

U.S. COAL EXPORTS INCREASING

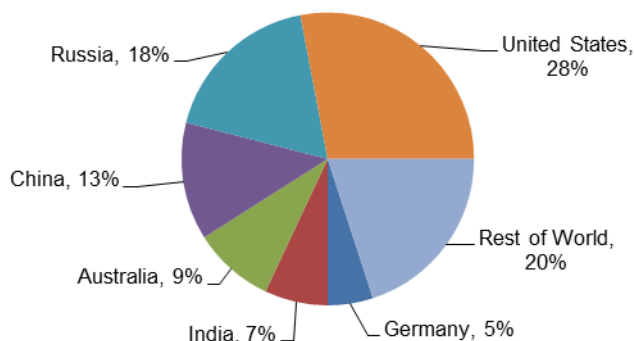
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U.S. exports of coal have increased significantly in 2010 and 2011 in terms of both value and volume. Abundant U.S. coal reserves, coupled with increasing processing capacity at ports on the east and west coasts and strong growth in demand in East Asia and Europe, are expected to lead to long term growth in U.S. coal exports according to the U.S. Department of Energy (USDOE).

Supply

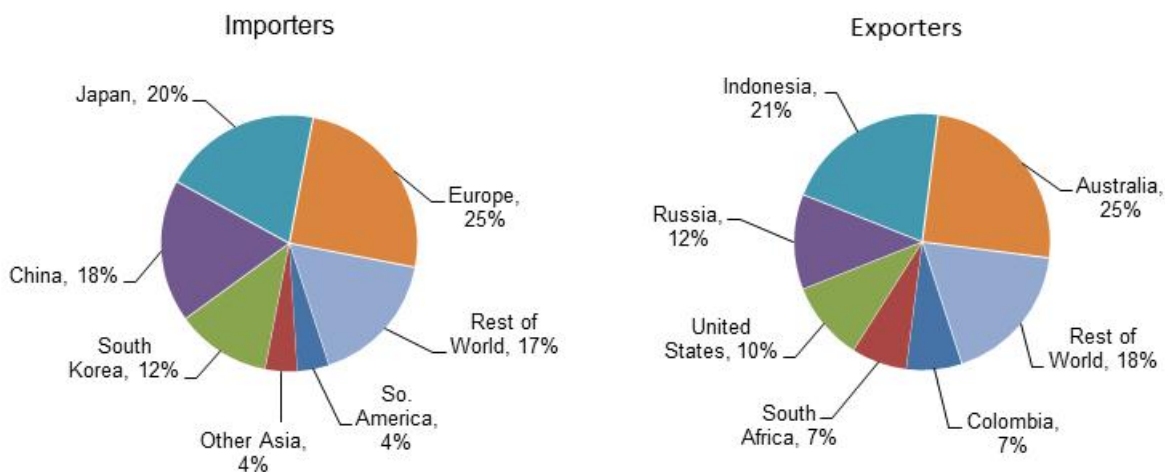
The United States led the world with over 260 billion short tons of recoverable coal reserves in 2011 (figure 1). Some of the world's highest quality bituminous coals come from the United States (including both metallurgical or coking coal, used in the manufacture of steel, and steam coal, used in power plants to produce electricity). The United States has historically been a large exporter of coal and currently ranks fourth worldwide, after Australia, Indonesia, and Russia (figure 2).

FIGURE 1 The United States leads the world in coal reserves



Source: Derived from official statistics of the U.S. Department of Energy.

FIGURE 2 The United States was a major world exporter of coal in 2011



Source: Derived from official statistics of the U.S. Department of Energy.

Demand

According to USDOE, U.S. domestic demand for coal is expected to decrease as its share of U.S. electricity production falls below the current level of 44 percent to an estimated 33 to 36 percent within the next 20 years. This is largely due to increasing environmental regulations for burning coal and the availability of cheaper substitute energy products, such as natural gas. At the same time, demand for coal

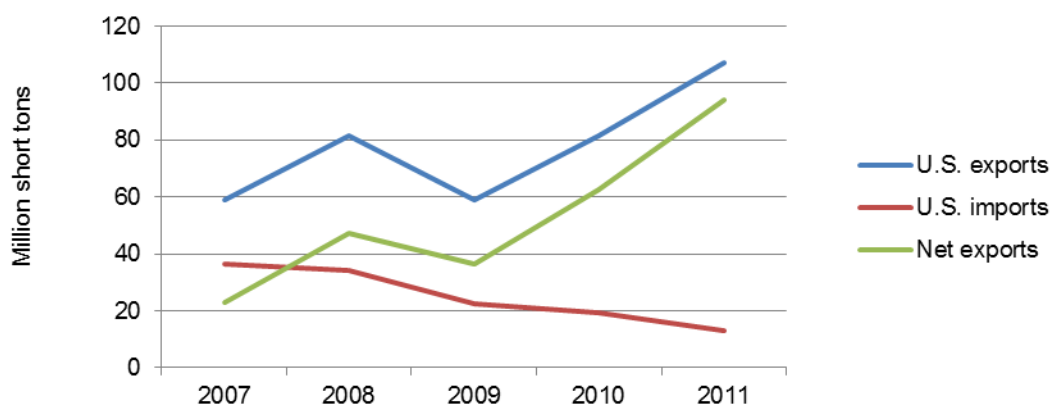
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in Asia is expected to show strong growth. For example, China is building dozens of coal plants to provide power for household and industrial uses. While China is a major world producer of coal, it lacks the infrastructure to move its coal economically from producing mines to many of the major consuming areas. It is reportedly cheaper to import coal from the United States than it is to transport coal via rail and truck from China's northern mines to China's southern consuming areas.

U.S. exports

Coal production shortages in Australia coupled with increasing demand in Asia and Europe are driving up U.S. coal exports. U.S. coal exports have also benefitted from rising prices for other energy products; for example, in 2008, U.S. coal exports rose sharply in response to the spike in crude petroleum prices. U.S. coal exports to China surged from 1 million short tons in 2009 to over 5 million short tons in 2011. Demand for U.S. coal also grew rapidly in Japan, India, and South Korea because of its high quality and availability. As a result, U.S. coal exports in 2011 reached over 107 million short tons, up 81 percent compared with 2009 (figure 3). Exports in 2012 could increase by an additional 8 to 10 percent.

FIGURE 3 U.S. coal exports increased significantly during 2009-11



Source: Derived from official statistics of the U.S. Department of Energy.

U.S. exports accounted for 8 percent of total U.S. coal production in 2010 and 10 percent in 2011, with metallurgical coal being the steadiest export. The long term trends of declining U.S. demand for coal and increasing European and Asian demand are expected to result in further shifts of U.S. coal shipments to exports, which could rise to as much as 20 percent of production.

The future for U.S. exports

U.S. companies hope to increase coal exports to Asia and other markets. Increased exports could come through proposed expansion of West coast ports and draw upon the major reserve base in the Powder River Basin of Wyoming and Montana. While many expansion proposals face opposition from environmental advocates, U.S. ports are planning to increase export capacity in Louisiana, Washington, Oregon, and Texas to satisfy increasing global demand. If proposed expansions of U.S. coal export facilities throughout the United States are built to maximum capacities, U.S. export capacity could increase by 75 million shorts tons per year (msty) to around 248.2 msty. With continued growing demand from Asia and Europe, unused port capacity on the east coast, and major expansions proposed for the west coast, U.S. coal exports could overtake Russia and, perhaps Indonesia, in the near future.

Sources: Official statistics of the U.S. Department of Energy; "U.S. Exports Most Coal in 20 Years on Australia Floods," Bloomberg Report, San Francisco Chronicle, May 23, 2011; Mario Parker & Noah Buhayar "Peabody Energy Sees Global Coal Demand at the Beginning of a Super Cycle," Bloomberg News, June 21, 2010.

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