Coal giant Peabody Energy on verge of bankruptcy

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Amidst the ongoing collapse in global commodity prices, St. Louis-based Peabody Energy warned last week it “may need to voluntarily seek protection under Chapter 11 of the US Bankruptcy Code.” The energy giant is the world’s largest privately owned coal company with a more than 130-year corporate history.

A Peabody bankruptcy would be only the latest in a string of high-profile coal company failures—among the wreckage of dozens of smaller operations—in the US, including Arch Coal (January 2016), Alpha Natural Resources (August 2015), Walter Energy (July 2015), Patriot Coal (May 2015 and July 2012) and James River Coal (April 2014). Bankruptcies at beleaguered coal producers Foresight Energy and Cloud Peak Energy are also expected soon.

In each case, the bankruptcy courts are being employed to attack the wages, pensions, health care and working conditions of miners—gains realized through decades of struggles—and shift the entire burden of the crisis enveloping the global coal industry onto their backs. Peabody will use any forthcoming restructuring to do the same to its approximately 7,600 employees in the US.

The United Mine Workers of America (UMWA) has issued no public statements on the threatened bankruptcy and further jobs massacre. For decades, the UMWA has had the closest corporatist relations with the giant coal company. It has not called a strike against Peabody since a walkout by 7,000 miners in 1993, which the UMWA betrayed paving the way for the company to slash the jobs, wages and benefits for thousands of active and retired miners.

In 2007, Peabody spun off its unionized operations to a new corporate entity, Patriot Coal, in order to divest itself from its higher-costing operations in the Appalachian Basin while offloading substantial liabilities associated with pensions, health care and environmental obligations to the new company. Loaded up with debt, Patriot would declare the first of two bankruptcies in 2012.

In January, the UMWA reached a court agreement with Peabody that allowed the company to escape its final $70 million payment owed to a health fund covering 12,000 Patriot Coal miners, including many who worked for Peabody.

On March 15, Peabody announced it would utilize a 30-day grace period in relation to a $71.1 million interest payments owed on its debt in order “to have conversations with our lenders about our alternatives, while maintaining options around our interest payments.” By the time trading opened the next morning, the company’s shares had lost around half their value and were trading at about $2.00 per share. It represented a dramatic decline from highs of $123.45 a share in the first quarter of 2015 and $299.00 as recent as the first quarter of 2014.

In its 2015 annual report to the US Securities Exchange Commission (SEC) released March 16, Peabody claimed it was $6.3 billion in debt and had maxed out one of its lines of credit in February. The company lost nearly $2 billion last year on top of a $787 million loss in 2014, losses it said it expects to continue.

“We incurred a substantial loss from operations and had negative cash flows from operating activities for the year ended December 31, 2015. Our current operating plan indicates that we will continue to incur losses from operations and generate negative cash flows from operating activities,” the statement explained.

“As a result of these factors, as well as the continued uncertainty around global coal fundamentals, the stagnated economic growth of certain major coal-importing nations, and the potential for significant additional regulatory requirements imposed on coal producers, among others, there exists substantial doubt whether we will be able to continue as a going concern,” the statement warned.

While it attempts to negotiate with its creditors, Peabody—which has already cut its global workforce by 20 percent since 2012—is seeking to improve its financial position by selling assets, cutting costs and increasing productivity. The company is set to conclude a sale of its El Segundo and Lee Ranch coal mines in New Mexico, as well as its Twentymile Mine in Colorado, to Bowies Natural Resources. Peabody also boasts in its SEC filing of having cut operational and administrative costs by some $760 million.

Without giving specifics, Peabody told the *Gillette News Record* earlier this month that it had “implemented a small number of job reductions at its Caballo and Rawhide mines” in Wyoming’s Powder River Basin. These come on top of 75 layoffs in the company’s Arclar Mine Complex in Illinois earlier this year and the announcement last June that it would eliminate approximately 25 percent of its corporate and regional support positions, about 250 jobs, in order “to create a leaner organization and lower costs.”

“However, there can be no assurance that our plan to improve our operating performance and financial position will be successful or that we will be able to obtain additional financing on commercially reasonable terms at all,” the company warned in its SEC filing. “If we are not able to timely, successfully or efficiently implement the strategies that we are pursuing to improve our operating performance and financial position, obtain alternative sources of capital or otherwise meet our liquidity needs, we may need to voluntarily seek protection under Chapter 11 of the U.S. Bankruptcy Code.”

A Peabody bankruptcy would signify not only a deepening of the crisis of the US coal industry and American capitalism, but of global capitalism as well. The company controls some 6.3 billion tons of thermal and metallurgical coal reserves in the US and Australia, selling nearly 230 million tons last year. The company operates internationally through offices in the US, Australia, United Kingdom, Germany, China and India.

According to the US Energy Information Administration (EIA), US coal production in 2015 reached its lowest level since 1986. Bound up with this was a 21 percent drop in exports as compared to 2014. China, which imported some 8.3 million tons of US coal in 2013, took fewer than 0.5 million tons in 2015 as its economy slowed to its lowest rate in 25 years.

Amid these declines is a staggering collapse of the US coal industry’s market value. According to analysts at the Rhodium Group, “The four largest US miners by output, Peabody Energy, Arch Coal, Cloud Peak Energy and Alpha Natural Resources, which account for nearly half of US production were worth a combined $34 billion at their peak in 2011. Today they are worth $150 million.”

“Coal producers are suffering through a historic rout,” reported *Bloomberg Business* in January. “Over the past five years, the industry has lost 94 percent of its market value, from $68.6 billion to $4.02 billion.”

Particularly hard hit is the Central Appalachian Basin—southern West Virginia and eastern Kentucky—where extensively mined seams have led to high production costs. However, the mine closures and layoffs, which have devastated the Appalachian region over the past few years, are now spreading to other coal basins in the American Midwest and West.

In fact, Peabody’s troubles highlight this trend because it no longer operates any mines in Appalachia, since spinning these operations off to Patriot Coal in 2007. At its US operations, Peabody mines thermal coal in Illinois, Indiana, Wyoming, Colorado, New Mexico and Arizona primarily for domestic electricity production. At its massive North Antelope Rochelle surface mine in the Powder River Basin, the company produced approximately 110 million tons of coal in 2015—more than the entire state of West Virginia.

However, thermal coal’s share of the domestic energy market has steadily eroded in the face of cheap, abundant natural gas. In its Short-Term Energy Outlook released last week, EIA forecasts that “2016 will be the first year that natural gas-fired generation exceeds coal generation in the United States on an annual basis.”

Peabody also controls substantial thermal and metallurgical reserves in Queensland and New South Wales in Australia. In 2015, Peabody’s Australian operations produced nearly 35 million tons, about 77 percent of which was exported on the global market.

In 2011, Peabody bet on the continued rise of China and its strong demand for metallurgical coal used in steelmaking by acquiring Macarthur Coal Limited. However, metallurgical coal prices have plummeted since then with the slowdown of the Chinese economy.

“After reaching $330 per metric in 2011,” noted Bloomberg in January, “prices have since tanked to a quarter of that level. Goldman Sachs Group Inc. forecasts benchmark metallurgical coal prices to fall to $75 this year.”

Coal miners in China are also facing the brutal consequences of the global economic crisis. According to the China National Coal Association, China has about 10,760 mines, about 5,600 of which will closed over the next three to five years in an effort to cut surplus production by as much as 500 million tons. In 2016 alone, the government aims to cut production by 60 million tons by closing more than 1,000 coal mines. Announcements by the Chinese government last month that it intends to eliminate 1.3 million jobs in the coal industry and another 500,000 steelworker jobs have led to angry protests and demonstrations by thousands of workers.