

BUSINESS DAY

Swiss Freeports Are Home for a Growing Treasury of Art

By DAVID SEGAL JULY 21, 2012

GENEVA

SIMON STUDER started his career in a basement vault in a warehouse complex near the heart of this city, known for international banks and outrageous prices. It was a strange job. Every day, someone would open the vault and lock him inside until it was time for lunch. Then he'd be let out of the vault and, after eating, he'd be locked in again until it was time to go home.

He was taking inventory for one of Switzerland's best-known gallery owners, who rented the space. "I was checking sizes, condition, looking for a signature," Mr. Studer recalls, "and making sure the art was properly measured."

This might have been a tedious way to spend four months, but what was being tallied and assessed was the handiwork of Pablo Picasso. Not hundreds of pieces, but thousands — shelf upon shelf of drawings, paintings and sculptures. It was Mr. Studer's first peek at the astounding wealth stuffed inside the Geneva Freeport, as this warehouse complex is known.

The second peek came when he realized what the guy in the vault next door was doing: counting a roomful of gold bars.

“That’s the Freeport,” says Mr. Studer, who now runs his own gallery. “You have no idea what is next door and then you happen to be there when they open a door and, poof, you see.”

That Picasso gig was about 25 years ago, and all evidence suggests that the Freeport is more treasure-crammed than ever. Though little known outside the art world, this surprisingly drab series of buildings is renowned by dealers and collectors as the premier place to stash their most valuable works.

They come for the security and stay for the tax treatment. For as long as goods are stored here, owners pay no import taxes or duties, in the range of 5 to 15 percent in many countries. If the work is sold at the Freeport, the owner pays no transaction tax, either.

Once it exits the premises — either because it’s been sold or because the original owner has moved it — taxes are owed in the country where it winds up. But for as long as a work is in the Freeport, it’s as if it resides in a no-man’s land where there is no Caesar to render unto.

Only a few years ago, in fact, the Freeport was officially not part of Switzerland. The buildings have since been patriated, but they and a handful of lesser-known freeports in different parts of Switzerland remain the closest thing to the Cayman Islands that the art world has to offer. It’s a haven where the climate — financial and otherwise — is ideal for high-net-worth individuals and their assets.

How much art is stockpiled in the 435,000 square feet of the Geneva Freeport? That’s a tough one. The canton of Geneva, which owns an 86 percent share of the Freeport, does not know, nor does Geneva Free Ports and Warehouses, the company that pays the canton for the right to serve as the Freeport’s landlord. Swiss customs officials presumably know, but they aren’t talking. Suffice it to say, there is wide belief among art dealers, advisers and insurers that there is enough art tucked away here to create one of the world’s great museums.

“I doubt you’ve got a piece of paper wide enough to write down all the zeros,” says Nicholas Brett, underwriting director of AXA Art Insurance in London, when asked to guess at the total value of Freeport art. “It’s a huge but unknown number.”

The number is about to grow. At the Freeport, construction has begun on a new, 130,000-square-foot warehouse that will specialize in storing art. It is scheduled to open at the end of 2013.

In the coming years, collectors and dealers will also have a variety of other high-security, customs-friendly, tax-free storage options around the world. Luxembourg is building a 215,000-square-foot freeport, scheduled to open in 2014 at its airport. In March, construction began on the Beijing Free Port of Culture at Beijing Capital International Airport.

There has also been talk of doubling the size of the freeport in Singapore, a gleaming, high-tech operation that is so sleek it's hard to believe a "Mission: Impossible" sequel hasn't been filmed there. It opened in 2010, next to Changi airport, and caters to Asian collectors who are ferried in white limos from the tarmac to the warehouse.

THIS construction boomlet is a novel way to gauge the art market's strikingly swift recovery from a precipitous fall in 2008, when sales at auctions, the industry bellwether, shrank in the aftermath of the Great Recession. Global sales in 2011, both at auction and in private deals, were estimated at \$64.1 billion, according to Clare McAndrew, an art economist. That total is just shy of the record high of \$65.8 billion set in 2007 — and well ahead of the 2009 trough of \$39.4 billion.

At the high end, some works are fetching prices that far exceed the heights of five years ago, when the phrase "art market bubble" was commonplace. In June, Christie's sold a 1981 painting by Jean-Michel Basquiat for \$20.1 million, a record for the artist at auction and a figure that far surpassed the \$14.6 million it sold for five years ago at Sotheby's. The same month, "Blue Star," by Joan Miró, sold at Sotheby's for close to \$37 million, more than double the sum it earned at auction in Paris in 2007.

In record time, the art market decline of 2009 has given way to new anxieties about overinflated prices. ("How long can the art market walk on water?" read a headline in a July-August issue of *The Art Newspaper*.) A major reason, Ms. McAndrew says, is the arrival of Chinese buyers in large numbers, as well as buyers from Russia and the Middle East. Then there is the newfound sense among

collectors worldwide that art is a smart commodity to buy in the midst of economic turmoil.

“People have realized that art is a safe haven asset when other markets are doing poorly,” Ms. McAndrew says. “In general, art holds its value over time, and in some cases it increases.”

Granted, some freeport users are people who have been collecting for years, purely out of passion, and suddenly find that pieces they bought decades ago are now worth sums so immense that keeping them at home is a gratuitous risk. But more typical are collectors in need of storage and tax relief because they never intended to display what they had bought.

The difference between a room of Picassos and a stack of gold bars isn't what it used to be. And that bothers people like Michael Findlay, a director at Acquavella Galleries and author of “The Value of Art.”

“The art business now attracts people who are parking money, who are speculating and who want social status,” Mr. Findlay says. “The flaw in their thinking is that from a historical perspective, the great private collections were put together by people who bought art because they could afford it and liked it. When these people spent money on art, they considered it spent and they had something to enjoy for the rest of their lives. It was for personal use. The art spent no time at a freeport.”

MANY art warehouses are so unobtrusive that you can walk by them and never know it. The Geneva Freeport isn't one of them. A quarter of a mile away, you can see the name of the place, Ports Francs — which is French for free port — in red letters on the outside of a windowless white building facing a commuter thruway. From a distance, it looks like a multiplex movie theater.

Driving up, you expect a checkpoint, armed guards, retina scans, German shepherds and X-ray machines. But none are in sight. There is some fencing and barbed wire, but less than you'd think. This isn't to say that security here is lax — dealers, movers and collectors describe the place as impregnable, and locks and cameras abound. But nothing about the site says Fort Knox.

Unless you notice the Swiss customs officials, who are not particularly obtrusive, this could pass for a large self-storage operation in Queens. It sits about two miles from the center of Geneva, next to a post office and amid a hodgepodge of gray and unremarkable bridges and streets.

Media tours of the Freeport are rare, but there have been more in recent years as the government and the company that operates the facility strive to reassure the public that there is nothing mysterious or unscrupulous going on here. In part, this is a hangover of some bad publicity. In 2003, Swiss authorities announced that they would return hundreds of antiquities stolen from excavation sites in Egypt, including two mummies, sarcophagi, masks and statues. Some of the items were reportedly painted in garish colors so they could be smuggled in as cheap souvenirs. The ringleader of this group was eventually sentenced to 35 years in prison.

The episode helped to spur some regulatory changes, including a rule that requires tenants to keep an inventory using a specific template. It is hardly a huge change — customs officials were always allowed to ask to see any container they wanted — but experts say the rules were enacted, in part, to counter the Freeport's undeserved image as a place where anything goes.

“The legislative changes were in response to the criticism,” says Eva Stormann, an attorney based in Geneva who specializes in art law. “But much of that was based on a wrong understanding of how the Freeport works. It is a highly reputable place.”

On a June afternoon, a tour of the Freeport is given by Florence May and Gilbert Epars, marketing directors for Geneva Free Ports. The first stop is a wine cellar piled high with crates stamped with names like Château Mouton Rothschild, Dom Pérignon and Château Petrus.

Art, it turns out, is just one category of valuable stored in these buildings. Things like cigars, Lamborghinis, soap and Porsches show up, too. There is also a silo large enough for 45 tons of grain.

Honestly, grain. It's the last bit of evidence that when the original Freeport here opened back in 1888, it wasn't for rarefied assets at all. It was designed for agricultural goods, and anything else that can be stored in bulk, and regarded as a

place to keep stuff briefly while it traveled from one part of the country to another.

But the upside of the "temporary exemption of taxes and duties for an unlimited period of time," as it's called, caught the eye of a more upscale crowd. Wine lovers among them.

"There are about three million bottles of wine here," says Mr. Epars, after doing some quick math in his head.

What you won't see on this tour, weirdly enough, is art. It is all behind dozens of locked doors up and down a series of featureless hallways. The only hint that you stand amid Monets, Rothkos and Warhols — or works by artists of their stature — is a number of discarded frames sitting near a large vault in the basement of one building. That and a wooden crate that, according to a label on its side, held a painting by Jules Olitski, a Russian-born artist who died in 2007.

The concentration of so much great art in one place has started to make insurers nervous. The problem is that most art insurance provides what is called "worldwide coverage," which means that the work is insured wherever it is. But if so much art is packed in a mere 31 acres of terrain, what would happen if disaster struck?

"The nightmare scenario is a plane crash, or a fire, or a flood," says Adam Prideaux, an insurance broker at Blackwall Green in London. "But Freeport authorities are reluctant to give out security information, and they won't give out information about fire divisions, so we don't know if a fire could spread. Maybe it wouldn't, but we have no idea because the Swiss won't discuss it."

It's to the point now, Mr. Prideaux adds, that new policies for the Freeport are either cost-prohibitive or impossible to write.

"We can't actually calculate how much we have insured at the Freeport, and at some point, insurers said, 'My God, we have unlimited coverage and we have no idea how much of that is at the Freeport,' " Mr. Prideaux says. "There are insurers who could be so overexposed that in the event of disaster they will be unable to pay."

THE unknown of what's inside the Geneva Freeport makes it an ideal metaphor for the art market, much of which is shrouded in mystery. Sales at auctions attract

attention, but both the value and the volume of private transactions are apparently larger. Perhaps far larger.

Ms. McAndrew, the economist, has surveyed dealers and collectors, and estimates that in the United States, private sales make up 70 percent of all transactions measured by dollar value.

So while it's widely known that one of Edvard Munch's four versions of "The Scream" sold at Sotheby's in June for nearly \$120 million, other megadeals are struck in secret. Or mostly in secret. It's been widely reported that a buyer or buyers in Qatar — the odds are it was the royal family — spent \$250 million for one of "The Card Players," by Cézanne, which would make it the largest sum ever paid for a work of art.

Private deals at the lower end of the market are booming, too. Only three years ago, says Wendy Goldsmith, director of Goldsmith Art Advisory in London, "we'd sit there staring at our phones, willing them to ring." Now, she describes a conversation with an artist who is "not museum quality," with eight pieces of newly produced art and a waiting list of 81 people. ("What do you suggest I do?" the artist asked Ms. Goldsmith, a little desperately.)

The lines for the marquee contemporary names are even longer.

"I bought a Gursky for a client," Ms. Goldsmith says, referring to Andreas Gursky, whose stunning, large-scale photographs come with stunning, large-scale price tags. "I had to write Gursky a letter about my client's collection. I had to explain why my client wanted this photograph so much. And this piece cost over \$1 million. It was like pledging your first born."

"The machinations are fascinating," she adds. "They're also spiraling out of control."

Signs of this uptick are evident at the Freeport. For years, art-related bustle here consisted of trucks being loaded and unloaded, and business people arriving with dealers or advisers to size up a possible purchase. But in recent years, a handful of galleries have sprung up here, and the first belonged to none other than Simon

Studer, the dealer who cataloged Picassos in the basement.

Mr. Studer's gallery, which opened here three years ago, is on the third floor of a warehouse, and after some extensive interior decorating, including the installation of heating, it looks like a New York loft. Why the Freeport? The rent is inexpensive when compared with that in downtown Geneva.

"And if a person is willing to come to the Freeport, they are serious about buying," he says. There is not a lot of window-shopping here because there aren't a lot of windows.

His onetime protégée, Sandra Recio, has opened a gallery next door. "This place also has some mystique," she says. "You tell people you're at the Freeport and that sounds intriguing."

Mr. Studer, who speaks with a light French accent, walks to the rear of his gallery, where he has set up a cozy little viewing room. Works by Giacometti, Balthus and Modigliani hang on walls, there's a cowhide rug on the floor and a couple of brown leather Barcelona chairs near an easel.

"So you got to look around?" he asks, referring to the tour given the previous day by Ms. May and Mr. Epars. "The place has changed because of the bad reputation from the antiquities stolen from excavations. They want to show that it's transparent and totally legal."

There is a newfound vigilance among customs officials, he says. A few days earlier, one of them stopped him on the street near the Freeport:

"He asked me to open my briefcase and show him what was inside. He asked where I was coming from, where I was going. That was a first."

Asked if he or Ms. Recio has ever seen any art at the Freeport, other than what they sell, they both think for a moment. "I've seen taxidermy," Ms. Recio says. "Animal heads."

"Most of the time, you get an idea of what is behind these doors through your nose," Mr. Studer says. "You might smell soaps, or carpets."

Leaving the gallery, he walks to the elevator and runs into a father and son who sell cigars — rolled in Costa Rica, they say, and filled with the finest tobacco from around the world.

Mr. Studer has an expression on his face that says, “That’s the Freeport for you.”

“It’s nothing fancy, nothing sexy,” he says. “It’s just pure business. It’s a very gray, very boring, dark, Swiss place. But when you go inside, you have some surprises.”

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