



Core activities:

Trade in art and antiques, including:

- paintings
- sculpture
- works on paper
- other fine art (e.g. tapestries)
- furniture
- collectibles (e.g. mass produced ceramics and glassware, dolls and dollhouses, advertising/packages etc.)
- couture (including jewellery)
- textiles
- antiquities
- arms and armour
- metalwork
- books, bindings, signatures and maps

Retailing via auctions, galleries, specialist fairs, shops, warehouses, department stores and the Internet

Related industries:

Fairs & Exhibitions

Shipping

Restoration

Printing

Photography

Insurance

Banking

Law

Tourism

3 Art & Antiques Market

REVENUES **£3,467 million (\$5,254 million) (1999)** ^a
 EXPORTS **£629 million (\$952.8 million) (1999)** ^b
 EMPLOYMENT **37,063 (1999)** ^c

3 ART & ANTIQUES MARKET

^a Market Tracking International (MTI), 2000: *The Art and Internet Report*. ^b Market Tracking International (MTI), 2000: *The Art and Internet Report*.
^c Market Tracking International (MTI), 2000: *The Art and Internet Report*. Conversion rate: June 2000, 1 US dollar = 0.66 GBP.

The UK is home to the second largest art and antiques market in the world: a 26% share of the global and 50% share of the European markets.

Art and Antiques includes paintings, sculpture, works on paper, other fine art, furniture, other discrete disciplines and collectibles.

The main outlets for these products are: auctions, galleries, specialist fairs, shops, warehouses, department stores and, more recently, the Internet. There is also a considerable ancillary industry that supports the art and antiques market.

There is concern among many industry professionals and observers that European import tax harmonisation will have an adverse impact on the UK's art market, which may, in response, relocate in part to either Switzerland or the United States.

TURNOVER OF UK ART AND ANTIQUES BUSINESSES, 1999

	AUCTION HOUSES	DEALERS	TOTAL
TURNOVER (MILLIONS)	<u>£1,748 (\$2,648)</u>	<u>£1,719 (\$2,605)</u>	<u>£3,467 (\$5,254)</u>
NUMBER OF COMPANIES	<u>754</u>	<u>9,463</u>	<u>10,217</u>

Source: MTI, 2000. Conversion rate: 1 Dec. 2000, 1 US Dollar = 0.7011 GBP.

INDUSTRY REVENUES

The demand for, and prices of, alternative investments (art and antiques) tend to follow economic cycles. Recession appears to have a greater impact on sectors such as collectibles, memorabilia and art. Items such as furniture tend to weather economic downturns better.¹

Since much art and antiques are viewed as an investment, the art market index correlates approximately with that of the stock market; however, a healthy stock market and higher interest rates also attract capital away from alternative investments. This is because stocks and cash savings produce dividends and returns that are more attractive, when the stock market is buoyant and interest rates high, than the capital exchange value of art and antiques.

Some international indicators in 1999:

- The art market in the US was worth £6,395 million (\$9,689 million);
 - The European art market was worth £6,840 million (\$10,365 million);
 - French art sales exceeded £1,980 million (\$3,000 million) for the first time. The French market was worth £2,115 million (\$3,206 million);
 - Germany was the only other European country to register art sales in excess of £300 million (\$455 million). The German market was worth £344 million (\$522 million);
 - Switzerland recorded art sales of £195 million (\$296 million).
- Source: MTI, 2000.

¹ Mintel, 2000: *Internet site*.

ART MARKET GROWTH, 1994-1999

US MARKET GROWTH	<u>125%</u>
WESTERN EUROPE GROWTH	<u>39%</u>
UK GROWTH	<u>49%</u>

Source: MTI, 2000.

UK MARKET SIZE

The UK is the largest art market by value (£3,467 million) in Europe and, in world terms, second only to the US. Mintel (2000) estimates that as much as £6.7 billion (\$9.6 billion) was spent in the alternative investment segment in 1999. There is a sizeable hidden economy² that is very difficult to estimate. The UK has the second greatest number of art and antiques businesses in Europe, after France and the highest number of employees.

Sotheby's and Christie's dominate the European auction market. The UK market is the most important for both houses in Europe. Christie's sales in Europe realised £726 million (\$1,100 million) in 1999, of which £561 million (\$850 million) was made in London auctions. Christie's worldwide sales for 1999 were £1,518 million (\$2,300 million).³

MTI estimated that the economic benefit to the UK Treasury of art and antiques in 1998 was at least £426 million (£130 million from income taxes levied on employees, £193 million from corporation taxes on profits and £104 million from VAT).

BALANCE OF TRADE

The UK dominates EU exports of pictures; in 1999 total value was £629 million (\$952.8). The UK imported £655.2 million (\$992.8 million) of pictures from outside the EU.⁴ These figures demonstrate that London, as the centre of the UK trade, is the central European commodity exchange for art and antiques.

The two international auction houses, Sotheby's and Christie's, have a significant presence in the UK (Christie's international headquarters are in London) and many art galleries that operate on a global scale have headquarters in London. Together, Sotheby's and Christie's had a 25% share of the UK market in 1998.⁵

EMPLOYMENT

Total employment was 37,063 (including full-and part-time staff) in 1999. The dealer market employed 19,940 staff and the auction market 17,123.⁶

Gross wages and salaries are difficult to estimate because there is insufficient industry data available. This is demonstrated in the partial statements returned to the Industry Survey⁷ for the financial year ending 1999. A large company like Asprey PLC reserved nearly £7 million in employee remuneration for its 227 staff.⁸ Spink & Son Ltd. allocated £3.75 million for its 123 staff.

² Certain activities may be productive and also legal but are concealed from the authorities for various reasons (ONS, UK National Accounts, 2000).

³ Christie's, March 1999: Interview.

^{4, 6} MTI, 2000: The Art and Internet Report.

⁵ MTI, 2000: The European Art Market 2000.

⁷ MSA, 1999: Industry Report, Merlin Scott Associates Ltd.

⁸ Asprey and Garrard were combined in 1988. The two shops will split into different outlets in 2001, but remain as one company under new owners, Sila Chou and Lawrence Stroll of the Tommy Hilfiger fashion group (Financial Times, 8 December, 2000).

Artists' Income

There have been a number of initiatives to improve artists' incomes. The latest is a proposal from the European Commission for a Directive harmonising *droit de suite* or artists' resale right. The right entitles an artist and, for 70 years after his death, his successors in title, to a percentage of the selling price whenever an original work of art is resold with the involvement of an art market professional i.e. an auctioneer or dealer.

The right was first introduced in France in 1920, where it continues today, although it is applied to auction sales only. The right has also been adopted, in various forms, in some other Member States of the EU: but not in the UK, Ireland, Austria or The Netherlands; and it is not enforced in Italy or Luxembourg. Provision is made for the right in the main international copyright convention (the Berne Convention) to which all EU Members are party; and it has been adopted by a number of countries outside the EU but, crucially, not in Switzerland or the US (except in the State of California).

Germany and France have well-organised collecting societies, but experience in these countries indicates that only a few living artists can expect to benefit from the resale right.

In France it has been estimated that some 70% of the Ffr 50 million (7.6 million euros) collected in 1996 was paid to the families of just six or seven artists. Moreover, during the period 1993-95 only 2,000 artists benefited from the resale right and, of these, 1,950 were paid an average of Ffr 3000 (457 euros). In Germany in 1998 the collecting agencies represented 7,454 German artists but only 274 artists and 206 heirs shared the amount of *droit de suite* collected. The living artists were paid a total amount of DM 509,939 (261,500 euros), whereas the successors in title were paid seven times as much: DM 3,602,879 (1,847,630 euros). In the UK, the Design and Artist Copyright Society (DACS) sees itself as the collecting society most likely to be responsible for collecting resale royalties.

The arguments against introduction of the right in the UK are that it would benefit only a few living artists, but would encourage vendors (normally responsible for paying the resale royalties) to switch high-value sales (the London art market is heavily dependent on such sales) to New York, Geneva and other markets outside the EU where the levy is not charged. In that case, artists (and successors in title) would get nothing; and there would be a significant loss of earnings

and jobs among both British dealers and auctioneers and among support services, e.g. restorers, framers and shippers. For low-value sales, the concern is that the cost to business, particularly to small and medium-sized enterprises, of applying the right would be disproportionate to the benefit to the artists. Studies show that between 10% and 40% of the amount collected in royalties is retained by collecting societies to cover administration costs.

The Directive is an Internal Market measure (under Article 95 of the EC Treaty) which the Commission argues is necessary to eliminate distortions in the sale of works of art caused by differences in the right between Member States (particularly its absence in some, notably the UK, by far the largest art market in the EU), although no convincing evidence of market distortion has been adduced. It is also argued that the resale right would encourage creativity, although it is notable that London and New York have thriving communities of artists without the right. Another argument is that the resale right would put artists on a par with other creators such as literary authors; but art is unique and the market for works of art operates in an entirely different way from other products.

INDUSTRY STRUCTURE

The art and antiques market consists of many traders operating as sole agents, small enterprises and auction houses like Christie's, which employed 1,850 employees worldwide in 1997.⁹ Dealers operate locally, regionally and internationally from small shops, warehouses or specialist fairs or from home.¹⁰

The many components which make up the industry are brought together through associations such as the

British Antique Dealers Association (BADA), with just under 400 members, the Association of Art and Antique Dealers (LAPADA), with 730 members and the Society of London Art Dealers (SLAD) with 100 members. Special events, such as Asia Week, also help maximise the opportunities for sole traders and small businesses that do not have the resources to reach out to an international market.

REGIONAL DIMENSIONS

By far the greatest concentration of art and antiques galleries in the UK is in London: 62% of the galleries listed in Galleries magazine and 57% recorded in the Merlin Scott Associates *Industry Report* are based in the capital.¹¹

London was the location of most "top end" buying of collectibles out of any region of the UK (24%) in 1999, closely followed by Anglia/Midlands.¹² This statistic does not, however, take into account the international aspect of the London market.

INTERNATIONAL CRITICAL ACCLAIM

The Young British Artists (or YBAs) have been exhibited world-wide, and British artists have, in the past, been very well received at the Venice Biennale with six prize winners (one critic and five artists) in the last 10

years. New, cutting edge commercial galleries like The White Cube represent their stable of artists at exclusive fairs such as Basle, and conduct their business on a global level.

The role of the British Council in ensuring that British artists, such as Henry Moore, receive international exposure cannot be over-estimated.

The touring Patrick Caulfield exhibition, which travelled to Luxembourg, Lisbon and the US during 1999 and the memorable installation created by Rachel Whiteread for the 1997 Venice Biennale (later acquired by the Museum of Modern Art, New York) are examples of the impact of such events in the development of the artist's international reputation and value in the art market. The Foreign and Commonwealth Office encourages

many embassies overseas to act as showcases for the best of British art.

SECONDARY ECONOMIC IMPACT

The industry provides the primary revenue stream for other industries, and is stimulated by other sectors.

MTI estimates that 56% of the sum spent on ancillary services in Europe is spent in the UK. An estimated total of £365 million (\$553 million) was, therefore, spent in the UK in 1999. The UK is recorded as having the highest expenditure for restoration of any European country.¹³

It was estimated that visitors to the UK in 1997 who regarded the art market as a "very important" or "quite important" reason for their visit spent £3,280 million in the UK.¹⁴

⁹ MSA (Merlin Scott Associates Ltd), 1999: *Industry Report*.

^{10, 13} MTI, 2000: *The Art and Internet Report*.

¹¹ Galleries, October 2000; MSA, 1999: *Industry Report*.

¹² Mintel, 2000: *Internet site*.

¹⁴ MTI, 2000: *The European Art Market*.

TOTAL EXPENDITURE BY EUROPEAN ART TRADE ON ANCILLARY INDUSTRIES

	£ MILLIONS	US\$ MILLIONS
FAIRS AND EXHIBITIONS	<u>183.7</u>	<u>278.3</u>
SHIPPING	<u>110.7</u>	<u>167.7</u>
RESTORATION	<u>87.3</u>	<u>132.2</u>
PRINTING, PHOTOGRAPHY	<u>62.0</u>	<u>94.0</u>
INSURANCE	<u>56.6</u>	<u>85.8</u>
BANKING	<u>45.4</u>	<u>68.8</u>
SECURITY	<u>44.8</u>	<u>67.9</u>
OTHER SERVICES	<u>31.0</u>	<u>47.0</u>
LAWYERS	<u>30.2</u>	<u>45.8</u>
TOTAL	<u>651.7</u>	<u>987.5</u>

Source: MTI, 2000.

POTENTIAL FOR GROWTH

The performance of the art and antiques market is closely linked to economic prosperity. Mintel observe that the macro-economic climate was healthy at the end of 2000 and GDP was set to rise 2.7%. Merlin Scott Associates concluded that in 1998: "On average, firms within the industry are exercising tight financial control of their debtors and creditors. This being the case, working capital requirements have decreased. This indicates that overall expansion within the industry is a possibility."¹⁵

According to MSA, industry productivity declined between 1997 and 1998. MTI recorded in 1999 that employee productivity in the UK fell below the European average and US levels. In 1999 sales per employee in the UK dealer market amounted to £86,254 (\$130,689) compared to a

European average of £135,820 (\$205,789) and a US average of £165,466 (\$250,707). Sales per employee in the auction market were £102,065 (\$154,644) for UK employees compared to a US average of £195,620 (\$296,395) per employee.

A decreasing debt ratio trend (less need to borrow) in 1998 indicated either that the industry was growing fast or exercising conservative financial policies. Firms took more credit in 1998 than they were giving to their customers.¹⁶

Future growth is, however, in danger of being stifled by EU tax harmonisation as it applies to the art and antiques trade.

On 1 July 1999 the VAT on works of art imported to the UK from outside

the EU was raised to the EU minimum rate of 5% from the UK's former special derogated rate of 2.5%. The potential extra financial burden of import VAT, represented by symbols in auction catalogues, is felt by the trade to dissuade sellers from consigning objects in London.

The extra costs which a dealer or auction house would incur by transporting a collectible to another territory, outside the EU, can in some cases be negligible compared to the increase in the level of additional taxation which now applies in the UK market.

Although the international art market has grown since 1994, and is estimated to grow still further in the years to 2003, the US art market is growing faster than Europe's.

^{15, 16} MSA, 1999: *Industry Report*.

It is predicted that it will be worth more than the European market, for the first time, in three years' time.

The decline by 25% between 1994 and 1999 in the import of works of art to the UK from outside the EU (originating primarily in the US or Switzerland) suggests also that importers are changing their policy in the light of harmonisation. The decline by 2% in the UK's share of the Western European auction market might also be attributed to the new EU tax.¹⁷ A further restraint on growth in 2000 were the special charges of £124.5 million (\$188.6 million) incurred by Sotheby's as part of the settlement of the civil antitrust class action lawsuit related to auctions in the US.¹⁸

IMPACT OF E-COMMERCE/ INTERNET/TECHNOLOGY

Online sales represented only 0.3% of the total international art and antiques market in 1999, but it is estimated that in 2003 online sales will represent 6.5% of the market.¹⁹ Sothebys.com Internet auction sales totalled £26.3 million (\$39.9 million) for the first nine months of 2000.

The UK lies fourth in the league of countries in which individuals have access to the Internet; behind the US, Japan and Germany.²⁰ Nevertheless, as

many as 27% of adults in the UK have access to the Internet, and companies such as e-Bay and Sothebys.com provide an alternative bidding framework within which collectors can buy and sell collectibles.

The Internet also provides a medium to potentially liquefy the market. Commercial galleries in the UK are increasingly using the Internet to promote themselves and their artists.

GROWING THE SECTOR – POINTS FOR CONSIDERATION

Attention should be paid to the range and availability of stock to ensure that buyers continue to be given choices. To this end new product, source markets should be investigated, such as those in China, East and South East Asia. Such initiatives could be facilitated by support from government for small and medium-sized businesses to attend overseas art fairs and undertake market research.

Consumer and investment confidence can be maintained by ensuring that speculative demand is not allowed to dominate the market. Such behaviour resulted in the "bubble" art market of the early 1990s. To this end, major financial institutions should be discouraged from over-extending cheap credit to potential speculators.

The industry must monitor the behaviour of the stock market closely, as well as economic conditions world-wide, since an event like the "Asian economic flu" has an impact on a substantial part of the UK market.

Greater and further import and export duties should be opposed because the benefit such duties might bring to government in the form of greater revenue is outweighed by the damage they might do to the domestic industry.

The training of artists and industry personnel in the management and economics of the art market, as well as in the new technologies is essential.

The development of a compulsory artist/dealer contract rather than a resale royalty tax would be a more equitable way forward in terms of artists' welfare. Such an initiative would regulate without constraining the market. It would also encourage individual enterprise as well as business partnerships.

More resources should be put into the policing of the illegal trade in antiquities. The illicit art and antiques trade depletes the national cultural patrimony and artificially inflates prices, because of the introduction of substantial funds from other sources.

^{17, 19, 20} *MTI, 2000: The Art and Internet Report.*

¹⁸ *Sotheby's, 2000: Press Office.*