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DRUGS, COUNTERFEITING, AND WEAPONS PROLIFERATION: THE NORTH KOREAN CONNECTION

HEARING

BEFORE THE

FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

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DRUGS, COUNTERFEITING, AND WEAPONS PROLIFERATION: THE NORTH KOREAN CONNECTION

TUESDAY, MAY 20, 2003

U.S. SENATE,
SUBCOMMITTEE ON FINANCIAL MANAGEMENT,
THE BUDGET, AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:08 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Peter G. Fitzgerald, Chairman of the Subcommittee, presiding.

Present: Senators Fitzgerald, Akaka, and Lautenberg.

OPENING STATEMENT OF SENATOR FITZGERALD

Senator FITZGERALD. I am going to call the Subcommittee to order. Senator Akaka is on his way over, but in the interest of time, we want to begin now. There will be a vote I believe at 2:20 p.m..

Today, the Governmental Affairs Subcommittee on Financial Management, the Budget, and International Security is holding a hearing on Drugs, Counterfeiting, and Weapons Proliferation: The North Korean Connection.

I would like to welcome our distinguished witnesses who are here today, including two North Korean defectors. They will be on the third panel.

I would like to take a moment, at the outset, to describe the logistics of the hearing for the benefit of members of the media and those in the audience. The hearing will be held in open session through the first round of panel 3 that includes the North Korean defectors. Those witnesses have asked that we protect their identities. Therefore, screens will be installed at the witness table for panel 3, and we ask that members of the media and the public not attempt to breach the screens.

The defectors have also indicated their willingness to disclose additional highly sensitive information to the Subcommittee in a closed session. Therefore, after the first round of questions in open session, the Capitol Police will secure the room for a closed, unclassified session. At this time, members of the media and the audience will be asked to leave the hearing room.

Thank you in advance for your cooperation.

Today, we will hear testimony that indicates or suggests: One, that the North Korean Government runs a drug production and

trafficking business and essentially functions as a state-level crime syndicate;

Two, that North Korea is using the hard currency generated by its state-level crime syndicate to fund its military and weapons programs, including possibly its nuclear weapons program; and, therefore,

Three, the drug production and trafficking business run by the North Korean Government or apparently run by the North Korean Government poses a threat to international security.

While it is certainly true that in the past we have seen governments function like crime syndicates—the Taliban Government in Afghanistan comes to mind—the critical difference in this case is evidence that the North Korean regime is using proceeds from criminal activities to fund a robust weapons program that already has a nuclear capability.

The two North Korean defectors have never appeared before Congress until today. Their testimony will establish that North Korea produces poppy and manufactures heroin for sale abroad. The proceeds from these sales, as well as the proceeds from sales of military weapons, fund North Korea's large military and nuclear program that pose a growing threat to international security.

The North Korean military has over 1 million active troops and approximately 4.7 million reserves. By comparison, South Korea has approximately 686,000 active troops and approximately 4.5 million reserves. The United States has roughly 38,000 troops in South Korea. North Korea also has over 200 Scud missiles and 2,500 rocket launchers, many of which can carry chemical weapons.

Given the nexus between its state-level drug production and trafficking business and its weapons programs, North Korea is essentially a crime syndicate with nuclear bombs or, as one commentator put it, "It is a mafia masquerading as a government."

The role of a government is to protect its citizens from criminals, but in the case of North Korea, it appears that the government is the criminal. Since 1976, there have been over 50 documented incidents, many involving the arrest or detention of North Korean diplomats directly linking the North Korean Government to drug production and trafficking.

And I would like to, at this point, refer to the poster we have over there by the video screen, and I would like to include that list in the record.[1] The poster highlights some of these activities. Without objection, I ask that this list, prepared by the Congressional Research Service be included in the record.

There even have been reports, which one of our witnesses will confirm today, that North Korea was limiting food crop production in favor of poppy crop production. In North Korea, it appears that the government is the drug lord.

The world witnessed a graphic example of North Korea's role in drug trafficking last month when, on April 20, Australian police arrested 26 crew members of a North Korean ship called Pong Su after being spotted trying to off-load approximately $80 million of heroin to a fishing boat off the coast of Australia. The Australian

[1] The list entitled "North Korean Provocations, 1958–2003," submitted for the record by Senator Fitzgerald appears in the Appendix on page 33.

Navy and police boats forced the 4,000-ton Pong Su into Sydney Harbor, after it was chased for 4 days and several hundred miles along Australia's East Coast.

Australian officials have now identified one of the crew as a senior member of the North Korean Workers Party and continue to investigate additional links between the captured freighter and the North Korean Government.

I would now like to ask staff to play a news video produced by ONE News of New Zealand regarding the capture of the Pong Su.

[Video played.]

Senator FITZGERALD. The Australian incident poses grave threats and challenges to the Northeast Asia region, as well as to the international community, including the United States. Therefore, one question we will explore today is whether North Korean is exporting deadly drugs so it can build even deadlier weapons of mass destruction.

Since Senator Akaka is not here yet—we will turn to the panelists. And if Senator Akaka arrives imminently, we may break to allow him to give his opening statement. We are pleased to have with us two senior officials from the Department of Defense and the Department of State.

Andre Hollis serves as the deputy assistant secretary of Defense for Counternarcotics. In this capacity, Mr. Hollis develops the Defense Department's counternarcotics policy, manages over 100 programs that support counternarcotics efforts in the United States and abroad and oversees a budget in excess of $800 million.

William Bach currently serves as the Director of the Office of Asia, Africa and Europe for the State Departments' Bureau of International Narcotics and Law Enforcement Affairs. He has held this position since 2001 and manages a budget of over $200 million.

Thank you both for being here today. In the interest of time, we ask that you summarize your statements, if possible, and we can simply take your longer statements and include them in the record.

Mr. Hollis, would you like to proceed with your opening statement?

TESTIMONY OF ANDRE D. HOLLIS,[1] DEPUTY ASSISTANT SECRETARY FOR COUNTERNARCOTICS, U.S. DEPARTMENT OF DEFENSE

Mr. HOLLIS. Thank you, Mr. Chairman, and thank you for the opportunity to speak before you this afternoon about our concerns——

Senator FITZGERALD. Could you pull the microphone a little bit closer to your face, please. Thank you.

Mr. HOLLIS. Thank you, again, sir. I am pleased to appear before you to discuss concerns about North Korea's involvement in illicit drug trafficking.

Over the past several years, as you noticed this afternoon, there have been numerous reports of drug seizures linked to North Korea, primarily of methamphetamine and heroin destined for Japan, Taiwan, China, Russia, and elsewhere.

[1] The prepared statement of Mr. Hollis appears in the Appendix on page 36.

The recent seizure, 50 kilograms of heroin transported by the Pong Su, again, as you mentioned, demonstrates that elements with North Korea are extending their illicit activities south into Australian waters. This incident underscores the need for multilateral, multi-agency efforts to detect, monitor, and interdict North Korean drug trafficking.

I would like to summarize a point that you very well mentioned, sir, and that is that the Pong Su seizure does, in fact, heighten our concern that North Korean officials may be using illicit trading activities to produce much needed hard currency.

It is clear that any illicit trafficking involving North Korea is a potential threat to the security of our friends and allies in the region and to the United States. The Australian Government, most notably its foreign minister, have called upon multilateral efforts to work to combat drug smuggling from North Korea.

We support that call, and we stand ready, as part of the interagency of the U.S. Government, to work with our friends and allies in the region. To that end, officials within the Department of Defense, State, Justice, the Drug Enforcement Administration, and the intelligence community are reviewing what types of assistance that we are authorized to provide and how to provide that should our friends and allies in the region request it.

Practically speaking, I would like to summarize for you some of the authorities that the Department of Defense has given to provide support to our partner nations in terms of countertrafficking in drugs.

First and foremost, we are authorized to provide support to law enforcement agencies and military personnel with counterdrug responsibilities. We provide training, we upgrade equipment, we maintain a series of intelligence initiatives, both in terms of collection analysis and dissemination of intelligence among law enforcement, military and intelligence services, command and control systems that allow our allies and friends to communicate that information real time, as well as the ability to assist them with minor infrastructure.

The Department and our agency counterparts are fully capable and ready to support regional partners with training, facilities, intelligence, and organizational experience to counter the threat of illicit trafficking that may be coming from North Korea.

The Department of Defense with, again, our interagency partners, have a long history of bringing together interagency capabilities and personnel to assist and to fuse our efforts to fight drug trafficking. The interagency drug task forces that exist in both Florida, and Alameda, California, and the Congress has generously funded are wonderful examples of the interagency fusion that might be appropriate for East Asia.

These task forces bring together law enforcement, intelligence and military services to work jointly with partner nations to battle the trafficking of a variety of substances, including drugs. In particular, sir, this approach has been very good at dealing with the trafficking threat in Southeast Asia, Thailand, and Malaysia, in particular.

In sum, sir, we are working closely with our interagency allies. I know that the State Department is talking to our friends and al-

lies in the region about what we might be able to do in assistance, and as we continue to work to that end, we will, of course, continue to consult with the Congress.

I look forward to accepting and answering all of your questions.

Senator FITZERALD. Thank you, Mr. Hollis. Mr. Bach.

TESTIMONY OF WILLIAM BACH,[1] DIRECTOR, OFFICE OF ASIA, AFRICA, AND EUROPE, BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. BACH. Good afternoon, Mr. Chairman.

Thanks for this opportunity to testify before the Subcommittee on the subject of narcotics trafficking and other criminal activity with a connection to the Democratic People's Republic of Korea. My oral testimony will summarize the written report that you already have.

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

Given the tight controls in place throughout North Korea and the continuing seizures of amphetamines and heroin suspected of originating from North Korea, one must ask how any entity, other than the state, could be responsible for this high-volume drug trafficking.

Much of what we know about North Korean drug trafficking comes from drug seizures and apprehensions abroad. A typical incident of drug trafficking in the mid 1970's, when trafficking by North Koreans first emerged as a significant problem, would involve a North Korea employee of a diplomatic mission or a state enterprise would be apprehended with illicit drugs by police or border crossing officials.

In a very recent case, noted by this Subcommittee already, Australian Federal police reported that on the night of April 16 of this year, police observed the North Korean vessel Pong Su relatively close to the shore off the coast of Victoria. The police followed two ethnic Chinese suspects on the shore as they left the beach and headed for a nearby hotel. The next morning, the two suspects were arrested with 50 kilograms of heroin. The ethnic Chinese suspects, and the captain and crew of the Pong Su have been charged with narcotics trafficking and a protest has been lodged with Pyongyang by Canberra.

By 1995, North Korea had begun importing significant quantities of ephedrine, the main input for methamphetamine production. At about this time, methamphetamine was emerging as a drug of choice all over Asia. During the next several years, the Japanese seized numerous illicit shipments of methamphetamine that they

[1] The prepared statement of Mr. Bach appears in the Appendix on page 39.

believed originated in North Korea, and most of these seizures, traffickers and North Korean ships, rendezvoused at sea in North Korean territorial waters for transfer of the narcotics to the Japanese traffickers' vessels. Taiwanese authorities also seized several shipments of methamphetamine and heroin that had been transferred to the traffickers' ships from North Korean vessels.

In both the cases of Japan and Taiwan, large quantities of drugs were transferred from North Korean state-owned ships, on occasion from North Korean naval ships, to the traffickers' ships.

The U.S. Secret Service Counterfeit Division is aware of numerous cases of counterfeiting with North Korean connections. Typical of such cases was one reported in Macao in 1994, when North Korean trading company executives, who carried diplomatic passports, were arrested for depositing $250,000 in counterfeit notes in a Macao bank. There are numerous other counterfeiting incidents with links to Macao banks, North Korea and North Korean diplomats.

North Korean traffickers have links to Russian, Japanese, Taiwanese, China, Hong Kong, and Thai organized crime elements. In all cases, the relationships began as one of wholesaler with retailer. North Koreans with large quantities of drugs to sell have sold them to criminal groups with the retail networks necessary to move the drugs to consumers. This wholesaler/retailer relationship seems to have evolved in recent years. Incidents such as the Pong Su arrest, for example, demonstrate that North Korean traffickers are becoming involved farther down the trafficking chain.

Mr. Chairman, I thank you and the Members of the Subcommittee for your attention, and I would be pleased to answer any of your questions.

Senator FITZGERALD. We are going to have to take a brief recess because a vote has begun. If you gentlemen could be kind enough to wait for me to return, and perhaps Senator Akaka will come here after the vote, it will be just a few more minutes, and we will be right back. We will ask our questions, and then we will excuse you.

Thank you very much for your testimony. We will take a brief recess.

[Recess.]

Senator FITZGERALD. We will resume the Subcommittee hearing now. I appreciate your patience, and sorry to keep you waiting as I voted.

Senator Akaka, the Ranking Member, has joined us, and, Senator Akaka, I would like to give you the opportunity to make your opening statement. Thank you for being here.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I appreciate what you are doing with the Subcommittee and your leadership in this area. I want to ask that my full statement be placed in the record, and I will make a brief statement.

Senator FITZGERALD. Without objection.

[The prepared opening statement of Senator Akaka follows:]

PREPARED OPENING STATEMENT OF SENATOR AKAKA

Mr. Chairman, I appreciate the opportunity to be here this afternoon for the first hearing of this Subcommittee under your leadership. I am also pleased that the first hearing is on an issue relating to international security. Our Committee and this Subcommittee have a long history of engagement on these issues, and I am glad you are continuing both this tradition and this responsibility.

I share your concern over the situation in North Korea. We do not need to invade North Korea to find proof of its involvement in weapons and drug trafficking.

This hearing highlights a critical issue in international efforts to control the spread of weapons of mass destruction: The emergence of new suppliers of WMD technology and expertise. North Korea, for example, has exported ballistic missiles and related technology to Egypt, Syria, Iran, Libya, and Pakistan. Missile exports are a major source of hard currency for North Korea. There is little sign North Korea will end its exports unless under either a positive or negative incentive. North Korea is also capable of producing chemical and biological weapons although there has been no evidence to date that North Korea has exported either of these types of weapons or the technology to produce them. We now fear that North Korea's nuclear weapons program will lead it to export both technology and plutonium to other states.

I commend recent efforts by the administration to engage North Korea in a dialogue on these issues. I wish that this engagement had occurred sooner and had built on the momentum left from the previous administration which seemed close to achieving an agreement on halting North Korea missile exports.

We have two policy choices: Either to attempt to negotiate a mutually satisfactory solution with North Korea, leading to an accommodation, if not acceptance, of an authoritarian regime. The second would be to pursue a strategy of isolation and hostility, leading eventually to conflict with the North.

The first approach is repugnant to many because it assumes we make peace with the devil. The second might result in a second Korean War. I would suggest that negotiation, however, buys time to change North Korea from within and, if our negotiations are successful, will end the threat of North Korean proliferation.

I do not know if it is possible to reach an agreement with North Korea that will halt—and roll back—its WMD programs. I do know that if we do not engage North Korea seriously, we will never know if such an agreement could have been reached. I also believe we should pursue both bilateral and multilateral negotiations. We should take whichever road that offers the promise of ending the North Korean weapons program.

The North Koreans will have to make significant concessions—and we will too. That is the price of any successful set of negotiations. And benefits must be mutual.

I look forward to our witnesses today. I hope you can clarify for me our options in dealing with North Korea even as they detail our concerns about the North's proliferation and criminal activities. Thank you, Mr. Chairman for having this hearing this afternoon.

Senator AKAKA. Mr. Chairman, I appreciate the opportunity to be here with you this afternoon for the first hearing of this Subcommittee under your leadership in this room.

I am also pleased that the first hearing is on an issue relating to international security. Our Committee and this Subcommittee has a long history of engagement on these types of issues, and I am glad you are continuing, with both this tradition and this responsibility.

I share your concern over the situation in North Korea. We do need to invade North Korea to find proof of its involvement in weapons and drug trafficking. We have two choices, either to attempt to negotiate a mutually satisfactory solution with North Korea, leading to an accommodation, if not acceptance, of an authoritarian regime. The second would be to pursue a strategy of isolation and hostility, leading eventually to conflict with the North.

The first approach is repugnant to many because it assumes we make peace with the devil. The second might result in a second Korean war.

I would suggest that negotiation, however, buys time to change North Korea from within, and if our negotiations are successful, will end the threat of North Korean proliferation. I do not know if it is possible to reach an agreement with North Korea that will halt or roll back its WMD programs. I do know that if we do not engage North Korea seriously, we will never know if such an agreement could have been reached.

I also believe we should pursue both bilateral and multilateral negotiations. We should take whichever road that offers the promise of ending North Korea's weapons program. The North Koreans will have to make significant concessions, and we will too. That is the price of any successful set of negotiations, and benefits must be mutual.

I look forward to our witnesses today, Mr. Chairman. I hope they can clarify, for me, our options in dealing with North Korea, even as they detail our concerns about the North's proliferation in criminal activities, and I want to thank you, Mr. Chairman, very much for having this hearing.

Senator FITZGERALD. Senator Akaka, thank you very much.

Mr. Bach, I was wondering if the State Department had any information, and I know it is very hard to find, about what North Korea earns annually from legitimate exports of legitimate products. Do you have any figures or would you know how we could get some information on that?

Mr. BACH. Thank you, Senator.

No, I do not know the answer to the question, but we can certainly get it for you. I do not have even a good estimate, I am afraid. That is not my lane, but we can respond to you later.

Senator FITZGERALD. We would appreciate it if you could get the estimate, even if it is just an estimate of their revenues. I believe we are going to have later testimony today that is going to estimate that North Korea earns about $650 million a year from the export of legitimate products, but something like twice that from the export of drugs and weapons.

Mr. Bach, clearly, North Korea has been exporting weapons, specifically missiles. They were caught red-handed with that shipment off the coast of Yemen, which we interdicted, and then we allowed them to go forward with that shipment.

Are there any international laws that they are violating when they sell their missiles?

Mr. BACH. As I understand, that interdiction resulted in the ship proceeding towards it destination. I do not know the answer, if there were any international laws. I can get back to you on that one as well.

Senator FITZGERALD. But, generally speaking, a country can manufacture weapons and sell them.

Mr. BACH. That is correct.

Senator FITZGERALD. If they are selling drugs, presumably, that would violate some international law, would it not? Or is it possible for a country just to be in the business of producing and selling drugs, such as heroin?

Mr. BACH. Certainly, there are licit production of opium that take place in different countries, and it is exported under controlled circumstances for use in making medicines, but in the case of ille-

gally importing or smuggling heroin into a country, as happened with the Pong Su, that is definitely illegal.

Senator FITZGERALD. Is there any law that they would be violating if they are raising poppy for the production of heroin, if they are just doing that domestically? Do you know if North Korea is part of any treaty that forbids that?

Mr. BACH. I do not believe that it is, sir. I think that they could grow poppy for the production of opium, which would then be used for licit purposes in the production of analgesics, but I do not think that heroin is something that is—well, it would be legal to do within the country if it were only for domestic purposes, I would imagine.

Senator FITZGERALD. But if they are not signatory to any treaty, where they pledged not to export the heroin or the poppy, it is possible they are not even violating international law?

Mr. BACH. Until it gets to another country, that is probably true, yes, sir.

Senator FITZGERALD. Mr. Hollis, according to the Central Intelligence Agency's report to Congress, North Korea appears to be seeking to produce one to two nuclear weapons a year and has improved its missile technology. The North Koreans now possess weapons capable of reaching the United States, while carrying a nuclear weapons-sized payload.

As the report states, for some time now, North Korea has demonstrated a willingness to sell missile systems to other states. Are either of you on the panel, Mr. Hollis or Mr. Bach, aware to which states has North Korea sold its missile systems to in the past, other than Yemen?

Mr. HOLLIS. Sir, I will try to stay in my lane of Canon narcotics, but I will be happy to take your question back and refer that to the appropriate offices within the Department of Defense and get you an answer.

Senator FITZGERALD. We would appreciate that. Thank you.

Mr. BACH. I subscribe to that answer.

Senator FITZGERALD. Same with Mr. Bach, OK.

We have Senator Lautenberg here. I would like to recognize Senator Lautenberg, and we can make time for you to make an opening statement when you are ready or join the questioning, too.

Senator LAUTENBERG. Thank you very much, Mr. Chairman. I will kind of catch up first. Thank you.

Senator FITZGERALD. Thank you. Senator Akaka, would you have any questions?

Senator AKAKA. Yes, thank you very much, Mr. Chairman.

I have questions for both of you.

One witness in our next panel recommends that we work with the intelligence, customs, and law enforcement agencies of other countries, particularly those neighboring North Korea, to crack down on drug shipments. The Chairman has stated the problem real well. My question to both of you is are we not doing this already, and why is it not working? Mr. Hollis.

Mr. HOLLIS. Thank you, Senator. And once again it is an honor to be here before you, and I would be happy to answer the question from DOD's perspective.

If I may put it in context, sir, with respect to counternarcotics, particularly outside the United States, the Department of Defense has some specific responsibilities, and I want to set those out so that my answer to you is in the proper context.

First and foremost, the Department shall serve as the lead agency for the detection and monitoring of maritime and aerial drug trafficking toward the United States. That is not necessarily a role and responsibility that is required here.

Worldwide, however, working in support of the Department of State and in support of host nation law enforcement agencies with counterdrug responsibilities, we can, once they request, provide a variety of forms of support—training, upgrading their equipment, intelligence sharing, collection analysis, some infrastructure support, and some transportation support. All of that is predicated upon the country asking us, through the embassy, for that support, and we work with our interagency colleagues.

We do provide a variety of forms of support throughout Asia, in particular, in Southeast Asia, and there are other agencies within the U.S. Government that do provide support in North Asia.

So what I am trying to say to you, sir, is when the countries request support, through the respective embassies, the embassies send those requests in, and the appropriate agency, as part of the U.S. Government, will provide that support, but we stand ready to provide that support.

Senator AKAKA. Mr. Bach.

Mr. BACH. Yes, Senator. We do have that mandate to help countries coordinate their defenses against narcotics. We tend to do it in countries where the threat is directed at the United States, and we do not know of any incidents where narcotics that we think originated from North Korea have come to the United States.

We do help countries in Southeast Asia with their counternarcotics programs. We do not have very many programs in North Asia, and that is because, in the case of China, we do not have a letter of agreement, a treaty, with China to cooperate on counternarcotics. In the case of Korea, Japan, and Taiwan, those are countries that are rich in resources themselves, and they do not need our assistance.

So the countries that are targeted by the North Koreans, particularly, do not seem to qualify, in most cases, for the sorts of assistance programs that INL provides.

Senator AKAKA. I take it that China does not permit DEA into China.

Mr. BACH. It actually has just arrived at some sort of an agreement where they are permitting DEA to work with the Chinese officials on counternarcotics matters. And, in fact, DEA does have offices in many of these countries, and that is we are deriving quite a bit of our information from very good cooperative relationships between law enforcement on our side and Japan and Taiwan in particular.

Senator AKAKA. Here is another question to both of you. Do you have any evidence that foreign diplomats stationed in North Korea are involved in helping North Koreans traffic in drugs? Mr. Hollis.

Mr. HOLLIS. Sir, I am personally unaware of anything, in response to your question. But, again, I would be happy, if you would

like, to refer that question to the intel community. I am sure that, under the appropriate circumstances, they would be happy to respond to you.

Senator AKAKA. Thank you. Any comment on that, Mr. Bach?

Mr. BACH. No, sir.

Senator AKAKA. My other question is, is there any evidence that North Korea is not growing poppies, but importing them to process into heroin? And if that is so, from where do they obtain these raw products?

Mr. BACH. I can try to answer that, sir. We are not certain where they are getting the heroin. We have heard reports, of course, that some of the heroin that is being trafficked by North Koreans has originated in Southeast Asia, but we have also heard that Korean processors of opium into heroin use packaging that is made to look as though it comes from Southeast Asia, so it could be a ruse.

As far as attempts made at identification of poppy cultivation inside of North Korea, we have, in 1996 and 1999, used overhead imagery to try to identify cultivation of poppy, and in neither of those cases were we able to identify sufficient quantities of what looked like poppy from the satellite imagery to identify North Korea as a major producer; that is to say, that it has 1,000 hectares under poppy cultivation, and that has to do with the fact that we have not had a ground-truthing survey in conjunction with the aerial survey.

Typically, you have to have people on the ground talking to farmers, getting more information for the analysis that then can be used to establish the poppy signature by the overhead imagery. So we do not have that kind of information.

Senator AKAKA. Thank you very much, Mr. Chairman.

Senator FITZGERALD. Senator Lautenberg, I do not know whether you would care to make an opening statement at this time?

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Mr. Chairman, I appreciate the opportunity that we have to try to decipher where it is we want to go with our policy with North Korea. Do we have a gain or a loss by bringing the two things together? And that is to try to have a counterdrug effort and to be talking about that, when it is hard to evaluate, which is the more terrible, more evil thing, and that is to talk about whether or not weapons of mass destruction are being produced, ballistic missiles, etc., in North Korea. That hostility is obvious. The other is kind of sub rosa, as it is throughout the world, in terms of drug trafficking.

I would ask you, Mr. Hollis, whether, to start this, if I may, Mr. Chairman—and that is are we pursuing our drug enforcement policy with the same vigor, with the same equipment, the same knowledge that we do in other parts of the world, like we do in Colombia, let us say, or we do in other places or do domestically?

Do we use our satellite technology to try and find out whether these things, to Senator Akaka's question, is there poppy cultivation in North Korea? And in a way I am not sure that that is so relevant because if you want to get that stuff, it is available all over the world, but just to try to determine how much effort we are putting into this.

Mr. HOLLIS. Thank you, Senator. That is a very good question, and it is a question that a lot of bright people, with a lot of pay grades even higher than my own, are working on as we speak.

The question is to what extent, if I understand correctly, to what extent is the level of effort that we, as the international community, execute in counterdrug, say, in Northeast Asia? Should it be greater, should it be less, in comparison to, say, our efforts with our friends in——

Senator LAUTENBERG. Southeast Asia or——

Mr. HOLLIS. Yes, sir. There are a lot of people who are working on that question and who are thinking about that question. I think it is also fair to say that it has not been a question that a lot of people have pondered in the recent past.

Senator LAUTENBERG. But we know, directly, that there is a flow, that there is a lot of drug activity, that the ship, the Pong Su, etc., but we have other evidence as well, as I understand it, and do we see a direct flow from there to here, into the United States?

Mr. Bach shakes his head, no, and that is interesting because that is where I want to go. I would like to know, Mr. Chairman, whether or not this is a—drugs invading our society are always a serious threat, but is this of the magnitude that we want to put the law enforcement effort into it? It is always more difficult when we have no relationship with the company. Again, I used Colombia before as an example. We have got full-fledged diplomatic and functional relations going on there.

So is this of the magnitude that it ought to take us off the topic, the principal topic, or will this, as a matter of fact, negate some of the work that we are trying obviously to do, to have a dialogue? At least I speak for my own vantage point, I would like to see a dialogue going on there. I do not think we are of the capability or of the mood to do an Iraq over there and invade the country to try and quell their capability for developing weapons of mass destruction.

Mr. Bach, do you want to comment on that?

Mr. BACH. Yes, Senator. I wanted to comment on my shake of the head earlier, which is that we do not have any evidence that the North Korean drugs are coming to the United States. There have been no incidents so far of drugs we can trace to North Korean traffickers coming to the United States.

In terms of the amount of effort that we are placing in the countries that are most targeted by the North Koreans—Taiwan and Japan—we are cooperating with those countries in terms of a lot of various economic programs, of course, and certainly law enforcement and coordination of law enforcement efforts, from the point of view of DEA, for example, the Japanese, those relations are very close.

In terms of the kind of assistance that we are giving to the Andean Ridge in Colombia, for example, it is not analogous in the case of Japan. They have about 2.2 million users of amphetamine-type substances in Japan. They are dealing with them domestically. They do not need our assistance in doing that. We are trying to give them whatever assistance we can, in terms of providing a platform for coordination with other countries to work together in counternarcotics, but we are not giving them the kind of assistance

programs that we have for countries that do not have the level of resources that Japan and Taiwan have.

I think that answers——

Senator LAUTENBERG. Yes. So we are doing it for the well-being of our friends and allies, and that is OK.

The question is, going directly to the subject at hand, and that is North Korea. We have got a lot to worry about we think there from all kinds of things, and whether the scourge is the threat from nuclear or ballistic missiles or whether it is from a drug invasion, which can, in many ways, be very effective in debilitating a society. But, if not, should you both be at the table at the same time, I ask, Mr. Chairman, with all due respect? Is one counter to the other in any way?

Mr. HOLLIS. Senator, if I may offer just a quick comment, sir, and it is more a question that really is worthy of discussion and thought.

If, working with our friends and allies, we are able to detect and monitor the movement of drugs by air, by land, and by sea, what else will you see?

Senator LAUTENBERG. Well, we should do it. Yes, we should do it and take that information. But just so we understand here, for our own use and legislative purpose, is it the kind of thing because I, frankly, my focus would be much more on the build-up of weapons, and the antagonisms that are going there, and where I worry a lot about, South Korea and other places near North Korea, and how much effort we should put into the North Korean threat and not diverting it with a lot of other things.

And I am content, if you both kind of confirm the fact that we are doing this for our friends and allies, and providing part of an intelligence or whatever network that we can to stop the drug flow, but the question about what should we do to try and get a relationship going with North Korea that takes down the weapons threat and offers us a chance to have some kind of a dialogue, but that can have us not pointing guns at one another, but pointing hands at one another; Mr. Bach, what is the State Department's inside view, confidentially, among this group?

Mr. BACH. Thanks, Senator.

I think we are very eager to get into a relationship with North Korea, where they stop doing what they are doing with missile exports, and drugs and development of nuclear weapons. We would like very much if the North Koreans would behave more reasonably in a lot of different areas, and we are trying to work together with our allies and friends to make sure that we do together what we can to bring that sort of attitude to the North Korean leadership.

And it is very difficult, of course, to reach them, but we are trying, as we can, with counternarcotics policies and law enforcement cooperation to bring about that mind-set in the North Korean leadership. I think that is the most helpful thing that we can do. I do not think of opposition to narcotics trafficking by North Korean vessels as a diversion or a distraction from the main game. I think it is all part of the same fabric of rather irrational behavior on the part of the North Korean Government.

Senator LAUTENBERG. Is it thought that drug trafficking is part of the North Korean national policy?

Mr. BACH. We cannot say for sure, definitively, that it is part of the state policy. We can only surmise that it would be very difficult for the state not to be involved because it seems to have totalitarian control over much of the enterprise that takes place in the country, much of the agriculture, certainly much of the trading, and many of the people that have been apprehended as trafficking in drugs or counterfeit bills have had diplomatic passports, so we think that there must be some association, although we cannot say that it is guided by the state.

Senator LAUTENBERG. I thank the gentlemen. Thanks, Mr. Chairman.

Senator FITZGERALD. Thank you, Senator Lautenberg.

And I would like to thank Mr. Hollis and Mr. Bach for their testimony today. We appreciate your coming up to the Senate to testify.

And with that, I would like to dismiss the first panel and invite the second panel to come up. We have Dr. Robert Gallucci, the dean of Georgetown University Walsh School of Foreign Service; Nick Eberstadt, the Henry Wendt Scholar in Political Economy at the American Enterprise Institute; Larry Wortzel, vice president and director of the Heritage Foundation's Davis Institute for International Policy Studies.

[Pause.]

Senator FITZGERALD. Well, thank you very much. Thank you all for being here.

Dr. Eberstadt, I would invite you to begin first with your testimony, and then we will proceed from my left to right.

TESTIMONY OF NICHOLAS EBERSTADT, Ph.D.,[1] AMERICAN ENTERPRISE INSTITUTE

Mr. EBERSTADT. Mr. Chairman, distinguished Members of the Subcommittee, and esteemed colleagues and guests. It is always a pleasure and an honor. With your permission, I will submit written record later.

I thought I would begin with a little bit of background research, since I have no security clearances, and thus only know what I read in the newspapers about DPRK merchandise in counterfeiting weapons and drugs.

If we can move to the first slide, please.

What we have here is some of my homework. I have tried to reconstruct North Korean trade patterns according to what we call "mirror statistics," which is to say North Korea's trade partners' reports about purchases and sales of merchandise by the DPRK. These are highly incomplete and quite limited, but they provide some insight I think that may be useful.

This Figure 1 shows total reported North Korean export revenues over the period from 1989 to 2001. Of course, then went down after the end of the Soviet Union. The point to take home here I think is that North Korea, as a state, has essentially no legitimate, legal visible means of support.

In the year 2001, the DPRK reportedly, through these data, earned $750 million in total revenue through nonmilitary merchan-

[1] The prepared statement of Mr. Eberstadt appears in the Appendix on page 45.

dise sales. To put that amount in perspective, it would be less than $40 per capita for the country as a whole—an absolutely extraordinarily low level for an urbanized literate population.

Senator FITZGERALD. What were they exporting back in the late 1990's that had them at a much higher figure?

Mr. EBERSTADT. They had export arrangements, whereby the Soviet Union was obliged to purchase their supplies—textiles, magnesite, cement, steel, other products of that sort—but those were, so to speak, forced purchases.

Senator FITZGERALD. So their buyer evaporated with the demise of——

Mr. EBERSTADT. Their buyer evaporated, and there were no new markets for these products.

Senator FITZGERALD. Now, is the $650 million or $700 million in legitimate exports that they now have mainly textiles?

Mr. EBERSTADT. It would be textiles, gold, steel, cement, some agricultural products, including sea products, fish, seaweed, mushrooms, and the like.

Senator FITZGERALD. Thank you.

Mr. EBERSTADT. The next slide, Figure 2, will show North Korea's reported merchandise imports, what it is reported as buying from other parts of the world. That has gone up since 1998 rather significantly to a little bit over $2 billion reported.

And if we see the following slide, Figure 3, that will show the discrepancy between what North Korea is reported as earning, legitimately, and what North Korea has reported as buying, and it is a big gap. The gap was down to about $600 million in the late 1990's, but has risen very substantially in the early 2000's, above $1,200 million, about $100 million a month.

This is the overall merchandise trade deficit. Part of that discrepancy is due to China's subsidy of North Korea. And in the final slide, Figure 4, we take China out of the equation, and we see the unexplained excess of purchases over imports going from under $100 million in 1997 up to above $800 million in 2001.

This, if you will, invisible means of support for the DPRK state includes foreign aid from other governments, including our own; Japanese remittances from pro-DPRK groups in Japan; South Korean tourism payments; secret South Korean official payments, including the payments made to secure the Pyongyang Summit of 2000; but also drugs, counterfeiting, and arms. We cannot parse these out from these particular numbers, but we can see that it has increased very substantially over the last number of years.

May I make a few additional points, Senator?

Senator FITZGERALD. Yes.

Mr. EBERSTADT. I would make five additional points, if I could, very quickly.

First, I think it is reasonable, from what we read in the newspapers, to conclude that drug and counterfeiting traffic from the DPRK is a state business, not a rogue units business or some private enterprise. There is essentially no private enterprise in the DPRK. Ask yourself if it would be possible for individual farmers to cultivate thousands of hectares of opium, poppies, or to establish labs for methamphetamine production. The question, I think, answers itself.

Second, drug and counterfeiting is part and parcel of North Korean diplomacy, not an aberration, and we can see this by looking back as far as the 1970's. In 1976, the Scandinavians expelled North Korean diplomats for trafficking drugs, for being caught trafficking drugs. Why did it take them until 1976 to catch them? Because they did not establish relations with Pyongyang until 1973.

Similarly, why did it take Venezuela until 1977 to catch North Korean diplomats trafficking drugs? Because Venezuela and North Korea did not establish relations until 1974. You can go on down the list.

Third, drug and counterfeiting trade is entirely consistent with the official DPRK view of its legal and treaty obligations, which is to say it is entirely opportunistic. Pyongyang's is a predatory approach, and we see this in drugs and counterfeiting of other countries' currencies.

Fourth, the DPRK, as a government, positively prefers, I think, drug and counterfeiting business to other peaceful legal means of merchandise trade. Again and again, the DPRK has indicated that it views ordinary, peaceable commercial merchandising as subversive of the authority of its state. Drug and counterfeiting is not subversive of its authority, which is to say drug and counterfeiting are part of the strategy for state survival of the DPRK.

Fifth, and finally, if we can believe news stories, the DPRK's drug and counterfeiting businesses are centralized through something called Bureau No. 39 of the Workers Party of the DPRK. This is controlled by the highest authorities of the state. That would correspondingly suggest that revenues entered into through Unit No. 39 are also applied to the state's top priorities. It is no secret that the DPRK enshrines "military first" politics as its very top priority of state. Thus, it is hardly wild to suggest that narcotics and counterfeiting may directly be contributing to the WMD buildup that is threatening the United States and her allies today.

Thank you, sir.

Senator FITZGERALD. Thank you very much, Dr. Eberstadt. Dr. Wortzel.

TESTIMONY OF LARRY M. WORTZEL, Ph.D.,[1] HERITAGE FOUNDATION

Mr. WORTZEL. Mr. Chairman, distinguished Members of the Subcommittee, thank you very much for the opportunity to testify today.

North Korea's exports, from legitimate business in 2001, this is according to the April 23, 2003, *Wall Street Journal,* was about $650 million.

The income to Pyongyang from illegal drugs in the same year was between $500 million and a billion dollars. Missile sales earned Pyongyang about $560 million in 2001. North Korea produces somewhere between 30 and 44 tons of opium a year, according to testimony by the U.S. Forces Korea commander, and the Guardian of England, on January 20, 2003, puts North Korean counterfeiting profits at somewhere between $15 million and $100 million a year—they say $100 million last year.

[1] The prepared statement of Mr. Wortzel appears in the Appendix on page 50.

So, if you want to put economic pressure on the Government of North Korea, if you do not want a military lever only, you begin to take care of all of this other illegal trade. That is one way to do it. The Kim Jong-il regime resembles more a cult-based, family-run criminal enterprise than a government.

And according to a Congressional Research Service 1999 report, North Korea seems to support its diplomatic presence overseas, and its intelligence activities around the world, through these illegal drug sales and counterfeiting.

North Korean diplomats, workers, and officials have been caught selling opiates, including heroin, as well as amphetamines and date-rape drugs in Japan, China, Russia, Taiwan, Egypt, the Czech Republic, Bulgaria, and South Korea. The State Department, however, in its 2003 International Narcotics Strategy Control Report, could provide no conclusive evidence of illicit opium production in North Korea. Well, I just am a little skeptical of that conclusion.

Now, Senator Lautenberg is no longer here, but I think it is important for us to remember that the same network of North Korean officials that distribute those drugs and distribute that opium could distribute nuclear materials, and that is not far off what Li Gun said to Assistant Secretary of State Kelly, when he met him in Beijing, as sort of an offhand threat. I think we have to take care of this, not as perhaps the priority of the U.S. Government, but it must be a priority.

I believe that we have to put pressure on North Korea, and countries around it, to watch North Korean diplomats, military and government officials who transport and sell drugs, and even a place like China is likely to help with that.

North Korea has also exported significant ballistic missile-related equipment, parts, materials, and technical expertise to South America, Africa, the Middle East, South Asia, and North Africa. The entire Pakistani program is probably, the late, more long-range Pakistani program, their Ghauri system, is all North Korean Nodong-based. That earns them quite a bit of money.

India, in 1998, stopped and detained a North Korean ship at Kandia that contained 148 crates of blueprints, machinery and parts for ballistic missiles on the way to Pakistan from North Korea.

Now, there has been talk of an air and sea quarantine of North Korea as an economic measure. I would say to you that, first of all, a quarantine is an act of war. The ship that was intercepted on the way to Yemen was intercepted pursuant to international law under United Nations sanctions against Afghanistan.

Now, if we were able to do that and begin to get aircraft and ships and check them, we still have the problem of whether Russia and China would cooperate because North Korea could just as well ship those things through China or Russia, and China certainly facilitated all of North Korea's help to Pakistan. So this is a diplomatic problem, and it has to be solved, I think, through diplomatic means.

I think that there are measures we should take to address these things. I think U.S. diplomats should be putting pressure on the intelligence, customs and law enforcement agencies of other coun-

tries and working with them to crack down on North Korean drug and counterfeit money shipments.

They should stress that North Korea's drug trade is not an independent operation, but it is controlled by the Kim Jong-il regime.

Sponsoring governments should ensure that their own embassies are actively not helping move these things back and forth. That is another diplomatic lever.

Just as we have in the war on terror and in the war on drugs, we can work with other international agencies and foreign governments to crack down on financial institutions overseas that support North Korea's criminal activities.

Now, Japan has $240 million in legal trade with North Korea. Japan could take action there, if North Korea persists in its illegal trade.

I think we still need to maintain a very strong military presence overseas and that we need to be prepared to fight if the North Koreans start a war, and I think we need to get ballistic missile defenses deployed in the region just as quickly as we can because of that military threat.

Finally, I think that when we do talk to North Korea, and I think we should, it is absolutely imperative that it be done in a multilateral context. We cannot and should not isolate our ally, South Korea.

Economic assistance to North Korea should be predicated on the verifiable end to its nuclear programs.

Thank you, Mr. Chairman, Senator Akaka.

Senator FITZGERALD. Dr. Gallucci.

TESTIMONY OF ROBERT L. GALLUCCI, Ph.D.,[1] GEORGETOWN UNIVERSITY WALSH SCHOOL OF FOREIGN SERVICE

Mr. GALLUCCI. Thank you, Mr. Chairman. Thank you for the opportunity to appear before the Subcommittee today, and with your permission, Mr. Chairman, I will submit some comments formally for the record.

Senator FITZGERALD. Without objection.

Mr. GALLUCCI. I understand the subject today, Mr. Chairman, is the connection between the drug and counterfeiting activity of North Korea, illicit drug trade and counterfeiting, and weapons of mass destruction. It would seem to me a good place to start is by saying that, independent of any connection between that illicit trade and weapons of mass destruction, it would be a good idea for the United States and the international community to do what it could to interdict that trade. That, just on the face of it, would be a valuable objective.

That said, though, going to the connection, this is a source, as other witnesses have pointed out, of hard currency, and apparently a significant source, and as such, since money is fungible, these funds, undoubtedly, can be used to support the North Korean military capability, including its ballistic missile and nuclear weapons program and other weapons of mass destruction.

So that if you needed an additional reason, the connection to the threat posed by these weapons of mass destruction to the United

[1] The prepared statement of Mr. Gallucci appears in the Appendix on page 69.

States and its allies, particularly South Korea and Japan, would be one such.

However, it would seem to me the reverse, turning the argument about, is not such a good idea. It does not seem to make sense to offer the proposition that a good way to go about stopping North Korea's nuclear weapons program, for example, is by stopping or interdicting illicit drug and counterfeiting activity.

It seems to me that the programs of North Korea are a very high value to it in weapons of mass destruction, particularly the nuclear weapons program, and if they value their fissile material production, which now comes from existing spent fuel, fuel that is being irradiated, from which plutonium can be extracted, and an uranium enrichment program which will produce enriched uranium, if funds are needed for these programs, they will be found.

They may be found by extracting the funds from those funds which are now used to support a very large conventional military establishment. They may be found by the regime making very brutal tradeoffs with requirements in the civilian sector. So I do not see the relative cost of these programs, as compared to other areas where they may be able to find funding, to be such as to suggest that this interdiction of drugs and counterfeiting would have the impact of preventing these programs from going forward.

My principal concern, therefore, as I listen to arguments about the importance of the drug and counterfeiting funds to the North Koreans, is that there be a delusion, in a sense, that we might be able to prevent the nuclear weapons program specifically from proceeding by acting against these programs which are, in and of themselves, reprehensible.

It seems to me that we are now facing essentially the same three choices that we faced a decade ago if we wish to stop the nuclear weapons program in North Korea and stop that program specifically.

Those three choices were, and are:

First, the use of force, with all that implies, in terms of horrendous casualties, were we to do that;

Second, to contain North Korea, which is another way of saying to accept the North Korean nuclear weapons program, and that option or that choice would entail, first, accepting the risks, which I think are quite high, that South Korea and Japan might eventually follow suit and acquire nuclear weapons. I think the risks are quite high that their ballistic missile program would eventually be mated with the nuclear weapons program, and those missiles would eventually be capable of reaching our West Coast;

And, finally, and I think most significant of all, there is the possibility that North Korea might export and sell this fissile material to terrorists. I guess I would take issue with my colleague, Dr. Wortzel, here. I would think this is the overriding priority. I cannot myself think of a more important objective for the national security, the homeland security of the United States of America, than making sure that fissile material does not fall into the hands of terrorist groups.

So, finally, in the three options, the third one is left, and that would be to negotiate with the North Koreans, to see at least whether it was possible to negotiate a verifiable end to the nuclear

weapons program, in other words to test the North Koreans, who have said they are prepared to put their nuclear weapons program on the table, test that proposition and see if we could not negotiate the outcome we want. At least I would do this before I would consider opting for either of the first two choices.

There is, in other words, in my view, no free lunch here in dealing with the North Korean problem, not by a process of containment or not by a processing of hoping the Chinese will solve the problem for us. I think the choices are the choices we have always had.

The subject of this hearing, though, the drug trade and the counterfeiting, are two concerns which are quite legitimate and ought to be pursued, and the only concern I am presenting to the Subcommittee today is that we not mistake that effort for an effective policy of dealing with the nuclear weapons program.

Thank you, Mr. Chairman.

Senator FITZGERALD. Dr. Gallucci, thank you very much.

You started your comments by saying that the world community should interdict any illicit drugs that are being shipped out of North Korea. How do we go about doing that? Given that the North Koreans have a close relationship with China, do we try to involve China? Do you think that is feasible?

Mr. GALLUCCI. Mr. Chairman, we have come to the point, for me at least, which I have to fess up that I am no expert in drugs or counterfeiting. It does seem to me, though, that at least individual states in the international community are prepared to cooperate with us, when they think they are dealing with ships that have illegal drugs aboard and perhaps counterfeit currency.

I do not know that we can expect that we are going to get full cooperation from the Chinese, particularly, in this area. And I know one of my colleagues made this point, but if we are hoping, for example, to in a sense quarantine the North Koreans with a policy of bringing the rest of the international community aboard, I think we have to ask ourselves whether the Chinese would be willing to engage in a policy which we thought was designed to bring the North Koreans to their knees; an outcome which the Chinese I do not think really would find as favorable as we would. So I think we have to wonder about the extent to which they will cooperate with us.

But as to the real thrust of your question, what the legalities of this would be, I really do not know, Mr. Chairman. I am sorry.

Senator FITZGERALD. Dr. Eberstadt, you had some very interesting statistics, and you came up with good possible explanations for what could be funding the trade deficit that we know North Korea has.

One other possibility is that they could be getting foreign aid or they could be borrowing money that would enable them to fund that large deficit. Are they getting foreign grants and loans of a sizeable amount, that you are aware?

Mr. EBERSTADT. During the period up to 2001, sir, yes, they were getting foreign aid, including foreign aid from the U.S. Government.

Senator FITZGERALD. And how much was the United States providing?

Mr. EBERSTADT. The Congressional Research Service has estimated, between 1995 and 2001, total humanitarian, and heavy fuel oil and medical aid from the USG to DPRK was a little bit over $1 billion in total. So U.S. foreign aid, certainly, could help to explain it.

Senator FITZGERALD. Are they getting loans from any international funds like the World Bank or International Monetary Fund?

Mr. EBERSTADT. No, sir. Our restrictions and sanctions on the DPRK——

Senator FITZGERALD. Block that.

Mr. EBERSTADT [continuing]. Impel the United States to vote against membership or such loans, and they are not receiving them. DPRK does get a small amount of money from the U.N. Development Program, but I think that is a few million dollars a year.

Senator FITZGERALD. Dr. Wortzel, Mr. Bach from the State Department testified that the State Department had sought satellite imagery in 1996 and 1999, I believe he said, and that the satellite imagery suggested no evidence of poppy cultivation greater than a thousand hectares?

Mr. WORTZEL. He said hectares, that is correct.

Senator FITZGERALD. Do you believe that?

Mr. WORTZEL. No, I do not, Mr. Chairman. The Congressional Research Service, again, in its 1999 report, put poppy cultivation at somewhere between 3,000 and 7,000 hectares. And I also do not accept——

Senator FITZGERALD. And what was the basis for them saying that?

Mr. WORTZEL. Well, I am sure it was imagery. I mean, it was an unclassified report, but they based it on U.S. Government surveillance.

I also do not accept the statement about ground truthing. It has been a number of years since I had to, as a military intelligence officer, deal with imagery and ground truthing, particularly of agricultural things, but it seems to me that the signature, whether it is in multispectoral sort of color imaging of agricultural growth or in other forms of imagery, the signature of poppies is the same all around the world. It might differ slightly by the amount of moisture in it, but I think we could do better.

Senator FITZGERALD. Dr. Eberstadt.

Mr. EBERSTADT. Sir, I hope it is not churlish of me to point out that if the U.S. Government were to determine conclusively that the DPRK were cultivating more than a thousand hectares of opium poppies, illicit opium poppies, a year, the U.S. Government would consequently be obliged, under the Foreign Assistance Act of 1961, to impose additional economic sanctions against the DPRK, which is to say if one were interested in promoting an "engagement" policy with the DPRK, it would be highly inconvenient to determine if the DPRK had a thousand hectares or more.

Senator FITZGERALD. Are you suggesting that the State Department could be putting pressure on officials who make those assessments to keep their findings under a thousand hectares?

Mr. EBERSTADT. I would simply suggest good lawyers do not ask questions they do not like the answers to.

Senator FITZGERALD. Senator Akaka, would you have questions of the witnesses?

Senator AKAKA. I do have questions. Thank you very much, Mr. Chairman.

Dr. Gallucci, you probably have the most experience of anyone outside the government in negotiating with the North Koreans. Do you believe that it is possible to reach a verifiable agreement with them?

Mr. GALLUCCI. I believe it is possible, Senator. I believe we, in 1994, concluded what is known as the agreed framework which had a portion of it that was verifiable, and we were able to verify that the plutonium program we were out to stop was stopped and has been stopped, and because of that deal, there are probably 100 or so less nuclear weapons on the face of the Earth than there would otherwise be.

But the portion of the framework which was not subject to verification, other than what we could do by, as we say, national technical means, went to enrichment, and that is where they cheated. So if you ask could we, in a sense, do another deal, but this time make sure that the whole thing was verifiable, I think it can be imagined, and I think it is possible.

The question is whether the North Koreans would go for such a deal, and I do not know, and I do not think anybody would know until we sat down and tried to do it. We did not know last time until we tried to do it.

Senator AKAKA. I emphasized that because, in your statement, you said that, of the three, that was possible, and I just wanted to ask you about that again, and I thank you for your statement.

We are concerned about North Korean reprocessing spent fuel into plutonium. Do you think if we reached another agreement with the North Koreans to end its nuclear program, do you think we would still be able to account for what has been reprocessed?

Mr. GALLUCCI. Senator, right now, that is a slightly more complicated question than it was a few months ago. In 1994, the intelligence community—our intelligence community—assessed that North Korea, more likely than not, had one or two nuclear weapons. That was based on an assessment that they had reprocessed or could have reprocessed as much as 8 or 10 or so kilograms of plutonium, in that range, in any case.

And so we had that assessment, and we did not, in the agreed framework, provide for the immediate inspections that would help us determine how much plutonium they actually had. However, the framework does provide that the North Koreans cannot get the major benefits of the deal, which were those two large light-water power reactors. They cannot get even the first bit of serious equipment for those reactors until they come clean with the IAEA, and we settled that issue. So that was part of the original deal.

Now, we have not gotten to that point in the construction of the reactors, so we do not know what would have happened had we gotten there. The deal has collapsed for other reasons right now.

At this moment, the reason I said it was more complicated, is because we have just heard that one of three things is true, either the North Koreans have, as they said at one point, just completed reprocessing the spent fuel, which they discharged from the reactor

and was in a pond which contains about 30 kilograms of plutonium, enough for perhaps five or six nuclear weapons.

They may have already separated that plutonium or, as we also heard from the North Koreans at another point, they are in the process of separating that plutonium or, as we also heard or might conclude, they have not yet started.

So I do not know that we know, and I cannot go much further, on an unclassified basis, to talk about this, but what we do know about this I think is inconclusive at this point.

Senator AKAKA. Thank you. I appreciate your response. I know it is touch and go, and I know you have had the kind of experience that a few have had.

My time is almost up, Mr. Chairman, but I would like to ask Dr. Wortzel a question.

I want to tell you that I share your frustration for negotiating with the North Koreans, and I agree that we must also negotiate multilaterally. And I also should tell you that I do not share your view that bilateral negotiations are a mistake. I think there is room for that. The administration just completed negotiations in Beijing that were essentially bilateral, even though Chinese diplomats were present in the room.

In your testimony, you mentioned North Korea's dependence on China for fuel and for food. How long and how far do you think China would go to use this dependence to force North Korea to change its policy, and do you think China would do so to the point of provoking a coup in North Korea?

Mr. WORTZEL. Mr. Akaka, thank you for your question.

Senator I spent I guess just about 5 years as a military attache inside China. I can say that in direct bilateral negotiations with North Koreans on the prisoner of war missing in action teams that the United States sent into North Korea, they were not easy to work with, but you could negotiate with them, you could reach an agreement. They kind of took you to the cleaners financially, but they lived up to their agreement. So there are times when you can do that. This is, obviously, a much more sensitive issue.

As a military attache, I had the privilege of, at different times, escorting not only the minister of Defense of China, but the chief of their General Staff Department, the deputy chiefs of their General Staff Department, at one time probably every military region commander, at one time or another, at some rank.

And I can tell you that, uniformly—in fact, one conversation was, "Wortzel, you are a military intelligence officer. Report this back to your government. We will not let the Government of North Korea collapse, period."

Now, then we went into a very long discussion of what measures one could take, and what if there was an implosion or an explosion. I believe that is still the policy of the People's Republic of China. They do not want to see a collapse. They do not want to see the United States or South Korean forces up on the border of China and the Yalu River. I do not think they want to see a nuclear North Korea, necessarily, either, mostly because of what it means for Japan.

China supplies somewhere between 70 percent and 88 percent of North Korea's fuel needs. I believe oil for food was 12 percent.

China supplies somewhere between 30 percent and 40 percent of North Korea's food needs. They can modulate that, as they did for 3 days in November, I think it was. But I think they are both the problem, and perhaps the key, to a solution, and that is why I think it is very useful that however diplomatic the facade was, that there were multilateral negotiations in Beijing.

Senator AKAKA. Thank you very much for your response.

Mr. Chairman, thank you.

Senator FITZGERALD. Well, I would like to thank the gentlemen for appearing here before us. Your testimony was very enlightening. I appreciate your efforts, and we will submit your full statements for the record.

And with that, I would like to now call on panel 3 and ask staff to make the necessary arrangements.

The Subcommittee will hear from two North Korean defectors who have personal knowledge of and experience with a number of the issues we have discussed today. Both witnesses have requested that we protect their identities, and both witnesses will have interpreters.

[Pause.]

Senator FITZGERALD. Our first witness is a former North Korean high-ranking government official. He worked at a North Korean Government agency for 15 years and has detailed firsthand knowledge about drug trafficking and counterfeiting by the North Korean Government. For reasons he cannot disclose today, he defected to South Korea in late 1998.

The second North Korean defector is a former missile scientist who is personally familiar with the manufacture, programming and deployment of missile systems. As the head of the Technical Department of a missile factory in North Korea, Bok Koo Lee—that is an alias that he uses—will testify to his personal knowledge of, and involvement with, the missile program in the factory town where he worked between 1988 to 1997. Mr. Lee defected from North Korea in July 1997.

Gentlemen, thank you for being here today. You may proceed with your opening statements, beginning with the first defector, who is the former high-ranking government official.

TESTIMONY OF FORMER NORTH KOREAN HIGH-RANKING GOVERNMENT OFFICIAL[1] [THROUGH AN INTERPRETER]

DEFECTOR NO. 1. Mr. Chairman and Hon. Senators, I am the witness designated as the former North Korean high-level government official to testify about the drug production and trafficking by the North Korean regime. I would like to thank you and the American people for your concerns and interests to help save the North Korean people suffering under the worst kind of one-man dictatorship in the past 50 years.

I worked at a North Korean Government agency for 15 years, where I was able to get detailed and firsthand knowledge about the drug trafficking by the North Korean regime. There are reasons that I cannot really explain here, but, nevertheless, for the reasons

[1] The prepared statement of former North Korean high-ranking government official appears in the Appendix on page 70.

I cannot disclose, as I said, I defected to the Republic of Korea in late 1998. I now live in Korea's capital city of Seoul and work to help save the people whom I left behind in North Korea.

Production and trafficking of illegal drugs by the North Korean regime has been widely publicized for some years now. Recently, concerning the seizure of 50 kilograms of heroin, on a North Korean ship named "Bongsu," by the Australian authorities has confirmed again that North Korean regime has been very busy making and selling the illegal drugs to other countries in order to support the cash-strapped regime. North Korea must be the only country, as far as I can tell, on the entire globe to run a drug production trafficking business on a state level.

North Korea started its production of drugs secretly in the late 1970's in the mountainous Hamkyung and Yangkang Provinces. North Korea began to produce and sell drugs in earnest beginning in the late 1980's, and that is the time when Kim Il-sung, of North Korea, who is the leader of that country, toured Hamkyung-Bukdo Province and designated the area around Yonsah Town in Hamkyung Province to be developed into an opium farm. It was known that the Japanese colonial government also used this area to grow opium, and Kim Il-sung told the people to earn hard currency by growing and selling opium because he needed cash.

The local party province committee developed an experimental opium farm in Yonsah Town in secret, and the farm was tightly guarded by the security police officers. They began to produce opium at the collective farms located in towns like Yonsah, Hweryung, Moosan, and Onsung in Hamkyung-Bukdo Province. All opium produced, thus, produced in these farms were sent to the government to be processed into heroin. They called these opium poppies the broad bellflowers in order to hide the operation from the general public, but this was an open secret because everybody knew what that was all about.

North Korea had very little to export since the early 1990's because 90 percent of their factories became useless for lack of raw materials and energy. They tried to export mushrooms, medicinal herbs and fisheries to China, Japan and South Korea. However, the only way to bring in large sums of hard currency was to sell drugs to other countries and to smuggle in used Japanese cars in turn.

In the late 1997, the Central Government ordered that all local collective farms must cultivate, grow, for the area of about 10 chungbo, that is, about 25 acres, of a poppy farm beginning in 1998. The Chinese Government somehow learned about this and then dispatched reporters and police officers to take pictures of these farms near the border.

All opium thus produced are sent to the pharmaceutical plants in Nanam area of Chungjin City in Hamkyung-Bukdo Province. They are processed and refined into heroin under the supervision of seven to eight drug experts from Thailand, and this is all done under the direct control and strict supervision of the Central Government.

I heard that there is another opium processing plant near the Capital City of Pyongyang, but I have not confirmed this myself. These plants are guarded and patrolled by armed soldiers from the

National Security and Intelligence Bureau of North Korea. No outsiders are allowed in these facilities.

North Korea produces now two types of drugs: heroin and methamphetamine, which is called in Korean, "Hiroppon." They produce these drugs one ton a month each. Heroin is packaged in boxes, each containing 330 grams—that is about 11.6 ounces—of heroin, and those boxes have a Thai label. Methamphetamine is packaged in boxes each containing about 1 kilogram of the substance, but has no label.

In China, near the border, the drugs are sold for $10,000 per kilogram. And through the ocean on board, these drugs are sold for $15,000 per kilogram. North Korea sells these drugs, through the border with China, to China or, through the seas, Hong Kong, Macao, Russia, Japan, Russia, even South Korea. They also deal with the international drug dealers on the Yellow Sea and Eastern Sea. Their major markets are, of course, Japan.

It has been no secret that the North Korean regime has used its diplomats and businessmen for drug trafficking, using all means possible. In November 1996, a North Korean diplomat who was stationed in Moscow, Russia, was caught by the Russian border police. When he was caught, he had 20 kilograms of illegal drugs with him. He later committed suicide in the prison.

Things were desperate in North Korea. In December 2001, South Korean authorities found a big shipment of illegal drugs at the Port of Pusan, but South Korean authorities did not identify the source of that drug shipment, but it was well known, I have no doubt, that this shipment must have come from North Korea.

I have a list of instances involving North Korean drug trafficking as follows:

In July 1995, an agent of the North Korean National Security and Intelligence Bureau was caught by the Chinese police when he tried to smuggle in 500 kilograms of heroin.

In November 1996, a North Korean lumberjack working in Russia was caught at Hassan Station with 22 kilograms of opium.

In May 1997, a North Korean businessman was caught in Dandung, China, when he tried to sell 900 kilograms of methamphetamine.

In July 1997, another lumberjack was caught in Havarovsk, in Russia, with possessing 5 kilograms of opium.

In January 1998, two North Korean diplomats stationed in Mexico were caught by the Russian police officers when they tried to smuggle in 35 kilograms of cocaine.

And in July 1998, two North Korean diplomats stationed in Russia [sic] were arrested when they tried to smuggle in 500,000 capsules of psychotomimetics, which is a kind of stimulant.

It is my view, given the fact that North Korean regime is confronting a very critical crisis and economic dire situation, that short of international measures, strong and effective measures on the part of the international community, North Korea will continue, in my view, to produce and sell drugs.

North Korea is the only country on Earth that grows opium poppy, processes it into heroin and sells them abroad. I, again, would like to urge a stern measure on the part of the international

community to cope with this dire situation of North Korea involving drug trafficking and selling.

Senator FITZGERALD. Thank you very much, Defector 1.

And now we will proceed to the second North Korean defector. He is, again, a former missile scientist who is personally familiar with the manufacture, programming, and deployment of missile systems.

Thank you for being here, and you may proceed.

TESTIMONY OF BOK KOO LEE [ALIAS],[1] FORMER NORTH KOREAN MISSILE SCIENTIST [THROUGH AN INTERPRETER]

Mr. LEE. Thank you for inviting me to this hearing.

My name is Bok Koo Lee. I defected from North Korea on July 21, 1997. Between 1988 until July 1997, that is, 1988 until July 1997, I worked at Munitions Plant No. 38 in Huichon, Jagang Province, North Korea. There are 11 subplants at this munitions complex, also known as Chungnyon Jeonghi Yonkap Kiupso, meaning Youth Electric Combined Company. Among the 11 subplants, Nos. 603 and 604 produced and assembled missile parts. The parts we produced are all electronics. I held the position of head of Technical Department at Subplant 603 until I left North Korea in July 1997.

The responsibilities of the technical department are assembly and development of parts for missile guidance control vehicle, as well as developing the software. The missile launching units are made up of these control vehicles and the transport vehicles.

In the interest of time, I would like to talk mainly about one of my experiences on this missile guidance control vehicle.

In the summer of 1989, as we were ordered by the Second Economic Committee, which controls all munitions industry in North Korea, I, together with five colleague engineers of mine, went to the Nampo military port in Nampo City, South Pyongyang Province.

When we arrived at Nampo, a cadre from the Second Economic Committee greeted us and issued camouflage uniforms for the military, and we changed into them before we boarded a ship. Since we were locked under the deck and could not see outside, I do not know exactly how long, but the voyage seemed to have lasted about 15 days, according to our eating and sleeping pattern.

When we docked at a port, we went to the stern of the ship, and there we found and boarded a missile guidance control vehicle that we built in North Korea. I knew then and there that we were about to test launch a missile. With the windows of the vehicle blocked, we traveled for about 2 days inside this missile guidance control vehicle before it stopped, and our military commander told us to be ready for battle.

So we opened the windows and the back door, too, in order to connect the power supply. That is when I heard someone's voice from outside, and when our commander walked up to him, I could see that the man was an Arab. "I must be in an Arab country," I thought.

[1] The prepared statement of Mr. Lee appears in the Appendix on page 73.

About 10 minutes later, the commander yelled, "Storm," which is the battle order in North Korea. Each of us took up his position inside the vehicle to man this equipment, and then we put it ready in sequence. In a few minutes, the commander gave us the order to launch, and we transmitted the launch signal.

About 20 minutes afterwards of transmitting guidance control signals, the commander relieved us of our duties. Since the missile was not nearby, we could not see. And when the launch was over, we left in a hurry, leaving our control vehicle there, and rode another military vehicle to come back to the ship we were on.

The next morning, the ship began its journey back to Nampo, which also took about 15 days. From there, we rode on a bus from Nampo to arrive at an annex building of the Party Central Committee in Pyongyang. The routine debriefing took as long as 15 days. We did not have much to report, but the debriefing of our superiors took 15 days.

When the debriefing was over, Kim Chol Man, then chairman of the Second Economic Committee, gave us some gifts, complimenting our mission, which he said was to Iran.

After our return to the plant, I learned from Lee Byung Su, the chief engineer in charge of Technical Improvement, that Yon Hyong Muk, then-Premier of North Korea, accompanied us to Iran, and he brought back to North Korea 220,000 tons of crude oil. These 220,000 tons of crude oil was taken by the military with the order of Oh Jin-u, the head of Armed Forces. And when the fact was revealed to Premier Hyong, he had a big fight with Oh Jin-u before Kim Il-sung about this, and he ended up taking back some of the oil from the military.

After our trip, Subplants 603 and 604 began producing the same missile guidance control vehicles as we took to Iran. Since then, we produced nine such vehicles over a few years and exported them to Arab countries. Or course, we also produced and still produce, I believe, parts for other short- and medium-range missiles.

Additionally, I would like to testify on the participation of North Korean missiles during the first Gulf War of 1991, the removal and relocation of Yongbyon nuclear facilities to somewhere else, and about the Kumchang-ri Cave during the closed session.

One final thing I would like to stress in this hearing is the fact that in order to bring about the collapse of North Korean regime, the munitions scientists like myself, in and outside of North Korea, must be aware of the existence of safe harbors in the West which will take them. Then, more scientists will escape North Korea to seek asylum and the production of weapons of mass destruction, such as nukes and missiles, will be severely curtailed, eventually to the point where there is no more people left to push that nuclear button.

It has been so long since the loyalty to Kim Jong-il by North Koreans have collapsed. If one sings well, there is an ample reward. Whereas, the scientists, like myself, will get mere briefcases, ballpoint pens and Kim Jong-il's monologue for their achievement. Therefore, no one hardly strives to develop new things any more, but just occupies the desk.

We urge you to mobilize the international community and do this to precipitate the collapse of North Korean regime.

Thank you very much.

Senator FITZGERALD. Well, thank you both for testifying, and thank you for your courage in making yourselves available to this Subcommittee.

I want to start with Defector 1. Our State Department witness said that we do not have any satellite evidence of poppy production in North Korea. Based on what you know about North Korea's cultivation of poppy, is there a reason why we could not see the poppy fields with our satellites?

DEFECTOR NO. 1. It is surprising to me that satellite pictures could not catch, satellites could not catch the poppy farms in North Korea because, as I said earlier, since 1998, there were all poppy farms about 10 chungbo, I think it is about 30-some acres, was put aside for the sole purpose of cultivating poppies only. And Chinese police officers and Chinese reporters came to the border, and they took the pictures of these farms. I am just flabbergasted that satellites or the United States could not have access of this or ascertained this kind of agricultural activity growing poppies.

Senator FITZGERALD. The poppy fields that you described, did you personally see those poppy fields?

DEFECTOR NO. 1. Yes, numerous farms myself, with my naked eyes.

Senator FITZGERALD. Were you personally involved in trafficking heroin, as a high-ranking officer of the North Korean Government?

DEFECTOR NO. 1. Yes, there was a time I was directly involved in the trafficking, the drug trafficking myself, and I am confident that the drugs seized, after North Korean Ship Pong Su was seized by the Australian authorities, I am sure those drugs are North Korean products.

Senator FITZGERALD. Were you directed by your superiors in the North Korean Government to traffic in the drugs you trafficked in or were you doing that on your own?

DEFECTOR NO. 1. There is nothing in North Korea a person can do voluntarily to help the regime. And especially speaking of production and selling, trafficking drugs, and processing or growing poppies and processing poppies into heroin, these are all done on the state level, as a state business, and they do this as a means of acquiring or earning, as they say, hard currency.

Senator FITZGERALD. So was it your job, working for the North Korean Government, was it part of your official duties to traffic in drugs?

DEFECTOR NO. 1. Well, there are several reasons. I cannot really specify here, especially about certain things I did myself, but I can tell you this much. I can assure you that production, the sale and trafficking of the drugs is done, it is not because somebody wants to get involved in that kind of business, but they are told to do so. Therefore, they are doing it, and they are told directly by the highest authority in North Korea, the one who has most power.

Senator FITZGERALD. So it is safe to conclude, from your testimony here today, that the North Korean Government is in the business of producing and trafficking in drugs like heroin.

DEFECTOR NO. 1. Yes, sir, my answer is positive. Of course, that was the situation, and North Korean regime, since mid 1970's, when its economy or economic situation started deteriorating, they

started growing and trafficking drugs as a part of national policy, and it has been that way even today.

Senator FITZGERALD. Do you have any idea how many people the North Korean Government employed in its drug production and trafficking business, at least while you were there?

DEFECTOR NO. 1. Well, I can tell you that at least 30 people that I personally knew were involved in trafficking, drug trafficking and selling drugs, just to give you this as an example, what limits I have, directly had. I am just curious this thing that is the fact that the highest, most powerful authority in North Korea have his people to engage in production and trafficking drugs, it is not known to the United States or the international community. Because of the absolute power that North Korean leader has, anything is possible, as far as he is concerned.

Senator FITZGERALD. Well, Defector 1, thank you very much. That has been very powerful testimony.

I would like to ask some questions of Mr. Lee.

Mr. Lee, based on your personal experience and knowledge, does North Korea currently have nuclear weapons?

Mr. LEE. I am not a nuclear scientist, so I cannot give you "own hand" response, but I do believe there are nuclear weapons in North Korea.

Senator FITZGERALD. Mr. Lee, you testified in detail about your own mission to a country that you believe was Iran to do a demonstration of a North Korean missile. Are you aware, personally, of other such missions, and do you know to what countries those missions have been?

Mr. LEE. Yes, I do.

Senator FITZGERALD. You indicated to my staff that the North Korean missile industry depends entirely on foreign imports. Can you go into greater detail about that dependence on foreign imports?

Mr. LEE. I worked for 9 years as an expert in the guidance system for North Korean missile industry, and I can tell you definitely that over 90 percent of these parts come from Japan. And the way they bring this in is through the Chosan Sur [ph] and the North Korean Association inside Japan, and they would bring it by ship every 3 months, and we would go out to the port, at times, when we are in a hurry and pick them up ourselves.

Senator FITZGERALD. Were those parts smuggled from Japan into North Korea or did North Korea purchase those parts?

Mr. LEE. I am sure it is informal. The ship that is used to ferry these parts is called Man Gyong Bong, and this is a passenger ship. It is not a freighter, so it is the smuggling.

Senator FITZGERALD. Mr. Lee, do you have any information on North Korea's nuclear program and the Yongbyon nuclear facility?

Mr. LEE. I do not have profound knowledge about the North Korean nuclear development structure, but I was nearby when there was this issue about IAEA inspection a long time ago.

Senator FITZGERALD. Mr. Lee, you were a scientist in the missile program. As a scientist in the missile program, were you at all aware of the country's trafficking in drugs, as testified by Defector 1? Did you have any knowledge of that? Does that come as a surprise to you or do you believe that testimony?

Mr. LEE. I knew already that from 1999 the collective farm had certain parcels allocated for the poppy cultivation. Each collective farm had to cultivate poppies.

Even in the area where I worked, where the Munitions Plant No. 38 is located, they developed a poppy field in Oh Su Dong [ph], Joongang Gun [ph], Jagang Province, from 1994. To do this, 2,000 reserve military was mobilized, and they were put in to cultivate, to develop the poppy field. And because they lacked the housing, we were also mobilized to build housing for these reserve servicemen who were put in to develop the poppy fields.

When I left in 1997, through that route in that neighborhood, I could see the poppies were growing there. I could see the poppy fields. In the fall, when they usually harvest these poppies, they would use the students, and when they do this, they would send the students in, and when they are done, they would frisk them with only briefs on so that there is nobody would take away these poppies.

Senator FITZGERALD. I just want to be clear on that. You recall 2,000 military personnel being directed to work on growing poppies?

Mr. LEE. The servicemen who have just been discharged.

Senator FITZGERALD. So they were men who had been discharged? They were put to work——

Mr. LEE. As soon as they were discharged, they were put to work to develop these poppy fields.

Senator FITZGERALD. And then students were used to harvest them?

Mr. LEE. To harvest them, yes, that is correct, sir.

Senator FITZGERALD. Well, gentlemen, thank you very much for this testimony. At this point, I would like to ask you both to stay there. We are going to go into our closed session now.

As I previously announced to the audience, I would now ask that the Capitol Police and security staff prepare the hearing room for a closed session. I also ask that members of the audience and the media please leave the room at this time.

As a reminder to Senate staff, this closed session will be conducted at the unclassified level.

[Whereupon, at 5:01 p.m., the open Subcommittee meeting was adjourned.]

APPENDIX

North Korean Provocations, 1958-2003

February 1958 North Korean agents hijacked a South Korean airliner to Pyongyang that had been en route from Pusan to Seoul; 1 American pilot, 1 American passenger, 2 West German passengers, and 24 other passengers were released in early March 1958, but 8 other passengers remained in the North.

January 1968 A 31-member commando team, disguised as South Korean soldiers and civilians, infiltrated within striking distance of President Park Chung Hee's office/residence complex (The Blue House) before they were intercepted by South Korean police; 29 commandos were killed and one committed suicide; one who was captured revealed that their mission was to kill President Park and other senior government officials.

Two days after the commando attempt on President Park, North Korea seized the U.S. intelligence ship *Pueblo* with a crew of 83 officers and men off Wonsan in international waters outside the 12-mile limit claimed by North Korea; the crew was finally released in December 1968, but not the vessel.

December 1969 North Korean agents hijacked a South Korean airliner YS-11 to Wonsan en route from Kangnung to Seoul with 51 persons aboard; in February 1970, 39 of the crew and passengers were released. As of January 2001, the remaining 12 were still detained in North Korea, along with 454 other South Koreans abducted since 1955, according to the South Korean government.

August 1974 South Korean President Park Chung Hee's wife was killed during another attempt on his life. An agent of a pro-North Korean group in Japan who entered Seoul disguised as a tourist fired several shots at Park at a major public function; Park escaped unhurt, but the First Lady was hit by stray bullets and died several hours later. The agent, Mun Se-gwang, was tried and convicted, and executed.

October 1983 The explosion of a powerful bomb, several minutes before South Korean President Chun was to arrive to lay a wreath at the Martyr's Mausoleum in Rangoon, Burma (Myanmar), killed 17 senior South Korean officials and injured 14 who were accompanying President Chun, then on the first leg of a six-nation Asian tour. Among the killed were: presidential chief-of-staff and another senior presidential assistant; deputy prime minister/minister of economic planning; three cabinet members including foreign minister; 3 deputy ministers; and the South Korean ambassador to Burma. The

explosion also killed four Burmese nationals and wounded 32 others.

February 1984 Two Canadians, Charles Yanover and Alexander Gerol, testified in a Canadian court that North Korean agents hired them in 1981 for $600,000 to assassinate South Korean President Chun Doo Hwan. They were convicted and sentenced to prison terms of one-to-two years. The assassination was to take place during Chun's visit to the Philippines in July 1982.

August 1987 North Korean agents kidnapped a South Korean student at MIT, Lee Chae-hwan, in Austria.

November 1987 A bomb planted by two North Korean terrorists on a Korean Airline Boeing 707, with 20 crew members and 95 passengers aboard, exploded in midair over the Andaman Sea off the coast of Burma. The plane was en route from Baghdad to Seoul. Kim Hyon-hui, one of the terrorists who was arrested in Bahrain and confessed to the crime, was tried and convicted in a Seoul court. The sabotage bombing was reportedly a North Korean warning against those planning to take part in the Seoul Olympics.

February 1997 In Seoul, the nephew of North Korean leader Kim Jong Il's former wife, Song Hye-rim, was shot by two hit men believed to be North Korean agents. The nephew, Lee Han-yong, had defected to the South in 1982. The shooting took place three days after Hwang Jang-yop, a high ranking North Korean party official, walked into the South Korean consulate in Beijing for defection to the South.

August 1998 U.S. intelligence agencies reportedly "detected a huge secret underground complex in North Korea that they believe is the centerpiece of an effort to revive the country's frozen nuclear weapons program." North Korea maintained that the underground complex in question was a civilian economic facility under construction as part of an unspecified economic undertaking. North Korea also claimed that the United States "should ... compensate for groundlessly humiliating and slandering us with fabrication and for infringing on our sovereignty and defaming us" ([North] *Korean Central Broadcasting Network*, September 19, 1998).

January 2000 South Korean Rev. Dong-Shik Kim, a legal resident of Lynchburg, Virginia, was reported missing in Yanji, northeastern China, since January 16, 2000. Rev. Kim is said to have told his coworkers on that day that he would go out for lunch with two North Korean defectors. Citing the report in *Dong-A Ibo*, a Seoul daily (February

	3, 2000), Seoul's *Yonhap* news agency reported that those defectors were actually North Korean agents disguised as defectors and that ten people were involved in Rev. Kim's kidnapping. In October 2000, South Korea's National Intelligence Service reportedly confirmed that Rev. Kim was kidnapped by North Koreans in Yanbian, China, on February 1, 2000.
November 2001	A North Korean patrol boat crossed the Northern Limit Line in the Yellow Sea 6.5 nautical miles west of Baekryong Island. The vessel intruded 1.8nm into South Korean waters for 36 minutes in what was the 12th such incident of the year.
October 2002	The U.S. State Department revealed that during October 4-6 meetings in Pyongyang between U.S. envoy James Kelley and North Korea, the North admitted that it was pursuing a nuclear weapons development program. This was confirmed two days later by a North Korean delegate to the United Nations, but he said the uranium-enrichment equipment was not yet in operation.
December 2002	A North Korean ship en route to Yemen was stopped by allied forces in the Persian Gulf and was found to be carrying Scud missiles hidden under bags of cement. The ship was released after Yemen said the missiles were for its army.
February 2003	North Korea announced it had reactivated its 5-megawatt nuclear reactor at Yongbyon. The reactor could produce enough material for a nuclear bomb in about a year. North Korea, however, had apparently not restarted the nuclear fuel reprocessing facility at Yongbyon which could generate weapons-grade plutonium more quickly from the 8,000 fuel rods in storage.
March 2003	Four North Korean fighter jets intercepted a U.S. Air Force reconnaissance plane in international airspace over the Sea of Japan. This was the first hostile act by a North Korean aircraft against a U.S. plane since the 1960's.
April 20, 2003	Australian police arrested 26 crew members of a North Korean ship, the *Pong Su*, after being spotted trying to off-load approximately $80 million of heroin to a fishing boat off the coast of Australia. The Australian Navy and police boats forced the 4000-ton ship into Sydney harbor after it was chased for four days and several hundred miles along Australia's east coast.

Source: Nanto, Dick K. RL30004 – North Korea: Chronology of Provocations, 1950 – 2003. *Congressional Research Service*. March 18, 2003.

STATEMENT BY
ANDRE D. HOLLIS
DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR
COUNTERNARCOTICS

Good afternoon Chairman Fitzgerald, Senator Akaka and distinguished members of the Subcommittee. I am pleased to appear before you to discuss concerns about North Korea's involvement in illicit drug trafficking.

Over the past several years, there have been numerous reports of drug seizures linked to North Korea, primarily of methamphetamine and heroin destined for Japan, Taiwan, China, and Russia. The Australians' April 2003 seizure of 50 kilograms of heroin transported by the North Korean merchant ship Pong Su, demonstrates that elements within North Korea are extending their illicit activities south into Australian waters. This incident underscores the need for multilateral efforts to stop North Korea's drug trafficking.

The Pong Su seizure heightens concerns that North Korean officials may be using illicit trading activities to provide much needed hard currency to fund its army and weapons of mass destruction programs. North Korea is a proliferator of weapons of mass destruction to nations that support terrorism. It is clear that *any* illicit trafficking involving North Korea is a potential threat to the security of the U.S. and its friends and allies in Asia and elsewhere.

Last week, Australian Foreign Minister Alexander Downer urged all governments in the region to work together to stop the smuggling. To that end, the Department is working with the Departments of State and Justice, the Drug Enforcement Administration, and the Intelligence Community to review what assistance the United States is authorized to provide to partner nations to slow the flow of drugs and other illicit trafficking in Northeast Asia.

Practically speaking, the Department is able to provide support to our partner nations in the form of training for law enforcement and military personnel, intelligence initiatives that include collection, processing, and analysis, infrastructure to support counterdrug efforts, and command and control systems that ensure our allies can communicate and coordinate operations among their own agencies and with U.S. law enforcement and the military. The Department and its agency counterparts are fully capable and ready to support regional partners with the training, facilities, intelligence means, and organizational experience to counter the threat of illicit trafficking from North Korea.

We continue to be successful in bringing together interagency capabilities and personnel to assist our allies in their fight against drugs. The interagency task forces we created in both California and Florida are examples for future initiatives in the East Asian region. These task forces bring together law enforcement, intelligence and the military to work jointly with partner nations to battle the narcotics threat. We are exploring the possibility of applying this model to the

North Korean problem. This approach has proven valuable in places such as Colombia and Thailand where it enabled their law enforcement and military to work together to fight drug smuggling. North Korean drug trafficking is part of a larger threat posed by North Korea both regionally and globally. The Department's counternarcotics programs can complement the Administration's current wider effort to find the most successful means to end North Korea's trafficking of weapons of mass destruction, ballistic missiles, and illicit drugs.

I look forward to answering your questions.

Biography of André D. Hollis

Mr. André D. Hollis was appointed the Deputy Assistant Secretary of Defense for Counternarcotics on August 1, 2001. In this capacity, Mr. Hollis oversees and controls the Department's counternarcotics efforts in the United States and throughout the world. Specifically, Mr. Hollis develops the Department's counternarcotics policy, manages over 100 programs that support counternarcotics efforts of domestic and international law enforcement, and oversees a budget in excess of $800 million dollars.

Prior to his appointment, Mr. Hollis served as Senior Counsel for the House of Representatives Committee on Government Reform, which exercises oversight jurisdiction for all federal agencies. As Senior Counsel, Mr. Hollis advised the Chairman of the Committee, Congressman Dan Burton, Committee members and members of the House leadership on a variety of issues before the Congress.

Prior to his joining the Committee staff, Mr. Hollis served as a Counsel to the House Commerce Committee. Prior to his service on Capitol Hill, Mr. Hollis was in private practice as a trial attorney and lobbyist.

In 1988, Mr. Hollis graduated from Princeton University and earned a Distinguished Military Graduate Commission in the United States Army. Mr. Hollis earned his Juris Doctorate from the University of Virginia School of Law in 1991 and was honorably discharged from the Army in 1993. Mr. Hollis remains a member of the Bars of the Commonwealth of Virginia and the District of Columbia.

In addition to his professional responsibilities, Mr. Hollis serves as a Mentor, Director and Vice President (Program Services) for Big Brothers/Big Sisters of the National Capital Area. Mr. Hollis, his wife, Katy, and their son Alexander, reside in Alexandria, VA.

WILLIAM BACH
DIRECTOR, OFFICE OF AFRICAN, ASIAN AND EUROPEAN AFFAIRS
BUREAU FOR INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS
DEPARTMENT OF STATE

HEARING ON
DRUGS, COUNTERFEITING AND ARMS TRADE: THE NORTH KOREAN CONNECTION

BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY

May 20, 2003

Good afternoon, Mr. Chairman. I would like to express my sincere appreciation for the opportunity to testify before the Subcommittee on the subject of narcotics trafficking and other criminal activity with a connection to the Democratic People's Republic of (North) Korea-DPRK.

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

Given the tight controls in place throughout North Korea and the continuing seizures of amphetamines and heroin suspected of originating from North Korea, one wonders how any entity other than the state itself could be responsible for this high-volume drug trafficking. Drug transfers between North Korean vessels at sea also suggest probable state involvement. Likewise, it is very hard to imagine any entity other than the North Korean State

undertaking trafficking on the scale and operational complexity of the "Pong Su" incident in Australia.

Early Instances of Trafficking by North Koreans and the Recent "Pong Su" Trafficking Incident in Australia

Much of what we know about North Korean drug trafficking comes from drug seizures and apprehensions abroad. A typical incidence of drug trafficking in the mid-seventies, when trafficking by North Koreans first emerged as a significant problem, would involve a North Korean employee of a diplomatic mission or state enterprise who would be apprehended with illicit drugs by police or border crossing officials. In other cases, police authorities would hear reports that North Koreans were trafficking or offering to provide illicit drugs. The police would respond with a sting-type operation that frequently resulted in drug seizures and the arrest of North Korean individuals. Information on North Korean trafficking has sometimes come from third-country nationals accused of drug offenses who have provided police and prosecutors with information on North Korean operations. In a few cases, police received intelligence about North Korean trafficking and followed the operation from the planning stage to drug seizure.

For example, in February of 1995, Russian law enforcement officials in Vladivostok arrested two North Korean employees of a North Korean state logging company and seized eight kilograms of heroin. According to the traffickers' statements, the shipment seized was a sample that was supposed to demonstrate the quality of 2.2 MT (4840 lbs.) of heroin to follow. The North Koreans assured a Russian undercover police operative that they could supply that amount of heroin, if requested.

According to reports, on April 16, police in Australia observed the "Pong Su" relatively close to shore and followed two ethnic Chinese suspects on the shore as they left the beach and headed for a near-by hotel. The next morning, the two suspects were apprehended at their hotel with 50 Kg (110 pounds) of pure heroin. Then, in a careful search of the beach where the two suspects had been seen the day before, Australian police discovered the body of a North Korean recently buried close to a dingy. They surmised that the dingy had capsized while bringing the heroin ashore, drowning one of the North Koreans. Police

also apprehended another North Korean in the immediate area. Unable to get back to his boat, he had simply remained in the area where the drugs came ashore the night before. A third ethnic Chinese trafficker suspect was also taken into custody.

Australian authorities ordered the Pong Su into harbor, but the ship attempted to escape into international waters. After a helicopter boarding by Australian Army Special Operations Forces, the Pong Su was brought into port. The ethnic Chinese suspects and the captain and crew of the Pong Su have been charged with narcotics trafficking. The Australian Foreign Minister called in the North Korean Ambassador to lodge a formal protest.

Methamphetamine Trafficking to Japan and Heroin Trafficking to Taiwan

By 1995, North Korea had begun importing significant quantities of ephedrine, the main input for methamphetamine production ("Meth"). In January of 1998, Thai Customs temporarily held 2.2 MT of ephedrine ordered in India and consigned to North Korea. At about this time "Meth" was emerging as the drug of choice all over Asia. Japan is the largest single market for methamphetamine in Asia, with more than 2.2 million abusers and an estimated consumption of 20 MT of methamphetamine per year. During the next several years the Japanese seized numerous illicit shipments of methamphetamine that they believe originated in North Korea. In most of these seizures, traffickers' and North Korean ships rendezvoused at sea in North Korean territorial waters for transfer of the narcotics to the Japanese traffickers' vessels. Taiwanese authorities also seized several shipments of methamphetamine and heroin that had been transferred to the traffickers' ships from North Korean vessels.

The sharp increase in large methamphetamine seizures in Japan after earlier indications of North Korean efforts to import ephedrine strongly suggests a state-directed conspiracy to manufacture and traffic in this narcotic to the largest single market for it in Asia.

Thirty-five percent of methamphetamine seizures in Japan from 1998 to 2002 originated in North Korea, and Japanese police believe that a high percentage of the "Meth" on Japanese streets originates in North Korea.

Likewise, seizures of drugs trafficked to Taiwan in similar fashion, (i.e., with traffickers' vessels picking-up the drugs from North Korean vessels), suggests centralized direction. In both cases (Japanese and Taiwanese), large quantities of drugs, expensive even at wholesale prices, are transferred from North Korean state-owned ships, on occasion by men in uniform, to ships provided by Japanese or ethnic Chinese traffickers to be brought surreptitiously to Japan or Taiwan.

Counterfeiting

The United States Secret Service Counterfeit Division is aware of numerous cases of counterfeiting with a North Korean connection. Typical of such cases was one reported in Macao in 1994, when North Korean trading company executives, who carried diplomatic passports, were arrested for depositing $250,000 in counterfeit notes in a Macao Bank. There are numerous other counterfeiting incidents with links to Macao banks, North Korea and North Korean diplomats.

Smuggling and Trade in Counterfeit Goods

There are numerous well-researched press reports on smuggling activities by North Korean nationals and diplomats abroad. One group of articles reports a very active trade in smuggled cigarettes with China. A 1995 Associated Press article reported the seizure by Taiwanese authorities of 20 shipping containers of counterfeit cigarette wrappers destined for North Korea. According to officials of the cigarette company whose label and trademark were being violated, the seized materials could have been used to package cigarettes with a retail value of $1 billion. This incident suggests North Korean intentions to produce counterfeit cigarettes. We have also seen numerous similar reports of smuggling incidents involving North Korean diplomats in the late 80s and into the mid-90s, including drug smuggling attempts, counterfeit money-passing incidents, etc. Seen together with North Koreas severe economic problems, these incidents suggest that North Korean diplomatic representatives were engaged in criminal activities to generate funds for their cash-strapped government or to reduce some of the burden to maintain their own presence abroad.

Trade in Endangered Species

The Hong Kong "South China Morning Post" reported on North Korean involvement in trade in endangered species in Africa. Relying on an investigative report prepared by an NGO called the Environmental Investigation Agency, the "Post" reported that North Koreans were involved in smuggling of a significant number of rhino horns from Africa to Guangdong. The smuggling involved moving the horn in diplomatic bags through North Korean embassies and consulates in Africa and China. The NGO investigator concluded: "My opinion is that the North Koreans were using the rhino horns to get hard currency for the country." Although this ambitious smuggling-for-profit operation could have been carried out independently by the individuals involved, its scale suggests that such a theory is highly unlikely. Such a scheme probably involved and was likely planned by a North Korean government entity.

North Korean Connections with Organized Crime

North Korean traffickers have links to Russian, Japanese, Taiwanese, China-Hong Kong, and Thai organized crime elements. In all cases, the relationship began as one of "wholesaler" with "retailer." North Koreans with large quantities of drugs to sell have sold them to criminal groups with the retail network necessary to move the drugs to consumers. It appears that some organized crime elements (e.g., Yakuza, Triads) approached the North Koreans because they knew that the North Koreans had drugs to sell.

This "wholesaler-retailer" relationship seems to have evolved in recent years. Incidents such as the Pong Su arrests, for example, demonstrate that North Korean traffickers are becoming involved farther down the trafficking chain.

Mr. Chairman, I thank you and members of the committee for your attention, and I would be pleased to answer any of your questions.

William Bach (FE-OC)

After graduation from the University of Iowa in 1965, Mr. Bach was commissioned as a 2nd Lieutenant in the USMC. Over the course of a 19-month tour in Vietnam, he served as a reconnaissance platoon leader, a combined action company commander, and a regimental civil affairs officer. He was awarded the Purple Heart. On leaving the USMC in 1968, Mr. Bach joined USAID and, after language studies, returned to Vietnam. He remained there until 1975 in assignments that included district senior adviser in the Mekong Delta, political adviser to the Senior Adviser of Military Region IV, General John Cushman, political adviser to the Senior Adviser of Military Region II, Mr. John Paul Vann, and Special Assistant to the Embassy's Minister-Counselor for Public Affairs.

In 1981 Mr. Bach was commissioned into the Foreign Service of the US Information Agency. He served as cultural and information officer in Nigeria, Venezuela, Germany, Australia, and Vietnam—where he was Counselor for Public Affairs from 1995-98. In Washington he was the special assistant to the Counselor of USIA, a senior policy analyst at the NSC, and the chief of international information programs for the Western Hemisphere. After an academic assignment at Johns Hopkins School of Advanced International Studies from 1984-85, he received a Master's of International Public Policy.

After USIA merged with the Department of State in 1998, Mr. Bach served as the political adviser to the commanding general of the American-led Multi-National Division (North), based in Tuzla, Bosnia, from 2000-01. From 2001 through the present, Mr. Bach has directed the Office of Asia, Africa and Europe for State's Bureau of International Narcotics and Law Enforcement Affairs, managing a budget of over $200 million.

Mr. Bach has received awards for superior honor, sustained superior performance, meritorious step increase, and two SFS performance pay awards. He speaks Vietnamese, German and Spanish. Mr. Bach has published articles on international affairs in Foreign Policy, the San Francisco Chronicle, the International Herald Tribune and the Ottawa Daily Times. He and his wife Huong, a native of Danang, Vietnam, live in Vienna, VA. They have two children.

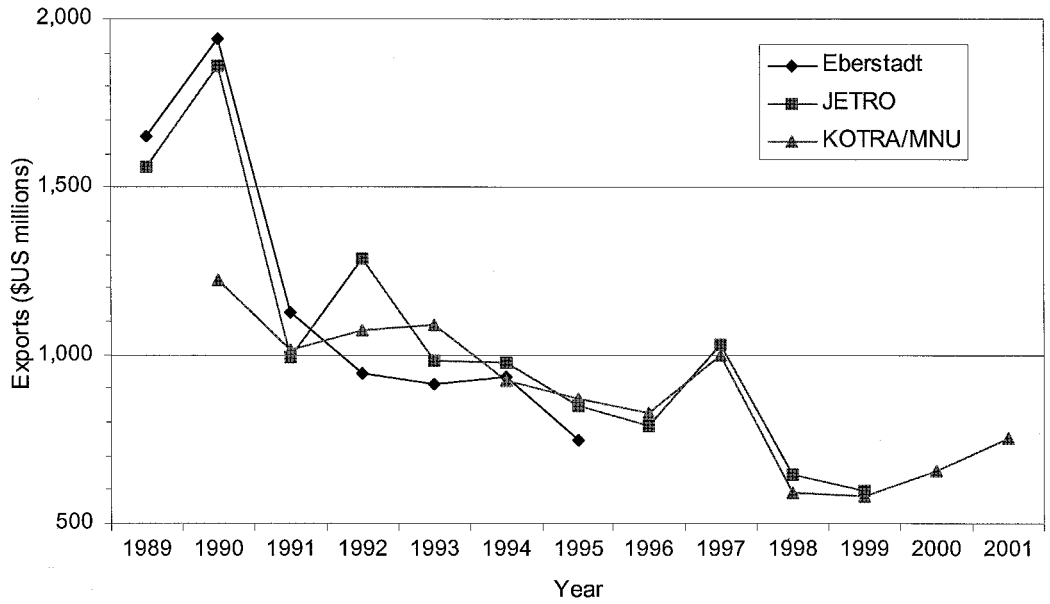
"Drugs, Counterfeiting, and Weapons Proliferation: The North Korean Connection"

Hearing before the Subcommittee on
Financial Management, the Budget, and International Security
Committee on Governmental Affairs
United States Senate

Nicholas Eberstadt
Henry Wendt Scholar in Political Economy
American Enterprise Institute

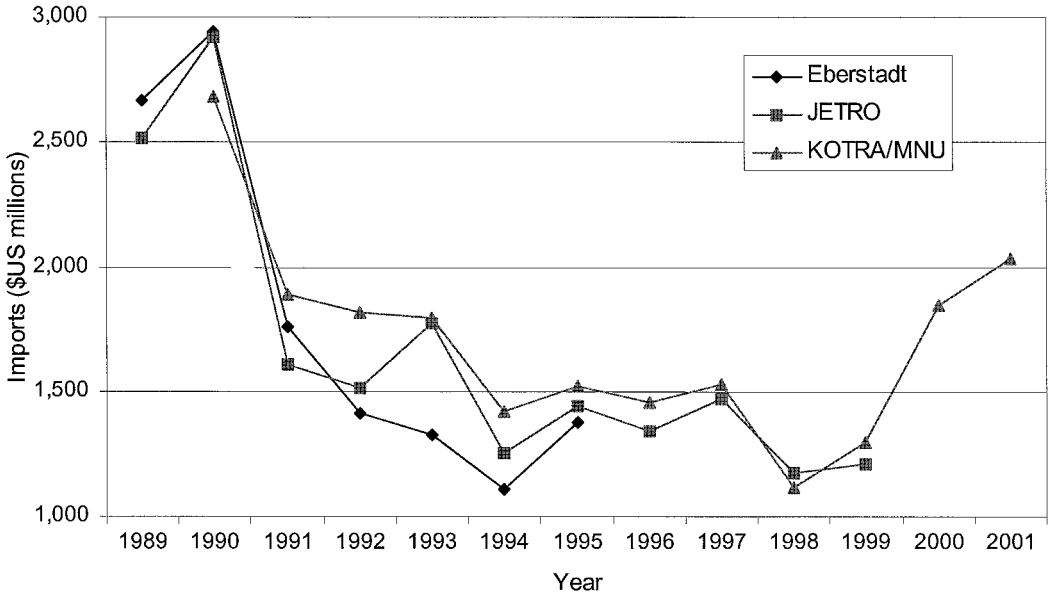
Tuesday, May 20, 2003 2:00 PM
342 Dirksen Senate Office Building
Washington, DC

FIGURE 1. North Korean Merchandise Exports, 1989-2001



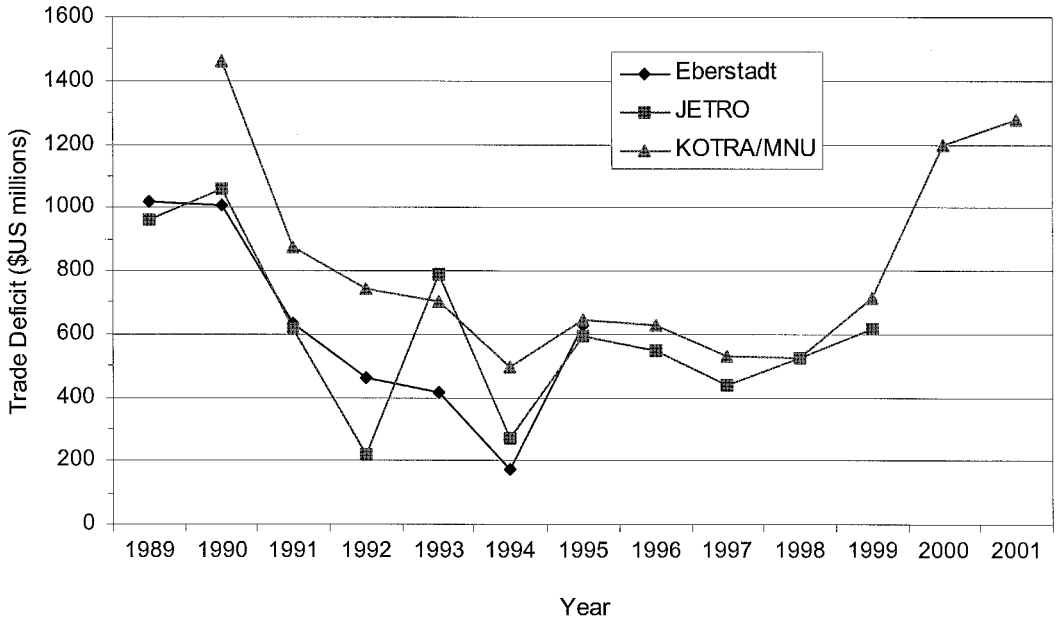
Source: Eberstadt, "Economic Recovery in the DPRK: Status and Prospect," *International Journal of Korean Studies*, IV:1 (Fall/Winter 2000); JETRO; KOTRA; ROK Ministry of Unification.

FIGURE 2. North Korean Merchandise Imports, 1989-2001



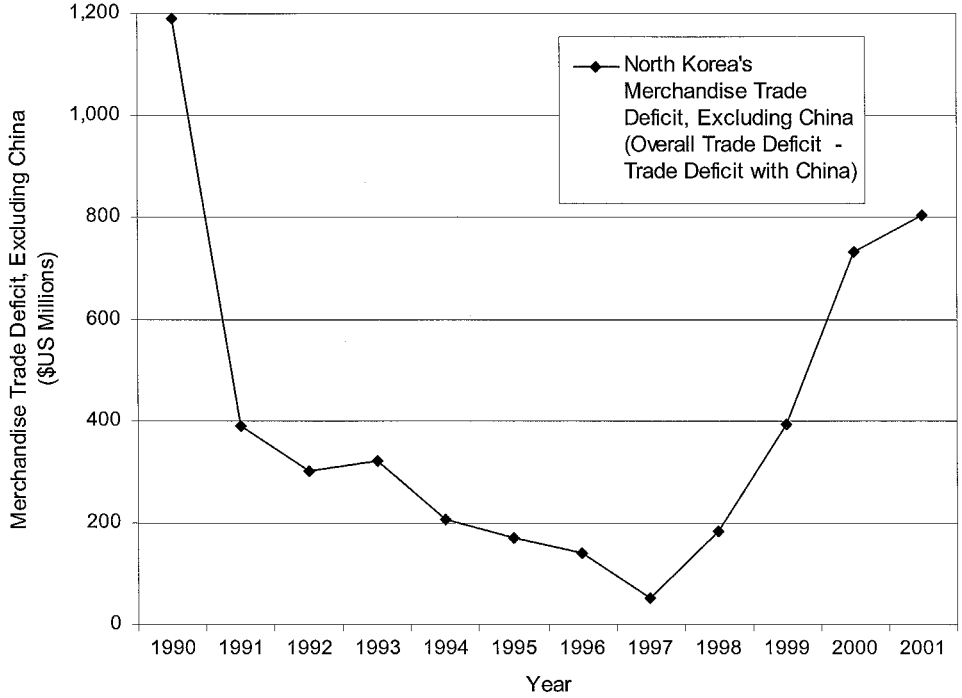
Source: Eberstadt, "Economic Recovery in the DPRK: Status and Prospect," *International Journal of Korean Studies*, IV:1 (Fall/Winter 2000); JETRO; KOTRA; ROK Ministry of Unification (MNU).

FIGURE 3. North Korean Merchandise Trade Deficit, 1989-2001



Source: Figures 1 and 2

FIGURE 4. North Korea's Merchandise Trade Deficit, 1990-2001, Excluding Trade with China



Source: Figures 1 and 2; PRC General Administration of Customs, *China's Customs Statistics*, various volumes.

Testimony of

Larry M. Wortzel, Ph.D.

Vice President and Director, The Kathryn and Shelby Cullom Davis Institute

for International Studies

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Mr. Chairman and distinguished members of the Committee, thank you for inviting me to address the North Korean connection to international trade in drugs, counterfeiting, and arms.

North Korea's exports from legitimate businesses in 2001 totaled just $650 million, according to *Wall Street Journal* reports of April 23, 2003, citing South Korea's central bank. Income to Pyongyang from illegal drugs in the same year ran between $500 million and $1 billion, while missile sales earned Pyongyang about $560 million in 2001. North Korea is producing some 40 tons of opium a year, according to U.S. Forces Korea officials cited in *The Guardian* on January 20, 2003, and earns some $100 million a year from counterfeiting currency.[1]

Thus, like the regime of Saddam Hussein, the Kim Jong-il regime resembles a cult-based, family-run criminal enterprise rather than a government. And, like the former government of Saddam Hussein, the regime of Kim Jong-il operates with a complete disregard for international law and human life. The famine that Kim Jong-il permitted to continue in North Korea killed as many as 3 million people.[2]

The disclosures now coming out about the way that Saddam Hussein and the Baath party ran Iraq show us what happens when a criminal gang takes over a nation and turns all of its resources to support the thugs in power. Unrestrained brutality, murder, torture, rape, and plunder were inflicted on the people of Iraq by the family of criminals

1 Economist Intelligence Unit, "Country Report, 2003."

from Tikrit. Of course, Saddam Hussein and his thugs could get rich and keep the state running because Iraq has so much oil. Kim Jong-il does the same to North Korea while kidnapping people from Japan and South Korea.

North Korea has no oil to export. In fact, it is one of the most repressed economies in the world, according to the *Index of Economic Freedom*, published annually by the *Wall Street Journal* and The Heritage Foundation. North Korea has no viable economy at all, its only major exports being dangerous weapons and dangerous drugs. To maintain himself in power, Kim Jong-il must ensure that the cadre of the Korean Workers Party, the North Korean People's Army, and the People's Security Force—his communist political base—are fed and have heat in the winter. Kim is aided in this goal primarily by the People's Republic of China, the communist leadership of which has vowed not to let North Korea collapse.

North Korea's international behavior and lack of a viable economy present a security dilemma of major consequence for the world. Our attention was most recently focused on the problem of North Korea's criminal behavior by the Australian Navy's apprehension of a North Korean ship carrying 110 pounds of heroin worth $50 million on April 20 in the Tasman Sea off Australia.[3]

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2 Kang Chol-hwan and Pierre Rigoulot, *The Aquariums of Pyongyang* (New York: Basic Books, 2001), p. xiv.
3 *The Wall Street Journal*, April 20, 2003.

There are also persistent stories about North Korean diplomats carrying illegal drugs across borders in diplomatic pouches.[4] In 1994, China stopped North Korean embassy employees smuggling 6 kilograms of North Korean–grown opium into China. In 1995, officials of the North Korean Ministry of People's Armed Forces were arrested by China. Austin Bay discusses these in a *Washington Times* opinion piece of May 15, 2003. The drugs are deadly, and the way that Pyongyang ships them around the world is but one of the indicators that under Kim Jong-il, North Korea is a rogue state. North Korea's behavior would be much more deadly if, instead of drugs and counterfeit money, Kim Jong-il was shipping weapons-grade nuclear material or nuclear weapons to terrorists and other failed states.

The Drug Trade

North Korea ships drugs everywhere. In my view, in a country where such strict government control is exercised over all aspects of personal and public life, such actions reflect a conscious government policy. The United States Department of State, in its annual *International Narcotics Control Strategy Report*, is reluctant to make that analytical judgment. In 1999, for instance, the State Department wrote that:

> There have been regular reports from many official and unofficial sources for at least the last 20–30 years that the Democratic People's Republic of Korea

4 North Korean Advisory Group, *Report to The Speaker, U.S. House of Representatives* (Washington, D.C.: U.S. Congress, November 1999), p. 39.

encourages illicit opium cultivation and engages in trafficking of opiates and other narcotic drugs.[5]

However, the State Department report goes on to say that "We have not been able to confirm the extent of North Korea's opium production, though we did receive one eye-witness report of 'large fields' of opium growing in North Korea." The State Department report in 1999 "estimated" that opium production in North Korea was between 30 metric tons and 44 metric tons.[6]

Mr. Chairman, I find this statement shameful. Either American intelligence is inadequate, or the State Department can't bring itself to make a judgment call. If United States space surveillance assets cannot find and confirm the existence of opium poppies, which are brightly colored, seasonal, and grow above ground, we will never get adequate intelligence on North Korea's underground missile and nuclear weapons programs.

North Korean diplomats, workers, and officials have been caught selling opiates—including heroin, amphetamines, and ryhopnol (known as the "date rape drug)—in Japan, China, Russia, Taiwan, Egypt, the Czech Republic, Bulgaria, Taiwan, and South Korea.[7] Yet in its 2003 *International Narcotics Control Strategy Report*, the Department of State manages to conclude that there is "no to conclusive evidence of illicit opium production in North Korea."

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5 Bureau of International Narcotics and Law Enforcement, *International Narcotics Control Strategy Report* (Washington, D.C.: U.S. Department of State, 1999); hereafter cited as *INSCR*.
6 *INSCR, 1999*.
7 *INSCR*, 1999, 2000, 2001, 2002.

Mr. Chairman, as you may know, from 1988 to 1990, and then again from 1995 to 1997, I was a military attaché at the United States Embassy in China. During that period, I received a number of very credible reports from reliable sources of Chinese nuclear assistance to Pakistan and of the shipment of Chinese missiles and missile technology to Pakistan. Yet the Department of State could not conclusively say that there was such assistance until Pakistan tested its first missile and its nuclear weapons. I am a little skeptical of statements by the Department of State that "evidence is inconclusive."

In January 2002, Japanese officials seized 150 kilograms of methamphetamine from a North Korean vessel, and in July 2002, Taiwan government officials apprehended 9 men carrying 79 kilograms of Heroin.[8]

Clearly, Mr. Chairman, one way to put some pressure on North Korea is to mount a major international, worldwide diplomatic effort encouraging other countries to pay extra attention to North Korean drug trafficking and to apprehend those North Koreans, including diplomats, military, and government officials who transport and sell drugs. Even China, where the most senior officials of the People's Liberation Army have said that "China will not permit North Korea to collapse," is likely to assist in a concerted drug interdiction effort.

Shoring up a Failed Economy with Counterfeit Currency

North Korea's gross domestic product (GDP) in 2001 was US$15.7 billion. It exported $826 million in goods and imported $1,847 billion, leaving it a negative trade balance of –$1,021 billion.[9]

North Korea has some brown coal but lacks coking coal and has no viable oil and gas deposits. The electric power transmission grid in North Korea loses about 30 percent of the power it transmits. One would think that any available funds would be used to upgrade this electrical transmission capacity. Instead, North Korea invested US$10 million in an intaglio printing press, the same type used by the United States Bureau of Engraving and Printing.

In 1999, the U.S. Congressional Research Service estimated that Pyongyang was producing and passing in foreign countries US$15 million a year in counterfeit currency.[10] Pyongyang passes its fake bills everywhere. In April 1998, Russian police arrested a North Korean who was passing US$30,000 in counterfeit bills.[11]

Missile Sales

North Korea has exported significant ballistic missile–related equipment, parts, materials, and technical expertise to South America, Africa, the Middle East, South Asia,

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8 *INSCR*, 2002.
9 Economist Intelligence Unit, "Country Profile, 2003."
10 *Australian Financial News*, June 17, 2000; *North Korean Advisory Group Final Report*, 1999, p. 38.
11 *INSCR*, 1999.

and North Africa.[12] China has been a close partner of North Korea in missile sales, often teaming with the North when Pyongyang had specific "niche" capabilities sought by other countries.

Pyongyang has made some US$580 million in missile sales to the Middle East, but there are other regular customers for North Korean missiles.[13] In 1993, Iran sought to acquire 150 Nodong-1 missiles (a variant of the Russian Scud) and also paid North Korea US$500 million for further missile development as well as technology for nuclear weapons.[14] In August 1994, according to the publication *Iran Brief*, U.S. reconnaissance satellites captured images of three of these Nodong missiles being assembled 25 miles north of Esfahan, Iran. Zaire also concluded a US$100 million deal for North Korean missiles in 1994.[15]

In 1995, the Central Intelligence Agency confirmed the transfer of a number of Scud transporter-erector-launchers (TELS) to Iran.[16] In one reported deal, Iran proposed to pay for missiles from North Korea with oil. By 1997, China and North Korea were sending a joint team of technicians to Iran to work on the North Korean missile program.[17]

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12 *Geostrategy Direct*, April 22, 2003, citing a CIA report of April 10, 2003, entitled *North Korea Not Backing off From Missile Exports*.
13 *The Yomiuri Shimbun*, May 12, 2003.
14 *U.S. News and World Report*, March 29, 1993, p. 18; *The Washington Times*, March 19, 1993, p. A2.
15 *Le Point*, January 28, 1995, p. 19.
16 *Defense Week*, May 1, 1995, p. 1.
17 *The Washington Times*, November 23, 1997, pp. 1, 5.

There was also a set of barter arrangements between North Korea and Syria for missiles. Syria reportedly shipped Soviet SS-21 short-range ballistic missiles to North Korea, which Pyongyang planned to reverse engineer and use to improve the accuracy of the Scud missile.[18]

The United States government believes that Pakistan's Ghauri missile (1,500-kilometer range) was based on technology and help provided by North Korea. In the case of Pakistan, from the late 1980s, China supplied nuclear-related technology and M-11 missiles while North Korea helped by providing expertise in the manufacture of the Ghauri, another class of missile.19 The Ghauri is a liquid-fueled version of the Nodong missile.[20] In 1998, India stopped and detained a North Korean ship at Kandia that contained 148 crates of blueprints, machinery, and parts for ballistic missile production on the way to Pakistan.[21]

As the world saw in December 2002, when the Spanish Navy intercepted a North Korean ship carrying parts for a dozen Scud missiles on the way to Yemen, the missile export problem can be particularly vexing. Compliance with the multilateral Missile Technology Control Regime is voluntary, and the sale of these missiles does not violate

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18 *Janes International Defense Review*, February 1997, pp. 1–4.
19 The M-11, or Dong Feng-11, has a range of between 280 and 400 kilometers and a can carry a warhead of between 500 and 800 kilograms. It exceeds the 500kg/300km limitations of the Missile Technology Control Regime (MTCR). China is not a signatory to the MTCR but Chinese officials have made statements that China would "act responsibly" within the limits of the MTCR. The early Pakistan version of the M-11 is known as the Hatf 4 and the Shaheen 1. The Ghauri 1 and 2 are believed to be developed from the North Korean Nodong missile. They Ghauri has a range of about 1300 kilometers (but a more advanced version may have a 2000 km range). It can carry a nuclear warhead of of 1200 kg with an explosive force of 30 to 40 kilotons. Duncan Lennox, ed., *Jane's Strategic Weapon Systems*, Issue 32 (Alexandria, VA: Jane's Information Group, 2000), pp. 40-41, 115-117.
20 *The New York Times*, April 4, 1998.
21 *The Times of India*, July 5, 1999.

international law. Some have suggested the general quarantine of North Korean airspace and territorial seas to inspect ships and aircraft departing North Korea. I will discuss this option later in this testimony.

Japan and South Korea

Japan's market in drugs is estimated at $9.3 billion annually, with Japanese citizens consuming some 20 metric tons of amphetamine-type stimulants a year.[22] Meanwhile, pro-Pyongyang ethnic North Koreans living in Japan have sent hundreds of millions of dollars a year to North Korea, according to the Economist Intelligence Unit in its 2003 report. In April 2002, Ashikaga Bank, the only Japanese bank that dealt with North Korean counterparts, suspended this trade with North Korea. Japan's 18,000 Pachinko gambling parlors, some 30 percent of which are owned by ethnic North Koreans, bring in annual sales of $280 billion a year. Some of this money is also funneled into North Korea, although Japan is now tightening up on that practice.[23]

Prime Minister Koizumi's September 2002 trip to North Korea put on the table for the North a potential $8 billion–$10 billion in reparations for Japan's actions in World War II. The fact that Kim Jong-il lied about his secret nuclear program and the fact that he held hostage the families of the Japanese he abducted years earlier are clear examples of how, when offered the opportunity to get out of the business of drugs, counterfeiting, and missile sales, North Korea makes the wrong choices.

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22 *INSCR*, 2000; see also *The Seattle Times*, March 11, 2003.
23 *The Washington Post*, June 7, 1996.

A Ray of Good News on South Korean–North Korean Economic Cooperation

There are over 450 small and medium-size South Korean enterprises doing business in North Korea, from what I was told last year in Seoul by members of President Kim Dae-jung's administration. For the most part, these companies manufacture textiles, shoes, clothing, and light industrial goods in the North, usually in Kaesong or around Pyongyang, and ship them by sea to South Korea for sale. This is one of the most successful features—perhaps the *only* successful feature—of the "Sunshine Policy." This commerce moves by sea through the port of Nampo, on North Korea's west coast. North Korean officials have explored with American and European companies creating a container facility at Nampo to speed shipping and improve commerce.

Think of the implications of this commerce: Hundreds of South Korean small businessmen are looking communist Korean Workers Party officials in the eye on a regular basis and explaining profit and loss. The small and medium-size enterprises are successful in their ventures; they are not engaged in some major "Potemkin Village" tour scheme like the Kumgang Mountain tour program. And hundreds, if not thousands, of North Korean workers are taught about productivity, profit, and loss; they learn the rules of the marketplace.

When American President Lines executives sit down with communist Korean Workers Party officials to talk about making the deliveries under the World Food

Program more efficient, they explain why there is no economic incentive for their shipping line to pay for turning Nampo into a container facility. Thus, officials in Kim Jong-il's government are taught about economies of scale and cash flow in the shipping industry.

These cases fascinate me because they indicate that there is some tension inside the North Korean government about reform. Clearly, somewhere in the North Korean government and communist party there are officials who understand what a market economy would mean for North Korea, and they do not fear a market economy.

But if North Korea entered the world economy, the thugs who are in a position to do violence to other people—the military, the intelligence services, and the security services—would lose much of their power. North Korea's GDP in 2001 was $15.7 billion; the South's GDP at the same time was $635.9 billion. It should be clear that if this were only about prosperity, North Korea would reform its system. However, it is about power and control, not prosperity.

The Viability of Military Action, Economic Sanctions, and Quarantine

An outright U.S. attack on North Korean missile facilities, nuclear facilities, or conventional forces is within the military capability of the United States; and it is an option that must always be available to the President. However, given the close proximity of some 20 million of South Korea's 42 million people to the Demilitarized Zone where

North Korea may have some 12,000 artillery pieces, such an action would exact a high cost in innocent civilian lives. It is estimated that based on the tremendous military might poised across the misnamed Demilitarized Zone, a million might be killed in just the opening days of a new war on the Korean peninsula between North and South Korea. Moreover, given U.S force dispositions in Japan, any attack on North Korea might well stimulate a response by Pyongyang on Japanese soil. Therefore, in my view, the close nature of the United States alliances with South Korea and Japan, respectively, means that these two nations must be consulted about any American military action toward North Korea.

China supplies between 70 percent and 88 percent of North Korea's fuel needs and some 30 percent to 40 percent of North Korea's food needs.[24] Although the PRC government is said to have cut off fuel shipments to North Korea through the cross-border pipeline as a means to pressure Pyongyang into multilateral discussions among the United States, China, and North Korea, Beijing did not do so for long. Supposedly, there was a three-day "shut down" of oil transmission for technical reasons.

As I said earlier in this testimony, Mr. Chairman, the communist party leadership of the People's Republic of China has made a decision that it will not let the regime of Kim Jong-il collapse, and stopping food and fuel shipments to North Korea might bring about that collapse. This position by Beijing has been a steadfast one for 53 years, when China came to the assistance of North Korea in the Korean War.

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24 Figures cited often vary. I have used the higher end provided by former South Korean Defense Minister General Lee Jun.

China is also not much help in restraining North Korea's missile and nuclear exports. I believe that, regardless of the diplomatic rhetoric from Beijing, China continues to support the proliferation of missiles and nuclear weapons to its allies. The basic policy of the Chinese Communist Party Politburo Standing Committee and its Central Military Commission since the mid-1950s has been that China should strive to break up what it characterizes as the "super-power" monopoly on such weapons. These policies undermine the security of the United States, frustrate or render ineffective American national security policies with respect to non-proliferation, and increase China's influence with a number of the "rogue states" around the world. Gaining China's full cooperation in restraining North Korea's behavior is difficult.

An air and sea quarantine of North Korea, or the inspection of all shipping out of North Korea, would be a difficult task to sustain. Such a quarantine would be an act of war, requiring the consent of Japan and South Korea since those two nations, our allies, would be most immediately threatened by a North Korean response. Where would the United States force a North Korean aircraft to land? Ships can be stopped at sea, but aircraft cannot be stopped in flight.

Practically speaking, though, no effective quarantine or inspection regime would be possible without the full cooperation of China and Russia. North Korea could simply opt to move its missiles, components, or experts through either or both of those two countries if China and Russia agreed to facilitate North Korean exports. While the

United States may be able to secure the cooperation of Russia and China in stopping North Korea's illegal drugs from moving across their borders, I believe that China would not be a reliable partner in ending North Korea's missile and arms proliferation.

Policy Recommendations

The patient, firm, and principled position of the Bush Administration is about right in my view. The United States should not pay blackmail to drug runners, counterfeiters, and the exporters of nuclear material and missiles. Any progress with North Korea and any economic assistance or help with the problem of electrical power must be predicated on the verifiable end of North Korea's nuclear program.

It is now clear that Kim Jong-il has not kept the agreements he made with South Korean president Kim Dae-jung during their summit in Pyongyang. Apparently, that summit was secured with the secret payment of US$500 million to Kim Jong-il before he would meet with South Korea's president. We all must stop paying blackmail.

I do not believe that the negotiating position of the United States is advanced by direct, high-level bilateral talks between the United States and North Korea. Such an approach only marginalizes South Korea and Japan, which are American allies and are directly involved in the outcome of the security dilemma on the Korean Peninsula. Furthermore, the United States should maintain its dignity when it negotiates. The U.S.

Secretary of State has no place putting wreathes at the statue of Kim Il-sung and should not be doing the Macarena or the "Wave" in some stadium in Pyongyang.

Instead, we should:

- Work with the intelligence, customs, and law enforcement agencies of other countries, particularly those neighboring North Korea, to crack down on drug shipments. This improves the national security of all the countries that face the threat of dangerous illegal drugs.

- United States diplomats should stress that North Korea's drug trade is not an independent operation by a few criminals, but a controlled action by the Kim Jong-il regime.

- The sponsoring governments, to ensure that neither drugs nor counterfeit money pass out of North Korea through those embassies, must carefully monitor foreign diplomats in Pyongyang. North Korean diplomats abroad also must be carefully monitored.

- Just as we have done in the war on terrorism, the United States should work with international agencies and foreign governments to crack down on financial institutions that support North Korea's criminal activities, especially drug trafficking.

- Japan has some US$240 million in legal trade with North Korea. Legal trade should be the only way that North Korea can earn money, but if Pyongyang persists in illegal activities and refuses to return the families of the Japanese abducted by Kim Jong-il, U.S. public diplomacy should work to convince the Japanese people to cut off this trade.

- The United States must maintain a strong military presence in the Asia–Pacific region and be prepared to win any fight the North Koreans start.

- Additional ballistic missile defenses should be deployed in the region immediately, and missile defense research and development should be a priority for the United States and Japan.

- Negotiations with North Korea must be multilateral. The United States is not alone in facing North Korea.

- Any economic assistance to North Korea must be predicated on the verifiable end to its nuclear programs.

Conclusions

The senior leaders of the Chinese Communist Party continue to support the negotiating position of North Korea in dealings with the United States. Both Pyongyang and Beijing insist that the only way to resolve the diplomatic and security dilemma is direct negotiations between the United States and North Korea. Seoul vacillates, privately seeking direct U.S.–North Korean talks. The United States cannot accept a nuclear North Korea.

I believe that bilateral negotiations are a mistake. Any solution to the nuclear program in North Korea must be multilateral. The same is true for addressing North Korea's economic problems. North Korea must make its own decisions about its nuclear program. United States diplomacy should be aimed at increasing the economic and political pressure on Pyongyang while the U.S. and allies maintain a strong military posture. If Pyongyang verifiably ends its programs, economic aid will follow.

North Korea is a vexing security challenge, but Pyongyang does not have the financial resources of Iran or Iraq. Without China's fuel and food aid, North Korea might be more willing to change the terms for diplomacy. As dangerous as North Korea is, however, it is a nation that has been essentially deterred since 1953 by a strong alliance between the United States and South Korea, by the U.S.–Japan alliance, and by a powerful U.S. military capability. The United States should not waver on any of these.

Larry M. Wortzel

Dr. Larry M. Wortzel is Vice President and Director of the Kathryn and Shelby Cullom Davis Institute for International Studies, which also includes both the Asian Studies Center and the Center for International Trade and Economics . He is responsible for all Heritage work in international trade and economics, defense and foreign policy, and homeland security. He also leads Heritage's homeland security project. Heritage Foundation policy recommendations—based on rigorous analyses of political, military, and economic realities—seek to advance freedom, prosperity, and democracy while safeguarding American security.

A leading authority on foreign policy, defense, China, Asia, intelligence, national security, and military strategy, Dr. Wortzel joined Heritage as Asian Studies Center director in November 1999 upon completing a distinguished 32-year career in the U.S. armed forces. His last military position was as director of the Strategic Studies Institute of the U.S. Army War College.

Following three years in the Marine Corps, where he served in Morocco and Camp Pendleton, California, and a stint in college, Wortzel enlisted in the U.S. Army in 1970. His first assignment with the Army Security Agency took him to Thailand, where he focused on Chinese military communications in Vietnam and Laos. Within three years he had graduated Infantry Officer Candidate School, as well as both Airborne and Ranger schools. He is a member of the OCS Hall of Fame.

After serving four years as an infantry officer in Korea and at Fort Benning, Georgia, Wortzel shifted to military intelligence, traveling regularly throughout Asia as a politico-military affairs analyst in the U.S. Pacific Command from 1978 to 1982. He then attended the National University of Singapore where he studied advanced Chinese and traveled in Asia. Wortzel next worked for the Under Secretary of Defense for Policy, developing counterintelligence programs to protect America from foreign espionage. For the Army Intelligence and Security Command, he managed programs to gather foreign intelligence. These positions took him to Europe, the Middle East, and Latin America.

From 1988–1990, Wortzel was Assistant Army Attaché at the U.S. Embassy in China, where he witnessed and reported on the Tiananmen Massacre. After assignments as an Army strategist and personnel manager, he returned to China in 1995 as Army Attaché. In December 1997, he became a faculty member of the U.S. Army War College, serving as director of the Strategic Studies Institute. He retired from the Army as a colonel.

Dr. Wortzel's books include *Class in China: Stratification in a Classless Society* (Greenwood Press, 1987); *China's Military Modernization: International Implications* (Greenwood, 1988); *The Chinese Armed Forces in the 21st Century* (Carlisle, PA, 1999); and *Dictionary of Contemporary Chinese Military History* (Greenwood, 1999). He regularly publishes articles on security matters and currently serves as a commissioner on the Congressionally mandated U.S.–China Security Review Commission..

A graduate of the Armed Forces Staff College and the U.S. Army War College, Wortzel earned his B.A. from Columbus College, Georgia, and his M.A. and Ph.D. from the University of Hawaii. He and his wife, Christine, have two married sons and one grandson.

Drugs, Counterfeiting, and Weapons Proliferation: The North Korea Connection

Senate Governmental Affairs Subcommittee on Financial Management,
the Budget, and International Security

Testimony of Robert L. Gallucci
Dean, Edmund A. Walsh School of Foreign Service
Georgetown University

20 May 2003

Mr. Chairman, and members of the Subcommittee, let me begin by expressing my appreciation to the Subcommittee for giving me this opportunity to appear at this important hearing.

The issue today concerns North Korea's activities in counterfeiting and drug trade, and the connection between those activities and the North's nuclear weapons development program. It is easy to argue that the United States and the international community should act to prevent the North Koreans from selling illicit drugs and passing counterfeit currency, independent of any concern about the implications of such trade for the North's nuclear program. At the same time, it stands to reason that the hard currency that flows to Pyongyang as a result of that trade contributes to the North's ability to fund military capabilities of all kinds, including nuclear activity, and thus adds to the threat posed by North Korea to the United States and its allies, South Korea and Japan. So, if we needed an additional argument to look for ways to interdict that traffic, its contribution to the nuclear and ballistic missile programs of the DPRK would be a good one.

That said, it would not be a good idea to turn the argument around and claim that an effort aimed at the interdiction of the drug and counterfeit currency trade should be expected to be an effective way of preventing the North from building a nuclear weapons arsenal. If Pyongyang places a sufficiently high value on producing fissile material -- separating plutonium from spent fuel already in storage and from fuel currently being irradiated, and enriching uranium in their gas centrifuge program -- it is not likely that it will be prevented from doing so by denying it the profits of this illicit trade. The cost of these weapons programs is relatively small as compared to the cost of sustaining the North's large conventional forces and, moreover, there is no reason to believe that Pyongyang would not also make brutal trade-offs against the needs of the civilian sector to fund the nuclear weapons program.

Indeed, the principal danger of an international effort led by the United States to stop the North Korean traffic in drugs and counterfeit money is that we and others in the international community might delude ourselves into believing that we had hit upon an effective way of preventing the threat posed by the North's acquisition of a nuclear weapons arsenal. This effort would not address that concern.

Unfortunately, the choices available today to stop North Korea's nuclear weapons program remain much as they were a decade ago: first, we can resort to force and risk a war with horrendous casualties; second, we can "manage" the problem by containing North Korea and accepting it as a nuclear weapons state, with all that implies for nuclear weapons acquisition by South Korea and Japan, the sale of fissile material to terrorists and the mating of nuclear weapons with ballistic missiles that could eventually reach California; or third, we can attempt to negotiate a verifiable end to the North's nuclear weapons program, while coping with all the rhetorical baggage about appeasement and blackmail that has been attached to that course. I would recommend that we test North Korea's willingness to give up its nuclear weapons program by at least attempting the last option before pursuing either of the first two.

FORMER NORTH KOREAN HIGH-RANKING GOVERNMENT OFFICIAL

May 20, 2003

Testimony to the Senate Governmental Affairs Subcommittee on Financial Management, Budget, and International Security

Honorable Senators:

I am the witness designated as the former North Korean high-level government official to testify about the drug production and trafficking by the North Korean regime. I would like to thank you and the American people for your concerns and interests to help save the North Korean people suffering under the worst kind of one-man dictatorship in the past fifty years.

I worked at a North Korean government agency for fifteen years where I was able to get detailed and first-hand knowledge about the drug trafficking by the North Korean regime. For reasons I cannot disclose today, I defected to South Korea in late 1998. I now live in South Korea and work to help save the people I left behind in North Korea.

Production and trafficking of illegal drugs by the North Korean regime has been much publicized for some time now. Recent seizure of 50 kilograms of heroin on a North Korean ship named "Bongsu" by the Australian authorities has confirmed again that the North Korean regime has been very busy making and selling the illegal drugs to other countries in order to support the cash strapped regime. North Korea must be the only country on earth to run a drug production-trafficking business on a state level.

North Korea started its production of drugs secretly in the late 1970's in the mountainous Hamkyung and Yangkang provinces. North Korea began to produce and sell drugs in earnest in the late 1980's, when Kim Il-sung toured Hamkyung-Bukdo Province and designated the area around Yonsah Town in Hamkyung Province to be developed into an opium farm. It was known that the Japanese Colonial government used to grow opium in this area. Kim Il-sung needed cash.

The local province party committee developed an experimental opium farm in Yonsah Town in secret, and the farm was tightly guarded by the security agents. They began to produce opium at the collective farms located in towns like Yonsah, Hweryung, Moosan, and Onsung in Hamkyung-Bukdo Province. All opium produced at these farms were sent to the government to

be processed into heroin. They called these opium poppies broad bellfowers in order to hide the operation from the general public, but this was an open secret.

North Korea had very little to export since the early 1990's because 90% of their factories became useless for lack of raw materials. They tried to export mushrooms, medicinal herbs, and fisheries to China, Japan, and South Korea. However, the only way to bring in large sums of foreign currency was to sell drugs to other countries and smuggle in used Japanese cars.

In the late 1997, the central government ordered that all local collective farms must cultivate 10 Chungbo (Korean land unit equal to approx. 25 acres) of poppy farm beginning in 1998. Chinese government got this information and dispatched reporters and policemen to take pictures of these farms near the border.

All opium thus produced are sent to the pharmaceutical plants in Nanam area of Chungjin City in Hamkyung-Bukdo Province. They are processed and refined into heroin under the supervision of seven to eight drug experts from Thailand. This is all done under the direct control and supervision of the central government.

I heard that there is another opium processing plant near the Capital city of Pyungyang, but I could not confirm this. These plants are guarded and patrolled by armed guards from the National Security and Intelligence Bureau. No outsiders are allowed in these facilities.

North Korea produces two types of drugs; heroin and methamphetamine (called Hiroppon in Korea). They produce these drugs one ton a month each. Heroin is packaged in a box containing 330 grams (11.6 ounces) of heroin with a Thai label. Methamphetamine is packaged in a box (?) containing 1 kilogram of the substance, and has no label.

In China near the border, these drugs are sold for $10,000 per kilogram. Through the ocean on board, these drugs are sold for $15,000 per kilogram. North Korea sells these drugs through the border with China to China, Hong Kong, Macao, and Russia. They also deal with international drug dealers on the Yellow Sea and the Eastern Sea. Their major market for drugs is Japan.

It has been known that the North Korean regime has used its diplomats and businessmen for drug trafficking. In November 1996, a North Korean diplomat stationed in Russia was caught by the Russian border police with 20 kilograms of illegal drugs with him. He committed suicide in the prison.

Once, I caught a drug dealer who possessed 47 kilograms of illegal drugs, and sent the drugs to the authorities. I believe that the authorities sold the drugs again.

Things are desperate in North Korea. In December 2001, South Korean authorities found big shipment of illegal drugs at the port of Pusan, but they did not identify where the drugs came from. They must have been from North Korea.

As the drug market expanded, I heard that North Korea is now dealing with the organized international drug dealers such as Japanese Yakuza and Russian Mafia.

I have a list of incidents as follows:

- In July 1995, an agent of the National Security and Intelligence Bureau of North Korea was caught by the Chinese police when he tried to smuggle in 500 kilograms of heroin.
- In November 1996, a North Korean lumberjack working in Russia was caught at Hassan Station in Russia with 22 kilograms of opium.
- In May 1997, a North Korean businessman was arrested in Dandung City, China, when he tried to sell 900 kilograms of methamphetamine.
- In July 1997, a North Korean lumberjack was caught in Havarovsk, Russia when he tried to sell 5 kilograms of opium.
- In January 1998, two North Korean diplomats stationed in Mexico were caught by the Russian police when they tried to smuggle in 35 kilograms of cocaine.
- In July 1998, two North Korean diplomats stationed in Syria were arrested when they tried to smuggle in 500,000 capsules of psychotomimetics (stimulents).

I believe that the North Korean regime will continue to produce and sell the illegal drugs to other countries to earn the foreign currency otherwise not available to them.

Testimony of Bok Koo Lee (Alias)

Before the Subcommittee on Financial Management, the Budget,And International SecurityCommittee on Governmental AffairsUnited States Senate

May 20, 2003

My name is Bok Koo Lee. I defected from North Korea in July 1997. Between December 1988 until July 1997, I worked at Plant #38 in Huichon, Jagang Province in the North Central part of North Korea. Among the 11 Subplants at this munitions complex which was called Chungnyon Jeonghi Yonhap Kiupso, meaning Youth Electric Combined Company, subplants 603 & 604 produced missile parts, mainly electronics. I held the position of Head of technical department at Subplant 603 when I left.

My responsibilities included the development, production and programming of guidance devices and systems for the missile guidance control vehicle. My technical experience is in building of components for and programming of the operating systems connected to missile control vehicles. These support vehicles are used to launch the missiles together with the transporter-erector-launcher (TEL).

In the interest of the short time that I have, I would like to limit my testimony to the direct and personal knowledge arising out of my experience with the missile guidance control vehicles. I would like to request that your questions and inquiry be limited to those aspects of my testimony that go to my direct experience and knowledge. While I would welcome questions into other areas, please understand that if I do not have direct knowledge or experience, I will be qualifying my comments appropriately.

Let me also say that while I was in North Korea, I did not go very hungry or was subjected to unusual human rights violations. Of course, we were constantly deprived of even the most basic rights that all of you enjoy – the right to speak freely, the right of free travel, the right to earn a living by private means, and others. But compared to other North Koreans, I was relatively well-off. This may lead you to ask about my motives regarding my defection. I will not dwell too much on this but I left North Korea and crossed into China as a refugee because I wanted a better life for myself. Even though I had started out doing intelligence work for the North Korean regime and was trained in electronic engineering from the National Defense Academy, and was useful to the regime, it was clear that I would be trapped in this kind of work at Huichon missile factory for the rest of life and that I would die there.

Let me now turn to a secret mission that I and five of my colleagues from Huichon undertook in the summer of 1989. Although that is almost 14 years old now, and I will defer to your judgment regarding its relevance or importance, it was clear to me that it had great importance to the North Korean regime. It was at that

time that North Korea's missile export program began in earnest. I did not know at the time, but I helped my former country sell its missile technology to a middle eastern country.

As I said, 5 of my colleagues and myself were summoned from Subplant #603 to Nampo Seaport. There we boarded a freighter and was locked into the deck below. Since we did not have watches or any kind of time markers, I really do not have a precise idea of how long the sea-voyage took, but I believe it was about 15 days based on my sleep cycles. Obviously, we were not able to look out because there were no portholes.

When we finally arrive at our destination, we were ordered out into the bay area below the deck and I was surprise to find the missile guidance control vehicle, the very one that I was intimately familiar with. We were instructed to get into the vehicle and it rolled out of freighter via the back exit which I assume was flush with the dock.

The missile guidance control vehicle is more like a heavy armored truck. The small windows in that vehicle were curtained up that we were not allowed to open to see outside. As a missile guidance control vehicle, the area where my colleagues and I operated is about 3 meters by 4. Each side has three stools with a command seat in the middle where our commander can sit and put in the coordinates. We had our own food and urinal inside the truck, so they could have us locked up until the truck got to where it needed to go. We traveled over land for what I think was about two days.

When we finally arrived at our destination and parked, the commander yelled "Battle Ready!" While doing the routine for battle readiness, we opened up the curtains to find out for the first time that we were in a desert area. We also opened the back door to connect the power cables to the on-board batteries. Although it was nighttime, we could see and immediately we realized that we were in a Middle Eastern country, judging by the foreign soldier and his physical makeup. The way our commander talked with this counterpart soldier outside the vehicle and the fact that all the coordinates were already programmed in made us believe that all this was pre-planned and expected.

Then, the commander returned and looked at this watch, when he yelled "Storm!" meaning "Battle!" Each of us immediately assumed our seats on the stools. I held the fourth stool seat. The man in each stool seat reported "Ready!" When the sixth man reported his readiness, the commander ordered "Launch!" Then the sixth man pushed the launch lever. Each man monitored the progress of the missile that was launched at a remote site unknown to us. All we did was to go through a pre-planned launch sequence, and the whole thing lasted less than five minutes.

When we were done, we got out of the control vehicle and taken to a small covered truck that was not ours. I was surprised that we were leaving the missile guidance control vehicle. It occurred to me that our job was to demonstrate a live missile launch and to deliver it after showing that it worked. We took another bumpy ride and when we were asked to come out, I was surprised that we were

back to the below deck area where my colleagues and I had spent 15 days traveling there. Within a few hours from our arrival, the ship started the voyage which took another 15 days to take us back to Nampo, North Korea. We were of course curious and had questions but since it was clear that we were constantly watched by the surveillance camera even in the hull of the freighter, we couldn't talk to each other during our voyage back. When you live that way, it becomes part of life.

I would like to stop my testimony here, and defer the rest of details to the closed session.

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