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Drug Trafficking and North Korea: Issues for U.S. Policy

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Summary

At least 50 documented incidents in more than 20 countries around the world, many involving arrest or detention of North Korean diplomats, link North Korea to drug trafficking. Such events, in the context of credible, but unproven, allegations of large scale state sponsorship of drug production and trafficking, raise important issues for the United States and its allies in combating international drug trafficking. The challenge to policy makers is how to pursue an effective counter drug policy and comply with U.S. law which may require cutting off aid to North Korea while pursuing other high-priority U.S. foreign policy objectives including (1) limiting possession and production of weapons of mass destruction; (2) limiting ballistic missile production and export; (3) curbing terrorism, counterfeiting, and international crime; and (4) addressing humanitarian needs.

Reports that the Democratic People's Republic of North Korea (DPRK) may be limiting some of its food crop production in favor of drug crop production are particularly disturbing given the country's chronic food shortages, though the acreage in question is comparatively small. Another issue of rising concern is the degree to which profits from any North Korean drug trafficking, counterfeiting, and other crime-for-profit enterprises may be used to underwrite the costs of maintaining or expanding North Korean nuclear and missile programs. As the DPRK's drug trade becomes increasingly entrenched, and arguably decentralized, analysts question whether the Pyongyang regime (or any subsequent government) would have the ability to restrain such activity, should it so desire.

On the other hand, recent seizures of North Korean-linked methamphetamine and heroin are down, arguably in response to enhanced international attention paid to such activity in the wake of the April 2003 seizure of heroin carried on the North Korean Vessel the "Pong Su." Japanese officials, for example, are reported to have stated that there have been no reported seizures of DPRK origin stimulants in Japan for the last three years. Some suggest that this decline in seizures being identified as DPRK origin is because North Korean source methamphetamine is now regularly being mistakenly identified as "Chinese source" given growing links of Chinese criminal elements to North Korea's drug production/trafficking activities. However, a more plausible explanation is that North Korea has cut back on, if not dramatically curbed, its drug trafficking activity, and is compensating from the loss of income in this arena by beefing up its production and trafficking of counterfeit brand cigarettes.

It remains clear, however, that regardless of the mix of DPRK criminal activities at any particular given point in time, income from DPRK criminal activity continues to play a pivotal role in overall DPRK finances.

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Drug Trafficking and North Korea: Issues for U.S. Policy

Background

Allegations of North Korean drug production, trafficking, and crime-for-profit activity have become the focus of rising attention in Congress, the press, and diplomatic and public policy fora. As early as October 28, 1997, Senators Charles Grassley and Jessie Helms sent a letter to Secretary of State, Madeleine Albright, questioning why North Korea was not included in the State Department's March 1, 1997, annual International Narcotics Control Strategy Report (INCSR) as a country involved in illicit drug production and trafficking. The Senators noted that according to press reports, North Korea's opium production in 1995 was 40 metric tons (mt) (roughly comparable to Mexico's) and that they believed that this figure "clearly represents a figure of over 1,000 hectares," the threshold cropland figure for inclusion in the report and designation as a major drug producing country.¹

The Department of State's response of December 12, 1997, cited an inability to obtain data to substantiate North Korean production levels. Subsequently, in October 1998, the conferees for the Fiscal Year 1999 Omnibus Appropriations Act directed the President to include in the (March 1, 1999) INCSR "...information regarding the cultivation, production, and transshipment of opium by North Korea. The report shall be based upon all available information."² A Senate Bill (S. 5), Section 1209 of the Drug Free Century Act, introduced January 19, 1999, proposed a statement of congressional concern that the Department of State had "evaded its obligations with respect to North Korea" under the Foreign Assistance Act and encouraged the President to submit any required reports. It was not acted upon by the Senate.

The Department of State has consistently been cautious not to pin an ironclad label of "state sponsorship" on North Korean drug trafficking activity. To do so would arguably require the imposition of foreign aid sanctions on the Pyongyang regime, a move seen by many as (1) over prioritizing drugs vis-à-vis more pressing

¹ North Korean climate and soil are relatively inhospitable to poppy cultivation and fertilizer is reportedly in short supply. Rough calculations suggest that perhaps such conditions might yield roughly the equivalent of 10 kilograms of opium gum per hectare. Under such a formula, 40 metric tons of raw opium production would be roughly indicative of 3,000 to 4,000 hectares of poppy cultivation. Note also that the DPRK produces some licit opium. According to the International Narcotics Control Board (INCB), the DPRK reported cultivating 91 hectares of opium poppy in 1991 which produced 415 kg. of opium.

² H.R. 4328, P.L. 105-277, 112 Stat. 2681, signed into law October 21, 1998. For conference report language see *Congressional Record*, October 19, 1998, H11365.

issues (i.e., nuclear proliferation) and (2) unwisely restricting the portfolio of Administration options for dealing with what has been called a rogue state.

Moreover, if the amount of North Korean illicit poppy cultivation cannot be verified, the 1,000 hectare threshold potentially triggering foreign aid cutoff under the Foreign Assistance Act of 1961 will not be met. Consistent with such policy concerns, the Department of State has maintained that although allegations of illicit drug activity “remain profoundly troubling.... [T]he United States has not been able to determine the extent to which the North Korean Government is involved in manufacturing and trafficking in illegal drugs.”³

The provisions of the Foreign Assistance Act of 1961 referred to above require that countries cultivating 1,000 hectares or more of illicit opium poppy be subject to annual (March 1st) drug reporting and certification procedures. Current law on International Drug Control Certification Procedures (P.L.107-228, Section 706) requires the President to submit to Congress, not later than September 15 of the preceding fiscal year, a report identifying each country determined to be a major drug transit or drug producing country as defined in section 481(e) of the Foreign Assistance Act of 1961. In the report the President must designate each country that has “failed demonstrably” to meet its counternarcotics obligations. Designated countries are ineligible for foreign assistance unless the President determines that assistance is vital to the U.S. national interest or that the country had made “substantial efforts” to improve its counternarcotics performance.⁴ International disaster assistance (such as the food aid received by North Korea) is specifically exempted from all limitations on providing assistance under the act.⁵ Previous certification requirements had established a 30- calendar day review process during which the Congress could override the President’s determinations and stop U.S. foreign aid from going to specific countries, but this process is no longer extant.⁶

U.S. foreign aid to North Korea is severely restricted because of North Korea’s designation by the U.S. Secretary of State as a country that has “repeatedly provided support for acts of international terrorism.”⁷ Assistance is currently limited to humanitarian assistance (food). In December 2002, the Bush Administration

³ U.S. Department of State, *International Narcotics Control Strategy Report* [INCSR], March 2003, p. VIII-45. See also Bach congressional testimony, note 14, below. Note also that experience from the trial by the U.S. of Panamanian leader Manuel Noriega on drug trafficking related charges has heightened concerns in the U.S. criminal justice community that U.S. government released information on drug trafficking activities of foreign leaders may not have the degree of reliability to qualify as evidence in a court of law.

⁴ Id., Sec. 614, “Special Authorities.”

⁵ Id., Sec. 491 (b).

⁶ P.L. 87-195 as amended, Sections 481(e)(2), 489, and 490. See CRS Report RL32038, *Drug Certification/Designation Procedures for Illicit Narcotics Producing and Transit Nations*, by K. Larry Storrs.

⁷ See CRS Report RL33600, *International Terrorism: Threat, Policy, and Response*, by Raphael Perl. See also CRS Report RL31696, *North Korea: Economic Sanctions*, by Dianne Rennack.

suspended petroleum assistance, i.e., heavy fuel oil shipments to North Korea for electrical generating capabilities as an alternative to nuclear generation of electrical power because North Korea has not lived up to its agreement to suspend its nuclear weapons program. As negotiated in the October 1994 U.S.-DPRK Agreed Framework, the United States committed to provide 500,000 tons of oil annually until completion of two lightwater nuclear reactors that are less susceptible to proliferation than facilities that North Korea has previously operated, but “frozen” under the agreement. In Fiscal Year 2004, North Korea received 110,000 metric tons of wheat from the United States valued roughly at \$52.8 million.⁸

For the year 2003, North Korea’s legal exports were estimated by the Korean Trade Promotion Investment Agency (KOTRA) to amount to \$1.1 billion in goods — most of which were to its neighbors China, Japan and South Korea.⁹ During the same period, imports (mostly from the same three nations) totaled roughly \$2 billion, leaving an estimated shortfall of \$999 million.¹⁰ North Korea’s need for hard currency is exacerbated by ongoing dismal economic conditions — an estimated per capita gross domestic product in the lower range of \$750 to \$1000 — and an ongoing nuclear program the costs of which may have exceeded \$200 million per year in 1998 and which North Korea accelerated from 1999 on.¹¹

⁸ See CRS Report RS21834, *U.S. Assistance to North Korea*, by Mark Manyin. Prior to October 1998, humanitarian assistance was allocated under Title II of P.L. 480; subsequent food assistance falls under sec. 416 of the Agricultural Act of 1949, P.L. 81-439. Fuel assistance for FY2003 and earlier years is authorized by the corresponding Foreign Operations Appropriations Legislation with some restrictions lifted pursuant to a presidential waiver under Section 614 (a) (1) of the Foreign Assistance Act of 1961. See Presidential Determination 97-21, 62 F.R. 23939.

⁹ Contrast this amount with \$1.7 billion in exports in 1990 according to South Korea’s central bank. According to *Agence France Presse* (October 23, 2003), since the mid-1980s North Korea has exported some 400 SCUD missiles along with missile-related parts to the Middle East valued at approximately \$110 million. Estimates by U.S. Military Forces Command in Korea are reportedly substantially higher: \$580 million from missile exports to the Middle East for the year 2001 alone. See *Yomiuri Shimbun*, “Risky Business Leading North Korea to Ruin,” August 22, 2003; and “New N. Korea Food Aid Pledges Only a Beginning,” *Reuters*, March 4, 2003 dispatch from Seoul. Chosen Soren (ethnic North Korean) overseas remittances to the DPRK are estimated at some \$200-\$600 million annually. See *Yomiuri Shimbun* (file No. 555), May 18, 2003. See generally CRS Report RL32493, *The North Korean Economy: Background and Policy Analysis*, by Dick Nanto and Emma Chanlett-Avery.

¹⁰ Source: KOTRA (Korea Trade Investment Promotion Agency) and Korean Ministry of Unification, 2004. See also, May 20, 2003 congressional testimony by Nicholas Eberstadt of the American Enterprise Institute placed North Korea’s overall merchandise trade deficit at about \$1,200 million a year. See note 13 for hearing citation details. See also CRS Report RL31785, *U.S. Assistance to North Korea*, by Mark E. Manyin; and “Threats and Responses: The Asian Arena,” by James Brooke, *New York Times*, December 30, 2002, p. A8. For a detailed analysis of shortfalls and trends in the DPRK’s illicit activity and the importance of such activity for North Korea’s economic survival, see the May 20, 2003 congressional testimony of Nicholas Eberstadt (hearing citation found in note 13).

¹¹ The 1998 figure cited on cost of nuclear programs is relatively low because of minimal (continued...)

Allegations of Drug Trafficking

President George W. Bush, in his Fiscal Year 2007 determination of major illicit drug trafficking and transit countries, raised the issue of heroin and methamphetamine trafficking linked to North Korea, and expressed his demand that North Korea stop its involvement in all criminal activity. In the words of his memorandum for the Secretary of State:

Although there have not been any drug seizures or apprehensions of drug traffickers with a connection to the Democratic People's Republic of Korea (DPRK) since 2004, we remain concerned about DPRK state-directed criminal activity. The United States Government has made clear to the DPRK that an end to all involvement in criminal activity is a necessary prerequisite to entry into the international Community.¹²

President Bush's concern over North Korean drug trafficking activity and other criminal activity is mirrored in earlier testimony before the U.S. Congress on May 20, 2003, by William Bach, of the Department of State's Bureau of International Narcotics and Law Enforcement Affairs:

For some 30 years, officials of the DPRK and other North Koreans have been apprehended for trafficking in narcotics and other criminal activity, including passing counterfeit U.S. notes. Since 1976, there have been at least 50 arrests and drug seizures involving North Koreans in more than 20 countries around the world. More recently, there have been very clear indications especially from the series of methamphetamine seizures in Japan that North Koreans traffic in and probably manufacture methamphetamine drugs.¹³

The Department of State's March 2006 International Narcotics Control Strategy Report (INCSR) notes longstanding DPRK links to drug trafficking as well:

For decades, North Koreans have been apprehended trafficking in narcotics and engaging in other criminal behavior and illicit activity, including passing counterfeit U.S. currency and trading in copyrighted products. This year there were no public reports of specific incidents of narcotics trafficking with clear, demonstrable DPRK (Democratic People's Republic of Korea) links. However, given developments during 2005 that linked the DPRK to other forms of state-directed criminality, the Department reaffirms its view that it is likely, but not

¹¹ (...continued)

labor costs. Not included here, but arguably also a motivation for DPRK criminal activity, is the amount of hard currency North Korea needs to support its missile development and production program.

¹² Presidential Determination No. 2006-24, September 15, 2006, *Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2007*, Federal Register, Vol. 71, No. 189, September 29, 2006.

¹³ Testimony of William Bach, Director, Office of Asia, Africa, and Europe, Bureau of International Narcotics and Law Enforcement Affairs, Department of State, before the Financial Management, Budget, and International Security Subcommittee of the Senate Governmental Affairs Committee, May 20, 2003.

certain, that the North Korean government sponsors criminal activities, including narcotics production and trafficking, in order to earn foreign currency for the state and its leaders.

Similarly, the Department of State's March 1, 2003 International Narcotics Control Strategy Report (INCSR) states:

For years during the 1970s and 1980s and into the 1990s, citizens of the Democratic People's Republic of (North) Korea (DPRK), many of them diplomatic employees of the government, were apprehended abroad while trafficking in narcotics and breaking other laws. More recently, police investigation of suspects apprehended while making large illicit shipments of heroin and methamphetamine to Taiwan and Japan have revealed a North Korean connection to the drugs. Police interrogation of suspects apprehended while trafficking in illicit drugs developed credible reports of North Korean boats engaged in transporting heroin and uniformed North Korean personnel transferring drugs from North Korean vessels to traffickers' boats. These reports raise the question whether the North Korean government cultivates opium illicitly, refines opium into heroin, and manufactures methamphetamine drugs in North Korea as a state-organized and directed activity, with the objective of trafficking in these drugs to earn foreign exchange.¹⁴

The March 2003 INCSR includes little information on North Korea in its money laundering section, but notes reports that Pyongyang has used Macau to launder counterfeit \$100 bills and used Macau's banks as a repository for the proceeds of North Korea's growing trade in illegal drugs.¹⁵ More detail on DPRK criminal activity is included in the 1998 INCSR's money laundering section which reads in part as follows: "The most profitable lines of state-supported illegal businesses remain drug trafficking, gold smuggling, illegal sale and distribution of endangered species, trafficking of counterfeit U.S. currency, and rare earth metals.....North Korean officials appear to be increasing their involvement in financial crimes as a means to generate operational funds and support their country's anemic economy."¹⁶

Concerns over North Korea's role in international drug trafficking were echoed in the December 2000 United States Government International Crime Threat Assessment which states:

A large share of the methamphetamine consumed in Japan comes from North Korea, according to media reports; more than 40 percent of the methamphetamine seized in Japan in 1999 came from North Korea. There have been regular reports from many official and unofficial sources that impoverished North Korea has engaged in drug trafficking — mostly to Japan, Russia, and China — as a criminal state enterprise to raise badly needed revenue. Over the years, customs and police officials of many countries have apprehended North

¹⁴ U.S. Department of State, *International Narcotics Control Strategy Report [INCSR]*, March 2003, p. VIII-43.

¹⁵ *Id.*, p. XII-200. Note that one press reports cites the existence of a videotape of Kim Jong Il's son, Kim Jong Nam, using counterfeit supernotes at a Macao casino. See "The Far East Sopranos," by David E. Kaplan, *U.S. News & World Report*, January 27, 2003.

¹⁶ *INCSR*, March 1998, p. 623.

Korean persons employed as diplomats or in quasi-official capacities at North Korean state trading companies trying to smuggle drugs produced elsewhere.¹⁷

Concerns over North Korean drug production and trafficking were also expressed in the 1997 Report of the International Narcotics Control Board (INCB). The report, in circumspect language common to such U.N. documents, notes that “The Board has received disquieting reports on the drug control situation in the Democratic People’s Republic of Korea. Therefore, the Board expresses its concern that the Government of the Democratic People’s Republic of Korea has not yet accepted its proposal, originally made in 1995, to send a mission to that country to study and clarify drug control issues.”¹⁸ In June 2002, the Board sent a mission to the DPRK to review the Government’s compliance with the international drug control treaties, and reported in its 2002 annual report that the DPRK authorities “have expressed their willingness to cooperate at the regional and international levels in order to address drug control issues in a concerted manner.”¹⁹

In addition, U.S. Drug Enforcement Administration (DEA) data compiled from foreign media services in 1999,²⁰ Department of Defense analysis²¹ dated 2000, and a plethora of domestic and foreign press reports portray an ongoing pattern of drug trafficking, trafficking of counterfeit U.S. currency,²² and other smuggling-for-profit activities by North Korean diplomats over the past 27 years. Since 1976, North Korea has been linked to over 50 verifiable incidents involving drug seizures in at least 20 countries. A significant number of these cases has involved arrest or detention of North Korean diplomats or officials. All but four of these incidents have transpired since the early 1990s.²³

¹⁷ *International Crime Threat Assessment*, December 2000. The assessment is the product of a government interagency working group led by the CIA.

¹⁸ *INCB Report for 1997*, p. 17.

¹⁹ *INCB Report for 2002*, p. 55. U.N. Document E/INCB/2002/1.

²⁰ See *Major Incidents of Drug Trafficking by North Koreans*, prepared by the Europe/Asia/Africa Unit Strategic Intelligence Section, DEA, reproduced in *North Korea Advisory Group Report to the Speaker*, U.S. House of Representatives, November 1999, pp. 43-48.

²¹ See *North Korean Drug Trafficking*, Department of Defense Joint Interagency Task Force West Assessment (unclassified), May 2000. Appendix “A” to the report cites 52 incidents linking the DPRK to drug trafficking activity through the month of February 2000.

²² For example, the 1998 *INCSR*, p. 623, cites a February 1997 *Izvestia* article on the arrest of a third secretary of the North Korean Embassy who was apprehended attempting to exchange counterfeit U.S. dollars. Russian officials tied him to a smuggling operation designed to sell more than \$100,000 in counterfeit U.S. bills which they believe was his main function at the embassy.

²³ For example, May 1976, 400 kg hashish seized from a North Korean (DPRK) diplomat in Egypt; July 1994, Chinese officials arrested a Chinese national on charges of smuggling 6 kg. of North Korean produced heroin through the DPRK Embassy in China; August 1994, a DPRK intelligence agent arrested by Russian authorities for trying to sell heroin to Russian mafia group; January 1995, Chinese officials in Shanghai seize 6 kg. of heroin and
(continued...)

Press reports citing North Korean defectors and South Korean intelligence sources as well as U.S. government investigative agency source material, paint a grim picture of an anemic economy in North Korea, held back by disproportionate military spending, dysfunctional economic policies and the consequences of a broad economic and trade embargo led by the United States since the Korean War. Pressed for cash, and perceiving its vital national security at stake, the regime reportedly created an office to bring in foreign currency: “Bureau No. 39,” under the ruling North Korean Communist Party which is headed by North Korean Leader Kim Jong Il.²⁴ This office is reported to be in charge of drug trafficking and according to some reports all crime-for-profit activity including (1) opium production and trafficking; (2) methamphetamine production and trafficking; (3) counterfeiting; and (4)

²³ (...continued)

arrest two DPRK nationals, one with a diplomatic passport; July, 1998, DPRK. diplomat arrested in Egypt with 500,000 tablets of rohypnol — the so called “date rape” drug; January 1998, Russian officials arrest two DPRK diplomats in Moscow with 35 kg. of cocaine smuggled through Mexico; and October 1998, German officials arrested a DPRK diplomat in Berlin seizing heroin believed made in North Korea. On February 12, 1999, an employee of the DPRK consulate in Shenyang, China, was caught attempting to illicitly sell 9 kilograms of opium. On April 3, 1999, Japanese police caught Yakuza gang members attempting to smuggle 100 kilograms of methamphetamine into Japan on a Chinese ship. In April 1999, authorities at the Prague airport detained a DPRK diplomat stationed in Bulgaria attempting to smuggle 55 kilograms of the “date rape” drug rohypnol from Bulgaria. On May 3, 1999, Taiwanese police apprehended four members of a Taiwanese drug organization attempting to smuggle 157 kilograms of DPRK source methamphetamine. On October 3, 1999, Japanese authorities seized 564 kilograms of DPRK methamphetamine from the Taiwanese ship “Xin Sheng Ho”; 250 kilograms of DPRK made methamphetamine were also seized by Japanese authorities on February 5, 2000 leading to arrests of members of a Japanese Crime group and members of a Chosen Soren run trading company. During October through November 2001, Filipino authorities detained a ship twice in their territorial waters which had received first 500 kilograms and then 300 kilograms of methamphetamine from a North Korean ship. On December 22, 2001, Japanese patrol boats, in a skirmish, sank a North Korean vessel believed to be carrying drugs to Japan — the same vessel had been photographed in 1998 smuggling drugs into Japan. On January 6, 2002, Japanese authorities seized 150 kilograms of DPRK source methamphetamine from a Chinese ship in Japanese territorial waters that had earlier rendezvoused with a DPRK vessel for the drug transfer. In July 2002, Taiwanese authorities confiscated 79 kilograms of heroin which a local crime group had received from a North Korean battleship. In November and December 2002, packages containing 500 pounds of methamphetamine believed to be of DPRK origin floated ashore in Japan. On April 20, 2003, Australian police seized the DPRK ship, the “Pong Su”, which had attempted to smuggle 125 kilograms of heroin through Singapore into the territorial waters of Australia (note that Pong Su officer crew members were subsequently charged and acquitted of drug trafficking charges). In June 2004, two North Korean diplomats working at the North Korean Embassy in Egypt were detained for smuggling 150,000 tablets of Clonazepam, an anti-anxiety drug. In December 2004, Turkish authorities arrested two North Korean diplomats suspected of smuggling the synthetic drug captagon to Arab markets. The diplomats, assigned to North Korea’s Embassy in Bulgaria, were found to be carrying over half a million captagon tablets, with an estimated street value of over \$7 million.

²⁴ Note that in April 1998 Russian police reported arresting Kil Chae Kyong [believed to be personal secretary in charge of secret funds for Kim Jong Il] on charges of trying to sell \$30,000 in counterfeit U.S. currency.

smuggling. Drugs are reportedly exported through China and Russia to Asia and Europe via government trading companies, diplomatic pouches, and concealed in legitimate commercial cargo. Foreign exchange earned by Bureau 39 is reportedly used to: (1) buy loyalty from Party elites and military leaders to Leader Kim Jong Il; (2) fund costs of overseas diplomatic missions; (3) finance national security activity — especially technology and electronic purchases for the intelligence and military services, and (4) procure overseas components for North Korea's weapons of mass destruction programs.²⁵ Bureau 39 activities, according to interviews conducted by the *Wall Street Journal* with Asian intelligence officials, have generated a cash hoard, of which an amount in the range of \$5 billion is believed to be currently stashed away by the Pyongyang regime.²⁶

Farmers in certain areas reportedly are ordered to grow opium poppies²⁷, with cultivation estimates of 4,000 hectares for the early 1990s and 7,000 hectares for 1995. Subsequent production, however, is believed to be below 1995 figures, initially because of heavy rains, but also as part of a broad decline of agricultural output as a consequence of poor policies, and insufficient fertilizer and insecticides. Looking at all available estimates, a cultivation estimate of 3000-4,000 hectares for 1998 would appear reasonable, but nevertheless based on indirect and fragmented information. U.S. government investigative agency sources in 1998 estimated North Korean raw opium production capacity at 50 tons annually, with 40 tons reportedly produced in 1995. The March 2000, INCSR states that estimates of the area under opium cultivation range from 4,200 hectares to 7,000 hectares which would yield from about 30 metric tons to 44 metric tons of opium annually.²⁸ North Korean government pharmaceutical labs reportedly have the capacity to process 100 tons of

²⁵ For a well researched discussion of DPRK crime for profit activity, see “Money Trail,” by Jay Solomon, *The Wall Street Journal*, July 14, 2003, p. A1. See also “The Wiseguy Regime,” by David E. Kaplan, *U.S. News & World Report*, February 15, 1999, p. 36-39. See also “N. Korea Said To Be in Drug Business,” *Washington Times*, February 26, 1995, A-1; “Drug Trafficking by North Korean Service,” *Moscow-Interfaks*, June 22, 1997; “Kim Chong-il’s Fund Manager Commits Suicide,” *Tokyo Sankei Shimbun*, December 29, 1998; “North Korean Business: Drugs, Diplomats and Fake Dollars,” AP, May 24, 1998; “Seoul Says N. Korea Increasing Opium Output for Export,” *Kyodo*, June 8, 1993; “DPRK Officially Involved in Drugs, Counterfeiting,” *Digital Chosun Ilbo* [South Korea], November 12, 1996; “DPRK Defectors Attest to Realities of DPRK System,” *Seoul Tong-A Ilbo*, February 14, 1996, p. 5; “N.Korea Accused of Promoting Opium Farms,” *Seoul Chosun Ilbo*, August 7, 1994, p. 5. Bureau 39 reportedly directs the expenditure of North Korea's foreign exchange resources with two priorities: (1) procurement of luxury products from abroad that Kim Jong-Il distributes to a broad swath of North Korean military, party, and government officials to secure their loyalty — Mercedes Benz automobiles, food, wines, stereos, deluxe beds, Rolex watches, televisions, etc., estimated at \$100 million annually by U.S. military officials in Seoul, according to a *Reuters* report of March 4, 2003; and (2) procurement overseas of components and materials for North Korea's WMDs and missiles. See also CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry A. Nicksch.

²⁶ See “Money Trail,” by Jay Solomon, *The Wall Street Journal*, July 14, 2003, p.A1.

²⁷ See North Korea and Narcotics Trafficking: A View from the Inside, by Kim Young Il, *North Korea Review*, Vol 1, Issue 1, Feb. 27, 2005.

²⁸ INCSR, March 2000, p. VIII-39

raw opium per year.²⁹ U.S. government production estimates, to the extent that they may be available, would likely be classified, but clearly would not be expected to be below 1998 levels as Pyongyang's need for foreign exchange appears to have grown more pressing to accelerate foreign purchases of components for North Korea's secret uranium enrichment program.

Methamphetamine production in North Korea is reported to have started in 1996 after heavy rains decreased income from poppy production. This coincides with reports that markets for methamphetamine at that time began dramatically expanding in Asia, especially in Thailand, Japan, and the Philippines.³⁰ For example, in 2002, North Korea was the source of approximately 1/3 of the methamphetamine seized by Japanese authorities.³¹ North Korea's maximum methamphetamine production capacity is estimated by some South Korean officials to be 10-15 tons per year of the highest quality product for export. According to the INCB, North Korean legitimate pharmaceutical needs for ephedrine (a traditional precursor for methamphetamine) are 2.5 tons per year, one ton higher than U.S. investigative agency source estimates. INCB officials confirm receipt of reports of North Korean involvement in an alleged diversion of 20 tons of ephedrine.³² Moreover, U.S. and foreign investigative agency personnel have in the past noted concerns that North Korea may be bypassing the highly regulated market for ephedrine in favor of an alternate technology for a benzene based product, raising speculation that U.S. and allied petroleum assistance to North Korea may be being used to sustain illicit drug production.

Conservative estimates suggest North Korean criminal activity, carefully targeted to meet specific needs, generated about \$85 million in 1997: \$71 million

²⁹ See "U.S. says North Korea Sponsors Drug Smuggling," *Kyodo News Service* (Japan), December 13, 1998. Total arable land in the DPRK is estimated to exceed 1.3 million hectares.

³⁰ In August 1998, Japanese authorities arrested members of a Japanese criminal organization and seized 200 kg of a 300 kg shipment of methamphetamine believed manufactured in North Korea. Earlier, in April, 58.6 kg of the same drug, thought to have been manufactured in China, was seized by Japanese authorities in the cargo of a North Korean freighter. See "Police Say Seized Drugs Originated in North Korea," *Yomiuri Shimbun* (Japan), January 8, 1999.

³¹ Between 1999 and 2001, Japanese authorities reportedly seized 1,113 kilograms of methamphetamine en route from North Korea — some 34% of Japanese seizures. For China during the same period the percentage reportedly constitutes 38% (some 1,780 kg). See "Trying a Quick Fix: North Korea Tied to the Drug Trade," by Jay Solomon and Jason Dean, *Asian Wall Street Journal*, April 23, 2003, p. 1.

³² For example, in January 1998, Thai police reportedly seized, but later released, 2.5 tons of ephedrine en route from India to North Korea. This was reportedly part of an 8 ton shipment North Korea had attempted to purchase which the INCB reportedly limited to two 2.5 ton shipments over a two year period. However, INCB officials staunchly deny that such an arrangement transpired. Pyongyang, at the time, reportedly argued for the right to buy 30 tons from India — enough for a 135-year supply of cold tablets (see *Bangkok Times*, June 13, 1999, p. 6).

from drugs and \$15 million from counterfeiting.³³ Some recent estimates of Pyongyang's clandestine drug income, however, are substantially higher with the *Wall Street Journal* citing U.S. military estimates that North Korea's annual drug exports had risen in the year 2003 to at least \$500 million from about \$100 million a few years ago.³⁴ Figures widely encountered in the U.S. policy community throughout 2004 are roughly \$200 million in profit from the combined illicit methamphetamine and heroin trade and \$500 million in profit from additional aggregate criminal activity. Income from counterfeiting of U.S. bills is unclear, with U.S. military sources reportedly estimating such income at \$15-20 million for the year 2001.³⁵

³³ The \$71 million for drugs is broken down as \$59 million from opium/heroin and \$12 million from amphetamines, although one, admittedly speculative, U.S. law enforcement agency source estimate for "world" market price of heroin produced by the DPRK in 1995 was \$600 million. For the \$15 million figure on counterfeiting, see *Korea Herald*, Nov. 16, 1998. See also, "Is Your Money Real?," *Newsweek*, June 10, 1996, p. 10. According to some sources, income from counterfeiting is considerably higher, i.e. \$100 million. (See May 20, 2003 congressional testimony of Larry Wortzel of the Heritage Foundation, citation details in note no. 14.) Note also that data on amounts of U.S. dollars counterfeited are not widely publicized (and arguably publicly downplayed) so as not to undermine confidence in the U.S. dollar. North Korean counterfeit U.S. \$100 notes have been detected in at least 14 countries including the United States since the 1970s. On June 20, 2004, the BBC aired a "Superdollar" special which traced counterfeit \$100 bills from North Korea to an official IRA source in the U.K. Reportedly millions of fake \$100 bills were laundered through a bureaux de change in Britain. In July, 1996, a former member of the Japanese Red Army, traveling on a DPRK diplomatic passport was arrested in Thailand while trying to pass counterfeit U.S. \$100 bills. See "Japanese Fake Bill Suspect Had N. Korean Passport," *Kyodo News*, July 5, 1996. For data on other forms of DPRK criminal/smuggling activity, see *Avoiding the Apocalypse: The Future of the Two Koreas*, by Marcus Noland, Institute for International Economics, Washington, D.C., June 2000, p. 119.

³⁴ See Money trail, by Jay Solomon, *The Wall Street Journal*, July 14, 2003, p. A1. For another income estimate of "as much as \$500 million" see "The Far East Sopranos," by David E. Kaplan, *U.S. News & World Report*, January 27, 2003. Given that drug trafficking is by very nature a clandestine activity and that North Korea is a closed society, any overall estimates of DPRK income from illicit drug sources are based on fragmented data and are speculative at best. However, arguably, what may be more important here than the exact dollar amount generated by such illicit activity, is the strategic significance of the income — whatever the dollar amount be — given speculation that it is being used to underwrite Pyongyang's nuclear weapons program. Clearly such data should be considered a "far cry" from anything that might be remotely considered as evidence in a U.S. court of law. Note also that the dollar amount the DPRK received in profit from drug sales to Japan in 2003 has been roughly and unofficially estimated at \$100 million, according to non-U.S. sources.

³⁵ See "N.K. Exported \$580 Million Worth of Missiles to Middle East," *Seoul Yonhap* (English), May 13, 2003, citing Japanese *Yomiuri Shimbun* report of May 12, 2003. Media reports suggest that when Assistant Secretary of State, James A. Kelly, visited North Korea in October 2002, he asked that printing of the counterfeit bills be suspended. Some of the bills are reportedly printed on machines stolen by the KGB from the U.S. mint after WWII and provided to North Korea by the USSR in the late 1980s. (See "DPRK Prints Super K Dollar Bills on Machine Provided by Former USSR KGB," *Tokyo Foresight* (in Japanese) March 15-April 18, 2003.) Others are believed to be printed on equipment purchased by the DPRK in Europe in the 1990s. Quality control is reportedly exercised by use of state of the

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If credence is to be given to U.N., Department of State reporting, and DEA shared information, as well as press reports citing foreign law enforcement activity, North Korean defectors, and South Korean intelligence sources, a pattern of activity emerges which indicates that (1) in the 1970s, North Korean officials bought and sold foreign source illicit drugs; (2) in the mid-1970s, North Korea began cultivating opium poppy as a matter of state policy; (3) in the mid-1980s, North Korea began refining opium poppy for export and exporting refined opium products; (4) and in the mid-1990s, after heavy rains reduced opium production in 1995 and 1996, North Korea began manufacturing and exporting methamphetamine to expanding markets in Southeast Asia — increasingly enlisting the help of foreign criminal groups in its smuggling operations. If this pattern reflects reality, an important question is the degree to which the government of North Korea may respond to increased financial pressures and expanding methamphetamine markets in Southeast Asia by dramatically increasing already record levels of reported drug trafficking activity.

Some analysts, however, question the reliability of information reported in the press attributed to North Korean defectors and South Korean government sources. They note that in a closed state such as North Korea “hard” data is difficult to obtain, thus what is obtained is fragmentary and indirect at best. North Korea continues to dismiss media reports and speculation on government involvement in drug trafficking activities as anti-North Korean slander based on politically motivated adversary propaganda sources. North Korean officials are known to stress privately that corruption, drug use, trafficking, and criminal activity in general are maladies to which individuals in all societies may fall prey, and that any involvement by North Korean individuals in such activity is in no way state-connected or state sanctioned. Further, officials have stressed that in instances where such activity has come to the attention of authorities, individuals involved have been duly punished. Finally, North Korean officials maintain that issues such as drug trafficking and production are matters that should be handled, and are best handled, by their government as an internal matter. U.N. officials also point to the politically charged milieu of allegations of drug trafficking by North Korea and point out that drug smuggling by individuals in the diplomatic community is not limited to North Korea.³⁶

Issues for Decisionmakers

At least fifty documented drug trafficking incidents coupled with allegations of large scale North Korean state sponsorship of opium poppy cultivation, and heroin and methamphetamine production and trafficking, raise significant issues for the United States and America’s allies in combating international drug trafficking. The challenge to policy makers, is how to pursue sound counter-drug policy and comply with U.S. law which may require cutting off aid to North Korea while effectively

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art equipment designed to detect counterfeiting, reportedly also purchased in Europe. Note that not only U.S. currency is reportedly counterfeited. DPRK payment for a typical purchase of goods or technology from the Middle East, for example, may well include a percentage of top quality Middle Eastern counterfeit bills.

³⁶ Conversations with North Korean and United Nations officials, September 1998.

pursuing other high priority U.S. foreign policy objectives including (1) limiting possession and production of weapons of mass destruction; (2) limiting ballistic missile production and export; (3) curbing terrorism, counterfeiting and international crime, and (4) addressing humanitarian needs.

As of March, 2005, U.S. aid to North Korea is limited to providing food and other humanitarian assistance. Reports that North Korea may be limiting some of its food crop production in favor of drug crop production are particularly disturbing, though the acreage in question is comparatively small. Another issue of rising concern is the use of profits from any North Korean drug trafficking, counterfeiting, and other crime-for-profit enterprises to underwrite the costs of maintaining or expanding North Korean nuclear and missile programs.³⁷

Central to the policy debate over the quantity of DPRK illicit poppy production is the need for hard data such as satellite imagery to confirm the extent of reported opium poppy cultivation in North Korea. If such data have been collected through remote sensing, they have not been publically disclosed.³⁸

Enhanced policy focus and law enforcement intelligence cooperation on targeting, reporting, and tracking North Korean opium/heroin and methamphetamine trafficking and production in the late 1990s have made it significantly more difficult for North Korean entities to engage in illicit smuggling activities.³⁹ The apparent result has been a need for North Korean trafficking fronts to enter into joint venture arrangements with criminal organizations in neighboring nations, notably Russian, Chinese, and South Korean and Japanese criminal enterprises. As profits are generally shared (often as much as 50/50) in such ventures, the level of North Korean drug smuggling activity might need to more-or-less double to keep income levels for DPRK illicit drug enterprises constant with levels achieved in 1998.

The case of the “Pong Su,” arguably, is demonstrative of such joint venture activity — reportedly Southeast Asian non-DPRK origin heroin carried by a North Korean crew on a North Korean vessel. The April 20, 2003 “Pong Su” case, however, presents an interesting twist of events.⁴⁰ Traditionally, it was assumed that

³⁷ See generally CRS Report RL33590, *North Korea's Nuclear Weapons Development and Diplomacy*, by Larry Niksch.

³⁸ Some analysts have compared the alleged poppy cultivation situation in the DPRK with that of Colombia in the mid-1980s. Beginning about 1986, numerous reports were received from informants regarding poppy cultivation in Colombia. However, despite U-2 aircraft broad sweep imagery, it was not until the mid-1990s that such imagery was able to confirm cultivation which at that time approximated the 4,000-5,000 hectare range.

³⁹ See, for example, “U.S. to Send Signal to North Koreans in Naval Exercise,” by Steven R. Weisman, *New York Times*, August 18, 2003, p. 1., which refers to the existence of a program known as the “D.P.R.K. Illicit Activities Initiative,” characterized as a quiet crackdown by many nations against North Korea’s narcotics trade, counterfeiting, moneylaundering, and other illicit smuggling activity.

⁴⁰ See text at end of note number 23. The DPRK government maintains that the “Pong Su” is a civilian trading ship and that its owner had no knowledge of the heroin and subsequent
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any such joint ventures were established to facilitate the smuggling and distribution of DPRK source drugs. In contrast, reported information in the “Pong Su” case can be interpreted as a sign that such joint venture relationships — to the degree they may exist- have become a “two-way street” with North Korean enterprises smuggling drugs for partner groups as well. A growing area of international concern is escalating ties between those in the DPRK who engage in criminal activity and foreign transnational criminal groups.

Notwithstanding, a growing number of analysts attach significance to the fact that there have been few documented instances of DPRK drug trafficking activity being detected recently. They note that the scale of North Korean linked drug trafficking activities that has been detected in 2004 is small relative to seizures linked to the DPRK in previous years. They cite as well the fact that although, in 2004, two incidents were publically reported involving DPRK officials stationed abroad at embassies, these two incidents had been the first to come to light in several years.⁴¹

In addition, the March 2006 *INCSR* notes that there were no seizures of methamphetamines in Japan in 2005 linked to the DPRK. Traditionally as much as 30% to 40% of methamphetamine seizures in Japan have been linked to the DPRK. However the report speculates that increasingly seizures of DPRK source methamphetamine may be mistakenly identified as “Chinese source” given growing links of Chinese criminal elements to North Korea’s drug production/trafficking activities. Supporting the theory of a decline in DPRK drug production/trafficking activity, the March 2005 *INCSR* notes that the origin of heroin and methamphetamine seized in Taiwan during 2004 was generally ascribed to domestic manufacture; whereas in past years, DPRK origin illicit drugs have been among those seized. Moreover, Japanese press reports cite government officials in that nation as stating that as of early 2006, there had been no seizures of DPRK source stimulants for the third consecutive year.⁴²

⁴⁰ (...continued)

acquittal of the crew in Australia on drug trafficking charges arising out of the incident arguably supports such an assertion. Heroin seized may have been of Burmese origin (and picked up in Myanmar or Thailand), raising speculation of a budding relationship between the DPRK and criminal enterprises in either Myanmar or Thailand. See “Dangerous Bedfellows,” by Bertil Lintner and Shawn W. Crispin, *Far Eastern Economic Review*, November 20, 2003. Myanmar (reportedly the world’s largest opium cultivator in 2002) is often characterized as one of the most isolated nations in the world as well as a nation where rampant corruption prevails. See “N. Korea’s Growing Drug Trade Seen in Botched Heroin Delivery,” by Richard Paddock and Barbara Demick, *Washington Post*, May 21, 2003; and Myanmar’s Problems Are Thailand’s Dilemma by Sorapong Buaroy, *Bankok Post*, January 28, 2003.

⁴¹ For details on the two incidents involving DPRK diplomats stationed in Bulgaria and Egypt, see the Department of State’s March 2005, *INCSR* which states: “It is impossible to say with certainty that such individuals were acting under the instructions of their government....”

⁴² See “Japan’s illegal drug seizures down 50% in 2005: MOF,” report by *Kyodo News*, February 23, 2006.

Arguably however, fewer seizures may simply be the result of changes in patterns of shipments designed to conceal any direct DPRK role in the process — countermeasures spurred by increased international scrutiny of North Korean trading activities. Consistent with this line of reasoning would be the conclusion that since levels of enforcement success against DPRK linked trafficking in illicit drugs often vary dramatically, it is not possible at this time to reach a definitive consensus about any changes in trends underlying such enterprise. A more likely explanation, however, is that North Korea has cut back on, if not dramatically curbed, its drug trafficking activity and is compensating from the loss of income in this arena by beefing up its production and trafficking of counterfeit brand cigarettes.

In contrast, the aggregate portfolio of North Korean criminal activity over the past decade paints a different picture. Information available points to an expansion in both the scale and scope of North Korean cash generating criminal activity.⁴³ In addition to production and trafficking in heroin and methamphetamines, major sources of revenue from criminal activity for the DPRK now include (1) counterfeit cigarettes; (2) counterfeit pharmaceuticals (for example “USA” manufactured viagra; (3) counterfeit currency (e.g. U.S. \$100 bill “supernotes”); and (4) indiscriminate sales of small arms, i.e. “gun running.”⁴⁴ The result is a situation in which criminal activity is seen as playing an increasingly pivotal role in supporting North Korea’s fragile economy.

Best U.S. available source estimates suggest that the DPRK earns at least \$500 million per year in profit from combined criminal activity, and gross revenues are suggested by some to total \$1 billion or more. Regardless, however, of the current dollar amount such ventures generate, it appears that the scale and scope of North Korean criminal activities are on the rise. Increasingly, analysts view this as a global and not just as a regional concern.

Another question, yet unresolved, is the degree to which Pyongyang will be able to maintain control over drug smuggling — and other foreign currency generating — activities if they become more decentralized with more foreign criminal organizations and gangs participating. Deteriorating economic conditions and rising corruption among mid-level DPRK party functionaries threatened with declining lifestyles gives rise to speculation in the intelligence community that rogue operations constitute an increasing proportion of any current DPRK drug smuggling activity.⁴⁵

⁴³ For a discussion of U.S. response options reportedly under discussion see “U.S. is Shaping Plan to Pressure North Korea,” by David E. Sanger, *New York Times*, February 14, 2005, A-1.

⁴⁴ In July 2004, for example, the U.S. Secret Service reportedly uncovered a network selling counterfeit North Korean made cigarettes, pharmaceuticals, and \$100 bills. See “Fakes,” by Frederik Balfour, et al., *Business Week*, February 7, 2005. See also CRS Report RL33324, *North Korean Counterfeiting of U.S. Currency*, by Raphael Perl and Dick Nanto.

⁴⁵ DPRK defectors maintain that North Korea’s underground economy is controlled by some 1000 “big dealers” who regularly give bribes in U.S. dollars and valuable gifts to Kim Jong-il and party, administration and military elites, See “DPRK Defectors Say (continued...) ”

A final and daunting challenge facing policymakers both in the DPRK and beyond, is the degree to which the North Korea regime would be able to curtail any remaining illicit drug activity — and other foreign currency generating criminal enterprises — should it desire to do so. Policy analysts in the past have suggested that North Korean drug trafficking activity has been carefully controlled and limited to fill specific foreign exchange shortfalls. However, increasingly concern exists that North Korean crime-for-profit activity may become a “runaway train,” gaining momentum, but out of control. Experience suggests that those engaged in the drug trade and other continuing criminal enterprises often find themselves “addicted” to the income generated and are unlikely to cease such activity, absent draconian disincentives. Moreover, over time, such illicit activity is often seen as becoming “institutionalized” — taking on a life on its own, a phenomenon which does not bode well for those who would seek to curb drug trafficking and other revenue generating international criminal activity based in North Korea.

⁴⁵ (...continued)

Underground Economy Spawning Influential ‘Big Dealers,’ *Seoul Chugan Chosen* (in Korean), June 19, 2003. Mr. Kim’s personal assets in foreign countries have been estimated to be in \$130 billion range, with as much as \$4.3 billion reportedly in Swiss bank accounts. See “Kim Jong Il’s Huge Secret Assets,” *Tokyo Shukan Posuto*, June 16, 2003, citing Chuck Downs, a former Pentagon official in the Bush I and Clinton Administrations. Press reports citing U.S. military sources in Seoul state that Pyongyang spends about \$100 million a year on imported luxury cars and liquor for its elite, see “New N. Korea Food Aid Pledges Only a Beginning,” *Reuters*, March 4, 2003 dispatch from Seoul.