

## RUSSIAN ART MARKET: A VIEW FROM THE INSIDE

*Far-seeing specialists have been long defining the investments into works of art as “shelter investments” for their notably monetary stability throughout political conflicts, economic crises and other situations which any country will find critical. Russian art has provided yet another opportunity to prove this axiom. In spite of the stringency of the international sanctions, rapid oil prices downturn and the instability of the Russian ruble, it was the Russian art which demonstrated, according to New York Times, “a surprising boom”. Sotheby’s and Christie’s have set new Russian records that granted financial hope to many interested players from the external side of the Russian art market. Thus the question arises: how synchronized is the development of the home market with the auction success of the Russian art? The present research is an attempt to give a structured answer to the above question.*  
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### 1. Introduction

The development of the market economy in Russia has been accompanied with fundamental changes in all the spheres of life of the society. The transition to the market system has affected the cultural sphere as well, the works of art stopped being considered as purely spiritual values. The Russian art has started its gradual integration into the international art market. The importance of this process for Russia is proved by the indisputable fact: it is common knowledge that the number of art memorials (without reference to their cultural and spiritual contribution to the world history of art) situated on the Russian territory considerably supersedes that of many other countries. At present outstanding cultural assets have been accumulated in Russia which unfortunately remain inactive for the most part.

As for the necessary methodological basis for efficient development of deals with the works of art, the Russian scientific approach should be best of all described as being at the stage of reconciliation with the reality that art can be estimated and sold. The socially new term “art market” was first mentioned in the works by Professor Denisov (1997). Years of heated disputes followed, in which the very concept of such inappropriate notions pairing was questioned, it is worth mentioning that the concept was defended primarily by the

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representatives of exact sciences and opposed by the arts people. The theoretical battles have recently stopped only after both sides met a common serious enemy: widespread illegal art trade, which made the former opponents realize the necessity of joining forces. Certain pioneer works started to appear analyzing the Russian art market phenomenon from the standpoints of various social disciplines: sociology (Blagosklonov, 2003), law (Bogulsavsky, 2005), economics (Sarkisyants, 2010), statistics (Kolycheva, 2014). The absence of translated key researches of foreign specialists providing solutions for many dilemmas which the Russian art-experts face today, is also indirectly slowing down the progress of the Russian scholars.

However even today the seemingly confirmed economic and social usefulness of the art market is still flimsy with the Russians. Unprejudiced view on the state of many of the art memorials demanding substantial initial crediting, evokes a question, whether it is worthwhile doing? In such cases an appropriate academic response would be an open analysis of problems and perspectives of the Russian art market. Financially helping arts adds to the respectability of the capital and refines the reputation for the investors. World practice shows that investing into art is an optimal way of legalizing the savings, getting tax breaks and bringing in foreign partners. Besides, the well-developed economics of many of the other countries shows that long-term progress is not attainable without well-developed culture and arts sphere. In view of the above-said it is beneficial for Russia to objectively define the value of the cultural heritage for the purpose of effective estimation of its true investment potential. This creates most optimistic prognosis of the long-term possibilities of the Russian art market. At the same time the actual establishing of the art market within the country is associated with thorny issues which must be solved to enable progress.

## **2. Issue No.1: legislation**

The first problem is the problem of legal registration of the works of art and governing of the social relations emerging on the art market. The recent years are characterized by both substantial liberalization of the civil turnover of the works of art and the change of the state view on the targets and methods of preserving the country's cultural heritage. At that the national legal norms have quite a few gaps as of today and cannot be considered satisfactory.

First of all, the national legislation contains no definition of the "work of art" notion as such, the closest to which being "cultural heritage" and "cultural values" providing no finite answer to the question what categories of objects can be considered as art memorials. Thus, according to Article 3 of the Federal Law, practically any objects "of value" can be attributed to this category (Federal Law, 2002). The now void Presidential Decree provided no clarity and only added a time criterion to the definition, i.e., the memorials must have been created more than 50 years ago (Decree of the President, 1994). At the very beginning of the current year the long-awaited amendments and additions to the effective law came into force. The up-to-date importance of these amendments consists in shifting the national priorities to the preservation of the cultural heritage and revival of sponsorship and arts patronage (Federal Law, 2014). At the same time the definition of the "work of art"

remained unchanged, or, rather, absent. It is clear that the focus on waking the financially-gifted social strata from the anabiosis looks undoubtedly positive, however the legal vagueness of what should be preserved and saved contains a risk of turning the process into self-beneficial choosing of objects of the proverbial “value”.

Secondly, the burden of the tax code norms does not facilitate the necessary state registration of cultural heritage within the private sector. Also the measures of supporting the registered cultural assets such as assisting in restoration, in practice are not fulfilled. And last but not least: the collectors are often afraid to advertise their collections due to the lack of necessary safety and security measures in the situation of blossoming black art market.

Thirdly, the customs laws are not aimed at integration of Russia into the world art market. For a long time the import of the works of art to the territory of Russia was limited by very high customs fees: 30% of the price of the object of art. The amount of expenses made the collectors abstain from importing expensive art objects purchased abroad into the country, or seek illegal ways of bringing them home. The new code which came into force from the beginning of 2004 has lifted the burden of customs duties according to the researchers, but in fact led to limiting of the right of ownership on the imported object of art (Boguslavsky, 2005). Thus, collectors purchasing the art objects for personal use only were granted a remission of customs duties. In case of a subsequent sale of the imported art object, the duty would have had to be paid.

The process of exporting art objects from Russia is also substantially hampered. In particular a complete ban on export covers the cultural values created more than 100 years ago. The boundary of one hundred years as a main criterion enabling to export the art objects from the country really was used in international legal documents, however the contemporary international practice proves advisability of applying additional value criterion, reflecting the true value of the object. Summarizing the above-said one has to admit that the system of exporting and importing the art objects existing in Russia considerably limits the right of ownership of the owners of the cultural values.

Thus the key legal issues are, firstly, finding the definition of the work of art category, and, secondly, creating an objective system of rights and liabilities of owners of such objects. In view of the above the Russian legal advisers are defending the idea that there is a vital necessity of singling out new branches of law: cultural law and museum law (Aleksandrova, 2007).

### **3. Issue No.2: expert evaluation and attribution**

In practice the problem of attributing various objects to the categories of cultural values, works of art or antique objects is based on subjective opinion of specialists and gives rise to another problem of the Russian art market – the problem of expert evaluation, which is fundamental for estimating the price of the art memorial. Until quite recently the Russian experts were mostly employed by the biggest museums and state galleries, accumulating the resources necessary for the work of the expert – their funds. At that the experts were not

held liable for the accuracy of the attribution which was usually viewed as their academically-substantiated opinion. However in 2006 the state museums were deprived of the right to render paid services of providing expert analysis of the art objects.

On the one hand, this decision seems logical and fair, because affirmation of the right to carry out expert analyses in the charter of a state museum and the fact that the expert findings were issued on the museum letterhead and signed by a head of a certain department and stamped with the museum stamp were indicative that the expert analysis was given by the museum rather than a certain fine art expert. Fulfilling of expert analyses by museums is frowned upon by the Code of Ethics of the International Council of Museums, which was translated into Russian, accepted and approved by the Presidium of the ICOM of Russia as of June 3, 2014 (ICOM Russia, 2014). On the more developed markets it is also believed that the expert analysis must be only independent: such expert evaluation fulfilled by an expert every time challenges his reputation, which can be defended by the expert's readiness to swear at court defending his own affirmations.

On the other hand, the Russian art market proved absolutely unprepared for such a ban. First of all, because the majority of present-day art dealers and antiquers do not have enough expertise in history of arts and consequently are simply not able to attribute an art object. Thorough study of counterfeits is hampered by insufficient technical equipment of the Russian expert laboratories. Secondly, the status of expert authorized to attribute and estimate the art objects, has not been legally established so far. At that the necessity for state certification of such type of business activities is obvious. And last, any valuation activity is initially risky. Most experienced expert is not mistake-proof, and the price of such mistake can be very high. Thus it seems that insuring one's public liability which is common in more wide-spread spheres of valuation activity to minimize risks, must be obligatory for the fine arts experts fulfilling the expert analysis.

And still today, when the question of real value and consequently the price of virtually any artwork in free circulation is open, the lack of specialists in theory and history of arts is especially noticeable. Educating new generation of Russian experts in fine arts appears to be the primary necessary measure. Working out, firstly, methodological bases of expert activity and, secondly, providing sufficient amount of information resources for educating and professional development of the experts – starting with publishing periodical art market reviews finishing with assembling expert boards of the leading national museums, galleries and antiquer's societies can come as subsidiary measures.

#### **4. Issue No.3: masters and mediators**

The third problem of the Russian art market is the established system of relationships between the galleries and the artists. The purchase takes place immediately if a product in demand is offered for a low price. At that the biggest demand is for kitsch. The yearning of an average consumer for endlessly copied landscapes of Shishkin and seascapes by Aivazovsky in gilded frames largely dictates the choice and prices of galleries. If an artwork is unique and outstanding and the seller needs to put effort into advertizing it, then

if one is fortunate the artwork will be bought at a considerably lower price, at worst the galleries will not take the risk of creating a background against which the majority of their stock in demand will look like bad taste. As a result we get art-trading extremities: top-class galleries aimed at educated and well-off purchaser and street exhibitions to meet the layman tastes. Thus the value of an art object differs to a large extent “not depending on *what* is sold, but on *where* it is sold” (Blagosklonov, 2003).

A vexing specific feature of Russia is also low prices for contemporary Russian art as compared to the foreign markets. The researchers tend to explain it through psychological factors: the purchaser takes advantage of the overall poverty of the country. And the experience shows that Russian artists as a rule agree to prices several times lower than objective ones to be able to feed the family (Sakharov, 2005). Finally, the process of the Russian art market development is hindered by a number of specific features of art trade: considerable diversity of the objects of buying and selling, monopolistic power of their owners, absence of any regularity in the purchase deals. In view of all the above-said the Russian art market still does not appear to be an attractive investment sector at all. Unfortunately the existing situation does not contradict with the interests of the significant amount of the participants of the undeveloped Russian art market.

## **5. Key Issue: collision of interests**

One of the main market participants – the state – obviously sees the matter in question as of minor importance and is not in a hurry to take measures to improve the existing socio-economic situation. The supreme power is not interested in the transparency of deals with artworks mostly because it is not intending to sell the art memorials it owns. Thus the state museums purchase the artworks possessing perfect information, i.e. having absolutely all knowledge about the characteristics and features of the object of purchase, whereas all the other players of the art market have to fulfill purchases with incomplete information, receiving though a certain bonus for the risk. Moreover, the state policy concerning the buying and selling of the objects of art is traditionally not advertized, though, in fact, it is nothing other but managing public finances and national heritage.

Neither is the development of the art market infrastructure in the interests of the mediators acting there. The low quality of the information on pricing justifies their high paychecks as compared to the transaction expenses on other investment markets. At present there are approximately 6.5 thousand private collections of art objects in Russia. At that collections which total value exceeds several million US dollars are not rare anymore. And even such collections are not always insured. Thus the share of insured collections does not exceed 10% of their total number, whereas the potential total value of the Russian art-insurance market is estimated at several billion US dollars (Sarkisyants, 2010).

It is common knowledge that the main aim of any market is finding balance between the interests of the seller and the buyer. The more efficient the market functions, the more players are present there, the less are the transaction expenses and the revenue of mediators, with the seller and buyer benefiting the most. Unfortunately nowadays this cannot be said

about the Russian art market. The above-mentioned extreme informational deficiency of the art market appears to be one of the key problems for its further development in general and for the practice of investing of considerable monetary funds into artistic assets in particular. Hence the state regulation and control in the sphere of defining the general rules of the art market functioning, its taxation and informational policies appears to be the necessary initial measure to establish a fully functional art market.

## 6. Acquisitions and losses

In autumn 2014 the Russian art market was shocked by the news that the biggest contemporary art fair in Eastern Europe, *Art Moscow*, was cancelled. Held annually since 1996 the fair always became one of the most important cultural events of the capital getting extensive coverage in the media and attracting not only the Russian art dealers from all the parts of the country, but foreign partners as well. The reason for cancellation, according to Vasily Bychkov, ideologist and organizer of the fair, was the “unfavourable ambient background” (Agunovich, 2014). At that Bychkov did not rule out the chance that the art fair would also be cancelled the following year. In the conditions of lack of information highly characteristic of the Russian art market, complete shut-down of the only forum dealing with contemporary art tendencies will inevitably trigger most negative consequences as for the internal sales rates. Will the success at international Russian art auctions be able to any degree make up for the local market regress? It seems reasonable to answer this question negatively, and forecast a pessimistic scenario of which the following predicates are indicative.

First of all, the position of the Russian art at the world scene is insignificant. Undoubtedly, the existing situation can be explained by a well-known national rule of the art trade: the buyers tend to buy artwork from their home country. Upon closure of the last trading sessions both leading auction houses *Sotheby's* and *Christie's* have noted that approximately 3/4 of the Russian artworks were purchased by the clients from Russia. At that in comparison, for example, with the international demand for the works by the French impressionists, American expressionists or contemporary British artists such tendency proves rather negative.

Secondly, if we analyze the structure of sales of the Russian artworks abroad, still most popular are the antiques: icons, items by Faberge, avant-garde and constructionist-style paintings. Works by modern Russian artists are traditionally excluded from this list. Might seem surprising, but the latter circumstance permits the foreign analysts to consider this segment of the Russian art rather perspective – due to the fact that it is “largely undervalued” (Van der Vorst, 2014). Not waiting for the international boom for contemporary Russian artists to begin, we should note that the international recognition of the artists must start with the verdict of their national market. The more developed the society is, the more objective will be its evaluation of the works of their contemporary fellow countrymen.

## 7. Conclusion

The present article dealt with one of the national art markets – the Russian one. The central point for the research is the existing confrontation of its two components – the external and the internal. The success of the Russian art at international auctions at one side and extremely slow development of internal sales on the other. The considerable lag of the internal Russian market from the international norms is presupposed by a number of factors grouping around three key problems: (1) legal gaps at different levels; (2) absence of fine arts experts specializing on the merger of economics and arts and capable of performing a quality assessment of an artwork; (3) the deep-seated disparagement towards the art-related professions leading to the art dictatorship of art dealers towards the artists.

Playing a negative role in the evolution of the Russian art market on the whole, these problems however do not affect the position of its two key participants. Firstly, the internal weakness of the market is beneficial for the mediators artificially boosting their importance. Secondly, the state supreme power prefers to take a reserved attitude as to the matters of investment into the cultural and art sphere. This leads to the fact that decision-taking upon the problematic aspects of art trade is constantly delayed giving way to more vital issues. One of the sad consequences was the cancellation of the popular *Art Moscow* fair which used to be a starting point for many novelty movements in art.

Coming back to the external, international component of the Russian art market one has to note that the present success at auction sales is not unshadowed. The main buyers of the Russian art are Russians, dealing mostly with antiques. It is worth taking into account that these tendencies permit the foreign experts to draw the attention of their fellow countrymen to the market of the contemporary Russian artists as a rather appealing one for investments. In that context it seems surprising that the Russians themselves, citizens of a country with remarkably grand territory, history and cultural heritage are in no haste to make use of their own main inexhaustible asset which is waiting patiently for its time to serve people.

The global aim of the research was to find viable solutions to sensitive issues of the Russian art market. It seems that the primary recommendations distributed by the actors of the market, should be the following: (1) art-analysts – creation by the domestic scientists an interdisciplinary theoretical and methodological framework for studying a phenomenon of the Russian art market; (2) players – formation of an objective system of rights and responsibilities of the direct (artists, gallery owners, collectors) and indirect (appraisers, insurers) market participants; (3) state – regulation and control in the sphere of defining the general rules of the art market functioning, its taxation and informational policies; (4) society – shifting the national priorities to the preservation of the cultural heritage and revival of sponsorship and arts patronage. And on the highest level the last measure becomes nearly the most important: the international recognition of the artists must start with the verdict of their national market. The more developed the society is, the more objective will be its evaluation of the works of their contemporary fellow countrymen.

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