



Le Freeport Luxembourg creates new perspectives for the Luxembourg economy

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Le Freeport Luxembourg will act as a catalyst for services offerings in the financial, logistics, ICT, and cultural sectors.

Behind the scenes, Deloitte worked for seven years to lay the foundation for Le Freeport Luxembourg (www.luxfreeport.lu), as part of the unique Art & Finance initiative. *"We felt that by making the bridge between the art market and finance, there would be quite a lot of opportunities for Luxembourg"*, states Yves Francis, CEO of Deloitte Luxembourg. We aim at creating a strong link between the world of art and the financial sector, and position Luxembourg as an international hub for Art & Finance. For the Freeport project, we carried out extensive fiscal and strategic work at our own cost and helped the Government through our expertise in tax and VAT related matters.

A unique diversification tool

First of its kind in the European Union, *"Le Freeport Luxembourg has been inaugurated as announced two years ago on 17 September 2014 at 5 p.m. with the presence of many personalities. Being able to maintain the planned schedule is already a big success,"* said

David Arendt, the CEO of Le Freeport. Le Freeport Luxembourg offers the best worldwide high tech logistics hub for managing, handling, storing—without limitation in time—and trading fine arts, fine wines, precious metals, jewels, and other valuables, under a regime of suspension of VAT and customs duties at the heart of Europe. It is a neutral platform operated by specialist forwarders and logistics companies active in the transportation, handling and storage of valuable goods. The operators are duly licensed by the Luxembourg Customs Authorities and accepted by The Luxembourg Freeport Management Company S.A.

The freeport concept is not new but the specificity of Le Freeport Luxembourg is its specialization in value goods. From the very beginning, it was considered to be not only a storage space but a strategic project with long-term benefits for the Luxembourg economy and its diversification.

Wealthy investors are looking for specialized information and deeper levels of advice on tangible assets

For Luxembourg's Deputy Prime Minister and Minister of Economy, Etienne Schneider, *"Le Freeport Luxembourg will significantly contribute to the diversification of the Luxembourg economy, enriching and complementing both its logistics platform and its financial center,"* adding a new dimension to it and making it more diverse. Pierre Gramegna, Luxembourg's Minister of Finance adds, *"The main reason why it was important and wise to go in that direction is that Le Freeport blends very well with the Luxembourg landscape. One of the key priorities of the government is to continue to diversify our financial sector."* **Le Freeport Luxembourg will act as a catalyst for services offerings in the financial, logistics, ICT, and cultural sectors.**

A unique ecosystem

Located next to the Cargo center at the airport of Luxembourg, which is the fifth largest air cargo hub in Europe, Le Freeport Luxembourg offers direct air and land access and enables value goods to be delivered straight from the tarmac without any road transport costs and risks. Furthermore, Luxembourg's airport is a very convenient landing spot for private jets. Le Freeport is an integrated solution that offers a wide range of services such as private showrooms, a photo studio to include art pieces in catalogues, art valuation, restoration and insurance brokerage, customs handling, crafting, shipping, framing, etc. *"We wanted to create a group competence center around the Freeport and we have reached this goal. The restoration room is operational, and we found an operator for the laboratory. Several professionals have settled in the Freeport and offer services in art valuation, art advisory, insurance brokerage, tax and customs advisory, or art monetization. I still receive requests to rent offices, including from law firms and fund managers,"* explains David Arendt.

The regime of suspension of VAT and customs duties applies as long as the goods remain in Le Freeport Luxembourg, which is under the supervision of the Luxembourg Customs Authorities. The latter has unlimited access and right to inspect all goods entering and exiting the storage. David Arendt, underlines that *"it is important to keep in mind that the system of transparency and traceability with the Customs Authorities handling the Freeport is going beyond European customs requirements and is a real model. On a regulatory perspective in the global art market, we are already 5 to 10 years ahead."*

However, goods can leave the storage without losing their tax advantages under specific conditions during a limited time, for an exhibition in a museum or an art fair, for instance. The Freeport is not a place where art should stay out of the world but where it should live, as shown by the existence of showrooms and conference rooms inside Le Freeport.

A competitive tool for the Luxembourg financial sector

Le Freeport aims at contributing to the development of a new service offerings for financial sector professionals, including private bankers, insurance companies, family offices, depository banks and asset managers, who could act as custodians for their customers' tangible assets or investment structures investing in physical assets that could be stored locally and benefit from the same jurisdiction as the structure domiciled in Luxembourg.

As pointed out in Deloitte and EY's joint white paper *Wealth Management and Private Banking – Connecting with clients and reinventing the value proposition*, wealth managers and private bankers must reinvent their value proposition in response to significant industry pressure and shifts in client demands.

The traditional Ultra High-Net-Worth Individuals (UHNWI) are now asking for a higher level of personalization and customized products and services. Standardized offerings are no longer sufficient to satisfy sophisticated client demands that go beyond investment portfolio management.

In such a context, Le Freeport Luxembourg can clearly offer Luxembourg and foreign financial institutions the opportunity to develop a group competence center on value goods in Luxembourg. Financial players based in Luxembourg can indeed leverage the unique ecosystem of Le Freeport to become the center of excellence for value goods, not only to serve their own clients but also those of other entities of the group they belong to, located abroad.

David Arendt confirms the interest from the financial sector *"Wealth managers are very interested in Le Freeport. We constantly have visits from bankers and Professionals of the Financial Sector (PFS), and they often come with their clients. Then, it is up to our licensed operators to turn these visits into concrete business."*

People have always invested in emotional assets. The interesting trend is that wealthy individuals are increasingly viewing art and collectibles as serious real assets. They represent sizeable wealth for many UHNWI and—with the increase in worldwide wealth—even more wealth is allocated to collectible assets. Wealthy investors are looking for specialized information and deeper levels of advice on tangible assets. An increasing number of private banks are teaming up with experts to come up with an art market strategy beyond simply offering their clients access to art fairs and other concierge type services.

These trends create an opportunity for financial players to broaden the scope of their services. They can expand their service offering by integrating the concept of collectible assets into the overall asset allocation strategy to assure adequate liquidity, avoid over-exposure to risk, minimize income taxes and organize appropriate transmission to heirs or donations to charity. It is a complete new field, which provides room for innovation. It is also a complex subject, which requires high value-added services to support customers, such as legal, tax, wealth structuring, insurance, conservation, trading, etc., in line with the Luxembourg strategy to develop high value-added services.



Ripple effects on the art sector, logistic sector and the ICT sector

Le Freeport Luxembourg addresses the demands of the globalized art world. For collectors and investors there is no better place to store, show and trade their artworks and other valuables. It can also turn Luxembourg into an attractive place for artists, galleries, international sales, art fairs and museums lacking space and enable exchanges between museums and collectors all over the world. Luxembourg could even position itself as an international hub for the preservation of the world cultural heritage, for instance museums exposed to specific risks like flooding or those located in politically unstable regions.

Le Freeport also represents a great opportunity for the logistics and transport sectors, and Cargolux could strengthen its leading position in art transportation. The Freeport will have a lasting positive impact on the global development of the airport zone and specialized transport services.

For the ICT sector, online businesses such as online art marketplaces, online auctions, online collection management tools and online platforms for art secured lending could choose Luxembourg as their preferred location to serve Europe and beyond, even more so thanks to the recent investments in technological infrastructure.

Winning market share

"Le Freeport became operational during the first week of November 2014. The main reason for this delay was the complexity of the homologation procedure for licensed operators, which took longer than expected. Indeed, the Customs Authorities' require to be electronically informed about all entries and exits in and out of Le Freeport, all in real time with specific software requirements. It implied a long and expensive

software update for candidates. The goods stored in the Freeport since November are mainly art, fine wine and precious metals. There are also many requests concerning collection cars but nothing has been set in stone yet", explains David Arendt.

At this stage, over 60 percent of the storage capacity has been rented out but David Arendt also recognizes that a lot remains to be accomplished. *"The clients of freeports tend to go to well-known Swiss freeports, especially the one in Geneva. We still have a huge communication plan to put in place to make collectors and investors and their advisors aware of our service offering".*

Le Freeport clearly offers a competitive advantage. Nevertheless, recently it has had to deal with the intense media coverage of Yves Bouvier, the main investor of the Freeport and chairman of EuroAsia SA, a Swiss leader in the management of objects of great value. EuroAsia SA owns the Singapore freeport and is also the largest private owner of the Geneva Freeport.

On this particular point, David Arendt comments *"The accusations against Yves Bouvier and prosecutions against him in Monaco, Singapore and Hong Kong have had a negative impact on our image, despite the fact that Yves Bouvier is not at all involved in the Freeport operations. He considered it appropriate to pull out from the governance of the managing company until his innocence is established. Moreover, two independent administrators have joined the Board of Directors of the managing company; they are well-known personalities of Luxembourg's political and financial life. Further changes may be announced in due course."*



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Conclusion

Le Freeport Luxembourg has already started to contribute to the diversification of Luxembourg's economy. The Freeport is now part of the economic landscape and shows a strong innovation capacity to attract new talents for the creation and development of new activities in various key sectors of the Luxembourg economy.