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Royal Uncertainty: An In-depth Analysis of the Potential Affects of Brexit on the U.K. Art Market

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Introduction.

The United Kingdom, most notably London, has been known on the international commerce scene as a pivotal trade center for many centuries acting as a stepping stone from Europe to the Western World. Even though the economic importance of London can be dated back to early times, the inherent popularity of its art market only began flourishing in the late eighteenth century, riding on the back of the already established, but restrictive, art epicenter in Paris. The rise and prominence of Paris' art market from 17^{th} to 19^{th} century eventually came to an end at the heels of direct competition from London. The UK capital never looked back and has become known as the leading European, international, art-business center of the world. As the UK leaving the EU became a reality in 2016 the global market responded with uncertainty. Even though the full affects of Brexit will not materialize for another half-decade the paths forward can be broken out into a number of different scenarios. From the worst possible outcome to the best, the auction house business in London will have to acknowledge the potential changes and adapt in order to best position itself for the future.

The Rise of the UK Art Market:

In the Beginning.

Throughout the 18^{th} century both Paris and London were the dominant competitors in the global art market. It was not until the nineteenth century that England had very much secured its place as a commanding center for the arts and art business.[1] Its force was largely a result of its reformed commerce regulations, technological advances (publishing/printing) and relative business stability.[2] London's leading position was also greatly accredited to both the French Revolution, 1789 - 1799, and Napoleonic wars, 1803 - 1815, as these wars brought great instability to France and much of the rest of Europe[3]. As a result of the economic uncertainty in France, auction houses in England, most notably Sotheby's and Christie's, profited significantly due to the fact that many families were forced liquidate part or all of their assets through the more stable London market. [4]

The Fashioning of a British Art Center.

Throughout the 17th, 18th and early 19th centuries the art world and art market was largely dominated by a hierarchical academic structure, which controlled artists' training and artistic production. What once was a straight and narrow path for all artistic creation and transactions, was thrown out in the nineteenth century for a new, more democratic method known as the dealer-critic system.[5] The system was structured to function as a competitive, relatively free art market. Within this new structure artist's careers and reputations were established via art-focused press and commercial galleries, which played pivotal roles in the exhibition of an artist's work.[6] The art world

[1] Howard, Jeremy, "Art Market, The Eighteenth Century," Encyclopedia Britannica, accessed October 2016, https://www.britannica.com/topic/art-market/The-18th-century
[2] Howard, Jeremy, "Art Market, The Eighteenth Century,"
[3] Ibid.
[4] Ibid.
[5] "Paris, New York, London, Dubai, History of the Modern Art Market," The Conversation, accessed October 2016, http://theconversation.com/paris-new-york-london-dubai-history-of-the-modern-art-market-33286
[6] "Paris, New York, London, Dubai, History of the Modern Art Market,"

as we have come to know it today was largely a product of the 19th century, where the foundations of the modern systems of producing, distributing and valuing were established.[7] By the mid-19th century, London's contemporary art market was operating in full force. Artists during this period finally were living to experience the wealth and social status acquired by their successes proliferated by the emergence of a new collector base and public acknowledgment. These collectors were most often self-made and much preferred putting their money into the art of the time, prints and engravings, rather than the older, more costly works by Old Masters.[8]

In the 19th and into the early 20th century, the sheer volume of art created in London was astonishing. According to the Art Journal, in the year 1864, approximately 400,000 British pounds had been spent on art; 100,000 pounds at exhibitions and the rest expended at auction.[9] In 1868, It was estimated that around eight to ten-thousand new paintings were being exhibited in London every year, and that approximately three times as many works were being created but were rejected for exhibition.[10] Further, The Year's Art journal stated that, by the year 1911, Christies alone had reported sales of over 1,300,000 pounds.[11]

London proved itself to be extremely successful and versatile on a global scale within both commercial and financial markets.[12] Its growth as a powerhouse was

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[7] Bayer, Thomas, "The Development of the Art Market in England: Money as a Muse, 1730-1900," *Pickering & Chatto,* London, 2011.
[8] Ibid.
[9] "Paris, New York, London, Dubai, History of the Modern Art Market," *The Conversation,* accessed October 2016, http://theconversation.com/paris-new-york-london-dubai-history-of-the-modern-art-market-33286
[10] Helmreich, Fletcher, "The Rise of the Modern Art Market," *Bedowin*, accessed October 2016. https://www.bowdoin.edu/books/the-rise-of-the-modern-art-market-in-london-1850-1939/excerpt/pdf/fletcher-helmreich-rise-of-the-modern-art-market-in-london-introduction.pdf.
[11] "Paris, New York, London, Dubai, History of the Modern Art Market," *The Conversation*,
[12] Howard Jeremy, "Art Market, The Eighteenth Century,".

brought to center stage in 1929 as the world economy crashed, a time known as the Great Depression, and once again during the World War II period and cold war period.[13] Relying on the escalated circulation of money, amassing of personal wealth, and its position as a center for conspicuous consumption, London was able to bear the burden much more effortlessly in comparison to the other cities affected.[14] Regardless of its relative stability, London's success as the top financial center in the world, was still very much threatened by the volatility of the markets during the inter-war and depression periods.[15] Overall, London's capacity and influence was realized by its importance as the world's largest global importer and exporter of goods.

With Stability Came Business.

From 1850 to 1939 the London art market saw its greatest development in part as a result of London's globalized economy. London had become a prime center for finance, propagated by a well-developed network of international trade, law, transport, and communications.[16] The capital city, with its extensive history, had a leading edge over other metropolitan centers fueled by an explosion of conspicuous consumption by the wealthy and its mass growth as a globalized city.[17] London's financial success, through the development of commercial institutions, such as banks, insurance companies and finance firms had secured a head position in the markets. Furthermore,

[13] Helmreich, Fletcher, "The Rise of the Modern Art Market,"
[14] Ibid.
[15] Ibid.
[16] Ibid.
[17] Ibid.

London became home to the stock exchange, a multitude of multinational corporations and key trading and transport businesses, such as the railway and shipping lines.[18]

With Business Comes Investment.

With growth of the financial and institutional infrastructure in London through the nineteenth and twentieth century, came the associated rise in wealth for many involved individuals. As it takes wealth to dominate a financial market, the same can be surely said in relation to an art market. Art during this time was not only viewed as a desirable commodity, but equally as a potential investment.[19] London's globally renowned financial sector, coupled with its strong currency, further permitted the opportunity for it to host both publicly funded arts institutions and some of the world's wealthiest arts patrons and collectors. As a result of the economic and financial turbulence that London had sustained throughout its history, many who had the means and access began investing in art as a safe asset, further propelling artists' careers and London as an art world power.[20]

London in the 21st Century: a global business center and wealth.

Today little has changed in the progression of the city, as London has continued to hold its ground as a major financial superpower and business center. The institutions that laid foundations in the 18th and 19th centuries continue to exist and run business out of London to this day. In fact, many of these institutions have become landmarks and are now representative of the power and history that London as a global market place

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[18] Helmreich, Fletcher, "The Rise of the Modern Art Market,"
[19] Ibid.
[20] Ibid.

has attained. London's stock exchange is a direct example of its persistence as a major financial center.

The London Stock Exchange Group (LSEG), currently ringing in as the third largest stock exchange center globally after the NYSE and NASDAQ, is the largest trading platform across the European and Asian continents.[21] Its position following the United States is largely due to the fact that many large Asian corporations have chosen to go public in the NYSE/NADAQ vs. the Asian stock exchange trying to gain some liquidity from the US capital markets. Nevertheless, almost every large European company still chooses to list on the London Stock Exchange supporting the city as a key player in the international financial market.[22] Coupled with its financial prowess is the global strength of the pound, currently the highest valued and most stable currency in the world. As a whole, this further contributes to the UK having one of the highest, if not the highest, foreign direct investment (FDI) stocks in Europe over the last several years, putting it on par with Hong Kong.[23] The increase in foreign investment over the last decade in the United Kingdom has not only grown the infrastructure in the country but also the attraction of individual wealth to the region, London in particular.[24]

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[21] "IPO Insights: Comparing Global Stock Exchanges," *Ernst and Young*, accessed December 2016, http://www.ey.com/Publication/vwLUAssets/IPO_Insights:_Comparing_global_stock_exchanges/$FILE/IPO_comparingglobalstockexchanges.pdf
[22] "IPO Insights: Comparing Global Stock Exchanges," *Ernst and Young*
[23] Spickernell, Sarah, "Foreign investment into UK is highest in Europe and second highest in world," City A.M., accessed October 2016, http://www.cityam.com/1405852602/uk-foreign-investment-highest-europe-and-second-highest-world
[24] "World Investment Report 2015: Reforming International Investment Governance," United Nations, accessed October 2016, http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf?lien_externe_oui=Continue.

Today around five-thousand high net worth individuals (HNWI's), those with more than thirty-million dollars in assets, live in London.[25] Although a higher number lives in New York (5,600), the British city's proximity to Europe and ease of access to both Asia and North America translates into an estimated 16,000 HNWI's operating in the city annually.[26] As mentioned earlier, an art market cannot be successful without a solid infrastructure and wealthy individuals willing to purchase. As a result of consistent foreign investment over the last few decades, London has been able to build on their longstanding history as a trade center to become a city filled with the old money and nouveaux riche from across the globe; the building blocks of their current art market.

Both London's longstanding government and the Royal Family have been key factors to its stability as a dominant commerce center. The capital's government has remained comparably democratic and stable over the last half century.[27] As a result of London's values and display of both equality and permanence, foreign investors and businessmen from the Middle East, Russia and India are much less likely to confront bias.[28] When it comes to business transactions or dealing with domestic relations as they relate to money and investments, many nations have come to regard London as safe haven.[29]

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[25] Battersby Matilda, "London is the most important city in the world to the super-rich," Evening Standard, accessed October 2016, http://www.homesandproperty.co.uk/luxury/property/london-is-the-most-important-city-in-the-world-to-the-superrich-with-assets-of-more-than-21-million-a99716.html.

[26] Battersby Matilda, "London is the most important city in the world to the super-rich".

[27] Roberts, Andrew. "How the Queen Saved and Soothed Britain." *Wall Street Journal,* February 09, 2012, Eastern edition, accessed December 2016 http://search.proquest.com/docview/920357594?accountid=13958.

[28] "Russia crisis highlights why London so popular with global rich," The Commentator, accessed October 2016, http://www.thecommentator.com/article/5439/russia_crisis_highlights_why_london_so_popular_with_global_rich

[29] "Russia crisis highlights why London so popular with global rich," The Commentator.

Correspondingly, Britain, namely, London, has become a preferred secondary business center and home for many from India, the Middle East and Russia. As reported by the New World Wealth Report, non-UK born residents have become the highest second home buyers in London and the majority of the new wealth coming into the country.[30] London is viewed as a secure and safe place for commerce as it is very considerate when it comes to business dealings with multiple cultures and social standings throughout the world.[31]

Commerce and Investment in the Art Market.

In relation to the art world, London's status as a developed country and its consistent politically sound, domestic and international relations allow persons and businesses to act confidently in international commerce. In turn, allowing it to become a large attraction for foreign investment, especially from the Middle East region. As the waters have turned turbulent, Middle East investors have resorted to London markets as a safe-haven for their investments.[32] This was realized in 2015, when investors from the Middle East committed record financial sums into commercial property in the United Kingdom.[33] In 2015, property broker CBRE reported that Middle Eastern investors had allegedly spent a total of $2.8 billion on London property making up 24% of its total

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[30] "Personal Finance News: Wealthy Indians prefer their 2nd home in London, New York: Report," Economic Times, accessed October 2016, http://articles.economictimes.indiatimes.com/2014-09-09/news/53730827_1_millionaires-hnwi-london.
[31] Johnson, Paul, "Current Events: London and the Super Rich," Forbes, accessed October 2016. http://www.forbes.com/sites/currentevents/2014/06/18/london-and-the-superrich/#1e1127227ae4
[32] Evans, Judith, "Middle East investors home in on London property for secure income," Financial Times, accessed October 2016. https://www.ft.com.
[33] Ibid.

international investment.[34] These foreign investors are hoping to offset losses caused by the commodities slump taking place in their home region and detach from their economies that are clinically filled with political risk. Thus investment sums from the Middle East have contributed to an outpouring of overseas inflows that has in turn lead to the appreciation of capital values in the London market.[35] Interestingly, Sotheby's has moved its Middle East Auction, which previously had taken place in Doha from 2013 to 2015 to now take place in London. This comes after 2015 sales of Middle Eastern work at Sotheby's in London out preformed those in the Gulf.[36]

Global Positioning and Accessibility.

London's business reign is in part owing to the fact that the city is located in a time zone that is favorable to the majority of the world's most important cities. In relation to London's central geography, the Evening Standard reported, "The world has shifted in London's direction. In 1950, New York was perfectly positioned between California and Western Europe. Nothing else mattered much economically. The rise of the Arab World in the seventies, the emergence of Eastern Europe in the nineties and India's post-2000 successes have all improved London's geography relative to New York".[37] London is the only financial city that sees an open market across all three major stock

[34] Barnard, Lucy, "London is Top Beneficiary as Middle East investments in Global Real Estate at New High," *The National AE,* accessed December 2016, http://www.thenational.ae/business/property/london-is-top-beneficiary-as-middle-east-investments-in-global-real-estate-at-new-high.
[35] Ibid.
[36] Cornwell, Tim, "Sotheby's Moves Middle East Auctions to London," The Art Newspaper, accessed October 2016. http://theartnewspaper.com/market/art-market-news/sotheby-s-moves-middle-east-auctions-to-london/.
[37] "Business: Ten Objective Reasons Why London is Better than New York," City Metric, accessed online October 2016. http://www.citymetric.com/business/10-objective-reasons-why-london-better-new-york-749.

exchanges.[38] The capital city is five hours ahead of New York and only three hours behind Saudi Arabia and Russia and just over five hours behind India (New York is 8 and 10.5 respectively), it has that many more common hours of business ahead of any other Western centers.[39] This allows for a greater amount of time during the day to communicate, do business, and preform transactions. From its proximity to the ocean and acting as a stepping stone for most of Europe to connect to the Western world London has truly become a pivotal part of world globalization.

Moreover, according to the Harvard Business Review, one in every four people (1.75 billion) in the world speaks English at a useful level. English has become the language of business as companies have grown on global scales and the distance between counterparties have shortened due to increase technology and the internet.[40]

Cultivation of an Artist Culture.

Throughout the 1990's, particularly in England, the contemporary art scene began to flourish and it became the art market's largest growth sector with British artists (i.e. Damien Hirst and Tracey Emin) leading the charge on the European continent.[41] Into the 2000's young British artists' careers were further promoted by the opening the Tate Modern museum, which gave young living artists the opportunity to show case their works to the public.[42] Today London produces and is home to many high caliber artists and has cultivated a palpable artist culture. This is largely in part due to the

[38] Ibid.
[39] Greenwich Means Time to the World, accessed October 2016, https://greenwichmeantime.com/.
[40] Neeley, Tsedal,"Global Business Speaks English," Harvard Business Review, accessed October 2016. https://hbr.org/2012/05/global-business-speaks-english.
[41] Ibid.
[42] Ibid.

infrastructure available in the city in conjunction with its world renowned fine arts institutions.

With a longstanding history of institutions and centers focused on the propagation of cultural studies and the arts, London has grown into a 21st century mecca for international scholars to study and do research. Thus contributing both to London as a globally revered destination and to the cultural diversity of the city. The UK is home to four of the top 15 universities in the world: University of Oxford, University of Cambridge, Imperial College London, and University College London as well as the highest ranked art school in the world, The Royal College of Art.[43][44] Further London is host to some of the world's most well know cultural intuitions such as the British Museum, the Tate Britain and Tate Modern, the Royal Academy and the Museum of London to name a few.[45]

The New World.

At the turn of the 21st century a newer style of art spectacle and participation was popularized. Fine art and antique fairs began to materialize all around the world. These fairs allowed the galleries to showcase their artists' works, to folks from all corners of the globe. London's original art fair, The Grosvenor House Art and Antiques Fair, lasted

[43] "World University Ranking," Times Higher Education, accessed October 2016. https://www.timeshighereducation.com/world-university-rankings/2016/world-ranking#!/page/0/length/25/sort_by/rank_label/sort_order/asc.
[44] "New Rankings of the World's Top Art Schools," Top Universities, accessed October 2016, http://www.topuniversities.com/university-rankings-articles/university-subject-rankings/new-ranking-world%E2%80%99s-top-art-schools.
[45] "London's major cultural institutions come together to celebrate a season like no other," GOV.UK, accessed October 2016, https://www.gov.uk/government/news/londons-major-cultural-institutions-come-together-to-celebrate-a-season-like-no-other.

from 1934 to 2009.[46] Today London is now home to, the international Frieze Art Fair, Master piece London and The London Art Fair, which all draw-in a globally sourced crowd.[47] The popularity of the art fair may be attributed to its one-stop-shop business model as well as its transaction transparency in comparison to auction houses.

Art fairs, in accordance with the Brexit vote and formalities that are still to come, will most likely not move from their current outposts in the capital city. These London art fairs are very well established and happen at the same time every year, with only a growing collector base. London art fairs, will be the least affected by Brexit because they are intended to attract tourists and artists from all around the world, for only a visiting period. The fairs function more so as an event, like hosting Wimbledon, than as a permanent business.

Within the last decade, technological and institutional developments have had a significant impact on the business of dealing art both in terms of structural and cultural advances. The recent intensified competition between auction houses in the contemporary art sector, as well as the rise of the internet along with art fairs reflects the globalization of the art market and in turn its commercialization. In a period where time is of the essence and global access is highly coveted, both the internet and art fairs have come to aid dealers, sellers, buyers and artists to maximize their access, while minimizing efforts and expenses.

Auction houses, the internet, and art fairs, although sporadically positioned throughout the year, are all influential components, which make up the history and

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[46] Howard, Jeremy, "Art Market: The 20th Century,"
[47] "Art Guide: Art Fairs," ArtForum, accessed November 2016. https://www.artforum.com/guide/calendar

maintain the health of London's current art market.[48] Moreover, all of these enterprises, are both accessible and have an influence on a global scale, which further propels the impact they make on the country's local market. Art fair's specifically have fostered a type of habitus by temporarily bringing the vast global art scene and supply under one umbrella. The internet has had a similar effect although it is less status driven and in a sense more convenient as well as private.[49] With the rise of online auction houses and art marketing platforms such as Auctionata, Artnet, and Paddle8, the art market has become readily available to all consumers from the comforts of their home.

Dominance and Persistence.

Overall, the London art market has grown immensely since its formation in the 17th and 18th centuries. Using the commercial and financial prowess of the city as a backbone, the London art market was cultivated from unregulated reform and financial investment from around the world. As art infrastructure and resident artists have grown over the last few decades the importance of London maintaining their global market position is pivotal for the survival and continued success of the art market alike.[50] Most recently, in the last 10 years there has been an exponential pick-up in "art-styles" as well as production and turnover due to the rise of the internet as an international trade platform.[51] This increase in business has allowed for younger British artists to become successful and proving that London is not only a center for international art trade but also for local artistry.

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[48] Dumbadze, Alexander, "Contemporary Art: 1989 to the Present" (Wiley-Blackwell, 2013), accessed October 2016.
[49] Ibid.
[50] Robertson, Jean, "Grove Art: Art in the 21st Century," *Oxford Art Online,* accessed December 2016, http://www.oxfordartonline.com/public/page/themes/artin21cent.
[51] Robertson, Jean, "Grove Art: Art in the 21st Century," *Oxford Art Online.*

As an international city and trading hub of the world, London draws in businesses, collectors, artists and audiences from all corners of the globe. Amongst the current components, there is also a historical significance to the city that is influential to its growth and prosperity as an international player in financial markets. London was the capital of the former British Empire and its historic position as the capital meant that all major business and financial transactions took place creating a market for the wealthy and business savvy to prosper. The city's ability to champion international business relations and grow into a multinational capital has been extremely influential in its journey to becoming a prominent arts and art business center on the global stage. Offering a safe-haven for multi-ethnic commerce, top notch education and opportunity to become successful, London has been able to build organically and culturally. As a city that is perfectly located between the Asian and North American markets, it is hard to fathom a future that does not include London and all its history as a key player in the global art economy.

Analyzing the Impact of Brexit:

Defining Brexit.

When a country decides to part from an inter-country union or gain its independence, the transition to new reform can go many ways and can take time depending on the severity of "cutting ties". For the purposes of this report, Brexit will be analyzed in the sense of a 'hard' or 'clean' Brexit rather than a 'soft' Brexit. A 'hard' Brexit would see the UK leaving the European Union (EU) and the single market completely, beginning a new relationship grounded, at least initially, on World Trade Organization policies.[52] Its realization, would grant the UK full control over its borders as well as trade relations and associated laws within the country.[53] A 'soft' Brexit, on the other hand, would support the ideal that the UK would remain, in some form, connected to the EU single market as a means to maintain a degree of free movement in the EU.[54] It would no longer be a member of the EU or hold a seat on the European council and it would loose its MEP's as well as European Commissioner, but it would maintain access to the single market.[55]

As the path towards a 'hard' Brexit appears to be quite probable, I will analyze Brexit from this angle as it confronts the more drastic and radical implications of the two proposed options. For the purposes of this article, Brexit's affects will be analyzed in the context of the art world. Specifically, this article will look at the related issues UK auction houses may be faced with as a result of the pro-leave referendum. Auction houses were chosen for analysis as, in terms of the art world, they are the most globalized businesses in the sector and the highest correlated to the economic market.

How & Why did Brexit Come About?

The Brexit referendum was announced on February 2016 by then Prime Minister, David Cameron and a date was set for June 23rd, 2016.[56] This decision arose, after, a

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[52] Ahmed, Kamal, "What does 'hard' or 'soft' Brexit mean?" *BBC News: Business*, accessed December 2016. http://www.bbc.com/news/business-37500140.
[53] Sims, Alexandra, "What is the difference between hard and soft Brexit? Everything you need to know," *Independent: UK Politics*, accessed December 2016. http://www.independent.co.uk/news/uk/politics.
[54] Ahmed, Kamal, "What does 'hard' or 'soft' Brexit mean?".
[55] Sims, Alexandra, "What is the difference between hard and soft Brexit?".
[56] "A background guide to "Brexit" from the European Union," *The Economist: Graphic Detail,* accessed December 2016, http://www.economist.com/blogs/graphicdetail/2016/02/graphics-britain-s-referendum-eu-membership

summit meeting in Brussels, where Britain's current conditions as a member of the EU underwent prolonged renegotiations.[57] Even though Prime Minister Cameron strongly believed in the benefits of Britain's continued EU relations, the summit negotiations led to many British ministers announcing "leave" or "remain" campaigns to assert their positions on the matter.[58] These decisions and movements came after a year of Britain dealing with the larger European, Syrian migration crisis as well as the continuous currency disaster of the euro.[59] The June 2016 referendum resulted in 52% of the voters in favor of a pro-Brexit agreement.[60] This outcome forced David Cameron to step down and led new/current Prime Minister Theresa May to trigger Article 50 of the Lisbon Treaty, which will result in Britain leaving the EU by the summer of 2019.[61] May, confirmed that Brexit will be initiated in March 2017, commencing a two-year period of formal negotiations.[62]

What Does a 'Hard' Brexit Entail & What Changes Would Come?

At this point in time, it is unclear as to the full impact of Britain's withdrawal from the EU on both a domestic and international scale. That being said, it is evident that changes are to come as many of the UK's policies will inevitably have to be re-drawn and renegotiated. Much of the effects will depend on whether Britain will seek to remain in the European Economic Area (EEA) and continue to have access to the single market or whether it will choose to make new strides on its own and instead negotiate

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[57] "A background guide to "Brexit" from the European Union," *The Economist.*
[58] Ibid.
[59] Ibid.
[60] "Brexit: Theresa May to trigger Article 50 by end of March". *BBC News*. Accessed December 2016. http://www.bbc.com/news/uk-politics-37532364.
[61] "Brexit: Theresa May to trigger Article 50 by end of March". *BBC News.*
[62] Ibid.

bilateral agreements with the EU.[63] These (re)negotiations, will in turn have an effect on the business world and art market, and the diverse group of internationally sourced people who work within them. How British citizens and businesses will benefit from the UK leaving the EU will depend on how the government, in power at the time, resolves to fill the policy gaps as a result of the country's departure. At present, it is tough to accurately predict the outcome due the the amount of variable at play. The following will examine the general economic implications of Brexit and its potential effects in relation to the country's globally renowned auction houses, based in London.

Brexit & the Auction House.

Art auction houses, have long been perceived as institutions of great power and history within the art world. These establishments have been present in the community for over a hundred years and have withstood many periods of economic uncertainty. On a global level, these auction houses (i.e. Sotheby's) are regarded as art market powerhouses, where the best of the best come to show, buy and sell high-end works of art, from countries across the world. The individuals who run and work these auction houses are handpicked from globally diverse backgrounds as they are believed to be the best in their trade.

In regards to Brexit, imminent changes for auction houses are on the horizon. The country's regulations, taxes, tariffs, finances, and immigration, are all key components to the functioning of the auction business and will be subject to a degree of re-modelling, depending on the outcome of government negotiations with the EU. The

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[63] "Leaving the EU: Research Paper, vol 13/42," *House of Commons Library,* accessed December 2016. http://researchbriefings.parliament.uk.

following will analyze different components which make up an auction house and the auction business and attempt to provide insight on how Brexit might affect them. For this analysis I will use Sotheby's auction house as an example.

Sotheby's: A Global Institution.

As internationally located institutions, auction houses such as Sotheby's, London, not only have to consider their local in this situation but the entirety of the global operation. Sotheby's as a global business, more likely than not has certain agreements in place between their auction houses country to country. With the UK becoming a new entity, all of these deals would have to be redrawn and negotiated specifically those between Britain and other EU countries. This would not only affect Sotheby's as a global business but also many of its globally based clients with whom they have contractual agreements. As a result, this could amount to a large sum of legal fees and of course time, which may not be abundant depending on the situation or the client.

Potential complications may see the Sotheby's auction house in London, lose clients to other cities where they can more easily sell their works or have clients just not sell their works at all. If such complications do prevail, Sotheby's London may fall into a deficit with less works being sold due to contractual complications with both clients and within the company. In the grand scheme of things, the likelihood of Sotheby's investors as well as Sotheby's auction house clients being affected as a result of Brexit's effect on the economy is unlikely. Sotheby's collectors who are purchasing artworks at this level, the top 0.01% in the world, operate in a different economy than the average individual and are thus well shielded from any economic slowdown.[64] On the other hand, where the art market may see a dip is in its segment for younger artists, whose works hold less value and are more speculative than art created by blue chip artists (David Hockney and Damien Hirst) or Old Masters.[65] For auction houses, Brexit does not necessarily mean that the art auction market will be affected negatively as a whole. Although certain sections of the market may see retractions due to uncertainty, it is likely that the auction market as a whole will maintain its stabile position throughout the economic uncertainties of Brexit negotiations.

Immigration.

'Free movement of labor' within the EU entitles its citizens the ability to work and live anywhere within the member states and is considered one of the four fundamental principles of the EU agreement.[66] With Brexit, the UK will have to re-write its immigration policies, keeping in mind the economic consequences brought on by reforms. Currently the UK, as it still remains a member of the EU, is afforded access to the single market, being the 27 other countries that are also a part of the EU, without restrictions.[67]

Depending on how the UK wishes to maintain its relationship with the EU will impact its decision on immigration laws and its relationship to the single market with the EU and EEA. A newly adopted 'friends and family' type of agreement, the UK's deal

[64] Grant, Daniel, "Finding the Bright Side to Brexit," *Observer,* accessed December 2016, http://observer.com/2016/10/finding-the-bright-side-to-brexit/.
[65] Grant, Daniel, "Finding the Bright Side to Brexit,".
[66] "Leaving the EU: Research Paper, vol 13/42," *House of Commons Library,* accessed December 2016. http://researchbriefings.parliament.uk. 40
[67] "Leaving the EU: Research Paper, vol 13/42," *House of Commons Library,*

with EEA nationals offers a sort of favored access to the UK labor market.[68] This deal resulted as a product of the UK's trade negotiations with the EU and could be an option for the UK to adopt for themselves post Brexit.[69] On the other hand, the UK could follow Switzerland's lead, where it would remain a member of the single market, but outside of the EEA, with the consequence of still having to adhere to EU rules.[70] The balance will be finding a system that best serves both Britain's immigration system and its access to the European markets.

In terms of the London's auction house's employees, this may be the most complicated, timely and cost consuming component of all. Sotheby's employs a diverse group of individuals from global origins, specifically chosen for their elevated skill and knowledge of the trade. With Brexit, comes new terms for the UK, as an independent country, which translates to new immigration laws for all foreign and EU citizens, wishing to live in the country.[71] How Britain will choose to re-form its immigration policies is uncertain but it most definitely be a costly and timely venture. Constant alterations to immigration systems are viewed as great burdens to companies that hire foreign employees as the administrative work which ensues can prove to be an encumbrance on the company.[72]

As Americans have had to have visa's to live and work in the EU, the same may soon become true for all non British EU citizens wishing to work and live in the UK. Even for those from outside of the EU, the legal language of their visa's may change

[68] Katwala, Sunder, "Future Britain Project: Brexit Britain can Balance Immigration and Single Market Access, "*Financial Times,* accessed December 2016.
[69] Katwala, Sunder, "Future Britain Project".
[70] "Leaving the EU: Research Paper, vol 13/42," *House of Commons Library.*41.
[71] Patridge, Frank, "Would Brexit Destabilize the Art Market?" *Apollo,* accessed December 2016, http://www.apollo-magazine.com/would-brexit-destabilise-the-art-market/.
[72] "Leaving the EU: Research Paper, vol 13/42," *House of Commons Library".*41.

and in this case, they as well would be further affected. Currently EU citizen employees working in the UK, are afforded free movement between countries as it is what the agreement affords them.[73] With this post Brexit no longer being the case, many who have built their lives and careers in Britain may face the possibility of having to leave or at the very least having to apply for citizenship or a working visa, both costly and time consuming.[74] The possibility of an agreement concerning an EU/UK citizenship where both UK and EU citizens could obtain a type of cross citizenship or visa would work.[75] This would mitigate post Brexit disruption for persons and families working and living in the EU but being of UK nationality or vice versa.[76]

Specifically, in regards to auction houses, Sotheby's is at risk of potentially losing some of its longstanding and prized employees. In many cases, working visa's can amount to huge expenses for the company and depending on the number of current foreign employees, which make up of the company, Sotheby's may be faced with having to let certain members go.[77] Further, if the company is faced with having to rebuild and replace many key members, this may influence its productivity in the short-term as new company and client relations will have to be rebuilt.

Taxes and Tariffs.

Britain charges two categories of Value Added Tax (VAT) on fine art being imported into the country. The VAT tariffs are applicable to all goods and services in all countries belonging to the EU. The tax is applied in ways defined and controlled by both

[73] "Leaving the EU: Research Paper, vol 13/42," *House of Commons Library.*41.
[74] Patridge, Frank, "Would Brexit Destabilize the Art Market?"
[75] Walker, Peter, "Brexit talks include plan for UK nationals to keep EU Citizenship," *The Guardian,* accessed December 2016. https://www.theguardian.com/politics/.
[76] Walker, Peter, "Brexit talks include plan for UK nationals to keep EU Citizenship,".
[77] Patridge, Frank, "Would Brexit Destabilize the Art Market?"

the EU along with the government of the individual country within the EU.[78] For art that is being transported by an artist or for an exhibition, the work is subjected to tax rate of 5% when entering the UK. The rate jumps up to 20% when the motive is to sell the imported art in the UK.[79] Although, these government imposed VAT taxes and tariffs may not see much change, auction houses may likely be faced with having to re-draw their international agreements both in London and abroad to separate the UK as its own entity.[80] The alterations made to the taxes and tariffs placed on fine art in relation to the auction business may take a turn for better or for worse either seeing the London business and its clientele prosper or a decline due to higher rates.

Depending on how the British government chooses manage this VAT rate post Brexit, is tough to speculate, but could go one of two ways. On the one hand the UK government could choose to lower this import tax in hope of drawing in more business from outside countries. On the other hand, the UK may choose to higher the 5% tax rate, which applies to many classes of goods, as a means to fund their internal economy. Either way at this point in time it would be tough to discern the country's position on the matter.

Currency & Company Sales.

How the value of the pound fairs post Brexit negotiations will impact auction houses and UK business on both a domestic and an international level. Currently the Britain pound rings in as one of the strongest currencies, amongst economically sound

[78] "Business Taxation: VAT Rules and Rates," *Your Europa,* accessed December 2016. http://europa.eu/youreurope/business/vat-customs/buy-sell/index_en.htm.
[79] Business Taxation: VAT Rules and Rates," *Your Europa.*
[80] Patridge, Frank, "Would Brexit Destabilize the Art Market?".

countries, followed by the EU's euro and the U.S. dollar. Depending on the economic reforms incurred as a result of Brexit the UK will either maintain its current standings or have to rebuild and structure according to their new norms.

Upon announcement of the Brexit vote, the sterling dropped to a thirty-one year low, the lowest levels it has seen since 1985.[81] This devaluation, although worrying, does not necessarily mean a bad future for the art market and in turn auction houses. In fact, this could mean a surge of foreign buyers capitalizing on the exchange rate and potentially driving up investments and sales in the market.[82] As many collectors are from the United States and Asia, they could view this period of Brexit uncertainty as an opportunity to take advantage of the market and make some profit.

Sotheby's chief financial officer Michael Goss, over email conversation with CNBC, stated that the auction house was, "confident that Sotheby's will continue to thrive in and adapt to whatever environment Brexit brings…. Looking to the immediate future, we expect little impact on our financial position, given that our business activities in sterling are very well hedged against currency fluctuations. On the positive side, the new exchange rates have the potential to make this week's Contemporary art sales in London more attractive to global art buyers".[83]

Sotheby's Contemporary Art sale, which took place five days after the Brexit vote, on June 28th, proved that amidst speculation, the art market would withstand the

[81] Prashant S. Rao & Pauline Bock, "How Brexit Could Change Business in Britain," *New York Times*: *International Business*, accessed December 2016, http://www.nytimes.com/interactive/2016/business/.
[82] Hartogs, Jessica, "Art Market on Edge After Brexit Vote," *CNBC News,* accessed December 2016, http://www.cnbc.com/2016/06/28/art-market-on-edge-after-brexit-vote.html.
[83] Hartogs, Jessica, "Art Market on Edge After Brexit Vote,"

economic uncertainty.[84] The 40 lot sale brought in a total of 52.2 million pounds with buyers premium, exceeding its 35.5 million to 50.2 million pound presale estimate.[85] The same sale last year, although offering 57 lots totaling 130.4 million with buyers premium, did not exceed its low estimate and faired more poorly in comparison of total demand.[86] Even through this year's London June contemporary sale estimate was the lowest recorded since 2009, 26 of the total 40 lots offered exceeded estimates, proving that it is not demand which is scarce but more so a lack of work being offered.[87]

Overall the imminent effects of Brexit are still uncertain and the extent of the vote's repercussions will be largely unknown for the next half decade. Examining Brexit's potential effects on global business, immigration, tax and tariffs, and currency in relation to Sotheby's London as a company and the art market has proven that although logistical challenges and costs are eminent, the art market as a whole will likely continue unaffected by associated events. The decisions and deals made between the UK and the EU and other foreign countries over the next two years will largely determine the UK's future and how it will progress moving forward.

[84] "Auction Results: Sotheby's Contemporary Art Evening Auction," *Sotheby's,* accessed December 2016. http://www.sothebys.com/en/auctions/2016/contemporary-art-evening-l16022.html
[85] Gleadwell, Colin, "Sotheby's London $69 million Contemporary Sale Passes Brexit Test with Flying Colors," *Artnet News,* accessed December 2016, https://news.artnet.com/market/.
[86] Gleadwell, Colin, "Sotheby's London $69 million Contemporary Sale Passes Brexit Test with Flying Colors,".
[87] Ibid.

Scenarios:

Potential Outcomes of Brexit & Its Impact on the Auction House.

Due to the nature of Brexit as a new and evolving concept, the following will examine multiple scenarios, in attempts to foretell the effects of Brexit on the UK (London) art market. The following will layout a best case, a worst case, and a perceived case scenario for a path forward with Brexit and its effect on the auction house. With the triggering of Article 50 set for March 2017, Brexit is currently set to be finalized by the summer of 2019. Trade and Immigration are likely to be the two, main themes of the negotiations as they are the areas in which both parties have the most to loose in the event that the negotiation does not favor their terms. Pending the UK's departure from the EU, there are seven other partnerships type agreements from which it could possibly choose from. Such agreements are: A customized relationship with the EU, membership of the European Economic Area (EEA), like Norway; membership of the European Free Trade Association (EFTA), to which the UK belonged to prior to 1973 when it joined the EU; A customs union with the EU, similar to Turkey; A free trade agreement between the UK and EU; or The UK could apply to become a partner, apart from the EU, and rely on World Trade Organization (WTO) rules to govern its trade relations.[88] The following scenarios shed light on the Britain's non-EU outlook and the potential consequences Brexit's fruition may have on the UK(London) art market.

[88] Piris, Jean-Claude, "If the UK votes to leave: The seven alternatives to EU membership," *Center for European Reform,* January 2016. https://www.cer.org.uk/sites/default/files/pb_piris_brexit_12jan16.pdf.

Best Case.

The most favorable scenario for the UK, moving forward with a 'hard' Brexit, would be that the country is able to retain all aspects of its present Free Trade Agreement with the EU while avoiding the disadvantages of other non-EU-country models (i.e. EEA or the Swiss model).[89] For Britain, control of it's borders & the immigrants coming into the country are at the front of the line for reforms, particularly since the recent influx of Syrian migration into the EU. As an EU member, each country must pay an annual fee, dependent on their GDP, into a communal EU fund. As the UK, in particular Britain, is the wealthiest region it is burdened with having to compensate for the less financially stable countries. In 2015, the UK's total spending was four and a half billion dollars while its payment into the EU budget was thirteen billion dollars, meaning that it's net contribution totaled eight and a half billion dollars.[90] An amount, which many pro-Brexiters feel could be better applied towards taking care of its own people at home. Overall, the best case scenario, in terms of a 'hard' Brexit, are what 'euro-skeptics' consider a 'half membership'.[91] This memberships would see the UK retaining full membership, access and voting rights, to the single market while not having to adhere to all of the EU's policies.[92]

How then would the 'best case' Brexit scenario affect an auction house, like Sotheby's? Overall, there would be minimal negative repercussions or interference of business. Sotheby's EU and foreign employees would be able to remain living and working within the country without the headache and expenses of acquiring new visas

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[89] "Brexit: What are the Options?" *BBC News,* accessed December 2016, http://www.bbc.com/news/uk-politics-37507129.
[90] Kirkup, James,"EU Facts: How much does Britain pay to the EU Budget," *The Telegraph,* accessed December 2016. http://www.telegraph.co.uk/news/newstopics/eureferendum
[91] Piris, Jean-Claude, "If the UK votes to leave, The seven alternatives to EU membership,"
[92] Piris, Jean-Claude, "If the UK votes to leave, The seven alternatives to EU membership,"

and immigration papers or risking unemployment. Sotheby's would be able to continue importing and exporting art to and from the EU without customs or potential non EU tariffs. As a whole business would remain as usual and investment in art would remain consistent during and post Brexit negotiations.

Worst Case.

If the UK wants to maintain its access to the single market post exiting the EU it is very possible that the EU will demand it accept the following three conditions. The UK would have to continue contributing to the EU's budget pot, the EU would want to maintain free movement of labor for its members and vice versa, and lastly that EU law would remain dominant over British law within the single market.[93] If by the end of Article 50's negotiation period, the UK and EU have not come to agreement on new policy terms it could mean serious repercussions for the UK, sending them into a prolonged the period of post-Brexit limbo.

The UK withdrawing from the EU could could mean serious legal headaches for both parties. With the UK most definitely wanting to retain some amount of access to the single market, the government would need to implement a system, which could handle new EU regulations and directives as they developed.[94] The UK government would need to work out an agreement with the EU on reciprocal rights, as post-Brexit it will likely be more complicated for EU citizens to live, work or study in the UK and vice versa for UK citizens wishing to remain or move into the EU area.[95] The ratification process could take several years post negotiations. Taking Belgium, as an EU example,

[93] Piris, Jean-Claude, "If the UK votes to leave, The seven alternatives to EU membership,"
[94] Ibid.
[95] Ibid.

the finalization of any agreements would need the consent of not just the federal parliament, but also the parliaments of its three regions and in turn the communities within those regions.[96] Article 50's two year period will go by fast, but that does not mean that by 2019 the UK will have all of its new agreements and policies functioning and in place. As this is a completely new venture for the UK or any country leaving the EU, it is tough to speculate the extent of the damage that could occur.

Applying this 'worst-case' scenario to Sotheby's as the example auction house, it is plausible that Brexit could cause a dismantling of the business. As Sotheby's is a global company, its London location employs many EU and foreign citizens. Without clear and immigrant friendly policies in place, Sotheby's would risk loosing employees as a result of invalid documentation and a lack of viable options to turn to. Further, the ease of importing or exporting art for sale to London could become more complicated and costly. This difficulty could cause buyers and investors to turn to other Sotheby's locations for business or move to purchasing online, both resulting in a loss of business and earnings for Sotheby's London location.

Perceived Case.

The best case scenario, in terms of a 'hard' Brexit, is unlikely to be an achievable option for the UK nor is the worst case scenario, likely to materialize to its full extent. Realistically the pro-Brexit UK will most likely have to soften its stance on immigration and trade relations and weigh the demands of their agenda accordingly.

Certain British 'euro-skeptics' believe Britain could negotiate a type of 'half membership' with the EU where by it is able to retain full membership (access and

[96] Ibid.

voting rights) to the single market while not having to adhere to all of the EU policies.[97] Although this option seems ideal, all existing EU treaties specifically specify that there is to be no type of special status for any belonging country. Realistically the revision of these treaties would take years of negotiation and it is unlikely that it could be done within the two-year Brexit, Article 50 timeline.[98] Further, if the UK were to be given special negotiation status, the EU would have to extend the same privileges to all other 27 members, which could provoke similar Brexit type situations leading the EU to unravel.

The UK, as a result of having been under EU care for the last 4 decades, has had little to no recent experience in negotiating deal at an international level.[99] It is likely that the UK will look to outsource expert negotiators from friendly countries such as Canada and New Zealand to aid it in forging economic deals and relations.[100]In fact, Canada is a good example for the UK to consider in better understanding the total extent of its Brexit negotiations and the sort of time it could take for new policy to be applied. After a full seven years of negotiations, Canada and the EU ultimately finalized their, Comprehensive Economic Trade Agreement (CETA), deal on October 30th 2016.[101] Since, the deal has been sent to the European parliament and national legislatures for approval. If ratified, CETA will most likely not take effect until sometime into 2017.[102] The UK should note, that Canada's deal with the EU was a complicated

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[97] Piris, Jean-Claude, "If the UK votes to leave, The seven alternatives to EU membership,"
[98] Ibid.
[99] Butler, Sarah and Monaghan, Angela, "UK turns to Canada for advice on striking post-Brexit trade deals with the EU," *The Guardian,* accessed December 2016. https://www.theguardian.com/politics.
[100] Butler, Sarah and Monaghan, Angela, "UK turns to Canada for advice on striking post-Brexit trade deals with the EU,"
[101] Ibid.
[102] Waldie, Paul, "Trudeau signs CETA but ratification still required by European Union," *The Globe and Mail,* accessed December 2016, http://www.theglobeandmail.com/news/.

and tedious process and with over 300 trade negotiators in Canada, it takes an expert to properly negotiate and secure these types of agreements.[103] It is worth noting that Canada's deal with the EU does not offer the equivalent level of freedom of movement for citizens as is afforded by those belonging to EU member states.[104]

The UK, will most likely be looking to strike a deal, which best attempts to mitigate complications for its citizens living and working in the EU and in turn for EU citizens already living and working in the UK. If Britain and the EU can not come to terms on the matters of trade and immigration, both parties' economies and the people working within them could face serious consequences. The saving factors are that both the UK and the EU are each other's largest trade partners and although many UK citizens live in the EU, many EU citizens are living in the UK as well. It is unlikely that either side will suffer greatly in comparison as both require the cooperation of the other in order to best serve the needs of the people.

The 'perceived case' Brexit scenario would see certain aspects of Sotheby's London affected with the UK leaving the EU. The auction house's diverse collection of employees, global clientele and investors base are all components which may be effected or affect the company's welfare post-Brexit finalizations. Overall, it is expected that the internationally based company will remain stable, even in the event of a slumping of the UK economy.

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[103] Waldie, Paul, "Trudeau signs CETA but ratification still required by European Union,"
[104] Butler, Sarah and Monaghan, Angela, "UK turns to Canada for advice on striking post-Brexit trade deals with the EU,"

Overall.

Irrespective of Brexit's outcome, it is quite probable that the UK's current immigration policies and free movement within the single market will be affected either way. As Sotheby's London employ many non-UK persons, it is probable that these employees would face issues with visa's and required documentation.[105] This in turn would produce a short term slowing of business within the company and potentially result in them loosing key foreign employees. The total process would require patience, a flexible budget and a secondary plan which would take into consideration immigration and single market constraints.

An encouraging factor for Sotheby's, regardless of Brexit, is that its clients are some of the most financially stable persons in the world. The majority of Sotheby's clients are considered to be High Net Worth Individuals (HNWI's). In times of economic distress, these HNWI's, remain largely unaffected as they are considered to exist in a different economy that is shielded from economic slowdown.[106] Not to mention, with the current decreased value of the pound, many foreign investors (US, China) may, with the attractive exchange rate, drive up London auction sales.[107] As Brexit and the issues surrounding are forging an entirely new path, it is difficult to predict the totality of its ramifications. With concerns to the Sotheby's London, in-part indebted to it's wealthy clientele and global prominence as an institution, the company will have to evolve as changes come but it is definite that it will recover and business will go on as usual.

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[105] Walker, Peter, "Brexit talks to include plan for UK nationals to keep EU citizenship," *The Guardian,* accessed December 2016. https://www.theguardian.com/politics/.
[106] "High Net-worth Individual – HWNI," *Investopedia,* accessed December 2016, http://www.investopedia.com/terms/.
[107] Thompson, Don, "My 9 Predictions for the Art Market after the Brexit Vote," *Artsy,* accessed December 2016. https://www.artsy.net/article/artsy-editorial

To further support the stability of the Auction house post Brexit the Sotheby's stock has faired very well. Upon announcement of Brexit, Sotheby's stock fell 15% and its market value fell $300 million overnight, to its lowest level since the crisis.[108] The stock did not stay low for very long raising above pre-Brexit levels only two months after the announcement. Recently there has been a rally in auction name house as the UK has hinted at possible referendums they may pursue. The Sotheby's stock is up >50% since Brexit announcement lows, which demonstrates the confidence of auction house companies in continuing normal course of business.

"It will be expensive and complicated… But London is London…The museums are here. The auction houses are here. The best galleries in the world are here. I do not see another city taking London's place. Madrid? Los Angeles? I just don't see it."

- Thaddaeus Ropac[109]

[108] "Sotheby's, NYSE: BID," *BamSEC,* accessed December 2016, https://www.bamsec.com/companies/823094/sotheby-s.

[109] "For Art Dealers, the Place to Be is Still London," *New York Times,* accessed December 2016, http://www.nytimes.com/2016/09/03/arts/international/for-art-dealers-the-place-to-be-is-still-london.html?_r=

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