Case Number: 2009-0528-F-2.

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the Clinton Presidential Library Staff.

Folder Title:
North Korea, January 1995 [7]

Staff Office-Individual:
Nonproliferation and Export Controls-Aoki, Steven

Original OA/ID Number:
711

Row:	Section:	Shelf:	Position:	Stack:
41	5	6	3	V

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. letter	Minister Kang to Ambassador Gallucci (3 pages)	02/23/1995	P1/b(1)
002. letter	Admiral Zumwalt & Consultants Inc to Richard Newcomb OFAC re license application [50 USC 2411c] (3 pages)	01/24/1995	P3/b(3)
003a. draft	memo, John Deutch to Sandy Berger et al re North Korean Framework Agreement (3 pages)	01/00/1995	P1/b(1)
003b. memo	Strobe Talbott to Sandy Berger et al re US-DPRK Agreed Framework (3 pages)	01/18/1995	P1/b(1)
003c. memo	John Deutch to Sandy Berger et al re Reply to Comments (1 page)	01/18/1995	P1/b(1)
004. report	re North Korea (5 pages)	01/00/1995	P1/b(1)
005. paper	re negotiating position (1 page)	01/00/1995	P1/b(1)
006. draft	letter, Ambassador Gallucci to Minister Kang (2 pages)	03/00/1995	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:

North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Democratic People's Republic of Korea
Permanent Mission to the United Nations
515 East 72nd Street, 38F, New York, N.Y. 10021
Tel. (212) 772-0712 (0725) FAX (212) 772-0735

FAX COVER

TO: Ms. Lynn Turk

FAX NO: (202) 647-7388

FROM: Han Song Ryol

FAX NO: (212) 772-0735 **(Telephone 772-0712)**

PAGES INCLUDING COVER: 4

DATE: February 23, 1995

NOTE:

Dan —
Latest Kang letter -- came in late thurs. afternoon.
Nick

Dear Lynn:

I would like express my thanks for your kind attention on the issue in Beijing, visa issue,

And upon instruction by my Government, I request you to convey this letter from Mr. Kang to Ambassador Robert L. Gallucci.

Thank you again and look forward to meet soon.

Sincerely yours,

Han Song Ryol
Minister Counselor

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. letter	Minister Kang to Ambassador Gallucci (3 pages)	02/23/1995	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:

North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Sol Rosen's requests for activities pursuant to Gallucci call to Curtis

DOE TECHNICAL ASSISTANCE FOR LWR

JANUARY

Task	DOE	Contractor	Travel
Support State in negotiations with ROK, GOJ on KEDO charter in Washington, DC. Jan 9-10	2 Mandays	0	0
Develop supporting material for presentations on nuclear safety and operations to be held in Berlin Jan 30 - Feb 4	2 Mandays	15 Mandays ($25K)	0
Support State in negotiations with DPRK in Berlin Jan 30 - Feb 4	6 Mandays 3 DOE people		$9000
Perform initial site assessment in DPRK			
- preparation	1 Manday	5 Manday	
- conduct assessment	10 Manday with 3 DOE	10 Manday with 2 contractors	$14000
- prepare report	2 Manday	10 Manday	
		($42K)	$14000

FEBRUARY

Task	DOE	Contractor	Travel
Perform followon technical support establishing KEDO and negotiations with ROK/GOJ and DPRK	*3 - 5 Mandays	15 Mandays ($25K)	0

MARCH

Task	DOE	Contractor	Travel
Same as February to finalize KEDO	*3 - 5 Mandays	15 Mandays ($25K)	0

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. letter	Admiral Zumwalt & Consultants Inc to Richard Newcomb OFAC re license application [50 USC 2411c] (3 pages)	01/24/1995	P3/b(3)

COLLECTION:

Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:

North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003a. draft	memo, John Deutch to Sandy Berger et al re North Korean Framework Agreement (3 pages)	01/00/1995	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:

North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003b. memo	Strobe Talbott to Sandy Berger et al re US-DPRK Agreed Framework (3 pages)	01/18/1995	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:
North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003c. memo	John Deutch to Sandy Berger et al re Reply to Comments (1 page)	01/18/1995	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:

North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

U.S. DEPARTMENT OF ENERGY

Office of Arms Control and Nonproliferation
1000 Independence Avenue, S.W.
Washington, D.C. 20585
NN-40

FAX NO. (202) 586-4452

VERIFY NO. (202) 586-2102

PAGES: 2
(Including Cover Sheet)

DATE: 27 February 1995

TO: Dan Poneman

PHONE:

COMPANY:

FAX NO: 202-456-9180

VERIFY NO:

FROM: Ken Luongo

PHONE: 202-586-2102

NOTES:

North Korea's Plutonium Production Capability

Based upon North Korean declarations on power rating and configuration as cited in public sources, it is possible to approximate cumulative plutonium production (in kilograms) for each of the reactors at Yongbyon (5MWe and 50MWe) and Taechon (200MWe) if the agreement with North Korea to freeze its nuclear program had not occurred. The calculations below include the 8,000 spent fuel rods removed in 1994 from the 5MWe reactor and which are covered under the Agreed Framework signed by North Korea October 21, 1994.

	Yongbyon Reactors Plutonium Production			Taechon Reactor Plutonium Production	
Year	5MWe	50MWe	Potential Number of Weapons from 5 & 50MWe**	200MWe	Potential Number of Weapons, Including 200MWe**
1994	30 kg		5		5
1995	37 kg		6		6
1996	44 kg	50 kg	15		15
1997	48 kg	75 kg	20		20
1998	55 kg	125 kg	30	150 kg	55
1999	59 kg	150 kg	34	300 kg	84
2000	66 kg	200 kg	44	450 kg	119
*					
*					
2005	94 kg	375 kg	78	1,200 kg	278

Calculations are based on foreign countries' experience with similar plutonium production reactors. In the chart, annual plutonium production for the 5MWe and the 50MWe alternates between four and seven kilograms and 25 and 50 kilograms respectively because biannual refueling halts reactor operations for a period of several months.

Although North Korea has declared that the Taechon reactor is for power, it could produce approximately 150 kg of weapons-grade plutonium per year. If power is the primary function, only 10 percent of the fuel channels would be available for weapons-grade plutonium production. This would provide a capability approximately equal to the 5MWe reactor or about 94 kg of plutonium or 15 nuclear weapons by 2005.

* To use a recent source, for example, see David Albright's article in the *Bulletin of the Atomic Scientist* (October-November 1994)
**Assumes 6kg/weapon; operating reactors at 75% annual capacity; and 1,000 MWdays/mt of fuel.

United States Department of Energy
for the House Committee on Appropriations
Subcommittee on Energy and Water Development

February 2, 1995

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. report	re North Korea (5 pages)	01/00/1995	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:
North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. paper	re negotiating position (1 page)	01/00/1995	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:
North Korea, January 1995 [7]

2009-0528-F
kc1579

NATIONAL SECURITY COUNCIL
WASHINGTON. D.C. 20506

March 7, 1995

ACTION

MEMORANDUM FOR ANDREW D. SENS

THROUGH: DANIEL PONEMAN

FROM: STEVEN AOKI

SUBJECT: Department of Energy's Proposed Testimony Re: S395, Alaska Power Administration Sales and North Slope Oil Export

At Tab I is a memorandum for your signature concurring with no objections in the revised Department of Energy's Proposed Testimony Re: S395, Alaska Power Administration Sale and North Slope Oil Export.

Concurrence by: W. Danvers, Eileen Claussen, Michael Froman

RECOMMENDATION

That you sign the memorandum at Tab I

Attachments
Tab I Memorandum for Signature
Tab II Incoming Correspondence

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR RONALD PETERSON

FROM: ANDREW D. SENS

SUBJECT: Department of Energy's Proposed Testimony Re: S395, Alaska Power Administration Sales and North Slope Oil Export

The National Security Council staff concurs with no objection with the Department of Energy's Proposed Testimony Re: S395, Alaska Power Administration Sale and North Slop Oil Export. This view has been conveyed telephonically.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

2/24/95

LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 461
FILE NO: 65
1558
Total Page(s): ____

TO: Legislative Liaison Officer - See Distribution below:
FROM: Ron PETERSON (for) Ron Peterson
Assistant Director for Legislative Reference
OMB CONTACT: Holly FITTER 395-3233
Legislative Assistant's line (for simple responses): 395-6194
Lori KRAUSS 395-3463
SUBJECT: ENERGY Proposed Testimony RE: S395, Alaska Power Administration Sale and North Slope Oil Export

DEADLINE: 3:00 PM Monday, February 27,1995

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS:

DISTRIBUTION LIST:

AGENCIES:
239-Army Corps of Engineers (DOD) - Susan Bond - (202) 272-0030
324-COMMERCE - Michael A. Levitt - (202) 482-3151
242-Council of Economic Advisers - Liaison Officer (vacant) - (202) 395-5036
325-DEFENSE - Samuel T. Brick, Jr. - (703) 697-1305
326-Environmental Protection Agency - Thomas C. Roberts - (202) 260-5414
237-General Services Administration - William R. Ratchford - (202) 501-0563
329-INTERIOR - Jane Lyder - (202) 208-6706
217-JUSTICE - Sheila F. Anthony - (202) 514-2141
429-National Economic Council - Sonyia Matthews - (202) 456-2174 - Elg.e *
249-National Security Council - William H. Itoh - (202) 456-9221
225-STATE - Julia C. Norton - (202) 647-4463
226-TRANSPORTATION - Tom Herlihy - (202) 366-4687
228-TREASURY - Richard S. Carro - (202) 622-1146
223-US Trade Representative - Fred Montgomery - (202) 395-3475
OPM - J. Woodruff - Fax 606-1344

EOP:
Damus_B
Moran_R
Stigile_A
Davis_P
McGinty_K
Chavez_T
DiBari_M
Palmer_B
Bennethum_G

RESPONSE TO
LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 461
FILE NO: 65

If your response to this request for views is simple (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.

If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter.

Please include the LRM number shown above, and the subject shown below.

TO: Holly FITTER 395-3233
Office of Management and Budget
Fax Number: 395-5691
Branch-Wide Line (to reach legislative assistant): 395-6194

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

SUBJECT: ENERGY Proposed Testimony RE: S395, Alaska Power Administration Sale and North Slope Oil Export

The following is the response of our agency to your request for views on the above-captioned subject:

______ Concur

______ No Objection

______ No Comment

______ See proposed edits on pages ______

______ Other: ______________________

______ FAX RETURN of ____ pages, attached to this response sheet

TITLE I. ALASKA POWER ADMINISTRATION SALE ACT

Title I of S.395, the "Alaska Power Administration Sale Act," would authorize the sale of the Eklutna and Snettisham hydroelectric projects in Alaska and the subsequent termination of the Alaska Power Administration. This legislation is consistent with the President's FY 1996 budget and would implement the recommendations of the National Performance Review.

Eklutna and Snettisham were authorized in 1950 and 1962, respectively, to encourage and promote economic development and to foster establishment of essential industries in Alaska. The projects have served those purposes well by providing, at moderate prices, substantial amounts of hydroelectric energy for their market areas. There are no other authorized or proposed Federal power projects in Alaska.

With the continued growth of the Alaska economy, the relative important of the Federal power program in Alaska has become quite small. More than 90 percent of the State's electric power needs are provided by non-Federal powerplants. The State and its electric utilities have the capability to plan, design, finance, build, and operate the power facilities which they decide are needed. Commercial Federal operations such as the Alaska Power Administration can be managed more efficiently by non-Federal public or private entities that are closer and more responsive to

FE-70

Draft 2/24/95
2:00 p.m.

TESTIMONY OF WILLIAM H. WHITE

DEPUTY SECRETARY OF ENERGY

before the

SENATE ENERGY COMMITTEE

on the subject of

S. 395,

a bill to

AUTHORIZE THE SALE OF ALASKA POWER ADMINISTRATION ASSETS

and

PERMIT EXPORT OF ALASKAN NORTH SLOPE CRUDE OIL

Mr. Chairman, it is a pleasure for me to appear before the Committee today to discuss the sale of the Alaska Power Administration and permitting the export of Alaskan North Slope (ANS) crude oil. I am pleased to report that the Administration supports both of these initiatives and hopes to work with the Congress toward enactment of this legislation to allow for the sale of the Alaska Power Administration and to permit the exportation of Alaskan North Slope crude oil.

B Barnes 586-6341

the areas and the customers that they serve. Under these circumstances, there is not longer a need for the small Federal power program in Alaska.

Extensive studies and consultations were undertaken, including opportunities for public comment, before completing the sale proposals covered by this bill and the associated purchase agreements. The sales are supported by each of the Alaska Power Administration's utility customers, the municipalities of Juneau and Anchorage, Alaska's present and past three Governors, and this Administration.

Briefly, Snettisham would be sold to the State of Alaska and Eklutna would be sold to the joint ownership of the Municipality of Anchorage, the Chugach Electric Association, Inc., and the Matanuska Electric Association, Inc. This bill would authorize the sales, which then would be conducted in accordance with the purchase agreements. Sale proceeds would be returned to the United States Treasury.

The FY 1996 budget assumes the sales will occur at the end of that fiscal year, with proceeds estimated at $85 million. The actual sale prices could vary, however, because the prices would be determined according to formulas in the purchase agreements based on interest rates and remaining Treasury debt on the date of the sales. Following the sales, the new owners would assume all responsibilities for the projects, and Federal responsibility would cease. The Alaska Power Administration would be terminated.

We believe the bill and associated purchase agreements provide fair and workable terms and arrangement which will result in the best achievable return to the United States Treasury, transfer of ownership in an orderly fashion, and protection of the interests of power consumers. The terms of this authorizing legislation and the associated agreements are unique to the Eklutna and Snettisham projects in Alaska.

The sales would eliminate 35 permanent Federal jobs. The Department and the purchasers are committed to actions to minimize adverse impacts on the affected employees. The Purchase Agreements include provisions that would give Alaska Power Administration employees first call for the post-sale jobs at the two projects and provide assistance in locating other non-Federal jobs for the few remaining employees that may be displaced. For those employees who wish to continue their Federal careers, assistance would be provided through the personnel system in locating suitable jobs elsewhere within the Department or in other Federal agencies. It appears that existing authorities are adequate to meet these objectives.

The Administration is committed to the sale of the Alaska Power Administration assets. We look forward to working with Congress toward enactment of the necessary authorizing legislation.

TITLE II. TRANS-ALASKA PIPELINE AMENDMENT ACT OF 1995

I welcome the opportunity to discuss Federal policy on the export of crude oil from the Alaskan North Slope. The Congress has addressed this subject many times since the export restrictions were imposed, and, as always, this hearing includes representatives of organizations that have diverse and strongly held views. I note that some of those here today testified at Chairman Murkowski's July 1983 hearing on this issue when he was chairman of the Subcommittee on East Asian and Pacific Affairs of the Senate Committee on Foreign Relations.

The Administration has carefully considered the important question of whether the prohibition on exporting Alaskan North Slope (ANS) crude oil should be lifted. The Department of Energy released a study on the impacts of permitting export of ANS crude oil on June 30, 1994. I have attached a copy of that report to this testimony.

Fundamentally, the existing export restriction distorts the crude oil markets in Alaska and the West Coast in counterproductive ways. The benefits of permitting export of ANS crude oil, according to our analysis, are significant:

- Revenues to State governments would rise during 1994-2000 by:
  - $180 to $230 million for California from Federal royalties and taxes;
  - $700 million to $1.6 billion for Alaska from severance taxes and royalties.
- Revenues to the Federal government would rise during 1994-2000 by $100 to $180 million.
- Oil production-rolated employment would increase by a net of 10,000 to 25,000 jobs nationally; many would be in California oil production. This takes into account a small number of job losses (less than 500) in the maritime sector.
- Refining employment overall would not be affected; history shows that refinery capacity, and therefore refining industry employment, is determined by U.S. petroleum consumption.
- In Alaska alone, reserve additions could be in the 200 to 400 million barrel range by the year 2000, a size that roughly equates to the known reserves in major North Slope fields such as Point McIntyre and Endicott.
- Incremental oil production would be between 30,000 and 50,000 barrels per day in California by the year 2000, and 50,000 to 70,000 barrels per day in Alaska.

The Department has consulted with the broad range of interested parties. We held public meetings in San Francisco and Anchorage in March of 1994, at which more than 50 organizations presented their views. We had a great deal of comment on our draft report. Since the report's release last June, the Secretary of Energy, I, and both our staffs have met many times with members of Congress, various associations and interest groups, and the public on this issue. I believe that this process has helped all of us understand the concerns of all the interested parties.

Based on this extensive consultation process, the Administration is convinced that there are significant economic and energy benefits that can be gained from permitting exports of ANS crude. In the course of our review, however, we identified eight key factors that must be considered as legislative action is pursued:

1. **Protect Consumers from Adverse Price Impacts** -- Exports must not cause substantial increases to retail gasoline or other petroleum product prices. Our assessment is that the product price impacts of permitting ANS crude oil exports would be minimal or non-existent.

2. **Ensure Economic Security** -- The President must retain the authority to reinstate the ban should exports be found to be threatening the national economic security. S. 395 would preserve the President's authority to restrict exports of oil under the Constitution, the International Emergency Economic Powers Act, and the National Emergencies Act.

3. **Ensure Sufficient Crude Oil Supplies** -- U.S. refineries must have continued access to adequate supplies of crude oil. Reforms should permit the crude oil market to operate more efficiently. We would anticipate that ANS crude oil will continue to be made available to U.S. refineries, but that the price would adjust to prevailing market prices.

   Anticompetitive activity in the crude oil markets could constrain supply and cause crude oil prices to rise above market prices, and thereby threaten employment opportunities in the U.S. refinery sector. If there develops evidence of such anticompetitive activity, appropriate enforcement action should be taken.

4. **Enhance Overall Employment Opportunities** -- Any proposal to permit ANS exports should reasonably be expected to expand employment opportunities in the U.S. economy.

- **Employment in the Oil Production and Refining Industries.** DOE's analysis concludes that permitting ANS exports would result in increased oil industry employment of between 10,000 and 25,000 jobs.

- **Employment for U.S. Seafarers.** Reforms should not transfer seafarer employment opportunities abroad. Any legislation to permit exports of Alaskan oil must provide substantial protection of seafarer employment opportunities for American workers. The Administration supports a statutory requirement that all ANS oil be exported in U.S.-flag vessels with U.S. crews. S. 395 contains such a requirement.

- **Employment for U.S. Shipbuilders.** The Administration is undertaking ongoing efforts to enhance competitive opportunities for U.S. shipyards by opening foreign markets to U.S. shipbuilders. In October 1993, the Clinton Administration announced a comprehensive plan to strengthen the U.S. shipbuilding industry. Consistent with that plan, the U.S. successfully negotiated a multilateral agreement to eliminate foreign shipbuilding subsidies and other distortive trade practices on July 17, 1994.

  We do not believe, however, that it is appropriate to require that ANS oil exports be carried on U.S.-built vessels. First, such a requirement is potentially inconsistent with our obligations under international agreements and is inconsistent with our efforts to open shipbuilding markets.

  Second, most ANS crude oil is shipped on Jones Act tankers that are already owned or leased for extended periods by the ANS producers. We would expect that the ANS producers would continue to use these committed ships for the ANS export trade.

5. **<u>Adhere to International Trade Commitments</u>** <u>-- Of course, any conditions imposed on exports must be consistent with established U.S. international trade policies</u>. Permitting export of ANS crude oil would be an important liberalization of existing trade restrictions.

6. **<u>Protect the Environment</u>** <u>-- Environmental resources must be fully protected</u>. All shipping that occurs as a result of permitting ANS exports, including exports from Alaska and offsetting imports into the U.S., will have to meet all prevailing U.S. environmental protection requirements, including the new provisions of the Oil Pollution Act of 1990. DOE analyzed potential environmental impacts in our

June 1994 study. The direct impacts of ANS exports would not be negative. There would be no need to expand the Trans-Alaska Pipeline and the number of overall tanker movements in U.S. waters would be reduced. Moreover, indirect effects, such as changes in California refinery activity and increased California production, would be strictly regulated under existing regulatory regimes. Nonetheless, before any export of ANS crude oil is permitted, an environmental assessment consistent with the requirements of the National Environmental Policy Act of 1970 should be undertaken.

Legislation to permit export of ANS crude oil should not be linked to a change in status of the Arctic National Wildlife Refuge. The Administration has not altered its opposition to exploration and development of any oil resources that may be under the coastal plain of the Arctic National Wildlife Refuge.

7. **Reinvent ANS Oil Export Licensing** -- Any export license required for ANS oil exports must be issued using a process that is streamlined and "user-friendly," consistent with obligations to consider environmental and energy security impacts.

8. **Monitor ANS Export Policy** -- Interested parties should review ANS export activities periodically. Once ANS exports have begun, appropriate federal agencies should consult with affected state and local governments, interested industry and worker representatives, and environmental organizations to help ensure that the policy is implemented consistent with all applicable energy, economic, and environmental criteria.

Mr. Chairman, I believe that S. 395, introduced by you and Senator Stevens, provides a vehicle for permitting Alaskan North Slope crude oil exports consistent with these principles. We believe the bill would be substantially improved by requiring an appropriate environmental assessment before approving export activities and by providing for appropriate enforcement action, including revoking permission to export, in the event of anticompetitive behavior that injures U.S. industry.

I would like to address several of the arguments that are made against permitting ANS exports. First, some argue that allowing ANS oil to be exported in tankers that were not constructed in the U.S. will adversely affect U.S. shipyards and their employees. The impact of allowing ANS oil exports in foreign-built, albeit U.S. flagged, vessels is not pivotal to the future of the U.S. shipbuilding industry.

ANS production is expected to fail over time, so shipping requirements will be reduced in the coming years. Were it not for the requirements of the Oil Pollution Act of 1990, no ship construction would be required for the ANS trade for the Foreseeable future. The Oil Pollution Act of 1990, which will preclude tankers from operating in U.S. waters unless they are double-hulled according to a staggered implementation schedule, will require reconstruction or replacement of most of the vessels now carrying ANS crude oil. British Petroleum, the ANS producer expected to account for nearly all of the ANS exports, has committed previously to using Jones Act ships for the ANS export trade. Reconstruction to comply with double hull requirements must be done in the U.S. to retain Jones Act status.

Second, some argue that if ANS exports are allowed, most tanker maintenance that is now conducted on the West Coast will be performed in the Far East. We should recall that U.S. shipyards are already protected by a 50% tariff on non-emergency, foreign repairs. Further, the economics of ship repair do not support this argument. As a matter of routine, we expect that exports will be shipped on two to four fairly large tankers out of the 30 or so vessels now in the ANS fleet. Transporting oil to the Far East on the large number of small vessels in the ANS trade simply to accomplish repairs would cost at least $500,000 more in transportation costs per cargo. Combining this with the repair tariff makes this strategy seem uneconomic compared to using large efficient tankers and conducting repairs on small tankers in the United States.

Third, some argue that allowing exports of ANS crude oil will increase product costs to consumers. We believe the export of ANS crude oil should not affect consumers adversely. Our evaluations indicate that ANS oil exports might raise the market prices of California and Alaskan crude oil by as much as $1.20 and $1.60 per barrel, respectively, or three to four cents per gallon. However, more than half ANS crude oil and 75 percent of California crude oil is produced by refiners that process it themselves, or trade it for more convenient supplies. When this is taken into account, the average cost increase to refiners is slightly over <u>one</u> cent per gallon.

We examined historical price movements on the West Coast and discovered that small movements in West Coast crude oil prices were much less a determinant of gasoline and diesel fuel prices than were prices for these products in other markets such as the Gulf Coast. We concluded that any cost increase would probably be washed out in the highly competitive West Coast transportation fuel market.

In conclusion, Mr. Chairman, I want to reiterate the Administration's support for a policy that permits export of Alaskan North Slope crude oil in a manner that is consistent with the ten principles listed above.

KEDO AGREEMENT

The Government of the Republic of Korea, the Government of Japan, and the Government of the United States of America:

Affirming the objective of an overall resolution of the North Korean nuclear issue, as referred to in the Agreed Framework Between the United States of America and the Democratic People's Republic of Korea (DPRK), signed in Geneva on October 21, 1994 (hereinafter "the Agreed Framework");

Recognizing the critical importance of the nonproliferation and other steps that must be taken by the DPRK, as described in the Agreed Framework, as a condition of implementation of the Agreed Framework; and

Bearing in mind the paramount importance of maintaining peace and security on the Korean Peninsula;

Wishing to cooperate in taking the steps necessary to implement the Agreed Framework, consistent with the Charter of the United Nations, the Treaty on the Nonproliferation of Nuclear Weapons, and the Statute of the International Atomic Energy Agency;

Convinced of the need to establish an organization, as contemplated in the Agreed Framework, to coordinate cooperation among interested parties and to facilitate the financing and execution of projects needed to implement the Agreed Framework;

Have agreed as follows:

ARTICLE I

The Korean Peninsula Energy Development Organization (hereinafter referred to as "KEDO" or "the Organization") is established upon the terms and conditions hereinafter set forth.

ARTICLE II

(a) The purposes of the Organization shall be to:

(1) provide for the financing and supply of a light-water reactor ("LWR") project in North Korea (hereinafter referred to as "the DPRK"), consisting of two reactors of the Korean standard nuclear plant model with a capacity of approximately 1,000 MW(e) each, pursuant to a supply agreement to be concluded between the Organization and the DPRK;

(2) provide for the supply of interim energy alternatives in lieu of the energy from the DPRK's graphite-moderated reactors pending construction of the first light-water reactor unit;

(3) provide for the implementation of any other measures deemed necessary to accomplish the foregoing or otherwise to carry out the objectives of the Agreed Framework.

(b) The Organization shall fulfill its purposes with a view toward ensuring the full implementation by the DPRK of its undertakings as described in the Agreed Framework.

ARTICLE III

In carrying out these purposes, the Organization may do any of the following:

(a) Evaluate and administer projects designed to further the purposes of the Organization;

(b) Receive funds from Members or other countries or entities for financing projects designed to further the purposes of the Organization, manage and disburse such funds, and retain for Organization purposes any interest that accumulates on such funds;

(c) Receive in-kind contributions from Members or other countries or entities for projects designed to further the purposes of the Organization;

(d) Receive funds or other compensation from the DPRK in payment for the LWR project and other goods and services provided by the Organization;

(e) Cooperate and enter into agreements, contracts, or other arrangements with appropriate financial institutions, as may be agreed upon, for the handling of funds received by the Organization or designated for projects of the Organization;

(f) Acquire any property, facilities, equipment, or goods necessary for achieving the purposes of the Organization;

(g) Conclude or enter into agreements, contracts, or other arrangements, including loan agreements, with states, international organizations, or other appropriate entities, as may be necessary for achieving the purposes and exercising the functions of the Organization;

(h) Coordinate with and assist states, localities and other public entities, national and international institutions, and private parties in carrying out activities that further the purposes of the Organization, including activities promoting nuclear safety;

(i) Dispose of any receipts, funds, accounts, or other assets of the Organization and distribute the proceeds in accordance with the financial obligations of the Organization, with any remaining assets or proceeds therefrom to be distributed in an equitable manner according to the contributions of each Member, as may be determined by the Organization.

(j) Exercise such other powers as shall be necessary in furtherance of its purposes and functions, consistent with this Agreement.

ARTICLE IV

(a) Activities undertaken by the Organization shall be carried out consistent with the Charter of the United Nations, the Treaty on the Nonproliferation of Nuclear Weapons ("NPT"), and the Statute of the International Atomic Energy Agency.

(b) Activities undertaken by the Organization shall be subject to the DPRK's compliance with the terms of all agreements between the DPRK and KEDO and to the DPRK acting in a manner consistent with the Agreed Framework. In the event that these conditions are not satisfied, the Organization may take appropriate steps.

(c) The Organization shall obtain assurances that nuclear materials, equipment, or technology transferred to the DPRK in connection with projects undertaken by the Organization shall be used exclusively for such projects, only for peaceful purposes, and in a manner that ensures the safe use of nuclear energy.

ARTICLE V

(a) The original Members of the Organization shall be the Republic of Korea, Japan, and the United States of America (hereinafter referred to as the "original Members").

(b) Additional countries that support the objectives of the Organization and offer assistance, such as providing funds, goods, or services to the Organization, may, with the approval of the Executive Board, become Members in accordance with the procedures in article XIV(b).

ARTICLE VI

(a) The authority to carry out the functions of the Organization shall be vested in the Executive Board.

(b) The Executive Board shall consist of representatives of the original Members.

(c) The Executive Board shall select a Chair from among the representatives serving on the Executive Board for a term of two years.

(d) The Executive Board shall meet whenever necessary at the request of the Chair of the Executive Board, the Executive Director, or any representative serving on the Executive Board, in accordance with rules of procedure it shall adopt.

(e) Decisions of the Executive Board shall be made by a consensus of the representatives of all the original Members.

(f) The Executive Board may approve such rules and regulations as may be necessary or appropriate to achieve the purposes of the Organization.

(g) The Executive Board may take any necessary action on any matter relating to the functions of the Organization.

ARTICLE VII

(a) The General Conference shall consist of representatives of all Members of the Organization.

(b) The General Conference shall be held annually to consider the annual report, as referred to in article XII.

(c) Extraordinary meetings of the General Conference shall be held at the direction of the Executive Board to discuss matters submitted by the Executive Board.

(d) The General Conference may submit a report containing recommendations to the Executive Board for its consideration.

ARTICLE VIII

(a) The staff of the Organization shall be headed by an Executive Director. The Executive Director shall be appointed by the Executive Board as soon as possible after this Agreement enters into force.

(b) The Executive Director shall be the chief administrative officer of the Organization and shall be under the authority and subject to the control of the Executive Board. The Executive Director shall exercise all the powers delegated to him or her by the Executive Board and shall be responsible for conducting the ordinary business of the Organization, including the organization and direction of a headquarters and a staff, the preparation of annual budgets, the procurement of financing, and the approval, execution and administration of contracts to achieve the purposes of the Organization. The Executive Director may delegate such powers to other officers or staff members as he or she deems appropriate. The Executive Director shall perform his or her duties in accordance with all rules and regulations approved by the Executive Board.

(c) The Executive Director shall be assisted by two Deputy Executive Directors. The two Deputy Executive Directors shall be appointed by the Executive Board.

(d) The Executive Director and the Deputy Executive Directors shall be appointed for terms of two years and may be reappointed. They shall be nationals of the original Member countries. The terms of employment, including salaries, of these officers shall be determined by the Executive Board. The Executive Director and the Deputy Executive Directors may be removed prior to the expiration of their terms by a decision of the Executive Board.

(e) The Executive Director shall have the authority to approve projects, execute contracts, and enter into other financial obligations on behalf of the Organization within the guidelines adopted by the Executive Board and the limits of the approved budget, provided that the Executive Director shall obtain the prior approval of the Executive Board for projects, contracts, or financial obligations that exceed a specified value, which shall be determined by the Executive Board based on the need for effective and efficient operation of the Organization.

(f) The Executive Director shall establish staff positions and terms of employment, including salaries, subject to the approval of the Executive Board. The Executive Director shall appoint qualified personnel to such staff positions and dismiss personnel as necessary, in accordance with rules and regulations to be approved by the Executive Board. The Executive Director shall seek to appoint a staff in which the nationals of the original Member Countries are fairly represented, paying due regard to the importance of securing the highest standards of integrity, efficiency, and technical competence.

(g) The Executive Director shall report to the Executive Board and the General Conference on the activities and finances of the Organization. The Executive Director shall promptly bring to the notice of the Executive Board any matter that may require Executive Board action.

(h) The Executive Director, with the advice of the Deputy Executive Directors, shall prepare rules and regulations consistent with this Agreement and the purposes of the Organization. The rules and regulations shall be submitted to the Executive Board for its approval prior to implementation.

(i) In the performance of their duties, the Executive Director and the staff shall not seek or receive instructions from any government or from any other authority external to the Organization. They shall refrain from any action that might reflect on their position as international officials responsible only to the Organization. Each Member undertakes to respect the exclusively international character of the responsibilities of the Executive Director and the staff and not to seek to influence them in the discharge of their responsibilities.

ARTICLE IX

(a) The Executive Board shall establish Advisory Committees to provide advice to the Executive Director and the Executive Board, as appropriate, on specific projects being carried out by the Organization or proposed to be carried out by the

Organization. Advisory Committees shall be established for the light-water reactor project, the provision of alternative energy, and such other projects as the Executive Board may determine.

(b) Each Advisory Committee shall include representatives of the original Members and other Members that support the project for which the Advisory Committee was established.

(c) The Advisory Committees shall meet at such times as they may determine.

(d) The Executive Director shall keep the Advisory Committees fully informed of matters pertinent to their respective projects, and the Executive Board and Executive Director shall give due consideration to the recommendations of the Advisory Committees.

ARTICLE X

(a) The budget for each fiscal year shall be prepared by the Executive Director and shall be approved by the Executive Board. The Organization's fiscal year shall be from January 1 to December 31.

(b) Each Member may make voluntary contributions to the Organization by providing or making available such funds as it deems appropriate. Such contributions may be made directly to the Organization or by paying the Organization's contractors. Contributions shall be made by cash deposit, escrow, letter of credit, promissory note, or by such other legal means and in such currency as may be agreed between the Organization and the contributor.

(c) The Organization may seek contributions from such other public or private sources as it deems appropriate.

(d) The Organization shall establish an account or accounts to receive funds from Members or other sources, including independent accounts for those funds to be reserved for specific projects and the administration of the Organization. Interest or dividends accruing on such accounts shall be reinvested for activities of the Organization. Excess funds shall be distributed as set forth in article III(i).

ARTICLE XI

(a) Members may make available to the Organization or its contractors goods, services, equipment, and facilities that may be of assistance in achieving the purposes of the Organization.

(b) The Organization may accept from such other public or private sources as it deems appropriate any goods, services, equipment, and facilities that may be of assistance in achieving the purposes of the Organization.

(c) The Executive Director shall be responsible for valuing in-kind contributions to the Organization, whether direct or indirect. Members shall cooperate with the Executive Director in the valuation process, including by providing regular reports of in-kind contributions and access to records necessary to verify the value of such contributions.

(d) In the event of a dispute concerning the value of an in-kind contribution, the Executive Board shall review the matter and render a decision.

ARTICLE XII

The Executive Director shall submit to the Executive Board for its approval an annual report on the activities of the Organization, which shall include a description of the status of the LWR project and other projects, a comparison of planned activities to completed activities, and an audited statement of the Organization's accounts. Upon the approval of the Executive Board, the Executive Director shall distribute the annual report to the Members. The Executive Director shall submit to the Executive Board such other reports as may be required by the Executive Board.

ARTICLE XIII

(a) The Organization shall have legal capacity in accordance with the laws and regulations of the respective Members, as necessary to carry out its purposes and functions, including the capacity to: (1) contract; (2) lease or rent real property; (3) acquire and dispose of personal property; and (4) institute legal proceedings.

(b) No Member Country shall be liable, by reason of its status or participation as a Member, for acts, omissions, or obligations of the Organization.

(c) Information provided to the Organization by a Member shall be used exclusively for the purposes of the Organization and shall not be publicly disclosed without the express consent of that Member.

(d) Implementation of this Agreement in the Member countries shall be in accordance with the laws and regulations, including budgetary appropriations, of such Member countries.

ARTICLE XIV

(a) This Agreement shall enter into force upon signature by the original Members.

(b) Countries accepted by the Executive Board for membership in accordance with article V(b) may become Members by submitting an instrument of acceptance of this Agreement to the Executive Director, which shall become effective on the date of receipt by the Executive Director.

(c) This Agreement may be amended by written agreement of the original Members.

(d) This Agreement may be terminated or suspended by written agreement of the original Members.

ARTICLE XV

A Member may withdraw from this Agreement at any time by giving written notice of withdrawal to the Executive Director of the Organization. The withdrawal shall become effective ninety days after receipt of the notice of withdrawal by the Executive Director.

DONE at ____________, this ________ day of ______________, 1995, in three copies in the English language.

For the Government of Japan: ______________________________

For the Government of the Republic of Korea: ______________________________

For the Government of the United States of America: ______________________________

OFFICE OF AMBASSADOR AT-LARGE
ROBERT L. GALLUCCI

(S/AL)

2201 "C" STREET, N.W., ROOM 6313
WASHINGTON, D.C. 20520

UNCLASSIFIED

Date Sent: 3/3

Pages transmitted (including cover): 11

TO: Aoki (Name) NSC (Office)

FAX #: 456-9180

TEL #:

FROM: S/AL · VEC

FAX #: (202) 647-1838

TEL#: 647-1829

SUBJECT: KEDO Itinerary

NSC-Aoki
ACDA-Wulf
OMB-Nix

KEDO MEETING SCHEDULE

March 7

March 7	
11:00 - 12:00	Short Trilateral-- US Mission
1:00 - 6:00 p.m.	Bilateral Meetings
6:30 - 8:00 p.m.	Reception for Conference participants
March 8	
9:00 - 12:00 p.m.	Bilateral meetings
12:30 - 2:30 p.m.	Lunch for Delegation Heads
2:45 - 4:00 p.m.	Photo opportunity and session on Implementation of Agreed Framework (multilateral)
4:30 p.m - 6:30 p.m.	Korean Peninsula Energy Development Organization (KEDO) (multilateral)
March 9	
9:30 - 12:00	Further Multilateral Discussion/Final Summing up
Lunch Free	
1:00 - 3:00	Trilateral/Executive Board Meeting
3:30 -	Press Event

TRILATERAL MEETING

March 7
11:00 am - 12:00 pm

I. Last Minute Discussion before bilaterals and Multilaterals
(may focus on strategy for bilaterals over next day)

HEADS OF DELEGATION LUNCH
(3 per Trilateral country plus 1 from each other attendee)

March 8
12:30 pm - 2:30 pm

I. WELCOME (Ambassador Albright, tentative)

II. PRESENTATION BY AMBASSADOR GALLUCCI ON U.S. POLICY AND AGREED FRAMEWORK (20 minutes)

KEY POINTS

- **Faced big problem with DPRK nuclear and missile program**
- **Threat to NPT and regional security**
- **Agreed Framework Deals with that Problem**
- **May open way to deal with other issues of concern (missile proliferation, conventional forces etc.)**
- **Implementation requires international support**

III. REMARKS - REPUBLIC OF KOREA (10 minutes)

IV. REMARKS - JAPAN (10 minutes)

V. COMMENTS/QUESTIONS BY OTHER DELEGATIONS

BRIEFING ON IMPLEMENTATION OF AGREED FRAMEWORK

March 8
2:45 - 4:00

I. Brief Photo Opportunity

II. INTRODUCTION (Ambassador Gallucci)

A. Brief recap of luncheon remarks and discussion

B. Introductory Remarks-

KEY POINTS

- **Long and complicated process. May not always proceed smoothly.**

- **Given deadlines established in Agreed Framework, U.S., in cooperation with ROK and Japan, has moved forward with implementation, key parts of which will be taken over by KEDO.**

III. EXPERTS PRESENTATIONS (10 minutes each followed ~~by specific questions from attendees~~)

A. Nuclear Freeze (John Serabian, State)

B. LWR Contract Discussions (Gary Samore, S/AL)

C. Spent Fuel Talks (Norm Wulf, ACDA)

D. Easing Economic Restrictions (Robert Deutch, State)

E. Heavy Fuel Oil Deliveries (Todd Harvey, DOD)

V ~~IV.~~ ~~&~~ Questions

IV. Summing Up (Ambassador Gallucci)

KEY POINTS

- **So far, our overall assessment is that implementation has proceeded satisfactorily although some concerns.**

- **On heavy fuel oil, while most of oil is being used for purposes specified under Agreed Framework and at the place the North told us it would, a small amount has been diverted. We are pursuing this matter with the DPRK.**

- **On LWR talks, echoe Gary's remarks about bumpy road ahead. KEDO is the best mechanism to make Korean reactors acceptable to DPRK.**

A. Possible Comments by ROK and Japan

B. Any comments from other attendees)

KOREAN PENINSULA ENERGY DEVELOPMENT ORGANIZATION (KEDO)

March 8
4:30 pm -6:30 pm

I. INTRODUCTION - AMBASSADOR GALLUCCI (10 minutes)

<u>KEY POINTS</u>

- **KEDO critical to implementation of Agreed Framework**
- **Will have important role in key projects-- LWR, heavy fuel oil, existing spent fuel-- and may have other responsibilities as yet undetermined.**
- **Tried to shape an effective, small organization which recognizes leading roles of U.S. ROK and Japan, provides for participation of other countries, and has small staff. Organizations budget also small although some projects will be expensive.**
- Same time sensitive to DPRK's concerns about wanting to deal with the U.S. Organization's American face -- Chairman of Board, executive director, KEDO's LWR Program coordinator -- takes into account these concerns.

II. KEDO

A. General Overview of Structure - Executive Director, Deputy Directors, Staff Organization, Contracted out functions including Program Coordinator and Legal Services. Start-up Costs and yearly budget. (Tom Hubbard presentation) (30 minutes)

B. KEDO Projects

1. Briefing on LWR Project by ROK (Mr. Cho) (45 minutes)

2. Other projects- heavy fuel oil, existing spent fuel (Ambassador Gallucci) (20 minutes)

KEY POINTS

- Other major project is heavy fuel oil deliveries provided for under the Agreed Framework. Reason for deliveries-- interim energy supply since DPRK agreed to freeze program.

- o U.S. has already taken care of first shipment, 50,000 tons in January at cost of $5 million. Under Agreed Framework, KEDO obligated to deliver 100,000 tons by October 1995 and 500,000 tons per year until the first reactor is scheduled for completion, about 8 years.

- o Estimated cost of shipments is $10 million for first and $50 million each subsequent year or about $410 million total.

- o Immediate priority is 100,000 tons which will have to be delivered in installments by October since DPRK storage capacity at delivery site is only 50,000 tons.

- o One of first activities for KEDO will be to arrange those deliveries. Therefore, important that KEDO have sufficient money or contributions in kind for that purpose soon.

- o Other activity which will concern KEDO is dealing with existing spent fuel in DPRK. As was mentioned previously, U.S. has already moved out in process leading to canning fuel which we expect to be completed by next fall. Cost to us is about $10 million.

- o Nevertheless, welcome other members in KEDO playing role in this issue. Envision possible contributions in-kind, cash contributions and forming advisory committee in KEDO on spent fuel.

- o Also recognize that eventually spent fuel will be shipped out of DPRK and that may also concern KEDO.

C. SUMMING UP - AMBASSADOR GALLUCCI (10 minutes)

KEY POINTS

- o Intention to create small, effective organization, not a new, growing international bureaucracy. Believe structure established for KEDO does the trick.

- o On Korean Model LWR, based on safe, modern technology and only viable option politically, technically and financially, as we have told DPRK many times.

- o KEDO's multilateral composition will be especially important in making the Korean model reactor more palatable for the DPRK.

- Word about overall KEDO Budget

  Organization: $10 million annually or $100 million

  Projects: LWR-- about $4 billion

  Heavy Fuel Oil -- $10 million by October 1995, $50 million annually for 8 years, total of $410 million

  Existing Spent Fuel -- U.S. canning and paying for maintenance $3 million annually. Eventual removal may be in range of $50 million.

IV. NEXT STEPS IN SETTING UP KEDO (AMBASSADOR GALLUCCI) (30 minutes)

<u>KEY POINTS</u>

- Need to move quickly to establish KEDO

  -- U.S., ROK and Japan are serious about meeting terms of Agreed Framework since its is in our own interests as well as international community. Moving quickly demonstrates that seriousness.

  -- Obvious KEDO will play a critical role in implementation. Requirements of Agreed Framework-- LWR Contract and heavy fuel oil delivery-- mean we must move quickly.

- Intention to sign KEDO Agreement after this multilateral meeting adjourns and to hold first Executive Board meeting.

- Purpose will be to agree on KEDO executive director and deputy directors, admit countries as additional members and to discuss other steps relevent to establishing organization.

- Following Board meeting, will take practical steps to set up KEDO-- establishing offices, hiring staff, setting up bank account, gradually move into main tasks of implementation.

- Probably will have fairly frequent Board meetings-- maybe once a month-- in initial phase. Provide opportunities to assess progress and to admit more new members.

- Once we have sufficient new members, may hold first General Conference and establish Advisory Committees for each of KEDO's projects.

FINAL MULTILATERAL SESSION - DISCUSSION/SUMMING UP

March 9
8:30 am - 12:00 pm

Thanks for coming. Leave your money in small, unmarked bills with my staff.

CONCLUDING TRILATERAL/EXECUTIVE BOARD MEETING
(Tentative Agenda)

March 9
1:00 pm - 3:00 pm

I. REVIEW RESULTS OF KEDO MEETING (particularly strategy to follow up with countries who attended KEDO meeting)

II. SIGN KEDO AGREEMENT (witnessed by the press which will then be ushered out)

III. EXECUTIVE BOARD MEETING

A. Consider Board Resolution

1. Name U.S. Chair of Board

2. Approve Executive Director/Deputy Directors if possible.

3. Approve Applications of Additional Countries for Membership

4. Designate U.S. to continue LWR Contract talks on behalf of KEDO if possible

5. Review Next Steps and Schedule Next Executive Board Meeting

B. Next Steps in Setting Up KEDO-- **Move quickly with help of admin person to set up office, open bank account, get accountant etc.**

C. **Next Executive Board Meeting-- Schedule for first half of April to review progress in implementation, setting up, admit new members.**

IV. PRESS EVENT (15 minutes together)

A. Statment on KEDO Meeting and Executive Board Session -- to be written during KEDO meeting-- (announce new executive director, additional members etc. if possible)

B. Distribute KEDO Agreement to press

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006. draft	letter, Ambassador Gallucci to Minister Kang (2 pages)	03/00/1995	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Steven Aoki (Nonproliferation and Export Controls)
OA/Box Number: 711

FOLDER TITLE:

North Korea, January 1995 [7]

2009-0528-F
kc1579

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

The U.S.-DPRK Agreed Framework: A White Paper

On October 21, 1994, representatives of the United States and the DPRK signed an Agreed Framework that addresses all of our concerns about North Korea's nuclear weapons program: past, present and future. It upholds the integrity of the international nonproliferation regime and, if fully implemented, will lead ultimately to complete dismantlement of North Korea's nuclear capability. In short, it stops the North Korean nuclear weapons program in its tracks. The Agreed Framework also sets the stage for reduced tension in the region and dialogue between the DPRK and ROK to resolve their differences. As progress is made in resolving other issues of concern to the U.S., the Framework will lead to more normal relations between the U.S. and the DPRK.

North Korea in Perspective

The Agreed Framework between the United States and the DPRK marks an important departure from the state of unremitting hostility that has existed between our two countries and on the Korean peninsula generally for over forty years. While the Republic of Korea made impressive progress toward democracy and prosperity during that time, the DPRK has remained locked behind a wall of paranoia and secrecy. North Korea engaged in acts of aggression and terrorism. In the 1960s, it seized and detained the USS Pueblo and staged an attack on the South Korean president's residence. In the 1970s, North Korea perpetrated intermittent acts of violence along the DMZ, including the infamous ax murder incident in 1977. In the 1980s, Pyongyang orchestrated a bombing attack on the South Korean cabinet during a state visit to Burma and the blowing up of a South Korean airliner in 1987.

Tensions with North Korea have been compounded by a very unstable military situation on the peninsula. North Korea has a 1.1 million man army, much of it aggressively deployed in forward positions along the DMZ. Seoul, the political and economic nerve center of South Korea, lies within artillery range of North Korea and would be vulnerable in the event of a North Korean attack. The 37,000 American troops serving in South Korea play a vital role in deterring North Korean aggression and would fight side by side with Republic of Korea troops in the event of a conflict. The recent helicopter shootdown provides a reminder of just how tense the military situation on the peninsula remains.

It was against this backdrop that successive administrations watched with growing concern as North Korea began to develop a nuclear weapons capability and the means to deliver those weapons.

The Threat to American Interests

While any development of nuclear facilities in North Korea would have caused us concern, we were especially troubled by the particular nuclear technology that the North was pursuing. It was clear that their program was designed to produce plutonium for nuclear weapons, not simply to serve as a source of energy for an electricity-starved developing country. The North initially built a 5 megawatt electric research reactor and a facility to separate plutonium from spent fuel for use in nuclear weapons. The DPRK also began to construct two larger reactors (50 MWe and 200 MWe) to increase even further their ability to produce plutonium. These reactors are obsolete as electricity producers but their gas graphite technology is excellent for producing weapons grade plutonium. We also concluded that they have the other technical capabilities needed to design and fabricate a nuclear explosive device.

Successive administrations well understood the threat these developments posed to U.S. security interests and those of our allies. A North Korean nuclear arsenal would make an already dangerous military situation in NE Asia even more unstable. Nuclear weapons in the hands of the DPRK would directly threaten vital interests of the United States and its regional allies, Japan and the Republic of Korea. We also saw a North Korean program in place to develop extended range ballistic missiles. With potential ranges as high as thousands of kilometers, that program posed a clear offensive threat. We understood that the missiles under development were not particularly accurate, indicating that they were intended to deliver weapons of mass destruction, rather than conventional explosives. If the nuclear weapons program and extended range ballistic missile were successfully combined, the DPRK nuclear program could threaten most of East Asia. It could lead to a regional arms race and prompt other nations in the region to develop nuclear weapons.

Nuclear Exports? Our concern was heightened even further by the prospect of plutonium or nuclear weapons exports to other regions of concern, particularly the Middle East. North Korea has shown that it is willing to transfer ballistic missiles to states of concern in the Middle East. We could only assume that they would do the same if they ever developed a significant number of nuclear weapons. In short, the prospect of a North Korea producing large numbers of nuclear weapons (and the means to deliver them) posed a grave threat to vital U.S. interests and those of our friends and allies, both in Asia and in the rest of the world.

The U.S. Response to the Threat

The Clinton Administration's direct involvement with North Korea over the nuclear issue began in 1993 after North Korea refused to comply with its safeguards obligations under the Nuclear Nonproliferation Treaty and announced its intention to withdraw from the Treaty. This situation came about in 1992 -- the first year of IAEA inspections under the NPT agreement, when the IAEA found an "anomaly" in its analysis of inspection results. The IAEA then wanted to conduct special inspections at two nuclear waste storage sites in order to resolve the anomaly and shed more light on the question of how much plutonium the North had produced in its reactor and separated during the period from 1989-1992. The IAEA had reason to believe that the North's claims that it had separated only small amounts of plutonium (gram quantities) were not accurate. The IAEA's technical analysis suggested that it was more likely that the DPRK had separated larger quantities of plutonium. It was the DPRK's rejection of these special inspections (the question of the "past") and the IAEA's finding of DPRK non-compliance with its safeguards agreement that brought the issue to the United Nations Security Council.

After the IAEA reported the impasse to the Security Council, the Council invited member states to take up the matter bilaterally with the DPRK. From the outset of our talks with North Koreans, we had two fundamental goals: to ensure a non-nuclear Korean peninsula and to demonstrate support for a strong global nonproliferation regime. To secure those objectives, we wanted to make sure that the North Koreans did three things. First, we wanted to bring North Korea back into the NPT. Second, they needed to accept full scope IAEA safeguards, including special inspections. Third, we wanted to convince the North to implement the North-South Declaration on Denuclearization, which they had negotiated bilaterally with South Korea in 1992. That declaration would ensure a non-nuclear Korean peninsula by requiring that they give up any reprocessing capability and accept a bilateral inspection regime. We also made it clear to the North Koreans that we could only engage in dialogue so long as they accepted safeguards to assure non-diversion of nuclear material, refrained from separating any more plutonium and remained in the NPT. If they violated any of the conditions, we would turn to the Security Council for sanctions. We were determined not to lose any ground while talks were underway.

After meeting with DPRK representatives twice in the summer of 1993, talks broke off for almost an entire year because of the North's refusal to allow the IAEA to conduct the kinds of inspections necessary to ensure the continuity of IAEA safeguards. When it finally appeared that talks were going to get back on track in June of this year, the North again took a step (unloading the fuel from the 5 MW reactor in a way that prevented the IAEA from determining the reactor's operating history) to undermine the basis for a negotiated solution to the problem.

Preparations for Sanctions. When the North took this step, we began the process of consulting with our allies and UNSC partners about a sanctions resolution. We had told the DPRK that we would turn to the UN for sanctions if our attempts at dialogue proved fruitless and in June we began to do just that.

Because of our concern over the nuclear issue, we had advanced our plans for modernization of our forces during the early months of 1994. We did not take at face value North Korean statements about sanctions being an act of war, but we were determined to take steps to improve our deterrent posture and to ensure that we were ready for anything that might follow from a sanctions vote. Accordingly, we implemented a number of equipment upgrades for U.S. forces in Korea. Bradley fighting vehicles, Apache helicopters, Patriot air defense batteries and counterbattery radar systems were all deployed to the peninsula in the first half of 1994. At the time a sanctions resolution was about to be presented to the UNSC, we were in as strong a military position as we had been at any time since the Korean War. We were also prepared at that time to take additional military steps to bolster our forces on the peninsula.

President Carter's Trip to Pyongyang. It was during this period that former President Carter visited Pyongyang. President Carter convinced the DPRK to commit to the idea of a freeze in their nuclear program while talks were underway. But it was President Clinton who defined precisely what would be meant by a freeze, that is, what the North would have to agree to if talks were to resume. The President set a new, higher standard for maintaining dialogue with the DPRK by insisting that a freeze include a commitment not to reload and operate the 5 MW reactor. This went beyond their previous commitment not to undertake any reprocessing or separation of plutonium. The North quickly accepted these terms -- our terms -- and we moved to a new round of talks in Geneva.

Our willingness to resume talks was linked directly to North Korean agreement to our definition of a freeze on their program. We believe that Pyongyang was willing to make this concession because the North Korean leadership understood that we were prepared in both political and military terms to pursue sanctions. They had seen the work we had done at the UN to ready a sanctions resolution and the military steps that we had taken to prepare ourselves for that possibility. They understood that the United States was fully prepared to go another route if negotiations failed. The North Koreans siezed the opportunity offered by the Carter visit to accept a path to a solution that was favorable to the U.S. In short, when we went back to the negotiating table in mid-summer, it was on our terms.

New and Expanded Objectives. In the year that passed between the second round of talks and the beginning of the third round, we had expanded our objectives considerably. While we were still focused on bringing the DPRK back into compliance with its safeguards obligations, the DPRK's interest in acquiring LWRs suggested that they might be willing to give up their entire system of gas graphite fuel cycle nuclear reactors, their plutonium separation plant and their fuel fabrication facilities, as well as the existing spent fuel from their 5 MW reactor. This went well beyond their safeguards and NPT treaty obligations. It was our view that even under IAEA safeguards, these facilities posed a potential threat to U.S. security and we therefore made it a priority objective to reach an agreement that provided for their dismantlement.

Thus, as we went back to the table in Geneva we were clear in our own minds that any resolution of the nuclear issue must contain two elements. First, it must demonstrate the the U.S.

will not walk away from a material violation of the NPT and international safeguards. There would be no settlement that did not include a return to North Korea's full compliance with its NPT obligations. Second, and even more urgent, the United States would not allow North Korea to accumulate significant amounts of plutonium, potentially usable in nuclear weapons, even under IAEA safeguards. There would be no settlement of the issue that left intact the North Korean capability to produce and possibly export large quantities of weapons grade material. We succeeded in securing both objectives.

Elements of the Agreed Framework

The Agreed Framework addresses all of our concerns about the North Korean nuclear program -- past, present and future. It more than meets the objectives that we had set for ourselves 18 months ago when we first met with DPRK representatives. Indeed, it achieves more than we thought possible when the talks began in the summer of 1993.

The Present. With respect to the present, the Agreed Framework prohibits any additional reprocessing or separation of plutonium. The spent fuel rods that were unloaded in June from the 5 MW reactor will remain safely stored in the cooling pond for now and will eventually be shipped out of North Korea. The plutonium in those spent fuel rods would have been enough to produce 5 nuclear weapons. The Agreed Framework also prohibits the restart of the 5 MW reactor, which, if operating, could have produced approximately one bomb's worth of plutonium each year. The Framework also requires that the DPRK cease operations at the so-called radiochemistry laboratory, seal the facility and subject it to IAEA inspections to verify its status. This is the facility that the North used to separate plutonium.

The Future. With respect to the future, the Agreed Framework requires that the North freeze construction on the two larger reactors that were underway. If operating, these two new reactors (50 MWe and 200 MWe) could have produced more than 150 kilograms of plutonium each year. That is enough for a substantial stockpile of nuclear weapons, perhaps as much as 30 weapons a year. Most importantly, the Agreed Framework provides for the eventual dismantlement of all facilities related to North Korea's current gas-graphite nuclear program.

The Past. With respect to the past, under the Agreed Framework the DPRK is committed to accept full-scope IAEA safeguards, including all measures that the IAEA may deem necessary to resolve questions about its initial plutonium inventory. Implementation of that commitment is not required immediately under the Agreed Framework, but it is required before any significant nuclear components are provided to North Korea.

In return for taking the steps outlined above, North Korea will receive some significant benefits. The United States has agreed to lead an international effort to provide North Korea with more proliferation-resistant light water reactors (LWRs) over the next ten years. North Korea will also receive shipments of heavy fuel oil as an interim energy source until the LWRs come on line early in the next century. Funding for these projects will come almost entirely from non-USG sources. Under the terms of the Agreed Framework, work on the LWR project will begin, but there will be absolutely no delivery of controlled nuclear components until the DPRK is in full compliance with all of its safeguards obligations. Put another way, the North Koreans will not receive any of the critical equipment or technology for LWRs unless and until the IAEA is completely satisfied that questions about past North Korean behavior in the nuclear area are resolved. Lastly, under the terms of the Agreed Framework, the U.S. will over time move toward more normal political and economic relations with North Korea, beginning with the establishment of liaison offices in Washington and Pyongyang.

The KEDO Consortium. The U.S. role in this project will be to organize the creation of an international consortium, the Korea Energy Development Organization (KEDO), to deliver the LWRs and supplies of alternate energy to North Korea if it lives up to its obligations under the Agreed Framework. The U.S., South Korea and Japan are taking the lead in creating the KEDO consortium and in encouraging wide international participation in the effort. South Korea has stated that it will play a central role in both the financing and construction of the LWRs while Japan has indicated that it is prepared to play a leading role.

Perhaps the most important point to be made about the Agreed Framework is that it requires the North Koreans to go well beyond their NPT obligations. If the DPRK had simply chosen to return to the NPT and accept full scope IAEA safeguards, they could have continued building new production reactors and separating plutonium, albeit under IAEA safeguards. They could have produced and separated many thousands of kilograms of plutonium and still been in complete compliance with their NPT obligations. That outcome might have been appealing to some since it would have appeared to maintain the formal integrity of international nonproliferation regimes. However, it would have left intact an enormous nuclear weapons infrastructure that threatened U.S., South Korean and Japanese interests. We were determined to prevent that from happening.

The Structure of the Deal

As we negotiated with North Korea, we made a determined effort to structure the Agreed Framework such that:

-- The burden of up-front performance falls on North Korea, not on the U.S.

-- We can monitor effectively North Korean compliance or non-compliance.

-- We are not disadvantaged in any significant way if the DPRK reneges on its commitments -- at any time.

-- We place highest priority on the elements of the DPRK program that most acutely threaten U.S. security.

Who Goes First? On the first point, implementation of the Agreed Framework provides for immediate and verifiable North Korean performance on the things that matter most to us. They are required to freeze immediately all construction of the 50 and 200 MW reactors. They are required to refrain from starting up the 5 MW reactor or from taking any steps to reprocess spent fuel and separate plutonium.

The steps that we are taking in the early stages of implementation are modest by comparison. We are moving to provide in January 50,000 tons of heavy oil to North Korea, worth less than $5 million at current market prices. We will assist them in safely storing the spent fuel pending its ultimate shipment out of the DPRK. We are also moving very selectively to ease some sanctions on North Korea in the commercial area. We are also talking with the North Koreans about the technical issues associated with opening liaison offices in the two capitals. The most significant benefits that North Korea will receive will come several years down the line, when we have had a great deal of time to judge North Korean intentions and performance. Indeed, the most important benefit that the DPRK will receive under the Agreed Framework, the sensitive nuclear components for LWRs, cannot and will not be provided unless and until the DPRK is in full compliance with its safeguards obligations. Even then, the DPRK will remain dependent on foreign fuel supply since it does not have the capability to produce enriched uranium (the fuel for LWRs) itself.

Verifying North Korea's Compliance. We are looking to the IAEA to monitor and verify that a freeze is in place on the nuclear program. This is not an agreement that relies on trust. We hold no illusions about past North Korean behavior and we do not take their promises at face value. The IAEA is now on the ground in North Korea monitoring the freeze and has thus far received an unprecedented level of cooperation from the North Koreans. IAEA representatives have also held very productive discussions with the DPRK about how the agency can expand its presence so that the international community can have full confidence that the DPRK is living up to its commitments. Beyond this, we have our own national technical means to provide us with additional information about North Korean compliance. In short, we have a very high degree of confidence in our ability to determine if the DPRK is cheating. Given the DPRK's history, we would be foolish to enter into any agreement that could not be continuously monitored and verified.

<u>What if North Korea Reneges?</u> Thirdly, the agreement is structured so that we are not disadvantaged (relative to our position before the Agreed Framework was concluded) if at any point the DPRK fails to comply. If at any point in the next several years, the North backs out of the deal, it will have gained very little except for some relatively insignificant amounts of heavy fuel oil and some technical help in ensuring the safe storage of spent fuel. Even if the North reneges at the point when it is required to submit to special inspections if the IAEA deems it necessary, they will not have gained much of significance. A great deal of civil engineering work will have been done, but the DPRK will not have acquired anything of real value. Quite literally, they will own the empty shells of two LWRs. Even if that happens, we will still have benefitted substantially because the DPRK's nuclear program will have been frozen in place for that entire time. If at that point we have to return to the United Nations to seek sanctions against North Korea, we will be able to make a powerful argument that we have gone the extra mile to seek a peaceful outcome. Blame for failure will rest entirely with North Korea.

<u>Prioritizing Our Objectives and the Question of Special Inspections.</u> Lastly, on the question of prioritizing our objectives, we made a conscious effort to target most urgently those elements of the program that posed the greatest threat to our security interests. For example, we insisted that the Agreed Framework provide for the removal of spent fuel from North Korea without being reprocessed. That fuel (about 5 bomb's worth of plutonium) would be a direct threat to us if it were ever reprocessed. We also insisted that the North absolutely commit itself to no additional reprocessing or construction of gas graphite fuel cycle reactors. This would ensure that no additional plutonium is either produced or separated.

The one area in which we showed some flexbility was on the timing -- though not the principal -- of special inspections. In our view, it was vital to secure in the Agreed Framework an unambiguous DPRK commitment to special inspections. From a national security perspective, the timing of those inspections was less critical. The information to be obtained from those inspections is not perishable. We certainly would have liked to have gained North Korean commitment to immediate special inspections, but the gain would not have been worth offsetting delays in achieving our more urgent national security priorities involving current and future plutonium production.

<u>**Who Will Pay?**</u>

The Republic of Korea has stated that it will assume the central role in funding construction of the light water reactor project. Japan will play a significant financial role in ensuring the success of the LWR project, and will contribute funds to other KEDO activities as well. We are approaching other interested governments to discuss how they may best be able to contribute to the KEDO enterprise.

As for the United States, we have already expended approximately $5 million to provide the initial tranche of heavy fuel oil to the North Koreans. We expect to seek some reprogramming of FY 1995 funds to cover additional implementation activities this year, primarily to ensure the safe handling and storage of the spent fuel rods sitting the the cooling pond in North Korea. We are also at this time planning to include some funding for KEDO activities in the President's 1996 budget request. While we do not yet have a final figure for that request, we anticipate that the request will be in the tens of millions, probably less than $30 million. In subsequent budget years, we may seek additional funds from the Congress for KEDO implementation, probably of the same order of magnitude.

To put the U.S. role in supporting KEDO's activities into proper perspective, it is helpful to focus on two points. The U.S. share of the financial burden will be relatively small, particularly when compared with that borne by some of our allies. That is appropriate since those states' security is directly enhanced by the Agreed Framework. It is also useful to remember that a sanctions resolution would have led us to take military steps that might have cost hundreds of millions of dollars this year and next. We were fully prepared to do that if necessary to stop the DPRK nuclear program, but it would not have come cheap.

The Road Ahead

The road to an agreement with North Korea on the nuclear issue is a success story of U.S. constancy, strength and resolve. We identified the North Korean nuclear program as a serious threat to our interests and set out to negotiate a solution to the problem. At the same time, we prepared ourselves to take stronger steps to deal with the problem if negotiations failed to produce an acceptable outcome. When talks broke down because of North Korean intransigence, we took the steps needed to prepare for UN sanctions and for anything that might result. Both friend and foe alike understood that we were ready and willing to go down that path. When we did return to the negotiating table, it was on our terms. After the Carter mission to Pyongyang, we were able to negotiate from a position of strength. As a result, we were able to secure an agreement that achieved our priority objectives.

Looking to the future, the Agreed Framework with North Korea offers the possibility that relations between North Korea and the rest of the world might improve. While early indications are that the DPRK is living up to its commitments, we would not want to predict their behavior in the future. The recent helicopter shootdown, which resulted in the death of one U.S. pilot and an unacceptable delay in the return of the other, reveals that we are still dealing with a very tense situation on the peninsula. We also understand that our efforts to improve relations with North Korea cannot and should not go very far until they engage in real dialogue with the ROK to resolve their differences. However, it is clear that implementation of the Agreed Framework offers the DPRK a path out of its self-imposed international isolation. For us, it offers a chance to oversee the rollback of a significant threat to our security.

The Agreed Framework also offers us the opportunity to engage with the DPRK on other important issues. We have made it very clear to the North Koreans that improved relations with the U.S. can only result if they address our concerns on a range of issues. Performance in the nuclear area will not be enough. At the very top of our agenda in this regard are the questions of North Korean ballistic missile development and sales, their threatening deployments of conventional forces along the DMZ, and their efforts to resolve the question of POW/MIAs from the Korean War. While some have criticized us for not addressing these issues in the Agreed Framework, we take the opposite view. The Agreed Framework provides a vehicle for bringing these issues onto the agenda with North Korea. No such vehicle existed before. We also believe that the Framework gives us some degree of leverage over North Korea, which can be used to our advantage as we take up these other important issues.

OFFICE OF AMBASSADOR AT-LARGE
ROBERT L. GALLUCCI

(S/AL)

2201 "C" STREET, N.W., ROOM 6313
WASHINGTON, D.C. 20520

UNCLASSIFIED

Date Sent: 3/9

Pages transmitted (including cover): 10

TO: STEVE AOKI NSC
(Name) (Office)

FAX #:

TEL #:

FROM: JIM PIERCE

FAX #: (202) 647-1838

TEL#: 647-1225

SUBJECT: I think you or Dan was looking for this document. Here's the final version, signed today.

AGREEMENT ON THE ESTABLISHMENT OF THE KOREAN PENINSULA ENERGY DEVELOPMENT ORGANIZATION

The Government of the United States of America, the Government of Japan, and the Government of the Republic of Korea:

Affirming the objective of an overall resolution of the North Korean nuclear issue, as referred to in the Agreed Framework Between the United States of America and the Democratic People's Republic of Korea, signed in Geneva on October 21, 1994 (hereinafter referred to as "the Agreed Framework");

Recognizing the critical importance of the nonproliferation and other steps that must be taken by North Korea, as described in the Agreed Framework, as a condition of implementation of the Agreed Framework;

Bearing in mind the paramount importance of maintaining peace and security on the Korean Peninsula;

Wishing to cooperate in taking the steps necessary to implement the Agreed Framework, consistent with the Charter of the United Nations, the Treaty on the Non-Proliferation of Nuclear Weapons, and the Statute of the International Atomic Energy Agency; and

Convinced of the need to establish an organization, as contemplated in the Agreed Framework, to coordinate cooperation among interested parties and to facilitate the financing and execution of projects needed to implement the Agreed Framework;

Have agreed as follows:

ARTICLE I

The Korean Peninsula Energy Development Organization (hereinafter referred to as "KEDO" or "the Organization") is established upon the terms and conditions hereinafter set forth.

ARTICLE II

(a) The purposes of the Organization shall be to:

(1) provide for the financing and supply of a light-water reactor (hereinafter referred to as "LWR") project in North Korea (hereinafter referred to as "the DPRK"), consisting of two reactors of the Korean standard nuclear plant model with a capacity of approximately 1,000 MW(e) each, pursuant to a supply agreement to be concluded between the Organization and the DPRK;

(2) provide for the supply of interim energy alternatives in lieu of the energy from the DPRK's graphite-moderated reactors pending construction of the first light-water reactor unit; and

(3) provide for the implementation of any other measures deemed necessary to accomplish the foregoing or otherwise to carry out the objectives of the Agreed Framework.

(b) The Organization shall fulfill its purposes with a view toward ensuring the full implementation by the DPRK of its undertakings as described in the Agreed Framework.

ARTICLE III

In carrying out these purposes, the Organization may do any of the following:

(a) Evaluate and administer projects designed to further the purposes of the Organization;

(b) Receive funds from members of the Organization or other states or entities for financing projects designed to further the purposes of the Organization, manage and disburse such funds, and retain for Organization purposes any interest that accumulates on such funds;

(c) Receive in-kind contributions from members of the Organization or other states or entities for projects designed to further the purposes of the Organization;

(d) Receive funds or other compensation from the DPRK in payment for the LWR project and other goods and services provided by the Organization;

(e) Cooperate and enter into agreements, contracts, or other arrangements with appropriate financial institutions, as may be agreed upon, for the handling of funds received by the Organization or designated for projects of the Organization;

(f) Acquire any property, facilities, equipment, or goods necessary for achieving the purposes of the Organization;

(g) Conclude or enter into agreements, contracts, or other arrangements, including loan agreements, with states, international organizations, or other appropriate entities, as may be necessary for achieving the purposes and exercising the functions of the Organization;

(h) Coordinate with and assist states, local authorities and other public entities, national and international institutions, and private parties in carrying out activities that further the purposes of the Organization, including activities promoting nuclear safety;

(i) Dispose of any receipts, funds, accounts, or other assets of the Organization and distribute the proceeds in accordance with the financial obligations of the Organization, with any remaining assets or proceeds therefrom to be distributed in an equitable manner according to the contributions of each member of the Organization, as may be determined by the Organization; and

(j) Exercise such other powers as shall be necessary in furtherance of its purposes and functions, consistent with this Agreement.

ARTICLE IV

(a) Activities undertaken by the Organization shall be carried out consistent with the Charter of the United Nations, the Treaty on the Non-Proliferation of Nuclear Weapons, and the Statute of the International Atomic Energy Agency.

(b) Activities undertaken by the Organization shall be subject to the DPRK's compliance with the terms of all agreements between the DPRK and KEDO and to the DPRK acting in a manner consistent with the Agreed Framework. In the event that these conditions are not satisfied, the Organization may take appropriate steps.

(c) The Organization shall obtain formal assurances from the DPRK that nuclear materials, equipment, or technology transferred to the DPRK in connection with projects undertaken by the Organization shall be used exclusively for such projects, only for peaceful purposes, and in a manner that ensures the safe use of nuclear energy.

ARTICLE V

(a) The original members of the Organization shall be the United States of America, Japan, and the Republic of Korea (hereinafter referred to as the "original Members").

(b) Additional states that support the purposes of the Organization and offer assistance, such as providing funds, goods, or services to the Organization, may, with the approval of the Executive Board, also become members of the Organization (hereinafter jointly with the original Members referred to as "Members") in accordance with the procedures in Article XIV(b).

ARTICLE VI

(a) The authority to carry out the functions of the Organization shall be vested in the Executive Board.

(b) The Executive Board shall consist of one representative of each of the original Members.

(c) The Executive Board shall select a Chair from among the representatives serving on the Executive Board for a term of two years.

(d) The Executive Board shall meet whenever necessary at the request of the Chair of the Executive Board, the Executive Director, or any representative serving on the Executive Board, in accordance with rules of procedure it shall adopt.

(e) Decisions of the Executive Board shall be made by a consensus of the representatives of all the original Members.

(f) The Executive Board may approve such rules and regulations as may be necessary or appropriate to achieve the purposes of the Organization.

(g) The Executive Board may take any necessary action on any matter relating to the functions of the Organization.

ARTICLE VII

(a) The General Conference shall consist of representatives of all the Members.

(b) The General Conference shall be held annually to consider the annual report, as referred to in Article XII.

(c) Extraordinary meetings of the General Conference shall be held at the direction of the Executive Board to discuss matters submitted by the Executive Board.

(d) The General Conference may submit a report containing recommendations to the Executive Board for its consideration.

ARTICLE VIII

(a) The staff of the Organization shall be headed by an Executive Director. The Executive Director shall be appointed by the Executive Board as soon as possible after this Agreement enters into force.

(b) The Executive Director shall be the chief administrative officer of the Organization and shall be under the authority and subject to the control of the Executive Board. The Executive Director shall exercise all the powers delegated to him or her by the Executive Board and shall be responsible for conducting the ordinary business of the Organization, including the organization and direction of a headquarters and a staff, the preparation of annual budgets, the procurement of financing, and the approval, execution and administration of contracts to achieve the purposes of the Organization. The Executive Director may delegate such powers to other officers or staff members as he or she deems appropriate. The Executive Director shall perform his or her duties in accordance with all rules and regulations approved by the Executive Board.

(c) The Executive Director shall be assisted by two Deputy Executive Directors. The two Deputy Executive Directors shall be appointed by the Executive Board.

(d) The Executive Director and the Deputy Executive Directors shall be appointed for terms of two years and may be reappointed. They shall be nationals of the original Members. The terms of employment, including salaries, of these officers shall be determined by the Executive Board. The Executive Director and the Deputy Executive Directors may be removed prior to the expiration of their terms by a decision of the Executive Board.

(e) The Executive Director shall have the authority to approve projects, execute contracts, and enter into other financial obligations on behalf of the Organization within the guidelines adopted by the Executive Board and the limits of the approved budget, provided that the Executive Director shall obtain the prior approval of the Executive Board for projects, contracts, or financial obligations that exceed a specified value, which shall be determined by the Executive Board based on the need for effective and efficient operation of the Organization.

(f) The Executive Director shall establish staff positions and terms of employment, including salaries, subject to the approval of the Executive Board. The Executive Director shall appoint qualified personnel to such staff positions and dismiss personnel as necessary, in accordance with rules and regulations to be approved by the Executive Board. The Executive Director shall seek to appoint a staff in which the nationals of the original Members are fairly represented, paying due regard to the importance of securing the highest standards of integrity, efficiency, and technical competence.

(g) The Executive Director shall report to the Executive Board and the General Conference on the activities and finances of the Organization. The Executive Director shall promptly bring to the notice of the Executive Board any matter that may require Executive Board action.

(h) The Executive Director, with the advice of the Deputy Executive Directors, shall prepare rules and regulations consistent with this Agreement and the purposes of the Organization. The rules and regulations shall be submitted to the Executive Board for its approval prior to implementation.

(i) In the performance of their duties, the Executive Director and the staff shall not seek or receive instructions from any government or from any other authority external to the Organization. They shall refrain from any action that might reflect on their position as international officials responsible only to the Organization. Each Member undertakes to respect the exclusively international character of the responsibilities of the Executive Director and the staff and not to seek to influence them in the discharge of their responsibilities.

ARTICLE IX

(a) The Executive Board shall establish Advisory Committees to provide advice to the Executive Director and the Executive Board, as appropriate, on specific projects being carried out by the Organization or proposed to be carried out by the

Organization. Advisory Committees shall be established for the light-water reactor project, the project for the provision of interim energy alternatives, and such other projects as the Executive Board may determine.

(b) Each Advisory Committee shall include representatives of the original Members and other Members that support the project for which the Advisory Committee was established.

(c) The Advisory Committees shall meet at such times as they may determine.

(d) The Executive Director shall keep the Advisory Committees fully informed of matters pertinent to their respective projects, and the Executive Board and Executive Director shall give due consideration to the recommendations of the Advisory Committees.

ARTICLE X

(a) The budget for each fiscal year shall be prepared by the Executive Director and shall be approved by the Executive Board. The Organization's fiscal year shall be from January 1 to December 31.

(b) Each Member may make voluntary contributions to the Organization by providing or making available such funds as it deems appropriate. Such contributions may be made directly to the Organization or by paying the Organization's contractors. Contributions shall be made by cash deposit, escrow, letter of credit, promissory note, or by such other legal means and in such currency as may be agreed between the Organization and the contributor.

(c) The Organization may seek contributions from such other public or private sources as it deems appropriate.

(d) The Organization shall establish an account or accounts to receive funds from Members or other sources, including independent accounts for those funds to be reserved for specific projects and the administration of the Organization. Interest or dividends accruing on such accounts shall be reinvested for activities of the Organization. Excess funds shall be distributed as set forth in Article III(i).

ARTICLE XI

(a) Members may make available to the Organization or its contractors goods, services, equipment, and facilities that may be of assistance in achieving the purposes of the Organization.

(b) The Organization may accept from such other public or private sources as it deems appropriate any goods, services, equipment, and facilities that may be of assistance in achieving the purposes of the Organization.

(c) The Executive Director shall be responsible for valuing in-kind contributions to the Organization, whether direct or indirect. Members shall cooperate with the Executive Director in the valuation process, including by providing regular reports of in-kind contributions and access to records necessary to verify the value of such contributions.

(d) In the event of a dispute concerning the value of an in-kind contribution, the Executive Board shall review the matter and render a decision.

ARTICLE XII

The Executive Director shall submit to the Executive Board for its approval an annual report on the activities of the Organization, which shall include a description of the status of the LWR project and other projects, a comparison of planned activities to completed activities, and an audited statement of the Organization's accounts. Upon the approval of the Executive Board, the Executive Director shall distribute the annual report to the Members. The Executive Director shall submit to the Executive Board such other reports as may be required by the Executive Board.

ARTICLE XIII

(a) To carry out its purposes and functions, the Organization shall possess legal capacity and, in particular, the capacity to: (1) contract; (2) lease or rent real property; (3) acquire and dispose of personal property; and (4) institute legal proceedings. Members may accord the Organization such legal capacity in accordance with their respective laws and regulations where necessary for the Organization to carry out its purposes and functions.

(b) No Member shall be liable, by reason of its status or participation as a Member, for acts, omissions, or obligations of the Organization.

(c) Information provided to the Organization by a Member shall be used exclusively for the purposes of the Organization and shall not be publicly disclosed without the express consent of that Member.

(d) Implementation of this Agreement in the Members' territories shall be in accordance with the laws and regulations, including budgetary appropriations, of such Members.

ARTICLE XIV

(a) This Agreement shall enter into force upon signature by the original Members.

(b) States approved by the Executive Board for membership in accordance with Article V(b) may become Members by submitting an instrument of acceptance of this Agreement to the Executive Director, which shall become effective on the date of receipt by the Executive Director.

(c) This Agreement may be amended by written agreement of the original Members.

(d) This Agreement may be terminated or suspended by written agreement of the original Members.

ARTICLE XV

A Member may withdraw from this Agreement at any time by giving written notice of withdrawal to the Executive Director. The withdrawal shall become effective ninety days after receipt of the notice of withdrawal by the Executive Director.

DONE at New York, this ninth day of March, 1995, in three copies in the English language.

For the Government of the United States of America: ______________________

For the Government of Japan: ______________________

For the Government of the Republic of Korea: ______________________