

# **IMPROVING THE INTERNATIONAL COMPETITIVENESS OF U.S. COAL AND COAL TECHNOLOGIES JUNE 1987**

## **PURPOSE**

Coal is the only energy resource of the United States in which exports consistently exceed imports. It is a vitally important commodity contributing over \$4 billion annually toward balancing trade. The United States and Australia are the leading exporters; however, South Africa, Canada, and Colombia also export significant quantities in this highly competitive market.

International coal trade and United States exports are projected to grow driven by increasing demand for electricity, particularly in Asia, and declining coal production in the European Economic Community as restructuring of the industry reduces trade barriers and subsidies. Whether this restructuring will ever be fully realized is quite uncertain as evidenced by recent political difficulties in Great Britain where the closing of non-profitable mines was announced and then suspended.

This 1987 report examines the international competitiveness of United States coal and coal technologies. The purpose of the study was twofold:

- To provide a better understanding of the factors that determine the position of United States coal in relation to its competitors in world coal trade; and
- To recommend both government and industry actions that can be taken to improve its competitiveness.

## **FINDINGS**

This report reviewed six areas within the context of international competitiveness of United States coal and coal technologies as described briefly herein.

- Trends in International Coal Trade - World coal trade almost doubled in the 12 years between 1973 and 1985 due to increased demand for steam coal used in electricity generation. Since this report was written, annual international coal trade has expanded by an additional 60 million tons (1991 versus 1985). Exchange rates between exporting countries to a large extent effect the competitiveness of one supplier country vis-à-vis another.
- Structure of International Coal Trade - As world steam coal trade increased, various governmental entities of other major exporting countries have provided financial assistance for coal burning installations in order to facilitate export coal sales. The United States government could provide greater support to the nation's coal industry in the area of financing coal utilization projects in developing countries.
- Comparative, Delivered Costs and Production Costs in Major Coal Exporting Countries - The United States is generally at a disadvantage with respect to delivered costs on a dollar per million Btu basis. Low-cost producing countries such as Colombia, Australia, and South Africa have the economic advantage. Foreign exporting countries are not constrained by the same major cost components as United States producers. For example, black lung taxes are not paid by other exporting countries, and foreign competitors generally do not have as restrictive mining regulations as those in this country affecting longwale mining.
- Transportation Issues and Comparative Costs - The United States is inherently disadvantaged by the long inland freight distances between mines and ports. Moreover, other countries exercise greater governmental control of transportation of coal exports in their pursuit of national export objectives.

- Clean Coal Technology and Financial Assistance Programs - Linkage to Competitive Export Sales - The United States is one of the largest developers of clean coal technology and can offer developing country customers state-of-the-art technology to meet their power generation needs. Opportunities exist to link such equipment sales with coal sales. Innovative financial assistance programs will be needed to realize these opportunities.
- Non-Competitive Foreign Coal Production - Opportunities for Increased Exports - The cost of some 100-150 million tons of annual coal production in six major coal consuming countries (Western Europe and Japan) is underwritten in some form, either directly or indirectly, by their respective governments. Reductions of these subsidies would promote competition and would result in greater United States exports.

## RECOMMENDATIONS

- Coal should be accorded a higher priority in United States trade policy so as to expand its contribution to our nation's balance of trade.
- United States trade policy should recognize that a reduction in coal trade barriers in major coal importing countries could result in expanded United States coal exports as the nation captures a share of resulting increased import demand.
- The government can affect our nation's coal competitiveness by addressing the cost of producing coal. It is of critical importance that the tax and regulatory burden on the United States coal industry be held to a minimum.
- Further funding, by the United States Government and private industry, of research and development efforts for clean coal technologies will contribute to increased competitiveness of our coal exports. These technologies offer higher efficiencies and environmental benefits. In addition, clean coal technologies which can utilize higher sulfur coals will increase demand for these lower cost coals from the United States that are currently demand-limited.
- Private enterprise and the Federal Government need to develop more sophisticated and better integrated international financing methods to raise the capital required for the scale of investments associated with new coal-fired power plants in coal importing countries.