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After the boom and bust, an era of 'greater maturity' for art and the blockchain?

Despite the collapse of the NFT market and scandals involving cryptocurrency exchanges, experts still see potential in the technologies' potential art world applications

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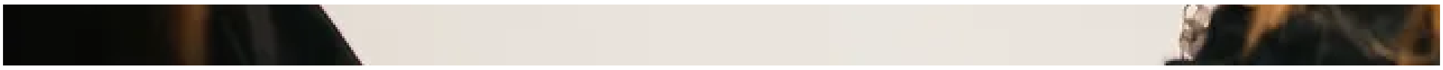
Arcual CEO Bernadine Bröcker Wieder in conversation with the artist Simon Denny for Arcual Reflections
Photo: Gloria Soverini

Not that long ago, early adopters of cryptocurrencies and NFTs (non-fungible tokens) were riding high. Celebrities including Tom Brady, Mark Cuban, Matt Damon, Kim Kardashian, Gwyneth Paltrow, Serena Williams and Reese Witherspoon promoted Bitcoin, Ethereum and other cryptocurrencies as alternative investments, until the collapse of FTX in late 2022 suggested that one of the world's largest cryptocurrency exchanges might actually be an old-fashioned Ponzi scheme.

Buying presumably investable NFTs took off in 2021, with museums, artists, new-to-the-market groups like Yuga Labs (creators of Bored Ape Yacht Club) and Larva Labs (creators of Crypto Punks), as well as celebrities from Snoop Dogg and Lindsay Lohan to William Shatner minting their own blockchain-based digital assets, purchasable with crypto. The market for NFTs, recorded on blockchain platforms and marketplaces, reportedly soared to $41bn in 2021, declining slightly to $38.2bn in 2022, before losing an estimated 95% of its value earlier this year. Added to the tales of woe were numerous instances of hacking in which purchasers of NFTs lost these assets through "phishing" scams. As the market tightened, some platforms did away with resale royalties for artists, one of the blockchain marketplaces' key selling points for creators.

Was it all a fad, like tulip mania, pet rocks and Beanie Babies? Some people who were swept up in the initial hype may have decided that it was a passing craze, but both NFTs and cryptocurrencies may be poised for a comeback.

"In the past year, prices for Bitcoin, Ethereum and other digital assets have risen sharply. Bitcoin is up 100% so far this year," says Ric Edelman, the founder of the Digital Assets Council of Financial Professionals, which helps financial advisors understand this newer realm of investing.Prices for the digital art that drew so much attention in the past two years have "collapsed", he notes, adding that "it remains to be seen whether prices for these NFTs will recover". But he says there is a new level of interest in commercial uses of crypto by institutional investors and governments, as well as a concomitant interest in NFTs that have more of a commercial value, increasingly referred to as RWAs—the tokenisation of real world assets—such as those Starbucks now distributes as rewards to its loyalty programme members, the NFTs that Breitling gives to buyers of its timepieces so that owners can track their provenance and the NFTs that the state of West Virginia is using to record and distribute automobile titles.

In the art world, the two largest auction houses, Christie's and Sotheby's, have invested substantially to become involved in the NFT market. Sotheby's has established two separate and sometimes overlapping platforms: Sotheby's Metaverse, which launched in the autumn of 2021 and focuses on secondary market material, and Gen Art, which was introduced this past summer and presents primary market material.

"The NFT market is very strong," said Michael Bouhanna, Sotheby's head of digital art. "This year, we will have $30m in gross sales, which is more than 50% above 2022."New technology used as a medium for creating art "fascinates younger collectors", he says, describing most of the buyers he sees as between 25 and 40 years of age, which is "ten years younger than the standard post-war and contemporary buyer."

Besides the NFTs themselves, Bouhanna also has found himself working in a new way, particularly when assigning estimates to artworks that are new and have few if any comparables. Valuing these pieces requires him to "know the appetites of prospective buyers, know what they are looking for and know what they will pay".

Meanwhile, Christie's 3.0, the auction house's "fully on-chain NFT sales" platform, launched in September 2022, more than a year after it sold Beeple's *Everydays: The First 5000 Days* NFT for $69.3m (with fees), which was perhaps the first time many in the art world had heard of NFTs or the name Beeple. Nicole Sales Giles, Christie's vice-president and director of digital art sales, now refers to Beeple as "one of the blue chips" whose work might be offered in the more conventional auctions of post-war and contemporary art. "The market has matured over the past few years," she says, characterising the market cycle in this period as "initial hype, softening and greater maturity". She adds that many pandemic-era NFT buyers were "more interested in gambling and flipping works, while those who are bidding now are true collectors".

The market for NFTs has also grown to include museums, such as the Los Angeles County Museum of Art, the Centre Pompidou in Paris and New York's Museum of Modern Art (MoMA), which are acquiring these works for their permanent collections. Caroline Taylor, founder of Appraisal Bureau, an appraisal service for businesses and private individuals that has a proprietary algorithm for valuing NFTs, says "there is absolutely still an audience for NFTs", with a market that "is incredibly broad".

"There was definitely a temporary hype around NFTs following the pandemic from 2021 to 2022," while "over-zealous speculators" in crypto "hyped them up" during that same period, says Bernadine Brocker Wieder, chief executive officer of Arcual, a company with offices in Berlin, London and Zürich that uses blockchain technology to verify art market transactions. Despite the hype, she says that "this speculation is separate from the non-fungible technology itself and the value of storing information on a blockchain ledger. We have also seen that cryptocurrencies have a range of applications that are being integrated into our global financial system."

Governmental regulation can help, Wieder adds, particularly in the area of "consumer rights. Blockchain transactions are irreversible and so the intermediators are the ones who we need to trust to protect the consumers who decide to engage with these platforms."

FTX, Binance, Gemini and other crypto exchanges were intended to provide trustworthy, liquid, convenient and secure ways of converting cryptocurrencies to fiat, or government-backed, currencies. Government regulation likely might have spurred confidence, usage and growth, rather than the volatility and corruption that has dominated the crypto news cycle. Greater investor confidence in crypto might well result from greater government regulation, Edelman says, noting that "current laws and regulations do not adequately address this new technology."

Not everyone agrees. Standing in the way of new regulation is Securities and Exchange Commission chairman Gary Gensler, who repeatedly has told Congress that he believes that current laws are sufficient.