

Report for Congress

Received through the CRS Web

U.S. Assistance to North Korea

Updated March 17, 2003

Mark E. Manyin
Analyst in Asian Affairs

Ryun Jun
Research Associate
Foreign Affairs, Defense, and Trade Division

U.S. Assistance to North Korea

Summary

Since 1995, the U.S. has provided over \$1 billion in foreign assistance to the Democratic People's Republic of North Korea (DPRK, also known as North Korea), about 60% of which has taken the form of food aid, and about 40% in the form of energy assistance channeled through the Korean Peninsula Energy Development Organization (KEDO). Additionally, there has been discussion of offering North Korea broader economic development assistance in exchange for Pyongyang verifiably dismantling its nuclear program and cooperating on other security-related issues. U.S. aid to North Korea has been controversial since its inception, and the controversy has been intimately linked to the larger debate over the most effective strategy for dealing with the DPRK.

Food aid has been provided to help North Korea alleviate chronic, massive food shortages that began in the early 1990s and that led to severe famine in the mid-1990s that killed an estimated 1-2 million North Koreans. Food aid to North Korea has come under criticism because the DPRK government restricts the ability of donor agencies to operate in the country, particularly with regard to monitoring food shipments, making it difficult to assess how much of each donation actually reaches its intended recipients. There have been anecdotal reports that food aid is diverted to the North Korean elite, who reportedly either consume it themselves or resell it for profit on the black market. There are also reports that international food assistance has been diverted to the North Korean military.

Since 1995, the United States has provided over \$400 million in energy assistance to North Korea under the terms of the 1994 Agreed Framework, in which the DPRK agreed to halt its existing nuclear program in exchange for energy aid from the United States and other countries. Aid to KEDO, the multilateral organization that administers the Agreed Framework, has been dramatically curtailed since October 2002, when North Korea reportedly admitted that it has a secret uranium enrichment nuclear program. In response, North Korea has demanded new negotiations with the United States and has restarted a number of nuclear facilities that were mothballed under the Agreed Framework, creating a major foreign policy problem for the United States and the DPRK's neighbors. The Bush Administration's FY2004 budget request does not include any money for KEDO.

This report describes and assesses U.S. aid programs to North Korea, including the controversies surrounding the programs, their relationship to the larger debate over strategy and objectives toward the DPRK, and policy options confronting the Bush Administration and Congress. The role of China, South Korea, and Japan in providing assistance to North Korea is discussed, highlighting the likelihood that any dramatic decrease in U.S. aid to North Korea have only marginal effects without the cooperation of these countries. This report will be updated as circumstances warrant.

Contents

Introduction: Issues for U.S. Policy	1
Energy Assistance	2
Food Assistance	2
The Debate over North Korea Policy	2
Developments Since September 2001	3
Congress' Role	5
U.S. Food Assistance to North Korea	5
Current Food Situation	6
Current U.S. Policy	7
Details of U.S. Food Assistance	7
U.S. Food Aid Programs	8
China's Shipments of Food	10
Food Aid from South Korea	11
Food Aid from Japan	11
Diversion, Monitoring, and Triaging by North Korea	11
North Korea's Motivations for Controlling Relief Assistance	16
Shifts in U.S. Policy	16
The Clinton Administration	16
The Bush Administration	17
Assistance to KEDO	18
Heavy Fuel Oil (HFO) Shipments	19
HFO's Economic Importance to North Korea	20
China's Provision of Energy to North Korea	22
Other Forms of U.S.-North Korean Economic Interaction	22
U.S.-North Korean Trade and Investment	22
Funds from U.S. POW/MIA Recovery Efforts in the DPRK	24
Policy Options	24
Food Aid Options	25
KEDO Options	27
Development Assistance Options	27
The Timing of a U.S. Offer of Development Assistance	28
A Multilateral Development Assistance Program	28
Additional CRS Products on North Korea	29

List of Figures

Figure 1. U.S. Food Aid to North Korea, 1996-2002	
Sources: USAID, USDA	8
Figure 2. Various Countries' Reported Food Aid to North Korea, 1996-2002	
Source: International Food Aid Information System (INTERFAIS)	10

Figure 3. Map of The World Food Program's North Korea Operations as of January 2003	13
Figure 4. Total KEDO Contributions, Various Countries (1995-2002)	18
Figure 5. Avg. Cost of Heavy Fuel Oil Source: KEDO	20

List of Tables

Table 1. U.S. Assistance to North Korea, 1995-2003	1
Table 2. U.S. Food Aid to North Korea, by Program 1996-2003	9
Table 3. KEDO Heavy Fuel Oil (HFO) Contributions, 1995-2002	20
Table 3. U.S.-North Korea Trade, 1993-2002	23

U.S. Assistance to North Korea

Introduction: Issues for U.S. Policy

For four decades after the end of the Korean War in 1953, U.S. strategy toward the Democratic People's Republic of Korea (DPRK, commonly referred to as North Korea) was relatively simple: deter an attack on South Korea, an approach that included a freeze on virtually all forms of economic contact between the United States and North Korea. In the 1990s, two developments led the United States to rethink its relationship with North Korea: North Korea's progress in its nuclear weapons program and massive, chronic food shortages in North Korea. In response, the United States in 1995 began providing the DPRK with foreign assistance, which has totaled over \$1 billion. This aid has consisted of energy assistance through the Korean Peninsula Energy Development Organization (KEDO), food aid, and a small amount of medical supplies. (See **Table 1.**)

Table 1. U.S. Assistance to North Korea, 1995-2003

Calendar or Fiscal Year	Food Aid (per FY)		KEDO Assistance (per calendar yr; \$ million)	Medical Supplies (per FY; \$ million)	Total (\$ million)
	Metric Tons	Commodity Value (\$ million)			
1995	0	\$0.0	\$9.5	\$0.2	\$9.7
1996	19,500	\$8.3	\$22.0	\$0.0	\$30.3
1997	177,000	\$52.4	\$25.0	\$5.0	\$82.4
1998	200,000	\$72.9	\$50.0	\$0.0	\$122.9
1999	695,194	\$222.1	\$65.1	\$0.0	\$287.2
2000	265,000	\$74.3	\$64.4	\$0.0	\$138.7
2001	350,000	\$102.8	\$74.9	\$0.0	\$177.6
2002	207,000	\$82.4	\$90.5	\$0.0	\$172.9
2003 ^a	40,000	n.a.	\$5.0	\$0.0	\$5.0
Total	1,953,694	\$615.2	\$406.4	\$5.2	\$1,026.8

Sources: Figures for food aid and medical supplies from USAID and US Department of Agriculture; KEDO (Korean Peninsula Energy Development Organization) figures from KEDO.

^a As of February 2003. Food aid figure is amount pledged. KEDO figure is the amount appropriated, though not yet spent.

Additionally, the growing diplomatic interaction between the United States and North Korea permitted the two sides to begin negotiating the search for and recovery of the suspected remains of the several thousand U.S. servicemen unaccounted for during the Korean War. Since 1993, the U.S. Department of Defense has provided the DPRK with nearly \$15 million to pay for the costs of 25 joint recovery operations.

Energy Assistance. A series of diplomatic crises revolving around rapid advances in North Korea's nuclear weapons program led the United States in 1994 to negotiate a bilateral Agreed Framework with the DPRK. This agreement committed Pyongyang to halt its existing nuclear program in return for Washington providing energy assistance.¹ Specifically, the United States agreed to arrange for the financing of two light-water nuclear power plants in North Korea and for annual shipments of 500,000 metric tons of heavy fuel oil (HFO) as an alternate source of energy until the new reactors came online. Since 1995, the United States has provided over \$400 million to the Korean Peninsula Energy Development Organization (KEDO), the multilateral institution that administers the Agreed Framework. The rest is funded by South Korea, Japan, the European Union, and several other countries. The U.S. contribution funds approximately one-quarter of the KEDO program. Officials in both the Clinton and current Bush Administrations, as well as the South Korean Administration of Roh Moo-hyun, periodically have discussed the possibility of offering North Korea broader economic development assistance in exchange for Pyongyang verifiably dismantling its nuclear program and cooperating on other security-related issues. The Bush Administration's FY2004 budget request does not include any money for the KEDO program.²

Food Assistance. The emergence in the 1990s of massive, chronic food deficits in North Korea – shortages that killed between 5% and 10% of the country's population in the mid-1990s – prompted the United States to begin providing large amounts of food aid. Since 1997, the United States has sent over 1.9 million metric tons (MT) of assistance worth over \$600 million, primarily channeled through the United Nations World Food Program (WFP). The intervention of the international community, including large food shipments from China, has helped stabilize North Korea's food situation; many observers feel the famine ended in 1997, though the DPRK continues to run a food deficit. The aid has been sent despite the North Korean government's restrictions on the ability of international relief agencies to operate in the country, particularly with regard to monitoring food shipments, making it difficult to assess how much donated food reaches its intended recipients and how much, if any, has been diverted to the political elite or the military. North Korea also has declined to institute fundamental reforms of its agricultural policies that could help reduce dependence on food aid.

The Debate over North Korea Policy

Aid to North Korea has been controversial since its inception, and the controversy is intricately linked to the overall debate in the United States, South Korea, and other countries over the best strategy for dealing with the DPRK. North Korea is deemed a threat to U.S. interests because it possesses advanced nuclear and missile programs, has a history of proliferating missiles and related technology, is suspected of possessing chemical and biological weapons programs, and since the

¹ For more on this topic, see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, by Larry Niksch.

² See State Department, *FY 2004 Congressional Budget Justification for Foreign Operations*, especially "Country/Account Summaries ('Spigots')," [<http://www.state.gov/m/rm/rls/cbj/>].

late 1980s has been included on the U.S. list of states that sponsor terrorism. Many supporters of aid contend that assistance is the most effective way to induce North Korea to cooperate with the international community. Proponents of engagement argue that in the long run, aid could fundamentally change the character of the North Korean regime by increasing the DPRK's exposure to and dependence on the outside world. The Agreed Framework (which froze the DPRK's plutonium nuclear facilities for eight years), North Korea's establishment of relations with a number of European countries, and a spate of economic and humanitarian agreements with South Korea are often cited as examples of this cooperation.

In contrast, many critics argue that aiding North Korea has led to marginal changes in the DPRK's behavior at best, and also has helped keep the current North Korean regime in power and possibly allowed additional funds to be channeled into the DPRK military establishment. Moreover, they suggest aid has encouraged Pyongyang to engage in further acts of military blackmail to extract more assistance from the international community. In this view, even the aid under the Agreed Framework did not keep North Korea from pursuing a secret uranium enrichment program, disclosed in October 2002. Some in this group argue that the best response to the North Korean threat is to try to trigger the current regime's collapse by suspending non-humanitarian assistance. In its extreme manifestations, this approach would also mean suspending food aid. Other critics have pushed for a more tailored form of containment that would include diplomatically and economically isolating North Korea and calibrating economic sanctions and/or the suspension or provision of energy and development aid to reward or punish the DPRK's actions.

Punitive steps may be ineffective if the United States pursues them unilaterally. Sanctions, isolation and aid termination could be undercut without at least the tacit cooperation of China, South Korea, and Japan. Chinese support would be particularly important, as China is widely believed to be North Korea's single-largest provider of food and energy.

Food aid to North Korea has generated its own particular debate. Some policymakers and commentators have called for it to be linked to broader foreign policy concerns, either by using the promise of food to encourage cooperation in security matters or by suspending food aid to trigger a collapse. Others, arguing that food should not be used as a weapon, have called for delinking humanitarian assistance from overall policy toward the DPRK, either by providing food unconditionally or by conditioning it upon North Korea allowing international relief groups greater freedom to distribute and monitor their aid.

Developments Since September 2001. The debate over U.S. policy toward North Korea – and, by extension, U.S. aid to North Korea – has come under increased scrutiny since the September 2001 terrorist attacks. The attacks led the Bush Administration to develop a new security doctrine of using preventive attacks to counter international threats, a strategy that has included increasing pressure on states deemed to be proliferation threats and terrorist sponsors.³ President Bush has

³ See *The National Security Strategy of the United States of America*, September 2002, (continued...)

characterized North Korea as a member of the “axis of evil” nations that threaten the United States with weapons of mass destruction. Tensions with the DPRK have greatly increased since October 2002, when North Korean officials reportedly admitted to a U.S. delegation that the country had a clandestine uranium enrichment nuclear program, a violation of the spirit, and arguably the letter, of the 1994 Agreed Framework.⁴ This admission prompted KEDO’s executive board – made up of the United States, South Korea, Japan, and the European Union (EU) – in November 2002 to suspend future heavy fuel oil shipments until North Korea takes “concrete and credible actions to dismantle completely” its uranium enrichment program.

In response, North Korea announced its withdrawal from the Nuclear Non-Proliferation Treaty, expelled monitors from the International Atomic Energy Agency (IAEA), restarted the nuclear reactor shut down under the Agreed Framework, and called for new, bilateral negotiations with the United States. If North Korea begins reprocessing the 8,000 rods of weapons-grade plutonium that had been sealed and subject to IAEA monitoring, within six to ten months, it could conceivably possess enough fissile material for five to six nuclear weapons.⁵

The Bush Administration has refused to engage in direct negotiations with North Korea – insisting instead on a multilateral forum – and supported moves by the IAEA to submit the nuclear issue to the United Nations Security Council. Administration officials also have publicly discussed and reportedly have developed plans for future economic sanctions against North Korea, statements that have been criticized by South Korea, Japan, China, and Russia. Meanwhile, the Bush Administration announced in February 2003 that it would provide 40,000 MT of food assistance to North Korea, with an additional 60,000 to be provided if the DPRK allows greater access and monitoring. As for U.S. contributions to KEDO, Congress appropriated up to \$5 million for administrative costs in FY2003, and the Administration’s FY2004 budget request does not include any money for the KEDO program.⁶

In January 2003, President Bush said that he would consider offering the DPRK a “bold initiative” including energy and agricultural development aid if the country first verifiably dismantles its nuclear program and satisfies other U.S. security concerns dealing with missiles and the deployment of conventional forces. The Administration reportedly was preparing to offer a version of this plan to North

³ (...continued)

[<http://www.whitehouse.gov/nsc/nss.html>]; President Bush’s June 1, 2002 Graduation Speech at West Point, [<http://www.whitehouse.gov/>].

⁴ The Agreed Framework principally dealt with North Korea’s plutonium nuclear installations. The link to uranium enrichment activities is contained in Section III.2, which commits North Korea to implement the 1992 North-South Korean Denuclearization Declaration, which in turn prohibits the possession of uranium enrichment facilities.

⁵ CRS Report RS21391, *North Korea’s Nuclear Weapons: How Soon an Arsenal?*, by Sharon Squassoni.

⁶ See State Department, *FY 2004 Congressional Budget Justification for Foreign Operations*, especially “Country/Account Summaries (‘Spigots’),” [<http://www.state.gov/m/rm/rls/cbj/>].

Korea in the summer of 2002, but pulled it back after acquiring more details of Pyongyang's clandestine uranium nuclear weapons program.⁷

Congress' Role

The provision of aid to North Korea has given Congress a vehicle to influence U.S. policy toward North Korea. Since 1998, Congress has included in the annual Foreign Operations Appropriations bill requirements that the President certify progress in nuclear and missile negotiations with North Korea before allocating money to KEDO operations. In 1998, congressional pressure forced President Clinton to appoint a North Korea policy coordinator, a position that was terminated by the Bush Administration when it assumed office in 2001.

With regard to food aid, some Members have supported continued donations on humanitarian grounds of helping the North Korean people, regardless of the actions of the North Korean regime. Other Members have voiced their outright opposition to food aid to the DPRK, or have called for food assistance to be conditioned upon North Korean cooperation on monitoring and access. For instance, the Senate-passed version of the FY2003 Omnibus Appropriations Act (H.J.Res. 2, which passed the Senate on January 23, 2003) called on Pyongyang to provide "full verification of the use of food aid assistance," language that was dropped in conference.⁸

With regard to development assistance programs, in the near term, the President has considerable flexibility to offer some forms of development assistance. The Foreign Assistance Act of 1961, for instance, allows the President annually to provide up to \$50 million per country for any purpose.⁹ Longer-term initiatives, however, would likely require changes in U.S. law and thereby require congressional action. For instance, the Foreign Operations Appropriations law specifically bans many forms of direct aid to North Korea, along with several other countries.¹⁰

U.S. Food Assistance to North Korea

A mountainous country with relatively little arable land, North Korea long has relied upon imports of food. Beginning in the early 1990s, after the collapse of the Soviet Union and the system of economic advantages North Korea had received from the communist bloc, the DPRK began experiencing a food shortage of increasing severity. Disastrous floods in the summer of 1995 plunged the country into a severe famine that by some estimates was responsible for one to two million deaths,

⁷ Testimony of Richard Armitage, State Department Deputy Secretary, before the Senate Foreign Relations Committee, February 4, 2003.

⁸ H.Rept. 108-10.

⁹ Section 614 of the Foreign Assistance Act of 1961, P.L. 87-195.

¹⁰ Section 507 of P.L. 108-7, the FY2003 Omnibus Appropriations Act, which also bans direct aid to Cuba, Iraq, Libya, Iran, Sudan, and Syria. Many humanitarian and health aid programs are exempt from this prohibition because they have "notwithstanding" clauses in their enacting legislation.

approximately 5% - 10% of North Korea's population. Although natural disasters were the immediate causes of the food crisis, the root causes of the famine were decades of economic and agricultural mismanagement.¹¹ In September 1995, North Korea appealed for international food assistance, contradicting its national ideology of *juche*, or self-reliance.

Though the famine apparently abated by 1997 and the DPRK has made incremental progress in agricultural production, North Korea still relies on international aid to feed approximately one-third of its population and, according to some estimates, runs a chronic food deficit of 1-2 million tons.¹² A 2002 nutritional survey of children and mothers conducted by the North Korean government indicated that, although malnutrition rates have fallen significantly since the late 1990s, 9% of North Korean children remain acutely malnourished and 42% suffer from chronic malnutrition.¹³ The northern and northeastern provinces have been particularly hard hit by the famine, for reasons examined below.

Unlike the situation in other humanitarian emergencies, the North Korean government has remained intact and therefore has been able to impose strict limits on international relief groups' ability to operate in the country, in particular on aid workers' interaction with the North Korean people.

Current Food Situation. North Korea's food situation appears to be entering an acute period once again. In 2002, for the first time since it began assisting North Korea in 1995, due to "donor fatigue," the WFP failed to receive sufficient donations to meet its targets in North Korea, leading the WFP to distribute less than 80% of what had been planned and cut back the number of North Koreans it is assisting this year from 6.4 million to 3.5 million. For 2003, the WFP has filled only one-fifth of its 511,000 metric ton (MT) appeal for North Korea. Moreover, economic reforms launched in the summer of 2002 appear to have caused rampant inflation and production bottlenecks, causing workers to go unpaid and placing food prices out of the reach of many.¹⁴ Urban residents are particularly vulnerable, as they rely heavily on inflation-prone farmers' markets and, according to the WFP, spend up to 85% of

¹¹ See Andrew Natsios, *The Great North Korean Famine*, (U.S. Institute of Peace: Washington, DC, 2001), especially chapters 1 and 2. Among the policies that over time led to the famine were excessive use of chemical fertilizers and the excessive conversion of land into agricultural uses. The latter practice contributed to the massive deforestation and soil erosion that led to increasingly severe annual floods.

¹² Marcus Noland, "North Korea's External Economic Relations," February 2001, [<http://www.iie.com/papers/asia.htm>]; World Food Program Press Release, "WFP Seeks Strong Backing for New Aid Initiative in North Korea," December 3, 2002; Agence France Press, "ROK Says North Korea To Be Short of 2 Million Tons of Food in 2004," January 8, 2003.

¹³ U.N. World Food Programme, "Child Nutrition Survey Shows Improvements in DPRK," February 20, 2003.

¹⁴ John Pomfret, "Reforms Turn Disastrous For North Koreans," *Washington Post*, January 27, 2003.

their income on food, compared to no more than 35% for state farmers and much less for collective farmers.¹⁵

Current U.S. Policy. The Administration has been deliberating its food aid policy toward North Korea since June 2002, when it announced that future U.S. food aid would depend on North Korea's willingness to allow access of food donors to all areas of the country, a nationwide nutritional survey, and an improvement in monitoring food aid – conditions that other recipient countries meet.¹⁶ In December 2002, however, U.S. officials said that North Korea had not responded to the new U.S. conditions and that the Administration had made no decision on future food aid. In February 2003, the Bush Administration announced in that it would provide 40,000 MT of food assistance to the North Korea, via the WFP, with an additional 60,000 MT to be provided if the DPRK allows greater access and monitoring. North Korea has accused the United States of politicizing and setting “unreasonable conditions” for continuing food deliveries.¹⁷ 40,000 MT and 100,000 MT represent less than one-fifth and one-half of the 207,000 MT the United States provided in 2002. The WFP's 2003 emergency appeal for North Korea is 512,000 MT, roughly four-fifths of its 611,000 MT appeal in 2002.

Details of U.S. Food Assistance

U.S. food assistance to North Korea began in earnest in 1997, and has fluctuated between 177,000 MT and 695,000 MT annually. (See **Figure 1.**) Over 90% of the 1.91 million MT of U.S. food assistance to North Korea has been channeled through the World Food Program. To put these figures in context, aid to North Korea constituted approximately 6.5% of total U.S. food aid between July 1995 and June 2001. Over the same period, the United States donated over \$4.5 billion to the World Food Program, roughly ten percent of which was designated for the WFP's relief efforts in North Korea.

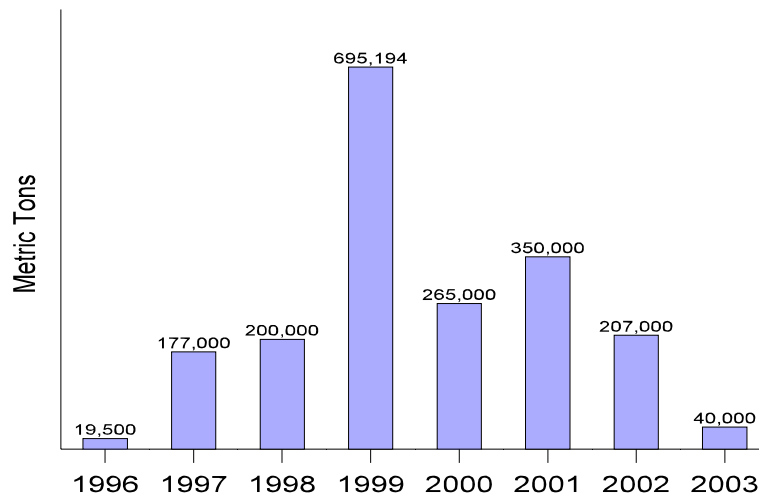
¹⁵ World Food Program Press Release, “WFP Seeks Strong Backing for New Aid Initiative in North Korea,” December 3, 2002.

¹⁶ The new conditions appear to be a sign of the influence of Andrew Natsios, the Director of the U.S. Agency for International Development (USAID), whose recent book, *The Great North Korean Famine*, presents evidence that the North Korean government manipulated food aid donors.

¹⁷ Tyler Marshall, “Nuclear Plans May Put Food Aid for N. Korea at Risk,” *Los Angeles Times*, December 17, 2002.

Figure 1. U.S. Food Aid to North Korea, 1996-2002

Sources: USAID, USDA



U.S. Food Aid Programs. Nearly two-thirds of U.S. food aid to North Korea has been provided under section 416(b) of the Agricultural Act of 1949. (See Table 2.) Administered by the U.S. Department of Agriculture (USDA), the section 416(b) program allows for surplus food stocks owned by USDA's Commodity Credit Corporation (CCC, the government corporation that finances domestic commodity price support programs, and some food aid and export programs) to be donated to nations in need.

North Korea also has received food assistance under Title II of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 83-480, also known as PL480 and the Food for Peace Program). USAID administers Title II, Emergency and Private Assistance Programs, which provide for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs. Title II donations may come either from surplus stocks owned by USDA's CCC or purchased on the market. Unlike 416(b) programs, Congress directly appropriates PL480, and therefore could, although it rarely does, direct how the food should or should not be disbursed. Congress has no formal role in 416(b) purchases or distributions.

Future food aid to North Korea is likely to rely more heavily on Title II programs, which is financed by congressional appropriations, than in the past. The heavy use of the Section 416(b) program in recent years was facilitated by a sharp rise in CCC-acquired food-stocks from 1999 through 2001. These stocks have dramatically fallen, however, a development that may force the United States to rely more heavily upon Title II appropriations, which already are stretched by the rising need for food aid in Afghanistan, Sub-Saharan Africa, and potentially in Iraq. Additionally, the Bush Administration has made a policy decision, issued in its FY2003 budget proposal, that surplus commodities should not be used for food aid. In program terms, this means that the use of the 416(b) program will be largely phased out.

Table 2. U.S. Food Aid to North Korea, by Program 1996-2003

Fiscal Year/ Grantee	416 (b) (USDA)		Title II (USAID/FFP)		Total U.S. Gov't Contribution	
	Tonnage (MTs)	Dollar Value (Millions)	Tonnage (MTs)	Dollar Value (Millions)	Tonnage (MTs)	Dollar Value (Millions)
1996						
WFP	0	\$0.0	13,100	\$6.3	13,100	\$6.3
WFP ^a	0	\$0.0	0	\$0.0	6,400	\$2.0
Total	0	\$0.0	13,100	\$6.3	19,500	\$8.3
1997						
WFP	0	\$0.0	122,000	\$36.1	122,000	\$36.1
PVOC	0	\$0.0	55,000	\$16.3	55,000	\$16.3
Total	0	\$0.0	177,000	\$52.4	177,000	\$52.4
1998						
WFP	0	\$0.0	200,000	\$72.0	200,000	\$72.0
PVOC	0	\$0.0	0	0.9	0	\$0.9
Total	0	\$0.0	200,000	\$72.9	200,000	\$72.9
1999						
WFP	555,194	\$165.8	70,000	\$38.4	625,194	\$204.2
PVOC	55,000	\$9.6	15,000	\$8.3	70,000	\$17.9
Total	610,194	\$175.4	85,000	\$46.7	695,194	\$222.1
2000						
WFP	65,000	\$14.8	170,000	\$52.7	235,000	\$67.5
PVOC	0	\$0.0	30,000	\$6.8	30,000	\$6.8
Total	65,000	14.8	200,000	\$59.5	265,000	\$74.3
2001						
WFP	346,000	\$101.0	4,000	\$1.77	350,000	\$102.8
Total	346,000	\$101.0	4,000	\$1.77	350,000	\$102.8
2002						
WFP	207,000	\$82.4	0	\$0.00	207,000	\$82.4
Total	207,000	\$82.4	0	\$0.00	207,000	\$82.4
2003 (pledged)						
WFP	program yet to be determined				40,000	n.a.
Total					40,000	n.a.
Grand Total	1,228,194	\$373.6	679,100	\$239.6	1,953,694	\$615.2

Sources: USAID Office of Food for Peace; USDA, Farm Service Agency, Export Operations.

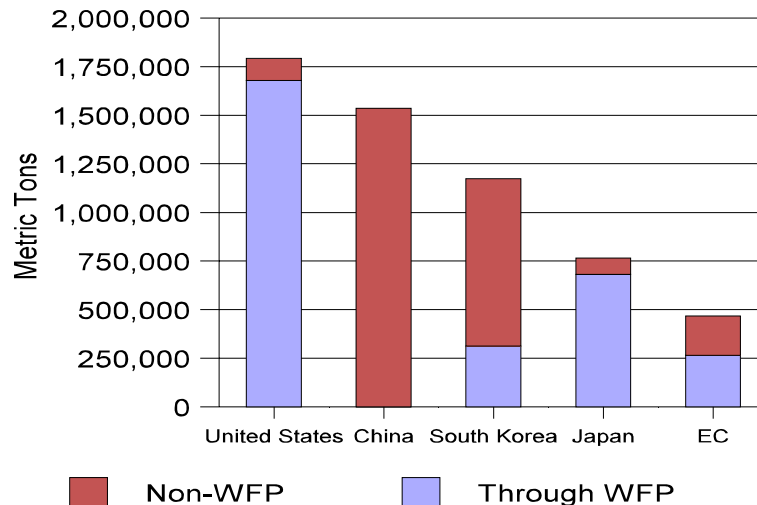
Notes: WFP: World Food Program; PVOC: Private Volunteer Organization Consortium. Tonnage numbers are actual, exported quantities. Dollar values represent the total value of U.S. food aid contributions, including commodity value, ocean freight, administrative costs, internal transportation, storage, and handling.

^a In 1996, USAID's Office of U.S. Foreign Disaster Assistance (OFDA) provided a \$2.0 million grant to purchase 6,400 tons of rice for North Korea.

China's Shipments of Food. Since the Soviet Union withdrew its patronage of North Korea in the early 1990s, China is widely believed to have emerged as the single largest provider of food to North Korea, though the precise amount is difficult to estimate due to lax controls on the North Korea-China border and the overall unreliability of official Chinese statistics. Additionally, food from China is known to enter the North on commercial, concessional, and barter terms, making it difficult to distinguish aid from trade.¹⁸ During the North Korean nuclear crisis of the early 1990s, China cut its food shipments to the DPRK dramatically, only to restore them with the onset of famine, which threatened the possibility of a North Korean collapse.¹⁹ What is known is that after declining in the early 1990s, Chinese food shipments to the DPRK increased with the onset of North Korea's famine, as China became concerned that the food situation could lead to the collapse of the Pyongyang regime and/or to increased numbers of North Koreans crossing the border into northeastern China.

Figure 2. Various Countries' Reported Food Aid to North Korea, 1996-2002

Source: International Food Aid Information System (INTERFAIS)



Data acquired by the International Food Aid Information System (INTERFAIS), the database was developed by WFP, provide one means of comparing food donations to North Korea. According to INTERFAIS, the United States and China provide North Korea with roughly the same amount of food aid. However, INTERFAIS's data does not include Chinese food exports to North Korea, at least

¹⁸ Marcus Noland, *Avoiding the Apocalypse. The Future of the Two Koreas*, (Washington, DC: Institute for International Economics, 2000), 187-88.

¹⁹ China officially justified this move as a response to budget pressures and state-owned enterprises' increased to continue subsidizing aid to North Korea. See Noland, *Avoiding the Apocalypse*, p. 187-88. Later, in 1997, China reportedly threatened to scale back its food aid after North Korea rejected Chinese advice to adopt market-oriented reforms in its agricultural sector. North Korea then began negotiating a large food aid deal with Taiwan, prompting Beijing to reverse its position and continue providing aid. See Natsios, *The Great North Korean Famine*, p. 139.

some of which is provided on terms beneficial to the DPRK. According to Beijing's official customs statistics, China exported nearly 2.6 million MT of cereals to the North between 1996 and 2000.²⁰ If these figures are accurate, China's total food shipments were nearly double the entire WFP shipments and nearly triple the U.S. level for the same period. Some reports indicate that China's food assistance may be considerably higher than officially reported, perhaps as high as 1 million tons annually during the late 1990s.²¹

Food Aid from South Korea. Figure 2 shows that South Korea provided North Korea with over 1.1 MT of food aid since 1996. Nearly all of Seoul's aid to Pyongyang was provided in two periods: 450,000 MT of maize and rice given directly to North Korea in the months after the June 2000 North-South Korean summit; and 500,000 MT in 2002, provided directly and through the WFP. From 1999-2002, South Korea also gave North Korea over 600,000 MT of fertilizer.²² On March 14, 2003, the South Korean Agriculture Minister announced Seoul would provide North Korea with 432,000 tons of rice annually for the next three years.²³

Food Aid from Japan. Japan gave the bulk (500,000 MT) of its 766,000 MT in total contributions to North Korea in one year, 2001. Tokyo has since suspended food aid shipments until North Korea cooperates on other bilateral issues, particularly the matter of kidnapped Japanese citizens.

Diversions, Monitoring, and Triaging by North Korea

A number of sources have presented evidence that not all the food assistance going to North Korea is reaching its intended recipients. These include interviews with North Korean refugees in China who say they have never received international food aid.²⁴ The numerous reports of donated food being sold (at price levels far higher than the official, government-controlled prices) in farmers' markets are widely assumed to be signs that officials are stealing and selling some of the aid for their own profit. Additionally, a number of refugees, including former soldiers, have stated that food aid has been distributed regularly to the North Korean People's Army (KPA).²⁵ In February 2003, U.S. Ambassador to the U.N. food agencies, Tony Hall,

²⁰ Figures provided by Nicholas Eberstadt and Heather Dresser of the American Enterprise Institute.

²¹ Noland, *Avoiding the Apocalypse*, 187-88.

²² Fertilizer figures are from the Washington, DC South Korean Embassy.

²³ Reuters News, "S.Korea to Send about 432,000T Rice to N.Korea," March 14, 2003.

²⁴ Testimony of Sophie Delaunay, North Korean Project Representative, Medecins Sans Frontieres (MSF), before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002, [http://www.house.gov/international_relations/]. See also MSF's *North Korea: Testimonies of Famine, Refugee Interviews From the Sino-Korean Border*, [<http://www.doctorswithoutborders.org/publications>].

²⁵ MSF, *Testimonies of Famine*; Amnesty International, *Persecuting the Starving: The Plight of North Koreans Fleeing into China*, December 15, 2000, available in the "library" section of the organization's website, [<http://www.amnesty.org>].

cited “credible” reports of diversion in making the case for possibly reducing and conditioning future U.S. food aid.

WFP officials contend that they have seen no evidence that the military is systemically diverting U.N. food donations, and further, that the North Korean military has no need for WFP food, since it receives the first cut of North Korea’s national harvest.²⁶ Even if the military is not directly siphoning off food aid, however, such assistance is fungible; funds that otherwise would have been spent on food can be spent on other items, such as the military.²⁷ Additionally, North Korea is believed to expend little of its foreign currency to import food.

The North Korean government has restricted relief groups’ activities, hindering their ability to ensure that their assistance reaches the neediest. A number of prominent NGOs – including Medicins Sans Frontieres (MSF, Doctors Without Borders), Action Against Hunger, and CARE – have halted their North Korean operations because they cannot adequately monitor the assistance they provide.²⁸ MSF has been particularly vocal in its criticism of the food aid program.²⁹ A 1999 General Accounting Office inquiry into U.S. food assistance to the DPRK found that “the North Korean government has not allowed the WFP to fully implement its procedures and, as a result, it cannot be sure that the food aid is being shipped, stored, or used as planned.”³⁰ WFP officials themselves have cited a number of areas of dissatisfaction:³¹

- *Incomplete access.* The North Korean government does not permit the WFP to have access to many counties to assess needs, provide food, and monitor distribution. Currently, the WFP is barred from 44 of 206 counties (see Figure 3) – comprising approximately 13% of the population. In 1998, 61 counties were off limits. In keeping with the organization’s “no access, no food” policy, the WFP does not provide food to these banned counties.

²⁶ Testimony of John Powell, World Food Program Regional Director, before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002.

²⁷ Noland, “North Korea’s External Economic Relations.”

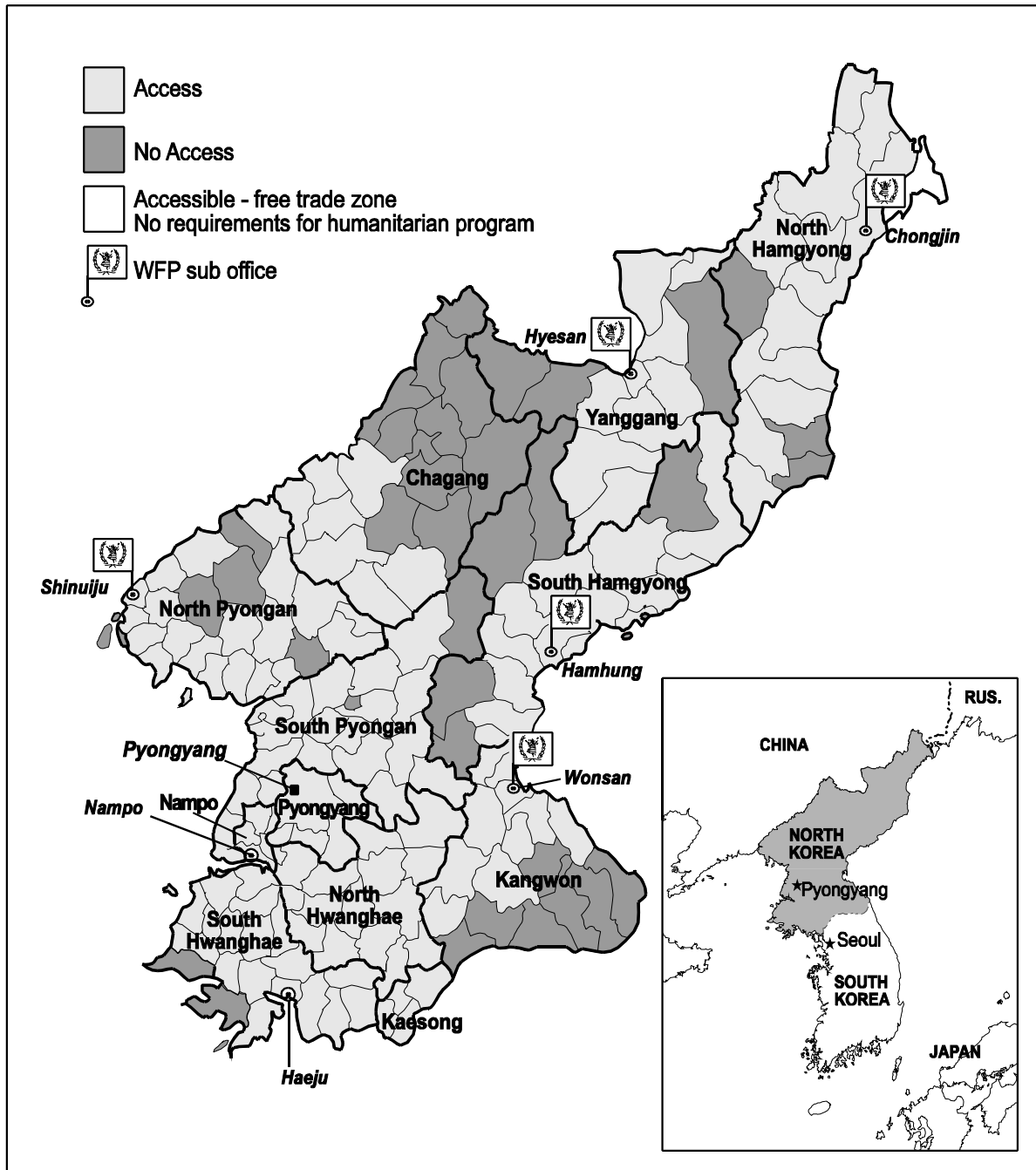
²⁸ See Hazel Smith, *Overcoming Humanitarian Dilemmas in the DPRK (North Korea)*, United States Institute of Peace Special Report 90, July 2002, p. 5, 10. Arguing that there is “no humanitarian space whatsoever” for work in North Korea, MSF withdrew its year-old operation in 1998.

²⁹ Testimony of Sophie Delaunay, North Korean Project Representative, Medecins Sans Frontieres, before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002.

³⁰ General Accounting Office Report GAO/NSIAD-00-35, *North Korea Restricts Food Aid Monitoring*, October 1999, available at [<http://www.gao.gov>].

³¹ See especially testimony of John Powell, World Food Program Regional Director, before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002.

Figure 3. Map of The World Food Program's North Korea Operations as of January 2003



Source: World Food Program, Map Resources. Adapted by CRS. (01/03 M.Chin)

Aid workers involved in the North Korean relief effort offer a variety of reasons Pyongyang has prohibited access to certain areas, including the presence of sensitive security-related facilities; anger at the actions of a particular local official; and/or the “triaging” of the northern and eastern areas of the country so that more food can be provided to politically favored regions and constituencies, particularly the communist party elite in Pyongyang.³² A 2002 nutrition survey found, for instance, that acute malnutrition among North Korean children was three times as high in one of the eastern provinces than in Pyongyang.³³ Because the WFP uses the state-run public distribution system (PDS) to deliver its food, the WFP’s North Korea program is susceptible to any use of the PDS for the regime’s political ends. There have been calls for the WFP to abandon the PDS because it helps to sustain the regime and helps stunt the development of local markets that are outside the government’s direct control.³⁴

- *No access to farmers’ markets.* Additionally, the WFP is barred access – as are all foreigners – from entering farmers’ markets, which have replaced the public distribution system as the main source of food for many, if not most, North Koreans. Gaining access to the markets is perhaps the only way of determining the actual price of food and other commodities in North Korea. In the markets, prices reportedly fluctuate in accordance with relative supply and demand, in contrast to the official public distribution system, where prices are set by the central government.
- *Inability to conduct random spot checks.* Not only is the WFP’s access incomplete, but is also highly circumscribed by the government’s restrictions, which prevent the WFP’s staff from conducting random checks. Pyongyang has yet to provide WFP with the full list of institutions through which WFP food assistance is provided, though in 2001 it pledged to do so. In the absence of a list and free access, WFP monitoring teams in North Korea submit travel requests to the government three - eight days in advance. The

³² The triaging argument has been prominently argued by Andrew Natsios, currently director of the USAID, in his book, *The Great North Korean Famine*, p. 105-09. North Korea’s traditional food allocation system is highly politicized, with lesser-favored groups receiving lower rations. Natsios highlights the considerable evidence that as food shortages worsened, the North Korean government curtailed and/or suspended the operation of the state-run food distribution system in the northeastern provinces of Chagang, Yanggang, North Hamgyong, and South Hamgyong. From 1995 until mid-1997, the government resisted the WFP’s plans to allocate food to much of these regions.

³³ U.N. World Food Programme, “Child Nutrition Survey Shows Improvements in DPRK,” February 20, 2003.

³⁴ For variations of these arguments, see Scott Snyder, “The NGO Experience in North Korea,” in Scott Snyder, et. al., *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, Forthcoming 2003), especially p.5.

requests indicate the counties/districts and the types of institutions (e.g., orphanages) the WFP team wishes to visit.³⁵ Critics of the food aid programs have argued that the monitoring trips are staged by the North Korean government.³⁶

Given these constraints, WFP officials say their ability to monitor shipments has improved over time. The authorities have allowed the WFP and other relief groups more access to more institutions.³⁷ The number of monitoring visits increased by 25% in 2001 and again in 2002, raising the average number of monthly visits to 430. Additionally, WFP staff reportedly have been allowed greater freedom in the types of questions they can ask and expect to be answered.³⁸

- *Inability to use its own interpreters.* The WFP is not permitted to bring in personnel who speak Korean into North Korea, making WFP staff reliant upon government-provided interpreters.

Notwithstanding these obstacles, WFP officials say they have “reasonable” confidence that “the food provided through WFP gets to those who need it.” “We have no doubt,” the former WFP country director for North Korea has written, “that our aid has saved many, many lives.” WFP officials say they do not consider pulling out because thousands of lives would be lost, and because such a move would violate the agency’s mission of combating hunger regardless of operating conditions on the ground.³⁹ Note that according to WFP policy, it can withdraw assistance if a country has not met its obligations under the agreements signed between the government and the WFP. In 1997, the WFP used the threat of withdrawal to successfully pressure Pyongyang to open the northeastern provinces.⁴⁰ WFP officials also point to the progress they have made since 1995, in particular gaining more access to more counties and institutions, and achieving a greater degree of autonomy.⁴¹

Additionally, in 2002, the WFP recently accomplished a long-standing goal when the North Korean government, in collaboration with the United Nations, completed a comprehensive nutrition survey, the first since 1998. The survey covered children younger than seven and their mothers, and indicated that malnutrition rates have fallen significantly since the late 1990s. However, 9% of North Korean children remain acutely malnourished and 42% suffer from chronic

³⁵ January 2003 e-mail correspondence with Rick Corsino, WFP country director for North Korea.

³⁶ See, for instance, Sophie Delaunay, May 2, 2002 testimony.

³⁷ Smith, *Overcoming Humanitarian Dilemmas*, p.13

³⁸ January 2003 e-mail correspondence with Rick Corsino.

³⁹ John Powell, May 2, 2002 testimony; Smith, *Overcoming Humanitarian Dilemmas*, p.14.

⁴⁰ Natsios, *The Great North Korean Famine*, p. 175.

⁴¹ Smith, *Overcoming Humanitarian Dilemmas*, especially p. 13-14.

malnutrition.⁴² One improvement over the 1998 survey, which provided data only at the country level, is that results will be available at the provincial level. However, the survey has been criticized as unrepresentative because it was completed by the North Korean government and excluded Chaggang and Kangwon provinces due to the WFP's lack of access to significant portions of these areas.

The WFP at times has halted specific programs in North Korea when it has not been able to determine satisfactorily that food donations were reaching their intended recipients.⁴³ Additionally, the WFP has curtailed food shipments to other countries, most recently Zimbabwe, to pressure central governments to improve access or monitoring conditions. Humanitarian aid workers, including WFP officials, have argued that member countries have not provided the WFP with sufficient backing to push North Korea to adhere to international standards of access and monitoring.⁴⁴ As discussed below, during the 1990s, the U.S. food aid was made contingent upon Pyongyang's cooperation on geostrategic matters rather than compliance with U.N. principles in the provision of humanitarian relief.

North Korea's Motivations for Controlling Relief Assistance. The presence of foreign aid workers inside North Korea directly threatens the myth of self-reliance, or *juche*, upon which DPRK ideology is based. Specifically, aid groups' demands for increased transparency challenge two of the main pillars for perpetuating the government's political control: the control of information and the control of individual movement. The Flood Damage Rehabilitation Committee (FDRC) – the North Korean agency created in the mid-1990s to manage interaction with foreign relief groups – has been tasked with preserving the government's strict political controls by minimizing contact with ordinary people and institutions, while simultaneously drawing in as many resources as possible.⁴⁵ As a result, while contact between foreigners and North Koreans has increased dramatically compared with the pre-1995 situation, the rigid controls on humanitarian aid workers has led to little engagement relative to the amount of aid flowing into the DPRK.

Shifts in U.S. Policy

The Clinton Administration. Despite the Clinton Administration's claim that food assistance to North Korea was not linked to security matters, it has been well documented that during the 1990s the United States used food aid to secure North Korea's participation and increased cooperation in a variety of security-related

⁴² U.N. World Food Programme, "Child Nutrition Survey Shows Improvements in DPRK," February 20, 2003.

⁴³ John Powell, May 2, 2002 testimony.

⁴⁴ Natsios, *The Great North Korean Famine*, p. 188. John Powell, May 2, 2002 testimony, particularly the following statement: "I think the failure of the past 7 years has been to allow the WFP to negotiate on its own really and it has to be the full backing of the international community to push the North Koreans on this."

⁴⁵ Scott Snyder, "Lessons of the NGO Experience in North Korea," in Scott Snyder, et. al., *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, Forthcoming 2003), p. 3, 113-19.

negotiations.⁴⁶ Between 1997 and 1999, for instance, the Clinton Administration provided food to secure North Korea's participation in four-way security talks with the U.S., South Korea, and China. The largest single U.S. pledge, over 500,000 MT in 1999, was provided as a *quid pro quo* for North Korea allowing access to a suspected underground nuclear site at Kumchangri. Although the "food for talks" approach probably helped secure North Korea's participation in a number of talks (and was demanded by Pyongyang as a precondition for joining the talks), it did not appear to result in substantive changes in DPRK behavior. Since food aid essentially is controlled by the North Korean government, political linkages also may have directly helped to sustain the regime.⁴⁷ Linking food assistance to security issues was opposed on humanitarian grounds for leaving the WFP and relief groups with little leverage to negotiate better operating conditions inside North Korea.⁴⁸ It also has been criticized for sending the message to Pyongyang that North Korea could maintain its restrictions on food donors and avoid fundamental agricultural reform with little fear of jeopardizing future food shipments.⁴⁹

The Bush Administration. Since June 2002, the Bush Administration has applied a different type of conditionality, linking U.S. food aid to "verifiable progress" in North Korea allowing the humanitarian community greater access to all areas of the country, a nationwide nutritional survey, and improvements in the food aid monitoring system.⁵⁰ For months, the Administration gave conflicting signals about whether it would continue donating food aid to North Korea, and if so, how much and whether such aid should be conditioned on North Korean actions in the humanitarian and/or security arenas. In December 2002, U.S. officials said that North Korea had not responded to the new U.S. conditions and that the Administration had made no decision on future food aid. In January 2003, President Bush said that he would consider offering the North a "bold initiative" including energy and food if the North dismantled its nuclear program. The Administration reportedly was preparing to offer this plan to North Korea in the summer of 2002, but pulled it back after acquiring more details of Pyongyang's clandestine uranium nuclear weapons program. Also in January 2003, USAID Director Andrew Natsios was quoted as saying that food aid would not be continued if North Korea did not satisfy U.S. monitoring standards. State Department spokesman Richard Boucher somewhat clarified these remarks, stating that the United States "will be a significant donor to North Korean food aid programs," regardless of Pyongyang's behavior, though the amount of aid would likely be contingent upon the monitoring question.

⁴⁶ Andrew Natsios, *The Great North Korean Famine. Famine, Politics, and Foreign Policy*, (Washington, DC: United States Institute of Peace Press), Chapter 7; Marcus Noland, *Avoiding the Apocalypse. The Future of the Two Koreas*, (Washington, DC: Institute for International Economics), 182-91.

⁴⁷ Snyder, "The NGO Experience in North Korea," p.4-5.

⁴⁸ Gordon Flake, "The Experience of U.S. NGOs in North Korea," in *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, Forthcoming 2003), p.16.

⁴⁹ Natsios, *The Great North Korean Famine*; Noland, *Avoiding the Apocalypse*, p. 188-91.

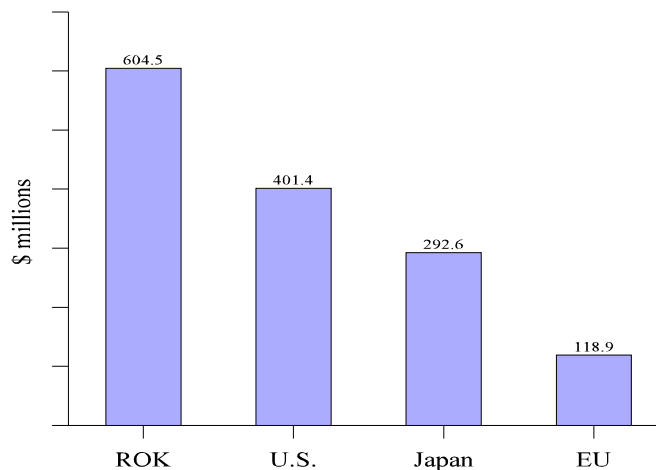
⁵⁰ USAID Press Release, June 7, 2000, [<http://www.usaid.gov/press/releases/2002/index.html>].

Boucher also implied that the President’s mention of food referred to programs to support North Korea’s agricultural sector.⁵¹ Ultimately, in February 2003, the Bush Administration announced that it would provide 40,000 MT of food assistance to the North Korea, via the WFP, with an additional 60,000 MT contingent upon the DPRK allowing greater access and monitoring.

Assistance to KEDO

The October 21, 1994 U.S.-North Korean Agreed Framework offered North Korea a package of benefits in return for a freeze of North Korea’s nuclear program. Benefits to North Korea, which have been provided by the multinational Korean Peninsula Energy Development Organization (KEDO), include light water nuclear reactors totaling 2,000 electric megawatts and annual 500,000 ton shipments of heavy fuel oil to North Korea that were to continue until the first light water reactor is built. The annual heavy fuel oil shipments are roughly equivalent to the energy North Korea lost from shutting down its nuclear power plants. Since 1995, the United States has provided \$401.4 million to KEDO, of which \$377.9 million has paid for heavy fuel oil shipments and \$27 million has paid for the organization’s administrative expenses. The United States is the second-largest contributor to KEDO, following South Korea. (See **Figure 4.**)

Figure 4. Total KEDO Contributions, Various Countries (1995-2002)



In its initial FY2003 budgetary request for KEDO, the Bush Administration requested \$50 million for heavy fuel oil shipments. Following KEDO’s suspension of its heavy fuel oil deliveries to the DPRK, the Administration reduced its FY2003 budgetary request to \$3.5 million, to cover a portion of KEDO administrative expenses. Congress eventually authorized the President to spend up to \$5 million for

⁵¹ “President Bush Discusses North Korea,” White House Transcript, January 14, 2003, [<http://www.whitehouse.gov>]; Irwin Arieff, “US Interrupts North Korea Food Aid,” *Reuters*, January 13, 2003; State Department Daily Press Briefings by Spokesman Richard Boucher, January 14 and 15, 2003, [<http://www.state.gov>].

KEDO-related activities in FY2003, contingent upon a Presidential justification to Congress that such funds are in the security interests of the United States.⁵² Despite developments since October 2002, construction of the light-water reactors in Kumho continues.

The Bush Administration's FY2004 budget request does not include any funds for the KEDO program. State Department officials have stated that this decision was made because the future of KEDO is uncertain, and have given public assurances that if KEDO's Executive Board decides to continue operating, the United States will locate funds for the organization in FY2004.⁵³ The European Union has appropriated 20 million euros to KEDO for 2003, but has placed a freeze on any payments to the organization.

Heavy Fuel Oil (HFO) Shipments. As shown in Table 3, since 1996, the United States has provided over \$377 million – over three-quarters of the total – to KEDO for the shipment of heavy fuel oil to the DPRK. The European Union has provided \$95.8 million, or nearly 20% of the total.⁵⁴ Although South Korea and Japan have not contributed to the heavy fuel oil shipments, they have provided the bulk of the funding for building the reactors and for KEDO's administrative costs.

⁵² Section 562 of P.L. 108-007, the FY2003 Consolidated Appropriations Act.

⁵³ State Department Special Briefing on 2004 Request for International Affairs Budget, February 3, 2003; [<http://www.state.gov/m/rm/rls/rm/17157.htm>].

⁵⁴ The EU has channeled its contributions through the European Atomic Energy Commission (EAEC). Note that the EU's annual contributions to KEDO are unrestricted and, therefore, not dedicated to any specific activity. From 1996-2001, KEDO allocated virtually all of the EU's annual contribution (euro 15 million from 1996-2000 and euro 20 million from 2001 to the present) to pay for heavy fuel oil shipments. All of the EU's 2002 contribution of euro 20 million has been used to pay for construction of the light water reactor in North Korea.

Table 3. KEDO Heavy Fuel Oil (HFO) Contributions, 1995-2002
(\$ millions)

	1995	1996	1997	1998	1999	2000	2001	2002	Country Totals
U.S.	5.50	22.00	21.00	46.40	61.60	60.56	70.32	90.50	377.88
<i>% of total</i>	45%	53%	52%	71%	79%	80%	78%	98%	76%
EAEC	–	16.96	17.20	16.74	14.34	12.90	17.70	0.00	95.84
<i>% of total</i>	–	41%	43%	26%	18%	17%	20%	0%	19%
Australia	5.00	1.59	1.54	1.21	1.29	1.68	1.00	1.13	14.44
Canada	1.05	–	–	–	–	0.67	0.62	0.49	2.83
Indonesia	0.32	0.33	–	0.33	–	–	–	–	0.97
New Zealand	0.33	0.70	0.32	0.26	0.26	0.21	0.22	0.26	2.57
Mexico	–	–	–	–	0.10	–	–	–	0.10
Peru	–	–	–	–	–	0.10	–	–	0.10
Total	12.21	41.57	40.06	64.93	77.60	76.11	89.86	92.39	494.74

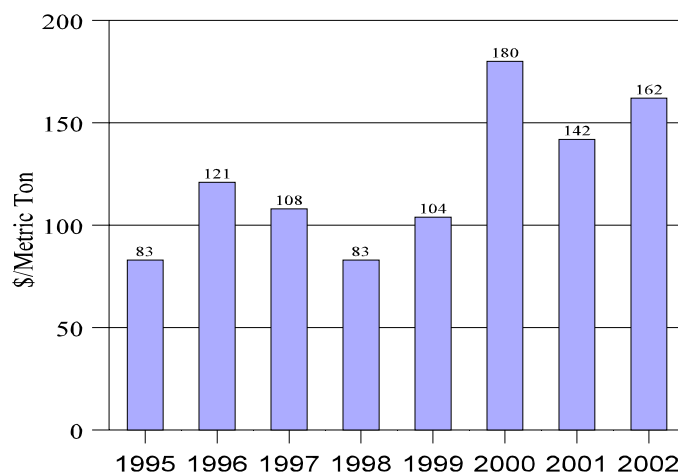
Source: Korean Peninsula Energy Development Organization (KEDO).

Notes: The European Atomic Energy Community (EAEC) 1996 total includes 10/15/97 contribution of \$11.195 million. The EAEC 2001 total includes 1/7/02 contribution of \$17.7 million.

The rising price of oil since 1995 (see Figure 5) has driven up the annual cost of heavy fuel oil from \$41.5 million in 1996 (the first year that the full 500,000 tons were sent) to over \$90 million in 2002.

Figure 5. Avg. Cost of Heavy Fuel Oil

Source: KEDO



HFO's Economic Importance to North Korea. Estimates of the KEDO heavy fuel oil's importance to North Korea vary widely. According to officials with the California-based Nautilus Institute for Security and Sustainability, which has prepared detailed multi-year surveys of the DPRK's energy sector, KEDO's annual

500,000 ton shipments represented approximately 2.5 percent of the North's total primary energy supply in 2000. However, cutting off the heavy fuel oil likely is having a disproportionate – and significant – impact on the DPRK's electricity sector, particularly in the winter. The KEDO shipments provide fuel for approximately 8% of the North's electricity demand on average over the course of a year.⁵⁵ In the winter months this figure is likely to be considerably higher, not only because energy usage increases but also because hydro-electric power plants are less productive in the extreme cold of North Korea's winter. Many of the hydroelectric facilities are "run-of-river" variety, which means that their output varies with stream flow more than plants that rely more heavily upon water storage facilities. Additionally, apart from electricity generation, Nautilus Institute officials say it is likely that some heavy fuel oil is used at the local level to fuel heat-only plants.⁵⁶

The Nautilus Institute's studies have been criticized for underestimating the DPRK military's energy consumption at less than 5 percent of the total. North Korea is the world's most militarized country, with over 1 million men – about one in five of the working age male population – in uniform. The military operates a highly secretive, separate economy, though the North's long economic crisis appears to have eroded the division between the military and civilian sectors in recent years. Estimates of the size of this parallel military economy vary widely, from 20 percent to 50 percent of the country's total output.⁵⁷ If the North Korean military's true energy consumption is close to these levels, the Nautilus Institute's figures could significantly inflate the importance of the heavy fuel oil to North Korea. Nautilus Institute researchers argue that the discrepancy is principally due to different definitions of the military sector's parameters; some of the energy use that other studies consider "military" is reflected under other sectors in Nautilus' accounting, which defines the military sector relatively narrowly.⁵⁸

In general, quantitative measures may overstate the importance of the heavy fuel oil shipments to North Korea's leadership, which has survived the death and deprivation of a substantial percentage of the population due to malnutrition and cold. For nearly a decade, North Korea has been experiencing daily interruptions of power supplies, even in the capital, Pyongyang; energy supplies from domestic and foreign sources are estimated to have fallen by more than 50 percent since 1990.⁵⁹ Thus, the strategic impact of the heavy fuel oil cutoff may be limited by the fact that

⁵⁵ The heavy fuel oil shipments represent approximately one-third of the input to the DPRK's thermal power plants, which in turn provides about 23% of the country's electricity annually.

⁵⁶ November 2002 e-mail correspondence with Peter Hayes and David Von Hippel, Executive Director and Senior Associate, respectively, of the Nautilus Institute; David Von Hippel, Timothy Savage, and Peter Hayes, *The DPRK Energy Sector: Estimated Year 2000 Energy Balance and Suggested Approaches to Sectoral Redevelopment*, Nautilus Institute for Security and Sustainable Development, September 13, 2002 draft, available at [http://www.nautilus.org/pub/ftp/napsnet/special_reports/DPRK_Energy_2000.pdf].

⁵⁷ Noland, *Avoiding the Apocalypse*, p.71-73.

⁵⁸ November 2002 e-mail correspondence with David Von Hippel.

⁵⁹ Noland, *Avoiding the Apocalypse*, p.143-45.

the DPRK's political and economic systems have adjusted to severe energy shortages.

China's Provision of Energy to North Korea. The impact of suspending heavy fuel oil shipments likely will depend heavily upon the response of China, which is widely believed to supply North Korea with most of its energy through shipments of oil and coal.⁶⁰ Secretary of State Colin Powell has stated that China provides the DPRK with 80% of its energy needs.⁶¹ Thus, an increase in Chinese shipments could offset the loss of the KEDO oil. Using Chinese figures and its own calculations, the Nautilus Institute estimates that China's major energy shipments to North Korea in 2000 were:

- coal: 225,000 tons. The Nautilus Institute estimates that North Korea's supply of coal and coke in 2000 was the approximate equivalent of 13 million tons of coal equivalent.
- crude oil: 390,000 tons. The Nautilus Institute estimates that the total year 2000 supply of crude oil was 600,000 tons, all of which was imported.
- refined oil products: 420,000 tons. The Nautilus Institute estimates that the North's 2000 supply of refined oil was 950,000 tons, including the heavy fuel oil provided by KEDO.⁶² By the Institute's estimate, in 2000 the DPRK also used its own refineries to produce about 560,000 tons of additional refined oil products from the imported crude oil.

Other Forms of U.S.-North Korean Economic Interaction

Tensions over North Korea's nuclear program have increased interest in all forms of U.S. economic interaction with the DPRK, including trade flows and the U.S. Defense Department's program to recover the remains of servicemen missing from the Korean War.

U.S.-North Korean Trade and Investment

Following North Korea's invasion of the South in June 1950, the United States imposed a nearly complete economic embargo on the DPRK. In September 1999, President Clinton announced that the United States would ease economic sanctions against North Korea affecting most trade and travel. Today, trade and related transactions are generally allowed for other than dual-use goods (*i.e.*, items that may

⁶⁰ Noland, *Avoiding the Apocalypse*, p.143-45.

⁶¹ February 25, 2003 Secretary of State Press Briefing on Board Plane en Route Elmendorf Air Force Base, available at [<http://www.state.gov/secretary/rm/>].

⁶² Von Hippel, Savage, and Hayes, *The DPRK Energy Sector*, p. 103-04; also November 18, 2002 e-mail correspondence from David Von Hippel.

have both civilian and military uses). U.S. citizens may travel to North Korea; there are no restrictions on the amount of money one may spend in transit or while there.⁶³

Despite the easing of most trade restrictions, trade and investment between North Korea and the United States has remained virtually non-existent. As **Table 3** shows, trade flows have varied widely from year to year, with no seeming pattern. Bilateral trade consists almost exclusively of U.S. exports, which tend to be agricultural items. One reason for the absence of North Korean exports on the U.S. market could be continued restrictions, particularly the fact that the DPRK does not have most-favored-nation status (also called normal trade relations status), which means that North Korean products face significantly higher tariff rates relative to those applied to products imported from other countries.

Table 3. U.S.-North Korea Trade, 1993-2002
(\$ thousands)

	Imports from North Korea	Exports to North Korea	Total
1993	0	1,979	1,979
1994	0	180	180
1995	0	5,007	5,007
1996	0	541	541
1997	0	2,409	2,409
1998	0	4,454	4,454
1999	0	11,265	11,265
2000	154	2,737	2,891
2001	20	650	670
2002	15	25,012	25,027

Source: U.S. International Trade Commission

However, a more probable cause is North Korea's lack of export competitiveness. North Korea has faced few or no barriers to exporting to Japan and the European Union, for instance, but exports little to these countries. North Korea's failure to generate export revenue is a major reason the country is unable to import food on commercial terms to make up for its chronic food shortage. In turn, the overall uncompetitiveness of North Korean enterprises is a direct result of Pyongyang's unwillingness to engage in fundamental economic reforms, leading some commentators to point out that international assistance actually has allowed North Korea's leadership to avoid instituting more market-oriented policies.⁶⁴

There is virtually no U.S. foreign direct investment in North Korea. The American Chamber of Commerce in South Korea has attempted to arrange

⁶³ Rennack, *North Korea: Economic Sanctions*.

⁶⁴ See, for instance, Noland, *Avoiding the Apocalypse*, p. 107-110.

exploratory trips to the North, but has not received the necessary visas from the DPRK government. Even if North Korea were to allow a delegation to visit, it is likely that most U.S. investors would be deterred by the country's chronic shortages, widespread corruption, lack of legal infrastructure, sudden economic policy reversals, and North Korean enterprises' past history of failing to pay foreign firms for services or goods rendered.

Funds from U.S. POW/MIA Recovery Efforts in the DPRK

Since 1993, the Department of Defense's Prisoner of War/Missing Personnel Office (DPMO) has provided North Korea with nearly \$15 million for assistance in recovering the suspected remains of the several thousand U.S. servicemen unaccounted for during the Korean War.⁶⁵ Most of these funds have paid for the 25 joint recovery operations (JROs) that have been conducted in North Korea since 1996, operations that have recovered over 180 remains.⁶⁶ As with joint recovery operations in Vietnam, Laos, and other countries, the payments are calculated by negotiating the compensation provided for the workers, materials, facilities and equipment provided by the North Korean People's Army (KPA) and other North Korean government entities. Payment is provided in cash deliveries – via the United Nations Command in South Korea – to the KPA in installments during the course of the calendar year's operations. The size, scope, and location of the recovery operations are negotiated annually, and the size of the compensation package varies accordingly. For 2003, the KPA has yet to respond to the Defense Department's request for talks to arrange the next series of recovery operations, presumably because of the increase in U.S.-DPRK tension since October 2002. Defense Department officials report that while operating conditions in North Korea are far from ideal, the scale of the operations has increased significantly since 1996.⁶⁷

Policy Options

Congress and the Administration have a variety of options for future assistance to North Korea. The most immediate decisions will be whether to continue funding for KEDO and providing food aid. Additionally, if talks with North Korea over its nuclear program begin and score a breakthrough, there will likely be consideration of a broader economic assistance package. As indicated below, any unilateral decision by the United States to suspend or terminate its current aid is expected to have a limited economic effect on North Korea because in the short-to-medium term, China and/or South Korea could increase their own assistance to compensate.

⁶⁵ Estimates vary as to the number whose death might result in remains being found in North Korea; the range is roughly between 2,000 and 9,000. For more on the POW/MIA issue, see CRS IB92101, *POWs and MIAs: Status and Accounting Issues*, by Robert Goldich.

⁶⁶ Between 1990 and 1994, North Korea unilaterally returned over 200 remains, virtually all of which were unidentifiable.

⁶⁷ February 2003 briefing by DPMO officials.

Food Aid Options

Options for food aid policy include:

- **Providing food aid unconditionally.** The core humanitarian argument for continuing aid regardless of the North Korean government's actions is that a major reduction in assistance could lead to another famine. A diplomatic benefit of providing food aid unconditionally is that it could weaken criticism in South Korea of the Bush Administration's policy toward the DPRK; U.S. food shipments lend support to President Bush's often-stated approach of supporting the North Korean people despite his concerns about the regime.⁶⁸ China and South Korea, which favor preserving short-term stability in North Korea, appear likely to continue providing food unconditionally.
- **Discontinue food aid.** This option has been proposed both on security and humanitarian grounds. Cutting off food assistance could be used as part of an isolation strategy or a plan to trigger the collapse of the North Korean regime. The effects of the United States suspending food assistance may be undercut, however, by increased shipments from China or South Korea. From a humanitarian perspective, sending food to North Korea arguably diverts limited supplies of food aid from other needy, and more accountable, countries. Furthermore, as discussed above, some argue that the volume and consistency of international aid has allowed the North Korean government to institutionalize emergency food assistance as part of its annual budget needed to feed its people and remain in power.⁶⁹

Options between these extremes include:

- **Establish "external" linkages - condition future food aid on progress in political and security-related talks,** such as negotiations regarding the North's nuclear programs. Emphasizing geostrategic concerns could lead to greater immediate cooperation in certain negotiations from Pyongyang. However, it is not clear that food aid would induce significant changes in North Korea's overall behavior on security issues. The huge U.S. provision of food aid in 1999, for instance, may have helped obtain an inspection of the suspected nuclear site at Kumchangri, but it did not prevent North Korea from pursuing a uranium enrichment nuclear program. Additionally, this approach runs the risk of encouraging the North

⁶⁸ See, for instance, President Bush's February 20, 2002 remarks at the Demilitarized Zone, [<http://www.whitehouse.gov/news/releases/2002>].

⁶⁹ Scott Snyder, "The NGO Experience in North Korea," in Scott Snyder and Gordon Flake, eds., *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, Forthcoming, 2003), p. 7.

Korean government to believe it does not need to comply with humanitarian relief groups' demands. Any attempts to link food aid or sales to foreign policy or national security objectives might have to be reconciled with recent congressional and executive efforts to delink the two.⁷⁰

- **Establish “internal” linkages - condition future food aid on improvements in access and monitoring**, as the Bush Administration has done. The Administration essentially has adopted a hybrid approach of giving a base amount of aid unconditionally and linking food above this amount to progress in monitoring and other items related to the relief effort. One difficulty of this approach is that the North Korean government is unlikely to see any decision on food assistance as divorced from the overall security climate.
- **Channel aid through non-governmental organizations (NGOs).**⁷¹ Most relief NGOs operating in North Korea have been forced to operate under the same, if not more rigid, controls as the WFP.⁷² A few relief groups, however, report they have overcome many obstacles to monitoring assistance, particularly gaining access to aid recipients and using their own Korean-speaking staff. The more successful U.S. NGOs appear to be relatively small, affiliated with a U.S. religious group, and focused on ongoing niche areas such as rebuilding North Korea's health care system, rather than on emergency relief.⁷³ These organizations' relative degree of success compared to the WFP may be partly attributable to the smaller scale of their operations, which allows some to set up their own distribution system independent of the public distribution system and to deal principally with local North Korean officials who often are more eager to cooperate than officials in Pyongyang. Some of these advantages might be negated if the groups began to receive large amounts of funding from the U.S. government. But smaller-scale programs might lend themselves to this approach.

⁷⁰ In 2000, Congress passed, and President Clinton signed into law, the Trade Sanctions Reform and Export Enhancement Act of 2000 (title IX of H.R. 5426, enacted by reference in P.L. 106-387) to remove food and medicine from U.S. sanctions policy, though some restrictions were maintained for terrorist states. For further information see CRS Report RL30384, *Economic Sanctions: Legislation in the 106th Congress*, by Dianne Rennack and CRS Issue Brief IB10051, *Exempting Food and Agriculture Products from U.S. Economic Sanctions*, by Remy Jurenas.

⁷¹ Among those who have argued for this approach is Timothy A. Peters, director of the relief groups Helping Hands Korea and the Ton-a-Month Club, two Seoul-based humanitarian organizations that attempt to provide assistance to North Koreans. See Peters' testimony before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002, [http://wwwa.house.gov/international_relations/].

⁷² Snyder, et. al., *The NGO Experience in North Korea*.

⁷³ Flaker, “The Experience of U.S. NGOs in North Korea,” p.31-35.

A past U.S. public-private initiative yielded mixed results similar to those reported by the WFP. From 1997 - 2000, the U.S. government provided over 155,000 MT of food aid to be distributed by the Private Voluntary Organization Consortium (PVOC), which included several private relief groups operating in North Korea. The PVOC estimated that the food for one program, to distribute 100,000 MT to laborers participating in food-for-work projects, reached nearly 2.7 million people in 110 North Korean counties. However, the Consortium reported the North Korean government's restrictions made it difficult to adequately monitor the distribution of the food. Citing these difficulties, one member, CARE, withdrew from the PVOC in June 2000.⁷⁴

KEDO Options

With regard to KEDO, the U.S. has several options, including: resume heavy fuel oil payments; continue to make payments for KEDO's operational expenses but not for heavy fuel oil; suspend all payments to KEDO; or permanently terminate all payments. Suspending without terminating payments could buy the United States more time and avoid further antagonizing North Korea by maintaining the ambiguous status of the Agreed Framework – from which neither the United States nor North Korea have officially withdrawn. Permanently halting payments, which South Korea and Japan would likely oppose, would almost certainly mean the end of KEDO. Not only was KEDO the creation of a U.S.-North Korean agreement (the Agreed Framework), but also the United States has provided the primary diplomatic and financial backing for the organization. Terminating the KEDO program would not necessarily preclude the formulation of another multilateral initiative to provide energy assistance to North Korea.

Development Assistance Options

As mentioned earlier, President Bush has said that the United States would consider offering North Korea a broad development aid package if the DPRK cooperates on security issues. Options include:

- **provide agricultural support assistance**, thereby attempting to reduce North Korea's chronic dependence on outside aid by boosting its domestic agricultural output.⁷⁵ President Bush has referred to such programs in mentioning a broad assistance package that the U.S. would discuss if North Korea verifiably dismantles its nuclear program. While the President has considerable flexibility in funding short-term initiatives, longer-term programs would likely require Congressional action to waive or rewrite U.S. laws that prohibit

⁷⁴ United States General Accounting Office (GAO), *U.S. Bilateral Food Assistance to North Korea Had Mixed Results*, GAO/NSIAD-00-175, June 2000, [<http://www.gao.gov/>].

⁷⁵ See the GAO's report, *U.S. Bilateral Food Assistance to North Korea Had Mixed Results*, for a discussion of a U.S. government-supported private project to increase North Korean production in 1999 and 2000.

certain types of aid to countries on the terrorism list and that specifically prohibit aid for North Korea. Many European NGOs operating in North Korea have moved from providing relief to rehabilitating the country's agricultural system. According to one study, the prospects for success of these efforts are not likely to make substantial progress unless the North Korean government allows development workers greater access to the North Korean population and abandons its priority of attaining self-sufficiency in food.⁷⁶

- **provide other types of humanitarian assistance.** North Korea's health care system, for instance, has been devastated by the collapse of the country's economy. At the same time, a decade of food shortages has led to the prevalence of opportunistic diseases, including tuberculosis, which had been eradicated from the DPRK in the 1970s. As mentioned above, some relief NGOs have had more success in obtaining North Korean cooperation in the areas of health care and disease prevention than they have in providing food.
- **provide non-nuclear energy assistance.** Critics of the Agreed Framework have long argued that nuclear reactors are ill-suited to meeting North Korea's energy needs because they will take a long time to complete and because the DPRK's electrical grid is not capable of absorbing the added power. Pyongyang periodically has asked the United States and South Korea for electrical power and for help modernizing its grid. Though Seoul has been receptive to the idea, both the Clinton and Bush Administrations have resisted it.

The Timing of a U.S. Offer of Development Assistance. Thus far, the Administration has indicated that it would insist that the North first begin verifiably dismantling its nuclear program before the United States would discuss an aid package. This stance on the timing of aid negotiations could be modified.

A Multilateral Development Assistance Program. There is considerable scope for putting together a prospective multilateral assistance program to North Korea. Key U.S. concerns in assembling such a program are likely to revolve around fungibility, diversion, and transparency.

Providing a future large-scale aid package was a major component of former South Korean President Kim Dae Jung's "sunshine policy" of engaging North Korea. President Kim placed particular emphasis on rebuilding the DPRK's economic infrastructure. Although the details have yet to be publicized, South Korea's new president, Roh Moo-hyun, has indicated that North Korea can expect significant assistance under his "peace and prosperity" engagement policy.

⁷⁶ Michael Schloms, "The European NGO Experience in North Korea," in Scott Snyder, et. al., *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, Forthcoming 2003), especially p. 64-66.

In bilateral normalization talks, Japan has offered to give North Korea a large-scale economic aid package to compensate the DPRK for Japan's colonization of the Korean Peninsula from 1910 to 1945. Reportedly, Japanese officials are discussing a package on the order of \$5-\$10 billion. Large-scale aid from Tokyo, however, is contingent on North Korea cooperating on other issues, especially the matter of Japanese citizens kidnapped by North Korean agents in the 1970s and 1980s. Disagreements over this issue, combined with developments in the DPRK's nuclear weapons program, brought Japan-North Korea normalization talks to a halt in the fall of 2002.⁷⁷

Russia, which in recent years has expanded its economic ties to North Korea, may also be interested in participating in a multilateral aid program. Moscow appears particularly keen to link the Trans-Siberian Railway to South Korea via the DPRK. Russian railway authorities completed a joint on-site survey of the 920 km trans-Korean railway in 2002, and plan to begin rebuilding North Korea's dilapidated rail system in 2003.

Additionally, funding could be sought from international financial institutions such as the World Bank, Asian Development Bank, and the International Monetary Fund. The United States and Japan currently oppose North Korea's membership in these organizations.

Additional CRS Products on North Korea

CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations – Issues for Congress*.

CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*.

CRS Report RS21391, *North Korea's Nuclear Weapons: How Soon an Arsenal?*

CRS Report RL31696, *North Korea: Economic Sanctions*.

CRS Report RL30613, *North Korea: Terrorism List Removal?*

CRS Report RS20526, *North Korea-Japan Relations: The Normalization Talks and the Compensation/Reparations Issue*.

⁷⁷ For more on DPRK-Japan relations, see CRS Report RS20526, *North Korea-Japan Relations: The Normalization Talks and the Compensation/Reparations Issue*, by Mark Manyin.