

TOLARENAI Diplomacy Scroll 04

Frozen Assets and Acts of War

I just heard on a podcast that European Union was moving to use Russian frozen assets, either to shore up their own economy or to send directly to Ukraine. This moves close to what some might consider being an act of war. Up to now EU leaders have been careful not to cross that line. What is the historical precedent for treating the confiscation of frozen assets as an act of war?

History offers a distinction between *freezing* and *confiscating*:

- **Freezing assets** is common in sanctions regimes. It blocks access, but is usually presented as temporary. This has happened repeatedly — UN Security Council sanctions, U.S. actions against rogue states, etc.
- **Confiscation and redistribution** is another matter. That step has historically only been taken in contexts of declared war.
 - In the United States during WWI and WWII, the *Trading with the Enemy Act* (1917) empowered the President to seize the property of enemy nationals. Later executive orders (e.g., EO 8389 in 1940) froze and then confiscated the assets of states occupied by Axis powers. Those assets weren't meant to be returned — they were repurposed as part of the war effort.
 - The legal justification came from the war footing itself: these were actions taken against enemies in a state of war, not against states with which the U.S. was technically at peace.

So: there is precedent for treating confiscation as a war measure, but that's precisely the point. It has been a wartime tool, not a peacetime sanction. A move to use seized assets to either shore up EU budget deficits or to fund Ukraine could be viewed as a defacto declaration of war.

Present Context:

The EU and G7 currently hold about **\$300 billion of Russian central bank assets**, mostly through the Euroclear clearinghouse in Belgium. At present, they have limited themselves to using the *interest* generated by those assets, several billion a year, to support Ukraine. This is a cautious middle ground: they can claim they are not seizing the principal, only re-routing the financial fruits of frozen capital.

But the debate is ongoing. Some argue that outright confiscation of the principal should fund Ukraine's reconstruction or armament. Others warn that doing so would cross a historic red line: it would mirror the kinds of seizures done only in declared wars, making Europe appear not merely a sanctioning bloc but a co-belligerent.

Why This Matters for Global Trust:

This isn't just about Russia. It's about the credibility of Europe as a financial safe haven:

- **Sovereign immunity:** Under international law, state assets (especially central bank reserves) enjoy protection. Violating that sets a precedent.
- **Reserve confidence:** If Europe proves willing to confiscate a rival's reserves, why would China, Saudi Arabia, or any major reserve-holding state trust their money in European institutions? This risks undermining the euro's role as a reserve currency and diminishing Europe's financial clout.
- **Reputation costs:** Even if confiscation is justified politically, the damage to credibility could last decades. Once trust in the sanctity of reserves is broken, it's almost impossible to fully rebuild.

This looks to me like EU leaders are driving dangerously close to the edge, acting shortsightedly. Yes, it may buy them time, perhaps they believe they just need to

hold on until U.S. politics settle, maybe until Trump is out of office, and then hope Washington resumes funding. But at what cost?

No one with serious reserves will want to keep money in Europe if this precedent is set. Already I've been ahead on this analysis: years ago, I argued that sanctions would not bring the Russian economy to its knees. The slogan about turning the ruble to rubble was always hollow. In reality, Russia has weathered the sanctions storm, repositioned its economy, and kept fiscal discipline. To my eyes, Moscow has been the "adult in the room" while the EU has flailed between half-measures and symbolic gestures.

If they now confiscate Russian principal and spend it, especially on arms for Ukraine, then by every historical precedent, that is the action of a belligerent in war. Russia would almost certainly treat it that way. And it would cement Europe's reputation as an unsafe place for sovereign wealth.

Conclusion:

- Freezing = sanctions tool.
- Using *interest* = penalty, but short of war.
- Confiscating principal and redistributing = historically a wartime act, not a peacetime sanction.

Thus, if the EU crosses into confiscation, they risk two consequences:

1. Russia declaring them a co-belligerent, formalizing what is already a shadow war.
2. Long-term erosion of Europe's standing as a trustworthy reserve hub.

Confiscating Russian reserves = wartime seizure, risking co-belligerency and eroding Europe's financial credibility.

There is no justification for seizing sovereign reserves beyond desperation. To frame it as morality or necessity is a mask for short-term panic. Confiscating another nation's central bank assets when you are not formally at war is not diplomacy, it is the abandonment of diplomacy. And once that door is opened, Europe cannot expect others to treat its institutions as safe custodians ever again.

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