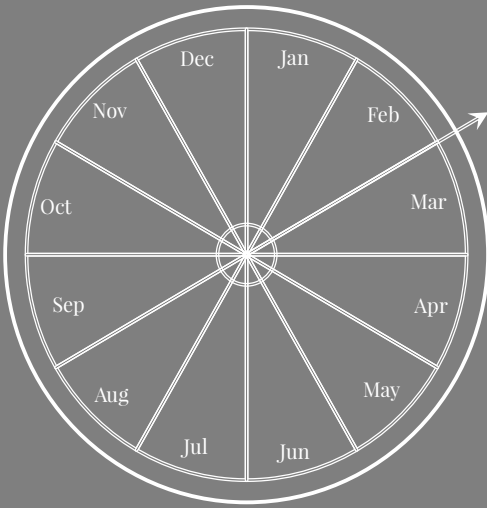


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Last month we asked where 2022 will take us; this month, we have the answer. And it isn't a pleasant destination.

In recent weeks, almost every non-Government commentator refused to believe that Ukraine would be invaded. Sensible observers refused to believe it. The markets showed that they didn't believe it. The fearful rhetoric from western powers appeared overdone.

But we now know this position was not only completely wrong, but hopelessly optimistic.

It is too easy to think like this in situations where there is substantial material gain to be had by, as Teddy Roosevelt put it, simply talking softly and carrying a big stick. Acts of aggression that go beyond this are rare because they make almost no sense from a diplomatic perspective, or a short-term financial perspective. The ramifications are always huge and come with years, if not decades, of consequences for the aggressors, irrespective of their victory.

Wealth is an incredibly controversial subject in war, as the consequences of those who use it as an objective to pursue aggression rather than peace, are necessarily deadly.

However, though maintenance of business and trade are valuable as makeweights in preventing conflict – as universal prosperity acts as a great incentive to keep the peace – they are useless in situations where ideology overrides commercial interests.

The Cold War is an example of this, lasting nearly half a century between 1947 and 1991. Pitting as it did two competing political philosophies against each other, it was at its heart, an ideological conflict. Since the fall of the Soviet Union in the early nineties, business and trade and the power of market forces took over from the political ideals. States which did not agree on matters of foreign policy nevertheless conducted trade together, creating a mutual dependency and a kind of peaceful prosperity. The ideology had been, we thought, flattened by a sense of reciprocal reliance, enforced by currency transactions, the transfer of goods and contract law. This theory is being well and truly tested in the current circumstances. Is wealth and prosperity the thing that matters most to Russia's leader?

In our article this month, we explore the controversial subject of Putin's alleged personal wealth, and the impact it may have had on his decision-making process.



Knowledge.
Perspective.
Passion.

Barton

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PUTIN'S

BILLIONS

The President of Russia, Vladimir Putin, is a mysterious and opaque character. He has mastered the Nixonian rule that unpredictability is the greatest asset of any leader and he has managed to develop an impenetrable persona and image that confuses most of his opponents.

Of course, he has been clear about his beliefs regarding the fall of the Soviet Union and his admiration for historic all-conquering Russian leaders such as Peter the Great and Catherine the Great. None of his actions are inconsistent with previous actions taken in recent years and are, in fact, something which should have been entirely expected. He could easily have been taken at his word all this time.

And yet, one of the reasons for many people not doing so is their uncertainty about what really matters to him.

Officially, the Russian state claims that Putin lives off a salary of around US\$117,000, owns a 77 sqm apartment and a garage with three cars. By no means a poor individual compared to the average Russian, but comically far beneath the incredible wealth of the famous Russian oligarchs, who benefited from the end of Soviet control of Russia's assets, including natural resources, minerals and manufacturing. The official account of his modest effects

is frequently challenged by his political enemies, not least by stories like that of Mikhail Khodorkovsky. At one time believed to be the wealthiest man in Russia and the CEO of Yukos Oil, he was imprisoned on charges of fraud by the Russian government in 2003 and pardoned by Putin in 2013. In 2014, a court in The Hague found that the Russian government, under Putin, had deliberately bankrupted Yukos in order to seize its assets and ordered the government to repay Yukos shareholders a sum of \$50bn.

Other stories like that of 'Putin's Palace' on Russia's Black Sea coast – detailed by Alexei Navalny's Anti-Corruption Foundation in a 2 hour documentary – raise questions about the importance of wealth and luxury to the Russian leader. The claimed ownership of the palace by Arkady Rotenberg, who was one of the first oligarchs to be sanctioned by the UK government due to his closeness to the Russian President, will do nothing to dispel any theories that this is actually one of Putin's secret assets. Investment experts such as Bill Browder, CEO and co-founder of Hermitage Capital Management – which specialises in Russian markets – believe that Putin has amassed a huge fortune of over \$200bn and that this was created in part by demanding that the oligarchs who made so much from Russia's transition from communism into a market economy pay him half of

“...The contrast of his alleged incredible wealth with his upbringing (and the upbringing of most of his oligarchs) in an impoverished and failing state, is huge.”

their wealth, so that they get to keep the other half – otherwise they would be thrown in jail like Khodorkovsky.

It is a plausible but as yet unproven theory. However, what is also somewhat implausible is that Vladimir Vladimirovich, as a largely unchallenged supreme leader of his country, would not be tempted by the huge power that he possessed to make his life more comfortable, particularly not when the oligarchs to which he and the Kremlin maintained close ties, climbed ever higher on the mountain of wealth.

Even in countries of relative political transparency like the UK and USA, politicians can make substantial personal wealth by offering their ‘experience’ of leadership after their public service has concluded. In a country like Russia, which is associated with opaqueness and relentless corruption, the official account of Putin’s very austere private life seems not only unlikely but highly suspicious.

Does this matter? Well, probably yes. Wealth may not be the motivator for Putin in invading Ukraine. We may assume it is for some national glory that he is pursuing the path of war. That the humbling of his country thirty years before, the expansion of the borders of western powers, the increase in the numbers of NATO signatories and the perceived threat of all this to Mother Russia, were far more powerful catalysts.

But we cannot forget the effect that wealth has on our individual actions. And we cannot forget that in the Russian President, we have a man who has long had the ability to behave as he pleased with no fear of reprisal. But if he is secretly monstrously wealthy, how does this change him?

When, during a recent summit, Putin opined that “*There is no happiness [in life]. There is only a mirage, on the horizon*”, most made light of this as a classic Bond villain phrase, a quotable moment of pseudo-wisdom. Again, no one took him at his word. It is possible however that a man at the helm of a nuclear power, who has also amassed a giant personal fortune (however strenuously this is denied in public) has perhaps exhausted the traditional avenues for success and life satisfaction.

The contrast of his alleged incredible wealth with his upbringing (and the upbringing of most of his oligarchs) in an impoverished and failing state, is huge. The advent of wealth for them was sudden, and potentially disorienting. To have spent a childhood learning about the evils of ‘decadent capitalism’ and then most of your remaining years in the most profligate luxury imaginable must surely have an impact on psychology. Whatever wealth he has, and however he got it, it is noteworthy that he would take a course of action that would endanger it, and himself, for as long as he should live. After all, disillusionment is a common side-effect of success.

Sector updates



Image: Aston Martin

Aston Martin recently announced their new DBX707, a near-700 bhp vehicle that the British marque is claiming as “the world’s most powerful luxury SUV.” Though the engine of the DBX707 is comparable to Aston’s standard DBX, it forces more air through it, helping it to generate more power. Alongside its multiple horses, Aston also point to its acceleration – 0–60mph in 3.1 seconds – and its sports car style handling, focusing – as Barton notes – on distinctly non-SUV values. Whilst a clear attempt by Aston to head off concerns that it is abandoning its GT and Sports car heritage in favour of the lucrative SUV market, it enters an crowded space with the likes of Lamborghini, Porsche and Bentley already offering the ‘racing-car-on-stilts’ experience of crazily fast 4x4s. With the Ferrari Purosangue due to debut later this year, this could be the beginning of the end for the traditional sports car.

Hermès is easily the most frequently used ‘case study’ of how a luxury brand should behave. Admired and desired the world over, its commitment to long-held standards and reluctance to submit to market forces are central to its brand success, and lofty position in the eyes of luxury consumers. It was somewhat surprising to Barton therefore that Hermès recently announced it is due to open three new factories before 2024 to “keep up with demand” for its highly collectible bags. However, the controlling Dumas family were eager to dispel any notion that standards were slipping: “We are facing high demand, and we have a product that is very handcrafted,” Axel Dumas, said. “It takes 15 hours [to create] an Hermès bag. Even if there’s a lot of demand, I’m not going to start doing them in 13 hours to raise production.” Irrespective of this, it marks a rare occasion of the brand bowing to market forces.



Image: Shutterstock



Image: Getty

You would forgive Barton for thinking that showing a united front in imposing sanctions on Putin’s Russian regime as retaliation for invading Ukraine would take precedence over narrow commercial interests. However, the Italian luxury industry lobby and the Belgian diamond lobby thought differently. Tom Neys, spokesperson for the Antwerp World Diamond Centre said: “It is a blow that should hurt Russia but there is a chance that we do more damage to ourselves. The Russians can easily trade their diamonds with non-EU countries.” The President of the Italian National Fashion Chamber said more than 1 billion euros worth of luxury exports to Russia could be at risk. Now, the Italians are claiming they never attempted to carve out an exemption for, as one journalist put it, ‘selling Gucci loafers to oligarchs.’ In fact, as fashion weeks in Milan and Paris continue it seems that, once again, the luxury industry is responding to public opinion, and standing up for Ukraine.