

Media Summary

Coal Production Forecasts and Economic Impact Simulations in Southern West Virginia: A Special Report to The West Virginia Senate Finance Committee

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This study was performed by the Center for Business and Economic Research at Marshall University's Lewis College of Business at the request of Senator Oshel Craigo, Chair of the West Virginia Senate Finance Committee. The study provides:

- √ An economic analysis of coal production in southern West Virginia.
- √ A baseline forecast model of coal production in southern West Virginia and two simulations of possible outcomes under the Haden Decision.
- √ A county level impact of the forecasts and simulations for Boone, Fayette, Kanawha, Logan, McDowell, Mingo, Nicholas, Raleigh and Wyoming Counties.

The key findings of the economic analysis suggest that the coal industry faces considerable demand side pressure from:

- √ Domestic competition, primarily from the Powder River Basin area of Wyoming.
- √ International competition, primarily from Columbia and Australia.
- √ Regulatory impacts, primarily the *Clean Air Act Amendments of 1990*, which make the higher sulfur dioxide content West Virginia coal less attractive to electricity generators.

On the production side, West Virginia coal mining companies face challenges related to:

- √ The relatively high costs of mining and transport of coal in West Virginia due to its geological characteristics.
- √ Increased costs due to regulatory impacts, especially the *Surface Mining Control and Reclamation Act of 1977* and the *Clean Water Act*. The latter is especially problematic due to pending appeal of the Haden Decision that may effectively end surface mining.

The forecast model provides a baseline forecast of the coal industry and two simulations of potential impacts generated by two different interpretations of the Haden Decision. In each case the study provides an economic impact on jobs, wages, production and West Virginia Severance Taxes for 2000, the first year of the study. The baseline forecast projects current production without any Haden Decision restrictions. The Haden Phase-In scenario simulates a gradual end to valley fill mining. The Restrictive Haden scenario simulates the immediate cessation of all valley fill activities. This study identified only the first year impacts (those for 2000). Later term impacts are not illustrated. The key findings are:

- √ Under the Baseline forecast coal production in the 9 county region of southern West Virginia will decline roughly 7.1% in 2000 leading to a loss of roughly one percent or 1,646 private sector jobs and \$58 million in wages from the region.
- √ Under the Haden Phase-In this study finds a decline in coal production in the study region of over 14% in 2000 with the loss of 3,575 private sector jobs (or 1.5%) and a loss of \$124 million in wages.
- √ Under the most severe interpretation of the Haden Decision, in which no further valley fill activity is allowable, regional coal production will drop roughly 44% in 2000 causing private sector job losses of roughly 10,600 (4.5%) with a total loss of \$281 million in wages.

This study finds that the coal industry in West Virginia faces numerous challenges both from market conditions and environmental regulations. Under current conditions, a decrease in production similar to that experienced in 1999 is expected. However, pending litigation may generate rapid and severe economic hardship on the southern counties of West Virginia.

It should be noted that the current study is not a comprehensive, long-run benefit-cost analysis. Specifically, it ignores many of the social costs associated with both surface and underground mining. Instead, the analysis is intentionally limited to more easily measurable impacts on jobs, incomes, output and severance tax revenues.

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