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U.S. POLICY TOWARD NORTH KOREA: NEXT STEPS

Implementation of the Agreed Framework is well under way, and though serious difficulties remain in areas like financing heavy fuel oil, we have developed considerable momentum. While continuing to pay close attention to implementing the basic requirements of the Agreed Framework, we need now to build on this foundation to address a wider range of issues with North Korea, including food aid, sanctions removal, a stable system for supplying Heavy Fuel Oil, missile talks, return of POW-MIA remains, opening of Liaison Offices, and creation of North-South dialogue.

In undertaking these specific tasks we need to build a North Korean stake in good behavior, to foster moderate voices in North Korea and to minimize the risk of North Korean military adventurism.

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BACKGROUND

North Korea internally is in parlous condition, beset by an economy that continues to nose down, by the spectre of increasing mal-nutrition, and by the uncertainties of an incomplete leadership transition. Still, North Korea is abiding by its Agreed Framework commitments, and is showing increasing willingness to address other areas of concern. The following takes stock of where we stand with North Korea on major issues:

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: DONALD A JOHNSTON
DATE/CASE ID: 11 JUL 2006 200403519

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REVIEW AUTHORITY: APPEALS REVIEW PANEL
APPEAL ACTION: ADDITIONAL INFORMATION RELE
REASON(S) B1, 1.4(D)
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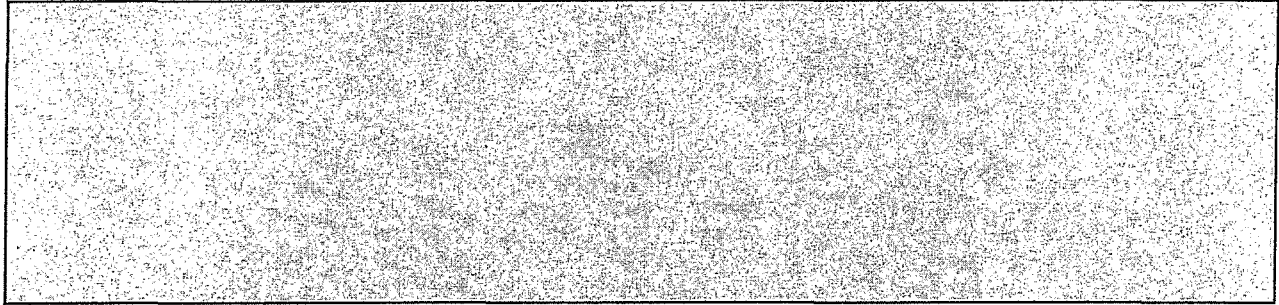
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Military PostureNuclear Freeze

The freeze on the DPRK's nuclear reactors and related facilities has been in place for over a year. Although the IAEA has maintained a continuous presence on the ground monitoring the freeze, there still remain unresolved safeguards issues and a growing IAEA concern over less than full DPRK cooperation with IAEA activities. IAEA-DPRK discussions on these outstanding freeze-related issues are currently underway in Pyongyang.

Light-Water Reactor Project

Following the signing of the KEDO-DPRK LWR supply agreement in December, KEDO is proceeding with site surveys of the Sinpo Region (proposed site for the LWRs) and will soon begin negotiating the protocols to the supply agreement with the DPRK. Continued progress on this front should result in the DPRK turning the proposed reactor site over to KEDO this spring with site preparation beginning later this year.

KEDO is also negotiating a contract with the South Korean prime contractor -- the Korean Electric Power Company (KEPCO) -- and will soon begin selection of a U.S. firm as program coordinator.

Safe Storage of Spent Fuel

The U.S. has been engaged in an ongoing effort to safely store the DPRK's spent nuclear fuel and prepare it for eventual shipment out of the DPRK. U.S.-DPRK cooperation at the site is good and sludge vacuuming is almost complete. We anticipate canning of the fuel to begin in mid-February and continue to early summer.

Korean Peninsula Energy Development Organization (KEDO)

KEDO is suffering from potentially disastrous short term and long term problems in funding heavy fuel oil deliveries, which are crucial to meeting KEDO obligations and continued North Korean compliance with their commitments. Under the Agreed Framework, it is required to ship annually 500,000

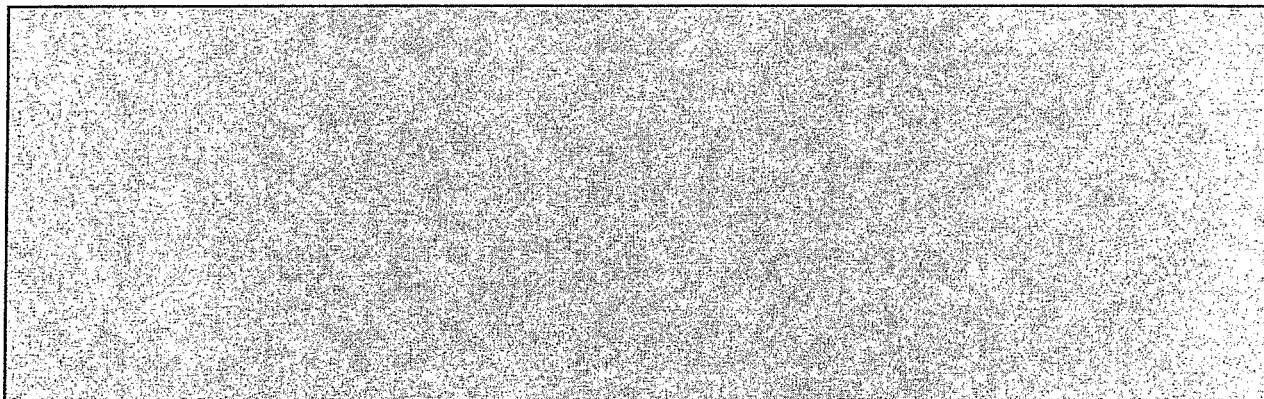
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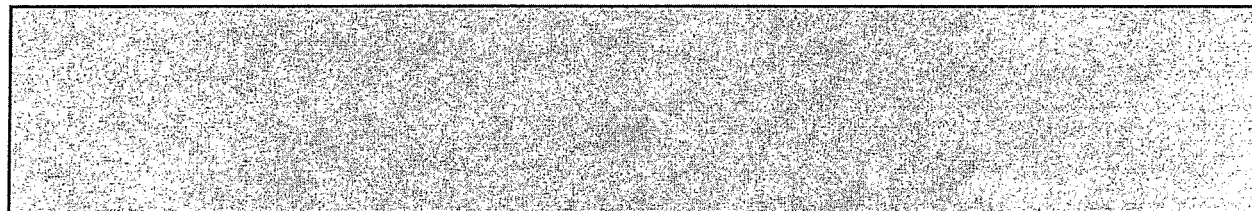
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metric tons of HFO to North Korea; this amounts to roughly \$50 million per year. The organization has already gone approximately \$8 million in debt to fund the October and December 1995 shipments, and does not have funding to meet the rest of its 1996 requirements.

The U.S. contribution of \$22 million towards this effort, will be used to pay off KEDO's debts and perhaps to fund another month's shipments. We are moving expeditiously to process the 614 waiver which is necessary to make these funds available to KEDO hopefully NLT March.



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For the long term, we are mounting an effort to approach potential large contributors to KEDO. But this effort has met difficulties, partly due to the current KEDO Charter which only allows the United States, Japan, and the Republic of Korea to participate in decision-making. Under these circumstances, it is difficult to attract significant financial contributions from others.

We have secured the agreement of our trilateral partners to allow others a role in decision-making, provided they make a significant, sustained contribution to KEDO. We are now engaged in discussions with the EU on this issue, but these discussions will take time. If we succeed in attracting the EU and others, KEDO will have a larger pool of contributors to draw from for future heavy fuel oil deliveries.

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Liaison Offices

Under the Agreed Framework, the U.S. and DPRK agreed to establish liaison offices in each other's capitals. However, for reasons which are unclear to us the North has not shown any recent interest in moving forward. Once they do, we are prepared to move ahead quickly to resolve the remaining technical issue (pouch transit via the DMZ). Prior to setting a firm date on opening, we will want to consult closely with the South Koreans on timing.

North-South Dialogue

The Agreed Framework stipulates that the North must engage in dialogue with the South. In light of continuing North Korean refusal to deal directly with South Korea, the ROKG has indicated that it will not take any new initiatives towards the North at least until after the April 11 National Assembly elections. The DPRK met one key ROK condition for dialogue when it released a fishing boat crew last December. More recently, we have reliable indications that North Korea has proposed government level talks, essentially meeting another key ROK condition.

MIA Remains

The talks in Honolulu came close to producing an agreement whereby the U.S. would increase compensation from \$1 million to \$2 million in exchange for DPRK agreement to hold two joint recovery operations before July 1. The DPRK agreed to such an arrangement, but, at the last minute, claimed it had received new instructions from Pyongyang that would not allow it to discuss joint recovery until after compensation had been settled and paid. While the meeting ended with no agreement with no current plans for resumption of the dialogue, we expect to raise this and other bilateral issues when DAS Hubbard meets a DPRK MFA Americas official in Washington on February 6.

Missile Proliferation

In a recent letter to Ambassador Gallucci, Vice Foreign Minister Kang Sok Ju said the DPRK is "seriously considering" holding bilateral discussions with the U.S. on missile proliferation, but strongly hinted the talks would occur only after a further round of U.S. sanctions easing. We have proposed talks in late February but have not yet received a North Korean response.

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SPECIFIC TASKS FOR DECISION

1. Humanitarian Food Assistance

North Korea's overall food situation is serious and could in time impinge upon our security concerns. While there are different assessments of the North's nationwide structural food deficit, there are reliable international assessments of the continuing need for modest humanitarian food aid locally to the victims of last years flooding. A \$2 million donation to the WFP would be an appropriate, but token, response to this latter humanitarian need, and is a way to demonstrate to the North the ongoing benefits of our engagement.

[REDACTED]

We are examining whether funds might be found in AID's Foreign Disaster Funds.

[REDACTED]

The Congress is divided on food aid, but with less overt hostility than the Agreed Framework generated a year ago. Many Members see this principally as a humanitarian issue, with Senator Simon taking a particularly strong position in support of food aid. We are in the process of briefing both Houses.

Issue: Timing and modalities for humanitarian food aid.

2. Secure Financing for Heavy Fuel Oil

Our most urgent problem is securing funding or loan guarantees so KEDO can make arrangements for its upcoming oil deliveries in February and March until the US KEDO contribution of \$22 million becomes available.

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3.) Consider Further Sanctions Lifting

Our strategy of positive reinforcement has always assumed that we will take additional steps to ease economic sanctions if DPRK cooperation in implementation of the Agreed Framework so warrants. The DPRK has made progress on a number of fronts since the lifting of the first tranche of sanctions in 1994.

In Kuala Lumpur, the DPRK accepted the central role which South Korea will play in the LWR project. In August 1995, the DPRK received the first KEDO delegation, including South Korean participants, without problems. In December, North Korea signed the LWR supply agreement, and it is currently cooperating in the run-up to the process of canning the DPRK's spent fuel.

We can therefore point to significant progress in implementing the Agreed Framework since the lifting of the first tranche. Moreover, the climate of U.S. public and congressional opinion is significantly more conducive to sanctions lifting than at the time of the first tranche, when reaction to the Bobby Hall helicopter incident led to a scaling back of the original package of sanctions-easing measures.

We are preparing a detailed paper on possible sanctions-easing measures which would achieve four important

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U.S. goals: 1) encourage openness and economic reform in North Korea; 2) assist American business; 3) help ameliorate the humanitarian problems created by North Korea's growing food shortages; and 4) sustain DPRK compliance with the Agreed Framework and encourage expanded cooperation. Here, as on other dealings with the North we will need to manage the South Korean sensitivities.

Issue: Timing and extent of second tranche of sanctions lifting.

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