

U.S. and Russia Discuss Ukraine Crisis as Europe Offers Kiev \$15 Billion

By STEVEN ERLANGER and MICHAEL R. GORDON

(New York Times) -- KIEV, Ukraine — The European Union added a significant financial underpinning to the struggling Ukraine government on Wednesday in the midst of the East-West crisis with Russia over Ukraine's future, offering aid worth as much as \$15 billion over the next two years.

The offer comes on top of the \$1 billion in American loan guarantees to ease Ukraine's economic transition, announced here on Tuesday by Secretary of State John Kerry during a visit aimed at reassuring the interim Ukraine authorities and challenging Russia, which escalated the crisis last weekend by seizing control of Ukraine's Crimean Peninsula.

Mr. Kerry met on Wednesday in Paris with his Russian counterpart, Sergey V. Lavrov, as part of an attempt to arrange the first face-to-face talks between representatives of the Russian and interim Ukraine governments since the crisis boiled over. The Russians have refused to recognize the interim Ukraine government's legitimacy.

Later Mr. Lavrov, Mr. Kerry and the acting Ukrainian foreign minister, Andrii Deshchytzia, who flew to Paris with Mr. Kerry on Tuesday, went to the French Foreign Ministry. But it was not immediately clear whether there was any direct encounter between the Russian and Ukrainian ministers.

Mr. Lavrov insisted earlier Wednesday in Madrid that Russia had no control over "self-defense forces" in Crimea, which Russian troops have effectively occupied, surrounding and neutralizing the thin Ukrainian military presence there.

The standoff in Crimea, and the larger struggle over Ukraine, the former Soviet republic that is deeply intertwined with Russia economically, are at the heart of these diplomatic and financial maneuvers.

The Russians have defended their actions in Crimea as a response to a request for aid from local citizens and from the ousted president, Viktor F. Yanukovich. The Russians say that Mr. Yanukovich, for all his faults, remains the legitimate president of Ukraine, while the Americans say that Mr. Yanukovich, by fleeing to Russia, lost his legitimacy and opened the way to a new interim government ratified by Parliament.

The offers of loans are crucial, because Ukraine is in dire economic shape, with a promised Russian loan of \$15 billion in abeyance since the ouster of Mr. Yanukovich and Russia's decision on Tuesday to cancel a large discount on natural gas supplies to Ukraine starting on April 1.

Ukrainian officials have said that they need \$35 billion in new loans and credits over the next two years to avoid default.

A team from the International Monetary Fund is in Kiev to study the books and consider a stabilization loan. The fund is expected to demand difficult changes, including the reduction of lavish subsidies on gas prices, so the American and European money is intended in part to help cushion the blow to Ukrainian voters before new elections in May.

The American and European offers are also intended to answer political criticism in Washington and some European countries that the West is not doing enough to support Ukraine in the face of Russian aggression.

European Union leaders will meet on Thursday in Brussels to consider sanctions against Russia for its actions in Ukraine. The loan announcement on Wednesday came from José Manuel Barroso, the president of the European Commission, the union's executive arm.

He said that the offer of 11 billion euros "over the next couple of years" included 1.6 billion euros, or about \$2.2 billion, in loans and 1.4 billion euros in grants, as well as 3 billion euros in new credit from the European Investment Bank through 2016.

He also promised efforts with the European Bank for Reconstruction and Development, where the European Union is a majority shareholder, to free up another 5 billion euros and said the European Commission would mobilize 250 million euros to leverage as much as 3.5 billion euros in loans from investment projects.

But Mr. Barroso was vague on the details, indicating a rapid effort to come up with an offer that could come close to matching the original Russian one. He said he would discuss details on Thursday with Ukraine's interim prime minister, Arseniy P.

Yatsenyuk, who will be attending the emergency summit of leaders.

The European Union also announced in a statement that it is freezing the financial assets in Europe of 18 people held responsible of misusing state funds in Ukraine. The identity of those targeted was withheld pending the official publication in the EU's legal journal Thursday, at which point the sanctions will be effective for the coming 12 months.

In Kiev, Mr. Yatsenyuk said that Russia's deployment of forces is having an "extremely negative" impact on the country's already shaky economy.

"The Russian aggression on Ukraine's territory is having political and economic consequences," he said in remarks broadcast on television at the start of a government meeting.

"The presence of the Russian military on Ukraine's territory is having an extremely negative effect on Ukraine's economy."

But there is no indication that Russia has any intention of releasing its grip on Crimea, the headquarters of the Russian Black Sea Fleet and an important southern port for the Russian military. Russian troops in Crimea, still in uniforms without insignia, continue to surround all key Ukrainian military facilities. Most of the Ukrainians have resisted calls to hand over their weapons and leave their bases, where they are effectively imprisoned.

In Crimea on Wednesday, 10 to 15 unidentified armed men threatened the United Nations special envoy, Robert Serry, as he departed a meeting at a naval facility, ordering him to go to the airport and leave the peninsula, the deputy secretary-general, Jan Eliasson, told reporters by telephone. When Mr. Serry refused, the gunmen surrounded his car, but permitted him to go to a cafe, where he called Mr. Eliasson, who was in Kiev.

"He is in good shape physically. He is not kidnapped," Mr. Eliasson said, adding that he hoped his mission would continue unhindered. But a journalist traveling with Mr. Serry, James Mates, said Mr. Serry had aborted his mission. There was no immediate confirmation from the United Nations.

There were other reports on Wednesday that Russian troops had seized part of a Ukrainian missile defense unit in Yevpatoria, on the western coast of Crimea, but a local spokesman for Ukraine's Defense Ministry told news

agencies that the command post and control center of the base remain under Ukrainian control.

In the north of the Crimean Peninsula on the isthmus near the Ukrainian mainland, northwest of Armyansk, Russian troops with 10 large trucks have set up a roadblock and are checking documents and cars. Two Russian flags fly over the roadblock and journalists are being told to keep away.

In Donetsk, in the east of the country, where Russian speakers predominate, pro-Kremlin demonstrators calling for greater independence from Kiev overcame riot police and poured into the regional administration building on Wednesday evening, retaking the building for a second time this week in a persistent tug-of-war with local police.

The confrontation in Donetsk came after Sergey Taruta, a billionaire businessman from the region who was recently appointed as the new governor, arrived Tuesday evening. Mr. Taruta signaled that the police and the local government would resist pro-Russian activists calling for Donetsk to secede from Ukraine.

Donetsk is one of several cities in eastern Ukraine where pro-Russian protests erupted on Saturday. Demonstrators led by Pavel Gubarev, founder of the People's Militia of Donbass, who declared himself "people's governor," have been ensconced in the regional administration building, demanding that relations with Kiev be severed and that control over the police and security forces be placed in their hands.

Mr. Lavrov, the Russian foreign minister, did not attend a meeting in Paris on Ukraine's security called by signatories to the Budapest Memorandum, a treaty that was signed after Ukraine agreed in 1994 to give up the nuclear weapons it inherited from the Soviet Union. The accord, formed by the United States, United Kingdom and Russia, was designed to provide Ukraine a kind of reassurance about security, but no guarantee.

Mr. Lavrov's attendance would have provided an opportunity for the Ukrainian and Russian foreign ministers to talk directly, a dialogue that the Ukrainian side said on Wednesday it is now ready for and which Britain and the United States are trying to facilitate.

As the session began, Mr. Kerry sat at a U-shaped table along with the British foreign secretary, William Hague, and Andrii Deshchytsia, the acting Ukrainian foreign minister, who flew to Paris Tuesday night on Mr. Kerry's plane. There was not an empty chair set aside for Mr. Lavrov, but there might as well have been. "Regrettably," Mr. Kerry said at the start of the session, the group was "missing one member."

"We will make every diplomatic effort today to bring Russia and Ukraine in direct contact at the ministerial level," Mr.

Hague added. "We will try to create other opportunities later today."

Significantly, Mr. Deshchytsia said he was prepared to have "consultations with Russia, bilaterally and multilaterally."

Driving his point home, Mr. Kerry then spoke again and read two paragraphs from the Budapest memorandum that noted that the signatories agreed to "refrain from the threat or use of force against the territorial integrity or political independence of Ukraine" and also agreed not to engage in "economic coercion."

"So there are very clear legal obligations that are at risk in this," Mr. Kerry added.

The French foreign minister, Laurent Fabius, said that European Union leaders holding a crisis meeting on Ukraine on Thursday could impose sanctions on Russia if there was no “de-escalation” by then, echoing earlier comments on Tuesday by the Polish foreign minister, Radoslaw Sikorski. Mr. Fabius told French television that measures could include restrictions on visas, on the assets of individuals and a review of existing discussions on economic ties with Russia.

Germany has been pressing for dialogue, both directly with Russia and through the Organization for Security and Cooperation in Europe, the 57-member group of which both Ukraine and Russia are members. Mr. Fabius said that France had jointly elaborated a “crisis exit” plan with Germany. Chancellor Angela Merkel has been more reticent than French officials in publicly raising the threat of sanctions on Russia.

The O.S.C.E. announced that at Ukraine’s request it had sent a team of 35 unarmed military personnel to Crimea to investigate and assess the situation there. “They will not be contented with assurances that these people are volunteers, who bought their uniforms in a shop,” Polish Defense Minister Tomasz Siemoniak said. The hope is to learn “who is in power there and conclusions the O.S.C.E. should draw from that.”

In an awkward bit of timing, just as European leaders are considering sanctions on Russia, a French shipbuilder announced the test sail of a military ship France agreed to sell Russia in 2011. The sale was controversial at the time and involves a transport warship that would improve Russia’s ability to deploy troops, tanks and helicopters. France says it has no intention of scrapping existing defense contracts.

Steven Erlanger reported from Kiev, Ukraine, and Michael R. Gordon from Paris. Reporting was contributed by Dan Bilefsky from Paris; Andrew Roth from Donetsk, Ukraine; Alison Smale and Patrick Reevell from Armyansk, Ukraine, and Somini Sengupta and Rick Gladstone from New York.