

COMMERCE

How will stricter sanctions on Russia affect countries involved?

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Schiphol Airport Memorial, photo by Persian Dutch Network via Wikipedia

By JOE MCCARTHY

The downing of Malaysia Airlines Flight MH17 has spurred the European Union to take a harsher approach to Russia's escalating role in the Ukrainian conflict.

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Germany, Britain, France and several other nations have been reluctant to back United States sanctions because their economies are more intertwined with Russia's. Now, the EU marched ahead of the U.S. sanctions, in a move that will likely ripple throughout the continent.

"I don't think this is huge for the luxury industry," said Milton Pedraza, CEO of [The Luxury Institute](#), New York. "The situation right now with Ukraine is very tenuous and negative and the world sanctions against Russia puts the country in a pariah role so it dampens the consumption of luxury goods.

"Russia is not the huge driver of tourism for Europe," he said. "If China were to have a conflict, then there would be a tremendous impact."

Broad outline

The next wave of sanctions aimed at Russia primarily target energy, defense and

financial sectors. Also, individuals close to president Vladimir Putin will continue to have their assets frozen and their travel privileges revoked.

Previously, Britain had been hesitant to ramp up financial sanctions, since Russian investment has led to a flourishing London real estate market that has propped up other industries as well.



London property listed by Stuart & Parker

France had been opposed to arms sanctions because Russia buys up many of the machines it produces. Germany, Russia's biggest trade partner in the EU, had, along with most of Europe, expressed concerns about energy-related sanctions, lest they suffer from a shortage of natural gas.

However, when the Malaysian Airlines flight was shot down killing 298 passengers, resistance to sanctions largely folded. The EU understands that punishing the Russian economy will most likely wound its own economies, but also recognizes that this is the only viable route following the repeated failure of diplomacy.

Sanctions are divided between low, medium and high intensity restrictions. For example, a low intensity sanction includes restrictions on importing and exporting intermediate and processed goods, whereas a high intensity sanction includes a ban on all intermediate and processed goods.

Some analysts worry that straining Russia and EU relations further may threaten the economic recovery of several countries.

Russia has already felt the frost of international isolation. The ruble has been strained for several months and foreign investors are avoiding the country.

Luxury fears

Russia has been rising on the radar of luxury brands for many years. Companies across categories have been increasing their presence in the country and courting affluent Russians traveling abroad.

Although the country's economy had been slowing prior to the current conflict, this year's

events have sharply halted growth.

Part of the sanctions take direct aim at the import of luxury goods. Trade between Russia and the 28-country bloc will likely taper to a significant degree, affecting companies ranging from German auto manufacturers to French leather goods makers.



Rolls-Royce Wraith in St. Petersburg

Similar to Chinese consumers, Russian consumers spend lavishly when traveling to shopping destinations such as Milan, Paris and London. Widespread economic tightening and anti-Western rhetoric will likely deter such trips in the near future.

Brands planning to expand retail locations will likely hold off until relations are repaired.

Reputation is a fickle thing, especially in the digital age. If brands manage to distance themselves from the political conflict, they might be able to bubble-wrap brand image.

However, luxury brands generally have a poor digital presence in Russia, according to L2 Think Tank. In L2's Russia Digital Index report from August 2013, 55 percent of brands offered Russian Web sites and only 14 percent offered Web sites with advanced Russian translation ([see story](#)).

In a country where wireless carriers have seen mobile data traffic triple in 2012 ([see story](#)), lack of communication from brands can multiply injuries.

Ironically, Russia recently hosted the Winter Olympics in Sochi, an event that normally has a huge influence on a country's tourism. It also hosted the Winter Paralympics.

Although Sochi is a more attractive destination now than it was before the Olympics, the Crimean crisis subdued the honeyed glow that cradles most former Olympic cities.

Furthermore, the strident media coverage of the conflict between Ukraine and Russia has darkened international moods. References to the Cold War are being made and, with that, increasing isolation for Russia.

As the world waits to see how much the West will retaliate, tourism will likely flag throughout Russia. Luxury consumers may view the fraught atmosphere as simply not

worth the potential hassle.

The U.S. and EU previously levied travel bans and sanctions and frozen the assets of figures closely tied to President Vladimir Putin. Businesses with heavy investments in Russia have been pushed to attenuate their role in the country.

Plus, travel among Russians within the country may also drop as the domestic economy shrivels ([see story](#)).

"For the oligarchs, they may have limited travel, but they'll find their luxury elsewhere," Mr. Pedraza said. "It's a low level of impact overall."

Final Take

Joe McCarthy, staff writer on Luxury Daily, New York

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