President Donald Trump has set in motion a policy intended to support the coal industry and protect jobs—but closer examination reveals an industry facing inevitable long-term decline which cannot be rescued by government policy, says Insight Investment.

At the end of March, President Trump signed the Energy Independence Policy Executive Order that directed the U.S. Environmental Protection Agency to roll back some elements of President Obama's Clean Power Plan (CPP). These are the president’s first steps in reducing environmental regulations in order to stimulate job creation and business investment specifically within the coal industry. However, we believe economic rather than regulatory factors are responsible for the decline of the coal industry, and the regulatory reforms are unlikely to have a material effect.

We do not expect the executive order to have a substantial impact on the utility providers in which we currently invest. The day after the president signed the executive order, Insight met with six large utility companies that provide energy throughout the U.S.

All companies stated that the CPP, and/or a reduced regulatory burden, will not affect their current plans either to shut down old coal plants or to continue pursuing renewable alternatives. Many of them are under pressure from investors and clients to introduce clean energy strategies or services and, at present, the U.S. remains committed to reducing overall carbon emissions in keeping with the COP 21 Paris Agreement. It remains unclear whether the Trump administration will go further to rescind or change existing measures and regulations that remain in place, such as subsidies, carbon emission targets and carbon regulations.

**COAL IN DECLINE**

Data suggests that new energy generation in the U.S. will be increasingly comprised of power from renewable energy sources, which are forecast to account for about 50% of total power generation by 2040. Our analysis indicates that economic factors rather than regulation are deciding the future for energy, including the scope for employment.

**Factors to consider include the following:**

A chief consideration has been the trend in falling energy prices over the past three years, which has made the coal industry less competitive, given its inherently higher fixed and variable costs compared to those of other energy sources.

This trend has been compounded by the increased competitiveness of natural gas since 2008, given the shale gas revolution in the U.S. Over the past decade, competitive drilling in the largest natural gas fields in the U.S.—the Marcellus and Haynesville formations in eastern North America and Arkansas, respectively—has resulted in natural gas prices falling 80% since 2008. The use of natural gas over this period has also surged.

Jobs in coal production have also been under threat from technological progress. These effects have been notable in a number of U.S. regions.
One utility firm has told Insight that running a coal plant takes 300 people, while an equivalent gas plant requires only 30. It added that producing power from a coal plant has become more expensive than producing that energy from renewable sources instead, with costs at a coal plant at approximately US$40 per megawatt-hour (MWH) compared with US$20 per MWH from a renewables plant.

A second utility company said that even when current green energy subsidies end, given expected improvements in technology, the cost to produce energy from renewables will likely still be competitive.

As a result of these factors, we believe the coal industry is facing an inevitable, gradual long-term decline that cannot be rescued by government policy.

RENEWABLE ENERGY RISING

Solar and wind power are expected to comprise an ever-greater proportion of renewable energy generation. The U.S. Energy Information Administration (EIA) projects solar power to be the fastest-growing renewable energy source, with total utility-scale capacity expected to increase by 44% from the end of 2016 to 31 gigawatts (GW) at the end of 2018. Wind energy capacity at the end of 2016 was 81GW. The EIA expects capacity additions will bring total wind capacity to 95GW by the end of 2018. The number of jobs in the renewables sector is also booming.

Renewable energy is also being encouraged by policymakers at the state level, supported in part by federal policy. For example, in 2005 the Texas state legislature required 5.9GW (5% of the state’s electricity capacity) to come from renewable sources by 2015 and 10GW by 2025, including 0.5GW from resources other than wind. Texas surpassed the 2015 goal in 2005 and the 2025 goal in 2009, almost entirely with wind power, according to the EIA. Texas is expanding its use of biomass in the production of electricity and solar power. As of July 2016, several states, including Wyoming, South Carolina, Virginia, Arizona, Idaho, and New Jersey, are moving forward to meet the CPP’s requirements, regardless of federal policy.

A LONG-TERM SHIFT TOWARDS GREEN POWER

We do not believe the activities outlined in the executive order will curb the long-term decline of the coal industry. By contrast, we expect the order to give utility providers more time to invest in green alternatives, and to extend the useful life of fossil fuels. Ultimately, we think it is unlikely that companies will decide upon investment in coal as a sustainable strategy relative to cheaper and cleaner energy sources.