BUSINESS & FINANCE

U.S. Coal Finds Warm Embrace Abroad

By Keith Johnson

NEWPORT NEWS, Va.—On 67 acres here along the James River, almost 800,000 tons of coal tower in two-story-high stacks, ready to go overseas. The shipping terminal is so busy that this past Christmas Day, workers volunteered for lucrative overtime to load a bulk carrier.

Coal-terminal operator Dominion Terminal Associates, owned by three big mining firms and one of the biggest coal exporters in the U.S., stands at the center of a surprising boom.

For all the troubles of the U.S. coal industry at home, its business with the rest of the world is brisk. Last year, the U.S. set a record for coal exports, with the final tally estimated to top 120 million tons, double what it exported as recently as 2009.

The boom isn't about feeding the voracious appetites of China and India—not yet. Instead, American coal mined in the eastern U.S. and shipped overseas goes overwhelmingly to Europe, especially the U.K., the Netherlands and Italy.

The U.S. is sending coal to Newcastle, and other English cities where the lights go on thanks to power plants fired by the American imports. British coal consumption for electricity rose about 50% in the third quarter of 2012 compared with 2011, as power producers there found coal cheaper than natural gas.

"The gas plant has simply been pushed off the grid by coal plant [in Europe], and that's most marked in the U.K.," said Nigel Yaxley, the managing director of the Association of U.K. Coal Importers, a trade group.

The rise in American coal exports is yet another side effect of the shale-gas revolution in the U.S., itself a result of advances in drilling techniques.

The glut of cheap natural gas has knocked coal off its dominant perch as a source of fuel for U.S. power plants. Tougher environmental rules are also squeezing coal mining in the U.S., and President Barack Obama's inaugural address hinted at more greenhouse-gas regulation to come.

U.S. coal is finding a ready market in countries where natural gas is three to five times more expensive.

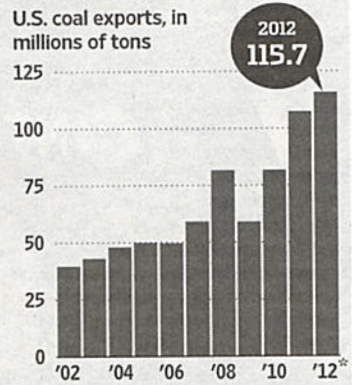
For decades, the U.S. has exported high-quality metallurgical coal used in steel mills. But now the growth is coming from steam coal, the kind that's burned in power plants.

Two years ago, barely one-tenth of the coal exported from the port here, known as Hampton Roads, was steam coal. Through the first nine months of 2012, steam coal accounted for about one-third of the total.

Rick Cole, the president of Dominion Terminal Associates, pointed out evidence of the shift on a recent drizzly morning. He carefully nosed his red Toyota Prius around sludgy puddles toward a ziggurat-shaped, crumbly mountain. "That's good steam coal right there, with all those big lumps in it. I would bet money that coal was mined in East Kentucky," he said.

Black Gold

U.S. coal exports, in millions of tons



*Through Nov

Sources: Energy Information Administration The Wall Street Journal; Rich-Joseph Facun for The Wall Street Journal (photo)

The coal was waiting to be loaded on ships like the 92,000-ton Crystal Tiger, a Panama-flagged bulk carrier that before sunrise would swallow almost 40,000 tons of coal and head out into the Atlantic. A hand-painted motto dominates the stairway at the terminal headquarters: "Coal for the World."

Environmentalists say exporting coal amounts to sending U.S. greenhouse-gas emissions overseas. Groups such as Greenpeace and the Sierra Club have opposed half a dozen coal-export terminals planned for the West Coast to ship coal to China.

For U.S. coal-mining firms **Peabody Energy** Inc., **Arch Coal** Inc., and **Alpha Natural Resources** Inc.—who together own Dominion Terminal Associates—increased exports offer a way to partially offset declining domestic demand.

St. Louis-based Arch set a record last year with 13.6 million tons exported, nearly double the seven million tons in 2011. It has interests in new export terminals on the West Coast and the Gulf of Mexico, and it hopes to quadruple coal exports by 2020. Arch said this week that exports this year will remain at "elevated levels." Peabody, based in St. Louis as well, is also expanding coal-export terminals on the Gulf Coast.

In all, the U.S. exported $13.8 billion worth of coal in the first 11 months of 2012, including $3.8 billion of steam coal. Lower average prices for each ton of coal left total revenue down slightly from 2011.

Hal Quinn, head of the National Mining Association, said in a press conference late last month that coal exports are a "real bright spot" for the battered industry. In a January speech, he said global demand for coal would increase by more than one billion tons over the next five years, with more than 80% of that demand being steam coal. Germany, for one, may need more coal because it plans to shut down nuclear-power plants.

Still, some forecasters are cautious about whether U.S. exports can keep rising. The U.K. importing group's Mr. Yaxley said tougher environmental rules and coal-plant phase-outs in the U.K. may start to erode cheap coal's advantage in 2015.

Europe's sluggish economy is another reason U.S. government energy forecasters and the mining association expect coal exports this year to decline slightly from 2012's record.

Protests against coal shipments to Europe are fewer than those against Asian deliveries because critics see the Europe boom as a short-term blip.

Bruce Nilles, the director of the Sierra Club's anticoal campaign, said that 2012 was a "last gasp" for the coal industry and that economics will increasingly be against sending U.S. coal to Europe. "Appalachian coal is going away. So where will the coal come from?"

For now, though, the gloomy images of a coal-mining industry in decline feel far away in Hampton Roads.