SIX-PARTY TALKS: A TEMPORARY SETBACK

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The Sixth Round of the Six-Party Talks convened in Beijing on March 19 on an optimistic note but encountered an unforeseen roadblock, which compelled the host and chair of the talks to proclaim a recess three days later without holding a single substantive plenary session. Had things proceeded according to plan, the latest round would have produced a detailed action plan for implementing the key provisions of the February 13 agreement on the first phase of denuclearizing North Korea—notably, shutting down and sealing the nuclear facilities in Yongbyon, the return of IAEA inspectors to conduct all necessary monitoring and verification, and the provision of emergency energy assistance equivalent to 50,000 tons of heavy fuel oil (HFO) to the North.

What happened instead was the return of the familiar North Korean tactic of boycotting talks until its demands are met. The latter pertained to $25 million in 52 North Korea-related accounts that had been frozen at Banco Delta Asia (BDA), a small family-owned bank in the former Portuguese colony of Macau. On the same day the latest round of the Six-Party Talks convened, the U.S. government announced that the BDA issue had been resolved—with the United States and the DPRK agreeing on the transfer of the $25 million from BDA into an account held by North Korea's Foreign Trade Bank at the Bank of China in Beijing. Vice Foreign Minister Kim Kye Gwan, the North's chief delegate to the six-party talks, however, insisted on waiting for a verification of the actual transfer of the funds before he would take part in substantive discussions with the other chief delegates in plenary sessions of the talks.

Unexpected technical problems, however, arose. The North apparently filed a single consolidated application to BDA for a transfer of all the funds in the 52 accounts but the bank required the filing of separate applications by all of the account holders, which included foreigners. To complicate the matter further, the Bank of China was reported to be unwilling to accept such a transfer for fear that the "tainted money" might adversely affect its international transactions. All this caused a delay, and Kim Kye Gwan returned to Pyongyang on March 22 without waiting for Wu Dawei, the chair of the talks, to officially declare a recess.

Developments Preceding the Sixth Round

During the five-week interval between the adoption of the February 13 agreement and the convening of the ill-fated First Session of the Sixth Round of the Six-Party Talks, there were several noteworthy developments, most of which appeared to signal good progress toward implementation of the agreement. They included the holding of working group (WG) meetings and the visit to Pyongyang by Mohamed ElBaradei, the head of the International Atomic Energy Agency, and the conclusion of an 18-month U.S. Treasury Department investigation on the BDA issue.

The visit to the United States by Kim Kye Gwan from March 2 to 7 was the first positive sign that the implementation of the February 13 agreement was on track. For the meeting between Kim and Christopher Hill, his U.S. counterpart in the Six-Party Talks, in New York on March 5 and 6, was the first of the five WG meetings mandated by the agreement. Although accounts of what had transpired were sketchy, Kim later claimed that he had been given assurances about the eventual removal of his country from the U.S. State Department list of state sponsors of terrorism as well as termination of the application of the Trading with the Enemy Act with respect to the DPRK. According to Hill, however, Kim had merely been informed of the steps that need to be taken before the foregoing will materialize. What was notable about the Kim visit was the extraordinary care taken by the U.S. government to protect his safety and the royal treatment he received from his acquaintances outside the government.

Much less encouraging than the above, however, was the first meeting of the WG on normalization of DPRK-Japan relations. When it convened on March 7 in the Japanese Embassy in Hanoi, North Korea’s chief delegate, Song Il Ho, categorically rejected requests by his Japanese counterpart, Haraguchi Koichi, for the return of all Japanese abduction victims in the North, clarification of the circumstances surrounding their abductions, and hand-over of those responsible for the abductions. Song claimed that the abduction issue had already been resolved and then boycotted the afternoon session. The meeting that resumed in the DPRK Embassy on the following day, however, ended abruptly after only 45 minutes. Song told Haraguchi that his country would not consider reinvestigating the abduction issue until Japan lifted sanctions imposed on the North in the aftermath of the latter’s missile and nuclear tests in 2006, ceased the “harassment and suppression” of *Ch’ongnyon* (*Chosen Soren* in Japanese), the federation of Korean residents in Japan who are loyal to the DPRK, and made headway toward “settling the past,”—namely, apologizing and compensating for the atrocities committed by Japan against the Korean people during the colonial period.

From a strictly technical point of view, the Hanoi meeting fulfilled the February 13 agreement’s stipulation that WGs meet within 30 days—that is, by March 15. Nor did its breakdown necessarily dim the prospects for the agreement’s implementation, for the latter specifically provides that “in principle, progress in one WG shall not affect progress in other WGs.” The remaining three WGs—those dealing with “Denuclearization of the Korean Peninsula,” “Economy and Energy Cooperation,” and “Northeast Asia Peace and Security Mechanism,” respectively—held their first meetings from March 15 to 17, even though none of them was reported to have produced any notable results.

Meanwhile, IAEA Director General Mohamed ElBaradei visited Pyongyang from March 13 to 14, which he characterized as an “overall door opener,” noting that the “DPRK was fully committed to the Six-Party agreement and would allow IAEA personnel in once other parties take action on their own commitments” under the February 13 agreement. Of the commitments by other parties, ElBaradei reported, the North Korean officials he met in Pyongyang had singled out the lifting of financial sanctions against North Korea, that is the BDA issue.

Although it was not explicitly stated in the February 13 agreement, the United States had nonetheless pledged in a side agreement with the North to resolve the BDA issue within 30 days. Whether the U.S. Treasury Department’s announcement on February 14 that it had concluded an 18-month investigation of BDA’s handling of North Korea-related accounts, which inferentially cleared the way for release of money in those accounts “that was not traced to illicit activities,” however, is open to question. For the Treasury Department disclosed that it had “uncovered systemic failures by BDA to apply appropriate standards and due diligence and a gamut of illicit activities that the bank facilitated on behalf of North Korea-related clients.” The department ordered U.S. banks to sever ties with BDA, effectively isolating the latter in the international financial community. As noted, the U.S. Treasury Department unveiled a U.S.-DPRK agreement on the disposition of North Korea-related funds frozen at BDA on March 19. The timing of what was apparently designed as the “final resolution” of the single most important bone of contention between the United States and the North has proved to be a miscalculation.

What Went Wrong?

Neither the North nor the U.S. side anticipated how hard it would be to transfer North Korea-related funds from BDA to the Bank of China (BOC) or any other foreign bank. The March 19 statement issued by Daniel Glaser, the Treasury Department’s Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, noted that it was the DPRK that had proposed the transfer and that “North Korea has pledged, within the framework of the Six-Party Talks, that these funds will be used solely for the betterment of the North Korean people, including for humanitarian and educational purposes.” Such pledge, he implied, had contributed to the U.S. acceptance of the North Korean proposal. Glaser went on to say that the “disposition of the frozen assets has always been and remains a decision by the Macanese authorities to be taken in accordance with Macanese law. North Korea will need to work out the legal and technical intricacies of the arrangement with the Macanese.”

Another miscalculation on the part of the U.S. side was that the foregoing agreement, which Glaser labeled an “understanding,” would settle the BDA issue once and for all, thus allowing the Six-Party Talks, as Hill put it, to “move on to the next problem, of which there are many.” Kim Kye Gwan, acting on strict orders from his superiors in Pyongyang, however, had a different idea. The transfer of funds from BDA to the BOC had to be completed in reality. “Trust but verify,” the famous mantra the late U.S. President Ronald Reagan enunciated when he was dealing with the former Soviet Union, appears to have been embraced by the governing elite in the North.

North Korea’s totalitarian mind-set may also have played a part in the unfolding of the drama in Beijing. Its attempt to have all the funds in 52 North Korea-related frozen accounts transferred to a single account controlled by the DPRK’s Foreign Trade Bank at the BOC without even nominal approval of all the account holders defied common sense. The latter included Daedong Credit Bank (DCB), North Korea’s only foreign-managed bank, which had $7 million in its DBA account. Colin McAskill, chairman of London-based fund adviser, Koryo Asia Ltd., who has agreed to purchase DCB, reportedly has sent three letters to the chairman of the Macau Monetary Authority warning that the $7 million in the DCB account at BDA is “all private money, not the property of the North Korean regime, and must not be included in a transfer” to the BOC or any other bank.

The unwillingness of the BOC to accept the transfer is amply understandable. To accept the funds, the bulk of which has been officially declared by the U.S. Treasury Department as tainted by money laundering and other illicit activities, would carry the risk of inviting retaliation or isolation in the international financial circles. Unless the Treasury Department assuages these apprehensions, the BOC has little or no incentive to jump into the fray.

The news that the Treasury Department has dispatched Deputy Assistant Secretary Glaser to Beijing to help free up the funds in question suggests, however, that the impasse can be broken in the days ahead.

Prospects

Given the high stakes for all parties involved, the “technical problems” spawned by the BDA issue, even after it was ostensibly resolved, will be resolved, thereby clearing the way for an early resumption of the Six-Party Talks. The probability that the 60-day deadline for the implementation of the “Initial Action phase” of the February 13 agreement will be met, in other words, seems fairly high.

The North urgently needs the emergency energy assistance equivalent to 50,000 tons of HFO, which will not materialize until and unless it carries out its end of the bargain—shutting down and sealing the Yongbyon nuclear facilities, "inviting back IAEA personnel to conduct all necessary monitory and verifications," and "discussing with other parties a list of all its nuclear programs. . . including plutonium extracted from used feul rods." Making headway in talks with the U.S. in the WG on normalization of relations, including the eventual removal of the DPRK from the list of sponsor states of terrorism and termination of the application of the Trading with the Enemy Act, will be too enticing for the North to ignore. Nor will this be all. Pyongyang can look forward to the resumption of rice and fertilizer aid from the South as well as other forms of "economic cooperation."

Somewhat less certain are the prospects for the implementation of the next phase, which includes "provision by the DPRK of a complete declaration of all nuclear programs and disablement of all existing nuclear facilities, including graphite-moderated reactors and reprocessing plant—economic, energy and humanitarian assistance up to the equivalent of 1 million of HFO, including the initial shipment equivalent to 50,000 tons of HFO."
If the North does indeed have a second nuclear weapons development program utilizing highly-enriched uranium (HEU), will it disclose its full details? What of "disablement" of all existing nuclear facilities? Will the North accept how the U.S. and its allies, Seoul and Tokyo, define it—that is, a complete, verifiable, and irreversible dismantlement (CVID) of nuclear programs and weapons? There is ample room for negotiation, and the give and take process promises to be long and contentious.

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