

Coal Export

A history of failure for western ports

August 2011

(Updated August 2012)

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Communities in Oregon and Washington are weighing the prospect of coal export facilities. Proponents of shipping American coal to Asia argue that coal will bring significant economic benefits to the region. In this research memo, we examine the risks of coal markets, review the history of coal exports on the West Coast, and evaluate the employment dimensions of coal terminals.

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1.) Coal is “the most risky bulk mineral market”

Coal companies are asking Pacific Northwest ports to dedicate large terminals to ship US coal to Asia. But coal is so unattractive that many ports are rejecting coal, despite aggressively pursuing new business. Recently, the Port of Tacoma, located on Puget Sound, the Port of Grays Harbor on the Washington coast, and the Columbia River Ports of Vancouver, Kalama, and Portland have all considered—and rejected—coal export proposals.

Port of Tacoma

The headline of *Platts Coal Trader* said it all: “Tacoma Port torpedoes coal terminal plan.” The Port of Tacoma stated that it rejected a large export proposal in 2010 because of a “multitude of business and community factors.”¹ Local citizens had strong concerns about the health effects of coal dust and the impact of coal trains.

Port of Grays Harbor

In early 2011, RailAmerica announced that it was evaluating a plan to export roughly 5 million tons of coal from the Port of Grays Harbor on the Washington coast. But after careful study, RailAmerica shelved the plan, stating that: "...we believe that there are other uses and other opportunities for that terminal that are much more likely to generate jobs, economic development, tax revenues, (and provide a) general increase in business for the Port and, of course, for RailAmerica."²

Port of Vancouver

The *Columbian* newspaper framed up the Port's choice, writing, "faced with a choice of helping to grow food or feed industry, the Port of Vancouver picked a fertilizer ingredient over the dirtiest fossil fuel on the planet."³

Larry Paulson, the Port of Vancouver's executive director, pointed out that "coal facilities have a tendency to come and go," and that was a big reason why Vancouver favored a terminal for potash, a more stable commodity.⁴ The Port's operations manager, Mike Schiller, put it even more directly: "coal is the most risky bulk mineral market."⁵

Port of Kalama

Kalama rejected a coal export proposal from Millennium Bulk Terminals in 2010. Kalama told Millennium that "after considerable deliberation on the issue, the Port will not be moving forward with plans for a coal export facility."⁶ After the rejection, Millennium now seeks to site its project in Longview.

Port of Portland

The Port of Portland made clear that "a coal terminal is off the table for existing and future Port of Portland facilities."⁷ A media statement explained, "The Port needs to be reflective of the community and its values. Coal doesn't seem to fit within those values."⁸

Perhaps heeding the Port of Vancouver's statement that "coal is the most risky bulk mineral market," no public port has voted to approve a coal export terminal. Coal is a notoriously unstable and risky commodity. That's why business reporter David Gambrel, writing for the industry publication *Coal Age*, recently questioned whether new export facilities on the West Coast really make sense:

Will there be sufficient demand to justify a new coal supplier...? Let us not forget the same China that threatened to export coal 10 years ago is

now viewed as a buyer with deep pockets and endless demand. How long will this last?⁹

It's an important question. Coal exports from Washington would rely on Asian markets that have historically been fickle. China, which has large domestic coal reserves, is both an importer and exporter of coal. It's enough to make some insiders, including Deutsche Bank commodities analysts, believe that the coal export market to China may be overhyped.¹⁰

2.) Coal has a history of failure on the West Coast

If Deutsche Bank is right that coal is currently overhyped, it wouldn't be the first time. West Coast port cities have already gambled and lost on coal export facilities. After investing millions of dollars in infrastructure and setting aside sizeable harbor acreage to coal export facilities, both Portland and Los Angeles watched their promised revenue from coal exports evaporate.

Worse yet, local communities were stuck with the tab. The abandoned coal export facilities locked up millions of dollars in stranded investments and clean-up expenses, not to mention years-long missed opportunities for more durable economic development choices.¹¹

What happened in Portland?

The early 1980s saw a rush of coal companies proposing export terminals in Washington and Oregon to satisfy a hungry Asian market. Longview, Kalama, Vancouver, and Astoria all entertained proposals, but the Port of Portland bought in.¹² Portland committed to a 25-year lease with Pacific Coal for 90 acres and 900 feet of prime riverfront for a coal export terminal.¹³ Governor Atiyeh even broke ground at the site with a giant gold-painted power shovel in 1982.¹⁴

The Port and investors spent \$25 million building a coal export terminal.¹⁵ Two years later, the project imploded after Asian markets proved unstable, unreliable, and not-so-hungry. After a five-month investigation, the *Oregonian* reported, "Port and Pacific Coal officials heedlessly plunged ahead despite clear warnings that they might never move a solitary lump of coal."¹⁶

Contractors didn't get paid, borrowers defaulted, and lawsuits flourished.¹⁷ By betting on coal, the Port wasted prime industrial land, money, and jobs. The *Oregonian* noted:

Analysts later determined that coal export failed because the Asian demand was based on promises rather than actual long-term contracts. And international

banks studying the issue found that the demand for coal had been ‘vastly overstated.’¹⁸

Soon after the Port of Portland collapse, nearly all other West Coast coal plans were scrapped.

What happened in Los Angeles?

Despite Portland’s dramatic failure in the 1980s, a decade later Los Angeles forged ahead with another “world-class” coal export facility. In the early 1990s, coal giant Peabody led a consortium of investors that promised jobs, tax revenue, and environmental protection with a new coal export terminal at the Port of Los Angeles (LAXT).¹⁹ The enormously divisive project alarmed neighbors and nearby workers.²⁰

A 1993 *Los Angeles Business Journal* article seems to prefigure today’s debates in the Northwest:

... although the terminal will create jobs and taxes throughout Southern California, the terminal will have a negligible impact on L.A. County because the product (coal) is sourced from other states and the automated terminal won't generate many direct jobs.²¹

And:

The City of Long Beach filed a lawsuit July 14, alleging that the Port of L.A.'s environmental impact report doesn't adequately address the negative environmental impact of coal dust that will be spewed from the massive uncovered storage pile of coal and petroleum coke.²²

Fears proved well-founded. The terminal experienced at least two fires after dangerous amounts of coal dust accumulated in the ship-loading machinery.²³ By that time, however, Peabody was no longer around; perhaps sensing market weakness, they dropped out of the consortium before the terminal was built.

The facility closed just six years after it opened owing to unfavorable market conditions.

When the facility shut down, the City of Los Angeles had to write off \$19 million of capital investment, and forfeit \$94 million in expected revenue.²⁴ Ultimately, the city was sued for improperly managing the site – and for failing to consider alternative uses of the site – and taxpayers shelled out \$28 million to settle the suit.²⁵

3.) Coal is a poor strategy for jobs.

Each of the coal export facilities planned for Washington would occupy hundreds of acres of prime waterfront shipping property with storage for raw coal. There are far more job-intensive uses for port lands. For example, a marine construction company leasing just 3.5 acres of land and a new cold storage facility on 17 acres of land at the Port of Tacoma are each expected to generate 100 new jobs.²⁶ A Port of Seattle economic impact study found that shipping 1,000 metric tons of grain—a bulk commodity like coal—generated just 0.09 jobs, compared to 0.57 jobs for containerized cargo and 4.2 jobs for “break bulk” cargo, such as big machines or goods shipped on pallets, which requires more handling.²⁷ A study at the Port of Baltimore came to similar conclusions, finding that coal export supports just 0.11 jobs per 1,000 metric tons, as compared to 0.41 for other dry bulk commodities, 0.43 jobs for containerized cargo, and even 1.71 jobs for autos.²⁸

Millennium Bulk Terminals in Longview estimates that it would employ 70 people to move about 5 million tons of coal.²⁹ Millennium’s purchase of the property displaced 50 workers from the previous employer, however, so the net gain would be 20 jobs.³⁰ In Bellingham, project developers say that a 24-million-ton facility, which is planned to be operational in 2015, would employ 89 workers. Proponents estimate that in 2026, if the entire 54 million ton facility is completed, the coal terminal would directly employ about 280 people.³¹

It’s important to understand the jobs numbers in context. The result is that coal exports at Longview, even if the entire 70 jobs are counted, can only be counted on to directly increase employment in Cowlitz County by less than two tenths of one percent. Meanwhile, coal exports at Cherry Point would directly increase employment in Whatcom County by less than one tenth of one percent by 2026.³²

It is also important to weigh the promise of jobs against the economic threats of investing in the “most risky” coal market. Portland’s gamble on coal was ridiculed for costing jobs: “By signing a 25-year lease with Pacific Coal, Port officials tied up 90.69 acres of riverfront land suitable for heavy industry at a time when the Portland area desperately needed jobs.”³³

Today, it is not surprising that the Ports of Tacoma, Vancouver, Kalama, and Portland are leery of investing in coal after the history of failure.

4.) A Longview case study: Cleaning up a dirty site attracts jobs

Millennium proposes to use a former mill site owned by Alcoa in Cowlitz County to export coal. The site, which features 416 acres of prime waterfront industrial land, is contaminated with pollution from the mill operation. Cowlitz County now faces a choice for the site: approve Millennium’s proposed coal export terminal or force Alcoa to clean

it up to attract other business. Alcoa has already signed an Agreed Order with the Department of Ecology, in 2007, that mandates Alcoa to clean up the site's pollution.³⁴

Alcoa has a good track record cleaning up aluminum mills and selling the land for more productive uses. In the last 5 years, Alcoa has successfully completed cleanup of former aluminum mills in Troutdale, Oregon and Vancouver, Washington.³⁵ Alcoa even received a national award for its cleanup of the Troutdale site.³⁶ Both sites are now active industrial areas.

In Troutdale, the recently cleaned site is now the home of a FedEx Ground regional distribution center that employs over 750 people.³⁷ And in Vancouver, the Port purchased Alcoa's cleaned up 218-acre mill site and now expects up to 1,000 new jobs there. The Vancouver site, now called Terminal 5, will be put to immediate use to construct improved rail service and accommodate a surge in wind turbines and other cargos, while preparing for more development of the marine terminal in the near future.³⁸

The employment numbers for coal exports don't stack up well. The proposed coal export terminal at Longview would occupy 416 acres of heavy industrial waterfront property and produce 70 jobs (with a net gain of 20 new jobs)—less than 0.2 jobs per acre. By contrast, the Troutdale facility occupies 700 acres of heavy industrial property, but supports 1.1 jobs per acre. The Port of Vancouver site, with 218 acres of heavy industrial waterfront, generates 4.6 jobs per acre.³⁹

Conclusion

West Coast coal terminals have a history of failure. The terminals locked in otherwise productive land use for years without delivering on promises of tax revenues and jobs. The cost of these failures is borne by the communities. When the facilities don't work out, the specialized equipment is difficult to remove or resell. Land and water pollution at coal export harbors is both inevitable and potentially irreversible. Millions must be spent to approximate clean-up and rededicate the land, often to lower-value uses.

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- ³ Aaron Corvin, "Port Dodges Coal, Embraces Potash," *Vancouver Columbian*, April 3, 2011, <http://www.columbian.com/news/2011/apr/03/dodging-coal-embracing-potash-the-port-of-vancouve/>
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- ⁵ Email from Mike Schiller, operations manager, Port of Vancouver, Washington to Alastair Smith, November 20, 2008 (obtained from Public Records Act request).
- ⁶ Email from Mark Wilson, development manager, Port of Kalama, to Mark Wilson, Ambre Energy, July 6, 2010.
- ⁷ May 25, 2011 Port of Portland letter to Columbia Riverkeeper, Enclosure 1 ("talking points" dated March 22, 2011).
- ⁸ May 25, 2011 Port of Portland letter to Columbia Riverkeeper, Enclosure 1 ("talking points" dated March 22, 2011).
- ⁹ Dave Gambrel, "Building a Coal Terminal on the West Coast," *Coal Age*, November 18, 2010, <http://www.coalage.com/index.php/features/763-building-a-coal-terminal-on-the-west-coast.html>.
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- ¹¹ In Los Angeles, for example, the city's projected losses were to include: writing off the city's \$19 million investment; forfeiting nearly \$94 million in projected revenue; losing access to 117 acres of harbor land; paying \$1 million to clean up approximately 36 acres of that land. (See Patrick McGreevy, "L.A. Weighs Costly Exit From Coal Terminal," *Los Angeles Times*, June 14, 2003, <http://articles.latimes.com/2003/jun/14/local/me-coal14>.)
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- ¹⁴ Bob Olmos, "Pacific Coal terminal under way in Portland," *The Oregonian*, March 2, 1982.
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- ²³ Exponent, "Coke and Coal Shiploader Fire: Los Angeles Port," <http://www.exponent.com/Coke-and-Coal-Shiploader-Fire-Los-Angeles-Port/>.
- ²⁴ Patrick McGreevy, "L.A. Weighs Costly Exit From Coal Terminal," *Los Angeles Times*, June 14, 2003, <http://articles.latimes.com/2003/jun/14/local/me-coal14>.
- ²⁵ LAXT's development and subsequent closure also sparked a firestorm of lobbying, backroom deals, and lawsuits. As one city councilmember at the time put it, "Every lobbyist I have ever heard of is in this chamber... I would like to

know where, if [the terminal] is on the verge of bankruptcy, they got the money to hire all these lobbyists.” The *LA Times* reported that the terminal, “made 25 political contributions totaling more than \$10,000 to city officials and candidates including Mayor James K. Hahn and his sister, Councilwoman Hahn.” (See Patrick McGreevy, “L.A. Weighs Costly Exit From Coal Terminal,” *Los Angeles Times*, June 14, 2003, <http://articles.latimes.com/2003/jun/14/local/me-coal14>; Patrick McGreevy, “L.A. To Pay \$28 Million to Settle Port Suit,” *Los Angeles Times*, December 14, 2006, <http://articles.latimes.com/2006/dec/14/local/me-settle14>; and Patrick McGreevy, “City Is Hit With \$4 Million in Claims Over Rejected Port Project,” *Los Angeles Times*, June 11, 2004, <http://articles.latimes.com/2004/jun/11/local/me-laxt11>).

²⁶ Port of Tacoma, “Construction starts on new cold storage facility at the Port of Tacoma,” January 12, 2010, <http://www.portoftacoma.com/Page.aspx?cid=4229>; and Port of Tacoma, “Port of Tacoma leases to marine contractor for new Northwest base,” March 24, 2010, <http://www.portoftacoma.com/Page.aspx?cid=4365>.

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²⁸ Martin Associates, “The Economic Impacts of the Port of Baltimore,” January 28, 2009, http://mpa.maryland.gov/_media/client/planning/EconomicImpactReport-revisedJan'08.pdf.

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³⁴ Washington State Department of Ecology, Agreed Order No. DE 4263, In the Matter of Remedial Action by Northwest Alloys Inc. and Chinook Ventures Inc. (2007).

³⁵ Oregon Department of Environmental Quality, “Environmental Cleanup Site Information (ECSI) Database Site Summary Report – Details for Site ID 154, Reynolds Metals Co,” <http://www.deq.state.or.us/lq/ECSI/ecsidetail.asp?seqnbr=154>; Washington Department of Ecology, Port of Vancouver (Former Alcoa/Evergreen Smelter), http://www.ecy.wa.gov/programs/swfa/industrial/alum_alcoavan.htm.

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