

# CRS Report for Congress

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## North Korean Drug Trafficking: Allegations and Issues for Congress

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### Summary

At least 34 documented incidents, many involving arrest or detention of North Korean diplomats, link North Korea to drug trafficking. Such events, in the context of ongoing, credible, but unproven, allegations of large scale state sponsorship of drug production and trafficking, raise important issues for the Congress, the Administration, and America's allies in combating international drug trafficking. The challenge to policy makers, is how to pursue an effective counter drug policy and comply with U.S. law which may require cutting off aid to North Korea while pursuing other high priority U.S. foreign policy objectives including: (1) limiting possession and production of weapons of mass destruction; (2) limiting ballistic missile production and export; (3) curbing terrorism, counterfeiting and international crime, and (4) addressing humanitarian needs.

U.S. aid to North Korea is currently limited to providing food and other humanitarian assistance together with heavy fuel oil shipments under a 1994 U.S.-North Korea agreement. Reports that North Korea may be limiting some of its food crop production in favor of drug crop production are particularly disturbing, though the acreage in question is comparatively small. Another issue of rising concern is the degree to which profits from any North Korean drug trafficking, counterfeiting, and other crime-for-profit enterprises may be used to directly underwrite — or free funds from elsewhere to underwrite — the costs of maintaining or expanding North Korean nuclear programs. This report will be updated if warranted by new developments.

**Background.** Allegations of North Korean drug production, trafficking, and crime-for-profit activity have become the focus of rising congressional attention. On October 28, 1997, Senators Grassley and Helms sent a letter to Secretary of State Albright, questioning why North Korea was not included in the Department's annual International Narcotics Control Strategy Report [INCSR]. They noted that press reports indicated North Korea's 1995 opium production level was 40 metric tons [roughly comparable to Mexico's]—an amount clearly over the 1,000 hectare threshold for designation as a major

illicit drug producing country.<sup>1</sup> More recently, on March 5, 1999, Representatives Gilman, Arney, Hyde, Cox, and Knollenberg sent a letter to Special North Korea Policy Coordinator, William J. Perry, which stressed that his policy report to the President should address [among other key policy points] the issue of North Korean narcotics production and trafficking.

The provisions of the Foreign Assistance Act of 1961 referred to above require that countries cultivating 1,000 hectares or more of illicit opium poppy be subject to annual [March first] drug reporting and certification procedures and that certain aid be withheld and discretionary trade sanctions be imposed unless the President determines that: (1) the country has “cooperated fully” with the United States or taken “adequate steps” on its own to curb drug trafficking and production; or (2) “vital national interests” require provision of assistance.<sup>2</sup> Also prohibited is assistance to “any individual or *entity* [emphasis provided] that the President knows or has reason to believe...has been a knowing assistor, abettor, conspirator, or colluder in the illicit trafficking in any such [controlled] substance.” Notably, the Act permits exceptions to restrictions on furnishing assistance when the President determines that providing assistance is “important to the security interests of the United States. International disaster assistance [such as the food aid received by North Korea] is specifically exempted from all limitations on providing assistance under the Act.<sup>3</sup>

U.S. foreign aid to North Korea is severely restricted because of North Korea’s designation by the U.S. Secretary of State as a country that has “repeatedly provided support for acts of international terrorism.”<sup>4</sup> Assistance is currently limited to humanitarian assistance (food) and petroleum assistance, i.e. heavy fuel oil for electrical generating capabilities as an alternative to nuclear generation of electrical power, negotiated in response to serious concerns that North Korea was developing a nuclear weapons capability. In Fiscal Year 1998, North Korea received \$183.4 million in food assistance and an additional \$215 million thus far for FY1999. U.S. petroleum assistance to North Korea had a dollar value of \$58 million in 1998 and is set at \$31.5 million for the year 1999.<sup>5</sup>

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<sup>1</sup>N.B. North Korean climate and soil are relatively inhospitable to poppy cultivation and fertilizer is in short supply. Best guess U.S. government estimates are that such conditions would yield roughly the equivalent of 10 kilogram of opium gum per hectare with 40mt of raw opium indicative of 3,000 to 4,000 hectares of poppy cultivation.

<sup>2</sup>P.L. 87-195 as amended, Sections 481(e)(2), 489, and 490. See CRS Report 98-159, *Narcotics Certification of Drug Producing and Trafficking Nations: Questions and Answers*.

<sup>3</sup>Id., Sec. 487. Implementing regulations became effective in fall, 1998. See also, Sec. 614 “Special Authorities” and Sec 491 (b).

<sup>4</sup>See CRS Issue Brief 95112, *Terrorism, the Future, and U.S. Foreign Policy*.

<sup>5</sup>Prior to October 1998, humanitarian assistance was allocated under Title II of P.L. 480; subsequent food assistance falls under sec. 416 of the Agricultural Act of 1949, P.L. 81-439. Fuel assistance for FY1999 is funded in the Foreign Operations provisions of P.L. 105-277 with some restrictions lifted pursuant to a presidential waiver under Section 614 (a) (1) of the Foreign Assistance Act of 1961. See Presidential Determination 97-21, 62 F.R. 23939.

According to South Korean sources, North Korea's legal exports are expected to decline by 42.5% in 1998 to \$520 million from \$904 million in 1997, while imports will decrease 23% from \$1.27 billion to \$980 million<sup>6</sup>, exacerbating the nation's already dire need for hard currency. Among other things, hard currency is required to meet the maintenance costs of North Korea's nuclear program which according to an informal interagency consolidated estimate approximates \$200 million per year at current levels<sup>7</sup>.

**Allegations of Drug Trafficking.** The Department of State's March 1, 1998 INCSR<sup>8</sup>, includes information on North Korea in its money laundering section which reads in part as follows: "The most profitable lines of state-supported illegal businesses remain drug trafficking, gold smuggling, illegal sale and distribution of endangered species, trafficking of counterfeit U.S. currency, and rare earth metals.... North Korean officials appear to be increasing their involvement in financial crimes as a means to generate operational funds and support their country's anemic economy." The 1999 INCSR reads in part, "as the reports [on DPRK drug activity] multiply and the incidents cumulate it seems more likely than not that the state itself is involved in criminal activity. For example, alleged large scale opium cultivation could likely not be undertaken without the explicit knowledge of the North Korean government. The same could be said of large scale imports of ephedrine, a known precursor chemical for methamphetamine."

Concerns over North Korean drug production and trafficking are also expressed in the 1997 Report of the International Narcotics Control Board [INCB]. The Report, in circumspect language common to such U.N. documents, notes that "The Board has received disquieting reports on the drug control situation in the Democratic People's Republic of Korea. Therefore, the Board expresses its concern that the government of the Democratic People's Republic of Korea has not yet accepted its proposal, originally made in 1995, to send a mission to that country to study and clarify drug control issues."<sup>9</sup>

U.S. Drug Enforcement Administration (DEA) data and a plethora of domestic and foreign press reports portray an ongoing pattern of drug trafficking, trafficking of counterfeit U.S. currency<sup>10</sup>, and other smuggling-for-profit activities by North Korean diplomats over the past 24 years. Since 1976, North Korea has been linked to over 34 verifiable incidents involving drug seizures in at least 14 countries. A significant number of these cases has involved arrest or detention of North Korean diplomats or officials. All but four of these incidents have transpired in the 1990's with 10 incidents occurring from

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<sup>6</sup>Seoul Yonhap (Semi-official News Agency of the ROK) Nov. 20, 1998, citing the Korea Trade Investment Promotion Agency. The 1998 CIA World Factbook lists the value of the DPRK's exports in 1996 as \$912 million.

<sup>7</sup>Data provided CRS, January 1998. This figure is relatively low because of minimal labor costs and the assumption of North Korea's adherence to the Agreed Framework to freeze its nuclear program.

<sup>8</sup>Id, page 623.

<sup>9</sup>INCB Report for 1997, p. 17.

<sup>10</sup>E.g., the 1998 INCSR, p. 623, cites a February 1997 Izvestia article on the arrest of a third secretary of the North Korean Embassy who was apprehended attempting to exchange counterfeit U.S. dollars. Russian officials tied him to a smuggling operation designed to sell more than \$100,000 in counterfeit U.S. bills which they believe was his main function at the embassy.

January 1998 to September 1999. In 1999, substantial seizures of North Korean methamphetamine occurred in Japan, South Korea, and Taiwan.<sup>11</sup>

Press reports citing North Korean defectors and South Korean intelligence sources, as well as U.S. government investigative agency source material, paint a grim picture of an anemic economy in North Korea, held back by disproportionate military spending, dysfunctional economic policies and the consequences of a broad economic and trade embargo led by the United States since the Korean War. Pressed for cash, and perceiving its vital national security at stake, the regime reportedly created an office to bring in foreign currency: “Bureau No. 39,” under the ruling Korean Worker’s Party which is headed by North Korean Leader Kim Jong Il.<sup>12</sup> This office is reported to be in charge of drug trafficking and according to some reports all crime-for-profit activity including: (1) opium production and trafficking; (2) methamphetamine production and trafficking; (3) counterfeiting; and (4) smuggling. Drugs are reportedly exported through China and Russia to Asia and Europe via government trading companies, diplomatic pouches, and commercial cargo. Money earned is reportedly used to: (1) buy loyalty from Party elites and military leaders to Leader Kim Jong Il; (2) fund costs of overseas diplomatic missions; and (3) finance national security activity — especially technology and electronic purchases for the intelligence and military services.<sup>13</sup>

Farmers in certain areas reportedly are ordered to grow opium poppy, with cultivation estimates of 4,000 hectares for the early 1990’s and 7,000 hectares for 1995. Current production, however, is believed to be below 1995 figures because of heavy rains and the broad decline of agricultural output as a consequence of poor policies, and insufficient fertilizer and insecticides. Looking at all available estimates, a cultivation estimate of 3000-4,000 hectares for 1998 would appear reasonable, but nevertheless based on indirect and fragmented information. U.S. government investigative agency sources

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<sup>11</sup>E.g, May 1976, 400 kg hashish seized from a North Korean [DPRK] diplomat in Egypt; July 1994, Chinese officials arrested a Chinese national on charges of smuggling 6 kg. of North Korean produced heroin through the DPRK Embassy in China; August 1994, DPRK intelligence agent arrested by Russian authorities for trying to sell heroin to Russian mafia group; January 1995, Chinese officials in Shanghai seized 6 kg. of heroin and arrested two DPRK nationals, one with a diplomatic passport; July 1998, DPRK diplomat arrested in Egypt with 500,000 tablets of rohypnol—the so called “date rape” drug ; Jan. 1998, Russian officials arrested two DPRK diplomats in Moscow with 35 kg. of cocaine smuggled through Mexico; Oct. 1998, German officials arrested a DPRK diplomat in Berlin seizing heroin believed made in North Korea; and May 1999, Taiwanese officials seized 157 kg of methamphetamine said to be DPRK produced.

<sup>12</sup>In April 1998 Russian police reportedly arrested Kil Chae Kyong [personal secretary in charge of secret funds for Kim Jong Il] on charges of trying to sell \$30,000 in counterfeit U.S. currency.

<sup>13</sup>See: *The wiseguy regime*, U.S. News & World Report, February 15, 1999; *N. Korea said to be in drug business*, Washington Times, February 26, 1995, A-1; *Drug trafficking by North Korean Service*, Moscow-interfaks, 22 June 1997; *Kim Chong-il’s fund manager commits suicide*, Tokyo Sankei Shimbun, 29 December 1998; *North Korean business: drugs, diplomats and fake dollars*, AP, May 24, 1998; *Seoul says N. Korea increasing opium output for export*, Kyodo, June 8, 1993; *DPRK officially involved in drugs, counterfeiting*, Digital Chosun Ilbo WWW, [South Korea] November 12, 1996; *DPRK defectors attest to realities of DPRK system*, Seoul Tong-A Ilbo, February 14, 96, p.5.; *N.Korea accused of promoting opium farms*, Seoul Choson Ilbo, August 7, 1994, p.5.

estimate North Korean raw opium production capacity at 50 tons annually, with 40 tons reportedly produced in 1995. North Korean government pharmaceutical labs reportedly have the capacity to process 100 tons of raw opium per year.<sup>14</sup>

Methamphetamine production in North Korea is reported to have started in 1996 after heavy rains decreased income from poppy production. This coincides with a time when markets for methamphetamine are dramatically expanding in Asia, especially in Thailand, Japan, and the Philippines.<sup>15</sup> North Korea's maximum methamphetamine production capacity is estimated to be 10-15 tons of the highest quality product for export. According to the INCB, North Korean legitimate pharmaceutical needs for ephedrine [a traditional precursor for methamphetamine] are 2.5 tons per year, one ton higher than U.S. investigative agency source estimates. INCB officials confirm receipt of allegations of North Korean involvement in a diversion of 20 tons of ephedrine.<sup>16</sup> Moreover, the DPRK may be bypassing the highly regulated market for ephedrine in favor of an alternate technology for a benzine based product, raising speculation that U.S. and allied petroleum assistance to North Korea may be used to sustain illicit drug production.

Conservative estimates suggest North Korean criminal activity, carefully targeted to meet specific needs, generated about \$85 million in 1997: \$71 million from drugs and \$14 million from counterfeiting.<sup>17</sup> Looking at all available estimates, a \$100 million figure, although admittedly low, falls in the general range where estimates overlap. However, there are strong indications that the figures are considerably higher: "\$500 million to \$1 billion annually from criminal activities".<sup>18</sup>

If credence is to be given to U.N., Department of State reporting, and DEA shared information, as well as press reports citing North Korean defectors and South Korean intelligence sources, a pattern of activity emerges which indicates that: (1) in the 1970's, North Korean officials bought and sold foreign source illicit drugs; (2) in the mid-1970's, North Korea began cultivating opium poppy as a matter of state policy; (3) in the mid

<sup>14</sup>See: *U.S. says North Korea sponsors drug smuggling*, Kyodo News Service (Japan), December 13, 1998. Total arable land in the DPRK is estimated to exceed 1.3 million hectares.

<sup>15</sup>In August 1998, Japanese authorities arrested members of a Japanese criminal organization and seized 200 kg of a 300 kg shipment of methamphetamine believed manufactured in North Korea. Earlier, in April, 58.6 kg of the same drug, thought to have been manufactured in China, was seized by Japanese authorities in the cargo of a North Korean freighter. See: *Police say seized drugs originated in North Korea*, Yomiuri Shimbun (Japan), Jan. 8, 1999.

<sup>16</sup>For example, in January, 1998 Thai police reportedly seized, but later released, 2.5 tons of ephedrine en route from India to North Korea. This was reportedly part of an 8 ton shipment North Korea had attempted to purchase which the INCB reportedly limited [but formally denies limiting] to two 2.5 ton shipments over a two year period. Pyongyang reportedly argued for the right to buy 30 tons from India— enough for a 135 year supply of cold tablets (see *Bankok Times*, 6/13/99, p.6.

<sup>17</sup>The \$71 million for drugs breaks down as \$59 million from opium/heroin and \$12 million from amphetamines, although one, admittedly speculative, U.S. law enforcement agency source estimate for "world" market price of heroin produced by the DPRK in 1995 is \$600 million. For the \$15 million figure on counterfeiting, see: *Korea Herald*, November 16, 1998.

<sup>18</sup>E.g., see: *U.S. News & World Report*, 8/9/99, p. 31 citing estimates of "U.S. officials".

1980's, North Korea began refining opium poppy for export and exporting refined opium products; (4) and in the mid-1990's, after heavy rains reduced opium production in 1995 and 1996, North Korea, began manufacturing and exporting methamphetamine to expanding markets in Southeast Asia. If this pattern reflects reality, an important question is the degree to which the government of North Korea may respond to increased financial pressures and expanding methamphetamine markets by dramatically increasing currently reported levels of drug trafficking activity. Recent seizures of DPRK source methamphetamine in Japan, Taiwan, and South Korea may well reflect such a disturbing trend.

Some analysts, however, question the reliability of information reported in the press attributed to North Korean defectors and South Korean government sources in the context of what is seen as a cold war propaganda battle between the two Koreas. They note that in a closed state such as North Korea "hard" data is difficult to obtain, thus what is obtained is fragmentary and indirect at best. North Korea continues to dismiss media reports and speculation on government involvement in drug trafficking activities as slander based on politically motivated adversary propaganda sources such as South Korean intelligence services. North Korean officials stress privately that corruption, drug use, trafficking, and criminal activity in general are maladies to which individuals in all societies may fall prey, and that any involvement by North Korean individuals in such activity is in no way state-connected or state sanctioned. Further, officials have stressed that in instances where such activity has come to the attention of authorities, individuals involved have been duly punished. Finally, DPRK officials maintain that drug trafficking and production are matters that should be handled, and are best handled, by their government as internal matters. U.N. officials also point to the politically charged milieu of allegations of drug trafficking by North Korea and point out that drug smuggling by individuals in the diplomatic community is by no means limited to North Korea.

**Issues for Congress.** At least thirty documented drug trafficking incidents coupled with credible (if unproven) allegations of large scale North Korean state sponsorship of opium poppy cultivation, and heroin and methamphetamine production and trafficking, raise significant issues for Congress, the Administration, and America's allies in combating international drug trafficking. The challenge to policy makers, is how to pursue sound counter drug policy and comply with U.S. law which may require cutting off aid to North Korea while effectively pursuing other high priority U.S. foreign policy objectives including: (1) limiting possession and production of weapons of mass destruction; (2) limiting ballistic missile production and export; (3) curbing terrorism, counterfeiting and international crime, and (4) addressing humanitarian needs. The State Department's first INCSR report on North Korea was released February 26, 1999.

Central to the policy debate is the need for hard data such as satellite imagery to confirm the extent of reported opium poppy cultivation in North Korea. Enhancing law enforcement focus and intelligence cooperation on targeting, reporting, and tracking North Korean opium/heroin and methamphetamine trafficking and production is another option which warrants consideration.

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