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Utah Bailout of Bankrupt California Coal-Export Project Would Likely Fail

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A proposed $20 million public bailout for the bankrupt developer of a coal-export terminal in California would likely be $20 million squandered.

The money would come from a special $53 fund million created by the state of Utah in 2016 to help finance construction of a $250 million "multi-commodity bulk terminal" in Oakland that its backers say would send Utah coal to Asia. The subsidy would derive from federal mineral lease royalty payments to the state that by law are supposed to be used to help communities hurt by the extraction of fossil fuels. The payments are typically used for infrastructure, transportation, and health and public safety projects.

The port project, long promoted as a lifeline to Utah's failing coal industry, has never gone anywhere—owing to market hurdles and to community opposition in Utah and California. In a special session of the Utah Legislature on Thursday, however, a group of lawmakers and county commissioners plan to push for the quick release of $20 million to the developer, Insight Terminal Solutions (ITS) LCC, which is fighting creditors in its Chapter 11 bankruptcy proceeding in Kentucky. That proceeding has been continued to Sept. 22 after an ITS lawyer said Utah wanted to grant $20 million to ITS to keep it afloat,[1] [2] and the company is using the possibility of state support to try to attract financiers. An ITS executive said the company is "working on other transactions" with potential investors.[3]

The project remains purely speculative because it assumes that Japan would buy coal from Utah mines, which would come at a price that would have to cover rail costs from central Utah to Oakland, 900 miles away, and trans-Pacific shipping costs from Oakland to Japan, a 5,000-mile trip.

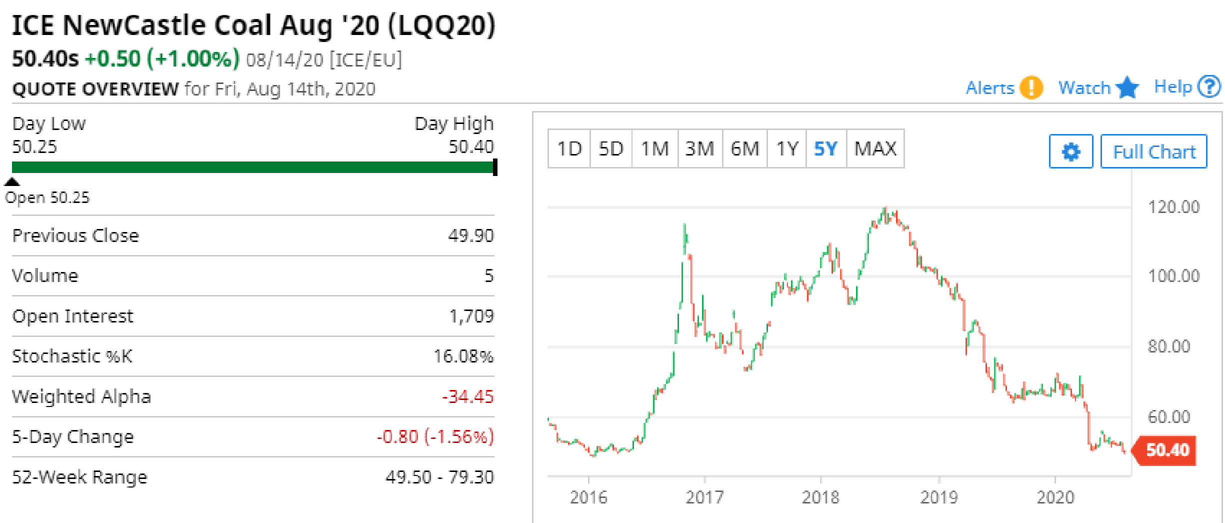
After the Fukushima nuclear disaster of 2011, Japan increased its coal-fired electricity generation to replace output from idled nuclear plants, but since 2013, its coal imports have stabilized or declined as its nuclear fleet has gradually come back online.[4] An April analysis by Argus concluded that "the outlook for coal burn is weak"[5] in Japan, noting also that Japanese demand for U.S. coal has never amounted to much because Japan has relied mainly on closer suppliers in Indonesia and Australia. The Argus analysis included numbers, for instance, from March showing that Australia supplied 7.1 million tons of thermal coal to Japan that month, Indonesian 1.4 million tons, Russia 1.2 million tons, and the U.S. 249,000 tons.

Japan's interest in coal-fired power will very likely continue to wane. Last month, leaders said the country would close 100 aging coal-fired power plants by 2030, reduce coal in the nation's electricity generation mix, and shift output to more efficient plants.[6] Japan's move is part of a larger trend in developed Asian

1 Salt Lake Tribune. Will Utah lawmakers bail-out beleaguered coal-export company? Aug. 11, 2020.
2 Interview with Heidi McIntosh, managing attorney, Earthjustice, intervenor in ITS bankruptcy case on behalf of Sierra Club and Utah chapter of Sierra Club. Aug. 17, 2020.
3 Interview with Jim Wolff, chief operating officer, ITS. August 2020.
4 BP. Statistical Review of World Energy. June 2020.
5 Argus. Japan coal imports recover in March, but outlook weak. April 21, 2020.
6 Reuters. Japan to Shut or Mothball 100 Aging Coal-Fired Power Plants. July 1, 2020.

nations to move away from coal: South Korea, for one, has unveiled an ambitious, $35 billion plan to ramp up investments in wind and solar and in energy efficiency initiatives in hopes of tripling the nation's renewable energy output by 2025.[7]

Since 2018, a combination of weak demand and abundant supply has pushed Pacific Rim coal prices to their lowest in five years (see the chart below from IHS on the benchmark Newcastle price)—far too low for U.S. exporters to make a profit. Futures contract pricing offers no sign of a near-term rebound.[8]



Of note on the ITS bailout proposal is that the two top executives at ITS[9] come to the company, which was formed in 2018, from Bowie Resources and Trafigura. Bowie and Trafigura tried unsuccessfully five years ago to get a similar if not identical project off the ground through a partnership that IEEFA noted at the time "serves to underscore the lack of private financial investment in the coal industry today."[10] The new plan has the same hole in it.

The U.S. coal industry is in irreversible decline, and the effects can be seen locally,[11] regionally[12] and globally.[13] The proposed bailout of ITS, if it proceeds, would be a shot in the dark with little chance of the state reaping any return on its investment and a much higher likelihood of loss. Such spending would be better deployed locally through reinvestment in Utah's rural coalfield communities.

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7 Bloomberg. South Korea's $35 Billion Green Plan Skirts Zero-Carbon Target. July 13, 2020.
8 Barchart.com. ICE Newcastle Coal. Accessed August 14, 2020.
9 Insight Terminal Solutions. Frequently Asked Questions. Accessed Aug. 18, 2020.
10 IEEFA. Oakland's Proposed Coal-Export Expansion Is Fraught With Risk. September 2015.
11 U.S. Energy Information Agency. Weekly Coal Production. Accessed Aug. 18, 2020.
12 S&P Global Financial Intelligence. Uinta Basin coal output drops 11.9% in Q2'20. Aug. 18, 2020.
13 S&P Global Financial Intelligence. Top US coal ports post double-digit volume declines in Q2'20 on COVID-19 impact. Aug. 18, 2020.