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### **Puzzling through the Rush to Export Coal to China**

The world price of thermal coal, the coal used to fuel electric generating plants, continues to rise despite the slow growth in American demand. Many commodities speculators are projecting still higher prices. In early May coal purchasers from Europe to China were paying \$140 per ton for this coal. Meanwhile the price of Powder River Basin coal in Montana and Wyoming was being listed as just over \$12 per ton.

That goes a long way to explain the enthusiasm of the coal companies operating in Montana's and Wyoming's Powder River Basin to shift from domestic US coal markets to overseas markets and the push to expand the export capacity of west coast coal ports.

Arch Coal, which owns huge mines in Wyoming and lots of coal in Montana, and its Australian partner, Ambre Energy, continue to try to work out the kinks associated with building a new coal port on the Columbia River northwest of Portland. One of the challenges is how large numbers of mile-long unit trains can thread their way through Montana, Idaho, and Washington, snaking along the Columbia River on Burlington Northern Santa Fe rail lines, to the proposed west coast ports.

Ambre Energy is exploring the possibility of avoiding the circuitous route from Eastern Montana and Wyoming northwest through Montana almost to the Canadian border in North Idaho and then back south to the Columbia River. The alternative being considered would use Union Pacific rail lines through southern Wyoming and Idaho and then north to the Columbia River in eastern Oregon west of Pendleton. There the coal

would be transferred to barges to float it down the Columbia River to proposed ocean-going coal ports near the mouth of the Columbia.

One potential advantage of that arrangement would be that it could allow Arch Coal to export coal from its mines in Utah and Colorado as well as Wyoming and Montana. Those Utah and Colorado mines currently have had difficulty accessing export markets since the Los Angeles coal port was abandoned and dismantled after the last Asian coal boom went bust. With thermal coal export prices pushing \$150 a ton and coal customers in southeastern China paying \$175 per ton, some western coal is already being shipped to the American Gulf Coast for export. It would be hard to draw a longer transportation route from western Colorado and eastern Utah to India or China. But the rising export prices can justify sky-high transportations costs. If coastal Chinese coal customers are willing to pay \$175 a ton for coal that can be bought in the Powder River Basin for \$12 a ton, transportation costs as high as \$163 per ton, 14 times the cost of the coal at the mine mouth, could be justified and any transportation costs that are lower would be pure gravy for Montana and Wyoming coal mines.

Of course, this rosy picture for Western coal exporters depends on coal prices in China and elsewhere in Asia staying very high. As we all should know from the bursting of the dot-com bubble and the housing bubble, just because prices are high now does not mean that they will stay high. Coal export enthusiasts insist that the booming market for coal exports is here to stay because China and India and their rapidly industrializing economies cannot produce enough coal to serve their own needs. This, we are told, is a long-run “super cycle” that will last into the foreseeable future.

When someone tells us that a particular price will only go up and never go down, we should have learned enough over the last decade to be a bit skeptical. Ordinary market forces are at work in Asian coal markets. During the first quarter of 2011 Chinese coal imports dropped dramatically and Chinese coal exports rose. It looked like China was returning to its earlier role as a net coal exporter. This was partly driven by the high cost of imported coal. Australian and Indonesian coal did not look as attractive compared to Chinese domestic sources given the fly up in world thermal coal prices. As a result the Chinese reduced imports and sought to capture some of the benefits of those high prices by exporting rather than importing. As a result, Australian coal prices tumbled steeply, narrowing the price gap and possibly making importing coal attractive to the Chinese again.

If the half-dozen proposed new coal ports and all of the expansions announced for existing North American coal ports proceed and North America's abundant coal pours into Asian markets, this could change dramatically the relative price situation there. North American coal companies will be competing against each other as well as competing against other Asian coal suppliers and domestic Chinese coal producers.

It is not clear what the outcome of this competition will be except that it will produce coal prices to the Chinese that are lower than those prices otherwise would be. That might be good for the Chinese. It will take some pressure off the energy costs they face and high energy costs will serve as less of a break on their booming economy. It will also encourage continued Chinese investments in long-lived but relatively inefficient and polluting coal-fired electric generators. Those fifty-year commitments to major greenhouse gas emitting industrial facilities are highly unlikely to be good for the world

and climate stability. Collectively, we will implicitly be engaged in a multi-billion dollar effort to convince China and India to make another half-century long commitment to much higher levels of coal consumption, almost assuring that we, collectively, will miss the opportunity we currently have to actually stabilize and then reduce global greenhouse gas emissions.

This casual commercial business-as-usual, supported by the contemporary “need for jobs,” could commit our children and grandchildren to a dreadful mess.