

## “Desperate” To Export: A Coal Industry Close-Up

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Today, I'd like you to meet Darren Epps and walk with me while I pick his brain about the six coal export terminal proposals in the Pacific Northwest. Epps is an editor for Platts energy newsletters. He follows the global coal chess game with an eagle eye on the U.S. coal industry.

To appreciate everything Epps knows about the coal industry, it helps to understand the value of Platts, which puts out a ton of energy industry newsletters and market analysis. They're steeped in the details of which companies are doing what – and with whom.

The information Platts gathers is valuable. At one point I thought maybe I'd get a subscription to their Coal Outlook/Coal Trader newsletter. Then I saw the price: \$1,935 a year.

That said, Epps doesn't work for a coal company or an industry association. He works for a publishing company (Platts is owned by McGraw-Hill). So he has a fairly neutral view of what's driving the push to export coal in Oregon and Washington.

And as he explained to me last week, he describes that push as “desperate” – because the Bureau of Land Management is leasing more public land for Powder River Basin surface coal mining, because the U.S. is using less coal for electricity, and because China and India will buy lots and lots of coal. But the exit routes through the U.S. are few and far between. And Canada’s are either overcrowded or extremely distant.

Epps shared with me his best bet for a successful coal export terminal: Ambre Energy’s Port of St. Helens/Port of Morrow tag team project, which would shuttle 3.5 million tons of coal a year from rail cars to covered barges at the Port of Morrow and then onto bigger ships at Port Westward on the Columbia River. Though he said there are plenty of insiders who don’t think any of the proposed terminals in the Northwest will succeed.

As someone who has visited and reported on numerous coal export terminals across the country and the globe, Epps offered some unique perspective on the unprecedented “push back” from communities and environmental groups on the U.S. West Coast. Concerns over coal dust have the railroads pushing to create a safe, covered rail car, he said, and to force coal producers to add dust control chemicals before shipping their product.

Here’s our Q&A (long, but worth the read):

**In the past year the PNW has seen half dozen different coal export proposals. This isn’t exactly an industry Oregon and Washington have been trying to lure. Why is there such a drive to export through the Northwest right now?**

There’s really nowhere to ship Powder River Basin coal right now. The terminals in Vancouver (BC) and farther north near Alaska near Prince Rupert in British Columbia are at capacity. They’re expanding as fast as they can, and it’s really not economical to ship it by rail all the way up to Prince Rupert in British Columbia. So, the economics of transportation – and it’s not cheap to haul this coal – make it really difficult to earn any money at all by shipping it that far.

Some have gotten really creative. I’ve seen Powder River Basin coal railed to the Great Lakes and then go through the Great Lakes and through the St. Lawrence Seaway and off to Europe. I’ve seen it go down the Mississippi River to the Gulf. What would be much cheaper, much more economical, is to ship it off the U.S. West Coast. And of course, as you well know, domestic consumption has lowered. I think domestic coal is closer to 40 percent now of U.S. Generation, and it used to be closer to 50. So exports are the real market for coal right now.

**So the decline in domestic consumption is a big part of the puzzle here?**

Right, yeah. You know, I don’t think coal is dead by any means. At 40.4 percent I think is the projection by the end of this year. But it’s not as robust as it used to be. And the export market, the U.S. had the most exports last year in about 20 years. So, the export market is booming right now and the domestic market is headed the other way.

**You used the word “desperate” in one of your stories. Why is this a desperate situation?**

It’s not getting sold much in the U.S., and you can make a lot of money shipping this coal to Asia to those massive power plants in China and the ones being proposed in India. There’s nowhere to go. You have this product, and it can make you a lot of money. It’s fairly inexpensive to produce, and there’s just nowhere to ship it. It’s the cause of much frustration. So you have some coal companies go to Vancouver and say, “We’ll pay you this much if we can ship it out,” and you have the general manager at Vancouver at West Bank Terminals say, “Sorry, but no.” He’s told me ‘That’s my least favorite part of the job is saying no, we can’t have your money.’”

They're expanding absolutely as fast as they possibly can. The Canadian coal industry is expanding as well, and they've locked in the contract. So, it's very frustrating for coal companies to have this commodity that can obviously improve their bottom lines and just nowhere to get it out. And they're paying the money to send it far-reaching places like Ridley or the Great Lakes or the Gulf Coast. But obviously their margins would be much better if they could ship it off the West Coast and that's why the desperation is there to really improve margins.

### **What's going on in the global market that may be making exports more attractive?**

China is undergoing sort of an industrial revolution. They need a lot of coal. They have coal mines in China but they're all toward the northern part of the country and most of the coal plants are in the southern part of the country and China has a real transportation issue. The rail lines really aren't sufficient. They used to export coal. Now they import lots and lots of coal.

The other big country is India, and I think only 40 percent of India has electricity. So, as India builds up its economy and builds up its infrastructure it's going to need a lot of coal. So those two countries are going to import a massive amount of coal. And that's going to lead to a huge market for the U.S. and any other country that produces coal. Those are the two markets everyone's going for.

### **What companies are behind the coal export proposals on the West Coast? It seems like there's just lot of subsidiary companies that have been set up to do the developments but they all seem to tie back to maybe a few bigger coal companies.**

That's exactly right. There's been a lot of consolidation in the industry over the last five to 10 years. So you have Arch Coal, which is a major U.S. producer. Peabody Energy is a major U.S. producer that's involved. Arch Coal and Peabody are two of the largest in the world for sure. You have Ambre Energy, which is an Australian company that's involved in a couple of these, and then you have Cloud Peak Energy which is a coal company that has all of its mines in the Powder River Basin. So, they're not specifically involved in any of these, but I know they have extremely high interest in terminals getting open on the West Coast in this because all of their coal is in the Powder River Basin.

### **Where do you see all these proposals on the West Coast going? Can all the terminals start up and coexist?**

You know, I don't think so, and I'm probably in the minority on this, but I think at least one of them will get approved and will ship coal. A lot of people don't think any of them will. Now, when that happens, I have no idea. I mean, it's going to be a long process. As you know there's a lot of environmental interest. There's a lot of reviews. I don't think they could all coexist. I think that would create, first of all, a huge bottleneck as far as rails going into Oregon and Washington and then coming out of the Powder River Basin. So, I don't think they can all coexist, nor do I think they can all ship as much as the maximum they propose, but I think there will be maybe some incremental amounts. Maybe one or two. But I know a lot of people who think it'll just never happen.

### **Why would it never happen?**

Because the process will get delayed and who knows if these things get permitted or not. And who knows how the market will change. I think the export market is going to be a huge, huge deal for many, many years. But it's a pretty volatile commodity. Although with China and India building up their economies, it's hard to believe that it wouldn't continue to be a strong market. But there's just a long long process. I do think one or two will get permitted but before 2016 you know I don't know if it can happen that fast.

### **Are there front-runners, like, projects that people are looking at if one or two do get approved?**

I think the best chance over the next few years is going to be the Port Morrow and Port St. Helens with Ambre Energy. They've pretty much got the Port Morrow part of that transportation down as far as shipping it from that port over to the Port of St. Helens for export and loading it onto larger ships there. They still have a long way to go on the Port of St. Helens side of it. But they at least have made some progress on getting approval on half of their transportation idea. So I think they're probably the furthest along. They're hoping 2013. That may be a little ambitious. I think depending on how Port of St. Helens approvals go that will shape whether that project happens or not.

### **What are some of the factors that determine the success of these terminals in the short term or long term?**

Well, it's all driven by the market, and as I said the export market is about as good as its been in about 20 years as far as profitability. And it really could stand to make a lot of profit with Powder River Basin coal, which is cheap to produce. It's surface mining, so it's easy to get out of the ground. So the margins there would be a lot greater, which feeds into this desire to export the coal. They could make pretty good money doing it. It doesn't cost as much as, say, Central Appalachian coal to mine and get out of the ground. This is all surface mining and it's low sulfur. It's got decent heat content. U.S. competes with Indonesia on coal and Powder River Basin coal has a little better heat content than Indonesian coal. There's a lot of things at play here.

### **Is there an obvious reason why it hasn't happened already? Why we haven't been exporting coal from the West Coast in the past?**

The market hasn't been this strong in the last 20 years. There just wasn't a need for it. In the Powder River Basin, more coal companies are getting involved and the Bureau of Land Management is awarding more sections of that land to major coal companies. So, it's sort of a burgeoning industry that's just getting started. And for the first time in a long time – because of the China and India part – as volatile as coal is, it's probably as sure as you can get with those industries. And with India they have really difficult coal mining. They have a state-run coal company that cannot keep up with all the private investments in utilities.

### **How profitable are the export terminals that are being proposed? What does their business model look like?**

They're awfully profitable. A lot of them are private terminals, so I don't have exact figures, but you look at ones in Norfolk, Virginia, where Norfolk Southern Railroad has an export terminal. Norfolk Southern is an extremely profitable company – not just for coal exports but a lot of commodities. CSX has a terminal in Baltimore. Again a very profitable company. The railroads do very, very well. In fact, they do so well that there's talk that the regulars may get involved. There's only four major railroad companies in the U.S. All four – Union Pacific, BNSF, Norfolk Southern and CSX – are extremely profitable. Union Pacific and BNSF would love to carry those coal trains and make even more money out West as Norfolk Southern and CSX have really had a booming business on that.

### **What's the relationship between the developers of the terminals and the railroad companies? How does the money change hands?**

There's some synergy there for sure. I know they've worked together on these permits. It all works in tandem. BNSF charges money to the coal producers to ship the coal. And obviously whoever purchases the coal in a foreign market will pay companies like Ambre. And then the terminals get involved. Kinder Morgan is trying to get a terminal going on the West Coast, too. So they stand to make a lot of money there too. It's expensive to

haul coal from the Powder River Basin to the West Coast. There's only two railroads. So, the railroads stand to make a lot of money and the terminals like Kinder Morgan and Millennium stand to make a lot from any foreign purchase of the coal.

**What is the condition of the rails? Are they prepared to haul all the coal that the companies want to ship out?**

That's the looming question over all this. How can they, BNSF specifically, how can they handle this amount of volume? There's questions around that being that there are just two railroads. There's plenty of rail lines. But you know there are some steep grades there. It's not the easiest rail line. There would be weather issues in the winter. That would be a lot of volume if one of these massive ones got going. That would be a ton of volume coming toward the West Coast.

I know there are cities from Montana to Washington that are concerned about the number of coal trains that would be going through. There's definitely the potential for bottlenecks going to the West Coast. Because, you know, it's really expensive to lay down a railroad, so there's only so many. It's not the easiest haul in the world, either. It's a great question. Railroads are pretty resilient. They've usually made it work somehow, whether it's repositioning trains, hauling other goods somewhere else, rerouting. But this would be something they really haven't faced yet on the West Coast.

**There are different deals going on in different places. Is it obvious which company would be responsible for paying for upgrades?**

The short line railroads that typically handle that last mile, or last 30-40 miles, would definitely need to be upgraded. The Portland and Western Railroad, for example, they've never seen that amount. Coos Bay in Oregon, their rail line was just recently restored and really couldn't do much of anything right now. So they'd have to restore that.

These short line operators like Genesee & Wyoming or Railroad America would have to be paying for these upgrades. Whether there's any deal with the coal producers, I'm not sure. I'm sure that bridge will be crossed if it's needed, but certainly the short line railroads and port railroads would have to be upgraded. I know Coos Bay is working on that right now, but they would have a long way to go to carry that much volume. And you can only go so fast on Coos Bay right now, so that would be a major operation. That's a major project they're working on.

**Are there legal limits on what can be transported by rail?**

The railroads are federally regulated, so I know there's been a lot of talk of certain citizens trying to stop rail traffic but it's really a federal issue and that would be a really difficult thing to stop. The Surface Transportation Board is the government agency that reviews all that and it would be quite a process to stop railroad coal trains from coming through because it is a federal process and they are federally mandated to come through. That would be a really tough law to overturn as far as the railroads moving through.

**Will exporting coal have a lot of economic ripple effects throughout the supply chain – both positive and negative?**

That's certainly a point of contention on both sides. Of course, you have the coal producers, and they're right, they would pay property taxes. There's lease options, money per rail car that would go to the port. I know that Ambre Energy is making a push to give money to schools and employ however many people, whether it be full-time or part time. That's the argument on the coal side.

On the other side, I've heard, at least in Washington, that it would damage the scenic scene around Bellingham, for instance. It could hurt tourism or fishing. How many people will it employ full-time or part-time? It would take a lot of employees to build up these terminals, but once they're built, obviously, they wouldn't be needed anymore.

There's a real debate going on there about jobs. It's going on across the entire United States. Jobs will be a major focus of these terminals as they get built up. How many will they really create? And then, of course, the property taxes stand to be about \$1 million a year. How badly do these cities need the money? Those are all things that are going to have to be weighed over the next few years.

**One of the arguments by the environmental groups centers around coal dust that would be blowing off the trains and blowing off the terminal sites and degrading the quality of life. Do you know much about the proposals by the coal companies to control that dust and whether surfactants and covers on conveyor belts work to control the dust?**

They do work. Whether they get all the dust off, that's hard to believe. I don't think even the manufacturers of these suppressants and surfactants would say that. So I think there would still be some coal dust.

I think the game-changer would be if they could develop some kind of covered rail car. That has not happened on the coal side. There would still be risk of minor little explosions or whatever. But I've been told by a couple people on the West Coast that the two West Coast railroads, BNSF and Union Pacific, are trying to develop a coal car that would be safe to transport coal. It could be years before that happens.

But there is an acknowledgement that yes, there is coal dust. And yes the suppressants work to a point. BNSF has gone to the Surface Transportation Board and tried to force coal shippers to put it on and pay for it. So there's definitely a recognition that this is a big issue in the communities.

**One of the things I've heard that I wanted to get your reaction to is that, well, they're just shipping a commodity like any other commodity; Coal is being unfairly scrutinized and put through the wringer. Do you see that as a fair argument?**

It's really kind of a new argument. A lot of the coal goes out of the Gulf Coast, and I've been down there. It's a huge industrial area, so there's no real push back on that. Nor has there been a ton of push back in Norfolk (Va.) or Baltimore.

Even in Canada in Vancouver, there's not a ton of push back. I went to a coal conference up there and Canadians, they're really focused on emissions – gas emissions. There are a lot of hybrid taxis and electric buses. That's a real focus in Canada. They don't seem to mind that West Shore Terminals in Vancouver is expanding to 33 million tons of coal a year.

There are obviously, with the Washington Department of Ecology and its counterpart in Oregon, a lot of studies to be done. People on the West Coast have drawn their attention to these potential issues. I look forward to see myself do these get permitted, what issues do they find. So, this is kind of new ground. Even globally we haven't seen this kind of push back that we've seen on the U.S. West Coast.

**One of the things that's been mentioned in the coverage of coal on the West Coast is that the volume these companies are proposing might seem like a lot of coal for the U.S. to be shipping out, but it would only be a tiny fraction of what China and India will need in the future.**

These are big terminals. Don't get me wrong. But China's power sector last year consumed 2 billion metric tons of coal. So there's a huge market there. Of course they've produced some of their own coal, but that's not even counting South Korea. South Korea utilities have told us at Platts that they like Powder River coal. They like the burn. They like the sulfur content. There's plenty of spots for it in Asia.

But relative to other terminals, yes. These ones – 44 to 54 million metric tons on the West Coast – could be the biggest in North America. You have 33 million metric tons going out of West Shore in Vancouver, about the same in Norfolk. The biggest one in the world is Richards Bay in South Africa. It can handle 91 million tons. So, it's incremental compared to Richards Bay, but as far as North America is concerned a couple of these proposals on the West Coast would be among the bigger ones.

**If no terminal is approved, what then? Is all the coal that needs to go out just going to increase along the lines it's currently being exported?**

I would imagine so, and I would think they'd try to lean on the domestic market even more. It would go through the Great Lakes, or the Gulf Coast. They wouldn't make nearly as much money. Their margins would be a bit slimmer with all the transportation costs. Some of the coal goes through West Shore in Vancouver, BC, but people at West Shore say they could fill up their capacity with 100 percent Canadian coal. They don't even necessarily need U.S. coal.

Now, Arch Coal has a deal with Ridley Terminals in Prince Rupert, to ship coal and that is a really long haul. That would be something like 2,000 miles – it could be one of the longest hauls in the world. That just shows you the real focus on export. If they're willing to pay for a 2,000-mile rail haul almost to Alaska. So, I'd guess they would still get creative if these West Coast terminals don't happen.

## Showing 1 comment

OregonCityDan

Really interesting story, here. Coal exports on the Columbia River deserve everyone's attention. Our efforts in shifting towards a coal-free NW will be fruitless if we simply end up becoming a poorly-paid middleman for Arch and Peabody coal. In coming weeks, it's incredibly important for people throughout Portland and Vancouver to get engaged on this issue. We could see over a dozen coal trains rumbling through Portland (and certainly through Vancouver) if Northwesterners don't stand up to oppose these projects.

Governor Kitzhaber is a key decision-maker on this issue. He promised that coal terminals wouldn't be approved "in the dead of night", but so far this is precisely what has occurred in Oregon. The Ambre proposal at Port Westward was approved with little public notice and a driven effort from the Port of St. Helens to stifle public information requests.

It's time for Oregon to take a stand against coal exports. We can do better.