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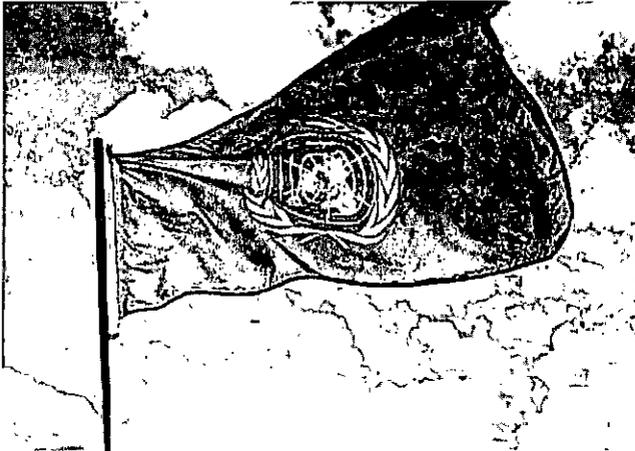
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How UN Sanctions May Be Driving China's Suspension of North Korean Coal Imports

China may already be close to reaching the UN-mandated cap on total coal emissions.

By Troy Stangarone

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For much of the last year, international sanctions have focused on reducing exports of North Korean coal to convince North Korea to return to talks over its nuclear weapons and missile programs with little success. Now, in a seemingly significant blow to Pyongyang, China has now announced that it will suspend imports of North Korean coal for the remainder of 2017. However, despite the focus on China's move, Beijing's decision to suspend imports of North Korean coal may not be as significant as it seems.

After North Korea's fourth nuclear test and satellite launch at the beginning of 2016, the United Nations Security Council passed resolution 2270. Under 2270, trade in North Korean coal was suspended, except for trade conducted for "livelihood purposes." While the livelihood purposes clause ostensibly allowed for trade in North Korean coal to continue in instances where the livelihood of the participants involved would be otherwise harmed and there was no connection to North Korea's weapons programs, there was an expectation that this would lead to a significant decrease in exports of North Korean coal to China, its primary and essentially only export market. Initially, there was.

However, the livelihood clause turned out not to be the only loophole in 2270 and exports of North Korean coal to China began to exceed figures from 2015. No one foresaw the impact a rise in coal prices would have on North Korea's earnings capability and a shortage of coal in China in the second half of 2016 allowed North Korea to earn significantly more for its exports of coal, while also driving demand for increased quantities despite sanctions.

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The UN sought to address this new loophole after North Korea's fifth nuclear test in September. Under resolution 2321, North Korea's coal exports were capped by volume and value. The resolution set a cap for December 2016 and then all of 2017, with the December cap set at \$53.5 million and 1 million metric tons. For 2017, the cap was set at \$400.8 million or 7.5 million metric tons. In both cases, whichever threshold was reached first would serve as the limit. However, China significantly surpassed the December cap by one million metric tons and nearly \$115 million.

While China's suspension is a positive step for sanctions enforcement, we won't know how significant it is until China releases trade statistics for January and February and we know how close China is to reaching the 2017 cap. While prices for coal in China have been trending down, even if prices fell by half from December North Korea may have exported upwards of \$80 million in coal in January if the volume remained the same. That figure would also be its lowest amount in months, likely setting it as a base rather than a ceiling for potential coal exports in January. Once coal exports from February are included, there is a good chance that China may already be halfway to the UN's 2017 cap and was going to have to suspend imports in the next month or two either way.

Additionally, if the United States and others were privately pushing for China to include the 2016 overage in the 2017 cap, Chinese imports of North Korean coal may be within less than \$100 million of meeting the 2017 cap by the time the suspension comes into effect.

Now the question becomes: what does this mean for North Korea's economy? Under Kim Jong-un, North Korea has experienced slow but steady economic growth. Will that continue, or will the suspension of coal imports have a significant enough effect on the North Korean economy to convince Pyongyang to refrain from further provocations and to return to talks on its weapons programs?

While the Chinese suspension is likely driven by the necessities of the UN cap on North Korean coal trade, it may also have a purpose beyond meeting China's UN obligations. By making the announcement so close to North Korea's first solid rocket fuel test and the assassination of Kim Jong-nam, China may also be sending a message to North Korea that it should expect less flexibility from China on sanctions in the future. If that turns out to be the case, this could be an important step in sanctions enforcement even if not for the reason it initially seems to be.

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