



The America-Eurasia Center's International Security Program

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Russian Reparations for Ukraine Conflict



Rescuers work at a residential building damaged by Russia during Ukraine-Russia conflict in Mariupol, Ukraine. Photo Credit: REUTERS - Alexander Ermochenko

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Russian Reparations for Ukraine's Conflict



100-ruble notes sit on the counter of a cashier's desk in Russia. Photo Credit: The Guardian

On February 24, 2022, the transatlantic security environment changed forever with Russia's brutal and unprovoked invasion of Ukraine. As missiles struck across the country and thousands of troops poured in from all sides, it rapidly became clear that the war would be more destructive, deadly, and expensive than any European conflict since 1945. In response to the invasion, the West imposed a series of crippling economic sanctions on Ukraine. One of the most impactful actions the West took was freezing Russia's foreign currency reserves, essentially preventing the Russian government from accessing hundreds of billions of dollars of its own money held in Western banks. While many have argued that the West should use these frozen assets to fund Ukraine's extensive recovery, such a move would likely undermine the global financial system. Thus, a more nuanced approach is needed that balances Ukraine's needs with the responsibilities that come with controlling the world's primary reserve currency.

Rebuilding Ukraine will not be a simple process, with a recent World Bank estimate putting the total cost of Ukraine's recovery and reconstruction to be around \$349 billion.¹ That is a staggering figure for a country with a prewar GDP of only \$200 billion.² At a time when inflation is

¹<https://www.worldbank.org/en/news/press-release/2022/09/09/ukraine-recovery-and-reconstruction-needs-estimated-349-billion>

² <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=UA>

biting Western economies at a level not seen in decades and political populism makes extended financial commitments to foreign countries politically untenable, the West will need to get creative to fulfill its promises to Ukraine. Russia's frozen currency reserves offer an appealing avenue that enables the West to meaningfully assist Ukraine in its recovery while also ensuring pressing domestic needs are not left unfulfilled.



*The World Bank estimates staggering \$349 billion costs for rebuilding and recovery in Ukraine.
This picture of the Maidan Revolution 2014. Photo Credit: Reuters from BBC News*

Currently Russian foreign currency assets are *frozen* in Western banks, meaning the Russian government cannot access them and use them to pay off debts, meet current obligations, or fund the ongoing war. Several prominent Western leaders including EU Commission Vice President Josep Borrell and Ukrainian central bank governor Kyrylo Shevchenko have called for the West to transfer seized Russian assets to Ukraine as part of the rebuilding program.³ With over \$300 billion in Russian currency and gold reserves held across Western financial institutions, these assets provide a unique opportunity for the West to punish the Putin regime and contribute to Ukraine's recovery without having to dip further into their own coffers. Nominally, enough Russian assets are

³ <https://www.reuters.com/world/europe/eu-should-seize-russian-reserves-rebuild-ukraine-borrell-says-ft-2022-05-09/>

currently frozen that if seized, would be sufficient to fund the vast majority of Ukraine’s projected reconstruction costs.⁴

Foreign currency reserves are not the only Russian assets some have proposed using to fund Ukrainian reconstruction efforts. In April of 2022, the U.S. House of Representatives passed the “Yachts for Ukraine Act”, which urges the Treasury Department to auction off seized assets of Russian oligarchs valued over \$5 million and donate the proceeds to humanitarian efforts in Ukraine.⁵ While a well-intentioned idea, the process of seizing and then auctioning off assets is often a difficult and arduous one, fraught with legal and logistical challenges that delay the eventual delivery of much needed aid. Seizing currency reserves solves many of those challenges thanks to their inherent liquidity. By confiscating Russian hard currency reserves, the West can transfer billions of dollars, euros, and pounds directly to Ukrainian hands without the need for auctions.



*A yacht connected to Russian oligarch Roman Abramovich sails off the coast of Montenegro.
Photo Credit: Reuters*

⁴ <https://www.bbc.com/news/business-60684660>

⁵ <https://www.nytimes.com/2022/04/27/us/politics/biden-russia-sanctions.html>

However, seizing Russian currency reserves presents its own set of unique challenges. To fully seize the assets, many Western countries would have to pass specific legislation authorizing their government to take ownership of these sovereign Russian assets, a complicated and uncertain process that is not guaranteed to succeed.⁶ Beyond practical concerns, confiscating Russian currency reserves could undermine the very international financial system that the West seeks to prevent Russia from accessing. This financial system is predicated largely on the U.S. dollar's status as the global reserve currency.

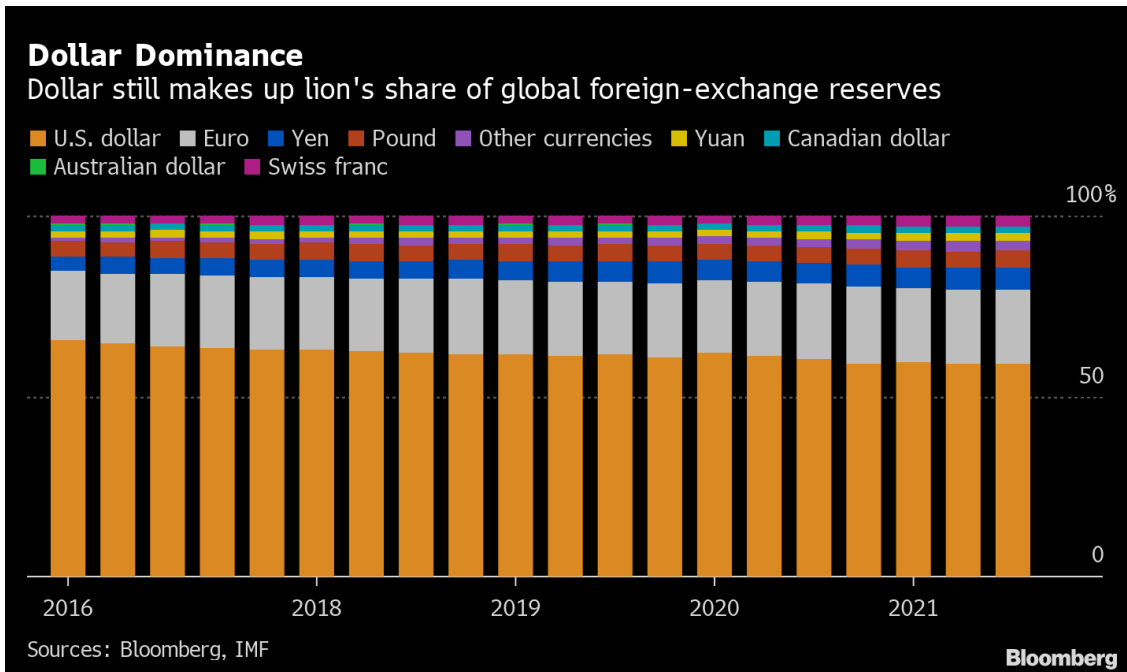
Roughly 60% of foreign exchange reserves are U.S. dollars, with the Euro being a distant second at 20%.⁷ The dollar's dominance can in part be attributed to the dynamism and strength of the American economy. However, another key factor in the dollar's success is the world's faith that the United States is a safe and trustworthy place to house a nation's most important financial assets. There exists a symbiotic relationship between the international community and the U.S. dollar. The more countries around the world trust the U.S. government to safeguard their wealth by denominating their assets in dollars, the more powerful and attractive the dollar becomes to other countries looking to do the same. This self-fulfilling cycle of trust and strength is what propelled the U.S. dollar to its dominant position.

With this dominant role comes extraordinary power that the U.S. government must be extraordinarily careful in how it exercises. By denying a country access to the American market and related financial system, the U.S. government can plunge countries large and small into depressions with limited domestic repercussions. This tool has proven to be important leverage in high stakes negotiations before. The American sanctions placed against Iran in response to its nuclear program sent the country into deep economic despair and ultimately forced Iran to the negotiating table, where a deal limiting the country's nuclear program was agreed to in exchange for the partial lifting of the most burdensome financial sanctions. By seizing and donating Russian currency assets, the United States undermines the trust that underpins the dollar's hegemonic status. Countries with whom the U.S. has major foreign policy disagreements may look to denominate their transactions in a non-dollar competitor currency like the Chinese renminbi.⁸

⁶ <https://www.lawfareblog.com/giving-russian-assets-ukraine-freezing-not-seizing>

⁷ <https://data.imf.org/regular.aspx?key=41175>

⁸ <https://warontherocks.com/2022/09/what-does-the-weaponization-of-global-finance-mean-for-u-s-dollar-dominance/>



The U.S. dollar has maintained its dominant position as the world's reserve currency. Photo Credit: Bloomberg

Furthermore, by seizing and donating Russian currency assets, the West gives away a key negotiating tool that could be used in a future settlement with Russia to end the conflict.⁹ Part of the reason the Iran deal was initially successful was that the United States and its allies had simply frozen Iranian assets and were in a position to unfreeze them in Iranian behavior improved. As Iran made progress in dismantling its nuclear weapons program, the West could gradually unfreeze assets, providing further incentive for additional progress. By seizing Russian reserves and turning them over to Ukraine as part of a reconstruction and reparations package, the West denies Russia a powerful incentive to adjust its policies.

A more prudent policy than seizing all Russian currency reserves and sending them in to Ukraine would be to create a multi-phased adaptive approach that meets the immediate needs of post-conflict reconstruction while still preserving the possibility that at least some of the reserves could be returned to Russia provided they make progress on key issues.¹⁰ The United States, working with the rest of the G7, should immediately begin the process of setting up the institutions required to facilitate post-war reconstruction efforts. Allied nations should work with Ukraine to determine the true scope of reconstruction needs and commit to providing a significant portion of those needs out of their own pockets, provided benchmarks are set to ensure progress is being made without corruption, waste, or abuse.

⁹ <https://www.reuters.com/breakingviews/using-russian-assets-ukraine-would-be-mistake-2022-05-17/>

¹⁰ <https://www.gmfus.org/news/designing-ukraines-recovery-spirit-marshall-plan>



*Leaders of the G7 nations agreed to provide nearly \$20 billion in aid to Ukraine in May 2022.
Photo Credit: The New York Times*

The West should seize a sizable but not extraordinary amount of frozen Russian currency reserves and put them towards directly assisting affected Ukrainians as part of a reparations package separate from any post war peace agreement. The damage Russia has caused the Ukrainian people through its illegal and unprovoked invasion does warrant continued financial punishment and using frozen Russian currency assets to compensate for these damages is just, prudent, and necessary. However, most of the currently frozen reserves should remain frozen and subject to possible return to Russia provided Russia agrees to conditions set forth by the West and Ukraine as part of an ultimate settlement agreement. The West can properly hold Russia accountable, provide Ukraine with the support it requires, and preserve the invaluable status of the dollar as the world's primary reserve currency.

