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The Two Faces of Coal

Ken Silverstein | May 20, 2013



A divergent picture of coal is emerging. One is relaying the cold hard market-oriented facts and is pointing out that coal-dependent regions need to diversify their economies now. The other is saying that coal can reinvent itself, and it is arguing that mining companies have been making imprudent business decisions.

Both may be presenting accurate accounts of what is and what could be. But no one is under any illusion -- that coal is suffering hardships: tougher regulations and the abundance of cheap natural gas. Plus, most of the accessible coal seams have been mined while what's left is costly to get out.

According to an analysis done by **Bloomberg**, coal's share of the electric generation pie has fallen to 37 percent from half in 2005. Meanwhile, those prices have declined by 57 percent since 2008. At the same time, natural gas makes up 28 percent of the composition now whereas in 2000, it was 16 percent. It says that 5,400 U.S. coal jobs will be lost as a result by 2015.

The good news for those sections of the United States that are feeling the impact of this economic and regulatory development is that the shale gas boom should provide relief. New drilling techniques are allowing developers to retrieve those hard-to-get deposits. That unconventional natural gas is not just taking marketshare from coal. But it is also providing jobs, and lots of them.

An **IHS Study** says that the unconventional energy sector will support 3.5 million jobs by 2035, which is up from 1.7 million in 2012. In the next couple years, the report says that this sector will create almost 2 million jobs, or 3.5 million total.

But the coal sector can "reboot," says a new study by **Booz & Co**, a global management consulting firm. It says that the dynamics undercutting the sector are real. But it also says that the overseas markets for coal are growing: both thermal and metallurgical, which is for electric generation and for steel making, respectively. Coal's global share, it says, grew from 25 percent to 30 percent in the last decade.

Those coal firms with a domestic focus need to concentrate on controlling their costs and managing their resources, the firm adds. Companies must decide how to allow their capital by identifying their risks. That could stabilize their cash flows and improve their long-term productivity.

"King Coal can successfully compete in the fight to fuel the world," says the Booz & Co. report.

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World Markets

Coal is responsible for about a third of all manmade carbon dioxide emissions. It also releases double the other pollutants regulated by the Clean Air Act that include sulfur dioxide and nitrogen oxide. When combusted, natural gas produces roughly half the emissions as does coal. But it, too, has its critics who say that the exploration methods are harmful and that more of the national treasure should be invested in sustainable energy.

Several utilities have recently announced that they would retire their older coal-fired plants and replace them with those that burn natural gas. Georgia Power, a subsidiary of Southern Company, for example, is retiring 2,000 megawatts of fossil-fired generation. Altogether, it will be shedding 15 coal and oil facilities. Five years ago, the parent's fuel mix consisted of 70 percent coal but now it is 47 percent. That coal configuration will fall further unless technologies that would capture and bury carbon are commercialized.

In this country, most of the coal comes from Wyoming, West Virginia and Kentucky. Wyoming provides about 41 percent of U.S. coal production, which is an increase from 18 percent two decades earlier. Today, the roughly 443 million tons of coal mined from the Wyoming Powder River Basin is shipped to 34 states, including those in the east. With an expanding rail transportation network, coal emanating from that area could flourish. It's also easier to mine.

China and India, meanwhile, would appear to be lucrative markets for coal enterprises -- even as their domestics prospects are looking dimmer. Coal will stay busy. But shale gas will "shine" more. In the final analysis, however, it is about jobs, and which sector can provide employment to those who are feeling economic pain. Here, shale gas is the winner.

"The increased competition from other sources of coal and energy has negatively impacted production in Central Appalachia, illustrating that the existence of coal reserves does not guarantee that the coal will be economical to produce or competitive with other regions," says a report by [Downstream Strategies](#). "The declining competitiveness is due in large part to the increased cost of producing coal in Central Appalachia, for both surface and underground mining."

An economic transition is underway in the United States. But it's one that does not have to isolate coal, which needs to rethink how it will position itself both internationally and in changing domestic markets.

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