



EXECUTIVE SUMMARY

FAIR MARKET VALUE STUDY

MOVABLE CULTURAL PROPERTY PROGRAM

October 1991



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This Executive Summary was prepared by
the Program Evaluation Division of the
Department of Communications, Canada.

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Ce résumé a été mis au point par la
Division de l'évaluation des programmes du
Ministère des Communications du Canada.

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EXECUTIVE SUMMARY

The purpose of this Executive Summary is to present the results of a study of the impacts of cultural property grants on the fair market value of Canadian art and antiquities. This is done by presenting the background, context, evaluation issues, methodology, findings, conclusions and recommendations of a recent study conducted by ARA Consulting Group Inc. and completed in October 1991.

Background

The Movable Cultural Property Program was established pursuant to the 1977 proclamation of the Cultural Property Export and Import Act (Act). The primary objective of the program is to preserve in Canada significant examples of Canada's heritage in movable cultural property (art and antiquities normally collected by museums, art galleries, libraries and archives).

The program consists of five components in support of this objective. They are: export controls, which delay the export of significant cultural property for up to six months, giving public institutions an opportunity to purchase the property with the assistance of a cultural property grant; tax incentives, which encourage Canadian residents or corporations to donate or sell significant objects to public institutions in Canada; grants and loans, which are made available to assist Canadian institutions in purchasing significant cultural property when it is offered for sale in other countries, or when an export permit has been refused; designation of institutions and public authorities which makes them eligible to benefit from the program; and import controls, which are in place to enable Canada to cooperate with other countries in stopping the illicit international traffic in cultural property.

The program serves as Secretariat to the Canadian Cultural Property Export Review Board (Board) which makes recommendations to the Minister of Communications for approval or refusal of grants and makes determinations with respect to tax certification.

Context

In 1988 the Movable Cultural Property Program underwent a comprehensive program evaluation which found that the program was functioning extremely well. This study did make recommendations in 1988, all of which have been implemented.

At a policy meeting held in September 1990, the Board expressed concern about the possible manipulation of grants and requested a further examination of the potential effects of cultural property grants on market values for Canadian art and antiquities. One could argue, and some Canadian art dealers do, that the availability of

government monies for the purchase of objects of national significance artificially inflates prices as the program injects more money in pursuit of a limited supply of objects deemed to be significant for repatriation or subject to export control. Thus, an objective assessment of both the impact of grants on the Canadian art and antiquities market and the degree of compliance with or manipulation of the Act (to obtain grants) was considered necessary.

Another issue concerning the granting formula was discussed at the Board's policy meeting. During the last several years the grant budget was exhausted before the end of the year. The grant budget has remained at a constant level during this period and has therefore not provided any compensation for increasing inflation levels. Given the early exhaustion of funds over the last few years one could argue that either the funding formula is no longer appropriate or that the resource levels are inadequate to meet the demand. There is also a possibility that the availability of grants has affected what museums acquire. Since monies are made available for the purchase of significant cultural property, it could present a temptation for some museums to move into areas of collecting in which they were previously not engaged (e.g., higher priced objects than would normally be acquired or different categories of cultural property than previously collected). The question then arises, are acquisitions with the use of grant monies consistent with the institution's acquisition policy?

These four concerns, and the need to provide an objective assessment of their potential impacts, prompted the Board to request a study to address the (1) grants' effect on the market place, (2) the degree of compliance with the Act, (3) the appropriateness of the funding formula and (4) the impact of grants on the nature of public collections. The four evaluation issues are outlined below.

Evaluation Issues

1. Effect on the market place: how has the availability of grants affected the art and antiquities market?
2. Compliance with the Cultural Property Export and Import Act: how have granting rules affected compliance with the Act?
3. Appropriateness of the funding formula: is this formula appropriate?
4. Impact on Canadian public collections: how does the availability of grants affect what museums collect?

Methodology

A number of different approaches were used in collecting data and information from respondents. Telephone interviews were conducted with 92 grant-recipient and non-recipient institutions, 10 dealers and auction houses, and 13 American museums. Data was also collected through a file review of all grant assisted acquisitions (approximately 400 files, 1977-1990) and a targeted data collection effort was made with respect to specific objects and institutions. Library research, examining data available through auction sales records was also conducted.

The varied data collection approaches provide multiple lines of evidence for each evaluation issue; thus, we have interview data, file review material and statistical data which all examine the evaluation issues from different perspectives. This provides important methodological checks which can assist in verifying the accuracy of data, and can also help in corroborating information from other sources. The findings presented below are the result of this multiple approach to collecting information.

Findings

1. Effect on the market place: Market prices for Movable Cultural Property grant assisted transactions (for which a transaction history could be found - 20 objects) increased on average 0.94% per year between 1970 and 1990. This compares to annual increases in fine art of 30% during the same period. Price increases in ethnographic works averaged 90% per year between 1980 and 1990. This analysis of market price is supported by interviews with Canadian grant-recipient institutions, 83% of which said they were not aware of any cases where the availability of grant funds affected the price of an object; 100% of non-recipient institutions agreed, as did 100% of the American respondents.
2. Compliance with the Cultural Property Export and Import Act: The possibility of collusion in manipulating the Act is one of the most difficult effects to measure. Only 2 of 102 respondents associated with grant-recipient and non-recipient institutions or art dealers said they knew of a case of non-compliance (both mentioned the use of a foreign buyer to falsely bid up the price of cultural property). Eighty-three percent of respondents from recipient institutions said they were not aware of any cases where the use of grants had affected the price paid for an object. Fifty percent of the dealers interviewed indicated that collaboration was possible. The overwhelming evidence, therefore, indicated that compliance with the Act and its intentions is not a problem.

3. Appropriateness of funding formula: In general, both grant-recipient and non-recipient institutions (85% and 83% respectively) think the funding formula is reasonable. A few respondents suggested that the formula should make an allowance for the size of the institution involved in acquiring an object (this is already the case).
4. Impact on Canadian public collections: Ninety percent of grant-recipient institutions indicated that grants helped purchase higher quality objects and 55% felt the program helped expand the sources for cultural property, especially those outside Canada. The grants did not, however, stimulate collecting in areas in which the institutions were not previously engaged.
5. Other findings:
 - 5.1 The program is considered extremely important in assisting institutions obtain cultural property of significance to Canada and is in general terms well thought of by respondents from both grant-recipient and non-recipient institutions. Eighty percent of the non-Canadian respondents expressed the desire to have a similar program in the U.S.
 - 5.2 Ninety-five percent of grant-recipient institutions say the administration of the program should not be changed. The program staff are described as being very helpful, good at solving problems and effective in communicating with institutions.

Conclusions

A number of conclusions can be drawn from the above findings and are presented here.

1. The Department of Communications, the Movable Cultural Property Program, the Canadian Cultural Property Export Review Board, and the Canadian taxpayer can be reassured that the grants made available for the purchase of cultural property are not contributing to inflated prices being paid using public funds. Since no clear evidence of market effect has been found as a result of the availability of grants the Board can also easily answer critics which may question the potential effects of grants on the market. From this we conclude that the Canadian government, the public, and particular heritage institutions are getting value for money through this program.

2. Although the Act has appeared to some to have potential loop-holes which make collusion and manipulation of the Act for financial gain possible, the overwhelming evidence from this study shows that Canadian users of the Act tend to comply with it. Since this is the case, value for money is retained by the Canadian government and taxpayer alike.
3. The funding formula has always been a delicate and complex one to apply, requiring judgement on the part of the Board and program officials. Respondents have indicated their overall satisfaction with it and one can conclude from this that the current application of the funding formula, especially its flexibility, continues to make sense and is the best that can be applied in the current situation.
4. An unintended impact of the program is found when considering the higher quality objects which institutions are able to collect as a result of the availability of grant monies. While this was not an objective of the program, it is nonetheless a positive result of it.
5. The 1988 evaluation demonstrated that the Movable Cultural Property Program was an effective and efficiently managed organization and this current study on fair market value has supported this. One concludes from this that the program is well structured and delivered.

Recommendations

1. Rationale:

During the data collection phase it was important to gather data on previous sale transactions of objects acquired with the assistance of a grant. Very few files contained this information which is essential in assessing price increase trends. To the extent that a sales history can be obtained it is easiest at the time the object is acquired with the aid of the program. There is no point in being rigid about this and requiring a sales history, since it is impossible to acquire in all cases.

Recommendation:

This study recommends that officials make an additional effort to acquire a sales history for objects acquired through the program.

Benefit:

The collection of such information would help officials monitor price changes and respond to future questions about program impacts on prices.

2. Rationale:

While non-compliance has been shown not to be a major problem there may be isolated instances where letters of interest from potential foreign purchasers are used to support an inflated price sought for a piece for which an export permit has been denied.

Recommendation:

This study recommends that the Board and program officials examine, on a systematic basis, cases where letters of offer are made by foreign buyers.

Benefit:

This would emphasize the importance attached by officials and the Board to the fairness and integrity of the review process and may send out a warning signal to potential abusers of the Act.

3. Rationale:

The overwhelming body of evidence from the 1988 evaluation and the current study indicates that the Movable Cultural Property Program is one of the rare cases where a program, while adjustments and finetuning are always needed, runs smoothly and very efficiently.

Recommendation:

This study recommends that unless specific questions require addressing, or the program budget were to be increased significantly, the Movable Cultural Property Program not be studied or evaluated again for a considerable period.

Benefit:

This would result in study and evaluation cost savings for the Department.