Center for American Progress

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Revitalizing Appalachia

How Congress Can Correct Distortions in the Coal Market and Invest in Struggling Coal Communities

By Gov. Ted Strickland, Greg Dotson, and Matt Lee-Ashley February 2015

Introduction and summary

The U.S. coal industry is in the midst of a painful transition. The number of coal-mining jobs in the United States has fallen steadily in recent years, a trend that has had a profound impact on communities that depend on the coal industry for employment and tax revenue. Policymakers should manage this transition and ensure that coal communities emerge stronger and more resilient to fluctuations in the coal market.

Numerous market forces are driving the challenges facing the U.S. coal industry. Over the course of several decades, mechanization has progressively chipped away at the number of workers needed to mine a ton of coal. More recently, abundant and cheap supplies of cleaner-burning natural gas have outcompeted coal as the preferred fossil fuel for new electricity-generating capacity.

The coal industry in Appalachia—a region that spans portions of Kentucky, Ohio, Pennsylvania, Virginia, and West Virginia—faces challenges that are unique to a coal basin in which the richest coal seams have been mined already. It is easier—and therefore cheaper—to extract coal in other U.S. coal basins, such as the Powder River Basin, or PRB, in Montana and Wyoming or the Illinois Basin in Illinois, Indiana, and western Kentucky. This creates a daunting market barrier for Appalachian coal. In addition to facing domestic competition, Appalachian coal producers are losing market share to low-cost imports and are struggling to compete in an oversupplied global export market.

Unfortunately, these market challenges have been exacerbated by federal coal policies that further distort the market and undercut Appalachian coal.

The federal program for leasing coal on publicly owned lands is fundamentally noncompetitive and does not ensure that taxpayers receive the true fair-market value for coal extracted from public lands. The distortionary effect is particularly stark in the PRB of Montana and Wyoming, where the vast majority of federal coal is mined. PRB coal is significantly undervalued and sells at a fraction of the cost of coal produced in other regions of the United States—less than one-third of the price of Appalachian coal, even when accounting for Appalachian coal's higher heat content. Some analysts argue that these low prices give PRB producers a near monopoly, making it difficult for coal producers in other U.S. basins to compete.

In this report, the Center for American Progress proposes that Congress act to correct the flaws in the federal coal-leasing program that create these market distortions. Specifically, CAP offers two policy choices. The first is that Congress could raise the royalty rate that mining companies pay on the value of surface-mined coal they extract from federal lands. This change would prospectively apply to new coal leases only, leaving the current rate for existing leases untouched. Alternatively, Congress could leave the existing rate unchanged but require mining companies to apply the existing royalty rate to the price of coal at its final point of sale rather than at the first arms-length transaction. This change would ensure that coal companies pay royalties on the true market value of federal coal, and it would apply to both new and existing leases.

Both of these changes would achieve two important goals. First, they would ensure that taxpayers receive a fairer return on publicly owned coal resources. Second, they would create a significant new revenue stream that Congress could direct to struggling coal communities in Appalachia in order to help them rebuild and diversify their economies. Policymakers and stakeholders have begun to shape and implement programs to provide economic development, job training, and employment assistance in Appalachian communities, but securing adequate funding for these programs remains a challenge.

The prosperity of the PRB and Appalachian coal communities are in some ways linked. As the Appalachian coal industry has declined, the PRB coal industry has grown. Ineffective and outdated federal coal policy has depressed the price of federal coal and skewed the market in favor of the PRB over others, including Appalachia. Fixing this flawed policy can generate new revenue for investment in Appalachian coal communities in dire need of economic diversification and revitalization.

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