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The Shrinking American and Booming Asian Market for Coal

Coal mining and coal transportation is about to become a hot political topic again. At the beginning of this year Montana Governor Brian Schweitzer made a quick trip to a rural Washington county in the Columbia River Gorge to lobby the county commissioners in support for a proposed coal port that is designed to ship Montana and Wyoming coal to Asia. Governor Schweitzer was upset because the Washington Department of Ecology, which is in charge of enforcing Washington environmental laws, had intervened to review the county's decision to permit the construction of that coal port. Schweitzer saw that as an attack by the State on Washington on the economic interests of Montana. He chided Washington residents for happily accepting electricity exported from Montana's Colstrip power plants while challenging the legitimacy of Montana also exporting its coal for others to similarly enjoy.

This was just the initial salvo in what is likely to be a very heated debate not only on the west coast but also in Montana and Wyoming. The issues are both very local and expansively global.

Not coincidentally, a 40 percent owner in the proposed Columbia River coal port at issue is Arch Coal, the nation's second largest coal company. Arch Coal is also the company that, amidst much controversy, leased the Otter Creek coal tracts from the state of Montana last year. Arch also owns two large coal mines in Wyoming. A second large coal port in the state of Washington has been proposed on Washington's northern coast just outside of Bellingham. One of the major financial supporters of that proposed

coal port is the nation's largest coal company, Peabody, who also operates the largest coal mine in Wyoming.

One might wonder why, out of the blue, there is now all of this interest in exporting Montana and Wyoming coal to Asia? Until recently, Powder River Basin coal was primarily shipped far and wide across the United States. Half of the coal consumed in the United States comes from these coal fields and that Powder River Basin coal has been shipped further and further to the east and south in this country. That coal is shipped straight through other American coal fields to power electric generators. The attraction of that coal has not been its heat value but its low levels of sulfur. Burning our low sulfur coal has often been the cheapest way for electric utilities to meet air pollution control requirements throughout much of the United States.

But the coal producers of Montana and Wyoming know that this period of expansion is coming to an end here in the United States just as it is in most of the developed nations of the world. Coal, despite wishful thinking and sloganeering about "clean coal," is in fact unavoidably "dirty." That has led to increasingly stringent pollution control requirements on industrial facilities burning coal, initially to stop acid rain and the respiratory diseases associated with coal burning and most recently in order to reduce mercury and fine particulate emissions as well as the sulfur still spewing from our older electric generators. New concerns about the toxicity of ash sludge ponds have also been raised. And, of course, coal is the most carbon intensive of the fossil fuels and an obvious target for those concerned about climate change.

In addition the mining of coal often has serious environmental consequences, whether it is the sprawling open pit mines in Montana and Wyoming, the mountain-top

removal operations in Appalachia, or the health, safety, and water pollution problems associated with underground mining.

Because coal has been anything but clean, there has been more and more opposition to new coal-fired electric generators and pressure to retire older polluting plants. The State of Washington just negotiated the phased shut down of the last remaining coal-fired plant in that state. Previously, the early retirement of the only coal-fired plant in Oregon at Boardman had been announced. In Colorado several coal-fired plants are also scheduled for early retirement. By one energy consulting firm's estimate as much as a fifth of coal-fired electric generation in the United States may be retired rather than face the cost of new emission controls.

This shift away from coal has also been supported by the decline in the cost of natural gas and the massive increase of the estimated American supply of natural gas. Natural gas burns cleaner, is substantially less carbon intensive, and natural gas-fired electric generators are a lot cheaper to build. Faced with those environmental and economic realities, fewer and fewer electric utilities are willing to gamble on new multi-billion dollar commitments to coal plants that will last half a century.

As a result, the projections of coal consumption in the United States, Europe, and the developed countries of Asia are for coal use to stabilize and then begin to decline. That is not a happy thought for American coal companies. They know that they are sitting on some of the world's largest and highest quality coal supplies. They know they have developed the technologies for mining that coal at lower and lower costs. They also know that energy demand in China, India, and Indonesia is exploding. China and

India appear to be having problems keeping coal production expanding as fast as their coal consumption. That suggests a huge and growing market for other countries' coal.

The Powder River Basin contains one of the world's largest coal reserves and is this nation's cheapest source of coal. It is also closer to the west coast and Asia than most of the nation's other coal fields. It is not surprising that the coal companies active in the Powder River Basin are refocusing on Asia and the need to build new or expanded infrastructure like coal ports and railroad lines to move Montana and Wyoming coal to Asia.

Whether what is good for Powder River Basin coal companies is also good for the rest of us and the rest of the world is a more complex question that I will be exploring over the coming weeks.