

# North Korea nuclear talks break down over funds transfer

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North Korean delegates walked out of the last round of six-party talks, held in Beijing on March 22, after the Bush administration failed to return \$25 million of frozen North Korean funds held in the Macau-based Banco Delta Asia (BDA) bank. No date has yet been set for the resumption of talks. The dispute over the funds transfer threatens to derail the deal on North Korea's nuclear program that was negotiated in February at six-party talks with the US, China, South Korea, Japan, and Russia. April 14 marks the deadline for the first phase of the agreement, including the suspension of North Korea's nuclear programs.

Under the agreement reached in February, North Korea agreed to shut down its main Yongbyon nuclear reactor and allow International Atomic Energy Agency (IAEA) inspectors to return within 60 days, in exchange for 50,000 tonnes of heavy fuel oil and the first steps towards normalising relations with the US. In the second stage, for which no timetable was established, North Korea is obliged to give up all its nuclear facilities in return for an additional 950,000 tonnes of heavy fuel oil or the equivalent, which together with the initial offer, is worth about \$400 million. Washington has also promised in the long term to establish full diplomatic relations with Pyongyang and to end the five-decade US economic blockade of North Korea.

The Bush administration signed the deal, despite previously insisting that it would not “reward bad behaviour” or hold bilateral talks with North Korea. The agreement, which commits Washington to very little, does not represent any fundamental US shift, but rather is a tactical manoeuvre aimed at defusing tensions on the Korean Peninsula in order to better address the crisis in Iraq and prepare for a possible military strike on Iran. The about-face, however, has

only underscored the contradictions of US policy on North Korea and enmeshed the Bush administration in a web of its own making.

The first concrete step of the rapprochement with Pyongyang centred on the return of the \$25 million frozen in BDA. On the eve of the six-party talks last month, North Korean vice foreign minister, Kim Kye-gwan, stated: “If all the money is not released, we will stop our cooperation”. He explicitly warned that North Korea “will not shut down our nuclear facility or follow through on the joint statement issued in February.” On March 19, US envoy Christopher Hill formally agreed to return the money, but then encountered unexpected “technical banking issues”.

While the \$25 million is a tiny sum for the US, the Bush administration refused to back down on claims that the money was from illicit activities—the pretext for pressuring authorities in China and Macau to freeze the BDA accounts. A face-saving compromise was devised in March whereby the money would be handed over to a North Korean government account in the Bank of China and Pyongyang pledged to use the funds for humanitarian purposes.

The plan started to fall apart when it became clear that the money was not “illicit” but part of legitimate investment in North Korea. International investors and bankers with a stake in the frozen funds objected to their money simply being handed over to the North Korean regime. The Pyongyang-based but foreign-owned Daedong Credit Bank claims \$7 million of the total sum. Of this \$7 million, about \$2.5 million belongs to British American Tobacco, which operates a cigarette factory in North Korea.

Colin McAskill, a British investor who is buying Daedong Credit Bank, has warned Macau authorities that he “would take whatever steps necessary”,

including legal action, to stop the transfer of Daedong's money in the BDA to the North Korean regime. McAskill is demanding a separate transfer of the funds into another Macau bank.

These "technical issues" have been further compounded by the Bush administration's decision to target the BDA in September 2005 under the provisions of the Patriot Act. Sections 311 of the Act allows the US Secretary of Treasury to bar any foreign bank from the US financial system on the grounds of money laundering concerns. Having set the process in motion, Washington is reluctant to back off as this so-called "anti-terror" measure can be used to target other countries such as Iran.

On March 14, the US Treasury Department formally barred BDA from the US financial system, supposedly after an 18-month "investigation". This sanction allows the Bush administration to maintain its allegations that the BDA was involved in illegal activities. Concerned that it could also face penalties under the Patriot Act, the Bank of China has refused to handle the North Korean funds transferred from BDA without assurances from the US administration. As a result, the transfer remains stalled.

Macao authorities first froze the BDA funds in September 2005 right at the point when a broad framework had been agreed at six-party talks in Beijing to resolve the North Korean nuclear issue. US vice president Dick Cheney was suspected of being behind what amounted to a calculated provocation aimed at derailing the multi-lateral negotiations. Cheney is the most prominent member of the faction within the Bush administration which argued for a strategy of aggressive "regime change", rather than a negotiated settlement.

Pyongyang interpreted the US action as a sign of bad faith and pulled out of the six-party talks in late 2005. Last July, it tested a long-range ballistic missile and in October detonated its first primitive nuclear device. The US had pushed through two resolutions in the UN Security Council imposing sanctions on North Korea, but China and South Korea proved reluctant to back the provocative American plans to intercept North Korean ships on the open sea.

After President Bush and Secretary of State Condoleezza Rice failed to pressure Beijing and other Asian capitals to take a tougher stance on North Korea

in their trips to the region late last year, the administration turned to a "diplomatic solution" in order to focus on the Middle East and Central Asia. But with the deadline looming for the completion of the first stage of the February agreement, the fund transfer is becoming a major problem.

US envoy Christopher Hill attempted to play down the North Korean walkout last month, declaring that the regime's isolation made it difficult to transfer the funds "even when everybody wants to see the money returned to them". On March 26 he confidently declared: "As we get through this banking issue—I believe we will in the next couple of days—North Korea will have further discussions with the [International Atomic Energy Agency] and by the early part of April we will have the reactor shut down [and] sealed and will have international inspectors back."

The issue remains unresolved, however, and US officials are still attempting to resolve the dispute with the Chinese authorities in Beijing. What began as a technical banking hitch may end up undermining the entire agreement Washington struck with North Korea to shut down its nuclear program, which would plunge the region into a new period of uncertainty.



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