

Chapter 2

Progress in Inter-Korean Dialogue

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Progress in Inter-Korean Dialogue

I. Promotion of Inter-Korean Talks

The government is determined to maintain a stable situation on the Korean Peninsula through inter-Korean dialogue. The government held talks with North Korea in a range of areas including the economy, military and athletics, as well as the Red Cross societies, centered around inter-Korean ministerial talks. In 2004, 25 rounds of talks (over 61 days) were held, and 19 agreements were adopted.

Since the North Korean nuclear issue remains unresolved, inter-Korean talks have been promoted with the goal of resolving the nuclear issue and seeking progress in inter-Korean relations concurrently. The South Korean government has conveyed to the North the concerns of the South Korean people and the international community on the nuclear issue and demanded a change in the North's position so that substantial progress could be made in the six-party talks.

In 2004, the emphasis of inter-Korean dialogue was on inter-Korean exchanges and cooperation in the economic and military spheres to build confidence and reduce tensions. Through the ministerial talks, the two Koreas adopted two agreements that led to general-level military talks, in which the two sides agreed to prevent accidental clashes in the West Sea and to stop propaganda activities along the Military Demarcation Line. As the two sides implemented these agreements they were able to establish a foundation upon which military confidence can be built.

In addition, institutional procedures were put in place so that economic cooperation between the two Koreas can be promoted without difficulties and an atmosphere for stable economic cooperation can be fostered. The Agreement on Entry and Stay in the Gaeseong Industrial Complex and Mt. Geumgang Tourist Area and the Basic Agreement on Operations of Railroads between South and North Korea were signed for more accessible cross-border visits, and the 2004 Agreement on Clearing Settlements was adopted to provide the basis for the clearing settlement system to be implemented.

Also, the two sides discussed the promotion of key economic cooperation projects, including construction of the Gaeseong Industrial Complex, inter-Korean railroads, and the schedule for opening of inter-Korean roads. Moreover, the two sides agreed to establish an office to discuss inter-Korean economic cooperation within the Gaeseong Industrial Complex to provide greater convenience for joint ventures, including consulting services for private businesses.

Talks on humanitarian affairs and social exchanges have been actively promoted. The two Koreas held talks for the relief of Yongcheon train explosion disaster, through which the South assisted the North with emergency relief aid together with equipment and materials for rehabilitation. Through working-level contacts with the Red Cross, the two sides also discussed holding regular separated family reunions and expanding the confirmation of the whereabouts of separated families and exchange of letters. In the working-level contacts for a joint procession at the Olympic Games in Athens, the two sides discussed various matters pertaining to the joint march. There were also efforts to form a separate subcommittee to discuss inter-Korean exchanges in social and cultural affairs, but it did not come into being.

Inter-Korean talks in 2004 reflected the fact that talks were becoming more specialized and business-like. At the same time, they served as practical channels for discussing pending issues between South and North Korea. However, in July, as inter-Korean relations came to a standstill, so did the inter-Korean governmental dialogue.

North Korea criticized the South for the cancellation of a condolence visit by a South Korean group to the North on the tenth anniversary of the death of Kim Il-sung which took place on July 8, and the North refused to hold the 5th Inter-Korean Working-level Contact on Marine Transportation Cooperation, which was scheduled to be held on July 13. Also, the North refused to respond to the proposal to hold the 3rd Inter-Korean Working-level Meeting for the General-level Military Talks that was scheduled to be held on July 19. Along with these events, the U.S. House of Representatives passed the North Korean Human Rights Act on July 21, and on July 27 and 28, a large group of North Korean defectors (468 people) were flown to South Korea, all of which were rather sensitive incidents from the North Korean perspective. North Korea expressed regret over these incidents, and it postponed indefinitely the 15th Inter-Korean Ministerial Talks and the 10th Inter-Korean Economic Cooperation Promotion Committee Meeting scheduled for August.

Although inter-Korean dialogue at the government level came to a standstill, the fact that economic cooperation as well as exchanges in social and cultural areas have continued shows that relations are different from the past where a standstill in governmental dialogue resulted in an overall halt in all exchanges between the two Koreas.

II. Ministerial Talks

There have been 14 rounds of inter-Korean ministerial talks since July 2000. Ministerial talks have served as a central medium through which pending issues of inter-Korean relations are discussed and resolved. In 2004, aside from pending inter-Korean issues, the ministerial talks focused on resolving the North Korean nuclear issue. The talks made the general-level military talks possible for a balanced development in the economic and military spheres.

1. The 13th Inter-Korean Ministerial Talks



As agreed in the 12th ministerial talks (Oct. 14-17, 2003), the 13th ministerial talks were held in Seoul from February 3 to 6, 2004. The South laid out the general direction that the two sides should work toward the advancement of peace on the Korean Peninsula and for practical improvements in inter-Korean relations. South Korea emphasized an early resolution of the nuclear standoff. As for specific cooperation efforts, the South proposed the steady promotion of the three major economic cooperation projects, cooperation in preserving cultural assets and joint research on ancient history, formation and operation of a subcommittee for social and cultural cooperation, resolving the separated family issue, and general-level military talks to discuss military confidence building.

North Korea laid out its position while mentioning that the 13th ministerial talks carried important meaning for foreshadowing how inter-Korean relations would materialize in the year 2004. First, on the nuclear issue, the North reiterated its existing position of "compensation for freeze." Also, the North demanded that two Koreas place their brand of nationalism (or "our nation first" policy) as the guideline for upgrading the level of cooperation and to promote economic cooperation by each government taking their responsibilities for the projects. The North claimed that progress in projects such as the Gaeseong Industrial Complex and Mt. Geumgang tours have not met its expectations due to pressure from the U.S. In addition, the North mentioned the issue of jointly proposing to the

UN in 2004 the matter regarding changing the English notation of “Korea” to “Corea,” the issue of effectualizing the agreement on inter-Korean cooperation in marine transportation and the issue of ending propaganda broadcasting.

Following several head delegate contacts and working-level contacts, the two sides announced the six-point joint press statement on February 6, 2004.

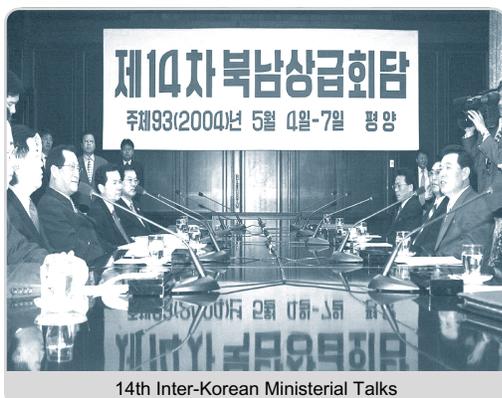
Summary of the Joint Press Statement

- The South and the North will cooperate for a fruitful second round of six-party talks and a peaceful resolution of the nuclear issue.
- The two Koreas will hold a meeting of military authorities at an early date to ease military tensions on the Korean Peninsula.
- The two Koreas will promote in earnest the first-stage development of one million ‘pyeong’ (3.3 million m²) in the Gaeseong Industrial Complex at an early date and actively cooperate in developing 10,000 ‘pyeong’ (33,000 m²) as a pilot project during the first half of the year.
- The two Koreas will continue discussions on the Flood prevention in the Imjin River Basin, the effectuation of the Inter-Korean Maritime Agreement, and the cessation of propaganda broadcasts against each other and other problems each may raise.
- The two Koreas will hold the 9th Reunion of Separated Families at the end of March 2004 at Mt. Geumgang.
- The two Koreas will hold the 14th Inter-Korean Ministerial Talks from May 4 to 7, 2004 in Pyongyang.

2. The 14th Inter-Korean Ministerial Talks

Although South and North Korea reached the difficult decision at the 13th ministerial talks to hold a dialogue between military authorities of the two sides, it did not take place because North Korea refused to respond accordingly. However, a quick response by the South to assist the North with the train explosion in Yongcheon on April 22 and North Korea’s show of appreciation for the aid it received made the prospects of the 14th ministerial talks bright.

There were other ups and downs in relations, but the 14th ministerial talks were held as originally agreed from May 4 to 7 in Pyongyang. At the talks, South Korea expressed regret over not holding the general-level military talks as agreed and demanded that the dates for the military talks be agreed during the 14th ministerial talks. As for the North Korean nuclear crisis, the South emphasized that a realistic solution to settle the matter must be agreed at the third round of the six-party talks and urged the North to take active measures to alleviate the concerns of the international community.



Moreover, South Korea proposed a set of tasks to be pursued for inter-Korean relations to rise to a higher level. The tasks include cooperating to smoothly implement inter-Korean economic cooperation projects, assisting private sector exchanges to become more structured and organized, forming and operating a subcommittee for cooperation in social and cultural exchanges, and holding the 10th Separated Family Reunion and early construction of the Family Reunion Center.

North Korea, on the other hand, said that in order for inter-Korean relations to progress, joint military exercises by the ROK and U.S. must cease, the plan to deploy Aegis ships in the East Sea must be withdrawn, and each side should recognize and respect the other's regime. The North also proposed an immediate cessation of propaganda broadcasts targeted at each other, including internet radio broadcasts by North Korean defectors residing in South Korea.

Through several head delegate and working-level delegate, the two sides narrowed their views on holding the 10th Separated Family Reunion and forming a subcommittee for cooperation in social and cultural exchanges without much difficulty. But as for the general-level military talks, the North said that such a matter was beyond the scope of the ministerial talks.

The South strongly demanded that the North implement the agreement to hold the general-level military talks and said that without a definitive response from the North, it will not linger over other agreements. Just before the Southern delegation was about to return to the South, the North proposed an emergency meeting and relayed their agreement to hold the general-level military talks. Thus, the two sides agreed to hold the military talks and agreed to further discuss the matters proposed by the other side.

III. Military Talks

North Korea proposed a general-level military talk for May 26 at Mt. Geumgang, and South Korea accepted the proposal. Thus, the first General-level Military Talks was held. In the two rounds of the general-level talks and one occasion of the working-level talks, the two sides agreed on a plan to prevent accidental military clashes in the West Sea and agreed on a plan to eliminate propaganda activities and equipment targeted at each other. As a result, since June 15, South and North Korean ships in the West Sea began to use a joint telecommunications network and visual signals, the both sides ceased propaganda activities along the Military Demarcation Line and began to remove equipment used for propaganda.

1. Inter-Korean General-level Military Talks

A. The 1st Inter-Korean General-level Military Talks

South Korea proposed four specific measures to prevent accidental military clashes in the West Sea: 1) establish and operate a military hotline between the naval fleets of each side in the West Sea; 2) designate a common radio frequency between naval patrol vessels in the West Sea; 3) designate visual signs between naval vessels; and 4) exchange information on regulating illegal fishing.

South Korea, while pointing out that military tensions rise during the crab season in the West Sea every year, emphasized that measures to prevent accidental naval clashes be discussed first so that there can be tangible results before the crab season. The North did not mention anything in connection with preventing accidental naval clashes in the West Sea but demanded that propaganda activities cease along the Military Demarcation Line and that equipment and tools for such activities be removed. Since the differences in positions made an agreement difficult in the first round of talks, the two sides ended the talks and decided to review each other's positions



1st Inter-Korean General-level Military Talks

and discuss the matter again in the second round of talks to be held on June 3 at Mt. Seorak, South Korea.

B. The 2nd Inter-Korean General-level Military Talks

In the second round of talks held in June, the two sides discussed matters raised by the other side during the first round, including preventive measures for accidental naval clashes in the West Sea, cessation of propaganda activities and removal of propaganda equipment along the Military Demarcation Line. The South emphasized that in order to reduce military tension on the Korean Peninsula, there was an urgent need to prevent accidental naval clashes in the West Sea, and proposed a detailed plan, including target dates to stop propaganda activities.

Consequently, the two sides agreed on preventive measures for naval clashes in the West Sea, discussed matters related to cessation of propaganda activities and removal of equipment used for such purposes, and agreed on the time frame, scope, schedule and a method to settle disputes that may arise during the removal process. The two sides narrowed their differences and finalized the text of the agreement and signed the Agreement on the Prevention of Accidental Naval Clashes in the West Sea, the Cessation of Propaganda Activities in the Military Demarcation Line Areas, and the Removal of Propaganda Equipment.

Summary of the Agreement

- The two sides will exert joint efforts to ease military tensions and solidify peace on the Korean Peninsula.
- In order to prevent accidental naval clashes in the West Sea, the following measures shall be taken as of June 15, 2004:
 - ▶ Use international standard radio frequencies (156.8 MHz, 156.6 MHz);
 - ▶ Enact regulations on marine signal flags and signal lights;
 - ▶ Exchange information on activities of illegal fishing boats;
 - ▶ Use the West Sea area communication line and establish a communication liaison office on each side by August 15.
- The two sides will cease propaganda activities and remove propaganda equipment in the area around the Military Demarcation Line.
 - ▶ Cease all propaganda activities including broadcasting, using signboards, etc. from June 15.
 - ▶ Initiate a three-stage measure to remove all propaganda tools by August 15.
 - 1st stage (June 16 - June 30): Military Demarcation Line post #0001-0100
 - 2nd stage (July 1 - July 20): Military Demarcation Line post #0100-0640
 - 3rd stage (July 21 - August 15): Military Demarcation Line post #0640-1292
 - ▶ The two sides will notify each other of and confirm the completion of the removal of propaganda equipment, and perform mutual inspections, when necessary.
 - ▶ The two sides will prohibit the reinstatement of propaganda equipment and the resumption of propaganda activities.

2. Inter-Korean Working-level Meeting for the General-level Military Talks

A. The 1st Working-level Meeting for the General-level Military Talks

As the agreement signed by the military authorities of South and North Korea came into effect on June 4, the two sides held the 1st Working-level Meeting for the General-level Military Talks from June 10 to 21 in Gaeseong to discuss practical matters needed in implementing the tension reduction measures. The two sides held different views on

procedural details, but through 11 rounds of contacts, they narrowed their differences and adopted the Subsidiary Agreement on the Prevention of Accidental Naval Clashes in the West Sea, the Cessation of Propaganda Activities in the Military Demarcation Line Areas, and the Removal of Propaganda Tools.

Summary of the Subsidiary Agreement

- Prevent Accidental Naval Clashes in the West Sea
 - ▶ Both sides will use international standard radio frequencies (156.80 MHz, 156.60MHz); if there is more than one ship on either side, the communication will only be between the ships in command.
 - ▶ Both sides will enact regulations on marine signal flags and signal lights.
 - ▶ Both sides will exchange information on activities of illegal fishing boats (time, location, number of vessels) once every day.
 - ▶ Both sides will establish and test new telecommunication lines on August 12.
 - ▶ Both sides will test operate various communication methods on June 14.

- Cease propaganda activities at the Military Demarcation Line and remove propaganda equipment and tools
 - ▶ Both sides will cease all propaganda activities at the Military Demarcation Line starting from June 15 at 00:00, including broadcasts, use of signboards, electrical signboards and dispersing materials using balloons or other mechanisms.
 - ▶ Tools and mechanisms subject to elimination include all loudspeakers, stone inscriptions, signboards, standing electronic boards, display panels, leaflets, propaganda images, slogans etc. in the Military Demarcation Line areas that propagandize one's ideological system and are deemed by the other party as slander, defamation or instigation.
 - ▶ The two sides will exchange the list of items to be removed and verify the results of removal of the items 7 days prior to the completion of the removal of tools.
 - ▶ If there are any questions following the visual verification, the matter shall be addressed through exchanges of telephone messages; if there are significant differences in views, the matter shall be discussed through working-level talks.
 - ▶ The two sides will hold working-level talks to confirm the results of the removal one day before the completion of each stage and begin the next stage.

B. The 2nd Working-level Meeting for the General-level Military Talks

According to the agreement reached at the inter-korean general-level military talks, two Koreas began test-operating a common channel of communication, signal flags and signal lights on June 14; the two sides stopped all propaganda activities along the Military Demarcation Line from June 15; and from June 16, the two sides began their work on removing the propaganda tools in the first stage area. As it was agreed on the Subsidiary Agreement that the two sides will verify the results of the removal work by holding a working-level meeting one day prior to the completion of each stage, the 2nd Working-level Meeting for the General-level Military Talks was held on June 29 in Paju (northeast of Seoul near the DMZ) to verify the results of the first stage removal work.

The two sides highly evaluated the efforts on both sides in faithfully implementing the removal of the propaganda tools in the first stage area, verified the items (tools and instruments) and results of their removal through eight occasions of head delegate contact, and agreed on most of the issues. On issues where they differed in views, the two sides agreed to resolve them through head delegate contact on July 5 in Gaeseong. The South and North further agreed to begin the second stage removal work from July 6.

3. Inter-Korean Working-level Contacts for the General-level Military Talks Concerning Telecommunications

As agreed during the general-level military talks, the first working-level contact on telecommunications was held on June 25 in the joint management area of the West Coast Line to discuss prevention of accidental naval clashes in the West Sea and to establish and operate telecommunications lines and the liaison offices for telecommunications.

In the second round of contacts on June 29, the North accepted the South's view that the new telecommunication liaison office would solely deal with the prevention of accidental naval clashes in the West Sea, and that the functions of the communication line for the military control already in existence and the line being installed to prevent naval clashes should be separate. The South agreed to provide materials and work toward a smooth connection of the telecommunication line.

IV. Economic Talks

In 2004, the Roh Administration steadily engaged the North in economic talks to foster an atmosphere for a peaceful resolution to the North Korean nuclear issue through continued discussions on economic cooperation between governments. Helped by such efforts, 13 rounds of talks on economic cooperation were held between the two Koreas in the first half of 2004, including the 1st Working-level Contact on Economic Cooperation System and the 1st Working-level Meeting on Clearing Settlements in January followed by the 8th and the 9th round meeting of the Inter-Korean Economic Cooperation Promotion Committee.

However, in the second half of 2004, North Korea, while criticizing South Korea for not allowing the condolence visit to North Korea on the 10th anniversary of Kim Il-Sung's death and accepting a sizable group of North Korean refugees to enter South Korea, did not respond to the call for governmental contacts. Thus, inter-Korean dialogue came to a standstill, which included the cancellation of the 10th round meeting of the Inter-Korean Economic Cooperation Promotion Committee scheduled for August 31, 2004.

Regardless of the standstill in inter-governmental talks, the momentum of economic cooperation has been steadily maintained through on-going work to reconnect the railways and roads and production of goods from the Gaeseong Industrial Complex pilot stage.

1. Inter-Korean Economic Cooperation Promotion Committee Meetings

The Inter-Korean Economic Cooperation Promotion Committee (hereinafter the "Committee") is a consultative body that oversees the economic exchanges and cooperation between the two Koreas. It was formed according to the 2000 Joint Declaration in which the two sides agreed to promote balanced development of the national economy through economic cooperation; the formation and operations of the Committee were agreed during the 4th Inter-Korean Ministerial Talks in Pyongyang (December 12-16, 2000).

The first round meeting of the Committee began in December 2000, and nine rounds of meetings were held until the end of 2004 to discuss pending issues concerning vitalization of inter-Korean economic cooperation, such as the reconnection of railways and roads, the

construction of the Gaeseong Industrial Complex, and cooperation in electric power. The 10th round meeting has not been held yet because North Korea refused the meeting while criticizing the South's ban on the condolence delegations for the 10th anniversary of former President Kim, il-sung's death.

A. The 8th Inter-Korean Economic Cooperation Promotion Committee Meeting

In accordance with the agreement reached during the 7th round meeting of the Committee, the 8th round meeting was held from March 2-5, 2004 in Seoul. The two sides discussed details of the schedule concerning economic cooperation already underway, like the groundbreaking of the Gaeseong Industrial Complex and matters related to the reconnection of railroads and roads.

For the Gaeseong Industrial Complex project, the two sides agreed to accommodate enterprises for the production of goods as soon as the construction of the pilot stage of 33,000 m² is complete; undertake to build infrastructure for the stage 1 area (3.3. million m²); and provide electricity and telecommunications on a commercial basis and in a timely manner.

Regarding the railroad and road reconnection, the South, while considering the position of the North, agreed to test-run a section of the Donghae (East Coast) Railway and the Gaeseong-Munsan section of the Gyeongui (Seoul-Shinuiju) Railway in 2004. Two Koreas further agreed to complete the pavement work of the Gyeongui and Donghae roads as quickly as possible.

The two sides ended the talks by issuing a joint press statement with a seven-point agreement, including the commencement of the flood prevention project in the Imjin River Basin in April and the establishment of the Inter-Korean Economic Cooperation Office.

Summary of the Joint Press Statement

- Development of the Gaeseong Industrial Complex
 - ▶ Private enterprises begin production as soon as the preparation for 10,000 'pyeong' (33,000 m²) pilot project area is complete within the first half of the year.
 - ▶ Actively promote the construction of the infrastructure of the first-stage development area of one million 'pyeong' (3.3million m²); accommodate private enterprises beginning next year.
 - ▶ Efforts shall be made on providing electricity and telecommunications on a commercial basis and in a timely manner.
- Reconnection of Railways and Roads
 - ▶ Test-run the Gaeseong-Munsan section of the Gyeongui (Seoul-Shinuiju) Railroad and the Onjeongri-Jeojin section of the Donghae (East Coast) Railroad this year; and complete the pavement work of the Gyeongui and Donghae roads as soon as possible.
 - ▶ Discuss issues regarding cooperation in designing and providing equipment and materials for constructing railroad stations around the border area to the extent necessary for the opening of the railroads.
- Finalize the development plan of the Mt. Geumgang Tourist District at an early date and actively cooperate in devising measures to revitalize the Mt. Geumgang tours.
- Operate the Inter-Korean Economic Cooperation Office for the expansion of direct trade as soon as the office is established with the Gaeseong Industrial Complex Development Office in the first half of this year in the Gaeseong Industrial Complex, and actively cooperate for the revitalization of private economic cooperation projects.
- Work to adopt an Agreement on the Flood Prevention in the Imjin River Basin through exchanges of documents, and conduct on-site surveys starting in April.
- Work to realize the visit of a South Korean economic mission to the North and the visit of a North Korean working-level economic mission to the South.
- Hold the 9th Inter-Korean Economic Cooperation Promotion Committee Meeting in Pyongyang from June 2 to 5.

B. The 9th Inter-Korean Economic Cooperation Promotion Committee Meeting

As agreed in the 8th meeting of the Committee the 9th round of meetings convened from June 2-5, 2004 in Pyongyang. The fact that the 2nd Inter-Korean General-level Military Talks (June 3-4, Mt. Seorak) were being held at the same time added meaning to the occasion.

In the 9th meeting, South and North Korea agreed on a specific the timetable for economic cooperation, such as the Gaeseong Industrial Complex Project and the reconnection of the railroads and roads. The North officially brought up the issue of rice aid, and the South, while considering progress in inter-Korean relations, responded by agreeing to loan 400 thousand tons of rice.

Summary of Agreements

- Development of the Gaeseong Industrial Complex
 - ▶ Cooperate in providing electricity and telecommunications on a commercial basis beginning in September.
- Reconnection of the Railroads and Roads
 - ▶ Test-run the rail lines in October 2004
 - ▶ Open the Gyeongui (Seoul-Shinuiju) and Donghae (East Coast) roads by the end of October 2004.
- Loan 400 thousand tons of rice to North Korea.
- Hold the 10th Inter-Korean Economic Cooperation Promotion Committee Meeting in Seoul from August 31 to September 3.

2. Inter-Korean Working-level Contacts on Economic Cooperation System

The North and the South held the 4th Working-level Meeting on Economic Cooperation System in Pyongyang from December 17 to 20, 2003, but as the two sides could not agree on the transit to and from Gaeseong and Mt. Geumgang, the first Working-level Contact on Economic Cooperation System was held from January 27 to 29 in Gaeseong. At the meetings, the two sides focused their discussion on the issue of guaranteeing personal safety for the adoption of the agreement on transit to and from Gaeseong and Mt. Geumgang.

Through the seven rounds of contacts, the two sides agreed that 1) North Korea will first investigate any legal violation and notify the South; 2) according to the severity of the violation, the North will take appropriate measures such as issuing a warning, imposing a fine, or deporting the accused to South Korea; and 3) the North will guarantee basic rights to the accused during the period of investigation. In case of a “serious violation” as agreed by South and North Korea, the two sides will take special steps upon agreement. The two sides finalized the agreement on entry procedures, overnight stays and guarantee of personal safety and adopted the Agreement on Entry and Overnight Stays in the Gaeseong Industrial District and Mt. Geumgang Tourism District.

3. Inter-Korean Working-level Meetings on Clearing Settlements

A. The 3rd Working-level Meeting on Clearing Settlements

Following the second round of meetings from January 27-29, 2004, where the South and North could not reach an agreement, the third Working-level Meetings on Clearing Settlements was held from April 20-22 in Paju, north of Seoul.

At the beginning of the meeting, the North reiterated its basic position on disputed issues, such as the transaction method, interest rate and the settlement of balances at the end of the year, but in the end, it accepted the South’s position. The most difficult issue was the settlement of balances at year’s end. The North strongly demanded that it be done in kind rather than cash. Considering the position of the North, the South proposed to have the receiving side decide between U.S. dollars and payment in kind; the North accepted and agreed to this option.

In selecting the items for settlement clearing, the two sides agreed that desired import and export items of each side should be selected, but the North made the agreement difficult by demanding that limits on the quantity of items be fixed when deciding on the items. In the end, the North accepted the South’s view that transactions should be carried out based on the decisions of individual businesses, and agreed on all points except for the selection of items and signed the 2004 Agreement on Clearing Settlements.

B. Working-level Contact between the Clearing Settlements Banks

The first working-level contact between the representative banks of South and North Korea on clearing settlements was held from May 18-19, and the second working-level

contact took place from June 24-25. The consultation between the banks went smoothly. However, there were differences in positions on issues concerning the names of the banks and the calculation of interest. The North demanded that "Korea" and "DPRK" be omitted from the names of the banks in the agreement and have the bank name be "Export-Import Bank" (South Korea) and "Trade Bank" (North Korea).

In calculating interest, the South proposed a compound interest and indemnity rate for delay at 1%, but the North demanded a simple interest. The two sides reached a compromise by agreeing to use the official names of each bank in the agreement and by agreeing to apply the simple interest without any indemnity. The two sides agreed on other matters such as items, period, currency of settlement clearing, and procedures for repayment of loans and adopted the Agreement on Settlement Clearing Services.

4. Working-level Meeting on the Construction of the Gaeseong Industrial Complex

According to the Agreement reached at the 9th round meeting of the Committee, South and North Korea held the second working-level meeting at the Gaeseong Industrial Complex from June 24-25 to discuss matters related to supplying electricity and telecommunications and adopting subsidiary agreements on communications, customs and quarantines.

On the issue of electricity, the North accepted the South's position that to provide the quality and quantity of electric power needed, a South Korean firm will need to oversee the architectural design, construction and operation of the power supply system. Also, the North agreed to actively participate in guaranteeing the transit of the construction and maintenance personnel.

In addition, the two sides agreed that South Korea will provide materials and equipment to construct a water pipeline between the Wolgo Reservoir and the Gaeseong Complex and that the North will provide the waste dumping site. However, the meeting ended without agreement because both sides could not come to agreement on the communications issue and the adoption of the subsidiary agreement.

5. Inter-Korean Working-level Meetings on the Reconnection of Railroads and Roads

A. The 9th Working-level Contact on the Reconnection of Railroads and Roads

South and North Korea held the 9th Working-level Contact on the Reconnection of Railroads and Roads from February 25 to 28, 2004 in Gaeseong. At the meetings, the two sides discussed issues concerning pavement work of the East Coast and the West Coast roads, signals for the railroads, communications, construction of the electrical system and construction of railway stations in the border area. The two sides also agreed on issues other than the construction of the railway stations.

B. The 4th Working-level Meeting on the Reconnection of Railroads and Roads

South and North Korea held the fourth Working-level Meeting on the Reconnection of Railroads and Roads from April 8-10, 2004 in Gaeseong. Originally, the North proposed that the meeting be held from March 24, but in the midst of discussing the detailed schedule, North Korea delayed the meeting until the beginning of April in protest to the ROK-US joint military exercises.

At the meeting, the two sides adopted an agreement on train operations and providing equipment and materials for the construction of railroad stations in the border area. Also, the two sides discussed institutional measures needed for opening inter-Korean railroads and roads, such as establishing a vehicle operation office and setting the timetable for equipment and technical assistance.

C. The 10th Working-level Contact on the Reconnection of Railroads and Roads

South and North Korea held the 10th Working-level Contact on the Reconnection of Railroads and Roads from June 30 to July 2. The North responded positively to the architectural design of the railroad station that the South delivered to the North prior to the meeting, and requested that the groundwork for the construction begin for both East Coast and West Coast lines in early August. The South responded by agreeing to provide the North with the basic layout upon additional technical discussion in early August. At the same time, the South stressed that materials and equipment not directly connected to the opening of the railroads and roads could not be provided. Also, the two sides agreed to adjust the items and the amount of necessary materials and equipment according to the additional material assistance, such as the construction of the median strip.

V. Talks in Social and Cultural Areas

In 2004, South and North Korea held three talks in the social and cultural areas, including the talks on the Yongcheon disaster relief. On April 22, 2004, as soon as the news broke concerning a huge train explosion disaster in Yongcheon (the northwest city of North Korea), the South Korean government acted immediately to confirm the facts and to prepare for an emergency relief operation. On April 24, the South Korean government relayed its message of condolence for the victims of the disaster to North Korea as well as its intent to assist in the rehabilitation. The North responded by proposing to hold a working-level contact on April 27 for discussions on the delivery of emergency relief materials and restoration work. Accordingly, the Red Cross societies of South and North Korea held talks on disaster relief since the first one 20 years ago in 1984 to provide relief for the flood disaster that occurred in Seoul and Gyeonggi province.

Aside from these talks, two Koreas held working-level talks in Beijing concerning the joint march in the opening and closing ceremonies of the 2004 Olympic Games in Athens; and the two sides held the Fourth Working-level Red Cross Contact for the resolution of the separated family issue at Mt. Geumgang.

1. Talks on the Yongcheon Train Explosion Disaster Relief

Talks on the Yongcheon disaster relief were held on April 27 in Gaeseong. The South Korean delegation was headed by the Director-General of Social and Cultural Exchange Bureau of the Unification Ministry and other members of the delegation included officials from the Ministry of Construction and Transportation, Ministry of Health and Welfare, and the Red Cross.

At the talks, South Korea explained the delivery plan for the emergency relief and medical aid and expressed the intent to dispatch medical units and assist in recovery and restoration efforts. North Korea expressed its appreciation for the South's offer, explained the situation in Yongcheon and relayed the list of materials and equipment needed such as cement, windows, bulldozers, excavators, food, etc. The South ended the talks without any agreement because the main purpose of the meeting was to find out what North Korea needed. Subsequently, the South assisted the North with relief materials and equipment worth 41.9 billion won, over a three-month period from May 7 to August 4.

2. The 4th Inter-Korean Red Cross Working-level Contact

Upon a proposal by North Korea to hold a working-level contact, South Korea counter proposed that the contact take place from May 24 to 25. Upon acceptance by the North, the 4th Red Cross Working-level Contact took place at Mt. Geumgang. The South Korean side was headed by Lee Byung-woong, Special Advisor to the President of the South Korean Red Cross and the North Korean side was headed by Choi Song-ik, a ranking member of the Central Committee of the North Korean Red Cross. Each delegation was composed of three members.

While emphasizing that the main purpose of the contact was to discuss the separated family issue, the South proposed the dates for the 10th Separated Family Reunion and stressed the need to expand confirmation of whereabouts and exchanges of letters by separated families as well as of those lost in war. The North responded by proposing to agree on a comprehensive deal that would include the 10th Separated Family Reunion, assistance to modernize the Red Cross hospital in Pyongyang and food assistance discussed by the President of the South Red Cross when he visited the North. The South made clear that humanitarian assistance cannot be a subject of negotiation, but it is a matter to be decided internally and within reasonable bounds. Also, the South stressed that it is unreasonable for North Korea to connect the separated family reunions with humanitarian assistance.

The two sides further discussed the matter on May 25 through a plenary meeting and a head delegate contact. South Korea further stressed that the 4th Red Cross Working-level Contact was held to resolve the issue pertaining to separated families and proposed specific measures to this end, whereas the North focused on assistance to modernize the Red Cross hospital in Pyongyang and humanitarian aid. Thus, a comprehensive agreement was difficult to reach. Unable to narrow the gap, the two sides ended the contact by merely agreeing to discuss the dates and procedure for the 10th Separated Family Reunion at a later date.

3. Working-level Talks for South-North Joint March in the Opening and Closing Processions at the 28th Olympic Games in Athens

On January 30, 2004, the Korean Olympic Committee (KOC) sent a letter to the Olympic Committee chairman of North Korea proposing to discuss a joint march during the opening and closing processions of the Olympic Games in Athens as well as other sports exchanges. Subsequently, in the 13th Ministerial Talks (February 3-6, 2004, Seoul) two Koreas reached verbal agreement to march together at the 28th Olympic Games in Athens. Also, in the

General Assembly of the Association of National Olympic Committees (ANOC) held in Greece, the delegations of South and North Korea met to reaffirm the verbal agreement on a joint march during the opening and closing processions at the Athens Olympic Games and agreed to hold working-level talks to discuss the matter on an early date (Feb. 25, Athens). The working-level talks were held from June 23 to 24 in Beijing.

At the working-level talks in Beijing, South Korea first proposed to the North the joint march in the opening procession to follow the precedent set at the 2000 Olympic Games in Sydney. The North Korean side agreed to the South's proposal without much disagreement for there were previous precedents on joint marches.