

# **Policy Forum 03-02A: DPRK Energy Security Without Rewarding Bad Behavior**

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## **DPRK Energy Security Without Rewarding Bad Behavior**

By Peter Hayes

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## **I. Introduction**

The essay below is by Nautilus Institute Executive Director Peter Hayes. Hayes argues that the United States can feasibly offer energy security to North Korea without necessarily offering financial support. The United States must address five major points: the introduction of institutions and markets, the DPRK's decaying electricity grid, the rehabilitation of the DPRK's coal supply and transport system, the DPRK's gross inefficient energy usage, and the utilization of small-scale renewable energy sources. With the assistance of allies and friends, the United States can meet these five urgent priorities to provide quick, tangible energy relief to the DPRK. Hayes also asserts that the primary source of funds for the infrastructure rehabilitation and development priorities can and should be shifted to allies and multilateral institutions.

## **II. Essay by Peter Hayes**

"DPRK Energy Security Without Rewarding Bad Behavior"

By Peter Hayes

The Nautilus Institute

The Bush Administration is starting to outline a roadmap to the DPRK that would resolve the current crisis. In Seoul, on January 13, United States Assistant Secretary of State James Kelly stated, "Once we get beyond nuclear weapons, there may be opportunities with the U.S., with private investors, with other countries to help North Korea in the energy area."

The Bush Administration's position remains a stringent "no rewards for bad behavior." So how exactly would this work given that the United States won't provide the necessary financial assistance? Can the United States offer energy security to the DPRK (leaving aside the US requirement for negative security assurances) without paying for it?

The short answer is "yes" (subject to the absorptive capacity limits of the DPRK itself in institutional and technical terms).

There are at least five outstanding priority areas that the United States can mobilize, which other bilateral and multilateral donors could ostensibly finance, that would achieve this outcome. These are:

**Priority 1: Institutions and Markets.** The DPRK energy sector is institutionally fragmented and highly self-constraining. Except for local energy markets, prices play almost no role in the DPRK energy system. The most urgent priority is to build institutional and policy capacities in the DPRK to enable market forces to play a role. Thus, energy sector training, along with technical assistance to develop sectoral policy and legal reforms, is a key first step. The ideal institutions for this task are the World Bank, the Asian Development Bank, and the APEC Energy Working Group.

**Priority 2: The Decaying Electric Grid.** The DPRK transmission and distribution system is in a disastrous state of near collapse. The fastest way to bring electric power to end users is to repair the existing grid. The grid can be rehabilitated piece-meal in locations such as the proposed industrial zone at Kaesong; and around moribund mines that could also earn foreign exchange in lieu of missile exports. Such projects should be implemented by bilateral donors, private investors, and possibly by KEDO if the Light Water Reactor project proceeds in the DPRK. The financing for this activity must come primarily from Japan and the ROK.

**Priority 3: Help to Rehabilitate Coal Supply and Coal Transport Systems.** The DPRK does not need

new coal-fired power plants. It does need its present power plants and coal supply system to be refurbished where it is economically feasible in the short and medium-term, just to get the lights back on in the DPRK and to stop people from freezing in buildings that rely on boilers and power plant waste heat for space heating. This task should be undertaken by private firms and bilateral donors such as Japan, Australia, and Canada. Some emergency fuel funding may be justified via the International Monetary Fund.

Priority 4: Reduce the Vast Waste of Energy: In all consuming sectors, a significant fraction (often more than 50 percent) of scarce energy supplies are wasted by inefficient end use equipment. A good starting point would be to increase the efficiency of the district heating system that keeps people alive in the cities in winter. This is a sector in which China, Russia, South Korea, and Japan all have major experience. The United States and former Eastern European states also have a great deal to offer in this regard. The World Bank and Asian Development should do the heavy lifting in this area.

Priority 5: Small-Scale Renewable Energy and Energy-Efficiency Measures: The North Korean agricultural and food sector is severely afflicted by a lack of crucial diesel and power supplies, as well as spare parts and fertilizer. There is an array of small-scale, very rapid renewable and rural energy activities that can be implemented by bilateral donors and non-governmental organizations to relieve this pressure.

Concerted action by the United States with allies and friends in the region can meet these five urgent priorities to provide tangible energy benefits at many locations in the DPRK within less than a year. In general, the bottom-up, small-scale projects involving rapid delivery of real benefits are preferable both from a learning and humanitarian perspective to big-scale, politically driven projects.

The level of financial effort should be sized to substitute for the approximately US\$100 million spent on sending half a million tonnes of heavy fuel oil annually to the DPRK under the now defunct US-DPRK Agreed Framework. The primary source of funds for the infrastructure rehabilitation and development priorities should be the US\$10 billion in Japanese reparations negotiated between Japan and the DPRK earlier this year. Although much of this money will be spent on trade credits and DPRK debt relief, sufficient money should remain available to fund IMF, World Bank and ADB technical assistance and emergency relief projects.

However, the United States will have to take two key steps for such a package to go forward as part of a new US-DPRK Comprehensive Agreement.

First, the White House would have to lift its terrorism designation of the DPRK which blocks international financial and development agencies from spending a cent on the DPRK. This is an executive prerogative. Although some sections of the Republican party will oppose this step whatever the DPRK does, it is a small political price to pay for clinching a deal with the DPRK. For its part, it is not very hard for the DPRK to take the steps necessary to get off this list. It would have to stop counterfeiting and laundering dollars with terrorist organizations; stop assassinating North Koreans who oppose the regime from outside the DPRK; send the Japanese Red Army back to Japan; and demonstrate that it is not cooperating with states that sponsor non-state or state-controlled terrorism, for example, by selling them ballistic missiles. The latter would be part of any comprehensive agreement in any case.

Second, the White House must provide private investors with a green light that it will approve licenses for US firms in joint ventures, especially in the ROK and Japan, to invest in development zones and projects in the DPRK. This step is needed even for non-US firms who have business in the

United States as they too are subject to sanctions for dealing with the DPRK.

It is entirely possible for the United States to cooperate with the DPRK to create energy security without the United States rewarding bad behavior. Another way to say this is that it is feasible for the United States to share-- that is, to shift the burden of energy security in the DPRK to allies and friends.

In my view, the DPRK wants to conclude this deal now. It will pile on the pressure until its nuclear battering ram breaks down the door of the White House. The DPRK's alternative is to wait until the United States crushes or coerces Iraq to conform to US demands, at which time, the United States would turn on the DPRK. From the DPRK perspective, this prospect cannot be allowed to emerge.

For its part, the DPRK will have to make an offer that the United States can't refuse, that is, to unilaterally and verifiably freeze and refreeze its uranium enrichment and plutonium fuel cycle activities pending resumption of dialogue with the United States.

The time to deal is now. The United States is not negotiating yet, but in effect, it's dealing in public.

### **III. Nautilus Invites Your Responses**

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

Produced by The Nautilus Institute for Security and Sustainable Development  
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