

# Peabody Energy declares bankruptcy

Clement Daly  
26 April 2016

The bankruptcy filing of Peabody Energy is another in a string of Chapter 11 filings by major coal producers and has serious implications for workers, retirees and mining communities.

In a highly anticipated move, Peabody Energy—the world’s largest coal producer—filed for Chapter 11 bankruptcy protection with the U.S. Bankruptcy Court in St. Louis, Missouri on April 13. It was the most prominent to date of a series of bankruptcies in the coal mining industry spurred by the deepening global economic crisis and the recent plunge in commodity prices.

According to *Bloomberg*, the bankruptcy of the 133-year-old Peabody is the biggest this year and “the most powerful convulsion yet in an industry still waiting for the coal market to bottom out.”

Peabody’s filing came at the end of a 30-day grace period it utilized last month in relation to a \$71.1 million interest payment owed on its debt. In its 2015 annual report to the U.S. Securities and Exchange Commission, Peabody claimed to have lost nearly \$2 billion last year on top of losses of \$787 million in 2014. In bankruptcy, the company claims \$11 billion in assets and \$10.1 billion in liabilities.

In an indication of the threat the bankruptcy poses to Peabody’s 7,100 employees globally, the company has hired the notorious Jones Day law firm, which is currently helping the bankrupt Alpha Natural Resources scrap its collective bargaining agreements with the United Mine workers of America (UMWA). Over the past five years, Jones Day has also had a hand in the bankruptcies of American Apparel in October 2015, Radio Shack in February 2015, the city of Detroit in 2013, and Hostess in 2011.

In addition to its 26 coal mines in the United States and Australia, the energy giant owns a five percent stake in Illinois’ Prairie State coal-fired power plant and a 37.5 percent share of the Dominion Terminal

Associates coal export terminal at Newport News, Virginia. Its US mines in Arizona, Colorado, Illinois, Indiana, New Mexico, and Wyoming mine thermal coal primarily for domestic electricity generation.

The company’s North Antelope Rochelle mine in Wyoming’s Powder River Basin (PRB) is the world’s largest and most productive coal mine. Operating on two 12-hour shifts, 365 days per year, the mine’s 1,150 workers produced approximately 110 million tons of coal in 2015—more than the entire state of West Virginia.

In Australia, the company mines thermal and metallurgical coal for steelmaking, primarily for the global market; however, these operations are not part of the US bankruptcy restructuring.

In its filing Peabody complained, “Over the past several years, American coal producers have encountered reduced demand and lower coal prices created by sluggish economic growth, an abundance of extremely low priced natural gas and increased regulatory hurdles. This convergence—of marked reductions in volume and pricing—substantially impacts the company’s revenues and cash flows.”

Buoyed briefly in the aftermath of the 2008 economic crisis by slowing, but still strong growth in the emerging economies, particularly China, global coal prices peaked in 2011. Since then, China’s growth has slowed to lowest level in 25 years and coal’s share domestic energy production has continued to erode.

According to the U.S. Energy Information Administration, US coal production in 2015 reached its lowest level since 1986. The administration also forecast last month that, “2016 will be the first year that natural gas-fired generation exceeds coal generation in the United States on an annual basis.”

The first expressions of the downturn in the US coal industry occurred in the Central Appalachian coal basin—southern West Virginia, eastern Kentucky, and

western Virginia—where the coal seams are thin, having been depleted by nearly a century of mining activity, and consequently productivity is half that of the Illinois basin and one-fifteenth that of the more recently opened massive strip mines of the PRB.

The Appalachian coalfields are also the historic stronghold of the UMWA where decades of militant struggles waged by miners in the early and mid-20th century resulted in limited gains in living standards and working conditions. While decades of anticommunism, nationalism, and corporatist collaboration on the part of the UMWA bureaucracy, coupled with the impacts of globalization, have reduced the union to a hollow shell of its former self, operators remaining in the region have been forced to reckon with the legacy liabilities of those previous gains, largely absent in the strip mines of the west.

Recognizing the mounting problems of the Appalachian basin, over the last decade the largest coal companies began to divest themselves of their holdings in the region. In 2006, Arch Coal spun off its union operations in Appalachia into Magnum Coal, a move which allowed Arch to write off approximately \$530 million in liabilities, including retiree health care, workers' compensation, and environmental reclamation.

In a similar move, Peabody created Patriot Coal in 2007 as a spin-off of its union operations in Appalachia. At the time, then-Peabody CEO Rick Navarre boasted of the move, "In total, our legacy liabilities, expenses and cash flows will be nearly cut in half." The criminal character of the scheme could be seen in the new company's first quarterly report claiming \$1.2 billion in assets and \$1.1 billion in liabilities. In 2008, Patriot acquired Magnum Coal, increasing its debt burden and leaving the company responsible for benefits to retirees, which outnumbered active miners by three to one.

It came as no surprise then when Patriot was the first of the major coal companies to file for bankruptcy in July 2012 as coal prices began their historic slide. As the *World Socialist Web Site* explained at the time, the Patriot bankruptcy "is not merely the product of blind economic forces, but also the result of deliberate policies in the coal industry, first to increase profits margins at the expense of workers, and second, to shift the weight of the economic crisis onto their backs."

As the WSWWS also warned during the Patriot bankruptcy, "The outcome of the case will serve as a precedent for the gutting of wages and working conditions in the mining industry and is no doubt being followed closely by the other operators."

Since that time, Patriot has been followed into the bankruptcy courts by Edison Mission Energy in 2012, James River Coal in 2014; Alpha Natural Resources, Walter Energy, Xinerger, and Patriot for a second time in 2015; and Arch Coal in January 2016. Bankruptcies at beleaguered coal producers Foresight Energy and Cloud Peak Energy are expected soon with similar indications also coming from Murray Energy.

Peabody's Patriot Coal scheme was part of more than a decade of acquisitions, restructuring, and cost cutting. In 2011, at the height of the coal boom, Peabody acquired the Australian metallurgical mines of Macarthur Coal Limited for \$4 billion. A year later, the company spent \$1.2 billion on coal leases from the U.S. Bureau of Land Management in the PRB. Meanwhile, as Peabody notes in its bankruptcy filing, the company has created over the past few years "a leaner organizational structure by reducing hundreds of positions and reducing selling, and general and administrative expenses to the lowest levels in nearly a decade."

The inevitable logic is that Peabody has followed these companies into bankruptcy restructuring despite having shed its costly Appalachian operations and operating some of the most productive mines in the US.

As analyst Jeremy Sussman explained to *Bloomberg*, Peabody's bankruptcy is "much more of a balance sheet restructuring than anything else." He claimed that unlike many of the other bankrupt coal companies, most of Peabody's mines still make money. Peabody admitted as much in its filing claiming that "the relief provided by chapter 11 will enable [the company] to continue to restructure [its] debt and operations while riding out the storm that has beset the coal industry."



To contact the WSWWS and the  
Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**