

The KEDO Light Water Reactor Project: Its Implications for Peace and Inter-Korean Relations

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I would like to thank the Italian Ministry of Foreign Affairs and Landau Network-Centro Volta for inviting me to this important forum and for giving me the opportunity to speak to such a distinguished audience.

The Korean peninsula stands now at a historic turning point. President Kim Dae Jung's "Sunshine Policy" of engagement toward North Korea has drastically changed the dynamics of inter-Korean relations from confrontation to accommodation and rapprochement. The forthcoming June summit between the South and the North, which is the first tangible dividend of the Sunshine Policy, will certainly create a powerful momentum to bring down the legacy of the Cold War in our part of the world and embark on a new peace process.

While we have good reason to be encouraged by signs of positive change in North Korea's attitude, I must forewarn you that there is still a long way to go and no lack of challenges to overcome in building a durable peace structure on the Korean peninsula. Non-proliferation of North Korea's weapons of mass destruction, including the nuclear weapons program and missile development, has been and will remain the most nagging challenge in our road to peace.

In my presentation today, I wish to share my thoughts on the role of the Korean Peninsula Energy Development Organization (KEDO), with a particular focus on the implications of its LWR project for peace and inter-Korean relations.

KEDO was established in 1995 with the primary objective of supporting the United States in implementing its two major commitments under the US-North Korea Agreed Framework of October 21, 1994. One is the provision of two light water reactors with a capacity of 1,000 megawatt each to North Korea in return for the immediate freeze and eventual disposition of North Korea's "graphite-moderated reactors and related facilities." Another commitment is to provide 500,000 tons of heavy fuel oil each year until the first reactor is completed as alternative energy for North Korea's electricity production foregone as a result of freezing the 5 megawatt graphite-moderated reactor in operation and 50 megawatt and 200 megawatt reactors under construction.

The turnkey contract for the light water reactor project was signed last December together with the financing arrangements to fund the project cost of \$4.6 billion, of which the Republic of Korea is to contribute 70%. With these contractual infrastructures in place, the project is now about to move forward at a full-scale mode.

KEDO's original and primary objective lies in containing North Korea's nuclear proliferation. Besides, KEDO also plays a very important role in engaging North Korea with South Korea and other key players with vital stakes in the Korean peninsula, including the US and Japan. Furthermore, KEDO's light water reactor project serves as a useful insurance policy for peace as well as an immense laboratory for unification. Let me assess each of these diverse dimensions of the LWR project one by one.

KEDO's role in nuclear non-proliferation and challenges ahead

Since November 1994 all proliferation-prone North Korean nuclear facilities at Yongbyon remain frozen, including the 5-megawatt graphite-moderated reactor and the reprocessing plant. The frozen facilities are to be dismantled and the canned spent fuel is to be shipped out of the country in due time for ultimate disposal. North Korea halted the construction of 50 megawatt and 200 megawatt reactors. The nuclear freeze is being

constantly monitored by IAEA inspectors stationed at Yongbyon site.

- If the three graphite-moderated reactors and the reprocessing plant were in operation today, North Korea would have the capability to produce enough plutonium to manufacture nearly 30 nuclear bombs annually. And if the spent fuel from the 5-megawatt reactor were reprocessed, North Korea would now possess enough plutonium to manufacture up to 4-5 nuclear bombs.
- As such, KEDO's achievements in preventing the production of large quantities of plutonium should not be underestimated. However, it must be admitted that the Agreed Framework is not perfect enough to put an end to North Korea's nuclear ambition once and for all. The Agreed Framework has often come under public criticism for its alleged moral hazard of rewarding North Korea for its bad behavior. Indeed, it has drawn more public attention for its flaws than for its merits.
- The most controversial of its shortcomings is the question of North Korea's past production of plutonium and nuclear weapons which is to remain unresolved until the "significant portion" of the LWR project is completed. And there is no provision about what to do with the existing plutonium when its quantity and where-about is clarified, if ever.
- Vigorous and concerted political efforts by the major stake-holders may be in order to complement imperfections of the Agreed Framework. It must be emphasized, however, that there is no substitute for North Korea's political goodwill.
- On balance, despite whatever shortcomings the Agreed Framework may have, it has served the cause of peace by averting the most immediate threat of nuclear proliferation. It must be noted also that North Korea has accepted more onerous non-proliferation obligations under the Agreed Framework than those required under the NPT.

KEDO as a mechanism for engagement of North Korea

- Since the Supply Agreement was signed in December 1995, KEDO has negotiated and signed 6 protocols with North Korea on such a wide range of practical issues as privileges, immunities and consular protection for KEDO personnel, juridical status of the construction site, transportation, telecommunication, and provision of labor and other services. The implementation of these agreements and negotiation of the remaining agreement on nuclear liability, delivery schedule, repayment and others involve constant contact and interaction between KEDO and North Korean officials.
- I am sure that these past 5 years of negotiations has provided unprecedented opportunities for the North Korean authorities to learn how to work with its capitalist archenemies. In this process, much of the long-standing mutual misperceptions, misunderstandings, suspicions, prejudices and ignorance, which stood in the way of their earlier dealings, have been cleared.
- Having been the Republic of Korea's representative to KEDO for more than 4 years now, I can tell that North Korean officials feel much more comfortable and confident in dealing with KEDO delegations today than 4 years ago. They have also learned the art of compromise, a concept alien to the "Juche" philosophy. In the place of the images of monsters that both sides might have entertained in early stages with regard to each other, they have come a long way to develop a working constructive partnership.
- One notable achievement of long-term political significance is the self-confidence that North Koreans have gained in dealing with the capitalist "monsters." I believe that this self-confidence lies behind North Korea's recent diplomatic activism and openings toward the West, as can be witnessed in the resumption of normalization talks with Japan, establishment of diplomatic relations with Italy, Philippines and Australia, and its decision to participate in the ASEAN Regional Forum. I also wonder how North Korea could have accepted President Kim Dae Jung's initiative for a summit, if it were not for the self-confidence it has gained over the years.

- The multilateral cover of KEDO has also provided a convenient channel of contact and dialogue between the South and the North at a time when direct inter-Korean contacts at the governmental level were unavailable. KEDO-North Korean negotiations brought together at the margin officials of the South and the North in informal settings. The informality of these contacts has enabled the both sides to probe the intentions behind each side's stated positions and better understand their respective concerns and the nature of constraints they are under.
- Although I cannot elaborate further here, these ostensibly informal gatherings have often served as an indispensable back channel of communication between the South and the North, through which subtle but important messages could be exchanged.
- As such, KEDO has served as North Korea's testing ground for constructive engagement with the capitalist world in general and South Korea in particular.

LWR project as an insurance policy for peace

- Let me now turn to the dimension of the LWR project in terms of an insurance policy for peace on the Korean peninsula.
- To understand this dimension, it must be borne in mind that the KEDO LWR project is by far the largest project ever undertaken in North Korea. The power generation capacity of the 2 LWR plants is comparable to North Korea's total current actual generating capacity which is estimated at less than one third of its total installed capacity of 6,300 Mwe.
- The electricity generated from these LWR plants is expected to bring annual gross revenues of 900 million USD to the North Korean treasury, when calculated on the basis of the current South Korean utility rate, which is among the lowest in the world. When the repayment of the loan for the project and the maintenance and operational costs of the LWR plants are deducted, North Korea will still cash in net annual revenues of 600 million USD, which is enough to buy 2 million tons of rice every year. This amount of food is sufficient enough to deal with the worst of famines North Korea has suffered in recent years.
- For North Korea, the most pressing economic challenge after the food crisis is the chronic shortage of energy. The electricity shortage in particular is severe enough to cripple major industrial activities. The best hope for North Korea to jump start its economy is the timely completion of the LWR project. When it comes to the food shortage, North Korea can count on the generosity of international humanitarian organizations or individual donor countries. Unlike food, electricity cannot be easily imported or stockpiled. Therefore, there exists no viable alternative to generating at home.
- As such, North Korea has irresistible incentives for the smooth progress and timely completion of the LWR project. Indeed, North Korea's future economic fate hinges on the success of the project. The North Korean authorities are well aware now that an easing of tension and climate of peace on the Korean peninsula is fundamental to the smooth progress of the project.
- This means that unless North Korea is ready to give up the best hope of its economic rehabilitation, it is bound to restrain from intentional military adventure or confrontation with the South. In short, the LWR project will reduce chances of military conflict, while enhancing those of peace and stability. This is why we, in Korea, are inclined to see the LWR project in terms of an insurance policy for peace.
- My Government invests less than 3 percent of its annual defense budget of 13 billion USD during the project period for this "insurance policy." However, the magnitude of the peace dividend from the project more than warrants the insurance premiums we pay. I wonder if a 3 percent increase in our defense budget can make as much marginal contribution to the deterrence of a military conflict as our investment in the LWR project does.

LWR Project as Investment and Laboratory for Unification

- Let me now turn to the dimension of the LWR project as an up front investment and laboratory for unification.
- When Korea becomes a unified country again as it should, the most urgent and costly thing to do in order to rehabilitate the North Korean economy is the construction of social infrastructure, of which power plants are among the highest in the order of priorities. In this regard, the LWR project can be viewed in terms of an up front investment for the unification.
- The LWR project also brings together thousands of workers, technicians, engineers, managers, and officials of the South and the North. At the peak of the construction work, approximately 7,000 North Korean workers and 3,000 South Korean workers will work side by side. For North Korean workers, the construction site is a rare window to the realities of South Korea and the outside world. They eat from the same kitchen at the same cafeteria as their South Korean co-workers. Constant interactions between the compatriots of the opposing political systems are gradually bringing down their mutual inhibitions and psychological barriers.
- The construction work also provides ample opportunities for North Korean managers and officials to learn about contractual practices of the capitalist society through negotiations on such practical areas as taxi fares, chartered airfares, subcontracts and local procurements.
- We hope that the site will turn into a melting pot of the mutually held prejudices, misperceptions and misunderstandings. It is not difficult to imagine that many things bound to happen in the unified Korea will inevitably occur when thousands of workers from both sides are constantly engaged in the same site for many years. In sum, the LWR project site will provide a preview of the process of integration between the South and North Korean societies and serve as a testing ground of how the workers of the South and the North can harmoniously work together despite their stark differences in political orientations and mind-sets.
- Trials and errors will abound. Nevertheless, the valuable lessons learned from these unique experiences will save a significant part of the unification cost by avoiding similar trials and errors.

Concluding Remarks

- It is true that the LWR project is a very costly one. And yet, given the magnitude of peace dividends to be reaped and potential savings in the unification costs, it is fair to say that the project is a cost-effective one.
- But it will prove to be cost-effective investment for peace and unification only when it proceeds smoothly and is successfully completed. And the smooth progress and timely completion of the project depends on how faithfully North Korea cooperates with KEDO and its members and fulfills its non-proliferation obligations.