

**The EC - Democratic People's Republic of Korea
(DPRK)**

Country Strategy Paper

2001 - 2004

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Summary

The Democratic People's Republic of Korea (DPRK or North Korea) has an estimated 23 million inhabitants in a territory of 120,540 km² covering the northern part of the Korean Peninsula between the East Sea (Sea of Japan) and the Yellow Sea, bordering South Korea, China and Russia. Its political, economic and social systems are based on the "juche" ideology of self-reliance and a centralised, socialist state. The political situation remains stable, with the current regime firmly in place, but, on the economic and social front, North Korea is facing major difficulties and now wants to address these in order to improve the living conditions of its population (see basic data in Annex).

To alleviate the humanitarian consequences of the economic crisis in the DPRK, the European Commission, Member States and other donors have in recent years been providing humanitarian assistance, food aid and support for agricultural rehabilitation. However, emergency aid needs to be combined with long term development assistance programmes in order to enable North Korea to help itself. Having both humanitarian aid and development assistance at its disposal, the Community is well placed to help the DPRK in the crucial early stages of sustainable development.

Thus, the Community's development co-operation with North Korea will focus on a reversal of the current sharp decline in the welfare of the population. Reducing poverty implies addressing a range of economic, political, social, environmental and institutional shortcomings. Promoting equitable growth requires investment in social and human development and infrastructure. Moreover, the integration of the DPRK into the world economy is a necessary condition for the economic and social development.

The EC-DPRK Country Strategy Paper (CSP) for 2001-2004 sets out the strategic framework and objectives for technical assistance in the DPRK for the next 4 years, following the EU approach towards the Korean Peninsula and the DPRK set out in the Council Conclusions of 9 October and 20 November and the Community's development cooperation objectives (art. 177 EC Treaties, ALA Regulation 443/92 and the EC Development Policy Communication).

While the international community is providing considerable assistance to North Korea already, this is directed mainly at overcoming immediate humanitarian problems. Food security and sustainable rural development assistance (including reforestation) should continue to reduce the necessity of food aid and ensure that the considerable environmental damage caused by the struggle for food and heat is repaired.

But, the DPRK needs to build for the future and has thus expressed an interest in technical assistance from the Community and other donors. The Commission's priorities are concentrated on a limited number of areas, mainly

i) **institutional support and capacity building** to assist the DPRK with the necessary capacity to work out and implement effective development policies in the coming years. It implies the need to strengthen the capacity of key institutions and the relevant human resources in order to define a path of economic development, implement poverty reduction policies, and develop relations with the international community;

ii) **sustainable management and use of natural resources** (including access to sustainable energy services) to support North Korea's social and economic revival, through the transfer of basic management skills;

iii) **reliable and sustainable transport sector** within an integrated approach to support the DPRK in developing policies to modernise and manage the sector.

As a complement to food security activities, sustainable rural development actions could be foreseen to support the necessary increase in agriculture production, to avoid continuous soil erosion and to improve farm and forestry management in the DPRK.

These priority needs emerged from the conclusions of the fact finding mission sent to North Korea in February 2001 to assess technical assistance needs and the discussions at a donor co-ordination meeting organised in Brussels on the 16 March 2001. In particular basic training is needed urgently in key ministries where understanding of international finance/trade and economic policymaking needs to be disseminated as well as to help North Korea integrate into the world economy. Moreover, it is desirable to help North Korea acquire a basic capability to manage the key infrastructural systems of energy and transport in order to achieve immediate savings in energy inputs, ensure sustainable energy and transport services and thus, support North Korea's long-run social and economic development.

1. Description of EU/EC co-operation objectives

The Community's development co-operation has three broad objectives (art. 177 EC Treaties): i) fostering sustainable economic and social development, ii) integrating the partner countries into the world economy, and iii) combating poverty, based on a close integration of the political, economic, social and environmental dimensions of development. Furthermore, the Community's development policy should contribute to the general objective of developing and consolidating democracy and the rule of law, and encouraging respect for human rights and fundamental freedoms. Thus, development cooperation is a multidimensional process that covers broad-based equitable growth, capacity and institution building, private sector development, social services, environment, good governance and human rights.

In Asia (through the ALA Regulation 443/92), the emphasis is on an effective contribution to sustainable development, security, stability and democracy through institutional dialogue and economic and financial co-operation.

The EU approach towards the Korean Peninsula and the DPRK is set out in the Council Conclusions of 9 October and 20 November 2000, building on previous EU policy (Council Conclusions of July 1999 and Commission Information Note of October 1999). These underline the EU commitment to support the inter-Korean reconciliation process and to increase assistance to the DPRK in response to progress by North Korea in addressing the concerns of the EU and the international community as regards respect of human rights, non-proliferation and security issues, progress in inter-Korean reconciliation, economic structural reform and social development.

Both sets of Council Conclusions endorsed the Commission decision to expand its assistance to the DPRK, in a measured way, through providing additional market access possibilities for North Korean exports and launching a technical assistance program, while continuing the current humanitarian and food assistance to the DPRK and support for the KEDO project. Depending on the progress made by the DPRK in accommodating EU concerns, further measures may be envisaged. The overall objectives of this assistance are set out in this Country Strategy Paper.

2. Policy agenda of the DPRK

The policy agenda of the DPRK authorities is traditionally set out in a joint New Year's editorial in the main newspapers. This year's editorial expressed an interest in i) opening to the outside world and ii) modernizing the economic and announced a new era of "advance, great turn and broad opening", mainly by,

1. restructuring the economy through enhancement of the existing infrastructure and the development of up-to-date technology, in particular in the power, coal, metal industry and railway transport sectors.
2. implementing the North-South Joint Declaration of June 2000;
3. improving relations with the outside world and making a positive contribution to global independence and peace.

A budget of \$9.9b has been approved for 2001 (up 2.7% from last year) in line with these objectives. Improving the existing infrastructure, while building high technology industrial centers has been officially announced. Plans have been developed to modernize machinery in iron and steel works, to improve the transport network and reinforce railway links, and to increase the production of primary consumer goods. Efforts in the agriculture field will be focused on resolving the food crisis and it is planned to boost seed cultivation and potato farming and to increase the area of double

cropping. To overcome the energy crisis there are plans to build hydroelectric plants and increase coal extraction as well as demands for electricity from South Korea. Improving the living standards of the population is considered as one of the major and most urgent tasks of the government.

However, North Korea has yet to formulate clearly a development policy to which Community cooperation activities could contribute. In the past, there was no political will. At present, there seems to be a will, but a lack of sufficient expertise on how to define economic and development policies.

Nevertheless, despite the absence of an articulated national development strategy, it is worth pursuing a positive, but, cautious approach in starting up technical assistance activities in order to try to build up basic skills and expertise and to strengthen institutions, thus, helping to promote the future development of the country.

3. Analysis of the political, economic and social situation

3.1 International and regional context:

The Korean Peninsula has been a focus of continued international and regional tension since the division of the Peninsula into two zones along the 38th parallel after the Second World War and the 1950-53 Korean War. The North was supported by China and Russia and the South by the United States, which still maintains of 37.000 US troops on the Peninsula. Peace and stability in the Korean Peninsula is a crucial element for the security of the whole North East Asia region.

The 1990s saw increasing overtures between the North and the South that culminated in the 1991 North-South Agreement on Reconciliation, Non-Aggression, Exchanges and Cooperation and the 1992 North-South Declaration on a Non-Nuclear Korean Peninsula. Since then, major political and economic pressures emerged on the Peninsula: i) the collapse of the Soviet Union entailing a sharp reduction of economic and political support from Russia and former Soviet block countries (significance of barter trade), ii) the decision by China to normalize relations with South Korea in August 1992, iii) the death of North Korean President Kim Il Sung in July 1994 and the leadership transition in North Korea, iv) the nuclear crisis of 1993-94 and the decision by North Korea to launch an intercontinental ballistic missile in 1998, v) the decline in overall economic performance and the food crisis (that led to appeals for international assistance beginning in 1995), and vi) the financial and economic crisis that embroiled South Korea in 1997-1999 opening the way for the liberalizing government of President Kim Dae Jung.

The strengthening of contacts between the two Koreas accelerated in 2000, due to South Korean President Kim Dae Jung's new policy of engagement with the North which culminated in the first inter-Korean Summit on 13-15 June 2000. Since then, encouraging developments have taken place on the Korean Peninsula that have led to regular meetings across a range of political, military and economic fields, not only at governmental level, but, also involving the Red Cross and various civilian and non-governmental organizations. Liaison offices were reopened at Panmunjon; three rounds of two-way family reunions have been held, the reconstruction of the inter-Korean railway and highway linking Seoul and Pyongyang has started (with demining operations) and in a symbolic display of reconciliation both delegations marched jointly under one single Korean flag at the opening of the Sydney Olympic Games ceremony. Four inter-Korean Ministerial meetings have taken place as well as an encouraging first meeting of Defense Ministers.

There is an agreement to (1) continue family reunions, exchange of correspondence and tracing of lost relatives (discussions ongoing on a permanent meeting spot); (2) promote cross-border economic cooperation (Inter-Korean Economic Cooperation Committee, procedures to guarantee investments and avoid double taxation); and (3) continue discussing security issues (military hotline, mutual prior notification of troop movements, mines clearance, military exchanges). Moreover, agreements have been made between North Korean and South Korean companies to move ahead with new projects in the North, the most significant being the agreement with Hyundai to proceed quickly with the development of an industrial zone in Kaesong. A number of smaller Joint Ventures in the IT sector are engaging in promising developments. While the pace of change on the Korean Peninsula is uncertain, the direction is clear and the process that is currently underway is considered by both parties as irreversible.

The EU has contributed to peace and stability on the Korean Peninsula through its actions in the field of humanitarian and food assistance, its contribution to the KEDO project and by beginning a dialogue with Pyongyang (since December 1998, three political dialogue meetings have taken place, the last one in Pyongyang in December 2000). The EU has adopted a more coordinated approach towards the Korean Peninsula in support of South Korean President Kim Dae Jung's policy of engagement and building on previous EU policy orientations. This was set out in the Council Conclusions of 9 October and 20 November 2000 mentioned above. In addition, while awaiting the new US Administration to define its policy towards the DPRK, the European Council of Stockholm of 23-24 March 2001 decided to help maintain momentum in the search for peace, security and freedom on the Korean Peninsula by sending the President of the European Council, PM Persson to visit Pyongyang and Seoul on the 2-4 May accompanied by Commissioner Patten and HR Solana, for talks with both Korean leaders on the full range of issues of concern.

The results of the visit were assessed positively by the EU Member State and international partners. The EU received a firm commitment from Kim Jung Il to the inter-Korean Joint Declaration signed in Pyongyang at last June summit and assurances that a return visit to Seoul will be held. He also promised the EU to maintain a moratorium on missiles testing until at least 2003 and confirmed the commitment of the DPRK to the implementation of the Agreed Framework (the DPRK needs to come into compliance with its nuclear safeguards agreement with the IAEA for proper implementation of the KEDO project). North Korea would restrain missile technology exports. North Korea also agreed to start talks on human rights with the EU. On economic and social development, Kim Jung Il declared that he wishes to introduce new economic policies (although not yet in a position to define them in detail) and stressed the importance of education and research development for the economy. North Korea's agreed to send a group of senior officials to Europe to get acquainted with EU economic policy models.

North Korea's has recently launched diplomatic initiatives to improve relations with the international community, including the Community and most of the EU Member States. These initiatives have already begun to have an impact, both in terms of increasing inflows of humanitarian assistance and also increasing the number of North Koreans traveling abroad to learn more about the outside world and the way it works. A major challenge ahead is to prepare policy makers in the DPRK for new ways of economic management including economic cooperation and for a new and broader agenda in relations with foreign countries aimed at improving prospects for expanded trade, foreign investment and development assistance in the coming years.

3.2 Current political situation

The DPRK is a centralised socialist state based on the ideology of “juche” (self-reliance). Its constitution was adopted in 1948 and has been revised several times. The latest constitutional revision in 1998 abolished the Central People’s Committee, renamed the State Administration Council as the Cabinet, and reaffirmed the National Defense Committee (NDC) as the highest state body. The late leader Kim Il Sung, is designated “Eternal President” keeping the presidential seat empty. His son Kim Jong Il, General Secretary of the Workers’ Party of Korea and Chairman of the NDC, rules North Korea today.

There is a head of Government (Hong Song Nam), and a unicameral Supreme People’s Assembly (SPA) composed of 687 members directly elected for 5 years. The next election is due in 2003. The SPA is controlled by the Korea Workers Party (KWP), North Korea’s ruling party, which is in coalition with the Social Democratic Party and the Chondoist Chongu Party. The President of the SPA performs the duties of a head of state, but ultimate power lies with the chairman of the NDC. Each province, city, county or district elects People’s Assemblies or committees. These committees elect local officials to carry out centrally decided policies. The KWP controls all the instruments of the state including the army, which is the key element in North Korean society. Since the death of Kim Il Sung there is evidence that the KWP is less important than it used to be. There is no sign so far of a long-postponed KWP congress (the last was in 1980) that could proclaim a new policy departure.

The political situation remains stable. The regime is firmly in place and in control of all elements of the States and the civil society.

The Government’s human rights record remains poor. While a complete assessment of the human rights situation in the DPRK is difficult to obtain. Reports indicate widespread human rights violations. The exercise of personal choice is very limited due to a strong social control by the State. In addition to basic lack of individual rights and freedoms, there are a large, but an unknown number of political prisoners, public executions, disappearances, arbitrary detention and torture. Conditions in prisons are extremely harsh.

Human rights legislation in North Korean has been liberalised somewhat recently. The revised 1998 Constitution has incorporated some changes in the areas of human rights. It has inserted a new provision declaring that “the citizens shall have freedom of residence and travel” (art. 75). Activities of religious groups and associations are now legally permitted (art.68). It broadens the room for “freedom” in the citizens economic activities, including possible individual ownership of the means of production (arts. 20,22, 24). The Constitution provides for freedom of speech and the press, although all forms of cultural and media activities are under the control of the party. The Constitution contains provisions for an independent judiciary and fair trials, but these are not sufficiently implemented in practice.

North Korea participates in some international treaties on human rights. It is a signatory to the International Covenant on Civil and Political Rights (ICCPR), although in 1997 it decided to withdraw unilaterally after the first UN resolution regarding the human rights situation in the country. However, the DPRK has recently submitted its second periodic report on its implementation. It is also a signatory to the Covenant on Economic, Social and Cultural Rights, as well as the Convention on the Rights of the Child. These obligations are however not implemented.

The EU has continually raised human rights concerns as a key element in its policy towards North Korea. The Council Conclusions of 9 October and 20 November 2000 refer to it as one of our key concerns, citing the need for a commitment from the DPRK to respect UN agreements. As noted above, during the first EU high level visit to Pyongyang on the 2-4 May, the DPRK agreed to envisage the possibility of talks on human rights with the EU. This has been initiated with an introductory troika meeting with the DPRK in Brussels on 13 June 2001, preceded by a seminar on universal human rights principles in Sweden. Human rights will continue to be an essential part of our political dialogue with the DPRK.

3.3 Current economic situation

For many years, the North Korean economy has been shaped by the Juche concept of economic self-reliance and State socialism (where by the State has provided for the social needs of the population), as well as by heavy expenditure on national security through building-up conventional and strategic military capabilities. During the last decade, North Korea has experienced severe challenges, following the end of heavily subsidized trade with the Soviet Union and China. Exports dropped by three-quarters from 1990 to 1999, making it nearly impossible to purchase necessary supplies from overseas. This situation has been aggravated by various natural disasters. Thus, the DPRK economy contracted sharply. It is difficult to know the full extent of these problems. Estimates by the Bank of Korea (Seoul) are that overall economic output declined by the order of 50% of GDP between 1994 and 1999 (see economic statistics in annex). Some other authorities argue that the contraction was not so severe and that the economy has begun to recover again helped by foreign assistance. But, it is clear that there have been serious and chronic food deficits, humanitarian difficulties and the inability of the State to fulfill its social support role. A clear split between Pyongyang and the regions has become evident in terms of the material well being of the population.

Efforts for recovery (1.3% real growth for the last two years) have been hampered by a lack of access to i) commercial lending stemming from the DPRK's default on its foreign debt and ii) credit facilities provided by international financing institutions such as the World Bank and the Asian Development Bank, of which the DPRK is not yet a member. There is an insufficiency of almost everything needed to make an economy work: fuel, electricity, transportation infrastructure, communications, food, hard currency, although North Korea has considerable natural resources (mainly raw materials) and an educated and adaptable work force.

Investment and trade: External trade and investment remain low due to the reduced production capacity of the North Korean economy and the perception of political risk of opening up to the outside world. South Korean estimates of Pyongyang's trade in 2000 amount to US\$ 2.4 billion (including inter-Korean trade), a rise on the previous two years, but still lower than in 1979. North Korea's main trading partner is China with imports of US\$ 451 million and exports of US\$ 37 million in 2000 (much of the former may be non-commercial trade). Pyongyang has a more commercial relationship with Japan with bilateral trade amounting to US\$ 457 million in 2000. Inter-Korean trade stood at US\$ 425 million in 2000, a 27.5% rise year-on-year. 52% of the commercial trade between the Koreas took the form of processing-on-commission activities. However, as with China, most of the US\$ 273 million of North Korean imports from South Korea consisted of non-transactional trade, for example, aid and contributions to the KEDO project. Investment protection agreements were signed between the North and South in 2000; already thirty-nine joint ventures exist between companies across the

border. Hyundai is planning to build a large industrial park in Kaesong and a number of IT companies in the South are looking for opportunities in North Korea. However, overall, the uncertainty and lack of a developed commercial sector in North Korea have deterred major investment to date. The consequential lack of foreign currency provides a rationale for the export of missile technology.

North Korean's foreign investment policy started in Sep 1984 with the announcement of the Joint-Operation Act. A total of 55 laws and regulations related to foreign investment (such as the Foreign Investment Act and the Free Trade District Act) were in place by the end of 2000. Special economic zones are being discussed to cope with the problems experienced following the collapse of the socialist bloc and preferential measures for investment have been implemented. So far, only the Rajin-Sunbong district has been established. Overseas investment briefing sessions have been organized by North Korean authorities to try, mostly in vein, to attract investment.

Imports to the EU from North Korea are very limited (imports at €73 million in 1999). Leading exports are electrical goods, textiles, metal products, nuclear products and fish, all at a very modest level. As regards trade, North Korea is subject to normal trading rules for industrial goods exports into the EU for all sectors, except for textiles and clothing where their exports are subject to a tight regime: only if quotas are opened are their imports into the EU allowed. Otherwise, North Korean non-textile exports to the EU are not subject to any restrictions and are subject to MFN tariffs.

The authorities need to establish an environment that will attract foreign capital and trade partners in order to mobilize the capital and build markets for North Korean industrial recovery and growth. Creating this environment requires addressing questions of macroeconomic stability and management, external debt management, laws and regulations for investment and trade, labor training and management, the administrative capacity of government, and an effective legal system.

Agriculture: North Korea is not primarily an agricultural region, 80% of its surface is mountainous. The use of land is mainly for i) agriculture (1.9 m ha), ii) grassland and bush cover (1.5 m ha), iii) forests (4.3 m ha), and iv) secondary and inaccessible forests (3.7 m ha). Agricultural production is organized in 3.220 cooperative farms (of an average of 600 ha for 400/500 families or households). About 70% of the cultivated areas (1.4 m ha) are irrigated. There are an estimated 5.500 dams and barrages and 1.700 reservoirs. Over 25.000 electric pumping units and 40.000 km of canals are in operation. Ground water resources are operated through 125.000 open wells. North Korea's ratio of arable land to population is among the lowest in the world, and high agricultural production requires on-going imported inputs such as fertilizer as well as irrigation that depends on a reliable electricity supply for pumping.

But, the agricultural sector is now crucial for the economic welfare of the DPRK after a decade of declining agricultural production, structural/policy problems, severe food crisis, and insufficient foreign exchange resources to import food on the scale required. There seems to have been a slight improvement in agriculture output in 1998 and 1999 as a result of internal efforts and the large infusion of foreign humanitarian and agricultural assistance (the food gap for 2000/1999 was an 1.32 m tons estimated, compared with 1.81 m tons in 1999/98 and 2.34 m tons in 1998/97). However, agricultural production in 2000 has declined again with an estimated food gap of 1.9 m tons for 2001/2000 (equivalent to 39% of its estimated total consumption needs). Between 1996 and 2000, UN appeals have mobilized about \$575 million, of which 94% has been allocated to food aid and food security, 5% for health and nutrition, and 1% for

education. Nevertheless, food security for the North Korean population can only be assured in the long term with a rebuilding of a robust industrialized and service sectors as well as continued modernization of agriculture and efficient structural policies.

Environment: Integration of environmental concerns into development strategies is an important factor. Deforestation and soil erosion are serious rural environmental issues and need attention. The 80 % forest surface is mainly composed of coniferous trees (42 %), latifoliate trees (36 %), and the rest mixed forest. Pine, larch and oak trees are dominant. More than 2.2 m ha of forests can be classified as degraded. All the forestland is state owned. In the 90s, the country experienced severe deforestation (lots of timber consumed in mining works, indiscriminate cutting of trees for heating, soil erosion on hills). The government has recently initiated a campaign of reforestation and production of seedlings. Future strategies for urban and industrial development will also need to address the environmental consequences of new investments as well as the environmental consequences of the past decade industrial decay. Environmental degradation has considerably worsened the damaging effects of heavy rains and floods in recent years.

Energy: There are critical problems in every part of DPRK energy structure:

- On the supply side, the shortage of domestic coal is the main reason for the dramatic decrease in energy production. The structure of energy production (82% coal, 3% hydrocarbon and 15% hydroelectricity) explains the great difficulty in producing sufficient energy even for the minimal needs of the North Korean economy. Coal production capacity is limited (with an annual production capacity of 60 m tons, while current production is only 22 m tons). Equipment in the coalmines is obsolete and needs urgent rehabilitation. New energy sources are needed, but the lack of hard currency prevents significant imports of oil and gas. Hydropower is under developed. A further contribution to the provision of energy supplies could be envisaged by the introduction of decentralized electricity production entailing the installation of micro and mini hydro stations in the mountainous regions. We should note too that the DPRK is receiving 500.000t of heavy fuel oil gratis each year through the KEDO project (worth \$90M).
- On the demand side, a vigorous energy-saving programme in industry use and in buildings would contribute to balancing the national scheme or producing more activity per energy unit. Energy use in industries and buildings is far from efficient. The rationalisation of energy consumption could probably lead to savings from 25% to 35% without any major investment. Moreover, existing thermal and hydroelectric power plants operate at low efficiency. The national electricity grid is essentially non-existent, operating at best, as a collection of unreliable regional grids using poorly maintained equipment.

North Korea lacks adequate understanding of how to manage a basic energy system with severe negative consequences on industry and hospitals, which can not work properly. Schools, houses and the population at large do not have enough heating, nor electricity (for food and lighting). All of this aggravates the chronic problem of hunger and encourages even more deforestation and other environmental problems.

Transport: The transport system is operating at a small fraction of its level of only a decade ago. The road system around Pyongyang is in good condition. In the provinces, the number of asphalt roads is less regular (30.000 km of road network). However, traffics low due to the poor conditions of vehicles, mainly trucks. There is a good railway system (of 4.400 km length) with international links to China (Shenyang

through Dandong-North West and Barrshonski –North) and Russia (Vladivostok –North East). Railway infrastructure is also in good condition with an integrated production process and few imported components. Two underground railway lines operate in Pyongyang and seem well adapted. North Korea possesses several maritime ports, the biggest of which is Nampo, on the western coast, which ensures deliveries in and out from Pyongyang (40 km). There is one international airport and two domestic airports, but air links are limited to Bangkok, Vladivostok and several Chinese cities, including Beijing (two weekly connections by an Iliouchine 62). The fleet is small, operating five to six airline planes (Tupolev, Iliuchine). As North Korea opens to the rest of the world development needs in this sector will increase.

In summary, the bad state of the DPRK's economy has clearly been a decisive factor in determining its recent move to exit from its isolation. International humanitarian assistance and food aid has helped to avert the worst effects of famine and economic collapse, but are not enough to revive the economy. Despite some signs of a possible turnaround (positive growth and some improvement in industrial production in 1999), the foundations for a sustained economic recovery do not yet exist. North Korea simply does not have the resources to rebuild its agricultural, industrial and infrastructure base.

North Korea's economic situation cannot be reversed without both i) a commitment to policy and institutional reforms that will provide the incentives and supporting framework for putting the economy onto a sustainable growth path, and ii) the building of economic relations with the international community in order to obtain the trade, assistance and investment that is needed to achieve economic security for the medium and long term. Economic cooperation is the second pillar for a lasting peace and must go hand in hand with political cooperation.

3.4 Current social situation

A critical aspect of the reality of North Korea today is social change. While there has been a great deal of attention since 1996 to the food crisis and the humanitarian response of the international community, there has been less attention to the internal social dynamics associated with the transition now underway. North Korea's social welfare system is well defined on paper and provides for income guarantees, education, medical security, and social welfare services to the entire population. To finance this extensive social welfare system, the State has relied on an economic policy approach where production has been directed by the State and surpluses from industrial enterprises and agricultural cooperatives have been collected and redistributed through the State Budget. Thus, basic human needs for food, shelter and clothing have been provided through the State distribution system.

As a result of the economic crisis of the 1990's, the State is no longer able to fulfill the obligations to the population that it has assumed. A major drop in quality of social services has been the inevitable result. In 1998, the North Korean government authorized for the first time a scientific nutritional assessment of children under 7 years of age which reflected that 62% of them had severe disorders due to chronic malnutrition. Thus, many people have taken initiatives to seek ways to meet their basic needs. In the rural areas, this has taken the form of foraging for food, making more decisions at the commune and farm level about finding ways to increase yields, and sale in farmers markets. In the urban areas, this has taken the form of migration out to the rural areas, and use of the unofficial markets to make money and to obtain consumer goods and services. Nevertheless, sustained malnutrition and a reduced quality of

education and health services will continue to erode North Korea's human capital for some time.

The breakdown of the State distribution system and the related emergence of an informal market economy are changing the internal social and political dynamics within North Korea. The markets are providing a means for large numbers of people to exercise choice in their lives. These are not only limited to food, but, try to meet other consumer needs. These social dynamics will profoundly affect the future welfare of the population of North Korea, already weakened by years of shortage of food and essential drugs, deterioration of water and sewage systems, inadequate access to utilities and basic health services, limited provision of electricity and access to fuel for heating under severe weather conditions.

4. Overview of past and ongoing EC co-operation

(See tables in Annex on Donor Assistance)

4.1 Past and ongoing co-operation activities:

Since 1995, the EU has undertaken various actions in support of international efforts to promote peace and maintain stability on the Peninsula, mainly through food aid, humanitarian assistance and contributions to KEDO. It is among the largest and most consistent donors of assistance to alleviate the humanitarian consequences of the economic crisis in DPRK, and to try to address its root causes.

Food aid: The EU has been providing significant food aid since 1997, via the Food Aid and Food Security budget line, supporting vulnerable people in the DPRK and in response to DPRK's appeals for assistance after a severe period of natural disasters and structural economic crisis. Initially a food aid assistance programme, it has increasingly become oriented towards agricultural rehabilitation and production with a view to a more sustainable approach towards increased food security. Assistance has been provided bilaterally, via the World Food Program (WFP) as well as via European NGOs that have established offices in the country with expatriate staff. In global financial terms, the Commission, over 4 years, has provided a total of approximately €168 million, delivered as follows:

Bilateral: €106.7 million including €6 million implemented by European NGOs and technical assistance monitoring and support,

WFP : €50 million including €12 million of food aid products distributed by European NGOs and €5 million of food aid approved for the Commission's 2000 budget but not yet delivered,

NGOs : €11 million via 7 European NGOs, namely, CESVI, Concern, Children's Aid Direct, Action Contra La Faim, German Agro Action, Médecins Sans Frontières, Triangle.

There is no doubt that North Korea suffered severe adverse climatic conditions between 1995-1997. However, it fairly rapidly became apparent that the severe food shortage situation was a primarily a structural/policy problem rather than totally due to temporary bad climatic conditions. Given this situation, combined with the fact that food aid cannot solve food insecurity problems in a sustainable manner, the Commission adopted an approach of providing food aid associated with support to agricultural rehabilitation and production (30% in 1998, and 1999). The 2000 food security budget has been entirely composed of agricultural rehabilitation and production support (fertilizers, pilot projects on co-operative farms and technical assistance support). The 2001 programme provides for €20M for fertilizers.

Humanitarian assistance to DPRK started in 1995, when the very serious flooding which affected 5.7 million people made North Korea appeal for the first time for

international aid. By 2000, €38M had been provided mainly on medicines, water, sanitation, winter clothes and hygiene for those in most need, in spite of a difficult working environment for NGOs which has now slightly improved. The main objective of these interventions has been to improve the beneficiaries' access to safe water and sanitation and their personal hygiene as well as to provide drugs and medicines to health institutions. The main direct beneficiaries have been children, adults with key needs and health institutions. ECHO's support to the provision of modern medicines to hospitals and clinics in the DPRK through the Red Cross family constitutes the major source of drugs in the country and addresses an essential need. In 2001, actions by ECHO concerned €3.3M of winter clothes, medical supplies and relief items after the October 2001 floods affecting the Kangwon province.

The 2000 humanitarian strategy of not adopting a Global Plan but several ad hoc decisions adopted last year by ECHO to North Korea has brought some success. For the first time, North Korea has accepted to sign Letters of Understanding for each project containing an EC clause where minimum humanitarian standards are clearly laid out. The impact of ECHO operations, however, still depends very much on the attitude of the North Korean authorities in relation to several key issues: the possibility of carrying out a proper assessment of needs, a real access to the beneficiaries in all areas of the country and the possibility of implementing projects in certain sectors so far considered too sensitive (e.g. water or sanitation).

Compared to the situation five years ago, there has been some important improvements in the above mentioned fields. The presence of European NGOs in the country, besides helping to address important humanitarian needs, is also acting as an ice-breaker in the opening process of the country. The relation with the European NGOs, even with its important limitations, is in most places the only access to the outside world for the North-Korean population in the areas where these operate. Although the causes of DPRK's very precarious situation are of a structural nature and have to be found in the total collapse of the economic system, the humanitarian needs associated with it are still quite acute and ECHO's presence in the country is therefore still pertinent.

KEDO: KEDO is the Korean Peninsula Energy Development Organization. Its origin stems from the Agreed Framework of 1994 between the US and the DPRK which resolved a nuclear crisis on the Korean Peninsula. In return for freezing nuclear installations and coming into compliance with this nuclear safeguard agreement with the International Atomic Energy Agency, and eventually dismantling its insecure installations, the DPRK receives two light-water reactors and interim supplies of heavy fuel oil (the DPRK has undertaken to repay the cost of the reactors). KEDO was set up in 1995 to provide the reactors and the oil. Its founding members were Japan, the US and the ROK

Recognising the global importance of maintaining regional security in North-East Asia and also of upholding the international nuclear non-proliferation regime, the EU joined KEDO in September 1997. The ROK provides about 70% of the finance, Japan 20% (for the reactors), the US currently about US\$55 million in regular contributions per annum and the EU €15 million annually (mainly for the fuel oil) until 2000. The EU has thus contributed €75 through the Euratom Agreement and Member States some € 7 M bilaterally to KEDO. A new Euratom/KEDO agreement entered into force in December 2001. The total cost of the reactors is US\$ 4.6 billion and the energy supplies currently about \$90M pa. The EU is a full member of KEDO's Executive Board alongside Korea, Japan and the United States.

KEDO is thus the major international initiative to promote non-proliferation and peace in the Korean Peninsula. For its modest contribution to date (less than 2% of the overall planned budget, >\$5.0bn), the EU has secured influence, visibility and leverage on the scope and direction of the project, largely through its role as a Board Member and the involvement of EU staff in the KEDO Secretariat. Moreover, membership in KEDO has enabled the EU experts to contribute to working in this project in crucial areas such as nuclear safety and training.

4.2 EU Member States and other donors programmes

Donor activities in the DPRK at present are mainly concentrated on humanitarian assistance and food aid as there is still a large need for these activities to continue. While the DPRK has made advances in the political level this has not yet been matched by an improvement in humanitarian conditions of the population. An humanitarian crisis will continue to exist until economic recovery is well underway. Therefore, emergency aid needs to be combined with long term development assistance programs in order to enable North Korea to help itself. Some actions have been launched in the training field, in particular, language courses and more recently on elements of the market economy, but these are still limited in scope.

Humanitarian aid is provided by different UN-agencies, the Commission through ECHO, bilateral donors and NGOs. For example, in 2000, humanitarian assistance and food aid funded through the 2000 UN Consolidated Inter-Agency Appeal amounted to some €150M, mainly for food, health, nutrition, water and sanitation. All this UN humanitarian assistance is being coordinate by the UN Office for Coordination of Humanitarian Affairs (OCHA) which also ensures synergies between the activities of other humanitarian partners, including the EC.

ECHO's interventions in the DPRK in 2000 amounted to €8M, whereas food aid and food security were worth €25.3M. Some Member States contribute via international agencies but also through bilateral assistance actions in the DPRK, in particular Germany (agriculture/health), Sweden (humanitarian, food, training) and Denmark (health/agriculture scholarships). Others are now planning a more active involvement, such as Italy (energy), United Kingdom, Germany, Sweden and France (training).

Food aid: Whilst food scarcity has decreased considerably since the peak of the 1996/97 crisis, a food deficit remains, especially for vulnerable groups (7.5 million people – 1/3 of the population). World Food Programme (WFP) is the main channel to deliver food aid to the DPRK. It aims at saving lives and at improving nutritional status, mainly for children, the elderly people, and women. Partner organisations in this sector are the WFP, non-resident NGOs working via FALU, SDC, and ADRA (Swiss). A total of 1.9 million tons of food aid valued at \$858M had been donated between 1995 and 2000 to North Korea.

Agricultural rehabilitation: The UNDP jointly with the North Korean government launched the Agricultural Recovery and Environmental Protection Programme (AREP). This programme has identified various areas of agriculture rehabilitation leading to improve agriculture production. Other programmes in this area include the double cropping programme initiated by FAO/UNDP, supported through fertiliser and seed supply and a micro-credit component project for individual households of co-operative farms financed by International Fund for Agriculture Development (IFAD).

Reforestation: More than 60 reforestation projects have been implemented under the WFP's (UN/FAO) food for work programme with a total area of 6 800 ha reforested.

The North-East Asian Forest Forum has also been very active in this area. The major obstacle remains the lack of functioning tree nurseries.

Health and Nutrition: The strategy in this sector is directed towards the provision of technical assistance in various specialised areas in health and nutrition, provision of drugs and vaccines, medical equipment and other supplies such as family planning materials, and local capacity building and training. Information, education and communication materials are being developed. Research into Koryo (Korean traditional) medicine and local capacity for drugs and fortified food production is also supported. Special attention is given to ensure the health and nutrition of vulnerable groups through supplementary micro-nutrients available in vitamin A enriched oil, locally produced micro-nutrient biscuits and blended foods. Programming strategies include gender analysis of available data and a focus on the special needs of women and children in all programming interventions. Partners in this sector are WHO, UNICEF, UNFPA, WFP, UNDP, IFRC, Cap Anamur, Diakonie Emergency Aid, Caritas, and CAD.

Water and sanitation: Interventions in this sector have been limited, although deterioration in the water and sanitation systems are at the root of many of the health problems encountered in the country and impact heavily in the lives of the population. Women are particularly affected, as they are required to carry water from source to home, wash clothing in rivers and collect fuel to boil water. Cases of malnutrition are often not related only to lack of food, but also to intestinal disorders caused by lack of access to clean water and hygienic sanitation facilities. IFRC, UNICEF, and European NGOS (funded by ECHO) are active in this field. Assistance is provided through micro-level interventions to the most vulnerable groups of the population, to children's institutions, hospitals and some selected communities.

KEDO: an international non-proliferation project with contributions from other partners, including bilateral allocations from Member States, the United States, South Korea, Japan, Canada and Australia.

Donor countries assistance to the DPRK by sectors (excluding UN agencies, see annexes)

	FOOD AID	AGRICULTURAL REHABILITATION	HUMANITARIAN ASSISTANCE	REFORESTATION	TRAINING	KEDO	ENERGY
EC	X	X	X	X		X	
WFP	X	X	X	X			
FAO	X	X		X			
UNDP		X	X				
OCHA			X				
IFAD		X					
UNICEF	X		X				
CARITAS INT		X	X				
SWITZERLAND	X	X		X	X		
NE-ASIA FOREST FORUM				X			
WHO			X				
IFRC			X				
GERMANY		X	X			X	
SWEDEN	X	X	X				
DENMARK	X		X	X			
FRANCE						X	
ITALY	X	X	X		X		
FINLAND						X	
U K					X	X	
NETHERLANDS						X	
GREECE						X	
US	X				X	X	
JAPAN	X	X				X	
ROK	X	X				X	

CANADA	X				X	X	
AUSTRALIA	X	X			X	X	
NORWAY	X						
CHINA	X						X
VIETNAM	X						

Food security and food aid still represent the bulk of donor assistance, with a tendency to change from direct food aid towards the supply of fertiliser as well as technical assistance in agriculture. There is an attempt by international organisations working in the DPRK to slowly initiate, through small interventions, a style of programming more akin to rehabilitation and development activities with stakeholder involvement, monitoring and evaluation, sustainable analysis and joint planning on the basis of lessons-learned as well as substantial focus on capacity building.

The issue of transition to development in the context of the DPRK is now key on the agenda of international donors. Negotiating a “humanitarian space” in North Korea has been a long and difficult process, with the Government often either unwilling or unable to provide the space required for humanitarian agencies to undertake normal programme implementation, monitoring and evaluation activities. However, progress has been made and continues to be made, through a process of mutual patience and slow development of understanding about the constraints and requirements of all parties.

There are now 10 NGOs working in the DPRK, 6 of which receive EC funding (Children’s Aid Direct (UK), CESVI (IT), CONCERN (IRL), and German Agro Action (D), Handicap International (B) and Triangle (F)) The two last have been allowed to join this year, thus partially offsetting the departure of four major ones (MSF, MDM, Oxfam, and ACF). In their view, conditions were not such that they could continue their work in a meaningful way. Working conditions for NGOs in the DPRK have somewhat improved last year. New, more vulnerable counties have been open to assistance from European NGOs. More monitoring trips are taking place and more beneficiaries are visited in their homes. There has been improvement in access to information for programming as well as closer interaction with Government. Two new NGOs have arrived: i) Triangle(F) end 2000 to implement one of the EC funded agricultural projects and ii) Handicap International (B) in March 2001 to implement ECHO funded projects. However, room for improvement still remains:

- **Encourage joint appraisal of needs for programming purposes:** Currently programmes/projects are being prepared on the basis of the information provided by the Government without the possibility for NGOs to undertake an assessment of the real needs. Also evaluation of the programmes already implemented is problematic due to a lack of freedom of movement and will on the part of the Government. We should encourage a joint appraisal of needs as a way to encourage better interaction between the Government institutions and the NGOs. For example, a joint assessment of needs in the field of water sanitation could be considered for 2001 (it is one of the key sectors for intervention, but faces reticence from North Korean authorities who do not even allow for water quality tests).
- **Encourage the improvement of access and the removal of movement constraints:** Access has improved considerably since 1995 but constraints on movements remain. Deviation from agreed travel plans are usually rejected. Counties open to UN agencies remain closed to NGOs. Freedom to travel without prior permission and unscheduled visits to beneficiary locations remain a goal. We need to encourage better access for NGOs and, in particular, freedom of movement for programming purposes and random monitoring visits. NGOs should have easier

access to technical ministries and institutions and have the possibility of visiting other programmes and projects by other agencies in other provinces.

- **Encourage increase resident NGOs presence in the DPRK** and permit larger numbers of international staff to work in the country. More resident NGOs would provide greater geographical coverage of the country and would address a wider range of sectors than what is today possible (e.g. health and nutrition).

IFIs involvement: Although the DPRK is not yet a member of the IFIs (ADB membership requested but not yet decided, mainly US against), there is a clear interest by both the World Bank and the Asian Development Bank in the DPRK. They have offered support to the DPRK to help in short-term economic policy planning, even before membership. A comprehensive economic assessment would be a necessary preliminary step for ADB or WB assistance. There is no poverty reduction strategy paper for the DPRK.

5. The EC response strategy, coherence with EU policies, complementarity within the EU and with other donors

The general objective of Community development co-operation is to encourage sustainable development that could lead to a reduction of poverty in developing countries. Reducing poverty implies addressing the economic, political, social, environmental and institutional dimensions with which, as described above, North Korea is confronted. It also involves promoting equitable growth, investment, social and human development and environment protection. The integration of developing countries such as the DPRK into the world economy is a necessary condition for their growth and economic and social development.

Since 1995, when the EC first intervened in North Korea in response to the DPRK initial international aid appeal, there has always been a coherent approach to the Community interventions. In March 1997 an ECHO first independent evaluation mission was sent to the DPRK, and highlighted a serious humanitarian crisis caused by the collapse of an economic system badly in need of reform and compounded by natural disasters. As a result, a co-ordinated strategy was set up in Pyongyang in 1997 between DG Dev, in charge of the food aid component, and ECHO, responsible for operations in the health sector. A joint Technical Assistance Office with around 5-7 experts for the implementation of both ECHO and the Food security activities was also opened in Pyongyang and continues to be fully operational.

A coherent overall development for North Korea must be based on consistency between on the one hand, the technical and trade cooperation the Community is proposing during the next four years, the ongoing assistance in the fields of humanitarian assistance and food aid, and, on the other hand, a sustained political dialogue. Thus, assistance to North Korea for sustainable economic and social development must go hand in hand with respect for democratic principles and human rights and, prospects of regional peace and stability.

Following the Council Conclusions of 9 October and 20 November 2000, the Commission decided to increase its assistance to the DPRK in a measured way, mainly in the form of technical cooperation and additional market access possibilities for the DPRK exports, which will contribute to the DPRK's economic and social development. Humanitarian and food security assistance will also continue, as well as our contribution

to KEDO. There has been a some overall progress in issues of concern to the EU, in particular with the results of the EU Troika visit to Pyongyang on May 2001 (missile testing moratorium, human rights talks, commitment to inter-Korean process and economic reform). This Country Strategy Paper tries to set out a coherent framework for the EC strategy in the DPRK in all the various areas for ongoing and future cooperation, also taking account of the international donor community's attempts to enter into development cooperation in the DPRK.

Humanitarian assistance will continue in the DPRK, on the basis of the ECHO Strategic Guidelines for 2000, which include among the main objectives: 1) to gain access to more vulnerable groups (presumably in the more distant mountainous areas); 2) to improve working conditions (appraisal, access, monitoring, evaluation), putting these progressively in line with internationally acceptable standards; 3) to support more ambitious and effective projects moving away from the mere distribution of goods, and 4) to increase the number of European NGOs in North Korea. The strategy will focus on priority sectors, particularly in the areas of water and sanitation, with more ambitious projects where feasibility studies and water tests will be necessary. The provision of winter clothes to children in targeted institutions, very much appreciated in a situation of continued lack of heating in most kindergartens, will continue. Ad-hoc decisions worth € 8 M have been allocated in 2000 and 2001 from the ECHO funds to cover these types of activities.

Trade policy: Following positive developments in the Korean Peninsula over the last year and taking into account the GAC Conclusions of 9 October and 20 November 2000, the Commission, but also through requests by economic operators, has implemented a relaxation to the strict textile autonomous regime applied to North Korea:

- -First, the amounts of the quantitative restrictions for the categories mostly used are increased. These increases will be 60% for categories 14, 15, 16, 17, 27, 29, 68, 73, 76, 77, 78, 83 and 50% for categories 5, 6 and 8 (Commission Regulation (EC) No 2878/2000, OJ L 333/60 of 29.12.2000); Although the increase in percentage may seem important, in volume and value terms it is very modest: it represents € +/- 7,1 Mio of imports.
- Secondly, the maximum allowed quantity by operator has been doubled for all categories, on an autonomous basis (Commission Regulation (EC) No 2833/2000, OJ L 328/20 of 23.12.200).

Major steps towards trade opening must be accompanied by real improvements by North Korea to adapt its policies accordingly in order to meet the needs of foreign trading partners and investors. These market openings would facilitate the DPRK's economic development and its integration into the world economy. It will be mainly in the textile sector through further increases of textile products exports from North Korea to the EU and perhaps in a longer term to look at the possibility of negotiating a textile agreement and granting North Korea GSP treatment.

Non-proliferation policy through continuing the EU participation and financial contribution to the KEDO project, a major contribution to nuclear non-proliferation, stability and rapprochement in the Korean Peninsula. Participation in KEDO has also underlined the need to work closely with major international partners to help ensure the necessary regional stability. It has permitted the EU to have practical experience of dealing with the DPRK. KEDO has achieved its basic non-proliferation objective so far,

and the EU has contributed to this result. The Community is a member of the Executive Board of KEDO - along with the US, Japan and ROK and participates fully in all major decisions concerning the organisation. The EU has staff in the KEDO secretariat and two representatives from the EU are on the international KEDO Nuclear Safety Advisory Group. The EU has and will continue to have an effective role in the organisation and in creating and implementing its policies.

Food security and sustainable rural development (including forestry): Agriculture modernization and rehabilitation activities in the DPRK still remain a challenge and need to be continued. It should be ensured primarily through the EC Food Security Program in close cooperation with other donors (such as AREP/UNDP as a framework for sustainable rural development in the DPRK). A coherent food security policy reduces the necessity of food aid and ensures that the considerable environmental damage caused by the struggle for food is repaired. Structural reforms in the DPRK agriculture sector are necessary for our food security assistance to have a lasting positive effect.

Around €20M for 2000 and 2001 have been allocated to North Korea from the Food Security budget to projects that would lead to sustainable increases in food security. This support, as in the case of humanitarian assistance would be dependent of North Korean authorities granting internationally accepted working conditions for our technical assistance experts. The North Korean authorities have until now complied in a satisfactory manner with the Agreement on implementation modalities reached in July 2000 and covering the activities of the food aid/food security and humanitarian experts. Moreover, they have allowed freedom of movement and access for programming purposes for our Technical Assistance team in Pyongyang.

Technical assistance cooperation: The discussion preceding has shown that the DPRK is now ready to consider new ways to manage and revive its economy and new directions in its foreign relations. This is due not only to the political thaw created by the peace and reconciliation process on the Korean Peninsula, but, also the challenge posed by the collapse of North Korea's traditional economic links with Russia and Eastern Europe and the need to overcome the damage done to the welfare of its population as a result of a series of natural calamities. As in China and Vietnam, the government regime seems stable and economic reform is likely to be attempted in carefully planned steps. Unlike these countries, however, North Korea is more an industrial rather than an agricultural country so that it faces immediately some of the same problems as experienced by the countries of Central and Eastern Europe in upgrading the industrial infrastructure and adapting its scientific and technical capabilities for urgently needed civilian goods and equipment. Meanwhile, the collapse in agriculture production, environmental degradation and human health and privation problems need to be reversed.

We have to bear in mind that it is the first time we decide to launch technical assistance activities other than emergency aid (no other donor has yet done so on a significant scale). We lack sufficient knowledge of the situation in North Korea to make a good judgement on how we could best direct our assistance. For these reasons, a first fact-finding mission was sent to North Korea in February 2001 to assess technical assistance needs and identify areas in which the Commission could then launch pilot projects. On 16 March 2001, the results of the mission were presented to a donor co-ordination meeting in Brussels of Member States, IFIs and other interested partners (US, Japan, South Korea, Canada, and Australia). North Korean officials also participated. This

meeting showed that the Commission is likely to be the only substantial donor of technical assistance to the DPRK for the time being.

The conclusions emerging both from the expert report and the discussions at the co-ordination meeting, were that North Korea's priority needs are: i) training, particularly in regard to institutional building, ii) basic technical advice on how to run their energy system, iii) rural development and iv) transport. But the first two were considered to be essential priorities without which it is difficult to see how North Korea can progress in reform. In particular, basic training is needed urgently in the key Ministries (Foreign Affairs, Finance, and Foreign Trade) where for instance understanding of international finance/trade and economic policymaking needs to be disseminated. Moreover, there is no adequate understanding of how to manage the energy sector without incurring a huge waste. It is thought that by providing the North Korean's with some basic capability to manage the system, considerable energy savings could be achieved.

North Korea's economic and social development is now at a crossroads. Its state run economy and social support system are in great difficulties and the Government is now seeking to address these in order to improve the living conditions of its population. What precise steps will be taken to modernise their economy and to what degree permission should be granted for private initiatives are subjects now under debate in North Korea.

The Community experience with former state controlled systems in European Eastern countries and the NIS as well as in Asia is of important added value to address the North Korean context. Having both humanitarian aid and development assistance at its disposal, the Community is well placed to contribute to the DPRK's sound management of the difficult transition between emergency aid, rehabilitation and development.

The priorities for co-operation between the DPRK and the European Commission for 2001–2004 will be financed under the ALA Regulation budget (B7-300) for an estimated budget of €5M per year, and are concentrated in a limited number of areas as follows:

1. Institutional support and capacity building: there are key elements in any integrated support for poverty reduction. In the case of North Korea, there are essential for developing a long-term strategy for economic and social development and democratisation. Thus, this field is the first pillar of an EC-DPRK co-operation strategy. It will provide the DPRK with the necessary capacity to prepare a policy blueprint on its future development. It entails the need to strengthen the capacity of key institutions and human resources, in particular as regards their ability to define a path of economic and democratic development and to implement poverty reduction policies.

Technical assistance for capacity building in trade should be included to help North Korea integrate into the international trading system and make use of the opportunities offered for growth and sustainable development. Strengthening and promoting the development of a private sector in the economy are important for integrating North Korea into the world economy and can also be a powerful means of poverty reduction.

In close coordination with other donors activities, the approach to institution building and capacity strengthening should be to ensure through extensive training activities the transfer of knowledge to key ministries and institutions, focusing primarily on international finance and trade, economic relations and economic development principles. A first step in such training should consist of a pilot project (below €1M from the 2001 budget) that could be extended afterwards.

The United Kingdom, Sweden, Germany, Italy, France, Canada, the US, Switzerland and Australia are involved or are currently preparing small scale training and scholarships activities (language courses, students exchanges, agro management, macro-economics). Scope for synergies with these training activities would be pursued as well as complementarity with specialized training within the EU business community willing to invest in the DPRK (i.e. through stages abroad in Member States and EU enterprises).

2. Sustainable management and use of natural resources (including energy sources) and environment: The provision of energy services, in particular through decentralised activities and the promotion of renewable energy sources, is a strategic issue for the development of the North Korea economy and the welfare of its population. The negative consequences for North Korea are pervasive. Industry does not work properly, nor do hospitals. School, houses and the population at large do not have enough heating. All of this aggravates the chronic problem of hunger and encourages even more deforestation and other environmental problems. Access to sustainable energy services has a key role to play in supporting social and economic development.

Energy is a basic sector for North Korea's economic revival and poverty alleviation policies. There is a real need to provide the DPRK with the capacity to manage rationally the energy sector as a whole, to develop an energy balance and to define policies to develop the sector, including a high potential for energy savings (25-35% without big investments). In addition, environmental aspects would be taken into consideration. Practical measures that could be taken quickly to save significant amount of energy supply currently wasted. Improvements in energy supply possibilities can be made without recourse to massive new investment which would probably need foreign funding there is not yet available. Institutional building and good governance to transfer basic management skills to the North Korean authorities and basic understanding of an energy balance should be a priority. A first step in this area could be a pilot project under the 2001 budget (below €1M) to provide an assessment of the overall energy system in North Korea and of ways for energy savings, including possible rehabilitation.

3. Reliable and sustainable transport sector: is also a key to economic development and access to basic social services. Supporting the integration of sectoral transport policies with macroeconomic measures can help the DPRK ensure the regular maintenance needed to make transport networks sustainable. Therefore, an integrated policy approach must be favoured for the transport sector. Support to the DPRK on how to address the policies needed to operate transport infrastructure should be foreseen. Co-operation activities between North Korea and Russia or South Korea are under way and must be taken into consideration (mainly on international transport links) as well as developments in North Korea's relations with the IFIs.

As a complement to food security programme, **sustainable rural development** actions can be foreseen to support the necessary increase in agricultural production, to avoid continuous soil erosion and to improve farm and forestry management in the DPRK. Technical assistance projects could encompass support for management, forestry, better knowledge of soil qualities, as well as technical exchanges and training.

Immediate challenges for North Korea are also in the **field of health**, where already the donor community is active. This is an essential dimension of the promotion of economic, social and cultural rights. The identification of possible co-operation activities to support North Korean policies for the development of the health sector should not disregard the macroeconomic framework in which it operates and should be

the focus of a midway review in cooperation with the North Korean authorities and other donors.

This first attempt to start technical assistance with the DPRK is not without risks. As was the case when the first humanitarian aid came to the country in 1995, there is a lack of knowledge by the North Korean Government on what does it really mean and what would be its benefits (and therefore it would desire equipment or direct investment). The donor community in North Korea is of the opinion that we need to increase development cooperation instead of purely emergency aid and that progress has been made against the Government's lack of familiarity with humanitarian operations.

There is a need to start a process of understanding to show North Korean authorities how we can best help, in terms of technical assistance, and share our experience and that of our European experts to assist them when defining the necessary development policies the country would need to take and how they must be implemented. Previous expert mission to North Korea (dealing with food security/food aid, humanitarian assistance as well as programming of technical assistance) have been introduced by a Commission official in order to start this process of mutual rapprochement of goals and objectives, to ensure effective results for both parties. Although the Commission does not have a Delegation in North Korea that could ensure direct links and mutual understanding with North Korean authorities, our Technical Assistance team in Pyongyang is already active in building these bridges.

The working conditions for our experts would not be easy, as is the case in some NIS and Asian countries. However, as mentioned before, the donor community in North Korea agrees that these conditions have improved during the last year and in particular, our technical assistance experts enjoy freedom of movement and access for programming purposes. At least the same conditions should be maintained for the new programmes to be launched under this technical assistance scheme. Should conditions disapprove programmes could be reversed.

In the initial phase, we will look for three **performance indicators**: i) a satisfactory organisation by the North Korean Ministries concerned of arrangements to receive and absorb technical assistance and to ensure quality control and feedback, ii) North Korean granting adequate access to our experts, iii) after the training programme, a perceived better and more widely spread ability by North Korean officials to understand market economic principles and handle the technical complexities of external relations.

This Country Strategy paper will be subject to review by the end of 2003 or sooner, if necessary. This review would take into account the reform signs taken so far by the North Korean Government as well as the measures to improve the conditions of the North Korean population. Further measures may be envisaged depending on the progress made by the DPRK in accommodating to EU concerns.

The above mentioned elements would lead into a National Indicative Programme (NIP) for 2002-2004.

ANNEXES

DONOR ASSISTANCE TO THE DPRK (1995 – 2000)

	FOOD AID	AGRICULTURAL REHABILITATION	HUMANITARIAN ASSISTANCE	TRAINING	ENERGY INCLUDING KEDO
European Communities	<ul style="list-style-type: none"> € 106 M € 50 M via WFP 	<ul style="list-style-type: none"> € 11 M via NGOs 	<ul style="list-style-type: none"> € 38 M for medicines, winter clothes, water sanitation 		KEDO: € 75 M
Germany	<ul style="list-style-type: none"> 6.5 M DM from Deutsche Nahrungsmittelhilfe 	via WFP and Deutsche Welthungerhilfe			KEDO: \$ 1 M
Netherlands	<ul style="list-style-type: none"> NLG 793.000 via WFP and UN consolidated appeal 		<ul style="list-style-type: none"> NLG 1.175.000 medical and health care 		KEDO: \$ 790.192
Italy	<ul style="list-style-type: none"> 13 b lires via WFP and AGEA 	<ul style="list-style-type: none"> 5 b lires via FAO and IFAD 	<ul style="list-style-type: none"> 11 b lires via UN agencies 	<ul style="list-style-type: none"> 10 scholarships for university students 	KEDO: \$ 1.821.429
Portugal			<ul style="list-style-type: none"> 3 M escudos for medicines 		
United Kingdom				<ul style="list-style-type: none"> workshop/visits on international economic principles and scholarships 	KEDO: \$ 1 M
Denmark	<ul style="list-style-type: none"> 46 M Danish Crown via WFP (vegetable oil and yellow spilt peas) 		<ul style="list-style-type: none"> 20 M Danish Crown via UNICEF + 21 M via NGOs 	<ul style="list-style-type: none"> agricultural scholarships 	
Sweden			<ul style="list-style-type: none"> 168.250.000 Swedish Krona 		
Greece					KEDO: \$ 25.000
France			<ul style="list-style-type: none"> 250.000 FF via UN 	<ul style="list-style-type: none"> training NK diplomats language training 	KEDO: \$ 503.778
Finland					KEDO: \$ 569.424
South Korea	<ul style="list-style-type: none"> \$ 379 M for rice and chemical fertilisers 		<ul style="list-style-type: none"> \$ 100 M via Korean National Red Cross 		KEDO: \$ 3.22 b loan NK request of 500.000 KW supply of electricity
United States	<ul style="list-style-type: none"> \$ 300 M via WFP 				KEDO: \$ 50 M per year
Australia	<ul style="list-style-type: none"> 25 M \$A via WFP for wheat, agriculture machinery 			<ul style="list-style-type: none"> research training on soil management, trade/economy and nuclear safeguards 	18 M \$A to KEDO
Japan	<ul style="list-style-type: none"> \$ 200 M via WFP 		<ul style="list-style-type: none"> \$ 1 M to UNICEF 94 M JPY to IFRC 		KEDO: \$ 1 B loan
Canada	<ul style="list-style-type: none"> \$ 9 M via WFP and Canadian NGOs 			<ul style="list-style-type: none"> university exchanges 	KEDO: \$ 3,5 M
Switzerland	<ul style="list-style-type: none"> food aid 	<ul style="list-style-type: none"> forestry 		<ul style="list-style-type: none"> training of NK diplomats 	KEDO: \$ 118.148

Table 1 - Consolidated Appeals - 1996-1999. Contributions Received by Agency

Year	WFP	FAO	FAO/UNDP	UNDP	UNICEF	WHO	OCHA	TOTALS
1996/7	26.208.449	2.291.700		2.279.700	3.488.373	65.000	57.000	34.390.222
1997/8	134.344.633	1.660.771	1.025.395	2.495.000	17.200.286	1.600.412	56.137	158.382.634
1998	202.650.384	904.637	5.120.973	0	5.725.732	1.169.998	302.565	215.874.289
1999	177.906.550		3.085.466	0	6.158.366	1.895.351	844.882	189.890.615
TOTALS	541.110.016	4.857.108	9.231.834	4.774.700	32.572.757	4.730.761	1.260.584	598.537.760

Table 2 - Additional Humanitarian Assistance outside the framework of the Consolidated Appeal

Year	Donor Governments and the EU	Red Cross Societies	Non-Governmental Organizations	United Nations Agencies				TOTALS
1996/7	11.282.717	4.674.348						15.957.065
1997/8	105.790.274	16.767.045	9.722.487	1.800.000				134.079.806
1998	92.060.684	2.849.784	24.308.352					119.218.820
1999	41.622.278	4.323.735						45.946.013
TOTALS	250.755.953	28.614.912	34.030.839	1.800.000				315.201.704

Table 3 - Consolidated Appeal Humanitarian Assistance by Sector

Year	Food Aid	Food Security	Health/Nutrition	WatSan	Education	Coordination		TOTALS
1996/7	26.208.449	4.571.400	3.553.373			57.000		34.390.222
1997/8	134.344.633	5.181.166	17.446.611	1.354.087		56.137		158.382.634
1998	202.650.384	6.025.610	2.721.322	3.551.704	622.704	302.565		215.874.289
1999	177.906.550	3.085.466	8.024.532	29.185		844.882		189.890.615
TOTALS	541.110.016	18.863.642	31.745.838	4.934.976	622.704	1.260.584		598.537.760

Table 4 - Humanitarian Assistance Outside the Consolidated Appeal by Sector

Year	Food Aid	Food Security	Health/Nutrition	WatSan	Education	Coordination	Other*	TOTALS
1996/7	9.955.282	154.555	464.927				5.382.301	15.957.065
1997/8	109.008.920	3.027.834	10.571.621				11.471.431	134.079.806
1998	109.494.336	1049150	3.639.765				5.035.569	119.218.820
1999	2.911.314	38.530.000	2.246.575	270.205			1.987.919	45.946.013
TOTALS	231.369.852	42.761.539	16.922.888	270.205	0	0	23.877.220	315.201.704

Table 5 - Total reported Humanitarian Assistance - 1996- 1999

TOTAL								913.739.464
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Economic Indicators (Estimates)

	1995	1996	1997	1998	1999
Real GDP¹ growth (%)	-4.1	-3.6	-6.3	-1.1	6.2
Population (m)²	21.5	21.7	21.8	21.9	22.1
Exports¹(US\$m.)	740	730	910	560	520
Imports¹(US\$m.)	1,310	1,250	1,270	880	960
Trade balance (US\$m.)¹	-570	-520	-360	-320	-440
Exchange Rate (av. Won:US\$)	2.15	2.15	2.20	2.20	2.20

Source: (Bank of Korea –Seoul, National Statistics Office –Aug. 2000)

Comparison of economic scale and per capita GNI

	North Korea (A)		South Korea (B)		B/A(times)	
	'98	'99	'98	'99	'98	'99
Nominal GNI (□billion)* (US\$billion)	17,597.2 12.6	18,741.0 15.8	437,871.4 313.0	478,250.9 402.1	24.9	25.5
Per capita GNI (□10,000)* (US\$)	80.2 573	84.9 714	943.1 6,742	1,020.6 8,581	11.8	12.0

* South Korean Won(KRW) (source: (Bank of Korea-Seoul, National Statistic Office –Aug. 2000)

Primary Commercial Energy Production (in .000 toe)							
	Coal		Hydrocarbon		Hydroelectricity		TOTAL
	toe	%	toe	%	toe	%	
1999-2000	15 700	82.20	500.00	2.62	2 900	15.18	19 100
2000	23 700	74.65	2 500	7.87	5 550	17.48	31 750

Energy Demand (in Mtoe)						
	Industry	Household	Energy Industry	Transport	Agriculture	TOTAL
1998-2000	12 500	4 000	2 000	300	300	19 100
1990	20 350	8 000	2 500	400	500	31 750

Basic data on the DPRK

Official name:	Democratic People's Republic of Korea
Population:	21,4 million (estimate)
Surface area:	120,540 km ²
Capital:	Pyongyang
Language:	Korean (Ural Altaic language)
Unemployment:	No official data
Annual growth:	Estimates available: -1.1% (ROK Central Bank), -5% (CIA World Factbook)
Currency:	Won (official rate: 1\$) = 2,13 Won
Trade Balance:	No data available
Reserves:	No data available
Per capita gross domestic product:	Approx. \$700-1000 (estimate)
Form of Government	One-party rule based on 'juch' ideology
Heads of state and government:	Head of State: Chairman of National Defence Commission Kim Jong Il Head of Government: PM Hong Song Nam
Executive	National Defense Committee (The Korean worker Party governs in coalition with the Social Democratic Party and chondoist Chongu Party)
Legislative	Supreme People's Assembly (next election due by 2003), unicameral of 687 members, Presidium President: Kim Yong Nam
Armed forces	About 1.1 million
Religion	Buddhism and Confucianism, some Christianity and Chondogyo

NATIONAL INDICATIVE PROGRAMME

2002-2004

**DEMOCRATIC PEOPLE'S REPUBLIC
OF KOREA**

Country/Region:	Democratic People's Republic of Korea (DPRK)
Budget Years:	2002-2004
Budget Line:	B7-300
Legal Base:	ALA Regulation (Council Regulation 443/92 of 25/02/92)
Cost of Order:	15 MEUR
Programming Service:	DG RELEX C.2
Head of Unit:	S. GILLESPIE
Co-ordinator:	M. CASTILLO

NB: This National Indicative Programme does not include actions already put in the 'project pipeline 2001'. It limits its scope to budget years 2002-2004. It is part of the Country Strategy Paper, which gives the framework for co-operation 2001-2004.

NATIONAL INDICATIVE PROGRAMME

2002-2004

DPRK

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6.1. ACTION 1

1. PURPOSE AND SCOPE

The National Indicative Programme for the DPRK (NIP) for 2002-2004 complements the Country Strategy Paper for the DPRK (CSP), adopted by the Commission on 19 February 2002, which provides a coherent framework for ongoing and future Community interventions. The CSP contains a full analysis of the political, economic and social situation in the DPRK. The NIP will therefore only stress the main elements and will focus on the various activities which would address the CSP priorities for development co-operation with the DPRK for the next two years.

1.1. Political, Economic and Social Situation

The Democratic People's Republic of Korea (DPRK) political, economic and social systems are based on the "juche" ideology of self-reliance and a centralised, command system. The political situation remains stable, with the current regime firmly in place, but, on the economic and social front, the DPRK is facing major difficulties and seems more ready to address these in order to improve the living conditions of its population.

There seems to be now a certain political openness vis à vis relations with the outside world in the search for help that would enable the DPRK to revitalise its economy and improve the current bad living conditions. Some relaxation of controls appears to be taking place, less control of movements and the emergence of a system of private production and unofficial markets to shore up a faltering food distribution system.

Improving relations with the international community, including the European Commission and most of the EU Member States, has already begun to have an impact, both in terms of increasing inflows of humanitarian assistance and also of increasing the number of DPRK citizens travelling abroad to learn more about the outside world and the way it works. It has also led to strengthened contacts between the two Koreas, separate since the 1950-53 Korean War. Encouraged by South Korean President Kim Dae Jung's policy of engagement with the North, the first inter-Korean Summit took place on 13-15 June 2000 in Pyongyang. Since then, encouraging developments have taken place on the Korean Peninsula that have led to regular meetings across a range of political, military and economic fields, not only at governmental level, but, also involving the Red Cross and various civilian and non-governmental organisations. Last year, progress in the inter-Korean process slowed down, at the same time as a deadlock occurred in US-DPRK relations following the change of administration. However, links at the NGO level remain, making this process different from other breakdowns in inter-Korean reconciliation in 1972 and 1991-1992. The South's Presidential Envoy recently travelled to the North, and a joint press release issued. It agreed to restore relations and resume co-operation projects. There are currently hopes that the US Special Envoy will soon travel to Pyongyang for talks about resuming the US-DPRK dialogue.

The bad state of the DPRK economy has clearly been a decisive factor in determining its recent move to exit from its isolation. International humanitarian assistance and food aid has helped to avert the worst effects of famine and economic collapse, but are not enough to revive the economy. Despite some signs of a possible turnaround (positive growth and some improvement in industrial production in 1999), the foundations for a sustained economic recovery do not yet exist. The DPRK simply does not have the resources to rebuild its agricultural, industrial and infrastructure base.

The DPRK's economic situation cannot be reversed without both i) a commitment to policy and institutional reforms that will provide the incentives and supporting framework for putting the economy onto a sustainable growth path, and ii) the building of economic relations with the international community in order to obtain the trade, assistance and investment that is needed to achieve economic security for the medium and long term. Economic co-operation is therefore necessary for a lasting peace on the Korean Peninsula and must go hand in hand with political co-operation.

1.2. EU Policy towards the DPRK

The EU approach towards the Korean Peninsula and the DPRK is set out in the Council Conclusions of 9 October and 20 November 2000, building on previous EU policy (Council Conclusions of July 1999 and Commission Information Note of October 1999). These underline the EU commitment to support the inter-Korean reconciliation process and to increase assistance to the DPRK in response to progress by the DPRK in addressing the concerns of the EU and the international community as regards respect of human rights, non-proliferation and security issues, progress in inter-Korean reconciliation, economic structural reform and social development.

Both sets of Council Conclusions endorsed the Commission decision to expand its assistance to the DPRK, in a measured way, through providing additional market access possibilities for DPRK exports and launching a technical assistance program, while continuing the current humanitarian and food assistance to the DPRK and support for the KEDO project. Depending on the progress made by the DPRK in accommodating EU concerns, further measures may be envisaged.

Since the inter-Korean summit and in support of South Korean President Kim Dae Jung's policy of engagement towards the North, the EU has contributed to peace and stability on the Korean Peninsula through:

- continued actions in the field of humanitarian and food assistance to the DPRK, worth a total of €244M until 2001;
- its contribution to the KEDO project, worth of €88M until 2000 (including member States contributions), which will continue under a renewal agreement signed in 2001;
- preparations for a technical assistance programme in the form of two pilot projects in the fields of training in market economy and technical advice in the energy sector, worth €2M;
- a limited trade opening as regards the DPRK's textile exports to the EU; quota ceilings were raised by around 60% in 2001;
- beginning a political dialogue with Pyongyang, including human right issues (first exploratory talks on human rights with the DPRK were held in June 2001). Since December 1998, four political dialogue meetings have taken place, the last one in Pyongyang in October 2001. An EU high level visit to Pyongyang took place in May 2001, an important goodwill gesture towards the DPRK to help maintain momentum in this peace process on the Korean Peninsula. The EU Troika will next visit Pyongyang 15-18 June 2002.

However, further advance in EU relations with the DPRK will much depend on the DPRK's readiness to reply positively to our concerns and those of the international community, including i) progress in the inter-Korean process and the implementation of the commitments made at the inter-Korean summit of June 2000; ii) respect for human

rights and access of population to external aid; iii) non proliferation issues and iv) opening up for economic exchanges and structural reform.

Since this first high level visit, the European Community established diplomatic relations with the DPRK on the 14 of May 2001, via an exchange of letters. Modalities of diplomatic accreditation are still under negotiation. The issues of where this technical assistance programme will be implemented from and the resources that would be allocated in the accredited EC Delegation remain open therefore. The possibility of a resident expert in Pyongyang to supervise technical assistance project implementation is also under examination.

2. SUMMARY OF THE STRATEGY AND PRIORITIES

The EU strategy for the DPRK is set out in the Country Strategy Paper for the DPRK, agreed by the ALA Committee on the 25 October 2001 and adopted by the Commission in 19 February 2002. It encourages sustainable development that could lead to a reduction of poverty in the country by addressing the economic, political, social, environmental and institutional dimensions to which the DPRK is confronted and which are described above. It also involves promoting the integration of the DPRK into the world economy, a necessary condition for sustained growth and economic and social development.

The EU strategy for the DPRK provides a coherent framework for ongoing and future Community interventions, taking into account the international donor community activities and their attempts to enter into development co-operation in the DPRK. This coherent, overall approach to development co-operation is based on consistency between on the one hand, the technical and trade co-operation the Community is proposing during the next four years, the ongoing assistance in the fields of humanitarian and food aid, and, on the other hand, a sustained political dialogue. Thus, assistance to the DPRK for sustainable economic and social development must go hand in hand with respect for democratic principles and human rights, and prospects of regional peace and stability.

In line with these objectives and considering the likely financial and human resources which will be made available, as well as the immediate reform challenges for the DPRK and the added value the EU can provide when compared with other donors, **the National Indicative Programme for the DPRK** should address three specific priorities:

- Priority 1: Institutional support and capacity building to provide the DPRK with the necessary capacity to prepare a policy blueprint on its future development; to strengthen the capacity of key institutions and human resources as regards their ability to define a path of economic and democratic development and to implement poverty reduction policies;
- Priority 2: Sustainable development and use of natural resources, to support the DPRK's social and economic revival through the transfer of basic management skills and the promotion of good governance, including access to sustainable energy sources and prevention of environmental degradation and conservation of the natural environment;
- Priority 3: Sustainable rural development actions, as a complement to food security activities, to support the necessary increase in agriculture production, to avoid continuous soil erosion and to improve farm and forestry management in the DPRK.

Assistance contributing to a reliable and sustainable transport sector, as mentioned in the Country Strategy Paper, might be also foreseen, but action here very much depends on

completion of basic steps in economic reform by the DPRK. Then, development support would be needed to integrate sectoral transport policies with macroeconomic measures as well as to modernise and manage the transport sector through the promotion of good governance. In order to prepare possible assistance actions in this area, a programming mission should be launched in 2003.

Immediate challenges for the DPRK are also in the field of health, where already ECHO is active in a short-term perspective. Following on these efforts, a medium-long term co-operation in the health sector should be considered, as mentioned in the Country Strategy Paper, amongst the priority areas for EU-development assistance.

At the same time, the poverty alleviation dimension, the promotion of human rights (including economic, social and cultural rights), regional and social cohesion concerns, and human resources development including gender issues would be taken into consideration for every project in all areas and sectors, wherever these themes can be incorporated and contribute to the overall success of actions of mutual interest.

There could be also a need for support for de-mining facilities. More than a million landmines are laid along the 4km-wide, 250km-long border between ROK and DPRK, what is called the Demilitarised Zone (DMZ), according to ROK Military officials. The resumption of the inter-Korean railway project calls for mine clearance within the DMZ. DPRK has not yet started with mine clearance, South Korea has finished its part and its railway reconnection until the borderline. Further to the DPRK's request, there might be a need to envisage some assistance, including under the Council Regulation concerning action against Anti-Personnel Landmines. Our support might range from victim's assistance to mine clearance or provision of de-mining equipment.

DPRK's economic and social development is now at a crossroads. Its state run economy and social support system are in great difficulties and the Government is now seeking to address these in order to improve the living conditions of its population and to consider new ways to manage and revive the country's economy, and against this background to develop new relations with the outside world. This is due not only to the political thaw created by the peace and reconciliation process on the Korean Peninsula, but, also to the challenges posed by the collapse of DPRK's traditional economic links with Russia and Eastern Europe and to the need to overcome the damage done to the welfare of its population as a result of a series of natural calamities and a weak economic system.

3. INDICATIVE BUDGET: GLOBAL AMOUNT AND PERCENTAGE PER PRIORITY/SECTOR

€35 M should be devoted to EU-DPRK co-operation for the period 2001-2006. Two pilot projects of aprox. €1M have been already committed under the 2001 Budget Line (B7-300).

The present National Indicative Programme covers a period of three years 2002-2004, for which an indicative amount of €15 M would be available and should be allocated as follows:

Priority 1: Institutional Support and capacity building

Action 1: Institutional support/Training programme €7 M

Priority 2: Sustainable management and use of natural resources

Action 1: Efficient management of the energy sector

€3 M

Priority 3: Sustainable rural development action

€5 M

4. PRIORITY 1: INSTITUTIONAL SUPPORT AND CAPACITY BUILDING

4.1. Action 1: Institutional building and Training programme (€7M)

1. Strategic Context/Justification

Against the background of the economic difficulties described above, one of the major challenges ahead is therefore to prepare policy makers in the DPRK for new ways of economic management including economic co-operation and for a new and broader agenda in relations with foreign countries aimed at improving prospects for expanded trade, foreign investment and development assistance in the coming years. Training and education are essential both to the initiation and sustainability of economic growth and to the process of social transformation. An environment that will attract foreign capital and trade partners needs to be established in order to mobilise the capital and build markets for DPRK's industrial recovery and growth. Government officials and economic managers in the DPRK have no market economy experience and have restricted access to market-oriented ideas, procedures and information. In this regard, the DPRK's interest in modernising the economy through the development of up-to-date technology plans should be taken into account.

2.Objectives

This co-operation programme should contribute to address the following key issues:

- Strengthening the capacity of key institutions and human resources and their ability to define the necessary economic development and poverty reduction policies.
- Creating the necessary legal environment in order to address issues of macroeconomic stability and management, external debt management, laws and regulations for trade and investment, norms and standards, labour training and management, administrative government capacity and an effective legal system.

The programme could also contribute to the awareness by the DPRK officials of market economy principles and international relations between political and economic actors, in order for the DPRK to adopt modern international practices and integrate into the world economy. It could also try to develop a better understanding of the concept of rule of law in and build upon European expertise to modernise The DPRK's legal system, including protection of human rights.

The programme should build on the results of the first pilot project on training for the DPRK to be implemented in 2002. For this purpose, an evaluation mission of the first result of the pilot project would be launched beginning of 2003.

3. Activities

This institutional capacity strengthening could be ensured through extensive training activities in key ministries and institutions, including exchanges and study tours to the EU, and focusing primarily on international finance, international trade, market economy principles, economic relations and economic development policies. These could include policy advice to support the necessary legal changes to improve the legal and administrative framework for foreign trade and investment to increase and industry to

recover. Whenever possible, a specialised training component within EU company with an interest or potential investment in the DPRK could be considered.

Awareness measures for DPRK officials, enterprise managers, judges, lawyers and academics and dissemination/information components are not to be excluded.

4. Expected results

Better knowledge among administrations and economic operators about the economic and social policies needed for the DPRK's economic survival and ability to define and to implement them. Knowledge of modern international practices to develop trade with third countries on the basis of market economy and to deal with international financial institutions for credits and investment.

Progress in developing the necessary legal and regulatory framework to attract foreign investment and develop foreign trade as well as strengthening the administrative capacities to ensure the implementation of a regular investment climate. The programme is also expected to improve networking among all key actors in the reform process.

Credible first steps in economic reform from the DPRK authorities.

5. Donor Co-ordination

The DPRK is requesting the international community's assistance for training activities and scholarships. Several Member States are responding to this request and are preparing training/scholarship programmes for DPRK officials. Although significant demand exists for long-term training that acquaints participants with principles and practices of market economy, synergy with Member States and other donors training activities needs to be ensured. In particular, links should be established to the work already done through the UNDP economic co-operation programmes in the DPRK and the training programmes being considered by various Member States. The EC experience in similar projects in China deserves careful attention.

6. Risks, conditions

A programme such as this one is not without risks in a country like The DPRK's ongoing assistance projects have not been running long enough to enable some lessons to be drawn. To implement assistance projects in this country requires patience and ongoing discussions between DPRK officials and international donors to build the necessary trust and smooth co-operation. The issue of where the project will be implemented from mentioned in point 1.2 remains open.

From the outset therefore, intense dialogue and communication with the DPRK institutions involved and trained would be necessary to overcome a certain expected reluctance to co-operate i) in making a full up-front appraisal of the training needs, ii) access to relevant data, iii) selecting candidates for training, and iv) access to ministries. The training programme should nevertheless be sufficiently flexible to respond to changing circumstances. However, the pilot projects are intended partly to enable both sides to get acquainted and learn to work effectively with each other.

7. Main indicators

A wide number of officials in relevant administrations who have received training, attended workshops or participated in exchanges activities would be an indication of the impact of the programme (tentative estimate of around 1.000 officials). Credible first steps in reform, for instance related legal acts and policies being adopted and implemented would also be an important factor. Information and training course material produced for spreading knowledge among administrations, economic operators, general

public would also be an important factor. More precise output indicators will be identified during the course of implementation of the programme.

8. Implementation

The pilot training programme (worth 1M€) should be implemented in 2002 as a first step to a larger training programme for DPRK officials. A mission to evaluate first pilot project results could be launched at the beginning of 2003 and would also prepare a more extensive training programme to be implemented by the end of 2003.

9. Financial envelope

Estimated EC contribution: € 7 M

10. Indicative timeframe

Preparation: 2002

Commitment: 2003

Implementation 2002 (pilot); 2003-04 (training programme)

5. PRIORITY 2: SUSTAINABLE MANAGEMENT AND USE OF NATURAL RESOURCES

5.1. Action 1: Efficient management of the energy sector

1. Strategic Context/Justification

Energy is the basic sector for the DPRK's economic revival and poverty alleviation policies. The DPRK suffers from chronic shortages of both food and energy. On the supply side, the shortage of domestic coal is the main reason for the dramatic decrease in energy production. The structure of energy production (82% coal, 3% hydrocarbon and 15% hydroelectricity) explains the great difficulty in producing sufficient energy even for the minimal needs of the DPRK economy. Coal production capacity is limited (with an annual production capacity of 60 m tons, while current production is only 22 m tons). Equipment in the coalmines is obsolete and needs urgent rehabilitation. New energy sources are needed, but the lack of hard currency prevents significant imports of oil and gas. Hydropower is under developed. We should note that the DPRK is receiving 500.000t of heavy fuel oil gratis each year through the KEDO project (worth \$90M).

Without a regular provision of energy industry, hospitals, schools, households, can not function properly nor dispose of the necessary energy supplies for heating, cooking, lighting. This aggravates the problem of hunger and encourages even more deforestation and other environmental problems. Due to energy shortages the grain production fell from 8 m tons in 1990 to 2.5mtons in 1996. Lack of fertilisers, fuels and electricity have reduced soil fertility, water pumping and field preparation which has limited harvest, processing and distribution of crops. They have also altered the rural ecosystems with the increased use of fuel wood and crop wastes.

On the demand side, a vigorous energy-saving programme in industry use and in buildings would contribute to balancing the national scheme or producing more activity per energy unit. Energy use in industries and buildings is far from efficient. The rationalisation of energy consumption could probably lead to savings from 25% to 35%

without any major investment. Moreover, existing thermal and hydroelectric power plants operate at low efficiency. The national electricity grid is essentially non-existent, operating at best at less than 50% capacity with a loss of about 60-70% of its power supply, as a collection of unreliable regional grids using poorly maintained equipment. International agencies estimate that upgrading electricity transmission lines will cost about 300-600 M\$.

2. Objectives

There is therefore a real need for this co-operation programme to:

- provide the DPRK with the capacity and good governance to transfer basic management skills to the DPRK authorities for the rational use of the energy sector as a whole, to develop an energy balance and to define policies to develop the sector in a decentralised manner;
- improve energy supply possibilities and energy efficiency presenting measures for energy savings that can be made without recourse to massive new investment which would probably need foreign funding that is not yet available;
- increase awareness of the environmental aspects linked to the development of the energy sector.

This programme should build on the results of the first pilot project on the energy sector in the DPRK to be implemented in 2002.

3. Activities

This programme should be implemented through intensive training, technical advice and transfer of the necessary know-how for competent authorities to be able to manage the energy system in a sustainable manner in order to improve energy production and energy efficiency, including possible rehabilitation of the sector, in particular coal mines, to which the DPRK authorities have expressed a keen interest.

Alternative solutions for the decentralisation of the energy supply could be proposed to help upgrading its transmission power lines. Techniques for information centralisation for decision-making, including an energy sector database, would be also useful.

Projects could also look at the rehabilitation of the rural electricity transmission grid, the development of reliable local power generation (including micro-stations), improving the energy efficiency of the irrigation and drainage system.

Awareness actions could be foreseen on environmental standards linked to energy production in line with the EC Communication Integrating Environment and Sustainable Development into Economic and Development Co-operation Policy (1999), which makes clear how environmental management underpins sustainable development

4. Expected results

This action is expected to provide the competent DPRK authorities with the necessary technical advice to enable them to take the adequate decisions in order to establish a performing and efficient energy management system. It would also help raise awareness in the DPRK about low environmental standards currently in place in energy production. The EC will provide only transfer of know-how and not investment money.

5. Donor Co-ordination

An important amount of financial resources would be necessary to rehabilitate completely the energy sector in the DPRK (estimated costs of 20 to 50 billion \$). The DPRK has

requested to various countries assistance in this task. Various studies have been already made on the situation of the energy sector in the DPRK and the programme should use this knowledge as a basis (e.g. ABB study or the results from December 2001 Korea-Italy Joint Seminar on Energy Co-operation in the Korean Peninsula).

Co-ordination would be necessary with the Korean Peninsula Energy Development Organisation (KEDO project) in which the European Commission participates through the Euratom Agreement (for a total of 75€M until 2000 and now 20€M annually). KEDO is the major international initiative to promote non-proliferation in the Korean Peninsula. Through KEDO, the DPRK receives two light-water reactors and interim supplies of heavy fuel oil in return for freezing its nuclear installations and coming into compliance with the nuclear safeguard agreement of the IAEA. The ROK provides about 70% of the finance, Japan 20% (for the reactors) and the US about 55M\$ annually (for the fuel oil). Some Member States contribute bilaterally for about 8 M€.

The programme should also take into account bilateral initiatives in the energy sector by the DPRK with China and Russia, mainly to supply oil and gas and rehabilitate pipelines coming from Siberia. Energy co-operation is also a key subject in inter-Korean relations. The DPRK has asked Seoul for 500MW of electricity aid supplies (a first stage of a total amount of 2,000MW).

6. Risks, conditions

The commitment of the competent DPRK authorities to long-term policy reform in this sector and their full involvement in this programme are of crucial importance for the implementation of such a programme as well as their acceptance of wider circulation of information and decentralisation management systems. The DPRK seems eager to co-operation in this sector and it considers it to be one of its national priorities. The pilot project should prepare the ground for a larger programme. The issue of where the project will be implemented from mentioned in point 1.2 remains open.

7. Main indicators

A high number of DPRK officials and institutions in charge of policy-making and management of the energy participating and committed to this programme and its training activities would be an important indicator of its impact (tentative estimate of around 300). Policy reform measures taken (including steps on energy savings) and the information tools produced would be factors to take into account, as well as the number of workshops (around 3-5), training activities (around 4-6), study tours (possibly 2 or 3) and use of economic instruments for environmental purposes. More precise indicators will be identified during the course of implementation of the programme.

8. Implementation

A first step in this area would be a pilot project under the 2001 budget (below €1M) to provide an assessment of the overall energy system in the DPRK and of ways for energy savings, including possible rehabilitation. An evaluation mission for a follow up programme in 2003 could be launched at the end of 2002.

9. Financial Envelope

Estimated EC contribution: € 3 million.

10. Indicative timeframe

Preparation: 2002-2003

Commitment: 2003

Implementation: 2002 (pilot); 2003-2004 (energy programme)

6. PRIORITY 3: SUSTAINABLE RURAL DEVELOPMENT ACTIONS

1. Strategic context/Justification

Although the DPRK is not primarily an agricultural region, the agricultural sector has become crucial for the economic welfare of its population after a decade of declining agricultural production, severe food crisis and inability to pay for food imports. To alleviate the humanitarian consequences of this economic crisis in the DPRK, the European Commission, Member States and other donors have in recent years been providing humanitarian assistance, food aid and support for agricultural rehabilitation. The EU, through the Food Aid and Food Security Programme, has provided around €202M since 1997, mainly food aid, agricultural inputs (fertilisers, tractors) and agricultural rehabilitation projects.

The food supply situation in the DPRK shows some improvement in the last year, mainly due to substantial international assistance provided both as grant aid and concessional imports. However, a food supply gap of more than 1.47MTs for 2001/2002 is forecast by the World Food Programme (WFP). The DPRK government budget for the agricultural sector also increased in 2001 by 10 %, translated in increased supplies of agricultural inputs in a timely manner. However, it became soon clear that the severe food shortage situation was primarily a structural policy problem rather than totally due to temporary bad climatic conditions. Sustainable food security very much depends on the revival of the economy and the rehabilitation of the agriculture sector through reform and efficient structural policies because the DPRK must develop the capacity to import food supplies to complement national production. For both, assistance is still required. Efforts are also required to rehabilitate the obsolete farm machinery and disrupted (and energy intensive) irrigation facilities and timely supply of fertilisers and agro-chemicals need to be ensured on a regular basis.

2. Objectives

Sustained rural development activities in support to the rehabilitation of the agricultural sector in the DPRK would be built on the results of the activities undertaken by the EC Food Security programme, as a complement in the short term and follow up in longer term to this assistance. This rural development programme would therefore aim at:

- strengthening the technical knowledge necessary to implement efficient agricultural practices that could sustain agricultural production in the DPRK whilst improving the environmental situation in the countryside.
- targeted development assistance to rehabilitate agricultural land and irrigation facilities and to develop an agro-industry that could raise the development standard of the rural communities;

3. Activities

The programme could develop a series of activities, including extensive training and transfer of technical expertise, that would enable the competent DPRK central, regional or local authorities to take the necessary measures for a sustained rural development and the efficient and decentralised management of farms and forests. The programme could also promote activities in the field of water resources management and soil quality protection. Avoiding continuous deforestation, soil erosion and land degradation needs to be taken into account by providing efficient techniques for environmental rehabilitation.

4. Expected results

Improved knowledge and capacity, at regional and local level, to sustain agricultural production, combat soil erosion and land degradation and protect water resources. Increased environmental awareness among the rural community and the general public.

5. Donor Co-ordination

Food security and food aid still represent the bulk of donor assistance in the DPRK. Between 1996 and 2000, UN appeals have mobilised about \$575 million, of which 94% has been allocated to food aid and food security, 5% for health and nutrition, and 1% for education. World Food programme (WFP) is the main channel to deliver food aid to the DPRK. A total of 1.9 million tons of food aid valued at \$858M had been donated between 1995 and 2000 to the DPRK. Agricultural rehabilitation is being carried out through the UNDP jointly with the DPRK government via the Agricultural Recovery and Environmental Protection Programme (AREP). More than 60 reforestation projects have been implemented under the WFP's (UN/FAO) food for work programme with a total area of 6 800 ha reforested.

6. Risks, conditions

Continuous co-ordination with the related community programs, in particular the Food Security Programme would be necessary to ensure sustainability and continuity with the assistance already provided. Co-ordination with other donor and international agencies, in particular the WFP is equally important to avoid risks of duplication efforts and to ensure a coherent donor approach based on the substantial assistance provided by the international community to this sector. The issue of where the project will be implemented from mentioned in point 1.2 remains open.

7. Main indicators

Acceptance of the programme within the local rural authorities and among rural community. Implementation of comprehensive measures by the DPRK authorities for increasing agricultural production, combating erosion and preserving water resources. Verifiable increase in agriculture production. More precise indicators will be identified during the course of implementation of the programme.

8. Implementation

Based on results of the mid review of the Food Security activities for agricultural rehabilitation (to be launched in March/April 2002), the priority areas for assistance will be defined.

9. Financial envelope

Estimated EC contribution: € 5 M

10. Indicative timeframe

Preparation: 2003

Commitment: 2004