

**KEDO AND THE KOREAN AGREED NUCLEAR  
FRAMEWORK: PROBLEMS AND PROSPECTS**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON EAST ASIAN  
AND PACIFIC AFFAIRS  
OF THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE  
ONE HUNDRED FIFTH CONGRESS  
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## **KEDO AND THE KOREAN AGREED NUCLEAR FRAMEWORK PROBLEMS AND PROSPECTS**

**TUESDAY, JULY 14, 1998**

U.S. SENATE,  
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC  
AFFAIRS, COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:18 a.m. In room SD-419, Dirksen Senate Office Building, Hon. Craig Thomas, chairman of the subcommittee, presiding.

Present: Senators Thomas, Kerry, Robb, and Feinstein.

Senator THOMAS. I will call the committee to order. I apologize in that we had a vote which was supposed to be at 10, but it got pushed back to quarter past 10. I think there will be some more committee members here soon.

In any event, good morning and thank you for being here. I will keep my comments short so that we can get on to our witnesses.

This is the subcommittee's first hearing on the Korean Peninsula Energy Development Organization and the North Korean Agreed Framework since last year. We had it on the subcommittee agenda for some time.

I had hoped to discuss the success that KEDO has had implementing the Framework Agreement, getting started building the two light water reactors, and stifling the threats of the North Korean nuclear weapons development.

Instead, unfortunately, today the subcommittee meets to explore just how it is that KEDO finds itself \$47 million in debt, behind in its heavy oil delivery schedule, and why the North Koreans have accused the U.S. of failing to honor its core commitments to the Agreed Framework.

Because KEDO has fallen behind, the DPRK began maintenance work on its plutonium separation plant that has been shut down since the agreement was reached. The May statement from the North Korean Foreign Ministry noted, and I quote, "The U.S. side should take practical steps to fulfill its obligations under the agreement as soon as possible. In case the U.S. side repeats empty words, the consequences will be unpredictably serious."

A sticking point is the delivery of the heavy oil. KEDO does not have the money to meet its year's 500,000 ton oil commitment. Operating on an October 21 to October 20 fiscal year, KEDO has delivered 152,000 tons so far this year. But it cannot buy much more because of its \$47 million debt from previous years.

So I look forward to an explanation of how this can be. Congress appropriated \$38 million for KEDO in the current fiscal year plus

\$10 million for a challenge grant, which is to be released when other countries contribute a similar amount. The administration is seeking another \$35 million next year. However, neither amount will cover the cost of oil, even at today's depressed prices.

So far as I can learn, Congress has provided the President's full request for the purchase of heavy fuel oil. So, unless persuaded otherwise, I can only reach one of two explanations for the debt. Either the administration low-balled the initial figure to Congress, and that low-balling has now come home to roost; or, number two, other countries who promised financial assistance or which were told could be counted upon to do so have not made good on their promises.

I am also concerned that this administration seems to me to have been hesitant to bring the problem to our attention. I can think of several causes for their recalcitrance. First, at the time the agreement was presented to the Congress, then-Secretary Warren Christopher promised U.S. costs would never be more than \$30 million per annum. So they have that benchmark deal to deal with.

Second, the administration may have been hesitant to come to the Hill and face what seemed to be a chilly reception from some Members of Congress. Some members have been reluctant to support the agreement from its inception. Other members have expressed resentment over the fact that KEDO incurred debt, even though Congress appropriated all the money that the administration had previously requested.

Still others have indicated they feel deceived by perceived promises from the administration that other countries would volunteer to contribute.

Since 1993, I have held the view that the Agreed Framework is not perfect, of course, but it is the best agreement that all the parties are capable of reaching under the circumstances. It is the only workable alternative to an unpredictable and rogue Nation's development of its nuclear weapons program.

So it behooves us all, the administration and the Congress, to honestly examine how we came to this difficult situation and now how we can get ourselves out of it. So I hope we will be candid with one another and say where we are, why we are there, and, indeed, what we do to change that situation.

Senator Kerry, do you have a comment, sir?

Senator KERRY. Mr. Chairman, I do have a comment, a brief one.

First of all, thank you for having this important and timely examination of where we stand with KEDO. It almost on its face should go without any comment because it is so obvious. And yet, the obviousness of it simply underscores the absurdity of where we find ourselves.

I think everyone understands that we lost a huge amount of opportunity as Russia imploded to gain control over those weapons that we had spent 50 years aiming at each other, spending millions of dollars. "Loose nukes" today present us with our own set of new policy problems as a result.

We have had to labor hard to get Nunn-Lugar money and mostly to implement much of that kind of effort because for years the world has understood the importance of nonproliferation efforts. That has only been underscored, obviously—and this, again, I say

is so obvious that it confounds that we are here—by the grim reminder in recent days with India and Pakistan of what happens when the world does not pay attention to the dynamics surrounding proliferation. We are going to struggle with that one for a while, though I think many of us remain hopeful that the damage from that can be contained.

But, clearly, one of the potential spillover damages from that is the unleashing of a new sense of independence and/or kind of world anarchy on the part of North Korea. The Framework that we entered into was hard fought to win. It is a great victory, frankly, not just for our foreign policy but for international efforts with respect to proliferation. We are now here questioning why it is we cannot follow through on our part of the agreement. And I do not fault just our component of it. I think the international participation in this that was expected, anticipated, and ought to be forthcoming is also disappointing.

But, notwithstanding that, for the Congress—and it is the Congress to some degree in the appropriations process—to be standing in the way of executing our responsibilities here is not just absurd, it is dangerous. It is just downright dangerous.

The intelligence estimates not just by us but we know by Russia and other entities as to what the potential is for nuclear weaponry within North Korea leave us, I think, no alternative but to draw a conclusion that to allow the Framework to languish in this way is the height of irresponsibility on the part of anybody who has their finger on the trigger of funds, so to speak.

I think the administration needs to exert more pressure and greater visibility on this. But I think the Congress ought just to respond rapidly. There should be an immediate statement from the Appropriations Committee that we are just not going to let this happen because the dangers are too clear.

So whether the cost of oil went up, whether there was a low-balling with respect to the amount of money, whether or not we were disappointed by one or two countries that might have participated to a greater degree is worth airing. But in the end it is almost irrelevant with respect to the fundamental choice that we confront, and that choice is a simple reality: we must guarantee that the Framework is upheld; we must guarantee that we continue to have the International Atomic Energy Agency oversight, if you will, of the nuclear program that has been put on freeze, which is critical; and we need to target and stay on target for the year 2003—I believe it is—for the light reactor production.

I look forward to the airing, if you will, of the various dynamics of this. But it seems to me that the conclusion is on the table at the beginning of this hearing, and I think the key is how are we going to get there as rapidly as possible. Anything else would be just a gigantic lapse on the part of all of those who have anything to do with this.

Thank you, Mr. Chairman.

Senator THOMAS. Thank you, Senator.

Welcome, Mr. Deming, Principal Deputy Assistant Secretary of State for East Asian and Pacific Affairs. We are glad to have you here, sir.

We will ensure that all of your statement is in the record. If you would like to summarize it, of course, please do so.

**STATEMENT OF RUST M. DEMING, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS**

Mr. DEMING. Thank you very much, Mr. Chairman. I am delighted to be up here. I took over my responsibilities 3 weeks ago, and this is my first opportunity to appear before the committee, or any committee, for that matter. I look forward to very close consultations with the members of the committee and the staff as we deal with this very important issue.

The Secretary and the President very much appreciate your personal support and the support of the committee for KEDO, the Korean Energy Development Organization, and all of our efforts to try to implement the Agreed Framework and control the threat of nuclear proliferation on the Korean Peninsula.

As you know, the Korean Peninsula remains one of the most unstable and dangerous places in the world. Along with our ROK colleagues, 37,000 Americans face more than 1 million North Koreans across the Demilitarized Zone which remains extremely dangerous.

In 1993, perhaps the most dangerous situation since the armistice in 1953 occurred with the North Koreans moving toward the production of nuclear weapons and the Agreed Framework has brought that issue under control. We think the results of these negotiations have been a success.

The North's indigenous nuclear program at Yongbyon remains frozen. The canning of DPRK's spent fuel is now virtually complete and under IAEA seal as are the reprocessing plants and the reactors. The IAEA maintains a continuous monitoring presence and Pyongyang has remained a party to the NPT.

North Korea has also acknowledged that it must eventually dismantle all the elements of its nuclear program and permit its existing spent nuclear fuel to be shipped out of North Korea.

In return for North Korea's nuclear freeze, the United States agreed to take the lead in organizing a consortium to build two modern, safe, proliferation resistant light water reactors in North Korea. In addition, the United States agreed to make arrangements to offset the energy foregone with 500,000 metric tons of heavy fuel oil, or HFO.

South Korea and Japan have together committed themselves to assume virtually the entire burden of the estimated \$4.6 billion light water reactor project. KEDO has commenced work on this project; and, although work is not yet fully in swing, an important amount of site preparation work has been underway for almost a year.

The provision of heavy fuel oil, which is seen by North Korea, our KEDO partners, and the world as principally a U.S. responsibility, is the most tangible evidence of the U.S. Government's commitment to the Agreed Framework. In meeting its responsibility, the U.S. Government has made vigorous efforts to recruit assistance from other countries.

In 1995 testimony before Congress, to which you referred, Mr. Chairman, by then-Secretary of State Warren Christopher esti-

mated that annual U.S. contributions to KEDO would be between \$20 million and \$30 million, based on the conviction that the balance of funds could be raised abroad. Just looking at his exact words, he said, "My own expectation is that the annual contribution of the United States will be in the range of \$20 million to \$30 million."

We have vigorously sought contributions from other countries. The results, frankly, have been disappointing. But we have received some help.

In all, 22 countries and the EU have made contributions to the heavy fuel oil program, totaling \$52 million, whereas the U.S. has contributed approximately \$120 million out of a total U.S. expenditure of \$148 million for the Agreed Framework, including the money we spend for the canning of the spent fuel at the reactor site.

We are committed to redoubling our efforts to gain support from other countries. But, frankly, it is not realistic to think that the shortfall will be met in the near-term by contributions from abroad. We believe that continued U.S. leadership of and support for the heavy fuel oil program is a small price to pay to reinforce peace on the Korean Peninsula and to strengthen the global nonproliferation regime.

The implementation of the Agreed Framework is fundamental to U.S. interests on the Korean Peninsula and in East Asia. As KEDO fulfills each of its successive steps, North Korea is to take steps to resolve our proliferation concerns. For delivery of the nuclear components of the plant, North Korea must come into compliance with its full scope NPT-IAEA safeguards agreement. With full scope safeguards in place, the IAEA will be permitted to inspect all of North Korea's facilities and materials.

The additional security this will provide will be a significant contribution to American, regional, and world security.

The Agreed Framework is more than simply a nuclear accord, however. It is a cornerstone of our efforts to reduce the potential for conflict on the Korean Peninsula. The Agreed Framework has allowed us to undertake a dialog with North Korea that has led to Four Party Talks as well as negotiations on missile sales, terrorism, and many other concerns.

In addition, regular contacts between North and South Korea, already taking place at the reactor site, are dramatically increasing. This has profound implications for reducing tensions on the Korean Peninsula over the longer term.

We believe it is very much in our interest to continue these efforts to reduce tensions on the peninsula.

A full implementation of the Agreed Framework with all the benefits it should bring will only be possible if KEDO remains financially healthy and able to carry out its mission. We are continuing our international fund raising efforts, as I mentioned, to address KEDO's financial difficulties, including its debt from past year oil deliveries. However, it is not realistic, again, to assume that sufficient contributions will be made by other countries; and we, ourselves, will therefore have to do more.

We will continue our consultations with you and your colleagues in the House in the near future on our proposals for additional



KEDO funding and our strategy for addressing the organization's financial problems over the long-term.

Let me close by stressing that KEDO and the Agreed Framework remain central to our efforts to promote peace and stability in Northeast Asia and to support regional and global nonproliferation. KEDO's mission is of utmost importance to the national security of this Nation as well. We must not allow KEDO to fail.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Deming appears in the appendix on page 41.]

Senator THOMAS. Thank you, Mr. Secretary.

As Senator Kerry said, I don't think we will talk a lot about the merits of the Framework Agreement. Most people are agreed that there is something to that. But I think more importantly, and, quite frankly, I am not sure you answered our question as to how we got where we are and how do we get out of it.

For instance, I don't understand KEDO's \$47 million debt. It is a debt to whom? How did they get the debt? How do you fix it?

Mr. DEMING. My understanding is that KEDO's debt now stands at, in fact, \$38 million.

Senator THOMAS. Oh, \$38 million, \$47 million, whatever.

Mr. DEMING. This debt represents drawing against the \$19 million Japanese fund that they have made available to draw against, but it has not contributed directly to heavy fuel oil, and drawing against the expectation of future funding from the European Union and other countries. All of this funding—and I think Mr. Anderson can go into more detail about the exact details of how we do this—is based on solid commitments of funding from other countries. We have tried to reach out ahead of the actual cash on hand in order to try to maintain as regular fuel supplies as possible.

Senator THOMAS. You indicated that you think that these funds coming from other countries are uncertain, and yet, at the same time, that the United States needs to ensure or take the leadership to ensure that this program goes forward. And yet, I think the administration's request was for \$35 million again this year, which is insufficient to solve the problem.

How do you justify that?

Mr. DEMING. We are looking at that.

In fact, when Secretary Christopher made his original estimates in 1995, frankly we were overly optimistic about our ability to attract funds from other countries. We have to be much more realistic now.

It is true that the current request is \$35 million. We are looking at what we might do to raise that. We are in internal consultations in the Department of State and with other agencies, and I think we will be beginning consultations with both the Senate and the House staff on this. But I think that we recognize that we are going to have to do more ourselves.

While we will continue our vigorous efforts with other countries, it is unrealistic and not wise to bet that that is going to increase substantially. We are going to have to request from the Congress more money to more fully fund our heavy fuel oil obligations.

Senator THOMAS. How would you describe the status of diplomatic relations with North Korea in terms of the statements that

they have made that I mentioned before, that there might be consequences that would be unpredictably serious and less than practical?

What is the situation with regard to relations with North Korea in this respect?

Mr. DEMING. As you know, Mr. Chairman, North Korea is one of the most difficult societies in the world to understand and the most difficult to deal with. In my 3 weeks in this position, already I have had evidence of that in terms of the difficulty of getting a full understanding of what they are up to.

We have made clear to the North Koreans that these threats of reprocessing the remaining spent fuel in the reactor ponds are irresponsible, unhelpful, and if they moved in that direction would be a violation of the Agreed Framework. We have expressed that view both orally and in writing to the North Koreans.

We are continually amazed and disappointed by their actions on things like submarine infiltrations in South Korea at a time when South Korea is trying to reduce tensions on the Korean Peninsula through Kim Dae-Jung's Sunshine Policy.

Every time we attempt to move forward in a constructive way, some element in North Korea does something that is disturbing.

Despite all of this, we are absolutely convinced that the Agreed Framework remains very much vital to our interests. It is in the U.S. interest to proceed with this. We are trying to gain more cooperation from North Korea in fulfilling its side of the Framework obligations and on missile talks and other issues as well. But it remains a very, very frustrating place to deal with.

Senator THOMAS. What is your analysis of North Korea's performance? There is some indication they have gone back to work and do maintenance work on their plutonium separation plant, which they agreed not to do.

Mr. DEMING. Fundamentally, I think North Korea has abided by its basic commitments under the Framework and all the facilities under the Framework remain frozen.

They have undertaken maintenance work at the reprocessing plant, which is not a violation of the Framework and is being undertaken under IAEA supervision. To date, we have had no indication from the IAEA that there have been any major problems with that work.

But, to be very frank, the North Koreans are always sort of testing the edges of what they can and cannot do. We have had to push back constantly to try to make sure that they stay within the letter and the spirit of the Framework Agreement.

Senator THOMAS. What about the opportunities to inspect as to what they are doing? Are you comfortable that the inspection opportunities have been there and continue to be there?

Mr. DEMING. We are comfortable, and I think the IAEA is comfortable, that all of the activities, facilities under the Agreed Framework are sufficiently monitored and that the elements that are to be frozen are indeed frozen. And there is no fundamental violation of any aspect of the Framework Agreement.

Senator THOMAS. So if there is a weakness in performing on both sides, it is on our side?

Mr. DEMING. Let me put it this way, Mr. Chairman. It is very important that all parties meet their obligations under the Framework Agreement. We are now, indeed, still meeting our obligations on heavy fuel oil. The deliveries are not as fast or rapid as we would like them to be. But we have met our obligations every year and we intend to meet our obligations this year in terms of providing the full 500,000 tons of fuel oil that is due.

This will take some work with the Congress and reprogramming of funds for this year about which we are now consulting. But we are adamantly committed to fulfilling our obligation. Any North Koreans charges that we are not meeting our obligations are completely ill-founded, and we have underlined that to them.

Senator THOMAS. Well, it is their charges that have brought us here, haven't they? I don't think we have heard from the State Department that they are having difficulty living up to our agreement?

Mr. DEMING. We remain concerned about making sure that we have the right funding for heavy fuel oil. And, even though we are fully meeting our obligations, the fact that North Korea is now threatening reprocessing are threats that we need to take very seriously even though they are completely falsely based on any charges that we are not meeting our obligations.

I think it is responsible for us to make sure that we do everything we can to ensure the funding necessary to get the heavy fuel oil there this year and in the out-years as well.

Senator THOMAS. We are going to have to hustle to get the 500,000 tons this year, aren't we?

Mr. DEMING. I think we are confident that we will get the fuel oil there to meet our obligations.

Senator THOMAS. Senator Kerry.

Senator KERRY. Thank you, Mr. Chairman.

Let me understand this as clearly as I can, where we are.

KEDO has agreed to supply 500,000 tons of heavy oil by September 30, is that correct?

Mr. DEMING. My understanding is that is the so-called KEDO fuel year, yes.

Senator KERRY. OK, September 30. We are agreed on that.

Mr. DEMING. I'm sorry—it's October 20, I am told. October 20 is the KEDO date.

Senator KERRY. And currently we have provided only 152,000 tons so far in 1998?

Mr. DEMING. We have another 66,000 tons moving shortly.

Senator KERRY. How much?

Mr. DEMING. An additional 66,000 metric tons.

Senator KERRY. When will that move? Do you know?

Mr. DEMING. In the next few weeks—at the end of the month.

Senator KERRY. End of the month. So that's at the end of July. So in August and September you are going to move three times what we have moved in the rest of 1998?

Mr. DEMING. To be frank, we have in past years not always met the fuel year deadline. We have met the calendar year deadline.

Senator KERRY. Which one is North Korea working on?

Mr. DEMING. Of course, in the past they have understood the calendar year. But our nominal obligation is to meet the fuel year deadline. We can probably have a little bit of slippage in that.

Senator KERRY. Why would we want slippage? What is the deal here? I mean, aren't we trying to build a relationship with a country that has been completely isolated for years?

Mr. DEMING. Senator, certainly we are. But we have had, as you know, difficulties.

Senator KERRY. Isn't reliability a critical component, a sort of good faith showing that we are serious?

Mr. DEMING. I think any fair reading of the Agreed Framework will show that we have met our obligations under it.

Senator KERRY. Then how do we have a \$37 million debt with a significant shortfall of the \$60 million to \$65 million that KEDO needs to pay on an annual basis?

Mr. DEMING. I'm afraid that is because we have underestimated our ability to attract funding for heavy fuel oil from other donors. That is something we have now had to come to terms with; and, as I have been discussing, we will be talking to you and to the House about ways that we can more fully fund this obligation so that we can eliminate the debt in a relatively short period and fully fund our obligations for future years so we don't have this kind of situation.

Senator KERRY. So you are saying that the shortfall is exclusively the result of the inability to attract funds from donor countries?

Mr. DEMING. Yes, sir. We hoped that we would be able to get from other countries much more.

Senator KERRY. Which countries primarily were our expectations from?

Mr. DEMING. We approached countries in the region which have direct security concerns. We got some funding from them.

Senator KERRY. Which countries? I would like to know which countries we approached.

Mr. DEMING. If you would, please give me 1 second.

We have approached 37 different countries. We have approached Indonesia, we have approached Singapore, we have approached Brunei, Australia, New Zealand, Canada, Thailand. We have approached the European Union, which has funded and provided about a \$15 million a year fund for KEDO. We have approached Europeans individually—Germany, France, the UK.

Senator KERRY. Is that a complete list that you have just been given?

Mr. DEMING. Yes. We can submit this for the record.

Senator KERRY. May I just ask that that list be made a part of the record, Mr. Chairman?

Senator THOMAS. Absolutely.

Senator KERRY. If you could, just provide us with copies of that. That would be helpful.

[The information referred to appears in the appendix on page 31.]

Senator KERRY. How much money in total have we been able to collect from donor countries?

Mr. DEMING. We have been able to collect \$73 million. It's \$73 million.

Senator KERRY. That's \$73 million total?

Mr. DEMING. Uh-huh.

Senator KERRY. Now the \$19 million that you offered up from Japan has, in fact, not been offered up by Japan because the Diet has not approved it yet, isn't that correct?

Mr. DEMING. No, that's not. That money exists. It belongs to KEDO. But the Japanese have not allowed it to be—it is a loan from Japan to KEDO. We have drawn against that loan.

Senator KERRY. It's a loan?

Mr. DEMING. It's collateral. The Japanese have agreed to allow that money to be used as collateral for a loan for heavy fuel oil. They have not agreed as of yet to forgive that loan and allow it simply to be deposited into the KEDO fund.

Senator KERRY. Now Japan has also, I believe, promised \$350 million toward the reactor itself, is that correct?

Mr. DEMING. It's \$1 billion.

Senator KERRY. \$1 billion.

Mr. DEMING. South Korea has promised 70 percent of the light water reactor, and Japan has promised \$1 billion toward the cost of the light water reactor.

Senator KERRY. Do you have any sense that it may be too early and—with the resignation of the prime minister and the elections and so forth—where that commitment may or may not stand?

Mr. DEMING. I think I can say safely that there is no danger that that commitment will be withdrawn. I think the Japanese see a fundamental interest in KEDO and in stability on the Korean Peninsula, and they will fulfill that obligation. They have made clear that that obligation will be \$1 billion at whatever the current exchange rate is, so we won't get into any disagreement about that.

Senator KERRY. Now Taiwan, I understand, has offered to put up some money for KEDO. Beijing, obviously, opposes any participation by Taiwan in international organizations.

Does the administration have a view as to the capacity to have Taiwan participate in this particular effort?

Mr. DEMING. I am not aware, in fact, that Taiwan has made that offer. As you point out, Senator, I think having Taiwan participate in KEDO raises some serious questions in respect to China's continuing support for KEDO and for the other concerns on the Korean Peninsula. It is something that we would have to look at extremely carefully and consult very closely with our other KEDO partners, Japan and Korea in particular, on that issue.

It is a very complex issue, and I cannot offer a definitive view at this time.

Senator KERRY. Has that consultation taken place at this point?

Mr. DEMING. Not to my knowledge, no.

Senator KERRY. My round is up on this one.

I do have some more questions and will see if I can come back, Mr. Chairman.

Senator THOMAS. Senator Robb.

Senator ROBB. Thank you, Mr. Chairman.

I wonder if you could review very briefly—and if you did so in your opening statement, I apologize as we were just coming back from a vote—exactly what the principal parties entered into with respect to the Agreed Framework. I know Ambassador Gallucci is

going to be on the next panel, and we've worked with him in the negotiations for this Agreed Framework over quite a number of meetings when that was being negotiated. But just for the edification of all concerned, would you state for this panel the obligations that the United States, that South Korea, that Japan, and that other countries entered into at that time?

Mr. DEMING. The United States took the responsibility of organizing the consortium to provide North Korea with light water reactors and to provide North Korea with interim heavy fuel oil to make up for the energy that was lost when they closed down their graphite moderated reactor.

Senator ROBB. With respect to just the interim heavy fuel oil, what was the extent of the obligation that the United States incurred in terms of responsibility for the provision of the entire 500,000 tons annually?

Mr. DEMING. The U.S. agreed to take the lead in organizing funding for heavy fuel oil. Our expectation was and remains that this would not simply be a sole U.S. obligation but that we would take the lead in getting contributions from other countries to participate in this.

Senator ROBB. Indeed, it was assumed that the United States would be principally an organizer and not a contributor, was it not?

Mr. DEMING. That's right. When Secretary Christopher came up here, he testified that he expected the U.S. contribution would be between \$20 million and \$30 million on the expectation that we would be able to make up the balance from other countries. We have undertaken a vigorous effort over the last few years, approaching 37 countries, I think in 75 different diplomatic interventions. We will submit for the record this whole list of what has been done.

[The information referred to appears in the appendix on page 31.]

Senator ROBB. But just on that point, what percentage of the total funding to date has been provided by the United States directly and what percentage which, as you suggested, was not expected to exceed 20 percent, and what percentage has been provided by other countries in the region or internationally?

Mr. DEMING. The total KEDO funding is \$191 million dollars. Out of that, the U.S. has provided \$118 million.

Senator ROBB. That's 100-what?

Mr. DEMING. It's \$118 million, \$91 million of which is for KEDO—excuse me—the total \$118 million, \$79 million of which has gone to heavy fuel oil, \$27 million of which has gone to canning the spent fuel at the reactor, which is almost complete. It is 95 percent complete.

So the balance from other donors is about \$73 million.

Senator ROBB. All right, let's move on to the contributions to the light water reactor itself that were expected from South Korea and from Japan, if you will.

Mr. DEMING. Under the Agreed Framework, South Korea undertook to fund a major share of the light water reactor and Japan to make a "significant contribution," as I recall the wording.

Senator ROBB. There used to be numbers associated with those.

Mr. DEMING. I am going back to the original commitment.

Senator ROBB. OK.

Mr. DEMING. Since then, those commitments have turned into numbers and the numbers are: South Korea has agreed to fund 70 percent of the cost of the light water reactors and Japan has agreed to contribute \$1 billion in U.S. dollars to that.

Senator ROBB. Was it not the original intent that all of the costs or virtually all of the costs would be borne by those two countries? I recall the number, instead of 70 percent at the time, being \$4 billion that South Korea was going to provide, most of it in-kind, and that the Japanese were going to provide \$1 billion, and that the United States was going to organize the international community to provide the heavy fuel support. Is that at variance with your understanding of the agreement?

Mr. DEMING. No. I think that has been the basic division of labor, never completely formalized. Frankly, I think the South Koreans and Japanese have always insisted that the U.S. play some role in the light water reactor, which we have not, of course.

Senator ROBB. Wasn't that pretty well decided during the course of negotiations? I know they have since encouraged U.S. participation in the light water reactor to substitute for the graphite reactor. But wasn't that pretty well settled during the course of the negotiations?

Mr. DEMING. I prefer to leave that to Mr. Gallucci in terms of the details of what was understood during the negotiations.

Senator ROBB. I see a wan smile on his face. We will look forward to his testimony. [General laughter]

Mr. DEMING. In my association with this issue, the Japanese and the South Koreans have always sought some U.S. participation in the light water reactors.

Senator ROBB. Let me just ask you one question to finish up as my time is about over.

What would be the consequences with respect to the ability of Kim Jung-Il and Pyongyang to reconstitute its nuclear weapons capability in the event for whatever reason we fail to live up to our commitments internationally to provide money for the heavy fuel oil or there was what appeared to be a complete breakdown? I must tell you that your assurances by both the South Koreans and the Japanese are a little stronger than I have received directly in recent conversations with representatives of those two governments.

What would be the capability to reconstitute a nuclear program?

Mr. DEMING. Well, as you know, the North Korean facilities are frozen; they are not at this stage dismantled. So anything that is frozen is capable of being unfrozen.

I am afraid that, under the worst case scenarios, we could find ourselves back in the situation we were facing in 1994 when this crisis reached its head.

Under the program, as we move forward in the development of the light water reactors and deliver the major non-nuclear components, then North Korea begins to dismantle the facilities as well. But we are not at that stage yet. So the facilities still exist.

Senator ROBB. Thank you.

My time has expired, Mr. Chairman, and I thank you.

Senator THOMAS. Senator Feinstein.

Senator FEINSTEIN. Thanks very much, Mr. Chairman.

I am sorry I missed your oral comments, Mr. Deming. I have had a chance to review your written ones. Let me ask you for your judgment.

In your judgment, are all parties maintaining their commitments?

Mr. DEMING. I think all parties fundamentally are maintaining their commitments to the Agreed Framework, including the United States.

Senator FEINSTEIN. Let me ask you a specific question about the \$10 million challenge grant that was included over and above the \$35 million that was appropriated. What progress has been made in seeking matching funds and what countries have agreed to provide funds under this challenge grant?

Mr. DEMING. We have attracted, as I mentioned earlier, about \$73 million from other donors. But this money came in, I think, almost all before the challenge grant. So, frankly, we have had a very difficult time meeting the requirements of that challenge grant. We have been discussing with the staffs on the Hill the possibility of reprogramming that money without being able to meet the requirements of that challenge.

Senator FEINSTEIN. When you say "reprogramming that money," what specifically are you referring to?

Mr. DEMING. Well, we are still looking at from where that money might be transferred. It's to try to have the Congress allow us to move forward with that money despite our inability to meet the matching requirement. We think that is the prudent thing to do.

We have tried very, very hard. We are continuing our efforts to raise funds from other countries. In the last year, the ability to raise funds in Asia has been seriously compromised by the Asian financial crisis, as I am sure you can appreciate. The EU and others are continuing their annual contributions of about \$15 million a year. We are getting some small help from other countries, and we are going to continue to make this effort.

But as I said in my statement and in my oral comments before you came in, I think it is unrealistic to assume that we are going to be able to get enough money from other donors to be able to fill the gap between what we have appropriated and what needs to be there to fund our heavy fuel oil obligations.

Senator FEINSTEIN. What do you propose doing with the gap?

Mr. DEMING. We are discussing ways that we can, as I said, reprogram money. We have already moved forward with reprogramming \$5 million.

Senator FEINSTEIN. Now you see, I am not understanding your term "reprogramming."

Mr. DEMING. I mean taking money that is in the State Department budget for other projects and moving it over to this project.

Senator FEINSTEIN. Oh. So, in other words, our grant would cease to be a challenge grant, and we would add money to it? Is that what you are saying?

Mr. DEMING. Yes.

Senator FEINSTEIN. OK.

Let me ask another question, and this is, again, one to solicit your expertise and knowledge.



I have been concerned by what at least appears to me to be increased incursions by submarines and intelligence forces from the North to the South, particularly this last submarine when the intelligence officers apparently shot and killed the sailors aboard the sub.

What do you make of this? Is it at all related to the Agreed Framework?

Mr. DEMING. Anything to do with North Korea we have a very difficult time understanding their decisionmaking process, if they have such a process, and why they do things that seem to us to be clearly counterproductive to their own interests. At a time when President Kim Dae-Jung is reaching out to the North with his Sunshine Policy, the North has come up with a series of very provocative and completely irresponsible kinds of incidents, including the two submarine incidents.

As our analysts look at this, I think it is very, very difficult to determine the logic behind it or what the reasons are. We have no evidence that it is directly linked, or even indirectly linked, to the KEDO program or in that regard. But, frankly, we just don't know because we have no real insights into how these people make decisions and why they do the things they do at a time when it seems completely counter to their interests to do these things.

Senator FEINSTEIN. I had the privilege of meeting with the Korean Foreign Minister while he was here last week. I was very heartened by his attitude, which is one of at least trying to make specific overtures and see if there is not an open window for some progress in the relationship at this time. So from the position of the South, I felt that they were doing all they could.

Do you agree with that or do you think there are other overtures that could, in fact, be made?

Mr. DEMING. No, absolutely. I think the South is doing even more than its share. I mean, it is turning the other cheek in the face of these provocations.

When President Kim Dae-Jung was here, I think we were terribly impressed, as I think the Congress was as well, with his commitment to reaching out to the North and trying to move things forward. Hopefully, the North will find a way to respond a little more in the way they should.

I think we need to give South Korea full credit for its patience and the wisdom of its policies as it deals with a very difficult North Korea.

Senator FEINSTEIN. I have one quick question. You mentioned the Japanese \$1 billion commitment. What chances do you see of that commitment being kept?

Mr. DEMING. I am absolutely confident. Before I came back to Washington, I was the number two in the Embassy in Tokyo; and I have worked this issue with them a long time. I am absolutely confident they will keep this commitment.

Senator FEINSTEIN. Thank you very much.

Thank you, Mr. Chairman.

Senator THOMAS. Thank you. We will have a couple of more questions before we move on to our second panel.

You mentioned progress on the site. Now it has been some time. My understanding is there has been relatively little progress other

than some surveying and this and that. What is your expectation there in terms of when actual construction and progress will be made?

Mr. DEMING. Others on the panel may have more detailed information. My understanding is a lot of earth has been moved around. I was talking to a German diplomat yesterday who had just come back in May from visiting the site. He said he was amazed by the number of heavy equipment up there. There were 50 or 60—oh, more than that—South Korean workers with North Korean workers, working together if not living together, and things are beginning to move.

As to when actual physical laying of cement takes place, I think Mr. Anderson can be more precise on the exact timetable. But things are moving forward there.

Senator THOMAS. What do you suppose prompted the North Korean Government to come out with this statement about the U.S. not fulfilling its obligations?

You indicate that we are. Yet they indicate we are not. How do you reconcile those two points of view?

Mr. DEMING. I think the North Koreans are always looking for any kind of vindication that they can use as leverage. The fact is that the fuel oil deliveries have been slower than we would have liked them to have been. But, as I said before, we are confident that we will be able to meet our obligations during the course of the calendar year if not during the course of the so-called fuel year.

The North Koreans watch things very carefully and, as I said, are always looking for points of leverage. They apparently think they have found one here.

Senator THOMAS. There are a number of other issues, other than the heavy oil. In 1995, the State Department announced a series of things they were going to do to reduce the barriers of trade. Have those progressed—such things as unblocking certain frozen assets; establishment of liaison offices in the two countries; use of U.S. credit cards; more travel between the U.S. and North Korea?

Mr. DEMING. My understanding is that some of the things have moved forward. The financial transaction, I think the credit card thing, has moved forward.

We have tried to move forward in other areas, and particularly since President Kim Dae-Jung was here and expressed a strong interest in the U.S. doing what it could to reexamine sanctions. We are in that process.

Ambassador Designate Kartman, who will be the Ambassador to the Four Party Talks if he is confirmed by the Senate, is scheduled to go in August to Seoul to consult with the South Koreans about the whole sanctions issue. But, frankly, as we move forward in this, the North Koreans do provocative things, like the submarine incident, and this does not help the atmosphere in trying to get support for removing some sanctions and reducing the barriers between North and South Korea.

On the liaison offices, we are prepared to move forward. But the South Koreans have put a number of barriers in our way. I'm sorry, I mean the North Koreans have put a number of barriers in our way.

For one example, we would like to be able to support that office across the DMZ from South Korea, which would make it economically feasible to maintain an office in Pyongyang. The North Koreans have not agreed to that, and there are several other points where they are raising barriers to it.

We would very much like to move forward, but it takes two to tango; and they have not been willing to dance, as of yet.

Senator THOMAS. Just as an observation, as one who is interested in electric distribution and generation, it has always been interesting to me that the nuclear plants that were in question run by the North Koreans, no one could ever determine that there was any power grid going out from them. And, if you are going to have a light water power plant here, there has to be a power grid. A power plant is not very useful unless you have a way to distribute its power. As far as I know, there has been no effort made to continue that.

Senator Kerry.

Senator KERRY. Just very quickly, Mr. Chairman, thank you.

How would you sum up the options at this point in time? Is this a no option situation? Are there a couple of options as to how you may proceed?

Mr. DEMING. In terms of funding for heavy fuel oil?

I think the basic options at this point are, first, to continue our efforts to get funds from abroad, understanding that we are not going to get a great deal more than we have gotten, at least in the near-term.

Second is to look at reprogramming existing funds to try to ensure that we meet our obligations this year.

Third is to come up to the Congress in the budget process with a request for fuller funding.

Senator KERRY. Is reprogramming preferable to a supplemental?

Mr. DEMING. I will have to defer to my colleagues who handle Congressional relations on the details of how to do this. I am sorry. I don't want to make a definitive statement on that as I don't feel comfortable there.

Senator KERRY. That's OK.

Let me ask this. Have we approached any of our allies in the Middle East—the Saudis, the Kuwaitis, the Gulf States—to supply some oil directly?

Mr. DEMING. Yes, we have.

Senator KERRY. What is the result of that?

Mr. DEMING. I'm afraid there has been no success. We are going back again.

There are some letters going out shortly that are a followup on an earlier request.

Senator KERRY. Kuwait refused?

Mr. DEMING. Yes, Kuwait has refused and numerous times, I am told.

Senator KERRY. Numerous times? That is sort of interesting, isn't it?

Senator FEINSTEIN. Would you yield for just a moment on that point?

Senator KERRY. I would yield. Sure.

Senator FEINSTEIN. Why are these Middle Eastern Nations refusing to help? Do you have a feeling about what the reason is, particularly the more affluent ones?

Mr. DEMING. I don't, Senator. I'm sorry. I've just come into this, and I have not dealt directly with the Middle East Nations on this. But my understanding is that they just simply see this as sort of outside their sphere of interest and that their sphere of interest is rather narrowly drawn.

We think this is a global as well as a regional challenge. We have had difficulty getting other countries to accept that.

But I must say, the fact is that the EU has come through, and individual European countries have come through with a not insignificant contribution. And the EU is a difficult process, as you can imagine, to get all these countries together to agree on funding for heavy fuel oil. We are very grateful for that. So we should give due credit to them.

Senator KERRY. I think that is appropriate. But I also think it would be appropriate to perhaps ask the Secretary if she would not—I don't know if she has a personal basis, but I think it would be well worthwhile reiterating and raising to a higher level of request, perhaps, both the visibility as well as the interpersonal aspect of it, the notion of how appropriate it might be for some other countries to take part in this, particularly, I think, some of our friends in the Middle East.

I am just dumbfounded that that has been "stiffed" on a number of occasions.

Mr. DEMING. Senator, the Secretary is very concerned with this issue and is fully supportive of all our efforts. I would certainly do that.

Senator KERRY. Would you convey that?

Mr. DEMING. Yes, sir.

Senator KERRY. I might even call her and chat with her about it. But I think that the world ought to be aware that this is not just our effort. This is something that obviously pertains to everybody.

We have a lot of countries, a number of countries, that have restrained their nuclear programs based on the assumption that we were all moving down a common road.

Now India and Pakistan obviously present us with a bump in that. But, on the other hand, properly translated and properly massaged in the next months, India and Pakistan could be turned into a very positive event that could underscore the futility of that road and, in fact, strengthen our ability to build the regime, the protocol by which we restrain other countries. I think of Brazil, Argentina, South Africa, and other places which are impacted by this.

I would think most leaders today would not be so foolish as to believe that their security is enhanced by moving in that direction or that that is a wise expenditure of resources, and so forth. But there are obviously countries, North Korea among them, which just think differently about their threats, their concerns, and these issues.

I think it is really worth doing; that and, if I could, I would commend that to you.

My last question, quickly, is this. Last month, the North Koreans threatened publicly to conduct maintenance on the plutonium processing plant. Do we know whether or not that has moved beyond the threat stage? Has that occurred?

Mr. DEMING. My understanding is they have done some maintenance which is consistent with the framework, and it has been under IAEA supervision. The IAEA has not indicated to us that there has been any deviation from their obligations.

Senator KERRY. Good.

Thank you very much.

Thank you, Mr. Chairman.

Senator THOMAS. Senator Feinstein, are we ready for the second panel?

Senator FEINSTEIN. No further questions. Thank you very much.

Senator THOMAS. Thank you very much, Mr. Secretary. We are glad to have you here for the first time and hope to see you back again.

Mr. DEMING. Thank you very much, Mr. Chairman.

Senator THOMAS. Let us now welcome our other two witnesses today. We are particularly pleased to have Desaix Anderson, the Executive Director of KEDO from New York and Ambassador Robert Gallucci, who is a vital speaker in this instance since he was sort of the author of this whole arrangement and has appeared before this committee on a number of occasions.

Mr. Anderson, would you care to begin. Your full statement will be included in the record. If you would care to, please summarize it.

**STATEMENT OF DESAIX ANDERSON, EXECUTIVE DIRECTOR, KOREAN PENINSULA ENERGY DEVELOPMENT ORGANIZATION (KEDO), NEW YORK, NEW YORK**

Mr. ANDERSON. Thank you very much, Mr. Chairman. I would like to say I am very pleased to be here.

I would like to just give some abbreviated remarks, if that is satisfactory.

Senator THOMAS. That's fine. Thank you.

Mr. ANDERSON. In the 3 years that KEDO has been operating, we have made somewhat surprising progress and have had greater success than most people seem to realize.

First, KEDO has ensured that North Korea has kept its nuclear nonproliferation commitments under the Agreed Framework. Pyongyang's national nuclear program, including the plutonium production plant, have been frozen.

Senator THOMAS. Excuse me. Would you pull the microphone closer? I think the folks in the back are having trouble hearing you.

Mr. ANDERSON. Certainly.

Virtually all of the spent fuel rods from the 5 megawatt reactor have been canned. The DPRK has remained a party to the NPT, and the IAEA has been allowed to monitor the nuclear facilities.

Second, KEDO has served a very important diplomatic or geopolitical function. Through its daily work in New York and the DPRK, and the negotiations at the Kumho site in North Korea on the East Coast, KEDO has provided a novel and a crucial link between Pyongyang and the outside world, providing a forum of near-

ly constant contact with the North Koreans. It serves as a prototype organization which will help to try to engage North Korea and bring it into the international community.

Third, KEDO has provided an opportunity for direct contact between South and North Koreans on both a formal and an informal level. That is one of the main objectives of the Agreed Framework.

Under KEDO's institutional umbrella, South Koreans and KEDO have negotiated directly with the North Koreans on various agreements.

In the field itself, the agreements between KEDO and South Korean contractors and subcontractors have been negotiated and signed between North Korean companies and South Korean companies to provide such things as labor, goods, facilities, and other services at the site.

Similarly, there has been considerable interaction between the 120 South Korean workers at the site and the anywhere between 75 and 90 North Korean workers who are working with them.

Fourth, the physical work to prepare the site has proceeded smoothly and, in fact, we are ahead of schedule in the past year. Thousands of tons of equipment to construct the light water reactors have been delivered to the site. We have constructed a small village, including housing facilities, medical facilities, roads, and a restaurant from which both North and South Korean workers are served, and even have opened a bank.

Although there has been significant progress during the past 3 years, it is no secret that KEDO now faces very serious financial challenges: first, resolving how the KEDO Executive Board members will share the burden of paying for the two light water reactors, with a cost estimated now at \$4.6 billion; and, second, how to finance KEDO's commitment to deliver 500,000 tons of heavy fuel oil to North Korea each year.

With respect to cost sharing, South Korea has agreed it would play a "central role" and Japan a "significant role"; and you are aware, from what Mr. Deming has said, what that is being translated into. The KEDO Executive Board, however, will meet in New York later this week to try to finalize exactly what these commitments mean and the modalities for putting this package together. I hope that we are very close to a final agreement on that issue.

Once we reach agreement on the cost sharing, KEDO intends to conclude later this year a turnkey contract with our prime contractor, Korea Electric Power Corporation, KEPCO; and the turnkey contract will govern the rest of the project, including full-scale construction work.

With respect to the funding of the heavy fuel oil shipments to the North, KEDO began 1998 \$47 million in debt from oil delivered to North Korea in 1997. With the exception of the \$19 million in collateral provided by the Japanese, however, there are commitments for the remainder of it. So it is debt with backing.

The cost of delivering this year's allotment will run to between \$55 million and \$65 million. By the end of this month, KEDO will have shipped 216,000 of the 500,000 tons needed to ship this year, including 66,000 tons being shipped this month.

If KEDO does not obtain the funding for the oil shipments and does not reach agreement on funding the light water reactors,

North Korea's adherence to the Agreed Framework, including the pledge to freeze and eventually to dismantle the nuclear program, would be jeopardized. The implications of such a development obviously are dire.

The North's spent fuel from its 5 megawatt reactor is currently stored in canisters under IAEA safeguards, but it contains enough plutonium to produce four to five nuclear bombs, should they attempt to do so.

However, I remain, I must remain, optimistic that the funding will be found. It is too important for security in the region and globally.

The importance of KEDO's work has been recognized by the international community, particularly by the United States, South Korea, Japan, and the European Community, and there are some 26 other countries who have made financial contributions. I would be happy to give you a list of those, which I think you will find interesting.

[The information referred to appears in the appendix on page 31.]

Mr. ANDERSON. As KEDO's Chief Executive Officer, I would like to thank those Members of Congress, both Democrats and Republicans, who have supported KEDO's work in the past; and I appreciated your opening remarks. I urge that you continue this support.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Anderson appears in the appendix on page 43.]

Senator THOMAS. Thank you, Mr. Anderson. Ambassador Gallucci.

**STATEMENT OF HON. ROBERT L. GALLUCCI, DEAN, GEORGETOWN UNIVERSITY EDMUND A. WALSH SCHOOL OF FOREIGN SERVICE, WASHINGTON, D.C.**

Ambassador GALLUCCI. Thank you, Mr. Chairman. I also, with your permission, would like to submit a written statement for the record.

Senator THOMAS. Absolutely.

Ambassador GALLUCCI. Mr. Chairman, I understand the issue is whether or not Congress should, in general terms, be providing more funds now and in the future to support KEDO and that those funds would, in turn, be used for the purchase of heavy fuel oil to be delivered to North Korea.

Is it, in other words, in the national security interests of the United States to provide, perhaps, in round numbers maybe \$50 million a year for heavy fuel oil for North Korea or, about, in round numbers, twice what Secretary Christopher estimated 3½ years ago might be required of the United States under the Agreed Framework? In other words, is this game worth that candle?

For some, the answer, I think, is as clear as the benefits that have already been realized seem to be. That 5 megawatt reactor that had been producing a bomb's worth of plutonium a year is frozen. The spent fuel from that reactor that has, we estimate, 5 or 6 bombs' worth of plutonium contained in it, has been recanned for safe storage and eventual shipment out of North Korea, rather than being reprocessed.

The facility that was constructed and expanded, the reprocessing plant, for the sole purpose of separating plutonium, we think, for nuclear weapons, has been frozen. Two large graphite reactors that by now could be producing enough plutonium for maybe 25 or 30 nuclear weapons are frozen.

All of this freezing is also easily verified by the IAEA. That is what has happened so far.

In the future, if the Agreed Framework is sustained, those facilities are completely dismantled; that fuel I referred to is shipped out of North Korea; and North Korea must come clean on how much plutonium it produced in the past. It must settle the issue of those special inspections or it does not get those two light water reactors that are part of the Agreed Framework.

But the question for some is has the Agreed Framework been fully implemented? I would say the answer is no.

The North-South dialog, which we hoped would flow from the Agreed Framework—and there is language in the Agreed Framework that is designed or was designed to pressure the North in the direction of a dialog directly with the South—the expectation in the Agreed Framework that that might come about has not been realized despite the very aggressive pursuit of peace by new South Korean President Kim Dae-Jung.

Second, there are what are referred to in the Agreed Framework as the “other concerns” of the United States of America. I would mention two principally here—the North Korean ballistic missile program, as we are very concerned about the development of extended range ballistic missiles, two in particular, and their export by North Korea; and we are also very concerned about the forward deployment of North Korea’s million man army close to the DMZ, close to South Korea, and the deployment of 37,000 Americans.

Would it not have been better, as some have noted, had the Agreed Framework provided for the delivery of two conventionally fueled plants rather than two light water reactors—in other words, solve the problem of North Korea’s gas graphite reactors not with light water reactors but with coal fired plants? Yes, it would have been. But that I do not believe was negotiable. We tried. It would not have been accepted. The North Koreans insisted on modern nuclear technology to replace the graphite technology.

Does the Agreed Framework remove North Korea’s threat to the United States, to regional security? It does not. There are those ballistic missiles. There are other programs of weapons of mass destruction in North Korea. There is the threat of the North Korean conventional forces to U.S. forces and to South Korea. There is always the risk of secret facilities that must be discovered.

In 1995, when I spoke, Mr. Chairman, to members of this committee, I noted that our experience with Iraq—and I had had a fair amount of that experience—taught us all, I think, that there are secret facilities which are sometimes hard to find, and that we are accomplishing with the Agreed Framework something very specific which was addressing a known set of facilities, and a known set of facilities which, by now, I believe would have produced probably enough plutonium for about 10 nuclear weapons.



So we are accomplishing something very specific with the Agreed Framework so far, and we have the prospect of accomplishing a great deal more if the Framework is sustained.

But the question, I think, that is before Congress now is at what cost. The largest financial cost, of course, is the roughly \$5 billion that is projected as the price tag for the light water reactor project, those 2,000 megawatt light water reactors, to be borne principally by Japan and the Republic of Korea, and, in addition, maybe an estimated \$65 million a year for heavy fuel oil, to be borne by the United States, the European Union, and other States that decide to contribute each year until the first light water reactor comes on line.

But I would ask, as the Congress considers this, that those numbers, particularly the U.S. burden, be put in context. If the U.S. portion were, say, about \$50 million or \$50 million to \$60 million, I would suggest that that is a relatively small price to pay compared to the alternatives to deal with this problem.

I recall that when we looked at the alternative to the Agreed Framework and we thought it might be a return to the United Nations Security Council and perhaps the vote of sanctions, there would be a very large price tag attached to the cost of U.S. military force redeployments—naval, sea, and air—to deal with the contingency that might result from a Security Council resolution.

I would also suggest that that figure is small, of course, compared to the cost of any military contingency that we might launch in order to deal with this treat.

Would we, Mr. Chairman, be willing to spend \$50 million a year to end the nuclear weapons program in Southeast Asia, in India and Pakistan?

In short and in sum, Mr. Chairman, I think this game is worth that candle.

Thank you.

[The prepared statement of Ambassador Gallucci appears in the appendix on page 46.]

Senator THOMAS. Thank you, sir. Thanks to both of you.

I have just a couple of quick questions.

Mr. Anderson, we have had this agreement now for some time and some commitments, apparently, but you indicate that the specifics of the contribution of South Korea and Japan are yet to be determined.

Assume that now the cost has gone up to close to \$5 billion, instead of \$4 billion. What happens if, partly because of their financial condition, they do not agree to this?

Mr. ANDERSON. Mr. Chairman, it has actually gone from \$4 billion to \$5.2 billion and now it is down to \$4.6 billion.

All of the details of the agreement for the light water funding have got to come together as a package. But there is not any question about the commitment of South Korea or Japan along the lines that Mr. Deming mentioned. So the bulk of the money is there. It is exactly how these arrangements were put together.

Senator THOMAS. You are talking about the detail. You would say that there is a commitment by both South Korea and Japan to pay their share?

Mr. ANDERSON. It has been unequivocally reconfirmed in recent weeks. Yes, sir.

Senator THOMAS. OK. I will write that down.

You indicated also that there is \$47 million, and with the \$19 million from Japan there is also commitment for the rest of it. Where does that commitment come from?

Mr. ANDERSON. Well, for example, the European Union. We are expecting \$17 million from them within a few days. Part of it is borrowed against that, that funding. There are other commitments that are made, but we have not yet received them. So it is against those funds that we have purchased the fuel oil.

Senator THOMAS. So the \$47 million has been offset by—you are comfortable with commitments to offset that?

Mr. ANDERSON. Well, I am not comfortable with them. If we, indeed, received all of these commitments, they would take care of \$28 million of the \$47 million. But we would have no money with which to purchase the current requirements.

Senator THOMAS. The State Department does not seem to be quite as confident as you in terms of those commitments.

Mr. ANDERSON. I don't think there is a disagreement there. It is just the way in which I am phrasing it. You could call it \$47 million in debt, but we have commitments for \$28 million of that, which we could pay off if we had to. But we could not order new oil which is necessary for the current requirement.

Senator THOMAS. Is there any reason to think that North Korea is looking for reasons to sort of pull away from the agreement?

Mr. ANDERSON. They started raising the question when I visited North Korea last November. They said there were those who were pushing to resume their nuclear program because we were not moving quickly enough. So there has been a ratcheting up of what they have been saying over the past several months.

They have also not confined it to the fuel oil. They have talked about three things: one, the lifting of the U.S. sanctions, and we had nothing to do with that; second, the pace of the light water reactor construction; and, third, the heavy fuel oil.

Now they are mistaken about the light water reactor. We are, in fact, ahead of schedule because we have worked faster than we intended. But they have linked their threats to all three of these items.

So there is a growing concern on their part; and I think these could be remedied by finding the funds so that we could provide the oil on a regular basis, and so the light water reactor construction can begin in earnest within a couple of months.

Senator THOMAS. Mr. Ambassador, in your view, is there any relationship between this light water reactor, this KEDO agreement, and sanctions?

Ambassador GALLUCCI. Mr. Chairman, I am not sure about the connection you are suggesting.

Senator THOMAS. Well, Mr. Anderson suggested they have raised several questions which have caused them to question the KEDO agreement or to not adhere to it, one of them being sanctions.

Correct?

Mr. ANDERSON. Yes.

Senator THOMAS. And I am saying when you negotiated the KEDO thing, was there any suggestion that there would be an opening of trade, that sanctions would not be there? Do they have a reason to question that?

Ambassador GALLUCCI. By my recollection, Mr. Chairman, the language of the Agreed Framework has, over time, the United States and the DPRK moving to a more normal relationship. But it is linked to other issues of concern being resolved.

We took certain steps, the United States did, I would say certain minimal steps immediately after the negotiation of the Agreed Framework, and it was the judgment then of the administration that we were acting consistent with the Framework. The North Koreans have always been disappointed that more has not been done by the United States.

I think you have heard Deputy Assistant Secretary Deming refer to the moves so far and the inclination with the new President, Kim Dae-Jung, in South Korea to relook at that issue. But also, I say again, the North Korean behavior sometimes, provocations of one kind or another, bear upon that.

So I think we should not be surprised that the North Koreans are wanting more from the United States, and I think we have been moving quite deliberately and appropriately.

Senator THOMAS. It seems that one of the most unusual things you would expect to hear was North Korea being concerned that the United States has not been open enough—the United States, of all countries, not being open.

You indicated that you think it is the role of Congress to provide. What about the administration making a request? This, after all, was an administration agreement. You did not bring it to us as a treaty. The Congress has never agreed to this, right?

Ambassador GALLUCCI. I used to be repeatedly corrected, Mr. Chairman, by lawyers not to use the word “agreement” and to call it an “Agreed Framework.” So I have been struggling to do that.

Senator THOMAS. Well, what is your reaction to the administration’s request for funding?

Ambassador GALLUCCI. I have not, in fact, followed very closely the requests of the administration each year since I have left government. I think the expectation—and here I am speaking as a citizen when I say this—I think the expectation of the administration was that its efforts with other governments would have brought forth more fruit than so far they have realized, and that their request to Congress was conditioned by that. When other governments have not been as forthcoming as we think they ought to have been, they have come back to Congress for more help.

The thrust of my remarks today really is that the stakes here are such that, after regretting that other governments have not been more forthcoming, it is yet still a Framework that is very, very worth sustaining.

Senator THOMAS. I am going to ignore the timer here for a moment and ask one more question.

You indicated that there are inspections of the sites but there were described sites to be inspected.

Isn’t it possible that there are lots of other sites in which things could be happening in which there is no inspection?

Ambassador GALLUCCI. Senator, this question, as I said, was raised before. The only answer, plausible answer, is absolutely. Let's be clear about this.

I made reference to the Iraq experience which should really chasten all of us about our intelligence community and other governments that were focused on Iraq before the Gulf War; and then, after the Gulf War, in the Special Commission we found all kinds of things we did not anticipate.

A country like North Korea, which is known for a certain amount of tunneling, can presumably have the capability to try to hide things. The Agreed Framework is a wonderful tool, first to get at known facilities that threaten our forces and our alliance in the international community.

Second, it commits the North Koreans if they wish to stay in the Framework, within the Framework not to do certain things. They are not only listed to some degree in the public version of the Agreed Framework, but, as you know, there is a Confidential Minute which has a certain increased detail, which is available to the subcommittee, which is useful to us.

I am not now nor was I before asserting to you that the Agreed Framework turned or changed the nature of the North Korean regime. We hope over time it will be a vehicle to help that happen. But this is still a country that must be watched very, very carefully.

Senator THOMAS. Senator Kerry.

Senator KERRY. I have just a quick question. Thank you, Mr. Chairman.

Under the Agreed Framework, Japan and South Korea were going to pick up the cost of the reactor. I understand now there may be a projected \$350 million or so shortfall in their capacity or willingness to do that.

I see Mr. Anderson's head nodding affirmatively.

If that is true—and is that your understanding—who makes up the difference? Are we obligated to?

Ambassador GALLUCCI. If I could give a little bit of history here, Senator, when we had not yet concluded the Agreed Framework but were attempting to put together the package, the light water reactor package, our team visited Seoul and Tokyo and came away with commitments for, in the language at the time, a "significant contribution" from the Republic of Korea and an "important contribution" from Japan—or language to that effect.

Subsequently, we translated it into 70 percent from South Korea and \$1 billion from Japan.

At the time, both South Korea and Japan wished the United States to participate in the light water reactor project as well. It is my clear recollection that we could make no such commitment; that we were prepared to say that we would take the lead, that the United States would take the lead, in putting together the consortium that would provide the funding that would supply the heavy fuel oil; and that we would seek to have the United States participate in the light water reactor project. This means we would seek from Congress.

In fact, I remember coming to Congress and so seeking. I also remember so failing.

Senator KERRY. So that's up in the air.

Ambassador GALLUCCI. Right now I speak as a citizen and say what I understand is that discussions have been proceeding between the United States, Japan and the Republic of Korea to resolve what seems to be a gap for the last percentage, however much that turns out to be, 10 percent or less.

Senator KERRY. I appreciate that answer. It is helpful to get the history on the record. I also appreciate very much your strategic comparison of what we achieve and do not achieve here. I could not agree with you more that the differential on the fuel oil, compared to the deployment of the Seventh Fleet or a whole bunch of other things that could be envisioned here, not to mention the long-term costs with respect to proliferation and engagement, is obviously pale.

So I hope we can, as a result of this hearing, find some rapid, sensible resolution of this.

Thanks, Mr. Chairman.

Senator THOMAS. Thank you, Senator.

Senator Feinstein.

Senator FEINSTEIN. Thank you, Mr. Chairman.

Ambassador Gallucci, as one who was here in 1995 and heard your testimony before this committee, I must tell you that I regard this with some sense of dismay and some feeling that this thing is falling apart.

Let me begin with the dialog portion of this. As I recall the testimony almost 4 years ago, a lot was put or an emphasis was placed on the fact that there would be dialog. I understand that there has been one set of meetings but now nothing is scheduled. So the real Four Party Talks are in a hiatus, if I understand it correctly.

I am very concerned about that. I could interpret this all wrong, but it looks to me like you are sort of setting the precedent for the United States to put more money into this thing. And, unless there is a corollary of the discussions proceeding and some progress taking place, our committee report points out that, even with respect to the dismantlement of existing reactors and the reprocessing facility, the costs there are presumed to be the responsibility of North Korea; and the smallest of the reactors is already contaminated with radioactivity and expected substantially to increase the cost. It seems to me, then, that we are getting nowhere fast except into a holding situation.

If you can disabuse me of this feeling of dismay that I have as a product of the testimony, I would appreciate it.

Ambassador GALLUCCI. Senator, I am going to try, because I do not share your dismay.

If I take the forest view for just a second, before going down to the trees, I would say that with the Agreed Framework in place now approaching 4 years, the performance under the Framework has been nothing short of remarkable. The creation of KEDO, the participation of a number of countries, even if it is not as much as we would like, is still significant. Those facilities are frozen that would be producing nuclear weapons right now. They were frozen under a continuous IAEA presence, and American technicians canned that fuel—all of it that could be easily canned. They have

some sludge that has yet to be handled. I think this is all remarkable.

I don't think, if I may now say, that it is all that remarkable that North Korea has not burst forward with a dialog with the South. We fought very hard for language in the Framework which would, if this were a binding agreement, compel North Korea to the table. But it is not that. It is a "framework" and for a variety, I am sure, of political reasons, the North Koreans have not come forward. I listed that as one of the elements of the Framework not realized.

But if I could offer at this point something, if the Framework stays in place and the North Korean nuclear weapons threat is kept in a box and ultimately dismantled, at the kinds of costs that are indicated here to the United States—we are talking about tens of millions of dollars each year for maybe 10 years and billions of dollars for the Japanese and Koreans—this is still, compared to the alternative way of dealing with this problem—and I hesitate to say this as a taxpayer—peanuts compared to the money we pay to deal in the defense establishment with threats of this character.

This is a tremendous bargain.

While I am saying that, I want us very much, the U.S. Government, to put pressure: (a) on other governments to participate in this because it is a good deal for them, too, and we should not bear all this burden; and also (b) on the North, now that we have particularly a government in the South that has been so aggressive in pursuing that dialog and in pursuing peace with the North. I want that to happen.

But, Senator, time is on our side. It is not on the side of the regime in North Korea. I think if we can sustain the progress we have made and the course we are on, we are doing very well.

Mr. Anderson said, I think quite correctly, that the light water reactor project is, indeed, on schedule. This, I say again, is absolutely remarkable—the building of this kind of facility in North Korea using South Korean neighbors. This is the kind of thing we dreamed about happening for years. Now it is happening.

We have now a problem with heavy fuel oil that is in the tens of millions of dollars; and if the Agreed Framework should falter for that, it would be a tragedy in my view.

Senator FEINSTEIN. Well, no, it is not that. I mean it is one thing to say this thing is great. It is another to recognize that it is frozen and could be started up at any time.

I think the thing that is going to be persuasive here is the Four Party Talks. If there are not discussions that can lead to some kind of permanent solution, I don't see that we get all that much. I agree that delay is worth something. But I would not embroider on that a whole tapestry.

Ambassador GALLUCCI. Senator, I will stay away from that metaphor. But if we could go back to the terms of the Framework, according to the terms of the Framework the North Koreans receive the big benefits—the light water reactors, the \$5 billion project—only after these facilities are not only frozen but completely dismantled, and only after the spent fuel, the only spent fuel that we know of that exists in North Korea, is completely shipped out. So this problem is not only frozen, it is disposed of, as we understand

it now, to the best of our ability. This is if nothing happened on the dialog.

Now I do not want to diminish the political elements of the Agreed Framework. They were very important to us, and I want very much for that dialog to proceed. But I, myself, at this moment, as I assess what this is worth to American national security and to stability in Northeast Asia, I look at the Framework as having delivered, at least up to this point. And I want to preserve it.

I do want to pressure those North Koreans into dialog with the South. But I would not hold up implementation of the Framework pending that dialog.

Senator FEINSTEIN. When is the dialog going to begin? It has been almost 4 years now.

Ambassador GALLUCCI. I really do not want to be in a position of apologizing for Pyongyang not doing what it is supposed to do under the terms of the Framework. What I really want to do is tell you that, as we press them to do that, in the meantime, I would like to see the United States do what it said it would do, which is to take responsibility for the delivery of the heavy fuel oil.

We are not yet behind the terms of the schedule. We are behind the terms of the pace at which we told the North Koreans we would try to deliver heavy fuel oil.

In other words, I want to join you, Senator, in insisting that that dialog get started. But when we turn from that observation that the North Koreans are really not delivering, what ought to happen now with respect to the Congress and the administration is I want to make sure that we sustain the Framework.

Senator FEINSTEIN. Mr. Chairman, will you permit me just one more question?

Senator THOMAS. Sure.

Senator FEINSTEIN. How far are we behind on the heavy fuel oil?

Ambassador GALLUCCI. Actually, Senator, the way I understand the deal when we first did it, and I don't know whether there have been further talks, we are not yet behind at all in terms of delivery of heavy fuel oil, that is, the formal expectations—I don't want to say "obligations," but expectations—of the Agreed Framework.

However, at one point the North Koreans told us early on in this arrangement in 1994–1995 that it would help them if we paced our delivery of heavy fuel oil in a way that allowed them to consume it, so that we would deliver a certain amount over the months.

According to that schedule, we are not on that schedule. But that is not an obligation of ours.

Senator FEINSTEIN. How far off that schedule are the deliveries?

Ambassador GALLUCCI. If I could, I would shove that question over to my colleague. I am not sure about the months and the timing and, indeed, the exact amount of oil that has been delivered. But I suspect that we are behind the schedule.

Can I ask my colleague to speak to that?

Mr. ANDERSON. You may.

Senator, we have delivered 216,000 tons of the 500,000. What the North Koreans would like is for us to deliver 4,400 tons a month. We have done that for several months but not since last October. We started late because we were still delivering 1997 oil until January.

To actually deliver all that is committed, the 500,000 tons, we would need to deliver 95,000 tons per month in August, September, and October. I suspect that that can be spread out a little bit more and probably the North Koreans will agree to it.

But we started late, and we have been delivering pretty regularly since then. But we are now without funds totally. So to get all that is committed delivered, we will need to deliver 95,000 tons in those 3 months or over the rest of the year, and we need the funding for that.

Senator FEINSTEIN. So in other words, you are saying that, unless you get additional funding, you won't be able to keep that portion of the terms of the agreement?

Mr. ANDERSON. That's correct, Senator.

Senator FEINSTEIN. Is there any indication from the North Koreans that they will be willing to begin the Four Party Talks in a serious manner?

Ambassador GALLUCCI. If there is, I am unaware of it. I know that the Four Party Talks were stopped. I know that there were some direct talks between the North and South in Beijing, but I don't know the current status. I would respectfully have to ask that that be passed to the administration to respond to.

Senator FEINSTEIN. May I, Mr. Chairman, ask for a response in writing on that point?

Senator THOMAS. Surely.

Senator FEINSTEIN. Thank you very much.

Senator THOMAS. Are you clear as to what she is asking?

Mr. DEMING. The status of the Four Party Talks.

Senator FEINSTEIN. On the talks, yes. Thank you.

[The information referred to appears in the appendix on page 40.]

Senator THOMAS. All right, thank you. We appreciate it very much.

Certainly I think there is agreement that we must continue to make this thing work, that it is a valuable tool. I think we also have to make sure that we do not allow North Korea to find reasons not to comply.

Further following the Senator from California's notion, accomplishing this is not in itself success. This is a role. This is a part of moving toward opening North Korea, in my view, and causing some changes to be made there. The success of this individually will not be a success in the changes.

We need to comply with what we have agreed to. On the other hand, it seems to me that we should not be pushed into picking up the whole load. Just because you are a leader does not mean you have to pay the tab. I think sometimes we slide over into that.

So I hope that our policy and where we want to go, all of that, using this activity of the KEDO and so on should be made clear. Our policy needs to be clearly stated with respect to this country, as in my view it needs to be with all countries. We need to let it be known that we will adhere to that policy that we articulate.

Ambassador, thank you, sir.

Ambassador GALLUCCI. Thank you, Mr. Chairman.

Senator THOMAS. Mr. Anderson, good luck in your difficult chore.

Mr. ANDERSON. Thank you.



Senator THOMAS. Mr. Secretary, we are glad to have had you here.

Mr. DEMING. Thank you, sir.

Senator THOMAS. Thank you all so much.

The subcommittee is adjourned.

[Whereupon, at 11:50 a.m., the subcommittee adjourned.]

## APPENDIX

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### Korean Peninsula Energy Development Organization Members and Contributions

#### Members

United States, Republic of Korea, Japan, EU, Canada, Australia, Finland, New Zealand, Indonesia, Chile, Argentina, and Poland. **Total:** 12.

#### Contributions<sup>1</sup>

Total contributions to KEDO of \$195.8 million consist of \$91.5 million from the U.S. and \$104.3 million from 21 other countries and the EU.

United States—\$91,500,000 <sup>2</sup>	Singapore—\$600,000
European Union (EU)—\$34,654,500	Brunei—\$423,700
Japan—\$32,260,000 <sup>3</sup>	Finland—\$310,500
ROK—\$17,165,000	Malaysia—\$300,000
Australia—\$9,379,000	Thailand—\$300,000
Canada—\$2,696,500	Argentina—\$200,000
New Zealand—\$1,355,400	Philippines—\$150,000
Germany—\$1,011,500	Czech Republic—\$127,816
UK—\$1,000,000	Switzerland—\$118,100
Indonesia—\$974,900	Oman—\$50,000
Netherlands—\$790,200	Greece—\$25,000
Norway—\$500,000	Hungary—\$10,000

#### Pledges<sup>4</sup>

**Total:** \$20.6 million

EU—\$16,618,500 (ECU 15 mil. x 1.1079 \$/EU)  
France—\$2,000,000 (US\$ 2 mil.)  
Italy—\$1,710,000 (Lira 3 bil. x .00057 \$/Lira)  
New Zealand—\$264,200 (NZ\$ 500,000 x .5283 \$/NZ\$)

<sup>1</sup> Contributions through August 21, 1998.

<sup>2</sup> Does not include appropriations for the spent fuel canning project, which is funded and implemented independently by the United States. To date, the U.S. has appropriated US\$27 million for the spent fuel project, bringing U.S. total contributions in support of the Agreed Framework to US\$118.5 million.

<sup>3</sup> Includes \$19 million cash collateral fund provided by Japan to KEDO to facilitate HFO borrowing.

<sup>4</sup> Only includes pledges approved by legislature of donor. Exchange rates as of 7/20/98.

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### Responses to Additional Questions Submitted for the Record to Principal Deputy Assistant Secretary of State Rust Deming

#### RESPONSES TO QUESTIONS SUBMITTED BY SENATOR HELMS

*Questions 1-5.* Can you tell the committee, on an unclassified level, with a reasonable degree of assurance, whether or not North Korea may be engaging in nuclear or nuclear weapons related activities at sites other than those covered by the Framework Agreement? Our colleague on the House Appropriations Committee, Foreign Operations subcommittee Chairman Sonny Callahan recently (*Washington Post*, July 6, 1998) expressed his concern that North Korea may be pursuing nuclear weapons at facilities other than those frozen under the agreement. According to the *Washington Post* the Administration said "there is no evidence of this." Is the Ad-

ministration response an accurate statement and do you stand by that statement today?

Is it the Administration's assessment that North Korea has terminated its nuclear weapons program?

Are there nuclear weapons related activities which were underway prior to the signing of the Agreed Framework which are still underway in North Korea?

Has new information been acquired over the past year regarding key components of a nuclear weapons program?

Answer. We are aware of Chairman Callahan's concerns. Since those concerns related to intelligence assessments, they were addressed during a classified briefing provided to Rep. Callahan and other Members of Congress. In response to your questions in this area, we would be pleased to schedule a similar briefing.

*Question 6.* What is the extent of North Korea's nuclear weapons related cooperation with other states, both as a supplier and as a recipient of nuclear weapons related technology?

Answer. We will be pleased to brief you on this topic in a closed setting.

*Question 7.* Would the provision of sophisticated nuclear technology and training assist North Korea in pursuing a nuclear weapons program if it is still pursuing such a program?

Answer. Light water reactors (LWRs) are significantly more proliferation-resistant than North Korea's frozen graphite-moderated reactors. It is much harder to obtain and divert weapons material from spent LWR fuel.

Under the terms of the Agreed Framework, the DPRK must come into compliance with IAEA full-scope safeguards before the LWRs can be completed. This will permit the IAEA to maintain safeguards over any spent fuel eventually produced from the LWRs.

Under the terms of the Supply Agreement between KEDO and the DPRK, the DPRK must allow, if requested by KEDO, the shipment of its LWR spent fuel out of North Korea for disposal abroad.

The technology and training which KEDO is providing the DPRK in connection with the LWR project is useful only for building and operating LWRs. The technology is highly specialized and of little use in pursuing a nuclear weapons program.

*Question 8.* Where does the heavy fuel oil that we provide under the Agreed Framework come from? Please provide the source, costs, and shipping methods for each HFO provider.

Answer. The attached tables list each delivery of HFO that KEDO has made to North Korea, including the date, quantity, cost, and source of the oil.

The HFO Sellers listed in the tables ship oil from the following countries

Montello .....	Singapore
Itochu .....	Japan
Honam .....	South Korea
Vitol/Vitol Asia .....	Singapore
BP Oil/BP Singapore .....	Singapore
Sunkyong .....	South Korea
Hanwha .....	South Korea
Mitsubishi .....	Japan
Caltex .....	South Korea
Petro Diamond .....	Japan
Sumitomo .....	Japan
Meiwa .....	Japan
Nissho Iwai .....	Japan

All KEDO HFO has been delivered by oil tanker to one of three DPRK ports: Sonbong, Nampo/Songrim, or Chongim.

HFO Costs—1996 Program

Scheduled	B/L Date or Discharge Date Delivery Port	Ship (HFO Seller)	B/L Quantity M/Ts	Transportation Price Per M/T	Freight Cost	Commodity Cost Per M/T	Commodity Cost	Total Freight and Commodity
12/95 .....	1/14/96 Sonbong	<i>Vigour</i> (Montello)	29,400	\$26.00 Est.	\$764,400	\$112.00 Est.	\$4,057,200	\$4,057,200
	1/14/98 Sonbong	<i>Cherry</i> (Montello)	12,100	\$26.00 Est.	\$314,600	\$112.00 Est.	\$1,669,800	\$1,669,800
2/96 .....	3/12/96 Sonbong	<i>Yang He</i> (Itochu)	21,500	\$15.50	\$333,250	\$114.99	\$2,472,285	\$2,805,535
	3/13/96 Sonbong	<i>Asahi Maru</i> (Itochu)	18,100	\$16.50	\$298,650, In- cludes \$3,733.13 ISC Fee	\$114.99	\$2,081,319	\$2,379,969
3/96 .....	3/20/96 Sonbong	<i>Liu He</i> (Honam)	22,807.90	\$10.00	\$228,079	\$126.73	\$2,890,445.17	\$3,118,524.17
	3/30/96 Sonbong	<i>Liu He</i> (Honam)	22,454.80	\$10.00	\$224,548	\$126.73	\$2,845,696.80	\$3,070,244.80
4/96 .....	5/2/96 Sonbong	<i>Posidon</i> (Vitol Asia)	34,100.968	\$23.00 Est.	\$784,323 Est.	\$111.50	\$5,921,520.66	\$5,921,520.66
	5/4/96 Chongjin	<i>Jin He</i> (Vitol Asia)	9,999.554	\$23.00 Est.	\$230,000 Est.	\$111.50	(Included in above)	(See above)
5/96 .....	6/4/96 Sonbong	<i>Natuna Sea</i> (BP Oil)	37,800.129	\$15.00 Est.	\$585,902 Est.	\$115.40	\$4,929,136.82	\$4,929,136.82

HFO Costs—1996 Program—Continued

Scheduled	B/L Date or Discharge Date Delivery Port	Ship (HFO Seller)	B/L Quantity M/Ts	Transportation Price Per M/T	Freight Cost	Commodity Cost Per M/T	Commodity Cost	Total Freight and Commodity
6/96 .....	7/8/96 Sonbong	<i>Natuna Sea</i> (BP Oil)	37,837.679	\$15.50 Est.	\$586,484 Est.	\$100.00 Est.	\$4,370,251.92	\$4,370,251.92
7/96 .....	8/16/96 Nampo 9,327 Songrim 15,403	<i>Jin He/Dan Chi</i> (Sunkyong)	24,730.031	\$33.37	\$825,307.90	\$104.00	\$2,571,923.12	\$3,397,231.12
	7/22/96 Sonbong	<i>Yu Chi</i> (Sunkyong)	21,017.007	\$12.75	\$267,966.84	\$104.00	\$2,185,768.73	\$2,453,735.57
8/96 .....	8/23/96 Sonbong	<i>Yu Chi</i> (Hanwha)	21,062.321	\$12.85	\$270,650.82	\$108.65	\$2,288,421.18	\$2,559,072
	9/4/96	<i>Jin Chi</i> (Itochu)	21,000	\$15.50	\$325,500	\$109.75	\$2,304,750	\$2,630,250
9/96 .....	8/30/96 Nampo 4,000 Songrim 16,000	<i>Daqing-73</i> (Vitol)	20,000	\$16.00	\$320,000	\$115.50	\$2,310,000	\$2,630,000
	9/25-30/96 Nampo Songrim	<i>Daqing-71</i> (Mitsubishi)	20,006.255	\$16.00	\$320,100.08	\$111.50	\$2,230,697.43	\$2,550,797.51

	9/26/96 Chongjin	<i>Yu Chi</i> (Itochu)	20,701.122	\$16.00	\$331,217.95	\$111.50	\$2,308,175.10	2,639,393.05
	10/8/96 Est. Sonbong	<i>Yu Chi</i> (Itochu)	20,703.277	\$14.00	\$289,845.88	\$111.40	\$2,308,415.39	\$2,598,261.27
10/96 .....	10/4/96 Nampo 5,172.707 Songrim 14,827	<i>Daqing-71</i> (Vitol)	20,000 Est.	\$15.75	\$315,000	\$126.00	\$2,520,000	\$2,835,000
	10/14/96 Nampo 9,000 Songrim 11,000	<i>Daqing-73</i> (Vitol)	20,000 Est.	\$14.75	\$315,000	\$126.00	\$2,520,000	\$2,835,000
	10/15/96 Est. Sonbong	<i>Ming Chi</i> (Mitsubishi)	21,006.360	\$15.25	\$320,346.99	\$123.25	\$2,589,033.87	\$2,909,380.86
	10/21/96 Est. Sonbong	<i>Jin Chi</i> (Mitsubishi)	21,005.387	\$15.25	\$320,332.15	\$124.25	\$2,609,919.33	\$2,930,251.48

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HFO Costs—1997 Program

Scheduled Month (B/L Date)	Delivery Date Delivery Port	Ship (HFO Seller)	B/L Quantity M/Ts	Transportation Price Per M/T	Freight Cost	Commodity Cost Per M/T	Commodity Cost
1/97 (2/6/97) .....	2/8/97 Sonbong	M/T <i>Magpie</i> (LG-Caltex)	21,850.30	\$13.50	\$294,979.05	\$105.25	\$2,299,744.08

HFO Costs—1997 Program—Continued

Scheduled Month (B/L Date)	Delivery Date Delivery Port	Ship (HFO Seller)	B/L Quantity M/Ts	Transportation Price Per M/T	Freight Cost	Commodity Cost Per M/T	Commodity Cost
1/97 (2/14/97)	2/22/97 Nampo, Songrim	M/T <i>Yu Chi</i> (LG-Caltex)	21,627.00	\$16.00	\$346,032.00	\$105.25	\$2,276,241.75
3/97 (4/20/97)	4/24/97 Sonbong	M/T <i>Sun River</i> (Petro Dia- mond)	21,990.845	\$15.50	\$340,858.10	\$107.50	\$2,364,015.84
3/97 (4/24/97)	4/25/97 Nampo, Songrim	M/T <i>Jin Chi</i> (LG-Caltex)	20,320.4	\$16.00	\$325,126.40	\$108.75	\$2,209,843.50
5/97 (5/17/97)	5/19/97 Nampo, Songrim	M/T <i>Jin Chi</i> (LG-Caltex)	20,044.6	\$15.40	\$308,686.84	\$108.77	\$2,180,251.14
5/97 (5/27/97)	5/29/97 Sonbong	M/T <i>Egret</i> (LG-Caltex)	22,059	\$12.75	\$281,252.25	\$108.77	\$2,399,357.43
6/97 (6/15/97)	6/29/97 Sonbong	<i>Natuna Sea</i> (BP Singapore)	37,999.435	C & F	C & F	\$122.90	\$4,670,130.00
6/97 (6/18/97)	6/20/97 Nampo, Songrim	<i>Daqing-75</i> (LG-Caltex)	22,035.5	\$14.90	\$328,328.95	\$113.00	\$2,490,011.50
6/97 (6/29/97)	7/6/97 Sonbong	<i>Sun River</i> (Petro Dia- mond)	22,000	\$15.90	\$349,800.00	\$110.25	\$2,425,500.00

7/97 (7/15/97)	7/16/97 Sombong	<i>Matuna Sea</i> (BP-Singapore)	37,999,156	C & F	C & F	\$120.90	\$4,594,097.96
7/97 (7/18/97)	8/7/97 Nampo, Songrim	<i>Daqing-76</i> (Petro Dia- mond)	23,073,588	\$18.75	\$432,629.78	\$109.75	\$2,532,326.28
8/97 (8/28/97)	8/30/97 Sombong	<i>Anfu</i> (Sunkyoung)	23,538.67	\$12.75	\$300,118.04	\$106.12	\$2,497,923.66
8/97 (9/2/97)	8/7/97 Sombong	<i>Magpie</i> (LG-Caltex)	25,303.3	\$12.60	\$318,821.58	\$107.75	\$2,726,430.58
8/97 (9/18/97)	9/10/97 Nampo, Songrim	<i>Daqing-74</i> (Sunkyoung)	22,049,606	\$15.10	\$332,949.05	\$106.12	\$2,339,904.19
9/97 (10/8/97)	10/10/97 Nampo, Songrim	<i>Egret</i> (LG-Caltex)	23,192.3	\$16.10	\$386,400.00 (in- cludes \$13,003.97 for changes)	\$110.10	\$2,553,472.23
9/97 (9/20/97)	9/22/97 Sombong	<i>Liu He</i> (Sunkyoung)	24,415,539	\$12.90	\$314,960.45	\$106.12	\$2,590,977.00
9/97 (9/24/97)	9/28/97 Nampo, Songrim	<i>Daqing-76</i> (LG-Caltex)	22,377.3	\$14.90	\$333,421.18	\$110.10	\$2,463,740.73
11/97 (12/26/97)	12/28/97 Sombong	<i>Jin He</i> (Petro Dia- mond)	21,980,692	\$17.00	\$374,000.00	\$106.00	\$2,329,953.36



HFO Costs—1997 Program—Continued

Scheduled Month (B/L Date)	Delivery Date Delivery Port	Ship (HFO Seller)	B/L Quantity M/Ts	Transportation Price Per M/T	Freight Cost	Commodity Cost Per M/T	Commodity Cost
11/97 (12/23/97)	12/27/97 Nampo, Songrim	<i>Daqing-71</i> (Itochu)	22,050.181	\$17.10	\$377,058.10	\$109.95	\$2,424,417.40
12/97 (1/9/98)	1/15/98 Sonbong	<i>Jin He</i> (Petro Dia- mond)	22,272.838	\$17.00	\$378,638.25	\$106.10	\$2,363,148.11
12/97 (1/10/98)	1/19/98 Nampo, Songrim	<i>Daqing-75</i> (LG-Caltex)	22,147.3	\$15.00	\$332,209.50	\$111.50	\$2,469,423.95

HFO Costs—1998 Program

Scheduled Month (B/L Date)	Delivery Date Delivery Port	Ship (HFO Seller)	B/L Quantity M/Ts	Transportation Price Per M/T	Freight Cost	Commodity Cost Per M/T	Commodity Cost
2/98 (3/3/98)	3/8/98 Sonbong	M/T <i>Ding He</i> (Petro Dia- mond)	21,948.399	\$15.75	\$345,687.28	\$67.90	\$1,490,296.29
2/98 (3/8/98)	3/7/98 Nampo, Songrim	M/T <i>Daqing-72</i> (Sumitomo Corp.)	20,060.739	\$15.00	\$300,911.09	\$74.90 + .50 = \$75.40	\$1,512,579.72
3/98 (3/27/98)	3/30/98 Sonbong	M/T <i>Egret</i> (Meiwa Trading Co.)	22,142.8	\$13.00	\$287,856.40	\$76.45	\$1,692,817.06

3/98 (3/13/98) .....	3/22/98 Songrim	MT <i>Tanja Jacob</i> (BP Singapore)	21,999,410	Included in com- modity per ton price	Included in com- modity price (C & F)	\$87.70	—
4/98 (4/17/98) .....	4/21/98 Nampo, Songrim	<i>Daqing-76</i> (Petro Dia- mond)	21,994.72	\$17.50	\$384,907.60	\$77.25	\$1,699,092.12
5/98 (5/22/98) .....	5/31/98 Nampo, Songrim	<i>Daqing-73</i> (LG-Caltex)	21,88.5	\$15.10	\$330,516.35	\$95.18	\$2,083,347.43
6/98 (6/20/98) .....	6/22/98 Nampo, Songrim	<i>Daqing-76</i> (Nissho Iwai)	21,841.5	\$14.50	\$317,550.00 (min. cargo contract)	\$83.00	\$1,812,844.50
7/98 (7/16/98) .....	7/17/98 Est. Songrim	<i>Dan Chi</i> (LG-Caltex)	19,776.3	\$13.50	\$266,980.05	\$78.50 Est.	\$1,522,439.55
7/98 (not available) .....	7/28/98 Est. Songrim	<i>An Fu</i> (LG-Caltex)	22,000 Est.	\$13.50	\$297,000.00 Est.	\$79.50 Est.	\$1,749,000.00 Est.
7/98 (7/12/98) .....	7/20/98 Est. Nampo, Songrim	<i>Alex</i> (BP Singapore)	20,999.428	\$16.00 Est.	\$335,990.85 Est.	\$80.00 Est.	\$1,679,954.24

## RESPONSE TO QUESTION SUBMITTED BY SENATOR THOMAS

*Question.* In addition to the LWR, will North Korea also need a power grid to distribute the power generated, particularly given that the previous reactors at Yongbyon were never connected to a grid?

Answer. A reliable transmission and distribution system is necessary for a safe startup, operation, and shutdown of a nuclear power plant and to assure a reliable off-site power supply for safety-related equipment.

North Korea's existing capabilities are inadequate to handle the 2,000 megawatts of electricity which will be generated by the LWR's.

Upgrading the transmission and distribution system is the responsibility of the DPRK. Neither KEDO nor any of its members have undertaken any obligation to pay for this upgrade.

Consultations with the North Koreans about the required characteristics for the transmission grid are ongoing.

## RESPONSE TO QUESTION SUBMITTED BY SENATOR KERRY OF MASSACHUSETTS

*Question.* What are our options for providing the necessary funding for HFO? Should the additional funds be reprogrammed or provided through a supplemental?

Answer. We are in the process of consulting with the Congress on reprogramming \$15 million under Section 614 authority, and considering later in this fiscal year invocation of the Secretary's authority under Section 451 of the Foreign Assistance Act, if necessary, to reprogram \$12 million for KEDO HFO.

We do not believe that a supplemental would be an effective response to KEDO's funding needs, given the difficulties in integrating such a supplemental into the appropriations process.

We look forward to discussing our funding plans with you further in this consultation process.

Meanwhile, we are continuing and redoubling our efforts to raise funds and support abroad for KEDO.

We are committed to ensuring that sufficient funding is secured to meet KEDO's obligations to provide heavy fuel oil.

## RESPONSE TO QUESTION SUBMITTED BY SENATOR FEINSTEIN

*Question.* When is North/South dialogue going to begin? Is there any indication that the North is willing to begin four-party talks in a serious manner?

Answer. At the North's initiative, North and South Korea did engage in direct talks last April in Beijing on possible ROK fertilizer assistance. Those talks ended without resolution and there is no indication as to when they might continue.

We are fully supporting the efforts of our ROK allies to persuade North Korea to resume the North-South dialogue.

The ROK and the U.S. first proposed four party talks in April 1996 date. After strenuous efforts by us, the ROK and the PRC, the first round of plenary talks was held in December 1997 and the second in March 1998.

A third plenary round of the Four Party talks has yet to be scheduled, though it is our hope that it will be convened soon.

North Korean intransigence prevented any progress from being made during the first two rounds of Four Party Talks. Specifically, the DPRK insisted that withdrawal of U.S. troops from Korea and the negotiation of a U.S.DPRK peace treaty be the main topics of discussion, while the U.S. and ROK called for the establishment of subcommittees to address the topics of confidence-building measures to reduce tensions, the establishment of a permanent peace treaty to replace the Armistice. North Korea subsequently offered to withdraw its demands in return for more food aid and an easing of U.S. sanctions—a proposal which we rejected out of hand.

Nonetheless, we consider it to be a very significant accomplishment that we have finally persuaded the North to participate in multilateral talks which include the ROK and which are designed to lead to a permanent peace settlement. We communicate regularly with the North at the working level in an effort to make the DPRK's involvement more constructive.

In our view, the ROK's dialogue with the North is complementary to the Four Party process. While the purpose of the Four Party talks is the reduction of tension on the Peninsula and the achievement of a permanent peace treaty to replace the

armistice, North-South talks allow the two to address specific topics such as the food situation. Progress in the Four Party process and better relations between the participants are mutually reinforcing.

#### **Prepared Statement of Rust M. Deming**

Thank you, Mr. Chairman. I greatly appreciate the opportunity to appear before your Committee today to speak about U.S. policy toward North Korea. The Secretary and President appreciate your past support for the Korean Peninsula Energy Development Organization—KEDO—and for the Agreed Framework, and hope that you will continue to support our efforts.

The Korean Peninsula remains one of the most unstable and dangerous places in the world today. Forty-five years after the armistice, 37,000 American troops, together with their colleagues from the ROK, face more than a million North Korean troops across the demilitarized zone. One of the most dangerous moments of that tense history was just four years ago, in the summer of 1994.

In 1993, isolated by the transformations of its cold war patrons and facing a southern neighbor with growing economic power and global stature, North Korea began to bring its efforts to acquire nuclear weapons to fulfillment. Kim Il Sung's engineers had completed a large-scale plant to reprocess plutonium from spent fuel produced by North Korea's Soviet-designed graphite-moderated reactor. In addition, the North had begun constructing two larger graphite-moderated reactors, which in addition to being of unsafe design, would be capable of producing enough plutonium for a significant nuclear arsenal within a few short years.

Disputes over past production of plutonium and the monitoring of nuclear facilities by the International Atomic Energy Agency led the DPRK to announce, in June 1994, its withdrawal from the IAEA; the North was also on the verge of carrying out its threat to withdraw from the Nuclear Nonproliferation Treaty, or NPT. When the DPRK subsequently began to defuel its reactor without the IAEA's presence, which would make confirmation of past production of plutonium more difficult, the security situation on the Korean Peninsula was as tense as it has been at any point since the cessation of open hostilities in 1953. Military forces on both sides were augmented and placed on high alert. Fortunately, a negotiated solution was found and a crisis averted.

The result of these negotiations was the 1994 U.S.-DPRK Agreed Framework. To date, the Agreed Framework has been a success. The North's indigenous nuclear program at Yongbyon remains frozen, the canning of the DPRK's spent fuel is now virtually complete and under IAEA seal, as are the reprocessing plant and reactors. The IAEA maintains a continuous monitoring presence and Pyongyang has remained a party to the NPT. North Korea also has acknowledged that it must eventually dismantle all the elements of its nuclear program and permit its existing spent nuclear fuel to be shipped out of North Korea.

In return for the North's nuclear freeze, the U.S. agreed to take the lead in organizing a consortium to build two modern, safe, proliferation-resistant light water reactors, known as LWRs, in North Korea. In addition, the United States agreed to "make arrangements to offset the energy foregone," with 500,000 metric tons of heavy fuel oil or "HFO".

That consortium, which became known as the Korean Peninsula Energy Development Organization or "KEDO", was founded by the U.S., Japan and South Korea in 1995 to implement both the LWR and HFO aspects of the Agreed Framework. KEDO has negotiated with the DPRK a Supply Agreement for the LWR project, six side protocols and a number of other instruments spelling out how the LWR and HFO aspects of the Framework would be implemented.

South Korea and Japan have together committed themselves to assume virtually the entire burden of the estimated \$4.6 billion LWR project. Specifically, South Korea has pledged to fund 70 percent of the project, and Japan has agreed to provide \$1 billion. KEDO has commenced work on the project and, although work is not yet in full swing, an important amount of site preparation work has been underway for almost a year.

With respect to the funding of any shortfall that might occur at the later stages of the LWR project, discussions among the original three members of the KEDO Executive Board as well as the European Union, which just joined as a major contributor, are continuing and, we feel, are approaching a resolution.

The provision of heavy fuel oil, which is seen by North Korea, our KEDO partners and the world as principally a U.S. responsibility, is the most tangible evidence of the U.S. government's commitment to the Agreed Framework. In meeting this responsibility the U.S. government has made vigorous efforts to recruit assistance from other countries. U.S. officials have made direct approaches, in most cases re-

peatedly and at a high level, to 37 countries and the European Union for HFO funding. In general, we have targeted countries with a direct interest in peace and stability in East Asia as well as those with the ability and willingness to contribute, whether in funding or in kind, to a cause that serves global nonproliferation goals.

In 1995 testimony before Congress, then-Secretary of State Warren Christopher estimated that annual U.S. contributions to KEDO would be between \$20-30 million, based on the conviction that the balance of funds could be raised abroad. Secretary Christopher's testimony was an implicit pledge to you that we would make our best efforts to secure such contributions. The results have been disappointing, but we have received some help. Australia, New Zealand and Canada, strong supporters of the Agreed Framework, have made generous contributions totaling almost \$12 million. The European Union has contributed \$34.7 million to date. (An additional EU contribution of \$16 million is expected this summer.) Japan has made available a collateral fund of \$19 million for the HFO program, though it has declined our requests that it turn the fund into a hard contribution; we are continuing to discuss this issue with the Japanese government. In all, 22 countries and the EU have made contributions to the HFO program totaling \$52 million, whereas the U.S. has contributed approximately \$80 million for HFO (out of a total of \$118.5 million for Agreed Framework-related expenses, including the canning of spent fuel).

We will redouble our efforts, but it is not realistic to think that the shortfall will be met in the near term by contributions from abroad. I believe that continued U.S. leadership of and support for the HFO program, until such time as the first LWR plant is built, is a small price to pay to reinforce peace on the Korean Peninsula and to strengthen the global nonproliferation regime.

The implementation of the Agreed Framework is fundamental to U.S. interests on the Korean Peninsula and in East Asia. As KEDO fulfills each of its successive steps, North Korea is to take steps to resolve our proliferation concerns. Following completion of the first LWR containment building and its electrical generating equipment—but before delivery of the nuclear components of the plant—North Korea must come into compliance with its full-scope NPT IAEA safeguards agreement. I cannot overstate the significance of this step. With full-scope safeguards in place, the IAEA will be permitted to inspect all of the North's nuclear facilities and materials. The additional security this will provide will be significant.

The Framework's implementation carries with it associated benefits in the nuclear area, many of which were not even envisaged at the time of its signing. We are working with North Korea's nuclear community, for example, in an effort to foster an independent nuclear regulator for the LWRs, as well as a general nuclear "safety culture" which would not otherwise exist.

The Agreed Framework is more than simply a nuclear accord, however. It is the cornerstone of our efforts to reduce the potential for conflict on the Korean Peninsula. The Agreed Framework has allowed us to undertake a dialogue with North Korea that has led to the Four Party Talks as well as negotiations on missile sales, terrorism and a host of other concerns. In addition, regular contact between North and South Koreans is dramatically increasing, in particular at the LWR site. North and South Korea have begun to take steps to cooperate on such issues as air traffic and telephone links between the two countries. Progress has been slow at best in all of these areas, and North Korea remains a very difficult interlocutor. However, we believe it is very much in our interest to continue these efforts to reduce tensions on the Korean Peninsula.

The full implementation of the Agreed Framework, with all the benefits it should bring, will only be possible if KEDO remains financially healthy and able to carry out its mission. As I stated before, we are continuing our international fundraising efforts and working on ways to address KEDO's financial difficulties, including its debt from past year oil deliveries. However as I have just noted it is not realistic to assume that sufficient contributions will be made by other countries, and we will therefore have to do more. We will continue our consultations with you and your colleagues in the House in the near future on our proposals for additional KEDO funding and our strategy for addressing the organization's financial problems over the long term.

Let me close by stressing that KEDO and the Agreed Framework remain central to our efforts to promote peace and stability in Northeast Asia and to support regional and global nuclear nonproliferation. KEDO's mission is of utmost importance to the national security of this nation as well. We must not allow KEDO to fail.

Thank you.

### Prepared Statement of Desaix Anderson

I am very pleased to be here today to update you about KEDO's work and the progress of the light-water-reactor (LWR) project. Now is a good time to discuss this subject since there have been many developments regarding the Korean Peninsula in the past few months—developments that have helped place KEDO's efforts in context.

In his inaugural address in February, President Kim Dae Jung spoke of "reconciliation, exchanges, cooperation and non-aggression." He also spoke of the implementation of the 1991 North-South "non-nuclear declaration." These statements, as well as calls for family contacts, for cultural, economic and communication exchanges, and the decision to lift the ceiling on South Korean investment in the North, suggest that a spirit of hope and reconciliation might be in the air. The cattle run through Panmunjom last month by the Chairman of Hyundai, the proposal for a joint "unity" celebration, talks of joint sports teams and matches, resumption of the Military Armistice Commission (MAC) talks at the general officer level, initiation of the Four Party Talks in Geneva, and resumption of North-South talks are welcome signs from North Korea.

These statements, and more generally, President Kim's "sunshine" policy, which separates economics from politics, are a very welcome change from the past. They are also a far cry from the situation that existed in 1994. In fact, it is easy to forget that five years ago Pyongyang announced its intention to pull out of the Nuclear Non-proliferation Treaty and blocked inspections by the International Atomic Energy Agency, in the process heightening global fears that its nuclear program might have purposes other than electricity generation. As Don Oberdorfer illustrated in his recent book, *The Two Koreas*, in June 1994, war on the Korean Peninsula was not only a possibility, but also may have been much closer than most people realized.

I will not claim that KEDO is responsible for the change from war footing to calls for rapprochement, but I do believe that the Agreed Framework and KEDO, which was created to implement much of it, have been important parts of the process which has brought more stability to Northeast Asia and may help lead to reconciliation between the North and South. KEDO, while helping to defuse a very real security threat, has also been a classic confidence-building measure.

KEDO was founded in early 1995 by Japan, South Korea and the United States to fulfill commitments made under the October 1994 Agreed Framework. Today KEDO has 12 members, including the European Union (EU), which joined KEDO as an Executive Board member late last year, Australia, Argentina, Canada, Chile, Finland, Indonesia, New Zealand and Poland. The diversity among KEDO's members is a sign of growing international support for KEDO's work and a recognition of its accomplishments during the past three years.

While support for and membership in KEDO have grown, the KEDO Secretariat itself has remained relatively small. We now have 35 professional and support staff, primarily from the United States, ROK, Japan, and Europe. Structurally, the Secretariat is divided into six divisions: the Policy and DPRK Affairs Division; the Project Operations Division; the Nuclear Safety and Quality Assurance Division; the Legal Division; the Finance and Heavy Fuel Oil Division; and General Affairs (administrative). The Secretariat's small size and dedicated staff have created a relatively smooth operation that belies the difficulty inherent in bringing together driven, talented individuals from substantially different professional backgrounds and cultures.

It is fair to say that in its three years of operation KEDO has achieved greater success than most observers initially thought possible. This success has occurred on several levels.

On the nuclear non-proliferation level, KEDO's success has ensured that North Korea has kept its commitments under the Agreed Framework. Pyongyang's suspect graphite-moderated reactors and related facilities have been frozen; the spent fuel rods from the five-megawatt reactor have been removed and the canning of those rods was virtually completed in April; and, the DPRK has remained a party to the NPT and has allowed the IAEA to monitor its nuclear facilities.

In addition to ensuring thus far these non-proliferation achievements, KEDO has also served an important diplomatic, or geopolitical, function. Through its daily work in New York, in negotiations with the DPRK, and at our Kumho site on North Korea's east coast, KEDO has provided a crucial link between Pyongyang and the outside world. Particularly during the occasional flare-ups that have occurred, KEDO has provided a forum for near constant contact and interaction with the North.

In addition to being a window to the world for North Korea, KEDO has provided opportunity for direct contact between South and North Koreans, on both a formal

and informal level. Under KEDO's institutional umbrella, South Koreans at KEDO have directly negotiated agreements with North Koreans. At the negotiating table and in the field at the Kumho site, the learning curve from KEDO's interaction with the North has been steep and agreement has never been easy. But in slogging away through countless negotiating sessions, we have learned to work with each other and to listen to each other's concerns.

I should note that the interaction I just described is not limited only to members of the KEDO Secretariat or delegations from KEDO's Executive Board members. Under agreements arranged by KEDO, KEDO's South Korean contractors and sub-contractors have directly negotiated and signed separate contracts with North Korean companies which will provide labor, goods, facilities or other services at the site.

Similarly, there has been considerable interaction between the more than two hundred South and North Korean workers at the site. It has been a remarkable aspect—and benefit—of the project to see workers from the two Koreas, which remain technically at war, talking, sharing cigarettes and in general learning about each other for the first time. As the LWR project progresses, eventually thousands of South and North Koreans will work side by side jointly building the two light-water reactors.

It is also worth noting another success of KEDO. KEDO has provided important political benefits to each of its founding members. In a few short years, KEDO has become an important feature of the landscape on the Korean Peninsula and in Northeast Asia. It serves as an example of how a cooperative and targeted international diplomatic effort can lead to the resolution of regional security or political crises. KEDO has become an important mechanism for coordinating and harmonizing Japanese, South Korean, American, and now European interests and policies.

Let me turn for a moment to the actual work KEDO has undertaken at the negotiating table and on the ground.

First, let me address KEDO's track record at the negotiating table.

As you know, under the Agreed Framework, in exchange for Pyongyang's freezing and ultimately dismantling its graphite-moderated reactors and related facilities, KEDO will provide two proliferation-resistant 1,000 MW(e) light-water reactors and 500,000 tons of heavy fuel oil per year until the first reactor comes on stream.

In December 1995, KEDO concluded a Supply Agreement with the DPRK that serves as a roadmap for the project. It states, among other things, the project's scope, terms of repayment, and general terms and conditions under which KEDO, its prime contractor and subcontractors will operate at the site.

Since the Supply Agreement, KEDO has negotiated and signed six additional protocols, or agreements, with the DPRK. These protocols address issues such as:

- KEDO's juridical status, and privileges and immunities in the DPRK;
- transportation routes to and from the DPRK;
- communications to and from the site;
- access to, use of and takeover of the site;
- the provision of DPRK labor, goods, facilities and other services; and,
- penalties in the event of nonpayment by the DPRK for the cost of the two reactors.

The protocols in many ways have proven perhaps more difficult than the Supply Agreement to conclude since they have addressed in detail sensitive issues unprecedented in nature for the North Korean regime.

In addition to the Supply Agreement and the protocols, just mentioned, KEDO and the DPRK have also concluded approximately two dozen detailed implementing agreements on issues such as: medical services; procedures for sea, land and air transportation; and, guidelines and principles for contracts to be signed between KEDO, its contractors or subcontractors and DPRK companies. Many of these agreements are different from protocols only in name. They, too, address very sensitive, unprecedented issues that have required creative thinking by both sides to resolve.

With respect to actual work on the ground, following conclusion of the necessary protocols and agreements, KEDO officially broke ground for site preparation last August at the Kumho site. For the groundbreaking ceremony, a large delegation, including diplomats from almost all KEDO member countries and 27 journalists from Japan, South Korea and the United States, traveled by boat directly from South Korea to a port near the site. These journalists broadcast live via satellite pictures of the ceremony around the world without any interference or censorship from the DPRK.

The 120 KEDO construction workers, technicians and engineers at the site, the overwhelming majority of whom are South Korean nationals, have now almost completed initial site preparation. Thousands of tons of equipment have been delivered

to the site to build the necessary infrastructure for the nuclear reactors. A small village has been built from nothing. We now have housing facilities, a medical facility, roads, water services, electricity services; a restaurant for North and South Korean workers, recreational facilities, and other amenities. KEDO workers travel to the site by boat or chartered aircraft, enjoy access to direct dial phone lines and mail service to South Korea, watch CNN on satellite television, and enjoy consular protection, privileges and immunities similar to those accorded diplomats and other international organizations.

Shortly before the groundbreaking ceremony, KEDO opened a permanent branch office at the site. This office is staffed by a small core of professional diplomats from Japan, the US and the ROK who rotate out of North Korea on a regular basis. A few months after KEDO opened its branch office, a South Korean bank (the Korea Exchange Bank) also opened a branch office at the site to service the financial needs of workers living there.

We recently completed the second of four oceanographic surveys (using a South Korean ship) to evaluate the environmental impact of the LWR project, and this spring we inaugurated what will become regular cargo/passenger service between Sokcho, South Korea to Yangwha, the port near the Kumho site.

Before discussing the road ahead, let me point out that work at the site, while progressing very well, has not always been easy. The winter is cold, and, with only very limited exceptions, our workers are required to remain within the site boundaries. The situation in general is lonely, harsh and stressful. Also, as one might expect at any construction site, there have also been accidents and incidents, many typical of construction work. However, to date, KEDO and the DPRK have been able to work through these events without serious disruption to the project. It is a testament to the desire of both sides to keep their commitments under the Supply Agreement that KEDO and the DPRK have worked together pragmatically to resolve any differences and move forward with the project.

I should start my discussion of the road ahead by stating clearly that the political achievements and work on the ground that have already been achieved would not have been possible without the strong political and financial support KEDO has received from its member countries and other contributors, particularly South Korea, Japan, the United States, and, more recently, the EU.

KEDO has an ambitious agenda for 1998. We would like to pursue agreements with North Korea on a range of issues, including:

- a protocol on training for DPRK technicians who will operate and maintain the light-water reactors;
- a protocol on quality assurance and warranties;
- and, a protocol on the delivery schedule for the project (including the requirement that the DPRK will come into full compliance with its NPT and IAEA safeguards obligations before KEDO ships significant nuclear components to the site).

In addition to these protocols with the DPRK, KEDO intends to conclude later this year a turnkey contract with our prime contractor, the Korea Electric Power Corporation (KEPCO). The site preparation work now being performed by KEPCO (described earlier) is under a separate contract financed through South Korean Export-Import Bank loans worth approximately US\$45 million. The turnkey contract will govern the rest of the project, including full-scale construction work.

It is no secret, of course, that KEDO faces serious financial challenges. KEDO began 1998 US\$47 million in debt from the heavy fuel oil delivered to North Korea in 1997. Additionally, KEDO is committed to delivering 500,000 metric tons of oil in the current fuel-oil year (which runs from October to October). This commitment has cost US\$65 million/year for the first two full years of the program (1996 and 1997), but may cost slightly less this year because of lower oil prices.

With respect to the LWR project, the Executive Board members agreed in November 1997 that the cost estimate for the project would be about US\$5 billion. However, this cost is likely to drop to \$4.5/4.6 billion because of the devaluation of the Korean won versus the US dollar.

The coded language for cost sharing has always been that South Korea would play a "central" role and Japan a "significant" role in the project. The Executive Board is meeting in New York later this week to continue discussions on how to translate this language into real financial commitments and money, and we are very close to reaching a final agreement. The financial crisis in Asia has certainly not been helpful, but South Korea and Japan have unequivocally reaffirmed their respective commitments.



My top priority has been to achieve a comprehensive resolution of financing issues for the LWR project and the supply of heavy fuel oil so that we can operate on a firm financial basis. This would be reassuring to all parties.

The Executive Board, particularly the United States, is also working to retire the debt that currently exists with respect to heavy fuel oil and to establish stable financing for the future. It would be myopic to say the least to jeopardize the non-proliferation accomplishments of KEDO by failing to provide funds for this relatively inexpensive component of the Agreed Framework. With financing for the light-water-reactor project and heavy fuel oil arranged, KEDO would be free to concentrate on concluding the turnkey contract and the remaining protocols, and moving ahead to construct the LWRs.

Despite the accomplishments of the Agreed Framework and KEDO, there are some clouds on the horizon. The DPRK criticism of the pace of the LWR project's progress; of the slow and erratic pace of provision of heavy fuel oil; and, in the US bilateral context, of the lifting of US economic sanctions against North Korea, has taken an increasingly worrisome tone. The recent acknowledgment by Pyongyang that it has sold missiles and would continue to do so could be interpreted as a threat or, conversely, as an offer to re-engage the U.S. and possibly negotiate a solution to the issue. Recent nuclear testing in India and Pakistan have also underscored the importance of KEDO and its objectives.

In and of itself, but particularly in the context of recent developments in Asia, especially in Northeast Asia, KEDO remains an important, even essential, element of Northeast Asian security. KEDO members have demonstrated this by their support for KEDO's mission and activities. It is imperative for the security interests we all share, that needed political and financial support continue to be provided.

Thank you.

#### **Prepared Statement of Robert L. Gallucci**

Mr. Chairman:

Thank you for giving me this opportunity to appear before the Subcommittee on the subject of KEDO and the Agreed Framework with North Korea.

I understand the issue before the Congress, in general terms, to be whether or not to permit the Administration to provide additional funds to KEDO for the purchase of heavy fuel oil, that would then be supplied to North Korea, and thus help meet an immediate need as provided by the terms of the Agreed Framework. Put even more broadly, the issue is whether or not the financial burden of providing heavy fuel oil through KEDO, for years into the future, in order to preserve the Agreed Framework, is worth it to the United States. Is it in the national interest, or even the national security interest, to spend perhaps twice as much for this purpose as Secretary Christopher estimated, more than three years ago, when he thought the bill for the United States would be between twenty and thirty million dollars per year until the first light water reactor came on line in North Korea?

That was a controversial question three years ago when the ink on the Agreed Framework had not yet dried, but with three years of experience behind us, one might expect that the calculation would become a bit easier. For most it has, but for some it has not.

Those who see the clear benefits of the Agreed Framework observe that the gas graphite reactors and associated facilities have indeed been frozen:

- the 5MW reactor that produced about a bomb's worth of plutonium each year of its operation has not been refueled;
- the estimated six bombs' worth of plutonium contained in spent fuel has been re-canned by American technicians for safe storage and eventual shipment out of the country—rather than separated for weapons fabrication as we believe had been planned;
- the plutonium separation facility has been frozen;
- the two larger gas graphite reactors under construction that we estimated when completed could have produced enough plutonium each year for 25–30 nuclear weapons have both been frozen;
- IAEA inspectors have been on the ground verifying these provisions of the Framework.

This was the biggest, most immediate benefit to the United States, its allies South Korea and Japan, and the international community. Over time, if the Framework is sustained, the gas graphite reactors and associated facilities will be dismantled, the spent fuel shipped out, and the North will accept whatever inspections the IAEA determines are necessary to come into full compliance with its safeguards obligations—including the resolution of the dispute over its initial plutonium declaration.

The North can be expected to do all this in the future for the same reason that it has cooperated over the last three years: its short term gain of 500,000 tons of heavy fuel oil each year, and in the long term, the delivery two light-water moderated power reactors.

The Framework has a number of other important provisions aimed at objectives that have not yet been realized, such as establishing a dialogue between North and South, and resolving other issues of concern to us that would in turn permit normalizing relations between the North and the United States. The North's failure to respond adequately to President Kim Dae Jung's initiatives, together with intermittent military provocations, leave North Korea far short of the position envisioned in the language of the Framework. Similarly, our concerns about the North's development and export of extended-range ballistic missiles, and forward deployment of its army along the DMZ, while not explicitly mentioned in the Framework, remain important obstacles to the improved relations between the U.S. and the North which are part of the Framework.

That said, the principal purpose of the Agreed Framework, as seen from the American perspective, was to stop a very large nuclear weapons development program from succeeding in a country run by a rogue regime, and eventually to bring that country, which had violated its safeguards undertakings and announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, back into the safeguards and treaty regimes. That is the road we are now on. The Framework, a diplomatic solution, costs about \$5 billion for the light water reactors, virtually all of which will be managed by South Korea and Japan, and about another \$65 million per year for perhaps ten years, some significant portion of which the Administration argues that the U.S. should manage.

However one judges the fairness of the burden-sharing in this arrangement, no one should doubt that the size of the burden for the United States would have increased astronomically if a military solution had been forced upon us by a failure to find a diplomatic one. Even the cost to the U.S. of those relatively small land, air, and sea movements necessary to improve our defensive posture in the event of a vote in the Security Council to impose sanctions, would dwarf the funding levels now discussed for heavy fuel oil. Should we have had to resort to force to deal with the emerging nuclear threat, the financial cost, while far greater still, would have been slight compared to the cost in American and South Korean lives.

For some of those who see the virtue of a diplomatic solution, particularly when compared to the alternatives, the Framework is criticized for making the provision of nuclear reactors to North Korea part of that solution. Why not, they ask, provide the same amount of energy with conventionally fueled power stations. The answer is that in both Berlin and Geneva, at the technical and the political levels, the North was pitched on the virtues of conventional plants—facilities that could be provided much earlier and would be much better suited to the North's electrical grid; however, the North insisted on having modern light-water moderated nuclear reactors if they were going to give up their gas graphite nuclear reactors.

The Agreed Framework does not put to rest all our concerns about North Korea nor could it. It addresses a group of facilities that we were confident would have produced a significant amount of fissile material by now if not stopped. Is that worth twice what Secretary Christopher estimated it might cost, perhaps \$50 million each year? If it is not worth that much to manage this nuclear threat with diplomacy, how much would it cost to remove it or defend against it with military means? Would we be willing to remove the risk of nuclear war between India and Pakistan—where no American troops are deployed—for that amount of money?

Mr. Chairman, an increase in the amount of U.S. funding for KEDO is essential now and for the longer term, even if the Administration is successful in its efforts to draw greater support from other countries. Sustaining KEDO sustains the Agreed Framework, and it is clearly in the national security interest to do so.