

The British Art Market
A WINNING GLOBAL ENTREPÔT

Prepared for: **British Art Market Federation**
By: **ARTS ECONOMICS**



Foreword

At a time of economic uncertainty, it is surely as important as ever to foster and encourage the commercial sectors in which Britain excels. The art market is a prime example of British achievement in a highly competitive global environment.

Its success brings great benefit to Britain in terms of jobs and revenue, as this new study by Arts Economics demonstrates. Art is mobile and Britain has succeeded in building and sustaining an entrepôt market, second in size only to the United States. This has been achieved by building on a tradition of skill and expertise. But above all, it is based on a fiscal and regulatory environment that has enabled the UK to attract the greatest works of art for sale.

However, past success does not guarantee future prosperity and there is no room for complacency in the face of the fierce global competition which has led to China's rise in less than a decade to become the third largest art market.

The British Art Market Federation has repeatedly pointed to the dangers of the EU's Artist's Resale Directive, which applies a levy to sales of contemporary and modern art throughout the European Union. This surcharge is absent in all the major art markets outside the EU. Whatever the arguments in favour or against the principle of the Artists Resale Right may be, it is clear that only an international agreement can ensure fair competition within the global art market. Meanwhile, as efforts are made to secure an international accord, the present arrangements limiting the levy to the work of living artists should be maintained. Without this, Britain's entrepôt art trade is destined to decline, leading to a loss of revenue to the UK and an avoidable decline in employment.

**The Rt. Hon. the Lord Brooke
of Sutton Mandeville, CH**
President

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The British Art Market

Competitive Success in a Global Environment

- Britain has 29% of the global art and antiques market and is the second largest market in the world.
- The British art and antiques market generated £7.7 billion in sales and directly supported over 60,000 jobs in 2009.
- Most of the 10,000 art businesses in the UK are small or medium sized enterprises employing fewer than 20 people.
- The market is highly dependent on cross-border trade: in 2009 art to the value of £2 billion was imported into the UK and exports totalled £2.2 billion.
- Art dealers and auction houses spent £1.3 billion on ancillary and support services, generating indirect employment of a further 66,000.
- The art market attracts high spending tourists to Britain: cultural tourism as a whole generates expenditure of £11.6 billion which supports 270,000 jobs.
- The British art market contributed tax revenues of at least £911 million in 2009.
- Modern and Contemporary art sales account for just under 40% of the value of the British art market.
- The strength of global competition is demonstrated by the rapid rise of China to become the third largest art market.

1.

The British Art Market in a Global Context

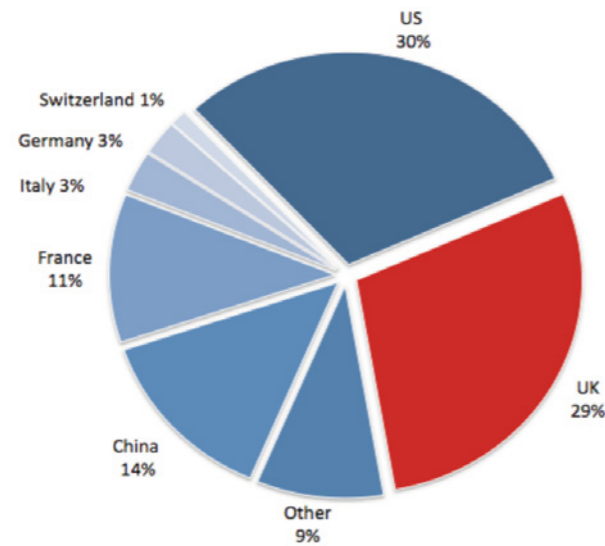


Figure 1.
The Global Art Market Share in 2009
Source: Arts Economics, 2010

Britain has the most varied and the largest art and antiques market in the European Union, and the second largest internationally next to the US. In 2009, the value of the British market for fine and decorative art and antiques reached a total of £7.7 billion, down 36% on its peak of £11.2 billion in 2008.

After a contraction in sales from 2002 to 2003 of 18%, the UK experienced steady and rapid growth over the next five years, averaging 23% per annum up to 2008.

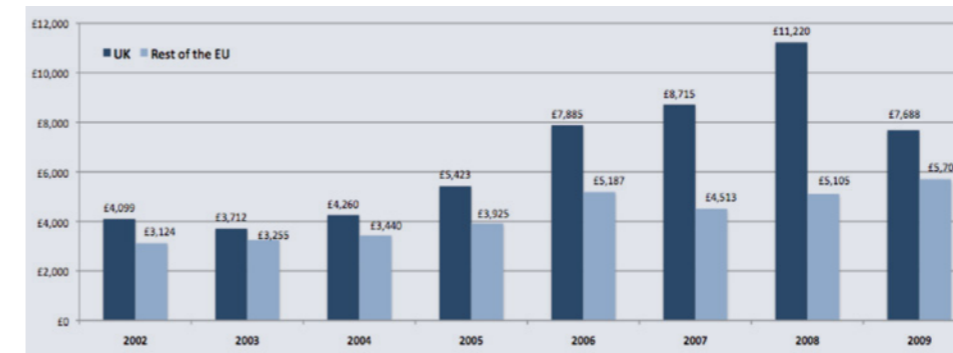
In 2009, the UK retained its leading position in the EU with a market share of 57% of the EU trade, but its share fell by 13% from 2008, largely because France gained market share as a result of a few exceptional sales. The UK's global market share in 2009 was 29%, down 5% on 2008.

Auction Sales

Turnover in the UK's auction sector reached £2.4 billion in 2009, dropping 52% from a high of just over £5 billion in 2008. These figures are drawn from some 1,500 auction companies in the UK which sell art and antiques either exclusively or as a regular part of their business. These auction houses range from Sotheby's and Christie's with a combined share of 40% of all auction sales, to a number of important second-tier auction houses that have been growing in size.

Figure 2. Aggregate Art Sales in the UK and EU: 2000-2009

Source: Arts Economics, 2010



Dealer Sales

There are in the region of 8,800 fine and decorative art dealers currently operating in the UK. Turnover in the dealer sector of the market is estimated to have totalled £5.2 billion in 2009 down by 21% on 2008.

The UK's Unique Position in Europe as an Entrepôt Market

Statistics on imports and exports demonstrate that the success of the British art market is built on cross-border trade, making it one of the two largest entrepôt markets in the world. London's success therefore is not built on sourcing business locally, but on the flow of works of art in and out of London for sale.

The UK is the largest importer and exporter of art in Europe, and is a net exporter of works of art. The UK art trade generated a trade surplus of £192 million in 2009. According to statistics compiled by HMRC, the main

destination for the country's £2.2 billion in exports was the US with a 46% share, followed by Switzerland with 25%. Other important export destinations include Russia, China, Greece and the UAE with a combined share of just under 10%. In total, 94% of all exports from the UK (or £2 billion) went to destinations outside the EU, with the remaining 6% to EU member states.

The UK also imported a substantial £2 billion in works of art in 2009, largely from the other major global art markets around the world such as the US (54%) and Switzerland (29%). Over 90% of these imports were fine art. The other main import sources were China, France, Germany, Italy and the Netherlands with a combined 8% share. Some 92% of imports of art and antiques (£1.8 billion) in 2009 were from extra-EU destinations, and the remaining 8% (£149 million) were from EU states.

It is clear from Figures 3 and 4 that extra-EU art trade dominates inflows and outflows of art and antiques in

Figure 3. Imports of Art to the UK: 2000-2009

Source: UK TradeInfo (HMRC) 2010

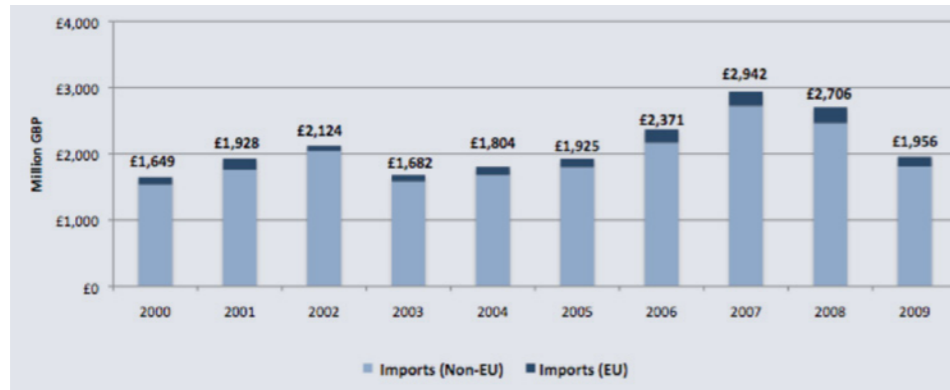


Figure 4. Exports of Art from the UK: 2000-2009

Source: UK TradeInfo (HMRC) 2010



the UK. Over the period shown, extra-EU trade on average accounted for 93% of art imports and 96% of art exports. However, trade statistics gathered by HMRC are based largely on sales by VAT registered businesses in the UK and therefore they may understate total trade as they will not pick up sales between non-registered individuals. This may understate intra-EU movements in particular.

Higher Average Prices on the British Art Market

Average prices at auction in the UK are consistently higher than in other member states in the EU. During the period from 2002 to 2009, prices in France averaged 24% of those in the UK, while prices in Italy and Germany were 26% and 12% respectively. In 2009, average prices in the UK were 4.5 times those of the EU as a whole. This reflects the UK's position as a global player in the art market, attracting high-value art for sale from throughout the world.

“The market encourages visits from collectors and they have done much to support Britain’s cultural institutions; a flourishing art trade in London enables dealers themselves to be generous supporters; and the art trade depends on expertise which it also fosters. Curators and dealers and auction house specialists learn from each other, and it is a great advantage to any scholar working on old master paintings to be able to see so many more than would be available if the market moved elsewhere.”

Dr Nicholas Penny
Director, The National Gallery, London

2. Economic Impact

The art market makes a significant contribution to the British economy, in terms of the employment and the skills that it generates and through related expenditure which supports indirect employment.

a) Businesses and Employment

The British art trade is a high value employer, with some 10,000 businesses directly supporting over 60,000 jobs. (These figures include all dealer firms listed in directories and an estimate of those not advertised in directories, together with specialist art auction companies and auction houses that hold art sales only as part of their activities). Although businesses vary, the average dealer employs 3-4 people and the average auction house 20.

Predominance of Smaller, Knowledge-based Businesses

The British art and antiques market is mostly made up of a number of small, knowledge-intensive businesses that employ a gender-balanced mix of highly educated individuals. In the context of a global marketplace, knowledge, skills and creativity have been identified for several years as the essential elements that have given the British a competitive edge. The cultural industries play a leading role in the move towards a knowledge economy.

In the auction sector, there is a large variation in the size of enterprises and in the numbers employed. Some of the smaller auction houses employ between 5-10 staff, whereas the top auction houses of Christie's, Sotheby's, and Bonhams employ a combined total of 1,850 staff in the UK.

Survey evidence from British art and antiques dealers reveals that most companies employed three or four people, classifying them as "small to medium enterprises" (SMEs),

with the majority also categorised as small companies in terms of turnover (less than £8.5 million per annum).

Division between Full Time and Part Time Employment

Employment in the top-tier auction houses tends to be predominantly full-time, with only 15% of workers in part-time or temporary positions. In the UK economy as a whole the average is slightly higher at 22%. This proportion is significantly higher in the second tier auction houses which showed on average 47% of workers in part-time and temporary employment.

36% of cultural workers in the UK are in part-time or temporary contracts versus 31% for the labour force as a whole. The art dealer sector is similar to the workforce overall, with 68% working full-time and 32% part-time or temporary.

Gender Balance of Employment

The average female share of employment in the top tier auction sector is 53%. In the second tier houses, the share of male and female employment is balanced at 50:50. The art dealer sector in the UK is more male dominated with an average gender breakdown on 57% male and 43% female.

"One of the great strengths of London is that it is both an international centre of commerce, and a vibrant cultural capital. We have world-renowned institutions like the Tate Modern and the Royal Academy, a thriving scene of new and established galleries and dealers, and a glittering firmament of auction houses, art fairs, exhibitions, and cutting-edge artists. Where better to buy and sell the grand masters or the great pioneers of today?"

Boris Johnson

Mayor of London

An Educated Workforce

Cultural workers tend to be more highly educated than the wider labour force. 48% of workers in this sector have third level/ university education versus 31% of the general UK labour force, 26% of the labour force in the EU (and 35% in the US). In the top-tier auction houses, it is estimated that the share of employees with a university education is as high as 88%. In the second tier houses there is much more variation between individual companies, but on average the share of those with university degrees is 33%. Some 59% of art and antiques dealers in the UK hold similar third level qualifications.

Table 1. Estimated Treasury Take from the Art Trade 2008 and 2009 (£ millions)

Source: Arts Economics (2010) NOTE: VAT on sales in 2009 was temporarily reduced to 15% (from 17.5%). Net VAT is an estimate of VAT on sales less input taxes plus net import VAT.

YEAR	TOTAL	CORPORATION TAX	NET VAT	INCOME TAX
2008	£1,150.1	£472.3	£263.5	£414.3
2009	£910.9	£322.9	£173.7	£414.3

b) Fiscal Contribution

Another significant way in which the art market contributes to the UK economy is via the taxes and levies it pays directly to the Exchequer on sales, incomes and profits. Table 1 is a highly conservative estimate of the total tax revenue generated by the art market. In 2009, a poor year for the market, at least £911 million accrued to the Exchequer, down from an estimated £1.2 billion in 2008.

Income tax and national insurance were the largest component (48%) of total fiscal revenues in 2009. The net vat reported in Table 1 is a conservative estimate, but it is at a comparable level with other similar economic sectors. Corporation taxes represent a very conservative estimate based on a uniform rate of profit, and based on a particularly poor year of aggregate sales in 2009.

c) Ancillary Impact

The British art market also creates substantial revenue and jobs through a range of ancillary businesses and support services used by dealers and auction houses. It is estimated that in 2009, the UK art trade spent £1.3 billion on support services, employing close to 66,000 people. These figures were down from a high of £2.0 billion and close to 98,000 jobs in the recent peak of the market in 2008.

The Art Market's Support for Specialized Skills

The art and antiques market fosters specialized skills that might not thrive without its support. These include conservation and restoration which have developed into a specialized industry of their own, with their own academic and training infrastructure. Similarly, although insurance,

packing and shipping are used in many industries, the art trade has spawned the development of high value niche market businesses to cater for the particular needs of buyers and sellers in the art market.

Increases in efficiency yielding technology and communications are significantly affecting the UK art market and are expected to be a key area for growth in the future, due both to real advances in communications and IT, and a phase of catch-up by the market from years of being grossly under invested in technology.

d) Invisible Effects –

The Art Market as an Attraction for Tourism

The art market supports revenues and employment indirectly by adding to the cultural and historical attractions available to visitors to London and other centres throughout the country. Cultural tourism is one of the largest and fastest growing sectors of global tourism markets, and art, culture and the creative industries are increasingly being used to promote destinations.

The International Passenger Survey revealed that 7.4 million visitors from overseas (or 23%) visit museums or art galleries. London is a hub for tourists interested in the art market and over half of inbound tourists to the city on holidays visit art venues during their stay.

A recent study by Deloitte found that the visitor economy as a whole directly generated 4% of the UK's GDP and, when the indirect contribution of related sectors in the supply chain to tourism were taken into account, the estimated contribution of tourism to GDP was 8%, or £114 billion.

It is thought that cultural tourism accounts for at least 40% of all tourism, giving an estimated 1.2 million jobs in that sector in 2010.

Cultural tourists have also been shown to be the highest spenders within different tourist segments. It is estimated that at least 28% of spending by overseas visitors to the UK is directly motivated by arts, cultural and heritage.

“London’s pre-eminence in the international art market enriches the experience of museum staff and encourages the exchange of ideas between curators and experts in the trade”

Dr. Mark Evans

Senior Curator of Paintings, Victoria and Albert Museum

Table 2. Ancillary Expenditure and Employment Generated by the UK Art Trade 2008 and 2009

*Source: Arts Economics (2010) *Numbers employed based on the median UK salary in 2008 and 2009.*

SERVICE	EXPENDITURE 2008 (€M)	EXPENDITURE 2009 (€M)	NUMBERS EMPLOYED 2008*	NUMBERS EMPLOYED 2009*
ADVERTISING AND MARKETING	£520.06	£356.35	25,172	17,625
AUDITORS, LEGAL AND PROFESSIONAL FEES	£198.10	£135.74	9,588	6,714
BANKING INTEREST AND FEES	£175.21	£120.06	8,481	5,938
CONSERVATION AND RESTORATION	£267.54	£183.32	12,949	9,067
INSURANCE AND SECURITY	£202.15	£138.52	9,785	6,851
PACKING AND SHIPPING	£197.48	£135.32	9,559	6,693
PRINTING, PHOTOGRAPHY, CATALOGUES	£247.40	£119.51	11,975	5,911
TECHNOLOGY	£214.43	£146.93	10,379	7,267
TOTAL	£2,022.37	£1,335.75	97,888	66,066

3.

Threats to the future competitiveness of the British art market

The British art market's dominance has to a very large extent been dependent on successfully competing with global rivals to attract the best works of art for sale in the UK. Britain's future position is therefore vulnerable to any fiscal and regulatory changes which might disadvantage Britain in an increasingly competitive global art market.

Legislators have in the past been conscious of this and have taken care to avoid measures which might divert the art market from the UK. Under the European Union's VAT harmonisation programme, in 1995 the UK was obliged to introduce import VAT on art, antiques and collector's items entering Britain from outside the EU. At that time, dealers and auction houses expressed concern that the new import tax would damage Britain's valuable cross-border art trade. In order to address this problem, the EU authorities devised the 'Temporary Import Scheme' (TI), which permits import VAT to be waived if an object is re-exported within two years, subject to certain conditions being met. Consequently, although import VAT is still considered by the art trade to be administratively cumbersome, the TI scheme does appear to have moderated the effect that import VAT might otherwise have had on the UK's trade with sellers and buyers from outside the European Union.

By contrast, no such arrangements exist in the case of the EU's Directive 2001/84/EC introducing the Artists'

Resale Right (or 'droit de suite'), which imposes a non-refundable levy on all modern and contemporary art sales taking place within the European Union. Auction houses and dealers fear that this will irreparably damage what is the largest single sector of the British art market.

Although the UK and others were allowed a derogation designed to limit the impact of the Directive on their art markets, unlike the VAT Temporary Import Scheme, this arrangement is only a temporary palliative and it is scheduled to end on January 1st 2012, on which date ARR will be extended to cover the work of deceased artists within the 70 year period of copyright, a fourfold increase in the number of sales eligible. (The modern and contemporary art market accounts for 40% of the British art market as a whole). Dealers and auction houses consider this to be an unprecedented threat to the UK's future global competitiveness, because none of Britain's principal overseas art market competitors have so far themselves introduced ARR.

The scale of international competition is illustrated by the rapid growth of China as a major art market, which has in a few years become the third largest market with a global share of 19%. The rise of China as a market for contemporary art is seen as a sign that global competition is likely to increase, to the detriment of markets burdened with

higher transaction costs. This could be especially damaging to the British art market since the sector affected by ARR contains a disproportionate number of the most valuable artworks sold on the international market and is the sector least affected by restrictions on cross-border movement.

In an increasingly globalised international art market, the relatively unencumbered international exchange of certain categories of art has encouraged a booming import and export trade. The boom in the modern and contemporary art market has been due in part to the fact that there are virtually no restrictions on the flow of international trade in this sector. British art dealers and auction houses fear that the planned extension of ARR, unless it is preceded by a global agreement to establish level competition, risks causing a decline in Britain's competitive position. If this happens there would be a consequential decrease in employment and an erosion of the other economic and cultural benefits that the British art market currently provides.

"London's position as an international centre for art depends on a flourishing art market as well as its great museums. Together they make London a major attraction for anyone interested in visual arts and heritage"

Sir Nicholas Serota
Director, Tate

Table 3. Modern Sector Sales (UK Auction and Dealer Sales, £ million)

Source: *Arts Economics* (2010), © *Artprice.com*. Note that Modern is defined here as all artists born between 1860 and 1920.

PRICES	LESS THAN £50,000	£50-250,000	£250,000-£1M	>£1M	TOTAL	% TOTAL ART MARKET
2008	£381.8	£559.1	£805.1	£1,708.6	£3,454.7	31%
2009	£258.9	£300.5	£338.7	£533.3	£1,431.5	19%

"Culture and Art are fundamental facets of British life. Whilst re-examining the creative harvest of the 20th Century attention has to be given to our own artists. They shaped art movements and acclaimed international admiration. Their efforts were nourished and sustained through innovative regeneration programmes as well as by an unprecedented renaissance of new museums. The endless contributions of many farsighted gallerists and art dealers and a strong performing Art Market turned London's art scene into a vibrant and unique environment for which Britain is much respected."

Sir Anthony Caro