

Why Did March 2016 U.N. Sanctions Not Curb China's Imports of Coal from North Korea?

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On March 2, 2016, the United Nations Security Council adopted Resolution 2270 ([UNSCR 2270](#)), imposing new sanctions on North Korea (also known as the Democratic People's Republic of Korea, or DPRK) in response to the country's fourth nuclear test. One target of the resolution was North Korea's income from coal. North Korea's annual earnings from coal exports were estimated to be "approximately a billion dollars," [according to](#) the U.S. Ambassador to the United Nations at the time, Samantha Power. She said UNSCR 2270's limits on coal and other North Korean exports would make it "tougher for the [North Korean] government to get the money it needs to keep funding its illicit weapons program."

According to import statistics available through [Global Trade Atlas](#), between 2010 and 2015, China was the destination for between 97% and 98% of North Korea's coal exports. These shipments of coal to China accounted for an average of approximately one third of North Korea's total export revenues per year. China's implementation of the coal provisions of UNSCR 2270 was therefore critical. The latest trade data indicate, however, that in the months after passage of the resolution, China's imports of coal from North Korea *grew* in both volume and value. (See [Table 1](#).) The data show that for the eight months from April 2016, when China issued a detailed implementation notice for the sanctions in UNSCR 2270, to the end of November 2016, China's imports of coal products from North Korea—captured in the Harmonized System (HS) commodities classification code 2701—rose 6.5% in volume and nearly 5% by value, compared to the same period a year earlier.

Table 1. Chinese Imports of North Korean Coal

April-November Comparisons, 2014-2016

Unit	April-Nov. 2014	April-Nov. 2015	April-Nov 2016	% Change 2016/2015
Metric Tons	10.4 mil.	14.1 mil.	15.0 mil.	6.5%
U.S. Dollars	\$759 mil.	\$726 mil.	\$761 mil.	4.8%

Source: Chinese Customs. Downloaded from Global Trade Atlas, January 4, 2017.

Note: Coal is listed in the Harmonized System as code 2701.

Why did UNSCR 2270 not curb China's imports of coal from North Korea? One reason is language in UNSCR 2270 negotiated by China. The resolution allows exceptions to the ban on imports of coal from North Korea in two circumstances. The first is when transactions are "exclusively for livelihood purposes and unrelated to generating revenue for the DPRK's nuclear or ballistic missile programs" or other activities prohibited by previous U.N. resolutions on North Korea. The second circumstance is when a third country's coal is being transshipped through the North Korean Port of Rajin (also known as Rason), an exception intended to allow continued Russian coal exports to China via the North Korean port.

In an April 5, 2016, notice providing implementing details for UNSCR 2270, [Announcement No. 11](#), China's Ministry of Commerce and General Administration of Customs appeared to encourage Chinese businesses to make use of the two exceptions. The notice instructed businesses to submit a simple "letter of commitment" to their local customs authority certifying that their trade was either "for the people's livelihood," with the term left undefined, or involved transshipped coal. Asked at a November 2016 press conference about China's continued coal imports from North Korea, a Chinese Foreign Ministry spokesperson [defended](#) them as "legal," citing the "livelihood" exception.

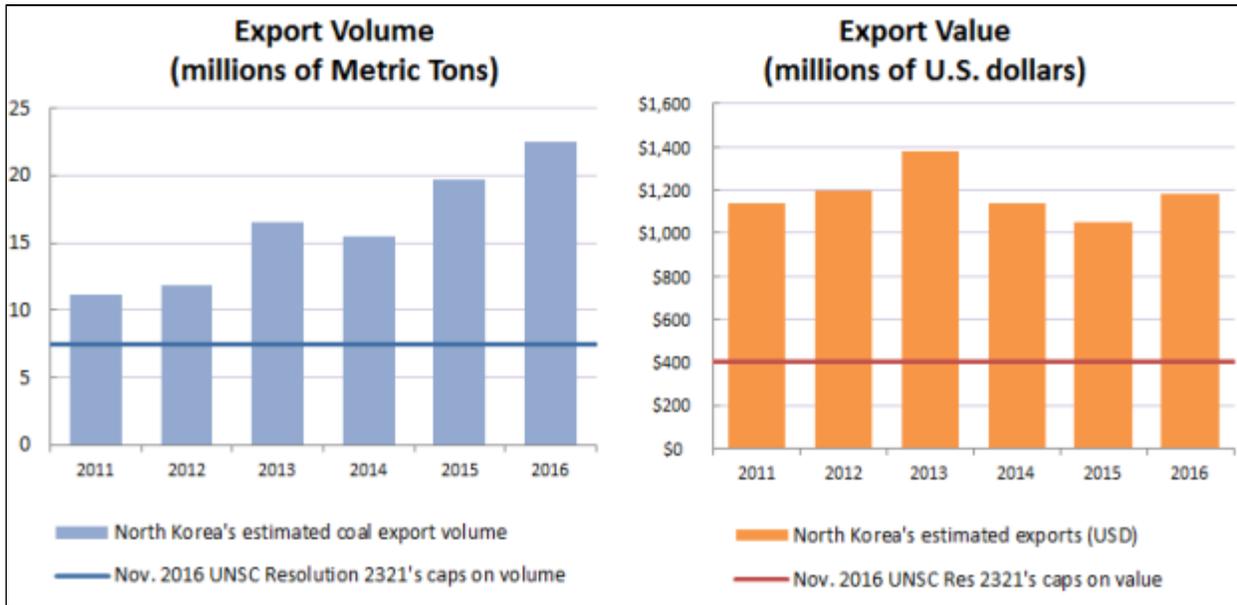
The broader reason why UNSCR 2270 did not curb China's imports of coal may lie with China's skepticism about the effectiveness of economic pressure in persuading North Korea to denuclearize. Chinese officials have stated that China is sincere in its opposition to North Korea's nuclear weapons program. They [argue](#), however, that the best hope for resolving the challenge of North Korea's nuclear weapons program is through dialogue and negotiations, specifically dual track negotiations on denuclearization and on replacement of the Korean armistice with a peace treaty. Other possible motivations for China's behavior include a desire to preserve economic opportunities for its businesses in North Korea and to ensure that economic pressure on North Korea is not so great as to cause the regime to act in even more provocative ways, or to collapse.

Following North Korea's fifth nuclear test, in September 2016, the United States, South Korea, and other countries successfully pushed for a new, more stringent UNSCR. Passed on November 30, 2016, [UNSCR 2321](#) limits North Korea's annual coal exports under the "livelihood" exception to a volume of 7.5 million metric tons or a value of \$400.1 million, whichever is lower. As the tables below show, from 2011 to 2016, North Korea's annual exports of HS Code 2701 coal products exceeded UNSCR 2321's value cap by well over \$500 million. (See [Figure 1](#).) Demonstrating the impact the export cap could have on North Korea's export earnings, the \$649-million gap between North Korea's coal exports in 2015 and the UNSCR 2321 export cap represents over 20% of North Korea's total export revenue from all goods in 2015, according to GTA data.

After passage of UNSCR 2321, China issued [Announcement No. 81](#), with new instructions for Chinese businesses related to sanctions implementation. It explained the cap on North Korean coal exports and ordered that Chinese businesses halt all coal imports from North Korea as soon as the U.N. issues a notice that 95% of the annual quota has been filled. UNSCR 2321 requires Member States, including China, to report to the U.N. monthly on the volume of coal they procured from North Korea in the previous month, and directs a U.N. Committee to make the reported volumes available in "real-time" on a [public website](#). China's Announcement No. 81 urged Chinese businesses to monitor the

U.N. website to track the status of imports relative to the cap in order "to avoid unnecessary losses." The public, too, can monitor the website, and by extension, China's observance of the cap on coal imports in UNSCR 2321.

Figure 1. North Korea's Estimated Coal Exports to China, 2011-2016 vs. UNSC Res. 2321's Caps on North Korea's Total Coal Exports (Nov. 2016)



Source: Chinese Customs, Downloaded via Global Trade Atlas, February 2, 2017.

Note: Coal is listed in the Harmonized System as code 2701.