

The Emergence of New Corporations Free Zones and the Swiss Value Storage Houses

Helgadóttir, Oddný

Document Version

Final published version

Published in:

Combating Fiscal Fraud and Empowering Regulators

DOI:

[10.1093/oso/9780198854722.003.0010](https://doi.org/10.1093/oso/9780198854722.003.0010)

Publication date:

2021

License

CC BY-NC-ND

Citation for published version (APA):

Helgadóttir, O. (2021). The Emergence of New Corporations: Free Zones and the Swiss Value Storage Houses. In B. Unger, L. Rossel, & J. Ferwerda (Eds.), *Combating Fiscal Fraud and Empowering Regulators: Bringing Tax Money back into the COFFERS* (pp. 180-193). Oxford University Press.
<https://doi.org/10.1093/oso/9780198854722.003.0010>

[Link to publication in CBS Research Portal](#)

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy

If you believe that this document breaches copyright please contact us (research.lib@cbs.dk) providing details, and we will remove access to the work immediately and investigate your claim.

Download date: 28. May. 2023



The Emergence of New Corporations

Free Zones and the Swiss Value Storage Houses

Oddný Helgadóttir

10.1 Introduction

This chapter introduces the concept of a ‘Luxury Freeport’, positioning such tax- and duty-free storage sites as new players in the ever-evolving ecosystem of the offshore world. To date, Luxury Freeports have largely passed under the radar of academic research and they represent an important lacuna in the academic scholarship on offshore activity. In his state of the art on offshores, *The Hidden Wealth of Nations*, economist Gabriel Zucman makes this point explicitly, noting that most current estimates of offshore wealth do not extend to non-financial wealth kept in tax havens:

This includes yachts registered in the Cayman Islands, as well as works of art, jewelry, and gold stashed in freeports—warehouses that serve as repositories for valuables. Geneva, Luxembourg, and Singapore all have one: in these places, great paintings can be kept and traded tax-free—no customs duty or value-added tax is owed—and anonymously, without ever seeing the light of day. (2015, pp. 44–5)

There are no reliable estimates of the value of goods stored in Luxury Freeports.¹ A recent *New York Times* article reports that art dealers and insurers believe that the works of art contained in the Geneva Freeport, a pioneer in the Luxury Freeport business, would be enough ‘to create one of the world’s great museums’. Similarly, a London-based insurer concludes that there isn’t ‘a piece of paper wide enough to write down all the zeros’ needed to capture the value of wealth stored in Geneva (Segal 2012). Though evocative, such statements are impossible to verify due to the inherent secrecy of Luxury Freeports and the lack of public data. This chapter will therefore not attempt to estimate the value of the items kept in these

¹ Several sources mention the sum of CHF100 billion in relation to the Geneva Freeport, but the sources and basis of that figure are unclear.

storage arrangements. Nevertheless, a number of data points beyond the anecdotal suggest that the stock of wealth stored in Luxury Offshores is both substantial and increasing.

The growing value of the high-end art market is one indication of this. While most industries suffered in the aftermath of the global financial crisis of 2008, it barely registered in the art world. In fact, an auction of Damien Hirst's work fetched a record-breaking £111 million at auction on the day that Lehman Brothers went under, foretelling the surprising resilience of the art market. Since then, the estimated annual turnover of the art market has reached record levels time and again and prices for individual works of art continue to soar to unprecedented heights. Not all art sales are publicly reported, but before the crisis the highest known price for a work of art was \$140 million for a Jackson Pollock painting sold in 2006. Since the crisis, that record has been broken at least fourteen times, most recently in 2017, when a member of the Saudi royal family bought a painting believed to be by Leonardo da Vinci for over \$450 million (Jacobs 2019). Recently, Deloitte estimated that US\$1.62 trillion of high net worth individuals' (HNWI) wealth was allocated to art and collectibles and projected that this figure would reach US\$2.7 trillion by 2026 (Deloitte 2017).²

The rapid spread of the Luxury Freeport model itself also suggests a strong demand for the services provided by these sites. In 2010, there were 46,722 square meters of dedicated art storage in Luxury Freeports compared to at least 178,800 square meters today.³ All in all, then, the value of non-financial private wealth kept in Luxury Freeports may add significantly to the \$7.6 trillion that Zucman estimates is kept in financial offshores (Zucman 2015).⁴

This chapter contributes to the state of knowledge on offshore activity by honing in on the conditions that permitted the emergence of this novel form of offshore. It stresses two necessary if not sufficient conditions for the rise of Luxury Offshores in particular: first, the competitive 'push' from Open Customs Warehouses (OCWs), which spread rapidly at the turn of the twenty-first century, and second, the investment 'pull' of large pools of money needing new investment outlets in the wake of the recent multilateral effort to clamp down on banking secrecy. Spillover effects between different kinds offshores are, in other words, key to understanding the present day evolution of the global nebula of tax havens.⁵

² Since the bulk of art transactions are not publicly reported, any estimate of the overall value of the art market should be taken with a grain of salt. Nevertheless the growth trend is a point of consensus. Economist Nouriel Roubini estimates market capitalization of \$1tn (Roubini 2015). Clare McAndrew, until recently an economist for the European Fine Art Fair, estimates that the total level of art market transactions in 2017 was close to \$64bn (McAndrew 2017).

³ Clare McAndrew has surveyed both dealers and collectors and estimates that private unreported sales account for about 70 per cent of all art transactions. It is likely that some of these unreported sales take place in the showrooms of Luxury Freeports, where they are exempt from taxes and duties.

⁴ For other higher estimates—some of them much higher—see e.g. Henry 2012; Palan et al. 2010; Christensen and Murphy 2012.

⁵ For a different take on spillover effects between offshores see Christensen et al. 2016.

10.2 Defining Luxury Freeports

The term ‘offshore world’ refers to designated legal spaces that offer low tax rates and which, as a result, attract a disproportionate amount of the world’s capital stock. Ronan Palan argues that the offshore world emerged in the nineteenth century, when the tension between mobile capital on the one hand and the increasingly robust system of juridically discrete sovereign states on the other incentivized the rise of offshores as extra-territorial spaces of manoeuvre (Palan 1998; 2003). Offering a similar analysis from the standpoint of international law, Sol Picciotto sees the concept of the offshore as a malleable ‘legal fiction’ that is the mirror image of the legal fiction of ‘the state’ as an objective and geographically bounded entity. The plastic nature of these abstract concepts was conducive to the kind of legal and fiscal manipulations that are the bread and butter of the offshore world (Picciotto 1992, 1999).

In order to understand the phenomenon of Luxury Freeports and to persuasively position these sites as new entrants in the offshore world, it is important to differentiate between Luxury Freeports on the one hand and traditional freeports on the other. Traditional freeports have a long history. In modern times they have served as crucial infrastructure for international supply chains, preempting multiple taxation of goods in transit. Luxury Freeports, by contrast, are high-security storage spaces where, by virtue of special legal exemptions, art and other luxury goods can both stored for *unlimited periods of time* and *traded* without tax and duty payments (Zarobell 2017; Weeks 2018; Adam 2018; Segal 2012). In other words, though Luxury Freeports emerged on the basis of the regulatory exemptions that make traditional freeports possible, they are a very different kind of entity, the key function of which is to store wealth in tax-free conditions. In other words, Luxury Freeports have hollowed out and transformed the older freeport model in ways that have allowed them to emerge as new players in the complex and evolving global ecosystem of tax evasion taking place in specially designated regulatory spaces.

The emergence of Luxury Freeports represents just one recent shift in the mutable relationship between global wealth and tax avoidance. In response to growing capital mobility and the dramatic rise of offshore activity in the post-1970s, ease of collection was accepted as rational grounds to turn away from progressive equity-oriented taxation (e.g. personal income taxes; corporate taxes) and toward more regressive efficiency-oriented taxation (e.g. consumption taxes, including value-added tax (VAT); payroll taxes) (Wilensky 2002; Kato 2010; Swank and Steinmo 2002; Genschel and Schwarz 2011). But for UHNWIs, Luxury Freeports are pushing tax avoidance to new frontiers by making it possible to trade high-end goods like art without paying VAT, which ranges from 5 to 15 per cent in

many countries.⁶ Therefore, even this presumed mainstay tax might now be added to the list of taxes that high net worth individuals (HNWIs) can already sidestep (e.g. capital tax, income tax, inheritance tax, and, where applicable, wealth tax) (Zucman 2015).

10.3 Competition from Open Customs Warehouses

Freeports have long been an established part of the commercial landscape of Switzerland—the Geneva Freeport, for example, dates from 1888—and in 1970 there were ca. 40 freeports in various parts of the country (SFAO 2014). The late 1990s, however, proved challenging for the traditional Swiss freeport model. As part of the founding of the WTO in 1995, Open Customs Warehouses, a new kind of tax and duty-free storage site, were promoted with the aim of facilitating free trade and harmonizing trade practices across borders. OCWs quickly spread all over Europe, including in Switzerland, where they were in direct competition with the traditional freeports (SFAO 2014; author’s interview).

A number of differences in the operating environment of freeports and OCWs stacked the cards in favour of the latter (see summary in Table 10.1). Key amongst them was the fact that while freeports were legally extra-territorial, OCWs were not. As a result, freeports were only allowed to operate alongside customs offices and were bound by the official operating hours of Swiss Customs. OCWs, by contrast, faced no such limitations and could operate around the clock—an important asset in the twenty-four-hour business of modern freight and haulage. OCWs also had the late-mover advantage of being built and located to suit the technological requirements of freight and logistics.

The price of the flexibility afforded to OCWs was that licensing practices were stricter than for freeports. For example, OCWs were required to keep inventories of all goods, while freeports were not. The procedure for opening up a new OCW also more stringent than it was for freeports, for which the process was less strict, but also largely discretionary and not standardized. By contrast, the procedure for opening a OCW was standardized and transparent enough not hamper the diffusion of this new storage model, even if it was more demanding. (Loi sur les douanes 2005; SFAO 2014; author’s interviews).

The upshot of this was that freeports quickly found themselves on the backfoot, with most folding, while OCWs spread very quickly. Currently there are around

⁶ Here it should be noted that VAT is due when a dealer who is registered as a trader sells art, but not when an individual who is trading it as part of a private collection does. Moreover, in many cases VAT is due only on the margin between the purchase price and the sales prices as well as the services rendered as part of the trade. However, these can be very significant amounts, especially as prices at the high end of the art market rise very quickly as they have in recent years.

Table 10.1 Comparison of open customs warehouses and freeports

	Open customs warehouses	Freeports
Licensing requirements	<p>Standardized and thorough. Application forms are available online.</p> <p>Licenses are granted for five years. Customs is responsible for ensuring that requirements on inventories, accounting and guarantees and official procedures are met.</p> <p>Licenses can be revoked if OCWs fail to meet a defined set of criteria (though this does not always happen in practice).</p>	<p>Discretionary.</p> <p>Licenses granted without a time limit. Customs is responsible for ensuring formal compliance only when goods enter and exit the premises.</p> <p>Conditions that might lead to a license being revoked are not specified.</p>
Inventory requirements	<p>Yes, for all stock.</p>	<p>None until changes to Swiss Customs Law took force in 2007.</p> <p>Under current legislation only stock defined as 'sensitive' must be inventoried. This includes i.e. art, alcohol, tobacco, weapons, medical supplies, military wares and precious metals and stones.</p> <p>Inventory requirements are not retroactive.</p>
Goods can change hands?	<p>Technically, but a number of factors make it difficult: visits from third parties are forbidden and the exhibition of goods is expressly forbidden. A number of goods cannot be manipulated in any way without special permits. I.e. medication can only be repackaged if Swissmedic grants permission to do so.</p>	<p>Yes. Payment of taxes and duties is suspended for deals carried out on free port premises.</p> <p>The Geneva Freeport is equipped with showrooms where deals can be made. It also offers a range of other services including gallery facilities, restoration and expert valuation.</p>
Access	<p>Only OCW staff is permitted on premises.</p> <p>All stock is kept in the name of the warehouse keeper even if it actually belongs to a third party.</p>	<p>Clients and service providers can enter during office hours.</p> <p>Spaces can be let out to tenants. This is reflected in storage structure, which consists of discrete and anonymous storage spaces.</p>
Legal liability	<p>Warehouse keeper is responsible for meeting all laws and standards.</p>	<p>Legal liability is shared between warehouse keeper and tenants.</p> <p>The warehouse keeper has a legal responsibility to draw a tenant's attention to applicable laws and regulations but is not responsible for the tenant's compliance.</p> <p>Tenants are not required to provide information or insurance guarantees to Customs.</p>
Customs presence	<p>No regular presence but the possibility of irregular checks.</p>	<p>An on-site customs office is a licensing requirement.</p>

250 OCWs all over Switzerland, many of them close to commercial and logistics hubs (SFAO 2014; author's interviews).

It was in this new situation of greater competition with OCWs that the Geneva Freeport made a decisive pivot away from traditional freeport operations and towards luxury services. This was not grasped out of thin air: the Geneva Freeport was unusual in that, stimulated by Geneva's market niche as a purveyor of art and luxury, it had already begun cultivating a specialization in storing all manner of luxury goods prior to the rise of OCWs (Jaccard and Guex 2011). The blueprint for embracing this role more fully in the 1990s and 2000s came from international art dealer Yves Bouvier, sometimes dubbed the 'freeport king' for his role in developing and spreading the Luxury Freeport model. While the Canton of Geneva is the freeport's majority shareholder, owning 87 per cent, Bouvier owned 7 per cent and his art services and logistics company, Natural Le Coultre, rented almost a quarter of the freeport's space for its business (SFAO 2014; Report on inquiry into money laundering... (2017/2013(INI)).

The reinvention of the freeport drew on Bouvier's experience as a dealer in high-end art, while also capitalizing on the differences between freeports and OCWs, transforming freeports' competitive weaknesses into strengths. Most importantly, the Geneva Freeport seized on the fact that goods can easily be bought and sold in freeports but not in OCWs. To leverage this, the Geneva Freeport was redone with art showrooms and offered a range of services explicitly supporting the tax-free trade of art.

Other differences between freeports and OCWs also lent momentum to the makeover of the Freeport. For example, for the purpose of storing luxury goods for long periods of time, the on-site presence of Swiss Customs is not an impediment but a selling point, contributing to secure storage without adding costs to be passed down to customers. Another important selling point was that until Swiss customs law was changed in 2005 freeports, unlike OCWs, were not required to keep inventories.⁷

In short, Swiss freeports may not have been as well adapted to the fast-paced world of logistics as OCWs were, but they could facilitate tax and duty-free trade in luxury goods while also providing a good measure of secrecy and anonymity, making them an ideal partner in the art trade, which thrives on confidentiality. However, while competition between traditional freeports and OCWs helps explain why traditional freeports reinvented themselves as Luxury Freeports, it does not explain growing demand for the services that these sites offer. The backdrop of growing economic inequality, an international post-crisis turn to

⁷ Following the 2014 publication of an SFAO report on freeports and OCWs, the Swiss Parliament harmonized legislation governing the two kinds of storage sites. By that point, however, the bifurcation of roles had already been established. Though there is now some overlap, with certain OCWs acting much like Luxury Freeports, path dependencies remain (author's interviews).

quantitative easing and low yields on traditional financial assets are necessary preconditions, but they do not suffice to explain why this particular kind of offshore has spread so quickly in recent years. The following section makes the case that here, again, spillover effects between different kinds of offshores are a key factor.

10.4 A New Kind of Haven for Funds Fleeing a Regulatory Crackdown

Given the secrecy with which freeports operate, a ‘smoking gun,’ establishing a clear link between itinerant financial wealth in Switzerland and the growth of the Geneva Freeport is unlikely to appear. Thinking in terms of a ‘hoop test’, however, we can see that the necessary if not sufficient conditions for making that connection are in place (Mahoney 2012): In recent years, there has been a renewed multilateral effort to crack down on offshores and offshore secrecy practices and in 2009 the G-20 optimistically proclaimed that new practices would lead to the ‘end of banking secrecy.’⁸ Even so, money continues to pour into Switzerland (Zucman 2013, 2015; Sharman 2012). Zucman (2015) finds that between 2009 and 2015, foreign wealth held in Switzerland increased by 18 per cent, reaching \$2.3 trillion. In other words, then, the Geneva Freeport has flourished in tandem with the combination of an international clamp down on banking secrecy and growing inflows of funds into Switzerland.⁹ It is therefore not unreasonable to conclude that the freeport may be a key mechanism allowing the co-occurrence of these seemingly conflicting trends. The fact that a range of luxury goods, including the kind that are the bread and butter of Luxury Freeports, have risen in value over the same time period is also suggestive.

Putting together the different parts of the puzzle it is easy to conclude, as does a recent report commissioned by the European Parliament, that new regulation is spurring investment in tangible assets and, by extension, the growing use of freeports. More specifically, the report finds that:

...growing demand for free ports has been attributed in part to the increasing crackdown by governments on bank secrecy and tax evasion. The introduction of the Foreign Account Tax Compliance Act (FATCA) in the USA (2010) and the commitment of OECD members to the OECD’s 2014 Common Reporting Standards (CRS) – in the EU transposed via the Directive on Administrative

⁸ For the offshore world as a whole the figure is even higher, at 25 per cent.

⁹ This, in turn, is likely a function of rising wealth inequality and a growing pool of UHNWIs (World Inequality Report 2018; Piketty 2014). See Fuller et al. 2019 for an interesting discussion of the challenges of assessing wealth vs. income inequality.

Cooperation (DAC) – make it hard for individuals to escape taxation on proceeds of funds held in bank accounts. High net worth individuals have started looking for alternatives and many have substituted their ‘bank account money’ with replacement goods such as art, diamonds, antiques, wine or bank notes.

(Korver 2018, pp. 13–14)

The pattern of diffusion of Luxury Freeports also supports the conclusion that they have grown as a function of investors’ desire for substitute or supplemental ways to evade taxes as more established financial methods become more difficult to pursue. Thus, over the course of the last few years new Luxury Freeports have emerged alongside known financial hubs and/or tax havens such as Singapore (2010), Monaco (2013), Luxembourg (2014), Beijing (2014), Delaware (2014), and New York City (2018).

10.5 The Limits of the Luxury Freeport Model?

While the Luxury Freeport model has been successful in recent years, freeports also face serious challenges that may signal the limits of the model. For one thing, Luxury Freeports have been plagued by a series of scandals. This pattern took hold before the Geneva Freeport made a decisive pivot to luxury services but has not abated since. Thus, in 1995, Italian and Swiss police raided the Geneva Freeport and found over 3000 invaluable artworks, stashed there by an international circle of antique smugglers (Felch and Frammolino 2011).¹⁰ A few years later, in 2003, Swiss Customs uncovered 200 stolen ancient Egyptian artifacts, including two mummies, sarcophagi, masks, and statues, on the premises. Some of the items had reportedly been painted in garish colours so they could be presented as cheap souvenirs (Segal 2012). In 2010, a Roman sarcophagus, pilfered from an archaeological site in Turkey, was also discovered in the freeport. Most recently, in 2016 Roman and Etruscan artifacts looted from Italy were found in the freeport (Korver 2018; Bernstein 2017). In other words, then, smuggling scandals and the trade of illegally sourced art have tarnished the image of the Geneva Freeport for decades.

Though of a different nature, the so-called ‘Bouvier affair’ also took a reputational toll. This scandal, which sent shock waves through the art world, erupted in 2015 when billionaire art collector Dmitry Rybolovlev sued ‘freeport king’ Yves Bouvier for fraud, claiming that he had sold him art at artificially inflated prices over the course of a decade. The margins Bouvier charged were very high

¹⁰ An investigative journalist that has worked on art crime for decades notes that ‘Medici [the ringleader of the smuggling circle] felt so safe in Geneva[’s freeport], that he kept extensive records and photographs of all the objects.’ <https://www.swissinfo.ch/eng/free-port-problemclosing-in-on-the-archaeological-underworld/33088854>

indeed—Rybolovlev’s lawyers claim that Bouvier’s profit totalled over \$1 billion¹¹—but Bouvier has countered that Rybolovlev was under no pressure to purchase the works on offer and that the high mark ups were just a routine part of ‘a commercial game’ (Knight 2016). While it remains to be seen whether Bouvier’s methods will be found criminal, the case has underscored the opacity, information asymmetry, subjective valuations and potential for conflicts of interest that characterize the art world—all of which can be conducive to fraud and abuse.

In 2016, information contained in the Panama Papers brought on another round of scandal. At its heart was a painting by renowned Italian expressionist Amadeo Modigliani, which Nazis stole from Jewish art dealer Oscar Stettiner during the Second World War. The painting resurfaced at a Christie’s auction in 1996, where it was bought for \$3.2 million by a company called International Art Center (IAC). In 2011, Stettiner’s heirs filed for restitution but hit a legal impasse since the ultimate beneficial ownership (UBO) of IAC could not be established. The company was rumoured to belong to the Nahmad family of international art dealers but the family denied any connection. It was only five years after the case was first filed that the Panama Papers revealed that the company, which was registered by Panama law firm Mossack Fonseca, did in fact belong to the Nahmads and that the Modigliani had been stored in the Geneva Freeport (Bernstein 2016, 2017; Korver 2018). This case highlighted the fact that artwork kept in the freeport could be registered through shell companies or other intermediaries, making it difficult to trace UBO. This is another known risk factor in fraud, money laundering, and tax evasion.

These scandals have been consequential for the Luxury Freeport in a variety of ways. One is that they have drawn attention, presumably very much unwanted, to an industry that relies on confidentiality and anonymity. Thus, over the course of the last few years, a number of media outlets, including the *New York Times*, *Economist*, *BBC*, *New Yorker*, *Süddeutsche Zeitung*, *Le Temps*, *Swissinfo*, *Le Figaro* and *L’Express* have trained their critical focus on these offshore sites.

International organization, governmental agencies and non-governmental organizations have also started paying attention. In a report from 2010, the Financial Action Task Force (FATF) concluded that free trade zones (FTZs), which include freeports, offer ‘opportunities for money laundering and the financing of terrorism (p. 4).’ In 2014, the SFAO published a report on customs activities in Swiss freeports and OCWs, noting that the former in particular could be staging grounds for tax evasion and money laundering. Moreover, that there was ‘a lack of awareness within the Confederation of the political and

¹¹ Or, as Rybolovlev reportedly put it to Bouvier: ‘But, Yves, these markups are worth a Boeing.’ (<https://www.newyorker.com/magazine/2016/02/08/the-bouvier-affair>).

economic stakes' and 'reputational risk' that could 'make Switzerland the target of foreign fiscal and tax authorities (p. 21).'¹² A UNESCO report (2016) on freeports for art stressed that they could be used for illicit trafficking of cultural property¹³ and the independent advocacy group Tax Justice Network has added the presence of FTZs and freeports to the list indicators covered by its Financial Secrecy Index and now includes a discussion of freeports in its qualitative country reports.¹⁴ The 2017 final report of the European Parliament's Committee of Inquiry into Money laundering, tax avoidance and tax evasion (PANA) similarly concluded that freeports 'may constitute offshore storage facilities, enabling money laundering and untaxed trade in valuables' (p. 11).¹⁵ Most recently, the Directorate-General for Parliamentary Research Services of the Secretariat of the European Parliament (2018) published a report dedicated entirely to the risk of money laundering and tax evasion in freeports.

In response, both Luxembourgish authorities and Le Freeport's management tried to distance themselves from the scandal. As was the case in Geneva, these efforts centred on a definition of the problem as one of money laundering and illicit trafficking. The topic of taxation, by contrast, was not broached. Thus, in the immediate wake of the scandal, the government carried out an analysis of money laundering risks in Le Freeport and then, in July 2015, went on to implement elements of the EU's fifth Anti-Money Laundering Directive (AMLD5), five years ahead of time (the directive will take full force everywhere in 2020).¹⁶ The freeport's management has publicly embraced the directive, framing the early implementation of anti-money laundering measures in Luxembourg as both a competitive advantage and a safeguard against illicit activity, setting Luxembourg apart from scandal-ridden Geneva.¹⁷

The new directive broadens the scope of earlier directives to encompass a number of new actors, including freeports and art traders. Under AMLD5, freeports are required to report suspicious activity to national financial intelligence units, to carry out customer due diligence and to keep records of ultimate beneficial ownership. At first glance it may seem like these changes should fundamentally undermine the Luxury Freeport model. However, since AMLD5 does not classify freeports as 'financial institutions' but rather as obligated 'non-financial institutions' it does *not* require them to engage in automatic exchange of

¹² Author's translation.

¹³ http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/CLT/pdf/2_FC_free_port_working_document_Final_EN_revclean.pdf

¹⁴ <https://www.financialsecrecyindex.com/introduction/fsi-2018-results>

¹⁵ http://www.europarl.europa.eu/cmsdata/134368/A8-0357_2017_EN.pdf

¹⁶ [http://www.europarl.europa.eu/cmsdata/124822/A\(2017\)7777_Gramegna%20Reply.pdf](http://www.europarl.europa.eu/cmsdata/124822/A(2017)7777_Gramegna%20Reply.pdf); Korver 2018. See Tsingou 2010 for the complex origins of the international AML regime. See Roth 2015 for money laundering in the art trade.

¹⁷ Author's translation of Dauvergne's letter declining to attend a hearing of the EU's PANA committee: <http://www.europarl.europa.eu/cmsdata/155705/6%20-%20007%20-%20Letter%20and%20contribution%20from%20Philippe%20Dauvergne%20freeport%20Lux.pdf>.

information between tax authorities as laid out under the EU's DAC6, the OECD's Common Reporting Standards (CRS) or the US Foreign Account Tax Compliance Act (FATCA). Moreover, 'fishing' in information from non-financial entities is expressly prohibited. Under AMLD5, information from freeports will therefore only be exchanged upon request and where there is prior suspicion of misdeeds. Since confidentiality and discretion is key to the art trade, the effects of the new legislation may therefore be very limited in practice. The impact of AMLD5 will also be nearly impossible to assess, as freeports are under no obligation to report on whatever information they do exchange (Korver 2018).

This strategy hinges on a clear distinction between money laundering on the one hand and tax evasion on the other. Yet this distinction may become difficult to maintain as more regulatory and surveillance bodies acknowledge the overlap between tax dodging and money laundering. Thus, in 2017, the EU made tax evasion and tax fraud predicate crimes for money laundering (Directive (EU) 2015/849), following 2012 recommendations from the FATF.¹⁸ What is more, some actors, notably German MEP Wolf Klinz, are beginning to openly ask why Luxury Freeports, which unlike their traditional predecessors have low stock turnover and no clear role in GVCs, should be granted any special tax provisions at all (Shaw 2019a). If this critique makes it way into policy, it could put an end to the Luxury Freeport model. However, for now this seems an unlikely outcome. In response to Klinz's inquiries about Le Freeport Luxembourg, the European commissioner for economic and financial affairs has reinforced the distinction between tax avoidance and criminality that the Luxury Freeport model relies on, stating that they are 'useful to simplify commercial operations' and that there is no evidence that they 'are systematically used to commit fraud' (Shaw 2019b).

10.6 Conclusions

This chapter has introduced the concept of a *Luxury Freeport* to describe a novel form of non-financial offshore where art and other material goods can be stored indefinitely without tax and duty-payments. It makes the case that the recent emergence and diffusion of this phenomenon can be traced back to meso-level developments within the broader ecosystem of offshores and tax havens. More specifically, it argues that the Luxury Freeport model, which evolved from traditional freeports, was spurred by the combination of competition from Open Customs Warehouses and the search for alternative tax-free investment outlets in the wake of an international clampdown on banking secrecy.

¹⁸ https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2015_141_R_0003&from=ES

However, the ongoing legitimacy of Luxury Freeports hinges on a differentiation between money laundering and tax avoidance that is coming under pressure as more actors come to define tax fraud as a predicate crime for money laundering. It also skirts the question of why suspension of VAT, which was originally meant to promote trade, should be extended to the quasi-permanent storage of luxury objects. If criticism of this kind comes to be reflected in policy, i.e. by defining Luxury Freeports as ‘financial institutions’ that are subject to automatic information exchange between tax authorities, this could spell an end to this new kind of offshore. This would likely set off another round of meso-level spillover effects in the offshore world, as wealth currently stored in Luxury Freeports would seek new havens. It could also have a serious impact on trade in high-end art, which is closely entangled with the rapid growth in Luxury Freeports.

10.7 References

- Adam, G. 2018. *Dark Side of the Boom: The Excesses of the Art Market in the 21st Century*. London: Lund Humphries.
- Bernstein, J. 2016. ‘The Art of Secrecy’. <https://www.icij.org/investigations/panama-papers/20160407-art-secrecy-offshore/>, accessed 5 April 2019.
- Bernstein, J. 2017. *Secrecy World: Inside the Panama Papers Investigation of Illicit Money Networks and the Global Elite*. New York: Henry Holt and Company.
- Christensen, J., Shaxson, N., and Wigan, D. 2016. ‘The Finance Curse: Britain and the World Economy’. *The British Journal of Politics and International Relations* 18(1): 255–69.
- Deloitte. 2017. Art & Finance Report. <https://www2.deloitte.com/content/dam/Deloitte/at/Documents/finance/art-and-finance-report-2017.pdf>, accessed 30 March 2019.
- Directive (EU) 2015/849. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015L0849>, accessed on 20 October 2020.
- ‘Entry and Stay in Luxembourg for Investors from Third Countries’. <https://guichet.public.lu/en/entreprises/creation-developpement/projet-creation/entree-sejour/investisseur-pays-tiers.html>, accessed 29 April 2019.
- European Parliament, European Parliamentary Research Service, & Ex-Post Evaluation Unit. 2018. ‘Money Laundering and Tax Evasion Risks in Free Ports: Study at the Request of the Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3)’. <http://dx.publications.europa.eu/10.2861/092981>
- Faulconbridge, J. R. 2004. ‘London and Frankfurt in Europe’s Evolving Financial Centre Network’. *Area* 36(3): 235–44.
- Felch, J., and Frammolino, R. 2011. *Chasing Aphrodite: The Hunt for Looted Antiquities at the World’s Richest Museum*. Boston: Houghton Mifflin Harcourt.

- Fuller, G. W., Johnston, A., and Regan, A. 2019. 'Housing Prices and Wealth Inequality in Western Europe'. *West European Politics* 43(2): 1–24.
- Genschel, P., and Schwarz, P. 2011. 'Tax Competition: A Literature Review'. *Socio-Economic Review* 9(2): 339–70.
- Jaccard, P. A., and Geux, S. 2011. 'Le marché de l'art en Suisse: du XIXe siècle à nos jours'. Colloque interdisciplinaire. Lausanne, SIK et Section Histoire de l'Univ.: SIK ISEA, Unil, pp. 319–26.
- Jacobs, S. 2019. 'The 16 Most Expensive Paintings Ever Sold'. *Business Insider*. 15 May 2019. <https://www.businessinsider.com/most-expensive-paintings-ever-sold-including-157-million-nude-modigliani-2018-5?r=US&IR=T>, accessed 20 October 2020.
- Kato, J. 2010. *Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion*. Cambridge: Cambridge University Press.
- Knight, S. 2016. 'The Art-World Insider Who Went Too Far'. *The New Yorker*. 8 February 2016. <https://www.newyorker.com/magazine/2016/02/08/the-bouvier-affair>, accessed 5 April 2019.
- Korver, Ron. 2018. 'Money Laundering and Tax Evasion Risks in Free Ports'. European Parliamentary Research Service Ex-Post Evaluation Unit.
- Loi sur les douanes. 2015. <https://www.admin.ch/opc/fr/classified-compilation/20030370/index.html>, accessed 20 October 2020.
- Mahoney, J. 2012. 'The Logic of Process Tracing Tests in the Social Sciences'. *Sociological Methods & Research* 41(4): 570–97.
- McAndrew, C. 2017. 'TEFAF Art Market Report'. <http://1uyxqn3lzdsa2ytyzj1asxmmmpt.wpengine.netdna-cdn.com/wp-content/uploads/2017/03/TEFAF-Art-Market-Report-20173.pdf>
- Palan, R. 1998. 'Trying to Have Your Cake and Eating It: How and Why the State System Has Created Offshore'. *International Studies Quarterly* 42(4): 625–43.
- Palan, R. 2003. *The Offshore World: Sovereign Markets, Virtual Places, and Nomad Millionaires*. Ithica: Cornell University Press.
- Palan, R., Murphy, R., and Chavagneux, C. 2010. *Tax Havens: How Globalization Really Works*. Ithica: Cornell University Press.
- Picciotto, S. 1992. *International Business Taxation: A Study in the Internationalization of Business Regulation*. Westport, CT: Quorum Books.
- Picciotto, S. 1999. 'Offshore: The State as Legal Fiction'. In M. P. Hampton and J. P. Abbott (eds), *Offshore Finance Centres and Tax Havens*. West Lafayette: Ichor, pp. 43–79.
- Piketty, T. 2014. *Capital in the Twenty-First Century*. Cambridge: Harvard University Press.
- Roth, M. 2015. *Wir betreten den Kunstmarkt: Geldwäscherei/Zollfreilager—ein zu diskretes Geschäft?/Interessenkonflikte, Manipulationen und Preisabsprachen*. Zürich St. Gallen: Dike Verlag Zürich.

- Segal, D. 2012. 'Swiss Freeports Are Home for a Growing Treasury of Art'. *The New York Times*, 21 July 2012. <http://www.nytimes.com/2012/07/22/business/swiss-freeports-are-home-for-a-growing-treasury-of-art.html>.
- Sharman, J. C. 2012. 'Canaries in the Coal Mine: Tax Havens, the Decline of the West and the Rise of the Rest'. *New Political Economy* 17(4): 493–513.
- Shaw, A. 2019a. 'European Commission President Jean-Claude Juncker Must Close Tax Loopholes at Luxembourg Freeport, MEP Says'. 31 January 2019. <http://theartnewspaper.com/news/european-commission-president-jean-claude-juncker-must-close-tax-loopholes-at-luxembourg-freeport-mep-says>, accessed 5 April 2019.
- Shaw, A. 2019b. 'Jean-Claude Juncker Dismisses Claims that Freeports Are "Systematically Used to Commit Fraud"'. 12 March 2019. <http://theartnewspaper.com/news/jean-claude-juncker-dismisses-claims-that-freeports-are-systematically-used-to-commit-fraud>, accessed 5 April 2019.
- Swank, D., and Steinmo, S. 2002. 'The New Political Economy of Taxation in Advanced Capitalist Democracies'. *American Journal of Political Science* 46(3): 642–55.
- Swiss Federal Audit Office. 2014. 'Ports francs et entrepôts douaniers ouverts, une stratégie est indispensable pour réduire les risques'. Eidgenössische Finanzkontrolle.
- Tsingou, E. (2010). 'Global Financial Governance and the Developing Anti-Money Laundering Regime: What Lessons for International Political Economy?'. *International Politics* 47(6): 617–37.
- Weeks, S. (2018). 'Secrecy and Consensus: The Governmentality of an Offshore Financial Center in Europe'. Ph.D. Dissertation, Department of Anthropology, University of California-Los Angeles.
- Wilensky, H. L. 2002. *Rich Democracies: Political Economy, Public Policy, and Performance*. Berkeley: University of California Press.
- Zarobell, J. 2017. *Art and the Global Economy*. Berkeley: University of California Press.
- Zucman, G. 2013. 'The Missing Wealth of Nations: Are Europe and the U.S. net Debtors or net Creditors?'. *The Quarterly Journal of Economics* 128(3): 1321–64.
- Zucman, G. 2015. *The Hidden Wealth of Nations: The Scourge of Tax Havens*. Chicago: University of Chicago Press.