As Russian attacks on Pokrovsk, Kurakhove, other cities continue, EU Commission proposes more financial assistance for Ukraine

As Friday's British Defence Intelligence map of the battlefield situation in Ukraine indicates, the war in eastern Ukraine continued last week, as it has for the last several months, with the Russian forces attacking westward toward the city of Kupiansk in the eastern portion of Kharkiv region; toward Chasiv Yar, a small city about 10 kilometers west of Bakhmut which the Russians took last year after a prolonged siege; and toward Pokrovsk, a city with a pre-war population of 60,000 about 60 kilometers west of Avdiivka, which the Russians took in February.

But as the General Staff of the Ukrainian Armed Forces reported in its daily updates last week, the Russian forces also continued to attack at a number of other points as well – toward Kharkiv from territory they hold north of the city; toward Lyman about 30 kilometers southeast of Izium that, if taken, would provide a pathway toward the cities of Sloviansk and Kramatorsk; toward Siversk about 15 kilometers southeast of Lyman and 20 kilometers north of Bakhmut; toward Kramatorsk about 25 kilometers northwest of Chasiv Yar; toward Toretsk about 20 kilometers south of Chasiv Yar; toward Kurakhove about 25 kilometers west of Donetsk city; toward Vremivka about 30 kilometers southwest of Kurakhove; and toward the area in Kherson region in southern Ukraine where the Ukrainian forces hold territory on the east bank of the Dnipro River.

In its daily updates covering the seven days last week from last Sunday through Saturday, the General Staff reported a total of 1,148 Russian attacks at various points along the contact line between the forces. It reported a total of 13 Russian attacks in the border area north of Kharkiv; 98 attacks toward Kupiansk; 151 attacks in the direction of Lyman; 30 attacks in the Siversk sector; 46 attacks in the Kramatorsk sector west of Bakhmut; 97 attacks in the Toretsk sector; 278 attacks toward Pokrovsk; 319 attacks toward Kurakhove; 65 attacks in the Vremivka sector west of Donetsk city; 25 attacks in the Orikhiv sector in Zaporizhzhia region, and 28 attacks against the Ukrainian forces on the eastern bank of the Dnipro River in Kherson region.

All those targets are obviously important for the Russians. But it's clear from the cumulative number of attacks last week that, as has been the case for the past several weeks, the most important objectives for the Russian forces in eastern Ukraine last week were Pokrovsk (278 attacks) and Kurakhove (319 attacks). Located at a junction of rail lines and major highways, including the E50 highway that connects Donetsk city with Dnipro and the rest of Ukraine, Pokrovsk is obviously an important target for the Russians; if taken, it would not only open a pathway to other cities in the region such as Kostiantynivka to the northeast and Kramatorsk and Sloviansk to the north but would further secure Russia's hold over the capital city of Donetsk. But Kurakhove, about 30 kilometers south of Pokrovsk, is also an important target for the Russian forces since, among other things, it is located on the N15 highway that connects Donetsk city to Zaporizhzhia. Reflecting the importance of both targets, last week more than half of all of the Russian attacks in eastern Ukraine were directed toward Pokrovsk and Kurakhove.

On Friday, as the Russian attacks on Pokrovsk, Kurakhove, and the other cities in eastern Ukraine continued, the European Commission took what it rightly described as a "decisive step in reinforcing support for Ukraine" by proposing a "comprehensive financial assistance package consisting of a Ukraine Loan Cooperation Mechanism of up to €45 billion and an Exceptional Macro-Financial Assistance loan of up to €35 billion." The package, the EU said, "leverages extraordinary profits from immobilized Russian assets, sending a clear signal that the burden of rebuilding Ukraine will be shouldered by those responsible for its destruction."

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 in the EU, most of them – roughly €190 billion – in Euroclear, a Belgian securities depository for financial transactions. The frozen assets generated €4.4 billion in revenue last year. In March, Josep Burrell, the EU's High Representative for Foreign Affairs and Security Policy, proposed that the EU take the revenues generated by the Russian frozen assets in banks and other financial institutions in Europe and transfer 90 percent of the funds to the EU's European Peace Facility for military assistance for Ukraine, with the remaining 10 percent going into the EU budget for other types of assistance. The EU leaders discussed the proposal at the March meeting of the European Council. Some were opposed to the proposal because of the possible adverse consequences – litigation or worse; others – most notably, Hungarian Prime Minister Viktor Orbán – were opposed because they didn't want to antagonize

President Putin. Nevertheless, after discussing the proposal, the leaders invited the Council of Ministers and Commission to continue work on the proposal. They did so and in early May the Belgian government, which held the six-month rotating presidency of the Council at the time, announced the member states had resolved their differences over the proposal and had agreed in principle that the revenues stemming from Russia's immobilized assets could be used "to support Ukraine's recovery and military defense in the context of the Russian aggression." The EU would impose a windfall profits tax on the revenues generated by the frozen assets, with 90 percent of the proceeds going into the European Peace Facility for military assistance for Ukraine and 10 percent being used to provide non-military assistance to Ukraine.

On May 21, the General Affairs Council of the EU, which consists of the foreign ministers of the member states, unanimously approved the proposal. It decided the central securities depositories holding more than €1 million of Russian sovereign assets and reserves would make a financial contribution to the EU based on their net profits from the revenues generated by the frozen assets. In June, the leaders of the G7, meeting in Italy, endorsed the EU plan and agreed to provide Ukraine $50 billion through a multi-year loan funded by the revenues generated by the frozen Russian financial assets. Since roughly two-thirds of the frozen Russian financial assets, including virtually all of the frozen assets of the Russian central bank, are in financial institutions within the EU, the effect of the G7 agreement was to bring the U.S., Canada, the UK, and Japan into an arrangement very similar to the one the EU member states had already agreed.

The Loan Cooperation Mechanism announced Friday by the Commission would, if approved, support the EU and its G7 partners in issuing up to €45 billion in loans to Ukraine that would be financed by the contribution from profits stemming from the immobilized Russian central bank assets and could be used by Ukraine to repay eligible loans from the EU and other lenders participating in the G7's Extraordinary Revenue Acceleration Loans for Ukraine (ERA) initiative. As the EU's contribution to these loans, the Commission proposed an exceptional Macro-Financial Assistance loan of up to €35 billion that would assist Ukraine in addressing its urgent budgetary needs, including under the IMF's Extended Fund Facility arrangement. The remaining loan amount covered would be provided by other G7 partners.

The proposal will require approval by the European Parliament and a qualified majority of the 27 member states in the Council before entering into force. Approval may be delayed by the fact that Hungary now holds the EU's six-month rotating presidency of the Council. But in January, Poland, the government of which is now controlled by a good friend of the EU and Ukraine, Donald Tusk, will take over the EU presidency for the first six months of 2025 so, if not before, the proposal should be approved sometime in early 2025.

David R. Cameron
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