Crosscut
News of the Great Nearby

Why the market will be the death of coal ports

Guest opinion: The coal bubble is bursting, making coal exports and terminals a foolish investment.

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If you listen carefully, you might hear the sound of the "coal export bubble" popping. Coal prices are plummeting globally, and the bottom seems nowhere in sight. Early this month the price of benchmark Australian thermal coal fell below $77 per metric ton, down 46 percent from its 2011 peak.

In the heady days of two or three years ago, this benchmark price soared to nearly $142. U.S. companies trotted out ambitious proposals for six Northwest export terminals to ship Powder River Basin coal from Montana and Wyoming to Asia, where it could fetch these bloated prices. But as prices fell back to more realistic levels this past year, three of the projects were abandoned.

Similar coal mining and terminal plans are being shelved in Australia, where companies are slashing output and jobs. Ditto for Indonesia, which also depends on the Asian market for its coal exports.

Unfortunately for the coal industry, these plans assumed that coal prices would keep rising as they had until 2011, that China would continue to need more coal for its power plants than it could produce itself, and that its demand for imports would keep prices high for years.

But as we learned from the real-estate bubble of the past decade, which triggered the financial panic of 2008 and led to the Great Recession, smoothly rising economic projections can be awfully risky.

China's own coal production is finally catching up with demand, which is slowing for several reasons, according to a recent report Goldman Sachs prepared for its investors — and another from Bernstein Research. One is the higher efficiency of its new power plants, which are now operating better than the U.S. average. Another is the fact that China is aggressively pursuing nuclear power and renewable energy.

According to the closely-held Goldman report, written during this year's coal-price collapse, long-term import prices for Australian thermal coal will settle down — or perhaps inch up — to $85 per metric ton this decade.

Powder River Basin coal, which has lower heat content and is mined much further away from Asian markets, has to be priced at only 60 to 70 percent of the Australian benchmark to be competitive. So says a 2012 report from Cloud Peak Energy, a Wyoming coal company that is a pure play on this coal. By that measure, the projected price of this PRB coal would be only $46 to $54 per metric ton. But it costs U.S. companies $42 to $50 a ton to mine the coal,