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Mr. Chairman, Thank you for the opportunity to speak today on an important topic. I am also pleased to see this committee take the lead in educating the American public on such a critical issue. I have been asked to address the energy component of a theoretical resolution of the current nuclear crisis on the Korean Peninsula.

While I do not claim to be an energy expert, per se, I had the privilege of serving as the United States Representative to the Korean Peninsula Energy Development Organization (KEDO) from May 2001 until the end of August 2003. In that capacity and from my previous experience of working the North Korean issue from the National Security Council staff, I have had the opportunity to talk to a number of more qualified people about what an energy component to an overall settlement might look like.

I propose to provide you today with some thoughts on what might be possible and to point out problems that will have to be addressed along the way. First, let me briefly review how energy has come to play such a prominent role in past and future dealings with North Korea.

In exchange for agreeing to join the Non-Proliferation Treaty (NPT) in December 1985 and put its 5 MW(e) reactor under international supervision, Moscow promised to sell Pyongyang four Light Water Reactors (LWRs) for energy purposes. The existing reactor went on line in 1986 and, as we learned later, was shut down for a few months in 1989 and 1990 while the North Koreans removed hundreds of spent fuel rods and extracted enough plutonium for 1 or 2 nuclear weapons. This 5 MW(e) reactor was covered in the October 1994 Agreed Framework which was designed to freeze and eventually

eliminate North Korea's fissile material production program. The reactor was shut down and its spent fuel rods removed and safely stored under IAEA supervision. As part of the negotiated deal, the United States pledged to organize under its leadership a consortium to finance and supply 2 LWRs and provide interim Heavy Fuel Oil (HFO) until the first LWR came on line. The practical breakout of responsibilities resulted in South Korea and Japan agreeing to build and principally fund the LWRs while the United States provided Heavy Fuel Oil. The amount of HFO was related to the notional electrical output of the facilities that North Korea was to freeze. That amount was set at 500,000 metric tons per year.

Following Assistant Secretary Kelly's trip to Pyongyang in October 2002 to confront North Korea over their secret Highly Enriched Uranium (HEU) program, I led an effort as the US Representative to KEDO, upon instructions, in November 2002 to suspend further deliveries of HFO by KEDO pending resolution of the HEU issue. In response to that suspension, Pyongyang declared that the United States had effectively killed the Agreed Framework and then proceeded to unfreeze their nuclear facilities at Yongbyon. Part of Pyongyang's initial rationale for restarting its 5 MW(e) reactor in January 2003 was for the production of energy to replace the now suspended HFO.

In the latest round of Six Party Talks, North Korea is reported to have demanded that the United States, at the point that the freeze goes into effect, take part in energy aid of two million kilowatts, in addition to removing them from the list of states sponsoring terrorism and lifting economic sanctions as part of its "reward for freeze" proposition.

This gap between what the United States and others may be prepared to provide as part of

an initial step toward complete resolution of the current nuclear crisis and what the North Koreans are demanding can be described as routine and predictable at this stage of diplomacy. North Korea is attempting to devalue the US proposal while increasing the price it is demanding for settlement. But more importantly, it highlights the important role energy will play in any settlement.

I must point out now before we get much further into the discussion of energy that there are several private and quasi-official efforts proceeding in the area of possible provision of energy to North Korea. One of these efforts involves the United Nations Secretary General's special envoy to North Korea. I will leave to him or others to explain how, if at all, his efforts have been coordinated with the on going multilateral talks and how it may or may not support a negotiated settlement.

What is clear is that North Korea has an energy shortage that has affected all aspects of national and individual life. Industrial capacity is down, electricity for agricultural use is insufficient and basic necessities of life such as heating and electricity are unreliable. This was the situation that gave US negotiators certain leverage in 1994 that led to the Agreed Framework and it is the same situation that can provide US negotiators a similar level of leverage today.

Energy that was supplied to North Korea as a result of the Agreed Framework was both short- and longer-term. It was controlled and reversible, in the event Pyongyang reneged on its commitments. As I mentioned earlier, we suspended further deliveries of near-term energy assistance (HFO) in November 2002 and later suspended work on the

longer-term energy assistance (the LWR project). It is appropriate that future deliveries of energy that are part of a diplomatic resolution of the current crisis likewise be phased and tied to North Korean performance of its obligations.

That being said, the situation today requires full consideration be given to all the variables we face. For example, it is easy from an American point of view to declare the Agreed Framework dead, ending any and all support for the LWR project at Kumho. That would be short-sighted. While I personally do not envision a scenario in which the current LWR project is completed as originally contemplated and the keys to an operational nuclear facility turned over to Pyongyang, I do think we must look further down the road to a point in time when reunification of North and South Korea is a reality. My assumption is that when that time comes, a reunified peninsula will be ruled by a democratic government allied to the United States. That reunified nation, let alone the projected needs of the current Republic of Korea, will have vastly greater energy requirements. It stands to reason that some of that energy might well be supplied by nuclear facilities yet to be built. In that regard, I can see value to preserving the current LWR work at Kumho or even advancing it under a formula that keeps control in the hands of the ROK or some other international entity until reunification occurs.

Since I have mentioned KEDO and the LWR project, let me continue on that theme. I must confess that when I worked on the National Security Council staff for several years and functioned as Ambassador Charles Kartman's deputy in negotiations with the DPRK, he tried his best to get me involved in KEDO. To my regret, I resisted his wise counsel, for in May 2001, I succeeded Ambassador Kartman as the US Representative to KEDO.

What I learned very quickly then and had reinforced over the next two and half years is that KEDO has an exceedingly strong international staff composed of experts from each of the consortium's member countries: the United States, Japan, the Republic of Korea and the European Union. I worked closely with each of the consortium's Board Members as well as its Executive Director, Ambassador Kartman. I have concluded that KEDO, as an organization, is well placed to transition with minimal effort to an organization that could contribute to the procurement and distribution of non-nuclear forms of energy assistance to North Korea as part of a diplomatic resolution to the nuclear crisis.

KEDO has years of experience in purchasing HFO on the world market and having it delivered to North Korea. It has negotiated tough protocols with Pyongyang requiring internationally acceptable behavior and the development of responsible internal regulations governing conduct and rights at the LWR site at Kumho. Equally important, the KEDO staff has established a professional, non-political relationship in doing business with its North Korean counterparts. Moreover, the North Koreans now have nine years of experience dealing with KEDO. They have developed confidence in their ability to work with its people, from both a policy and operational standpoint. In addition, they have established a bureaucratic counterpart to KEDO with enough standing in their own system to get decisions carried out.

Before KEDO can be restructured as a tool of Six Party Diplomacy, the EU needs to be brought into the nuclear resolution process, even if only on an informal basis. As a

voting member of the Board of Directors, having EU approval for the future transition of KEDO is essential. Any organization that was created to replicate KEDO's expertise would be an unnecessary waste of time and energy, in my opinion.

Having established that a key element in the provision of energy to North Korea already exists, let me turn to potential energy packages that could be considered.

When talking about energy assistance to North Korea, you have to expand your initial thoughts of oil or coal to all aspects of the energy system that would be beneficial, and therefore of value, to North Korea. First of all, North Korea's infrastructure is obsolete and inefficient. Basic upgrades from insulating homes and businesses, to grid improvements, to rehabilitation of old plants and mines to new constructions of power plants would play a role in the equivalent delivery of energy assistance to North Korea. Natural gas via a pipeline from Russia is another possibility but one that could be part of a longer-term package. However, the cost involved may dictate that it be a mix of government-commercial if not an outright commercial venture.

For negotiating reasons, a phased approach to providing energy assistance is best. Near-term provision of energy could easily come in the form of Heavy Fuel Oil. North Korea has the capacity to handle and convert HFO to electricity, if provided on a scheduled basis. In the past, North Korea complained that US-provided HFO inevitably was unpredictable and arrived in quantities too large for them to handle efficiently. In addition to HFO, pilot projects designed to repair existing mines and conventional power plants could be undertaken. The first construction of a new conventional power plant

could occur at Kumho, the site of the current LWR project. The infrastructure at Kumho already exists, thus shortening the time that otherwise would be required to begin such a project.

Longer-term projects that could be phased in as progress is made in fulfilling non-proliferation obligations would include transmission grid rehabilitation, natural gas pipeline construction, the modernization of existing power plants, and construction of hydroelectric power plants throughout the country. The longer-term rehabilitation of the energy infrastructure is of enormous importance to South Korea. When reunification takes place the cost to bring North Korea up to minimum South Korean standards will be enormous. Any opportunity for Seoul to get started in infrastructure rehabilitation in North Korea before reunification would be a welcome head start. Key to any longer-term energy assistance would be a serious energy needs survey of North Korea validated by South Korea.

All of the programs I have mentioned have costs that have to be calibrated to the value that the Six Parties must agree upon in connection to the elimination of North Korea's nuclear weapons program. I do believe energy assistance will be an important component in the eventual resolution of the nuclear crisis.

Mr. Chairman, I want to thank you for the opportunity to appear this morning and look forward to answering any questions you may have.