



'Russian Art Evening' at Sotheby's, June, 2008 ([www.sothebys.com](http://www.sothebys.com))

**Russian Paintings at English Auctions: Christie's, Sotheby's, Bonhams and  
MacDougall's in the period of 1998-2008  
The Analysis of the Market**

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## **Motivation for the research**

At the beginning of my Master Course at Erasmus University I had no idea about the future topic of my thesis. Once during data collection process I accidentally found the enormous quantity of online articles devoted to 'Russian sales' and their records. The dazzling headlines attracted my attention. Having read some of the sources I was really surprised by the situation at the market for Russian art. I immediately decided to apply this information to my thesis. Further I discovered that there is almost no literature at all, which describes scientifically the current situation at the Western market of Russian art. I hope that my thesis will help to shed some light on this completely new topic in the history of Russian art.

## **1 Introduction**

*“Business is business, but Russia is romance”,  
Armand Hamme (1932)<sup>1</sup>.*

These days the ‘Russian sales’ in London and New York are considered to be one of the most important social and cultural events; however the situation was completely different merely a decade ago. Obviously there has always been art in Russia, yet in Soviet times it was off limits to the public. There was neither a market for Russian art nor auctions abroad. Only after the fall of the Soviet Union the situation changed.

In 1988 Sotheby’s held the first Russian auction. It was the beginning of auctions of Russian art. Yet at that time only foreigners were interested, as Russian collectors did not have such financial possibilities. In the 1990’s and especially during the 1998 financial crisis in Russia, the demand for Russian art was low. Only a few years ago, auctions started making profits in Russian art.

After eight years of economic growth, a new class of wealthy Russians are building art collections. Today, the organizers always take into account the increasing number of Russian buyers to visit the sale. More than 80% of the last buyers consisted of Russians at the major English auction houses. Due to the huge demand, such famous English auctions as Christie’s, Sotheby’s and Bonhams’ opened Russian departments which specialize only in Russian art.

Aside from organizing Russian sales in London, these auction houses have started opening branches in Moscow and promoting sales with the use of exhibitions in Russia. An example of such an exhibit by Sotheby’s, was at the State Historical Museum on Red Square in November 2007. The works by Ivan Aivazovsky, Natalia Goncharova, Wassily Kandinsky and others were presented.

Such titans as Christie’s, Sotheby’s, Bonham's and McDougall's have become central players at the market of Russian art and antiques. However, the geography of the sales is becoming even wider. The oldest Swedish auction house, Stockholms Auktionsverk, has broken the monopoly of English auctions. In December 2007 in Copenhagen Danish auction house Bruun Rasmussen held a sale of Russian antiques, offering a collection of paintings, porcelain, jewellery and personal belongings. Earlier in November 2007 Coutau-Begarie auction house held a sale in Hotel Drouot in Paris with a range of Russian objects from 19th-

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<sup>1</sup> Armand Hamme- the pioneer of Russian art sales in the USA

century drawings to letters and personal artefacts. The next day Lombrail-Teucquam organized another auction in the French capital presenting paintings and icons.

Nevertheless, the English auctions continue to lead in the global Russian art-market, with sales reaching millions of dollars. They sell the works of Russian artists for huge amounts of money. As an example, in 2006 13 records were set at the auctions of Christie's and Sotheby's, which were held in London. Christie's and Sotheby's witnessed a tremendous increase in the amount of potential buyers. Sotheby's announced that its 2007 Russian Sales grew 18 percent, to a total of US\$180.9 million. Christie's 2007 Russian art sales increased 87 percent, to a total of 71.2 million of Pounds (US\$144 million). For Christie's it was the best year ever for Russian art<sup>2</sup>.

These numbers are the main explanation why I decided to pay my attention to English auctions precisely. Further in my research I will show the other reasons why London became the capital of Russian art market. Moreover I chose the category 'paintings' as it is considered to be the most popular one at the 'Russian sales'.

The first part of the thesis is dedicated to the literature review on the art market in general, the supply and demand sides. The second part studies the situation at the Western market for Russian paintings, the supply and demand for it. It concentrates both on the qualitative and quantitative research. The numerical data consists of price index for Russian artists, Russian art turnover 1998-2008 for different categories and the calculations of factors that can influence the price formation at the market.

## 1.1 Research questions

The three major questions that will be answered in this paper are:

*'Why Russian art is sold abroad, mostly in London?'*,

*'Why do the prices continue to rise?'* and

*'Who are the buyers of Russian fine art at the Western market?'*

One of the factors contributing to the rising Russian art prices is increasing prices of oil and gas in the period of 1998-2008. Russians became richer. They need to invest their money. When answering the question about the buyers themselves, one has to consider that non-

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<sup>2</sup> [www.christies.com](http://www.christies.com)

Russian collectors, who spend even half a million dollars on Russian work, are ‘rare birds’. Therefore to understand the success of ‘Russian sales’ in general and find out the factors that play an important role in determination of prices I need to research the following subjects: first, the theory of the art market that describes and characterizes the art market in general; second, the recent Western market for Russian fine art.

In order to facilitate my research, first of all I will shed some light on the historical development of the Western market for Russian art and find out the reasons, why Russian art is accumulated in the British capital. I will try to gather the latest information about the situation in the market. I will define the English auctions, which specialize in ‘Russian sales’ and follow the development and functioning of their Russian sales and Russian departments. The importance of the Russian auctions for auction houses such as Christie’s and Sotheby’s will be emphasized by indicating the proportion these Russian auctions have in total turnover. I also need to identify the potential buyers of Russian art and discover the reasons of their preference to consume mostly Russian art. And finally I will examine the progress of the price formation and other factors that can influence the price on Russian art using the works of famous Russian artists.



## **2 Literature Review**

### **2.1 Introduction**

Today several empirical studies focus on the subject of art markets and art prices. Some of them describe the characteristics of the art market; others answer the questions about price formation and art as investment and behavioural anomalies of individuals operating on the art market. At the beginning of my thesis I will give the general information concerning the art market.

### **2.2 Characterization of the art market**

We have already got used to such information that art auctions sell works of art for the sums of millions of Euros. It is a huge part of financial world, with thousands of transactions, hundreds of thousands of people and developed infrastructure. According to the estimations of some leading experts, which I have found on Internet, the international market of art generates annually about 22 billion Dollars, this being roughly 1 % of the whole world gross national product. In general, there are not any set prices. Buyers and sellers negotiate about a price. Taking into consideration that there are no price lists, there is very little information available on transactions on the art market (Bates, 1983).

As Throsby (2001) states, nowhere the market processes have been more extensively or thoroughly studied than in the art market. The first reason is that most of the art markets, such as art auctions, come close to the ideal of a freely functioning market process with little or no market distortion, and even where irregularities, such as information asymmetries, can appear. Secondly, reliable data is frequently available both for contemporary and historical times.

The market of works of art is considered to be very uncertain and unpredictable. It consists of many segments and sectors (from the armours and the European ceramics up to Faberge eggs), each of which develops in accordance with its own laws. Throsby (2001) notes that the physical artworks traded are usually unique and hand-made pieces. Every unit is an extreme case of a non-homogeneous commodity; the case is even strengthened when considering the works of artists no longer living and non-augmentable. Artworks can be copied, but not

reproduced. There is only one unique original. Artworks form part of the cultural capital of a nation or of the world. They can be resold, and their prices may rise over time, so they have the characteristics of financial assets. There is a difference between art as decoration and art as an asset.

Pfister (2005) stated that art market is governed like any other commodity market by economical principles, although the performance of art is harder to predict than stocks and shares. Frey and Eichenberger (1995) characterize the art market as the market with high transaction costs, incomplete information and the phenomenon that most masterpieces are not traded very often.

According to Baumol (1986) the art market stands apart from the financial markets because of the following characteristics:

1. The financial markets deal with homogeneous products, whereas the art market distinguishes itself by the fact that its supply is fixed, as works of art are unique.
2. The owner of a work of art has a monopoly, whereas in the financial markets there are shareholders who are independent of one another.
3. The transactions in the financial markets take place almost all the time, whereas transactions on the art market are not so often.
4. The value of a financial asset is the expected flow of income; the work of art has no long-term equilibrium price.
5. The costs of holding and transacting are much higher for works of art than for stocks and shares: high insurance costs, charges at auctions, although the taxes may be more beneficial.
6. Finally, art does not provide any dividends; its ownership costs much; however, it has psychological dividends in the form of cultural consumption.

### 2.3 Determination of prices

In understanding and determining the prices of the works of art it is very important to take into account their physical properties: size, the materials used, the date of creation and the

name of the creator, his reputation, yet at the same time prices are heavily dependent on the date and place of sale.

Sagot-Duvaouroux (2003) describes the work of art by a set of properties, which include the support, the subject matter and the signature. By support, he understands the size and the raw materials used (canvas, paper, oil, watercolour and so on). The subjects are mainly historical scenes, portraits, still lifes, landscapes and abstracts. The artist's signature to the work is a trademark.

History of art shows that the properties relevant to determining the price of a painting change over time (Heinich, 1993). Since the end of the nineteenth century, the relevant property is the artist's signature. The value of an artwork depends on the originality of the thought process of the artist and the signature is the guarantee of this originality. Nowadays it is not possible to price a work of art without the name of the artist (Sagot-Duvaouroux, 2003).

Authenticity plays an important role in the price. Certificates from painters, names of former owners influence the raise in price (Sagot-Duvaouroux, 2003). Frey and Pommerehne (1989) argue that the authentic evaluation of an artist is influenced by *artistic capital stock* he or she accumulated over time: 1) the number of exhibitions and prices given to an artist's work; 2) the years passed from the artist's first exhibition; 3) the number of mediums, in which the artist works; 4) the prices for the artist's works in the past (Bonus, Ronte, 1997).

The price for equal works of art is also different according to the size, the technique used, the style and the subject. The price of a painting increases at a decreasing marginal rate with size. A drawing is cheaper than a gouache, which is cheaper than oil. A paper work is cheaper than a work made on wood or canvas.

Sagot-Duvaouroux (2003) also believes that the price of works varies with place. His qualitative studies on the art market reveal the differences between prices in art galleries and the prices in art auctions. Usually galleries have lower prices. As a result, the variations in price in art galleries are smaller than at auctions. Within the auction world, there are systematic differences across international markets. De la Barre (1994) demonstrates that the prices fetched for the same type of work are higher in New York than in London and also in London than in Paris. Pensado and Shum (1996) show that the same item fetches different prices depending on the auction house, which sells it, even if the sale occurs in the same time and in the same place. The auction prices are heavily dependent on the number and quality of bidders. This is why Sotheby's and Christie's organize their sales at the same time in the

same place, so as to benefit from the presence of collectors (Sagot-Duvauroux, 2003). There is a fact that the auction system in itself, for example the English auction, has an impact on price, as I will discuss in more detail in the next chapter.

Throsby (2001) notes that the price of an artwork can be influenced partly by the buyer's desire to have the piece for the pleasure it gives, and partly by the expectation that on resale it may provide a good capital.

The variation in price over time is explained by macroeconomic variables. The average price of art goes up per capita income. Inflation influences the rise in demand for works of art and as a result the prices increase (Frey and Pommerehne, 1989). Gerard-Varet (1993) found a link between the growth of quotations on the stock exchange and the growth of prices for works of art, but with a time delay (Sagot-Duvauroux, 2003).

#### 2.4 Art as investment

The visual art sector has two markets: the primary market, when artists sell their works for the first time, and the secondary market, when works of art are resold. The economic value of the art objects on the primary market are extremely uncertain. In this sector of the art market auctions never solve economic uncertainty. Only some works, sold on the primary market, will appear on the market again. There are more financial reasons for buying works of art on the secondary market than on the primary, as before any work of art becomes attractive as investment, its economic value should be recognized (Velthuis, 2003).

It is a mistake to think that pictures are bought only by rich people who have no place to put money. Professional dealers of the art market, for example, are engaged in gathering unique collections, selecting pictures on themes, genres, a plot, etc. The sale of the whole collection can bring much more money. They wait for changes in fashion, catching the moments of public interest to "new" cultural objects. But in any case, neither a good investment strategy nor the knowledge of all future risks are enough for a successful work on the art market. The art market has been a component of the world's financial system for a long time and without taking this into account while investing in works of art, it can easily turn back huge losses.

What are the returns on investments in art? The question of profitability of investments in art has attracted many economists for many years. As Ginsburgh (2003) concludes there is no

financial portfolio in which art is present, and the few financial institutions that have tried to set up art portfolios were not very successful. There are two reasons for this. First, art cannot reach a significant share in an investment portfolio unless it has no connection with financial assets, as it has lower returns and is more risky. Second, financial assets are much more liquid. Besides, opportunities to sell a painting quickly are small. Goetzmann (1993) points out that there are many problems with calculations of the returns on art, beginning with selection bias in the data. As all of the sales prices are drawn from the auction records, only paintings that have been resold are included. This excludes both the high end and the low end of the distribution. Paintings that are in value or are not in demand are not resold at auctions. Professor Baumol (1986) considers that, as in the case of financial markets, prices movements are unpredictable and that is impossible to "select with any degree of reliability the combination of purchase dates and art works that will produce a rate of return exceeding the opportunity cost of their investment." To support this proposition, Baumol (1986) computes the annual increases in value (corrected for inflation) of 650 paintings sold at least twice over the period 1950 to 1960. Baumol (1986) finds that the returns are normally distributed, with an average of 0.55 percent per year, which is much lower than the 2 percent return a risk-averse investor could have obtained from bonds over the same period. Baumol attributes the difference of 1.5 percent to the utility derived from aesthetic pleasure (Chanel, Gerard-Varet, Ginsburgh, 1994).

Bruno S. Frey and Werner W. Pommerehne (1988, 1989) extended Baumol's analysis to additional data and a longer period (1935 - 1987), and found paintings returning 1.5 percent annually. For the more recent period 1950-1987 they estimated the return on paintings was 1.6 percent (Coffman, 2001).

Placing these findings in theoretical perspective, Baumol (1986) argues that prices of noted works of art fluctuate randomly. Supplies of such works are fixed, while demand fluctuates unpredictably as taste changes. Since taste changes appear random, art prices also appear random. Baumol argues something akin to the weak form of the efficient markets hypothesis when he says analysis of art price data will not help an investor improve art investment performance (Baumol, 1986). He argues something akin to the strong form of the efficient markets hypothesis when he says that even art experts with highly developed taste and insiders with information on private, unreported sales of art cannot expect to make above normal returns (Coffman, 1991).

All these studies show that art is not a good investment, and that collectors own art mostly for consumption return. But Ginsburgh (2003) sees the pluses for those collectors whose funds are limited, and even if their primary goal is collecting and not investing, the return that they might obtain, had they to dispose of their collection, isn't comparable to the return obtained by wealthy collectors or investors.

Any asset can be separated into three components: utility or consumption return, financial return, return from finding bargains, that is, from buying undervalued assets. According to Coffman (1991) art offers a different return mix than financial assets. Since people enjoy owning paintings and other art objects these assets offer direct utility returns. It is difficult to measure, but this is a major component of return. Art also offers financial return, but this is lower compared to the return on financial assets. Finally, if art offers returns from the buying of underpriced assets, then it offers something not available in financial investing (Coffman, 1991).

## 2.5 Conclusion

As we can conclude after this chapter, the art market is unpredictable and a lot of knowledge and good intuition is required in order to successfully operating in it. It is a market with high transaction costs, incomplete information and the phenomenon that most masterpieces are unique and are sold infrequently. With the exception of so-called consumption return, investment in art is rather unreliable too. Since demand depends on random determinants, like taste, art prices are also random. But why is this market so immense and booming? This is the question that I will investigate further in this study and pay special attention to the market of Russian fine art particularly.

## 3 The English auctions

### 3.1 Introduction

As the world art sales do not take place in Russia, the prices for Russian art are formed at auctions of the British capital. In this chapter I illustrate the auction theory in general. The question “*How do English auction houses really work?*” will be answered. Here I mean English auction as an auction system, not the ‘geography’ of the auction house. This description of the system of English auctions will help to understand the chapters, where I describe the history and work of Russian departments at major English auctions.

### 3.2 The mechanism of English art auctions

Historically, the most important auction houses have been the English auctions such as Christie’s and Sotheby’s. The word auction has the Latin root “*auktion*” that means to ascend. It is a well-known fact that in an English auction system the bidding begins low and ends when the final bidder raises his bid. When the bidding stops, the item for the sale is ‘knocked down’ or ‘hammered down’. This price is called the ‘hammer price’.

The items knocked down are not necessarily sold. The seller first sets a ‘preserve price’, and if the bidding does not reach this level the item will be unsold. Auctioneers say that an unsold item has been ‘bought in’. The item that has been bought in may be put up for sale at a later auction, sold elsewhere, or taken off the market. Auctioneers are very secretive about a level of a reserve price that has been set. There is a real auctioneer’s art in getting the bidding started on each item without revealing the reserve price. Every item is hammered down and treated as if it were sold, but after the auction the auctioneer reveals whether and at what price an item may have actually been sold (Ashenfelter, 2003).

As Ashenfelter (2003) explains, the reason for the secrecy surrounding reserve prices is that it serves to thwart ‘rings’<sup>3</sup>. There is always random variation in the interest and turnout of

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<sup>3</sup> [Auction ring- a group](#) of [buyers](#) at an [auction](#), who conspire not to [bid](#) against each other in order to keep the auction [price low](#). The [items](#) bought at the first ([legal](#)) auction are later sold at an illegal [private](#) auction (called ‘knock out’ auction) and the [profits](#) are shared among the [members](#) of the [ring](#) ([www.businessdictionary.com](http://www.businessdictionary.com)).

bidders; when the turnout is low, some sellers may prefer that their goods be bought in and offered for sale at a later date rather than risk a collusive ring bidding to depress the item's price. The auctioneers may also engage in other practices that weaken rings. They do not reveal the identity of the purchaser and this creates strong incentives for the ring members to bid privately in opposition of the interest of the rings (Ashenfelter, 2003).

According to auction theory any auction house receives compensation from both the buyer and the seller for items that are sold. The buyer pays to the auctioneer the *buyer's premium* that is a percentage of the sale price. In most auction houses it is 10 per cent of the sale price, and the amount is usually non-negotiable. The seller pays to the auctioneer the *seller's commission* that is a percentage of the sale price. It differs according to the type of item being sold. If an item goes unsold, the auction house does not get a buyer's premium and a seller's commission. But usually the seller should pay a fee on unsold items that is a percentage of the reserve price set by the seller. As a result the seller prefers to keep the reserve price low. The seller also is not allowed to resale this known unsold item until some time has passed. And its future value will be affected. Such items are called 'burned'. Sometimes the unsold item can be bought by the auction and be put up for sale at a later auction or taken off the market. When bidders have independent private valuations of the item on offer, as in Riley and Samuelson (1981), it should not be possible for any item to be burned. The failure of the item to sell should not influence its future salability either at auction or privately. "But in models where bidder valuations are correlated, as in Milgrom and Weber (1982), the failure of an item to sell is informative about the value it might achieve in another sale. If an object can be burned, the assumption of correlated valuations becomes more appropriate. However, it is not clear whether paintings really are burned, or whether this is a fiction invented to encourage sellers to be satisfied with lower reserve prices" (Ashenfelter, 2003).

Ashenfelter (2003) says that "the auctioneers at Christie's are gentlemen who try to act like businessmen, while the auctioneers at Sotheby's are businessmen who try to act like gentlemen. The competition among auctioneers is more than a matter of style, however. The auction business is an interesting example of an industry where the cost of building a reputation may act as a significant entry barrier to new competitors" (Ashenfelter, 2003). Ashenfelter and Graddy (2003) give example of the auctions that differ with respect whether they announce that an item has been sold or "knocked down" and unsold or not. In New



York, all the auctions have been compelled by the law since the 1980s to announce how the bidding was resulted in a sale (Ashenfelter and Graddy, 2003).

It is well known fact that, when identical lots are sold in a single auction, prices are more likely to decline than to increase with later lots. Such phenomenon is called ‘the declining price anomaly’.

Ashenfelter (2003) explains that most bidders expect to see identical items sold at identical prices. When inexperienced bidders see exceptions to this rule they may think something wrong is going on. As a result, auctions began to disguise this regularity. For example, some auctioneers offer smaller lots of the same item before larger lots (Ashenfelter, 2003).

As Ashenfelter (2003) states the presence of an auction system provides a way for uninformed sellers to obtain approximately the market value for the items they own without the necessity of becoming informed. If there are two well-informed buyers in the room who do not collude, the price the object attains will be the same as if the seller was well informed in the first instance (Ashenfelter, 2003).

### 3.3 Conclusion

In the previous paragraphs the theory of English auctions has been discussed. As we see, English auction houses commonly evaluate the works of art, where prices rise in open biddings. The auction system plays a key role in price formation. This means that the auction prices can be used to determine all price movements in the art market. As discussed above, the auctions with their commissions, experts, estimates, reserve prices, can heavily influence the price of art.

## **4 Consumer behaviour in the art market**

### **4.1 Introduction**

The impact of the consumers on price formation is obvious. Many scientists consider that prices vary according to the types of buyers. It depends on behavior, purchase motives, valuations, art knowledge, information regarding an artwork, and reaction to changing market conditions (e.g. risk, costs, taxes) (Frey and Eichenberger, 1995). Some of them think that prices can be driven by media; others believe by buyers of certain nationalities, as in case of 'Russian sales' that are mostly driven by Russians. The state of the economy influences the wealth of buyers and thus the demand and prices. As you will see later it also concerns the situation at the market of Russian art. The emotional behavior can effect the hammer price (so-called 'excitement of a single night') (Velthuis, 2005). Even the number of the bidders at the auction makes prices (Sagot-Duvaouroux, 1992). The more bidders are, the bigger competition is, and the higher the final bid is.

To explain the way in which consumers decide how to spend their income, I would like to pay attention to consumer choice and taste formation theories, the theory of conspicuous consumption and such notion as behavioural anomalies.

### **4.2 Theory of consumer choice**

According to the theory of consumer choice, consumers face some difficulties while making decisions about their purchases as their income and choices are limited. To make a choice they have to think about their budget and preferences. A budget constraint is determined both by income and prices. Therefore consumers need to put their preferences and constraints together. The final decision will result in the highest feasible level of satisfaction. In other words, this choice will maximize the well being of the consumer (Katz and Rosen, 1998).

If a consumer chooses two products, it means that the consumer is indifferent between them. The consumer gets the same utility satisfaction from the both products. This is known as the indifference curve. It shows that all products are equally desired and have the same level of

satisfaction. The slope of this curve explains the rate at which the consumer wants to substitute one product for another. This is known as marginal rate of substitution. Perfect substitutes are straight-line indifference curves. If we get more of the product, we have a constant rate because we are indifferent between them. Perfect complements are right-angled indifference curves. If products can only be used together, there is no satisfaction in having more of A without additional amounts of B. The better substitutes products are, the straighter their indifference curves.

There is also the consumer's optimal choice. The optimum is the highest point on the indifference curve that is within the budget constraint. The indifference curve is tangent. At the optimum point, the marginal rate of substitution equals to relative prices of goods since the marginal rate of substitution is equal to slope of indifference curve, and relative price is equal to slope of budget constraint. Changes in income affect the optimal choice. The budget constraint shifts parallel to the original – up if income increases, and down if income decreases. So if income is higher, more of the both products can be consumed. If products are normal, more of them are desired. If they are of a low quality, then less.

A fluctuation in price changes the slope of the curve. If price falls, the budget constraint moves outwards. If there is a price increase, the budget constraint moves inwards. So a price transformation changes the relative price of both products and quantity that can be bought. Changes in price have two effects: substitution effect (from the tendency to buy expensive products less; the satisfaction is constant) and income effect (effects the total amount that can be purchased; change in consumption<sup>4</sup>).

#### 4.3 Taste formation

According to Throsby (2001) in economic theory the origins of demand are the tastes and preferences of consumers. The market postulate that 'the buyer dictates tastes and prices' is proved every year at "Russian sales" in London.

Arts are often said to be a cultivated taste. But cultivation of taste means that preferences are changed by experience. The taste for an experienced good increases, because additional taste has been acquired through repeated experience. By contrast, the taste for a non-experience

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<sup>4</sup> [www.basiceconomics.info/theory-of-consumer-choice.php](http://www.basiceconomics.info/theory-of-consumer-choice.php)

good remains stable. Seaman (2005) finds that the most 'passive' explanation for past consumption affecting current and future consumption is simple habit formation.

According to Levy-Garboua and Montmarquette (2002), there are two classes of theories that can predict the dependence of current consumption of art goods upon past behaviour: theories of specific consumption capital and rational addiction and learning by consuming. Although these theories were focused on the demand for live performing arts, the cultivation of taste for works of art can be observed according to the same scheme.

The theory of specific consumption capital and rational addiction explains that the taste is generated by art-specific capital, which raises art appreciation in the future. It is the rate at which the taste for art increases with the consumption of art. Rational addiction develops the positive influence of cultivated taste on the consumption of art. The time spent on art appreciation is likely to be addictive.

A different approach is taken by the theory of learning by consuming. Consumers are unaware of their true taste and discover it through experience in a process of unsystematic learning by consuming. Tastes are given but unknown. Every new experience of art influences the consumer's positive or negative rise in his taste for it (Levy-Garboua and Montmarquette, 2002).

Burt (1997) thinks that the formation of cultural taste can happen either separately by each individual or through social communication. Each individual is influenced by other individuals and this forms an interaction network. One of the types of interaction is cultural communication, which plays a key role in the formation of cultural taste and cultural capital. An individual's taste changes under the influence of other individuals' tastes across the network (Burt, 1997).

#### 4.4 Conspicuous consumption

Usually purchases are made for personal satisfaction and the perception of products is an individual process that little depends on the consumption behaviour of other people. This assumption is still accepted, however there is another consumption theory. It states that consumption decisions are greatly influenced by the social environment based on style, identity and prestige. This theory is called conspicuous consumption.

Status-directed consumption was a part of elites' life in the earliest societies. It was considered to be a privilege of minority who had wealth and high social status. Today, consumer societies are characterized by high incomes and spending power. All classes can afford more or less certain goods. Therefore some consumers look for other ways to show their superiority (Mason, 1985).

On the macro level (the level of a society) consumption depends on cultural traditions and values, social and economic environment. The social structure strongly influences the consumption of status goods. On the micro level (individual level) it is personal wealth and income that influence consumption. Subcultures influence both conspicuous consumption and the choice of status goods. As subcultures have different values and ideals, so the desired products are also different (Mason, 1985). For example, for new rich Russians it is Russian art. It is considered to be patriotic and needs certain knowledge to buy the works of art. Thus, by purchasing Russian art, these people show not only their wealth, but also their erudition and competence. In reality, most of the Russian rich men hire specialists to buy art for them. For such consumers the effect of their purchases on others plays an important role. The value of a product is subjective. Its social features mean more than the economical ones (Mason, 1985). The social status of goods increase as their price becomes higher. Thus it is safe to conclude, the higher the price, the more demand there will be. This situation is happening at the moment in the market of Russian art.

#### 4.5 Type of buyers and behavioural anomalies

Frey and Eichenberger (1995) propose that a major distinguishing characteristic of art markets is the greater importance of *behavioral anomalies*, i.e., of systematic differences of individuals' behavior. They emphasize the importance of looking at the different individuals operating on the art market. The issue of these different actors is relevant for the results of studies in art markets. They state that behavioral anomalies are larger and more widespread in the art market due to the fact that a lot of private collectors are not profit orientated.

Many private collectors are not profit oriented and are therefore particularly prone to anomalies. They are subject to the endowment effect (they value the works of art of their own collection more than those that are not in their possession), the opportunity cost effect

(collectors usually do not consider what would be the return in case of alternative investments) and the sunk cost effect (when the past efforts and investments in creating a collection will affect the collector's behavior). A bequest aspect is also relevant: private collectors rather give their works of art after their death than money because these gifts represent their personalities (Frey and Eichenberger, 1995).

Corporate collecting often looks like a profit-oriented setting, but it is often in the hands of the firm's leading persons and is managed not as profit-oriented. When firms start to collect art, this activity belongs to the top managers' private power and is used for consumption purposes, but not for investment (Frey and Eichenberger, 1995).

Public museums are important buyers of art. The top administrators are subject to many severe constraints that prevent arbitrage. Buying or selling works of art is often impossible for them. If museums are allowed to buy works of art, this happens in a different way. According to Frey and Eichenberger (1995) and Singer and Lynch (1997) museums buy art at the top of the information curve while other collectors purchase pieces of art before all relevant information is available. As a result, museums pay more than average collectors. This means that the public, since the museums are often subsidized, pays a price for the risk aversion of museums. Collectors earn a reward for being less risk averse.

Frey and Eichenberger differentiate several collector types, which are 'pure collectors' and 'pure speculators'. Different environment factors can influence their behavior and the distribution of these collectors. A change in risk may change the distribution of pure collectors and pure speculators. Pure speculators will move to another market if there are price variations or other financial risks. Pure collectors are not so sensitive to these risks. Art is more important for them. The result is a domination of pure collectors and lower financial returns. A change in cost will also change the distribution of collectors operating on the art market. If the cost of selling works of art increases, pure speculators will leave the market. Pure collectors do not often sell their art objects (Frey and Eichenberger, 1995).

Frey and Eichenberg (1995) analyze the determinants affecting the marginal choice between buying and holding art as an investment or as consumption good. Their analysis contributes to knowing whether 'pure collectors' or 'pure speculators,' dominate the art market and what sort of difficulties and gains occur. There are five determinants:

1. *Change in risk.* 'Pure speculators' leave the market when unpredictable financial risk increases. 'Pure collectors' are insensitive to these risks. They buy and hold an art object because they like it. The more pure collectors dominate the market, the lower is the financial return in equilibrium.

2. *Change in cost.* An increase in the cost of selling an art object due to government intervention tends to decrease pure speculators but has no effect on pure collectors because. A rise in the costs of storage and insurance may shift the balance between types of buyers and sellers because they affect them in a different way.

3 *Unexpected change in taxes.* When transactions in art are taxed more heavily, speculators move to other markets. At the same time, when taxes become bigger, people who own art for financial reasons have more confidence in the art market if it offers better chances to avoid or cheat on taxes. In this case the art market is dominated by pure speculators, and equilibrium financial net return equals that on any other market.

4 *Unexpected change in regulations.* This slows down the international trade in art. Pure collectors do not suffer.

5 *Change in genres and tastes.* Attitude to different genres of paintings changes over time. When an artist becomes famous, the genre becomes unimportant. Only art museums can argue that they are only interested in changes in taste. Thus pure collectors tend to dominate on such a market. Speculators will be active in such art markets only if they are able to predict a change in (Frey and Eichenberger, 1995).

#### 4.6 Conclusion

In this chapter we have studied the phenomena that can explain the demand in the case of Russian art. We see that constraints and taste are basic in consumers' decisions. Both of them can change sooner or later. A shift in constraints may influence the market. When taste changes, the prices may also change.

We see that some people consume conspicuously, especially in the art market. They purchase the works of art to show their wealth. Here increased prices mean higher demand, which in turn increase the prices. This helps to understand the current market for Russian art.

According to Frey and Eichenberger (1995) the individual behaviour at the art market depends on the type of buyers, which they belong to. The buyers can be profit and non-profit oriented. Non-profit oriented buyers can influence the increase of prices. As Frey and Eichenberger (1995), Throsby (2001) and Baumol (1986) state, less visible returns such as psychic benefits can play a bigger role in the art market.

To conclude, I can say that one of the main reasons of the Russian obsession in art can lie in cultural values and socio- economic environment that heavily influence the conspicuous consumption.



## **5 Hypotheses**

The previous chapters gave some information on the subject of art markets and art prices. These theories give us an idea about the mechanisms of functioning of the art market and the English auctions. Even though we know a lot already about the theory, we still need to investigate the situation at the English auctions market for Russian art more precisely. Based on the theory described in the previous chapters and the media observations that I have found during the course of my research some hypotheses can be made. These are presented below.

- First, London and New York are considered to be the central places in Western market for Russian art; however London may prevail due to the historical events.
- Second, Sotheby's, Christie's, MacDougall's and Bonhams are the most prestigious Russian art auctioneers, yet Sotheby's is the most successful in 'Russian sales'.
- Third, the majority of the buyers of Russian art are citizens of the former USSR. According to the theories above, they can be 'pure collectors' and conspicuous consumers. Conspicuous consumption can play one of the leading roles in price formation of Russian art.
- Fourth, the prices for Russian fine art may rise due to the conspicuous behaviour of the buyers.

## **6 Methodology**

According to Seale (2004) a thesis can be based on a combined methods research, both quantitative and qualitative. In practice, each qualitative or quantitative method has its own strengths and weaknesses and hence can appropriately address different kinds of research question that constitute different facets of an overall research problem (Seale, 2004).

In my thesis I examine the Russian fine art sold at English auctions from 1998 up to 2008. The main data sources are Artprice.com and the pre-sale catalogues of the sold works published by the auction houses.

To check the hypothesis I will use both quantitative and qualitative analyses. The qualitative approach to the topic examines the problem from a more open point of view. Its aim is a detailed description. In comparison to a quantitative approach I may only know what I am looking for. The data collection is the main instrument, but here it is mostly my interpretation and observation. A qualitative approach usually uses interviews to gather information. This is a more flexible approach that is able to find unexpected results during the analysis. So articles and interviews that have appeared in the media will be studied to complete the information from the catalogues. Besides on December 29, 2008 I interviewed Russian fine art dealer and collector Vikentiev Arkadiy Borisovich. While we did not have enough time to speak about his collection, I noticed that he prefers 19th-century and early 20th-century Russian art. He has a big collection of Russian art both at home and his art gallery. He is an often guest at all the major auction houses in London and has not missed any 'Russian sale' for more than a decade already. Arkadiy Borisovich helped me to answer the main questions "*Who sells Russian art at the Western art market?*", "*Who buys the Russian art?*", and "*What influences the price growth?*". With the help of this interview I found some information on the motivations of buyers.

The aim of a quantitative approach is to classify features, count them, and construct statistical models in order to explain what is examined. The main idea is to look for exact quantities and analysis. I need to use numerical data to determine the most successful 'Russian department' among English auctions and location. As during the period 1998-2008 only about two hundred of artists have appeared at the sales, only 46 artists whose works were sold more than one time will be examined. The appendix includes the list of selected artists. Russian sales are usually not divided into separate categories. They go under the common name

‘Russian paintings’, ‘Russian art’ or ‘Russian sale’ and include both the art of 19<sup>th</sup> and 20<sup>th</sup> century’s artists. This sample will help to look at processes of change in prices.

To find other factors that have influenced the determination of prices between 1998 and 2008 I decided to pay attention to the case of Natalia Goncharova as she is considered to be the most expensive female artist at the moment. All of the data will be examined with the help of the SPSS computer program.

In the literature and the daily practice of the art trade the calculation of the price average, art price movements and comparing of art prices focus on the four main methods: the *geometrical price index*, the *Repeat Sales Regression (RSR)*, the *hedonic index method* and *Sotheby’s Art index*. In my thesis I will use the following methods:

#### *The hedonic index method*

The hedonic price method makes adjustments for differences in quality among paintings. The objective features of a painting sold are recorded (e.g. the name of the painter, its size, etc.). The hedonic regression method estimates the implicit price of these characteristics, translating them into binary or dummy variables intended to explain the prices actually realized. The regression coefficients estimated in this manner are the implicit prices of these characteristics. These are then deducted from the effective price of a painting. From the annual averages of these differences the price of the ‘standard painting’ can be established. The series of standard prices thus obtained yields a price index. As this method investigates different characteristics of works of art, I will need it in the research of N. Goncharova’s works (Chapter 7.6.6 ‘Information regarding an artwork’). Despite the fact that it is rather difficult to explain prices correctly (Fase, 1996), as not all relevant characteristics are known, I think that this method will help me to find out how the information and pre-auction evaluations influence the choice of consumers and the price.

I will investigate only paintings, as this category is the most popular among the buyers of Russian art. Each painting has certain characteristics that make it different from other paintings. At the same time to compare paintings, they should have the same class of features. The variables of N. Goncharova’s works are: size, medium, subject, estimate and hammer price, time and place of transaction.

#### *The repeat sales regression method*

The repeat sales index method, initially proposed by Bailey (1963), follows the changes in cost of re-sold prints. It provides an alternative method to hedonic price index based on price. In fact, the repeat sales methods were developed to abstract from measuring the hedonic characteristics of items (Zanola, 2007). The RSR, the purchase and selling prices of individual paintings are used to estimate the changes in the value of an average painting or one that may be considered representative over a certain period in time. Only the sales data are used of a painting that has been sold more than once, the focus being on the price movements of one and the same painting. The method calculates the percentage change in price. The dependent variable price is explained by the independent variables, which are the changes in prices. This method was first created to examine price movements in real estate sector (Fase, 1996).

### ARTIMX index

The index ARTIMX ("артимэкс") is the set of tools to analyze the art market. It is a unique technique developed by the experts of ARTinvestment.Ru. It is an integrated parameter that describes a relative price size of an average artwork for a certain moment of time. The calculations of indexes are carried out according to the world auctions results. The results of about 3 million lots at more than 12 thousand auctions are examined. The reference point is the average price of artworks in 2000. The base level of index is 1000 points. If at the moment the size of the price index ARTIMX is, for example, 3000 points in comparison with the beginning of 2001, it means that the average price for art products has grown in 3 times.

The indexes ARTIMX include the general index ARTIMX that describes the world art market; the media category indexes: ARTIMX Painting and ARTIMX Graphics; the indexes for Russian art: ARTIMX-RUS, ARTIMX-RUS Painting and ARTIMX-RUS Graphics; and the indexes of three art categories: ARTIMX Old masters, ARTIMX Impressionism and Modern Art, ARTIMX Contemporary Art. The calculations of indexes of Russian art market (ARTIMX-RUS) includes data of Russian auctions results.

The indexes ARTIMXp (ARTIMX profit) reflects the profitability of artworks in view of prices inflation by the current time from January, 1st, 2001. Inflationary correction is carried out on the basis of CPI index data published by Financial Trend Forecaster.

I will use the results of this method to demonstrate the price rise and the level of profitability of Russian art in comparison with other categories in the period 2001-2008. I chose this index as it is the only index that exists nowadays for Russian art. The two charts of indices that I

have in my thesis are based on the data from AERTIMX<sup>5</sup>.

### Artprice indicator

Besides the data that is given by AERTIMX I would like to check some experts' statements by my own calculations that I will make with the help of Artprice indexes. The data set will consist of all paintings between 1998 and 2008 (June) that have been recorded by Artprice. Artprice owns art auction records of more than 2900 auction houses in 40 countries. Due to the main objectives and hypotheses of my thesis I used only the data of four English auctions: Sotheby's, Christie's, MacDougal's and Bonhams, location London. From about 250 of the major Russian artists, represented at the Western auctions, only 46 names were picked up. The reason is simple. As they were sold quite frequently during the period 1998-2008, their profiles depict all the data. Moreover this list represents the artists from three different art categories: Traditional Art, Modern- Post War Art and Contemporary. The reason lies in the auctions that usually present all Russian works of art under the common name 'Russian sales' or 'Russian Paintings' or even 'Russian art'. Of course, it is a big limitation of my study as such calculations are not very objective. On the other hand if to believe some experts all the categories have achieved record sums lately.

Artprice provides the following information:

Title

Pre-sale estimate

Auction result

Date of sale

Auction house and location

Medium and technique

Size

Dated

Signature

Because of limited data in my research I excluded the two last variables.

The simple average for Russian artists' country turnover, media turnover and price average was calculated using the data of each of 44 artists on their particular turnover of media, country and price average for their works during the period of ten years (1998-2008).

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<sup>5</sup> [www.artinvestment.ru](http://www.artinvestment.ru)

Artprice Indicator creates a series of values for a particular work of art. The indicative values are the potential value of a piece. It is based on the hammer price at a specific date and the characteristics of the work. Indicative values are calculated from specific price indices using a unique algorithm. The artist's data is based on the auction results from Artprice's databank.

There are two stages of calculating:

First, it is a calculation of price indices of a work. The methodology involves creating a range of price indices that can be applied to the work. Indices are based on years with at least five auction results. Only the results that have sufficient identifying characteristics in common with the work are included in the calculation. The price index is calculated with the help of econometric regression. The econometric equation is based on hedonic price method. It includes such variables as: the signature, size and medium, the period the work dates from, the materials and technique used, and the place of sale.

The second stage is a choice of index for each year. The accuracy of the calculation depends on the indices on which it is based. Artprice Indicator works from three different index types. It is an artwork price index: an index of prices paid for works matching all the characteristics of the work (size, technique, materials, medium, date of creation). It is calculated from auctions of works by the same artist from the same period. Medium price index: an index of prices paid for works matching the characteristics of the work (size, technique and materials, medium) based on auction prices in the same medium, but including the works from different periods. Artist price index: index of prices paid for works by the artist in all media.

The third stage is calculating the degree of relevance. The quality of the indicative values may differ. The degree of index accuracy varies from artist to artist, work to work, from year to year for the same work. The Artprice Indicator degree of relevance takes into account: the overall accuracy of the estimate provided by the equation; the number of auction results on which the calculation is based; the type of index used in the calculation; the significance (in econometric terms) of the time variable in the price equation; the unpredictability of the price index over time as a function of the size of temporal fluctuations. The degree of relevance is calculated individually for each year studied. For comparison the degree of relevance is derived by merging several variables, all expressed as values ranging from 0 to 1<sup>6</sup>.

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<sup>6</sup> <http://web.artprice.com/indicator/method.aspx>

### *Sotheby's Art index*

The final method, Sotheby's Art index, concerns antiques and paintings. The paintings are classified in accordance with four categories: old masters, nineteenth-century European paintings, impressionists and modern art. The composition of the index for each of these four categories is based on a fixed basket of art objects. On the basis of the prices paid at Sotheby auctions, Sotheby's experts value the painting in the basket, whenever there is an event, which will have a clear impact on market prices (Fase, 1997). But this method has a disadvantage. The experts' opinion is quite subjective. It is based not on the real prices. Moreover the experts can artificially raise the art index as the profit of auctions depends on a percentage of total revenue. In my work I use some reports and estimations of Sotheby's auction where I believe this method is used.

## **7 The analysis of the Western market for Russian fine art in the period 1998-2008**

### **7.1 Introduction**

Unfortunately there is no serious scientific research about the Russian art at the Western art market. The qualitative data was gathered from different sources, such as articles and interviews. Most of them were translated from Russian. The situation with the quantitative data is much more complicated. As during the Soviet time no market existed since nothing could be sold or bought, there is no information connected with the movements of artworks. The data for the most of artists starts from the end of 1990-s. Of course, it is not enough to derive to conclusive findings.

Anyway, in this work the recent market for Russian fine art is investigated with the help of both qualitative and quantitative methods. The aim of a descriptive approach is to gather information about the objects of study avoiding bringing any changes in it. Moreover, it can have opinions of people about the pros and cons of the object. By interpreting the data such important questions as *'Why Russian art is sold outside Russia and why English auctions are the central figures in selling it?'*, *'Why the prices of Russian art continue to grow?'*, *'Who are the buyers of Russian art?'* and *'What motivates the buyers to buy Russian art?'* are answered. The aim is to characterize the recent market for Russian works of fine art.

Every statement from the qualitative research will be supported with the numbers from quantitative part of the research, such as price growth for Russian art, English auctions as central sellers, London as the main location and Russians as key buyers. I will calculate the following:

- Price Index (For all categories)
- Russian art turnover 1998-2008 weight by country
- Russian art turnover 2005-2008 weight by English auction

The recent market for Russian artists will be examined with the help of data from Artprice.com and Artinvestment.ru



## 7.2 Why Russian fine art market is situated abroad?

The booming Russian interest in fine art may seem bizarre without knowing the history of Russian art. In this chapter I want to shed light on development of Russian fine art and the reasons why it is kept and sold outside the home country.

Besides my interview with Arkadiy Vikentiev, in the research I will use the information that I found in the popular and respected English and Russian media sources and official websites.

### 7.2.1 The history of Russian painting<sup>7</sup>

In the history of Russian fine art there are two periods: before Peter the Great and after. The difference is very pronounced.

In Old Russia painting appeared and developed with icon worshiping. Together with Christianity the Russian masters adopted the Byzantium artistic style and technique.

The highest boom of Russian medieval painting refers to the 14th-15th centuries. The greatest masters of that time were Pheophan Grek and Andrey Rublev. The top of Russian icon painting is Trinity (1422-1427) by Rublev, which is a symbol of spiritual unity of Russian people.

Since the middle of the 16th century icon painting underwent the influence of Western fine arts. The end of the 16th century and the beginning of the 17th century is famous by 'Stroganoff school' (court masters) that is recognized by the improvement of color, details and some decoration of painting.

In the second half of the 17th century icons of 'fryag painting'<sup>8</sup> appeared. They had the elements of Western European painting: oil colors and great verisimilitude in illustrating people and nature. The most well-known representative of this trend is Simon Ushakov.

The end of the 19th century is marked by interest in an icon painting. It was possible thanks to discover of the real color. Artistic principles of icon painting were used by both Russian icon-painters (e.g., V.Vasnetsov, [M.Nesterovand](#), [K.Petrov-Vodkin](#)) and foreign ones (e.g., A.Matisse).

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<sup>7</sup> [www.russianpaintings.net](http://www.russianpaintings.net)

<sup>8</sup> Fryag- 'Italian' in old Russian

In the 18th century and at the beginning of the 19th century fine arts in Russia experienced all the main stages of Western art: Baroque, Classicism and Romanticism. A lot of foreign painters and sculptors were invited to Russia.

In the middle of the 18th century academic method became a top trend. It is distinguished by strict manner of painting, certain rules in composition, conditional character of coloring, use of the plots from the Bible, ancient history and mythology. Yet a portrait was the main achievement of this period.

The first half of the 19th century is characterized by combination of academic Classicism with Romanticism, originality of plots, theatrical effect of plastic and lighting, complex composition and talent of a painter's brush. Social events of 1860-1870s awoke the painters' interest in the subjects connected with people's life. This resulted in flourishing of historical and battle painting (e.g., V.Surikov, I.Repin).

Independence in creativity since the end of the 19th century led to a big success of Impressionism (e.g., V.Serov, K.Korovin). Symbolism, Neo-classicism and Modern influenced greatly A.Vrubel, the painters from 'World of Arts'<sup>9</sup> (e.g., A.Benois, L.Bakst) and the painters from 'A Blue Rose'<sup>10</sup>. After the 1910s a lot of new schools and trends were set: Russian Avan-guard, Supermatism (e.g., K.Malevich), 'the style of improvisation' and abstract art (e.g., V.Kandinskiy).

After the 1917 Revolution the Soviet government closed all independent art organizations and defined an official Soviet artistic method and style. The doctrine of Socialist Realism concerned all art forms and remained official policy until Gorbachev's reforms that loosened government control of artistic works. Socialist Realism was founded on Russian Academic traditions, but its content was to support the communist ideas. However, in the three decades before the collapse of the Soviet regime, artists in the USSR began to establish various groups and clubs labeled as "underground art," "non-conformist art," "The Other Art" and "non-official art." In the 1960s-70s some Russian artists began to look back to their cultural traditions, folk art and icons.

### 7.2.2 The history of Russian fine art at the Western market

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<sup>9</sup> 'The world of art' – is the art association, which was created in Russia at the end of 1890-s.

<sup>10</sup> 'Blue Rose' - the group of the Russian artists which got its name after the exhibition, organized in 1907 in Moscow.

Many Russian media sources are interested in the analysis of the western market of Russian art. The popular Russian magazine “Our Heritage”<sup>11</sup> in its interview about the development of Russian sales with a critic and collector Lobanov-Rostovskiy (2006) found out the following reasons why for many years the market of Russian art has been located mainly in London.

In 1950-60s Russian art was not much appreciated in Western Europe. There were some collectors among white emigrants<sup>12</sup> who bought and sold Russian art in insignificant quantities, basically through galleries. Because of the success of Dyagilev’s “Russian seasons” there was some demand for Russian theatrical paintings, but only among ballet appreciators. As a result since 1967 Sotheby’s began to organize annual auctions in London, advertising them as “Dyagilev’s objects”. Then, in 1976 Sotheby’s started auctions of Russian theatrical paintings.

When G.D.Kostaki<sup>13</sup> began to “export” avant-garde from Russia, since 1970 Sotheby’s started its annual auctions under the name “Russian art of XX century”. In 1978 New York branch of Sotheby’s joined too. Buyers of Russian avant-garde were mostly collectors of the European pointless painting<sup>14</sup> of the beginning of XX century.

“Perestroika”<sup>15</sup> (reorganization, 1985) was a push to growth of popularity of all Russian, including art. From this moment Christie’s also began its Russian auctions, which were very successful in 1980-90s in London, where mostly Western European collectors took part and dealers from recently arrived Soviet emigrants. Then in London professional buyers from the USSR, including the Soviet Fund of Culture began to appear. D.S.Likhachev<sup>16</sup>, the founder and the head of the Fund of Culture, was the initiator of the program to return the works of fine arts, books and archives to the USSR through such auctions as Sotheby’s and Christie’s. Both respectable auction houses held this project and promoted it with enthusiasm. It was the

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<sup>11</sup> [www.nasledie-rus.ru/podshivka/7818.php](http://www.nasledie-rus.ru/podshivka/7818.php)

<sup>12</sup> White emigrants (white émigré)- is a term used to describe a [Russian](#) who emigrated from [Russia](#) after the [Russian Revolution](#) and [Russian Civil War](#). Many white emigrants were participants in the [White movement](#) or supported it, although the term is applied to everybody who left the country due to the change of regime.

<sup>13</sup> G. D. Kostaki (1913-1990) - one of the largest collectors of last century. He created a unique collection of Russian avant garde of XX century. D.Kostaki was born in Moscow and lived in Russia, remaining the Greek citizen (<http://www.museum.ru/N15236>).

<sup>14</sup> Pointless composition- is a kind of medium that belongs to Avant-garde style.

<sup>15</sup> Perestroika- is the policy of reorganization the economical and political system. First proposed by Leonid Brezhnev in 1979 and promoted by Mikhail Gorbachev (since 1985), perestroika originally was aimed to increased automation and labor efficiency, but came to involve greater consciousness of economic markets and the end of central planning ([www.answers.com](http://www.answers.com)).

<sup>16</sup> D. S. Likhachev (1906-1999) - well-known scientist, the author of the fundamental works devoted to the history of the Russian literature and Russian culture. The author of 500 scientific works.

time of romantic expectations of cardinal changes in the political and cultural spheres of the USSR.

So why during last century the market of Russian art was mainly abroad?

First, during World War One there were many cases of export of cultural values abroad. The public even required a special law that could forbid the export of heritage. In 1916 the State Duma<sup>17</sup> started the project «Положения об охране древностей» (The protection of antiquities), but it was not accepted because of the Russian Revolution (1917).

After the Revolution about 3.000.000 million people left Russia. The so-called ‘first wave of emigration’ (1918-1922) mostly included people from high society, who brought a lot of Russian art. Most of them settled in Europe (Germany, France, Latvia, the UK, etc.) to be closer to Russia, as they hoped to come back home soon. For example, the countess Rosario Arivabene, who became Zubova in 1922 after her marriage with a well-known Russian collector Sergey Zubov, inherited a huge collection of Russian paintings and icons that she gave to the public museums of Geneva and Argentina. The French collector and organizer of exhibitions Ren Gerra, whose Russian surname is Gerasimov, still owns thousands of Russian books and paintings.

Second, among the white emigration there were also representatives of pre-revolutionary political and economic elites, and people from arts sphere (writers, actors, musicians, artists). Artists played here the leading part. Among the artists who had left Russia in hope to be rescued from terror there were many famous names: Konstantin Korovin, Alexander Benua, Konstantin Somov, Nikolay Roerich, Phillip Malyavin, Alexander Yakovlev, Jury Annenkov, Vasily Kandinsky, Mark Shagal and many others. Despite the fact that they created most of their masterpieces abroad, they are considered to be Russian artists.

Third, a lot of cultural heritage accumulated in Europe, as in 1920-30s the USSR sold the nationalized-confiscated masterpieces of Russian culture through auctions in Berlin and dealers in Paris and Germany.

During the World War Two the national-socialist organization ‘Sonderkommando Kunsberg’ was created to confiscate the cultural values from the USSR as well as from the Netherlands and Belgium. In March, 1942 in Berlin there was an exhibition ‘The samples of the materials which were taken out from Russia during the military actions’. In 1943 the organization was closed. By that time the Berlin branch only had 304.694 thousand works of art.

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<sup>17</sup> The State Duma of Russian Empire - a legislative institution of Russian empire. The Duma was the lower chamber of parliament.

The paintings that were considered to be an enemy of the Soviet regime were freely exported from the Soviet Union until 1967. Only after 1967 when German magazine "Stern" published an article about the careless attitude of the Soviet authorities to the masterpieces of world painting (e.g., Kandinsky and Malevich), KGB<sup>18</sup> banned the export of works of abstract artists.

In the USA a lot of Russian art was kept since the exhibition in 1905, where thousand of paintings in oil were presented, and the significant exhibition in 1924, which was left in America. Russian art was carried home by the American diplomats and ambassadors, like Charles R. Crane (1858-1939)<sup>19</sup>, who bought the whole collections, unlike the younger employees of embassy, who got only separate works. Businessmen also took out masterpieces from Russia. For example, the Brothers Armand and Victor Hammer<sup>20</sup> sold them in department stores across all the USA. Later, in 1980-90s, mass export of works of socialist realism followed. The same way the huge collection by Norton Dodge<sup>21</sup> was created (ten thousand works). Nowadays it is stored in the museum at university of Rutgers (state of New Jersey).

### 7.2.3 The major location of the Western market for Russian art today

As Lobanov-Rostovskiy (2006) says, in 1950-70s London market of Russian paintings differed from New York market, for example, by the fact that in London there was a demand for Russian theatrical painting of non-Russian buyers. Collectors of Russian easel painting<sup>22</sup>

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<sup>18</sup> KGB ([transliteration](#) of "КГБ") is the [Russian](#) abbreviation of Committee for State Security, which was the official name of the [organization](#) working as the [Soviet Union's security agency](#) and [secret police](#) from 1954 to 1991.

<sup>19</sup> The property from the collection of Charles R. Crane (1858-1939), was represented by Christie's on Apr. 24, 2006. Top lot was Alphonse Mucha's *The Abolition of Serfdom I Russia, 1861* (1920) sold for \$1,472,000, a world auction record for the artist (<http://www.artnet.com>).

<sup>20</sup> Two of the most amazing characters in the USA art world are the Brothers Armand and Victor Hammer, both friends of Soviet Russia. Visiting Moscow in 1921 to do a few months' medical relief work, Armand Hammer stayed for nine years and with Brother Victor became one of the first foreigners to obtain business in Russia. The Soviet Government forbade the Hammers to export rubles, but they might buy with their profits antique furniture, jewels, paintings and etc (<http://www.time.com/time/magazine/article/0,9171,770808,00.html>).

<sup>21</sup> Norton Dodge (1927) - American economist and collector. As an expert of the Soviet economy he often visited the USSR. He was engaged in contraband of the Soviet art. In total during 'Cold War' he brought to the West more than 10 000 art objects. In the middle of 1990th Dodges presented his collection to university Rutgers (<http://www.coastmagazine.org/coast/14/texts/critique/Gamarnik-2005-L.htm>).

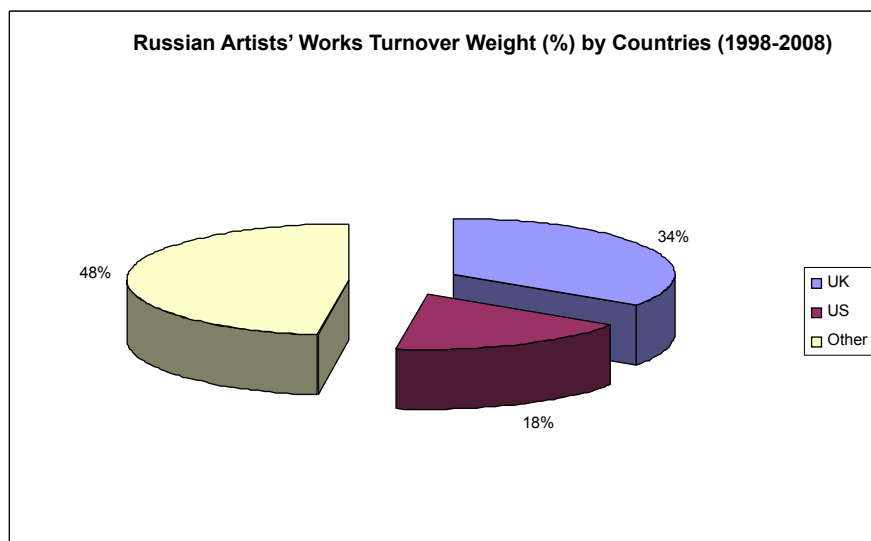
<sup>22</sup> Easel painting- a painting made on a portable support such as a panel or canvas, instead of on a wall ([www.britannica.com](http://www.britannica.com))

among Russian emigrants were more in Berlin, Paris and London than in New York. Today the difference between the markets of New York and London is not so sufficient. People residing in Russia acquire around 70 % of the paintings by phone through dealers<sup>23</sup>.

In my interview with Arkadiy Vikentiev (2008), I found out that the location mostly depends on the art category or style. For example, if you prefer traditional art, the most popular location is London; if you want to buy art-décor, it is New-York.

With the help of Artprice Index, having studied the data for 44 artists, whose works appeared at different auctions throughout the world in the period 1998-2008, the following conclusions were made:

**Figure 3 Russian Artists' Works Turnover Weight by the Country (1998-2008)**



Source: [www.artprice.com](http://www.artprice.com)

The chart demonstrates that 34% of Russian art (between 1998 and 2008) was sold in the UK, 18% was sold in the US and 48% in other countries, such as France, Germany and Sweden<sup>24</sup>. This is contradictory to the statement of some experts, which claim that both markets i.e. New York and UK are equal.

What are the reasons?

The argument whether it is possible to compare Russian emigration in England with such centers as Paris, Berlin, New York or Prague is still discussed. To solve this question with the

<sup>23</sup> [www.nasledie-rus.ru/podshivka/7818.php](http://www.nasledie-rus.ru/podshivka/7818.php)

<sup>24</sup> Today there are a lot of 'Russian sales' held by different auctions throughout the world

help of statistical approach is impossible, as the official statistics of Russian white emigrants in England does not exist. M. Raev (1990) in his research 'Russia Abroad' writes that after the failure of the intervention in Arkhangelsk 15.000 Russians were evacuated to England, but soon moved to the continent. In P.E.Kovalevsky's book 'Foreign Russia' (1971) it is told that the quantity of the Russians, who settled in England, has never been certain. However, archives of Russian-British Community of 1917 draw absolutely different picture: during the first years of emigration there were more than 100.000 Russians, and more than half of them lived in London<sup>25</sup>. For comparison, in 1919-1923 in Germany there were 250.000-600.000 Russian emigrants, in France in 1920s about 75.000<sup>26</sup>. But in the USA Russian community was growing up to the 1990-s. Nowadays only in New York there are 200.000 Russians<sup>27</sup>. It is the largest Russian-speaking community.

Here I would like to add that London today is occupied more by Russian elite, so-called oligarchs, the consumers of luxurious goods including art. These people are not emigrants. They may reside in the UK, but most of them have still Russian citizenship and real estate in Russia. They open Russian shops, clubs, theatres, schools, newspapers and magazines. Except the auctions there are plenty of other Russian events. Besides, it is fashionable among rich Russians to purchase real estate, get education and just spend time in the British capital. There are some Russian art galleries and even Russian-oriented auction house Macdougall's, located in London. On Internet you can find such articles as 'Как заработать на русском искусстве в Лондоне' (K. Rozhnov, BBCRussian.com), which means "*How to make money on Russian art in London?*" As one of the owners of Russian art gallery in London, Alla Bulyavskaya says: "In the world of galleries there is no bigger and more important address than London. This is a top place for any art dealer"<sup>28</sup>.

Tax issue and Import Regulations in Russia can be also an explanation why Russian art market is still built up abroad. According to the law any physical person has an opportunity of duty-free import of the work of art from abroad. But it depends directly on the cost of a subject, which you wish to import. If the cost of the work for a private use is more than 65 thousand roubles (approximately 2000 euros), the owner should register this piece as the "cultural value" imported for "private use" and thus to be free from customs payment. But to

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<sup>25</sup> Русско-Британское 1917 г. Братство (Russo-British 1917 Bratstvo)- ГАРФ. Ф 4649. Оп. № 1. Дело № 3. Л. 141.

<sup>26</sup> <http://rusedina.ru/frontend/heading/history?id=11412>

<sup>27</sup> <http://russianews.ru/newspaper/20273/20339/>

<sup>28</sup> [www.news.bbc.co.uk/hi/russian/uk/newsid\\_6272000/6272857.stm](http://www.news.bbc.co.uk/hi/russian/uk/newsid_6272000/6272857.stm)

sell the imported work of art in Russia to a physical person you have to pay surtax (13 %). If there is no opportunity to import the work of art personally it can be sent by post (e.g., DHL or FedEx). Transfer will cost 19-22 %. Private businessmen are obliged to pay 18 % of the VAT as the work of art crosses the border. Because of the fact that a lot of Russian works are kept in Europe, for art dealers it is easier to sell Russian art abroad to escape these troubles. According to Moscow art consultant: “Russia’s eighteen per cent import tax is so high that some Russians avoid paying it by using a loophole that allows them to travel with personal icons, paintings, sculptures or other works of art. Still, their buying mainly takes place abroad – the art is bought in London and viewed in Moscow”<sup>29</sup>.

Another very serious factor is the visa access for the Russians to Britain. It is much easier to apply and get visa to the UK than, for instance, to the United States. The statistics show that the official denial rate of the American Embassy in Moscow (according to the Government Accountant Office) is 35%<sup>30</sup>. In comparison with the USA the refusal rate at the British embassy is 4 percent, which is very low; it's the lowest of all the countries that have a visa regime with the UK<sup>31</sup>.

#### 7.2.4 Conclusion

Russian people have a rich artistic heritage. Unfortunately due to the Revolution and Soviet regime most of the masterpieces were exported from the homeland. As we can see most of them were gathered in Europe and the USA. Therefore the major markets for Russian fine art are situated there, not in Russia.

I can distinguish the following phases in development of Western market for Russian art:  
First, during the World War One and the Revolution in 1917 until the end of the Civil War in 1923, when the arts were taken away by the so-called white emigrants (people of high society, who owned the most of the Russian art) and accumulated in Western countries;  
Second, during the World War Two;

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<sup>29</sup> [www.royalacademy.org.uk/ra-magazine/winter-2007/features/russian-art-goes-boom,164,RAMA.html](http://www.royalacademy.org.uk/ra-magazine/winter-2007/features/russian-art-goes-boom,164,RAMA.html)

<sup>30</sup> [www.bridgewest.com/visaservice/consular/overcoming/](http://www.bridgewest.com/visaservice/consular/overcoming/)

<sup>31</sup> <http://www.mnweekly.ru/interview/20071018/55283707.html>



Third, after Civil War until the end of the 1960s, when Russian art was exported freely and sold by Soviet government as anti-communist;

Fourth, from the end of the 1960s until 1986, when the first Russian sales started in major auctions, such Sotheby's and Christie's;

Fifth, after 'Perestroika' (1986), when everything Soviet-Russian began to be popular and the Fund of Culture started the program of returning the works of fine art back to Russia;

Sixth, after 1998, when new rich class was formed and collecting Russian art became fashionable.

The figure 3 'Artists Turnover Weight by the Country (1998-2008)' clearly demonstrated that Russian art is sold more in the UK; however the US takes the second place in this market. The reason for this lies not only in the history of twenty century, but also in the present situation: London as the city of the Russian elite; the tax matters and finally, the visa access.

### 7.3 The current situation in the market for Russian art

As experts state, in 1960-80s Russian paintings not only at auctions, but also in galleries were cheaper than western paintings of the same quality, genre and epoch. Over the past eleven years the prices on Russian art works have increased a lot. However the volume of market for Russian art is tenfold and even hundredfold times lower than for others. According to the article in 'The Economist'<sup>32</sup> (2008), Sotheby's sales of Russian art have grown 30-fold in nine years. Some sources, like Directoinfo.ru, predict that in future the numbers will grow up to 40-50 %<sup>33</sup>.

The last sales held in London in June 2008, according to Sotheby's report<sup>34</sup>, presented the following situation in the Russian art market. The volume of the sales continues to increase, but these auctions showed a maturing market where buyers began to be attracted to quality. "There is so much choice now," says Lord Poltimore, Chairman of Sotheby's Russia. "The market could absorb all of this material, in terms of price and quantity of lots, but the taste level is maturing very rapidly and we can see the middle of the market is getting softer". The Russian paintings market showed strength in blue chip names. "We can see the market

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<sup>32</sup> [www.moreintelligentlife.com/story/bondsky-prospekt](http://www.moreintelligentlife.com/story/bondsky-prospekt)

<sup>33</sup> [www.directoinfo.ru/Article.aspx?id=14230&iid=661](http://www.directoinfo.ru/Article.aspx?id=14230&iid=661)

<sup>34</sup> [www.sothebys.com](http://www.sothebys.com)

becoming more selective," said Jo Vickery, Sotheby's Head of the Russian Paintings department. And, in fact, the names among the top lots—Shishkin, Konchalovsky, Aivazovsky and Korovin—were some of the best-known in Russian art’.

According to Economist.com<sup>35</sup> (2008), the contemporary Russian market, where prices can jump from a few thousand pounds to millions in a short period of time, is where the richest pickings are. The traditional market is already mature. Buyers, who struggle to the maximum, "buy quality, buy names" and have much to choose from.

Catherine MacDougall, co-director of MacDougall's Auctions, says that the Russian market is now following western art markets and modern works are sold better than traditional 19th-century art<sup>36</sup>. Some experts<sup>37</sup> think that it is "waste" of money to buy 19th-century Russian landscape painters like Ivan Shishkin or Ivan Aivazovsky, whose works are mediocre in comparison to Western European art of the same period. But modern or contemporary Russian art is a good investment. Whereas Arkadiy Vikentiev (2008) states that Catherine MacDougall is wrong here. He believes that Russian traditional painters are the same quality as European artists and the price for them has grown by 10 times during the last ten years. He is assured that the success of a certain art genre depends only on a fashion for it. According to Arkadiy Vikentiev, Russian art fashion changes every seven years.

During long time buyers treated the Soviet art of 20<sup>th</sup>-century with suspicion. So it was unprofitable from the point of view of long-term investments. Now, on the other hand, the prices for works of Soviet period show a stable growth: by estimations of the western analysts, they grew from 30 up to 80 % during last year. Russian Avant-garde has already reached a limit of the prices. In the near future neither growth nor falling is expected. So it is guaranteed profitable investment. Socialist realism is already recognized as classics. But one can still find the works of minor artists for a low price. The works of contemporary Russian art is far from millions, but the prices for it grow every year. In comparison with the results of the auctions in 2000 they have already grown by 30 times. Before 2000 the average estimates were from \$1 up to \$5 thousand, now - from \$5-6 up to \$40 thousand<sup>38</sup>.

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<sup>35</sup> [www.moreintelligentlife.com/story/bondsky-prospekt](http://www.moreintelligentlife.com/story/bondsky-prospekt)

<sup>36</sup> [www.macdougalls.com](http://www.macdougalls.com)

<sup>37</sup> [www.cdi.org/russia/johnson/5548-12.cfm](http://www.cdi.org/russia/johnson/5548-12.cfm)

<sup>38</sup> [www.expert.ru/printissues/russian\\_reporter/2008/20/kuplya\\_prodazha\\_iskusstva/](http://www.expert.ru/printissues/russian_reporter/2008/20/kuplya_prodazha_iskusstva/)

Russian modern art starts from art of the Impressionists (from 1880) up to the 1960's or 70's. It includes the most popular styles: Avant-garde (1890-1930), Mir Iskusstva (1899), Jack of Diamonds (1909), Suprematism (1915-1925), Proletkult (1917-1925), UNOVIS (1919-1922), Constructivism (1920s), Productivism (1917), Social Realism (1929), Soviet art (1922-1986), Soviet Non-Conformist art (1953-1986). Contemporary art starts from the 1960's or 70's up to the present moment. Despite this difference, the 'Russian sales' are still not classified in accordance to categories. Auctions offer the three categories (Traditional, Modern and Contemporary art) all together. In the past two years there have been separate 'Modern and Contemporary Russian Art' sales held by Sotheby's. Usually Russian sales are called 'Russian Art Sale' (19th & 20th Century Russian Art and Russian Post-War and Contemporary Art), which includes almost all the fine Russian art except icons. After having investigated all past auction results from the official websites of English auctions and Artprice.com, I found out that the volume of Russian 18-19<sup>th</sup>-century's art is really low. All the categories together with the artists of the 20<sup>th</sup>-century offered about 250 names during 1998-2008. The fact that 'Russian sales' offer all the categories together is quite reasonable. Unfortunately it does not allow to make a separate investigation on the question 'Which art, traditional, modern or contemporary, made the bigger returns during 1998-2008 at the Western auction market?', however we can see from the chart below the ARTIMX price index/annual growth for all the categories of Russian fine art in the period 2000-2008, December in comparison with the price movements for the world Impressionism and Modern art, Contemporary art and Old Masters.

**Figure 1 ARTIMX Price Index/ Annual Growth of Russian art, Impressionism and Modern art, Contemporary art and Old Masters (2001- December 2008)**

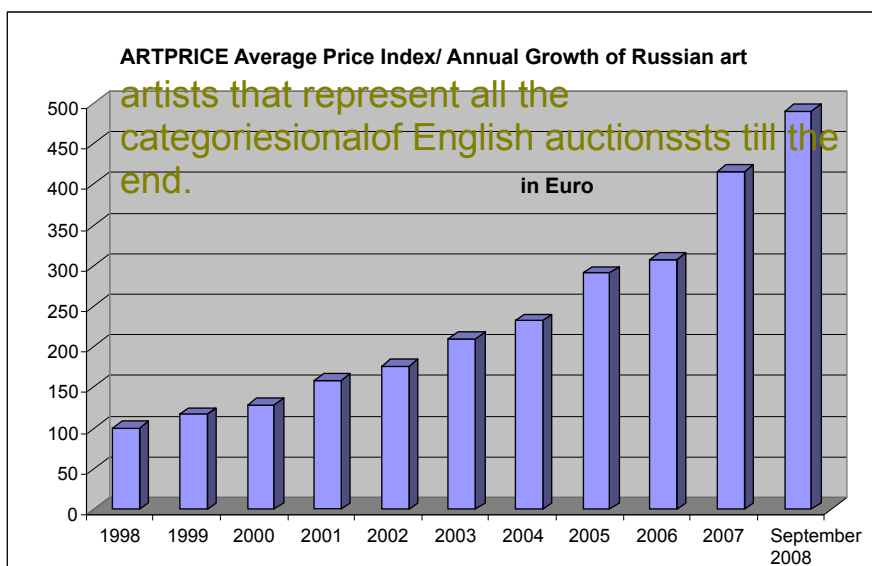


Source: [www.artinvestment.ru](http://www.artinvestment.ru)

The chart clearly illustrates the position of Russian art among the other important categories of the world art. It means that Russian art has risen by 2.5 times during last seven years<sup>39</sup>.

The following chart shows the Artprice average price index/annual growth in Euro of 44 Russian artists that also represent all the categories and have appeared at the major English auctions in the period of 1998-2008. As I explained in the methodology part only 44 names were picked up. It is a big limitation of my study, but at the same time this calculations also demonstrate that the prices for Russian art are rising.

**Figure 2 ARPRICE Price Index/ Annual Growth of Russian art (1998-September 2008) in Euro**



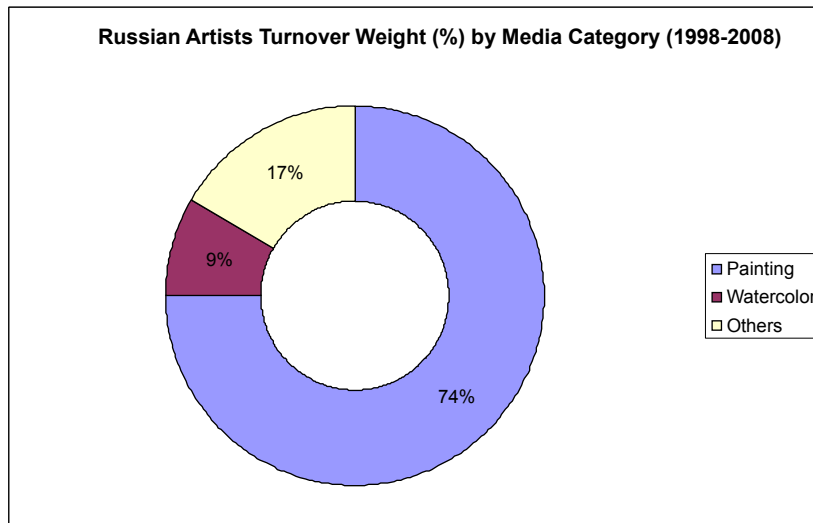
Source: [www.artprice.com](http://www.artprice.com)

The main conclusion that can be drawn is that every 100 Euros invested in the Russian work of fine art in 1998 have turned into 500 Euros in 2008 on average. The chart illustrates the constant growth of the prices for Russian art and proves the numbers from media sources.

The motives for purchases can be different: some return art pieces to the homeland, while others use them to decorate their homes in London. This might also be the reason why watercolors - even of the best artists - are not in high demand, as traditionally they are not considered to be an ornament of an interior, thus their price increase is not so big. The chart below shows evidence for this argument.

<sup>39</sup> Arkadiy Vikentiev did not agree with these numbers. He argues that the prices have increased much more.

Figure 3 Russian Artists Turnover Weight by the Media Category (1998-2008)<sup>40</sup>



Source: [www.artprice.com](http://www.artprice.com)

The chart above shows that the most popular media category is painting, with turnover of 74%, while watercolor is only 9% of the total turnover.

#### 7.4 The auction houses

From the chapters above it becomes clear why for many years Russian art was accumulated outside Russia. It is the western market today that dictates prices for Russian art. Even though Moscow has some auctions for Russian fine art, the market continues to dominate abroad.

From the theoretical part we know that there can be differences in prices for the similar works sold in different auction houses or locations. The effect of major auction houses on the hammer price is explained by the way they accept objects for sale. Their reputation can boost buyers' estimation (Sproule and Valsan, 2006). Some auction houses can also attract a bigger number of wealthy bidders. In turn, it can increase the hammer price, too (Landes, 2000).

According to Arkadiy Vikentiev, the most successful sales and records in Russian art market belong to English-originated auctioneers such as Sotheby's, Christie's, Bonhams and Macdougall's as these auctions have Russian departments and hold regularly Russian sales.

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<sup>40</sup> The chart is based on the data of 44 artists.

The main reason lies in the outstanding history and high reputation of these auctions<sup>41</sup>. Sotheby's, Christie's and Bonhams are the oldest biggest auctioneers in the world. Twice a year or sometimes more they have special Russian sales. Taking into account the suggestion that Russian buyer may consume conspicuously and may get a real pleasure of buying at these famous auctions, the fact that these houses have such a colossal turnover in Russian art is not surprising.

#### 7.4.1 Sotheby's

In 1744, Samuel Baker, founder of Sotheby's, held the first sale under his own name. It was an auction of several hundred valuable books sold for a few hundred pounds. Over two centuries later, in 1983, Sotheby's sold a single book, *The Gospels of Henry the Lion*, for more than 8 million pounds.

Since those early days Sotheby's has grown considerably. It was in the last century that the original London company expanded from book auctions to cover all fine and decorative arts. This means that Sotheby's is now the largest oldest auction house. There are more than 100 Sotheby's offices around the world, and in 1998 auction sales made a turnover of almost \$2 billion.

As it is said on the official website Sotheby's history in Russian visual art started in 1988 with a revolutionary sale of avant-garde and Soviet Art which realized more than £2 million. After almost 20 years, during which the Russian art market grew at a record rate, now the Russian auctions have increased in frequency, with four auctions each year devoted only to Russian art. Since 2006 the auction house also has an annual late-winter Russian contemporary-art sale in London. Comprehensive Russian art auctions in London take place twice a year, in June and December. Russian art is now the sixth largest department by sales at Sotheby's, up from 26th in 2003.

Sotheby's 'Russian sales' offer fine and decorative art from the middle of 18th century to the present. The auctions include a variety of styles and schools such as masterworks by Ivan Aivazovsky, Konstantin Makovsky, Konstantin Korovin, and Natalia Goncharova, as well as unique Icons. The London department has held some important private collections, including

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<sup>41</sup> Whereas in the interview Arkadiy Vikentiev mentioned that the reputation of MacDougall's is not so good at the moment as during its last few auctions a lot of fakes have been sold.

the Fedor Chaliapin collection and the collection of Petr Konchalovsky's descendents. Every year Sotheby's London holds numerous auction records, including almost \$3,700,000 for Ilya Maskhov's '*Still Life with Flowers*'.

Sotheby's Moscow Office was opened in May 2007 to support Russian and international clients. Mikhail Kamensky, director of the office, explained that Sotheby's in Moscow also offers a range of consulting services, legal advice and private sales<sup>42</sup>.

#### 7.4.2 Christie's

Christie's is the world's leading art auction house with global auction sales of £3.1 billion in 2007. This is the highest total in the company and in art auction history.

Founded in 1766 by James Christie, the company held the greatest auctions of the 18th, 19th and 20th centuries. Christie's offers [over 600 sales yearly](#) in over 80 categories, including all fine and decorative arts. It has 85 offices in 43 countries and [14 salerooms](#) around the world. Recently Christie's expanded initiatives in promising markets such as China, India and the United Arab Emirates and Russia.

Christie's connection to Russia goes back to the 18th century, when the company's founder, James Christie, helped to negotiate the sale of Robert Walpole's Collection of Pictures to Catherine the Great of Russia, now the heart of the Hermitage Collection.

For Christie's the Russian art is one of the fastest growing and most exciting areas of the international art market. Christie's annual total has risen four-fold since 2004 when it reported Russian art sales of £13 million on two annual auctions. Since 2006, Christie's has three annual Russian auctions: a winter and summer sale in London, and a spring sale in New York. Its 2006 Russian art total was £38 million. Christie's November 2006 sales realized £28 million. There were six new artist records. Nine works were sold for over \$1 million. Christie's holds the world auction record for a Russian painting, Konstantin Andreevich Somov's '*Pastorale Russe*' (£2.4 million)<sup>43</sup>.

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<sup>42</sup> [www.sothebys.com](http://www.sothebys.com)

<sup>43</sup> [www.christies.com](http://www.christies.com)

### 7.4.3 MacDougall's

MacDougall's is the only fine art auction house that specializes purely in Russian art, partly because William MacDougall and his wife, Catherine, who is also director of the auction house and expert on Russian art, were born in Moscow and came to Britain some years ago. MacDougall and his wife have been Russian art collectors for fourteen years. Their professional team of Russian art experts includes specialists from The Tretyakov Gallery, The Grabar Institute, Christie's and Sotheby's.

MacDougall's offers paintings and works of art from the 18th century to the present, and has held such private collections as the \$2mn Kosloff estate sale, which set a world record price for a Korovin portrait of \$750,000.

During June 2007 sale, several world record prices were set, including for Marie Vassilieff's '*Man and Woman*' (\$792,000), for Dmitry Stelletsky's '*Four Seasons*' (\$562,000), and for *Five Faces* by Oleg Tselkov (\$442,000), one of the highest prices ever for a living Russian artist<sup>44</sup>.

### 7.4.4 Bonhams

Bonhams is also one of the world's oldest and largest auctioneers of fine art and antiques. The name Bonhams is recognized worldwide throughout all sectors of the fine art, antiques and collectors market, and several of its departments are established world leaders within their fields.

Bonhams was founded in 1793 by Thomas Dodd, an antique print dealer and Walter Bonham, a book specialist. During the 1850s the auction house was expanded to handle all categories of antiques. Today it is active in over 70 categories including all fine arts and conducts over 700 sales a year.

Bonhams took a major step to providing a better service to buyers and sellers of Russian art opening an office in Moscow to further support the Russian Department in London. The combination of a Bonham's presence in London and Moscow gives the company a strong position in the market for Russian art.

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<sup>44</sup> [www.macdougallauction.com](http://www.macdougallauction.com)



Bonhams will also connect with the emigrant Russian community, which is very well represented in Dubai. Bonhams has recently announced the opening of an office in Dubai in partnership with the Al-Tajir family. A first Bonhams sale will take place in Dubai November 2008.

Since 'Russian sale' in November 2005, Bonhams Russian department has raised the exceptional prices, including a world record price for Alexei Alexeevich Harlamoff's *'The Little Seamstress'* (£610,400) in 2006 and *'A Beached Ship'* by Ivan Konstantinovich Aivazovsky (£173,000) An exceptional oil painting *'The Sailboat'* by the world's most expensive female artist, Natalia Goncharova (1881-1962) was sold for £1.7m in London during last 'Russian sale' on 9 June 2007. The sale total, which featured 241 lots, made £5.5million with strong bidding in the saleroom and on the phone<sup>45</sup>.

#### 7.4.5 The comparative analysis of the 'Russian sales' held by Sotheby's, Christie's, Macdougall's and Bonhams (location London)

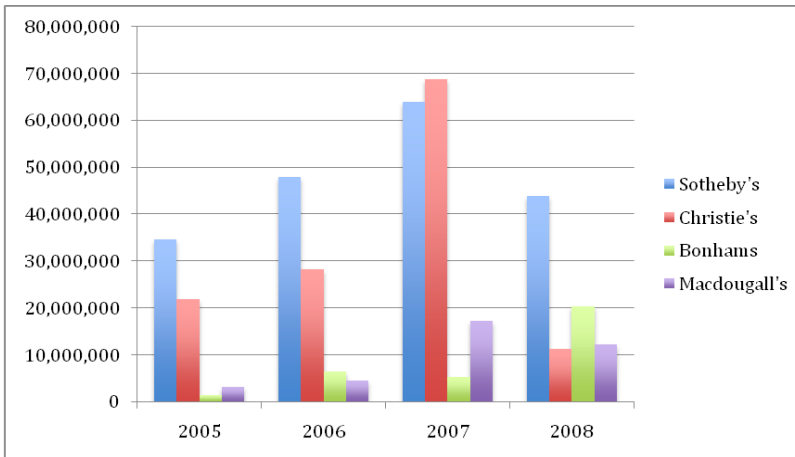
The following chart shows the turnover of the four major English auctions in the period of 2005-2008 in London, as Bonhams had its first 'Russian sales' in 2005. Most of the lots were represented by fine art.

Figure 4 Auctions' Total Sales in Pounds in 2005-September 2008, London<sup>46</sup>

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<sup>45</sup> [www.bonhams.com](http://www.bonhams.com)

<sup>46</sup> Calculations are based on the past auctions reports from the auctions' official websites ([www.christies.com](http://www.christies.com), [www.sothebys.com](http://www.sothebys.com), [www.macdougalls.com](http://www.macdougalls.com), [www.bonhams.com](http://www.bonhams.com))

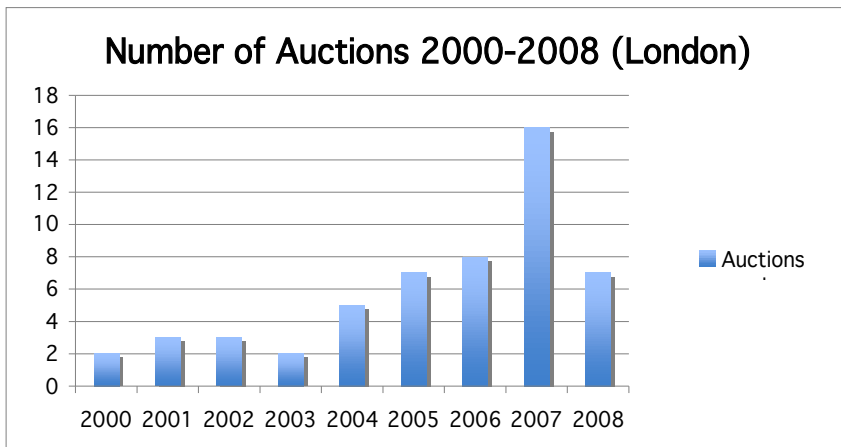


Source: [www.sothebys.com](http://www.sothebys.com), [www.christies.com](http://www.christies.com), [www.bonhams.com](http://www.bonhams.com), [www.macdougallsauction.com](http://www.macdougallsauction.com)

In terms of revenue Sotheby's and Christie's are the biggest sellers of Russian art, as both of them hold about six auctions a year. However the Sotheby's' history of 'Russian sales' is longest and thus the reputation is higher. Only during 2007 it held six auctions with the total result more than 65 million Pounds.

According to the chart the results of auctions grow each year. In general, within the last eight years there has been a great increase in the number of auctions per year, too. The chart below illustrates this.

Figure 5 Number of Auctions 2000-June 2008 held by Sotheby's, Christie's, Bonhams, Macdougall's, location London



Source: catalogues from [www.sothebys.com](http://www.sothebys.com), [www.christies.com](http://www.christies.com), [www.bonhams.com](http://www.bonhams.com), [www.macdougallsauction.com](http://www.macdougallsauction.com)

In 2007 the number of auctions reached 16 per year. 2008 is not finished yet, however by June the index was already as big as for the whole year of 2006.

Table 1: "Auctions' best record 'Russian sales' in London"

Auction	Auction name	Date	Record
Sotheby's	The Russian Sale	May, 2006	27,670,040 GBP
Christie's	Important Russian Pictures	Nov, 2007	19,513,025 GBP
Macdougall's	Russian Art Sale (19th & 20th Century Russian Art and Russian Post-War and Contemporary Art)	June, 2008	12,360,898 GPB
Bonhams	Russian Sale	June, 2008	20,432,720 GBP

Source: [www.sothebys.com](http://www.sothebys.com), [www.christies.com](http://www.christies.com), [www.bonhams.com](http://www.bonhams.com), [www.macdougallsauction.com](http://www.macdougallsauction.com)

As we see from the Table 1 the best record 'Russian sale' at Sotheby's was held in May 2006 with the total sale of 27,670,040 Pounds. The first successful sale at Christie's was in November 2007 (£19,513,025). Only 'The Somov Collection' sale alone gathered more than £6 million. MacDougall's is considered to be the leading auction house for Russian post war and contemporary art. The November 2006 sale was the largest ever in the world for this sector. However the figures are still far from the records of the previous auctions. In June 2008 there was a record sale at this auction house. The record sale for Bonhams was June 2008.

### 7.5 The buyers

It is fashionable to collect Russian art. Every year 'Russian sales' attract more and more buyers. Alongside that trend was not experienced since Tsarist times (nearly 100 years ago), thus the thirst for art is logical.

The first thing a new businessman does is to buy property, says William MacDougall (2007). Then he decides to buy art, which he knows from school, to decorate his home. The process is usually linear. He starts with icons and eventually moves to contemporary. Russians began by acquiring 19th-century masters, such as the marine painter Ivan Aivazovsky, then moved to early 20th-century art, such avant-garde artists as Goncharova and finally to non-conformist artists, such as Erik Bulatov. Every Russian sale, generally conducted in London, reflects this trend and all have achieved record sums recently<sup>47</sup>.

In this chapter I would like to investigate the hypothesis that Russian art is bought mostly by the Russians. Unfortunately sometimes it is even impossible to identify the names of the buyers, as some of them want to stay anonymous. But the objective of this thesis is to observe the nationality factor and a type of a buyer that does not need the concrete names.

<sup>47</sup> [www.royalacademy.org.uk/ra-magazine/winter-2007/features/russian-art-goes-boom.164.RAMA.html](http://www.royalacademy.org.uk/ra-magazine/winter-2007/features/russian-art-goes-boom.164.RAMA.html)

### 7.5.1 The type of a buyer

As it was already mentioned, before the 1990s many pieces of Russian art have been mostly sold to Americans and Europeans. The first buyers of Russian art were mostly collectors among white emigrants. They were mainly collectors who appreciated and knew Russian art. After “Perestroika” (1985) new buyers from Russia appeared. They were representatives of the Soviet Fund of Culture according to a special program of returning art to the USSR with the help of such auctions as Sotheby’s and Christie’s. They were also connoisseurs and art educated people.

The main buyers nowadays are not the Russian nobles who emigrated to the West in the 1920's-30's. The buyers are Russian businessmen who live in Russia or abroad, especially London. Since 1990 Russian museums have been buying at English auctions, too (Tiesenhausen, 2005)<sup>48</sup>. Corporate collecting is also very popular among Russian companies. Alfa-Bank, one of the biggest banks in Russia, is famous for its huge collection of Russian art (A. Vikentiev, 2008).

As Valeriy Dudakov<sup>49</sup> (2003), director of the New Hermitage Gallery in Moscow, states, most of these people represent businesses, which have nothing in common with art. Many of them purchase art without understanding its real price. Their art knowledge is not good at all. They consume everything, paying big sums for minor artists, low-quality works and even fakes. There are some examples of unjustified prices (according to some experts) that can prove this point of view:

Table 2: ‘Unjustified Prices. Examples’

<i>Artist</i>	<i>Name of the Picture</i>	<i>Estimate</i>	<i>Hammer Price</i>	<i>Date of Sale</i>	<i>Place of Sale</i>
Somov, K.	<i>The Rainbow</i>	GBP 400,000-600,000	GBP 3,700,000	14 June, 2006,	Christie's (London)
Serebryakova, Z.	<i>Reclining Nude</i>	GBP 150,000 - 200,000	GBP 940,000	09 Jun, 2008	Sotheby’s (London)
Bogdanov-Belsky, N.	<i>Reading the Garden</i>	USD 250,000 - 350,000	USD 1,200,000	26 Apr, 2006	Sotheby’s (NY)
Goncharova, N.	<i>Les Rameurs</i>	GBP 150,000 - 250,000	GBP 1,050,000	07 Feb,	Christie's

<sup>48</sup> [www.nytimes.com/2005/09/16/arts/design/16anti.html?\\_r=1&oref=slogin](http://www.nytimes.com/2005/09/16/arts/design/16anti.html?_r=1&oref=slogin)

<sup>49</sup> [www.gzt.ru/culture/2003/09/24/104800.html](http://www.gzt.ru/culture/2003/09/24/104800.html)

				2006	(London)
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Source: [www.artprice.com](http://www.artprice.com)

Of course, any buyer can overpay if he likes something very much. But, I think, to overpay to such an extent, can serve as proof of conspicuous behavior. I come from Moscow, Russia and I know peculiarities of national character very well. One of the traits is importance of it as self-positioning. To show who you are is not so important for Western Europeans, but in Russia after long years of economical depression, instability, crime, dirt and even hunger, finally, when people got the privilege to earn money, spending it as they want, in their point of view, is very rational. Anybody at any resort, any casino, any fashionable club, expensive boutique etc. throughout the world considers Russians to be their best clients. That is why many experts believe that Russian art is bought not as an investment. During the past several years no significant painting bought has come back in the market. These consumers are “pure collectors” (Frey and Eichenberger, 1995) who buy to get a physical pleasure from possessing the expensive artwork, rather than to earn on it (Atukeren and Seçkin, 2007). The unjustified prices prove this point.

### 7.5.2 The nationality

The head of Sotheby's Russian Department in London, Jo Vickery says that today the majority of their sales are for the buyers from the CIS<sup>50</sup>. Most of them are Russians and Ukrainians. Each Russian sale consists of about 10-15 percents of new clients, who have never bid at an auction before.<sup>51</sup> As Economist.com<sup>52</sup> (2008) presents, over the past five years Sotheby's has added to its list of Russian buyers at a rate of 100 new names a year.

Catherina MacDougall (2008), the owner of MacDougall's, says that in the price category from 20 up to 50 thousand pounds both Europeans and Americans buy, too. As to the top part of the market, the buyers are former citizens of the ex Soviet empire, people who have been brought up during Soviet Union<sup>53</sup>.

<sup>50</sup> The CIS- the Commonwealth of Independent States, is a regional organization of the former Soviet Republics.

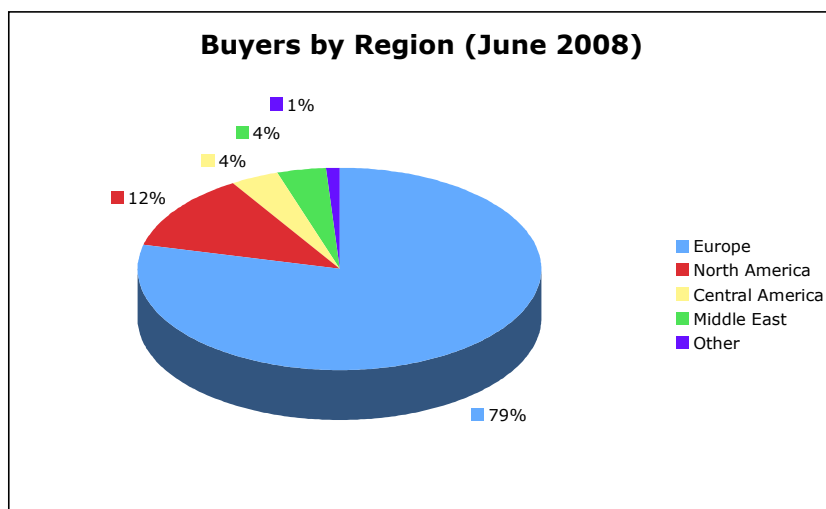
<sup>51</sup> [www.sovcom.ru](http://www.sovcom.ru)

<sup>52</sup> [www.moreintelligentlife.com/story/bondsky-prospekt](http://www.moreintelligentlife.com/story/bondsky-prospekt)

<sup>53</sup> [www.svobodanews.ru/Article/2008/07/11/20080711122904133.html](http://www.svobodanews.ru/Article/2008/07/11/20080711122904133.html)

In accordance with the last report of Sotheby's in June 2008 the vast majority of buyers of Russian art in a London sale were Europeans (including Russians), who represented 79% of the buyers, bought 84% of the lots that accounted for 92% of the total sale value. The second largest group of buyers were North Americans (12%), who bought 8% of the lots (4% of the total sale value). They were interested mostly in the lower-priced lots. The same observation is for Middle Easterners who accounted for 4% of the buyers (1% of the value). The Central Americans made up 4% of the buyers and accounted for 4% of the total purchased value. There were about four lots bought for every Central American buyer.<sup>54</sup>

Figure 6 Buyers by Region (June, 2008), location Sotheby's London



Source: [www.sothebys.com](http://www.sothebys.com)/ Marion Maneker/ June, 2008.

It can be seen for the chart above that almost 80% of the buyers are from Europe. Russians and the citizens of some other former Soviet republics belong to this group.

Matthew Brown, the owner of a London gallery specializing in Russian art and connoisseur of the market says that even though Russian art market is one of the world's fastest growing art markets, Russian buyers face little competition from foreign collectors. Only few of the artists are familiar to Western gallery-goers<sup>55</sup>.

On the contrary, Arkadiy Vikentiev (2008), who is a frequent visitor of almost all "Russian sales", argues that not only Russians buy Russian art. For example, one of the most outstanding and expensive Russian artist Yakovlev has been mostly bought by Europeans during the last years. Another famous artist Ivan Pokhitonov, who also represents the Belgian

<sup>54</sup> [www.sothebys.com](http://www.sothebys.com)

<sup>55</sup> [www.izo.com](http://www.izo.com)

School, is very popular among the foreigners.

### 7.5.3 Conclusion

About 80% of the buyers are from Europe that includes Russia too, 10-15% of whom are new clients. These people are united by the same Soviet past.

Based on the arguments presented above it is safe to conclude that Russian buyers are ‘pure collectors’ rather than ‘pure speculators’ according to Frey and Eichenberger’s (1995) classification, because such factors as change in risk, cost, tax or taste, do not stop them from consuming. Most of these people are typical representatives of conspicuous consumers, whose main goal is to display their financial abilities.

### 7.6 The factors that influence the price increase

In the theoretical chapter the following factors that can influence the price growth were mentioned: the state of the economy, the wealth and nationality of buyers, purchase motives, type of the buyer, art knowledge, valuations and information regarding an artwork, number of the bidders at the auction (Sagot-Duvauroux, 1992). This research is to apply these factors to Russian art market and find other reasons of growing prices, such as: emotional behavior during the sale (Velthuis, 2005); media and auction houses’ promotional strategies; art as investment; reaction to changing market conditions (e.g. risk, costs, taxes) (Frey and Eichenberger, 1995).

#### 7.6.1 The state of economy and the wealth of buyers

The state of the economy influences the wealth of buyers and thus the demand and prices<sup>56</sup>. As Valeriy Dudakov (2003), a well-known Russian collector, says in his interview to the ‘Gazeta’ newspaper, a rise in prices has tactical reasons. It is the mad quantity of speculative

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<sup>56</sup> See Chapter 3.5

money that comes from oil and metal industries. The low interest of bank profit makes shares unprofitable, so there is a growth of art sales<sup>57</sup>.

It is not a secret that Russia was in the middle of an economic boom during the period of 1998-2008. The rise in the international price of oil increased the country's influx of money for natural resources and metals. In 2007 the growth in Gross Domestic Product achieved more than 8%. There are now more billionaires in Russia than in England and real estate prices in Moscow are some of the most expensive in the world. By all measures, but especially the country's account balance and foreign exchange reserves, Russia was in the position beyond compare.

In the article of Telegraph.co.uk (2008) it is said that the facts show that Russia, during ten years, achieved possibly the most amazing economic turnaround in human history.

When the Soviet Union broke down, Russian economy sunk deep. For the next decade the country survived crisis after crisis. But since 1998 Russia has grown at a real terms average of 7 per cent a year. In 2007 growth hit 8.1 percent, despite the US-originated crisis that has influenced much of the world. Russia's reserves have increased from almost zero in 1998 to \$480 billion today - the third largest haul on earth. The country is now almost debt-free. The trade surplus doubled almost twice as well. Three years ago Russia overtook Saudi Arabia and became the world's largest crude oil exporter.

But Russia is now more than "just an oil and gas economy". Before the world financial crises the retail sales went up at about 13 percent per year in real terms. Construction grew by 16 percent per year, and domestic investment by 20 percent - as Russia rebuilds its post-Soviet infrastructure. As a conclusion, this trend attracted massive foreign investment<sup>58</sup>. The effects of this economic boom influenced the art market too. Russian collectors make significant purchases in art markets. They have a profound effect on the Russian art market. A lot of Russian artists have experienced a rapid price rise. In the data base of Artprice.com one can find some Russian artists, whose prices have grown by more than 10 times. For instance, every 100 Euro invested in Charchoune S. in 1998 have turned into 1.472 Euro in 2008, every 100 in Larionov M. are 1.225 Euro, every 100 for Burliuk D. are 1.016 today.

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<sup>57</sup> The current financial world crisis illustrates the advantages of art investments.

<sup>58</sup> <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2008/03/02/ccli102.xml>



Arkadiy Vikentiev (2008) says that before 1998 the prices for Russian art were not so high. The boost started only with the development of the state economy after the crisis of 1998. He also believes that the purchase abilities of new Russians depend on the prices for natural resources, as the income of most of the buyers comes from these industries.

### 7.6.2 Nationality

It already became clear that Russian art is bought chiefly by Russians. It is typical to the Russian national character whether the person lives in Russia or abroad to store value in art objects. The acceleration of this market in cooperation with the increase in Russia's domestic wealth and the statement that Russians understand only their own art suggests the habit is preserved by any means.

A leading British dealer Ivan Lindsay expresses his opinion that there is a tendency among Russians to move from buying just Russian art to buying some of the most valuable old masters and 20th century art. Nearly 40 per cent of all Impressionist works sold at auctions last year were bought by Russians – up from just three percent in 2006<sup>59</sup>.

### 7.6.3 Purchase motives

It is difficult to find the true motives of new collectors in this irrational pursuit of Russian art. However there are some suggestions that can shed some light on the subject.

First, there is certainly an element of patriotism. According to Nicholas Forrest (2007), an art market analyst, art critic and journalist based in Sydney, the rich cultural history of Russians seems to be one of their saving graces. Unfortunately due to the economic difficulties that Russians experienced in the past, many valuable Russian works of art are in the hands of people outside Russia. This is starting to change. With a booming economy the fortune of Russians is rapidly growing. Russians have begun to preserve and promote their cultural heritage by using their wealth. They buy back the important works of art that have been outside Russia for decades<sup>60</sup>.

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<sup>59</sup> <http://www.telegraph.co.uk>

<sup>60</sup> [www.artmarketblog.com/2007/11/30/art-market-blog-profitting-from-the-rush-for-russian-art/](http://www.artmarketblog.com/2007/11/30/art-market-blog-profitting-from-the-rush-for-russian-art/)

“Russian collectors are rediscovering their own culture”, says William Macdougall. “They like to buy works by artists they heard of in school. Plus they enjoy rediscovering émigré artists who lost their Russian reputation when they disappeared to the West.”<sup>61</sup> Four years ago, when Russian billionaire Viktor Vekselberg bought the Forbes’ Faberge collection of imperial eggs, he made repatriating art both fashionable and patriotic. As it is said on the website [izo.com](http://izo.com), Alexander Ivanov, director of the private Russian National Museum and the new owner of the Rothschilds’ gold-and-enameled Faberge egg, plans to follow Vekselberg by bringing the valued object to Moscow. In 2007 another Russian billionaire Alisher Usmanov purchased the Rostropovich collection of 19<sup>th</sup>- and 20<sup>th</sup>-century Russian art three days before the sale at Sotheby’s. He is the 18th richest man in Russia, and it is believed that he paid more than £25 million, above the highest estimate of £20 million, to stop the sale. Rostropovich was one of the most internationally beloved musicians of the 20th century. For 30 years he and his wife bought Russian art, long before the present high prices. The auction was to include all the contents of their homes, including paintings and glass owned by Catherine the Great<sup>62</sup>.

Arkadiy Vikentiev (2008) supposes that it is not patriotism, but investment motives and lack of knowledge of foreign art that makes it difficult to evaluate properly.

#### 7.6.4 Type of buyers

Alexis de Tiesenhausen (2007)<sup>63</sup>, international head of Russian Art at Christie’s, does not think Russians are buying art as an investment. In the past five years he has not seen a painting that has appeared in the market more than a time.

What remains the same, whether Russians are buying for a long-term or to trade, is that today’s art collectors want media attention; they want to build their public image. Art can help them look good, so even though the prices continue to rise, Russians keep buying. This conspicuous consumption leads to the increase of prices a lot.

Russian buyers are ‘pure collectors’ rather than ‘pure speculators’. Such changes on the market as change in risk, cost, tax or taste do not stop them from consuming. The example is

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<sup>61</sup> [www.gbrussia.org/reviews.php?id=148](http://www.gbrussia.org/reviews.php?id=148)

<sup>62</sup> [www.guardian.co.uk/world/2007/sep/18/russia.artnews](http://www.guardian.co.uk/world/2007/sep/18/russia.artnews)

<sup>63</sup> [www.royalacademy.org.uk/ra-magazine/winter-2007/features/russian-art-goes-boom.164.RAMA.html](http://www.royalacademy.org.uk/ra-magazine/winter-2007/features/russian-art-goes-boom.164.RAMA.html)

the latest 'Russian sales' in November 2008 in London. Despite the global economic crisis Sotheby's 'Russian sales' totaled £25.2 million. This is the third highest sum for 'Russian sales' at Sotheby's. This brings the total for Russian art sold at Sotheby's in 2008 to £136.3 million. Nine new artist records were achieved<sup>64</sup>.

#### 7.6.5 Art knowledge

As Valeriy Dudakov<sup>65</sup> (2003) thinks, unfortunately most of these buyers are not good at art at all. They represent businesses, which have nothing to do with art. They purchase art with the help of professional advisors<sup>66</sup>. The level of collectors, estimating knowledge and tastes, has fallen a lot. He is very critical of the new collectors: 'They work in gas, oil and metal, and works of art are toys for them. Once they know they want it, nothing can stop them. So a mediocre Somov is sold for \$7 million.'

As Paris Art Deco dealer Michel Giraud says, "There is enormous opportunity in Russia, but also a lot of work to be done. We need time to educate collectors and develop clients. I believe it will take three to five years." These views were shared by most of his colleagues<sup>67</sup>.

Before 1990s collecting was considered to be a job. Collectors knew collections, read monographers, understood a subject of the collection, but they did not possess such enormous collections that exist now. They could not buy work worldwide. Therefore there were no such collections that now belong to Victor Vekselberg<sup>68</sup>.

Nevertheless many sales are calculated on the true experts (e.g., special auctions of Russian manuscripts, books, photos). Probably, these auctions hope to attract not only new rich Russian men, but also more serious and erudite audience, including heads of Russian state archives and libraries. According to MacDougall (2008), director of the auction house, most of his buyers do not fit the 'cliché of nouveaux riches', who made their fortunes during the privatization period in the 1990s. He believes that all of them are professionals who work as lawyers or bankers in the West or have studied abroad<sup>69</sup>.

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<sup>64</sup> [http://www.ardaily.org/index.asp?int\\_sec=11&int\\_new=27512](http://www.ardaily.org/index.asp?int_sec=11&int_new=27512)

<sup>65</sup> [www.gzt.ru/culture/2003/09/24/104800.html](http://www.gzt.ru/culture/2003/09/24/104800.html)

<sup>66</sup> For example, the art advisor of Russian billionaire Roman Abramovich is Mollie Dent-Brocklehurst, a former director of the Gagosian gallery in London.

<sup>67</sup> [http://antiquesandthearts.com/Antiques/AntiquesShows/2005-10-17\\_12-19-40.html](http://antiquesandthearts.com/Antiques/AntiquesShows/2005-10-17_12-19-40.html)

<sup>68</sup> In 2004, for example, Viktor Vekselberg, an oil and metals baron, unexpectedly paid more than \$90m for the Forbes family collection of Fabergé imperial Easter eggs.

<sup>69</sup> [www.macdougalls.com](http://www.macdougalls.com)

### 7.6.6 Information regarding an artwork

Demand, of course, is not the only factor of pricing. One of the important parameters of estimation is provenance. It should confirm an authenticity of work and register its movements from the artist to the last owner. For example, the owner of already mentioned ‘*Sailboat*’ by Goncharova was Sir John Rottershtajn, director of London gallery Tejt in 1938-1964.

The example of Natalia Goncharova helped me to find out other factors that influence the determination of prices on Russian works of art. I made use of the hedonic price method. The following data from Artprice.com: pre-sale estimate (minimum and maximum), auction result, date of sale, auction house and location, medium, subject and size, was applied. The works that were sold during the period 1998-2008 were taken up into SPSS program<sup>70</sup>.

I chose Natalia Goncharova<sup>71</sup>, as today she is considered to be the most expensive female artist. On 9 June 2008 the auction house Bonhams’ sold her ‘*Sailboat*’ for £1.5 million. The same day Sotheby’s raised £2 million for ‘*Nature morte aux fruits*’. Christie’s made almost £5 million for ‘*Les fleurs*’ on 11 June.

During the past ten years the prices for Goncharova works of art have increased a lot. For every 100 Euro invested in Goncharova in 1998 the return value now is 689 Euro after September 2008.

Most of Goncharova’s works are sold in the UK, London. This fact proves one more time that London dictates prices for Russian art. Sotheby’s and Christie’s are the biggest suppliers of Goncharova’s works of art.

The category ‘paintings’ formed 91% of all transactions at the market in 1998-2008. That was the reason why I decided to investigate only this category. All in all, 46 paintings by Goncharova that were on the market in the period 1998-2008 were included in this research. All of the transactions took place on Sotheby’s, Christie’s or MacGougall auction houses. Out of 46 investigated paintings that were put on the market, 14 were unsold.

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<sup>70</sup> The whole research is in Appendix on the CD attached to the thesis

<sup>71</sup> Natalia Goncharova played a key role in development of avant-garde Russian art before World War I and after that was an important and innovative costume designer. Her early works were influenced by Impressionism, Fauvism and Russian folk sculpture or were made in Primitivist and Cubist styles. After a while she also adopted a Cubo-Futurist and Rayonist approach. Even though she never neglected painting, much of her creative energy was directed toward stage decoration and book illustration.

In order to investigate which characteristics of the painting itself influence its hammer price I constructed a multivariate linear regression (Least Square Linear Regression). The major advantage of multivariate regression is that it takes into account several predictive variables simultaneously, thus modelling the situation with more accuracy.

The research showed the following results:

- *Prices and subject:* more than 35 (out of 46) of Goncharova's paintings sold during 1998-2008 are still life. Her still life is considered to be the most famous and popular subject among the buyers. In order to see how the subject 'Still life' influences the price I made the calculations with the help of SPSS. The linear regression analysis demonstrates that the fact that the painting is a still life doesn't play a role in the selling price of a painting. According to the results of the tests, this relationship is not statistically significant at a 10% significance level.
- *Prices and medium:* majority of the Goncharova's paintings were made by oil on canvas. In the regression analysis I investigated the effects of both paint type and medium type (canvas, panel, etc.) on the hammer price of the painting. Results of the linear regression show that both relationships are not significant at a 10% significance level. It means that the medium of the painting does not affect its selling price.
- *Prices and size:* with regard to the effect of painting's size on its hammer price, results of the regression are not conclusive. When considering all 46 paintings of Goncharova, results of linear regression showed that there is not statistically significant relationship between size of the painting and its price. Nevertheless, the P-value of the test (statistical significance) turned out to be quite low (0.15), so I decided to take out from the sample all the paintings that have not been sold. It left me with a sample size of 32 paintings. Regression analysis with the new sample data showed that there is a statistically significant at 5% significance level (P-value of 0.02) and positive relationship between the size of the painting and its hammer price. The results have shown that when painting size increases by 1 cm<sup>2</sup>, its price increases by 98.11 British pounds.

These results are contradicting each other. This might happen due to small sample size or the fact that I investigate works of only one artist, which might lead to the sample being unrepresentative. I would like to suggest this issue to be studied in further research.

- *Hammer prices and estimated prices:* in the auction results for paintings that were sold during 1998-2008, it is clearly seen that the hammer prices are related to the estimated prices. The research has shown that the minimum estimated price has a statistically significant effect on the selling price at 10% significance level (P-value= 0.01). The beta coefficient is 1.96, which means that if a minimum price rises by 1 British pound, the selling price at the auction will go up by 1.96 pounds. The maximum estimate of the probable price outcome at the auction is not significant (P-value= 0.22).

As I can conclude from the analysis, none of the variables included in the regression analysis are significant, except Estimate MIN. The bigger the minimum estimation of the painting is, the higher the price of the painting is. So the price is dependent mostly on the name of the artist and other factors that have not been included in the regression model.

Mei and Moses (2005) also think that bidders' valuations may be affected by the pre-sale estimates. They noticed an upward bias in experts' evaluations of the most expensive paintings, and argue that an increased estimate leads to a higher hammer price, which has an effect on the future return. On the other hand, Czujack (1997) does not agree that there is any connection between the pre-sale estimates and auction results.

If to compare the results of the analysis of Natalia Goncharova's paintings with the paintings of such a great European painter as Picasso, we can see from the thesis of Froukje Budding (2007) that in the case of the variables prize and size, for instance, it seems that there did not exist a relationship between the two. The medium seems to have an influence on price. The pre-sale estimated price also has a close relationship with the final hammer price.

#### 7.6.7 The number of bidders

The number of the bidders at the auction makes prices (Sagot-Duvaouroux, 1992). Alexander Gertsman (2008), a New York dealer of Russian contemporary art, in his interview to

Chinapost.com points that the reason of high prices lies in the strong demand for Russian art, as every year more Russians start collecting art. That means more bidders at auctions, and this competition helps to drive prices higher<sup>72</sup>. As I mentioned before, over the past five years Sotheby's has added 100 new names a year to its list of Russian buyers.

#### 7.6.8 Behaviour at auctions

Some media sources often call 'Russian sales' as Vanity Fair. Everyone is impressed with the new crowd of Russian bidders. Even though a lot of artworks are acquired by phone today, the atmosphere among the bidders at the 'Russian sales' often reminds the battle. According to James Butterwick (2007), a Russian art dealer in London, when Russian collectors want something of top quality, money does not matter for them and they will pay crazy prices<sup>73</sup>. The 'excitement of a single night' (Velthuis, 2005) is a frequent reason of extreme prices at Russian auctions. As Lobanov-Rostovsky (2006) explains, first, it is a feeling of confidence, that at the auction you will get an original work, otherwise it can be always returned. Second, it is an atmosphere of the auctions, where the ambitions of new rich people, who are still not able to operate with their huge money psychologically and respect money, prevail any rationale. It often leads to much higher price for a piece, than a real one.

Arkadiy Vikentiev (2008) explains that the typical national character also plays one of the leading roles here. Russian buyer is a player. He compares the emotions at the auctions to those one has in casino.

#### 7.6.9 Media and promotional strategies of auction houses

There is also an excessive demand for Russian art objects skilfully warmed up by professionals of media sources and auction houses. After each "Russian sale" the headlines blaze with extreme numbers and sound astonishing: "Auctioneers Report Record Russian Sales", "Russian art goes boom".

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<sup>72</sup> [www.chinapost.com](http://www.chinapost.com)

<sup>73</sup> [www.theartnewspaper.com](http://www.theartnewspaper.com)

The head of Sotheby's Russia, Mikhail Kamenskiy (2008), argues that a modern person reacts to the price of an artwork. Mass media helps to attract attention of billion audiences. Even people, who are indifferent to this area, are interested why art can cost so much. The sensations connected with auction sales are an important component of an information stream. So the results of the sales at Sotheby's last years made more for propagation of Russian art, than any exhibitions and tours<sup>74</sup>.

#### 7.6.10 Russian art as an investment

As to Russia, unfortunately, people are still suspicious to art investments. On the other hand, Russian art dealer Yelena Walker states that it is not all for the love of the art, but more and more it becomes about investments as well. She says that there was an element of patriotism, but in the last three or four years, it has had a more commercial aspect. Russian businessmen began to consider art is the safest and most beautiful way to invest<sup>75</sup>. As Arkadiy Vikentiev (2008) says Russian buyers today are investors, and perhaps, then collectors or patriots.

It is rather logical. The stock market is unreliable; most real estate, especially in Moscow, has been bought up; whereas the works of art have such important characteristics as durability and marketability. Nowadays works of art look more reliable and attractive in longer prospective and market transactions with works of art are getting legal, accessible and integrated in the world art market. Marina Sitnina (2008), the head of the company 'Art-Finance' tells that art-banking, management of art investments is getting more and more popular in Russia. Today there are already several banks that offer this service. During financial crises the interest to alternative investments increases. Investors look for a certain protection where their capital will be safe. It was during the Great Depression, the crisis of 1980s and the current crisis. In such periods the turnover of the art market and volumes of investments grows<sup>76</sup>.

The chart below illustrates the ARTIMX Profit Index of Russian art during the period 2001-2008, December.

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<sup>74</sup> <http://friday.vedomosti.ru/article.shtml?2008/03/07/11867>

<sup>75</sup> [www.sovcom.ru](http://www.sovcom.ru)

<sup>76</sup> [www.rbcdaily.ru/2008/07/18/lifestyle/362131](http://www.rbcdaily.ru/2008/07/18/lifestyle/362131)



Figure 8 ARTIMX Profit Index of Russian art (2001-2008, December)



Source: [www.artinvestment.ru](http://www.artinvestment.ru)

According to ARTIMX Profit Index, the profitability of Russian art has increased almost by two times, whereas, for instance, Impressionism and Modern art by 1.4 times. Russian art goes together with such categories as world Old Masters and Contemporary art, which returns from 2001 up to the present moment has risen by almost 2.5 times. It makes Russian art category profitable from the investment point of view.

#### 7.6.11 The problems of the market for Russian art

Despite the great success of the Russian art in the Western art market there are some serious drawbacks, which also influence the price formation. I discussed these problems with Arkadiy Vikentiev (2008) in our interview.

The main problem is that very often the prices do not match the quality of the goods. If a businessman likes a picture at an auction, his representative will fight up to the end. The result of such actions is the unjustified increase of the prices not only for a concrete artist, but also in the whole market. But each price jump influences the quantity of people who can get a work of art for established prices. Therefore the market is being narrowed<sup>77</sup>.

The proper evaluation of Russian art is a serious problem that influences the prices. For many years only works by famous artists were sold. At the moment there are mostly works of so-called minor artists on the market. When works of well-known Russian masters appear during the open sales, their quality is often very low. Frequently pictures of low quality go under the hammer for unbelievable sums. The works of less known artists, such as Alexander

<sup>77</sup> [www.gzt.ru/culture/2003/09/24/104800.html](http://www.gzt.ru/culture/2003/09/24/104800.html)

Altman, are sold more often than true masterpieces. The prices for such paintings have risen from one thousand dollars to an estimated 80 thousand during the last five years, something that was not possible five years ago.

The quantity of fake works has also considerably increased. Today it is becoming more and more difficult to distinguish an original work from a fake. As many of the buyers are not skilled, according to Valeriy Dudakov's statement<sup>78</sup> (2003), by buying such works they "pollute" the market and lower its quality.

As Russia's upper class has driven the market for Russian art to exceptional heights, it has also attracted skilled criminals. Vladimir Petrov (2006), a curator at the State Tretyakov Gallery in Moscow, says to 'Washington Post' that he believes that forgers buy works at auction houses in Europe, paying \$1,000 to \$20,000 for them, retouch them and resold in Russia for between \$125,000 and \$1 million as the work of major Russian artists of the same period. They have done this with at least 120 paintings by minor 19th-century Western European landscape artists. The tricks are possible because it is quite common in Russia that previously unknown but authentic works appear on the market. Due to the Russian Revolution and World War II, many paintings were hidden away for generation, or confiscated by government authorities.

One of the Russian collectors paid an art dealer \$145,000 for a painting "Summer Day" by Alexander Kiselev, a 19th-century master of Russian landscapes. But within months art specialists using scientific analysis determined the work was in fact a 1883 painting by the Danish artist Janus la Cour '*A Forest Road Leading to a Peasant's House*'. The investigation showed that 14 months before someone else paid \$2,000 for it at an auction in Copenhagen<sup>79</sup>. Finally, the quantity of the works created by Russian artists is also restricted. Thus, at present there is a situation when the price is unfairly overestimated for the majority of works. Today in Russia the demand for works of art exceeds the offer. The history of Russian art, which begins only with Peter's I epoch (if not to take icons into account), is not longer than three hundred years and the population of the country is almost 140 million. When compared to Holland, where non-religious art exists for 500 years and the population of 16 million, it becomes evident why there is such a great demand for Russian art. Most of the well-known

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<sup>78</sup> [www.gzt.ru/culture/2003/09/24/104800.html](http://www.gzt.ru/culture/2003/09/24/104800.html)

<sup>79</sup> [www.washingtonpost.com/wp-dyn/content/article/2006/01/27/AR2006012701542\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2006/01/27/AR2006012701542_pf.html)

paintings have been bought already. So the deficit is quite obvious. That's why the interest in low quality works is also high (Lobanov-Rostovski, 2006).

#### 7.6.12 Recent world events and their possible consequences on the Western market of Russian fine art

##### 7.6.12.1 The conflict with Georgia

The armed conflict in Georgia and verbal conflict with NATO can influence attitude on the West towards Russian art. Nevertheless this scenario seems unlikely to influence sales of the Russian art as most of the secondary market is based on patriotic Russian buyers. The fight in Georgia could even be a reason for Russians to buy more Russian art in patriotic moods. Russian buyers might boycott the Western auction houses, just as they have recently (with government encouragement) boycotted the London Economic Forum, but this is almost impossible<sup>80</sup>.

##### 7.6.12.2 The world crisis

At Sotheby's auction of Impressionist and Modern art in fall 2008 many of the artworks did not achieve their reserve price. Total sales reached £139 million, whereas the auction's official estimate was between £210 and £295 million. David Norman, co-chairman of Impressionist and modern art for Sotheby's, said that it was not surprising as they expected decrease in total sales due to unnerving situation in the financial world. Nevertheless, the work by Kazimir Malevich's "Suprematist Composition" was bought for a record £37 million. This sale beat the previous £11 million record for the artist and was the highest price ever for a Russian art work at auction<sup>46</sup>.

Russia has already lost a lot in the financial crisis. Its stock market has fallen up to 70 percent. Even oligarchs are suffering. While according to the World Bank Russia's strong short-term macroeconomic fundamentals make it better prepared than many emerging

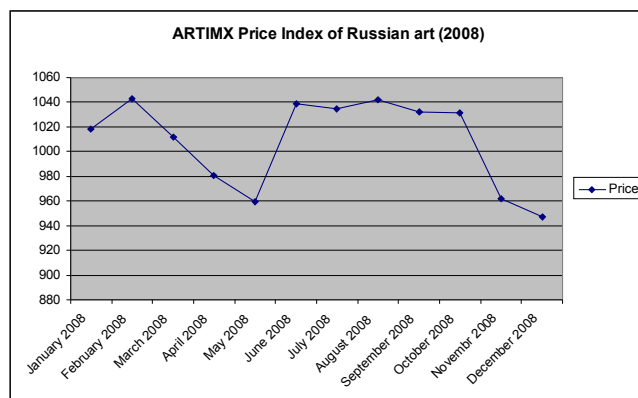
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<sup>80</sup> [http://www.izo.com/art\\_market/](http://www.izo.com/art_market/) August 29, 2008

economies to deal with the crisis. Fast fiscal management and significant financial reserves may have protected Russia from deeper consequences<sup>81</sup>.

But art dealers still believe in passionate Russian buyers. The president of Christie's Europe, Jussi Pylkkanen, rejected fears of weakening Russian interest in luxury art. "The market is stronger than it has ever been... The commitment and passion of the buyers here is incredible. "As Mikhail Kamensky, director of Sotheby's Russian division said 'People lost so much buying virtual value. They are probably now interested in buying material value, and buying stones, and buying high quality art. They will save it and this will give profits as investors."<sup>82</sup> As I already mentioned above (7.6.4) the recent November 'Russian sales' in London achieved a lot of new record heights. The Figure 9 illustrates the ARTIMX Price Index/ Growth of Russian art in crisis of 2008.

Figure 9 ARTIMX Price Index of Russian art (2008)



Source: [www.artinvestment.ru](http://www.artinvestment.ru)

Despite the crisis we can see that the prices for Russian art in 2008 have been more or less stable. At the same time the decrease by the end of the year is obvious.

Michael Blanche, an Australian art dealer, shared the following ideas with Telegraph.co.uk (May, 2008) concerning the future of Russian art market in the world crisis. As the dollar declines, those countries with strong economies built on energy resources are becoming the new global art buyers. Russians can help to bolster the art market at an uncertain time as the economies of western countries start to slow in the wake of the crisis<sup>83</sup>.

<sup>81</sup> Russian Economic Report No. 171 World Bank on 07.12.2008

<sup>82</sup> <http://www.reuters.com>

<sup>83</sup> <http://www.telegraph.co.uk/news/worldnews/europe/russia/2044630/Russian-millionaires-pick-up-Picasso-and-diamonds-at-Moscow-World-Fine-Art-Fair.html>

Arkadiy Vikentiev (December 29, 2008) told that the year 2008 was rather difficult not only for him, as art dealer, but also for the auctions. Despite the fact that the crisis has not hit Russia as much as other countries, "Russian sales" were not successful. Most of the lots were not bought. He agrees that usually during crises art can be the only way to preserve money, but the buyer of Russian art has not realized it yet.

### 7.6.13 Conclusion

Based on the findings presented above, the following conclusions that explain the reasons of a constant rise in prices for Russian art can be made.

The first reason being the noise and hype that the collectors and auctions create themselves.

Second, it is so-called new money from Russia. The recent rise in the international price for oil has added to the great inflow of money. According to American magazine 'Forbes'<sup>84</sup>, Russia has 60 billionaires, the second-largest number in the world after the USA.

Third, according to the opinions of the experts the times when businessmen bought art just because they liked only the plot have gone and that the tastes of buyers are becoming more refined and educated than they were during the 1990s. Nevertheless, now an ordinary painting often goes under the hammer for a significant sum.

The reason often lies in the absence of culture of new rich men in the first generation. Here there is the lack of erudition, understanding, knowledge or preference for collecting art works. That is why there is a big quantity of fakes and the low quality works that "pollute" the market and lower the quality.

Fourth, the quantity of the works created by Russian artists is also limited.

The main reason of high prices lies in the strong demand for Russian art.

Finally, Russian art as investment is a logical reason, too, especially in the time of crisis.

Nowadays it is possible to talk about the crisis of the market for Russian fine art. At the moment there is the most depressing situation when the quantity of highly artistic and

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<sup>84</sup> [www.forbes.com](http://www.forbes.com)

interesting paintings has decreased to 5-10 % of all works in auctions. The level of the market and profitability of investment in the works of art have also decreased. At the same time true masterpieces of Russian artists do not appear during the open sales. Their price makes 15-20% a year, but they pass from one hands into others by means of personal contacts in the narrow professional circle.

As Nicholas Forrest (2007) suggests, the wealthy Russian buyers of Russian art will either be donating them to galleries or keeping the works in their collection for a very long time, which means that the supply of works on the market will continue to dwindle. For this reason he predicts that the value of Russian works of art continue to rise<sup>85</sup>.

Both Catherina MacDougall<sup>86</sup>. (2008) and Arkadiy Vikentiev think that Russian market develops logically together with other segments of the world art market. During 70 years the prices did not rise for Russian art. There was a depression. Russian art was sold for next to nothing. Now, Russian art of the 19<sup>th</sup> and the beginning of the 20<sup>th</sup>-century only catches up with the prices for comparable foreign art. As to Russian post-war and contemporary art, many artists are still undervalued.

Arkadiy Vikentiev (2008) says that during the current world financial crisis it is difficult to give any forecast about the future of “Russian sales”, as the situation changes every day. At the same time he is sure that the location of Russian art market will stay abroad, because the art market inside Russia is still wild. Concerning the art as investment in the time of crisis he believes that the consumer of Russian art will understand the profitability of such investment very soon, and the prices may continue to grow.

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<sup>85</sup> [www.artmarketblog.com/2007/11/30/art-market-blog-profitng-from-the-rush-for-russian-art/](http://www.artmarketblog.com/2007/11/30/art-market-blog-profitng-from-the-rush-for-russian-art/)

<sup>86</sup> <http://www.svobodanews.ru/Article/2008/07/11/20080711122904133.html>

## **8 Conclusions**

In this research paper I tried to explain the recent price increase and success of Russian fine art. First of all it has been established that Russian art is sold mostly in London. The reasons for this phenomenon are: the history of Russian art in Europe after the Revolution of 1917 and the fact that London has become ‘the second home’ for newly rich Russians.

After having studied the major English auction houses with the help of both qualitative and quantitative analysis, I found that the leading auction holding ‘Russian sales’, is Sotheby’s. It has conducted the most sales and had achieved the record sales.

I concluded that about 80% of buyers are citizens of Europe that includes Russia, 10-15% of whom are new clients. These people are united by the same past.

First of all it becomes obvious that the major consumers of Russian art are Russians. Based on the finding presented in this paper, there are two main characteristics of Russian buyers:

First, they are ‘pure collectors’ rather than ‘pure speculators’ according to Frey and Eichenberger’s categorization, as no change in risk, cost, tax or taste can stop them from buying what they find interesting. These people are typical representatives of conspicuous consumers, whose main goal is to display their financial abilities.

Second, they are new generation of well-educated Russians, who consider Russian art as a profitable investment.

However both of these buyers may consume Russian art because of patriotism, which is a very typical Russian trait. Nowadays when the economy of the country is growing and the borders are not closed anymore the Russians have all the possibilities to return their national treasures back home.

The high prices for Russian works of art can be explained by the following:

Due to its enormous resources Russia is considered to be one of the richest countries in the world where according to American magazine Forbes, there are 60 billionaires. There is a tendency of new rich collectors to create a certain image of themselves. That is why ‘Russian sales’ are often called the vanity fair. A lot of buyers purchase mostly to show their wealth and power. Hence the increased prices stimulate the higher demand (according to the theory of conspicuous consumption). Increased number of bidders that appear on the auctions create more competition, forcing prices to go up.

Art is becoming popular as investment option. Today in the time of crisis the stock market is unpredictable, whereas art looks as more reliable way of investment on the long prospect. Art market transactions are legal and available even in Russia.

It is also a comparatively short history of Russian visual art. It began only with Peter the Great epoch (not older than 300 years). Thus most of the recognized paintings have been already bought. This influences the growth of prices not only on masterpieces, but also on the works of lower quality.

There are some problems at the market of Russian fine art that also influence the price increase:

First, it is a problem of proper evaluation of the Russian works of art. Nowadays the market is full of the works of minor artist and fakes.

The lack of knowledge in art from the economical point of view in the first generation of wealthy people leads to the consumption of fakes and the artificially increased prices for the low quality works of art.

The quantitative research on the example of Natalia Goncharova showed that from the tested variables (see Appendix) only the name of the artist and minimum estimated price influence the hammer price of the sold piece. The higher the minimum estimation of the painting is, the higher the price of the art piece is. Thus I can suggest that Russians may simply follow the current fashion for a certain artist and therefore consume conspicuously.

When speaking about the future of the 'Russian sales', I can note that the crisis in the market is obvious. The quantity of highly artistic works has decreased a lot. It leads to the lower level of the market and decreasing profitability of investment in Russian fine art. According to the experts, the true masterpieces will be kept in the private collections, as most Russians are 'pure collectors' and do not sell the works often. Therefore the prices for these works will continue to rise.

The world crisis can influence the market of Russian fine art as any other market at the moment, but at the same time there is a possibility of stability as art is one of the most reliable long-term investments left.



## **9 The limitations of my research**

As I already explained in the chapters “Introduction” and “Methodology”, the biggest limitation of my study is the absence of literature and data. The reasons lie in the historical, political and economical situation that Russia underwent during the last century. It is difficult to find the truth in the country, which history has been rewritten at least three times only in the time of my study, which most of the talented citizens, including artistic sphere, left because of political issues, where no market existed during seventy years, where even nowadays the rich people still manage to hide their incomes and nobody knows who buys what.

After having studied all the literature in the library I decided to work with articles, catalogues and existed interviews. After my interview with the art-dealer Arkadiy Vikentiev, I understood that the information that I had already collected by that time is relevant. This interview proved some hypothesis. At the same time Arkadiy Borisovich did not agree with some statements of other experts and the numbers given by ARTIMX Price Index that is unfortunately the only open Russian art data base.

My own calculations of Average Price Index of Russian art was also restricted as I used only 44 artists, who belonged to different categories. First, I had a limited data base; second, I was not sure whether it is honest to call some painters Russian artists, as they lived the whole life abroad and even have foreign names. As a consequence I could not give the answer which category of Russian art is the most expensive and popular among the buyers.

The biggest limitation of my study is that I did not manage to prove in numbers that Russian art is bought mostly by the Russians. The main reason is that it is almost impossible to find the names of the buyers, as most of them, because of “well-known tax reasons”, prefer to be anonymous.

Another huge limitation lies in the current world financial crisis that shows completely different situation not only at the art market. Unfortunately the next ‘Russian sales’ will be held only in June and I cannot illustrate its impact in my research.

Despite of all these drawbacks I hope that I gave the general idea of what the Western market of Russian art is; why it is Western, but not Russian; who buys Russian art and what influences the prices.

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[www.christies.com](http://www.christies.com)

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[www.artprice.com](http://www.artprice.com)

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## **11 Appendixes**

### 11.1 Appendix I “The analysis of 44 Russian artists in the period 1998-2008”

The Microsoft Excel Map is presented on the CD. Here I would like to give the list of artists, who I chose for my calculations.

ARCHIPENKO, A.  
GONCHAROVA, N.  
KOROVIN, K.  
MAKOVSKY, K.  
REPIN  
BAKST, L.  
KANDINSKIY, V.  
CHAGAL, M.  
AIVAZOVSKIY, I.  
BURLIUK, DAVID  
BERMAN, E.  
CHABANYAN, A.  
CHOULTSE, I.  
CHARCHOUNE, S.  
CHEMIAKIN, M.  
CHIPARUS, D.  
DELAUNAY, S.  
ERTÈ  
HARLAMOFF, A.  
JAWLENSKY VON, A.  
KARS, G.  
KIKOINE, M.  
KISLING, M.  
KLEVER, Y.  
KREMEGNE, P.  
LANCERAY, E.  
LANSKOY, A.  
LARIONOV, M.  
MALIAVIN, P.  
MANE-KATZ  
MICHONZE, G.  
PAVIL, ELIE A.  
POERTZEL, O.  
POLIAKOFF, S.  
POUGNY, JEAN  
ROUBAUD, F.  
STOILOV-  
BAUMGARTNER, K.  
SURVAGE, L.  
SVERCHKOV, N.  
TCHELISHEV, P.

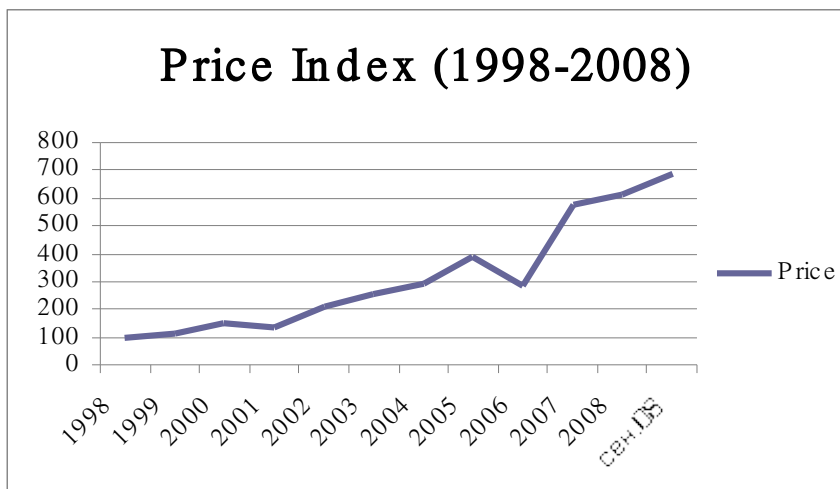
TERECHKOVITCH, K.  
TROUBETZKOY, P.  
YAKOVLEV, A.  
ZADKINE, O.

## 11.2 Appendix II “The quantitative research of N. Goncharova’s paintings in the period 1998-2008”

### 11.2.1 The general market for N. Goncharova

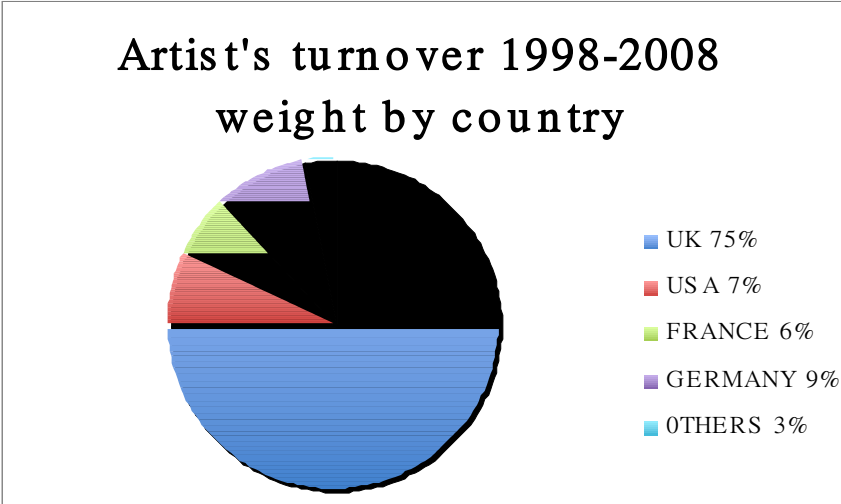
During the past ten years the prices for Goncharova works of art have increased a lot. For every 100 Euro invested in Goncharova in 1998 we now have a return value of 689 Euro after September 2008.

Figure 1: ‘Price index’/ Basis 100 in 1998 (For all categories)



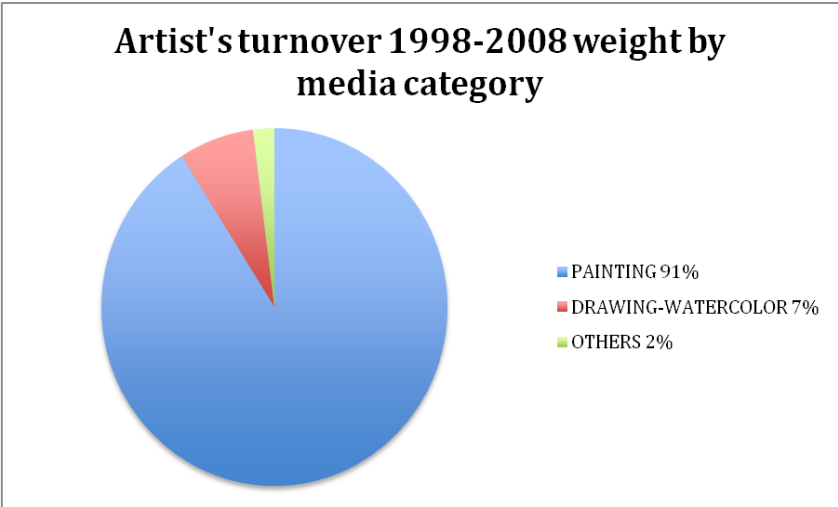
Most of Goncharova’s works are sold in the UK, London. This fact proves one more time that London dictates prices for Russian art. As you will see from table in the following chapter, Sotheby’s and Christie’s are the biggest suppliers of Goncharova’s works of art.

Figure2: 'Artist's turnover 1998-2008 weight by country'



As works of art differ from each other, it is important to know which category has dominated the market. As we can see from the image below paintings were sold more during 1998-2008. They formed 91% of all transactions on the market.

Figure 3: 'Artist's turnover 1998-2008 weight by media category'



11.2.2 The size of the market of paintings

In the period 2000-2008, 46 of Goncharova's paintings were offered for sale in London, 15 of which were not sold.

Table 1: 'Name, Medium, Size, Auction, Estimate, Auction Result and Date'

<i>Name</i>	<i>Medium</i>	<i>Size</i>	<i>Auction house</i>	<i>Estimate</i>	<i>Auction result</i>	<i>Date</i>
Still Life with Grapes and Apples	Oil/panel	31.5x46 cm – (12 3/8x18 1/8 in)	Sotheby's	GBP 3,000 - 5,000	GBP 5,800	10 May 2000
Still Life with acanthus	Oil/canvas	92x65 cm – (36 1/4x25 5/8 in)	Sotheby's	GBP 50,000 - 70,000	GBP 62,000	20 Nov 2001
Branchage fleuris	Oil/canvas	59x48 cm – (23 1/4x18 7/8 in)	Christie's	GBP 5,000 - 7,000	GBP 19,000	21 Mar 2002
Floral Still Life	Oil/canvas	61x50 cm – (24x19 5/8 in)	Sotheby's	GBP 18,000 - 25,000	GBP 16,500	22 May 2002
Still Life with Flowers and Wine Glass	Oil/canvas	67x56 cm – (26 3/8x22 in)	Sotheby's	GBP 50,000 - 70,000	GBP 60,000	22 May 2002
Still-Life with Vase of Flowers	Oil/board	22x16 cm – (8 5/8x6 1/3 in)	Sotheby's	GBP 6,000 - 8,000	GBP 12,000	20 Nov 2002
Still Life with Vase of Flowers	Oil/canvas	55x55 cm – (21 5/8x21 5/8 in)	Sotheby's	GBP 30,000 - 40,000	GBP 55,000	20 Nov 2002
Bathing Boys (Simultaneous Perception))	Oil/canvas	79.5x71 cm – (31 1/3x28 in)	Sotheby's	GBP 150,000 - 200,000	GBP 410,000	21 May 2003
Bouquet of Flowers	Oil/board	16x22.3 cm – (6 1/3x8 3/4 in)	Sotheby's	GBP 7,000 - 9,000	Not sold	21 May 2003
Pink Flowers in a Vase	Oil/canvas	92x60 cm – (36 1/4x23 5/8 in)	Sotheby's	GBP 40,000 - 60,000	Not sold	21 May 2003
Espagnole with pink Magnolia	Oil/canvas	68.5x49 cm – (27x19 1/4 in)	Sotheby's	GBP 50,000 - 70,000	GBP 120,000	19 Nov 2003
Espagnole	Oil/canvas	81x45 cm – (31 7/8x17 3/4 in)	Sotheby's	GBP 80,000 - 120,000	GBP 90,000	19 Nov 2003
Female Portrait	Oil/canvas	60.5x46 cm – (23 7/8x18 1/8 in)	Sotheby's	GBP 30,000 - 40,000	GBP 32,000	19 Nov 2003
Landscape with Trees	Oil/canvas	56x44 cm – (22x17 1/3 in)	Sotheby's	GBP 30,000 - 40,000	Not sold	26 May 2004
Costume Designs for «de coq d'or»	Tempera/canvas (5)	—————	Sotheby's	GBP 3,000 - 5,000	Not sold	26 May 2004
Vase de fleurs	Oil/canvas	45.8x33 cm – (18x13 in)	Christie's	GBP 8,000 - 12,000	GBP 14,000	07 Apr 2005
L'arbre	Oil/board	26.6x21.6 cm - (10 1/2x8 1/2 in)	Christie's	GBP 10,000 - 15,000	Not sold	27 Oct 2005
Landscape with Trees	Oil/canvas	55.9x43.8 cm - (22x17 1/4 in)	Christie's	GBP 30,000 - 40,000	Not sold	30 Nov 2005
Red Flowers	Oil/board	32x27 cm – (12 5/8x10 5/8 in)	Sotheby's	GBP 15,000 - 20,000	Not sold	01 Dec 2005
Les rameurs	Oil/canvas	52x114 cm – (20 1/2x44 7/8 in)	Christie's	GBP 150,000 - 250,000	GBP 1,050,000	07 Feb 2006
Still Life	Oil/canvas	46x38.5 cm – (18 1/8x15 1/6 in)	Macdougall Arts Ltd.	GBP 50,000 - 70,000	GBP 50,000	27 Nov 2006
Azaleas	Oil/canvas	90.5x115.7 cm – (35 5/8x45 1/2 in)	Christie's	GBP 300,000 - 500,000	GBP 300,000	29 Nov 2006
Matchmaking	Oil/canvas	119.4x108.9 cm - (47x42 7/8 in)	Christie's	GBP 300,000 - 500,000	Not sold	29 Nov 2006
Bouquet de fleurs	Oil/canvas	33x22.5 cm – (13x8 7/8 in)	Christie's	GBP 30,000 - 40,000	Not sold	20 Dec 2006
Poissons	Oil/canvas	50.3x65.2 cm - (19 3/4x25 5/8 in)	Christie's	GBP 30,000 - 50,000	GBP 75,000	07 Feb 2007
Composition	Oil/canvas	24x19 cm – (9 1/2x7 1/2 in)	Christie's	GBP 6,000 - 8,000	Not sold	04 Apr 2007
Les feuilles	Oil/canvas	21.8x16.3 cm - (8 5/8x6 3/8 in)	Bonhams'	GBP 3,000 - 5,000	Not sold	31 May 2007
Flowering Trees	Oil/canvas	103x69 cm – (40 1/2x27 1/6 in)	Sotheby's	GBP 500,000 - 700,000	GBP 500,000	12 Jun 2007
The Train Station	Oil/canvas	97.8x157.5 cm - (38 1/2x62 in)	Christie's	GBP 600,000 - 800,000	Not sold	13 Jun 2007
Still Life with Flowers	Oil/canvas	35x27 cm – (13 3/4x10 5/8 in)	Macdougall Arts Ltd.	GBP 30,000 - 40,000	GBP 31,000	15 Jun 2007
Picking Apples	Oil/canvas	88.9x123.4 cm - (35x48 5/8 in)	Christie's	GBP 1,000,000-1,500,000	GBP 4,400,000	18 Jun 2007

Danseuses espagnoles	Oil/canvas	192.3x87.5 cm - ( 75 3/4x34 1/2 in)	Christie's	GBP 400,000 - 600,000	GBP 2,500,000	18 Jun 2007
Bluebells	Oil/canvas	100x72.5 cm - ( 39 3/8x28 1/2 in)	Sotheby's	GBP 3,000,000- 5,000,000	GBP 2,700,000	26 Nov 2007
Still Life	Oil/canvas	46x27 cm – ( 18 1/8x10 5/8 in)	Sotheby's	GBP 300,000 - 400,000	Not sold	26 Nov 2007
Flowering Branches	Oil/canvas	33x24 cm – ( 13x9 1/2 in)	Sotheby's	GBP 100,000 - 150,000	GBP 110,000	26 Nov 2007
Cherry Blossom	Oil/canvas	22.5x16.5 cm - ( 8 7/8x6 1/2 in)	Sotheby's	GBP 30,000 - 40,000	GBP 30,000	27 Nov 2007
Lilacs in a Vase	Oil/canvas/board	105.7x74.8 cm - ( 41 5/8x29 1/2 in)	Christie's	GBP 700,000 - 900,000	GBP 1,400,000	28 Nov 2007
Untitled	Oil/canvas/board	41x32.8 cm – ( 16 1/8x12 7/8 in)	Christie's	GBP 250,000 - 350,000	Not sold	05 Feb 2008
Still Life of Peaches and Red Flowers	Oil/canvas/board	90x71.5 cm – ( 35 3/8x28 1/6 in)	Sotheby's	GBP 1,000,000- 1,500,000	GBP 1,020,000	09 Jun 2008
Nature morte aux fruits	Oil/canvas	99.5x86.5 cm - ( 39 1/6x34 in)	Sotheby's	GBP 2,020,000	GBP 2,020,000	09 Jun 2008
Sailboat	Oil/canvas	92x65.5 cm – ( 36 1/4x25 3/4 in)	Bonhams'	GBP 1,500,000- 2,000,000	GBP 1,500,000	09 Jun 2008
Still life of Flowers	Oil/canvas	65x54 cm – ( 25 5/8x21 1/4 in)	Sotheby's	GBP 25,000 - 35,000	GBP 110,000	10 Jun 2008
Still life with vase of Flowers	Oil/canvas	64x34.5 cm – ( 25 1/6x13 5/8 in)	Sotheby's	GBP 70,000 - 90,000	GBP 200,000	10 Jun 2008
		Unstandardized Coefficients		Standardized Coefficients		Jun 2008
						Jun 2008
Model		B	Std. Error	Beta	t	Sig.
1 (Constant)		-	302518.45			
		263030.98	4		-0.869	.390
		6				
StillLifeDummy		-	234824.83			
		56344.671	6	-.023	-.240	.812

Source: [www.artprice.com](http://www.artprice.com) (2008)

### 11.2.3 Prices and subject

More than 35 of Goncharova's paintings sold during 1998-2008 are still life. Her still life is considered to be the most famous and popular subject among the buyers. In order to see how

the subject 'Still life' influences the price I made the following calculations with the help of SPSS.

Table 2: 'Still life coefficient'

I can tell from the linear regression analysis that the fact that the painting is a still life one does not play a role in the selling price of a painting. First of all, it is not significant. Secondly, even if it would be significant, we can see from the table that it would have a negative correlation with the dependent variable.

#### 11.2.4 Prices and medium

The most of Goncharova's paintings were made by oil on canvas.

Table 3: 'Canvas coefficient'

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-	302518.45			
		263030.98	4		-.869	.390
	CanvasDummy	6	265070.64			
		-	3	-.013	-.136	.893
		35981.375				

As I can conclude from the linear regression analysis, the fact that the painting is done on the canvas does not play a role in the selling price of a painting. First of all, it is not significant. Secondly, even if it would be significant, we can see from the table that it would have a negative correlation with the dependent variable.

#### 11.2.5 Prices and size

It seems that size does not affect the price.

Table 4: 'Size coefficient'

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-	302518.45			
		263030.98	4		-.869	.390
	Size1	6	4535.544	.154	1.115	.272
	Size2	5058.984	4699.464	.059	.434	.667
		2038.086				

From this linear regression analysis I can say that the fact that the painting is of certain size doesn't play a role in the selling price of a painting. First of all, it is not significant. Secondly, even if it would be significant, we can see from the table that it would have a positive correlation with the dependent variable. Thus, it would be the case that a larger painting would be sold for more money.



### 11.2.6 Hammer prices and estimated prices

In the paintings that were sold during 1998-2008 (see Appendix 1) it is clearly seen that the hammer prices are related to the estimated prices.

Table 5: ‘Minimum price and maximum price before the actual auction’

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-	302518.45			
	263030.98	4		-.869	.390
<b>EstimateMin</b>	<b>1.976</b>	<b>.742</b>	<b>1.364</b>	<b>2.665</b>	<b>.011</b>
EstimateMax	-.687	.514	-.684	-1.337	.189

We can see from the table that the minimum price determined for the painting does affect the selling price at the auction as it is very close to being significant (sig. = 0,011) and its beta coefficient is 1.364 which means that if a minimum price goes up by 1, the selling price at the auction will go up by 1.364. The maximum estimate of the probable price outcome at the auction is not significant and even if it would be, it would have a negative correlation with the dependent variable.

### 11.2.7 Conclusion

As I can conclude from the analysis, all the variables are not significant, except Estimate MIN. The bigger the minimum estimation of the painting is, the bigger the price of the painting is. So the price is dependent mostly on the name of the artist.

Second, Sotheby’s turned out to be the leading auction house, to which the highest records belong.

### 11.3 Appendix III ‘Russian sales’ results during the period 2000-2008

### 11.3.1 Sotheby's. Year, auctions and total sale

The following table shows the results of Sotheby's 'Russian sales' during the period 2000-June 2008 only in London.

Table 1: 'Sotheby's. Year, auctions and total sale'

<i>Year</i>	<i>Month</i>	<i>Auction Name</i>	<i>Sale Total</i>
2000	May	The Russian Sale	1,897,485 GBP
	Nov	The Russian Sale	2,158,250 GBP
2001	May	The Russian Sale	1,716,030 GBP
	Nov	The Russian Sale	3,216,315 GBP
2002	May	Russian Pictures	2,869,399 GBP
	Nov	Russian Pictures	4,673,641 GBP
2003	May	Russian Pictures	4,931,640 GBP
	Nov	Russian Pictures	6,721,820 GBP
2004	May	The Russian Sale	10,926,740 GBP
	Dec	The Russian Sale	9,252,840 GBP
2005	May	The Russian Sale	12,294,080 GBP
	Dec	The Russian Sale	22,243,600 GBP
2006	May	The Russian Sale	27,670,040 GBP
	Nov	The Russian Sale	20,210,840 GBP
2007	Feb	Modern and Contemporary Russian art	2,631,880 GBP
	June	Russian sale- Paintings	17,739,720 GBP
	June	Russian sale- Works of Art and Faberge	5,003,840 GBP
	Nov	Russian Art Evening	25,731,100 GBP
	Nov	Russian Art and Paintings	9,451,325 GBP
	Nov	Russian Works of Art and Faberge	3,471,025 GBP
2008	March	Russian Contemporary sale	4,101,275 GBP
	June	Russian Art Evening Sale	21,186,850 GBP
	June	Russian paintings	9,338,925 GBP
	June	Russian works of Art	9,228,975 GBP

Source: [www.sothebys.com](http://www.sothebys.com) (2008)

According to the table both the number and the results of auctions grow each year. 2007 is considered to be the booming year. There were six auctions held with the total result more

than 65 million Pounds Sterling. The beginning of 2008 is also successful. The record auction was held in May 2006 with the total sale of 27,670,040 Pounds Sterling.

### 11.3.2 Christie's Year, auctions and total sale

This table shows the results of Christie's 'Russian sales' during the period 2001- June 2008 only in London.

Table 2: 'Christie's Year, auctions and total sale'

<i>Year</i>	<i>Month</i>	<i>Auction Name</i>	<i>Sale Total</i>
2001	Nov	Russian Paintings and Works of Art	721,426 GBP
2002	Nov	Russian Paintings and Works of Art	318,671 GBP
2004	Nov	Russian Pictures	9,268,706 GBP
		Russian Works of Art	2,875,711 GBP
2005	Nov	Russian Pictures	19,355,600 GBP
		Russian Works of Art	2,598,320 GBP
2006	Nov	Russian Works of Art	9,848,700 GBP
		Important Russian Pictures	18,335,480 GBP
2007	June	Selected Silver and Russian Works of Art	398,772 GBP
	June	Russian Art	18,067,920 GBP
	Nov	The Somov Collection	6,320,150 GBP
	Nov	Important Russian Pictures	19,513,025 GBP
	Nov	Russian Works of Art including Rothschild Faberge Egg	13,258,350 GBP
	Nov	Russian Icons and Pictures	1,252,862 GBP
2008	June	Russian Art	11,260,325 GBP

Source: [www.christies.com](http://www.christies.com) (2008)

As we can see, the situation with the development of Christie's 'Russian sales' is almost the same as at Sotheby's. However the results remain smaller. The first successful sale was held in November 2005 (£19,355,600). 2007 was a record-breaking year for Russian art. The Somov collection alone brought up more than £6 million.

### 11.3.3 MacDougall's. Year, auctions and total sale

The following table illustrates the history of Macdougall's 'Russian sales' since 2004.

Table 3: 'MacDougall's. Year, auctions and total sale'

<i>Year</i>	<i>Month</i>	<i>Auction Name</i>	<i>Sale Total</i>
2004	Nov	Russian Art Sale	199,948 GBP
2005	May	Russian Art Sale	633,555 GBP
	Nov	Russian Art Sale	2,584,806 GBP
2006	May	Russian Art Sale	2,594,223 GBP
	Nov	Russian Art Sale	2,006,000 GBP
2007	June	Russian Art Sale (19th & 20th Century Russian Art and Russian Post-War and Contemporary Art)	6,470,213 GBP
	Nov	Russian Art Sale (19th & 20th Century Russian Art and Russian Post-War and Contemporary Art)	10,803,746 GBP
2008	June	Russian Art Sale (19th & 20th Century Russian Art and Russian Post-War and Contemporary Art)	12,360,898 GBP

Source: [www.macdougallauction.com](http://www.macdougallauction.com) (2008)

MacDougall's is considered to be the leading auction house for Russian post war and contemporary art. The November 2006 sale was the largest ever in the world for this sector. However the figures are still far from the records of the previous auctions. In June 2008 there was a record sale at this auction house.

#### 11.3.4 Bonhams'. Year, auctions and total sale

In this table all the auctions held at Bonhams' during 2005- June 2008 are shown.

Table 4: Bonhams'. Year, auctions and total sale

<i>Year</i>	<i>Month</i>	<i>Auction Name</i>	<i>Sale Total</i>
2005	Nov	Russian Sale	1,535,740 GBP
2006	Nov	Russian Sale	2,793,372 GBP
	June	Russian Sale	3,610,302 GBP
2007	Nov	Russian Sale	3,548,220 GBP
	May	Russian Sale	1,732,880 GBP
2008	June	Russian Sale	20,432,720 GBP

Source: [www.bonhams.com](http://www.bonhams.com) (2008)

As I can conclude from the numbers, the record sale was this June 2008. Since the history of 'Russian sales' and Russian department as well is not as long as at the previous auction houses, the figures are less, too.

### 11.3.5 Conclusion

As we can see Sotheby's and Christie's are the biggest sellers of Russian art, as now they both hold about six auctions a year. However the Sotheby's' history of 'Russian sales' is longer and the figures are higher. Despite the fact that MacDougall's is the auction that specializes only in Russian art, its figures are rising as well. Finally I can conclude that most of the lots are represented by visual art.

