

Rummy's North Korea Connection

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Rummy's North Korea Connection:

What did Donald Rumsfeld know about ABB's deal to build nuclear reactors there? And why won't he talk about it?

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(FORTUNE Magazine) – Defense Secretary Donald Rumsfeld rarely keeps his opinions to himself. He tends not to compromise with his enemies. And he clearly disdains the communist regime in North Korea. So it's surprising that there is no clear public record of his views on the controversial 1994 deal in which the U.S. agreed to provide North Korea with two light-water nuclear reactors in exchange for Pyongyang ending its nuclear weapons program. What's even more surprising about Rumsfeld's silence is that he sat on the board of the company that won a \$200 million contract to provide the design and key components for the reactors.

The company is Zurich-based engineering giant ABB, which signed the contract in early 2000, well before Rumsfeld gave up his board seat and joined the Bush administration. Rumsfeld, the only American director on the ABB board from 1990 to early 2001, has never acknowledged that he knew the company was competing for the nuclear contract. Nor could FORTUNE find any public reference to what he thought about the project. In response to questions about his role in the reactor deal, the Defense Secretary's spokeswoman Victoria Clarke told Newsweek in February that "there was no vote on this" and that her boss "does not recall it being brought before the board at any time."

Rumsfeld declined requests by FORTUNE to elaborate on his role. But ABB spokesman Bjorn Edlund has told FORTUNE that "board members were informed about this project." And other ABB officials say there is no way such a large and high-stakes project, involving complex questions of liability, would not have come to the attention of the board. "A written summary would probably have gone to the board before the deal was signed," says Robert Newman, a former president of ABB's U.S. nuclear division who spearheaded the project. "I'm sure they were aware."

FORTUNE contacted 15 ABB board members who served at the time the company was bidding for the Pyongyang contract, and all but one declined to comment. That director, who asked not to be identified, says he's convinced that ABB's chairman at the time, Percy Barnevik, told the board about the reactor project in the mid-1990s. "This was a major thing

for ABB,” the former director says, “and extensive political lobbying was done.”

The director recalls being told that Rumsfeld was asked “to lobby in Washington” on ABB’s behalf in the mid-1990s because a rival American company had complained about a foreign-owned firm getting the work. Although he couldn’t provide details, Goran Lundberg, who ran ABB’s power-generation business until 1995, says he’s “pretty sure that at some point Don was involved,” since it was not unusual to seek help from board members “when we needed contacts with the U.S. government.” Other former top executives don’t recall Rumsfeld’s involvement.

Today Rumsfeld, riding high after the Iraq war, is reportedly discussing a plan for “regime change” in North Korea. But his silence about the nuclear reactors raises questions about what he did-or didn’t do-as an ABB director. There is no evidence that Rumsfeld, who took a keen interest in the company’s nuclear business and attended most board meetings, made his views about the project known to other ABB officials. He certainly never made them public, even though the deal was criticized by many people close to Rumsfeld, who said weapons-grade nuclear material could be extracted from light-water reactors. Paul Wolfowitz, James Lilley, and Richard Armitage, all Rumsfeld allies, are on record opposing the deal. So is former presidential candidate Bob Dole, for whom Rumsfeld served as campaign manager and chief defense advisor. And Henry Sokolski, whose think tank received funding from a foundation on whose board Rumsfeld sat, has been one of the most vocal opponents of the 1994 agreement.

One clue to Rumsfeld’s views: a Heritage Foundation speech in March 1998. Although he did not mention the light-water reactors, Rumsfeld said the 1994 Agreed Framework with North Korea “does not end its nuclear menace; it merely postpones the reckoning, with no assurance that we will know how much bomb-capable material North Korea has.” A search of numerous databases found no press references at the time, or throughout the 1990s, noting Rumsfeld was a director of the company building the reactors. And Rumsfeld didn’t bring it up either.

ABB, which was already building eight nuclear reactors in South Korea, had an inside track on the \$4 billion U.S.-sponsored North Korea project. The firm was told “our participation is essential,” recalls Frank Murray, project manager for the reactors. (He plays the same role now at Westinghouse, which was acquired by Britain’s BNFL in 1999, a year before it also bought ABB’s nuclear power business.) The North Korean reactors are being primarily funded by South Korean and Japanese export-import banks and supervised by KEDO, a consortium based in New York. “It was not a matter of favoritism,” says Desaix Anderson, who ran KEDO from 1997 to 2001. “It was just a practical matter.”

Even so, ABB tried to keep its involvement hush-hush. In a 1995 letter from ABB to the Department of Energy obtained by FORTUNE, the firm requested authorization to release technology to the North Koreans, then asked that the seemingly innocuous one-page letter be withheld from public disclosure. “Everything was held close to the vest for some reason,” says Ronald Kurtz, ABB’s U.S. spokesman. “It wasn’t as public as contracts of this magnitude typically are.”

However discreet ABB tried to be about the project, Kurtz and other company insiders say the board had to have known about it. Newman, the former ABB executive, says a written summary of the risk review would probably have gone to Barnevik. Barnevik didn’t return

FORTUNE's phone calls, but Newman's Zurich-based boss, Howard Pierce, says Rumsfeld "was on the board-so I can only assume he was aware of it."

By all accounts Rumsfeld was a hands-on director. Dick Slember, who once ran ABB's global nuclear business, says Rumsfeld often called to talk about issues involving nuclear proliferation, and that it was difficult to "get him pointed in the right direction." Pierce, who recalls Rumsfeld visiting China to help ABB get nuclear contracts, says, "Once he got an idea, it was tough to change his mind. You really had to work your ass off to turn him around." Shelby Brewer, a former head of ABB's nuclear business in the U.S., recalls meetings with Rumsfeld at the division's headquarters in Connecticut. "I found him enchanting and brilliant," he says. "He would cut through Europeans' bullshit like a hot knife through butter."

None of them could recall Rumsfeld talking about the North Korea project. But if he was keeping his opinions to himself, others were not. The Republicans attacked the deal from the start, particularly after gaining control of Congress in 1994. "The Agreed Framework was a political orphan within two weeks after its signature," says Stephen Bosworth, KEDO's first executive director and a former U.S. ambassador to South Korea. It's not hard to understand why it was controversial. North Korea is on the list of state sponsors of terrorism and has repeatedly violated the terms of the Non-Proliferation Treaty. Robert Gallucci, the assistant secretary of state who spearheaded the 1994 agreement, doesn't disagree, but says, "If we didn't do a deal, either we would have gone to war or they'd have over 100 nuclear weapons."

The problem, say a number of nuclear energy experts, is that it's possible, though difficult, to extract weapons-grade material from light-water reactors. "Reprocessing the stuff is not a big deal," says Victor Gilinsky, who has held senior posts at the Atomic Energy Commission and the Nuclear Regulatory Commission. "You don't even need special equipment. The KEDO people ignore this. And we're still building the damn things."

Given the Republican outcry over the reactor deal, Rumsfeld's public silence is nearly deafening. "Almost any Republican was complaining about it," says Winston Lord, President Clinton's assistant secretary of state for East Asian/Pacific Affairs. Lord can't remember Rumsfeld speaking out. Nor can Frank Gaffney Jr., whose fervently anti-KEDO Center for Security Policy had ties to Rumsfeld. Gaffney speculates that Rumsfeld might have recused himself from the controversy because of his ABB position.

By 1998 a debate was raging in Washington about the initiative, and the delays were infuriating Pyongyang. Inspectors could no longer verify North Korea's nuclear material inventory. Still, at some point in 1998, ABB received its formal "invitation to bid," says Murray. Where was Rumsfeld? That year he chaired a blue-ribbon panel commissioned by Congress to examine classified data on ballistic missile threats. The commission concluded that North Korea could strike the U.S. within five years. (Weeks after the report was released, it fired a three-stage rocket over Japan.) The Rumsfeld Commission also concluded that North Korea was maintaining a nuclear weapons program—a subtle swipe at the reactor deal, which was supposed to prevent such a program. Rumsfeld's resume in the report did not mention that he was an ABB director.

In his final days in office, Clinton had been preparing a bold deal in which North Korea would give up its missile and nuclear programs in return for aid and normalized relations. But President Bush was skeptical of Pyongyang's intentions and called for a policy review in

March 2001. Two months later the DOE, after consulting with Rumsfeld's Pentagon, renewed the authorization to send nuclear technology to North Korea. Groundbreaking ceremonies attended by Westinghouse and North Korean officials were held Sept. 14, 2001—three days after the worst terror attack on U.S. soil.

The Bush administration still hasn't abandoned the project. Representative Edward Markey and other Congressmen have been sending letters to Bush and Rumsfeld, asking them to pull the plug on the reactors, which Markey calls "nuclear bomb factories." Nevertheless, a concrete-pouring ceremony was held last August, and Westinghouse sponsored a training course for the North Koreans that concluded in October—shortly before Pyongyang confessed to having a secret uranium program, kicked inspectors out, and said it would start making plutonium. The Bush administration has suspended further transfers of nuclear technology, but in January it authorized \$3.5 million to keep the project going.

Sooner or later, the outspoken Secretary of Defense will have to explain his silence.

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