



A Presentation by offshoreart.co

Freeports, the Art World and Virtual Proxies

*How the offshore
world of art relates to
Singapore's art scene*



A Freeport is a special customs area or small customs territory, in which customs regulations are generally less strict or there are no customs duties and/or controls for transshipment.



World's largest Freeport

First in Asia that is dedicated to the storage of fine art and collectibles

Public Private Partnership

Offers secure and confidential environment to store and display artworks without duty or tax being levied until the goods leave the free trade zone

Seen as a way to build an art market

Goods can sit in transit indefinitely without entering the country. No obligation to keep inventories. The nature of the goods, their values and identity of the owner can remain confidential. Good for Auction houses.

What Freeports do

Generally freeports and bonded warehouse:

- ❖ store high value goods in a highly secured and private environment for an indefinite time period
- ❖ Defer payment of tax ending final importation of goods
- ❖ Store goods in transit while allowing them to be handled
- ❖ Carry out transactions, using private show rooms to display the goods offered for sale

Legal services seen as an important aspect of the freeport eco-system: 81% of the art collectors surveyed and 63% of the art professionals said that legal services were a critical part of the service offering connected to a freeport facility, and that such facilities present an opportunity for legal firms to develop a service offering related to the global freeport eco-system. Other services such as art restoration (77% of art collectors and 57% of art professionals said this was very important), fine art insurance (64% of art collectors and 72% of art professionals said this was very important). More than half of the respondents (56% of art collectors and 55% of art professionals) said that collection management is an aspect that should be offered as part of a freeport service or solution. Section 5 clearly illustrates the legal complexity of dealing with art.

Fig. 29 What type of additional services would be useful as part of the freeport eco-system?



“Art is a currency that flows between countries ...Freeports are protecting our artistic heritage on the move.”

–Anders Petterson,

founder of London-based analysts ArtTactic

Singapore's Freeport in context

- ❖ Singapore was set up as a freeport in 1819 by Raffles: Conglomerates such as PSA Port of Singapore Authority, serve as post-colonial counterparts of the old British or dutch east india company franchises
- ❖ At the heart of economic policy to become a Switzerland of the East.
- ❖ Part of the creation of creative cities
- ❖ Grew directly from Swiss regulatory and tax reforms “Back in 2005 when Switzerland imposed withholding tax on non resident accounts owned by Europeans. We sensed a move toward increased regulation that is when we first concieved the idea of the freeport in Singapore” (2009)
- ❖ Part of **Airport Logistics Park Singapore** (ALPS) an **industrial park** created to support activities related to trade and **air cargo** in 2003. Singapore's first logistics park.

““The international art market is, perhaps, the closest thing to a truly self-regulating enterprise to be found in the capitalistic world since Adam Smith wrote ‘The Wealth of Nations’ and it was regulating itself long before that. Its modern history is wholly of private enterprise, privately arrived at.”

– 1955 *The Directions and Techniques of the Great International Art Market.*

Hoarding hordes

2

Number of ultra-high-net-worth individuals*
2013, '000



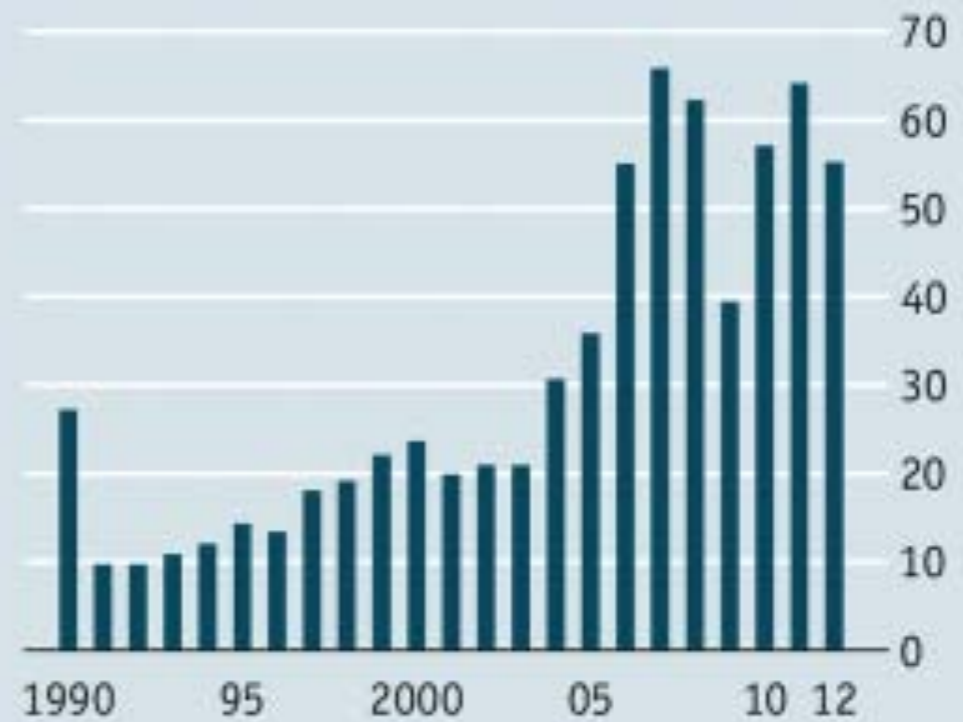
*With investible assets
of at least \$30m

Source: Wealth-X

Safer than stocks

1

Global art market sales, \$bn



Source: TEFAF

Deloitte Findings 2014

Southeast Asia - rapid art market growth and regional growth in high net worth individuals population and wealth combined with Singapore's position as a financial and art market hub, point too significant opportunities to grow and art and finance market in Southeast East Asia.

76% of art collectors are buying art for collecting purposes, but with an investment view (up from 53% in 2012) Implying that investment is becoming more important.

There will be a focus on art and wealth management in 2015:wealth managers will focus on three art -related financial services in the next 12 months- art and estate planning, art and philanthropy and art secured lending.

Freeports as competence clusters for the art and finance market: free ports specialising in tangible valuable goods offer the possibility for wealth managers to develop regional competences centres for these assets. This is especially the case for Luxembourg, Singapore and Switzerland.

Table 1: Regional market trends in modern and contemporary art and 2015 outlook

Geographical market	Wealth indicator ¹⁵ (% growth 2012 -2013)	Buying art indicator ¹⁶ (Net balance)	% of treasure assets ¹⁷	Auction sales trend 2012-2013
GLOBAL TREND	World forecast: +4% (US\$ wealth) +5.4% (population)	A majority of wealth managers believe their clients will continue to buy art in the future, with most of the regions showing a positive net balance	Despite significant regional differences in terms of % holding of treasure assets, many of the new growth markets offer potential for art and wealth management services	Although there are significant regional differences, global sales of modern and contemporary art were up in 2013 and first-half 2014, mainly driven by the increase in high end US
South East Asian modern and contemporary art	Singapore: +3.8% (US\$ wealth) +3.2% (population) Indonesia: +10.2% (US\$ wealth) +8.3% (population) Thailand: +15.2% (US\$ wealth) +15.8% (population)	+33%	Singapore: 16%	+ 36%

Confidence trend 2012-2013	Collector outlook 2015 ¹⁸	Art & Finance outlook
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Improved economic sentiment boosted confidence in the global art market. Geo-political uncertainty continued to impact on some art markets, notably in the Middle East

The majority of collectors maintain a neutral to positive outlook on the next 12 months, and take a particularly optimistic view of US and European, and Indian and South East Asian modern and contemporary art

The combination of significant growth in wealth and the development of new regional art markets increases the future potential of a global Art & Finance industry

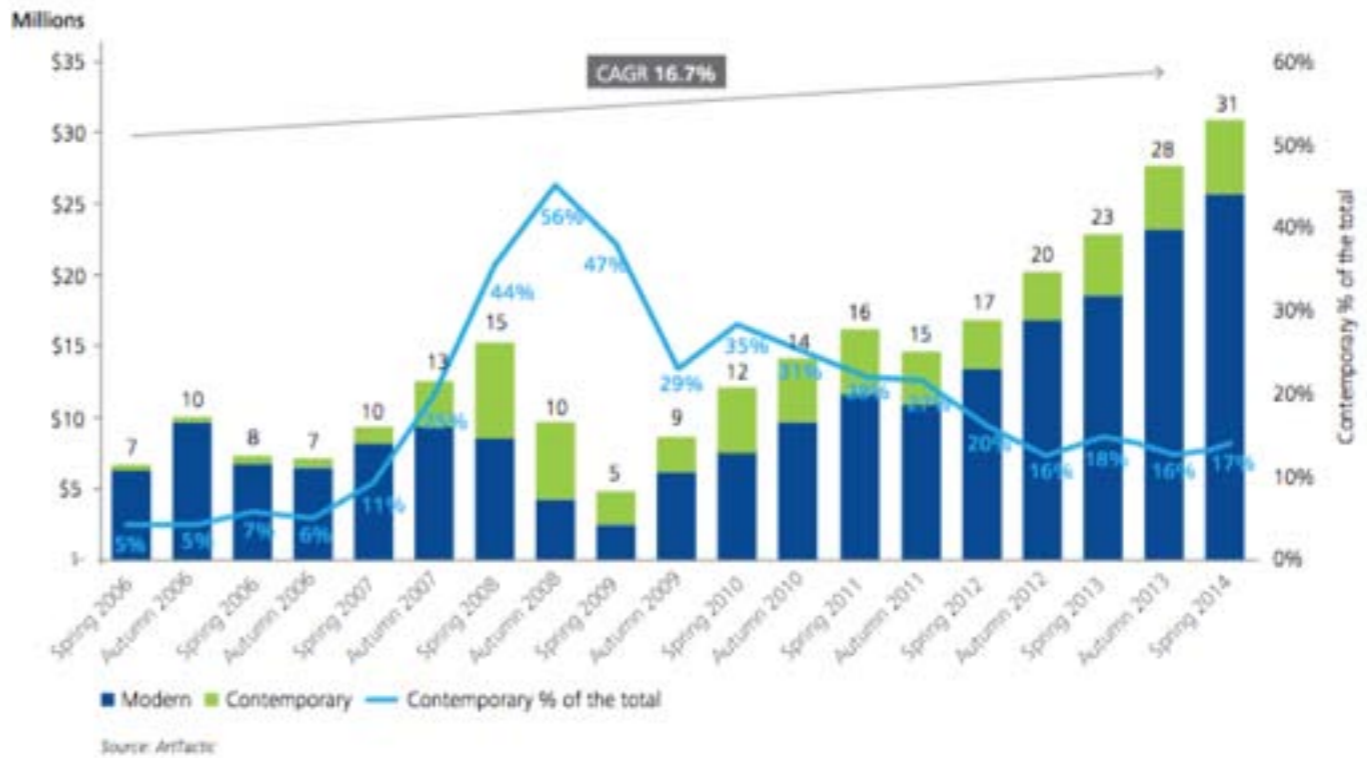
+12%

Collector poll on market direction:
 + UP: 59%
 = FLAT: 41%
 - DOWN: 0%

South East Asian auction sales in April/May 2014 reached a new high for this market, with US\$31.1 million in total sales, an increase of 12% from the last record set in autumn 2013

POSITIVE

Fig.11 South-East Asian modern and contemporary art market (2006 - 2014 1st half)
 Auction sales (in US\$) based on Christie's and Sotheby's



OUTLOOK

Market direction: 59% of experts¹⁷ believe the South-East Asian modern and contemporary art market will go up in the next 12 months, and a further 41% expect the market to remain around current levels in the next 12 months.

Singapore is investing in art infrastructure development: Singapore has invested significant amounts in art infrastructure, with the strategic aim of becoming the region's art market hub. With the South-East Asian art market growing, Singapore's position as a commercial and cultural hub is likely to strengthen going forward.

The Indonesian art market set to grow: while Singapore has the infrastructure, it is Indonesian artists who dominate the South-East Asian art market, with a 54% market share based on the 2013 sales results for Sotheby's and Christie's.

Art buying trend: according to Knight Frank's The Wealth report 2014, a net positive balance of 33% of private bankers and wealth advisors surveyed expect the popularity of art buying among their Australasian UHNWI clients to increase.

Wealth outlook: according to the Wealth-X and UBS World Ultra Wealth Report 2013, Singapore has most UHNWIs in South-East Asia, with a total population of 1,355 individuals with a total wealth of US\$160 billion (up 3.2% from 2012). This is followed by Indonesia (865 individuals with US\$130 billion in total wealth), which experienced stronger growth of 10.2% and 8.3% respectively in 2013. Other rapidly growing UHNWI markets are Thailand, with 15.2% growth in the UHNWI population and 15.8% growth in total wealth. According to Barclays' research¹⁸, wealthy individuals in Singapore hold 16% of their total wealth in treasury assets (mainly jewellery, fine art and wine). With rapid growth in wealth creation in markets such as Thailand, Indonesia, Malaysia and the Philippines, we can expect this to have a positive impact on the art markets and its artists going forward.

Source: Artfactis



Three Important Art Offshore Centers

- Singapore
- Dubai
- Hong Kong
- All three are city-states.