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ANALYSIS

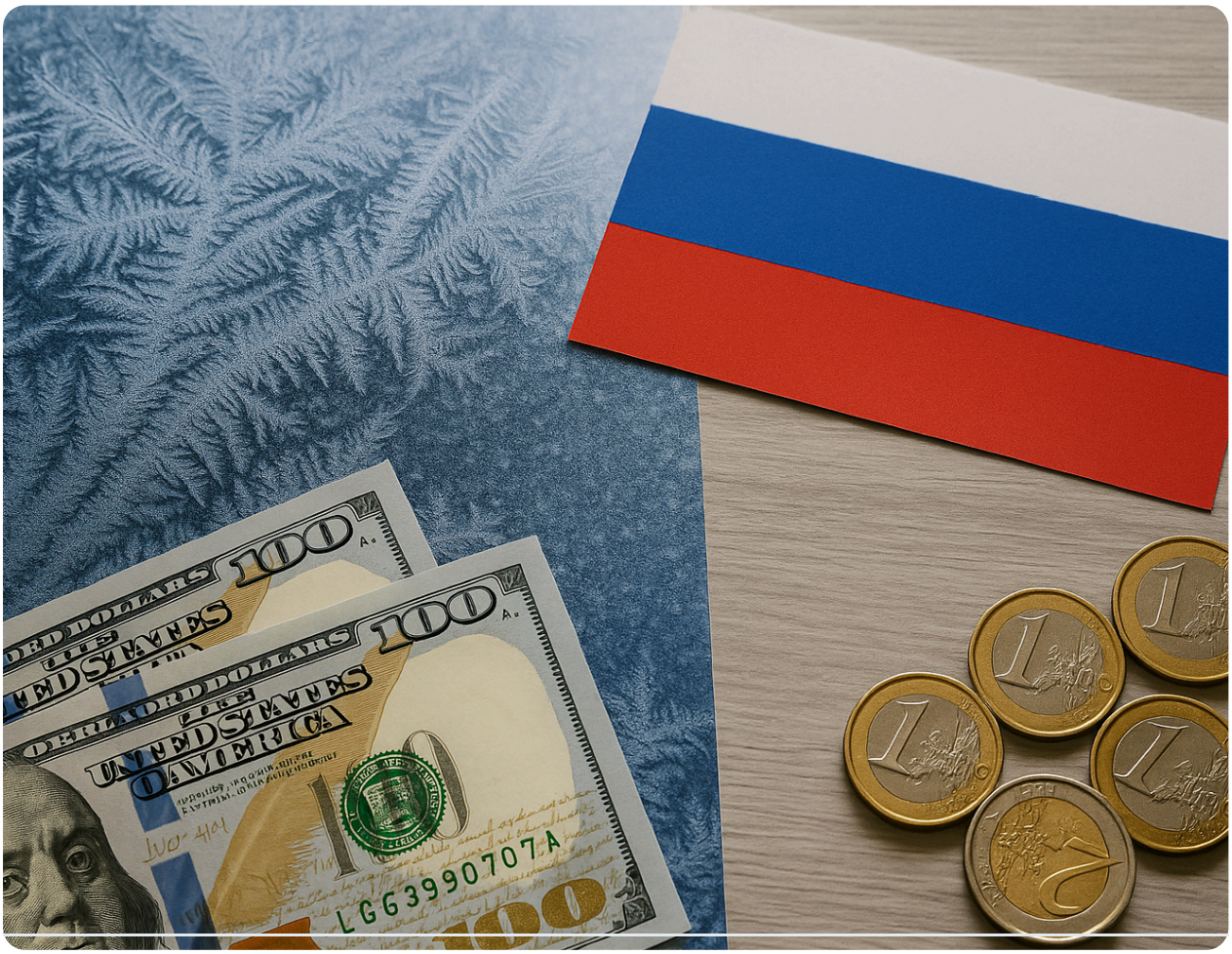
Debates on the Use of Russia's Frozen Assets and the Possible Path Forward

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Current Status of Frozen Russian Assets

Following Russia's full-scale invasion of Ukraine in February 2022, Western nations took unprecedented measures by freezing approximately $300 billion of Russia's sovereign assets held in foreign central banks and financial institutions. These actions represent the most extensive economic sanctions package ever imposed on a sovereign state, aimed explicitly at limiting Russia's financial capability to sustain its war of aggression against Ukraine.

The majority of the frozen funds, around €200 billion, are located in the European Union, with Belgium holding the lion's share—approximately €190 billion—primarily due to its hosting of the Euroclear clearinghouse, a major global securities depository.[1] Smaller portions are dispersed among other Western jurisdictions: approximately $39 billion frozen by France, about $5 billion in the U.S., and significant sums in the UK, Germany, and Canada.[2]

Recent developments show both the urgency and political sensitivity surrounding these assets. Ukraine has increasingly emphasised the necessity of using these funds for reconstruction, given the mounting devastation and its estimated reconstruction needs, which reach at least €478 billion.[3] Despite broad consensus on the moral and political imperative of supporting Ukraine, considerable divisions persist within the EU. Notably, between more proactive East-Central Europe nations and more measured Western members such as France, Germany, and Belgium.[4]

Currently, EU and G7 nations have approved limited steps, particularly leveraging the interest accrued on frozen Russian assets. For instance, Euroclear accumulated roughly €6.9 billion in interest in 2024 alone, which has begun to be channelled into Ukraine's reconstruction via an EU-managed fund.[5] Belgium, moreover, imposed a 25% windfall tax on this interest, transferring approximately €1.7 billion to Ukraine.[6] However, no jurisdiction has yet taken the step of outright confiscation, reflecting deep legal, political, and financial concerns.[7]

Arguments in Favour of Confiscating Frozen Assets

- The confiscation of frozen Russian assets represents a legitimate enforcement of Russia's international responsibility. Under international law, an aggressor state is required to compensate for the damages incurred as a result of its unlawful actions. A UN General Assembly resolution in 2022 explicitly stated Russia's obligation to provide reparations to Ukraine, establishing strong international legal backing for asset confiscation.[8]
- Transferring Russia's funds to Ukraine's reconstruction aligns strategically with the West's interests. Economically, these funds could provide a vital boost to Ukraine's financial capabilities, reducing its reliance on continued Western support. Reinvesting Russia's immobilised reserves directly into Ukrainian reconstruction would not only symbolise accountability but serve as tangible assistance, dramatically boosting Ukraine's economic stability and recovery trajectory.9]
- Confiscation is a vital deterrence measure that would send a powerful message to potential aggressors about the tangible costs of violating international law. Confiscation might dissuade future state-led aggression by demonstrating that international consequences include profound economic penalties, extending beyond sanctions to direct financial retribution.[10]

- Historically, precedents exist for reallocating frozen state assets to compensate victims of aggression, notably in cases involving Iraq's invasion of Kuwait in 1990. Some G7 nations have laid the legislative groundwork, such as Canada and the United States, to legally enable confiscation under specified conditions of egregious international violations.[11] The procedural and legal frameworks can be constructed transparently, which would mitigate concerns about legal precedent and financial system stability.

Arguments Against Confiscating Frozen Assets

- Opponents, prominently including France and Germany, highlight legal objections. They argue that confiscating assets breaches the core international principle of sovereign immunity, potentially undermining Western claims to uphold international law and weakening trust in Western-led financial institutions.[12] This erosion of normative financial security could destabilise the rules-based financial order, encouraging other nations to reallocate their assets away from Western jurisdictions.
- European Central Bank (ECB) officials and various finance ministries caution against significant unintended financial repercussions. Confiscation may trigger a decline in global confidence in the Eurozone, prompting sovereign wealth holders, such as Saudi Arabia, to shift substantial reserves from euros to dollars, which could exacerbate inflationary pressures and increase borrowing costs for European states.[13] Such market shifts could lead to long-term adverse consequences for European financial stability and the global economic environment.
- Confiscation could provoke direct Russian retaliation, including reciprocal asset seizures of Western-owned assets within Russia, cyberattacks, or disruptions to commodity supplies. Belgium's Prime Minister notably labelled asset seizure as a potential "act of war," indicative of serious diplomatic risks involved.[14] Furthermore, divisions within the EU on confiscation policies could significantly weaken European unity precisely when collective action is crucial against Russian aggression.

Outlook and Policy Recommendations

The moral and political arguments—as well as those made by international law experts—in favor of fully confiscating frozen Russian assets are more than convincing, and the associated risks can be mitigated. Russia's war of aggression against Ukraine continues unabated and has escalated into a campaign of terror, while its broader ambitions to destabilize the entire NATO alliance remain clear.

In the near future, countries should make the decision to confiscate frozen assets as a demonstration of political will and resolve. Such a move would also serve to deter other potential aggressors—such as China or Iran—from violating international law and committing war crimes.

However, acknowledging that there is currently no consensus within the EU on full confiscation, EU policymakers could consider adopting the following measures:

- **Incremental Expansion of Windfall Utilisation.** The existing policy of using accrued interest could be expanded substantially. Regulators should maximise the revenue generation from frozen assets by ensuring all funds are actively yielding returns. This approach maintains low

political risk and broad acceptance while substantially increasing available resources for Ukraine's reconstruction.

- **Establishment of an International Compensation Fund.** Creating a dedicated international or EU-level trust fund, such as the "Ukraine Compensation Fund," to safeguard frozen assets could help balance competing concerns. The principal would remain intact, ensuring the reversibility required by cautious member states, while generating higher yields through moderated, actively managed investments. This structure would simultaneously build diplomatic leverage against Russia while providing steady, meaningful financial support for Ukraine.
- **Conditional Confiscation as a Negotiating Tool.** Another intermediate strategy involves setting conditions under which confiscation would occur, for instance, as a guaranteed response if Russia violates the ceasefire or peace treaty terms. This conditional approach could garner broader consensus, offering strategic leverage to diplomatic negotiations without immediately triggering the legal and financial risks associated with outright confiscation.

While legal, economic, and geopolitical risks do exist, the strategic and moral case for using frozen Russian assets is overwhelmingly compelling. In the short term, a staged approach offers the most effective path forward—beginning with improved management of windfall profits, evolving into an internationally administered compensation fund, and conditionally paving the way for full confiscation. Such steps would ensure both immediate impact and long-term stability, sending a clear signal that grave violations of international law and acts of aggression will not go unpunished.

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