G7 powers discussing plan to seize frozen Russian financial assets

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With the US and the European Union facing growing political difficulties in getting through increased military funding for the Ukraine war, a plan to seize frozen Russian financial assets of about $300 billion, which has been circulating for some time, is now coming under more active consideration.

The assets of the Russian central bank held in foreign banks and international financial institutions were frozen almost immediately after the war began in February last year, sending a shock wave through the international financial system. At that point, and in discussion since, the actual seizure was thought to be a step too far.

Earlier this year the European Central Bank (ECB) cautioned against an EU proposal to use the assets and divert them to Ukraine, and said it had to be part of a global plan involving the G7 powers.

"We have to be careful because this could lead to reputational damage," the ECB said, "there could be implications for the euro as a safe currency."

In an internal note at the time, the ECB warned of the risks of undermining the "legal and economic foundations" of the international role of the euro. "The implications could be substantial," it stated.

The risk is that other countries, such as China and Saudi Arabia, which stow some of their currency reserves in euros, would consider it unsafe.

According to one EU diplomat, cited by the *Financial Times* (FT) when the asset seizure proposal was first under discussion earlier this year: "Every major euro-dominated economy is treading very carefully on this because of the potential effects for the euro and for foreign investment and clearing in euro."

Opinions vary on the move, as exemplified in recent comments made to the FT.

Philip Zelikow, a former US diplomat, cited as a precedent the compensation of more than $52 billion, finally paid off at the end of last year, which was extracted from Iraq for the 1990 invasion of Kuwait.

"This represents an enormous opportunity," he said. "We have spent nearly two years working through legal thickets and can now begin to contemplate the possibilities that may be available. If this works, the money at stake—$300 billion—would be a game-changer for Ukraine."

An opposed view was advanced by Ingrid Brunk, a professor of international law at Vanderbilt Law School, who said the idea was "unwise."

"Many countries have been damaged by many things that violated international law with no suggestion that we seize foreign currency assets. These are the most sacrosanct kinds of assets in the global financial system."

Despite these reservations, there is now a concerted push from within the imperialist political establishment to go ahead.

Former British prime minister, now foreign secretary, Lord David Cameron, told a parliamentary committee earlier this month he was confident there was a "legal route" to confiscate the assets.

Cameron was basing himself on a long tradition. Back in the days when Britain ruled the colony of Ceylon, now Sri Lanka, it was said the colonial master practised "perjury by day and forgery by night."

Cameron said he was pushing hard within the G7 for the proposal to seize the Russian assets, saying "extraordinary times require extraordinary measures." He denied there would be a "chilling effect" of such action because investors that would likely be perturbed had already been "pretty chilled out by the fact that we have frozen."

In the manner indicated by the Sri Lankan saying, the legal experts are getting to work.

The FT reported that while the US has not formally declared in favour of seizing the assets, it was working to have the plan go ahead. The newspaper pointed to a recent

G7 discussion paper, written by US officials, which would present the seizure as a "countermeasure" permitted under international law to "induce Russia to end its aggression."

The US paper said the asset seizure could be "pursued as a lawful countermeasure by those states that have been injured as specifically affected by Russia's violation of the international law."

This means the imperialist powers that have provided money for the war could get part of the Russian reserves as compensation. There is clearly a push for this to take place.

According to one Western official, cited in a recent report by the FT, there were "definitely live conversations" in the G7 and a "growing consensus" in favour of using Russian sovereign assets.

"It's going back to the question of: Is it just up to Western citizens and treasuries to pay for the war, or should the Kremlin also be on the hook?"

Following the failure of the EU to agree on war funding, another EU diplomat said: "We need to find a way to get cash to Ukraine, in whatever form. And more countries are pointing at the assets and wondering why they are still sitting there."

There are pressures developing on the other side of the Atlantic as well.

A report in the *New York Times* yesterday said the Biden administration was "quietly signalling new support for seizing more than $300 billion in Russian central bank assets stashed in Western nations" and was pressing other members of the G7 to come up with a plan, possibly by February 24, the second anniversary of the Russian invasion.

On Monday the *Wall Street Journal* published an op-ed piece by J. French Hill, a Republican Congress member from Arkansas, and Lulzim Basha, a member of the Albanian parliament, saying they had joined forces to make Russia pay for the reconstruction of Ukraine.

"Mr Putin must pay for his aggressions and war crimes. Strong legislation to seize all Russian sovereign assets is a start," they wrote.

Another issue is the interest that is being paid on the frozen Russian money. This has turned out to be what in criminal circles is termed a "nice little earner." Euroclear, the Belgian-based clearing house where most of the Russian money is held, made about €3 billion in the first nine months of the year. Discussions are being held on what to do with these windfall profits.

Earlier this month the EU Commission agreed on a proposal to devise a "legal" means to use the interest on these assets to supply Ukraine with as much as €15 billion over the next four years.

Details of the plan have not been made public, contrary to usual practice. It would have to be passed by the European parliament and all 27 member states to be implemented, which may prove to be unattainable. But it is an indication of the direction of events.

A significant move was made in Germany this week. Prosecutors stepped up proceedings, begun in July, to seize more than $720 million held in the Frankfurt account of a Russian financial institution. It was the first time a move has been undertaken to seize assets and not just freeze them.

German Justice Minister Marco Buschmann pointed to the wider agenda behind the move.

"What personally applies to unscrupulous leaders also applies to the assets of their power apparatus: we will not allow Russian money to finance the illegal war of aggression to lie untouched in German accounts," he said.

Whether the move to seize Russian assets will be carried out remains to be seen, but there is clearly a push for it. The fear, notwithstanding the gung-ho pronouncements of Cameron and others, is that it would have a major impact on the operations of the international financial system.

Already, after the freezing of the Russian assets in the spring of 2022, there were moves by numbers of countries, including China, Saudi Arabia and Brazil, to lessen their dependence on the US dollar, recognising they too could have action taken against them should they cross the path of the US and the other imperialist powers.

The asset seizure proposal is also indicative of the wider aims of the US-NATO war. It is not about "defending democracy" and "little Ukraine" but carving up Russia and plundering its resources. Seizing its sovereign assets would be a significant step toward that goal.