G7 leaders agree to lend Ukraine $50 billion from revenues of frozen Russian financial assets

G7 leaders and European Council President Charles Michel (on left) and European Commission President Ursula von der Leyen (on right) in Borgo Egnazia yesterday.

After Russia attacked Ukraine in February 2022, the G7 countries froze roughly €300 billion of Russian financial assets – cash and financial securities – in banks. More than €200 billion of those assets, including virtually all of the assets of Russia's central bank, were in financial institutions within the EU, most of them – roughly €190 billion – in Euroclear, a Belgian securities depository for financial transactions. The frozen Russian assets in Euroclear generated €4.4 billion in revenue last year. In March, the leaders of the European Union, meeting as the European Council, considered a proposal put forward by Josep Borrell, the EU's High Representative for Foreign Affairs and Security Policy, that the EU take the revenues generated by the Russian financial assets frozen in banks and other financial institutions in Europe and transfer 90 percent of the funds to the European Peace Facility for military assistance for Ukraine, with the remaining 10 percent going into the EU budget for other types of assistance for Ukraine. If approved, the proposal would provide roughly €4 billion a year in assistance for Ukraine.

Some of the EU leaders were opposed to the proposal and others were worried about the possible consequences – litigation or worse – that might result from taking the revenues generated by the frozen Russian assets, especially those of Russian government institutions. But in its conclusions issued after the March meeting, the European Council said it had "reviewed progress on the next concrete steps towards directing extraordinary revenues stemming from Russia's immobilized assets for the benefit of Ukraine, including the possibility of funding military support" and invited the Council of Ministers to take the work forward based on Borrell’s proposal. Perhaps the most challenging issue raised by the proposal was the fact that three of the member states – Austria, Ireland, and Malta – are militarily neutral and not members of NATO (although all three participate in NATO’s Partnership for Peace program) and a fourth, Cyprus, is not only not a member of NATO but is non-aligned. No less important was the fact that there are a few EU member states – most notably, Hungary – that, despite being members of NATO, often take positions that are supportive of Russia.

After the March meeting, the Commission and Council of Ministers continued work on the proposal and on May 8, the Belgian government, which currently holds the six-month rotating presidency of the Council of the European Union, announced the member states had resolved their differences over the proposal and the ambassadors of the 27 member states had agreed to the proposal: “EU ambassadors agreed in principle on measures concerning extraordinary revenues stemming from Russia’s immobilized assets. The money will serve to support Ukraine’s recovery and military defense in the context of the Russian aggression.” The EU, it said, would impose a windfall profits tax on the revenues generated by the Russian frozen assets, with 90 percent of the proceeds going into the EPF for military assistance for Ukraine and 10 percent being used to provide non-military assistance to Ukraine. As part of the deal, Austria and the other EU member states that do not provide military assistance to Ukraine would abstain from the vote to allocate 90 percent of the funds to military assistance.

On May 21, the General Affairs Council of the EU, which consists of the foreign ministers of the member states, met and unanimously approved the proposal. The Council said, “In the light of Russia’s continued war of aggression against Ukraine, the Council today adopted a set of legal acts ensuring that the net profits stemming from unexpected and extraordinary revenues accruing to central securities depositories (CSDs) in the EU, as a result of the implementation of the EU restrictive measures, will be used for further military support to Ukraine, as well as its defense industry capacities and reconstruction. This means that the CSDs holding Russian sovereign assets and reserves of more than €1 million will make a financial contribution from their corresponding net profits, accumulating since 15 February 2024. The amounts will be paid by the CSDs to the EU on a bi-annual basis and will be used for further military support to Ukraine through the European Peace Facility, as well as with support to Ukraine’s defense industry capacities and reconstruction needs with EU programs, according to the following key: European Peace Facility 90%; EU programs financed from the EU budget 10 %. This allocation will be reviewed yearly, and for the first time before 1 January 2025. CSDs will be allowed to provisionally retain a share of around 10% of the financial contribution to comply with statutory capital and risk management requirements in view of the impact due to the war in Ukraine, with regard to the assets held by CSDs.” What is noteworthy about the EU plan is that neither the Russian assets themselves nor the revenues generate by those assets will be taken by the EU. Rather, the EU plan is funded by the financial contributions of the CSDs based on their net profits from the revenues generated by the frozen assets.

Yesterday, at their meeting in Borgo Egnazia in Apulia, Italy, the G7 leaders agreed to provide Ukraine $50 billion through a multi-year loan funded by the revenues generated by the frozen Russian financial assets. In their communique, the leaders said, "The G7 will launch "Extraordinary Revenue Acceleration (ERA) Loans for Ukraine" in order to make available approximately $50 billion in additional funding to Ukraine by the end of the year….The G7 intends to provide financing that will be serviced and repaid by future flows of extraordinary revenues stemming from the immobilization of Russian Sovereign Assets held in the EU and other relevant jurisdictions….We confirm that, consistent with all applicable laws and our respective legal systems, Russia's sovereign assets in our jurisdictions will remain immobilized until Russia ends its aggression and pays for the damage it has caused to Ukraine. We will maintain solidarity in our commitment to providing this support to Ukraine."

Since roughly two-thirds of the frozen Russian financial assets, including virtually all of the frozen assets of Russia's central bank, are in financial institutions within the EU, most of them in Euroclear, the effect of the G7 agreement is to bring the U.S., Canada, the UK, and Japan into an arrangement very similar to the one the EU member states agreed last month. EU Commission President Ursula von der Leyen, who attended the G7 meeting, said, "All G7 members are contributing to this loan. It is the windfall profits from the Russian immobilized assets in Europe that will serve it. It's a very strong message to Putin that he cannot outlast us, and we will stand by Ukraine as long as it takes. It is not European taxpayers that are paying for the Russian damage. It is Russia." And European Council President Charles Michel, who also attended the meeting, said, "There is a blatant violation of international law, there is a blatant aggression against Ukraine. They are the aggressor, there is a victim, there are rules at an international level. They have to pay…That's why this money is blocked, that's why this money is frozen, and I am very confident that we can use this money to support Ukraine, because it is fair."

David R. Cameron
June 14, 2024