

GOVERNMENT

## What does the latest Russia-Ukraine conflict mean for luxury?

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*U.S. citizens have been urged to leave Ukraine. Image credit: InterContinental Hotels & Resorts*

By SARAH RAMIREZ

As tensions continue escalating between Russia and NATO allies, the situation in Ukraine has global ripple effects.

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While Russia and Ukraine have been at war since early 2014, concerns have grown in recent weeks about a potential Russian invasion of Ukraine as tens of thousands of troops are stationed near the Ukraine border. While the United States and its European allies continue pursuing a diplomatic solution, an invasion of Ukraine could have a widespread impact on financial markets in addition to the human toll.

"In total, the Russian luxury goods market produces about \$4.7 billion in annual revenue, with an expected 4.86 percent compound annual growth rate (CAGR) until 2025," said Liam Hunt, financial writer and analyst at [Sophisticated Investor](#). "We would likely see the industry's CAGR plummet if open warfare breaks out, as domestic Russian industrial producers will face supply chain shortages, export barriers and possibly re-purposing of their industrial production to meet wartime needs."

### Tensions build

The source of the most recent political tensions between Russia and the West is ostensibly the closer relationship between Ukraine and NATO.

Russian President Vladimir Putin has asked NATO, which has grown its membership to 30 nations since being established in 1949, not to expand eastward including deploying troops or weapons in neighboring Ukraine. However, Russia has no say in the matter since it is not part of the military alliance.



*Ukraine and Russia have been in a military conflict since 2014. Image credit: Fairmont Grand Hotel Kyiv*

Ukraine is currently one of eight eastern European countries with an Individual Partnership Action Plan, and the country's public support for NATO membership has increased since the Russian invasion of Crimea in 2014 ([see story](#)). Taking steps to join NATO as a member remains a priority for Ukrainian President Volodymyr Zelensky.

Although the Kremlin has said it has no plans to invade Ukraine, U.S. and NATO officials have publicly argued otherwise.

"NATO allies and the United States have the same assessment, that it's a very high risk for a Russian attack on Ukraine," said NATO Secretary General Jens Stoltenberg [on Feb. 19](#).

As of press time, it appeared that U.S. President Joe Biden had agreed "in principle" to meet with President Putin after a Feb. 24 meeting between both countries' top diplomats provided that an invasion has not occurred. While the prospective meeting was proposed by French President Emmanuel Macron, [CNN reports](#) that both Russia and the U.S. have not made a firm commitment to meet.

Should an invasion occur, U.S. and European officials are prepared to impose strict economic sanctions on Russia.



*The Louis Vuitton boutique in Kyiv. Image credit: Louis Vuitton*

On Feb. 20, British Prime Minister Boris Johnson [said](#) the U.K. and U.S. would stop Russian companies from trading in pounds and dollars, hampering the country financially. He also warned that an armed conflict in Ukraine would be the biggest war in Europe since World War II in terms of scale.

Meanwhile, European Commission President Ursula von der Leyen told [CNBC](#) that energy sanctions against Russia are still an option if an invasion occurs. About 40 percent of Europe's gas is supplied by Russian company Gazprom, and discussions are underway with alternative suppliers.

What comes next

Multiple media outlets have reported that U.S. and European intelligence officials strongly believe an invasion of Ukraine remains imminent.

Although luxury hotels in Ukraine such as the Fairmont Grand Hotel Kyiv and InterContinental Kyiv have not publicly acknowledged the region's political situation, the U.S. Department of State has issued travel advisories warning against travel to Ukraine and Russia due to the ongoing threat from Russia, as well as the COVID-19 crisis.

The U.S. and U.K. are also among the countries that have urged their citizens to leave Ukraine or have evacuation

plans in place. German airline Lufthansa has also halted flights to Kyiv, although air travel continues to the western part of the country.

Financial markets have remained volatile in recent weeks amid the geopolitical tensions as well ([see story](#)). On Feb. 18, the U.S. stock indexes saw their **second consecutive losing week** as investors remain jittery.

At press time, stock futures remained uncertain about the prospect of a meeting between Presidents Biden and Putin. U.S. markets are closed on Feb. 21 in observance of Presidents Day.

While Ukraine's luxury market is smaller than Russia's, several brands have a physical presence in Kyiv, including Louis Vuitton, Dior, Cartier, Gucci, Burberry and Van Cleef & Arpels. Luxury department store Serahunt also carries many luxury labels, including Balenciaga, Fendi and Versace.

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