

China's February 2017 Suspension of North Korean Coal Imports

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On February 18, 2017, China's Ministry of Commerce and its General Administration of Customs jointly [announced](#) a suspension of China's imports of coal from North Korea, also known as the Democratic People's Republic of Korea (DPRK), for the remainder of 2017. The suspension appeared to signal China's intention to keep its 2017 imports of North Korean coal in line with United Nations restrictions imposed in November 2016 in response to Pyongyang's continued development of its nuclear and missile programs. China's announcement came at a time when the Trump Administration was calling on China to do more to rein in North Korea. The suspension of coal imports is unlikely to have a significant financial impact on Pyongyang, however, due to China's large imports of North Korean coal in the months preceding Beijing's suspension.

Coal's Importance to North Korea

Coal is believed to be North Korea's top export item. From 2010 to 2015, according to estimates by the Seoul-based [Korea Trade-Investment Promotion Agency](#) (KOTRA), coal shipments accounted for an average of a third of North Korea's total export revenues. According to import statistics available through [Global Trade Atlas](#), North Korea's coal exports generated more than \$1 billion in revenue for Pyongyang each year in this period. More than 97% of the exports went to China.

U.N. Sanctions Targeting North Korea's Coal Exports

After North Korea conducted its fourth nuclear test in January 2016, the U.N. Security Council on March 2, 2016, passed [UNSC Resolution 2270](#) (UNSCR 2270), which required U.N. member states to cease importing North Korean coal. China successfully pushed for an exception for coal transactions that were deemed to be "exclusively for

livelihood purposes and unrelated to generating revenue for the DPRK's nuclear or ballistic missile programs." China appears to have encouraged its businesses to make use of this "livelihood" exception. China's imports of North Korean coal grew in both volume and value during 2016. ([Table 1](#). See CRS Insight IN10647, [Why Did March 2016 U.N. Sanctions Not Curb China's Imports of Coal from North Korea?](#))

Table 1. Chinese Imports of North Korean Coal Before and After March 2016

U.N. Ban

April-December Comparisons, 2014-2016

Unit	April-Dec. 2014	April-Dec. 2015	April-Dec. 2016	% Change 2016/2015
Metric Tons	12 million	16 million	17 million	7.2%
U.S. Dollars	\$862 million	\$808 million	\$929 million	15.0%

Source: Chinese Customs. Downloaded from *Global Trade Atlas*, February 27, 2017.

Note: Coal trade was banned in UNSCR 2270, which China began implementing on April 5, 2016.

Following North Korea's fifth nuclear test in September 2016, the Security Council on November 30, 2016 passed [UNSCR 2321](#), limiting North Korea's total exports of coal under the "livelihood" exception. For the month of December 2016, UNSCR 2321 capped North Korea's coal exports at 1 million metric tons or a value of U.S.\$53.5 million, whichever was lower. Starting in 2017, UNSCR 2321 capped North Korea's annual coal exports under the "livelihood" exception at the lower of 7.5 million metric tons or a value of \$400.1 million.

Possible Explanations for China's Suspension of Imports of North Korean Coal

Analysts have offered several possible explanations:

- 1. China may have determined that North Korea's actions justified ratcheting up economic pressure on the regime. On February 13, 2017, Kim Jong Nam, the older half-brother of North Korea's ruler, Kim Jong-un, was assassinated in Malaysia, [reportedly poisoned](#) with the banned chemical agent VX. South Korea has [accused the North Korean government](#) of involvement in the murder. The day before the assassination, North Korea launched a ballistic missile, in violation of UNSCRs.
- 2. China may have hoped to win goodwill from the Trump Administration in the context of China's push for resumption of negotiations over North Korea's nuclear weapons program. China's suspension came a day after Chinese Foreign Minister Wang Yi [called](#) for a resumption of Six-Party Talks, suspended since 2008, involving China, Japan, North Korea, Russia, South Korea, and the United States.
- 3. China may have determined that its failure to keep its imports of North Korean coal within the UNSCR 2321 caps for December 2016 was an embarrassment that would be compounded if Chinese coal traders [exceeded](#) the UNSCR 2321 caps for 2017, too. For December 2016, a [U.N. tracking website](#) shows China reported imports that were twice UNSCR 2321's allowed volume of coal imports for the month and more than three times the allowed value.

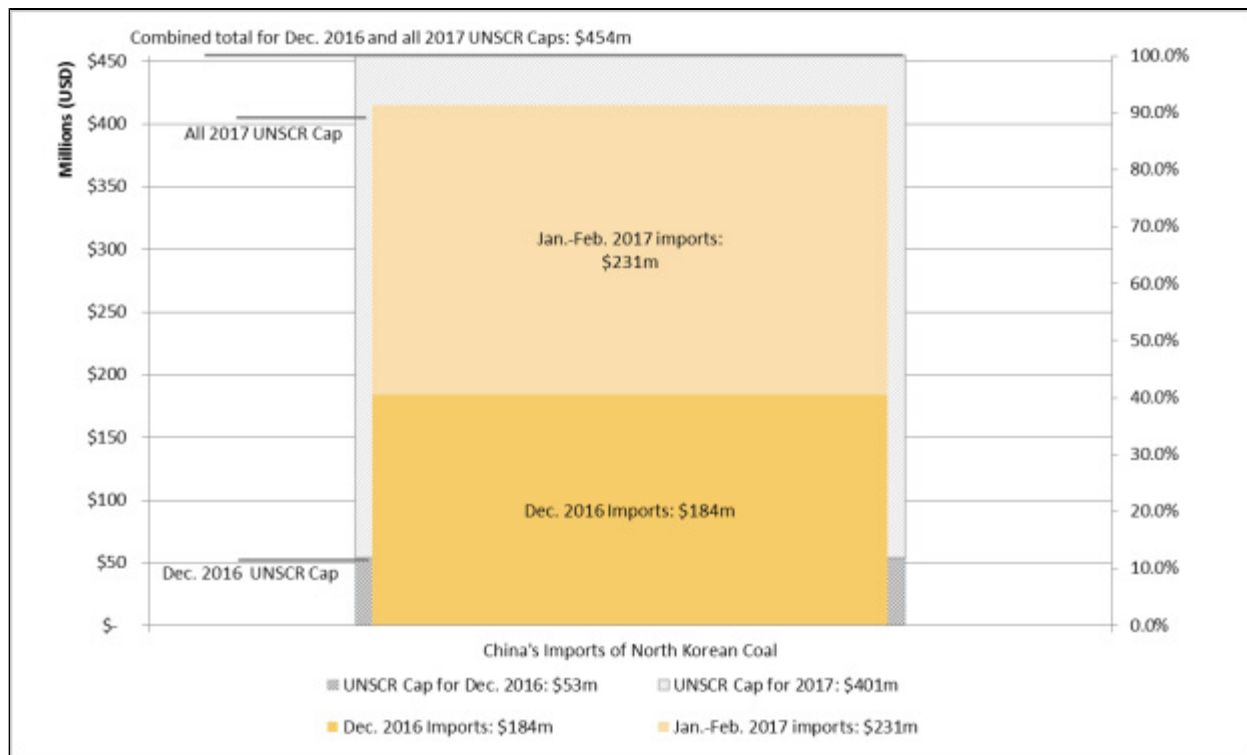
Possible Economic Impact

China [reported](#) importing over 2.6 million metric tons of coal in January and February 2017 (presumably before the

suspension took effect on February 19). The United Nations' tracking website estimates those imports to be valued at nearly \$231 million, or around 58% of UNSCR 2321's full-year *value* cap. Thus, if China does not re-start imports to reach the full value cap for 2017, North Korea could lose \$170 million in potential earnings from coal exports to China this year. According to KOTRA and [South Korea's Ministry of Unification](#), in 2015, North Korea's total export earnings were an estimated \$4.1 billion.

Viewing the December 2016–February 2017 period as a whole, however, the economic impact of China's suspension on North Korea will be much smaller, perhaps on the order of \$30 million. That is because China's coal imports in December 2016 greatly exceeded the U.N. cap. **Figure 1** shows that in the three months after passage of UNSCR 2321, the value of coal China imported from North Korea was 91% of the value allowed under UNSCR 2321 for December 2016 and all of 2017.

Figure 1. Value of China's Imports of DPRK Coal, Dec. 2016–Feb. 2017, as a Percent of U.N. Security Council Resolution (UNSCR) 2321 Caps on DPRK Coal Exports



Source: CRS; Data from UN Security Council, "[Procurement of DPRK coal by Member States](#)"; [UNSC Resolution 2321](#) (2016).

Note: UNSCR 2321 outlines how the value of trade is calculated; the reported volume of imports is multiplied by a monthly "average mean price" established by a U.N. panel of experts. These figures may differ from the value of trade reported by Chinese Customs.