

A Work Project presented, as part of the requirements for the Award of a Master's degree in
International Development and Public Policy from the Nova School of Business and
Economics.

**European Union's sanctions against Russia: Implications of
moving from freezing to seizing sovereign assets**

**Balancing Legal, Economic, and Political Concerns in Holding Russia Accountable for
its aggression**

Max Bertenrath (61473)

Work project carried out under the supervision of:

António Vicente and José Tavares

17/12/2024

Group Part

Abstract: The European Union's (EU) response to Russia's invasion of Ukraine has led to unprecedented sanctions, including the freezing of €210 billion of Russian sovereign assets located in the EU. This paper explores the feasibility and consequences of moving from freezing to seizing these assets. Through nine interviews with involved EU officials, economists, and legal experts, it examines the policy's political, economic, and legal dimensions. The Extraordinary Revenue Acceleration (ERA) loan design offers an effective compromise to seizure. To ensure the loan reimbursement and even increase the windfall profits, some technical adjustments of the current ERA design should be considered.

Keywords: European Union, Sanctions, Countermeasures, International Law, International Order, Accountability, Sovereignty, Sanctions Design, Russia, Ukraine, Frozen Assets, Seizure, Foreign Exchange Reserves, Financial Markets

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

Table of Contents

Table of Contents..... 2

1. Introduction and Research Questions 3

5. Empirical Findings 5

 5.1 Considerations Behind the Asset Freeze 6

 5.2 Considerations Behind the ERA Loan..... 9

 5.3 Considerations Behind Full Seizure 13

 5.4 Policy Recommendations 18

 5.5 ACF applied to the Seizure of immobilized Russian Assets 20

6. Discussion..... 23

7. Conclusion 28

2. Theoretical Framework..... 31

 2.1 The International Order and International Law 31

 2.2 Sanctions..... 32

 2.3 Advocacy Coalition Framework..... 35

 3.1 EU’s Freeze of Russian Assets 36

References 42

Appendix 51

1. Introduction and Research Questions

Russia's full-scale invasion of Ukraine on 24 February 2022 marked a historic and unexpected return to military aggression in Europe, disrupting the post-World War II international order. With this action, Russia violated the obligation under the UN Charter to refrain from the use of force against the territorial integrity of other states, a principle the country had already undermined with the 2014 annexation of Crimea. The invasion, aimed at violating Ukraine's sovereignty and overthrowing its government, has been widely condemned by the international community. While direct military intervention by third countries remains off the table to avoid escalating the conflict, the global response and support have been wide-ranging. Nations have provided financial and military assistance to Ukraine, coupled with a comprehensive sanctions regime targeting Russia's economy, leadership and financial systems. One of the most significant measures is the European Union's (EU) freezing of €210 billion in Russia's central bank (CBR) reserves. In cooperation with the G7, more than \$300 billion were frozen. As a key part of broader sanctions, this asset freeze seeks to undermine Russia's financial ability to continue funding the war while raising questions about how best to utilize these assets. One debated option is fully confiscating the assets to fund Ukraine's defense and reconstruction efforts. Existing literature on financial sanctions has focused on their immediate legal, political and economic effects. However, a comprehensive analysis of the transition from freezing to seizing sovereign assets remains limited due to its unprecedented nature. This thesis aims to fill this research gap by clarifying the extent to which asset freezes achieve their intended goals of deterring aggression and achieving reparations, and by analyzing interviews with experts and insiders that allow us to distinguish each stakeholder's narrative from their agenda. This study examines the EU's policy options related to the asset freeze, namely the Extraordinary Revenue Acceleration (ERA) Loan and confiscation of the frozen assets. It assesses their design and their outcomes through legal, economic and political lenses.

Group Part

The findings aim to provide actionable insights for policymakers navigating the delicate balance between enforcement, legality, and broader economic stability. The analysis is underpinned by the following **research questions**:

1. What are the legal, economic, and political motivations and implications of transitioning from freezing to seizing Russian central bank reserves?
2. To what extent is the immobilization of Russian central bank assets effective in achieving EU's sanction objectives?
3. To what extent can Russia be held accountable for its war of aggression by repurposing seized frozen assets to provide reparations to Ukraine?

In addition, the following **secondary research questions** will be answered:

1. Could these sanctions erode trust in the euro and the dollar as a reserve currency and impact the global financial system?
2. How have different stakeholders, including EU institutions and member states, influenced the design and implementation of these sanctions?

5. Empirical Findings

According to the EU Envoy for Sanction Enforcement, David O'Sullivan, the EU's sanctions had three objectives: "Firstly, to deny Russia access to sophisticated technology needed to make smart weapons, secondly, to hit the revenue available to the Russian government to fund this war, and thirdly, we wanted to weaken generally the Russian industrial military complex through particularly our sectoral measures." The immobilization of assets has mainly been targeting the second objective. Considering the effectiveness of the EU's asset freeze, João Moreira Rato doubts they will achieve the EU's aim to disable Russia from continuing its military aggression against Ukraine. He even noted that he believes there was no evidence in the literature of a link between sanctions and military aggression. However, he admitted that in the very long term, it may be "more difficult to sustain the economy." EU Official A and Yuliya Ziskina acknowledged that the EU sanctions regime has indeed failed to stop Russia's military aggression, but EU Official A concludes that this does not mean that the EU should "get rid of it" because it has put pressure on Putin. Brad Setser argued that the threat to Russia is gone after the assets are frozen, and he expects no other effect of the freeze on Russia's military aggression. EU Official C recognized the uncertainty that we do not know what would have happened without the sanctions.

Patrick Heinemann underlined the importance of the terminology and stated that "sanctions are essentially countermeasures as defined by the International Law Commission's draft on state responsibility". Countermeasures may be imposed in response to serious violations of international law to encourage the offender to return to compliance, says Heinemann. He states that Russia's aggression violates the "UN Charter's prohibition on force, thereby creating a reparation claim for Ukraine under international law. He added that this claim exists now, "even before any peace treaty." Heinemann believes there is no legal avenue for Ukraine to pursue this claim. Therefore, international law relies on decentralized enforcement because

Group Part

Russia has a veto power in the UN Security Council. That is why the UN Security Council will never oblige Russia to pay reparations. The US-American lawyer disagreed and pointed out that Ukraine had a case against Russia, and the International Court of Justice was going to the merits. If Ukraine gets rulings by the court granting it a hearing for damages, then there is an avenue to recover against Russian assets, he said. He added that the International Court of Justice does not need a Security Council resolution to issue a judgment.

5.1 Considerations Behind the Asset Freeze

Legal Considerations Behind the Asset Freeze

Yuliya Ziskina argued that the asset freezes are not considered a sanction but a countermeasure. Countermeasures usually interfere with the right to its freedom of property, as it is the case with the freezing of Russia's sovereign assets. She believes that they are legally justified because countermeasures are policy tools a sovereign can only use against another sovereign under special circumstances, such as a fundamental breach of international law, "as we have seen here with Russia."

Economic Considerations Behind the Asset Freeze

Economically, we distinguish between the possible impact on the euro and the dollar as global reserve currencies and the likely impact on Russia's economy. The sanctioning coalition considered economic consequences for Western financial markets. Some economists raised concerns about a potential loss of trust in the euro and the dollar due to asset freezes, the confiscation of the interest income, or full confiscation. They feared that some sovereigns that are less aligned with the West might fear similar consequences and therefore move their reserves to other jurisdictions. Setser illustrated that these fears are "manageable". He believes that a lot of countries have no other option but to keep the reserves in euros and dollars. He cites China as an example: "China can't bring its reserve home. China's options are to use its

Group Part

reserves to defend its currency, run down its reserves, to shift reserves to the state banks and have the state banks buy different kinds of foreign assets, which they've already done in scale, or shift between the dollar and euro. But, if you shift between the dollar and euro, if the G7 sanctioning coalition holds together, you haven't reduced your vulnerability." For third countries considering shifting their reserves to China as the next best option, João Moreira Rato argued that China is not a very liquid market. If a sovereign decides to hold Chinese financial assets, it will have to spend them on Chinese goods because the currency does not have the advantage of the dollar or the euro, where you can spend it on whatever you want. Setser concluded that "there [...] is not good evidence in the global data of a meaningful shift away from either the euro or the dollar." Ziskina agreed that the effects on the Western currencies have mainly been unjustified, as argued by "prominent economists, including former presidents of the World Bank, former US Treasury Secretaries, and some other very famous economists." The EU also seems to be sure that the asset freeze poses no threat to the reputation of the euro or the dollar, as an EU official told us that "since the immobilization started in February 2022, we haven't seen a massive outflow of investment in the eurozone or buying securities, for instance in euros."

Setser stated that the asset freeze has "much more modest impacts on the global financial system and on the Russian economy than a lot of people expected". For Russia, the asset freeze is not as painful as some say because "they're getting enough in foreign currency earnings from their exports to pay for the foreign currency required for their imports", said Setser. Although Russia cannot use the frozen assets, it can still use the Chinese yuan reserves that are not part of the sanction coalition. Additionally, "over the past 10 quarters after the invasion of Ukraine, Russia runs a current account surplus." Therefore, it is building up assets abroad. "The only time you need to use reserves is when you have to draw down your foreign assets to cover your imports. And Russia has been able to cover its import bill, including the extra imports that it

Group Part

has to do from China to keep its economy running during wartime conditions, out of its oil and gas proceeds. So there arguably has not been much of an impact actually on Russia, which is one of the concerns.” While João Moreira Rato overall agreed that the economic impact of the asset freeze is not big, he added that it will be more costly for Russia to keep their reserves in other jurisdictions as alternative “currencies such as the renminbi and rupee are less liquid”. Thus, the return Russia gets on its reserves is lower than it was when they were denominated in Western currencies. On the contrary, one of the EU officials argued that the immobilization “has been one of the most impactful measures against Russia” and given the amount, he thinks this is “certainly a huge loss to Russia and to the Russian economy.”

Political Considerations Behind the Asset Freeze

According to Setser, the US was willing to apply asset freezes in cases where there was strong opposition to a country’s actions, “including actions that kind of have the characters of fighting a war with your friends”. According to Setser, the asset freezes have to function as a signal of disapproval. In general, EU Official B explained that freezing assets rather than confiscating them is based on the principle that the freeze is reversible if the aggressor stops the aggression. By implementing a freeze rather than outright confiscation, the EU and its allies still have the possibility of returning these assets under certain conditions, which could be used as a negotiating tool. This approach keeps the door open for future political dialogue and signals to Russia that compliance with international norms could potentially lead to the release of frozen assets. Setser added that Russia would not get its assets back right after it stopped their aggression. He said they would have to demonstrate their good behavior for some time.

5.2 Considerations Behind the ERA Loan

Legal Considerations Behind the ERA Loan

As none of our interviewees had access to the contract between Euroclear and Russia, they all relied on the assumption that the generated windfall profits belong to Euroclear, which is what Euroclear stated in the negotiation with the EU, according to some EU officials we talked to. This can be an issue, according to Heinemann. He pointed out that the assumption that Euroclear owns the windfall profits might trigger compensation claims if the assumption does not hold true. Setser explained that “because the way the Euroclear contract was written when a bond matures in the Euroclear account, and there is no legal instruction, no valid instructions on what to do with the maturing money, it just automatically rolls into a zero-interest rate deposit account at Euroclear.” The US-American lawyer explained that “the idea that you can take the interest, but you cannot take the principle strikes me absurd.” Moreover, he thinks that these kinds of contracts include majeure clauses that would allow the transfer of ownership under specific circumstances, such as it is the case with Russia’s invasion of Ukraine.

EU Official A highlighted that they had to create legislation under the Common Foreign and Security Policy (CFSP)¹ framework that allowed them to pursue this plan. That legislation laid the ground to set apart these revenues. The Commission is currently (as of November 2024) working on the technical design of the transfer of these revenues to the European Peace Facility and programmes financed by the EU budget. He added that these changes are “within the void of union law”. EU Official B added that they felt comfortable using the interest income from

¹ The European Union's Common Foreign and Security Policy (CFSP) is a framework designed to enable EU member states to act together in foreign and security policy matters, to promote unity and to enhance the EU's influence in global politics. The policy grew out of efforts to address the fragmentation of European foreign policy and to complement the EU's considerable economic power with a coherent political and security presence on the international stage (Duquette 2001).

their legal perspective, but they “don’t want to touch the principal because they remain the property of the Russian central bank.”

Economic Considerations Behind the ERA Loan

Economically, Heinemann is concerned that “taking out a loan now and only relying on it from the interest income can really be sustained” as interest rates constantly go down. EU Official B agreed with that and added that it will be “on each and every lender to take the risk for a loan over 30 years.” “No one can guarantee that, in a 30-year time, you still have 3 billion interest incomes a year”, he said.

João Moreira Rato understands the EU’s temptation to use the assets and their interest income, but he feared that as a consequence, the EU would reduce third countries confidence in the European financial market. He added that “it is never a good thing to [impose such measures] if you want to keep a liquid market and keep a high level of confidence in your markets and investor’s confidence.” Regarding the direct economic impact, he stated that first, a transfer of this aid would have a positive effect on Ukraine’s GDP as it will be used to reconstruct Ukraine, and secondly, on the EU member’s GDP as they will save money that they otherwise would have spent on the reconstruction. “So, it is really a transfer from future generations in Russia to Ukraine and Europe”, he believed.

Political Considerations Behind the ERA Loan

EU Official A concluded that he would be happy if all assets had been confiscated, but politically, the ERA loan is what was “feasible”, and he believes that the EU can celebrate that as a victory. EU Official B agreed that as they did not view the confiscation of the principle as very positive, it is a better compromise. Setser viewed the ERA loan as an “elegant compromise”, but he sees room to increase the interest income if the EU would be a “little bit more aggressive in some technical decision”. However, he recognized that “it is the obvious

Group Part

solution to a set of political constraints” because “France and Germany, the EU and the ECB were simply not in favor of seizure.”

Setser thinks that this extension of the asset freeze will not affect Russia’s military aggression, because the threat of the sanction came with the freeze and ever since Russia has written off this money. The fact that the assets are not seized yet creates a small deterrent effect, Setser said. He argues that if “Russia were to do a military incursion into the Baltics, into EU countries, the frozen assets would certainly be seized.” Regarding deterrence against other countries, Setser thinks that China will be aware that they would lose access to their reserves in the EU and US if they would invade Taiwan. Despite that loss of financial wealth, they know that it doesn’t devastate their economy because China is running a trade surplus, just like Russia. EU Official A shared the belief that these assets can serve as “a means of a leverage and [...] will prove to be useful no matter what, but I think we should also not overestimate probably the impact of these sanctions.” Ziskina agreed that it will not limit Russia’s military aggression because “Ukraine needs about \$100 billion a year to sustain its defense and \$150 billion to actually win the war.”² Therefore, she sees the amount of \$3 billion a year earned by confiscating the interest as a “drop in the bucket”.

Heinemann acknowledged the US’ concern that it is uncertain for how long the assets will be frozen because “EU’s actions are subject to potential Hungarian vetoes.” This political constraint affects how much the US can contribute to the loan, as it has little security. One of the EU officials said that the US asked the EU to “extend the period during which the assets are immobilized and, therefore, to guarantee the revenue of \$3.5 billion over a 3-year period.” While most were willing to go along with it, including the Commission and most of the member states, “one member state [Hungary] in particular is still unwilling to agree to this, so we are

² Here, Ziskina cites the economist, Timothy Ash. To be precise, he said that Ukraine requires \$150 billion annually “to pose a serious challenge to Russia” (Ash 2024).

Group Part

blocked”. EU Official A explained further difficulties in the negotiation process among the ECB, Euroclear and Belgium. First, the Commission (to his knowledge) had no access to the contract between Russia and Euroclear, resulting in information asymmetry. They had to trust Euroclear that they were telling the truth, and he believes that this partly applied to the ECB as well. Moreover, he stated that his team took into account that if the ECB was more alarming towards an extension of the asset freeze because the ECB has a “broader agenda, and the same applies partly to the Belgians and probably also to Euroclear.” Therefore, second, they had to distinguish the message and the agenda of each party.

The Commission relied on Euroclear's expertise to understand the risks it faces and on the ECB's expertise to assess risks to the euro currency area. However, limited access to detailed information from Euroclear and, to a lesser extent, from the ECB created information asymmetries that hindered the EU's ability to maximize revenue for Ukraine. At the time of the negotiation, the Belgians were already taxing Euroclear's windfall profits. The EU pressured them to transfer the revenue from this tax to Ukraine, as the same argument that applies to Euroclear also applies to Belgium: They should not benefit from the EU sanctions. In the end, the Belgian prime minister agreed to give the money to Ukraine, but EU Official A claimed that Belgium presented it in a somewhat misleading way. Instead of transferring the funds, they used it within their budgets to finance aid to Ukraine. Thus, they had to cut off less of their budget for Ukraine. EU Official A summed up by saying, “there was quite a percentage that was left untouched because it was kept, either in the Belgium pockets or it was kept in Euroclear's pockets for potential risks that they may run in the future”, causing frustration on Ukraine's side which he understands.

As the technical distribution mechanism of the earnings is not yet set up, Heinemann warned that an EU Facility Deposit that could manage the accumulated interest income “would be patronizing towards Ukraine, and that would then be difficult to really present”. Furthermore,

he pointed out that it is essential to make “a distinction between aid to Ukraine and the satisfaction of Ukraine’s reparations claim against the Russian Federation.” He believes that the West can influence what Ukraine uses its aid for, but not the way it uses its compensation. Politically, EU Official B told us that he thinks the ERA loan will provide Ukraine with predictability in light of current political shifts, such as in the US, where continuous aid to Ukraine is not guaranteed. The US-American lawyer believes that this compromise serves as a “trial balloon” because it can test whether the arguments of the Europeans, namely the fear of losing trust in the financial system, hold true or not. He believes that it can be a step towards confiscation.

5.3 Considerations Behind Full Seizure

EU Official B clarified that “there’s the principle that sanctions are always temporary and precautionary measures. These measures are supposed to be temporary, and they don’t change the ownership status of the assets.” Therefore, “if you confiscate, you transfer definitive ownership to someone else. And this is not the purpose. This is not the core policy principle of sanctions. So, sanctions are not the proper instrument to underpin a confiscation”, the EU Official justified. On the other hand, the US-American lawyer clarified that sanctions and restrictive measures, terms the EU uses, have no legal meaning. Countermeasures do in international law. A common expectation is that countermeasures should ideally be reversible, meaning that the state implementing them can later withdraw them without leaving irreversible losses. This is why some argue that seizing assets is not a valid countermeasure.

However, not all countermeasures fit neatly into this category, he said. He even claimed that most do not fit in this definition. A typical example in international law would be one sovereign shooting down an airplane of another sovereign. As a valid countermeasure, the attacked sovereign can prevent the flights from the attacking sovereign from flying over its jurisdiction, and once those flights are canceled, the action is irreversible. So, in any situation, reversing the

Group Part

countermeasures will result in some irreversible loss. This argument was supported by Ziskina, who argued that the asset freeze and the ERA loan failed to reduce military aggression, while a confiscation of the assets can make a “game-changing difference” in winning the war.

Legal Considerations Behind the Full Seizure

Ziskina, Heinemann and Setser are legally of the same opinion and see a strong case for the seizure of the entire assets. Setser made a distinction between Ukraine’s and the EU’s right to seize the assets. While the legal case is strongest for Ukraine because it is forced into direct conflict with Russia, the EU still has a strong case to support Ukraine, and he remarked that this case is under “the sanctions law.” Moreover, Ziskina argued that under settled property law, “there’s no real distinction between Russia’s property rights to the principal and its right to the returns generated by investing that principal”. She quoted Harvard Professor Lawrence Tribe, who said, “taking the interest is really just a misguided move of leaping halfway across a gaping chasm when one has decided that one cannot or rather not make the trip all the way across.”

While EU Official B argued that sovereigns are subject to a special sovereign immunity and, therefore, confiscating the assets would be illegal, Heinemann agreed that sovereign immunity exists but opposes that following this argument “these assets could not be confiscated because sovereign immunity would simply mean that the assets are sacrosanct. But that’s rubbish.” Furthermore, he stated that according to this argument, if these assets are sacrosanct because of sovereign immunity, “then they shouldn’t have been frozen in the first place. Because freezing is, of course, also an impairment of rights. The point is precisely that the right to take countermeasures is permitted. And in such cases, this allows state immunity to be infringed.” Additionally, the US-American lawyer thinks that Russia claiming sovereign immunity is hypocritical as they have abused others’ sovereignty. He, therefore, argued that it is a “perfectly legitimate legal response.” He accused EU regulators of citing a non-existent legal obstacle as

Group Part

an excuse for not seizing the assets, driven by fear rather than legal constraints. EU Official A mentioned that he “spoke to countless professors who, at some point, even told me that what we were doing at union level was trickier than what we could do in an international context by just saying these are countermeasures.”

EU Official B added that “if you limit yourself to sanctions, sanctions are not the proper instrument to carry out confiscation. And this [confiscation of the entire assets] is not in the cards.” He believes that the legal red line is touching the assets of the Russian central bank. One of the EU officials concluded that the legal opinion on confiscating the assets is divided, and therefore, they will not confiscate the assets at this stage.

Ziskina argued that the International Court of Justice in Den Haag is currently working to set up a Claims Commission and register damage in Ukraine caused by Russia. Based on the registered claims and estimated damage Russia caused, they will determine the compensation Russia owes to Ukraine. She stated that more than 10,000 claims have been submitted so far, and the Claims Commission will “adjudicate these damages, and the idea is for the sovereign assets to be used to fulfil those claims.” According to Ziskina “this is the Ukrainian government’s perspective, and it’s working within the Council of Europe and partner states to set up this mechanism.” Based on that belief, she thinks that the confiscation of all the frozen assets is still in the cards.

Economic Considerations Behind Full Seizure

The economic implications of fully confiscating Russian assets have generated significant debate among experts. The considerations reflect a complex interplay between economic stability and international financial markets. Setser highlighted the main concern faced by experts “that moving from freeze to seize, or immobilization to confiscation, would undermine the euro’s appeal as a reserve asset for other jurisdictions, and it might particularly undermine

Group Part

certain individual countries' sovereign debt as a useful reserve asset." João Moreira Rato supported this caution, noting that full seizure could introduce "a risk to the integrity of the financial international order" and undermines the euro's appeal as a reserve currency. According to the economist "the US markets and the Western Europe markets are built on trust, that private property will be maintained and defended." This trust allows individuals, countries, and institutions to deposit their savings confidently, knowing their assets are safe and can be recovered when needed. Full asset confiscation, especially in these stable markets, would set a significant and risky precedent. If asset seizure becomes a perceived risk, investors may reconsider their investments in euro and dollar assets. However, Rato noted that they might still view the risks in alternative markets, such as China, as higher due to issues like liquidity and currency convertibility. This argument was supported by Heinemann, who said that "the euro and the dollar remain safer than alternatives such as the Chinese currency."

Ziskina challenged the concern of reserve allocation, arguing that "these fears have been shown to be unfounded by a lot of prominent economists," adding that 89% of global reserves are still held in dollars, euros, pounds, or yen, leaving "no viable alternatives to Western reserve currencies." The US-American lawyer supported Zinskina's view by stating that "we don't think that [the economic risks] are substantial. If you commit a naked act of aggression and war crimes for two years, then your sovereign assets are at risk." On the contrary, EU Official B expressed reservations about fully confiscating Russian central bank assets, highlighting economic concerns. Confiscating these assets could send a risky message to international investors, implying that placing assets in the EU could lead to their seizure for political reasons.

Political Considerations Behind Full Seizure

The political debate on the full confiscation of Russian assets is also marked by differing opinions on the strategic and practical implications of such a measure. Brad Setser expressed that such a step would be feasible but not necessary as the assets have already been effectively

Group Part

neutralized through freezing. He pointed out that if an asset is frozen in perpetuity and the interest income it generates is controlled, it essentially serves the same function as if the assets had been confiscated. Additionally, Setser acknowledged that confiscation could become a more serious option if there was a shortfall in financial support for Ukraine, which would make it a more pressing consideration.

The EU side, however, supports a more contrary opinion. EU Official C stated that “[a] change [of] behavior, is one of the objectives of the sanction [...]” and “if we are freezing the assets somehow to work as an incentive for the persons to change behavior, if they know that the assets will be confiscated, there is no incentive.” EU Official A also referred to the full confiscation as a “very sensitive topic.” However, he “would not exclude it” as he said it can always be used as a “leverage” and it “will always remain in the table as a fallback option.” Additionally, as a message from the EU to its citizens, EU Official A argued that the narrative that “we’re going to make the Russians pay [...] works amazingly well as a political message.” Like Setser’s perspective, he argued that “if the [Ukraine’s] national situation becomes even more increasingly complicated, that money will have to be found one way or another.” Moreover, he underscored the importance of using a compelling narrative to gain public support in case of a full confiscation. He highlighted that if taxpayer funding from EU or G7 member states become unsustainable, alternative funding sources will be necessary. In his experience, no narratives are as effective as the straightforward message of “making the aggressor pay” as this “works amazingly well as a political message.” Referring to the “countermeasure logic” for confiscation, EU Official A argued that this political strategy “was something that the US pushed for a lot.” He noted that the US strongly advocates for this approach but with specific motivations: first, much of the Russian money is held outside the US jurisdiction, and second, the US needs to secure funding by alternative means due to challenges in achieving domestic support.

5.4 Policy Recommendations

In line with Setser's belief that the ERA loan is an "elegant compromise", he uses his economic expertise to look for ways to maximize the interest income of the frozen assets. As the interest income was relatively high due to high deposit rates, the pressure to do more than just keep the reserves in the deposits was low. Now that deposit rates continue to decrease, the pressure to think of alternative ways to increase the interest income will increase. Setser suggests creating a facility that allows Euroclear and other CSDs to invest "safely in standard long-term reserve assets - French government bonds, Spanish government bonds, US agencies, and British gilts are totally normal reserve assets. People do not usually hold just deposits in their reserves. So put them in a portfolio of normal reserve assets and get a normal reserve yield." Once "you've got a portfolio of 10-year government bonds, you know what you're getting for the next 10 years, and it's a little technically easier to pull that forward", he added. While he admitted that there is some risk and one of three bonds could default or you run a maturity mismatch³, he believes that the "odds that it is going to cause long term losses are pretty low." Setser estimated that with a 3% interest over €260 billion of frozen assets, they would earn €8 billion a year. With this investment strategy and the expected yield, he would suggest agreeing on another \$50 billion loan to Ukraine. Rato links Setser's plan to maximize the interest income with additional risks: "I think these are all tricks because in a sense, if you increase the risk of the portfolio, you increase the risk of losses in the portfolio too. So, it's so it's just tricks." Moreover, EU Official B told us that if the EU would "go into a more active management model whereby you commit the principal of the Russian central bank assets to make loans, to

³ A maturity mismatch refers to a situation where the financial instruments on the asset side (e.g., long-term government bonds) and the liabilities (e.g., commitments to provide liquidity or returns to investors) have differing maturity periods (Goodhart 2015).

Group Part

use it as an investment vehicle, the question is, if there is something wrong, what will happen. And then, you will have to tap into the principal. And this we don't want.”

While Ziskina and Heinemann believe that seizing the entire frozen assets and transferring the money to Ukraine is the best possible option, Ziskina also thinks that protecting the frozen assets “against political whims” is necessary. She hints that a next President Trump may drag Ukraine into a forced ceasefire agreement, noting that it is uncertain what role frozen assets will play in the deal. Consequently, she acknowledged the impotence of an “insurance policy” dependent on who is elected president, reinforcing EU Official A’s emphasis on the politically driven nature of the confiscation debate. To do so, she would suggest the national governments to implement national law that allows them to move frozen assets within their jurisdictions from the CSDs into a trust fund or holdings account. “Once the International Claims Commission and the compensation fund is set up, to collectively move that into an internationally held account. This would keep that money safe from political fluctuations and earmark it for reparations and for compensation to victims.” Additionally, Ziskina agreed with Setser that while that money is there, it “doesn’t preclude investing it as well. Regarding the EU and their procedure of renewing the asset freezes every six months, needing unanimous approval of all member states, Ziskina pointed out that due to political uncertainty, particularly in Hungary, she advocates for a “more indefinite” procedure.

EU Official B underlined the importance of sanctions enforcement in general. He believes that the EU has reached “some kind of glass ceiling in terms of extra measures we can take”, as he had previously said that the EU would not touch the principle of the assets in any way. David O’Sullivan did not fully agree with that as he said: “We have not completely exhausted what we can do, but it’s clear that we have done the stuff that was doable.” He admitted that this was not enough to stop the war effort “since Putin is asset stripping or cannibalizing his own economy to continue his war of aggression at all costs.” EU Official A highlighted how these

innovative sanctions designs can reach a consensus among the members and that this process and some mechanisms in place due to the Russian aggression should apply to other sanctions regimes, such as if China invades Taiwan. To minimize the risk of a loss of confidence, Rato suggests to “provide a legal context around it that is very credible and believable” in order that this measure will be only imposed under these very particular circumstances, namely the breach of the UN Charter in a way Russia did.

5.5 ACF applied to the Seizure of immobilized Russian Assets

The following analysis applies the ACF to examine the policymaking process surrounding the Western freeze of Russian FX reserves, with a particular focus on key stakeholders such as the EU and its member states, the G7 (with a special focus on the US), and two crucial institutions: Euroclear and the ECB. In the case of asset freeze-related policies, the sanctions coalition forms the policy subsystem, with two key advocacy coalitions: one led by the US, favoring confiscation, and the other by the EU, opposing full confiscation. Both coalitions share a highly stable, **deep core belief** in the West’s commitment to international law and order.

However, their **core policy beliefs** differ from each other. The US-led coalition’s core policy considers measures, like confiscating Russian CBR reserves, as necessary to hold Russia accountable for its aggression, framing these actions as justified responses to violations of international norms and territorial sovereignty. In contrast, the core policy beliefs of the EU-led coalition include any extension of the asset freeze that does not include a change of ownership, which would be a result of a full confiscation. The EU believes Russia has a right to sovereign immunity that would be breached if its assets were seized. However, core policy beliefs are more adaptable than deep core beliefs, allowing integration during policy design.

Besides these fundamental categorizations of the coalition and their beliefs, there are dozens of additional beliefs and motives impacting the policy outcome. Several stakeholders continue

Group Part

to raise individual concerns about the negative impact of certain policy designs, limiting the ability to reach unanimous agreement.

Following Russia's invasion in February 2022, the sanctions coalition showed initial unity in condemning the aggression while upholding international law. European Commission President Ursula von der Leyen emphasized accountability for Russia (European Commission 2022c), while US President Joe Biden announced sanctions to limit Russia's access to global economies by "[limiting] Russia's ability to do business in Dollars, Euros, Pounds, and Yen [...]" (Zorthian 2022). Regarding the US's clear stance in favor of a full seizure, the REPO Act, signed by April empowers the president to seize Russian FX reserves within the US (Congress.gov 2023). Both parties expressed strong opposition to Russia, calling it an "aggressor" to underline their strong disapproval (European Commission 2023; The White House 2022). However, rhetorical differences emerged, with Hungary's Prime Minister Viktor Orban issuing milder condemnations and using vetoes to block sanctions, underlying the first division in the coalition (Liboreiro 2024).

The US, despite its strong support for Ukraine, was only able to freeze \$5 billion of \$300 billion in Russian assets due to Russia's de-dollarization strategy. The EU, holding most assets via Euroclear, has greater influence. While US economists see minimal risks from asset confiscation, the ECB and major EU members like France and Germany warn of threats to global financial stability and the euro's reserve currency status. Piero Cipollone, a member of the ECB's Executive Board, warns that the international role of the euro "cannot be taken for granted" and further highlights the risks of declining global reserves and increasing currency alternatives (Cipollone 2024).

Euroclear, a key player at the institutional level, has also raised concerns about a potential confiscation. They warn that Russia and its central bank may reject the confiscation's legitimacy, leading to legal disputes and complicating the management of the assets, with

Group Part

Russia already preparing legal cases (Bloomberg 2024). Adding on that, former IMF economist Ken Rogoff warned that such actions, while morally justified, could have serious economic repercussions, including Russian retaliation (Brookings 2024). Similar concerns apply to the ERA loan, with Russia potentially claiming rights to the generated interest from frozen assets (Ludwikowski, Torterola, and Sharipov 2024). Likewise, to other EU nations, the company fears that such actions could undermine trust in European capital markets and the euro (Dubois 2024). Moreover, the current CEO, Valérie Urbain, stressed that decisions on Russian assets are political and not made by Euroclear and warning that asset seizures could deter international investors from Europe. She noted that Euroclear faces over 100 legal cases in Russian courts with low chances of success (Quoistiaux 2024).

According to the ACF, coalition power depends on resources, public support, policy information, and research funding (Cairney 2012). One can assume that the EU is ahead in terms of policy research and research funding as it not only benefits from its own institutional resources but also from the member states' research. In addition, since the key CSD, Euroclear, is based in the EU, the EU likely has more information on possible negative effects of a confiscation than the US. The same logic applies to the ECB, which is likely to invest more research on possible negative effects, as the euro area could be more affected by a potential loss of trust. Regarding public support, both coalitions make use of the same narrative - make the aggressor pay, not the taxpayers - which is very strong, and is likely to result in high public support.

The above-mentioned deep core beliefs, policy core beliefs and the power of the two coalitions of this policy subsystem resulted in the compromise to provide Ukraine with the ERA Loan. While the G7 have agreed on this, some technical decisions are still subject to negotiation, which can be seen as **secondary beliefs**. These include, for example the distribution of the “burden”, namely the individual countries' commitment to contribute to the loan.

Group Part

Change within the ACF is driven by policy-led learning and external shocks. A major shock, such as the reelection of Donald Trump, could shift US policies, prompting EU adaptation. A continuing economic recession, particularly in Germany facing structural challenges, may increase the willingness to confiscate Russian assets to support Ukraine, easing taxpayer burdens and holding Russia accountable (Brookings 2024). A favorable ICJ ruling for Ukraine could further encourage asset seizure to uphold international law. Furthermore, decreasing interest rates could shift focus to full confiscation by reducing windfall profits critical for the repayment of the ERA loan. Policy-led learning also plays a role. The ERA loan acts as a test case, and accumulating data may reveal concerns about financial market impacts. In conclusion, any potential change in policy towards confiscation depends on the EU as most funds are held at Euroclear.

6. Discussion

This discussion examines the legal, economic, and political considerations behind the EU's and G7's approach to utilizing frozen Russian sovereign assets, linking theoretical frameworks with empirical insights from the conducted interviews and the applied ACF.

The effectiveness of the asset freeze shows mixed results. It has not succeeded in changing Russia's behavior or reducing military aggression, as supported by Rato's observation that there is no clear link between sanctions and reduced military aggression. However, it has achieved the critical goal of financial sanctions to restrict revenue available to Russia, as stated by O'Sullivan. Moreover, as suggested by EU Official C, it is unclear what would have happened if the freeze had not been introduced, emphasizing the importance of the measure. According to literature, multilateral sanctions like those by the EU and G7 are most effective in applying sustained pressure. Therefore, the asset freeze remains a key tool to hold Russia accountable and increase economic pressure in response to its aggression.

Group Part

In line with the UN Charter, all interviewees agreed that Russia's invasion constituted a brutal breach of Article 2(4), violating Ukraine's sovereignty and justifying reparation claims under international law. Asset freezes are legitimate under international law, emphasizing their temporality and reversibility, as especially outlined by the EU officials. Aligning with Morgan, Syropoulos, and Yotov (2023) findings, they incentivize behavioral change, as this measure can be reversed. In addition, asset freezes do not transfer ownership, a key factor in imposing sanctions.

The possible transition from freezing to full confiscation presents legal challenges, particularly regarding sovereign immunity, dividing stakeholder opinions. Proponents argue that Russia's serious violations of international law justify lifting sovereign immunity to provide reparations for Ukraine. This view has gained support, especially in the US through the introduced REPO Act. In contrast, the EU adopts a more cautious approach, highlighting the lack of legal precedent and stressing that sanctions should not result in irreversible and permanent changes to asset ownership, which a full confiscation would contradict. It must be clarified that although the EU uses the term sanction, they argue with the legal limits of countermeasures, which underlines a contradiction. The Professor of Law Paul Stephan (2022) states the customary international law generally protects state assets from seizure, though exceptions are unclear and inconsistent. With a larger amount of frozen Russian assets, the EU is more concerned about potential legal challenges from Russia. In contrast, the US faces less risk as they hold fewer frozen assets, favoring more aggressive measures. Moreover, the distinction between sanctions and countermeasures must be highlighted. On the one hand, the EU is correct in arguing that confiscation is not lawful within the framework of sanctions, but on the other hand, as described by White and Abass (2018), there are ways to coordinate countermeasures among its member states. Sanctions imposed by the EU must be lawful within the framework of the EU's CFSP, but the CFSP can be changed.

Group Part

The question of legality is a matter of interpretation and political will, with strong arguments on both sides. On the one hand, sovereign immunity might ultimately prevent the policy subsystem, consisting of the G7 and the EU, from confiscating the assets, as such an action could lead them to violate international law themselves, setting a poor example for the global community. On the other hand, confiscation could also be justified from a perspective of fairness, enabling support for Ukraine since Russia refuses to pay for reparation. According to international law, the imposition of countermeasures by third states aligns with the collective responsibility of states to address breaches of erga omnes obligations. This ambivalence highlights a key challenge in balancing the theoretical foundations of international law with practical policymaking.

The asset freeze has shown limited success in destabilizing Russia's economy in the short-term, as the country's access to Chinese reserves, the sustained oil and gas revenues and the constant trade surplus have mitigated the impact. This raises doubts about the overall effectiveness of the asset freezes in paralyzing the Russian economy, with interviewees revealing that the sanctions coalition achieved only partial economic isolation of Russia.

As observed, some stakeholders have expressed concerns about a potential loss of trust in Western financial markets due to the asset freeze. This topic has dominated public debate but has largely been reassured. However, this issue seems to appear as a more serious concern in case of a full confiscation. Repurposing over \$300 billion in frozen Russian assets for Ukraine's reconstruction offers a strong financial case, but stakeholders warn that such actions could erode confidence in global financial systems, accelerate de-dollarization, and reduce the trust in the euro. This is particularly concerning for the EU, given that 40% of Russian FX reserves are held in euros. A full confiscation risks showing that political motives can override financial stability, potentially contributing to further fragmentation of the global financial system and increasing mistrust, especially among southern nations. While McCauley, Chinn, and Ito

Group Part

(2024) find no significant changes in reserve currency allocations since 2021, interviewees identified this as a long-term risk of seizure, especially if countries less aligned with the West begin to see Western financial institutions as unreliable.

The “making the aggressor pay” narrative has gained public support, especially in sanctioning states. Unlike confiscation, freezing leaves room for negotiation and diplomatic flexibility. The ERA loan seeks to balance divisions within the coalition. By utilizing windfall profits from frozen assets, the approach aims to support Ukraine while addressing legal concerns and avoiding additional strain on national budgets. However, its success depends on generating approximately \$3 billion annually. This dependence seems particularly vulnerable as current trends suggest that interest rates will continue to fall. In addition, using the interest from assets with unclear ownership could also undermine trust in the European financial market, as feared by some interviewees. The coalition asserts that this approach is legitimate under international law, making it a secure option for the EU. However, the US-American lawyer argued that there is no legal distinction between this measure and full confiscation as the principle of “confiscating” the interest is effectively the same as outright confiscation.

Further challenges put the loan’s long-term success at risk. Trump’s second presidency raises concerns about whether the US will continue its strong support for Ukraine, as it has been the largest single country financial supporter so far. According to the Kiel Institute for the World Economy’s Ukraine Support Tracker, EU aid commitments to Ukraine as of 30 April 2024 have reached over €152 billion. In terms of allocations, EU aid totals €87 billion. As of 30 April 2024, Europe, including the UK, Norway, Iceland and Switzerland, allocated €102 billion in aid to Ukraine. In comparison, the US has committed a total of around €106 billion, and €74 billion in US allocations. However, the US is still ahead in terms of military aid allocations with €50.37 billion in military aid that has been allocated, €2.5 billion more than European countries (Bomprezzi et al. 2024). The uncertainty of the policies of Trump’s second

Group Part

administration makes it harder for the EU to ensure steady assistance for Ukraine, adding another layer of complexity to its efforts.

Additionally, the EU has not yet found a solution to prevent Hungary from vetoing sanctions every six months, which threatens the stability and continuity of the sanction regime. Lastly, the European Commission's reliance on institutions like Euroclear and the ECB increases risks of information asymmetry, limiting effective asset management and revenue generation for Ukraine. The confiscation of \$300 billion in frozen Russian assets could ease the financial pressure on the G7 and help Ukraine by providing a significant portion of the aid needed for its reconstruction, even if it does not fully cover the costs of an estimated \$411 billion (World Bank 2023). However, since these are the estimates resulting from the period from the beginning of the war until February 2023, one can assume that the costs are much higher now.

Over time, the EU may change its policy approach, as suggested by the ACF, especially as economic pressures and declining public support for Ukraine assistance in countries like Germany push for new solutions. In support of this opinion, recent Eurobarometer data reveals that 59% of Europeans view Ukraine's reconstruction as an economic burden on the EU, amplifying calls to minimize taxpayer contributions (European Parliament 2024).

Furthermore, policy learning within the EU might reveal that just holding the frozen assets has a limited deterrent effect in influencing Russia's behavior, increasing the probability of a full confiscation. Brad Setser argues that the mere possibility of confiscation offers some deterrence, aligning with Rudolf's (2024) who finds that sanctions threats can pressure targets. However, such a shift depends on navigating legal challenges and economic risks, especially as most funds are held within Euroclear. While asset freezes can incentivize behavioral change, complete confiscation eliminates this leverage, making it a less effective long-term strategy.

7. Conclusion

This analysis of the EU's sanctions against Russia, focusing on the potential transition from freezing to confiscating sovereign assets, is highlighted by an interplay of legal, economic, and political considerations. The study is especially relevant as it includes expert interviews conducted with EU officials, legal experts, and economists, which allowed us to capture diverse perspectives, offering a deeper understanding of the complexities surrounding the topic. Additionally, through the application of the AFC, this study was able to show how coalitions' beliefs involved in the policy-making process and their resources affect the policy outcome. Key findings reveal that concerns over losing confidence in the euro as a reserve currency due to asset freezes are largely unfounded. However, full confiscation could potentially threaten the current currency status.

The legal principle of *dubio pro reo* (when in doubt, favor the accused) seems to apply here. Since opinions on the confiscation are divided, this principle suggests avoiding the risk of confiscating assets when the evidence and legal basis are not certain. Nevertheless, Russia's violation of international law makes this case unique, reducing the likelihood of sovereigns reallocating reserves unless they anticipate similar actions in the future. Moreover, while the trend towards de-dollarization in Russia is evident, challenges due to limited alternatives and lack of coordination efforts are hindering a larger global de-dollarization trend.

Russia's economy is currently able to sustain itself through a trade surplus. Economically, the asset freeze has had a limited short-term impact on Russia's economy. Therefore, the freeze has not been sufficient to decrease military aggression. In the long-term, however, Russia's war economy is likely to collapse.

Economist Timothy Ash estimated that Ukraine requires \$150 billion annually "to pose a serious challenge to Russia" (Ash 2024), underscoring the potential importance of a

Group Part

confiscation for Ukraine's success. While there is a consensus that asset freeze is a legally sound countermeasure under international law, the legal opinion of full confiscation is divided. Due to insufficient legal grounds, the EU's cautious approach leads them to avoid irreversible measures and ownership changes. In contrast, the US is in favor of confiscation but lacks enforcement power, as most of Russia's assets are held in the EU. This debate reflects a grey area in sovereign immunity interpretation and reveals the blurred lines between countermeasures, compensation claims, and financial assistance to Ukraine. However, once the ICJ grants Ukraine rulings, a confiscation should be reconsidered. While a larger coalition enhances sanctions' effectiveness, it complicates consensus due to diverse interests. Mechanisms must be designed to ensure assistance, regardless of political leadership or economic pressure, to sustain support for Ukraine. Actively managing frozen Russian assets to generate stable and higher returns, for example, by investing in long-term government bonds, appears to be a feasible solution to assure repayment and potentially even increase the loan size. Establishing an internationally managed fund for the proceeds would help insulate the funds from political fluctuations and secure their use for Ukraine.

This study faces some limitations. The reliance on expert opinions provides depth but limits the generalization. Moreover, the study relies on interpretations of international law, which can be subject to change over time. Data limitations, regarding the confidential nature of financial arrangements and the composition of Russia's reserves, also limit the breadth of the economic analysis. Prior this study, concerns about potential long-term effects on global financial systems, such as the erosion of confidence in the euro and dollar, were also raised but could not be thoroughly analyzed due to data limitations. Future studies could focus on accessing datasets to measure the economic impact of asset freezing and confiscation quantitatively. Access to such datasets could be granted around five years after the end of the sanction's regime.

Group Part

The findings of this study underscore the EU's ability to balance legal, economic and political considerations in developing innovative responses to unprecedented challenges. While the asset freeze has not completely disrupted Russia's economy, it remains an important measure as it has frozen significant assets that could otherwise have been used to finance its war. Through measures such as the ERA loan design, the EU has not only demonstrated its commitment to upholding international norms, through non-forcible measures, but has also laid the groundwork for future mechanisms that strengthen global accountability.

2. Theoretical Framework

2.1 The International Order and International Law

International Order

The current international order is rooted in the Westphalian system⁴, which emphasized state sovereignty and non-interference in domestic affairs. This foundation envisioned states as equal, each with authority over its own territory. Over time, Western democracies layered additional principles onto this framework, such as human rights, open markets, and multilateral cooperation. These changes led to the current liberal international order (Kundnani 2017). After World War II, this order evolved further with the establishment of institutions such as the United Nations (UN) and the World Trade Organization (WTO). These bodies were designed to foster collaboration and promote liberal values on a global scale. The G7⁵, formed in the 1970s, became an important forum for leading industrialized nations to address economic challenges and reinforce the principles of this liberal system (Ikenberry 2018). The BRICS coalition of Brazil, Russia, India, China and South Africa has emerged as a counterweight to the G7, promoting alternative economic policies and advocating a multipolar world order that reduces dependence on Western-dominated systems. Sanctions have become a key tool for defending the liberal international order, particularly when nations violate norms such as respect for sovereignty or human right (Caporaso 2000).

⁴The Westphalian model suggests that each state exercises supreme authority within its territorial boundaries. States are independent, and external interference in domestic matters is not permitted (Caporaso 2000).

⁵ In 1975 the United States, France, Italy, Japan, the UK, and West Germany formed the Group of Six (G6) to address the inflation and recession caused by the Organization of Petroleum Exporting Countries (OPEC) oil embargo. That set the stage for the ongoing cooperation of the Western industrialized democracies, a year later known as G7, when Canada joined the group and G8 after Russia joined in 1998. Initially the G7 believed that the admission of Russia would encourage its first post-Soviet leader, Boris Yeltsin, to move closer to the West. When Russia annexed Ukraine's Crimea region in 2014 it got suspended. Since 1981 the European Union fully participated in G7's meetings as a "nonenumerated" member (Lieberman and Padilla 2024).

2.2 Sanctions

Definition, Categorization and Aim of Sanctions

The term “restrictive measures” includes all non-forcible actions that aim to influence states or entities. Within this category, sanctions are typically actions imposed by international organization. They target states, non-state actors, or individuals (Ruys 2016). Sanctions are a central instrument of international politics and have often been used since the 20th century to achieve political goals without direct military force. They aim to enforce certain changes in behavior (Rudolf 2024) through the imposition of economic, financial or political restrictions. Morgan, Syropoulos, and Yotov (2023) define sanctions as “restrictive policy measures that one or more countries take to limit their relations with a target country in order to persuade that country to change its policies or to address potential violations of international norms and conventions.” In contrast, countermeasures are unilateral actions - within the framework of the ILC - taken by an injured state in response to an internationally wrongful act. Sanctions, on the other hand, lack a legal meaning under international law and they can only be imposed within the legal framework of the sanctioning institution. Nevertheless, international organizations can coordinate the actions taken by their member states that resemble countermeasures but are institutionally framed as sanctions (White and Abass 2018).

Impact of Sanctions

The effectiveness of sanctions depends on various factors. A study by the German Institute for International and Security Affairs (SWP) emphasizes that sanctions are often politically unsuccessful, although they can cause considerable economic damage. For example, economic sanctions often have a negative impact on living conditions in the sanctioned countries, but these costs do not necessarily lead to the desired political change. In general, there is a

distinction between the economic impact of sanctions and the political success of sanctions, while both indicators combined determine their effectiveness (Tokarski 2024).

There are various approaches that explain the conditions under which sanctions can be effective. The classic “macro model” assumes that sanctions increase the political costs in the target country to such an extent that state actors must change their policies because social support is crumbling. In contrast, the “micro-analytical model” focuses on specific groups within a state that are put under pressure through targeted sanctions (so-called “smart sanctions”) to influence the political leadership. However, research shows that even targeted sanctions often do not have the expected effect, as authoritarian regimes can often support their core groups through repression or redistribution (Tokarski 2024). Nevertheless, Hufbauer, Schott, and Elliott (2007) estimated in a comprehensive study that the success rate of sanctions in “cases involving attempts to change regimes [...] or to change its policies in a major way succeeded in about 30 percent” of the cases. On the one hand, sanctions are more successful when they are imposed on countries that have close economic or political ties with the sanctioning party, as is often the case with democracies. Authoritarian regimes, on the other hand, are more resilient, especially if they have strong repressive apparatuses. Under certain circumstances, sanctions against authoritarian regimes can even have the effect of strengthening the regime, Rudolf (2024) finds.

Multilateral sanctions, supported by a broad international coalition, are generally more successful than unilateral measures, as they increase the pressure on the target country and reduce the possibility of circumventing the sanctions. Moreover, the sanctioning entities often face a trade-off between maximizing costs for the sanctioned entity and minimizing costs (Hufbauer, Schott, and Elliott 2007). Morgan, Syropoulos, and Yotov (2023) point out that the sanctioning countries’ “efforts to minimize their own costs raise deep questions about the effectiveness, enforcement, and credibility of their sanctions policies.” The threat of sanctions,

provided they are credible, can build up negotiating pressure and lead to a change in behavior. Another important factor for the success of sanctions is their embedding in a broader strategy that combines both pressure and incentives. According to Rudolf (2024), sanctions should be designed flexibly and integrated into a diplomatic dialog to achieve the desired political changes.

Criticism of sanctions as a policy tool to change a targeted countries policy

A recent paper by Eichenberger and Stadelmann (2023) points out some of the main arguments from opponents of sanctions. The authors argue that several autocratic regimes extended their power over their citizens “either despite sanctions or, [...], due to sanctions.” They explain this outcome with several arguments, starting with the believe that domestic producers who produce substitutes would benefit from sanctions. At the same time, the regime would gain power over the production as it is no longer in the hands of foreign producers. Eichenberger and Stadelmann (2023) argue that if sanctions induce foreign companies to withdraw quickly from the target country, they sell assets at comparable low prices and allow domestic investors to continue production. Additionally, oil exporting countries such as Russia tend to gain power after an embargo or imposed price caps, as they find so-called friendly countries that buy their oil, sometimes even with higher profits. In contrast, oil prices rise in the senders’ countries. According to the authors, this makes them more dependent on the regime, which induces an additional level of public support. The often-used argument and hope of sanctioning countries that societies pressure results in policy change of the regime is refuted by the public good theory, according to Eichenberger and Stadelmann (2023). They argue that resistance is costly and risky for individual citizens. Since the benefits of an unsanctioned economy are gained by all, it is a typical public good. Thus, it is rare.

2.3 Advocacy Coalition Framework

This thesis applies the Advocacy Coalition Framework (ACF), developed by Paul Sabatier and Hank Jenkins-Smith, to examine policy processes in complex environments. The ACF provides a structured approach to understand how various groups, or coalitions, compete to influence policy outcomes based on shared belief systems. These coalitions operate within policy subsystems, which are areas of focus where debates over specific issues, such as sanctions, take place. Participants in these so-called policy subsystems include government officials, interest groups, experts, all advocating for policies aligned with their beliefs. (Cairney 2012)

Core values, causal assumptions, and problem perceptions unite advocacy coalitions. They coordinate over time to influence policy decisions, with the stability and change of policies primarily driven by the coalitions. Policy brokers work to mediate conflicts between coalition aiming to reduce disputes and find compromises. Sovereigns, typically government agencies, hold the formal decision-making power but can also be influenced by or participate in advocacy coalitions. The ACF posits that beliefs are central to coalition formation and stability. These beliefs affect how coalitions perceive problems and solutions. Beliefs are categorized into three levels: deep core beliefs (fundamental values, such as freedom vs. security), core policy beliefs (stances on policy issues, like government vs. market roles), and secondary beliefs (details of policy implementation, such as budgets). Deep core beliefs are highly stable; core policy beliefs are more adaptable, and secondary beliefs are the most flexible. Change within the ACF is driven by two main factors: policy-oriented learning and external shocks. Policy-oriented learning occurs when coalitions refine their strategies based on experience, often leading to small changes in secondary beliefs. External shocks, such as political shifts or economic crises, can disrupt the policy subsystem and shift the balance of power between coalitions, creating opportunities for significant policy changes. The ACF helps explain the persistence and transformation of public policy over time. (Cairney 2012)

3.1 EU's Freeze of Russian Assets

Composition and Distribution of Russia's FX Reserves

The CBR holds its reserves in various liquid assets⁶, including foreign currencies, gold, and government bonds. According to Milesi-Ferretti (2022), the largest share of Russia's FX reserves at around \$311 billion were held in securities, followed by \$132 billion in gold (see Appendix 3, Figure 2). At the time of the G7's and EU's freeze, nearly half of Russia's foreign currency and gold reserves, valued at around \$300 billion (€260 billion), were being held in the West. This accounted for a significant part of Russia's total reserves, which stood at \$612 billion, according to Reuters (Fabrichnaya and Faulconbridge 2023). In comparison, Russia's total reserves in October 2014 stood at \$429 billion. Over the past decade, Russia significantly increased its reserves to over \$600 billion, driven by a consistent trade surplus (Milesi-Ferretti 2022) (see Appendix 3, Figure 1).

When the West froze Russian assets in 2022, Russia held substantial assets denominated in various currencies: approximately \$207 billion in euros, \$67 billion in US dollars, and \$37 billion in British pounds. In addition, it held \$36 billion worth of Japanese yen, \$19 billion in Canadian dollars, \$6 billion in Australian dollars, and \$1.8 billion in Singapore dollars. Russian assets in Swiss francs amounted to about \$1 billion (see Appendix 3, Figure 3). Russia holds about 40% of its official FX assets in euros, equivalent to about 8% of total global reserves held in euros (Arnold 2024). Russia's assets were primarily invested in foreign securities, bank deposits, and nostro correspondent accounts⁷, especially foreign accounts used for international

⁶ A liquid asset is cash on hand or an asset other than cash that can be quickly converted into cash at a reasonable price (Corporate Finance Institute n.d.).

⁷ A nostro correspondent account is an account maintained by a bank with a foreign bank in the local currency of the country where the funds are held. It is used to facilitate the settlement of international trade and FX transactions. The account is mainly held by banks or large companies that regularly trade internationally (Corporate Finance Institute n.d.).

transactions. Russia's most significant bond investments were in the sovereign debt of several major economies, including China, Germany, France, the UK, Austria, and Canada.

Geographically, of the €260 billion in reserves held in G7 economies, €210 billion are located within the EU. According to reports, Euroclear⁸ holds around €191 billion worth of Russian assets, making this institution the largest holder of Russian sovereign assets within Europe and the West combined. France holds €19 billion, Switzerland €7.8 billion and the US approximately €4.6 billion (Dubois and Fleming 2023). Russia's largest amount of FX reserves in a single country outside G7 countries is held in China with 16.8% of its overall reserves corresponding to approximately \$102 billion (Statista 2022).

While the CBR has not provided a detailed breakdown of what exactly has been frozen, Reuters has documents from the beginning of 2022, offering insight into the composition of Russia's holdings. Western governments and financial institutions like Euroclear published additional information on Russia's reserves, but exact numbers of the overall amount, distribution and investment instruments have not been published.

De-Dollarization: A Global Fear and Russia's Strategy

The term de-dollarization reflects efforts to reduce the dominance of the US dollar as the global reserve currency, potentially affecting US geopolitical and economic influence. According to Cipollone (2024), evidence shows that the evolution of global currencies is closely intertwined with the international geopolitical order, and in a more multipolar world, the fragmentation of the monetary system becomes increasingly likely.

⁸ Euroclear is the primary clearinghouse of the EU. "A clearinghouse is a designated intermediary between a buyer and seller in a financial market. The clearinghouse validates and finalizes the transaction, ensuring that both the buyer and the seller honor their contractual obligations" (Ganti 2023).

Russia has been at the front line of de-dollarization efforts. These actions were initially driven by financial sanctions and broader geopolitical objectives, to protect its monetary sovereignty and challenge US dominance. Strategies include reducing dollar usage in trade and reserves, increasing gold holdings, developing alternative payment systems, and promoting non-dollar global cooperation (Xu Wenhong 2023). According to a 2022 report published by the European Central Bank (ECB), Russia began reducing its reliance on the US dollar in 2014, following Crimea-related sanctions (Habib and Meh 2022). By 2020, the US dollar share of Russia's FX reserves dropped from over 40% in 2013 to 24% (The Economist 2020), while Chinese renminbi holdings increased from 0% in 2014 to nearly 25% by 2022 (Laser, Mihailov, and Weidner 2024). Furthermore, the CBR's holdings of US Treasury debt have fallen from almost \$100 billion in 2018 to less than \$10 billion in 2020 (The Economist 2020). CBR Governor Elvira Nabiullina described this policy as "de-volatization," aimed at limiting geopolitical risk of foreign currency exposure (CNBC International News 2021).

In October 2024, Putin hosted a BRICS summit to discuss advancing payments outside the US dollar system using BRICS currencies and networks (McCarthy 2024), stating that using local currencies instead of the dollar or euro "helps to keep economic development free from politics as far as possible in the context of today's world". While BRICS members broadly support de-dollarization, levels of commitment vary, with India and Brazil showing less enthusiasm than China and Russia. This underscores the challenging process of a global transition away from the US (Wintour 2024).

Russia's move towards de-dollarization, driven by sanctions, has raised concerns about the impact of freezing or seizing assets, including Russian euro holdings, which could weaken the appeal of the euro (Arnold 2024). A study explored whether freezing assets affects the US dollar's share of FX reserves. While previous instances of asset freezes, such as those in Libya, Iran, Venezuela, and Afghanistan, did not target substantial amounts, making direct

comparisons difficult, the data show no significant decline in the US dollar's global reserve share since 2021, while renminbi reserves have also decreased (McCauley, Ito, and Chinn 2024).

Definition and Objectives of the Asset Freeze and the ERA Loan

As with all sanctions within the EU's sanctions regime, the policy objective is to support Ukraine. According to the EU Sanctions Envoy, David O'Sullivan, whom we interviewed for this thesis, the main objective of the asset freeze is to "hit the revenue available to the Russian government to fund this war." On the day of the Russian invasion of Ukraine, EU Commission President von der Leyen announced the freezing of Russian assets in the EU, which was ultimately adopted on February 28th 2022 (von der Leyen 2022). The High Representative of the Union for Foreign Affairs and Security Policy Chief, Josep Borrell, announced that about half of the CBR's reserves would be frozen "thanks to this measure." Currently, €210 billion in Russian assets are blocked in the EU, while €191 billion is held by Euroclear in Belgium, one of the largest central securities depositories (CSD)⁹ (Dubois 2024).

Due to the asset freeze, the CBR cannot access the assets it has deposited with central banks and private institutions in the EU. The freeze temporarily restricts the right of ownership. Moreover, asset freezing prohibits "the transfer, conversion, disposition or movement of funds or other assets" (Champigny, Pousin, and Rougevin-Baville 2016). The EU and the G7 are working together to coordinate sanctions on Russia, as they share the same objectives and recognize that sanctions are more effective in a large coalition. The G7 states that Russia could only regain access to its assets if it agrees to pay reparations.

⁹ Central Securities Depositories (CSDs) are financial institutions that manage the safekeeping, registration, and transfer of securities, such as stocks and bonds. They ensure the accurate recording of securities issuance and maintain the integrity of these records throughout the life cycle of the securities (Deutsche Bundesbank 2024).

After the assets were frozen, discussions focused on using the funds effectively. A key proposal from the US was the complete confiscation of the assets, which would allow the funds to be directly channeled to support Ukraine's fight against Russian aggression and to aid reconstruction efforts. However, this approach faced strong opposition from European countries and the EU, which favored a more cautious strategy. After months of negotiations, the G7 reached a compromise in June 2024. They agreed on the so-called "Extraordinary Revenue Acceleration (ERA) Loan", which aims to provide a \$50 billion loan to Ukraine that will be provided by the G7 members and will be repaid using the interest income from the CBR's frozen assets (G7 2024). While the policy was first designed in a way that would only transfer the interest income to Ukraine as it occurs (approximately \$3 billion a year), the Biden Administration pushed to "front load" the revenue to give Ukraine a big lump sum now (Reuters 2024).

To ensure legal compliance, the EU Council adopted Regulation (EU) 2024/1469 in May 2024, which empowers the EU to utilize net profits generated from frozen Russian assets held by CSDs in the EU (European Union 2024). Profits from the frozen Russian assets are generated because Euroclear reinvests cash from matured securities that cannot be paid to Russia due to sanctions. Since the funds cannot be transferred, Euroclear uses the cash to generate additional income. With high interest rates, these investments generate significant profits that are considered a "windfall" for Euroclear, as they make these profits only because the sanctions are in place (Dubois and Asgari 2023). Euroclear collected about \$5 billion in such profits in 2023 (Dubois, 2024). The Council Regulation (EU) 2024/1469 forces all central securities depositories (CSDs), not only Euroclear, holding Russian sovereign assets and reserves of more than €1 million to make a financial contribution from their corresponding net profits, accumulated since 15 February 2024 (European Union 2024). For immobilized assets, a reporting obligation has already been in place since February 2023. The introduction of the

windfall contribution scheme has been made even more thorough, as CSDs must submit their interim financial reports and audited annual financial statements to the Commission and their national competent authorities.

The CSDs are allowed to retain a share of up to 10% of the net profit contribution “[...] to comply with statutory risk management requirements [...]” (European Union 2024). According to EU Official B¹⁰, they will also be allowed to keep an additional “incentive fee” of 0.3% to cover the resources it takes to place the assets and generate the interest income. The net profit, after tax, risk management fee and incentive fee, will flow to the EU, with 90% going to the European Peace Facility and 10% to EU programmes financed from the EU budget (Council of the EU 2024).

The G7 plans to disburse \$50 billion of funds by the end of 2024, consisting of \$20 billion from the US and \$20 billion from the EU and its member states. In October 2024, the EU agreed to contribute up to \$35 billion to make up for any potential shortfall (Tamma et al. 2024). The remaining \$10 billion comes from Canada (\$3.6 billion) (Burke 2024), the UK (\$3 billion) (HM Treasury 2024), and Japan (\$3.08 billion) (Kushnikov 2024).¹¹ Contributions were allocated based on economic size and repayment risk of each country.

¹⁰ EU Official B is one of nine interviewees, and he will be introduced under 4. *Research Methodology* on p. 22.

¹¹ Although the combined contributions from Canada, the United Kingdom, and Japan total \$9.68 billion rather than \$10 billion, these figures reflect the officially reported amounts. The discrepancy is likely attributable to fluctuations in exchange rates.

References

Arnold, Martin. 2024. "ECB Flags Euro Risks from Russia as Global Forex Reserves Dip."

Financial Times. <https://www.ft.com/content/7e7bcb76-2d4b-41b1-8cea-73bebf74724b>.

Ash, Timothy. 2024. "Opinion: Why Arguments against Using Russian Assets for Ukraine

Don't Hold Water." The Kyiv Independent. <https://kyivindependent.com/opinion-why-arguments-against-using-russian-assets-for-ukraine-dont-hold-water/>.

Bloomberg. 2024. "Russia Prepares Legal Battle to Stall Seizure of Frozen Assets."

Bloomberg. <https://www.bloomberg.com/news/articles/2024-01-12/russia-prepares-legal-battle-to-stall-seizure-of-frozen-reserves>.

Bomprezzi, Pietro, Guisepppe Irto, Ivan Kharitonov, Taro Nishikawa, and Christoph Trebesch.

2024. "Ukraine Support Tracker." Kiel Institute for the World Economy.

<https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/>.

Brookings. 2024. "Why Do the US and Its Allies Want to Seize Russian Reserves to Aid

Ukraine?" Brookings. <https://www.brookings.edu/articles/why-do-the-u-s-and-its-allies-want-to-seize-russian-reserves-to-aid-ukraine/>.

Burke, Ashley. 2024. "Canada Contributing \$5 Billion to New G7 Deal Being Finalized to

Help Ukraine Using Frozen Russian Assets." CBC.

<https://www.cbc.ca/news/politics/g7-leaders-meet-italy-frozen-asset-deal-ukraine-1.7233550>.

Cairney, Paul. 2012. "Understanding Public Policy - Theories and Issues." Palgrave

Macmillan. <https://paulcairney.wordpress.com/wp-content/uploads/2020/01/cairney-2nd-proof-combined.pdf>.

- Caporaso, James A. 2000. "Changes in the Westphalian Order: Territory, Public Authority, and Sovereignty." *International Studies Review*, 2(2): 1-28.
<https://doi.org/10.1111/1521-9488.00203>.
- Champigny, Simon, Elise Pousin, and Laure Rougevin-Baville. 2016. "Asstet Freeze Measures In The Fight Against Terrorism." *European Judicial Training Network*. https://portal.ejtn.eu/Documents/THEMIS%202016/Semi%20A/France1_TH_2016_01.pdf.
- Cipollone, Piero. 2024. "Why Europe Must Safeguard Its Global Currency Status." *Financial Times*. <https://www.ft.com/content/05a7755a-6213-4998-9bb7-3a5b6bd77009>.
- CNBC International News. 2021. "'De-Dollarization' Is Part of Policy to Manage Foreign Currency Risks, Says Russia's Central Bank Ch." *CNBC International News*. <https://www.youtube.com/watch?v=JZV1HNUCQKY>.
- Congress.gov. 2023. "H.R.4175 - 118th Congress (2023-2024): REPO for Ukrainians Act." <https://www.congress.gov/bill/118th-congress/house-bill/4175>.
- Corporate Finance Institute. n.d. "Nostro Account." *Corporate Finance Institute*. <https://corporatefinanceinstitute.com/resources/accounting/nostro-account/>.
- Council of the EU. 2024. "Extraordinary Revenues Generated by Immobilised Russian Assets: Council Greenlights the Use of Net Windfall Profits to Support Ukraine's Self-Defence and Reconstruction - Consilium." *Council of the European Union*. <https://www.consilium.europa.eu/en/press/press-releases/2024/05/21/extraordinary-revenues-generated-by-immobilised-russian-assets-council-greenlights-the-use-of-windfall-net-profits-to-support-ukraine-s-self-defence-and-reconstruction/>.

- Deutsche Bundesbank. 2024. “Glossar - Zentralverwahrer.” Deutsche Bundesbank.
<https://www.bundesbank.de/dynamic/action/de/startseite/glossar/723820/glossar?firstLetter=Z&contentId=652012#anchor-652012>.
- Dubois, Laura. 2024. “Euroclear Warns against G7 Plan to Backstop Ukraine Debt with Russian Assets.” Financial Times. <https://www.ft.com/content/01a4da27-109e-4db9-bd0e-160ec55a5cd0>.
- Dubois, Laura, and Nikou Asgari. 2023. “Euroclear Earns €3bn from Russian Assets Frozen by West.” Financial Times. <https://www.ft.com/content/88ff88c4-6efe-40b7-b635-80eb6bd73c2c>.
- Dubois, Laura, and Sam Fleming. 2023. “The Legal Case for Seizing Russia’s Assets.” Financial Times. <https://www.ft.com/content/adb09fd6-e5f7-4099-9994-806814b4c9b4>.
- Duquette, Elizabeth. 2001. “The European Union’s Common Foreign and Security Policy: Emerging from the U.S. Shadow.” *Davis Journal of International Law and Policy*, 169. <http://ue.eu.int/pesc/>.
- Eichenberger, Reiner, and David Stadelmann. 2023. “Sanctions Are Costly for Citizens but Beneficial for Autocrats: A Political-Economic Perspective.” *The Economists’ Voice*, 19(2): 109–123. <https://doi.org/10.1515/ev-2022-0026>.
- European Commission. 2022b. “EU Appoints David O’Sullivan as International Special Envoy for the Implementation of EU Sanctions.” European Commission.
https://ireland.representation.ec.europa.eu/news-and-events/news/eu-appoints-david-osullivan-international-special-envoy-implementation-eu-sanctions-2022-12-13_en.

European Commission. 2022c. “Statement by President von der Leyen on Russian accountability and the use of Russian frozen assets.” European Commission. https://ec.europa.eu/commission/presscorner/detail/pl/statement_22_7307.

European Commission. 2023. “Statement by President von Der Leyen on the 10th Package of Sanctions against Russia.” European Commission. https://ec.europa.eu/commission/presscorner/detail/en/statement_23_907.

European Parliament. 2024. “Public Opinion on Russia’s War against Ukraine.” European Parliament. <https://www.europarl.europa.eu/at-your-service/en/heard/eurobarometer/public-opinion-on-the-war-in-ukraine>.

European Union. 2024. “Regulation - EU - 2024/1469 - EN - EUR-Lex.” European Union – EUR-Lex. <https://eur-lex.europa.eu/eli/reg/2024/1469?>.

Fabrichnaya, Elena, and Guy Faulconbridge. 2023. “What and Where Are Russia’s \$300 Billion in Reserves Frozen in the West?” Reuters. <https://www.reuters.com/world/europe/what-where-are-russias-300-billion-reserves-frozen-west-2023-12-28/>.

Ganti, Akhilesh. 2023. “Clearinghouse: An Essential Intermediary in the Financial Markets.” Investopedia. <https://www.investopedia.com/terms/c/clearinghouse.asp>.

Goodhart, Charles. 2015. “What Is Maturity Mismatch, and Why Is It a Problem?” World Economic Forum. <https://www.weforum.org/stories/2015/09/what-is-maturity-mismatch-and-why-is-it-a-problem/>.

G7. 2024. “G7 Leaders’ Statement on Extraordinary Revenue Acceleration (ERA) Loans.” G7. <https://www.g7italy.it/wp-content/uploads/G7-Leaders-Statement-on-Extraordinary-Revenue-Acceleration-ERA-Loans.pdf>.

- Habib, Maurizio Michael, and Arnaud Meh. 2022. "The Russian Invasion of Ukraine and International Currencies." European Central Bank.
https://www.ecb.europa.eu/pub/pdf/ire/focus/ecb.irebox202206_01~c58afe76a5.en.pdf
- Hathaway, Oona A., Maggie M. Mills, and Thomas M. Poston. 2024. "War Reparations: The Case for Countermeasures." *Stanford Law Review*, 76: 971–1050.
<https://review.law.stanford.edu/wp-content/uploads/sites/3/2024/05/Hathaway-et-al.-76-Stan.-L.-Rev.-971.pdf>
- HM Treasury. 2024. "UK Strengthens National Security and Bolsters Ukraine's War Chest with £2.26 Billion Military Loan." Gov.Uk. <https://www.gov.uk/government/news/uk-strengthens-national-security-and-bolsters-ukraines-war-chest-with-226-billion-military-loan>.
- Hufbauer, Gary Clyde., Jeffrey J. Schott, and Kimberly Ann. Elliott. 2007. "Economic Sanctions Reconsidered." *Peterson Institute for International Economics*, 3: 1-233.
https://dl1.cuni.cz/pluginfile.php/863435/mod_resource/content/0/Gary%20Clyde%20Hufbauer%20Jeffrey%20J.%20Schott%20Kimberly%20Ann%20Elliott%20Barbara%20Oegg-Economic%20Sanctions%20Reconsidered%20%282008%29.pdf
- Ikenberry, G John. 2018. "The End of Liberal International Order?" *International Affairs*, 94 (1): 7-23. <https://doi.org/10.1093/ia/iix241>.
- Kundnani, Hans. 2017. "What Is the Liberal International Order?" *Liberal International Order Project*, 17: 1-10. <http://blogs.clemson.edu/emerituscollege/files/2018/01/What-is-the-Liberal-International-Order.pdf>

- Kushnikov, Vadim. 2024. "Japan Allocates \$3 Billion to Ukraine as Part of G7's Loan." *Military*. <https://mil.in.ua/en/news/japan-allocates-3-billion-to-ukraine-as-part-of-g7-s-loan/>.
- Laser, Falk, Alexander Mihailov, and Jan Weidner. 2024. "Currency Denomination of Foreign Exchange Reserves: From Taboo in the Past towards Disclosure and Exciting Research Nowadays" CEPR. <https://cepr.org/voxeu/columns/currency-denomination-foreign-exchange-reserves-taboo-past-towards-disclosure-and>.
- Leyen, Ursula von der. 2022. "Press Statement by President von Der Leyen on Russia's Aggression against Ukraine." European Commission. https://neighbourhood-enlargement.ec.europa.eu/news/press-statement-president-von-der-leyen-russias-aggression-against-ukraine-2022-02-24_en.
- Liboreiro, Jorge. 2024. "Hungary Won't Agree to Change Sanctions on Russian Frozen Assets until US Elections ." Euronews. <https://www.euronews.com/my-europe/2024/10/08/hungary-wont-agree-to-change-sanctions-on-russian-frozen-assets-until-us-elections>.
- Lieberman, Emily, and Chelsea Padilla. 2024. "What Does the G7 Do?" Council on Foreign Relations. <https://www.cfr.org/background/what-does-g7-do>.
- Ludwikowski, Mark R., Ignacio Torterola, and Farhodjon Sharipov. 2024. "Legal Challenges of Confiscating Russian Central Bank Assets to Support Ukraine." Reuters. <https://www.reuters.com/legal/transactional/legal-challenges-confiscating-russian-central-bank-assets-support-ukraine-2024-08-01/>.
- McCarthy, Simone. 2024. "The West Wants Putin Isolated. A Major Summit He's Hosting Shows He's Far from Alone." CNN. <https://edition.cnn.com/2024/10/21/europe/putin-russia-iran-china-brics-hnk-intl/index.html>.

- McCauley, Robert N., Hiro Ito, and Menzie David Chinn. 2024. "The Russian Sanctions and Dollar Foreign Exchange." CEPR - VOXEU. <https://cepr.org/voxeu/columns/russian-sanctions-and-dollar-foreign-exchange-reserves>.
- Milesi-Ferretti, Gian Maria. 2022. "Russia's External Position: Does Financial Autarky Protect against Sanctions?" Brookings. <https://www.brookings.edu/articles/russias-external-position-does-financial-autarky-protect-against-sanctions/>.
- Morgan, T Clifton, Constantinos Syropoulos, and Yoto V Yotov. 2023. "Economic Sanctions: Evolution, Consequences, and Challenges." *The Journal of Economic Perspectives*, 37(1): 3–30. <https://www.jstor.org/stable/27192407>.
- Perez, Christian. n.d. "What Does Russia's Removal From SWIFT Mean For the Future of Global Commerce?" *Foreign Policy*. <https://foreignpolicy.com/2022/03/08/swift-sanctions-ukraine-russia-nato-putin-war-global-finance/>.
- Quoistiaux, Gilles. 2024. "Valérie Urbain (Euroclear): 'Confisquer Les Avoirs Russes, c'est Ouvrir La Boîte de Pandore.'" *L'Echo*. <https://www.lecho.be/entreprises/banques/valerie-urbain-euroclear-confisquer-les-avoids-russes-c-est-ouvrir-la-boite-de-pandore/10544248.html>.
- Reuters. 2024. "Explainer: What Is the G7's \$50 Billion Loan Plan for Ukraine?" Reuters. <https://www.reuters.com/world/europe/what-is-g7s-50-billion-loan-plan-ukraine-2024-06-14/>.
- Rudolf, Peter. 2024. "Wirkungen und Wirksamkeit internationaler Sanktionen - Zum Stand der Forschung." Stiftung Wissenschaft und Politik. <https://www.swp-berlin.org/publikation/wirkungen-und-wirksamkeit-internationaler-sanktionen>.
- Ruys, Tom. 2016. "Sanctions, Retorsions and Countermeasures: Concepts and International Legal Framework." Forthcoming in Larissa van den Herik, *Research Handbook on*

- UN sanctions and international law. Ghent: Edward Elgar Publishing.
<http://ssrn.com/abstract=2760853>.
- Statista. 2022. “Geographical Distribution of Foreign Exchange (FX) and Gold Reserves of the Central Bank of Russia” Statista.
<https://www.statista.com/statistics/1293794/distribution-of-bank-of-russia-foreign-exchange-and-gold-reserves/>.
- Stephan, Paul B. 2022. “Seizing Russian Assets.” Virginia Public Law and Legal Theory Research Paper, 17: 2022-2040.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4129862
- Tamma, Paola, Henry Foy, Sam Flemming, and James Politi. 2024. “US Expected to Pay up to \$20bn into G7 Loan for Ukraine.” Financial Times.
<https://www.ft.com/content/b3b869ca-20ca-40db-abcc-d3acad215087>.
- The Economist. 2020. “America’s Aggressive Use of Sanctions Endangers the Dollar’s Reign.” The Economist. <https://www.economist.com/briefing/2020/01/18/americas-aggressive-use-of-sanctions-endangers-the-dollars-reign>.
- The White House. 2022. “Remarks by President Biden on Russia’s Unprovoked and Unjustified Attack on Ukraine.” The White House.
<https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/02/24/remarks-by-president-biden-on-russias-unprovoked-and-unjustified-attack-on-ukraine/>
- Tokarski, Paweł. 2024. “The Euro in a World of Dollar Dominance – Between Strategic Autonomy and Structural Weakness.” SWP Research Paper Stiftung Wissenschaft Und Politik German Institute for International and Security Affairs.
[https:// doi:10.18449/2024RP02](https://doi.org/10.18449/2024RP02)

Trading Economics. 2024. "Russia Foreign Exchange Reserves." Central Bank of Russia.

<https://tradingeconomics.com/russia/foreign-exchange-reserves>.

https://legal.un.org/ilc/texts/instruments/English/commentaries/9_6_2001.pdf.

White, Nigel D, and Ademola Abass. 2018. "17. Countermeasures and Sanctions." In

International Law, edited by Malcolm Evans. Oxford University Press.

<https://doi.org/10.1093/he/9780198791836.003.0017>.

Wintour, Patrick. 2024. "Putin Returns to World Stage Hosting 36 Leaders at Brics Summit in

Russia." The Guardian. [https://www.theguardian.com/business/2024/oct/22/putin-](https://www.theguardian.com/business/2024/oct/22/putin-brics-summit-russia-china-india-iran-kazan)

[brics-summit-russia-china-india-iran-kazan](https://www.theguardian.com/business/2024/oct/22/putin-brics-summit-russia-china-india-iran-kazan).

World Bank. 2023. "Updated Ukraine Recovery and Reconstruction Needs Assessment."

World Bank. [https://www.worldbank.org/en/news/press-release/2023/03/23/updated-](https://www.worldbank.org/en/news/press-release/2023/03/23/updated-ukraine-recovery-and-reconstruction-needs-assessment)

[ukraine-recovery-and-reconstruction-needs-assessment](https://www.worldbank.org/en/news/press-release/2023/03/23/updated-ukraine-recovery-and-reconstruction-needs-assessment).

Xu Wenhong. 2023. "Dedollarization as a Direction of Russia's Financial Policy in Current

Conditions." Studies on Russian Economic Development, 34 (1): 9-18.

<https://doi.org/10.1134/S1075700723010185>.

Zorthian, Julia. 2022. "What Joe Biden's Sanctions on Russia Will Actually Do." Time.

<https://time.com/6151188/biden-russia-sanctions-explained/>.

Appendix

Appendix 1: Abbreviations

BRICS	Brazil, Russia, India, China and South Africa
CBR	Russia's Central Bank
CSD	Central Securities Depository
ECB	European Central Bank
ERA	Extraordinary Revenue Acceleration (ERA) Loans
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
G6	The Group of Six
G7	The Group of Seven
G8	The Group of Eight
G20	The Group of Twenty
ICJ	International Court of Justice
ILC	International Law Commission
IMF	International Monetary Fund
MFA	Macro-financial Assistance Loan
NATO	North Atlantic Treaty Organization
NDB	New Development Bank
REPO	Rebuilding Economic Prosperity and Opportunity for Ukrainians Act

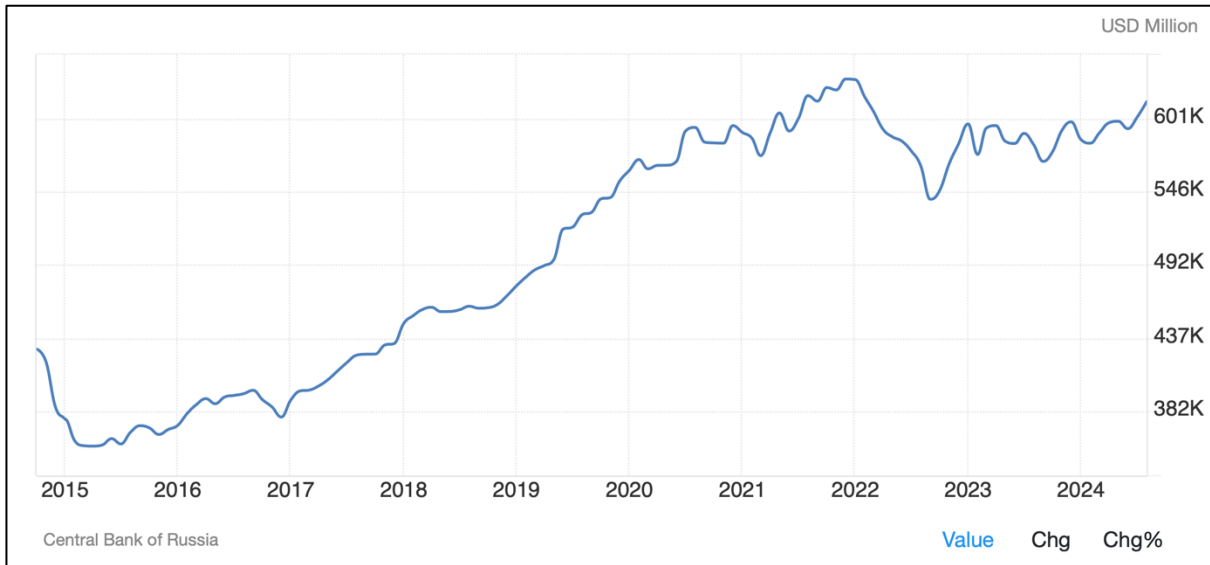
SPFS	System for Transfer of Financial Messages
SWP	German Institute for International and Security Affairs
SWIFT	Society for Worldwide Interbank Financial Telecommunications
UK	United Kingdom
UN	United Nations
US	United States
OPEC	Organization of Petroleum Exporting Countries

Appendix 2: List of illustrations

Figure 1: Russia's Foreign Exchange Reserves Amount over Time	Page 64
Figure 2: Russia's Foreign Exchange Reserves Instrument Composition	Page 64
Figure 3: Russia's Foreign Exchange Reserves: Currency Composition June 2021	Page 65

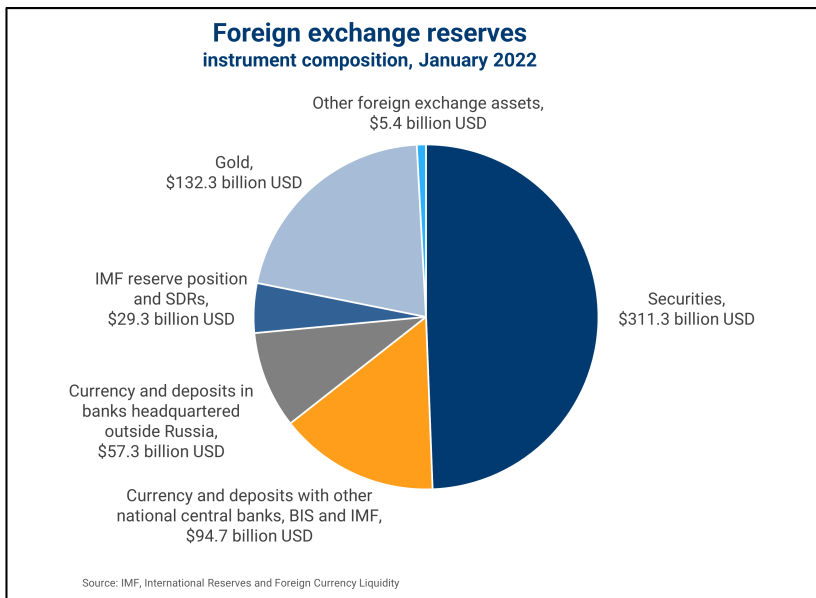
Appendix 3: Figures

Figure 1: Russia’s Foreign Exchange Reserves Amount over Time



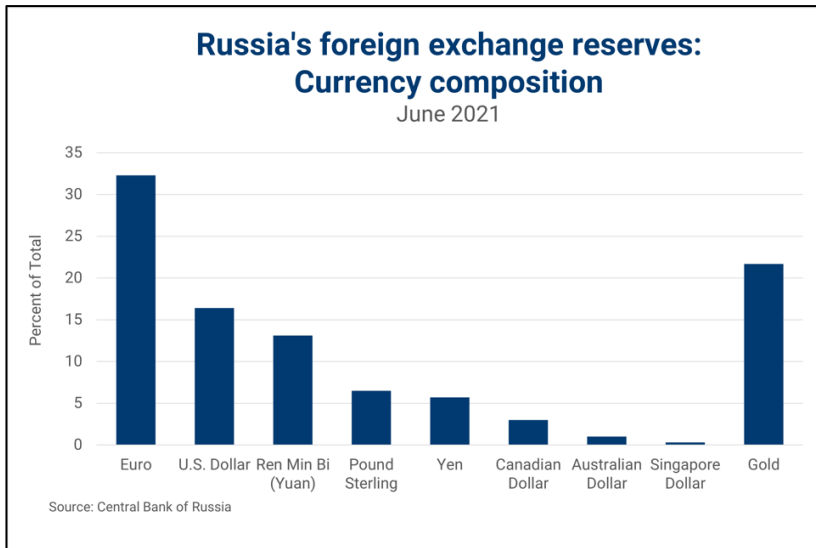
Source: (Trading Economics 2024)

Figure 2: Russia’s Foreign Exchange Reserves: Instrument Composition



Source: Brookings (2022)

Figure 3: Russia’s Foreign Exchange Reserves: Currency Composition June 2021



Source: Brookings (2022)

Appendix 4: Relevant Legal Texts

<p>Charter of the United Nations Chapter I — Purposes and Principles (1945)</p>	<p>Article 2(4)</p> <p>All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations.</p>
<p>International Law Commission Responsibility of States for Internationally Wrongful Acts (2001)</p>	<p>Article 22 <i>Countermeasures in respect of an internationally wrongful act</i></p> <p>The wrongfulness of an act of a State not in conformity with an international obligation towards another State is precluded if and to the extent that the act constitutes a countermeasure taken against the latter State in accordance with chapter II of part three.</p>
	<p>Article 36 <i>Compensation</i></p> <ol style="list-style-type: none"> 1. The State responsible for an internationally wrongful act is under an obligation to compensate for the damage caused thereby, insofar as such damage is not made good by restitution. 2. The compensation shall cover any financially assessable damage including loss of profits insofar as it is established.
	<p>Article 42 <i>Invocation of responsibility by an injured State</i></p>

	<p>A State is entitled as an injured State to invoke the responsibility of another State if the obligation breached is owed to:</p> <ol style="list-style-type: none"> a) that State individually; or b) a group of States including that State, or the international community as a whole, and the breach of the obligation: <ol style="list-style-type: none"> i. specially affects that State; or ii. is of such a character as radically to change the position of all the other States to which the obligation is owed with respect to the further performance of the obligation.
	<p style="text-align: center;">Article 48 <i>Invocation of responsibility by a State other than an injured State</i></p> <ol style="list-style-type: none"> 1. Any State other than an injured State is entitled to invoke the responsibility of another State in accordance with paragraph 2 if: <ol style="list-style-type: none"> a) the obligation breached is owed to a group of States including that State, and is established for the protection of a collective interest of the group; or b) the obligation breached is owed to the international community as a whole. 2. Any State entitled to invoke responsibility under paragraph 1 may claim from the responsible State: <ol style="list-style-type: none"> a) cessation of the internationally wrongful act, and assurances and guarantees of non-repetition in accordance with article 30; and b) performance of the obligation of reparation in accordance with the preceding articles, in the interest of the injured State or of the beneficiaries of the obligation breached.
	<p style="text-align: center;">Article 49 <i>Object and limits of countermeasures</i></p> <ol style="list-style-type: none"> 1. An injured State may only take countermeasures against a State which is responsible for an internationally wrongful act in order to induce that State to comply with its obligations under part two. 2. Countermeasures are limited to the non-performance for the time being of international obligations of the State taking the measures towards the responsible State. 3. Countermeasures shall, as far as possible, be taken in such a way as to permit the resumption of performance of the obligations in question.
	<p style="text-align: center;">Article 50 <i>Obligations not affected by countermeasures</i></p> <ol style="list-style-type: none"> 1. Countermeasures shall not affect: <ol style="list-style-type: none"> a) the obligation to refrain from the threat or use of force as embodied in the Charter of the United Nations; b) obligations for the protection of fundamental human rights; c) obligations of a humanitarian character prohibiting reprisals; d) other obligations under peremptory norms of general international law. 2. A State taking countermeasures is not relieved from fulfilling its obligations: <ol style="list-style-type: none"> a) under any dispute settlement procedure applicable between it and the responsible State; b) to respect the inviolability of diplomatic or consular agents, premises, archives and documents.

	<p style="text-align: center;">Article 52 <i>Conditions relating to resort to countermeasures</i></p> <ol style="list-style-type: none"> 1. Before taking countermeasures, an injured State shall: <ol style="list-style-type: none"> a) call upon the responsible State, in accordance with article 43, to fulfil its obligations under part two; b) notify the responsible State of any decision to take countermeasures and offer to negotiate with that State. 2. Notwithstanding paragraph 1 (b), the injured State may take such urgent countermeasures as are necessary to preserve its rights. 3. Countermeasures may not be taken, and if already taken must be suspended without undue delay if: <ol style="list-style-type: none"> a) the internationally wrongful act has ceased; and b) the dispute is pending before a court or tribunal which has the authority to make decisions binding on the parties. 4. Paragraph 3 does not apply if the responsible State fails to implement the dispute settlement procedures in good faith
<p style="text-align: center;">United States General Assembly Convention on Jurisdictional Immunities of States and their Property (2004)</p>	<p style="text-align: center;">Article 21(1)(c)</p> <ol style="list-style-type: none"> 1. The following categories, in particular, of property of a State shall not be considered as property specifically in use or intended for use by the State or other than government non-commercial purposes under article 19, subparagraph (c): <ol style="list-style-type: none"> c) property of the central bank or other monetary authority of the State;

Source: International Law Commission (2001)

Appendix 5: Interviewees

Interviewee	Company / Institution	Position	Expertise	Date	Duration	Method
Dr. Patrick Heinemann	Bender Harrer Krevet Rechtsanwälte	Lawyer and partner of the firm	Constitutional law, state liability law	28.10.2024, 10:00	26 min	Phone
EU Official A ¹²	European Commission	Political Assistant in the Cabinet of EU Commissioner for Justice	Public international law	28.10.2024, 15:00	36 min	Teams
EU Official B ¹⁴	European Commission	–	–	29.10.2024, 13:00	41 min	Teams
EU Official C ¹⁴	European Commission	–	–	29.10.2024, 13:00	41 min	Teams
Yulija Ziskina	Razom, Quinn Emanuel	Senior Legal Fellow, Attorney	International law	29.10.2024, 20:00	23 min	Teams
Brad Setser	Council on Foreign Relations (CFR)	Whitney Shepardson Senior Fellow	Currency policy, financial sanctions, global trade and capital flows, financial vulnerability analysis	01.11.2024, 15:00	36 min	Teams
David O'Sullivan ¹³	European Commission	EU Envoy for Sanctions Enforcement	Financial Stability, Capital Markets Union, Sanctions, diplomacy	29.10.2024, 14:00	31 min	Webex
João Moreira Rato	Morgan Stanley	Senior Advisor	Capital markets, Investment banking, Asset Management, Financial Markets	04.11.2024, 18:00	47 min	Teams
US-American lawyer ¹⁴	–	–	International law, national security law, and human rights	08.11.2014, 21:30	28 min	WhatsApp

Source: Created by the authors

¹² For reasons of confidentiality and the sensitivity of the subject matter, we were not allowed to include their positions within the Commission and their names.

¹³ For reasons of confidentiality and the sensitivity of the subject matter, we were not allowed to record the interview with Mr. O'Sullivan. Individual quotes from the interview have been agreed with his office and may be used in the thesis.

¹⁴ For reasons of confidentiality and the sensitivity of the subject, we were not allowed to record the interview with the US-American lawyer. Nevertheless, the background information will be used in the thesis.

Appendix 6: Interviewee Rejections / Non-response

Non-response: Armin Steinbach (Professor of Law and Economics at HEC Paris), Anton Moiseienko (International Law Professor at the Australian National University), Dapo Akande (Professor professor internationalInternationalord University), Robin Brooks (Economist, Senior Fellow at the Brookings Institution), Pascal Brabant (Head of External Communications), Simone de Souza Lobato Miguel (Management Assistant in the Enforcement and Sanctions Division at ECB), Marcus Pleyer (FATF President 2020-2022).

Rejections: Nicolas Scholtes (Business Risk Manager at Euroclear), Daniel Carvalho (Senior Economist at Banco de Portugal, Former Senior Economist ECB working in the sanctions department).

Appendix 7: Interview Guide

Intro:

1. Do we have your consent to record this session so we can use the content for our thesis?
2. Could you please briefly describe how your professional career relates to sanctions or foreign reserve management?

Questionnaire:

1. How do you view the EU/G7 decision to provide Ukraine with up to \$50 billion in loans to be paid from the proceeds of frozen assets?
2. From your perspective: Would the confiscation of frozen assets be a feasible and necessary extension of current sanctions? Is it still in the cards?
 - What are possible challenges and justifications?

3. What is the legal difference between the confiscation of the income from the frozen assets and the confiscation of the entire assets?
4. What are the key economic consequences of freezing and confiscating Russia's FX reserves, both for Russia and the world?
 - Assuming that the purpose of FX reserves is to use them for trade to reduce the costs of currency exchange: In that case, does the freezing even hurt Russia (since trade has decreased massively), or was it only about cutting the trade relationship
 - As we know, Russia has used several strategies to circumvent sanctions imposed in the past. What has Russia done to mitigate the effects of the asset freeze?
5. In your view, how effective will the asset freeze, use of the proceeds from frozen assets, or possible confiscation be in reducing further Russian military aggression against Ukraine?
 - How would you rank the importance of this type of sanction compared to other measures within the EU's sanctions framework?
6. Do you think the confiscation of Russian assets or the income from those assets will have an impact on the EUR and/or USD standing in the global economy?
7. What policy recommendations would you suggest for future sanctions or changes to previous sanctions?

Outro:

1. Do you have any final thoughts or anything else you want to add?