest level in the last decade, while imports increased by 17% (in Euro terms). Exports at €1.2 billion more than doubled imports of art (at €499 million) and the bulk of these were destined for Switzerland (44%), as well as the other large markets of the US (23%) and China (11%). Imports were also mainly from

US (46%) as well as Switzerland (16%) and the UK (6%).

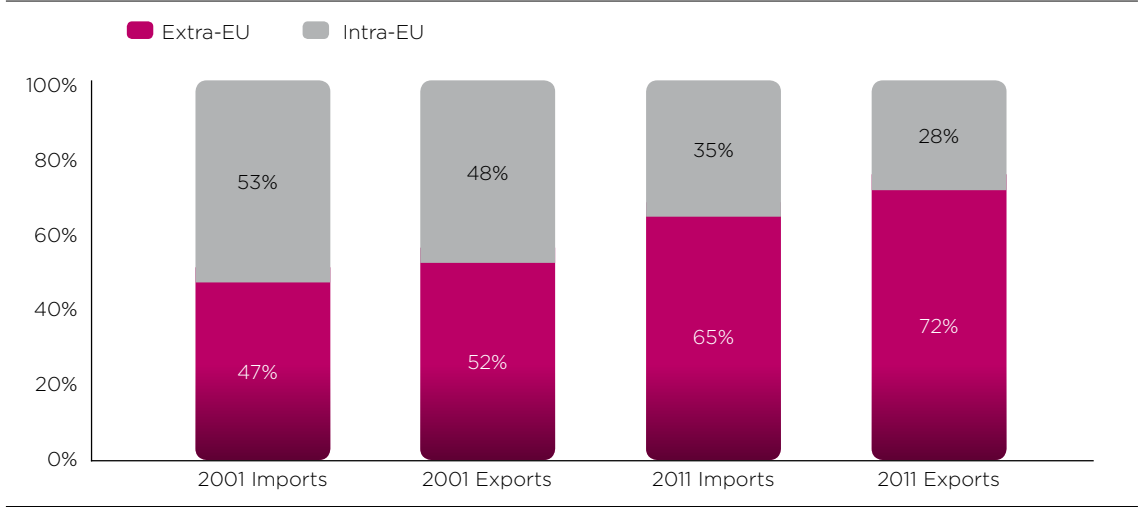
Germany also has a significant share of 14% of EU exports and 7% of imports. It too experienced significant growth over 2011, with exports increasing 27% and imports up 18%.

For all of the larger art markets in the EU, extra-EU imports and exports of art now exceed intra-EU art trade. This is due to the large amount of trade with the US and to some extent in recent years, China and other emerging markets. As shown in Figure 3g, the average trend towards greater trade outside the EU has been increasing over the last ten years, which implies that, while the EU Single Market has increased trade in many goods and services, it has not enhanced the trade in art within the EU, which still predominantly centres on the UK and to some extent France and Germany.

THE US WAS THE LARGEST TRADER OF ART WORLDWIDE, WITH EXPORTS OF €5.1 BILLION AND IMPORTS OF €5.0 BILLION, AND HAS MAINTAINED A TRADE SURPLUS SINCE 2008.



Figure 3g. Average Intra-EU and Extra-EU Imports and Exports of Works of Art



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3.7 Switzerland

Switzerland was the third largest exporter and fourth largest importer of art in 2011, and ran a trade deficit for art, as it has done for the last five years, with imports of €1.2 billion exceeding exports of €966 million. After a strong year of growth in 2010, the Swiss cross-border trade was virtually stagnant in value over 2011, with imports falling just 1% and exports by 2%. Recorded trade flows were mainly to and from the major art markets in the US and

Europe. However in 2011 there was also significant trade with the Bahamas (accounting for 12% of the value of exports and 8% of imports).

Switzerland remains an important international centre for customs freeports for art, with major facilities in Chiasso, Zurich, Basel and Geneva. Despite the development of other centres in Singapore and more recently those planned in Beijing and Luxembourg, Geneva is still estimated

to store the most museum-quality art globally (with unconfirmed estimates of up to €10 billion worth of art housed at the city's facilities), and new facilities adding a further 130,000 square feet to the existing 435,000 square foot facilities will open there in 2013.

Goods in storage are exempt from VAT and duties and can remain in the freeport, qualifying for the tax-free status for an indefinite period, which has made it an attractive option for some art funds with longer-term strategies, or for collectors wishing to avoid selling at low points in market. Transactions can also be carried out at the freeport without incurring taxes, although duties are usually due when works are finally removed and imported into their final destination country. Only those works that 'cross the border' into Switzerland (that is, clear customs and are formally imported) are recorded as imports (and exports). Consequently if a work is held in storage at a freeport and then consigned elsewhere, it may not show up in the trade statistics, and could therefore lead to an underestimation of the amount of flows of art occurring through Switzerland. This may also account for some of the mismatched mirror statistics for art, if for example a work of art is sent to a freeport having been registered as an export, but then while in storage, is not recorded anywhere as an import. This same

work may then show up at another point in time as an import, when it is sold on or transferred from the freeport, without a matching export flow recorded that year.

3.8 Emerging Art Markets

As stated above, although trade via the emerging art markets has been steadily increasing over the last 20 years, it is still much smaller than the value of trade through more established art centres.

Among the newer art markets, China is the largest in terms of imports and exports. Despite its predominantly domestic focus, in 2011 China was a net importer of art with imports of just over €1.0 billion exceeding exports of €589 million. Much of the trade in art from China has been flows from Hong Kong, although in 2011, Mainland China exported nearly 46% of the total by value, even though it accounted for only 3% of imports. Both imports and exports increased strongly year-on-year, growing 70% and 72% respectively in value.²²

Russia and the UAE were also net importers in 2011, reflecting their importance in the global art market as a source of wealthy buyers, rather than as sellers of art. Both markets have low values of trade, although the UAE is the more substantial of the two with €27 million in exports and €24 million in

²² The art trade in China is discussed in greater detail in Chapter 4.

imports. Imports to the UAE fell for a second year, contracting nearly 70% from their high of over €85 million in 2009, whereas exports doubled in value year-on-year, reaching their highest ever recorded level. In Russia, exports have been below €7 million for the last ten years, and imports are also generally low in value, apart from a few exceptional years when a small number of imports may have increased the value of trade, for example in 2009 when they reached just over €69 million before dropping back down to €8 million the following year.

Brazil and India on the other hand both run a trade surplus for art. Exports in Brazil in 2011 were nearly four times the size of imports, and they have substantially outweighed imports in the last three years. Both imports and exports grew over 100% year-on-year reaching €12 million and €41 million respectively.²³ Indian exports grew 20% year-on-year to their highest ever recorded total of €199 million, an increase of over 55 times their size in ten years. Imports doubled in size over the year to €45 million and again, although small in size, this represents very substantial growth from a base of less than €1 million in 2001.

AMONG THE NEWER ART MARKETS, CHINA IS THE LARGEST IN TERMS OF IMPORTS AND EXPORTS, AND WAS A NET IMPORTER OF ART IN 2011.

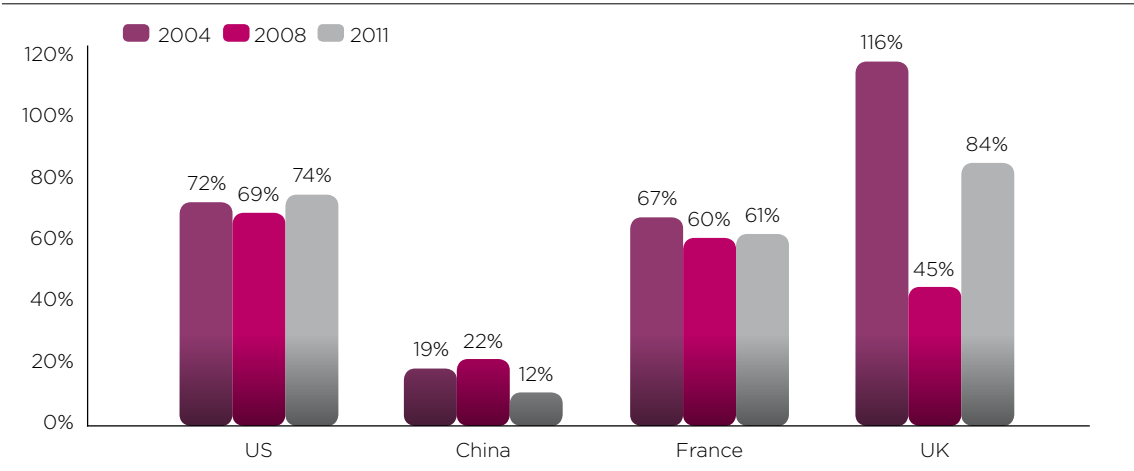
²³ The art trade in Brazil is discussed in more detail in Chapter 5.

3.9 Openness to Trade

Wealth, openness to trade, and the existence of market and cultural infrastructures continue to be dominant forces shaping the art trade. With regard to openness, a trade dependence or ‘openness’ ratio can be used to measure the importance of international trade to an economy, with a high value indicating a more open economy, and a low value often associated with greater regulations and trade restrictions.²⁴ Applied to the art market, the ratio serves as an indicator of the importance of

local versus foreign trade and particularly how the openness of a market changes over time. Figure 3h shows the openness of the major Western art economies in comparison to China, and how in China, as the domestic market advanced in 2011, trade did not keep pace, with the ratio dropping more than 10%, again indicating the domestic nature of this economy. In 2004, trade flows exceeded domestic sales in the UK, underscoring its importance as a European trade hub. As the market boomed in 2008 this ratio reversed

Figure 3h. Trade Dependence Ratios for Key Art Markets: 2004, 2008 and 2011



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²⁴ Trade dependence is measured in general trade analysis by estimating the value of total trade (imports plus exports) as a percentage of GDP and is used as a proxy for openness to trade. The openness of an economy is determined by a variety of factors such as trade restrictions, foreign exchange regimes, and the size and structure of national economies and the share of trade transactions in a country's GDP is a result of all these factors in combination.

significantly as domestic buying dominated, and the market remained, like the US, a very open art economy in 2011, with international buying and selling a key part of national trade.

3.10 Conclusions

Despite one of the worst global financial crises in history, both the general level of wealth and the numbers of HNWIs and millionaires has increased substantially over the last decade. Emerging markets have been critical in increasing wealth, and expectations are that they will continue to catch up with developed economies, increasing the importance of both middle-wealth segments of the population and the number of millionaires. Statistical projections carried out by Credit Suisse estimate that within the next five years, while the US will retain its supremacy as the largest centre of wealth worldwide by a considerable margin, China will overtake Japan as the second wealthiest country, and European centres of wealth such as France and Germany will fall further behind.

The values of imports and exports show that the important drivers of trade between art markets globally continue to be import demand (driven by the wealth of the trading partners, with richer nations spending more on luxury goods and importing more), and export supply, the stock of art to export, which is a function of past and present

wealth as well as the country's cultural history and openness to trade.

Trade statistics also show clearly the importance of London and New York as global *entrepôts*. Although *entrepôt* trade is not unique to the art trade, these centres often dominate where there is an important role for bringing together often geographically diverse buyers and sellers, along with gathering, sorting and filtering the information required to transact. While in some industries, this is done effectively through virtual exchanges, the importance of expertise, establishing and sorting quality and valuations, and the opacity of the art market in general has brought about a greater requirement for intermediaries. London and New York have developed an infrastructure of skills and expertise and have maintained a relatively trade-enhancing fiscal environment, which has allowed them to develop into key centres of the art trade. The markets established in these cities have maintained their high levels of trade, by enabling a critical mass of the most sought after works to be assembled together at one time to attract global buyers and sellers.

CHAPTER 4

THE ART MARKET IN CHINA



THE ART MARKET IN CHINA

Key Findings

- Over the last five years the art market in China has been the strongest growing in the world, and the most important of the emerging markets, both in terms of the size of its domestic sales and the international significance of its buyers.
- After two years of phenomenal growth, the art market in China began to decelerate for the first time in three years, with aggregate sales values dropping by 24% to €10.6 billion, reverting to second place behind the US in terms of global market share.
- The main reasons for the deceleration in growth were both demand factors (including a slow down in economic growth and continuing liquidity constraints), and a reduced amount of high quality, high priced works coming on to the market. Many art funds and other speculative investors also reduced their participation in the market during the year.
- Auctions have been the main engine of growth and heavily dominate the market, accounting for close to 70% of sales. From 2009 to 2011, sales values in the sector increased by over 350%, but declined 30% to €6.9 billion in 2012.
- The number of transactions at auction also contracted in 2012, falling 16% year-on-year, and buy-ins remained very high at 53% on aggregate.
- Fine art dominated the auction market in China in 2012, with 57% of the value of transactions and 54% of their volume.
- The largest sector of the auction market in 2012 was Chinese painting and calligraphy, with 48% of the market by value and 50% of all lots sold. Ceramics and other decorative arts made up 27% by value in 2012 and 26% by volume.
- There are over 42,000 art, antiques and collectibles business in the retail part of the art market in China, including approximately 6,000 established galleries exclusively selling art and antiques.
- In 2011, China ran a trade deficit in art as it has since 2000, with imports of just over €1 billion exceeding exports of €589 million, reflecting its importance worldwide as a buyer of art. Imports increased 70% year-on-year and have advanced over 500% in the ten years to 2011, making China the fourth largest importer of art worldwide.

4.1 Introduction

In the last five years the art market in China has been the strongest growing in the world, and it is now the most important of the emerging markets, both in terms of the size of its domestic sales and the international significance of its buyers.

Unlike some of the smaller emerging markets, whose principle significance to the global market has been through their growing bases of wealthy buyers, the development of the art market in China has been driven by the two solid fundamentals of supply and demand. China has a long cultural history and tradition of collecting. Its art trade, as it now exists, started in the 1990s after the economy was opened up, and there began to be a sufficient degree of wealth accumulation among the population. The Chinese economy has been growing at an average rate of 10% per year since its free market reforms at the end of the 1970s, and per capita income has grown at an average annual rate of more than 17% over the last three decades. China has also seen a rapid expansion in its population of HNWIs and currently has the world's fourth largest share of these individuals. Although China's economy slowed in 2012, with another year of tightening monetary policy and liquidity constraints, it is still one of the fastest-growing economies in the world, with GDP growth three times the global average.

These economic dynamics, combined with a rich cultural heritage of art and antiques, has produced a huge domestic market, which has changed the structure of the global art market as a whole, ending the virtual duopoly held by London and New York for the past 50 years.

4.2 Background and Context

China began to open its economy in 1978, with a multi-stage reform plan designed to introduce capitalist principles in several phases, gradually moving from a planned economy to a socialist market system. The art market followed these reforms, albeit with somewhat of a lag. From 1949, when the Communist Party defeated the Nationalists, until the death of Chairman Mao in 1976, it was illegal to own, inherit or exchange works of art. During the Cultural Revolution, the arts generally were state controlled. While art was produced, many artists whose work was deemed to be bourgeois or anti-socialist were prevented from working. China was then temporarily opened up to the world under the reforms instituted by Deng Xiaoping in the 1980s, but there were no functioning auction houses in China and no domestic demand for art or antiques, with any outlets for art under strict state-ownership. It was not until the mid-1990s that the art market gradually began to emerge primarily in Hong Kong, but also in some Mainland cities.

Auction houses were banned from operating during China's 30-year planned economy, but the issuance of the *Circular on the Public Auctioning of Disposed Public Property* in 1992 and the *Auction Law* in 1996, allowed the first houses to begin initial operations. Some of the earliest auction houses included China Guardian (established in 1993), Sungari International Auction (also founded in Beijing in 1993), and Hanhai and Rongbao in 1994. Poly International, the state-owned auction company, was also established later in 2005.

Although China opened up to foreign competition in 2001 as a member of the WTO, there are still restrictions on competition, and foreign auction houses were excluded from setting up in Mainland China until very recently because of these and other difficulties (including trade restrictions and currency issues). Hong Kong was therefore the choice for most foreign companies accessing the Chinese art market. Sales of art in Hong Kong have been occurring since the early 1970s, with Sotheby's first art sale there in 1973. Christie's established in Hong Kong in 1986, and Bonham's more than 20 years later in 2007.

One of the first moves into Mainland China by a Western auction house was undertaken by Christie's, which allied with the Beijing auction

house Forever International Auction Company Limited (Forever) in 2005. Rather than setting up a physical presence, Christie's licensed its name to Forever for its auction events in return for a fee, but with no stake in the venture. French auction house Artcurial launched Artcurial China, a joint venture with Bruno Wu, founder of Sun Media, one of China's leading private media groups and conducted its first auction in Shanghai of Modern and Contemporary Art in 2008. In 2012, Sotheby's signed a ten-year agreement with the state-owned Beijing Gehua Art Company to form a new joint venture which will be 80% owned by Sotheby's. Partnering with a domestic firm enables Sotheby's to sell in the Mainland and will give them exclusive rights to auctions in the new Beijing Freeport that is currently under construction. The agreement therefore means the firm can now operate in Beijing even though Chinese law prevents foreign houses from selling antique Chinese painting, ceramics or other cultural relics in Mainland China.

Within China, auction houses have dominated the art market to date in terms of sales. Over the mid to late 1990s, a number of galleries opened in Beijing, Shanghai, and other large cities and major galleries in London, New York and Paris started showing Chinese Contemporary art.

IN 2012, THE
MARKET BEGAN TO
DECELERATE FOR
THE FIRST TIME IN
THREE YEARS, WITH
SALES VALUES
DROPPING BY 24%
AND FEWER HIGHER
PRICES.

Since 2000, the number of domestic galleries has been steadily increasing with an estimated growth rate of around 10% per year. Within Mainland China, Beijing has developed as the most important cultural and commercial centre for the art trade, particularly in areas such as Dashanzi and more recently Cao Chang Di. Although smaller in scale, Shanghai has also become an important hub for art galleries and art fairs. Outside Mainland China, Hong Kong has always been a major centre for dealers in both fine and decorative art and antiques. Due to restrictions on trade in antiques from China, Hong Kong has become the primary market for the Chinese antiques trade, as it has an extensive international network.

The market for Chinese art was historically based mainly on the decorative arts, ink painting and calligraphy. However the Contemporary Chinese market has gained much international attention. Although it is one of the smallest sectors in the Chinese market in terms of the aggregate value of sales, its growth from 2004 to its peak in 2007 within China was remarkable, with the auction market alone increasing to 20 times its size in just three years. The value of sales of the work by Chinese artists outside China also grew strongly in this period, increasing over 1,500% from 2005 to 2007, being bought by both Chinese and global collectors and by investors.

One of the earliest signs of the emergence of the Contemporary scene was the "Stars Group" which included now popular artists such as Ai Weiwei and Huang Rui, who held their first private art exhibition in a public park adjacent to the China National Art Museum without official permission in September 1979. The exhibition was shut down and banned after two days, and this was to become routine practice for similar groups' activities, alongside the public condemnation of many artists. This initial exhibition was seen as significant, however, as it sparked an artists' demonstration campaigning for democracy and art freedom, which gained significant global media attention. Having gained approval, the Group held a highly successful exhibition in 1980 at the National Art Museum, with an estimated 80,000 visitors in just over two weeks, and had a retrospective in 2007 at the Today Art Museum.

In 1985, the government relaxed some of the laws on cultural censorship, which stimulated the primary market, leading to new developments such as the so-called "85 New Wave", an avant-garde movement that lasted from 1985 to 1989, with a large number of important artists emerging including Zhang Xiaogang, Zeng Fanzhi, and others who today command among the highest prices. However, coinciding with the Tiananmen Square protests of 1989, the government enforced

an "anti-bourgeois liberalization" campaign, and Contemporary art activities were to a large extent driven under ground. "The New Generation" artists began to emerge in the early 1990s, and around that time several Chinese artists gained recognition in international Contemporary sales in both the auction and dealer sectors. Chinese artists have also featured in major exhibitions and Biennales in most of the leading art markets around the world. Although Chinese art has played a role in Western museums' collections for generations, major institutions such as the Guggenheim and New York's MOMA have recently started to include Chinese Contemporary art in their programmes.

Although there are still restrictions in place within China on the exhibition and content of Contemporary works of art (including censorship of foreign art exhibitions), the attitude of the Chinese authorities has become more accommodating towards the market in recent years. Because of the slower development of the gallery sector, auctions dominated the market in 2012, and the secondary market is much larger and more actively traded than the primary market. This is gradually changing each year, with more galleries emerging and young Chinese collectors showing preferences for Contemporary artists.

4.3 Art Market Sales

After two years of phenomenal growth, the art market in China finally cooled over 2012, with sales in both Mainland China and Hong Kong down significantly on 2011 values. In 2012, the market began to decelerate for the first time in three years, with aggregate sales values dropping by 24% and fewer higher prices. The market still achieved a substantial €10.6 billion in sales by auctions, dealers and artists but slipped again to second place behind the US in terms of global market share.

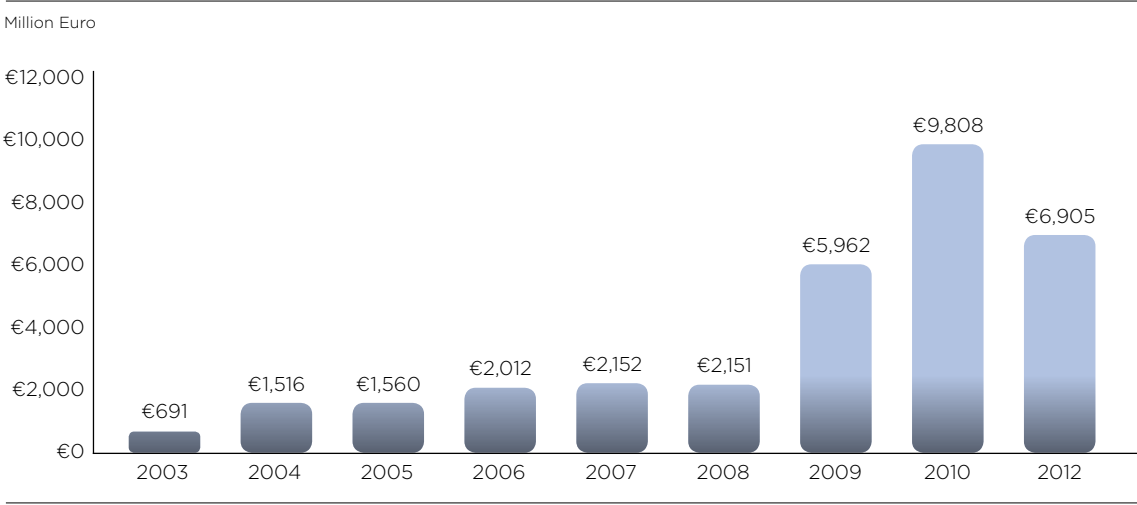
The main reasons for the deceleration in growth were both demand factors (including a slow down in economic growth in China and continuing liquidity constraints), and a reduced amount of high quality, high priced works coming on to the market. Many art funds also reduced their participation in the market during the year, with some of the short-term funds started in 2008 and 2009 reaching maturity. Experts in the trade report that, without the presence of art funds and other more speculative investors, which were a strong feature in the market in 2010 and 2011, buying generally was somewhat more lacklustre, particularly in the dominant auction sector.

Notwithstanding its decline in 2012, the Chinese art and antiques auction market has been the strongest growing market worldwide by far over the last five years. Auction sales have been the main engine of growth and heavily dominate the market, accounting for close to 70% of sales in most recent years. From 2009 to 2011, sales values in the sector increased by over 350%, driven both by an increasing volume of works appearing on the market and record prices at auction. Until 2009, there had been no more than four works sold in any given year at auction for greater than 100 million RMB (around €12 million), whereas in 2010 there were 17, and 23 in 2011.

In 2012 however, auction values declined 30% in Euro terms to €6.9 billion as both Mainland and Hong Kong houses experienced a slow-down in sales. The number of highest value lots (over €12 million) dropped to just five and the number of works priced at greater than 50 million RMB (€6 million) declined from 75 in 2011 to 20 lots in 2012.

The major houses of the Mainland posted declining sales in 2012, with China Guardian reporting sales of 5.2 billion RMB (€625 million), down 54% on

Figure 4a. Chinese Auction Sales 2004 to 2012 (Million Euro)



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2011. Poly International led the auction market with 6.1 billion RMB (€732 million) in sales, but this was also down nearly 50% in RMB terms on 2011. These two auction houses make up a 20% share of the Chinese auction market, with Sotheby's and Christie's together accounting for close to 15%. Both Sotheby's and Christie's results in Hong Kong were down on 2011, with Sotheby's total auction sales down just over 60% in HKD terms and Christie's down 39%.

The number of transactions at auction also contracted in 2012, falling 16% year-on-year, having increased by over 140% from 2008 to their peak in 2011. However even with the decline, they still remain nearly two and a half times greater than they were in 2004.



Figure 4b. Volume of Auction Transactions in China 2004 to 2012



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Figure 4b shows both the lots offered for sale and those actually sold at auction from 2004 to 2012. It is evident that the lots on offer grew at an even faster rate than those sold, with the problem of buy-ins increasing over time.

In 2004, just over one third of the lots offered at auction were bought-in, whereas in 2012, the rate of buy-ins was 53%, up from 52% in 2011. Buy-in rates are higher in Mainland China than in Hong

Kong but in both regions there has been an increase of 12% since 2005. This is an unusual trend in a booming market, as buy-ins generally fall as the demand expands, and it could indicate a lack of high quality works coming on to the market or simply that there are not enough buyers to support the volume of sales. Some representatives of the art trade in China have also noted that in some auctions excessive prices have led to an increase in the number of copies or fake works being brought

to the market. Many commented however that the works on sale in 2012 were simply not all of the highest quality, which resulted in a high proportion of unsold lots. Many buyers were reported to be holding on to their best pieces, causing a supply induced downturn as seen in other markets worldwide in 2009.

Table 4a. Buy-In Rates at Auction 2004 to 2012

Year	China	Mainland China	Hong Kong
2005	41%	42%	31%
2006	51%	52%	31%
2007	41%	42%	30%
2008	49%	47%	35%
2009	41%	40%	35%
2010	47%	42%	41%
2011	52%	50%	40%
2012	53%	54%	43%

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Sectors of Art Auctions in China

Fine art dominated the auction market in China in 2012, with 57% of the value of transactions and 54% of their volume. The share of fine art is down considerably on the two boom years of 2010 and 2011, when highly priced traditional Chinese ink paintings, among others, kept the share of fine

art at 68% (and about 58% of the volume of lots sold).

The largest sector of the auction market in 2012 was Chinese painting and calligraphy, with 48% of the market by value and 50% of all lots sold. This sector peaked in 2011 with sales at auction of just over €5.9 billion, an increase of over 470% since 2005. However it was one of the most susceptible to the down turn of the market and contracted by 41% in 2012 (to €3.5 billion), with significantly less top lots sold, while the total number of lots sold in the sector also dropped 22%.

Ceramics and other decorative arts also made up a substantial 27% of the market by value in 2012 and 26% by volume. This sector was the fastest growing until its peak in 2011 of €2.3 billion (an increase of just over 700% on 2005 values), but it then dropped 15% by value (to just under €2.0 billion) and 5% by volume year-on-year.

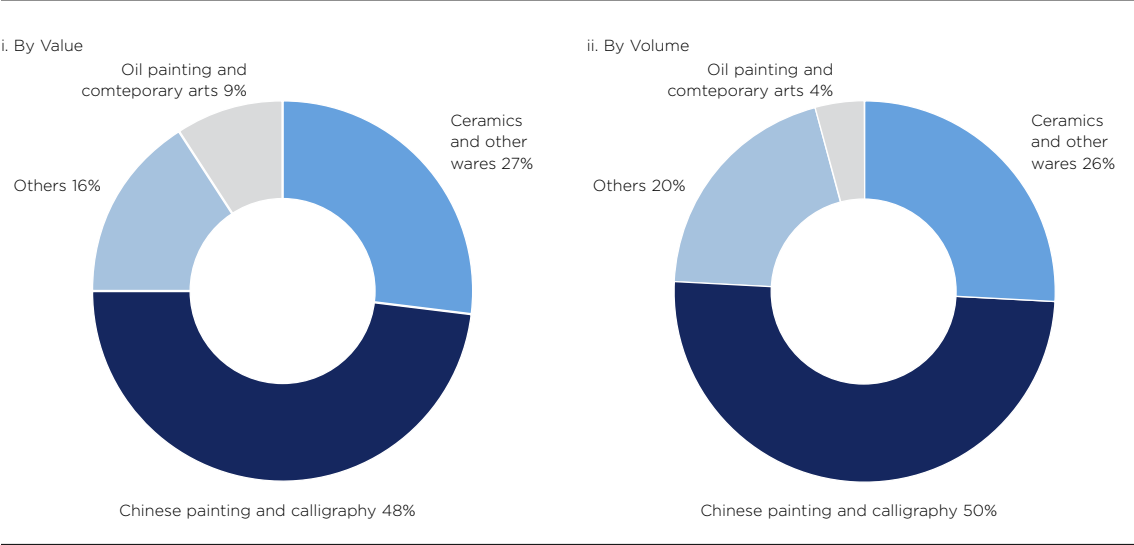
Oil painting and Contemporary art remains the smallest sector, peaking in 2011 at €833 million, before falling more than 25% year-on-year (to €627 million), while transactions fell in number by 13%. This sector witnessed very rapid growth in the market up to 2007, reaching a peak of €553 million, up from only €24 million in 2004, a rise of over 2,200%. The market then contracted for two years

losing 56% of its value by 2009, before resuming growth in 2010.

Chinese painting and calligraphy has been the most important sector in the market for the last eight years, although its share peaked by value in 2005 (at 67%), then fell to around 35% in 2007 and 2008, the years of a booming Chinese Contemporary market. Chinese Contemporary art reached a share of 28%

by value in 2007, however this had fallen to 11% by 2009 as many of the more speculative investors left the market, and it has since dropped to just 9%. The 'others' segment, which includes some jewellery and other luxury collectibles sold in art auctions in China, had its highest share in 2012, doubling from 4% to 8% from 2004 to 2011, and then doubling again in one year in 2012.

Figure 4c. Market Share by Sector of the Art Auction Market



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Table 4b. Average Prices by Sector, Chinese Auction Sales

	2004	2006	2008	2009	2010	2011	2012
TOTAL MARKET	€6,940	€14,235	€17,448	€15,393	€30,121	€34,420	€29,975
Ceramics and other Wares	€9,529	€22,898	€18,857	€19,484	€32,421	€34,599	€30,871
Chinese Painting and Calligraphy	€7,095	€9,987	€12,784	€15,308	€32,240	€38,057	€28,805
Oil Painting and Contemporary	€23,580	€30,554	€47,809	€39,151	€79,136	€83,259	€72,049

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Table 4c. Market Share of Chinese Auction Sales by Price Bracket

RMB Euro (2013 Values)	Over 50m Over €6m	10m-50m €1.2m-€6m	1m-10m €120,000-€1m	Less than 1m Less than €120,000
2005	0.00%	0.1%	2.0%	98.0%
2006	0.01%	0.1%	2.0%	97.9%
2007	0.01%	0.1%	2.5%	97.4%
2008	0.01%	0.1%	2.3%	97.5%
2009	0.01%	0.1%	2.1%	97.7%
2010	0.03%	0.3%	3.4%	96.3%
2011	0.03%	0.4%	4.7%	95.0%
2012	0.01%	0.1%	3.2%	96.7%

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It is interesting to note that despite its small size, the highest average prices in the market were in the Contemporary sector in 2012. This was influenced in part by a small number of very highly priced works sold during the year, such as two works by prominent 20th Century artist Li Keran, who sold the highest priced work during the year, *Mountains in Red*, for €35 million at Poly International along with *Shaoshan-Revolutionary Sacred Place of Chairman Mao's Former Residence* which made just under €15 million at China Guardian. Li Keran was also the third highest selling artist over all with a 4% share of the fine art auction market in China. The highest selling artist was Qi Baishi, who accounted for a 6% share of the market's sales of fine art (down from 9% in 2010 and 2011), and who also had a work in the top ten highest priced lots in China (*Ode to the Mother Country* which sold at Poly for just under €10 million).

It is interesting to note that, unlike auctions in the West where fine art lots dominate the high end of the market, the second highest priced individual lot sold at auction in 2012 in China was for a collection of ancient Tibetan books, sold for €26 million at Beijing Council, and in third place a Ru Guanyao Lobed Brush Washer from the Northern Song

Dynasty which sold at Sotheby's Hong Kong for just over €20 million.

While the top lots at auction have had much media attention, the market is dominated by a high volume of sales at the lower priced end of the market. Table 4c shows the share of the number of transactions of fine and decorative art and antiques at auction by price level, with a consistently higher share in the lower end of the market (below €120,000). Considering the fine art auction market only, as noted in Chapter 2, 85% of works sold are for less than €50,000 although these only make up 19% of the value of the fine art auction market. Fine art works priced at less than €3,000 make up only 1% of the value of the market but account for 24% of lots sold.

4.4 Art Market Structure

The art market in China is divided into three main channels for sales:

- The auction sector, which has accounted for in the region of 70% of sales in most recent years.
- The gallery and private dealer sector (accounting for about 28%).
- Sales by artists (2%).

Auction Houses

In 2012, there were about 400 auction houses selling art and antiques in China, with 309 of those licenced from the Chinese Minister of Cultural Heritage. The numbers have increased substantially in recent years, from just 108 in 2005.

According to figures released by the Auctioneers Association of China, the top 44 auction houses in China in 2012 account for over 70% of the market's sales, employing close to 1,660 people (or an average of 38 people each).

An analysis of auction data shows that, including both fine and decorative art and antiques, the top five auction houses in China accounted for 35% by value of all auction sales, whereas for fine art only, the share is higher at 49%.²⁵

Beijing and Hong Kong have consolidated their positions not only in the Chinese market, but also in the global market as the centres for auction sales of Asian and Chinese art. In the fine art market for example, in 2007, around one third of the value of works by Chinese artists was sold outside China in centres such as London, Paris and New York. In 2012 this dropped to just 7%, with 93% of the value of works by Chinese artists sold within China (and 91% of the volume).

Although Hong Kong was once the key centre of the art trade in China, Beijing has now taken precedence, and in every year since 2009, Mainland China has had a share of over 80% of the value of sales. In 2012, Hong Kong gained some ground, increasing its share by 5% to 17%, and the number of transactions from 7% to 11% as the biggest houses in Mainland China posted significant losses.

Table 4d. Market Share by Value of Auction Houses in China in 2012

Auction House	Share of Sales
Poly International	11%
China Guardian	9%
HK Christie's	8%
HK Sotheby's	7%
Beijing Council	4%
Beijing Hanhai	3%
Poly auction in Guangdong	3%
Xinlingyinshe	3%
Duoyunxuan	2%
Beijing jiuge international Auction	2%
Others	49%

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Table 4e. Share of Value and Volume of Sales of Works by Chinese Artists

Year	Value in China	Value Outside China	Volume in China	Volume Outside China
2007	68%	32%	74%	26%
2008	74%	26%	68%	32%
2009	89%	11%	90%	10%
2010	95%	5%	92%	8%
2011	91%	9%	88%	12%
2012	93%	7%	91%	9%

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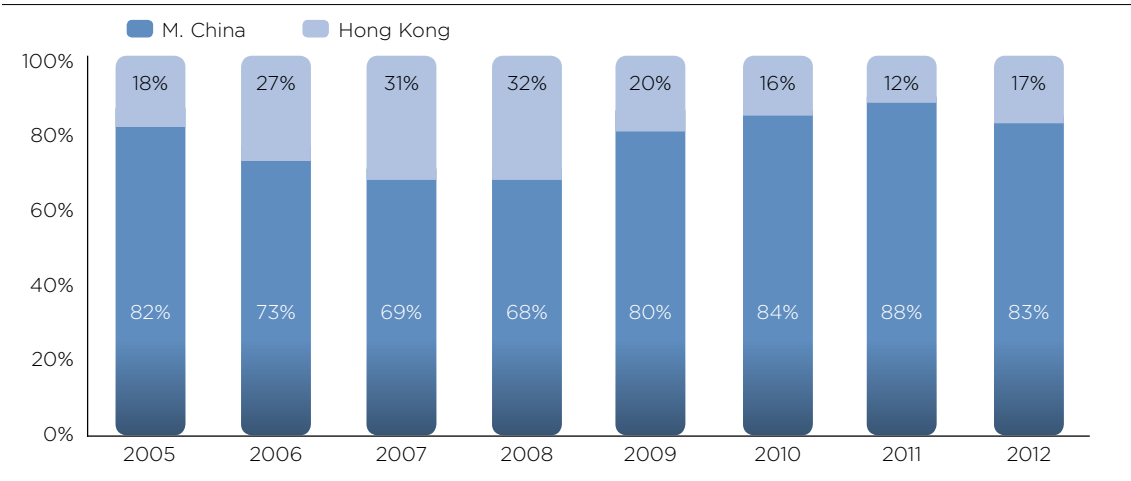
BEIJING AND HONG KONG HAVE CONSOLIDATED THEIR POSITIONS IN THE GLOBAL MARKET AS THE CENTRES FOR AUCTION SALES OF ASIAN AND CHINESE ART. IN 2012, 93% OF THE VALUE OF WORKS BY CHINESE ARTISTS SOLD WITHIN CHINA.

²⁵ The share for fine art only is derived from data from Artnet. The share of the top five in the fine art sector is down from 68% in 2010 and 58% in 2011, which seems to indicate greater spread of sales over the last few years, and less consolidation than has taken place in Western auction houses.

The foreign-owned houses of Christie's and Sotheby's have had a presence in Hong Kong for many years. However an interesting trend that started in 2012, has been the interest by Mainland houses in setting up a presence in Hong Kong. China Guardian led the move to Hong Kong with a very successful first sale there in October 2012 of mainly traditional modern Chinese painting, achieving a total of HK\$455 million (€45 million), more than doubling their presale estimate. Poly

International also held their inaugural sale a month later, with two days of auctions reaching HK\$520 million (€52 million), including Chinese modern and contemporary art, jewellery and Chinese ceramics and works of art. The main motivations for holding sales there appears to be a desire to expand internationally, and to provide their clients with access to a more attractive regulatory and tax environment for both buying and selling.

Figure 4d. Auction Market Share of Hong Kong Versus Mainland China (Value)



© Arts Economics (2013) with data from AMMA

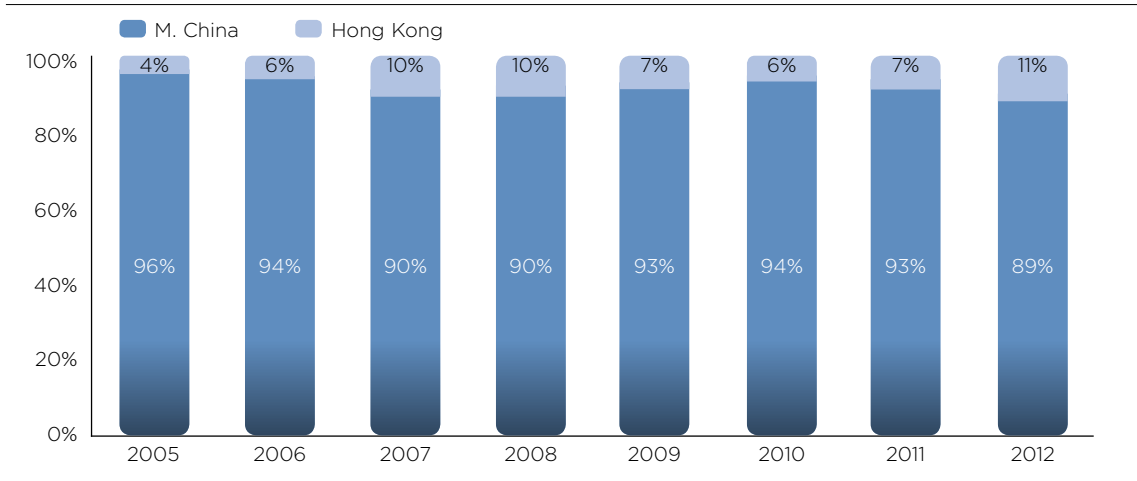
Dealers and Galleries

There are over 42,000 art, antiques and collectibles businesses in the retail part of the art market in China. Approximately 6,000 established galleries exclusively sell art and antiques in Hong Kong and Mainland China. While some of the larger galleries, such as those in the 798 District in Beijing, employ 15 people or more, the average is four to five. Besides galleries, there is a very large number of small private dealers and agents, with over 10,000

private dealers in Beijing alone. These dealers are often sole traders, partnerships or very small companies.

The number of galleries in China is estimated to be growing at a rate of approximately 10% per year, with the bulk of these based in the major cities of Beijing, Shanghai, and Hong Kong. The gallery sector in Beijing is one of the fastest growing in the region, buoyed by increased recognition and

Figure 4e. Market Share of Hong Kong Versus Mainland China (Volume)



© Arts Economics (2013) with data from AMMA



support from government. Most galleries are owned by Chinese dealers and sell Chinese works, with a few very important exceptions, particularly at the top end of the market. Many foreign galleries have clustered in Hong Kong, attracted by its tax-free status, developed infrastructure and logistic advantages. However there is an increasing number of galleries also setting up in Beijing, such as Pace adding to those that have been there from the market's inception such as Galerie Urs Miele, a leading Contemporary gallery which also runs an artists-in-residence programme for Chinese and foreign artists. Until 2004, formal approval from the Ministry of Culture was required for a foreigner to set up a gallery in Mainland China. Under the current legislation (the *Measures for the Administration of the Art Business 2004*), the main focus of regulation is on requirements for approval by the Ministry of Culture for the import and export of art (including Contemporary art), as well as for exhibiting foreign works (both of which require approval for both Chinese or foreign galleries).

Although the gallery and dealer sector has been somewhat fragmented in China to date, a gallery association was founded in Beijing in 2012, by Don Mengyang, the director of Art Beijing. The Beijing Art Gallery Association is the only gallery association in China and had to be authorised by the government prior to its launch. The association

currently has about 80 member galleries, which are screened for entry on criteria relating to the artists they represent, their exhibition space and a requirement to run at least three exhibitions per year. The aim of the association, like many others globally, is to give dealers a united voice in industry-wide issues and also to initiate proposals for policy in the market. The association also stresses the importance of the social responsibilities of galleries and their function in society beyond commerce. Dong Mengyang feels that a turning point was reached about ten years ago when galleries had achieved a level of professionalism that necessitated the implementation of standards, methods and practice guidelines. There are a variety of problems faced by the sector, including inadequate infrastructure (particularly for the provision of specialised services such as insurance, packaging, shipping and financing), their fiscal and tax structures, trade regulations and other issues. He sees a more general problem in the lack of awareness by the public of the importance of the industry, both culturally and economically, as well as inadequate public education on arts and culture generally.

Art fairs have not been as dominant a trend in Mainland China as they have been elsewhere due largely to the less developed gallery network. In 2012, only 15% of sales on average by dealers

in China were made at fairs, against the global average of more than twice that. Those dealers who have exhibited at fairs have mainly done so in Hong Kong. But many report an interest in expanding to other parts of Asia in future, including Taipei and Singapore.

One of the first fairs in China, the China Art Exposition, was held by the Ministry of Culture in 1993 in Guangzhou, later developing into Guangzhou International Art Fair and China Art Fair, Beijing. However there were less than ten galleries exhibiting and this and other early fairs were more like inter-trade exhibitions rather than the modern concept of an art fair. Since then a number of fairs have developed, including government funded and some commercial enterprises.

The main fairs in China now include²⁶:

- *Art Beijing*, which started as a Contemporary art fair in 2006. In 2012, it reported 40,000 visitors and 100 exhibitors from 20 countries, including 75 Contemporary art galleries and 10 galleries specialising in video art. In 2013, the fair organisers report that they will be exhibiting classical Chinese art alongside Contemporary works.

- *The Shanghai Art Fair* was established in 1997 and had its first event in 1999, organised by the Ministry of Culture and the Shanghai

Municipal Government. The Shanghai Art Fair International Exhibition Company now manages and operates the fair, which focuses on Modern and Contemporary Chinese art, with other genres, such as French Impressionist paintings. The fair reported 50,000 visitors in 2012 with sales of over 100 million RMB (€12.4 million), and the heaviest buying in the price range between €3,000 and €6,000. The majority of the fair’s exhibitors are Chinese galleries, with over 70% from China and Taiwan.

- *ShContemporary* was established in 2007, focusing on Chinese Contemporary art. In its first event there were 122 exhibitors, with 81% foreign galleries and 19% from Mainland China and Hong Kong. By 2012 this had become much more balanced, with 49% of the 84 galleries based primarily in China or Hong Kong and 51% international galleries (including 11 galleries that also had premises in China). The fair is organized by BF China, which is part of Italian fair company Bologna Fiere Group, in cooperation with Shanghai International Cultural Communication Association (SICCA) and other Shanghai based cultural bodies. In 2012, it reported 35,000 visitors.

- *Art CIGE (China International Gallery Exposition)* was launched in 2004 with the support of the Chinese Ministry of Culture. The first event had

²⁶ Information on visitor numbers and sales at fairs in China are figures quoted directly from fair organizers and secondary research and not those estimated by Arts Economics.

68 galleries (with 57% foreign), while in 2012 the fair had 58 participating galleries (with foreign participation reduced to 33%).

Important fairs in Hong Kong also include:

- *Art HK/ Art Basel Hong Kong* which was established in 2008 and focuses on Modern and Contemporary art. Its first fair attracted over 19,000 visitors to the 101 exhibiting galleries from 20 countries producing total sales of an estimated €16 million. In 2012 (the final event under the name of Art HK), 266 galleries exhibited from 38 different countries with a 50/50 balance of Chinese and foreign exhibitors and attracted 67,000 visitors. In 2011, Art Basel acquired a 60% stake in the fair and in 2013 ART HK will be replaced by the first Hong Kong edition of Art Basel.

- *Fine Art Asia* was established in 2006 (as the *International Asian Antique and Art Fair Hong Kong*) and includes fine art, decorative art, antiques and collectibles. In 2012, 47% of the 93 exhibiting galleries were from Mainland China, Hong Kong and Taiwan. The fair estimated a total of 24,750 visitors, up 25% on 2011, and total sales of sales of €41 million, up 10% from 2011.

There are several other smaller events, covering fine and decorative art and antiques and a number of newer ‘affordable art fairs’ such as the

Asia Contemporary Art Show in Hong Kong, the *Affordable Art China Fair* (to be launched this year) and *Affordable Art Fair (Hong Kong)*.

China also hosts its own Biennales. The Shanghai Biennale was first launched in 1996 by the Chinese Ministry of Culture and the Shanghai Art Museum, with its first two editions reserved exclusively for Chinese artists and traditional techniques such as oils, ink, and watercolour painting. It was opened to international participants and curators from 2000, when artists from 18 countries participated, and since then it has opened up to an increasingly diverse range of styles and media. The Beijing Biennale was launched in 2003 and focuses on more traditional art forms, largely paintings and sculptures, and has been open to an international base of artists since its inception.

Artists

It is still relatively common for Chinese artists to sell works directly to collectors, bypassing the gallery network. According to dealers, this is more prevalent with some of the older artists, who often prefer to work with galleries on an exhibition-only basis, whereas younger artists are more comfortable with the gallery structure.

IN 2012, ONLY 15% OF SALES ON AVERAGE BY DEALERS IN CHINA WERE MADE AT FAIRS, AGAINST THE GLOBAL AVERAGE OF MORE THAN TWICE THAT.

Although the gallery sector has become more sophisticated and professional in the last ten years, during the development of the market from the mid 1990s and early 2000s, artists in China had no experience of working with galleries and many did not understand their functions, choosing instead to sell directly from studios. However, there has been an increasing realisation that galleries can assist artists in other ways, including by bringing works onto the international market, accessing quality collectors, getting their works exhibited in museums and other functions that promote the long term development of their careers.

One dealer noted:
“Artists have come around a little, especially younger artists who have now grown up with this model and see the value and advantages of close relationships. But older artists are still convinced they can go it alone and sell direct, at auction and through galleries. Most artists we started with were unknown and are now widely exhibited, so we now have a good model to show others. Relationships are intense - we often meet two to three times per week with artists and stress the importance of information, career development and long-term relationships - not just working on becoming a millionaire in five years.”

Taxation²⁷
Both galleries and auction houses in China are subject to a number of regulations and taxes. Both types of businesses need to pay taxes to the government on profits from the sales of works of art, and the tax rate is 25%, or 20% if the company's turnover is less than 60,000 RMB (€7,500). If an artist sells his own work at auction, the proceeds from the sale are deemed to be ‘income from royalties’ and the taxable income is equivalent to the total sale price, minus RMB 800 if the sale price is less than RMB 4,000, or minus 20% of the sale price if the sale price is over RMB 4,000. In both cases, the resulting income is subject to a 20% tax.

Auction houses also pay a transaction tax of 5% on sales and an additional income tax for the seller, at a tax rate of 3%. Under the *Notice on Issues regarding Strengthening and Regulating the Collection of Individual Income Tax on Individual Income from Auction*, taxable income from a sale of works of art at auction is calculated as the hammer price, minus the ‘original value’ and ‘reasonable expenses’. The original value of an artwork is either: its purchase price, if bought at a gallery; the amount paid (including tax) if bought at auction; the incurred expenses if obtained through inheritance; or the amount of tax paid if it was obtained through some form of donation.

If the seller is unable to provide formal documentation evidencing the original value of the artwork, he must pay 3% of the hammer price. Therefore, the standard practice among Chinese auction houses is to deduct 13% of the hammer price from the amount due to the seller (of which 10% represents the seller's commission and 3% withheld for payment of the seller's individual income tax). Profits on the sale of a work of art, which are deemed to be a ‘returned Chinese cultural relic lost overseas’ or for those works over 100 years old are taxed at the slightly more favourable rate of 2%²⁸.

Most galleries charge VAT at 17%, however if the income of a gallery is less than 800,000 RMB (around €100,000), then the VAT rate is 3%. In practice, galleries have attempted to access this much lower rate through financial manipulation and the use of private bank accounts. However there has been a substantial crack down in the last year, aimed at reducing tax evasion, and the authorities can force galleries to apply the normal rate with the penalty of closing them down for non-compliance.

²⁷ Sincerest thanks to Zhang Yi from the AMRC for his help with information on taxes in the art market in China.
²⁸ Unlike common law tax systems, Chinese income tax legislation does not provide a distinction between income and capital. Capital gain tax is therefore included within the income tax framework, rather than a separate regime.

One of the main issues cited by galleries in the area of taxation and fiscal policy is that an art gallery does not conform to the definition of business that can be easily registered, as it is in not in the standard catalogue of businesses that the tax authorities maintain. Most have to register as consulting companies, investment companies or cultural exchange companies. Many believe that this lack of distinction has prevented the authorities from being able to apply a beneficial tariff to the gallery sector.

It remains difficult for galleries to operate internationally due to taxes and the red tape connected with cross-border trading. All shipments out of Mainland China have to be declared three weeks in advance and are required to go through an approval process. Imports have been charged at over 30% until 2011, limiting cross-border trade and business through international art fairs, which, as a result, have mainly centred on Hong Kong. Galleries therefore tend to predominantly sell works of art produced in China.

Some foreign galleries operating in China have described the regulatory structure as complex both in terms of the laws themselves and how they are meant to be interpreted.

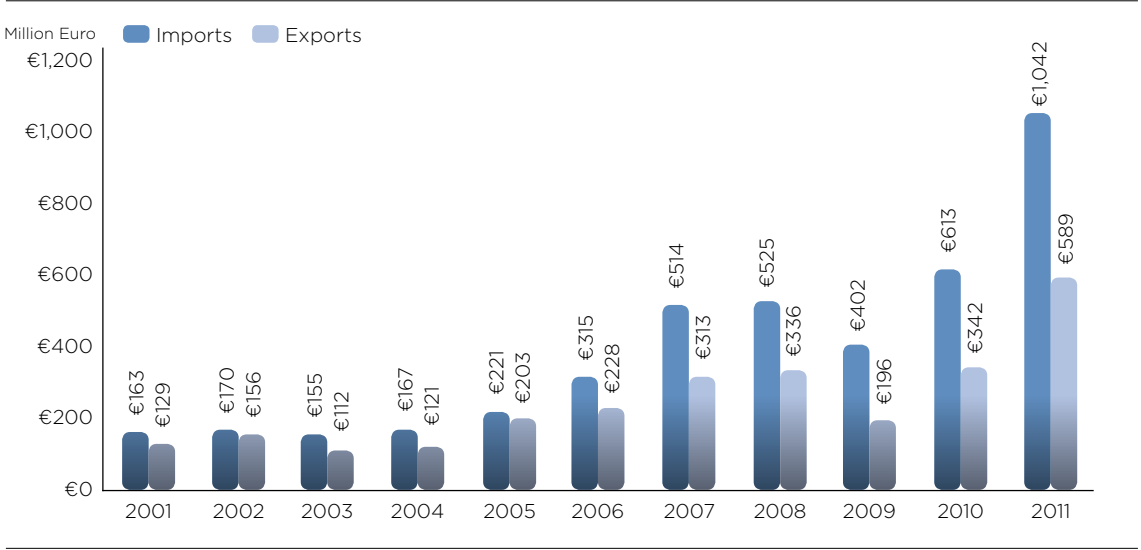
"It is difficult to interpret the laws governing the art market in China. There is a large 'grey zone' where you can very reasonably operate, but you need to be able to understand how not to step into the black zone, as there can be very serious consequences for over-stepping the mark."

4.5 The Chinese Trade in Art

In 2011, China was a net importer of art, as it has been for the last ten years, with imports of just over €1 billion exceeding exports of €589 million, reflecting its importance worldwide as a buyer of art. Through the 1990s, when much of the trade was through Hong Kong, exports dominated imports as China exported mainly Contemporary art, along with some antiques, to Western collectors. However, since the market opened up and Mainland Chinese have become more important buyers, imports have taken prominence, and China has run a trade deficit since 2000.

Chinese cross-border trade is still relatively small compared to its international counterparts, particularly those markets of similar size, such as the US or UK. This indicates the importance of China as a domestic centre for sales, rather than an international market hub. Nonetheless, both imports and exports of art have increased significantly over the decade.

Figure 4f. Imports and Exports of Art from China 2001-2011

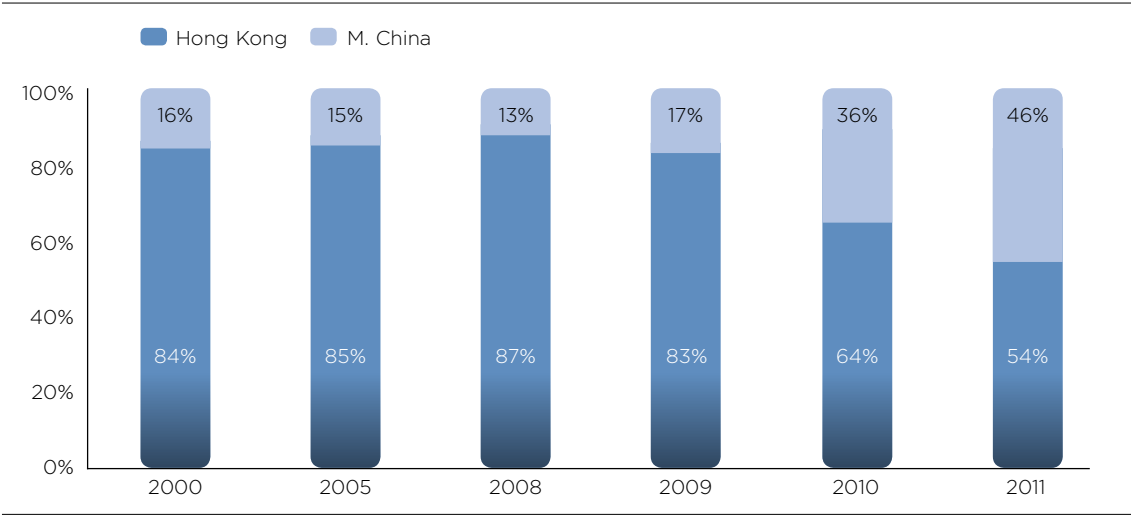


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Exports of art grew 72% in Euro terms year-on-year to 2011, and have increased over 350% in value over the last ten years, making China the sixth largest exporter of art and antiques worldwide, with a 4% share of world exports. In dollar values, exports have risen over 2,000% since the market began to open up in the late 1980s.

Hong Kong was the dominant centre for Chinese trade, and from 2000 to 2009, over 80% of exports from China were from Hong Kong. Mainland China has increased share since 2010, and in 2011 accounted for 46% of the total value of exports.

Figure 4g. Chinese Exports of Art - Mainland China Versus Hong Kong

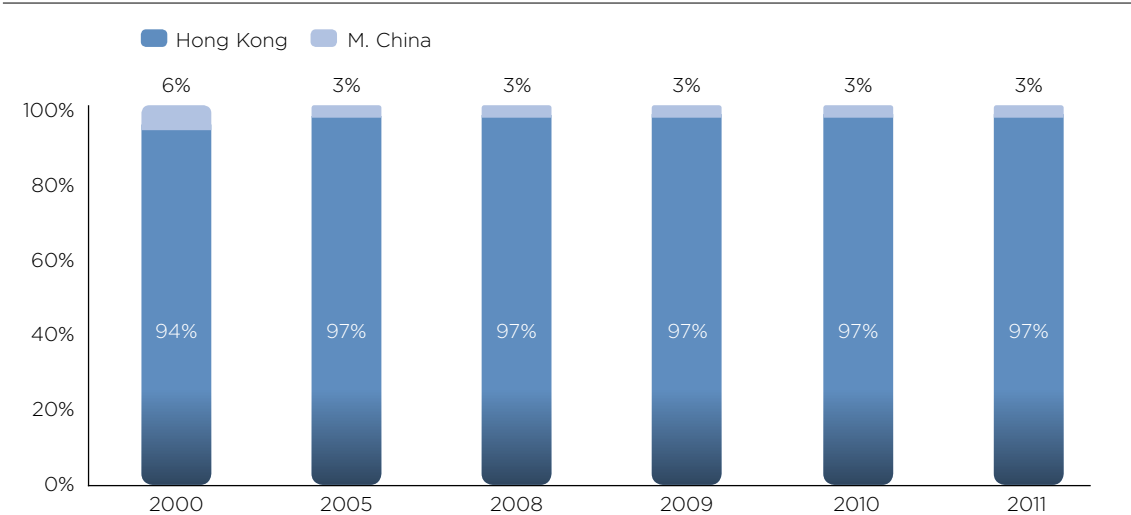


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The main destinations for exports from Hong Kong in 2011 were the US (48% by value), the UK (15%) and Switzerland (10%), while from Mainland China, Japan was the main destination (34%), followed by the US (27%) and Russia (7%). These have not changed very significantly from ten years ago, when the top destinations from Hong Kong were also the US (37%), the UK (37%) and Japan (5%), as for Mainland China they were the US (28%), Hong Kong (22%) and Japan (18%).

Imports have seen much more remarkable growth in values over the decade, increasing 70% year-on-year to reach just over €1 billion, an increase in value of over 540% in the ten years to 2011. China is now the fourth largest importer of art, comparable with Switzerland (with €1.2 billion) although still significantly below the UK and US, which each have imports of more than four times the value. China's share of world imports of art has grown from 1% in 2001 to just over 7% in 2011.

Figure 4h. Chinese Imports of Art - Mainland China Versus Hong Kong



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In 2011, the main sources for imports to Mainland China were the US (17%), France (13%), the UK (6%) and Hong Kong (4%). China reported a 21% share of imports 'from China' in 2011. These are 're-imports' and are nearly all works of art from China, exported to Hong Kong and then re-imported in China. This means that imports from Hong Kong are closer to 25%. Hong Kong's main sources for imports in 2011

were the major art markets of the US (25%), the UK (19%) and France (9%). In 2001, the UK was a more dominant trading partner (accounting for 45% of imports), with the US at 24% and Japan with 9%. In 2011, nearly half of the imports to Mainland China were from Hong Kong and Macao, while France was also an important source (6%) and the US and UK were 5% and 6% respectively.

IN 2011, CHINA WAS A NET IMPORTER OF ART, AS IT HAS BEEN FOR THE LAST TEN YEARS, WITH IMPORTS OF €1 BILLION EXCEEDING EXPORTS OF €589 MILLION, REFLECTING ITS IMPORTANCE WORLDWIDE AS A BUYER OF ART.

The bulk of imports into China by value are recorded in the trade statistics as entering through Hong Kong. In 2011, imports directly into Mainland China were only 3% of the total imports of art into China and have varied between 2.7% to 3.5% for the last five years. Mainland Chinese buyers have however been recognised by the trade as increasingly important in recent years, both at auction (with Chinese buyers accounting for up to a 20% share of buying in 2011 in some of the major houses before falling by about a third in 2012) and at art fairs in Hong Kong and overseas. It may be therefore that some works of art are being imported via Hong Kong to Mainland China and are not reported in the official import statistics of Mainland China or export statistics of Hong Kong. In 2011, for example, the United Nations reported \$6.6 million in exports from Hong Kong to Mainland China, whereas China only reported \$1.8 million in imports of art from Hong Kong. As noted above however, China reported a significant \$8.8 million in ‘imports from itself’ which undoubtedly represents some of these exports from Hong Kong, as well as imports from Macao. While there is often a certain amount of asymmetry found with all ‘mirror statistics’²⁹, the gaps in the statistics and the views of experts suggest that there may be trade between China and Hong Kong that is under-recorded.

²⁹ Mirror statistics are bilateral comparisons of two basic measures of a trade flow, for example how the imports of country A to country B match the exports of country B to A. International trade databases record statistics of all goods, which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its national boundaries. Goods simply being transported through a country ‘in transit’ or on a temporary basis are generally not recorded in these statistics. Countries report data from their national statistics offices and these vary in coverage and method. For example, some rely solely on customs data, whereas others use additional records and surveys to verify figures. Although there are strict standards for valuation and classification of goods, these can vary in practice, and adjustment methods for VAT and other duties and charges, under-reporting, exchange rate differences, time gaps and a range of other small inconsistencies can often mean that the goods imported by country A from country B do not always exactly match exports from B to A.

Unlike other larger art markets such as the US, UK and France, where fine art dominates trade, decorative art and antiques have often accounted for a higher share of the value of trade to and from China. The share of fine art exports has gradually increased from 29% in 2000 to 70% in 2011, reflecting increasing international purchases of Contemporary Chinese art and the effects of restrictions on some older sectors of art from China. However for imports, decorative art and antiques account for a majority share by value averaging 56% from 2006, and in 2011 accounting for nearly two thirds of the value of all art imported to China.

There has been a strong drive by individual and institutional collectors in China to repatriate

national artistic treasures, many of them antiques and decorative pieces either legitimately taken from China or claimed to have been looted illegally during foreign occupations and wars. While some items have been donated back to the Chinese government by collectors, there are estimated to be up to 1 million works in over 2,000 museums around the world that are currently being sought by the Chinese State Administration of Cultural Heritage for repatriation.³⁰ In recent years, there have also been a number of high profile restitution cases where the Chinese government or other Chinese public and private representatives have attempted to block the sales and purchases of items that they claim are legitimately part of the Chinese national patrimony.

Table 4f. Share of the Value of Chinese Imports and Exports by Sector of Art

	Exports		Imports	
	Fine	Decorative	Fine	Decorative
2000	29%	71%	35%	65%
2005	31%	69%	41%	59%
2007	44%	57%	43%	57%
2008	56%	44%	55%	45%
2009	56%	44%	49%	51%
2010	66%	34%	43%	57%
2011	70%	31%	32%	68%

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³⁰ Figures cited in 2009 in “Auction of Looted Chinese Relics Hurts China’s Cultural Rights” from www.chinaview.cn.



Trade Regulations and Taxes

While Hong Kong maintains a free trade policy with no taxes on the import or export of art, the cross-border trade from Mainland China is subject to a number of regulations, which have made it one of the most expensive and complex markets to ship art and antiques to and from.

Article 50 of the *Cultural Relics Law* developed in 2002 formally allows individuals in China to obtain Chinese art through various channels, including inheritance, by gift, via a dealer or auction house, or through private sources. However, this law imposes extensive restrictions on the export of Chinese art, which are enforced by an export permit system. Under this system, any object leaving China that is designated a 'cultural relic' must be accompanied by an export permit issued by a cultural relics entry-exit examination and an approval agency designated by the State Administration of Cultural Heritage. In practice, although not free from restrictions under law, it is relatively easy to export works of art under 100 years, a factor which has helped to fuel a more international Contemporary market. However antiques or any items over 100 years are generally banned from export if they are considered to be of national importance.

Any works of art or antiques that are state-owned are banned from export except for exhibition. Even

works for exhibition are subject to strict application procedures, which need to be submitted six months in advance, with bans on certain items, and on all items that have not been already officially exhibited in China. The duration of exhibition is also limited to one year in most cases.

Export regulations became a matter of greater international interest from 2007, when new measures were announced by the Chinese government banning individuals from exporting cultural relics predating 1911 (the end of the Qing dynasty). The Relics Bureau specified three categories of antiques to be included under the new regulation: works of art and craft created before 1911; any antique deemed an 'important relic' created before 1949; and any object deemed of importance to the heritage of an ethnic minority created before 1966.

These regulations were the subject of much dispute within the art trade particularly with the US, the largest destination market for Chinese exports. As a result, the US and China entered into a bilateral agreement (a Memorandum of Understanding or MOU) in 2009 to protect categories of archaeological material from the Paleolithic Period (about 75,000 BC) to the Tang Dynasty (907 AD), and monumental sculpture and wall art at least 250 years old. The US action was in direct response

to a request from the Chinese Government for protection of its cultural heritage (made under Article 9 of the 1970 UNESCO Convention) with the aim of attempting to prevent illicit trafficking in cultural objects by blocking the main market for them.

The archaeological materials covered by the import restrictions include objects made of ceramic, stone, metal, bone, ivory, horn, shell, silk, lacquer, wood, paper, and glass. The US government made up a detailed description of the object types covered by this agreement in a designated list published in the Federal Register by the Department of Homeland Security and the Department of the Treasury. Objects from the list may only enter the US if they are accompanied by an export permit issued by the appropriate authority in the Government of China, or by documentation indicating that they left China prior to the effective date of the restriction

in January 2009. This MOU has caused significant upset in the antiques trade, although it applies in practice to a very narrow range of items. It has led to some artefacts being returned to China, including 14 ancient artefacts in 2011 that were seized by US Customs authorities from illicit traffickers in the previous year.³¹ The agreement is up for renewal in 2014.

Although the Chinese government has promoted exports of Contemporary Chinese art (and China has a long history of creating and exporting works of art and crafts designed specifically for international markets), regulations governing this sector also came into effect in China in 2009. The *Interim Provisions on the Management of the Import and Export of Fine Art* state that approval is required by the Ministry of Culture for both the import and export of all Contemporary art (including paintings, photographs, sculptures and other media but

TRADE FROM MAINLAND CHINA IS SUBJECT TO A
NUMBER OF REGULATIONS, WHICH HAVE MADE IT ONE
OF THE MOST EXPENSIVE AND COMPLEX MARKETS TO
SHIP ART AND ANTIQUES TO AND FROM.

³¹ See <http://www.globaltimes.cn/life/art/2011-03/632757.html>.

excluding works of art and design that are mass-produced in amounts of 200 or more).

Article 5 of the 2009 Interim Provisions lists 11 categories of content which, if included in a work of art, give the government authorities the right to prohibit import or export. These regulations ban works from import or export if they are seen to:

1. Violate the basic principles of the Constitution of China;
2. Endanger the unification of the country, national sovereignty or territorial integrity;
3. Divulge state secrets, endanger state security, honour or interests;
4. Incite ethnic hatred, discrimination, or harm ethnic unity or habits and customs;
5. Propagate or publicize cults or superstitions;
6. Disrupt social order or stability;
7. Advocate or publicize obscenity, pornography, gambling, violence, horror, or instigate crime;
8. Libel, slander or harm the legal interests of others;
9. Deliberately tamper with history or severely distort history;
10. Harm public morals or ethnic cultural traditions; or
11. Other content prohibited by laws, regulations and rules.

These regulations have raised concerns in the art trade about the extent of government censorship and control over artistic activities. In practice, they can also add an administrative burden to trade in and out of China which can cause significant delays.

Any foreign commercial art exhibitions which includes the work of foreign artists also requires the same approval, which has to be sought from the Ministry of Culture at least 45 days before the date of the exhibition.

Import Taxes

Imports of art are subject to various taxes and charges. Works of art imported to China are in the same category as luxury goods and have attracted an import VAT of 17%. On top of this, import duties (ICD) are also due. Up to 2011, the rate of ICDs was 12% but this was halved in 2011 to 6%, which may have contributed to the increase in imports (with a 70% increase in values year-on-year). The import tax laws were changed at the end of 2011, imposing more standardisation in the definition of art works imported into China. Prior to this, it is reported that customs and taxing authorities were allowed more flexibility in the charges they applied to imports of art. Customs duties for an imported work could vary depending on who was bringing it

into China, its age, and its importance. Low levies were reportedly often applied to antiques over 100 years imported by someone other than its owner, while higher duties were applied on collections of more than ten items. Customs duties often added up to over 30% of an item’s value prior to 2011, a factor which was actively discouraging imports. However in 2011, in the hopes of reducing tax evasion and encouraging trade, the rates were formally cut to 6% for paintings, sculptures, and other original works of art for a year on a trial basis and many antiques over 100 years of age can now be imported duty free.

Import taxes have been avoided in the past by either bringing works of art as short-term exhibition pieces³² or by carrying them as a traveller’s personal property. Some traders also attempted to reduce or evade tax by reporting inaccurate financial data, for example by declaring lower valuations when importing artworks into China. The risks of these activities were highlighted in 2012 by the arrest of two staff from a China-based art shipping firm.³³ Smuggling art into China has severe penalties and carries a maximum penalty of life imprisonment.

Hong Kong generally makes it easy to import and export works of art without restrictions or sales taxes. The general business climate in Hong Kong

is also very open and competitive and there is limited government involvement. The free market ideology as well as its central geographical location has meant that it has served as a critical gateway to the west and made it an important trade centre for Asian antiques, attracting buyers from Japan and other parts of Asia. Hong Kong reverted to China in 1997 but a ‘50 years of no-interference’ promise was given.

A new freeport, The Beijing Freeport of Culture, is currently being built in Beijing, and is scheduled for completion in 2013. This facility of 83,000 square metres will have large art storage facilities, enabling art to be imported into the zone without sales and import taxes. Sales outside the freeport will trigger import charges.

4.6 Art Collecting in China
China has emerged as one of the most important buying nations globally over the last ten years, fuelled by economic success and a growing population of wealthy and high net worth art collectors and investors.

Mainland China’s economic growth slowed to 9.2% in 2012 from 10.4% in 2011, mainly due to a slowdown in exports and curbs on speculative activity in the property market. Inflation averaged

³² Most works of art can be temporarily imported for a six-month period without charges.
³³ Nils Jennrich, General Manager of Integrated Fine Art Solutions in Beijing, was jailed on ‘suspicion of smuggling’ in March 2012. He and a Chinese colleague were accused of under-declaring the value of the artworks for importation purposes, despite the fact that they should have had the knowledge of the real value of the artworks and potentially avoiding up to 10 million RMB in taxes and duties. See <http://www.bloomberg.com/news/2012-05-16/german-held-on-art-smuggling-in-china-as-buyers-dodge-tax.html>

Table 4g. Annual Growth (and Forecasts) in Key Economic Indicators for Mainland China 2000-2015

Year	GDP	GDP per capita*	Inflation	Imports	Exports
2000	7.6%	9.8%	-1.4%	13.5%	10.6%
2001	8.4%	9.8%	0.4%	25.1%	22.8%
2002	8.3%	9.0%	0.7%	13.9%	10.9%
2003	9.1%	12.2%	-0.8%	23.0%	21.2%
2004	10.0%	17.0%	1.2%	24.3%	20.0%
2005	10.1%	15.0%	3.9%	20.1%	18.6%
2006	11.3%	16.4%	1.8%	13.6%	24.5%
2007	12.7%	22.2%	1.5%	16.0%	24.2%
2008	14.2%	17.5%	4.8%	12.9%	19.2%
2009	9.6%	8.0%	5.9%	3.4%	8.2%
2010	9.2%	17.2%	-0.7%	2.5%	-10.7%
2011	10.4%	16.9%	3.3%	22.3%	28.4%
2012	9.2%	10.1%	5.4%	9.8%	9.4%
2013	7.8%	10.4%	3.0%	8.8%	5.0%
2014	8.2%	10.5%	3.0%	8.8%	7.2%
2015	8.5%	10.8%	3.0%	11.4%	10.9%

© Arts Economics (2013) with data from IMF and UN *Percentage change per annum based on change in GDP per capita in RMB

5.4% in 2012, and a new target has been set for 3.5% in 2013, along with growth targets of 7% to 8%, with the hopes that fixed-asset investment may offset continuing weak export demand. However, even at a rate of 8% as predicted by the IMF and Chinese

policy makers, China is still one of the fastest-growing economies in the world, with GDP growth over 2012 nearly three times the global average and seven times the average for the G7 economies.

Table 4h. Annual Growth (and Forecasts) in Key Economic Indicators for Hong Kong 2000-2015

Year	GDP	GDP per capita*	Inflation	Imports	Exports
2000	2.6%	2.9%	-3.9%	-0.1%	3.6%
2001	8.0%	-1.7%	-3.7%	18.4%	16.9%
2002	0.5%	-1.6%	-1.6%	-1.9%	-3.3%
2003	1.8%	-3.9%	-3.1%	7.9%	8.6%
2004	3.0%	4.1%	-2.6%	13.1%	14.0%
2005	8.5%	6.4%	-0.4%	13.7%	14.9%
2006	7.1%	5.7%	0.9%	8.0%	10.4%
2007	7.0%	9.0%	2.0%	9.2%	9.3%
2008	6.4%	3.4%	2.0%	8.8%	7.0%
2009	2.3%	-3.7%	4.3%	1.8%	1.9%
2010	-2.6%	6.5%	0.6%	-9.5%	-12.7%
2011	7.1%	8.0%	2.3%	18.1%	17.3%
2012	5.0%	4.6%	5.3%	4.8%	3.6%
2013	1.8%	5.2%	3.8%	-1.2%	-3.0%
2014	3.5%	6.3%	3.0%	6.7%	6.8%
2015	4.3%	6.4%	3.0%	8.1%	8.4%

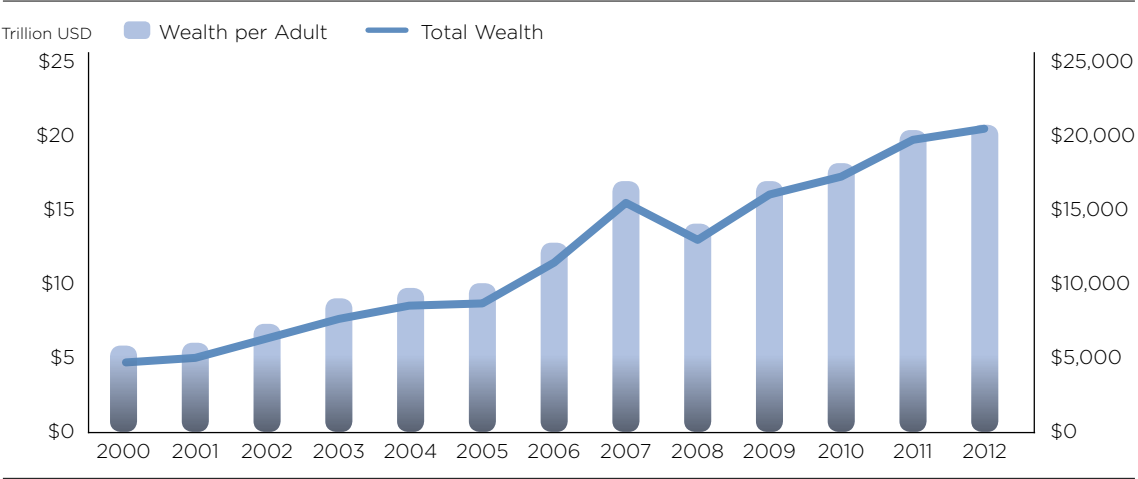
© Arts Economics (2013) with data from IMF and UN
*Percentage change per annum based on change in GDP per capita in HKD

China's aggregate wealth, at \$20.2 trillion, is now the third highest in the world, although still less than half that of the US and 28% behind Japan.³⁴ It is now, however, substantially ahead of European countries such as France, the fourth largest centre of worldwide wealth (59% ahead), the UK and Germany (68% and 73% ahead respectively). Mainland China

and Hong Kong together accounted for 9.4% of world wealth (with the Mainland accounting for 9.1%), up from 4.6% in 2000. Importantly for the development of the art market, wealth per adult in Mainland China has also grown robustly since 2000, increasing over 360% from

³⁴ An interesting comparison is at this level of aggregate wealth China is the equivalent in real terms to the US in 1970. If trends in the growth of wealth continue, analysts from Credit Suisse forecast by 2017 that China could reach the real wealth level that the US enjoyed in 1992, or a jump of 22 "US years" in just five. They also anticipate that if Japan's lacklustre performance during the last decade continues, China will surpass Japan as the second wealthiest economy in the world in that time.

Figure 4i. Wealth and Wealth per Adult in Mainland China 2000-2012



© Arts Economics (2013) with data from Credit Suisse

\$5,672 to \$20,542 in 2012.³⁵ China had only one year of negative growth in 2008 when, as a result of the global financial crisis, wealth per adult and total wealth contracted 18% and 16% respectively, but now are both above their pre-crisis peaks. There are two important trends emerging in the distribution of wealth in China: increasing income inequality and an increase in the size of the middle classes (in absolute terms).

Over the last decade there has been an increasing inequality of wealth as the number of very wealthy people in China expands. In 2012, China (including Mainland China and Hong Kong) had 1.1 million dollar millionaires, the seventh largest population of millionaires worldwide and a 4% share of the global population of these individuals. China's billionaire population is now the second largest in the world, with 116 billionaires in 2012 (including 80 in Mainland China, up from 65 in 2010), or a 12% global share. Billionaires in China are also nearly

³⁵ Wealth per adult in Hong Kong also grew over the 12-year period, although less dramatically at 123% and starting at a much higher base of \$117,463 (to \$114,109 in 2012). Both trajectories of growth are considerably faster than the growth in aggregate world wealth per adult of 58% over the 12-year period.

ALTHOUGH CHINA'S
POPULATION OF
MILLIONAIRES HAS
INCREASED BY 20%
OVER THE LAST TWO
YEARS, IT STILL
REPRESENTS A TINY
0.2% OF THE TOTAL
POPULATION IN
CHINA.

exclusively "self-made" (98%) versus in older countries in Europe such as France and Germany where 60% or more of the billionaire population come from inherited wealth. They are also relatively young with a mean age of 52 years, versus the world average (excluding transition economies) of 66 years.

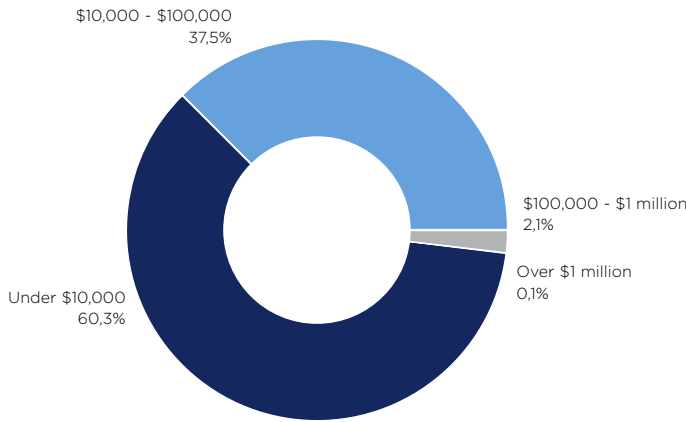
Although China's population of millionaires has increased by 20% over the last two years, it still represents a tiny 0.2% of the total population in China. In 2000, wealth inequality in the country was relatively low by international standards, particularly for emerging economies, because of the post-communist absence of inherited fortunes and a relatively equal division of both rural land and privatized housing. However the divide has been expanding over the last decade as the market system has created new wealth for successful investors, entrepreneurs, and professionals.

Although the divide between very high and very low wealth in China is increasing, the middle segment of wealth is also expanding, with a burgeoning middle-class developing on the back of the country's economic growth over the past two decades. Figure 4k shows that 38% of the population is currently in the wealth range from \$10,000 to \$100,000, up from 32% in 2010, while the bottom segment contracted from 66% to 60%.

Other research³⁶ has shown that the majority (over 90%) of the population currently consists of what has been termed "value consumers" with disposable incomes between \$6,000 and \$16,000, which is seen as just enough to cover basic needs. Besides these, there are about 14 million households that are wealthier "mainstream consumers" with annual disposable income of between \$16,000 and \$34,000, and which currently represents about 6% of the urban population. Beyond these again are a very minute group of the wealthiest households (the "affluent consumers"), whose household

income exceeds \$34,000, representing just 2% of the urban population or just over 4 million households. It is estimated that, although affluent consumers will remain a small minority, their share will have risen to 6% of the population in 2020, or to a total of about 21 million affluent households, with 60 million consumers. This is critical for the art market as many of these consumers will have the disposable incomes for the first time to consider collecting art, either for pleasure, or as an investment.

Figure 4j. The Distribution of Household Wealth in China in 2012



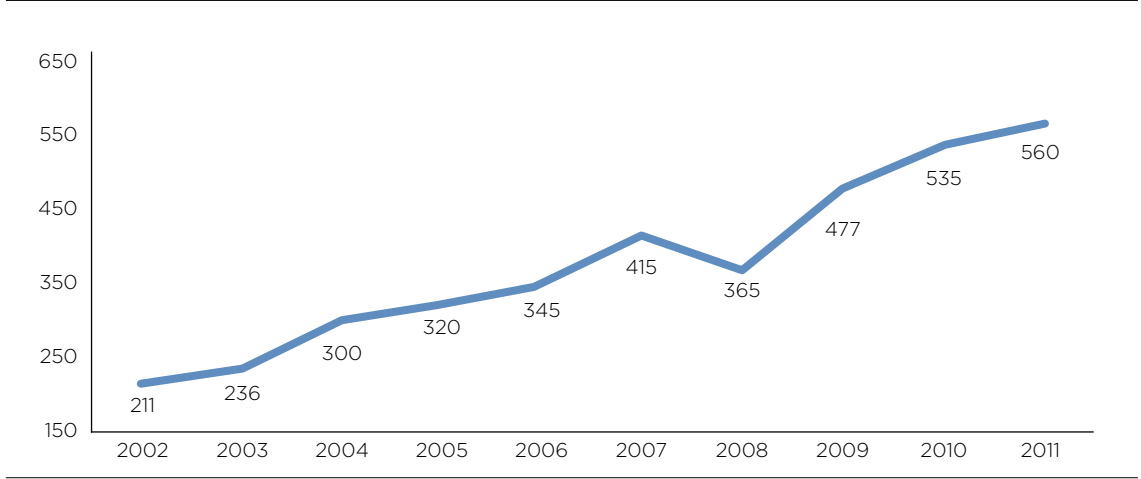
³⁶ Mc Kinsey (2012) *Meet the 2020 Chinese Consumer*. From www.mckinseychina.com



Using the stricter criteria for HNWIs (i.e. those with investable assets over \$1 million), China was home to over 560,400 HNWIs in 2011. Figure 4l tracks the population of HNWIs in China since 2002, demonstrating the impressive increase of 165% in the ten-year period, with growth in every year except 2008. It is particularly notable that while the numbers of HNWIs worldwide was virtually stagnant, the number of HNWIs in China increased 5% year-on-year to 2011.

Chinese wealth is relatively balanced between non-financial and financial assets for an emerging economy, as high savings and relatively well-developed financial institutions have driven up the ratio to 47% share for financial assets. One of the biggest non-financial investments in China has been property. However the strict market cooling measures introduced from 2010 are set to remain in most areas for 2013 (including high deposits/ low loan to value ratios, property taxes and restrictions

Figure 4k. Population of HNWIs in China (1,000s) 2002-2011



© Arts Economics (2013) with data from Capgemini/ Merrill Lynch

on multiple mortgages). These have restricted investment in the over-heated market. Stock market performance over 2012 was also poor in places with the market capitalisation of the Shanghai and Shenzhen stock exchanges dropping 12% and 19% respectively, despite an increase in the numbers of listed companies and investment funds.³⁷ Bond trading on these exchanges was up 20% by value, but the Chinese bond market remains relatively under-developed and is less than one tenth of the size of the US bond market.

The lack of attractive options for investment, combined with a currency that is still not fully convertible, has supported a significant interest in alternative investments, including art and antiques. Apart from its investment potential, newly wealthy Chinese are buying more art as part of their rapidly advancing consumption of all luxury goods. In 2007, HSBC found that Chinese purchased just 5% of the world's luxury goods.³⁸ Current estimates are that they now represent at least 25% of the buying in the luxury market. Research shows also that Chinese luxury consumers are moving away from the more obvious symbols of wealth and fashion and are buying goods with greater longevity, notably art, antiques and other collectibles.

Art Collectors in China

It is estimated that in 2012, millionaires in China allocated around 17% of their wealth to passion assets. The motivations for holding art and other collectible assets of this nature vary, but global research into the area showed that 39% of Chinese millionaires had financial motivations for holding them (versus 9% in the US and 11% in the UK). The same research also indicated that on average Chinese millionaires hold just over 50% of their passion assets for pure enjoyment or social motivations (with the top motivations being 'enjoyment, showing off and sharing') indicating that, as with most collectors, there is a mix of both financial and non-pecuniary motivations at work. Art and antiques also registered strongly in terms of assets held for bequeathing to subsequent generations and family.³⁹

Looking specifically at art collecting, research conducted by Arts Economics in China in 2012, indicates that in general, the focus of buyers is predominantly on the domestic market. Chinese ink painting and some decorative sectors remain the most popular segments for collectors, although there has been some increased interest in the Contemporary market, particularly by younger collectors. Some collectors described being

³⁷ Data from the World Federation of Exchanges (Annual and Monthly Statistical Bulletins for 2012).
³⁸ HSBC (2012) from *News and Insight* at www.hsbc.com
³⁹ From Ledbury Research (2012). *Wealth Insights: Profit or Pleasure. Exploring the Motivations behind Treasure Trends*. Barclays: London.

disappointed with the Contemporary sector's boom and crash from 2007, and many, who were buying mainly for investment, have stopped buying Contemporary and moved into older and more traditional sectors of the Chinese market, with traditional and 20th Century art seen as having more investment potential due to its scarcity. However, some felt now that some areas of the traditional Chinese painting market had become over-priced, creating incentives for fakes and forgeries, and becoming *"out of step with what these artists might achieve if they were ever sold outside the country"*. Excessive prices were also seen as polarising the market and preventing the buyer base from broadening.

"Collecting should be for everyone but in some sectors of antiques and Chinese painting, excessive and out of synch prices mean that art has now just become a game for stupid rich people."

While currently only the most seasoned Chinese collectors hold a very small number of works by well known (mainly Modern) international artists in their collections, some report this as an area that they will be looking to in future, in part due to the escalating prices in the Chinese market and also to what they see as a natural progression and

"widening interests in art from different cultures". Experts from the trade estimate that there are currently only about 30 large collectors of Western art from Mainland China. Buying by Chinese collectors at international auctions has increased dramatically over the last five years, ranging between 10% and 20% in some of the major houses in 2011, but fell on average by around on third in 2012.

Some older Western collectors of Chinese art have stopped buying in certain sectors of the market, claiming they are staying out of the market until the prices settle down. Many of the earliest collectors in China in the early 1990s were Western collectors buying directly from artists and from the early galleries set up in China and Hong Kong.

Dealers that were active from 2000 in China recall that early Chinese entrants to the market were 'buyers' rather than collectors, and report that their main motivations for buying art were for investment, decoration and status, with less interest in content. Because of the relatively short history of the trade in art in Mainland China, most collectors were, and still are, first generation, and often with a relatively limited exposure to art history. As described by one dealer:

“Money and the value of art as an investment came into the art market before education on the values and the context of art. Before they understood the real value of the works they were buying, they were focused on what they could earn from selling them. As the auction channel provided the quickest way to buy and sell, this was the quickest way to convert art to money and one of the reasons it has been favoured by new collectors in China.”

Channels for Collecting

While collectors in China report that they buy through galleries and fairs, directly from artists and from auctions, the dominant channel remains auction, even for Contemporary sales. According to one dealer :

“Chinese buyers love to buy at auction and often feel it is a more ‘correct’ price than one set by a dealer. They seem to trust this system more despite the continuing problems with fakes, sales not being closed, and buyers not paying for purchases.”

A Chinese collector of over 30 years noted:

“The biggest problem in China at present is that there are not enough galleries and major exhibitions. Therefore, as there is not enough volume of sales to be able to rely on this transaction mechanism to set prices or access works, the simplest solution

is to either buy directly from an artist (as it is often cheaper) or buy at auction, where you are guaranteed there will be a lot of works on offer.”

Dealers in China report that in many cases, collectors are not necessarily loyal to one gallery, and are much more flexible in terms of where they buy within the gallery sector than Western collectors, preferring to shop around. Artists they work with are also often very mobile and sell directly from their studios or through a number of galleries at the same time. Some feel that the biggest problem underlying both of these trends is a lack of clear understanding about the role of the gallery. One dealer explained that, apart from the role that dealers generally play in educating artists and developing artists’ careers, in China in some of the Contemporary sectors, galleries have become more institutional and have taken over the roles of museums.

The online channel, although highly valued in other industries, is not significant for Chinese galleries or auctions (although there is some successful purely online business in the market). Dealers report that, while Western collectors will make some purchases online once they know an artist’s work, Chinese collectors highly value personal contact and want to be given information on artists and art generally. Personal relationships with collectors are often

key for business and there is much more intensive communication and contact than may be found in the West.

Some collectors felt strongly that galleries needed to play a bigger role in future, and that direct selling by artists was interfering with their primary role in the market.

“Artists need to go back to painting and not selling - they need galleries to run exhibitions for them and more importantly to get them into the international marketplace. Studio sales will always be domestic. At the moment there are too many artists in China - they are all technically very skilled but not innovative enough. They don’t have innovative concepts. They need to create works that relate to the next generation and translate into the international arena.”

Some also felt that auctions had become over-supplied with works, and that the rapidly increasing volume of works had diluted quality in the market, making it sometimes more difficult to find good works.

IN GENERAL, THE FOCUS OF CHINESE BUYERS IS PREDOMINANTLY ON THE DOMESTIC MARKET. EXPERTS FROM THE TRADE ESTIMATE THAT THERE ARE CURRENTLY ONLY ABOUT 30 LARGE COLLECTORS OF WESTERN ART FROM MAINLAND CHINA.



"The auction catalogues are getting thicker every time I receive them. I really question that we have that many good paintings to sell. Estimates are often set too high and there is a lack of any systematic and scientific approaches to authentication and valuation. We need to re-establish reasonable prices in China. Only the super-rich can access prices in the Contemporary market now - it needs to be accessible to young people, and to a global audience."

Institutional Collecting

Currently about 70% of all private collecting by value is carried out by private individual purchasers, with the remainder through funds and some private institutions.

Corporate collecting has been growing significantly in China in recent years, with large collections attached to several financial institutions, for example the Contemporary collections at The China Minsheng Bank, and Taikang Life Insurance Corporation, which has been collecting art for over 15 years. China Poly Group Corporation also has a very large collection of antiques, and smaller collections can be found in several law firms in the country. Experts in the market have estimated that corporate collections in China are currently worth over €6 billion.

China has a strong tradition of public collecting in the arts, with a large number of key art institutions and museums. There are currently 3,600 museums in China, over four times the total of 830 a decade ago. The Shanghai Museum is one of the oldest institutions, founded in 1952, and focusing on ancient Chinese art. The China National Museum of Fine Arts in Beijing was founded in 1962 and concentrates on Modern and Contemporary artists. The Poly Art Museum was founded in 1998 as the first museum operated by a state-owned enterprise on the Chinese Mainland, and it has been a very strong buyer in the Chinese market since 2000.

Beijing's National Art Gallery was one of the first institutions to host some of the more experimental Contemporary exhibitions and other important Contemporary museums include the Guangdong Art Museum, the He Xiangning Art Museum, and the Shanghai Art Museum. The OCT Contemporary Art Terminal (or OCAT) is a subdivision of the He Xiangning Art Museum, and was established in 2005 as China's only non-profit Contemporary Chinese art organization connected to a national art museum.

Also a number of private, mainly non-profit Contemporary art institutions have opened in the last few years, with at least 600 privately owned and registered in 2012. These include

the Shanghai Museum of Contemporary Art (or Shanghai MOCA), the Duoland Museum of Contemporary art (Shanghai) and the Today Art Museum in Beijing. One of the most recent and largest private museums to have opened in China in December 2012 is the Long Museum, a project of leading Chinese collector Wang Wei and her husband Liu Yiqian. She and her husband have been collecting art for more than 20 years and have focused on buying representative works of both fine and decorative art in three main historical periods, namely Chinese traditional art, Chinese revolutionary art, and Modern and Contemporary art. In June 2012, they were listed in *ArtNews* Top 200 collectors, the first time a Mainland Chinese collector has been included in this annual global listing. Her motives for opening this museum in Shanghai and another planned for Beijing in 2013

are primarily philanthropic in order to share the collection with the public and promote education in the arts.

There are no estate or succession taxes in China and therefore no specific fiscal incentives to bequeath art to museums (although there are some available in different forms for donations to qualifying museums). Other than for philanthropic motives, the main reason for the top collectors to open private museums has been to house their collections. Interviews with both collectors and dealers also indicate that social responsibility is a very big motivator in China, and that the idea of building significant private collections for the public good has been important in driving some projects. Private museums vary widely, from pursuing a non-profit traditional museum model

IT IS ESTIMATED THAT THERE WERE OVER 70 ART FUNDS IN THE MARKET WHEN IT PEAKED IN 2011 WITH TOTAL FUNDS UNDER MANAGEMENT OF APPROXIMATELY €1.5 BILLION, BUT IN 2012 THEIR VALUATIONS DECLINED BY UP TO 75%.

to those running as effective galleries to exhibit and sell works. Those gaining non-profit status can apply for public funding from local and national government and can also offer tax-deductible receipts for donors. In some cities, the government will provide land for museum development and in others a subsidy for tickets. However in return, publicly funded museums must abide by a number of state regulations, including registering any cultural relics in their collections, and censorship of public exhibitions.

The art fund and art investment trust market in China has increased massively in size in the last five years. Minsheng Bank introduced the first domestic art fund in China via its *Artworks Investment Scheme* in 2007, becoming the first banking institution in China licensed by the China Banking Regulatory Commission in this area. Since then a large number of funds have proliferated, although these vary widely in terms of their regulation and structure. It is estimated that there were over 70 art funds in the market when it peaked in 2011 with total funds under management of approximately €1.5 billion, but in 2012 their valuations declined by up to 75%.

Art funds in China have been built around three main structures: trust funds, limited partnership or LP funds, and private equity or PE funds (with the

latter accounting for around 45% of the value of the market). Trust funds have been the main format used by art funds and they have also experienced the most challenges in the declining market in 2012. Many of these funds were launched between 2005 and 2008 and reached maturity by 2012, with some being forced to exit the market at a time when it was cooling. It is common for the funds to require an 18% to 20% return to break even and deliver returns to investors, which has been extremely difficult to do during 2012.

The maturities of art funds in China are also very short with a typical range of one to three years making strategies both limited and risky, and high return targets even more difficult to achieve unless the market is booming. The short maturity is particularly problematic given liquidity issues in the art market generally and the high rate of buy-ins peculiar to the Chinese market.

Experts in art finance in China believe that in future the structure of art funds will move more towards the PE type as their structure is much more flexible, or that it will simply shift from funds to more corporate collecting. They also believe there is a much greater role for compliance, supervision and risk management. Art trusts have been lacking in these areas which many feel could be carried out better by private companies. They also note that

as China is entering a more mature phase in its market, short-term views (and maturities) will be increasingly inappropriate.

Finally, there has also been a boom in art exchanges in China with a reported 36 art exchanges in operation or about to launch. The first exchange was the Shanghai Cultural Assets and Equity Exchange, which opened in 2009, and many have followed in quick succession. In 2011, the Chinese government published a decision (the *State Council Decision On Rectification of Trading Exchanges and Preventing Financial Risk, 2011 No. 38*) which attempted to regulate all trading exchange operations, including private art exchanges which now have to comply with the new measures. Only legally established exchanges and exchanges for financial product transactions which have been approved by the State Council are allowed to offer public shares and engage in centralized bidding transactions. In 2011, a specific set of requirements for art exchanges was also introduced (the *Opinion on Implementing and Carrying Out the State Council Decision to Strengthen the Supervision of Cultural Property Rights Transactions and Trade in Artworks, 2011 No. 49*) reflecting growing concern with the highly unregulated development of exchanges which had resulted in a number of law suits, as prices in the art market became more volatile. Under the regulations, art exchanges in China are now

required to have 'statutory registered capital' and must provide a range of professional services related to evaluation and appraisal in order to be given permission to operate.

4.7 Conclusions and Outlook

The emergence of the art market in China has fundamentally changed the global art market and China is now by far the most important of all emerging markets in terms of buying and selling art. The market's downturn in 2012 has indicated that there are limits to the seemingly unstoppable growth of the last decade and reflects the beginning of a transition to a more mature market.

China's art trade is faced with a number of issues that will affect its position over the next decade.

The gallery sector, although increasing rapidly, is still relatively underdeveloped. Many collectors are focused on buying directly from artists as they believe this to be the cheapest route, or they buy through auctions which they believe offer more choice, leaving the gallery sector less developed than in other more mature markets. The importance of galleries is being increasingly recognised both by the art buying public and by government, particularly in connection with the development of world standard artists and exhibitions. There is a belief by many seasoned collectors in China that

Chinese artists will only gain worldwide recognition when they fully embrace the practice of working through galleries.

The legal and regulatory framework of the market also remains underdeveloped, and the problem of fakes, counterfeit works and authenticity, particularly in smaller auction venues, continues. Many in the market commented that there were simply too many works of art for sale over the last few years, and that a lower volume, of higher quality works with solid provenance would provide more stable growth. Issues related to payment refusal, false bidding and other illegal operations have all been documented, and have undermined the credibility of some auction houses. According to some experts, the auction sector has been a victim of its own success, as the frenzy of buying at all levels has not given the auction houses themselves or policy makers enough time or the necessity to regulate and organise their operations. In the absence of any government regulation of the sector with regard to guarantees and other standards of practice, it has been left to the auction houses themselves to enhance their credibility and brands through their own efforts.

Although this is most obvious in the auction sector, the need for standards and transparency in the gallery sector has also been recognised, as dealers

start to push from within for greater levels of professionalism.

In the area of tax regulation, the Chinese customs authorities have launched investigations into several galleries, auction houses, art funds, artists and shipping companies in connection with possible tax avoidance. While this is helpful in promoting the professionalism of the sector, there are fears that it could have a counter-productive effect on art buyers as investigations deepen and greater transparency is required.

Due to the relatively short period in which the auction sector has developed, there is also a shortage of experts in some areas, for appraisal, valuations, authentication and insurance. Apart from experts, many galleries complained about the lack of infrastructure in the market in areas such as ancillary services, with too few companies in specialised areas such as packaging, logistics, warehousing and shipping. What little capacity there was is being used up by the auction sector. An investor in the market highlighted these weaknesses as "*causing great systematic risk in the entire value chain for art*".

On a more general level, some insiders commented that the market needs the accumulation of experience, knowledge and practice. Although there has been a tendency, even within China, to look at gaps between the Chinese market and the models used in older Western markets, some caution that, because of cultural differences, it does not bear comparison and that it will develop in its own particular way. As noted by one dealer:

“In the art trade in China we are taking all the advice and discourse from the West but not necessarily following it. The Chinese market will find its own way of operating. China has a great history of artists and relatively long history of trading art and now needs to educate and cultivate collectors. Both income and education are needed for the average person to start buying art in China and not just the 1% that currently do. But education and social structure takes time and change comes from change in society as well as changes in the market itself.”

China has been highly successful in building its art market, but in order to progress further it requires the systems, expertise, policies and people to lay down a stronger cultural infrastructure. While one of the strongest drivers of demand in recent years has been the recognition by Chinese buyers of the value of art as an investment, fast trading and

excessive speculation in the market over the recent past has, as one expert put it, *“injected uncertainty into the whole art eco-system”*.

Too low incomes and more recently too high prices has led to reduced participation by mainstream buyers and risk-averse investors. For the market to develop depth, it needs both of these trajectories to develop, that is, increasing incomes, which are already occurring, and accessible prices growing in a more stable manner, a trend that may have started in 2012. The art market in China has become largely dependent on a few top collectors at the high value end, along with a cluster of buyers at the bottom end purchasing works for less than €5,000. The important middle market is yet to develop.

Above all, the market in Mainland China is very dependent on domestic demand with a relatively low degree of international participation. To become more international, the regulatory structure needs to become more open to trade and the free exchange of ideas and art.

CHAPTER 5

THE ART MARKET IN BRAZIL



THE ART MARKET IN BRAZIL

Key Findings

- In 2012, sales in the art market in Brazil were estimated at €455 million, or around 1% of the global art market.
- It is estimated that in 2012, auction houses accounted for just 21% of domestic sales, with dealers and galleries accounting for 79%.
- In 2012, sales in the dealer sector increased 31% to €358 million, although this was still below their peak in 2010, when they reached a high of €391 million.
- An increasing number of Brazilian artists appear in major auction venues around the world. From 2010 to 2012, sales by Brazilian artists outside Brazil increased in value by 80%, with much higher prices being achieved, particularly in the Contemporary sector.
- The international auction market for Brazilian artists is quite concentrated, and in the last three years the top five artists have accounted for an average share of 69% of the market for Brazilian works.
- Brazil has run a trade surplus for art since 2009. Exports reached €41 million in 2011, their highest ever recorded total with an advance of over 1,500% over the decade. Imports were considerably lower at €12 million.
- Brazil's principal significance to the global art market has been through the buying power of its high net worth art collectors, who are growing in number.
- A major stumbling block in the international development of the Brazilian market has been its tax laws and particularly import regulations, which have made it very difficult for Brazilian galleries to sell international art, and for public collections in Brazil to import art or to build international collections.

5.1 Introduction

Considerable attention has been paid in the media over the last few years to Brazil, as well as to the BRIC emerging art markets in general. This chapter focuses on Brazil, which has not before been the object of any thorough or comprehensive research. In the past, independent analysis has been made difficult by the opacity of Brazil's art market. However, through polling and extensive research it has been possible to compile data, particularly for the last five years. The results reveal a starkly contrasting market to that of China.

Brazil's art market is very small by comparison with China. In 2012, sales in the art market in Brazil were estimated at €455 million, or around 1% of the global art market. The market is relatively under-developed compared with its mature global counterparts, and the bulk of trade is in its vibrant primary market (for first sales of artists' work), which has seen some rapid growth in recent years. There has also been some increasing interest internationally in Latin American art. As with many emerging markets, the Contemporary sector has led the internationalisation of Brazil's market, and works by Brazilian artists are increasingly sold worldwide, not in auctions devoted to Latin American art, but also now in sales of Contemporary art at major global auction houses. Nonetheless, the artists with international renown are relatively

few, as are the number of galleries participating in the global market, an indication of the narrow focus of the Brazilian market.

Brazil's principal significance to the global art market has been through the buying power of its high net worth art collectors. Brazil's HNWIS and ultra-HNWIs have undoubtedly had an impact on the global art market, although it is difficult to measure precisely its extent. But it seems clear that, in the short to medium term, Brazil's global significance will be based on its increasing number of HNWIs, rather than on the size of its domestic art market. In this respect it has similarities to both Russia and India.

While Brazil's primary market has been highly dynamic, it remains very protected, its growth restricted by a large tax burden, keeping it relatively insular, small in size and characterised by low price points. The fiscal environment has been somewhat of a discouragement to the development of a strong local market and its future will depend, among other things, on creating a competitive environment for the resale trade.

5.2 Background and Context

While some of the oldest Brazilian art museums and institutions date back to the 19th century, most of the early galleries and antique shops were set up in the 1920s and 1930s, mainly by European immigrants who had fled the world wars and set up businesses in Brazil selling European Masters and avant-garde art. Some of the country's important artistic institutions were founded in the 1940s, such as the Museum of Modern Art in São Paulo in 1946. The São Paulo Biennial began in 1951, and it is, after Venice, the oldest international biennial functioning as an important platform for the Latin American art market.

During the 1950 and 1960s, the growth of the market was buoyed by an increasing interest in Brazilian Modernism. The 1964 military coup, which established a dictatorship in the country until 1985, influenced its contemporary cultural development. During this period, the army suppressed the opposition and placed heavy censorship on the media and the arts. This dictatorship had a significant impact, not only on the creation of art, but also on the development of the entire art market's infrastructure. It effectively isolated Brazil in both artistic and commercial terms, as the government pursued a highly protectionist style of economic development. Many have painted a bleak picture of the art market in Brazil during

that period, with artists being persecuted and even imprisoned for creating works critical of the regime and with museums and galleries only being allowed to hold exhibitions, which were officially approved. One of the key events during this period was a ten year boycott of the São Paulo Biennial started in 1969, led by France and including the US and many others, protesting against censorship of galleries and interference in the exhibition.

Despite this, auction houses began in the 1970s regularly to sell art and antiques at dedicated auctions. Before then, they had been primarily used for fundraising or charitable purposes. The rise of art auctions followed the period from 1968 to 1973, known as the "Brazilian economic miracle", when the economy grew exceptionally strongly and wealth became much more concentrated. Estimates are that by the late 1970s there were about 50,000 art collectors in Brazil, although a much smaller core of around 200 had any significant degree of connoisseurship.⁴⁰

During this period more galleries were opened, mainly focusing on Brazilian Modernism and the secondary market. Contemporary art galleries operating in the primary market were still relatively rare, and many artists left the country, with the ones remaining often watched closely by the police. Even then, relatively few galleries started

⁴⁰ Estimates from galleries interviewed in the 1977 IDART study of Brazilian galleries, from Aldana E. (2008) *Interventions Into Urban and Art Historical Spaces: The Work of the Artist Group 3Nos3 in Context, 1979–1982*. PhD Thesis (University of Texas).

IN 2012, SALES BY DEALERS AND AUCTION HOUSES IN BRAZIL AMOUNTED TO AN ESTIMATED €455 MILLION, UP 10% YEAR-ON-YEAR.

during this period, with some important exceptions, including Gabinete de Artes Gráficas, which was founded in 1973 by Raquel Arnaud (now operating as Galeria Raquel Arnaud) and Galeria Luisa Strina (1974). Most of the other important galleries in the Contemporary sector opened in the late 1980s and early 1990s, including Galeria Nara Roesler in 1989 and Galeria Fortes Vilaça and Galeria Marília Razuk, both in 1992. Since 2000, the number of Contemporary galleries grew significantly and the market started to expand more rapidly. From 2000 to 2005 Galeria Vermelho, Galeria Leme, Galeria Millan in São Paulo and Mercedes Viegas, Galeria Laura Marsiaj, and A Gentil Carioca in Rio all opened.

From the mid 2000s, some galleries also began to become more international, promoting Brazilian art abroad. While there were only three or four galleries active internationally in the 1990s, there were over 20 by 2010, and many of the newest Contemporary galleries emerging over the last few years have a more international business model than their former peers. Brazilian art began to circulate more widely from this period and major international institutions such as MoMA, the Tate, and the Pompidou started to collect and exhibit Contemporary Brazilian works. Some of the most successful Brazilian Contemporary artists such as

Vik Muniz, Ernesto Neto, Cildo Meireles, Adriana Varejão and Beatriz Milhazes actively pursued international careers, which led to their works being represented in major galleries in Brazil, as well as in London, New York, Madrid and Berlin. Their works now appear in international auction sales. Although international interest has tended to be quite narrow and has concentrated on a small number of artists who emerged in Brazil in the 1980s, there is evidence of a broadening of interests both in younger emerging artists and some older Brazilian artists such as Tunga, Cildo Meireles Hélio Oiticia, Lygia Clark, Mira Schendel, Lygia Pape and Abraham Palatnik.

Another key event in the development of the modern Brazilian art trade was the creation of the first Brazilian art fair, SP-Arte, in 2005. The collaboration of galleries at this event also helped to encourage the development of the first Contemporary gallery association. ABACT (The Brazilian Association of Contemporary Art) was formed in 2007 and was originally comprised of eight members, all of which were leading Contemporary art galleries in Brazil.⁴¹ Since then the association has expanded to 46 galleries, all operating in the primary market, which have an estimated market share of over 75% of that sector of the market in Brazil.

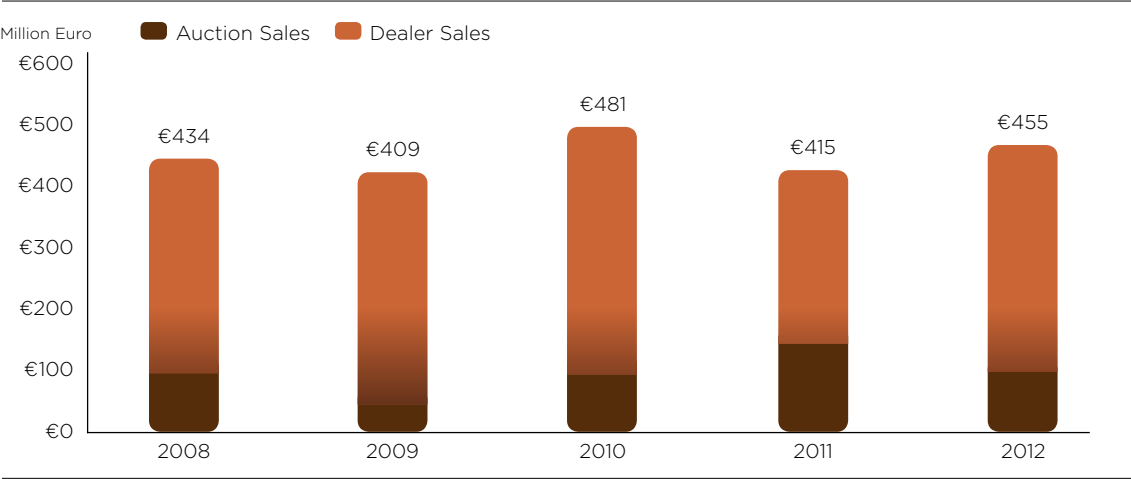
In recent years, a number of Brazilian galleries have become regular exhibitors at international art fairs such as Art Basel (which had four Brazilian galleries in 2012), Art Basel Miami Beach (with 14 galleries in 2012), Frieze London (with six in 2012) Frieze Masters (two in 2012) and the Armory Show (which lists three galleries for 2013⁴²). Many galleries that participated in satellite fairs in Miami and London five years ago, have now integrated into the main fairs, as their recognition and status in the international market has become established.

5.3 Art Market Sales

In 2012, sales by dealers and auction houses in Brazil amounted to an estimated €455 million, up 10% year-on-year. While auction sales contracted in 2012, dealer and gallery sales, which dominate the market, grew strongly, leading to a net increase in the value of the market. Nonetheless, sales were down from their peak of €481 million in 2010. It is important to note that, while the market has expanded rapidly in size in the last 20 years, in a global context, the entire Brazilian art market is still small, accounting, for example, for less than the turnover of just one of the major auction houses in China.

⁴¹ These were Casa Triângulo, Gabinete de Arte Raquel Arnaud, Luciana Brito Galeria, Galeria de Arte Luisa Strina, Galeria Forte Vilaça, Galeria Leme, Galeria Millan and Galeria Vermelho.
⁴² In its second edition of its Focus section in 2011, "Armory Focus" highlighted Latin America, with at least eight leading Brazilian galleries.

Figure 5a. Estimated Total Sales in the Art Market in Brazil (2008-2012)



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In 2012, sales in the dealer sector experienced the greatest advance year-on-year, with an increase of 31% to €358 million, although this was still below their peak in 2010, when they reached a high of €391 million. The rise in the volume of works sold in 2012 was much less than the value (increasing just 7%), indicating that rising aggregate sales were due to higher prices. In 2012, average prices for works sold by dealers in Brazil reached just under €21,000, although these are skewed upwards by

a small number of highly priced works, and the median price was just under €7,000. The median price in the market peaked in 2010 at just over €10,000, and after a sharp fall of 65% in 2011 to €3,500, they doubled over 2012.

In 2012, Arts Economics conducted a survey of dealers and galleries in Brazil to gather market information on the gallery sector. The dealers surveyed were from ABACT⁴³, as well as galleries

⁴³ We would like to acknowledge and thank ABACT for their support in promoting the survey among their members.

which had recently exhibited at art fairs in Brazil and internationally, and some of the main antiques and decorative art dealers in Brazil. The respondents were mainly Contemporary dealers with 82% dealing in Contemporary art, 16% in Modern art and 2% in historical sectors.⁴⁴

The survey revealed that the Brazilian dealers' sector is concentrated at the low value end of the market, with the majority (87%) of works sold by dealers priced at less than €50,000 in 2012. While this trend is consistent with the global evidence, Brazil differs at the higher end, with no dealers reporting sales of greater than €350,000 (versus 6% of dealers globally).

Table 5a. Share of Sales by Price Brackets

Price Range	Brazilian Dealers	Global Dealers
Less than €3,000	26%	26%
€3,001 - €50,000	61%	51%
€50,001 - €200,000	11%	13%
€200,001 - €350,000	2%	4%
€350,001 - €500,000	0%	3%
€500,001 - €2m	0%	2%
Greater than €2m	0%	1%

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The majority of Brazilian dealers were optimistic about sales in 2013, with 83% forecasting higher sales, and the remaining 17% predicting that sales would be stable. Dealers also reported that profits have been rising steadily in the last five years, despite some volatility in revenues. Average gross profits in the sector have risen from 17% in 2008 to 28% in 2012 (although there is significant variation between businesses, with reported margins of between 8% and 70%).

The auction sector, which is considerably smaller by value than the dealer segment, contracted by an estimated 31% from 2011 to 2012, despite an 8% increase in the volume of sales. Auction sales reached just over €97 million in 2012, down from their €141 million peak in 2011, but over twice their value in 2009, when they dropped to an estimated €44 million. Turnover at this level again demonstrates the very small size of the domestic market.

Auctions at the major houses, such as Bolsa de Arte and Lordello and Gobbi, are focused mainly on Modern and Contemporary fine art, which accounted for over 90% of the value and volume of their sales over the last three years. Design is also a small but important element of many auctions.⁴⁵

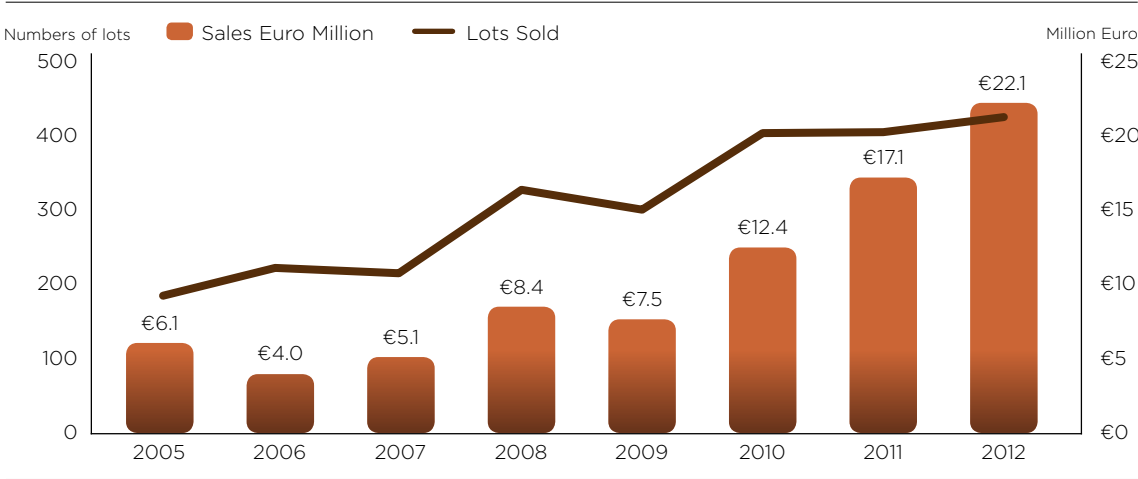
⁴⁴ Response rates were over 30% for this survey.
⁴⁵ In Bolsa De Art for example, in a typical 2012 sale, 10% of sold lots were Modern and Contemporary designs including pieces by Brazilian artists Joaquim Tenreiro (1906-1992), Jose Zanine Caldas (1918-2001), and Lina Bo Bardi (1914-1992), plus a small number of works by foreign artists. Prices ranged from \$3,000 to \$95,000, averaging around \$25,000.

Average prices in the main auction houses in 2012 were €18,400, down 28% on 2011, but up 56% from their low point in 2009, when they were just below €12,000. These averages are, however, skewed up by a smaller number of higher priced sales. Even in the more high end houses such as Bolsa de Arte, in 2012, nearly half of the lots sold at auction were for less than €10,000, while only 7% of lots sold for over €100,000 (with the highest at around €400,000). In Lordello and Gobbi, on the other hand, which focuses on a higher volume of lower priced works

(and as such is more typical of the other auction houses in the sector in Brazil), 87% of lots sold for less than €10,000 with 75% of those for less than €5,000 and only 1% for over €100,000. Smaller regional houses sell predominantly lower priced works, and also more decorative art, antiques and collectibles.

Apart from auction sales in Brazil, an increasing number of Brazilian artists appear in major auction venues around the world. Figure 5b shows auction

Figure 5b. Auction Sales of Brazilian Artists' Works outside Brazil (2005 - 2012)



© Arts Economics (2013) with data from Artnet

sales of works by Brazilian artists outside Brazil from 2005 to 2012. From 2010 to 2012, sales increased in value by 80% despite a much smaller increase in the volume of sales of just 5%, with much higher prices being achieved for Brazilian artists over this period, particularly in the Contemporary sector.

Table 5b shows the advance in average prices internationally for works by Brazilian artists over the period from 2005 to 2012. Apart from a contraction

in 2009, prices have been increasing since 2006 with a 186% increase to 2012 (while total sales have increased by over 450% in the same period). The table also shows average prices for works by three important Brazilian artists: works by Contemporary artist Beatriz Milhazes have grown phenomenally and there has also been strong growth in the price of works for Vik Muniz. Works by Modern artist Candido Portinari experienced greater volatility.

Table 5b. Average Auction Prices (International Sales Outside Brazil)

	All Brazilian Artists	Beatriz Milhazes	Vik Muniz	Candido Portinari
2005	€33,854	€104,000	€21,892	€289,463
2006	€18,284	€105,204	€16,938	€167,689
2007	€24,121	€276,950	€30,403	€22,173
2008	€25,749	€319,305	€38,955	€41,555
2009	€24,978	€204,297	€33,252	€136,730
2010	€30,749	€332,995	€32,159	€30,423
2011	€42,261	€289,061	€43,961	€118,656
2012	€52,376	€757,701	€37,403	€225,284
% Change 2005-2012	55%	629%	71%	-22%=-

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Table 5c. Share of Auction Sales Outside Brazil of the Top 5 Brazilian Artists

Artist Name	2010	Artist Name	2011	Artist Name	2012
Beatriz Milhazes	25%	Vik Muniz	17%	Beatriz Milhazes	24%
Vik Muniz	21%	Adriana Varejao	16%	Vik Muniz	14%
Sergio Camargo	16%	Sergio Camargo	13%	Adriana Varejao	12%
Lygia Clark	6%	Beatriz Milhazes	10%	Sergio Camargo	12%
Adriana Varejao	5%	Emiliano di Cavalcanti	7%	Candido Portinari	9%
Others	27%	Others	37%	Others	30%

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The international auction market for Brazilian artists is quite concentrated, with a narrow range of artists achieving a relatively high market share. In the last three years the top five artists have accounted for an average share of 69% of the market for Brazilian works. In 2012, top selling artist Beatriz Milhazes accounted for 24% of the market, and the top five selling artists had a combined share of 70%.

5.4 Art Market Structure

The art market in Brazil is heavily dominated by dealer sales. It is estimated that in 2012, auction houses accounted for just 21% of domestic sales and dealers and galleries accounted for 79%. Although the share of auctions has varied from 10% to over 30% in recent years, it has averaged about 20% from 2008 to the present.

While there are over 300 auction houses that sometimes sell art and antiques along with other goods, there are only about ten larger companies that sell art and antiques exclusively and regularly. The largest houses are predominantly based in Rio De Janerio and São Paulo, although other smaller capitals such as Proto Alegre have about five auction houses regularly holding art auctions.

The most important auction houses in Brazil include:

- 1. *Bolsa de Arte*, which has been in operation since the early 1970s and is based in Rio de Janeiro, with an office in São Paulo. It organizes three to four auctions per year and, since 2008, has had one sale specializing in design, photography and Contemporary art.

- 2. *Tableau Arte e Leilões* is based in São Paulo and has operated since 1975. It currently runs six auctions per year.
- 3. *James Lisboa*, also based in São Paulo, and founded in 1986 holds four auctions per year of mainly Modern and Contemporary art and design.
- 4. *Aloisio Cravo* is based in São Paulo and although having held up to four auctions per year during the 1990s, it has only held two auctions per year for the last two years.
- 5. *Evandro Carneiro Leilões* is based in Rio de Janeiro and is owned by Evandro Carneiro, former owner of Bolsa de Arte. It holds four art auctions a year with a special focus on the middle-range market.
- 6. *Escritório de Arte Soraia Cals* is based in Rio de Janeiro and its owner, Soraia Cals, has been operating in the auction market since 2003. In 2006 she also opened a gallery (Galeria de Arte Soraia Cals) and the following year, signed an official collaboration with Evandro Carneiro Leilões, which led to the organization of five joint auctions. It held five auctions in 2012.

While some auction houses boomed in the 1970s, the sector as a whole is relatively underdeveloped and mainly operates at low price points by international standards. However there is a very strong auction market outside Brazil for Latin American art and

specifically Brazilian artists, with works by Brazilian artists being increasingly sold worldwide, not only in Latin American sales, but also now in international sales of Contemporary art at Christie's, Sotheby's and Phillips de Pury's in London and New York. In 2011, for the first time, a work by a Brazilian artist surpassed the \$1 million mark at auction when a painting by Adriana Varejão (*Wall With Incisions a la Fontana II*) reached £1.1 million in Christie's Post-War and Contemporary Evening Auction in London. Subsequently, a work by Beatriz Milhazes reached \$2.1 million at Sotheby's Contemporary Day Auction in New York in 2012, the highest price ever paid for an artist from Brazil.

There are in the region of 4,000 established galleries selling art and antiques in Brazil, with around 1,500 specialising in antiques and decorative art and the remainder in fine art, predominantly Modern and Contemporary.

While the Contemporary gallery market is dynamic, with an expanding base of galleries and collectors, the secondary market has been more stable, with the number of businesses not increasing significantly in the last decade (although some businesses have significantly increased their sales values). Most secondary market galleries focus predominantly in the works of Brazilian artists from different eras, design and other decorative art and

antiques, and they rarely participate in fairs outside Brazil.⁴⁶

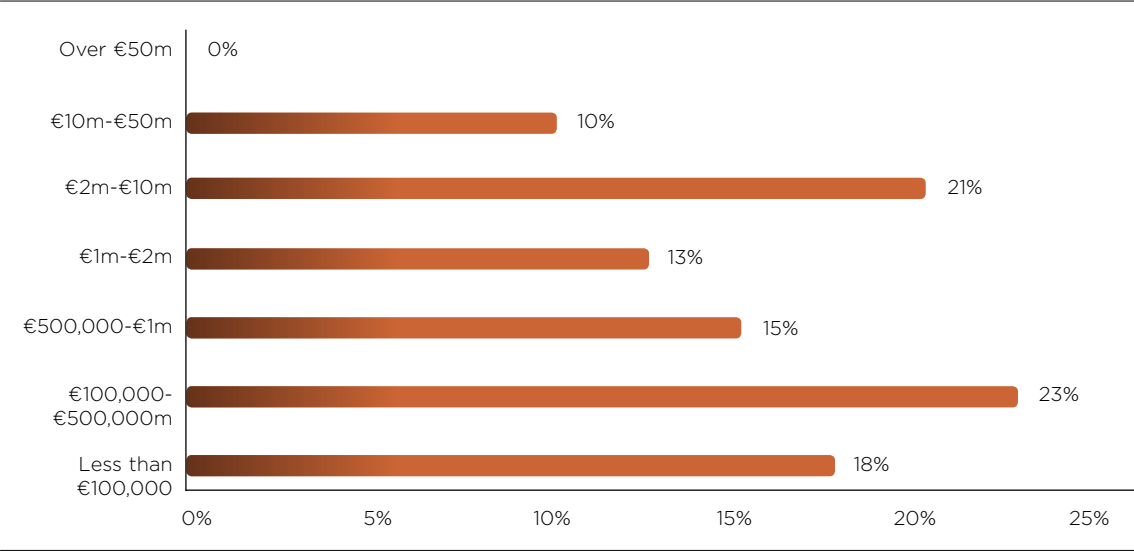
There is a high concentration of galleries in São Paulo, Brazil's largest city and financial centre and the traditional cultural capital. Due to historical factors and the development of the art market, galleries there are the largest in Brazil and the most international, with events such as the Biennale and more recently SP-Arte providing strong links with the global market. Rio de Janeiro has also become an important cultural centre and home to wealthy collectors and galleries. These two cities are thought to account for over 80% of the businesses in the art trade in Brazil. Brasília, on the other hand, which is the federal capital of Brazil and the city with one of the highest average incomes in South America, has few galleries and dealers.

According to polling, the median turnover of galleries in Brazil was about €840,000, and the majority (56%) of galleries had sales of less than €1 million. It is important to note that those surveyed represent the central core of the gallery sector, which comprises the top 200 dealers in Brazil, and, as such, median values are much higher than is likely to be the case for the other dealers outside this core, particularly smaller regional galleries outside São Paulo and Rio.

⁴⁶ An important exception is DAN Gallery, and important dealer of Modern and Contemporary Brazilian art in São Paulo.

THE ART MARKET IN
BRAZIL IS HEAVILY
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DEALER SALES,
WHICH ACCOUNTED
FOR 79% OF DOMESTIC
SALES IN 2012.

Figure 5c. Distribution of Sales Turnover of Brazilian Art Galleries in 2012



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Partly due to the tax system and the manner in which market demand has developed, most galleries in Brazil are dependent on the domestic market for the majority of their sales. In 2012, on average Brazilian dealers made 85% of their sales in Brazil and 15% overseas. One quarter of those surveyed focused exclusively on the domestic market and only 3% reported overseas sales of more than 50%. The most important overseas

buyers reported were the US (in 28% of responses), France (13%), other Latin American countries (13%), the UK (10%) and Spain (6%).

Like galleries in the global market, sales through art fairs have become an important part of most dealers' businesses in Brazil. In 2012, 47% of sales by Brazilian dealers were through art fairs (11% higher than the global average), with the majority

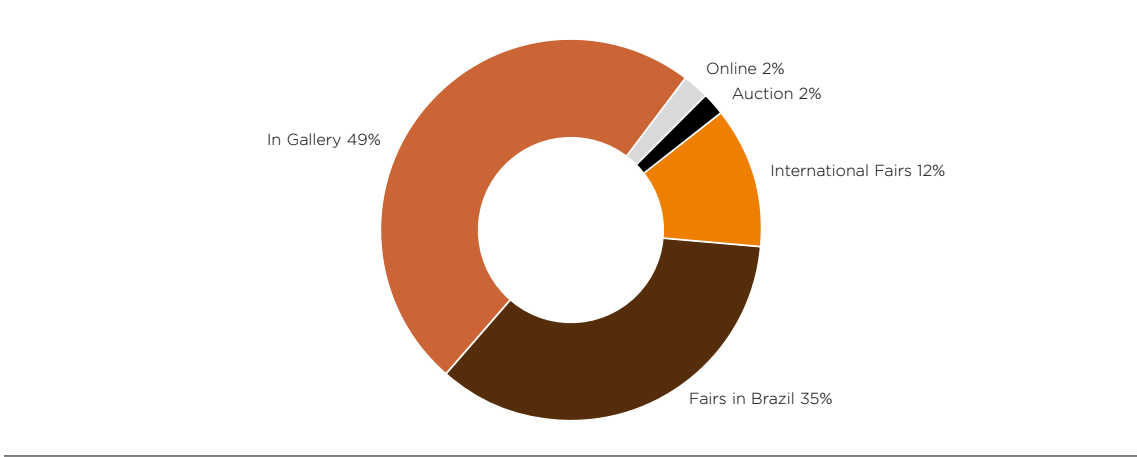
of those at fairs within Brazil. The traditional gallery is still the most important channel for sales with a 49% share (versus 44% globally), while online sales are low at 2% (versus 8% globally). When asked about the influence of the internet on their businesses, 42% of the dealers surveyed stated it had no effect, but the remaining 58% felt that its effects were positive, or very positive.

Art fairs are also the biggest areas of expenditure by dealers in Brazil, accounting for 43% of their total spending on external services in 2012. Fairs are one of the most important ways in which galleries reach

clients, and dealers spend almost four times as much on their attendance as they do on marketing and advertising (which had a share of 11% of total spending on external services). Despite the high level of expenditure, an overwhelming majority (97% of those surveyed) felt that the growth of art fairs had a positive, or very positive effect on their businesses.

Dealers commented that, while fairs within Brazil had started out as Brazilian galleries selling to Brazilian collectors, in the last few years these events had become more international.

Figure 5d. Share of Brazilian Dealer Sales by Channel in 2012



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There are currently two main international art fairs in Brazil: SP-Arte and ArtRio. SP-Arte was created in 2005 in São Paulo and focuses on Modern and Contemporary art. In its first event in 2005, 41 galleries participated, but since then the numbers of galleries exhibiting has increased steadily, reaching 110 in 2012. There has also been an increase in the share of foreign galleries, including 27 in 2012 versus only one in its first event.

ArtRio was created in 2011 and also focuses on Modern and Contemporary art. In its first event, the fair hosted 83 exhibiting galleries (including 33 foreign galleries), and it reported 46,000 visitors. In 2012, there were 74,000 visitors with 108 galleries exhibiting, including 43 foreign galleries. ArtRio also led the first initiative to get state tax exemptions on imports during the period of the fair, which were critical in ensuring the continued participation of important international galleries such as White Cube and Gagosian. This was followed by a similar exemption for SP-Arte in São Paulo 2012.

Other smaller fairs include Salão Hebraica (São Paulo), which was created in 1994 and includes important exhibitors of antiques, jewellery, academic, Modern and more recently Contemporary art. In the last two years, two new fairs focusing on affordable art works (of less than \$10,000) have emerged: Parte (São Paulo), created in 2011 and Artigo (Rio de

Janeiro), which opened in 2012. These two new fairs tend to be attended by newer galleries, many of which do not yet have access to SP-Arte or ArtRio. Parte had 22 galleries participating in its first event, and 42 in 2012.

Dealer Employment in Brazil

The average number of people employed in galleries in Brazil in 2012 was relatively high by international standards at eight people, although the figure ranged from two to 40. The sector was relatively dynamic with two thirds of dealers reporting that they had increased the numbers of people employed in their businesses in 2012 (by two people on average), while less than 4% had reduced their numbers.

While the percentage of female to male labour participation in the general labour force in Brazil is currently around 44%,⁴⁷ the gallery sector is more skewed towards female participation, with a share of 55% (which is also higher than the global average of 47%).

In terms of employment status, galleries in Brazil averaged 80% full-time workers, much the same as the wider labour force in Brazil (which averages 18% part-time employment), and slightly higher than the international market where dealers averaged 74% full-time in 2011/2012.

⁴⁷ Data on the general labour force in Brazil is taken from the World Data Bank, World Development Indicators in 2013 and the OECD Employment and Labour Market Statistics database.

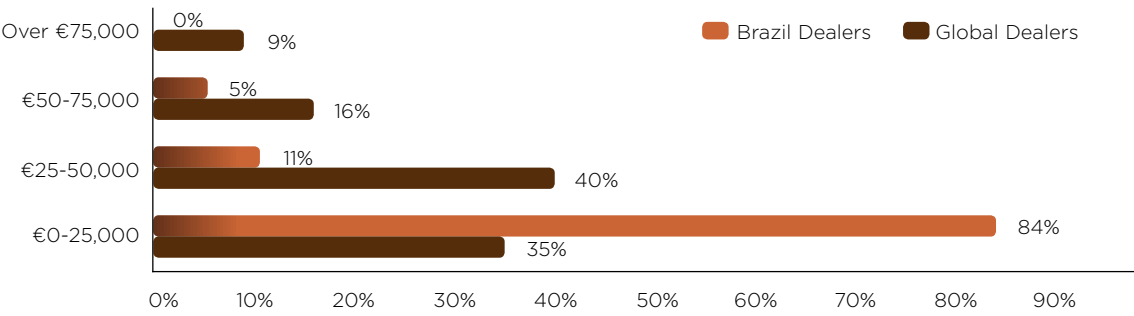
While dealers worldwide have proven to be better educated than the general labour force, in Brazil this divide is particularly marked. According to the survey, 64% of those employed in galleries in Brazil have a third-level qualification compared with just 7% of the general labour force. On average across OECD countries, a third level graduate can expect to earn over 50% more than a person with an upper secondary education. In Brazil, this premium is more than three times as high at 156%, the highest among all OECD countries. Brazil has lower labour costs and gross annual earnings than the OECD average, with gross annual full-time earnings of around €3,500 for a worker without an upper secondary qualification versus €15,000 for those with a tertiary degree.⁴⁸ The survey showed

that 43% of dealers earned less than €10,000 and hence lower than the average for their high education level, and the majority (84%) earned less than €25,000 per annum. Although the majority of dealers earn higher than the average Brazilian wage, there is a significantly higher share in the lower income segments than dealers globally, with none reported earning over €75,000 per annum.

Other Participants in the Art Trade

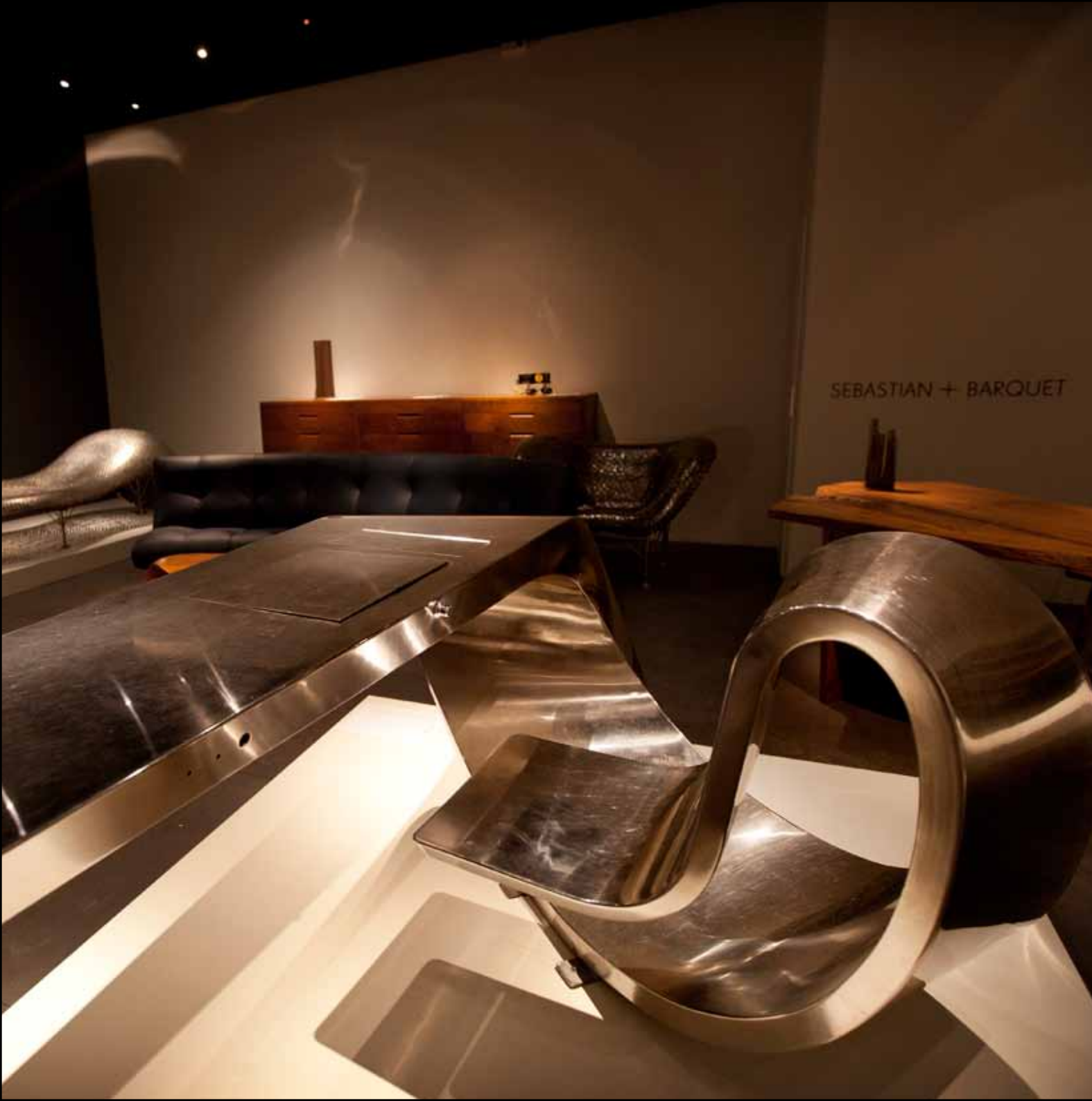
A trend in Brazil, common to the global market, is an increase in the number of art consultants. In Brazil consultants act as mediators, agents and advisors to collectors, working on commission from galleries or paid directly by collectors. Several specialised companies have been set up in recent

Figure 5e. Average Dealer Salaries: Global Average versus Brazil



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⁴⁸ OECD (2011) *Education at Glance 2011 OECD Indicators*. DOI: <http://dx.doi.org/10.1787/eag-2011-en>.



years to act as middlemen between artists and museums, as well as connecting government and private sector funding with art institutions. These agents have in some cases become very important in enabling exhibitions, as museums have had increasing difficulties in accessing public funding, and they have begun to dictate the exhibition programmes of some institutions.

There have also been an increase in the number of international art consultants working in Brazil advising HNWI's buying international art as well as those advising international collectors interested in art from Brazil.

Brazilian artists themselves also make studio sales and some have highly organised websites and companies.

5.5 The Brazilian Cross-Border Trade in Art

In 2011, Brazil was a net exporter of art, and has run a trade surplus since 2009. Exports reached €41 million in 2011, increasing by 178% year-on-year, and reaching their highest ever recorded total with an advance of over 1,500% over the decade. Imports, at €12 million, also increased 118% year-on-year, but fell short of their peak at close to €15 million in 2008.

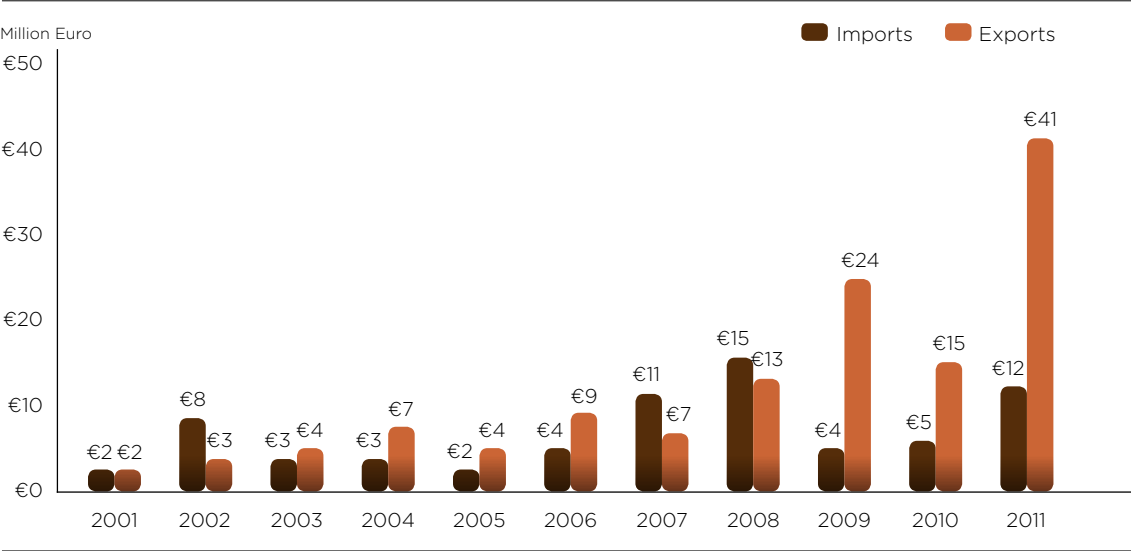
Rather than trading with markets in close proximity in Latin America, the main source countries for Brazil's recorded imports of art in 2011 were the major Western art markets of the US, UK and France, with shares of 39%, 17% and 10% respectively. Spain was also an important source, with 8% of imports, as was Portugal with 4%.

The US dominated exports as well with a 45% share of their value, but the importance of trading links with Spain was more obvious here, with 14% of total exports, ahead of France and the UK at 11% each. China is, as yet, not an important trading partner, with just over 4% of imports and 2% of exports.

Looking back ten years to 2001, the destinations for exports were not radically different, with France and the US accounting for a combined share of 54% of the value. Japan was a slightly more important source for imports that year with a share of 22% (while the US had a 20% share). However at such a low level, even a very small number of transactions could have accounted for a significant share of trade.

The majority (74%) of works imported to Brazil in 2011 were fine art, although antiques and decorative art have been important in previous years, and accounted for the majority of imports from 2006

Figure 5f. Brazilian Imports and Exports of Art



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to 2008. For exports however, fine art is very dominant, averaging 94% of the value of exports for the last ten years.

Exports of art have been growing particularly strongly since 2007. Despite one year of contraction in 2010, the value of exports has increased by nearly six times in just five years. In 2007, the government launched an International

Promotion Project, which was aimed at supporting and increasing the participation of Brazilian galleries in the international market. This programme was led by APEX-Brasil⁴⁹ in partnership with the São Paulo Biennial Foundation and a number of primary market galleries. It has been administered by ABACT since 2011 and currently supports 54 participating galleries.⁵⁰ Apex- Brasil and ABACT work together to promote Contemporary Brazilian art in international

⁴⁹ APEX-Brasil is the Brazilian Trade and Investment Promotion Agency, which is responsible for promoting Brazilian products and services abroad and attracting foreign investments to strategic sectors of the Brazilian economy.

⁵⁰ In 2012, the International Promotion Project became *Latitude - Platform for Brazilian Art Galleries Abroad* and is a partnership between and Apex-Brasil.

Table 5d. Share of Brazilian Imports and Exports by Sector of Art

Year	Imports	% Fine Art	Exports	% Fine Art
2001	€2.4	69%	€2.5	93%
2002	€8.4	63%	€2.6	78%
2003	€3.1	10%	€4.4	79%
2004	€3.5	21%	€7.3	99%
2005	€2.2	68%	€4.3	99%
2006	€4.3	20%	€8.9	99%
2007	€11.0	8%	€6.6	91%
2008	€15.3	38%	€12.7	98%
2009	€3.6	57%	€24.5	99%
2010	€5.5	49%	€14.6	99%
2011	€11.9	74%	€40.7	97%

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markets as well as trying to create commercial opportunities for the galleries involved in the international arena. These actions have ranged from financial support for Brazilian galleries participating in international art fairs to organising events for international media and experts in Brazil.

Since the beginning of the project, the number of exporting galleries and the participation of Brazilian galleries in international fairs has increased significantly. Of those galleries involved in the programme, only 12 were exporting when the programme began and this peaked at 22 in 2011, and

totalled 19 in 2012. According to data from APEX-Brasil, in 2007 the total exports of participating galleries was \$6 million. This had reached just under \$27 million in 2012, or an increase of 350%.

5.6 Trade Regulations and Taxes

A major stumbling block in the international development of the Brazilian market has been its tax laws and particularly its import regulations, which have made it very difficult for Brazilian galleries to sell international art, and for public collections in Brazil to import art or to build international collections. While certain individuals

THE BRAZILIAN GOVERNMENT HAS BEEN KEEN TO WORK WITH THE ART MARKET TO FIND WAYS TO EXPORT BRAZILIAN ART, BUT THEIR CONTINUED PROTECTIONIST STANCE ON IMPORTS HAS KEPT THE MARKET SOMEWHAT INSULATED AND DOMESTIC IN FOCUS.

and institutions have found ways to circumvent these laws⁵¹, tax laws and regulations remain a significant stumbling block in the market's openness to the international art trade. While the Brazilian government has been keen to work with the art market to find ways to export Brazilian art, their continued protectionist stance on imports has kept the market somewhat insulated and domestic in focus.

Brazil has a complex tax system for art and all goods.⁵² There are two value-added taxes in Brazil: a state sales tax (or ICMS), which ranges from 17% to 19%, and a federal excise tax (or IPI), which is generally applied at 4% for imports of art. In addition there are taxes on services (ISS), which average around 5%, social contributions on billings (COFINS) and contributions to the Social Integration Programme (PIS), with standard rates of approximately 9% in total on imports, and 4% on internal sales. These three additional taxes are also charged on gross sales rather than on profits or net receipts, which can make them very substantial in practice.

Import Taxes

Brazilian governments have a long history of using protectionist measures to discourage imports. It was virtually impossible to find imported products in Brazil before 1990 and, although the market has

opened up considerably since then, the levies on imports are still high compared to other economies. Import taxes on art are no exception. When importing a work of art into Brazil, the following taxes apply:

- 1. The Federal import tax or IPI at 4%.
- 2. The ICMS at 18% for São Paulo and 19% for Rio.
- 3. The PIS/ COFINS at 9.25%.

These rates alone could add to a significant aggregate rate of just over 32%, but due to the way they are applied the burden is even greater. At each level, the tax basis used to determine the new amount includes the original price plus any cumulative taxes added. For example:

- 1. The tax basis for IPI is the original export price, *plus* freight, *plus* insurance, *plus* other import expenses.
- 2. The tax basis for the ICMS is the export price, *plus* freight, *plus* insurance, *plus* other import expenses, *plus* IPI.
- 3. The tax basis for the PIS/COFINS charges is the export price, *plus* freight, *plus* insurance, *plus* other import expenses, *plus* IPI, *plus* the ICMS.

Therefore the effective tax rate for works of art exceeds 45% of the price at which it had been originally exported, and there are generally no distinctions or exemptions linked to the artist's nationality, the age of the work or other characteristics. Most dealers and collectors found that import taxes had had a very negative effect on the market, and 86% of dealers surveyed felt that import regulations on art had had a negative effect on their businesses.

There is no VAT on exports, although the majority of dealers (68%) reported that export regulations had had a negative effect on their businesses. Most complained of their complexity and a lack of understanding of the processes required.

In recent years, the organisers of ArtRio and SP-Arte lobbied for and won temporary exemptions for art galleries participating in these events from ICMS (i.e. the 18% or 19% state taxes). These initiatives were negotiated only for the period of the fairs, although ABACT is also lobbying in Brazil for a definitive tax reduction at the federal level, a zero import tax and reductions to PIS/COFINS social contributions.

⁵¹ For example, Centro de Arte Contemporânea Inhotim, the Contemporary art museum set in 5,000 acres in Brumadinho in southeast Brazil, has since 2004, included international artists by commissioning them to work on producing work within Brazil. Art fairs have also negotiated temporary import VAT deductions.

⁵² Information on taxes applying to the art market in Brazil was kindly supplied for this chapter by tax specialist, Celso Grisi from the firm GDA Law (<http://www.gdalaw.com.br>).

Taxes on the Art Trade

Most galleries in Brazil are small companies, both due to market factors and in part by design, as small companies with turnover of less than \$3.6 million (and exports of less than \$3.6 million) can access a system of significantly reduced tax rates under the so-called "Simples Nacional" tax system set up in 2006. Companies that are eligible pay one tax rate only, based on their turnover, which ranges on a sliding scale from 4% to a maximum of 11.6%.⁵³ These companies are also exempt from a variety of social security contributions and withholding taxes and have much less complex obligations with regard to VAT payments and bookkeeping. The majority of dealers surveyed (70%) had turnover of less than this amount, and it is highly likely that most other dealers outside those surveyed are covered under this scheme.

Foreign galleries cannot access the Simples Nacionais, which, alongside punitive rates of import tax and VAT on art, have deterred many from entering the market. One foreign dealer interviewed described the difficulties in trying to set up a business in Brazil:

"We were faced with paying over 19 different taxes, which we estimated were going to add up to 60% of our revenues and would have made it impossible to run a business from there. Instead, we

brought prominent artists' works from the US and showed them at art fairs in Brazil. The reception was somewhat unenthusiastic simply because most people were not familiar with their work due to the lack of foreign galleries in the country."

Some foreign galleries have made recent approaches into the region however, notably with White Cube establishing a base there in December 2012, although it is as yet unclear how they will deal with the tax issues.

Artists who sell to collectors are exempt from the ICMS. However some commissioned works are subject to the ISS, which ranges from 0% to 5% depending on where the artist's studio is located.

Taxes on Collecting Art

When buying art in Brazil, collectors will pay the regular ICMS, which is levied on all goods at a rate of 18% in most states (and 19% in Rio de Janeiro). They may also pay ISS that applies at rates of between 2% and 5%. When an individual sells a work of art in Brazil, the capital gain is taxed at 15%, and a 34% rate applies to companies.

While there is a bill currently in Congress to try to make donations of art to museums more attractive, there are few specific reliefs from corporate income tax or other taxes for art collecting, exhibiting or

making donations (of art or money) directly to existing state or private museums.

In the 1990s, a series of corporate tax breaks were introduced, called *The Rouanet Law*, which allows both companies and individuals in some circumstances to deduct contributions to cultural projects from income taxes. Under this law, companies and individuals can access tax rebates on cultural investments approved by the Ministry of Culture. The law allows individuals and companies to invest 6% and 4% respectively of their tax due as donations to officially registered non-profit organisations (which includes some arts, educational and research institutions which comply with certain federal constitutional rules) and to cultural projects. Where they can be applied, such donations are limited to 1.5% of the gross operational profit of a company.

The laws on donating and bequeathing art are complicated in Brazil as there are 27 different states, all of which apply slightly different regulations. Gifts, donations and inheritances are exempt from Brazilian individual income tax. However, specific state legislation governs inheritance and donation taxes (ITCMD) and these can apply at rates of 0% to 4%, depending on where the donor lives. As inheritance and donation taxes are relatively low, they do not provide a particularly strong incentive

for wealthy collectors to bequeath art to the public good. Where donations are made, they can be made in cash or in kind. There are again various specific exemptions and conditions related to donations of art to museums in different states.

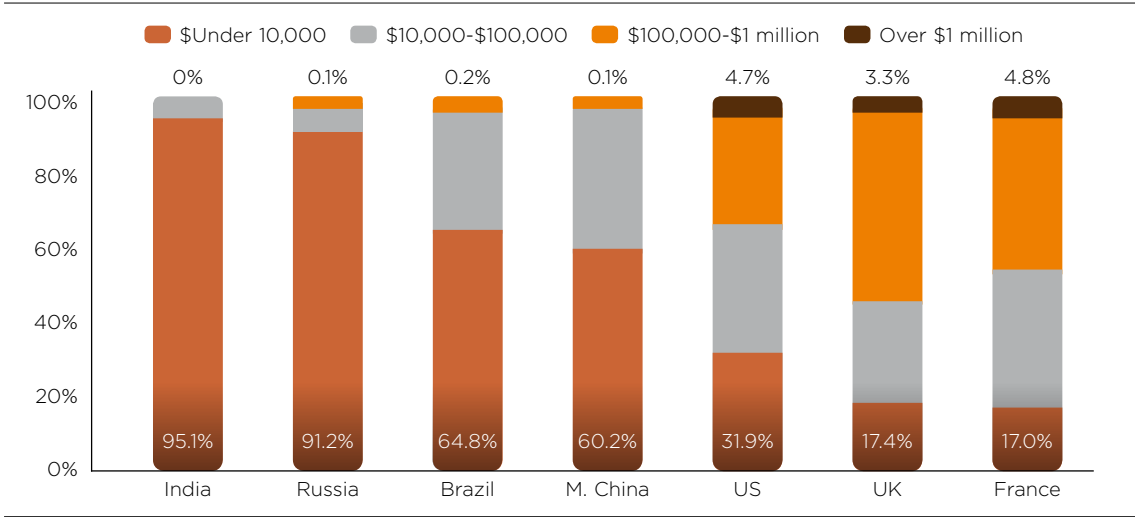
Overall, there are no specific fiscal incentives for collecting art in Brazil or for making it a preferred form of wealth holding. Many collectors report that tax incentives are not an important motivator for donating art.

5.7 Art Collecting in Brazil

Brazil's economic development over the last 20 years has buoyed the country's wealth, increasing both average incomes and the population of millionaires. Both have helped to drive demand in the art market. In the decade from 2000, Brazil benefited from an increased formalisation of the labour market with at least 40 million Brazilians entering the middle classes, while a booming commodities market led to growth in investments, wealth and exports. Like the other BRIC nations, incomes are still very divided between rich and poor, with 65% of Brazilians having net wealth of less than \$10,000 in 2012, while only 0.2% of the population are in the category of over \$1 million.

⁵³ For those outside it, besides company taxes on profits (which aggregate to 19%), PIS and COFINS must be paid at rates of 0.65% and 3% respectively on gross revenues along with Federal and State taxes. ISS or City Service Taxes may also be due (2% to 5%) for certain services including intermediation, consulting appraisals, curating or other expert services.

Figure 5g. The Division of Wealth within Brazil and Other Economies in 2012



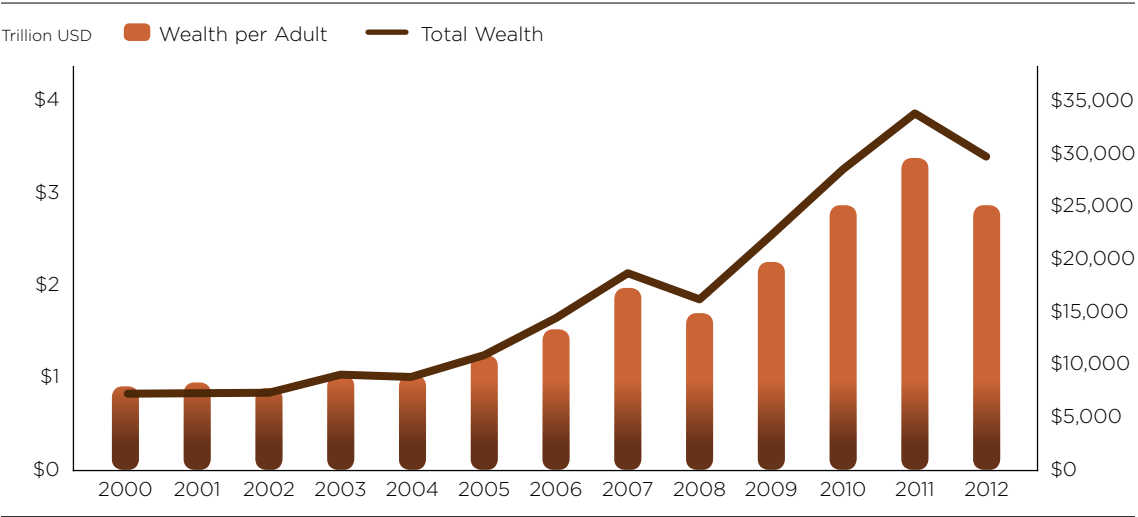
© Arts Economics (2013) with data from Credit Suisse

Like China however, the middle-income segments are becoming larger, with those individuals in the bracket from \$10,000 to \$100,000 now representing just under one third of the population.

Average household wealth has more than tripled since 2000, increasing from just under \$8,000 per adult in 2000 to close to \$25,000 in 2012, while the country's total aggregate wealth grew

over 300%, from \$0.8 trillion to \$3.3 trillion. The amount of wealth held in non-financial assets is around 58%, which is typical of many emerging markets, although financial holdings of 42% are still relatively close to the 50% benchmark that represents the average for advanced countries. This is an indication of considerable financial development in Brazil, which has been achieved despite a decline of close to 20% in the stock market over 2009, and despite Brazil's history of

Figure 5h. Growth in Wealth and Wealth per Adult in Brazil (2000 to 2012)



© Arts Economics (2013) with data from Credit Suisse

significant hyperinflation, particularly in the 1990s, which encouraged investment in property over financial assets.

The Brazilian economy has proved more robust than many other developed nations in recent years. In spite of a marked contraction in 2009, the economy boomed in 2010, when the rest of the world's major economies were still struggling to show positive growth. Growth slowed in 2011

and 2012 due to both cyclical factors (including the effects of protectionist policies to curb inflation and poor external developments) and some natural slow down in domestic demand. However, it remained positive and is expected to increase to a more stable and higher level over the next two years. This stability has allowed Brazil's share of HNWIs to increase, and it will make Brazil an important hub for luxury goods and services in the coming decade.



Table 5e. Annual Growth (and Forecasts) in Key Economic Indicators for Brazil 2000-2015

Year	GDP	Inflation	Imports	Exports	GDP per capita*
2000	4.3%	7.0%	13.1%	11.1%	2.8%
2001	1.3%	6.8%	2.9%	9.5%	-0.2%
2002	2.7%	8.5%	-12.2%	8.6%	1.2%
2003	1.1%	14.7%	-3.6%	15.7%	-0.3%
2004	5.7%	6.6%	18.3%	19.0%	4.2%
2005	3.2%	6.9%	5.4%	9.4%	1.7%
2006	4.0%	4.2%	16.1%	3.3%	3.2%
2007	6.1%	3.6%	22.0%	5.5%	4.9%
2008	5.2%	5.7%	17.6%	-2.5%	4.1%
2009	-0.3%	4.9%	-17.5%	-10.8%	-1.3%
2010	7.5%	5.0%	38.2%	9.5%	6.5%
2011	2.7%	6.6%	8.9%	2.9%	1.8%
2012	1.5%	5.2%	2.8%	2.0%	0.7%
2013	4.0%	4.9%	5.3%	6.6%	3.2%
2014	4.2%	4.8%	6.7%	8.9%	3.4%
2015	4.2%	4.5%	6.7%	8.2%	3.4%

© Arts Economics (2013) with data from IMF and UN *Percentage change per annum based on change in Brazilian Reals

By 2012 Brazil was home to nearly 227,000 dollar millionaires. This represents just 0.8% of the world's millionaire population. However the country has a disproportionately high share of billionaires, with the eighth largest billionaire population worldwide, or a 3% global share. Around 60% of these are "self-made billionaires" (as opposed to those

with inherited wealth) with a mean age of 64. Brazil's population of millionaires is the highest in Latin America (with Mexico in second place with approximately 141,000 dollar millionaires in 2012), and the second highest (next to China) of the BRIC nations.

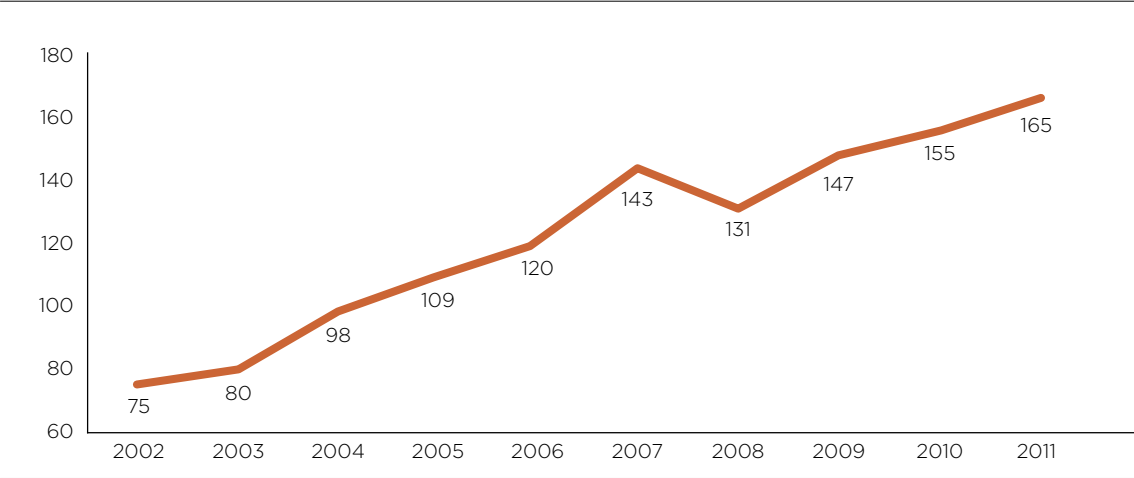
Using the stricter criteria for HNWIs (i.e. those with investable assets over \$1 million), Brazil was home to 165,000 HNWIs in 2011, and nearly 90% of their wealth was in the ultra-high net worth segment (those with investable wealth over \$30 million). Figure 5i tracks the population of HNWIs in Brazil since 2002, showing the impressive increase of 120% in the ten-year period, with growth in every year except 2008. It is particularly notable that, while the numbers of HNWIs worldwide was virtually stagnant, the number of HNWIs in Brazil

increased over 6% year-on-year to 2011, with Latin America as the strongest growing global centre for growth.

Art Collectors in Brazil

Millionaires in Brazil are estimated to hold around 15% of their wealth in passion assets, one of the highest allocations to these assets worldwide and significantly ahead of allocations in the established markets of the US (9%) and the UK (7%). Latin American HNWIs have also been shown to allocate

Figure 5i. Population of HNWIs in Brazil (1,000s) 2002-2011



© Arts Economics (2013) with data from Capgemini/ Merrill Lynch

the highest amounts specifically to art.⁵⁴ Many of Brazil's millionaires are art collectors, with individual collectors estimated to make up about 80% of Brazilian collectors, with the remaining 20% made up of Brazilian institutions, companies, funds and other investors.

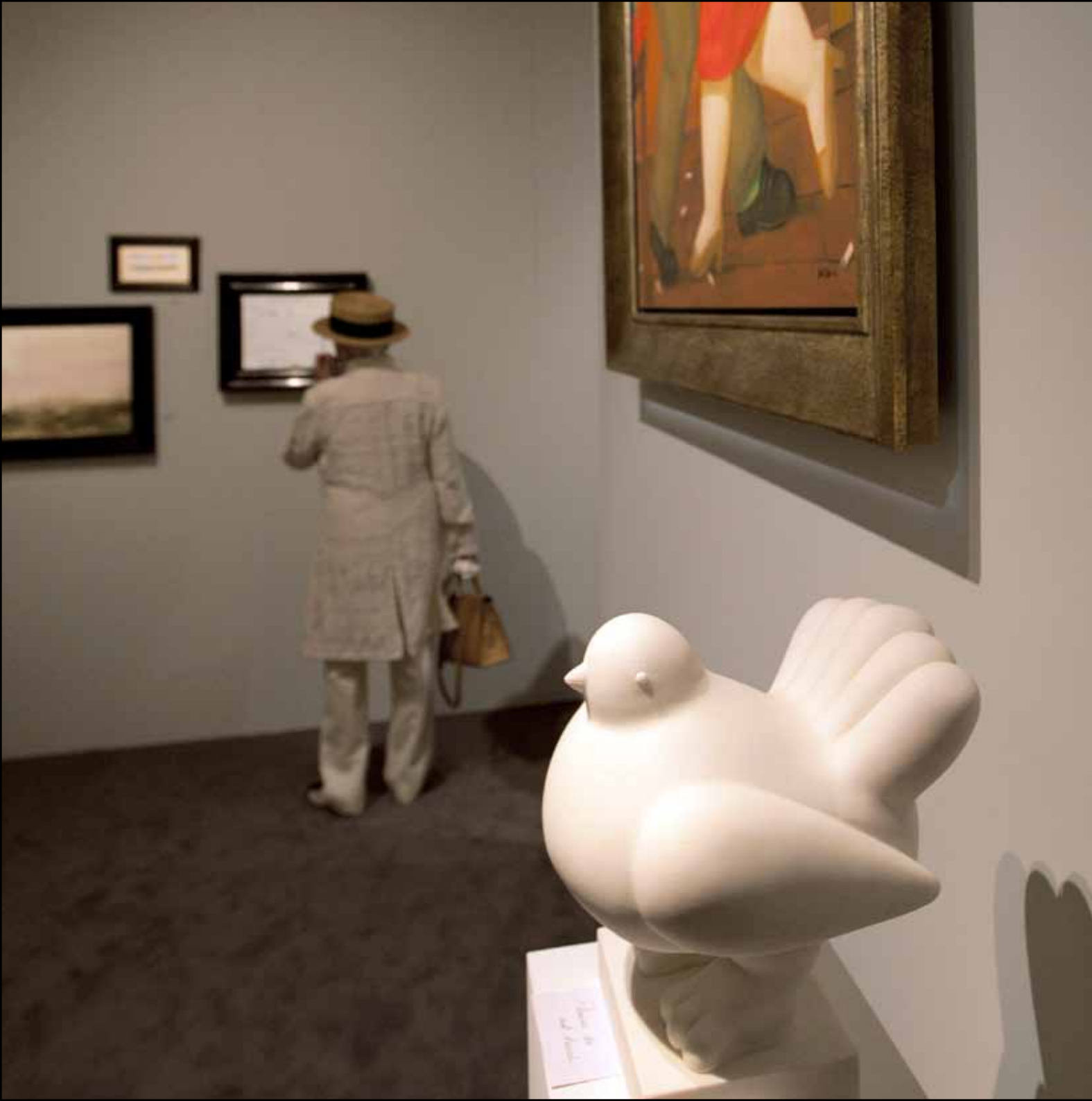
In the past, traditional Brazilian art collectors were often interested in antiques and decorative works as well as older sectors of the fine art market (for example artists from the colonial period and works by the Brazilian Modernists such as Emiliano Di Cavalcanti, Alfredo Volpi and Cândido Portinari). However according to dealers and collectors, the most popular categories currently collected by individuals in Brazil are Modern and Contemporary art.

The Contemporary art scene in Brazil is seen by collectors as *“young, dynamic and vibrant”* and dealers reported increasing numbers of *“young, middle-class liberal professionals”* collecting Contemporary art, while the Modern sector often attracts more experienced, older collectors and sells for higher prices, with key works often sold outside Brazil.

Some of the early collectors of Brazilian Contemporary art emerged in the 1990s, and they recalled that works in their collections were

BY 2012 BRAZIL WAS HOME TO NEARLY 227,000 DOLLAR MILLIONAIRES, JUST 0.8% OF THE WORLD’S MILLIONAIRE POPULATION. HOWEVER THE COUNTRY HAS A DISPROPORTIONATELY HIGH SHARE OF BILLIONAIRES, WITH A 3% GLOBAL SHARE.

⁵⁴ The Capgemini Merrill Lynch World Wealth Report of 2011 suggested that while the overall allocation to investments of passion by HNWIs was 22%, Latin Americans surpassed the average with an allocation of 28%.



commonly bought for less than \$2,000 and that it was more unusual to come across higher priced works by living artists. The expansion in the number of collectors has increased demand and prices for Contemporary Brazilian art, however, and some collectors reported that they had now stopped buying certain artists as they felt they had become over-priced in recent years.

Dealers also reported this problem, particularly in the last two years, when prices of Brazilian Contemporary artists, while acceptable in Brazil, had become out of proportion to their perceived value abroad. One dealer explained:

"There are often artists who have super important status in Brazil, commanding prices that are more than commensurate by New York standards, but who are mostly if not completely unheard of in New York and London. This has created a challenge in 'exporting Brazil' because we would be exhibiting an artist that is completely unknown in the US, but translating his Brazilian prices to USD would result in prices equal to, or even much higher than, artists that are very well known in New York. Over the past couple of years this was partly exchange-rate driven and partly driven by the frothy economy in Brazil, and therefore has been somewhat attenuated this year as both of these trends reverse, but even now the discrepancy remains."

Most collectors buy the work of Brazilian artists, but some leading collectors also include international artists. While there have been strong movements to export Brazilian artists' work abroad, there has been relatively more limited access and interest in international artists being sold in Brazil (with some important exceptions). The only time when foreign galleries sell to Brazilian collectors in any significant way is at art fairs, partly due to the exemptions from taxes on imported art that would become due otherwise.

According to dealers and other experts within the art trade, when buying works from abroad, Brazilian collectors attempt to manage the tax consequences in different ways. Some keep foreign works in residences outside Brazil to avoid the taxes, or more recently, they work with dealers to ensure the transaction takes place during one of the art fairs. Dealers noted however that the system provides a strong incentive for collectors simply to avoid paying the tax by buying outside Brazil and by not declaring their imports.

Tax avoidance is not a factor exclusive to the art market. It is a serious issue throughout Brazil, with estimates that the underground economy accounts for anything from 15% to 40% of the nation's GDP.⁵⁵ The government has become increasingly strict on tax evasion and, with increased requirements

⁵⁵ Fernando de Holanda Barbosa Filho (2012) An Estimation of the Underground Economy in Brazil. IBRE-FGV / FGV Projetos.

for record keeping and reporting under money laundering legislation in Brazil, it intends to clamp down on the problem in future.

According to experts within the trade, just as galleries have become more professional over the last few decades, collectors also have become more knowledgeable and willing to “*adhere to the system*”, by buying through galleries and working with dealers, rather than trying to buy directly from artists or only at auction, as is more commonly the case in some other Latin American markets.

The Latin American art market has also received increased attention from financial investors over the last few years, as price trajectories showed potential for significant returns. The art funds Artemundi and the Brazilian Golden Art Fund are reported to have raised close to US\$100 million between 2009 and 2011.⁵⁶ BGA Fundo de Investimentos em Participações is the first private equity fund dedicated solely to investing in Contemporary Brazilian art and was launched in 2011 by financial group Brasil Plural. It is an open-ended fund and plans to spend three years buying Contemporary works, mainly from Brazil. It is reported that 15 investors put in R\$40 million for the launch, 70% of which was spent on emerging artists, and that the fund now owns around 600 works of art⁵⁷.

Finally, although much smaller in number than private collectors, there are some significant corporate collectors of art in Brazil, thanks partly to corporate tax breaks that were introduced in the 1990s. As a result of *The Rouanet Law*, banks, telecoms companies and state-owned enterprises have emerged as important cultural sponsors in some areas, and have been actively involved in setting up Contemporary art centres.

5.8 Conclusions and Outlook

Brazil's economic success over the last 30 years has created a burgeoning middle class, alongside a growing segment of HNWIs, both of which have been important in stimulating the country's art trade. The Brazilian domestic art market, particularly the primary market, has expanded significantly, with regard to the number of galleries and the volume and value of their sales. But this increase has been from a very small base. The domestic auction sector on the other hand, has remained relatively underdeveloped, with a few exceptions. Some experts in the trade commented that the very significant, but not measurable, “grey market” in art and high taxes have discouraged public auction as a preferred channel for art sales, with buyers and sellers preferring not to have their deals made public.

⁵⁶ Deloitte/ Art Tactic (2012) *Art and Finance Report 2011*. From www.deloitte.com.
⁵⁷ Phillips, D (2012) “Brazil's Booming Art Market.” *The Financialist* (Published by Credit Suisse, November 2012).

There are an increasing number of new art buyers entering the market, including those from other parts of Brazil, outside the more traditional centres of Rio and Sao Paulo. Brazilian HNWIs have had a significant impact on buying art globally at international fairs and auctions, although this is more difficult to measure with any precision.

Brazilian galleries, art fair organisers and artists are also driving the increased internationalisation of the market, although bureaucracy and import barriers have made this process somewhat of a one-way flow. Galleries, collectors and institutions are still hamstrung by punitive rates of import tax and VAT, which are among the highest in the world and make it very hard for institutions and private collectors to participate in the international art market.

Most dealers and collectors felt that the increased internationalisation of the market in recent years has been one of the most positive developments, with 97% of dealers citing globalisation as having had a positive, or very positive effect on their businesses. However, in practice, Brazil remains a very protected market, restricted from globalisation because of large tax burdens and other barriers on flows of goods and information that far exceed those in other countries. Apart from import taxes, 90% of the dealers surveyed in this study also

found that the general costs of doing business in Brazil had a negative or very negative effect on their businesses.

Import protection and substitution was the dominant economic model in Brazil from the 1950s to the 1970s, and it is credited with the development of Brazil's industrial sector. However, trade restricting policies and import substitution inevitably lead to inefficiencies and isolation from the dynamics of global markets and they are bound to fail as an economy expands. The same risks exist to some extent today in Brazil in many industries where the government continues to protect local companies from global competition, with high import barriers and state support. The art market is no exception, and dealers commented on the insular nature of the market leading to a lack of professionalization and a reliance on internal buyers, which they feel is restricting the market to its current small domestic base. There is, however, a strong drive within the art trade to enhance Brazil's global position, and galleries and agents in the primary market have been particularly active, both in lobbying government for change and in broadening their international scope through increased participation in fairs and other international events.

ENDNOTE



ENDNOTE

The fate of the art market as a whole appears to be increasingly inextricably tied to the wider economic context, and in particular the expansion and distribution of global wealth. Undoubtedly poor and variable economic growth as well as continuing political uncertainties in the global economy encouraged buyers and investors to retreat to the safest and most low risk areas of many asset markets over the last year. In the art market, this was exemplified by cautious buying and selling in many areas which has led to a strong polarisation of the market, with the best performance continuing to be seen at the top end, with high premiums on the best quality works and the most well known artists.

A more globally diverse art market has meant that different sectors and regions of the market have been recovering from the near universal decline of 2009 at varying rates. This has meant that the overall performance of global art sales over the last two years has seen much more moderate changes. The mixed fortunes of the newly globalised art market are protecting its downside risk, reducing the possibility of more extreme and protracted booms or busts.

In the global economy, emerging markets have significantly outperformed mature economies during the last few years, and their importance

has been highlighted as the world emerges from recession. These economies were hit less severely by the global financial crisis, and, for the most part, have recovered more quickly than mature economies. As noted in Chapter 2, growth rates in the BRIC region are nearly five times the current average of the G7 countries, and are expected to grow at least three times as fast over the next five years.

China and Brazil are both important examples of emerging art markets but present two very different models of development.

China is without doubt the most important of all the emerging markets in the global context, and has been the strongest growing art market in the world over the last five years and instrumental in the rapid recovery of the global art market from 2009. The market is characterised by a very large domestic base of sales, with Chinese art bought locally by the rapidly expanding wealthy population of China. The market has been heavily dominated by auction sales, but a gallery and dealer network is slowly gaining ground. While Contemporary Chinese art has gained popularity, the veneration for history and tradition that is so heavily engrained in the Chinese culture, along with its rich supply of historical art and artefacts, has created a powerful market in older sectors of the fine and decorative

markets. The focus of cross-border trade in China has been its rapidly expanding imports of art, while exports remain very low, reinforcing the international significance of Chinese buyers.

Despite dampened growth in the art market in China over 2012, there are still a number of factors that are likely to ensure demand remains robust in future. Most notably, the wealth dynamics in China indicate a great potential for continued growth in art sales, with a rapidly rising number of very wealthy consumers, who have a marked tendency to “trade up” to more expensive and sophisticated luxury products, notably art, antiques and other rare collectibles. Alongside these is the very rapidly expanding base of new potential buyers, achieving middle-class status for the first time as average incomes shift upward. Financial confidence in China is also very high, with research indicating that three quarters of the country’s affluent consumers believe their household incomes will increase significantly in the next five years.⁵⁸ This confidence will undoubtedly help to boost individual spending on all luxury products. Other unique cultural factors such as a strong tradition of “gifting” which is deeply embedded in Chinese society, has, and will continue to, boost demand in the market.

Brazil, on the other hand, has a very small domestic market, heavily dominated by dealer sales. In many of the smaller emerging markets like Brazil, the primary market has driven a boom in sales, with a high level of interest locally in Contemporary and cutting edge artists, while their secondary markets are less dynamic. This mode of development has kept the gallery sector dynamic, but price points relatively low, and ultimately therefore leaving these markets small in size. In terms of cross-border trade, the *modus operandi* in Brazil is the virtual opposite of China, with a punitive tax system deterring any substantial imports of art, while Brazilian art is promoted abroad. This one-way flow, however, has prevented a significant internationalisation of the market, even though Brazil’s significant base of HNWIs and UHNWIs has been noted as important buyers globally.

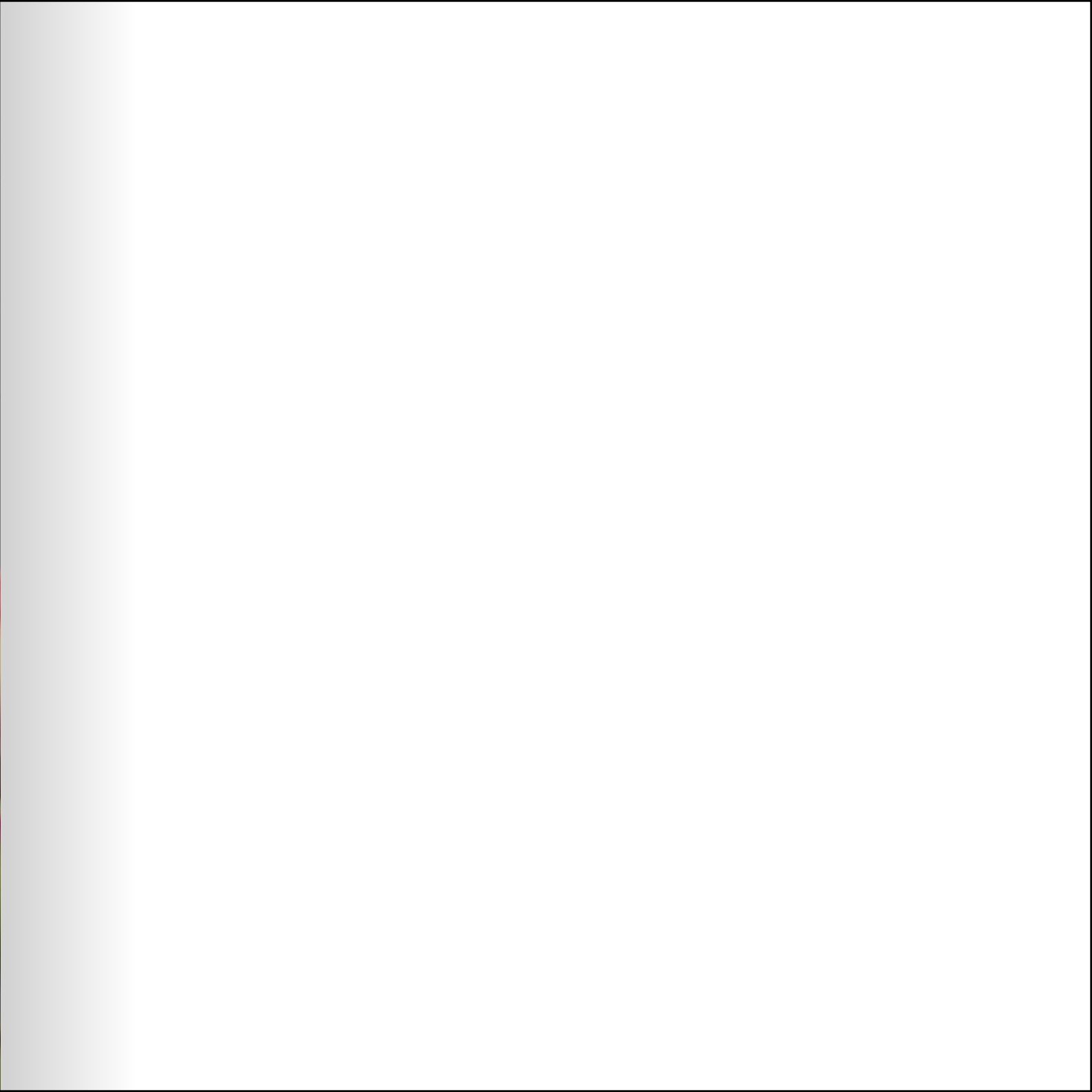
Great expansion in wealth has been critical in supporting a higher level of buying in the art market over the last ten years, which has been a key factor in the doubling in size of the market as whole. However, at a national level, having a high share of wealthy individuals with substantial disposable money available to invest does not in itself lead to the significant conditions necessary to generate

⁵⁸ Mc Kinsey and Company (2012) *Luxury without Borders: China’s New Class of Wealthy Shoppers take on the World*. Mc Kinsey Insights China: Beijing.

a domestic trade in art. While China’s emergence ended the duopoly held by London and New York for over 50 years, there are still many reasons why these traditional markets will remain dominant centres for the trade. One is the existence of a strong upper middle class which gives depth to the trade. More importantly, they have highly developed cultural infrastructures, including networks of experts, institutions and a wider range of ancillary services to support the art trade. Furthermore, they

are among the most transparent and regulated centres for the trade, where the legal and fiscal systems along with various commercial codes offer a level of protection and guarantees to both buyers and sellers, while providing incentives to boost a healthy inflow and outflow of art. The maintenance of an open trading regime has reinforced their positions as entrepôt markets, where art is as likely to be bought by HNWIs from emerging markets as it is by local collectors.

A MORE GLOBALLY DIVERSE ART MARKET HAS MEANT THAT DIFFERENT SECTORS AND REGIONS OF THE MARKET HAVE BEEN RECOVERING FROM THE NEAR UNIVERSAL DECLINE OF 2009 AT VARYING RATES. THE MIXED FORTUNES OF THE NEWLY GLOBALISED ART MARKET ARE PROTECTING ITS DOWNSIDE RISK, REDUCING THE POSSIBILITY OF MORE EXTREME AND PROTRACTED BOOMS OR BUSTS.



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