

Coal: A Long History of Subsidies

Subsidies to the coal industry began in 1932, when the federal government allowed companies to deduct a portion of their income to help recover initial capital investments (the percentage depletion allowance). Since 1950, the federal government has provided the coal industry with more than \$70 billion (in constant 2007 dollars) in tax breaks and subsidies (see sidebar).

An Established Industry

- The coal industry doesn't need the government's help. Prices of coal at electric utilities rose over 14.3% in 2008, and according to the Energy Information Administration prices of domestic coal have risen steadily from 2003 through 2008.¹
- For the last three years, the top three domestic coal companies have consistently reported record profits. Peabody Energy, the largest private-sector coal company, posted record revenue in the year of 2008, with a 45% increase in profits from the 2007 year.² Despite an uncertain economy, Peabody's profits tripled in the first quarter of 2009.³ Arch Coal Inc., the third largest producer, had a net income of \$354.3 million in 2008, double their income of 2007.⁴ Yet the government continues to hand out billions in tax breaks and subsidies (*see chart*).

Billion-Dollar Failure

- The government has also poured billions into Clean Coal technology programs since the 1980's, to make the process of mining and burning coal less harmful to the environment. But the Governmental Accountability Office has criticized clean coal programs as costly and inefficient.
- Commercially-successful clean coal projects were supposed to generate profits that would be paid back to the taxpayers to help cover the cost of the original investment in the coal industry. But out of the amount invested, less than one percent has been repaid.⁵



Past Subsidies to the Coal Industry

Tax credits, 1950-2003 ⁸	\$27 billion
Section 29 Credit since 2002 ⁹	\$11 billion
Coal R&D 1950-2003 ¹⁰	\$31 billion
Clean Coal Technology R&D since 1986 ¹¹	\$2.9 billion
Total	\$72 billion

Recent Subsidies to the Coal Industry¹²

Coal and Related Technologies Program	\$1.1 billion
Clean Coal Power Init.	\$1.8 billion
Clean Air-Coal Program	\$3 billion
Clean Coal Tax credits ¹³	\$3 billion
Carbon sequestration tax credit ¹⁴	\$0.45 billion
Refund of coal excise tax for certain producers ¹⁵	\$0.21 billion
Other Coal-related expenditures	\$1.16 billion

Picture courtesy of EPA.gov

Recent Subsidies

- Congress included more than **\$9 billion** in subsidies in the Energy Policy Act of 2005, including new subsidies and tax credits for clean coal (see sidebar).
- The Emergency Economic Stabilization Act of 2008 increased subsidies for coal by creating a new carbon sequestration tax credit and by extending the amount of clean coal tax credits available. Together, coal subsidies in the Energy Policy Act of 2005 and Emergency Economic Stabilization Act of 2008 amount to over \$11 billion.⁶
- The American Recovery and Reinvestment Act of 2009 gave billions of dollars to coal, including \$3.4 billion for carbon capture and sequestration.⁷

For more information, please visit www.taxpayer.net

¹ Energy Information Administration : “U.S. Coal Supply and Demand - 2008 Review”
<http://www.eia.doe.gov/cneaf/coal/page/special/feature.html>

² Peabody Media Release at <http://phx.corporate-ir.net/phoenix.zhtml?c=129849&p=irol-newsArticle&ID=1248676&highlight=>

³ St. Louis Post-Dispatch “Peabody Energy profit triples, but still disappoints.” By Jeffrey Tomich
<http://www.stltoday.com/stltoday/business/stories.nsf/manufacturingtechnology/story/1A9D0A5874BB0390862575990052F4E7?OpenDocument>

⁴ Arch Coal financial information at
<http://files.shareholder.com/downloads/ACI/649045947x0x281465/F9124FD0-87A4-481E-80CB-FB880524CD3F/2008AR.pdf>

⁵ U.S. Department of Energy, *Fiscal Year 2003 Budget, February 4, 2002.*

⁶ Public Law 110-343, “Emergency Economic Stabilization Act of 2008” and Public Law 109-58, “Energy Policy Act of 2005”

⁷ DOE Secretary Stephen Chu’s testimony before the House Appropriations Subcommittee on Energy and Water Development at http://appropriations.house.gov/Witness_testimony/EW/Steven_Ch06_03_09.pdf

⁸ These tax breaks include: percentage depletion allowance, expensing of exploration and development costs, capital gains treatment for coal royalties, exclusion of special benefits for disabled mine workers, partial expensing for advanced mine safety equipment, and tax credit for investment in clean coal. Sources: B.W. Cone et al, “An analysis of federal incentives used to stimulate energy production,” Pacific Northwest Laboratory, 1978; Congressional Budget Office, “Tax Expenditures: current issues and five-year budget projections for fiscal years 1982-1986”, September 1981; Energy Information Administration: “Federal Financial Interventions and Subsidies in Energy Markets 2007.” April 2008.

<http://www.eia.doe.gov/oiaf/servicrpt/subsidy2/index.html>.

⁹ Energy Information Administration: “Federal Financial Interventions and Subsidies in Energy Markets 2007.” April 2008. <http://www.eia.doe.gov/oiaf/servicrpt/subsidy2/index.html>.

¹⁰ Office of Management and Budget, “Public Budget Database”,
<http://www.whitehouse.gov/omb/budget/fy2009/db.html>. This does not include funding from the U.S. Geological Survey nor the U.S. Bureau of Mines.

¹¹ Ibid.

¹² Unless otherwise noted, values from: Public Law 109-58, “Energy Policy Act of 2005”, August 2005.

¹³ This tax credit was extended by the \$700 billion financial bailout package. Source: H.R. 1424, “Emergency Economic Stabilization Act”, October 2008.

¹⁴ FY09-FY13 estimate from: Joint Committee on Taxation, “Estimated budget effects of the tax provisions contained in an amendment in the nature of a substitute to H.R. 1424, scheduled for consideration on the senate floor on October 1, 2008”, October 2008.

¹⁵ Ibid.

Picture from <http://www.epa.gov/Region8/ej/Images/smokestack.jpg>