House Natural Resources Subcommittee On
Energy and Mineral Resources
Chairman Lowenthal and Subcommittee Members
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The Federal Coal Program: A Bad Deal for Taxpayers and a Threat to Climate

Testimony Submitted by Friends of the Earth

Department of the Interior Approves Coal Corporation Royalty Rate Reductions; More Pending Approval

Coal corporations have been playing a shell game in order to avoid paying taxpayers their share for decades. Many Western U.S. coal mines operate under the already inadequate statutory royalty rate of 12.5% (surface) to 8% (underground) for federal coal resources mined. President Biden's Executive Order prohibiting agencies from subsidizing fossil fuels to the extent consistent with applicable law purported intent was to put taxpayers and climate change at the center of the Administration's national policy. This 'whole-government' approach had promised to deploy the full capacity of agencies in order to curb greenhouse gas emissions.

In reality, the Interior Department's leadership has already slashed coal royalty rates for two coal corporations and has additional pending requests for more cuts, shorting taxpayers even more and incentivizing more greenhouse gas emissions.

Royalty Rates Slashed:
According to the Bureau of Land Management's database and reported on by news outlets, the Interior Department has slashed royalty rates for three mines in Wyoming and Colorado, with additional requests pending under review by the Land and Mineral Bureau office.

Arch's Coal Creek surface mine in Wyoming was awarded a reduction from 12.5% down to 2% for the next two years. Royalties for Deseret Power Electric Cooperative's underground Deserado mine in Colorado were also slashed to 2% for two years, down from 8%. Additionally, Arch's West Elk underground mine's royalties in Colorado were slashed to 5% for the next three years.

It is unclear, and the Interior Department's Land and Mineral Bureau has failed to clarify, if the royalty rate reductions were retroactively applied to last year when coal corporations sought relief but were denied.

Coal Prices, Demand, Exports, and Profits Up:
The royalty reductions are in direct contrast to the Biden Administration's directive and the market reality. According to the U.S. Energy Information Administration (EIA), U.S. coal

production is up: exports for the first quarter of 2021 (20.7 MMst) increased 8.6% from the fourth quarter of 2020, with average prices at $87.81 per short ton. In the second quarter, coal exports increased 6.9% from the first quarter of 2021. The average price of U.S. coal exports during the second quarter of 2021 was $93.24 per short ton.

In the second quarter of this year, Arch Coal posted $450.4 million in revenue (a net gain of $27.9 million from the previous quarter). Arch Coal's third quarter gross margin from thermal coal was $58 million, up more than 40 percent over the second quarter, and profits approached $600 million in total for the third quarter.

Peabody, with still pending royalty rate reduction applications at the Interior Department, posted revenue of $723.4 million for the second quarter and announced revenue of $690 million in the third quarter.

Royalty rate reductions by the Interior Department's Land and Mineral Bureau to coal corporations when the market has rebounded is a disservice to taxpayers and impacted communities at a time when corporate profits have been robust and growing. Further, these approved royalty cuts - reduced for two to three years - directly contradict President Biden's Executive Orders on climate change by subsidizing additional coal production that will increase greenhouse gas emissions.