

Coal Industry Pins Hopes on Exports as U.S. Market Shrinks



Kevin Moloney for The New York Times

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Cloud Peak Energy is poised to mine the Crow Nation's deposit of coal in Montana.

By CLIFFORD KRAUSS
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CROW AGENCY, Mont. — Every few hours trains packed with coal pass through the sagebrush-covered landscape here in southern Montana, some on their way north to Canadian ports for shipment to Japan and South Korea. If the mining company Cloud Peak Energy has its way, many more trains will cross the prairie to far larger proposed export terminals in Washington State.

It's part of a push by the nation's coal industry, hobbled by plummeting demand as Americans turn to cleaner natural gas, to vastly expand what it sends to Asia and Europe. But the aggressive effort to rescue the \$40 billion industry is running into fierce opposition from environmental groups, who say pollution caused by burning coal should not be exported.

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The two sides have engaged in an increasingly pitched battle, in regulatory arenas and on the airwaves, scaring off some investors and raising concerns about the fate of the industry, which is seen as a key to economic growth in Western states like Montana and Wyoming.

"The future of the U.S. coal industry is at stake," said Richard Morse, managing director at SuperCritical Capital, an energy consultancy. "Their future domestically is dim and

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demand growth internationally is very robust, so it is fair to say that a resuscitation of the industry has to come overseas.”

The future of the impoverished Crow Nation may also hang in the balance since it owns an enormous deposit of up to 1.4 billion tons of coal — more than the United States produces in a year. But before Cloud Peak can mine the land and send the coal to energy-hungry nations in Asia, it needs more export terminals to be built in the Pacific Northwest, and those have been delayed or, in some cases, scuttled after investors grew weary of the continued opposition from environmental groups.

Last week, the Sierra Club and other groups opened another phase in the battle, filing suit in a federal court in Seattle against Burlington Northern Santa Fe railway and several coal companies, saying coal dust escaping from trains has polluted rivers and lakes in Washington. The new export terminals, they say, would only bring more trains carrying coal to the ports and increase the amount of dust.

Coal's share of electricity generation in the United States has fallen to under 40 percent in the last decade, from 50 percent. Annual production dropped 7 percent in 2012 to just over 1 billion tons, the lowest total in two decades, and the stock prices of many coal companies have been plummeting.

Cheap, abundant and cleaner natural gas produced in new shale fields has replaced much of the coal that American power plants once burned, and regulatory pressures are mounting to curb greenhouse gas emissions from coal combustion. That has left exports as the only sure growth engine for the declining American coal industry.

Last year, American coal exports set a record of 125 million tons in sales, roughly double the volume in 2009, with most of that going to Europe. Exports fell this spring because of slower Chinese demand for steelmaking coal. But energy experts say the big potential market for American coal remains in Asia, and several proposed Pacific Northwest export terminals would have the capacity to nearly double current exports.

For the Crow Nation, which is sitting on the reserves here, and many coal companies like Cloud Peak, exports could make the difference between just getting by and prospering.

While coal mining is the largest private sector provider of jobs, half the adult population is unemployed. Homelessness would be pandemic if it were not customary for three or four families to cram into small trailers so crowded that couples sometimes go to motels for moments of privacy and children struggle to do homework through a glare of television.

Three bright days a year come when families receive small bonuses from the tribe, thanks to one coal mine that operates on the reservation, to buy presents for Christmas and beads and tepee canvas for the tribe's annual powwow. The Crow hope more bright days may be coming, although some express concerns about the damage more coal mines could do to archaeological sites.

Cloud Peak and the Crow signed an initial agreement in January to develop three enormous coal deposits that are both low in sulfur and produce an abundance of heat when burned — exactly what Asian buyers are seeking.

The Crow stand to earn \$10 million over the first five years if the Interior Department approves the agreement, and potentially hundreds of millions of dollars more in royalties and other payments in future years.

But before any digging can start here, Cloud Peak needs to know that somebody is willing and able to buy the coal. “We know the coal is there,” Colin Marshall, Cloud Peak's chief executive, said in an interview. “With the ports, I am very optimistic that it will be developed.”

To win approval, the Crow are quietly lobbying other tribes in the Pacific Northwest, who say that the terminals will harm their fishing and the environment.

"We understand the issue of global warming, but at the same time, because of the economy of the tribe, we are dependent on coal," said Cedric Black Eagle, the former chairman of the Crow Nation, who began contract negotiations with Cloud Peak.

Environmental groups have made the terminals a central focus in their campaign against the coal industry.

Investors have dropped out of three of the originally proposed six terminals, including Kinder Morgan, which withdrew from a proposed terminal on Oregon's Columbia River last month.

"We are getting close to putting the stake through the heart of the beast of coal exports," said Cesia Kearns, a Sierra Club "Beyond Coal" campaigner in Oregon.

Cloud Peak, the No. 4 American coal company, produces 90 million tons of coal a year but exports just roughly 4.5 million tons annually through British Columbia ports. Cloud Peak is poised to expand those exports by negotiating deals for roughly 21 million tons of export capacity with the builders of two proposed Washington State terminals.

"I'm optimistic but I am also realistic that there is very well-organized opposition to the building of terminals," said Mr. Marshall, Cloud Peak's chief executive.

The Powder River basin produces more than 500 million tons of coal a year, nearly half the country's total, but only about 15 million tons are exported every year, mostly because of the lack of export outlets.

Coal experts say the basin could export 10 times what it does today if the Pacific Northwest terminals were approved. And industry executives insist that the basin's low-sulfur coal is far cleaner than much of the coal burned in Chinese and other Asian cities.

"You can have some of the cleanest coal in the world in the Powder River basin going to fuel electricity in a part of the world that can use clean energy," said Vic Svec, a senior vice president at Peabody Energy, the largest American coal company.

Environmentalists want to keep the coal in the ground. More coal on the international market, they say, reduces coal prices and discourages the transition to cleaner energy sources like solar and wind.

"If we are successful at blocking exports from the United States, we help renewables become more competitive in China," said Justin Guay, international climate and energy representative of the Sierra Club.

For the 6,500 or so Crow Indians, the deal is seen as a way out of a life with few economic prospects.

The Crow Nation chairman, Darrin Old Coyote, insisted that coal was a gift to his community that goes back to the tribe's creation story. "Coal is life," he said. "It feeds families and pays the bills."

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