Volume IV

INDUSTRY PERSPECTIVE ON DEVELOPMENT:

TRANSCRIPTS OF INTERVIEWS WITH COAL INDUSTRY LEADERS

Mountain Association for

Community Economic Development

January, 1986

Coal and Economic Development

A Series of Reports

MACED

210 Center Street
Berea, Kentucky 40403
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ADDENDUM

Please note that the interviews published here were conducted at various times from February 17, 1984 through May 14, 1985. Thus, the comments reflect the views of the interviewees at the time of their interview, and not necessarily their views under changed conditions today.

Mountain Association for Community Economic Development, Inc.

Volume IV

INDUSTRY PERSPECTIVE ON DEVELOPMENT:

TRANSCRIPTS OF INTERVIEWS WITH APPALACHIAN COAL LEADERS

Prepared for

Mountain Association for Community Economic Development, Inc.
210 Center Street
Berea, Kentucky 40403
606-986-2373

edited by

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and

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January, 1986

This report was funded by a grant from the Ford Foundation.

The Mountain Association for Community Economic Development, Inc., is grateful to the coal industry leaders who gave their time and thoughtful consideration to this project. The editors appreciate the energetic, conscientious, and patient assistance of Karoline Blair, Ginny Eager and Carol McCool.

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PREFACE

The Mountain Association for Community Economic Development (MACED) is exploring ways in which coal production might contribute more to development in Appalachia. We are asking whether changes in public policy or management practices could bring more benefit to coal-field communities without jeopardizing the industry's competitive position. MACED representatives are interviewing coal management to understand better their perspective on the industry's role in economic development. This report presents transcripts of seventeen interviews.

MACED requested interviews with senior executives throughout the coal industry. A few denied our invitation to participate in this study, and several were unable to arrange interviews. Additional transcripts of interviews with operators of smaller companies will be published in 1986. The companies in these interviews represent many of America's largest and oldest coal operators.

Our open-ended conversations cover five broad subjects: corporate responsibility to coal communities (both in the past and in the present); the costs and benefits of coal production for communities; the role of the public sector in coal-field development; constraints and opportunities in the coal industry, including such areas as markets, transportation, environmental concerns, and labor relations; and the public image of the coal industry.

These transcripts are edited versions of our tape-recorded conversations. Curtis Seltzer of Blue Grass Enterprises and Cynthia Duncan of MACED edited the transcripts for clarity and syntax. Five interviewees made additional clarifications in their own transcripts. An interpretation of the corporate perspective and its implications for coal-field development is presented in The Coal Industry After 1970: Cost Internalization, Good Works, and Public Planning for Development, another report in this series on coal and economic development.

ARCH MINERAL CORPORATION

R.E. (Gene) Samples, President and Chief Operating Officer

Company address: 200 N. Broadway, St. Louis, Missouri 63102

Parent company: Ashland Oil, Inc. owns 50 percent of Arch Mineral Corporation. Arch Mineral is also owned by Hunt Petroleum Corp. (Ashland Oil, Inc. also owns 65 percent of Ashland Coal, Inc.)

Background: 59 years old, 35 years in the coal business; graduated from New Mexico Institute of Technology in 1950. Began career as a mining engineer for Northern Illinois Coal Corporation which later merged into Sinclair Coal and finally Peabody Coal Co. He joined Consolidation Coal Co. in 1966 as Vice President of Operations; went to AMAX in 1973 as Executive Vice President; rejoined Consol in 1975 as President, and in 1977 became Chairman and Chief Executive Officer; joined Arch Mineral Corp. in 1982 as President and Chief Operating Officer.

Total number of employees (parent company):

1983-29,000; 1982-30,600; 1981-34,400; 1980-24,600; 1979-29,200

Coal production (in thousands of tons):

1983-4,161; 1982-4,975; 1981-5,443

Total parent company sales (in millions):

1983-$8,108; 1982-$9,110; 1981-$9,506; 1980-$8,366; 1979-$6,740

Coal sales (in millions):

1983-$150; 1982-$177; 1981-$175; 1980-$185; 1979-$159
(Arch Mineral sales: 1983 - 9.2 million tons)

Total parent company assets (in millions):

1983-$4,108; 1982-$4,210; 1981-$4,122; 1980-$3,358; 1979-$3,113

Total parent company net income (in millions):

1983-$103; 1982-$181; 1981-$90; $1980-$205; 1979-$526

Message from 1983 Annual Report: "Arch Mineral Corporation...increased its mining efficiency and had a much improved financial performance [in 1983]. We expect this year's improvements in mining efficiency and other developments to enable the company [Ashland Oil, Inc.] to reap the benefits of its coal investments."

Diversification: Based in Ashland, Kentucky, Ashland Oil, Inc. has operations in petroleum refining and marketing, oil and gas exploration, chemicals, coal, highway construction, engineering and technology, and insurance.

ARCH MINERAL CORPORATION

R.E. Samples, President

February 17, 1984

Seltzer:* What do you see your responsibility and role being as the bedrock industry in the coal region for community development? How do you see yourself?

Samples: Let me answer this in a round-about way.

Community development is related to the mining activity, but maybe it follows rather than leads. I'm hired by the owners of Arch to make money. I think we must make money ethically and legally. Those are very prime conditions that apply to the making of money and should apply to the making of money by everybody. Unfortunately, it doesn't work that way. We have laws that govern us. We are very careful to observe them. We will not knowingly violate the law. It is possible we will make an error at times through ignorance, but it will not be a knowing, overt action.

When I say we need to do it ethically, I don't think we want to conduct our business by the so-called "letter of the law." There is an ethic that transcends the letter of the law and relates to being a good citizen or maybe a good human being. That is what we also want to be in this company. The outgrowth of that ethical side of the business is the safety and welfare of the employee and the proper treatment of customers and people we deal with. Not only do we sell a product, we want to deliver that product. We don't want to deliver something

*Curtis Seltzer, interviewer.

that is at variance, cuts them short, or takes advantage of them.

Those are the conditions we try to follow and impose upon ourself. I believe we can make money that way. We don't have to do it in other ways.

How do you relate that to community development? I say that probably follows. If we have a coal reserve in eastern Kentucky and are able to find a market for it and begin to produce it, we are then bound to produce it in an environmentally acceptable fashion. We have laws that require that.

Even if we didn't have laws, responsible coal companies were doing things in a far more environmentally sound fashion than a great many operators in Appalachia, who were the "rape-and-run" fellows, generally small, quick to move [in or out], not long-termers. We would rather be a long-termer. We're going to be there. We're going to develop. We're going to pay a fair wage. We'll develop fair and properly funded pension benefits. We'll pay taxes. [But] we shouldn't be overwhelmed with taxes because coal is a competitive commodity. It competes with a number of other energy forms. Most is spent in labor, supplies, services, and taxes--and there is a little bit left for a profit margin. If we're lucky we get that.

So if we're going to move into Appalachia, we do it as a long-term supplier of coal, a long-term employer. We'd like to be a permanent fixture. We're not very happy with a little bit of action--come and go and be gone in a couple or three years. We look at bigger things. We like 15 to 20-year reserves and contracts. If we get that kind of a circumstance, we are there for a long enough period of time for our labor increment, our supply increment, our taxes and everything to be meaningful and hopefully support community development.

In terms of building and financing company housing and things of that nature, I do not see that as our role.

Seltzer: You have to strike a balance. If coal companies are too aggressive in taking a role in the community, they are accused of trying to recreate a coal camp. If they are too passive, they are accused of neglecting their social responsibilities. Where do you strike the balance?

Samples: One way, I think, as some others have done, is to make land available for housing or for community buildings. To help in that way is probably within the realm of reason. It will be fairly helpful to work with banks to make mortgage money available. That doesn't mean to ante up the mortgage money, but to maybe take some responsibility.

Seltzer: Co-sign a loan with some other industries?

Samples: Yes, or something to make mortgage money available. Things of that nature are good.

Training is a very key part of any industry today. If there is anything we have fallen down on since World War II, it's been the training side of our business. We haven't really done it well, and we haven't become efficient as a result. Training that helps people be more qualified in their job and even extra help that makes education available [is worth doing]. I don't think you can force them to do it. But there are a lot of people that would avail themselves.

Seltzer: Create the opportunity.

Samples: Those are some of the things you can do. In the West, various states are wanting to extract taxes from coal for socio-economic impacts that coal development has. Boy, they want big dollars. They don't want to have a town grow unless they've got a hospital, first-class school, water-treatment system, sewage plant, and every other damn thing loaded on the front end. That's not the way anything develops. You kill it before it starts if those things don't follow rather than lead. That's been a problem to be competitive.

Seltzer: Are those conditions pushing coal development out of the realm of possibility? Is that what you're saying?

Samples: Yes. That can happen. If you are going to maintain the competitiveness of coal relative to oil, relative to nuclear, you can't load the damn thing up with every kind of cost that comes along.

Once you begin and the flow of money comes, it can be extracted in taxes and property values and one thing and another that grow with it. Then you can get everything you want. You can't get everything you want before you start.

Seltzer: That's true. But what claim do you think a community has on its principal employer to promote its own development in terms of taxation?

Samples: I'm not sure I see that's the way things are or should be. I don't know why, for instance, St. Louis has any claim on Arch Mineral.

Seltzer: Because your business is not here?

Samples: Go down in southern Illinois where our business is. I don't know why there should be a claim on us any more than on any citizen of the community. The dollar flow in terms of plain property taxes, the business tax we pay, the taxes that come from the payroll--in other words the homes and the families, the income from the payroll--are more where money should be extracted for community development.

I know it's not always possible to work quite like that because it's more complex. But I don't understand why there is a claim, or should be a claim, or a community should think they should have a claim on an employer.

Sophisticated employers will see it in their best interest to do the kind of things that I mentioned--support training, support better education, support better living conditions generally, and health conditions and all that. I think the sophisticated employer knows he needs to foster and help those things. But people generally don't treat or receive things well they think they haven't earned. If you're just going to extract something from somebody, hell, it gets torn up, vandalized. If the community develops it and it is seen as a community development, then you generally find things to be better cared for, better used.

The key is how do you develop that kind of attitude? How do you foster it, make the flame grow, and feed it? I don't think any knowledgeable employer refuses to help adequately that kind of effort. Now, of course, you know, you talk in terms of what's adequate--the view of what's adequate.

Seltzer: Depends where you sit.

Samples: It depends upon where you sit. That's right. And generally speaking, the business person knows what he can give and still retain a profit that's acceptable. For the most part, business gives that--for the most part.

The problem with East Kentucky and Appalachia is you've had a lot of entrepreneurial types who were in for the short run. It's still to a great extent that way. It makes it very tough for a large company to go there and compete. The Mom-and-Pop operations get away with things that you [we] can't. They don't have the community vigilance we receive.

Seltzer: The big guy is the bigger target?

Samples: Is the easy target. The other guys get all the coal contracts because they don't pay the wages. Nor do they concern themselves with benefits or safety either for that matter. They could care less about what happens to the community because they probably live in Florida, except for the time they need to be up there.

Seltzer: I was never convinced that small capitalism was better for anybody than large capitalism. It always seemed to me that the most responsible companies in this industry were the larger ones, not the smaller ones.

Samples: The larger companies don't like mining disasters such as you had in East Kentucky. We would rather that the industry has a good image and one of responsible operators. We don't like that sort of thing to happen. But we can't police all of them, and neither can MSHA [Mine Safety and Health Administration in the Department of Labor] police all of them. What can you do about the little guy? That's kind of like saying you would be against motherhood if you were against the little guy. I don't think anybody is.

But how can Arch compete there if we have UMWA labor? We do a responsible job with respect to safety and we are the good citizen. But down the hollow, the coal's being dug by nonunion operations with no benefits...

Seltzer: The only way you can do it is to be more efficient.

Samples: But you have a very difficult time being more efficient partly because UMWA operations are not more efficient. By the nature of their background and their contract, they are not more efficient. They do not come and earn a day's pay. I'm sorry to say that. We're United Mine Workers down here in Illinois.

Seltzer: Efficient though in that a company like Arch can invest in the newest mining systems and pick [productivity] up that way.

Samples: We try to do that as much as we can. But we're constrained by the labor agreement we have. Even though we put in longwalls--which are great, efficient, safe machines--we find ourselves hamstrung. We're fought. We're not helped. There isn't a joint effort between us--labor and management--that we make this a better mine. That's a gap that has not been bridged with the United Mine Workers. It needs to be bridged. They need to take on this chore with us to become efficient and safe. It hasn't happened, and, as a result, they have lost great segments of the labor market. They are going to lose more.

Seltzer: The BCOA [Bituminous Coal Operators' Association] contract is down to 25 percent of national output. They [UMWA] have 60,000 people unemployed. There's 28 percent unemployment in the industry, mostly theirs.

Samples: Yeah. But we're paying a [medical and pension benefits] fund also.

Seltzer: And a large pension.

Samples: That's been totally mismanaged. We can give better benefits--secured benefits, funded benefits--to our employees at far less cost. Better benefits. But we can't even get that done.

Seltzer: How far are you willing to go with your employees for the end of increasing productivity, to enhance your competitiveness? Doing things that pull people together rather than that adversarial relationship that characterizes the industry?

For example, employee/management plans in Western Europe have been looked at to see whether pieces can be applied to American industries. Coal has not been in the forefront in thinking about how you can work together. Are you willing to take a look at these?

Samples: We would if we can find a forum to work together to increase productivity.

The problem at Arch is we've got to get our management tuned up, educated, and consistent. We just aren't there yet. We've got a way to go. Quite a way to go until we have made our managers more efficient. When that happens, the management/employee relationship will improve greatly. After we've done as well as we can do on this side, let's join hands and see what we can do together. But we've got to get ourselves [management] to where our workers respect our integrity and consistency. I don't think we're there yet.

I don't think that's just Arch. Other companies have a way to go. But we're working hard on it. I am very short of patience with people who are not willing to work and put forth effort to earn the pay they receive.

We've got a lot that aren't. Management is mostly at fault because they have let them get away with it.

We'll do some good things about that. Then if we can find a forum that says, "Let's join together and take this economic benefit and split it up; the more we do, the better we do; the more it grows, the more you get, the more we get." There is certainly a dialogue to be had there.

Seltzer: When I was talking to Trumka [Richard Trumka, President of the UMWA], we were talking about the problem of unemployment. His perspective is not exactly trusting of management. He says certain things were done that increased unemployment within his membership.

The industry has been faced since the 1920s with demand stagnation. It picked up in the 1970s and may pick up in the future. But, right now, particularly in the eastern underground part of the industry, production is slow. What responsibility does the coal company have for its employees in those down turns, if any? You are talking to an employee and you say, "Look, we have to close this mine down because the market just isn't there. We hope to pop it back open in six months or a year." He says to you, "What am I supposed to do? Should I wait around? Should I find another job? What should I do?"

Is there a better way to insure the consistency of the labor pool, the trained committed labor pool in Appalachia, to the coal industry than the way things are working today, which is that labor rises and falls with the market?

Samples: The best way to do that is to take the rise and fall out of the market.

Coal is still the cheapest Btu you can get. But we're not using it. We're not using it because gas was artificially priced for years. We built gas boilers. Oil was probably artificially priced, too, for years, and we built oil boilers. We went nuclear and maybe that's a right and proper option. I'm not sure it isn't. But it's far more expensive than it was thought to be.

What we need to do to stabilize employment is to promote the use of the product. We produced 830 million tons the year before last, 790 something last year [1983]. We'll go over 800 this year. We're going to go up. By 1990, we may be at a billion tons. The use of coal is growing.

The labor force will not grow commensurately because we're going to do it more efficiently.

I'm not so sure that your premise is 100 percent valid about the yo-yoing effect on the labor force. Total employment in coal today is pretty good. It just doesn't always happen to be in the right place or in the same place. Some of the reasons for that were imposed upon us--wrongfully so in my view--by the Clean Air Act and the way that was done. We had dislocation. But in terms of total employment, I wouldn't be surprised if we're doing pretty good.

What happens in Appalachia is you can't relocate the employee to where the need [job] is. Either he won't move or it's not economic to move him. Or it's his education or his training. Or maybe his ability to cope, he doesn't know how to do it. You or I when we see that our tenure is up, we get moving and we do something about it. The coal miner doesn't.

Is it our responsibility to take his responsibility?

The trend is more and more to do that because we are getting to be a welfare state. Reagan said government was originally conceived as the protector. To protect you from outside dangers that you might see and maybe to police it so we live harmoniously with ourselves. But it wasn't to act as the Great Father or the Big Brother, which it does now. We got away from that; maybe we have to. I don't know. Maybe the sheer magnitude of numbers make it so that we have to.

I still cling to the feeling that a person should take more responsibility for his own circumstances than many people do today. I don't really believe when a mine closes that we necessarily should have to take on the problem of the laid-off employee. Especially if we provided him with pension benefits that vest, which we do. And health benefits, which will not go on forever, but last a year after he's off. At our non-UMWA mines, we have similar provisions which are even better because we aren't lugged with the inefficient abuses that the UMWA plan still suffers from.

If we've got a good employee, we want him. If we can place him somewhere else, we'll do that. I'm not clear in my own mind on what responsibility the industry has to the worker when a market for the product no longer exists, when you can't compete.

Seltzer: That's a question a lot of industries have to grapple with because demand is shifting. Places of production are shifting within the country. The eastern coal industry is certainly caught in the shift of where coal is produced. Given that industry says it has a limited commitment to its employees that stops reasonably soon after they stop being employed, the question is how do you assure the economic development of the region? Whose responsibility is it then to get new business started?

I don't think it's yours. I agree with you. If the market does not justify being in business, there's no reason that I can give you for mining coal.

From a public perspective, the ups and downs in the coal market are wasteful of labor and coal resources.

One idea we're considering is some way that public agencies can smooth the market for coal so that you don't have the ups and downs. You don't have shifts from East to West based on environmental regulations or how utilities choose to comply with environmental regulations. There were some experiments like that in the 1930s with the industrial codes of self-government, which focused on supply rather than demand. And you're absolutely right, coal is cheaper than oil and gas, and cheaper than nuclear on a new plant basis.

Why doesn't the market make the decision that the market should make? Why doesn't it go with coal?

Samples: Let me give you a theory on that. It's strictly a theory, not based on fact.

This is maybe way out but nevertheless. You've got terrorism in the world. We see terrorism in Iran, Iraq, the Mid-East, all over Europe, even in this country, and down in Central America. It's a means to bring about social revolution or to foster a cause. The causes are not necessarily all related but they may be far more nearly related than any of us might think.

We suffer in terms of making the right energy decision from a source of economic or political terrorism here. We've got people who are very articulate and able to stir up tremendous sentiment about certain aspects of our system in this country that are not necessarily founded on fact. They are able to develop emotionalism in the public and develop great sentiment against, say a simple thing like Consolidated Edison in New York switching to low-sulfur coal. It's the right decision. It isn't going to hurt the environment. Yet they can't get it done because of a furor of public opinion led by--let me call them "political or economic terrorists." They really are fanning a flame.

Seltzer: Who are you talking about? Environmentalists?

Samples: Not environmentalists.

Seltzer: Public health people?

Samples: Not environmentalists because a true environmentalist is not going to stand in the way of that. It's these so-called environmentalists, the fanatic group that stands up and fights every goddamned thing anybody wants to do.

Seltzer: No-growth people.

Samples: Yes. We've created a loophole in our system. Some of the laws we've passed provide every idiotic (excuse me) character that wants to be heard--we protect his right to be heard and delay processes ad infinitum that are extremely costly and bear upon our cost of doing business. Yet, on the other side of the coin, we [industry] don't have protection from the harassment of that sort of thing. We can't draw a line between harassment and what is real.

Seltzer: But why isn't the market making decisions to buy coal if it's cheaper?

Samples: I told you. ConEd is trying. They can't. They cannot. Orange and Rockland utility has been trying to burn coal in their stations for at least five years. They haven't got it done yet. It isn't an environmental concern because they can meet the standards.

Seltzer: So what's blocking it?

Samples: Their [public utility] commissions and the environmental regulatory aspects of their state--that's New York.

Public opinion. They have hearings to see whether they can do this or not. Then they [environmentalists] don't win in the hearings. Hell, we'll never get ahead in the world if we allow people who have no responsibility to block responsible people's efforts. That's what's happening with coal in almost every place you go.

A lot of people just won't fight the battle. Some of the utilities in New England have done it.

I don't know how you can get through all that. I say we are being held for ransom by a bunch of, oh, I don't know what I'd call them, no-growth terrorists. It's well orchestrated; it really is. The sad part is that the Ford Foundation--the foundations that were set up by good, responsible companies that have made money and have a feeling for what should be done--these people are being financed by the foundations who are cutting the throat of the businesses that funded the damn thing. I will never understand the process. I cannot. It is stupid. Why we even put up with it, I don't know. I do not like to pay the kind of ransom I'm paying now for electricity brought on by these very things.

Seltzer: The issue of acid rain, we could certainly put that...

Samples: Right on the front burner. It's just as clear as it could be. They don't give a damn about finding out about what causes acid rain and how to solve it if it really is a problem. All they want to do is act.

Back in the early 1970s this Clean Air Act was passed, and they started to pass regulations. This same bunch of terrorists were making a great hue and cry about the health affects of SO_2. So we got a very stringent law on what the ambient standard for SO_2 should be--1.2 to 2 lbs. per million. The various state implementation plans had to achieve certain levels of sulfur emission. Had to contain them and then reduce them. Which has happened. They are consistently reducing them.

We caused great disruption in the coal fields and a lot of economic hardship. We raised the price to the consumer astronomically over that issue. Today you can't find a responsible epidemiologist who will say the health effects of SO_2--even at multiples of the present ambient standard--is anything more than a mild irritant.

We're running right down the same track with acid rain. The law we have is reducing sulphur-dioxide emissions so that by the turn of the century they'll be reduced significantly more.

Seltzer: But you can't make these folks go away. You can't make their concerns go away.

Samples: I don't believe it's concern. I wish it was concern.

Seltzer: What do you think it is? Mischief-making?

Samples: No. The public, the man in the street, it becomes a concern to him. But the reason it's a concern to him is because somebody fanned the flame that got him excited.

Seltzer: We've [MACED] worked on acid rain from the perspective of how can you deal with acid rain and protect employment, protect the coal industry in Appalachia. If the coal industry fights acid-rain legislation, you are eventually going to come up with a compromise bill. You may even lose. It would be a replay of the clean air fight 10 to 15 years ago. What if the coal industry said:

The scientific evidence isn't conclusive. We're not conceding there is a problem of the dimension the advocates say there is. But we are conceding there is some measure of problem. We feel the best response we can take is to say we want to burn coal as cleanly as possible. It is in our interest to burn as much coal as cleanly as we can possibly get it. And that's how we will guarantee our future in the eastern utility market.

That's a different position than the industry has taken.

Samples: It won't work.

Seltzer: Why?

Samples: Once you impose all of the controls that certain people would have you impose, you might as well burn oil because it's cheaper.

Seltzer: But it won't be cheaper...

Samples: Forever. No. You are right. Nor will coal or maybe nuclear when it solves it problems.

Seltzer: But there is a space to work with because coal is two to three, sometimes four times cheaper than alternative hydrocarbons. You have that space. If you can solve the question of public acceptance, you can get a greater share of the utility market.

Samples: Yes, but let's look at that side of the coin.

You are a utility executive. You've got to earn money legally and ethically. You have a lot of shareholders that you're working for. Now then suddenly I'm faced with the problem of Orange and Rockland utility, I can't burn low-sulfur coal. I've got to put a scrubber on. And I've got a unit that is presently burning oil but it is a double burner that can burn either. Now am I going to go to the capital market and buy a scrubber?

I can't earn a return on that investment. It's a dead load. I got to go to the capital markets to get it. I got to pay interest for it. And I didn't do a damn thing for my stockholder. The hell with the public. I'm going to go ahead and burn oil.

Seltzer: OK. I would say that the cost of that protection to the public should be spread.

Samples: But the public is already carrying too much of the burden. You and I are paying power bills that are beyond any realm of reason. If we're going to have economic growth in this country, you've got to get costs out of the system, not impose cost onto the system. Now there is the problem. It's just that damn simple. Reagan says it very well.

Seltzer: It's simple when you put it that way. But it won't go away. Because no-growth environmentalists, strict environmentalists, aren't going to disappear.

Samples: The only thing a responsible citizen can do who really believes and understands the system is to continue the battle. Christ, if we're going to make a good place out of this country and remain strong and protect our way of life--I like our way of life; I don't know where in hell you'll go to find a better one--from people out there destroying it every day. They are destroying it because they are overloading the system. They are overloading our economic ability to stay strong. And, damn it, you can't do it by giving in to every new fanatic that comes down the pike.

Seltzer: So you see the future as one of continual struggle, a continual battle for acceptance?

Samples: For reason. We don't have any reason. There is no way that four or five years of concentrated effort to determine what the effects and cause of acid rain--if it truly exists--[would be harmful]. There is no reason why we don't have that kind of study. Yet we've got this hysteria to do something about it now. Now what the hell kind of reason is that? We are not going to destroy the country in five years.

Seltzer: You have epidemiologists and environmental scientists on the other side saying that the weight of circumstantial evidence seems to indict coal.

Samples: Yes, and those stupid son of a guns came down here and bought out the town of Times Beach because there were ten parts per billion of dioxin in the soil. I'll eat anything that's got ten parts per billion.

Seltzer: (Laughing.) Let me get back to a couple of other questions I had.

Appalachia is in the heart of the coal industry. What struck me when I went to West Virginia and traveled in Kentucky and Tennessee was that you had an industry that was the bedrock of communities and where there were lots of problems. The question I asked a long time ago was, why is that? Why do you find a natural resource industry that does not seem to produce the kind of community benefits that its scale seemed to suggest it could produce?

You were getting to an answer before when you said you thought that small operators had even less concern for local welfare than larger companies. Are there other reasons that you can think of?

You have indices of economic growth in terms of gross sales, net income, per capita income that rise, but indices of community development--quality of public services, schools, roads, etc., may not rise as fast. In some cases, may not rise at all.

The flip side is that when coal is in moderate decline, the community doesn't collapse. It has a certain resiliency built into it.

The question I have is why is there that disparity? Why has there been that historical disparity between coal's private-sector benefits and the level of public-sector benefits?

Samples: I don't know if this makes sense, [but] maybe, absentee ownership. That was often the circumstance years ago. Eastern Kentucky coal was owned by a lot of steel companies years ago.

Seltzer: U.S. Steel, Bethlehem...

Samples: Bethlehem and others. That was also the case in southern West Virginia. They were simply interested in extracting the product at the lowest cost. It was captive. It was part of a whole process, not a commodity of its own. It was a piece in the making of steel. Coal wasn't a stand-alone industry as it is today. As steel companies get out of the business, you find more and more that coal companies of some fair stature are taking their place. The product is coal, not steel. You maybe got a little different focus on the subject than you had.

I don't know whether that has some major bearing or not.

I know about coal camps. My father was a United Mine Worker. My grandfather was a United Mine Worker. Southern Indiana. My grandfather worked underground all of his life. So I understand and was associated with little coal camps. I got into the mining game myself and saw eastern Kentucky and southern West Virginia.

I think that's changed. As bad as it may be, it's a hell of a lot better than it used to be. So progress has been made, whether we want to admit it or not.

How to make it better? I think you need more responsible coal operators in charge. I don't mean fewer. More of them who understand the benefit of having trained workers and a good place for them to live and have tenure.

In any kind of industry where you've got a depleting resource, you will always have more problems than you will with a manufacturing plant where it's stable for decades. Mines work out. They have to be replaced by other mines. Kentucky's been fortunate because of the adequate reserve to replace them. But [depletion] builds in a problem.

I still say the answer is probably more responsible coal companies instead of less.

Seltzer: Internalize the responsibility?

You're an absentee owner wherever your mines are. You are saying that owners have to internalize [social] responsibility. The outside imposition of responsibility from public policy or legislation doesn't work as well.

How do you persuade other people at your level in the industry to say that's what we should do? Or is there a growing consensus to do that?

Samples: There is probably a growing consensus that a trained and stable work force, living in a good community that can provide some of the better things of life--rather than the old coal camp--is right. They support that. Maybe, there is always going to be a debate on the level of support as to what that should be. I don't think you're going to find very many people that feel otherwise.

Seltzer: One last question. You are a part of a company that has other energy interests. Coal is a fuel where other costs are tacked on--environmental costs, social costs, taxes that influence your competitiveness against other energy forms. Do you ever feel any pressure from the other people in the corporation to do your coal business a certain way? Is there any pressure to go slow with coal or go fast with coal depending on how the other divisions are doing?

Samples: The only pressure I feel is to go fast with coal. We are owned by two companies--the Hunt family interests and the Ashland group. Ashland has coal. Ashland has oil and gas. The Hunts are equally diversified. We operate as a coal company. We are owned 50 percent by each. I have no pressure other than to make money selling coal.

Seltzer: Let me put it a different way. Your parent company has scarce capital resources. How is the decision made as to whether coal gets it or oil gets it? Is it just rate of return?

Samples: Yes. Generally some hurdle rate of return. We don't compete with Ashland or Hunt for money. We generate our own internally. We do what we can with what we earn. We've done fairly well and continue to do fairly well.

Neither the Hunts nor Ashland will approve a venture they don't think has a proper hurdle rate. It's got to earn a floor level of return or they are not going to agree to it. But that doesn't compete with an oil venture. The choice isn't, I'm going to do the oil rather than the coal. If we came up with something that was of such tremendous size that it required an input of additional capital from either one of them, then that additional capital would be scrutinized in that manner. But at this point in time, we aren't in that circumstance.

Seltzer: What do you see as the outlook for labor relations. Is Trumka somebody you can work with?

Samples: I think Rich Trumka is an intelligent fellow and probably will see things fairly clearly as to what is right and proper, what he should do, how he should accomplish it, and even what's in the best interest of the miners as a group.

I'm not sure at this stage of the game that his position is solid enough to do the things that would be right and proper. His rhetoric is always going to be played to the rank and file. He's going to be damn sure that he's not going to say anything to you or to me that undercuts any of that regardless of what he really believes.

What needs to be done--and I sincerely mean for the benefit of the miner--will not get done as a result of his lack of security at this point and time. If he is a long termer, he'll gradually gain that authority. Then maybe some positive changes would come about. The name of the game is efficiency, productivity. When John L. Lewis left and Tony Boyle came in, featherbedding began. It's been rampant ever since. As long as he [Lewis] was there, there was no featherbedding. He said we're going to work with an efficient crew and that's it.

Seltzer: If you think Trumka is a fellow that you can work with for the next number of years, he needs a contract that will wash the first time through. If it gets into that dynamic that Church and Miller had where the offer is turned down, he's not going to last. He won't be re-elected. So if your hardliners feel they want to continue working with Trumka then they have to get him something that will wash.

Samples: Well, I don't know. If I was running the industry negotiations, I wouldn't care whether I had Trumka or who I had. I'd bargain for what I wanted and I'd get it. They [BCOA companies] took an 111-day strike and still didn't do what they wanted to do. They should have taken two more weeks and they would have had it. Then you would have made some progress; you would have gotten some things done. The industry should set its goals. It doesn't make any difference who's running the show. Go get the gold. Go after it. Those goals, the way I see them, would be in the best interest of the coal miners. You gain economic benefits. The United Mine Workers wouldn't be an anathema to the coal industry. They would be accepted. You would be glad to have the United Mine Workers.

Seltzer: If what you're saying is that a UMWA contract almost guarantees inefficiency and work rules that are hard to live with, why stay with the UMWA?

Samples: Nobody's going to if they can get out of it.

But we're hooked. When the government got in the pension business and passed ERISA, they established certain regulations and rules. One of them was the Pension Benefit Guarantee Corporation, which oversees multi-employer pensions. Each signatory of the contract has a pension liability far greater than should have ever existed. But we have it. To withdraw from that thing, to just walk away and say, "I'm not going to do it," you're assessed a very large penalty. Then if you go the other route, you've got to set up your other benefit. They don't distribute your benefits to you.

The only way to get that done is to collectively bargain to dismantle the thing. Then distribute the benefits and each company picks up its own. There is no stomach for that among the BCOA members. Why? I don't know. It would be to their great benefit and to the miners themselves. They are not going to do it. I expect they will piddle around for some work rule changes and give them wage increases. That's my perspective, anyway.

We at Arch Mineral--we're not members of BCOA, we withdrew--want to bargain with our own employees. We want the dialogue. We want the association. We want them to know what our concerns are. That doesn't happen up there in that bargaining table in Washington. Hell, these fellows down here in Illinois, they don't know what the hell's going on [up there].

We want to sit down across the table from them individually and bargain. Come up with a contract we understand and can jointly administer. But we won't have much success at that this time because we're kind of like a gnat on an elephant's behind. We'll have to sign up or go along with what somebody else does. But at least we do it face to face with our employees. We won't do it in the absence of them. And that in itself is some progress.

U.S. STEEL MINING CO., INC.

Thomas J. Usher, President

Company address: 600 Grant Street, Pittsburgh, Pennsylvania 15230

Parent company: United States Steel Corporation

Background: 43 years old, has been with U.S. Steel since 1966. Mr. Usher earned a Ph.D. in Systems Engineering and has held various managerial and engineering positions at U.S. Steel. In December of 1984, Mr. Usher left U.S. Steel Mining Co. to become Senior Vice President-Operations, Steel.

Total number of employees (parent company):

1983-98,722; 1982-119,987; 1981-141,623; 1980-149,172; 1979-171,654

Coal production (in millions of tons):

1983-11.7; 1982-10.0; 1981-12.1; 1980-14.6

Total parent company sales (in millions):

1983-$17,523; 1982-$18,907; 1981-$13,941; 1980-$12,492; 1979-$12,929

Coal sales: Coal figures not separated from other minerals.

Total parent company assets (in millions):

1983-$19,314; 1982-$19,432; 1981-$13,316; 1980-$11,748; 1979-$11,030

Total parent company net income (loss) (in millions):

1983-$(1,161); 1982-$(361); 1981-$1,077; 1980-$504; 1979-$(293)

Message from 1983 Annual Report: "Demand for coal in 1984 is expected to increase as economic conditions in the U.S. and major foreign markets improve. However, in the export market, U.S. coal faces strong competitive pressure from foreign sources also serving this market." U.S. Steel uses longwall mining systems in five of their seven mining districts and plans to expand their use.

Diversification: Steel, oil and gas (includes Marathon Oil Company), chemicals, resource development, fabricating and engineering, manufacturing, and domestic transportation and utility subsidiaries.

U.S. STEEL MINING CORPORATION

Thomas J. Usher, President

March 1, 1984

Seltzer:* We are interested in getting a sense from top coal executives of how you view economic development in communities where you are the principal employer. Our purpose is to pull together your perspectives and ours to make recommendations about coal field development to you and public policy makers.

What do you see your responsibility being as the principal employer in a typical mining community? How do you see your role in a community like that?

Usher: It's different from what it used to be. At one time you were the grandfather of everyone in that you built the hospital, you built the store, you built the whole thing. That has definitely changed, and I don't see that as the role.

I think the role is slightly different from a place where there would be multiple employers and you represent a very small proportion. There's a certain amount of social responsibility that you do to insure the area does not become run down, high crime, have everything sort of go downhill.

But the principal thing is to provide an opportunity for people living in the area to make a decent wage.

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*Curtis Seltzer, interviewer.

Whether the area thrives, how the money is invested in the community, is more a function of the individual people living there than of the business per se. That has to be a shared responsibility. It can't be the way it was before, where the company picked up the tab for everything and the people got a free ride just because they were the major employer.

Seltzer: Where do you strike the balance between what companies should do for a community and what a community should do for its company?

Usher: I would say Gary, West Virginia, during the past year and a half (not necessarily the last six months, but prior to that) was really going through some tough economic times. There were a number of things we did to funnel funds into the local governments to help them light the streets and things like this, things that I would not see as a normal responsibility of the company. But because of the depressed economic conditions, it's something we would like to do, making benefits available to people that we might not normally make available.

Seltzer: How do you justify that to [your board] that this is a wise use of scarce company resources?

Usher: We justify it because without it, a place like Gary can cease to exist. We see a future for Gary, and the opportunity there for us to have profitability in the future. But unless we step in and do something, that isn't going to be. Gary is going to cease to exist. People are going to drift away, and we're not going to have the talent that we have there. And that we are probably better equipped over the short run to do something like this than individual people are. But the danger there is that we don't want to get into a situation where we again are doing everything for everybody, because I don't think that is our responsibility.

Seltzer: How do you develop the capability of the people there on their own to manage their resources and stimulate economic growth around the central activity that you direct?

Usher: I'm not sure we can. As there is an orderly withdrawal from some of the functions that we used to perform, we can stress to the people in the community, and our business leaders in those areas have to stress, that this is something that the community has to do. They have to decide whether they're going to do it or not. If we decide that there is a need for a free clinic, we can't convince anybody that they have to do that. If we have always supported a clinic in the past, we can try to convince the community that this is something of benefit to the community and it is something the community should support, as we go through a phased withdrawal of our support.

Seltzer: Why do you think so much of southern West Virginia, eastern Kentucky and southwest Virginia is so underdeveloped in terms of public services? I'm sure you have trouble getting executives to go down there.

Usher: We have been more successful in getting people from those areas to work there than in bringing people in.

Seltzer: What do you think explains that pattern? There's been a fair amount of business activity in those areas for the last 100 years. Why is there a disparity between the private benefits measured in corporate business and income for workers, as against the calculus of public benefits? Why wasn't there the kind of public investment in schools, roads, and services of one sort or another that you would expect with that level of business activity?

Usher: One of the problems is that they are generally--just by geography as much as anything--not areas that people enjoy living in. It's very rough terrain. It's very difficult. You talk about a place like Lynch, Kentucky. You have to go 20 miles over Black Mountain. That is a very difficult trip. I think people, in general, tend to live in places where you can go 20 miles in 20 minutes. You don't get a large influx of people. Most tend to be home grown. It tends to be an emigration as opposed to immigration.

As you move from generation to generation, the people who become more educated and more professional tend to leave there because it just isn't the kind of place where they can pursue the activities and lifestyle they want. That would be talking on the norm. There are certainly a lot of people who think it's heaven. That it's the greatest place in the world to live, and if you brought them up and put them in this place, they would think this is terrible. But, I just don't think that people have viewed these areas as great places to live. As such, there hasn't been the investment that you see in a place like Charlotte, North Carolina.

Seltzer: What claim do you think a community should have on you as a major player in its economy to provide better services, keep its talent at home and draw talent to the place? You can't change the geography of the place.

Usher: Right. If we felt it would be in our best financial interest to draw people to that area and we would recognize the benefits from this, there would be some justification. The [people at the] operations we have in these areas are exceptional people. For the most part, they enjoy what they're doing. They have a fair amount of pride in being miners. Many of them feel that's a very comfortable existence where they are. I don't really feel we have to import people to work in our mines. I don't really see a justification for spending a lot of money to bring people in because we have good people already there.

Seltzer: Let me try to get at my point another way. Would it be in your interest, for example, to see an economy in the coal fields diversify? So that when there are ups and downs in coal demand, you wouldn't have the flowing in and flowing out of people. You'd have more resiliency, more economic resiliency in a place like Gary. And, if you agree with that, is it in your interest to get some other kinds of businesses started to provide that resiliency?

Usher: I'm really not sure that it is in our best interest. I'm not saying it isn't, but I can't agree that it is.

You know, for example, if there were many, many businesses in there and the people we currently had working for us had a myriad of choices as to where they would want to work, it might have detrimental effects on us.

Seltzer: I'm not sure that that would be the case.

Usher: I'm not either. I'm just saying that would be a probability.

Seltzer: From an ordinary worker's point of view, the coal industry pays the highest wage in a given area for his level of skill.

Usher: All I'm saying is I can't buy that as a given--it may or it may not.

But for us to develop a broad-based industry with the expectation that it would bring in better people and we would have more opportunity during cyclical times--I just can't see where that would be a sufficient reason for us to invest [in an effort] to get broad-based industry in a particular area.

Let me give you an analogy on that. You're living in a neighborhood and you have decided your neighbors are not intellectually stimulating enough for you to enjoy life in that neighborhood. Now, would you want to go out and spend all kinds of money to put in a pool, a tennis court, a health club and all types of other things that might attract people into that neighborhood to live next door to you? The investment is so great to do that, and I'm not even sure that the people who are going to come will be the people I want...

Seltzer: ...but if you are the only game in town, when things go bad, people jump on your case. If there are two or three games in town, you spread it.

Usher: Possibly. If the other two games tend to be equal partners. If we are there and we bring in GE, Exxon or some other big research outfit, that's true to a degree. But if we bring in a small outfit, we're still the only game in town. If we brought in partners, that's true.

Seltzer: What you are saying is true. But if you scaled it down--don't bring in Exxon where you're already established--but develop whatever local talent there might be, small scale industrial partners, then you're not the only target. Some people feel if you are passive and say, "The scope of our responsibilities stops at our balance sheet," then they say, "They're not doing anything for us." So you have to walk a line in that situation. If you start closing down mines, what do you do?

Usher: You mean if you're out of coal and can't invest in new mines? A played-out field?

Seltzer: Let's take a situation where you have to make a choice between a mine where a reserve is still there but you have to invest in new mining systems to get it out economically as against starting in a "green field."

What do you do at that point? Do you have any obligations, with your social investment in that community for those many years, to continue?

Usher: No. I think the social investment manifests itself in the fact that you have a well-trained work force that has value to you. Over and above that, do we have a commitment to the fact that we have been there for 30 years? I think it's difficult to put a number on it. You can't say that's 12 percent of the investment cost or anything like that.

If I was considering an investment in southern West Virginia-- we've been there since 1900--there are a number of non-quantitative things that come into my decision. What is the political climate in the state? Where do we see it going? That would be on the negative side there. The positive side is we've got excellent people there. We've been in business there. It's a place we might like to stay in business. So you have to judge these and put some subjective values on them and make your decision.

Seltzer: What if somebody like [Warren] McGraw [a liberal Democrat] gets elected governor? How does that change your perspective on investing in West Virginia?

Usher: You have to say that the negative becomes more negative. Let's not kid ourselves. He has not shown himself to be a person interested in promoting business interests in the coal area in West Virginia. He has made things more difficult. I'm sure he is doing what he feels is right. We would have to take corresponding action.

Seltzer: But, his basic constituency is labor, and labor needs jobs. You have the jobs. So he can't undercut you very substantially.

Usher: Yes, he can.

Seltzer: So then you just pack up. That's your threat.

Usher: Well, it's not a threat, but it becomes a reality.

Where I find we have been most derelict as a company is in two areas. One is in the education of people as to the basic economics of what's going on. We have had a tendency in the past, and I'm trying to destroy some of that, to keep very close to our chest the economics of the business that the people are involved in. That's ridiculous. Now whether you are the superintendent or a guy working at the face, you ought to know what the business you are in is about. How the basic economics work. Who is the competition. What you have to be able to do to compete. We haven't done a very good job of that.

Secondly, we have to share more both the pains and the benefits of the business we are involved in. We have not done a good job of that at all. We have, during exceptionally good years, reaped the benefits. During lean years, we have paid exorbitant prices, based on what the market was, for that business.

Two real challenges lie ahead of us. I'm not sure, number one, that the constituencies of the labor block understand the economics of the business. As such, they are not really sharing in the prosperity and/or tough times of the business. Now, they do share when they are laid off.

Seltzer: They share in the pain to the extent that their high wages cause job loss.

Usher: But I don't really feel that they are able to, in many cases, understand how the whole thing is put together.

Seltzer: I'm interested in finding out how far you're willing to push those two ideas.

The coal industry has not been very progressive about involving workers in productivity schemes. In the last couple of years, you've imposed some ideas about pay incentives that do not appear to me to be as effective as other ways of doing it. There are other models you can draw from. You can draw from GM's experience. You can draw from things going on in western Europe--what's going on in other industries. Is that where you see yourself going--pushing that kind of employee involvement?

Usher: I was really giving you a little bit of personal philosophy there. As a company we have been and are still continuing to be a member of BCOA. So as far as the final negotiating strategy, this will be a consensus type view and we will support the BCOA's position. I was giving you my philosophy. Not the BCOA's negotiating strategy.

I wasn't referring to coal, necessarily, because most of my background is steel. I'm a relative newcomer to the coal industry, just a couple of years. This whole idea that we're going to negotiate a contract, and then exacerbate the problem by taking some government indices and pay you not only a base, but tie into that index--and that's how you're going to be compensated...It has nothing to do with the steel business or the coal business...it's ridiculous. Look, this is a business and we're going to pay this. If the business does well, you're going to share in it. I'm going to share in it. If the business doesn't do well, you're going to have to suffer like I'm going to have to suffer. And I don't think we would have the amount of layoffs that we have. We could keep more people working if there were some [wage] variability in this thing.

Seltzer: Do you think the Union [UMWA] would be receptive to that argument?

Usher: It will be tough. It could be done. I don't want to underestimate the problem in doing it. It has to be done. You look at any chart, pick any industry, coal, steel, whatever and look at the percentage of it that is union produced. You know that chart looks like this--going straight down.

Seltzer: In both steel and coal, high wages over the last ten years have helped to make them uncompetitive. There's no question about that.

Usher: Anything that has been a highly unionized activity.

Seltzer: The question is, what do you do with a work force that is accustomed to higher wages? To get them to participate in productivity enhancing strategies without backing them against the wall to the extent that they'll wildcat? I think there is a way to do it.

Usher: There is. There are such large degrees of distrust and animosity on both sides that it's a major problem.

I think, number one, you have to get better communications between the two sides. You can't be doing it in the papers. You have to have more running dialogue. Secondly, the basic concept has to be bought by both sides that both labor and management have to reap the rewards during good times and share the burden during poor times.

Now if you can't establish an ability to communicate better, [establish] this basic philosophy, then you are just going to extend what we've had for the last 15 years. It is going to be problems for both the companies and for the Union. I don't see any other way.

Seltzer: What if they come back to you and say, "Okay, we're willing to work with you on wages. We understand your position. What we want is security of employment. And we're willing to make a trade like that." What would your response be to that proposition?

Usher: It would depend. This is again my personal preference. I would not be inclined to reject that as other people have done in the past. There is a certain value--if you can have this flexibility with wages--to have some type of a guarantee level. At least under certain conditions. Take a work force of 100 and the business index is 100. I would think there would be some range where we could say, "Okay, if the business index falls to 70, we'll still stay with the full 100, and we'll make some kind of adjustment in the wages or something like that. But if there was a severe depression and the index went down to 20, there might have to be an adjustment where you let the junior people go, or something like that. I am not anti-guarantee. That is an accommodation we would have to make if you had flexibility on wages.

Seltzer: The mine workers used to have a tradition, a custom, of sharing whatever work was available. My hunch is an appeal based on that tradition might be successful. Trumka knows his history. My hunch is he would be receptive to something like that.

Over the last couple of years, U.S. Steel has shut down as many as 20 facilities.

Usher: That number is probably a pretty good guess. Some are major things and others are really little nothings, very minimal employment, and so forth. But they are all counted as a facility. There have been a number of facilities shut down.

Seltzer: OK. I take that as evidence that the mining operation is scaled down from what it was six or eight years ago. It is likely they will stay more or less at the current level rather than grow substantially over the next ten years.

Usher: I think it's true. Technologically, most of the things that have happened in steel have been anti-coal. You go to a much greater mix in electric furnaces. There is more emphasis on quality coke as opposed to quantity coke. Every major steel company's blast-furnace coke rate has gone down appreciably. They're looking for a strong good coke, as opposed to just dumping coke in. Continuous casters for the same finished product don't need the same amount of hot metal, hence the same amount of coke, hence the same amount of coal. These technological things have been against coal. There have also been productivity improvements in coal, long wall systems, and so forth. You are scaling down the number of people you have working in coal. The coal business itself has gone down, the number of people have gone down.

Seltzer: Is the implication that you've already shaken out your inefficient mines? And the ones you're in now, you're in for a fairly extensive period of time? Given that, what sorts of state and federal policies would you be receptive to for increasing the benefits to the communities of your business activity?

There was talk, for example, in the Carter Administration of having "energy impact assistance." In communities, particularly in the West, where they're having rapid coal development, there would have been some federal money available for front-end [social] costs. A community that needed a clinic, a school or a road, could have gotten front-end help from this program had it passed.

Usher: In the form of a low interest loan, something like that?

Seltzer: Loans, grants, a variety of things. But it never got anywhere in Congress. The times changed against that kind of program. But some of the problems remain.

In a situation where you have fast growth, you have problems. In a situation where you have retrenchment, shakeout, you have problems of a different sort. Some of the responsibilities will fall on your shoulders. But there are also ways, I think, of spreading the costs so you have in the community a way of building [economic] resiliency in both good and bad times, building their capabilities for doing stuff on their own, which I think is to your benefit.

Then the question is, if you can see some role for state or federal policy in that, where does the money come from? One possibility is taxes. General public or you.

Usher: Me?

Seltzer: A coal tax. If McGraw gets elected, he might consider a dollar-a-ton tax on coal for business development in the coal fields, some of which would be for the coal industry, some of which could be for others.

Usher: My gut view is probably [only] five cents of that dollar would get back for its intended purpose, if history is a guide.

I guess it's a philosophical argument about whether people can take our money and decide how best to spend it or an individual company, acting individually, could decide best how their money should be allocated. And, in general, I am opposed to confiscation and then having third parties determine how that money can be best spent, as opposed to letting individuals decide. With that as the background, I would say there are still opportunities for government to come in and play a role. But I would expect that [role] to be minimal. I would probably be opposed to the idea of a grant or something like that as against a low-interest loan where there was a commitment on the part of the community to repay. I would expect government involvement to be minimal, but I can see circumstances where there might be a role to be played. I wouldn't want to see a massive federal or state program put together to infuse all kinds of capital into an area because that was going to be "good for the area," as decided in Washington, Lexington or Charleston.

Seltzer: So you don't see much applicability of the model that France, Germany, and the U.K. use? Almost a comprehensive planning process where private sector and public sector partners get together to develop a place for 20 years where they integrate environmental protection, production and whatever the social stuff is.

Usher: It's important that those parties have understanding and communication. I don't think that a central planned economy has any chance for success.

Seltzer: I wasn't suggesting a centrally planned economy.

Usher: I will give you an example. I came back from France recently. They've got a number of steel operations. Some are more efficient than others; some are basket cases; some are fairly modern. The basket cases tend to have very high employment levels. They tend to be in old areas, older plants. The new ones are on the coast, very efficient, good manpower utilization.

For reasons other than pure economics, decisions are made as to which plant should operate, which should continue to exist, which should get investment dollars, and on and on. While that may have maximum employment and benefits to the maximum number of people [for a time], in the end, you are going to have a disaster. The ones that should be producing aren't, and the ones that are producing can't compete. Even though it has some short-term therapeutic value in ruling that this should be done or that should be done, I don't think it's to the benefit of anybody.

Seltzer: I can understand that. The decision they made was that coal was an industry of national importance and they were willing to make political trades with the Union.

Usher: Not on coal, these were steel plants.

Seltzer: It's basically the same thing.

Usher: Same thing.

Seltzer: You were saying taxpayers are going to subsidize employment, to have that industry and not have it leave. I can see the analogy. I don't think that a centrally planned economy makes sense for this country.

Usher: Any country, I don't think.

Seltzer: But planning occurs, whether it's centrally planned, mixed, or private. In a place like Gary, there is a planning process. That planning process has generally come from here [U.S. Steel in Pittsburgh] in cooperation with your people down there. Is that the best planning process in the future?

Usher: What?

Seltzer: Is that the one you feel most comfortable with? Do you want to stick with it? Do you see any benefits coming from a different way of planning?

Usher: Well, I realize there are problems with that, but I don't really see it that way. I made a trip down there last year during the time Gary was really flat on its tail. Had a couple of press conferences with management people down there. I had a dinner for local legislators.

One of the roles I see for me is to make sure that everybody down there--media, politicians, the Union, the management--understands what's going on. It would be derelict on our part to have them operating in a vacuum down there, trying to make decisions, trying to plan, trying to do whatever they have to do. They don't have the best input. And the best input isn't just mine, but that constitutes part of it. It was for some people, I think, a very sobering session when I tried to make them understand the competitive world of today. Who were they competing against? Probably Australia, South Africa, Colombians, and all the other people who get into this equation. How do they fit? What is the status of the coal business in Japan, Europe, and the United States? What is the future for each area? What do they [U.S. miners] have to do [to survive the competition]?

I felt it was a fairly good exchange, give and take. But many people have thought for years that they sat down there with a very premium metallurgical coal. Maybe we are in a slump, but, in the year 2000 we'll [still] have <u>the</u> premium metallurgical coal. But, what is happening technologically? People are now saying, "We can find ways to use worse coals; it costs us a little but we can do it." You've got coal coming from all over the world. The steel businesses around the world, many of them are going downhill. You know, they [our employees] have got to know this. They have got to know it's a very cost competitive world. The ones that are going to survive are the ones that are going to have the best costs. The local people, the Union people, management people, the community at large has to realize where they fit into the world.

Seltzer: When you told them that, what did they say?

Usher: In some cases, I was challenged; in other cases, a lot of people nodded their heads. But, I think there was a general appreciation that somebody came down and shared this with them. It wasn't good news. If you tell people bad news and you are up front with them, they appreciate that a lot more than if you just keep it from them. It's bad news, but it doesn't have to be bad news. What I'm really saying is, you don't have a lock on anything. If you want to get competitive, we can make it here. But you've got to realize that the early days of the 1970s are gone. We are in a whole new ball game. Some will never buy that. Some of them are oblivious to whatever I said. Denigrating the whole thing. Others, I hope, will assess the situation and make whatever modifications in their behavior they have to make to exist.

Seltzer: Since you are now in a very tight competitive situation, do you have less flexibility and less money to spend on lights in a Gary "holler" than you might have had 10 years ago?

Usher: Fifty years ago. Definitely.

Seltzer: Then it occurs to me to ask, what do you do with the accumulated social deficit in a place like Gary.

Usher: I was interested in that phrase, say it again: "the accumulated social deficit."

I don't know how you measure the "accumulated social deficit." If, in fact, we have been operating the plantation and have exploited these people for many years, I would say perhaps we do have an "accumulated social deficit."

Seltzer: (Laughter)

Usher: I feel that these people have sweated for us. We compensated them. I'm not sure that we have an accumulated social deficit.

Seltzer: No, I wasn't talking about motive or who was responsible.

Usher: No, I don't think it [a deficit] exists.

Seltzer: Well, I think it exists. Sewage systems, water systems, roads, schools, all that stuff. If you compare a town like Gary with a town in Indiana, with a town in Iowa, or New Jersey, generally, all indicators of public infrastructure, public services are less. Now, they are getting better. That is what our research is showing. Even though the coal business was down, there is a certain momentum that came through from the early and mid-1970s and is still playing through.

In many cases the absence of those services impinge on your ability to hire people and do business. If you have to have a pure source of water and they don't have a water treatment plant, then what do you do? You either put the bucks in or you get the government to put it in. It's that kind of situation.

Usher: Or fold up shop. If it's a reasonable type of expenditure, we have generally done it. If it's something that's just over the value of that business, so exorbitant, no, we're not going to do it.

Seltzer: Are these communities coming to you with claims? Do they come to you and say, "Look, we need lights or we need sewage?" Or once you read them the facts of life, do they say, "Well, we'll just have to adjust."

Usher: They would say, "Things are really tough." For the most part, we would not want to become a charity. But if it were an emergency-type situation, we might help out. Yes, they come to us. We've got a clinic over in Lynch, Kentucky. It was a great thing. We had doctors there 24 hours a day. Not on call. There. I didn't feel that this was totally justified. I felt you could have doctors on call and have a nurse there. When you look at the frequency of day after day when no one was coming in between midnight and 8:00 a.m., you know we had a bit of an overkill. And yet, I didn't feel it was right, based on the value it gave us, to just walk away from this clinic.

What I'm saying is let's scale it down a little and make the community realize that they have to pick up more and more of the tab--especially as more and more of the community becomes non-U.S. Steel.

Seltzer: Do you think they had a right to come and ask you to help fund the clinic? In a philosophical way.

Usher: It has been going on for some time. I feel it would have been--I won't say "immoral" that's a little strong--I don't feel it would have been philosophically right for us to shut it down and say, "Now go fend for yourselves."

Seltzer: Why?

Usher: Because this is something we have always done for them. But, in the same sense, I don't think they necessarily have a right to the type of services being provided, which I felt was extensive. Why? I don't know, it's just the way I feel.

Seltzer: That's certainly not what Andrew Carnegie would have done.

Usher: Well, I never knew Andrew. I'm not sure he wouldn't have.

Seltzer: He didn't feel people had a right to come to him and demand a library. He felt it was an obligation of somebody who had accumulated wealth to benefit the community.

Usher: I would tend to echo more than disagree with that. I don't feel they have a right to expect that we provide any service for them.

And yet I feel we have some obligation to them to provide services for them based on past practice and based on basic needs that would exist if we pull out. But the direction has to be that we want to get away from that in a way that would not cause major disruptions to the people in that area. And in the case of Lynch. Over time, more and more of the burden would be shouldered by the community and less and less by us.

Seltzer: In situations where either the mine plays out or it's not productive to keep it going, what did you learn from the experience over the last couple of years about how you phase out a major facility?

Usher: What have I learned? I guess I've learned a number of lessons.

Number one, there has always been a tendency to not get down to the hard issues until it's really too late to do anything. This isn't just in mining--I see it everywhere. Conditions deteriorate. The business is losing money. There's a lot of chatter going on back and forth between the Union, and management. First thing you know you've got a basket case on your hands. There are deadlines and ultimatums being given. Then sometimes the Union, or the suppliers, or whoever it is you are dealing with, will give in. But, by then, you are dealing with a corpse.

One of the lessons I have learned is that when these trouble signs start to appear, you've got to get in, get your case presented and get the thing turned around a hell of a lot earlier than we have had a history of doing. Once the cancer gets in there, the thing's going to die if you let it go too long. If you get in early and cut it out, you've got a chance to save something.

Maybe it's 20 percent, maybe it's 15 percent, maybe it's 30 percent--I don't know what it is, but there is a relatively small proportion of businesses which fail that structurally have to fail. The rest is that the people running it, management and labor, just haven't got it done. I've seen [a lot of] examples of people who recognize this, that their destiny is in their hands. They've got certain tools available to do something, and they have gotten together and done it. Made it successful. Went against all the odds, all the things you normally hear, "Oh, it's going to fail."

There are so many examples where this hasn't been the case. Gary is a good point. We have two operations in Gary. Newer operations we call "Pinnacle," and the older operations we call "Alpheus," which is more centered around the town of Gary. The Pinnacle operation is newer and more cost competitive. It ran pretty much through this entire time when the Alpheus mines were down. I think people appreciated that. These were the same people who were working there two years before. If they [the Alpheus miners] were going to continue to work, they had to be competitive and produce a product that was similar in cost to what was being produced at Pinnacle. Because when we go to sell it, we're selling the same product--a low-vol [volatile] coal with certain specs. They [customers] don't care whether it comes from Pineville or from Gary. And they [Alpheus miners] have done it. They have come back with the same people and basically the same equipment.

Seltzer: What did they do? What did they do that was different?

Usher: They are working harder. Absenteeism isn't as high. There is more dedication to getting it done. They realize if they can produce coal, they can continue to work. And most people want to work. Their costs are 20 percent lower than what they were when they went out. I haven't spent major equipment money down there.

Seltzer: How did you make your case to them? Management always comes in and says, "Work harder. Do more. Do better." How did you make the case different this time?

Usher: I can't take credit for it myself. It has to go to the local management down there. They have convinced the people this is the case. It isn't just a bunch of management rhetoric. This is the fact.

Again, it's sharing with them what the competitive situation is. Letting them know what the costs are. I have no objection to letting them know what our costs are. If it costs us 50 bucks to produce it and nobody in the world is going to give us more than 40 dollars, you don't have to have a Ph.D. to know you are not going to be in business long. Too often we mumbo jumbo all this stuff and they [the workers] really never understand it. But we say, "Hey, the market right now is 40 bucks--you better produce coal for 40 bucks."

The big question people had when I went down there was, "When are we going back to work?" "When are we going back to work?" The answer is, "When there's people out there that are ready to buy the product." I said, "I don't want to make a lot of money. I'm more than happy to sell it at my cost to get you back to work. I want you back to work."

Seltzer: Sell it to your own company or ...

Usher: Sell it anywhere. Yes. I'd rather do that than have them all unemployed.

Seltzer: Well, why would you do that? If you can get a 10 percent return on buying an oil company, why would you just run things break-even in coal at Gary?

Usher: In the long run you wouldn't invest money in an area to break even. I'm talking about in the short term.

Seltzer: OK.

Usher: You know, there is this perception that I'm holding out for the great profit. If I can cover my costs--and even less than that--I'd put them back to work at less because there is a certain cost, it's costing me to not operate, fixed costs. But the first chance I get, I want them to work. I mean, you know, it makes a happier work force.

Seltzer: Have you found this to be the case at your other operations? That when you go in and lay it out that way people are responsive?

Usher: More so than not. But not totally. Unfortunately, depending on the mix, there are a lot of people that want you to fail for very parochial reasons.

You may have seen there is a big vote up at Johnstown today on concessions. There is a large contingent of the work force--U.S. steelworkers up at our Johnstown fabricating plant--a large segment of that work force that wants the thing shut down. It will trigger a pension for them. They are 54 years old. Why should they bust their tail for eight more years? They can get a pension now, become a school crossing guard, have coffee in the morning at 9:30. I've seen this repeatedly. It's the same thing with UMWA. There are people that don't want things to succeed because their own parochial interests are better served by having it fail. People are very parochial in how they vote.

Seltzer: Would you be better to buy coal commercially [on the open market] than to run your operations captive [operating mines to supply the company's steel-making facilities]? Would it be cheaper?

Usher: U.S. Steel?

Seltzer: Yes.

Usher: Some yes. Some no.

Let me characterize what our business is. You may not understand it.

About two years ago or so, we decided there is no way we could support the level of coal that we have by being just a captive supplier to the steel company. So we set up this subsidiary, which we call U.S. Steel Mining. We sell to the steel division at a commercial price. Two years ago about 60 percent of what we produced went outside of U.S. Steel. Last year it was about 50; this year it will be about 48 percent. Our rough balance is that half we sell to people other than U.S. Steel, and half we sell to U.S. Steel. If U.S. Steel [wants] a coal we can supply and we elect not to match the price that they can get at XYZ coal, they are going to buy from XYZ. There is no requirement that they [U.S. Steel] buy from us. So U.S. Steel probably buys one-third of their coal from outside and takes two-thirds of their requirements from us. Sometimes there are reasons other than costs. We might not have a particular type of high-vol coal they need to make coke stability. In some cases, it's costs that we have elected to walk away from.

Seltzer: That imposes tremendous pressure on you to be as efficient as you possibly can. You're caught. You have the market on one side and your so-called "captive" customer can now buy from the outside.

Usher: Right. The guy who's my vice-president of operations said that he used to come up to Pittsburgh every month for staff meetings and he never even talked costs. They didn't. They tried to keep them down; they weren't spending money willy-nilly. But cost was not a big consideration for them. Production, basically, was the big consideration.

Several things are happening now. We're moving into an era where it doesn't really matter how much coal you get out. It's what it costs you to get it out of the ground that's important. The steel business is going through the same thing. There was always an emphasis on production because you could sell what you produced up through 1960. Since then, it has turned around. It is a much more competitive market-driven type of business.

Seltzer: You see that as basically a long-run good?

Usher: Definitely. We've got people who have spent 35 years here who were never really cost conscious. They would lay out a mining plan to get every ton of coal out in the cheapest way. That is not necessarily the same as maybe getting 80 percent of the block, but at a cost which allows you to be competitive. We're moving, we're not there yet. But we're moving in the direction of a Consol [Consolidation Coal] or an Eastern--somebody that has to exist in the commercial market.

Seltzer: When the BCOA was formed in 1950, George Love [Consolidation Coal Co.] was its conceptualizer. Harry Moses [U.S. Steel] was there. There was basically a partnership between Consol and U.S. Steel to negotiate labor relations with Lewis [John L. Lewis, UMWA president] and later Boyle [W.A. (Tony) Boyle, UMWA president, 1963-1972].

You've [U.S. Steel] lost your preeminence. The steel part of the coal industry has lost that central role in [coal's] labor relations. You still have one-third of BCOA's negotiating team. But BCOA only represents one-quarter of national tonnage at this point. How does that affect your mining operations, if you have less control over the labor factor than you once had? Do you get the sense that you're a dog being wagged by its tail? How do you adapt to that situation?

Usher: To a degree, you have to live with the results. Labor is our biggest single cost component. In comparison with foreign coal and nonunion sources, it [Union labor cost] is the area where there's probably the biggest discrepancy. I don't think my mining-bit cost is significantly different than the mining bit cost to a non-union operator. But there is a big difference in the total labor cost by the time you include all the [Union] fringes and everything else. Just looking at it objectively, I would say that this thing has to be corralled, lassoed and brought more into line. If the leverage that once existed in the days of Mr. Love, et al., has been lost and they [the unionized sector of the coal industry] are unable to do this, in the 1990s it [the unionized share] will be smaller than what it was in 1984. It's an inevitable trend unless something can be done about it.

Seltzer: One thing that can be done about it is to go nonunion--just not sign the contract.

Usher: That would be one.

Seltzer: Are you thinking about doing something like that?

Usher: I'm not.

Seltzer: Why? Everybody in the coal industry always tells me that nonunion operations are more productive and less trouble than Union operations. Why don't you go to nonunion?

Usher: In terms of what our negotiating strategy is in 1984, we will be a constructive member of BCOA. We have elected, as a company, to continue our negotiations in that vein.

Now what will happen in the future? I agree with you that it is certainly a viable alternative. I don't see that happening in 1984.

OLD BEN COAL COMPANY

Gerald Blackmore, Chairman and President

Company address: Lexington, Kentucky

Parent company: The Standard Oil Company (Ohio)

Background: 61 years old, 40 years in the coal business; executive or staff experience in nearly every facet of the coal business. Spent 22 years in coal management positions in South Wales, culminating with 7 years as General Manager of Rhondda area of the National Coal Board. Moved to National Coal Board's headquarters as Deputy Director, General of Industrial Relations. From 1968 to 1971, he was Vice President, Coal Division of Cape Breton Development Corporation. From January 1972 to September 1976, he served as Executive Vice President for Coleman Collieries of Alberta, Canada. In 1976 he moved to American Electric Power as Vice President of Coal Procurement. He then joined Old Ben Coal Co. in September of 1983 as President. Since 1980, he has served as U.S. representative on Coal Industry Advisory Board to International Energy Agency in Paris, France.

Total number of employees (parent company):

1983-43,984; 1982-49,837; 1981-56,672; 1980-22,938; 1979-22,103

Coal production:

1983-10.7 million tons; 1982-10.9 million tons

Total parent company sales (in millions):

1983-$12,067; 1982-$13,529; 1981-$14,140; 1980-$11,367; 1979-$8,241

Coal sales (in millions):

1983-$361; 1982-$346; 1981-$293; 1980-$274; 1979-$231

Total parent company assets (in millions):

1983-$16,362; 1982-$16,016; 1981-$15,743; 1980-$12,080; 1979-$9,209

Total parent company net income (in millions):

1983-$1,512; 1982-$1,879; 1981-$1,947; 1980-$1,811; 1979-$1,186

Message from 1983 Annual Report: Emphasized mine productivity increases--24% increase in deep mine productivity and 26% increase for surface mining in 1983.

Diversification: Petroleum, coal, metals mining, chemicals, and industrial products.

OLD BEN COAL COMPANY

Gerald Blackmore
Chairman and President

April 5, 1984

Blackmore: Coal is probably the most unregulated commodity there is in this country.

Seltzer:* Unregulated in terms of market?

Blackmore: Unregulated in terms of almost anything but market. The market is regulated. Right? Not by price, not by anything other than government regulation relative to the potential of acid rain and things of that nature.

You go back to 1973. The electric utility business burned about 373 million tons of coal in this country. By 1981, it got up to about 600 million tons. Last year [1983] it was approaching 625, 630. And last year the burn of coal by the electric utilities represented about 84 percent of all the coal burned in the country.

You have read the World Coal Study which was edited by...

Seltzer: Carroll Wilson. [Carroll L. Wilson, Coal--Bridge to the Future (Cambridge, Mass.: Ballinger Publishing Co., 1980)]

Blackmore: ...on his projections.

Seltzer: Which I found optimistic.

Blackmore: Well, you are looking at them five years later. Right?

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*Curtis Seltzer and Cynthia Duncan, interviewers.

Seltzer: I found them optimistic when I read them. I had been doing projections at that same time. They were at least 20 percent lower.

Blackmore: I appeared on the same platform as Carroll Wilson twice in one week--once in San Francisco and once in New York. It's always a bad thing to fall out with a fellow speaker, but I couldn't help it. So I said to him afterwards, "Carroll, I listened to all your statistics which are quantities. How about this question of [coal] quality?" He had pulled together all these statistics which were numbers of quantity with no relationship to quality. That was a stupidity for two reasons. One, you can't compare a ton of Powder River Basin coal at 8,000 Btu with a ton of good quality eastern Kentucky or West Virginia coal at 13,000 Btus. The tonnage quantification becomes nonsense.

Secondly, I have pounded the countryside for six years arguing for consistent coal quality as a means of maximizing the availability of boilers, which in turn, reduces the cost of producing electricity. Pounding the countryside did not meet with great success, despite the fact that nobody had ever thought about it logically. There is a world of difference between unwashed coal at 11,000 Btu and washed coal at 12,500.

That's why Carroll's figures were, in my view, fundamentally misleading. They are probably too high for other reasons, but I wouldn't go 20 percent.

Carroll Wilson's estimate for American coal [production] in 1995 was somewhere in the range of 1.4, 1.5 billion tons and 1.6, 1.7 by the year 2,000. In 1984, I would say those figures won't be achieved. I think they're probably potentially four or five years wrong [premature].

What is key, though, is why aren't we progressing faster? It's all because nobody in this country knows where the government stands on the EPA [Environmental Protection Agency] regulations. You have to understand the impacts of varying degrees of further government control on the Clean Air Act. If you [a utility] can achieve a new [sulfur dioxide] standard by coal market changes--[by] moving out of Illinois coal at three percent sulfur and take a one percent sulfur eastern Kentucky coal and achieve the standard--then that will boost the industry in East Kentucky and put the industry in Illinois all to hell, right?

Seltzer: What do you propose?

Blackmore: What do I propose?

Seltzer: You have to concede that there is an air pollution problem that has to be addressed at some level.

Blackmore: I am prepared to accept that there is an air pollution problem caused by something.

Seltzer: And your position then devolves into saying we need more research?

Blackmore: Someone who has the educational background [might] say that. I look the facts in the face and formulate a view as a businessman. I say, "I'm sorry. I can't accept the thesis when the cost of the thesis is hundreds of millions of dollars." I'm quite prepared to recognize facts and do something about them. But don't expect me to spend billions and billions of dollars on an annualized basis to resolve a problem which is not clearly defined as having a specific source. If you want to tell me there is a lack of fish in the lakes on the East Coast, I say, "Fine, I accept that today." But, were there any fish there 20 years ago? Nobody can say, "Yes, there were fish 20 years ago." If they can say there were fish there 20 years ago, I then say, "Okay, now prove that the reduction in the fish population is due to SO_2."

Seltzer: That can't be proved--not to the standard of rigor you want.

Blackmore: Okay. So if we accept that, let me ask the question. If you give me three, four, five years solid research, can you come up with a reasonable clue [as to what is causing fish decline in Northeastern lakes]? What I come to is this. We come back to this figure of 373 million tons of coal burned in 1973. Would you be surprised if the 600-odd million tons of coal burned last year [1983] gave less SO_2 into the atmosphere than the 373 million tons in 1973?

Seltzer: I wouldn't be surprised.

Blackmore: It's a fact. Proven. In 1973 you really didn't hear too much about SO_2. I don't think from anything I read there's been deterioration [in air quality]. Nobody can relate the two. If you go back to the Clean Air Act when it was passed in 1970, what did the regulations specify at that time [about SO_2]? The regulations they got out at that time must have represented a reduction compared with what was happening. Every power plant was given a standard it had to achieve. In 1981, when there were only 350 coal-burning power plants in the United States, the actual emissions were way less than what the regulations of the law provided. Less.

Seltzer: The situation you just outlined is a paradoxical one in the sense that regulation has increased many fold over the last decade.

Blackmore: Yes. Regulation has increased.

Seltzer: The stringency of regulation, both on the supply side and the demand side, has increased on the coal industry in terms of surface mining regulation, clean water, clean air, safety. All of those regulations have increased. Yet, the coal burned in the utility sector has doubled.

If both trends continue into the future, the extrapolation is that coal demand will continue to increase--perhaps at a slower rate than you or I might want--but, environmental regulations are not standing in the way of national increases in coal demand. They are, however, affecting regional coal much more than national coal.

Blackmore: We are dealing with two subjects. We are dealing with the increase in bulk. I'm saying there is indecision on the Clean Air Act and the EPA standards, both in this country and every other country of the Free World. I make that statement as a member of the coal industry Advisory Board to the International Energy Agency in Paris. I'm chairman of two of its subcommittees where this subject is a critical part of the work. It is the indecision on clean air that is very detrimental to the development of coal in getting anywhere near the figures Carroll Wilson was talking about. The bulk figure.

From a sociological standpoint, which is one of the big aspects of what you are dealing with, whatever they decide [about SO_2 emissions and acid-rain legislation] can produce tremendous changes or impact on local coal fields. For example, if they [Congress] go the route of X million tons [SO_2] reduction and they leave it to the utilities to do it any way the utility wants to do it, the law of averages [says] the utilities will go for changing the type of coal [switching to a low-sulfur coal] as a means of achieving the standard [rather than retrofitting scrubbers which would allow the continued use of higher sulfur coals].

Seltzer: That's the market response.

Blackmore: That is inevitable. The average utility today is barely making its dividends. Barely making its dividends. A utility stock is really only a bond. Anyone who thinks a utility stock is a blue chip bond, or that's what it has been...when the interest rates go up, then, of course, its interest rate doesn't compare. The price of the stock on the market goes down. When the interest rates go down and the natural flow of dividend in the utility stock gives a better rate of return than the interest rate, then the stock will go up. That's a well-known fact.

Because we have gone through a period of high interest rates and because, by and large, public utility commissions have over the last four, five, six years become extremely difficult in terms of granting reasonable rates, the average utility is very cash short. And scrubbers are not cheap things--neither cheap to finance nor cheap to operate. So the average utility, given the opportunity, will switch coals. They will not put in a scrubber. Therefore, this is the second problem.

If government decides that you've got to have a six- to eight- million-ton reduction and you can do that by fuel switching, then the coal industry in Ohio, Indiana and Illinois will go rapidly down the hill, except to the extent that scrubbers are already put in and they can provide that coal. So we are talking about two problems.

Seltzer: Except to the extent that the legislation requires close to full scrubbing. At that point, the western coal advantage decreases markedly.

Blackmore: But there was never any logic in Costle's [Douglas Costle, EPA administrator in the Carter Administration] position that irrespective of the quality of coal you had to scrub. That was stupidity.

Seltzer: That was politics.

Blackmore: Absolutely.

Seltzer: It wasn't stupid; it was politics.

Blackmore: In my practical approach, it was stupidity.

Seltzer: That's an interesting question. It gets to things we're thinking about.

In England you kept open a number of mining operations that you couldn't justify in terms of the economics.

You did it because of politics. The labor unions were strong. The government said, "There's a national interest in keeping these mines going. There are communities that have been built up and we want to continue that. We want to have the capacity there." There was a conscious decision made in England, as well as in a number of other countries, that we want a coal infrastructure and are willing to subsidize the industry in the public interest.

In this country, we haven't made that decision as explicitly as the western Europeans have. The closest we have come is Costle's position and in the Waxman-Sikorski bill, that you scrub as much as you can to maintain the eastern [higher sulfur] coal industry at about the level you have today and allow it to grow. If you let the market decide--you are absolutely right--we'll go to the low-sulfur coal whenever possible and not do scrubbing. Then the eastern coal industry goes down the tubes.

The question that raises, from our point of view, is...

Blackmore: You may have seen this paper before. This is a paper I gave. It's the Rockport case.

Seltzer: That's Indiana.

Blackmore: Yes. In this total argument, there is a compromise. There comes a time when the cost of transportation of a low-sulfur coal added to the cost of the coal, in other words, the delivered cost, will be greater than the local high-sulfur coal plus scrubbing. This exercise is typically used to show where the break point comes. I don't think it's a black-and-white position. If you let the market decide, it will find its own feet.

Seltzer: The feet it has found so far in the existing coal plants have been that 50 million tons of western coal has crossed the [Mississippi] River displacing 35 million tons or so of eastern coal.

Blackmore: At the time those decisions were made, you, sir, as a logical, sensible human being, would have made the same decision.

Seltzer: That's right.

Blackmore: Now take the changes since that time and look at the decision retrospectively. Take, for example, AEP [American Electric Power Company]. Ten years ago, AEP signed a contract for five million tons a year, Powder River Basin coal, for 30 years. They paid a starting price of $2.10. The railroad rate at that time was $8 or $9. So we're talking about $11 for 16.4 million Btus on a delivered basis. It was a very cheap rate and was probably as competitive as anything you could get.

Today, $2.10 with all the escalations probably stands at something just under $7.00. It has gone up 300 percent in ten years. You could probably [still] buy that coal at $4.50, $4.70. But all sorts of things are creating a drag on its market, ...[particularly]...the transportation figure, the rail part of it, which is now $21, $22 [per ton].

Something's happened. The Staggers Act put that [Powder River Basin coal burned at plants on the Ohio River] out of perspective. So the decision of 1974 wasn't wrong. It's been made to look wrong.

Seltzer: The Staggers Act and a full scrubbing position, both of those get to the kind of pattern that you have seen in western Europe where there is a certain amount of subsidy and protectionism of certain sectors of the industry.

Blackmore: Not because they want it.

Seltzer: They didn't approach it explicitly that way. But that is the effect of those policies.

Blackmore: But it's not because they want it. What they are doing...is to move away from it [subsidy].

Seltzer: That's right.

Blackmore: I don't think even a socialist in Britain wanted to protect that [coal] industry. The last figures I saw the German subsidy was $4 or $5 a ton more than the British subsidy. They are not doing it because they want to. They are doing it purely under pressure of public opinion.

All the indications are that Thatcher is prepared to bite the bullet [end subsidies to domestic industries]. She recognizes, and any logical person should recognize, that it is the answer to nothing to keep people continually employed in an industry where there is no hope in hell of it ever breaking even. I was prepared to support the Chrysler thing [federal bailout] because I thought if you could get them over the hill and there is good management, that can solve a problem. It has happened that way. I'm quite happy as an individual and one of the electorate if I can do something to help people get over the hill. And I'm satisfied having put money in, they can correct the position and then go ahead. That's alright with me.

But the position in Britain is completely, absolutely stupid. These mines are run out. They are working three-foot-thick seams, dirty seams. Even if they do carry on, they only have ten, 15 years of life. Guaranteed losses the whole period. That, to me, is complete stupidity. I know some of the coal mines. In South Wales when the mines were nationalized, I think we had 120 coal mines. The guy running it today, my friend Phillip Weeks, has probably got 15 or 16 left. One hundred and twenty down to less than 20.

Seltzer: What's the responsibility of the coal industry in a situation where either the seam is being depleted or the market condition forces a shutdown? That is one of the questions we are interested in.

Blackmore: In their society, right?

Seltzer: In our society.

Blackmore: It's different.

Seltzer: What are the differences?

Blackmore: In your society here, if I got 20 coal mines, they will all have different ages and therefore different lives left. When I look at the economics of the 20, I have to look at it all together. If I got 20 coal mines, the law of averages says I got 12 that are making a decent profit, four just about monkeying around breaking even, and four that are lemons at that time. Hopefully, they are not lemons for too long. They can be a lemon for one year, two years. So I got pluses and minuses. By and large I stay in business only if my pluses over the years exceed my minuses.

Seltzer: That's right.

Blackmore: So if I get the advantage of the pluses, then I have a responsibility to the minuses. I have to attune how I handle the minuses relative to the adverse affect on my pluses. And that is a factor of public perception. One of the interesting things to me against my Welsh background--you know I spent 25 years in South Wales so I think I know those guys. One of the interesting things to me is the fact that in the last two or three years, quite foreign to the general trade union mentality, you have had a position in southern West Virginia where you have had 25,000 to 30,000 coal miners out of work. And the guys who have been working haven't put up a peep. That is completely contrary to what I have always perceived as the trade union approach. In Britain it wouldn't have happened that way. This is what the big strike and problem is today. They are hassling about the closure of 20 coal mines that really represent all the losses of the National Coal Board. On any sort of basis, [these mines] have no economic future whatsoever.

Seltzer: What's the responsibility of the state in England for those mines? What would be the responsibility, if any, of the private sector in this country in the case of having massive shutdowns?

Blackmore: I don't see, in your society, that coal operators have any direct ongoing responsibility over and above that which they have signed up for in terms of pensions, benefits, etc. I don't see, in your society, there is an ongoing responsibility. There is a natural control here that if a company is going to cut back severely, it will not cut back if it sees its actions prejudicing the future.

Duncan: In the public's mind, you mean, or in the market?

Blackmore: In the public. So many of the communities we are talking about are pretty small communities where there is no such a thing as privacy. Everyone tends to know everything. When I was with AEP we had something like 5,620 miners and at one time had 2,500 laid off. You don't do that without thinking very carefully. If I had been a full private-enterprise coal operator then, as I now am, I would not likely lay people off because I believe, as an employer, I have an obligation.

This is why I say what has happened in the last two years in the coal industry, particularly the unionized ones, is very strange. Strange to me coming from Britain. They have the same thing in Britain today; they have a national strike in the very same circumstance where your trade unionist says, "I'm alright, Jack. I got a job. To hell with you."

Seltzer: What do you think explains that?

Blackmore: It's the difference in the mentality that you have in a free-enterprise society. You haven't got a background of almost 40 years of socialism. You are still a free-enterprise society. The average coal miner is really a free enterpriser. The number of die-hards [left-wing miners] you've got are very, very few. It isn't so engrained.

Seltzer: Radicals in the Mine Workers Union are not as a rule socialists.

Blackmore: No.

Seltzer: They are much more anarchistic.

Blackmore: And they are a small percent.

Seltzer: They are class-conscious, but not ideological in the sense that British miners are.

Blackmore: That's right. You can't really compare the two countries. The economic opportunity for the guy who wants to work here is so much greater. That is very difficult to quantify unless you are an economist who's got time to fight these things out. The opportunities for anyone in this country are tremendous.

Duncan: So the opportunity those laid off miners have is to leave West Virginia. Is that what you are...

Blackmore: They don't like it.

I first came to this in Cape Breton [Nova Scotia]. My first job in North America was Cape Breton. The Cape Bretoner thinks that's the only place on God's earth. Even those who leave will do everything they can to get a job and come back.

Seltzer: Your example of Cape Breton is interesting because when the layoffs came in the Nova Scotian coal industry in the 1960s, the government funded the construction of Louisbourg [National Park, a reconstructed 17th Century French fortress] and put all those unemployed coal miners back to work building it. It's a money-making proposition now.

Blackmore: And do you know who made it a money-making proposition?

Seltzer: Who?

Blackmore: I'll tell you. I was employed as the first vice-president of the coal division of DEVCO [Cape Breton Development Corporation, a federal effort which took over the bankrupt Dominion Coal Co. in 1968, and sought to promote economic development] to close out the industry.

Seltzer: You had to find some alternative source of employment for these [Cape Breton] miners.

Blackmore: We had two divisions at DEVCO. The coal division and the industrial development division. They poured money into the industrial development division. Virtually, nothing happened. It was just pouring money down a drain.

Seltzer: Why? Why wasn't it useful?

Blackmore: It is just about as far away from the market that you could hope to get. Secondly, there is a great paucity of management talent for that sort of entrepreneurial business. The people who came took the government for a ride. Took a lot of money out, but they didn't put much in. Very few things succeeded.

There are a number of reasons for that. There's nothing there [Cape Breton] as a raw material resource which you could develop. The things they tried--breeding sheep, cottage industries and things like that--didn't work out. They got some industry in small, micro things. People came and went. Very few things have done any good. It's only the coal industry that struggled on. If one had been allowed to manage it [coal], it could have been making a lot of money. But one wasn't allowed to manage it.

I left eventually because the politicians didn't think I was political. We agreed to differ. But I still have very good relations there and they want me to come back for one day out of the month. But the Lingan mine, which does two million tons a year, was born out of my planning and development. It would never have happened if I hadn't pulled a fast one.

Coming back to your question of responsibility.

Seltzer: On the assumption that coal production and demand is going to grow over the next 15 or 20 years in this country, what ways are there that development can better benefit coal mining communities?

Anytime you go into an Appalachian coal community, you see the way business as usual has come down in those places--they haven't benefited in many ways. If you compare coal counties to the national norm, they are significantly below in roads, education, medical care and public services. Why is that? Why has that been the case? What can be done to rectify that situation. And how would that affect your balance sheet?

Blackmore: Here is where I come back to what I said at the start. The great problem is this. You really have no continuity of the market. And you haven't got a guaranteed continuity of cash flow if you maintain your efficiency. This is a real worry.

Take this. The UMWA had contract negotiations every three years and, traditionally, there has been a strike.

Duncan: But utilities know enough to predict and handle that strike. That is not much different than the market itself, as far as your planning goes. The strike comes and goes.

Blackmore: But what does a one-month strike cost a company like ours? And by cost, I mean cost--not loss of profit. Just cost. Twelve million bucks. One month.

Duncan: What proportion is that of a year's cash flow?

Blackmore: This company didn't make a cent from 1978 to 1982 on invested capital of $300 million. In five years.

Seltzer: The return on investment was zero?

Blackmore: Minus.

Seltzer: I would have changed top management, too. The stockholders must have been clawing at the door. But you can't blame that on strikes. Utilities stockpiled coal before the strike and they increased their buy after...

Blackmore: But then you've got to think about this one. The key to making money in mining is to sell it day in and day out. Day in and day out. Once you've got a drop [in steady output], you can't sell it. And your cost goes sky high.

Let's put it another way. If you've got a coal mine on 10,000 tons a day, you can get a cost of thirty bucks with a reasonable return on your money. If you turn out another 100,000 tons and go from one million to 1,100,000 in a year, what do you think that extra 100,000 tons of coal costs you per ton if you don't have to increase your labor force and you don't have to increase your capital investment?

Seltzer: Maybe ten bucks.

Blackmore: You're a buck wrong. About $8.95. That's if it's a Union coal mine. If it's a nonunion coal mine it's less than that. This is the key to the industry.

Last year, Old Ben made 20 million bucks. They'd made about 12 when I came on the scene and said that was it for the year. I said, "Look, if you do this and that, you should be able to produce these extra tons at that price." So if you go out and sell that--even though the market price is very low--you can still sell it at a market price less a couple of bucks for your costs and make 20 million bucks. It is all based on the fact that the mines you work, you optimize. The mines you work, you optimize.

You can turn around and say, "Ah, but the utility is ultimately going to take the coal or it will take it in advance." If you can produce that coal in advance on a marginal cost basis and the utility will take it at a normal price basis then you are alright. But, if they won't take it in advance, you will find the nonunion guy will fill it up and you are down the drain.

Likewise, if the utility says afterwards, "Yeah, I'll take it from you," but then you have to increase your manpower and everything else to turn it out, then you've lost. The key is continuity by the optimization of capital, the optimization of the use of machinery and men. Consistency is the key.

Seltzer: What role should the federal government have in helping the industry be consistent in meeting demand with predictable supply? The market doesn't do that well.

Blackmore: I really have to sit down and think about that one. My criticism of any government, particularly in this country, is don't interfere unless you have to.

Seltzer: I would argue they have to. Since 1920 in this country, the market has consistently destabilized supply and demand patterns. I don't think the market can harmonize supply and demand consistently the way it is structured. Historically, the market has been unable to do that.

Blackmore: I don't think the actions of the federal government, in terms of the inland market, have had a tremendous impact. It's their interference in things that they needn't have interfered in, which, in my view, has had tremendous impact.

Certainly, the adverse effect for American coal in the export market, which dropped from 110 million in 1981 to 105 in 1982 and something like 73 in 1983. The two main factors on that--one is the recession and low demand for fuel. The other one is the relative changes in values. American dollars are terribly strong. Our chief competitors--the Australians, South Africa--in effect, got devalued by 35 percent. The Australian dollar devalued by 35 percent when the American dollar got revalued up by 25 percent. All of which puts American coal at a distinct disadvantage when demand was going down.

"Well, what did the feds have to do with that?" I don't know, except that the feds have something to do with the strength of the dollar.

It's the things the feds do which affect the coal industry, not so much directly to the coal industry, but indirectly. I'd put the Staggers Act--I'd put indecision on EPA as major factors.

Seltzer: What can be done in the future differently to make mining communities benefit more from future coal mining?

Blackmore: My humble view, for what it's worth without being biased, is there never should be any direct financing or ownership of coal mines by states or federal government. Of that, I'm certainly convinced. There are substantial areas of coal--good quality coal--which are going to take a bundle of money to efficiently develop. Those are developments where you would say, "Well, surely the guy developing coal has an obligation to do things for the community as part of his concept." I have a great deal of sympathy with that on a personal basis. The problem is there is no continuity of that cash flow.

We have an area, what we called our "Mingo-Logan Property." It's got 200 million tons of coal of the highest grade of [metallurgical] coal in the world. There's no doubt about that. My bet is to develop it for four or five millions tons a year. You are bound to be looking at 400, 500 million bucks.

Duncan: Do you mean you can't extract the coal profitably now?

Blackmore: That would be the capital investment.

Seltzer: What if the federal government came up with a program for coal similar to the best working of an agricultural-type support system. You would get the consistency of supply and price that you were talking about. It would work something like this. Each company would have a certain guaranteed quota of production at a certain guaranteed price. The federal government would guarantee that. The point of doing that would be to provide stability both to the industry for reasons of national interest and for consistency of economic activity in a major region of the country. The assumption is that the market works efficiencies on the supply side at great cost in terms of communities and the lives of human beings.

Blackmore: I really don't feel happy about answering the point without a great deal of thought.

In every country I've been in, the minute there has been any sort of control by government, the result has been very adverse.

Relative to achieving what you are wanting to achieve, a contribution by the industry to the community, I think there are all sorts of ways of achieving it without getting government directly involved.

Let us say, for example, that by tax reduction. By reduction of taxation on the understanding that it is put towards certain [community] things. I would be quite happy to see and be party to that sort of thing.

Duncan: What would the effect of that be? Instead of paying taxes to the state and federal government, you would put money directly into a clinic? Is it like a local benefit instead of a state and federal benefit?

Blackmore: I'm talking about a concept where operators or owners of the company would be obliged to make certain contributions to certain local facilities which would be to the advantage of everyone. I can go along with that. In effect, the workers are involved in creating the marginal cash.

I see nothing wrong with the hourly paid worker being involved in profit sharing. I think it's a good thing. I thought for a long time I'd love to run a coal company and say, "Look, guys, we've got $30 million involved. The depreciation is 10 percent. The cost of the money is 15 percent. We've got $12 million a year we've got to finance. After that, you can have 30 percent of the damned profit. You can share that out according to whatever way you want." The men get identified. If they wanted to put 20 percent to public things, that's great. You can do it that way.

Seltzer: You are the second coal company president who said that in those terms. And neither of you were doing it. He said he is willing to open up the books and show them [his employees] just exactly how much a ton of coal costs. He's willing to share in the profits when times are good if labor is willing to share the pain when times are bad. He is willing to show exactly how the figures are calculated.

Blackmore: The question is does his board chairman agree? That's the interesting thing.

Seltzer: I didn't ask that. I assume not since it hasn't been done.

Blackmore: I doubt if he would go along with it.

I wouldn't want to start this off in a mine in which I had 200 or 300 million bucks invested. But if we were talking about one where I had 20 or 25 million, which is handleable, and I could pick 60, 70 men and go nonunion--that's what it means.

Duncan: Why is that a stipulation?

Blackmore: You couldn't afford to get the sort of benefits we're talking about muddled up with a national Union agreement. I think SOHIO would be--I can't commit him--but I don't think they would regard that out of this world. I agree with [the other president]. The difference between him and me is that he is 40 years old and I'm 61. But even at 61, I'd have a bash at it. Because at the end of the day, my shareholders would be better off.

Seltzer: What you are saying is that the Union has become so encrusted with thinking of their contract in terms of wages, benefits, work rules, that they couldn't give you the kind of flexibility that you would need in order to...

Blackmore: You couldn't afford to take the risk. You have got to sit back and give Trumka [Richard Trumka, UMWA President] his head. He's a highly intelligent, good lawyer and therefore very logical. It's a great shame that he gets forced to negotiate this year. He got in on the basis of criticizing the negotiating inability of his predecessor.

Seltzer: He's pledged "No backward step," which is a pledge to retain the status quo. That's not a very aggressive posture.

Blackmore: I think he's prepared the ground to get by. I can't really discuss it because I'm a member of the executive committee of BCOA. I think he has all the attributes of John L. Lewis. The environment doesn't exactly give him the best of opportunities.

Seltzer: You know when Lewis vowed, "No backward step" in 1924, the effect was that the industry went nonunion. He won paper victories, but at the end of five years of pledging "No backward step," the Union was decimated.

Blackmore: But by 1950, re-established.

Seltzer: In 1950, he signed the contract with [Consolidation Coal's] George Love that provided for partnership between a union that had organized most of the industry and the major coal companies who were about to undertake a series of mergers amongst themselves. The combination was to stabilize costs pretty much across the industry at the expense of small mine operators.

Blackmore: But there was one thing that he did at that time. He [Lewis] committed himself to the recognition of efficiency.

Seltzer: That's right.

Blackmore: That was the key. That was when Joy Manufacturing brought out its continuous miner prototype. When asked where he stood, [Lewis] said, "I don't give a damn how few people you employ as long as you pay them what I ask." For a trade union, that was very important.

Seltzer: The social consequence of that decision was that over the next 20 years 300,000 miners were laid off.

Blackmore: Not from necessity. I think that's a narrow view.

Seltzer: That's what the statistics say.

Blackmore: But the point was if they hadn't been laid off...

Seltzer: I'm not disputing the need to mechanize or to increase productivity. I agree with that. What I'm arguing is that those 300,000 workers were laid off and nothing was done to retrain them, provide alternative employment.

Blackmore: Well, is that the country's responsibility?

Seltzer: That's what I want to know. I'm asking you as a person who faces that decision today at some level.

Blackmore: I don't see that it is the obligation in a free-enterprise society, that it is the obligation. Japanese society, yes. British society, yes. American society, no. I might not have a complete line of logic for that, but that's my reaction.

Duncan: Your perspective accepts the existing social set up even when the structure of these industries is changing radically. It's not as if those 300,000 miners who are laid off today could go to Dayton and get different employment. They don't have the options. An employment policy in this country is going to take a different hue than it has in the past when there were more opportunities--at least high-paying opportunities. Do you consider it an "opportunity" to go be a janitor? That's the fastest growing occupation.

Blackmore: That's an opportunity. I don't think the country has an obligation to maintain high-priced opportunities.

Duncan: Even apart from the "price" of the opportunity, what about the quality of the job? Is that a real opportunity, to work as a janitor?

Blackmore: I don't think the country has any obligation to maintain a quality of lifestyle, or job style.

Duncan: But you say the federal government influences the value of the dollar, and that is influencing your markets. Decisions are being made by the government which influence what jobs open up and what don't.

Blackmore: What I'm saying is there are things the feds can affect, conditions which the coal company operator can't do anything about. I was asked what affects it. The feds can take an awful lot of lines of action which affect the coal industry. Which is sometimes difficult to trace. I'm really rebelling against my British background in getting the government involved in anything. It doesn't work.

I know [Ian] McGregor [current head of the National Coal Board and British Steel] very well. I know all the things he's up against. McGregor reduced the size of the manpower in the British steel industry by over half. In three years. Did you really get any serious complaints or hear anything about that? If 1983 had been a reasonable year in terms of world economics, British Steel would have made a profit. No doubt of it. He cut the manpower by about half, and there wasn't any great obstruction.

You have taken an artificial stance if you seriously think that government should protect jobs. All the experience across the free world shows that when the government starts protection, it doesn't work.

Duncan: I don't think the only two alternatives are protection or, by default, no policy at all.

Blackmore: I agree on that. But if you want me to devise an alternative in between, which is going to cost my shareholders money, I got to protect my derriere. And in the coal industry, the key factor is a continuity of cash flow.

Once there was a pattern where you had one good year in four. Unfortunately, that's fallen apart, because 1976 was the last fairly good year the industry had. So there's a lot of people screaming, yelling, hollering.

Duncan: You said that when you came here [to Old Ben], you increased production by a certain amount, and that the problem is continuity. You are thinking of continuity of production, aren't you? But doesn't it depend on continuity of demand?

Blackmore: That's right.

Duncan: And federal policy, in any number of ways, we've agreed, is affecting that demand.

Blackmore: Absolutely.

Duncan: So why don't we all put our heads together and figure out a way that federal policy, or international agreement, can contribute to that steady demand, so that there's that steady flow in these communities? Isn't that conceivable, without raising some ugly specter of public planning that turns out to be like Britain's fiasco?

Blackmore: Would you agree that the inventory of coal in the United States between last July and December dropped by something on the order of 60 million tons? If the inventory dropped by 60, 70 million tons, it means somebody burned 60, 70 million tons more. That got the inventory down.

The buying of coal actually increased, but the inventory dropped by 60, 70 million tons. The take of coal, as we say, was even. But the inventory at the power station dropped by 60, 70 million tons.

Seltzer: They were drawing down their stockpiles.

Blackmore: That's right. Why?

Seltzer: Because predictability of supply was such that they didn't have to carry those stockpiles.

Blackmore: No, no, no. Pure weather. You had a period in August, September of tremendous heat, right. "Degree days," as we call it in the electric utility business. The degree days were way high. Then in November, December we had a hell of a cold patch and the degree days dropped below the line. The effect [was felt] around the country. The country bought 60 million tons of coal more than average in that half year. In a period when the economy was really seriously on the uptake.

The problem I'm putting to you is this. Your thesis of continuity would have to overcome things of that nature.

Duncan: But aren't there certain margins of flexibility and elasticity?

Blackmore: Who pays for the margins? Sixty million tons of coal represents something of the order of $2 billion or more.

Duncan: But you could plan around....

Blackmore: I can't plan around what the good Lord does with the heat and the cold.

Duncan: You have several different scenarios in front of you, and you hedge your bets on different days.

Blackmore: I'm not talking about SOHIO and <u>nothing</u> I say in this conversation is binding on SOHIO or indicates their viewpoints. Let <u>that</u> be on the record.

There are certain circumstances under which, in a small, controlled manner, some sort of exercise of corporate responsibility (in terms of a mine development) would be very interesting. I could only support it as an owner and investor if I had some reasonable guarantees on cash flow.

Duncan: Fill out that scenario for me. What would those be? How would you...

Blackmore: The continuity on cash flow...

Seltzer: A long-term contract gives you continuity.

Blackmore: That's one. And a continuity of the integrity of the workers. That's why I want to try [to go] back with the workers having a piece of the action and what would come to the community would come out of their piece of the action. They get a personal bonus, but the community bonus will be tied to them performing.

Seltzer: Have you proposed that idea to Trumka?

Blackmore: No.

Seltzer: Try and fold it into a UMWA agreement?

Blackmore: I don't think you can.

Seltzer: At least give them a chance to say it's nonsense.

Blackmore: It's the sort of thing that you can sit down over a glass of beer and just chat a bit. He would sit back and say, "Gee, that might present me a lot of problems." And people are going to say, "Well, are you doing that for them and not for us?" You have to think that one out <u>very</u>, <u>very</u> carefully.

Seltzer: Why are you continuing a UMWA contract? Why don't you go nonunion if there are so many economic advantages?

Blackmore: Now you can turn that darned machine off.

---TEXT BREAK---

Blackmore: This is the point. Always be wary of the guy who doesn't know what he doesn't know. That might sound like double talk, but I'm sure you know what I mean. You have to recognize that 45 percent above the cost of the return on coal is related to the human endeavor. Do we give it 45 percent of the sensitive concentration? That's a question that each manager should look in the mirror and answer himself.

Duncan: Your [director of Human Resources] goes down to the mines and talks to the guys and shows them he knows their business. You are saying it isn't making a difference whether those miners are Union or not. I guess you mean in the payoffs...

Blackmore: I don't say it doesn't make a difference. I raise the question whether the great emphasis laid by too many people in my view on union being less efficient than nonunion is really a statement of objective fact. I have a difficulty with it.

Duncan: You're saying it's management that makes the difference?

Blackmore: I say there might well be other factors.

Seltzer: Among which are...

Blackmore: You can draw your own conclusion when you've done your own analysis.

Seltzer and Duncan: [Laughter]

Blackmore: You know in the coal mining industry, like many other industries, bigger is not of necessity better.

Seltzer: The tradition in the oil industry in this country has been either to be nonunion or to have a very weak union. The oil people I've talked to over the years have a very condescending and somewhat arrogant attitude toward the "old coal boys" for what they would consider to be allowing the labor tail to drag around the management dog. They believe if you get tough with the Union given market conditions, you can probably make your points. And whether the Union continues on the basis of one national contract with hundreds of separate contracts following along isn't really the issue. They are looking for a long-term shift in the balance of power between labor and management. Bobby Brown and the Consol people think that way.

It's a very fluid situation. The circumstances that existed in 1950, which brought Lewis together with Love and Harry Moses and the logic of a national contract with a single wage standard linked to mechanization, is not the logic today. Different circumstances. If I were sitting in Trumka's seat right now, I would be very worried about what you are cooking up for next September.

Blackmore: Oh, I think he knows what we're cooking up. I think it's delightful for anyone to say this is a categoric thing, that we have to go nonunion. I have a great deal of difficulty in accepting it. I'm prepared to do it in certain circumstances, but I think for people to sit back in their offices miles from the coal face and say that's it, there's a big difference.

Seltzer: The interesting thing that Cynthia's research has shown is that in many cases it is the counties that are heavily unionized with large operators, absentee owners, which generally have a higher level of public services, community development, educational attainment, per capita income than counties where we have smaller, marginal operators, nonunion operators.

Blackmore: I would expect that. I would expect that for all sorts of reasons. That statistic doesn't really make me feel uneasy.

Seltzer: So the policy implication is while unionization has increased the labor costs of production, the fallout is that social benefits of mining have been greater in those counties. There is a positive benefit for those communities with unionization.

Blackmore: So all we've got to do is to make the attitude of the people in the areas which are highly unionized with big coal mines, all we've got to do is slightly alter that package to make their operation as efficient as a nonunion operation, right? And then you've got the best of all worlds.

Seltzer: I was talking to a coal company president who said the problem [of efficient operation] is a management problem.

Blackmore: That's what I'm saying. It's a hell of a thing when we have to tell our own managers that's what we're going to do.

Seltzer: Why is that? Why has this industry not developed its management better?

Blackmore: You know you ask a lot of awkward questions.

Seltzer: You mean I ask them awkwardly or they are awkward to answer?

Blackmore: They are very good questions, really. We've got to accept the fact that in the 1950s and the 1960s there was no real future, it seemed, in American coal. So by and large the industry didn't get any of what I'd call the "intelligent youth" of the day. The net result was that vacancies were filled by people going up [from within the organization]. Times were tough in the 1950s and 1960s. The coal company survived only by hardheaded, tough individuals, who, in effect, controlled the thing on a personal basis. In the 1950s and 1960s, the coal companies were really managed by old-style father figures, godfather figures, really, reporting to owners who were remote. They did things with a whip in their hand, eh? There are very few of them left now. The last few are on their way out now. We're almost out of them. This is what the industry had as its leadership when outside forces started coming in and putting in new managers.

Seltzer: Gulf in 1963 and then Conoco in 1967.

Blackmore: This is when a degree of professionalism started coming in. It spread to certain companies and not to others. The reason you had this relative backward approach is for that reason.

Seltzer: What are you doing to broaden or diversify the pool of talent you draw from? Where are you going? Are you going to Harvard Business School? Stanford? Kentucky?

Blackmore: No. What you have to do is to get your pick of the crop [locally].

Duncan: From the high schools?

Blackmore: A combination of brains and personality. Over a period of months I thought about this and put it into a little arithmetic formula: one's cash value in the market of life is a percentage of what you know about your subject multiplied by your percentage ability to implement what you know. The guy who is extremely good academically invariably has a bloody lousy rating in terms of human communication. The guy who scores is the guy who half the time understands and the other half of the time doesn't understand, but he has this power of communicating with people. And when he doesn't understand, he says, "Jack, come and give me a hand.". So that he knows enough. His power of communication is the key that counts.

Seltzer: So why did you hire a Human Resources guy who spends his time on [paperwork] procedures?

Blackmore: He has got to spend some time on procedures at this stage. I told him get off his ass and get down in the field. Leave the procedures to somebody else. He's got to be on the stick handle and diplomatically handle pleading on the subject of company policy.

The key thing is this. I feel strongly about this integrated education business. We've put on fully integrated comprehensive courses in commerce. In that regard, coal mining is an adjunct of any other damned degree. I'm a great believer in coal companies having a quantum of students who take very useful scholarships. Say you are in universities 33 weeks of the year. You have a need for two weeks vacation. That comes up to 35. We will provide you with 27 weeks of employment which is what you will do to earn the scholarship. And the 27 weeks has to be integrated in terms of its experience with the academic work. When you have done that for three years or four years, you have a management evolution program where you go from one to another for the next two or three years. So after a total of five or six years, you are competent not only on an academic and professional basis, but you have learned the important thing in life and that is to communicate and handle people.

The cash value in the market of life will never come from pushing a pen on your own account unless you are extremely fortunate and your name is Mr. [Alex] Haley. On the law of averages, your cash value will be a factor of your "manipulation" of people. If you don't like the word, I understand. But that's what it's all about.

Duncan: And you think that is something you learn--that you can train people to understand?

Blackmore: Some people are natural. But to varying degrees you can train them. Some are more natural than others. This is what it's all about.

Duncan: It will take a lot of time to do that. A lot of your time.

Blackmore: I can start the process if I can pick up some guys who are in our employ who are 23 or 24 years old who haven't been stick handled right in the past and get them into the same sort of path. This is the only way to do it. There is no way you can take people 35, 40 and get them to meld themselves in.

I had seven years in my last job. I've taken four [people] with me [to Old Ben]; it's getting to be an embarrassment. They are so far ahead of other people I find in the marketplace, I have a real problem. They are way ahead because I've had seven years knocking their heads against the wall getting them to think as I wanted them to think, which is: that the mining business can only be successful if it's run on the basis of an integrated business plan. The people in the industry in the 1950s and 1960s, unfortunately, could only think in terms of production where more is better. This is the gap we've got.

ASHLAND COAL, INC.

David Todd, Vice President for Public Relations
and
William Ritchie, Vice President

Company address: P.O. Box 391, Ashland, Kentucky 41101

Parent company: Ashland Oil, Inc. (65%), Saarbergwerke, A.G. (25%), and Sociedad Espanola de Carbon Exterior, S.A. (10%). (Ashland Oil also owns 50% of Arch Mineral Corporation.)

Backgrounds:

David Todd: 43 years old; 11 years in the coal business. Mr. Todd received J.D. from West Virginia University School of Law, 1971, and B.A. in 1964 from Marshall University. From January, 1974 to February, 1978, he was Assistant Solicitor for Coal Mining, Health and Safety Department of Interior; from February 1978 to September 1979, he was Counsel for American Mining Congress. He joined Ashland Oil as Washington representative, handling coal and environmental issues until June, 1983, when he took on his present duties.

William Ritchie: 57 years old; 8 years in the coal business. In 1985, Mr. Ritchie returned as Commissioner to the West Virginia Department of Highways in Charleston, a position he held previously from 1969 to 1977. He was with Ashland Coal from 1977 to 1985. Mr. Ritchie graduated in 1951 from West Virginia University with a degree in Civil Engineering, and then joined Boso and Ritchie Construction firm where he stayed until 1969.

Total number of employees (parent company):

1983-29,000; 1982-30,600; 1981-34,400; 1980-24,600; 1979-29,200

Coal production (in thousands of tons):

1983-2,409; 1982-3,393; 1981-3,263

Total parent company sales (in millions):

1983-$8,108; 1982-$9,110; 1981-$9,506; 1980-$8,366; 1979-$6,740

Coal sales (in millions):

1983-$150; 1982-$177; 1981-$175; 1980-$185; 1979-$159
(Ashland Coal sales: 1983-4 million tons)

Total parent company assets (in millions):

1983-$4,108; 1982-$4,210; 1981-$4,122; 1980-$3,358; 1979-$3,113

Total parent company net income (in millions):

1983-$103; 1982-$181; 1981-$90; 1980-205; 1979-526

Message from 1983 Annual Report:	Emphasized their large-scale mining technology which reduces mining costs.
Diversification:	Petroleum refining and marketing, oil and gas exploration, chemicals, coal, highway construction, engineering and technology, and insurance.

ASHLAND COAL, INC.

David Todd, Vice President for Public Relations and William Ritchie, Vice President

May 8, 1984

Seltzer:* You were about to talk about what you thought the role of the coal company was in a coal county.

Ritchie: I was asking you. What do you think it is?

Seltzer: That's why we're here.

Ritchie: The reason I ask the question is that I really don't know. I have some feelings about what the [coal] industry should do. How big a part or how big an obligation they have to distribute what wealth they have within the community or to help the community development....

Seltzer: Is it an issue that's ever discussed?

Ritchie: Yes, we discuss it all the time. And, of course, we want to be good citizens of the community. This is our home base. We're a West Virginia corporation. So we discuss it quite often.

Todd: And are, in fact, involved in it. Involved in lots of different facets. Whether that's involved in [surface-mine] reclamation under the state and federal laws, [mine] safety, community support to the public school systems, local fire stations, local enforcement authorities.

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*Curtis Seltzer and Cynthia Duncan, interviewers.

Duncan: In a funding capacity?

Todd: In contributions. Meeting their needs.

Ritchie: Or in-kind contributions.

Todd: Or in-kind contributions. In any of the local agencies that deal more specifically with human needs, Boys Clubs, that kind of thing. Our company has a broad-faceted approach from the actual operational side, stretching clear to the Boy Scout or the child involved in the Boys Club.

Seltzer: Why do you do that? Why do you become active?

Ritchie: We feel it's our responsibility. You know our parent company [Ashland Oil] is making a tremendous effort right now to assist education, at all levels, from high school through universities, to research projects.** Because it feels you need to be involved and need to be a part of it. [Ashland Oil] is probably the outstanding [example of an] education-oriented push for corporations to assist education.

Seltzer: Is this mainly vocational and technical education?

Ritchie: No, no. All parts.

Todd: It has a real emphasis in secondary and higher education. Ashland Oil, as you may know, is well known for its contributions. If support of secondary and higher education improves the community, the benefits of that can't help but benefit the state more broadly and the community in which our employees live. It's both an altruistic effort and one that has some self-serving corporate benefits in terms of the community being strengthened for the employees.

Ritchie: On the state [West Virginia] level, I was a member of the State Tax Study Commission. I spent several hundred hours working on that to try to develop a better tax structure for West Virginia. We went through the whole tax structure, recommended changes and modifications to it. That time I spent was donated. Not my time, but company time. To be a part of trying to improve the total impact, not only of business but of individuals, and taxation on the state.

**Ashland Coal is owned by Ashland Oil, Inc., Saarbergwerke, A.G., and Sociebad Espanola De Carbon Exterior, S.A.

Seltzer: How do you go about deciding which things you want to be a part of and which things you think are beyond what you want to do? How do you make a corporate decision about whether you want to fund a clinic or not fund a clinic, or whether you want to develop an educational program in the community or not? Is there a set of criteria you have?

Todd: In our program at Ashland Coal, we have a committee that reviews all requests of that kind. We look at the involvement of constituent interest. If they [the requests] are in the counties within which we are operating, we look at that. That is one [of the] criteria. The purpose of the [requesting] agency. To what extent our employees may or may not be involved in that agency. Whether it has other kinds of funding, and what other kinds of needs it has. We have a direction toward education, health and human services. Real human kinds of needs. And also law enforcement and fire protection. Public service kinds of good to the community.

Seltzer: You said you have a sense of obligation and responsibility in places where you're the principal employer. Do you feel that these communities have a claim on you? You said, for example, that people come to you with requests for contributions for one purpose or another. Do you feel they have a right to come to you and say, "Look you're our main source of employment; we feel you <u>should</u> give us a contribution." If you feel that they have some sense of claim, where do you draw the line?

Todd: We don't look at it in terms of them having a <u>claim</u> on us. I don't think they look at it in that context. We don't see that if they do.

We are a part of the community. It's a mutual working relationship we have with them. We never get that kind of attitude in requests we get. Nor, do we have on their part, "If we [Ashland Coal] did this [for one cause], then we [another project] should get that." It's never a give and take. It is a working relationship we have as individual citizens. Bill mentioned his involvement in the State Tax Study Commission. A lot of our employees are involved in volunteer time. No different from any other industry, I might add. We're not unique. We're involved in Boys Clubs, United Way, that kind of thing. That's just an attitude that exists in this company and I suggest in others. It's a working cooperative relationship with agencies, schools, and public service organizations.

Ritchie: I've been on the other side of that. Before I became [West Virginia] Highway Commissioner, I was in the contracting business. Lived in Jackson County. Ravenswood. We couldn't get a school levy passed. Our schools were terrible. We formed an organization to pick ourselves up by the boot straps. It had 12 members on it. Kaiser Aluminum was the only large employer in the county. We sought individual gifts from people. Kaiser went along with employee payroll deductions to enable them to pay into the pot. Then they matched the money we received from individuals or other companies. Now, that's a case where individuals did something that, I felt, the government should do. Either the county school board, the county commissioners, or the state should [have paid] for that. I felt industry had to step in and spend money to do something that should have been done with their taxes. They [industry] were paying high taxes at the time. But to help the community, industries sometime have to do that. A lot of people looked at it like it was <u>their</u> [Kaiser/local business] responsibility to do that. It wasn't at all. They were just being good citizens. People tend to look at industry and say, "Well, you're here, you should do this. You should contribute on top of the taxes you pay." A lot of people have that attitude. I never felt that way. I felt they were going far beyond what they should have to do in that community.

Seltzer: You're talking about Kaiser Aluminum.

Ritchie: Yes. They had a payroll of $50 million a year.

Seltzer: Cynthia's research is showing that certain indices, like personal income and per capita income, don't necessarily correlate with indices of economic development. That raises the question about why you [now] see a pattern in coal counties of fairly high per capita income, but measures of community welfare, community development, and overall health of the economy, those indices are not as strong, or as high. It leads to the question of why does that situation exist? How does a responsible employer deal with it? If at all?

Todd: If I understand you correctly, you're [saying] that per capita among the population of the county is high, yet at the same time you have a high number on the welfare roles and...

Duncan: High poverty. In the last 20 years, Kentucky coal counties had dramatic growth in per capita income levels, which you'd expect from the big boom in coal. But coal counties still have the highest poverty levels in the state.

Seltzer: It's not only welfare. It's measures of schools, health care, roads.

Ritchie: I think the example I gave you in Jackson County is a very good example. There's not a pound of coal in Jackson County. The average per capita income was, at the time, probably second or third in the state. Whose responsibility is it to correct the problem that we had of a shortage of teachers and kids going to school in church buildings and we had no equipment for the students? Now whose responsibility is that?

Duncan: Why did that public sector fail? You said you had to go around and replace [the role of] the public school board, and the tax bond....

Ritchie: We had to supplement it.

Duncan: Why?

Ritchie: Because the individuals in the county who vote the levies--not the corporations, not the businesses--the individuals, failed to vote for support of a viable school system with their taxes.

Seltzer: That pattern is common in most of the traditional coal counties. School taxes have generally been below average.

Ritchie: I don't think you can separate coal counties out and say that, from my experience.

Duncan: The statistics are showing that coal counties stand apart [on schools], in Kentucky over the last 20 years. People frequently suggest that it's the failure of the local citizens who are voting, and [while] I wouldn't deny that....

Ritchie: I don't know about coal counties [as a whole]. But Boone County [a West Virginia Coal County], for instance, where one of our mines is, I think, has never failed to pass a levy. They've always funded their school systems. Logan County [West Virginia] is another one that's funded their school system to the highest level with supplemental levies.

Duncan: Why? What is it about those counties?

Ritchie: They're very supportive of their education system. The difference, I guess, is individuals.

Duncan: Individuals? Do you think there's been steadier employment in those two counties than there has in some of the others?

Ritchie: I don't think so.

Todd: [What you have] in the coal industry, particularly in Kentucky and West Virginia, is a broad range of coal qualities. [Tax income varies] depending upon what's in demand at that particular time, what utilities are burning. So I don't know that you can lay it entirely to individuals as maybe you're hearing suggested from other people. You implied that. There are other factors, I'm sure, that play into that. In western Kentucky, there's high-sulfur coal; eastern Kentucky, there's low-sulfur coal. When the export market was booming, low-sulfur coal was in much higher demand. More production. So you saw more income probably being generated. There was not as much [tax revenue] in western Kentucky. That doesn't reflect lack of individual commitment. At least I'd suggest that.

Duncan: It wasn't a difference between East [Kentucky] and West [Kentucky] coal counties. Where you'd have 100 percent income growth in most rural counties in the state in the last 20 years, there'd be 170 percent growth in the coal county group. Yet they'd still have the worst conditions of health, housing, and schools. They've obviously got the mountains to cope with in the east. But you're not getting comparable growth [improvement] in coal counties.

Todd: I'd be interested in seeing those statistics. Has the state generated those kind of statistics? I'm not familiar with them.

Duncan: I've been analyzing data from the U.S. Department of Commerce and the Census Bureau. They're officially generated.

Todd: It would be useful to see those. Maybe they would help in making some kind of judgment?

Duncan: I'm interested that you see differences in Logan and some other counties. Where do income increases get turned into an improved public sector, improved school systems?

Seltzer: It's interesting that you pointed out those two counties, Bill. Both of them have been fairly hard hit by the downturn in the market these last three or four years, and, yet, you're saying they continue to support education.

Ritchie: Well, the coal industry is very cyclical. This isn't the only bottom they've been through. They go through this up and down, up and down, up and down. But of the three counties that stood out in my mind when I was involved in that [Jackson County] school system, are Boone, Logan, and Mingo Counties [West Virginia coal counties]. They all had strong support for their local school systems. And there I was in a county that had one of the highest per capita incomes in the state, and we couldn't pass a levy. We tried and tried and tried. The businesses in the community always supported it [proposed school levies] very strongly, [even] knowing that they were going to pay, probably, 75 percent of it in their taxes.

Seltzer: Is it [a willingness to tax at the local level] expressed in things other than schools? Is it expressed in roads?

Ritchie: When I was in state [West Virginia] government, you could go from county to county to county to county. If the county was prosperous, it was prosperous [across the board]. Depended on people in the county. It didn't depend on anything else.

Duncan: But what made the difference in the people?

Ritchie: You'll have to tell me that.

Duncan: But you lived there.

Ritchie: In some cases, it was because of four or five individuals. In some cases, it was because of a group of individuals. Good leadership in the communities that wanted to do something.

Duncan: Do you think that there was broader political participation in those counties?

Ritchie: I very seldom ever found that the political leaders in the county were the leaders that made the county have a good school system, a good industrial development program, or a good public sewer system. It was generally [other] individuals that were genuinely interested in a better county. It wasn't the industry, although you very seldom found industry opposed to it.

Seltzer: You said that you'd done a lot of work on the issue of taxation. If Cynthia's findings pan out after further scrutiny, they suggest you can have economic growth, but you don't have coincident measures of public improvement. It then gets down to the issue of money. How much is available? Who pays?

In West Virginia as well as a number of other coal states, the issue of taxation has been raised over the last 15 or 20 years. People have said in one way or another, that those who are the largest landowners and those who create the most wealth ought to be paying a bigger share of taxes. Those taxes can then be used for education and whatever. You've [to William Ritchie] been on both sides of that issue. You've been the head of the highway department in West Virginia, which is totally the creature of how much money there is to spend. You've also been in the private sector--when people start talking about public budgets, you start thinking that part of it will come out of your company's pocket. What is your thinking about how you arrive at a fair level of taxation for corporate citizens in a coal county? Who should make that decision? What type of criteria do you use to come to it?

Ritchie: The studies and research we did in the tax commission--and the feeling of the 18 or 20 people on it--were that corporations had a responsibility to pay taxes. Some call it a privilege. It's the privilege of doing business in the state [for which] you receive whatever the state can furnish to you as far as police protection, fire protection. The only problem we ever heard when we started was the B&O tax, a Business and Occupation tax [on gross sales]. It's nothing but a privilege tax for doing business in the State of West Virginia. Businesses pay it, whether they made any money or not. It was a tax pyramided two or three times on some businesses.

I'm talking gross sales. The B&O tax was the big complaint you heard from every business in the state. The Mom and Pop grocery stores, it was the same situation with them. Whether they made any money or not, they paid that tax. That tax should be paid, I feel, at a [some] level. But a much fairer tax is one based on whether a corporation, business, partnership, or individual is making any money. We tend to lose sight of why an individual is in business.

Seltzer: To make a buck.

Ritchie: You go into business for one reason. That's to get a better return on your investment than if you put it in a savings account. If you don't do that, then you shouldn't be in business. People don't go into business to generate jobs. They go into business to make money. Jobs are a by-product of the original intent.

Duncan: A lot of public policy towards business is set up on the premise that it's worth giving certain breaks to businesses to encourage them to create jobs even though their purpose is to make money. Policies are set up, especially in recent years, to encourage companies to generate more jobs or [protect jobs during] rough spots.

Ritchie: I'd like for you to explain that to me.

Duncan: What I mean specifically? [For example,] the accelerated depreciation tax law that Reagan put through was passed on the premise that a tax break for corporations would enable them to create more jobs. Hasn't that affected Ashland Coal? It made a big difference to General Electric in Kentucky, to their taxes and profits in recent years. It was on the premise that industry was hard-pressed and if they were given this opportunity, they'd be able to create more jobs in the states where they operated. Unemployment would go down. Don't you think that's why it went through?

Ritchie: I don't.... That's a hard question to answer.

Todd: I'd leave it to others who are more knowledgeable in the tax field. I'd heard that. But how much validity that has, I don't know.

Duncan: You mean what the politics were behind that law? Or what the effect of it was?

Ritchie: Either.

Seltzer: Let me get back to the question of taxation at the county level. When you were working with the state tax commission, was the issue of taxing unmined minerals brought before the commission?

Ritchie: No.

Seltzer: That's been in the news for at least ten years that I can remember. In most coal counties in southern West Virginia--Boone, Logan, for example--unmined mineral wealth was taxed at a fairly low level. In McDowell County when I talked to the tax commissioner several years ago, he said [unmined coal was taxed at] something like a $1 an acre. That could be a major source of income [if it were taxed more].

Ritchie: They restructured that you know.

Seltzer: Yes, I know.

Ritchie: They've just come out with a new regulation as to how they're going to tax unmined minerals.

Seltzer: How does that [taxation] affect your perspective? Does that discourage you from opening new mines in West Virginia, when you get a sense that the business climate at the local and state level might be inclined to raise taxes?

Ritchie: Let me ask you this question. Does taxing unmined minerals create jobs or discourage jobs?

Seltzer: It depends on the level of the tax. If there's no tax at all, it would probably encourage investment in that locality as against localities that had a high tax. If there's a high tax on unmined minerals, it would probably discourage investment.

But there's a lot of ground in between. That's really the question we're trying to get at, both from your perspective and that of local officials in coal counties. Given that there's room for reasonable disagreement about what's fair and what isn't fair, what's the process of making that decision? Take a county like Boone where there are three or four major coal companies. There's a political structure there that is responsive both to local citizens as well as to the business community. How does the decision get made in that county as to where to fix the rate on unmined mineral wealth?

Ritchie: That decision is made on the state level on a statewide basis.

Seltzer: Fixing the rate.

Ritchie: Really by the governor proposing to the legislature, which either agrees or disagrees.

Seltzer: You certainly take an interest in that.

Ritchie: Sure. I think every individual in the state would take an interest in it. The unmined mineral tax [as it will appear] in the final regulations has varying rates as to active mining properties, future mining properties, etc. Even mined out areas have a tax on them, a very low level. We have an old farm in Jackson County, for instance, that has some minerals under it, we think. Now should we pay tax on that old farm? It's not a prospective mining property. It's not proven or disproven. Undoubtedly, we will pay some tax. It's nothing but an old hill farm.

Duncan: It's yours personally?

Ritchie: Yes.

Duncan: In Kentucky, the legislative proposal in the last session exempted individuals who are holding small amounts of farming property.

Ritchie: It's no farming property; it's a hill. That's the problem you get into when you get into unmined minerals. What is the value of an unmined mineral until it's mined?

Seltzer: [Before the taping began] you were saying that you feel you have responsibility beyond what you pay in taxes. Some of the other people we've talked to said similar things. But they said they didn't feel they necessarily had a <u>responsibility</u> to do that. They weren't exactly sure why they did it other than they thought it was probably good business. They have a long-term perspective on their role in the community. Any investments they make in long-term community infrastructure would probably be a good idea. But they didn't exactly feel that they had a "responsibility." It was more that it felt right to do it. They decided each project on its individual merits, thumbs up or thumbs down. Do you see it differently?

Todd: How do you measure responsibility beyond that which is required by state law or county law? I assume we are talking about responsibility other than that which is required. I'm not certain how you measure that other than by how one sees his or her role as a citizen, which varies in a very subjective way. How would you measure that? Things you're describing that others have said--"It feels good; it seems right"--are not wrong kinds of motives. Anytime you move from pure legal responsibility, you're going to find those subjective judgments being made. As individuals, as companies, we have a stake in the future of the community and the state. Do you find that unusual? How would you assess beyond legal requirements? What are the kind of things you think ought to be motives or justifications beyond legal requirements?

Seltzer: If I were running a coal company? I think my motive would be what I thought would be good for my business.

Todd: We make a lot of judgments beyond what's good for our business.

Seltzer: How? What kind?

Todd: If it feels right. If there is a human need, whether or not that Boys Club child is ever going to have any impact on our profit line.... Again, I say, I don't think we're unique. It's been my experience that a lot of companies, small and large, reach those conclusions based on [motives] other than dollars and cents and if it's good for my business. I'm kind of curious as to what you're drawing out beyond the responses you're getting.

Seltzer: You have to make a profit to be charitable. To take your position, you have to be making money. Agreed?

Todd: Agreed.

Seltzer: If you were breaking even, you couldn't be as generous as you are now. Agree with that?

Todd: Agree.

Ritchie: I don't know that I agree with that or not. We haven't made money for three or four years. I don't think any coal companies have made money. I don't think you'll find any of them shirking their public responsibility because they haven't been making money. When you talk about corporations, you're not talking about Ashland Coal, Kaiser or Peabody. You're talking about the individuals who own that company. That's where the money comes from. The money doesn't come from the people that are running the company. It's somebody else's money the company uses to support whatever you support outside your business. That's money those individuals don't get as a return on their investment.

Duncan: But they [stockholders] don't vote on that directly...

Seltzer: You never ask them [to approve] devoting a half a percent of your gross income, or whatever, ...

Ritchie: No. The Board of Directors of any corporation makes that decision.

Seltzer: Do they actually make the decision like that? Is there some point in the planning of the year's budget, when nonbusiness contributions [are scheduled]?

Ritchie: I'm sure. I've never been on the Board of Directors....

Seltzer: ...where they sit down and say, this year we're going to contribute X percent?

Ritchie: I think that comes in the management decision of the board of directors.

Seltzer: Is that where it comes in?

Todd: I'm not on the board of directors.

Duncan: Do you get a certain amount, or a certain percentage, that you know you're allowed to give back to people, to the Boys' Clubs and the fire departments?

Seltzer: Is there a discretionary fund?

Todd: We have a budget for our contributions to programs.

Duncan: And does it run like a little foundation, where people send you a formal paper, a grant application?

Todd: For every request, we need a formal document, written document. It can simply be a handwritten letter, often is. We take no verbal requests. And we deal with everything from Little League to state organizations and public schools.

Duncan: Is there a separate group that decides? Or are you and other people who are making decisions about mines every day making those decisions? Do you divide that responsibility?

Todd: It depends. We've got a committee of three people who evaluate the level of funding requests and the nature of the requests. If it involves an area in which we have ongoing operations, we will consult with persons within that operational area to get their sense of its merits. Sometimes, requests are channeled through them, and they give their evaluation.

Ritchie: We also receive input from mine managers and individuals at the mines.

Todd: It's a combination. It often depends upon the request. The mine manager's input is really critical.

Ritchie: The first station in Morrisville was strictly [a local] recommendation.

Seltzer: Ashland Coal is an interesting coal company in that 35 percent of your stock is owned by two European state coal-development agencies. Their philosophy of economic and community development in coal mining regions is more activist than what has traditionally been the model in American coal companies. Does that philosophy spill over at all into Ashland Coal's management? Is there any continuing dialogue between those companies and you about how you go about managing your mines? Do they simply look to see how the return is doing and whether they're being supplied with coal or not?

Ritchie: John [Kebblish, president of Ashland Coal] would have to answer that question. He deals with that.

Todd: They are members of our board of directors. I think that's the kind of question that would really need to come from John.

Duncan: Would you say that there's similarity in the counties that are applying to you for sizable contributions? Are they the same counties that are taxing themselves high? Or is there no particular pattern that you see?

Ritchie: Not really.

Todd: I don't know whether there's a pattern. We don't measure our contributions on that pattern at all. There may be a pattern of that kind simply because we operate within those counties. That pattern may show itself, but that's not a criterion judgment.

Duncan: I'm trying to figure out whether your contributions end up in lieu of tax money that either you pay or others in the county pay.

Ritchie: We're saying in lieu of tax. There are other responsibilities in the county. You don't have an either/or.

Depends on what the individuals in the county want. What they want to do for themselves.

Todd: I'd say our contributions program has never been used in lieu of anything.

Ritchie: No.

Todd: It is separate and apart. They're judgments that are based on needs and have no relationship to any state or county tax structure.

Seltzer: When you said that you haven't been making as much money as you hoped over the last few years, how does that change your corporate perspectives? Not only in terms of your contributions program, but your labor relations?

Ritchie: John has to answer that one too. It's not only the coal industry, it's industry itself.

Seltzer: But your market is low-sulfur steam coal. You're selling mainly to domestic utilities with some export. Part of the decision of any utility about whose coal to buy is the cost of the delivered product. If you're doing surface mining, 30 percent of your cost, maybe a little less, is labor. Less than 1 percent is voluntary contributions. If you're in a competitive situation, how do you make the decision on what you're willing to live with in terms of your labor costs, in terms of your voluntary contributions, in terms of your taxation? How do you make the decisions about what you can live with?

Ritchie: A lot of the decisions are made for us. Taxation, prices, labor costs....

Seltzer: Are your mines UMWA mines?

Ritchie: Yes.

Seltzer: If you're trying to get coal produced as cheaply as possible have you considered going nonunion?

Ritchie: No.

Seltzer: Is there a reason? Is the Union pension obligation--the fact that it would cost a great deal of money to buy out the pension liabilities under federal law--a factor?

Ritchie: It hasn't been with us. We operate with the UMWA in West Virginia. We've just never considered doing anything else.

Seltzer: Other people I've spoken with feel that nonunion operations were generally more productive than union operations. You're saying that is not your experience?

Todd: Our experience is that we've got union operations. We're not in a real position to talk about other mines. Our operation is union.

Ritchie: There are a lot of things you can do for productivity. You can make tremendous capital investments, as we have with a large drag line, to increase production. Or you can go to the family-run, father-son-cousin mine and mine coal cheaper than we can, on a small scale. It all depends on which way you want to go. Probably isn't any cheaper mined coal in the country than [that from the] father-son-uncle-brother mine.

Duncan: East Kentucky has this terrific problem with roads and coal trucks. We've gone from one compromise to another, trying to work it out so that the truckers can afford to haul but the counties are somehow going to get money back to repair those roads. You hear dramatic costs per mile [damage] every time a coal truck goes over. When you were highway commissioner handling roads for West Virginia, a state full of coal. How did you balance public and private needs on roads? How did you perceive that, or how do you now?

Ritchie: I look at it like this. If you built the interstate system and never allowed a tractor/trailer on it, it would last for ever and that would be great. You wouldn't have to maintain it. But there's nobody in their right mind saying, "I don't want any tractor trailers on it." After even a short truck strike you see what happens--you run out of bread at the store, you run out of milk in one day. People assume that you can have a good life and all the income it takes to build these interstates and just have people run automobiles on it and never bear any expense of maintaining it.

Duncan: So you think that cost ought to be shared among individual drivers in the state? Or should the state pay for it out of general coffers? Where should that come from?

Ritchie: Where are the general coffers [coming from]? Who pays the taxes?

Duncan: That's right.

Ritchie: Individuals pay the taxes. Corporations pay taxes. But you cannot have the ideal situation--that's having nothing but automobiles on the highways--even if that's what you'd really like to have to make your job easier. As to the level of taxation, that's why we elect people to the legislature to establish that. Those people are supposed to establish--along with the governor--a level of life for your state, really.

Duncan: And who pays? Which sector is paying?

Ritchie: And [the legislature establishes] which sector pays for them.

Seltzer: You talked about the cyclical nature of coal demand. One of the questions we're interested in is what can coal producers do to smooth out the ups and downs of coal demand? It appears to me that it would be in everyone's interest in this industry to have stable and more predictable levels of demand that allow you to plan your investments and more predictable and stable levels of production. If you smoothed out the cyclical booms and busts in demand, it would also allow more stability in terms of economic development in coal counties. It [would control] the peaking of demand for public services when times are booming and the lack of money and lack of services when the mines are shut down. What ways are there for producers and consumers of coal to work together to smooth out some of the fluctuation?

Ritchie: I think if we had the answer to that--in the steel industry, the automobile industry or any large industries in this country--we'd have an ideal society. People say, "I'd like to go back to normal times." I don't think there are any normal times.

Seltzer: You haven't had to deal with the issue of mine closures since most of your operations are new. Am I incorrect in that?

Todd: We have had in Kentucky.

Seltzer: Is it a closure or simply layoffs at continuing operations?

Todd: Closure.

Ritchie: Because of the market.

Seltzer: I spent a long time talking with Tom Usher of U.S. Steel about closures because they have had to do it much more than you have. How do you handle a situation like that? How do you handle it in terms of preparing a community? How much lead time to give the community? Are there things which you do to cushion the impact? If a [mining] operation of U.S. Steel did not make money, he felt no obligation beyond what they'd done up to that point to do anything more. He said, "I'm in business to provide a return to my stockholders." Do you have a philosophy that is similar or different?

Todd: I think that's probably one question we'd also let John, our president, comment on.

Seltzer: How did you handle the mechanics of the closing?

Ritchie: I think John would have to answer that one. It's a policy established by him as to what they do.

Duncan: In the West Virginia counties and mines you're familiar with, when something's right about the way Ashland Coal and a community are working together--when you feel that you got the maximum benefit going for the community from your operations--is there something that distinguishes that situation from others?

Ritchie: It's right when the mines are running full blast and maybe six days a week.

Duncan: Markets then.

Ritchie: It's the markets.

Duncan: It has nothing to do with the activism of local union leaders in a place, or the county judge, or the school board or the mix of employers in that county?

Ritchie: No, it's a matter of market, obviously.

Todd: That's been our experience.

Duncan: When markets are good, community relations are good and things go well?

Ritchie: I don't notice the relations changing when the markets aren't good. Nobody likes it when you're down. Things do much better when everybody's working and making money.

Seltzer: You sell most of your coal on long-term contracts?

Ritchie: Right now we do. It hasn't been in the past. It was short term.

Seltzer: It's not all long-term now? Is it like a 75 percent-25 percent mix?

Ritchie: I don't really know what the mix is.

Todd: We ordinarily don't discuss our percentages of contracts, long or short term.

Ritchie: Regardless of what happens, it still varies with the market, with the demand.

Seltzer: How do market conditions affect an operation with a long-term contract? Are there opener clauses?

Ritchie: You'd have to talk to John about that.

Todd: Our contracts all vary and the terms of the contracts are just something we simply don't discuss.

Seltzer: I wasn't trying to pry into particular terms of the contracts.

Ritchie: We've still got to be competitive in the market.

Seltzer: The large coal companies we've interviewed feel they are more responsible in terms of being good citizens because they have long-term contracts and a long-term perspective. Those elements provide stability. They are willing to make investments that [are justified] in terms of a number of years. This is in contrast to the smaller companies that sell, primarily if not exclusively, on the spot markets, who come in when demand is rising and go out when demand is falling.

Duncan: We appreciate your time.

ISLAND CREEK COAL COMPANY

Bruce Wilson, President and Chief Executive Officer

Company address: 2355 Harrodsburg Road, Lexington, Kentucky 40504

Parent company: Occidental Petroleum Corporation

Background: 43 years old, 19 years in the coal business. Mr. Wilson was with Island Creek 1-1/2 years and left their employ in February, 1985. He received a B.S. degree from Ohio State University.

Total number of employees (parent company):

1983-44,987; 1982-45,995; 1981-39,945; 1980-34,192; 1979-34,370
(coal): 1983-3,239; 1982-3,733; 1981-7,412; 1980-6,412; 1979-7,806

Coal production (thousands of tons):

1983-14,252; 1982-21,080; 1981-19,644; 1980-20,031; 1979-19,946

Total parent company sales (in thousands):

1983-$19,115,667; 1982-$17,717,154; 1981-$14,707,543; 1980-$12,476,125; 1979-$9,554,795

Coal sales (thousands of tons):

1983-12,701; 1982-16,779; 1981-21,812; 1980-20,786; 1979-19,647

Total parent company assets (in millions):

1983-$11,775.4; 1982-$15,772.5; 1981-$8,074.5; 1980-$6,629.9; 1979-$5,560.3

Total parent company net income (millions):

1983-$566.7; 1982-$155.6; 1981-$722.2; 1980-$710.8; 1979-$561.6

Message from 1983 Annual Report: "Coal operations resulted in a loss of $17 million in 1983, reflecting the very depressed markets for both steam and metallurgical coals...." Island Creek closed less efficient mines and sharply reduced personnel. However, management remained confident of a turnaround.

Diversification: Occidental's business segments include oil and gas, coal, agribusiness, chemicals, and research and development.

ISLAND CREEK COAL

Bruce Wilson
President and Chief Executive Officer

May 9, 1984

Seltzer:* How does Island Creek Coal see its role as a employer in a mining community? What is your corporate philosophy?

Wilson: We view our employees as an extremely important part of the company. My personal philosophy is we are really not in the coal business; we are in the people business. Our coal mines are just steel and concrete without the people to operate the machinery and mine the coal. So our relationship with our employees is very important, and we try to establish and foster a good relationship.

Island Creek is one of the oldest coal companies in the country and has a history of providing many things for employees that a lot of companies have not. Its history is based on necessity to a certain degree. The first operations were in Holden, West Virginia, which at the time was accessible only by railroad when Island Creek started business there in the late 1800s. So the company had to provide all of the infrastructure for people, as well as providing the people--there was nobody living there, either.

The Company developed additional things other than just the ability of people to get food and shelter in Holden.

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*Curtis Seltzer and Cynthia Duncan, interviewers

Seltzer: Because there was no choice--you had to build a coal community to get the coal out.

Wilson: That's right. In addition to providing stores for people, there were recreational facilities. Island Creek owned the only tennis courts and swimming pool in the county for many years. It was provided for the employees. Island Creek at one time owned many stores which sold consumer items--food, clothing, etc., to employees. The Company got into the store business out of necessity. In recent times, the Company has gotten out of that business because now there are adequate shopping facilities in areas where our mines are. We have sold almost all of the stores. We are still holding a few as real estate and not operating them. As we find satisfactory buyers, we sell them.

Seltzer: You have described how your Company evolved and its relationship to communities where you are the principal employer. Where do you draw the line between taking a too assertive role and being charged with running a coal camp as against doing too little and being charged with neglecting your civic responsibility?

Wilson: I know that historically coal companies have been too aggressive in some areas. Now the philosophy of coal companies is that they don't want to have anything to do with running coal camps. Their main business is mining, producing coal and selling it at a profit. The operation of towns, stores or other facilities use up capital and management time that should be used elsewhere. If coal companies are engaged in this at all, it is out of necessity rather than any desire to have control.

In fact, historically, that was the case as well. The company provided these things out of a desire to make livable the area they were mining rather than from any desire to have control. I'll admit some companies went too far in trying to control what people came into the town, what businesses came into the town, etc. But the original desire of the coal companies was simply to provide needed services.

Today all the areas where we mine are developed enough that it is no longer necessary for us to provide these requirements.

Seltzer: Do you think you have any responsibility to a mining town other than paying your taxes? Is there a business reason for it? A philosophical reason?

Wilson: We have responsibility in communities to provide a certain amount of leadership and help to those communities in making decisions that are good for the general area. In general, we do provide a very substantial amount of money in the form of taxes. Other amounts of money are generally of a charitable nature. We do contribute a substantial amount towards educational institutions.

Seltzer: Some people argue that the coal industry has historically taken more out of the coal fields than it has put back in in the form of taxes. They point to what they call the "social deficit"-- coal-field communities are below the national average in terms of schools, health care, things of that sort. They point to subsidies of one sort or another they feel the coal industry has gotten from federal, state and local governments in the form of low taxation, public health being compromised, waterway maintenance, research or whatever. How do you respond to that?

Wilson: I don't agree with that at all. I'll give you a good example. Island Creek has a large mine in Martin County, Kentucky. That particular area of Kentucky was visited by Lyndon Johnson in 1964 or 1965 when he launched his War on Poverty. It was then described as the poorest all-white area in the United States. The unemployment rate was over 50 percent. There was no coal mining of any substance done in the county at that time. Railroads were not in the community. It was impossible to mine economically and transport the coal to market.

In 1971, the Norfolk and Western spent $24 million to build a railroad into the county. Subsequently, there were a number of mines opened up. Island Creek was one of the first. By 1980, 15 years later, the county was either first or second in per capita income in Kentucky. The unemployment rate was unbelievably low, about 3 percent.

Duncan: But for all that income growth--and there is a lower level of poverty now, too--the rest of the economic fabric of Martin County hasn't developed. There is a lower percentage of trade, services and construction than before, although, obviously there is more activity in general. When you speak of a coal company's leadership responsibility in a coal county, do you feel responsibility to develop that economy beyond coal employment? Is it enough to provide income and employment, as far as your responsibility goes?

Wilson: We provide more than that in some areas. We build roads lots of times to get to the mine and to haul coal. On occasion, we try to do other things. But you have to realize that sometimes it's very difficult. My predecessor company, MAPCO, which built three mines in Martin County during the same period, determined there was a very acute shortage of housing in Martin County. So we bought a tract of land of about 500 acres near Inez, the county seat, and proceeded to try to develop it. The project never got developed in spite of the fact that MAPCO spent several million dollars building access roads and doing work on the sewer systems. There was quite a bit of work done by the company to develop lots. To my knowledge, there has still not been a house built on the property, in spite of the fact that the property was originally purchased by the company in about 1975 or 1976.

The reasons are several. First, the company had a very difficult time getting a permit for the sewage treatment system. The second reason was the state condemned about half of the property for building a four-lane highway from Inez back along Route 3 towards Louisa. They came up with an absolutely ridiculous appraisal on this land on which the company had already spent several million dollars in this development project. The dispute between the company and the state as to condemnation is still holding up the housing development.

The company had no desire to make money on that project. All they wanted to do was sell those lots at cost so the housing shortage would be relieved. They were going to give their employees first priority on the lots. They were going to sell [any that were left] to outsiders.

It's a very frustrating experience trying to do something like that.

Here's another thing that happens to you. Island Creek had a project [Buchanshire] in Virginia they tried to develop about the same time. They bought the land and put in the sewer system. This development is further along than the one in Martin County that MAPCO was trying to build. Then the coal market declined. Now the problem is basically there is no demand for the lots. You can't get enough lots sold to people wanting to build houses to make it economical for builders to develop it. It's just sitting there idle. Again, several million dollars were invested. Maybe when the coal market picks up and housing again becomes short in that area, that development will get off the ground. Coal companies do not make good housing developers. They make better coal companies.

Duncan: In a way you were acting like a public agency in both those cases. You ran into the same walls that coal-field county judges do, when they try to make genuine improvements.

Wilson: We tried to work with the county officials. But you have to remember that coal companies in these counties in Appalachia are usually regarded as outsiders. Coal companies are viewed with suspicion. There is reluctance on the local politician's part to take advice from coal companies and accept their leadership in many of these areas. We can give advice, but that doesn't mean anybody has to take it.

Duncan: You were saying that Island Creek has been in West Virginia since the late 1800s. Are you still an outsider to a county judge?

Wilson: I'd say Holden, West Virginia, is probably an exception. But in many areas...

Seltzer: A place like Martin County?

Wilson: A place like Martin County where there were no coal companies until the early 1970s. We're all outsiders there. There was no coal-mining expertise in Martin County when the coal company first came in. You can hire locals for the lower level jobs, but the higher level jobs have to be people with the skills that are needed--management skills, technical skills, etc. That leads to resentment in the local population. They say, "Gee, why are you bringing people in from outside and giving them all the top jobs. Why don't you hire local people for those jobs." Believe me, every effort is made to hire as many local people as possible. The happiest employee is going to be the guy living the closest to home. You are going to have a lower turnover rate and lower absenteeism. [Experienced managerial] individuals in a new development just aren't available. After ten or 15 years, those people are available because they have been trained by the coal company. Then you can have more local people in management and technical jobs.

Duncan: Does the quality of the school system in Martin County make it difficult for you to bring in management?

Wilson: The school system is always extremely important to management people. Frankly, school systems in

Appalachia are not usually up to the standards of other areas of the country. People tell us their children are generally quite a bit behind going from East Kentucky to West Kentucky, as far as the school system is concerned.

Seltzer: Why do you think there is that pattern of underdevelopment in Appalachia?

Wilson: Schools?

Seltzer: Schools, roads, health care, the whole range of public services--given that coal has been mined here since the 1890s. A great deal of wealth has been generated.

Wilson: Some of the reasons are difficult to pin down. When you take Kentucky, for example, one reason is that the great majority of the taxes paid by coal companies don't stay in the county. They go to the state. The percent of rebate is very small. I think 10 percent of the severance taxes paid by coal companies actually go back to the county. So the available revenues aren't that great.

Another thing is that many counties in East Kentucky are Republican counties. The governor's office and most state senators and representatives are Democrats. There is usually a majority of Democrats in Kentucky. There is, frankly, quite a bit of bipartisan politics played in the allocation of revenues to various counties in Kentucky.

Martin County, for example, was always a very strong Republican county. I heard one time that Governor Carroll got [only] 150 votes in Martin County.

Seltzer: That's hard-core.

Wilson: That's hard-core Republican. The priorities of any government that only gets 150 votes out of a county are obviously going to be tainted. One time I calculated--this is before the Revenue Sharing Bill was passed, where they rebated 10 percent of the severance tax money back to the county that produced it--that Martin County sent about $8 million in severance taxes to Frankfort. A total of $100,000 was allocated to Martin County for roads out of the $8 million. It's partisan politics that keeps the revenue levels down.

Lots of times state spending is done on a per capita basis more than a per need basis. East Kentucky's spending should really be higher on a per capita basis because it's more difficult to build roads there and the population is more scattered. Therefore, you need more miles of highway per person than in a metropolitan area like Lexington. Due to the mountainous terrain, it's more expensive to build roads; you've got to bus the kids longer distances over rougher roads. There is a multitude of reasons why it is more expensive to provide the infrastructure that is needed. Yet, on a per capita basis of spending, probably less money is being allocated to those areas. I don't have any facts to back that up. Maybe you do.

Duncan: I think you are right.

Seltzer: There are those who argue the structure of the coal market created that "social deficit." The unpredictability and lack of stability in demand, as well as the fact that coal production stagnated between 1920 and 1970--those factors created a historical deficit. We are now playing catch up. There are people who argue the lack of economic diversification in coal communities prevented a broad-based economy from developing there and tied those communities to an industry that for many years was not growing. Others argue that severe and vigorous competition prevented coal companies for many years from being profitable enough to have extra money they might have donated or invested in economic development. Are those reasons that make sense to you?

Wilson: Certainly, the cyclical nature [of coal's market] is one reason coal companies come under criticism. You have a situation, say in Martin County, where the unemployment rate was very low after the coal mines were built and the business was booming. Today, I guess, Martin County's unemployment rate is relatively high, probably around 15 percent. That's high by national standards. If you compare that to the 50 percent when Lyndon Johnson was there, it's very low. I think it is a problem that the whole industry is cyclical. All industries are cyclical to a certain extent. At least the coal industry is no longer seasonal. There was a time when a lot of tons were mined in the winter, but in the summer, there was hardly any work.

The other basic industry in Appalachia has also been cyclical, that is the logging industry. It is cyclical and seasonal. The most stable industry in the country, and the backbone of all of our industry, is agriculture. The United States is a strong country because of the strong agricultural base that was built in the first 150 years of our development. But if you look at Appalachia from an agricultural viewpoint, it was one of the last areas of the country developed. There is not that much good farm land in Appalachia. There are small plots here and there, but it simply doesn't have the large, broad areas available for agriculture to provide the stable base of the economy that is needed.

Duncan: Can you picture a way that coal could be harnessed to be more stable?

Wilson: It is more stable than it used to be because the market has changed to a utility market from a heating market.

Seltzer: Long-term contracts provide...

Wilson: Long-term contracts provide much more stability. There are other factors that are still causing cyclicalness. The export market is very up and down as far as supply and demand. The metallurgical coal market is also up and down. I don't know that there is going to be any way to keep that from continuing. It is just part of the economic picture. If you look at the volume of the coal business nationally, even though we [the national economy] are in a steep recession, coal is not down on a volume basis.

Seltzer: Nationally.

Wilson: Nationally.

Seltzer: The East, though...

Wilson: Even in the East, I don't think it's down...

Seltzer: Down 50 million tons from 1982 to 1983.

Wilson: But that 50 million tons was only about 15 percent, which compares with the steel industry tonnage going down by almost 40 percent. It's true there are a large number of coal miners out of work, but a lot of them are out of work due to rationalization of operations.

Duncan: How many? Permanently, then?

Wilson: Unless the coal market makes a very dramatic return price-wise, many of those rationalizations are long-term. It's metallurgical and steam coals where companies have closed mines that are simply not competitive. Productivities are low, and it's going to take quite an improvement in either the market or the ability of the companies to produce more tons per man shift for those mines to be reopened and employment to be regained. Productivity is extremely important in the coal business where wage costs and payroll costs, including fringe benefits, etc., are more than half of your cost. Productivities can vary widely from mine to mine.

Duncan: On the basis of whether they are deep or strip, union or nonunion?

Wilson: There's a number of factors. Generally speaking, nonunion are more productive than union.

Duncan: Do you have both union and nonunion?

Wilson: We are all union.

Duncan: So that was a switch when you came from MAPCO?

Wilson: Yes. But there are union mines that have good productivities. Island Creek has some union mines that have good productivities.

Duncan: What do you attribute the difference to?

Wilson: It's worker attitude in almost every case.

Duncan: Can you look at a map and tell me where you are going to find good worker attitude and where you are not? Is it something you think has to do with the history of the place and the people? Does it seem arbitrary? Or something to do with your own company history there?

Wilson: No, it is not something you can do with a map. Island Creek had several mines in West Kentucky, where all the people came from the same area. One of those mines is still operating profitably. Those people have a good attitude. The other mines are closed down because those people did not.

Duncan: So it's hard to say what a good attitude amounts to...

Wilson: A good attitude means being willing to work hard every day, cooperate with management whenever possible, be conscientious about your job, come to work, not take days off for no reason, that type of thing. Management is not asking people to do things they shouldn't do. They want them to do things they should.

Seltzer: If you are in a competitive world where nonunion operations are more productive, why don't you end your relationship with the UMW?

Wilson: It's not quite that simple. We have a contractual relationship with the UMW.

Seltzer: That ends in September.

Wilson: The contract expires, but we have an obligation and responsibility to negotiate with the Union for a new contract. The Union is the duly elected representative of our employees. We are required by law to negotiate with them for the terms of a new contract. The great majority of our Union employees like being in the Union and want to stay. A lot of them realize that some of the things the Union has done in the past and some current work practices aren't economical. But there is a feeling amongst a lot of them that it [mine closure] can't happen to me. They shut down that mine across the way, but they are not going to shut this one down.

The company isn't trying to shut down coal mines because of the Union. The company is trying to operate every coal mine it can. But we cannot operate mines that are losing a lot of money. That is simply not responsible.

Seltzer: Tom Usher of U.S. Steel Mining said he would be willing in some of his bigger operations to run those mines on a break-even basis simply to run them, not have to pay the cost of mothballing, and to keep a trained work force there.

Wilson: We are doing that to a very great extent right now. Island Creek lost $27 million last year on operations. A few of the mines made money, but most of them lost money. We lost money in the first quarter of this year. We don't shut the mine down as soon as it shows a $1 loss. But there is a limit to how far the company can go. The Union has a responsibility to restore the economic health of the Union companies. If they don't, it is going to be to the detriment of the Union itself as well as Union employees who are out of work. The employment level at Island Creek in the last two years has gone from 7,400 to 3,300 people. Most of those are Union employees.

Seltzer: They will argue that your recent deal with the People's

Republic of China is eventually going to take jobs away from miners in Appalachia.

Wilson: That has nothing to do with it at all.

Seltzer: How do you see it?

Wilson: The China coal deal is producing steam coal for the Orient. The markets are Japan, Korea, Hong Kong, someday, maybe, Taiwan, Philippines. Competition for our Chinese coal is Australia, a little bit of western Canada, and that's it. Steam coal from the United States goes to Europe. It doesn't go to the Orient. There are maybe one or two mines in Utah that ship to Japan. That's noneconomic. The Japanese are buying only for diversification reasons. [Western U.S. coal] is much more expensive than Australian, Chinese, or Russian coals. We don't sell a single pound of steam coal--Island Creek doesn't--in the Orient and probably never will.

We do sell quite a bit of metallurgical over there. I view our deal in China as a potential new market for U.S. coal because China uses a lot of coal. The main reason they are doing this deal is to gain Western technology for more efficiently mining their own coal for domestic consumption. They are the third largest coal producer and consumer in the world. Over 600 million tons of coal a year are consumed in China. A lot of that goes from North China to South China via ocean routes along the coast. There is a good opportunity for Island Creek to sell met coal in China as a result of the relationship we're developing through building this mine in northern China. The mine is going to produce steam coal, which will be for export to Japan or Korea. The Chinese will set foreign exchange with their share of the coal with which they can, possibly, buy additional metallurgical coal from us. We haven't sold any to them, yet, but we haven't got their mine built, either. I don't view that as taking the business away from the U.S. coal industry at all.

Seltzer: What if the situation were slightly altered so that that was a question you would have had to have faced? For example, if the seam they wanted to develop had been a metallurgical seam. Or, for example, if you saw an opportunity in South Africa or Libya to develop steam coal that would be exported to western Europe. How would you handle that situation?

Wilson: On its merits.

Seltzer: That's fair enough.

Wilson: We're not actively looking for international coal mining ventures. This one developed in part because Occidental Petroleum was interested in oil concessions in the South China Sea. They viewed this [the coal deal] as a way to further develop their relationship with the People's Republic of China. It turned out the coal deal was fairly good economically. Therefore, we're proceeding with it. But Occidental's original intent was two-fold: one was the coal business, the other was the oil business. If China had been a country with coal but no oil, I don't know that we would have ever been interested in the first place. I can't say. The two projects were certainly talked about together for a long period of time.

Seltzer: Let me direct you back to Martin County because you raised something I wanted to pursue. We found a pattern in natural resource industries and other coal counties that you see indices of economic growth increase as the result of coal development--personal income, per capita income, family income, wage income will go up--but there is not a concomitant increase in indices of economic development across the community. That relationship is not a lock step. Similarly, when coal demand goes down and wage income slacks off, there's not a lock-step decline in public services that you would anticipate. There is a certain resilience, a certain cushion built in. The question we are wrestling with is, why do indices of economic growth go up without indices of community development going up at the same time? How do you think coal mining can better benefit economic development in those communities in the future?

Wilson: I'm not sure I understand your definition of economic development.

Duncan: A combination of improved community goods and services, the things your managers look for when they come in. Schools, primarily, housing, health care, roads, water, sewer facilities. The things that make life good so you want your kids to live there. Coal counties have income growth and higher wages than other Kentucky counties, but you don't see it getting turned into building that place up.

Wilson: One of the problems is the community, itself. It has to make the decision to start spending a lot of money on infrastructure or economic development projects.

Duncan: Money that they'd get from...

Wilson: The money that they get.

Duncan: Individually? From wages?

Wilson: Obviously, individuals are not going to offer part of their wages to develop a new road or hospital. In Martin County, for example, when they finally did get some severance tax money from the state, they did not build a medical center or improve their school buildings. They built a swimming pool. I'm not saying that's wrong because that was the community's decision as to what to do with that money. Maybe that was the best thing for the community to spend it on. A coal company can't tell them where to spend their money.

Duncan: Do you think coal employees have a temporary view of being there? They might as well swim right now since once the coal's gone, they're leaving?

Wilson: The great majority of coal employees are permanent residents. They were hired from the community. Possibly a little bit of their attitude is, "Gee, I'm making all this money." They find it difficult to spend. There's not that much to spend your disposable income on in many of these counties. Instead of saving the money or investing in something, they generally end up spending the money on depreciating goods--stereos, T.V.'s, furniture, Chevy Blazers, and boats--things like that. It's their money and they can spend it however they want to. I think the average individual says, "I'm making so much money now compared to what I was making a year ago, surely it can't last, and maybe I'd better spend it while I've got it and enjoy it." He works very hard for it. He deserves every penny of it. And he should enjoy it. I'm not criticizing him for his decisions.

There is also a reluctance in the community to do things as far as economic development. One is just the simple inertia in the community. You have a large number of people who say, "Well, that school was good enough for me when I went there. I don't know why we need to have this program, hire more teachers, or build more classrooms. I learned to read and write at that school." That's the same attitude anywhere you go in the country, not just Martin County.

I think they do see beyond schools. They see a need for a better medical facility, for example. But getting there is the hard part. You've got to pass a bond issue. A bond issue means you are going to raise taxes. How many people are going to vote to increase taxes? It's a difficult thing to increase taxes.

Seltzer: That situation with taxation, you are obviously a big target in Martin County.

Wilson: And we pay a lot of taxes.

Seltzer: It's easy to conceive that you might be expected to pay more taxes, in terms of a severance tax, increased property tax, or a tax on unmined mineral wealth. Local politicians could say, "Look, Island Creek is in here for the long-term, for 20 or 30 years. If we raise their taxes, they are not going to shut down. We want better schools and roads, and we are going to go after the big fellow."

Wilson: I believe all companies whether they are coal companies or horse farms should pay their fair share of the taxes. Certainly, the coal industry does pay its fair share of taxes in Kentucky. Something like one-third of the state's revenue comes from the coal industry. Certainly not one-third of the people work in the coal industry.

Seltzer: It's as much as one-third?

Wilson: I think it's about a third.

Duncan: I think it's about a seventh.

Wilson: Seventh. Okay, your figuring might be better. But anyway, proportionate to the number of employees, it's very high. The severance tax is an extremely heavy burden to carry. We get very little credit for it any more. And one reason is that the allocation of that money back to coal counties is very light.

An unmined mineral tax would be unfair to the industry for this reason. Coal reserves, in spite of everything you read, are not an asset. They are a liability. In most cases, the coal company doesn't own those reserves--it leases them. If you rent a car, should you pay the property tax on that car? Or should the company that leases you the car pay that tax? The company that leases it to you should pay the tax because it owns the car. The problem is most of the leases coal companies hold have provisions that say any taxes placed on those reserves will be automatically passed through to the coal companies. So here you are. You are leasing an asset, and you don't own the asset. You are paying money to hold that asset for future mining. It's a liability. It costs you so much a year. You have to pay that land company just to hold the asset so you can mine it in the future. Then they want to tax your piece of paper. That's all you really have is a piece of paper and an ability to mine the coal on that asset. If you don't mine that asset within so many years, you lose it anyway. I don't think it's fair to say that coal companies have these tremendous assets they are holding and they should pay taxes on them.

They only talk about coal companies holding assets and we are the ones that should pay the tax. If you look at coal in Kentucky, the leases, particularly in West Kentucky, are held by farmers and small land owners. As you increase the tax base for the coal company with an unmined mineral tax, are you also going to increase the tax base for the farmer in West Kentucky because he happens to have coal underneath his land that he's leased to a coal company who may not mine it for 25 years? That is a very hot political issue. Yet you have to tax him at the same rate you tax the coal company or it's an unfair tax and unconstitutional.

There's a third issue on this unmined mineral tax thing. I have seen states that have unmined mineral taxes--not in the coal business, in the copper business--where you find their planning is somewhat poor, shortsighted, and haphazard.

Duncan: Corporate planning or government planning?

Wilson: The planning of the mine, itself. You ask, "Why is that?" They say, "We only know what our reserves are for five years ahead instead of 25 years. If we prove up the reserves beyond five years, we will have to pay tax on those reserves. We don't want to pay tax on those reserves. We only prove up a few years at a time, so we don't have to pay the tax." That is detrimental to the company and to the jobs of the people at the mine. From the corporate viewpoint and planning viewpoint, they don't have enough reserves to last them for another three, four, or five years.

Duncan: That is their own fault. They made that bed they are lying in. In that case, they are the owners of those reserves.

Wilson: Yes, they are the owners of the reserves. But do you do something on those reserves that costs you a lot of money in taxes? It's not a rational tax. It's not that rational a thing for the company to do either. But the tax is very high, so they can't afford to prove up those reserves just to improve their planning.

Seltzer: What, then, would be the best and most equitable way of increasing financial resources in a county that wanted to pull itself up by its own bootstraps?

Wilson: I realize I am saying this from a somewhat prejudiced viewpoint. I feel the most equitable way would be for the state to return more of the tax revenues to the counties.

Duncan: You think the severance tax now is adequate to provide communities with the money they need for infrastructure as well as roads?

Wilson: If the counties would get the severance tax being generated in those counties, they wouldn't know what to do with all the money. They wouldn't be able to spend it all.

Seltzer: Have you ever proposed something like that to a state agency or the legislature?

Wilson: No, not formally.

Seltzer: It would be in your interest.

Wilson: Yes. I've made the point several times with state officials when trying to make a case for getting the state to come in and help a little bit on roads where we had a mine that was off the beaten track. The roads to the mine were in such terrible condition that employees could hardly get to work. This was a Martin County case, and the attitude in Frankfort was, "Well, that's Martin County. That's a Republican county."

Duncan: Do you think the state should pay for that road? Do you think the severance tax the company pays should pay for the road to develop the new coal?

Wilson: That particular road--it was a state highway that happened to go past where we put the mine. We weren't trying to get them to build a road into the mine. Our road was much superior to the state road that served ours. Even if the coal company [wanted] to spend millions of dollars to build highways in East Kentucky, (which it doesn't want to do) that's a state or local responsibility. But even if it wants to, it can't. There are condemnation problems, property problems, liability problems, all sorts of problems you open up when you try to do that.

When I was with MAPCO, we did do a joint development of a road in Martin County with the state, It was one of the few instances where we were going to actually be hauling coal on the state highway. We felt it was to our best interest as well as the community's best interest to improve the road. We went in with the state and provided probably two-thirds of the money to rebuild a section of road that was maybe 4 or 5 miles.

Duncan: You use Martin County as an example a lot. I suppose partly because of MAPCO. We went by an Island Creek office yesterday when we were in Johnson and Floyd Counties. Those have been coal counties for a longer time and have more of a mix of coal operators, independent and large operators as well as different companies in there. Is there a different relationship there? Some are Democratic counties.

Wilson: And their roads are a lot better, too.

Duncan: When they are Democratic counties and they get back more of the money the coal industry pays, is there a net benefit to those counties as things work right now? If you did a balance sheet up in the clouds and you said, "There is this on this side and this on that side," would it come out ahead for the place that coal was there? What would determine whether it did or not?

Wilson: I don't know if you have ever done any studies on this, but I would imagine--again, using Martin County as a bench mark--that if you went into counties in eastern Kentucky with no coal developed and compared those with counties that have substantial development of coal, I imagine in every case the ones with coal would be superior as far as economic development.

Duncan: Owsley County.

Wilson: Right. Owsley County with Magoffin County, something like that.

Duncan: It does depend on what you are looking at. But, it is not often better. There are coal counties that are definitely worse off than marginal farming counties. They tend to be the counties with mostly independent operators--Clay County and Leslie County. Big coal counties seem to survive better.

Wilson: Part of that is due to the economics of mining the coal in those counties.

Duncan: Because they are small seams?

Wilson: Some of it is seams. Some of it is transportation cost to the marketplace. What railroad is serving the county. The railroad's freight rates. The marginal counties--the Clay counties of East Kentucky--are at a disadvantageous freight rate to other counties. They are the first to go in a recession because they have the highest cost. It's more difficult for them to maintain employment.

An interesting story I heard may be partially legend. The reason why a lot of these counties in East Kentucky are Republican is interesting. Apparently, when Franklin Roosevelt was president, he passed the NRA,* which caused the unionization of virtually all the coal mines in the country. The biggest impact was in East Kentucky because those operations always paid lower wages than West Virginia or eastern Ohio. It was because they were the least competitive because of transportation costs. East Kentucky coal has to go over West Virginia coal to go east, and over Ohio coal to go north, and over Virginia coal to go south. Transportation costs are much higher for East Kentucky coal to get to a market. The wage structure was lower, and that was the offsetting factor.

When the mines were unionized, it immediately shut down most of those mines in spite of the fact that the people didn't particularly want the higher wages. They would rather have had the job. Many of those people for 10, 15, 20 years drove to work in West Virginia, Ohio, or Virginia because there were simply no jobs in East Kentucky. Finally, when they started opening up on a nonunion basis again at that time with lower than union wages--today union and nonunion pay about the same--the jobs came back to East Kentucky, at least to some degree.

Many people in East Kentucky are very bitter about how the NRA affected their livelihood.

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*National Recovery Administration was created by the National Industrial Recovery Act.

Seltzer: I was interviewing a fellow who is running for governor in West Virginia. He was arguing, as a native of the southern coal fields in West Virginia, that the coal industry was subsidized and all coal consumers were subsidized by the coal counties. There are "externalized costs." There are costs of production that should be factored into private sector balance sheets that are sloughed off and the public is forced to pay in one form or another. Twenty years ago, those costs were reclamation costs that weren't paid. Sometimes, it's mine safety. Sometimes, it's low taxation. Sometimes, it's the willingness of the people to put up with poorer conditions than other people put up with.

He feels this subsidy to coal consumers--utilities, steel companies--should end. The implication of something like that then would be higher level taxation. Some redistribution of existing taxation. Probably a tougher policy on unmined minerals. Probably a heavier state role in making a claim on the private sector to provide housing and other kinds of things. What's your reaction to that sort of analysis and that kind of argument?

Wilson: It sounds like an analysis made in West Virginia.

Seltzer: Why?

Wilson: Because in recent years West Virginia has been very antagonistic towards coal, coal development, coal mines. Jay Rockefeller, when he originally ran for governor in 1972, was against all strip mining. And he was defeated at that time. It illustrates his viewpoint, where he was coming from.

Seltzer: But you took him to the woodshed, and he came back chastised.

Wilson: He came back chastised, but West Virginia has a very antagonistic attitude toward the coal mining industry. It's detrimental to the economy of the entire state. Coal mining is very big in West Virginia. It is much bigger in West Virginia vis-à-vis the economy than coal is in Kentucky.

Seltzer: Does that factor actually figure into your decision...

Wilson: It certainly does.

Look at coal production in West Virginia versus Kentucky. Historically in the 1950s and the early

1960s, West Virginia was bigger than Kentucky, production-wise. It was about the mid-1970s when Kentucky passed West Virginia. Today, Kentucky is producing about 140 million tons a year. West Virginia is down to about 85 million tons. Wyoming is now number two.

When I was with MAPCO, we would not consider coal operations in West Virginia, mainly for political reasons. The politics in West Virginia were basically anti-coal. Consider the difference in West Virginia economically, if they were mining 150 million tons versus 85 million tons in additional jobs and economic benefit. It would be tremendous. What percent of their reduction in tonnage is because of the political problems, I don't know. But I'm sure it's sizeable.

All companies look at that. They are just kidding you if they say they're not. They look at it very closely. They look at potential. Not just the existing tax structure. Potential. What are the politicians talking about in that state? They keep news clipping files of what politicians are saying from local newspapers. I always did. Before we went into a new state, we would have a meeting with the governor and some of the legislators to find out what they are thinking. Is he thinking about a new tax? Is he going to try to pass a new tax? Are they going to reduce the old taxes? How do they feel towards coal? What is the climate? What is the political climate? It is a very important factor because, let's face it--coal is common. It's found in many of the 50 states in mineable quantities. You aren't required to mine coal in West Virginia, Kentucky, or Illinois. You pick the state where you feel you are going to have the best political and economic climate to mine coal. It's that simple.

Duncan: The severance tax in Kentucky is higher than it is in West Virginia and surrounding states.

Wilson: West Virginia, though, has the B & O tax,* which is probably worse because it is a tax on employment. The more people you employ, the higher taxes you pay. But it is not just the tax structure in West Virginia. The tax structure per se is maybe not that bad. It's the political climate and the attitude toward the companies that is the most detrimental.

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*Business and Occupation tax is a tax on gross sales.

Seltzer: Expressed through regulations, lack of support, lack of research help, lack of marketing help? Things of that sort?

Wilson: We are not looking for marketing help. We don't want marketing help from any state or federal government. We sincerely believe in free enterprise and free market. But we do expect states to enforce the laws of the their own state. I think that would be a good idea. Sometimes that doesn't happen.

Duncan: Is that wildcat strikes you are referring to?

Wilson: There is a double standard in some states as far as enforcing laws on labor issues.

Seltzer: This candidate describes himself as a pro-coal candidate and part of the evidence of that position is that he wants to provide state funding to find new markets for coal, research new markets and control railroad costs within the borders of West Virginia, and take a leadership position at the national level to control transportation costs so that West Virginia coal, Kentucky coal, is not disadvantaged. He also had an idea to organize a multi-state compact of eastern coal producers to equalize taxation so that the cost differential among states would not be based on the public costs of coal.

Wilson: He is trying to go against the forces of the marketplace. In the long run, no individual, no company, no government, no union can stand up against the forces of the marketplace. The forming of a compact to equalize taxes will probably result in increased taxes, not reduced taxes. Invariably, market forces will counteract that.

For example, we sell approximately one-third of our coal in foreign markets. We are competing against South African coal, Australian coal and Polish coal.

Duncan: Where the public intervention in the market goes the other way, right?

Wilson: Increasing our tax base will simply increase our costs, which will make us less competitive in those markets.

As far as the railroad is concerned, you hit a sore point with me. The railroads are acting in a manner that is very detrimental to the coal industry, with the aid and assistance of the Interstate Commerce Commission. This is a very bad situation. It is going to come back to haunt them because Congress is probably going to pass a law that is going to hurt them worse than they are hurting us. Their export rates are totally unconscionable. Completely out of line with what the Staggers Act ever intended, and doing it on the basis of a technicality.

Duncan: So that's not the market "run wild" in railroads?

Wilson: Railroads operate on the monopoly. They are collecting very heavy economic rents from the coal industry.

Seltzer: If there were one or two things that could be done to increase the amount of community benefit, the amount of economic development that derives from the future coal mining business, what do you recommend those things to be?

Wilson: From what angle are you saying that?

Seltzer: You're the private sector. The public sector wants to promote economic development...

Wilson: What should they provide to do that?

Seltzer: From your perspective, what would be the one or two things you think would lead to more community development resulting from your investment in coal?

Wilson: What can we do to cause more economic development?

Seltzer: No. What things can be done by the public sector to derive more public benefit...

Wilson: From the coal industry.

Seltzer: That's right. Without decreasing your competitiveness in these international markets. Maybe we're in a box here.

Wilson: The main thing is a more equitable distribution of the revenues the coal industry is already paying to provide some of that infrastructure. If you look at the lack of diversified economic development in Appalachia, industries are basically looking for the same every where you go--roads, schools, medical facilities, etc. That is lacking in East Kentucky. So there is a reluctance on the part of industry to go into an area where that is lacking. The coal industry goes in there because that's where the coal is. If those facilities were provided in East Kentucky, there would be more economic development.

Duncan: Would having better schools, roads, and medical facilities make a difference in where you opened a mine?

Wilson: Sure. It would make a difference. Now, the decision usually is in the negative. If you are going into an area that lacks all of that, then you think, "Boy, it's going to be tough. It's going to be tough getting the high-level supervisors and technical people who are not available in the area to go in and live there." It's going to be tough, in some cases, even moving the coal out--no railroads or anything. Electrical power, all sorts of things. If those things are not available, they add to the cost of developing the mine. They add to the company's uncertainty about successful development. If the coal is in an area that is well developed with good schools, housing, and everything else, we are much more willing to go forward with a project. The most developed areas will be developed first. The more backward areas last.

When I was at MAPCO we put in a mine in southern Illinois--a place that was very well developed as far as schools, roads, and housing. That was one negative we didn't have to worry about. We didn't have to think whether we are going to have to develop a housing area here or do this or that.

Duncan: The political strength of the farm sector in southern Illinois didn't cause problems?

Wilson: Not at all. The community there was very supportive of development.

One thing the coal industry does that is a little bit negative as far as development of other industries is that our wage structure is very high. That tends to affect the expectations of people working for other industries. Companies coming in look at that wage structure established by the coal industry. They worry how that is going to affect what people who make tires or lawn chairs think they should make. Normally, in a heavily developed coal area there are two wage structures. One is all the jobs in the mines, the other is all the other jobs. There is usually a wide separation between the two.

Duncan: Would it be better for you if there were a more diversified economy in an area?

Wilson: Certainly it would be better for us. We would have more and a wider base of population with skills in which to find employees. Your difficulty in coal mining is not finding people who will operate trucks or bulldozers. The difficulty is finding people who can fix trucks and bulldozers, or electricians. The skilled jobs are the crucial shortages you have. If an area has some light industry already, you have a lot of people with those skills already there.

Duncan: In Martin County, there's a much larger proportion of the 16- to 19-year-old group who haven't graduated from high school, aren't working, and aren't looking for work. It is real discouraging looking at the future manpower of that county. Have you identified something you could do about that?

Wilson: To make those kids go to school? (Laughing)

Duncan: No. Don't worry about their school. Give them voc-ed training or something. You have political influence in Kentucky.

Wilson: We encourage people to go to vocational educational training. Obviously, we cannot guarantee anybody a job. If someone comes in looking for a job and they don't have any training, we will tell them there is a vocational education program on electricity or whatever. "Take that and then come back, and we will look at you again." But you can't tell them to go take that course and then we'll hire you.

Duncan: You could, actually.

Wilson: It's difficult to do that.

Seltzer: If you ran the course yourself, you could take the top ten percent or prescreen people where the people who were in the program were likely...

Wilson: It is hard to say when you send a kid off to vocational school that you will have an opening for him. You may not. You don't want to make a promise that you can't keep. It depends on the situation. If you need certain skills badly enough, sometimes you will do things like that. It just depends.

Seltzer: We have taken up a good bit of your morning. Thank you. We appreciate it. We have learned quite a bit.

EASTERN ASSOCIATED COAL CORP.

John Higgins, Senior Vice Président

Company address: One PPG Plaza, Pittsburgh, Pennsylvania 15222

Parent company: Eastern Gas and Fuel Associates

Background: 53 years old, 15 years in the coal business. Mr. Higgins is currently Senior Vice President, Personnel and Industrial Relations. He is a graduate of Northeastern University in Boston. He has been associated with Eastern Associated Coal Corp. for 30 years in various positions related to Industrial Relations and Operations. He is a member of the Board of Directors of the Bituminous Coal Operators Association.

Total number of employees (parent company):

1983-7,200. (Coal employment: 1983-4,000; 1982-5,100)

Coal production (thousands of tons):

1983-11,540; 1982-12,751; 1981-8,719

Total parent company sales (in thousands):

1983-$1,199,564; 1982-$1,320,326; 1981-$1,126,277; 1980-$979,500; 1979-$827,018

Coal sales (in millions):

1983-$446.2; 1982-$555.4; 1981-$439.2; 1980-$395.3; 1979-$357.5

Total parent company assets (in thousands):

1983-$1,265,969; 1982-$1,307,702; 1981-$1,188,003; 1980-$1,004,355; 1979-$903,384

Total parent company net income (in thousands):

1983-$42,719; 1982-$60,350; 1981-$58,314; 1980-$54,768; 1979-$47,923

Message from 1983 Annual Report: "Lower financial results in 1983 were not unexpected. Coal operations sustained losses in 1983 due primarily to a severe downturn in worldwide demand for metallurgical coal. Profits from steam coal sales were up significantly in 1983 due, in large part, to more widespread use of efficient longwall mining systems. Mine productivity has improved significantly, and costs are under control."

Diversification: Engaged in the production and sale of steam and metallurgical coal, water transportation, and distribution of natural gas.

EASTERN ASSOCIATED COAL CORPORATION

John J. Higgins,
Senior Vice President for Personnel and Industrial Relations

June 22, 1984

Seltzer:* How would you describe your corporate philosophy when it comes to working with communities where you have operations?

Higgins: We have been pretty active. We have a number of people in the organization that work directly with the communities.

I have to go back a little bit in history because we built company towns in the past and leased all the homes to the employees. For a number of years, that was the philosophy. We also had company stores. Then back in the 1960s we decided we weren't in the store business, so we sold all of our stores. Ultimately, we sold all of the houses that we owned to the employees at what we considered to be very reasonable prices. We are to the point now where we can almost say we don't have any homes left. We sold the last two or three hundred homes within the last year, year and a half. We probably own a half a dozen homes--not a heck of a lot more than that.

We were probably the first ones to put cable TV in some of the communities years ago. At one of our mines, the superintendent actually hooked up a cable TV system of his own. It was quite humorous in a way because he had to get federal approval, and they went through all

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*Curtis Seltzer and Cynthia Duncan, interviewers.

kinds of government agencies and problems to get it done. But they did hook up a nice system for the community.

Seltzer: Why did he do that? Why did he do anything extra?

Higgins: He thought if the employees were living there, he wanted to have happier employees. It was always one of our better mines. Therefore, we built decent homes in the area; we worked with the state in trying to bring roads into the community; we put sewage systems in; we had water systems in all of our towns that we had anything to do with.** As a matter of fact, we still have a number of towns where we still own the water or the sewer system.

Seltzer: If I'm a stockholder in your company and I come to your annual meeting and I say, "Why are you spending money for sewers and drains rather than spending money for developing a new mine section?" What's your answer?

Higgins: I would say it's pretty obvious that if you have your employees living in the community and the community goes to pot, you are not going to keep your employees. We have a lot of our key people who live within close proximity of that mine.

I think our obligation extends beyond just the corporate philosophy on doing things at the mine. It also goes to the town. Because of the unique circumstances, the topography of the land, and the distances people have to drive, it was a practical business decision that we "gotta" put some money into this community.

Seltzer: How do you make that decision, though, in a year like this year, last year or the year before, when sales are down and profits are squeezed?

Higgins: You may not do as much as you would in the better years, but you still manage to wind up doing it.

Over the last several years, we've done an awful lot of work on helping communities tie into a larger municipal water system. We would go to the water companies. The water companies may provide the labor to put the pipe in to connect up and hook into the system, and we would buy all the pipe for them because

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**Since this interview Eastern Associated Coal Corporation has completed the improvements and transfer of all sewage and water systems to the public sector.

they wouldn't have the money to buy the pipe. We did that as recently as this year.

We had a water system in an area where a mine had closed and was terminated. If we pulled out and shut the mine down, we would have left the people without a water system.

Seltzer: They were hooked up together?

Higgins: They were not hooked up together. We had an independent water system that depended entirely upon this mine area that we were closing. But we don't feel that after you're through mining you should just walk away from the community and say, "The hell with you. It's all over." That's crazy. Those people are still there. They are still going to be working for some coal company in the area. So we went to one of the closest municipalities and tried to work a connecting link between those two water systems so that when we left and the water in the mine evaporated, they would still have a water system.

Seltzer: How can you make a buck that way?

Higgins: We don't make anything, but we are leaving the community with water. It's an obligation we have; we felt we had.

Duncan: Did you have more people living in company towns, more employees working in a place you were responsible for, than most coal companies do? Is that what would make your responsibility come out differently?

Higgins: In some of the areas, I would say that's correct.

For instance, at one operation, historically, when they started building that mine, the town grew around the mine. You had an awful lot of your people living very close and they still live there. There's almost an image of being a company town. Yet we have gradually changed our method of doing things. We put ball fields in; we put tennis courts in; we have a community recreation building. For many, many years, we did all the work of keeping those towns up--keeping the ball field up, the resodding, the tennis courts, the new nets, the community building, all the work and repair.

In recent years, what we have gradually done is pull away from that so that the community can stand on its own feet. We donated a lot of that to them, and then we helped them out when they needed help.

We do a lot of things in conjunction with the community. We are not the grandfather image. We get away from that. In a lot of places what we'll do is we'll say, "You want to build a ball field? Fine. We'll put trucks over there, we'll put our dozer over there on Saturdays and Sundays. You guys provide the labor. It's a joint effort." We find that that works very well these days. They are very willing to accept that kind of help.

Seltzer: Does that philosophy have a name? Is it written down somewhere? Is there a statement?

Higgins: I'd say no.

Seltzer: How does it evolve?

Higgins: It started out years and years ago.

We even have a camp for the children of our employees--a summer camp. We have 100 acres, and every summer we have 200 children a week, the children of our employees who go to this camp.*** We have four, two-week periods, generally. We assign certain mines to that two-week period, and those children at that mine all go there. There are probably 70 or 80 counselors at the same camp.

Duncan: Everything you're describing, it seems highly unusual in today's coal industry. Why do you think you're different?

Higgins: We have been doing this for years. It's been a corporate philosophy for many years.

Seltzer: Did it start with an individual?

Higgins: There were certain individuals years ago who were very gung-ho on that sort of thing. There's been many a year where we have had to make a decision on whether or not we want to keep that camp going because we are not in the camping business. In this day and age you wouldn't expect to get many children at a camp. We did have a downturn in attendance in the 1970s. We weighed and evaluated whether we should close the camp. And rather than go out and make the decision, we decided we would go back to the people who helped us run the camp which is a lot of the employees. The camp's board

***Company officials report that current economics made it necessary to discontinue operation of the camp in 1985.

of directors used to consist of all executives from corporate headquarters. After I was responsible for it, we changed that. I didn't want a bunch of executives here deciding what we are going to do with a camp there. So we formed a group of coal miners, union people, foremen and one from public relations. They run the camp.

Seltzer: I'm not doubting anything you've said, but what puzzles me is how can you be competitive with that kind of corporate philosophy against a company selling the same quality coal basically to the same market without that philosophy?

Higgins: That's a valid question. Every corporation has a certain giving program--give to charities, give here, give there. We decided that some of the best ways to help the community are in these methods. It just makes corporate sense to do so. We are not obviously going to go out and overcontribute. We do the best we can.

In many cases, as the example I gave you, the return we get on that camp--I don't know how you put a dollar value on it. The people we assigned to the board of directors decided to come up with a weekly fee because the costs were running away.

Before we used to do everything. We used to send carpenters to do all the work around the camp, hire contractors to fix it whenever it got bad. I would say right now it's probably in better shape than it's ever been. The way we do it is we organize. We get the union guys and the management people to go there on Saturdays and Sundays. We have a big cookout, and we're all volunteer workers. We pitch in and buy the lumber and materials. Each of the mines may donate a little. It doesn't cost that much in the way of out-of-pocket costs. Yet our people are getting the job done.

Seltzer: You are the only person who has said that you feel your company has a responsibility after the mine has worked out or after you close it down because of market conditions. That has to add cost onto your price.

Higgins: That's correct.

Seltzer: If Consol, for example, doesn't have that cost, do you find that it is a market factor?

Higgins: No, because it's not in the millions and millions of dollars. What we do is take people on an ongoing cost and assign them specific things we think would help the community and at the least cost to us. I'll have my manager of public relations spend 10 percent or 15 percent of his time working with communities to get monies for those communities--help them put the paperwork together, help them get grants, help them get a water system extended into their particular area, push it politically anyway you can to help them get it, help them organize a water commission to service the town. We try to help those people stand on their own two feet by putting together a water commission and then they run it. The out-of-pocket expenses aren't as big as you might think.

I'll give you another example. We have trucks that run over the road all the time. There's often been occasions where we'll go to the state when the roads get in bad condition. We'll say, "Part of the blame is us, and part of the blame is that it's a lousy road that you put in to begin with. There was no base in it, and I don't think we properly deserve all the blame for it. We'll buy the rock if you put it in. Or we'll buy the asphalt if you'll lay it."

There are a lot of things you can do at a reasonable cost to the company that won't affect you from the competitive standpoint. It's just a matter of seeking out those things that will help the community and try to do them. It's as simple as that.

Seltzer: Do people in the industry see you as being odd or different, or whatever?

Higgins: I think people feel we are fairly liberal when it comes to our employees and that sort of thing.

Seltzer: That was certainly the reputation you had in West Virginia.

Higgins: That's right. We've never taken the run-to-court and bash-them-over-the-head attitude [toward wildcat strikers] because we always felt that some day that would come back and haunt you [us]. On the other hand there have been times when I've absolutely wondered if this other approach is the right approach. The hard-line companies, when it comes to looking at production and looking at the bottom line, there's something to be said for the way they've had to operate, too. I guess everybody has to live with their own philosophy. It's like a personality. Our company has that personality, and it seems to have passed on.

Seltzer: When you actually make the comparison between a hard-line company and yours, are they more efficient? Are they cheaper in production costs?

Higgins: It's hard to compare because each has its own particular set of circumstances. It is very difficult to compare average cost with other coal companies because they might be mixing in a lot of strip coal. We don't have any. We have to seek our own method for reducing our costs. We did take a stab at going to very big, deep mines. We concluded that is not entirely the right way to go. Our properties lend themselves to big, deep mines with longwalls, which are much more efficient. On every occasion when we can do that, we will do that. We will put the longwalls in, but we will just put in enough continuous miners to keep the most productive unit going--not a whole series of continuous miners.

We look for other small pockets of coal or seams of coal that lend themselves to punch [small] mines. Then we hire a contractor to come in with his people--small work units. They can mine at a lesser cost than we can because they don't have the same problems a bigger company has. They have work forces that don't turn over. They don't have the absenteeism problems we have. We averaged out our price of coal in two ways: one, by becoming more efficient ourselves by running longwall units with just enough miners to keep the longwall in a home. And also smaller work units where the superintendent can relate better with the people instead of having a massive work force where it doesn't take many guys to create the problems. The other way is taking pockets of coal that we have that lend themselves to contract mining. They are all UMWA contract mines. We don't have nonunion mines.

Seltzer: Why did you make that decision?

Higgins: We are right in the thick of the United Mine Workers. Southern West Virginia isn't exactly a place where you are going to wind up having any kind of peace at all.

Seltzer: But there are companies who work nonunion there.

Higgins: Some people do. And if I were starting a mine in a peripheral area, an area where I wasn't totally surrounded by the United Mine Workers, I would too. There's no question that I would definitely start off that way.

Seltzer: When you look at it, do you find nonunion operations are more productive than union operations?

Higgins: Yes.

Seltzer: Why? What's the difference?

Higgins: There are two or three reasons. In some cases, where the smaller UMWA mines don't worry about the nitpicking things, they can be competitive. Some of these small punch mines can be competitive with nonunion mines.

But, by and large, that isn't the way it works. In most of the large mines you have old customs, past practices, inefficiencies they are not willing to give up. Consequently, you don't have the same attitude. A lot of the nonunion [companies] pay better. They have better incentives, and they [miners] work hard. Being nonunion doesn't mean you don't work hard. Sometimes they have to work a lot harder to stay nonunion than the union companies do. It becomes easy in a union company to say, "Well, here's a beef. We'll bring it up to the grievance procedure. And that's the way it'll end." But in a nonunion company, it's a lot more difficult. You have to stay on top of it. And if you want to stay nonunion, then, by god, you've got to work at it. And they do. They work very hard at maintaining good relations with their people.

Duncan: When you started to use more contract mining, did you have to let a lot of people go?

Higgins: No, our people were let go because of the mines themselves. Our mines were becoming inefficient, high cost.

We were running in the mid-1970s when everybody tended to want to expand because you could make a dollar on the coal. You weren't so much worried about the cost because you knew you could sell every pound of coal you could mine, even if it was inefficient. A lot of inefficiencies were built into the system because in the larger mines, you would mine areas that you probably should not have been in. They were tough areas to mine. So you said, "Okay, I can make a dollar by going in there, so I'll go in and mine."

That really compounded the thing because you brought a lot of new miners on that weren't experienced, didn't know what they were doing. We flooded the place with "red caps" [new miners]. And everybody was doing the same thing at the same time. What you had was a mushroom effect that watered down your management as well. Prior to that expansion, we had, say, a superintendent and maybe six department heads for every mine. Most of those department heads were guys who had been around for a lot of years and really knew what they were doing. All of a sudden when the expansion came, one of two things would happen. We would say, "I'm going to open a mine next door. I'll bring two or three department heads over and start a mine over here." After we did that, we brought in three people with lesser capabilities and watered down old Mine A. Mine B is the new mine. They are out now scratching around to get people to join them. They would accept a less capable person because it was a pair of pants and a certificate. That's exactly what happened. Everybody started to mushroom, but they mushroomed in a very inefficient manner.

Duncan: Were these people who came in from outside the region to mine?

Higgins: Not entirely. A lot of them were red caps. They hadn't been miners at all.

Duncan: Are they miners now?

Higgins: A lot of them are laid off.

Seltzer: The level of community development in coal-mining communities often depended on predictability and stability of demand. If the demand is not there for your coal, there is only so much you can do, no matter how good your intentions are.

Higgins: Exactly.

Seltzer: What ways are there to put more predictability into the demand side? Left to itself the market doesn't produce stable growth?

Higgins: That's a really difficult one. You have to look at it both ways. You have to look at steam and met [metallurgical coal]. You look at steam and say, "There's probably going to be a good market for steam coal. But there are a lot of variables as well." Are we going to put scrubbers on or not? Southern West Virginia has a lot of low-sulfur coals that used to go on the met market that could be shifted immediately into some of these low-sulfur markets for steam coal. On the other hand, we have northern coal at a highly productive mine, but it's three percent sulfur.

I'm not sure where that's going to wind up. Can we export? Can we pick up customers if we lose a big utility? Obviously, we're working on where we can shift that northern coal. We think we have a place to shift it to. It may get shifted out of this country, into Canada. Maybe into some other areas of the country. It may get blended with other coals. There's a lot that can be done on that side of the ledger.

Is there going to be enough of a market to satisfy all of that? Now you are down to competitiveness. How much is it going to cost to mine it. Very fortunately we've got a mine that used to be our biggest labor problem that's done a complete about-face. It is now our most productive and profitable.

Duncan: Why did it turn around like that?

Higgins: They went through some growing pains. There were a lot of problems we finally stabilized. We brought in much better equipment. We insisted on a lot better work--the quality of work. We devoted a lot of effort to making sure the buildings were clean. We made a conscious effort to make sure the parking lot was right. Underground, we took new setups. As we came into a new set-up area, we made sure that we did a first-class job on it. We upgraded some of the equipment.

Eventually, people started believing we were going to make a coal mine out of this. Then the market started to turn down and people said, "If we are going to keep our jobs and they [the company] are going to put the equipment in and make the setup right, we are going to mine the coal." And they have been doing that. I was there this morning and was very, very surprised. Today is the last day before miners' vacation. I would say 50 percent of our parking lot had cars in it. That is very, very unusual. The checks went out yesterday and you don't [usually] see many people today. But we got the longwall and one other section working on the day shift today. That's pretty surprising. There is pride there, too. They know they are the number one mine now. We've always had success where a mine thinks it's number one. They start acting like they're number one.

The market is a tricky business. Absolutely, there is a place for expansion in the steam end of the business. The met market looks like it's going to be a slow, dragged out process. There will be fluctuations in the steam market. And I don't know what the hell they will be, and you don't either. Poland will start shipping all its coal to Russia, or South Africa will have some kind of a racial upheaval. Somewhere along the line the Australians will strike. They've gone through some of the labor problems we've gone through. Or the oil situation will break again. I don't know where the fluctuations will come, but they will come.

Seltzer: Do other countries handle supply and demand better than we do? When we leave it to the market, do other countries mix into the market in different ways? Does it work better over there [Europe] or not as good?

Higgins: Over the long haul, you have to say they are subsidizing it. You know damn right well they are.

Seltzer: There's no question about that. They are subsidizing to an extent, they are subsidizing inefficiency.

Higgins: That's right.

Seltzer: To an extent, they are subsidizing financial welfare and production.

Higgins: That's right.

Seltzer: Can you subsidize for some reason you might call public welfare? The argument is that coal is a necessary commodity in an industrial economy. People who mine the coal are a necessary labor force. You have to subsidize to keep that infrastructure in place.

Higgins: Not as far as I'm concerned. We went through that in the 1970s when we kept people that we shouldn't have kept and tried to build into the system a method of adding more crews that would be productive. It just doesn't work. If you are going to have a mine and run it efficiently and tell people you are in there to run it efficiently and in it for the purpose of making a profit and the company's surviving on it, I don't know how you are going to do that. I would much prefer to take the extra labor we've got around this country and put worthwhile projects into effect. Have the people work on something worthwhile. That will be in the best interest of the community over the long haul.

Seltzer: Rather than pad...

Higgins: Rather than pad them on, and make a company a sick company rather than a healthy company. I would rather see it done in a productive way. There's enough projects in this country that we should be doing something. They had to pay in the 1930s for a lot of projects we are enjoying to this date. Nothing has been done since.

Seltzer: Where does the money come from? If you go into West Virginia you get politicians who say, "There are two sources of money in this state: the coal industry and the people." So a politician says if we want to do something like that, we have to tax industry. Industry comes back and says if you tax us we're going to move.

Higgins: Yes, it's a tough cycle that we have to go around. But somewhere along the way, both states and the federal government have to start putting some master plans together on where we're headed.

I'll give you an example. It's incomprehensible in this day and age that we don't have an effective sewage system and water system that are tied together from one community to another.. What may be happening in some of these cases is that there are government funds available for use. But people get caught up in politics. In West Virginia, for instance, it would be very difficult to get federal monies in comparison with a Detroit or a Boston because they [local communities] cannot compete with the numbers of people and the numbers of political votes it takes to get that money. [Coal] states have to say, "We are not in that kind of a situation. We've got communities--A, B, C, D--and we've got a 20-year plan which will serve 100,000 people. Here's how we're going to do it."

Duncan: But it will be a lot more expensive for them to serve those people, right?

Higgins: It will. But somewhere along the way there has to be equity, or we'll still have the same damn problem we have now 20 years down the road.

Seltzer: But can you have a plan for community betterment, community development, without having a plan for the industrial sector? What kind of federal planning would be compatible with private enterprise? I guess that's the question I'm asking.

Higgins: I guess it would have to be in the order of roads and community services such as the water and sewer building. If there were expansion [of coal demand], then the government could help plan housing, for instance, in some areas in West Virginia--that sort of thing. It can be done.

Seltzer: I guess I didn't make it clear what I meant. The kind of planning that makes sense to me is fuel planning so that the market alone doesn't make the decision as to what mix of fuels the country needs. The market won't tell you the right answer over the long run.

Higgins: What you are suggesting is, obviously, something we would like to see some day, too. If you have a utility that is going to burn coal for 25 years and you have a contract, and you open the damn mine, then, fine, let's put the support to that. And that's what I'm saying.

If we have reserves and a sales contract, that will go a long way in telling the people [they can count on us]. We can develop them and that will mean X mining jobs and X support jobs in that area for the hydraulic shops, the electric shops that goes with it. All of that is going into developing a community.

Seltzer: What's standing in the way of that longer term perspective?

Higgins: The uncertainty--acid rain, nuclear. Where are we headed?

Seltzer: If we had an administration in Washington that said ten years down the road we want to be 60 percent coal, 20 percent nuclear in electricity generation--that would monkey with the market, but it would certainly be more predictable and people [coal industry] would know where they're going.

Higgins: That's right.

Seltzer: I worked for a guy who was running for president in 1984, and I tried to persuade him to come out with something like that. He wouldn't touch it. He said, "The market should make that decision."

Higgins: The market. Right. Who's right? Who's wrong? I don't know. The utilities have problems, too. I'll be damned if I'd let them build another nuclear plant unless I knew what the hell they were going to do with the waste. I haven't read anything that satisfied me that they have that problem under control. I have no problems about living next door to a nuclear plant. I bought a lot in Plymouth, Massachusetts, sitting two miles away from a nuclear plant. What bothers me is what in the hell are they going to do with the waste.

Seltzer: Are they going to dump it into the ocean?

Higgins: I don't know where they're going to dump it. I wouldn't let them dump it in the ocean.

Seltzer: You would have a bunch of neon tetras floating off shore.

Duncan: When you were talking about having more stable demand for coal, you said there would be new hydraulic shops and other local business going on in the community. It would begin to thrive in that way. The analysis I've done on the East Kentucky coal counties, and the way things responded in the local economy to growth in the coal industry, seems to indicate that didn't happen much. Money miners are making is going to a few people, and it's not getting spent in the community.

Do you see a difference [in community development] between your various mines? If you've got a long-term contract, is there a different kind of commitment to the place among the people there because you are guaranteeing a market [for jobs] in a way?

Higgins: That's a very good point. We have noticed that. It does make a difference. For instance, the one of our operations is a fairly stable mine where we have a long-term contract with a utility.

Duncan: How many people work there?

Higgins: Probably in the neighborhood of 700 at the moment. I did a study on it one time, and we had over 80 percent of the people travel 40 minutes or more each way to and from work. That's because of its tough location. There are no large communities close by. By and large, the turnover isn't that bad in a mine like that because most of the people there know the mine has a contract.

Seltzer: Can you break a contract like that? Are there escape clauses?

Higgins: We've gone to arbitration with them over terms of the contract.

Seltzer: Because it didn't have escalator clauses?

Higgins: We argued about how it was escalatable, and the differences on what was and what wasn't. But we worked out our differences. We're living with the contract right now. It's a long-term contract, and if I were working at that mine, I would feel reasonably comfortable. The committees told me that. They said, "You know, after all our bitching over the years about having to work here with its rough conditions, the one thing we admit is we got a contract and nobody's been laid off over here, while on both sides of us, they have."****

At another one of our operations--which was a mine that had a great deal of labor trouble, high turnover, bomb threat calls, strikes, every damn thing imaginable--is settled down now. They knew we were in competition. Other companies were also selling coal to the same utility. When the market started to tighten up, those guys produced. They know that's what's keeping them going.

Seltzer: How did they come to know that? Did you tell them?

Higgins: Oh, yes. We spent a lot of time talking about these things. We have communications meetings monthly. For many years I used to visit the mines and have sessions with the mine committees. We still do. Periodically, I'll have committees come in. The Operating Vice President will show up. We'll get all the committees in, and we tell them what's going on. Where we're headed. Why we're doing certain things.

Duncan: Do your miners have a longer tenure with you than most companies have with their miners, or are they about average?

Higgins: I don't know as we're that much different. A lot of companies have fairly decent average service. It's over ten [years] now for sure. It used to be ten, a couple years ago. I know it was going up. We cut off people with lesser service, so it is probably in the neighborhood of 12, 15 years' service.

Seltzer: Say you were a politician sitting in West Virginia, and you were looking at long-term market trends. You saw very little improvement in metallurgical coal, many uncertainties in steam coal, an equal number of uncertainties in the export market and stiff competition from western coal in certain eastern markets. You were faced with the problem of 30,000 people in West

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****Due to the economics of that operation, Eastern had to lay off 135 out of 700 miners in September, 1985.

Virginia the coal industry has laid off. Where would you take this state in terms of doing something for the economy over the next four years--particularly in the coal market? Would you say that market has spoken and 30,000 people better find some other jobs fast? There's nothing here for them. Would you say you would invest $10 million and try to find other industry--bring in Goodyear plants or GE plants or something like that? Would you say that we are going to invest $10 million in developing local enterprise? Would you say that we are going to invest no money because we don't have it? The only place we can have it is by taxing coal and they can't afford it right now.

Higgins: I don't think there's any one answer to it. I think you have to broaden your [economic] base any chance you can. West Virginia has talked about broadening their base to recreational facilities, and they are doing some of that. Any time they can bring other industries in, it's much to their advantage. They ought to be doing that regardless of how well the coal industry is doing.

Seltzer: You don't see that as a threat to the coal in the state? You see it as a supplement?

Higgins: Yes. You can bring them in. Things will develop. And even if coal comes back, which I hope and expect it will, I think the big thing in coal in West Virginia is we've got a lot of inefficiencies, a lot of games played by using legislation as a means of pounding the operators, getting what they [labor] want in the work place that cost money. Some of those things I don't really think help.

Seltzer: Examples?

Higgins: Inefficiencies in the mine. Often we have extra people doing things that there really isn't any need for. We have walk-around-type people. Stuff like that. We've got federal inspectors. We've got the law that's 15 years old. We've got state inspectors. We've got union inspectors. We've got everybody and their brother that knows the damn law. It's all bullshit, frankly. Who's kidding whom? Everybody comes out with a banner. "Safety this, safety that." Damn it! We're not dealing with a bunch of new people coming into the work force. We're dealing with old miners who know what the law is. They know what they're supposed to do, and we have the same supervisors, too. They know what should be done. They know when they are doing something wrong. It isn't a matter of having people walking around and checking on them. That isn't going to solve a damn thing.

Some of those things are going to have to go by the board. It's unrealistic for me to sit here and say the mine workers are going to walk in and say they are going to give up everything they've gained. I've not naive enough to believe that.

But there are certain areas where they can do things. A perfect example would be a dispatcher. He sits there and they say all he can do is dispatch. He can tell a car to go here. He can tell them to bring cars over there. If they [miners at the face] have an emergency and need a part and they want to ask him to have the part delivered to the shop, he can't [is not allowed to] pick up the phone and call the shop and send the part. That's just plain nonsense. In a lot of mines that doesn't happen because the dispatcher would probably do it. There are places where a guy will say, "By God, I'm not going to do it [follow the UMWA work rule]."

Duncan: Then what's the difference in that mine?

Higgins: The difference is some mines keep working and some mines don't.

Duncan: But why are some places...

Seltzer: Past practice.

Higgins: Sure. There are little aggravations on things like that. You spend a lot of extra time doing certain things. You can speed up and not have a lot of people waste a lot of effort. Most extra things you do that are nonproductive add to the cost. But you can do away with a lot of the nitpicking, nonsense stuff and get down to doing business.

Seltzer: If the UMWA is basically a source of inefficiency, how much longer can you live with it? At some point you are not going to be able to live with it in a competitive world.

Higgins: That's correct. And they are not living with it now. The competitive world is dealing the mine workers out. Let's face it, their percentage is falling.

Seltzer: I agree with that.

Higgins: I think our productivity has come up recently. I have to believe the guys themselves said, "Goddamn it, we are taking this thing too far and we've got to do better." As they've seen the inefficient sections cut off and seen we are only going to run a certain number of sections and run them right, a lot of them turned around.

Seltzer: You are doing something different than what you did ten years ago?

Higgins: Oh, yes.

Seltzer: And they [labor] are doing something different? Together. But management had to change as well?

Higgins: Sure. I think a lot of managements have changed.

Seltzer: That's the word we're getting when we ask that kind of question.

Higgins: Sure. It's for self-survival. What good am I as a senior vice president of the company if I have no company? It's the same with the superintendent. If the mine is going to get shut down, he's affected just as well as the next guy. I think everybody saw that.

Seltzer: If things were to suddenly turn around as they did in the 1970s, do you think the industry would handle it in the same way--price increases, opening up inefficient sections, etc.?

Higgins: If we haven't learned our lesson by now, shame on us. That was a hell of a price we paid. We expanded the work force. We bought equipment. Then we had to eliminate equipment and eliminate people. That's a hell of a price to pay.

Seltzer: When we're done with our research, say we came up with a policy recommendation that something like one percent of coal's net income should be devoted to a development fund to be used to seed other kinds of businesses; to work on community programs; and to be administered by some joint committee of labor, management public service organization. And we said the only way that that recommendation would make sense is if it happened across the eastern coal fields so that no state would disadvantage itself in comparison with other states. No company would be disadvantaged. Could the market bear a two or three percent increase in the price of coal spread that way, to be used for that purpose?

Higgins: That would be a good question. Would the market bear it? Would that particular increase offset the price of South African coal or other coals coming in? Where we sit in relation to oil, nuclear? If the market would bear that increase and the proposal to use it made a lot of sense and the money could be used efficiently, not like some of the charitable organizations where 85 percent goes to administration and 15 percent goes to the actual guy in the street.

Seltzer: Let's say the two of us could agree on a figure. Would you want to control that fund? Does it really matter whether you distribute the money or some public agency does?

Higgins: If I were going to give up one percent, that would be a significant amount of money. I would certainly want to assure some method of input. I wouldn't want to say, "Okay, here it is," and hand it over to a third party without any say as to whether it's working or not. It may very well come back and affect the competitiveness of my business.

We have been a company that has spent a lot of effort in community affairs. Probably a lot of people would disagree and say you should have spent more. But relatively, we've spent as much as anybody.

You know, some coal companies have a reputation for being a big, tough company. But I'll bet if you dug, and you didn't get into some of the top people, you'd find at the local level that they are doing a hell of a lot more than anyone recognizes. Some of the ball fields we've built, some of the high school fields and the lights--the corporate people don't know what we've done. It's part of the cost of the mine. I'll bet if you went very quietly around and checked it out, that's what's happening.

Our superintendents up until recent years, in fact, did the same thing. Recently we've said, "Look, if you are going to do that sort of thing, we want to know it because we want to keep accurate records on what we're doing."

So much has been buried over the years. Now one came to my attention about a ball field that was built in a certain area of West Virginia. We allowed our trucks and dozers to go over on that job during miners' vacation--this two-week down period. The people in the community used our equipment. We sent over some cinderblocks from one mine for the dugouts. We sent over some lumber from one of the other mines. And another coal company bought all the lime and brought in the sod, and had a dozer and truck over there, too. That's the way some of these community buildings have been built.

Hell, our summer camp. I don't show everything that goes on in camp life. Good Lord, I have a certain dollar amount that shows every year what we spend. It very rarely ever goes up.

Seltzer: Is that a percentage of your capital investment?

Higgins: We have a certain amount we use for charitable purposes.

Duncan: Do you put it all back in the coal-mining areas?

Higgins: We use most of it in coal-mining areas, and we use some here at headquarters. We encourage our people to belong to boards and things of that nature. Each of us tries to pick. I'm on the board of Big Brothers and Sisters. Another guy is on the YMCA. We encourage them to participate. We'll give them so much money every year.

But down in West Virginia it's all community stuff. And half of it never shows. Like at the summer camp, when we put new roofs on this year. At the ball fields, we built bleachers and new toilets and bathrooms. The only thing that's going to show as a cost is the cost of the plumbing because we had to buy the toilets. We couldn't charge that to a mine, but everything else was.

Seltzer: Is there a name that you have for this? It's not paternalism is it?

Higgins: I don't think so.

Seltzer: What is it? If we wanted to write a chapter about corporate philosophy. Here's the old-style corporate philosophy. Here's the paternalistic philosophy. What's yours called?

Higgins: What do we call it? Our parent firm uses the term--social accountability. Our social responsibilities have been a part of our annual report, too. We put a section in there about how we're doing. How our hiring of minorities and women is going. What our safety record is.

Seltzer: Are you asked that at stockholder meetings?

Higgins: We show it. We made that a part of our annual report. We also have an employee assistance program. If you have a person with drugs or an alcohol problem and you call in and join our program, there will be no disciplinary action as long as you participate in the program. We have done some publicity on that lately because other people are starting to ask, "How does it work? Do you give the guy a leave of absence? Do you pay for the hospitalization?" So we have documented that. As long as they want help, we'll help them.

Duncan: How did that come about? How did that get started? Did you have the idea? Did you read about it from another company?

Higgins: No. It just developed; I forget how. We've had an alcohol program at one of our sister companies for 28 or 29 years now. It's just a natural thing. The first thing you do before you hammer them over the head is you try to get them turned around. And if you can't get them turned around, then you hammer them over the head. But at least get a shot at trying to help them out.

Duncan: Do you think that independents--the really small independents that are operating near your mines--are unable to mine coal responsibly? We wouldn't expect them to have an alcohol or drug program. But is there just a level below which coal can't be mined in a way that's going to end up benefiting community welfare?

Higgins: Contrary to what a lot of people think, some of the small punch mines are the safest, most efficiently run operations you will ever see. Everybody says, "Oh, those punch mines. They don't give a damn about the environment. They don't give a damn about their miners. They don't give a damn about anything." That's nonsense. There are those kind of guys around, but I can tell you one thing. The little guys that we use run a good-looking section. You won't find a nut or bolt or piece of timber lying around. They do care about their people. They do a lot of things a lot differently than the bigger people.

For instance, one punch miner I know works two shifts a day. He has a van for his day-shift guys. He meets all the men at a certain location, and they come in one group in a 12-seated Dodge. The second shift foreman, he has one. He meets the people and takes them home. They go fishing together for a week when they take a week off. They'll shut down on Thursday night, and they'll all go for a three-day weekend fishing. They care because they don't want the turnover. The guys know what the hell they're doing. They are highly efficient. The last thing you want to do is have anybody unhappy. They amaze me. They just don't seem to get people hurt that often either.

Duncan: How does the ownership work? The guy that's driving the van is part-owner of that little mine and he has a contract?

Higgins: No. Generally they lease from us. The owner of the outfit buys and makes arrangements for capital equipment. He probably would give a percentage of the profits to the superintendent plus his salary. All the men down to the lowest laborer get bonuses if they do well by the end of the year--some do it by the end of the year, some quarterly, some on the half. The owners take care of them if they are doing well.

Now there are always the guys who go belly up. You hear all kinds of hues and cries about, "He didn't pay us our wages, and he didn't have the health card for a year." We are going to face that in this negotiation because that is a [legitimate] problem. Some don't take care of their responsibilities and that is a major problem. We've had it happen to us. We had two cases where guys went under. One didn't pay their wages or anything else.

Duncan: Is it your responsibility, then?

Higgins: I would say it's a real question legally. We probably could have said no and walked away from it. But we wound up paying. We weren't going to have a major labor problem over wages and benefits the men rightfully earned. If the guy [contract operator] didn't work out, we morally felt there was something we ought to do. Rather than test the legality of it, we took care of it.

A. T. MASSEY COAL COMPANY, INC.

E. Morgan Massey, President

Company address: P.O. Box 26765, 4 North Fourth Street, Richmond, Virginia 23261

Parent company: A. T. Massey Coal Co., Inc. is a division of St. Joe Minerals Corporation of the Fluor Corporation and the Scallop Coal Corporation of the Royal Dutch/Shell Group of Companies.

Background: 58 years old, 41 years in the coal business. Mr. Massey was Vice President of Operating Units in 1972 and has been President of A. T. Massey Coal Company since 1972. He earned a BME at the University of Virginia in 1949 and a Masters in Commerce and Business from the University of Richmond in 1965.

Total number of employees (parent company):

Fluor: Total, 1983-33,858. Coal, 1983-4,991.

Coal production (million of tons):

1985-20.9 (estimate); 1984-19.8; 1983-18.2; 1982-17.9

Total parent company sales:

Royal Dutch: (in millions of pounds) 1983-62,094; 1982-55,597; 1981-49,594

Coal sales: (A. T. Massey coal sales in million tons)

1985-23.6 (estimate); 1984-23.6; 1983-21.0; 1982-21.0

Total parent company assets:

Fluor: (in thousands) 1983-$4,711,725; 1982-$4,632,382
Royal Dutch: (in millions of pounds) 1983-19,566; 1982-16,918

Total parent company net income:

Fluor: (in thousands) 1983-$27,700; 1982-$152,799; 1981-$158,906
Royal Dutch: (in millions of pounds) 1983-2,754; 1982-1,993; 1981-1,989

Message from 1983 Annual Report: From Fluor Corporation 1983 Annual Report on Form 10-K: The company reported that the market for steam and metallurgical coal continued to be depressed in 1983. However, they expanded coal production capacity for the previous five years, investing about $600 million in their coal business. From 1983 through 1988, depending on market conditions, they plan to invest an additional $465 million in expansion of their coal business. This will increase productive capacity from 21 million tons to 25 million tons by 1988.

From 1983 Royal Dutch Annual Report:

Royal Dutch coal earnings (which includes international operations as well as Massey) declined from $68 million in 1981, to $44 million in 1982, to a loss of $12 million in 1983. "Continuing overcapacity in the market...is likely to limit the scope for any early recovery in price levels, and it seems unlikely that coal operations can return to overall profitability before 1985 at the earliest."

Diversification:

Fluor Corporation: Through domestic and foreign subsidiaries, they provide a variety of services for energy-related industries and are engaged in the production of natural resources.

Royal Dutch Petroleum Company:

In more than 100 countries, they have an interest in oil and gas companies, chemicals, metals, agriculture, forestry, research, and others.

A.T. MASSEY COAL COMPANY

E. Morgan Massey, President

July 10, 1984

Seltzer:* What do you see your responsibilities being for community development where your coal operations are the principal employer?

Massey: We think that responsibility is at a level with some of the responsibilities that a lot of people consider constraints. For example, we think a whole line of responsibilities is in being a good neighbor. The first thing, of course, is to pay your taxes. That's the best way that you're able to support the community--the federal, state and community level.

The second responsibility is obeying the law. Obviously, you want the corporation and all of its employees to comply with the law.

The third is environmental protection. To not injure the environment. To be as sensitive to environmental issues as possible. Both the regulations and the spirit of the environment.

Then along with part of being a good neighbor is some form of consideration for the community at large. I don't think this is the responsibility to support the community in excess of the tax burden. But there certainly is a responsibility to be involved in community issues, to see that taxes are fairly assessed and to take an active role in the formulation of development.

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*Curtis Seltzer, interviewer.

Seltzer: Those constraints cost the private sector money. Where do you draw the line between your sense of corporate responsibility on one hand and your bottom line to the stockholders on the other?

Massey: We rank this liability at a fourth level in a hierarchy of obligations.

Seltzer: What are the first three?

Massey: That, in effect, is one of the secrets of success of our company. I believe it's time for us to share it with other people. It's so subtle, so obvious that nobody really stops to think about it. In our scheme of things, the first responsibility is not to the stockholder. It's not to make the most money you can. The first order of business is to produce the best quality coal at a competitive price for the customer. If everybody in the organization doesn't understand that that's the first goal, you're not going to be in business. There's no way the business can survive if you're not competitive, if you don't put out good quality.

If you put that at the top then the next order of business--and this is one we'll get some disagreement on internally, but we resolved this--is to provide an adequate return on the capital that's invested in the business. What is the capital invested in the business? You got your accounts payable. The only return to accounts payable is that you've got an obligation to pay on time, but there's no interest charged. You've got the debt of the corporation, which is a liability to pay an agreed amount of interest at a definitive date. Then you've got the equity investment in the business. An adequate return on equity is whatever the corporation as a whole sets as a goal for adequate return. Many corporations say they pay a 5 percent dividend and want 6 percent or 7 percent growth a year. You add those two together and get a 13 percent growth on equity on a weighted average of the liabilities. That is an adequate return to capital invested in the business in classical business-school cost accounting. I emphasize the word "adequate." That word is not "maximum" or the "most possible." But an "adequate" return.

That leads you to our third obligation, to provide employees with the best possible well-being. Not just an adequate well-being but the best possible well-being. Now how can you provide employees with the best possible well-being and produce coal at the lowest competitive cost with adequate return to the stockholder? That's what we leave to the employees to decide, to measure, to regulate--and obviously it's productivity. Productivity is the answer to it. You set your productivity goal to achieve those three responsibilities.

Seltzer: You explicitly present to your production workers a formula which says....

Massey: Everybody is a production worker.

Seltzer: Management as well? A formula that says the more efficient you are, the more money we will have from which to pay you, to invest in communities, to pay stockholders?

Massey: The fourth responsibility is to be, as I said, a good neighbor. A good citizen in the community in which you reside. To pay taxes. To comply with the laws. To make the community in which you live a good place to live and work.

Seltzer: How did your corporation evolve that philosophy?

Massey: My point is--and it's so simple, so obvious--that you rank these so that everybody understands their interests, that there's an interest that may come above their interests and that achieving this higher level of obligation is the only way you're going to get down to what they're interested in. Obviously, you're not going to pay any taxes unless you can produce coal at a profit and pay your employees well. There won't be anything left over for taxes. You can shortcut some of these things and get by for a while. But you've got to rank those responsibilities in a logical manner so there's never any complaint, for instance, between the stockholders and the employees as to how much each is entitled. In bad times, maybe everybody's got to give a little. You have to make a compromise between the return and the rest of the business.

Seltzer: How did your company come to this? Has this always been part of the company's way of doing things? Or is it a recent development?

Massey: Basically, it developed over four generations in the coal business, but mostly in the last generation. Through an effort to understand what makes people tick, and how much they can perform if they're led to understand what they have to do.

For instance, we see coal miners down in eastern Kentucky where we didn't even have to have supervisors. The way [we] manage in Pike County, Kentucky, was to put a group of guys underground and tell them how many tons we wanted each shift. Whatever the quota was, they would get it for you, one way or the other. They understood hard times and what it took. You didn't have to explain anything to them. They would just do it. You didn't have to put a section foreman with them. Whereas in parts of West Virginia and Pennsylvania, the men were smarter than that. They would figure every way in the world to beat the company's system if you had a bunch of rules and regulations. So, what explains the difference? The more educated the miners were in many cases, the more ways they could find to beat the company's rules, to beat the game.

Over a period of time with professional help from industrial psychologists and graduates of business schools, and reading what the Japanese know about the system, we devised [our own] philosophy for a business, which is no different from anybody's in the coal business. In the coal business, there's not much advantage in terms of capital equipment. Everybody uses the same continuous miner. Everybody uses the same shuttle car. Everybody uses the same roof drill. You don't have any advantage in terms of the tools in the business. You don't have much advantage in the engineering of the mines. You have a constraint within the law as to how these things can be laid out and engineered, how much coal you can take, and how much you have to leave. Even though mining engineering is a sophisticated business, there's still not any advantage productivity-wise of having a better engineer or better engineering. You can say how about thicker coal? If you got some real thick coal, that's an advantage. There's no question about that. But very few people have any of that thick coal left anymore. The example I use is Consol, a company that exports thick coal. They'd rather use longwall mines and produce two-and-one-half million tons a year out of two longwall mines. They do a super good job of it. But all of us don't have coal that height. So we have to do something else.

The last variable is people. If we can't get the people involved in the numbers that's involved in the game, there's not much chance of surviving.

Seltzer: You said you were starting a "model West Virginia program" at one of your mines. Could you describe that?

Massey: We recognize these [four] goals involve functional areas of the company. To accomplish them, we totally decentralize. We want the decision-making to appear as close to the mining production unit as possible. Still there has to be some overall centralized planning and coordination. Toward the end of accomplishing goal one, we have a guy that's manager in charge of mining operations and coal sales. Under goal two, as to adequate return of the stockholder, we have a financial officer. Within goal three, we have a vice president of human resources who studies all there is to know about people, how people get along with people. Incidentally, this person is a female. We have females throughout the organization teaching coal miners how to be better coal miners. Some of these females are coal miners themselves. [But] I never had anybody functionally in charge of that fourth goal other than a tax man.

Seltzer: Who saw it as a constraint?

Massey: And we really don't want to consider it as a constraint. In many cases we managed our business to avoid the assessor, to beat the assessor at his game. That's really not it at all. We feel that that's a positive obligation that we have to pay local taxes. We want to see everybody pay their fair share. But we have to manage the business so well that we can pay a fair share of taxes rather than win by chiseling, by minimizing the taxes. That's not the way that we get there. The way is to run your business a little better so you can pay your taxes.

In the area of being a good neighbor and a solid citizen, we realized we were dealing in areas of expertise in which we were not staffed. Sociology is certainly involved, and we don't know anything about sociology. Political science is certainly involved in this game. Urban and community planning is a specialty field that we have no staffing or knowledge of. Last but not least, mineral economics figures in this thing.

I mention those three areas because, coincidentally, [we have hired] a West Virginian at Penn State who was completing a doctoral program in mineral economics. It just happened that her (and I say her because, again, this is a female), her undergraduate magna cum laude degree was in sociology. Two masters degrees, one in political science and one in urban and community planning. And a Ph.D in mineral economics. This is a person with all the skills we need to take what we've learned about the coal business and apply them. To come up in our areas and communities with some way to make a positive contribution. Southern West Virginia is the area we realize where the biggest job needs to be done because of its plight relative to other states--its higher levels of unemployment, low levels of per capita income. We're seeing all of the good citizens of the state leave. They couldn't do much about being born there but they've made up their mind that they certainly weren't going to die there. So they're going to move out of the state. We've seen this dilemma, as have other good citizens of the state. This is one of our contributions, what can we do about it.

We originally started on this because we saw Ashland Coal Company take as their PR program that Ashland is a good citizen of West Virginia and we [they] favor education. Maybe PR and maybe education is one way that one would accomplish this. We don't know. That's why our approach is to find out something that may work, that can achieve an improvement in the ability to make the area a better place to live and work.

Seltzer: Do you have a set of operational goals for this part of your program?

Massey: We have been able to show that mines like Marrowbone and Elk Run in West Virginia have been able to reverse this situation. Where we've had a participative environment with our employees. [There has been] a great deal of opposition, not only from the United Mine Workers but even from the governor of the state [John D. Rockefeller, IV]. The [state] government called off the state police and let the United Mine Workers, headed by the international representatives and representatives of District 17, line the roadside, fire high-powered rifles at our employees and company property, march on company property with arms and burn out the office buildings. That activity was supported and condoned by the government of the state. That's how bad it was. Notwithstanding that both of these mines are total successes. They're 200 percent to 300 percent more productive than the average coal mine in West Virginia. They've been involved in community spirit. They've accomplished all of these objectives I've said, even in a state environment that was hostile to this kind of activity. So we've shown it can be done. We think we've got a good record to go on. We're already seeing this effort in West Virginia beginning to reverse, the pendulum swaying back.

Seltzer: What other activities do you think the company will get involved in? Are you thinking about helping your employees obtain housing, land for housing? Are you thinking about working with clinics, sewage systems or education?

Massey: All of those things. We want to put some brainpower to it and come up with something that will work. Certainly, we do not want to talk down to the citizens. We don't want to come in and say that you have to live like us. We are sure that the educational system needs some improvement. The educational systems of West Virginia are about as bad as anywhere there is. If that can be improved, then people will start figuring these things out for themselves. The way we've done it at these mines is with a very strong emphasis on training and education of our employees as to what the whole game of business is about. What we had to do and why we had to do it to survive in the business environment.

Seltzer: Some people would argue the reason why the community infrastructure in southern West Virginia and eastern Kentucky is so low is because of the way the coal industry developed that resource over the last 100 years. That the responsibility for the poor level of services falls on the private sector. Now the private sector looks around and sees any number of things that need to be fixed, patched up, repaired and replaced for things to improve and business to have a better climate in which to operate. What do you see is the cause of underdevelopment in southern West Virginia and East Kentucky? Do you think the coal industry is responsible?

Massey: You know what the comic strip "Pogo" says: "We saw the enemy and they was us." That's exactly right. They were beautiful mountains, the most lovely environmental place you ever saw until our forefathers came over the hills. It's the people that polluted West Virginia and East Kentucky. We saw the enemy and it was us.

Seltzer: All people, or some people more than others?

Massey: All of us. Trying to earn a living, to beat out an income out of the wilderness. Whether it was the lumber business, or the coal business. Whatever it was.

Seltzer: Do you think there was any choice about doing it the way it was done given the economics of American society over the last 100 years? What I'm asking is a question based on my own research. The basic model for the American mining system came from Britain in the 19th Century. It was a harsh model. It was not a benign model, not a paternalistic model. Could the American coal operator 100 years ago have gone into a remote area of West Virginia, constructed a camp, put a railroad line in, organized the industrial sociology of the place to get coal out as cheaply and efficiently as possible in any other way? Or do you think he had any other choice?

Massey: I don't see any other way that we could have done it. Obviously, if you had more insight as to the consequences, it would have been done differently. You may say that one of the worst things we're doing now is total disregard for the energy resource. In complying with all of these [environmental] ends, the one thing we're destroying and have no regard for is the remaining resource, the potential scarcity of coal at some point in time in the future. We're now mining the best we can get any way we can do it. We now have a requirement for the environment, the restoration of the foliage, the mountainside to its original contour. But there's no regulation; there's no cost to the preservation or the continuity of the resource.

Seltzer: Do you anticipate that being a problem? In 20 or 30 years?

Massey: It may be 100 years from now or 200 years. It will be a problem as the resource becomes scarce. Right now the resource is so plentiful that it's not a consideration.

Now the same thing was proved back 100 years ago [in West Virginia] in terms of stripping off trees, or building cabins beside streams, or the availability of tillable soil. No consideration was given to zoning in the sense that communities in Virginia have considered zoning. Nobody considered zoning because zoning was always considered in terms of flat land and allocating on a map. This was an industrial area; this was a residential area; this was a retail area. Where you've got the topography of West Virginia, there's no way that you can make those kinds of designations. So building [proceeded], and the community built haphazard[ly] along the creek bottoms. You ended up with an unmanageable hodgepodge. The solution in this more difficult topography is much more sophisticated and much more expensive than it is in flat land. As the community expands and the people expand, you've got to have an infrastructure of sewer. You've got to have an infrastructure for transportation. You've got to have an infrastructure for retail and commercial trade.

Seltzer: What if your expert with the Ph.D. from Penn State says she's looked at it and it's just too damn expensive; we can't do what we need to do?

Some say, "We really don't think that there's any way to catch up those parts of West Virginia and eastern Kentucky that are so far behind. There's nothing that can be done. The economics of the industry are such that to remain competitive there's never going to be enough money to make up the deficit." What do you do at that point?

Massey: I disagree.

Let's compare it with the Richmond, Virginia, area, which is a very lovely place to live and work. At one time, the tobacco industry was the mainstay of the economic community in Virginia. That's why Richmond was formed at the Falls of the James because that was the method of transportation of the hogsteads of tobacco to England.

You might look at the coal industry the same way in West Virginia. The coal industry has been looked at in West Virginia as if it should supply the whole economy of the state. But as we find more efficient ways of producing energy, more efficient ways to mine coal, it's [coal] going to be a less and less percentage of the total economy. It is a significant stimulus to the economics of the area, [although] it's a smaller percentage all the time. There's 40,000 miners in West Virginia now and maybe there should only be 30,000 miners. That's a tremendous stimulus to the economy. The tobacco industry was the stimulus for the Virginia economy.

The economy, in the final analysis, is based on what keeps people together in a community, what is a good place to live and learn. That to me has to be the goal that you want to achieve, make people want to live there, want to stay there. What are the factors that make a place a good place to live and work? They're the answers we're going to try to find.

Seltzer: You have something of a problem in that as coal becomes more productive, fewer people are going to be employed, if demand stays the same. If fewer people are employed, it puts a load on existing community services. It makes the community a worse place to live than if employment were steadily increasing in a fairly predictable way. The efficiencies you're making on the production side are creating problems on the community side. Do you follow what I'm saying?

Massey: The community expects that coal industry to pay the tab for everything. But West Virginia is the only state other than Washington that has a business and occupation tax. The business and occupation tax on coal provides something close to 50 percent of the income in the state. The state's learned to live on the income from coal whereas in any other community, income is normally a combination of sales tax and income tax. The income for a county is normally property tax, and property tax is practically nonexistent in West Virginia. And property values are low in West Virginia. I saw a bumper sticker the other day that said, "Come to wild, wonderful West Virginia and set your watch back 27 years!" The governor [Rockefeller] of the state touted the white water and the wilderness. Those things are beautiful and aesthetically desirable. But they don't pay any taxes. The things that do pay taxes are improvements to real estate. Therefore, improvements to real estate have to be designed in a way so that you preserve value, so that they can contribute to the tax base of the state to support community needs.

Seltzer: If West Virginia would raise its taxes on undeveloped minerals, it would put your coal company at a competitive disadvantage.

Massey: I have no objection [to that]. We want to pay our fair share of the taxes in the local area. Obviously, we are talking about apportioning that [among] minerals in the ground, improved property below the ground and improved property above the ground.

Suppose you do raise the taxes. Let's raise the taxes on improved property. What that's going to do is immediately go around and tax these "junk yards." They did have a fencing law in West Virginia. They accumulate car bodies in one place and stack up pieces of tin around it to comply with the law. It doesn't matter whether you can see over the fence as long as it's got some kind of a fence. You've got a junk yard built right next door [even if] somebody's trying to build a $100,000 home up the street. If you raise taxes on that property sooner or later that property is not earning the income to support the taxes. So what do you do? You clean it out. You tear down these old structures and revert them back to natural land to keep from having to pay these taxes. To me that's a community improvement. So an increase in taxes is shared by all of us. But it does have a beneficial effect because it clears out the unsightly, which has something to do with making a community more aesthetically desirable.

Seltzer: We're working on a slightly different angle on the question of taxes. What we're trying to do is develop a tax program that would involve all of the eastern coal-producing states, to equalize the tax burden across state lines so that no state unfairly taxes its coal industry. [Our assumption is] that competition should occur on criteria other than which state is taxing coal. We think that's a constructive way to go about it, to have an eastern coal-state compact on tax policy.

Massey: I'm 100 percent for that. Let me parallel that by saying that I hope that turns out to be a policy statement. Martha Layne Collins, governor of Kentucky, has rejuvenated a theme song we tried to adopt 20 years ago; it was called an "energy policy." All we got out of it was a bunch of environmental laws and a bunch of energy laws. We never ended up with a policy.

Now what's the difference between a policy and laws? I guess the best policies we ever had were the Ten Commandments. A lot of people said they were laws and were enforced in hell or heaven. For people who really couldn't see beyond their life span, the Ten Commandments were a policy. You looked and said, "They're a pretty good idea. I think I'll follow those because they make sense." It was left up to each individual to determine for themselves whether they're going to adopt that policy or whether they're going in some other direction. I think we have in this life too many laws and not enough policies.

We certainly find this is true in how we operate our company in parallel to that [policy] of one of our owners--Royal Dutch Shell, [which] is the second largest corporation in the world and a truly multi-national corporation. Royal Dutch Shell runs its entire corporation with policy. In other words, it doesn't hand out laws from one sector. They come up first of all with a code of ethics. They say, "Here's what we believe is ethical conduct of our business. We think this is a good policy. We commend it to your use, but you're still free to interpret this as you see fit in the community or country in which you exist." It's not an enforced penalty type of thing.

Over the years, we have evolved over the Constitution and Declaration of Independence, a system of laws that has too much legal law and too much legal regulation. We have avoided the ability to set a policy statement and leave freedom for interpretation from one area to the other.

For taxation to be uniform among Appalachian state policies, some guidelines need to be established. But again, by whom? I don't know who that would be. If you left it up to the federal government, [we] would end up with laws with penalties. The thing would have to have the flexibility of a policy.

Now getting back to Martha Layne Collins' energy policy. We hope that energy policy would be in the long range. The cleanest burning and the most easily transported fuel is gas. Therefore, natural gas should have its highest and best use in home heating because you don't have to have scrubbers or any kind of a pollution device on it. Oil is very transportable. Its highest and best use is transportation. Coal's highest and best use is in stationary power plants. That's not a law that says you have to do that, but a policy that says everything being equal, this is the way our regulations should be structured. That's what she's getting to.

Seltzer: What would you say to someone who said that smacks of public planning?

Massey: That's exactly what I'm talking about. See. Public planning is a something we don't have enough of.

Seltzer: I agree with you on that. Public planning could help this industry for exactly the same reasons you've pointed out. There's a private planning system now that consists of utilities, coal companies, brokers and railroad companies who make their arrangements, deals and contracts. It's a private planning system which exists within a framework of public regulation. It's not a very good system because a fuel like coal, which has obvious applicability to make electricity, can't be used to make electricity in a lot of cases. We use gas, oil and nuclear power in places we shouldn't be using them. I agree with you on that.

But when you talk about planning to an industry that for most of its history has been the most unregulated industry and is now probably the most regulated, people throw up their hands and say, "We've had our fill of it." When you're talking about planning [energy] demand which is talking about allocating fuels for their highest and most efficient use, you're going to get people saying, "Well, you're going to have this damn federal bureaucrat telling us who can buy what and who can buy gas." How do you resolve this sort of thing?

Massey: I disagree with the least government is the best government. If you look ahead 100 years you'll see that most needs of society are going to be needs that only government-type institutions can provide. The private sector has provided about as much in the way of automobiles, housing, television sets, computers, those kinds of individual things where each person can buy a single self-contained unit.

Let's take the federal highway program. There's not a way in the world the private sector could have provided a federal highway system. That's an example. Mass transit is something they've [the private sector] could never have been able to overcome. There's no federal mass transit. It's something that's very badly needed in the United States. The private sector has not been able to supply mass transit to the people. Looking down the road at things society will need in the future, it's things that only the government can supply. So we're probably going to need more of our income dollars diverted into the public sector rather than into the private sector.

But again, you've got to use some sense in that. What is it that the public sector does well? It certainly doesn't operate things well. It doesn't manufacture things well. But, by gosh, it sure does a good job of being impartial. For instance, the operation of the federal airways, the FAA [Federal Aviation Administration]. Think of how impartial the government is in the operation of who gets to land at LaGuardia and who doesn't. They do a beautiful job of being impartial. That's something the government does particularly well. So why not capitalize in the planning system on that. The federal government doesn't even have, as far as I know, a secretary of planning. We have a secretary for everything else, except long-range planning. We've got government that's designed in four-year increments. Maybe eight at the most. That's something that government really hasn't focused on, the long-range plan.

Long-range planning is practically a new word to corporations. Our corporation hasn't gotten out beyond a three-year plan except in the last four or five years. Now we've started planning out 10 to 15 years in the future, trying to determine our future. Take a company like IBM. It has gone so far with planning that the only future it sees for IBM is the future it can create for itself. It cannot [allow itself the luxury of simply reacting] to what might happen in the future.

Seltzer: The coal industry has generally not done well in anticipating what the future is going to be. More often, it is a victim of a future it didn't anticipate. Does the private sector in the coal industry see a planning framework as a threat? Or as something that can benefit them?

Massey: I don't know that I've had a chance to discuss that enough with other people to really get a consensus or feedback. That's one reason for devoting more time to this thing. What we want to do is get some expertise into the subject. To find some little parts of this puzzle that make universally common sense. We are now probably the largest employer in the coal industry in southern West Virginia. We've got a good public back there. Our own people can articulate some of these things. We've got influence in the circle of very fine people and friends in the industry that can articulate this. If we can find some common thread to which we all agree, we can get some of these things accomplished.

Obviously, the apathy of the "good" people in the state to be involved in politics in West Virginia is an area. One of the things we are going to have to do is to get good ol' Bill or good ol' Joe around the neck and say, "Boy, you got to run for office. The company...your area needs you. Instead of going into retirement, you need to take a turn in that legislature and feel your friends are going to support you."

Seltzer: The opposition will clearly say the coal companies are trying to rig the political system.

Massey: I'm not talking about coal companies. I'm talking about the "good" people of West Virginia, whether they run a retail business, grocery store or a coal industry. The "good" people are the ones who stay in the area. They've been successful, well-educated. They have a high level of credibility and a high code of ethics.

Seltzer: In the late 1970s, there were people in Washington and some people in the private sector who said that certain areas of the country should be earmarked as "national sacrifice areas." Do you think that's true? Do you think there are some areas where things are so bad that the most you can do is have a holding operation? You can put a Bandaid here and a Bandaid there but you can never get the quality of life to the point where you want it.

Massey: I disagree. Look right across the Tug River [into Kentucky]. The counties of Pike County [Kentucky] and Buchanan County, Virginia, are booming.

Seltzer: What's the difference between Pike County and Mingo County [West Virginia], or Pike County and McDowell County [West Virginia]? What's the variable?

Massey: In those non-West Virginia counties, people who run the mining operations have the right to run their own business, their individual free-enterprise systems. If you want me to use the word, most of them are "nonunion." They're not regulated or controlled by the United Mine Workers. In Virginia, you've got the right to determine whether you want to operate union or nonunion. If you decide to operate nonunion in Virginia, you will be protected by the public police. That is not true in West Virginia. It's only partially true in Kentucky.

In Pike County, Kentucky, the land is not in large chunks. It can only be operated by small coal mines. Small coal mines have participative type of management, participative employees irrespective of the way they work. The thing of being small, of being a family mine, everybody knows what the goals and objectives are. There is communication that we try to achieve in the larger operations. You have communication and participation in small mining operations. That's why Pike County is the largest coal-producing county in the United States, and perhaps, in the world. Yet it probably has the poorest mining coal heights and difficult mining conditions as any place there is. Because the coal is cut up in small chunks, you've got a lot of entrepreneurs of all kinds wheeling and dealing coal by every known manner and means. It's a tremendous economy. Pike County and the State of Kentucky are way ahead of the game in terms of planning. The road systems, education systems and the judiciary systems, are way ahead of West Virginia.

Seltzer: Yet, you've chosen to stay in West Virginia. You have operations in West Virginia that are making money. You haven't moved your operations to Pike County or Buchanan County as one might expect from what you just said. Why?

Massey: Because four generations of my family were born and raised in the West Virginia coal industry. My great-grandfather came over here from Wales and founded a mine off the Kanawha River on Armstrong Creek. My grandfather was a deputy sheriff in West Virginia and went to Richmond to sell coal. I was born and raised in Richmond so I never really was a West Virginian. But the family had a small mine, Mill Creek Colliery Company at Anstead, West Virginia, that never employed more than 50 men or produced more than 350 tons [per day]. That company kept three generations of my family in pretty good style. I never worked from the bottom up. I started at the top, and I've been at the top all my life. I've worked in the coal mines, but the first mine I put in, I was the mine foreman, the bookkeeper, the general manager.

Seltzer: So you've figured out a way to be profitable even in the state [West Virginia] that you see as hostile to business. Do you want to share that secret? Does it go back to those four principles?

Massey: That's the cornerstone of a "participative" arrangement with the employees. That's the word we use. The Japanese use XYZ.

Seltzer: The "Z" Theory.

Massey: We're not copying the Japanese. But we've learned the same things about dealing with human beings that they've learned. If you have total credibility, if you don't make a distinction between the classes of employees, if you don't create an adversarial position among classes of employees--they're all one and the same class and they're all on the same team--and if they all understand the objectives and the role of business--then it's not too difficult for people to work together to accomplish a great deal more. That accomplishment is so quantifiable in coal; it's measured in tons per man hour. It's very easy to understand how many tons per man hour will keep you in business and how many will make you some money. When it falls below a certain level, you're going broke in a hurry.

Seltzer: Does that "participative" model you talked about, can that be adapted to a community? [That model has you ridding] yourself of the adversarial relationship between the rich folks in town and the working folks in town, where you orchestrate cooperative ways of solving problems. Is that what you're trying to do?

Massey: I believe that it can, I believe that that's going to be the outcome of our study of the subject. We are going to come up with a communication to set policies and rank these goals as to what you want from this community, and whether its achievable. That's the answer to it. I'm working on a speech for the West Virginia Bar Association in September [1985]. I haven't really got the solution to it. I'm going to present the problems and say something has to be done about it. In terms of what can be done, that is what I'm trying to formulate right now. There's going to be a setting of responsibilities and ranking goals in a way you can see when going down that ladder. You can see what goals are achievable, and what it's going to take in terms of output to achieve them. What are going to be the inputs and outputs to do this. Obviously, in some ways it [the answer] is going to be productivity and the application and utilization of capital.

Seltzer: Which people are going to be the problem people in changing to that sort of system? Is it going to be the politicians who've always done it one way? Is it going to be local officials who've always run the show their way and don't want to change? Is it going to be management? Is it going to be the union? Is it going to be all those....

Massey: All of those things. The solution to all this is education. It's designing a system that is totally credible, that makes total economic sense. It has to work with the economic framework of what we call the free-enterprise system.

A good example: when there's no homebuilding industry to amount to anything in West Virginia. The substitute for it is house trailers. House trailers are cheap, and they're convenient. But they're, for the most part, made anywhere but southern West Virginia. The house trailer that looks good today is a slum in five years or ten years. It's a car body. There has to be some planning done into the "house trailer." The other extreme from the house trailer is the typical architecture of the West Virginia state park. Really original local architecture in the state parks is to me one of the loveliest native architectures I've ever seen. The parks were carved out of the mountains by the CCC camps in Roosevelt's era. It only dates back to the 1940s and were patterned after the stone-and-log cabin. They're gorgeous, and they're permanent. That to me is an aesthetic improvement that is native to West Virginia. It's something that can be preserved. There's pride of ownership there.

Seltzer: MACED has put together a $30 million mortgage revenue bond with banks in East Kentucky to make fixed-rate, long-term mortgage loans available to low income people. Some corporations are getting into this kind of community action. Some because they think it is the right thing to do; some, because they think they don't have any choice. People's expectations are different now than they were ten years ago, certainly 20 years ago. If corporations want a stable, non-absentee, loyal, productive work force, then certain things are going to have to be improved in those counties like roads, schools, health care. A number of companies have said that their own interest is directly involved in making things better for communities. The problem you're going to run into here is that the problem of community development is much larger than making a coal mine efficient. There are a lot more actors, and the problems are a lot more slippery.

Massey: The problem's not just West Virginia. A good example is eastern Kentucky. In Martin County, Kentucky, which is now one of the big producing counties, we were the pioneers in that area. We also pioneered something called a severance tax in Kentucky. The idea was to tax the mineral resources. The object was to put that money back into the coal communities. Somehow, it never got back. The state gets it. That was the way they ran Kentucky. That was political expediency to take that coal money and not funnel it back.

The school boards are elected positions--that's another problem--rather than appointed positions in these areas. The school board and the county raise money for the schools by trying to propose another tax on coal companies by taxing the power bill to coal companies. Our company contested that tax as being discriminatory and unfair, which it certainly was.

The problem is not whether the tax was unfair. It was the fact that the money was not getting back to get the right kind of educational system in Kentucky. Plus the fact that the positions in the school system were elective and therefore were involved in politics rather than having capable, competent educators involved. They weren't appointed by some authority. So a combination of problems results in poor education.

Our job is not to pay more money, but to see that things get straightened out there so that that educational system in Martin County can be efficient, expert and progressive. There's certainly enough money being generated in there to take care of as much education as you'd want to produce and to have a higher level of teaching.

Seltzer: Bruce Wilson of Island Creek said exactly the same thing. We talked about ways that were available to the coal industry in Kentucky to get the severance tax reallocated so that more stays in the local communities. He said it's a question of politics. There's a Democratic/Republican split and they won't cooperate. He was fairly pessimistic about the chances of the money staying in the coal counties. Do you agree? Or do you think there's some chance that Martha Layne Collins might be receptive to reallocation?

Massey: I don't know enough about the politics of that area to really have an opinion. That's why I need some expertise. We want to have an opinion. We want to get out and say what it is. We want to see if our opinion agrees with other responsible citizens of the area. If those responsible citizens have that same opinion, then we're going to get out and support efforts to do something about it.

A parallel to this thing is that the Massey family has a pool of money known as the Massey Foundation. It's my brother and I and my uncle that manage this. Although we're besieged by demands in Richmond for the Richmond Ballet, the Symphony, the churches and the Community Chest, the United Way and all of those things, we still feel the foundation money can best be [used] back in an area in which it was earned. So we're putting most of that money back into higher education in those [coal] areas because we know that's a sound investment. The biggest use of this money is going back to schools like the University of West Virginia, the University of Kentucky, VPI and smaller colleges like Beckley College and Pikeville College.

Seltzer: Would the foundation be receptive to ideas for community development?

Massey: Well, we don't know. They may be. As we get more intelligent on this subject, we may find a way that we could fund some of these programs with foundation money. You have to be very careful with foundation money. It must go to strictly charitable, non-profit organizations and not veiled, disguised, to enhance the company's interests. If education enhances the company's interest in the long run, that's so much the better. That's the way it should be.

AMAX COAL COMPANY

William Wahl, Vice President, Marketing and Strategic Planning, and Larry Gralla, Vice President, Strategic Planning

Company address: 105 S. Meridian St., P.O. Box 967, Indianapolis, Indiana 46206

Parent company: AMAX, Inc.

Backgrounds:

William Wahl: 45 years old, 16 years in the business. Mr. Wahl joined AMAX, Inc. in 1968 and moved to the Coal Division in 1976. He has also held the positions of Director of Business Development and Financial Planning, Senior Vice President, Executive Vice President, and is currently President and Chief Executive Officer. He received a B.S. in Accounting in 1961, and an MBA in Corporate Finance in 1971 from New York University.

Larry Gralla: Mr. Gralla left AMAX Coal in September, 1985.

Total number of employees (parent company):

1983-13,900 (AMAX Coal Company: 1983-4,078)

Coal production (millions of tons):

1983-40.0; 1982-38.9; 1981-35.4; 1980-40.5; 1979-34.5

Total parent company sales (in millions):

1983-$2,290; 1982-$2,415; 1981-$2,799; 1980-$2,949; 1979-$2,865

Coal sales (percentage of consolidated sales):

1983-28%; 1982-26%; 1981-18%; 1980-18%; 1979-15%

Total parent company assets (in millions):

1983-$4,448; 1982-5,090; 1981-$5,449; 1980-5,276; 1979-$3,937

Total parent company net income (loss) (in millions):

1983-($489); 1982-($390); 1981-$231; 1980-$470; 1979-$365

Message from: 1983 Annual Report "We are well aware that the Company, like others in the mining and metals industry, went through one of the most difficult years in its history--the second consecutive year of the worst economic conditions for the industry since the Great Depression." In their coal division, AMAX increased efficiency in many ways--one of which was improving labor productivity by 15 to 20% at some facilities by converting to continuous mining equipment.

Diversification: AMAX explores for, mines, refines, and sells minerals and metals with interests in coal, petroleum and natural gas. Their principal products are molybdenum, coal, iron ore, copper, lead, zinc, petroleum and natural gas, potash, phosphates, nickel, tungsten, silver, gold, magnesium, and aluminum.

AMAX COAL COMPANY

William Wahl, Vice President Marketing and Strategic Planning & Operations, and Larry Gralla, Vice President, Strategic Planning*

July 18, 1984

Seltzer:** How would you describe AMAX's philosophy of being a neighbor in the communities where you have your operations? What do you see your responsibilities being?

Wahl: I think our philosophy traditionally has been--ever since AMAX acquired Ayshire Collieries in 1969 (the predecessor company)--has been one of being, to use a cliche, "a good corporate citizen." A good citizen within the communities in which it operates.

To understand the rationale behind that you have to understand our business. We are not, and have not been historically, a spot-coal producer. Per the more traditional way some of the smaller operators in East Kentucky and Appalachia work. They get in fast with minimal capital investment. They can produce two, three or four hundred thousand tons of coal. They sell it on the spot market when the market is good. And if things don't work out they close down rather easily.

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*Larry Gralla left AMAX Coal Company in September, 1985.

**Curtis Seltzer, interviewer.

Our business has been, and is today, a capital intensive, large, basically surface-mining operation. We have two major mines in the West where the level of investment is in excess of a $100 million. And we have six surface mines in Indiana and Illinois, and all of those mines are investments in the tens of millions of dollars. Most of our business is long-term utility oriented. These contracts extend anywhere from 10 years up to 30 years, especially some of the western contracts. Our investment and our on-going involvement in local communities, is long-term and major to the nth degree, if you will.

The policy or philosophy of our company in operating in the local communities is to ensure that all of our mining practices, our reclamation practices, create minimum disruption and are done in accordance with the standards of the law and, in excess, in most cases. We comply with all general regulations, as far as reclamation is concerned.

On top of that, we participate in local communities in a lot of local service programs. We provided financial support to hospitals and fire stations. We participated in a housing complex when it appeared that housing in Gillette [Wyoming] would not be available when [mining] was really growing by leaps and bounds. This was Prospector Village, and there's another one out there. Those things were done with the attitude that the mining complex, employees, and our relationship are all interwoven. They require an on-going, positive presence and stance with respect to the local community.

Seltzer: When you negotiate a contract with a utility, do you factor those things into your costs?

Wahl: No.

Seltzer: Where does the money come from then?

Wahl: When the economics of a project are evaluated, we're looking for a certain hurdle rate of return. That rate changes according to the level of inflation, the number of projects within AMAX, Inc., as a company, that are being funded, the availability of cash, and how positive or negative the growth atmosphere is within the whole corporation. So that [the rate by itself] is not really that important.

That rate of return we look at is by and large higher than the perceived corporate cost of capital. That increment is attributed to, maybe, an element of risk over and above what the corporate cost of capital assumes. It includes unabsorbed costs associated with the overall AMAX Enterprises and certain costs, corporate costs, that are not specifically allocated to the project itself. Within those allocated costs, there are--I can't point to a specific set of numbers--but implicit within that hurdle rate of return would be corporate responsibility.

Seltzer: Is there a line in your budget? Or is there a fund? Or is there a person with total responsibility? Or does the mine manager have the say?

Wahl: Yeah. Each mine, I'm quite certain, has various programs and budget items that fit within the area of community relations or sponsorships.

We also have a general fund budgeted here for things we contribute--fire engines, fire houses, and things of that type. I don't know specifically how that is handled. When a major expenditure comes up, such as Prospector Village, that will involve a reasonably large amount of dollars, it becomes a specific capital request. That has to go through the AMAX management process. Depending upon the level of expenditure, it may go to the Board of Directors. In some of these projects there is little or no rate of return that's attributable. It's basically what we consider to be a full cost of doing business.

Seltzer: Do public utility commissions allow you to pass that cost through?

Wahl: Public utility commissions don't get involved in our cost. They get involved in the cost of the contract, or the cost of the coal.

Seltzer: For example, what happens if you have a contract with Commonwealth Edison at a certain price for your coal, and you then determine that a community needs you to invest in housing which increases the cost of your coal to Commonwealth Edison? Would a public utility commission approve that cost? Have you ever had that situation develop?

Wahl: We've never had that situation. Number one, we would not go specifically for a large expenditure to the utility and request an abnormal or extraordinary price increase based upon that expenditure. Our contracts are quite definite as to what costs we can pass through, and they are captured through the normal accounting process. The utility, in turn, passes it through its fuel-adjustment clause or rate base or whatever mechanism it's using to get good profits in. The cost is passed to the ratepayers. We have not experienced that type of an expenditure per se.

The big expenditures, such as Prospector Village, have never been allocated,as far as I know. That was an entirely separate enterprise. Anything that hit the utilities' books would wind up in the rate process. If it's a small item of G & A, it's normally picked up within our contract. If you're talking about \$10,000, \$15,000, \$20,000--when somebody's buying 3 million tons of coal, it's mills; it's nothing. That would get picked up under a general G & A recapture provision, which frankly, utility auditors don't even go to that level of detail. If they question it, and wouldn't think it would be able to get through, it would be knocked out.

Seltzer: But that's really never been an issue?

Wahl: That's never been an issue with us, with our utility customers.

In the interviews I've had with other coal company executives, the point has been made again and again that when you're in a competitive situation, despite the best intentions in the world, there is only so much money during the fiscal year to invest in activities that will not increase your profitability. There is an acknowledgment that community investment is a long-term investment, and it's in the corporation's interest to invest in the health and well-being of the community. But given a very tight market where demand is limited, where other people can supply the same quality coal, and where prices are not rising, there's only so much money that can be made available. In your situation with most of your business on long-term contracts, there's an element of insulation against competition.

Wahl: At the specific mine to the extent that it's fully or almost fully committed to a long-term contract, that's correct.

Seltzer: Does the existence of a long-term contract with the implication of a long-term investment in a particular community, does that broaden your sense of what is a sensible community investment?

Wahl: First of all, the insulation a contract provides is a legal obligation for us to supply and the customer to take. But in the real world if the spot price is $10 and our contract price is $50--we have done this with many customers, we are forced to do it to maintain the relationship, to not wind up in court--in the spirit of a long-term strategic business relationship, you have to make accommodations. Believe me, if the price gets way out of whack with the spot market or the existing contract practices, accommodations are made.

Even under a long-term contract, limited funds are available for any project, not just community relationships. We're constantly looking at our exploration dollars. How many dollars do we have to spend? How much money can we put into R & D? That's part of the management process.

The fundamental point you're driving at, however, is that any community where a mine is pretty well guaranteed to be in existence for 10, 15, or 20 years because of the existence of a contract--forgetting about whether there's more or less money available in any year--would be a further rationale for being more active in these areas. That's the way I'm attributing what you said.

Seltzer: That's the drift of it.

Wahl: I got the impression, from what you said, that you've been talking to people primarily selling on a spot basis. They are subject, not only to the changes in prices, but the absolute ability to sell coal. Those people, by and large, would probably have shorter term situations; their mines probably have shorter lives. This is not meant in a pejorative sense. People in that situation might be somewhat less inclined to look at the long-term socio-economic environment.

Gralla: It seems to me there are many other forms of contribution besides direct dollars. Being on a long-term contract doesn't insulate us from dollar outflow. But there are many needs in a community that translate to them in dollars saved, but aren't necessarily direct dollars given by our company. If you encourage your people to become involved on a volunteer basis in a community and create an atmosphere where they'll do that, it involves a little bit of company time.

I'll give you an example of that. We encourage and have a number of our people in Gillette in the Volunteer Deputy Sheriff's Program. That alleviates the need of the community to have more deputies than they might ordinarily need. Now, to the community that means [not having to spend] $20,000 or $30,000 or $35,000--whatever the salary of a sheriff would be. They don't care whether they get that in terms of manpower or in terms of dollars.

We also established, and a number of the other companies have established, donations of equipment time. They might need a grader, a seeder, a dozer, or volunteer fire fighting. Those are non-direct cash things. You've already expended for the piece of equipment. Perhaps you've got a little bit of operator time, perhaps not. Those translate into savings for the community.

Our people serve on planning commissions, industrial commissions, on any number of things that are non-cash contributions. These are not affected by being on the spot market or long-term contracts.

Wahl: Some of our people participate in cooperatives, teaching programs where you bring somebody in from business. So you're absolutely right. It doesn't necessarily have to be a contribution of real dollars. There are other ways of doing it.

Seltzer: Do people ever accuse you of throwing your weight around, of trying to set up a company town?

Gralla: That is always a risk.

Seltzer: Where do you draw the line?

Gralla: As far as we're concerned at AMAX, we have never been accused of that in the Gillette area.

In the first place, we are--and I'm going to confine a lot of my remarks to our Wyoming operations--the largest taxpayer. We are the largest employer. May I digress for a second?

We've always followed a bang-for-the-buck situation. We didn't come in with an open wallet. We came in with a, "What will be the impact on the community?" Will this dollar spent here give us more than the dollar spent over there? There are about 30,000 people in that county. We employ about 300 to 500 people. Our impact on the community is at a level where it's not corporate weight-throwing. Our people are involved in the community. Other organizations have been accused of corporate weight-throwing, but we're not one of them. Gillette is not a company town. The town of Wright, which was established south of Gillette...

Seltzer: That's Arco?

Gralla: That's right. ...is, even though they don't like to call it that. It is a company town. The Arco Company developed it. Even though they talked about having a mayor and a council, a year ago, when I left, they still didn't.

Wahl: At Gillette, and at most of our Midwest operations, there are other mines as big or almost as big right next door to us. So we're not in an isolated situation like Butte [Montana] with Anaconda, where there's one industry--copper mining--until they closed the sucker down.

Seltzer: Would you prefer it that way? Would you prefer to be in a community with a mixed economy?

Wahl: Absolutely.

Gralla: Absolutely.

Seltzer: Why?

Gralla: Really, it's not a question of preference. It's really you are or you aren't. You've got to remember that locating a mine is not like locating a manufacturing facility. You locate it where the coal is. So you don't establish whether you want a company town or you don't want a company town. The infrastructure is either there or it's not.

Most companies in my experience would prefer to stay away from a company town because of all the inherent social problems.

Wahl: It's healthier for your employees.

Gralla: That's right.

Wahl: Your level of involvement can be every bit as great, but it is not perceived as a situation where you are running the place and subject to all of the potential diatribes and bad PR that would come out of it.

Seltzer: Would you prefer to go into a green field rather than an existing community? Your operations are in the West. That was a green field in many respects.

Gralla: You've got to remember, preference has nothing to do with it.

Wahl: You go where the geology and the markets are served.

Seltzer: But if you're in charge of exploration, you might say, "We want to stay out of West Virginia. We don't want to deal with the labor problems, we don't want to deal with the deficit of social services."

Gralla: Now you're talking about something else. You're always better off to go into an area where there's an established infrastructure. First, you don't have to worry about importing a labor force. Importing a labor force means paying higher medical, higher wages, higher everything. You've got to entice people into an area. If it isn't already settled by definition, it's undesirable for some reason. If it was desirable, there would be people there already. Most of the time, though, it's a question you don't ask yourself. You go where the ore is, and if the ore is economic, that's where you go.

Wahl: Your situations in the West are, to a large degree, more green field. Gillette was at one time. Utah is basically green field. The ability to compete in certain markets is constrained because of the factors of bringing people in, of possibly having to put dollars into infrastructure. When you get into these green fields, miles from nowhere, you're also constrained by transportation. You'll find that your ability to move coal to various markets is up to one railroad, which really limits it.

Our basic view of exploration and growth is to go to an area based upon our overall view of where we think coal is going to be required now and in the future. We try to pick the best possible reserves from the standpoint of geology, mining conditions, quality and transportation characteristics, infrastructure, and put mines in there. If we identify something that is 25 or 30 miles from nowhere but meets all the prerequisites, we'd go after that.

Gralla: If it works, it works; if it doesn't, it doesn't. When you look at remote areas, there are a number of demographic, socio-economic, problems. When you move into a more populated area, you have other problems.

You have perceived impact of the operation. How people visualize strip mining. Rape or ruin of their area. You end up with the existing labor patterns. It isn't that you have more problems or fewer problems in a sparsely populated area, you have different problems.

Wahl: I don't want to make the statement that leads you to conclude that we didn't do projects solely because of local opposition, but there were some other factors. It appeared that the market might be getting a little bit soft.

Seltzer: Are you talking about Crested Butte?

Wahl: That was molybdenum; I'm talking about coal projects. There are a number of coal projects since the mid-1970s where there was some market potential but we ran into local opposition over reclamation. One in Illinois and one in Tennessee. We didn't go forward because of the opposition we saw building.

Seltzer: It was over reclamation?

Wahl: It was right around the time the strip mine law [1977] was going through Congress, or before then. In the Illinois case, it wasn't so much the question as to whether we could effectively reclaim the land. It was the proximity of the mines to the local town and the fact that this is some of the best farming land in Illinois. This was a bedroom community. There was a groundswell of people making life extremely difficult. We put the project on the back burner.

So those issues do affect what we do. If we had a gold mine, maybe. But they weren't gold mines. These projects had some viability, but they were not barn burners, so to speak.

Because of the nature of our business and the way we sell coal, we do not want to be in a community where we can expect strife and local opposition. We don't want to pay hell for 15 or 20 years just to run our business. We would like to move into communities where there is local knowledge of mining, acceptance of mining, where people are familiar with it and understand it. In most of the communities where we operate in the Midwest, this works. There are other mines in the area. They are retired miners or miners for other companies.

You're going to find the same thing in Appalachia to a greater or lesser degree. There are different problems in West Virginia, not related to the acceptance of the local community as to the pros and cons of mining. In West Virginia, it's a regulatory tax/union situation that has led a lot of people to...

Gralla: Different places, different problems.

Wahl: ...to beg away from going there from a mining standpoint. Those issues are probably of greater concern.

Seltzer: But a climate of regulatory constraints and taxation clearly affect your operation. If those regulations and tax policies are intended to force the private sector to internalize costs in the hope that the public environment and public welfare will improve, then you're saying they can drive people away from doing business in a state.

Wahl: There's a perfect example of side-by-side states--Montana and Wyoming. They were mining--about nine years ago--almost identical coals. Then, in about 1979, Montana enacted a total tax package that amounts to a little bit better than 30% in severance. Montana has not written one new major contract since that was enacted. They are still humming along at about the 30-million-tons-per-year clip.

Seltzer: ....Quality of coal? Or the railroad situation?

Gralla: No, it has nothing to do with those factors. The governor of Montana came out and said, "We do not find the exploitation of our coal consistent with the socio-economic policies of the state, and we are putting this tax on to discourage growth in the industry."

Gralla: In the intervening years, Wyoming said, "We want to encourage the use of our natural resource," because it will help the economic development of a sparsely populated state, as both states were. So what happened was Montana hummed along at about 30 million tons a year and that's about what they have now. While Wyoming has gone up to almost 100 million tons. As a consequence, Wyoming is a plus state in terms of revenue. There is no state income tax. The state property tax is ridiculously low. There is no problem with funding schools. Fortunately they've maintained realistic uses of their tax monies; they didn't go wild for the most part. So they've maintained surpluses. Whereas Montana is now currently in a hue and crying to re-evaluate their taxing policies to see if [a high severance tax is] truly in the best interests of the state.

Seltzer: Are there differences in the coal mining communities in Montana and Wyoming as a result of those tax policies that you see?

Gralla: Yes, there are. First, in one of the major mining areas [in Montana], the source of population is across the border in Wyoming.

Seltzer: Because of the tax policy?

Gralla: Yes. This is much to the chagrin of Montana. Communities there are faced with the same fiscal problems that communities in a lot of states across the country face. It's a sparsely populated state so there aren't enough monies in the rural areas for schools; there aren't enough monies for good road maintenance. As I recall now, Wyoming has about a 13% total package...

Seltzer: Severance tax?

Gralla: Severance tax. In Wyoming, that means 13% [tax rate] times almost a 100 million [tons]. That's a lot better than 30% times 30 million in Montana.

What it amounts to is they're [Montana] faced with economic problems that could have [been prevented by] what I'm going to call "enlightened development," not hog-wild development.

Wahl: I think that is the real key. And it really gets down to the fundamental purpose of this discussion. It's not just what the local company or individual companies are willing to do to support the local community. It's tied directly to [whether there is a] pro or a moderate approach to development as opposed to an anti-approach. Gillette, Wyoming, is an example of a moderate approach to coal development. It [Wyoming's total coal production] didn't get up to 300 million tons, or 200 million tons. It's been bouncing around at a little bit below 100 million tons for a number of years. Gillette, at one time, looked like a boom town with all of the associated problems. But on my last visit out there, it was much more well planned, thought-out, and under control. It looked much better in terms of the overall evolution of the community over the last two or three years because the growth has slowed down.

In the meantime, the tax base--the severance taxes, the local taxes--have been such that the community has had the revenues to do things that in a poorer environment, or in a more anti-development environment, the funds [wouldn't be] available.

Gralla: Look at the difference right here in Indiana. When I lived in Evansville, I was superintendent of reclamation for the company. I moved to a little bedroom community called Newburg. There were two real major industries in Newburg. One was Alcoa--the world's largest rolling mill located right there on the Ohio River. The other was coal mines, not just AMAX. Because of the "unenlightened" cap and tax policy, my kids were in classes that averaged 40 to 50 students in schools that were badly antiquated, understaffed and outdated. Non-effective use of the resource.

In Wyoming, my children were in this "boomtown" where a new school was being built out of general revenue funds on the order of every other year. No bonds, general revenue funds. They had classrooms of 13 to 15 students. They had all of the modern conveniences. The high school offered a flying program. The new junior high school had a planetarium. Beautiful facilities with effective, hand-in-hand use of the monies that were available. [Wyoming achieved this] by encouraging the use of all industry, in this particular case it was mining, but the oil industry was also in there. Encouraging controlled growth.

Seltzer: That raises a question that intrigues me. The statistical research that we've done suggests that communities derive most benefits when growth is stable, predictable and increasing. But the most important characteristics of growth are stability and, if not planned development, at least predictable development. This raises an interesting question. If you're [AMAX] in a town that has been following a pattern of moderate, stable, predictable growth and you suddenly get an opportunity to obtain a contract that would require you to put in a 20-million-ton-per-year mine that would overwhelm the infrastructure in that community, are you saying that you wouldn't take that order?

Gralla: No, no, no.

Wahl: Let me just say something first to put it in perspective.

Number one, 20 million tons is a Gillette situation. It is a low-ratio stripping operation [a low ration of overburden to be removed for the coal that can be recovered] where the number of people brought in is [only] 300 to 400. Unless the community is very small, you're not going to overwhelm them.

Seltzer: Not only is it the number of people, we're talking about the number of coal trains moving through the town. We're talking about a whole range of things.

Wahl: Yes, sure.

Gralla: It doesn't happen, "bang." On the first of January, there aren't 300 people and 50 coal trains moving through.

Wahl: It happens over a period of three, four, five years, something like that.

Gralla: Longer than that.

Wahl: Number two, I was not trying to look at this situation from the standpoint of what the company's policy would be. Our policy would be to go to those projects that offer a better business advantage and prospects for us. If it happens to be a situation that is in a state which is not as enlightened as Wyoming, we're going to go there if we can operate on an economic basis and socio-environmental basis that would continue for us to be a "good corporate citizen."

The point I was trying to make is that a relationship exists between the corporation's role in local community affairs--sponsors, promoters, providing funds--and the overall state or municipal environment in which it operates. Those two are related in terms of the tax structure, the planning structure, etc., whether it's a one-mine, one-town community or whether it has a larger base.

Seltzer: What would have happened had the western coal states gotten together and said, "We're going to devise a tax pattern so that everyone will, in effect, tax [coal] equally." No one will be disadvantaged or advantaged by tax policy. The basic level would have been set at 20% or 30%, a severance tax across the board.

Wahl: This comes up because certain states in the Midwest are talking about severance taxes. Illinois being a prime case. The question the locals, state government and politicians have to consider is what is going to be the effect on the mining industry itself? Its "growth" potential, and the potential for economic growth within the state.

If everybody in the West had gone to a 20% severance tax, maybe some of these issues where Wyoming picked up business that Montana would have gotten--assuming no other constraints--the development of the mining industry throughout Wyoming, Montana, Colorado might have been somewhat different.

But you have to recognize and remember that coal is basically a regional industry. We finally got that message across to some of the people who are not as knowledgeable about coal within AMAX as we are in the coal division. The region is defined by the economic distance that coal can be delivered into a power plant on a competitive cost per million Btu basis. Now that can be affected by the transportation rates individual railroads are charging. That can be affected by the pure cost of mining--the geology of the reserve and its quality. And it can be affected by state tax policy. If any state overprices its product other coals will be substituted for that product that would have been used under other conditions.

Gralla: You can tell the impact very simply. There's nothing mystic about it at all. All you do is take the location it's going to and look at the combination of transportation costs, taxes, mining costs and overhead costs. This is basically the selling price of the coal. Draw the circle out from each point of origin. You can vary those numbers any way you want and assess the effect. [Coal sales are] purely economics driven.

Seltzer: So, in other words, the higher the tax, the smaller geographic market you can tap.

Wahl: All other things being equal.

Gralla: The more you increase the cost at the mines, the less money there is. Say you've got $30 to play with. If you assume $20 of that is selling [f.o.b.] price and $10 is transportation. If each dollar translates to a 100 miles, you'll only [market to a distance of] 1,000 miles. If you make it 21, it will only go 900 miles. That is somewhat simplistic, but that's the way it works.

If Wyoming increased its taxes, the penetration of Wyoming coal in terms of distance would be shorter.

If it decreased the tax, assuming the unit could use the coal, its penetration would be farther. If Colorado, which doesn't have a particularly high tax package, decreased it, it might go a little farther. Same thing with Montana, if they decreased their severance, it might go proportionately farther.

Wahl: I don't think we should overplay this question of taxes. The absolute [tax] numbers that we're talking about are comparatively of lesser importance than are the transportation costs--the tariff structure the BN [Burlington Northern] is demanding vis-a-vis an alternate source.

The prime case of local development, if you want to look at something in terms of the impact of competing economics and delivery rates, is what's happening in the Texas Gulf area right now. They're [customers] moving into [local] lignite. It's because of the [high cost of] transportation coming out of [Wyoming's] Powder River basin. You have, in a lot of those [lignite] mines, a fair amount of infrastructure that will have to go into place. They will be mine-mouth power plants with a lot of local development. I suppose the power plants and the mines are developing pretty much out in the Texas sticks.

Seltzer: Why do you think the railroads can't figure out that their high tariffs are destroying the goose that has laid many golden eggs?

Wahl: It's almost a weakness of American business. It's been said by others--[American business] is short-term oriented. We're short-term profit maximization. We're worried about the earnings next quarter, next year. And they're not strategic. They're [railroads] opting to maximize earnings in a short-term.

Seltzer: But surely they can see that if Texas Utilities is buying Texas lignite instead of Power River Basin coal, they're going to lose money.

Wahl: This is not confined to the railroads. The individuals who are making the decisions are going to get their bonuses and their compensation on the basis of near-term results. The problems and the long-term impact might be somebody else's problem.

Gralla: Let's go back to the subject of the role of corporation in a city or town. I've been in the business now some 24 or 25 years. The role of the corporation, the awareness as they move into an area or community, is significantly different than it was even 10 years ago.

Seltzer: I was going to ask you a question about a corporate learning curve.

Gralla: A good example in the coal business is the [surface mining] Reclamation Act of 1977. It was enacted, in a large part, to cure ills that in a great majority of areas didn't exist any more. It was an attempt to make things uniform, but also an attempt to cure a lot of other things. Corporate executives are [now] more aware of what can happen. They're more sensitive to what can happen. Policies and procedures might vary a bit from company to company. The amount they do might vary from company to company. But the sensitivity is there. Nobody is about to take a major project into an area where it will have a major impact without doing long-term spadework.

Seltzer: That sensitivity is there because corporate fingers were burned once or twice in places where it wasn't there?

Gralla: What goes into a learning curve? A number of things. It can be your social awareness. It can be poor experiences. It can be advice of people in the area. It can be just the general awareness and atmosphere of the business that you find. Were people burned in certain areas? Yes. Absolutely. Are people more socially aware now? Yes. Absolutely. The days of "I'm the boss because I can beat up everybody in the department" are long gone. When that left a number of things came in and not the least of them was community social awareness. It isn't something anymore that would have to be legislated, or bullied. It's something that's going to happen because business is made of the people, people are made of citizens of the community and they know how they're going to be affected.

Wahl: In this overall area of higher education, the younger levels of management that are coming up in the corporation are more enlightened. They're better educated, from MBA schools. They're just more cognizant. Communication is more widespread, more prevalent today, and the impact of bad press is much more of an issue, more that hits the paper. Larry's absolutely correct.

There are probably some exceptions but I can't name them off the top of my head of current coal operations where there's a lot of bad PR associated with a one-mine, one-town situation.

Gralla: No, I can think....

Wahl: [Gone] are the days of the 1920s and 1930s of Appalachia. The company towns, the mystique, if you will, of the days when the exploitation and rape of the Appalachian coal fields, when some companies just went in....

Gralla: I can think of some examples outside the coal business.

Wahl: I would assume in certain situations in hardrock mining that might exist, yes.

Seltzer: What do you sense your responsibility as being when you have to close down a mine? Either because the seam plays out or the market isn't there for the product. Do you have a sense that your responsibility ends? Do you have a sense that there's some residual responsibility? How do you handle that situation?

Wahl: Well, first of all, I think our responsibility certainly doesn't end.

Number one, we certainly have, just by regulation, a responsibility to ensure that the land is restored, the facilities are removed. All of those good things happen.

Secondly, at our UMWA mines, in most cases, those people usually end up on a "panel" and have the right to wind up at one of our other mines. So in a lot of cases the people that are displaced potentially wind up working [for us] elsewhere.

Beyond that, it's the nature of the industry. This [coal] is a depletable resource. It is in the plans. To the greatest extent possible, the life of the mines is usually quite well known by both the working group and also the people who work in town. It's something that is right in the planning, in the cards. It's not a great big shock.

We have recently closed down one mine where we did have some recoverable coal where we didn't have it planned out. The economic conditions were such that we were forced to close it down because of the high cost of mining. That was a little bit premature. But because most of our mines are basically fully or partially committed for their lives on long-term contracts, when a mine opens people know that it's a 15-year, 20-year or 30-year mine. The community and individuals know what they're talking about.

Seltzer: As I understand the [tax] policy of Minnesota and Montana, part of the purpose of a severance tax is to put money into a fund so when the resource is depleted there will be alternative economic activity so communities aren't devastated when you pull out.

Gralla: That's the theory. Have you been to the towns of Anaconda or Butte?

Seltzer: Several years ago.

Gralla: Go see how the theory works.

Seltzer: What's the problem? Is it a bad theory?

Gralla: Yes.

Seltzer: Why?

Gralla: It is in this respect. The only way that money is going to work is if they can attract an alternate employer into the area. That means an alternate employer for some reason or another wants to go into that area or can be enticed into that area.

The history I've seen for the most part is that isn't the case. Those things don't exist. Butte just absolutely would not believe that Anaconda would shut down that pit. They just didn't believe it. They [Anaconda] kept saying it's going down; we're going to shut it down; it's going to happen. They [Butte] just did nothing to mitigate the impact. Those [tax] funds would help the community to down draft. I recall when we had to--I'll use the term "cata-strophically" shut down a mine--we did help the community with some things. That is social and corporate responsibility.

Seltzer: You see that as a private responsibility rather than public responsibility?

Gralla: No. I see it as a hand-in-hand situation. What I'm saying is the theory of having those funds is fine, but it isn't a sinking fund.

Wahl: I don't know whether it's hand-in-hand. I think there are certain things that have to be done when you close down a mine. When it was opened it was known to have an estimated life. If the coal is sold on a long-term contract, that life basically will be realized. It's all in the cards.

If there's a severance tax under the theory you proposed, I accept the theory as long as the funds are not diverted during the life of the facility for other purposes. The company, to the extent we indicated, has hiring policies to take care of the existing work force, to replace people at other operations. That is about as far, in my view, as a company in the real world can go. Take care of the people that were there. Look for other jobs at other mining operations. Reclaim and restore the facility. Leave it not as an eyesore. In all honesty, when you get into some of these remote hardrock situations, I don't know who the hell would ever locate any major facility in some of these places.

Gralla: That's absolutely right.

Wahl: I couldn't see anybody going to Climax, going to Henderson.

Gralla: Going to Leadville.

Wahl: So what then becomes the posture of politicians or public officials? What happens to the guy who owns the shoe store in town? How is all that managed? How are the relocation needs of the people met as the mining operation phases out? If it's a one mine, one-company town type situation, what happens there? I don't really know what you do with that situation.

Seltzer: Let me ask you a large question. The ability of any industry, in this case the coal mining industry, to have some residual available for community development depends upon market conditions and growing demand. Demand in this particular industry is finicky, and it's never been particularly kind to the private sector. What can be done at the national level to put some predictability and stability into coal demand?

Gralla: That's easy.

Wahl: I don't know whether it's that easy.

Seltzer: Well, let's hear the easy answer.

Gralla: The easy answer, in my view, is something that has been talked about, but hasn't been done. And that is a national energy policy based on indigenous sources of energy. Several studies have been made, the last not too long ago, that if we made full utilization of our resources, we could be an oil exporter instead of an oil importer.

If you went the route South Africa has gone--I'm talking about their energy industry, not of anything else--where SASOL I, II and III [coal-to-oil plants] are producing all of their hydrocarbons within the country, granted it would cost us a bit more in terms of what we lift out of our pocket. But all of that money would be spent here in the United States. We would not be exporting these dollars. It would increase our industry. It would lessen our dependence on what's going on outside our country.

Seltzer: But the economics of it aren't there.

Wahl: That's right.

Gralla: That's my point.

Seltzer: Sure, technically it could be done, but that's $60 a barrel oil.

Gralla: No, no, no: The economics are not there only from the gross dollars and cents. The total economic value of not exporting those dollars, spending them here in the United States to make a product in the United States and then putting us in a situation where we would be exporting oil and natural gas and getting cash inflow instead of the double net outflow, is the difference. That would produce a solid, predictable [demand] because of the high level of demand. As a consequence we'd be more stable.

Seltzer: Are you troubled by the opinion that some people have that that's public planning? Federal energy planning?

Wahl: These words "national energy policy" and "totally self-sufficiency" have been bandied around since the original Arab oil embargo. Frankly, in its direct sense, it's subsidization. A lot of these projects wouldn't be economic. Somebody's going to have to pay the piper sooner or later. It could conceivably make some energy-intensive industries that utilize that fuel not competitive in an international sense. You'd have to be an economic wizard to figure out where the pluses and minuses would wind up when this thing is finished. But, I don't subscribe to that.

Given the situation in the Middle East, there is an element of security that we have to be concerned about, that sooner or later we're going to have to come to grips with. But I don't subscribe to turning the whole country towards coal. I don't think that is realistic.

The thing the coal industry requires is--and it is to some degree public planning, but it's planning in its broadest sense--that is to ensure that those people who utilize coal, or are responsible for energy generation, are dealing in a consistent, regulatory, planning environment. To remove the uncertainties that continue to exist. I'm talking about the public sector, this short-term political process that makes decisions. Is there going to be an acid-rain bill? One way or the other it's going to affect the coal industry. How is OSM [Office of Surface Mining] going to be implemented? How are state-implemented programs [air pollution] going to be implemented? Is the wheeling of power to our advantage nationally? You have the people in the East who are using, in effect, a quart of oil and paying $30 a barrel because they can pass it through the fuel-adjustment clause, utilizing oil as opposed to wheeling power from [coal] plants now operating at less than capacity in the Midwest. Absolutely absurd nationally. If you take out the uncertainties of the Nuclear Regulatory Commission as to whether nuclear is going to be there or not, put that on a reasonable frame from a long-term planning standpoint, and if you remove the uncertainties for the coal consumer with respect to environmental controls, the utility executive can plan reasonably. You [must] come to grips, and this is the most fundamental issue of all, with where this economy is going. Resolve federal deficits and assume that we're going to have reasonable, somewhat predictable 3%, 4% real growth per year. If this last recession is any indication of the next one, it will even be worse from the size of the deficit if you take it to its extreme.

The demand for coal, the demand for energy, all of it ultimately is derived from the level of economic activity. If that is going up, then there'll be a demand for energy. Then the demand for energy will filter down. The various components--nuclear, oil, gas and coal--[are] based upon inter-fuel competition [which] involves decisions that individuals have to make. Those decisions [need to] be made in the framework of reasonable policies that aren't going to change with every whim or whistle. With a reasonable approach that is well thought out and is predictable.

Seltzer: But the market for fuels isn't making pro-coal decisions in the way you're talking about.

Wahl: No, but I am not necessarily referring to a pro-coal decision. You said one of the problems with our industry, I'm going back to what you said, is that it's not predictable. I'm just talking about the ups and downs. Whether the absolute level of demand increases 1% a year, 2% a year, 1/2% a year, whether it's on a 800-million-ton base or 600-million-ton base. To get to the predictability, so that companies are not subject to short-term vicissitudes that we've experienced, requires a much more stable economic environment upon which people can make choices between coal, nuclear, oil, and gas. Certainly a much more stable and predictable regulatory environment.

I go back to the mid-1970s when people thought of coal; the sky was going to be the limit. What's happened to coal in that time-frame? One, the economy went sour, completely sour. We had inflation, stagflation, whatever. Until recently, it's been a disaster, from 1977 to 1978 on. Two, utilities were building capacity they didn't need. There was no demand for the electricity and that went hand-in-hand with the [depressed] level of economic activity. And number three, there has been a tremendous amount of uncertainty about the regulatory aspects. People right now are not willing to buy high-sulfur coal on 10- or 15-year terms because they don't know what's going to happen with acid rain. If they do buy it, they'll buy it with a separate clause that gives them the right to bail out for environmental changes.

Seltzer: No one's going to invest...

Wahl: ...going to invest $100 million in a new mine without giving tremendous consideration to the risks. So, you have a completely uncertain regulatory environment on top of a very, very unstable economic situation.

Seltzer: I'm interested in how you view labor relations affecting your production. Most of the people I've been talking to have said they see the Mine Workers on the way out unless they do things to make unionized operations competitive, as productive as non-union operations. They see very little future for the sector that's unionized. Most of your operations are big strip jobs where the labor factor is significant but not to the same degree as in deep mines. How do you see that washing out?

Wahl: [Off the record remarks]

Wahl: Our large strip operations are capital and equipment intensive and less labor intensive. We have noted that even at smaller stripping operations, the work rule practices--our ability to assign a guy from one machine to another job, move him around, tell him to stay home each day--has a real material bottom-line effect on the cost of production. What's happening in certain coal fields, such as in the Midwest, is that a lot of the larger reserves that are more amenable to large surface operations, where bigger equipment could really offset featherbedding rules or lack of productivity of UMWA employees, are fast becoming depleted. The remaining reserves are shallow reserves that are much more amenable to smaller operations. A nonunion operation [in these reserves] with the flexibility he has could really beat the socks off of them [unionized operations].

Gralla: Productivity gains, by getting bigger, have just about all been eaten up. First, the big reserves where you can do that, with the exception of a few spots on the Gulf coast and lignites and sub-bituminous in the West, are gone. Not only that, but the reserves are getting thinner; they're getting deeper. You've got to move more cover. As a consequence, the amount of [cubic] yards of material you've got to move to extract a ton of coal gets to be more and more and more. The productivity gains per changes in anything other than work rules or the way you go about staffing are just about peaked out. Some automation in underground mines would be handy, robotics in that particular area. But in terms of the trucks getting bigger, the draglines getting bigger, you've just about peaked. Deposits they're going after are being depleted conventionally and rapidly.

As far as the UMWA goes, the percentage of the hourly work force, it has been going down, down, down, in all unions in the United States. The percentage of coal which the United Mine Workers and their sister unions mine has gone down, and gone down, and gone down. That evolved, but they won't disappear.

Wahl: [Off the record]

Wahl: All we're concerned about is having a responsive, qualified labor force that maximizes. We can look at the bottom line and we can look at production and say, "We're maximizing labor and capital efficiency and getting the best possible cost per ton for our product." Whether it's the UMWA way or non-union, I guess it really doesn't matter in the end.

Gralla: Labor cost per unit of production. If unit production goes up as fast as or faster than the cost of labor, the cost of labor is not a factor. It's not as big a factor as other things.

Seltzer: I'll just share with you an observation I had. I talked with Morgan Massey last week. He said the way you increase productivity now, given all the factors that you mentioned, is to change management as much as you change labor.

Wahl: Absolutely.

Seltzer: In his case, he said the way to go non-union--and his operations are non-union and almost all are in West Virginia--is to do better by his work force than the union operations. And to do different. The doing different is basically taking management out of the workplace. He goes in and says, "Here are the objectives of this mine; here are the reasons why your (the workers') interests are the same as ours; here's what you're going to get if we get productivity going up 10% a year. You tell us what you need and you do it. Meet these goals and you can do it however you want." He hired a consultant to help him devise this plan. He says it works.

Wahl: I couldn't disagree with that. We have in our company some traditional hard-line, old-time coal miners [supervisors]. You mention UMWA, they see red flags. Joe Brennan [head of the BCOA] gave a speech over the [1984] Memorial Day weekend and made the same pitch. It's as much a management responsibility, dealing effectively and getting higher productivity, as much a management responsibility as it is the UMWA. It's [union-blaming] an easy scapegoat for somebody in the operations area.

Gralla: It is more a management problem. I'll give you an example. When I was in the Midwest, I was sent to Ayrgem [a strip mine]. The problem perceived by mine management was that the union labor force for some reason was slowing down. The number of hauls they took directly to a TVA plant was lower. Productivity was way down. They didn't know the reason but the union was slowing down. The actual problem was that management had placed so many roadblocks in the way of these drivers as a result of poor mine planning that no matter how well they performed it was slow. But when you removed those roadblocks, they were right back to the productivity they should have been. There was no labor problem.

Wahl: One of our colleagues, who ran the coal company [but] who is no longer with us, was chief of engineering and did a lot of industrial engineering. We were having problems at one of mines with one of our big draglines. He went down and was measuring [boom] swing, high and low, and a lot of other factors on the operation of the dragline. He was up in the cab with the operator. He said, "I hope you don't mind if I spend some time here." You start talking about time-and-motion studies, you know the classical behavioral scientist would tell you, "Hey, you know you're going to have problems with the rank and file; everybody's scared what's going to happen." The machine operator looked at him and said, "Well, I'm glad you're here. I am glad somebody is finally taking some interest in us, to see how screwed up this place is." It goes back to what Massey said. I would venture to say within a participative democratic-management approach with the [union] rank and file or when non-union hourly employees run the show and you put them on an incentive compensation basis with little direct supervision, you probably would come out better than you would with a lot of overhead [management] in there telling them what to do. They work it out themselves. That's been the real issue in what Consol tried. I don't know whether they've been successful in putting in a bonus plan. Some type of direct participation based upon output quality.

Seltzer: The Consol bonus plans were never linked to changes in management?

Wahl: No, that's exactly right.

Seltzer: Massey said Consol now had a cooperative agreement with him. Consol is studying Massey's labor relations and Massey is studying some Consol long-wall operations. The antagonistic, adversarial relationship that developed locked people into things. Trumka [UMWA President Richard Trumka] can say, "No Backward Step" all he wants, but he's going to have to step somewhere. If he stays where he is, everybody's going to go by him.

Wahl: He's a very impressive guy. Some of our people met with him. I've seen him on TV. This first go-round is going to be tough.

Seltzer: He needs a contract that washes the first time.

Wahl: That's exactly right, or he's going to be dead. Brennan made that point. It's an interesting industry, I'll tell you.

WESTMORELAND COAL COMPANY

Charles E. Brinley, Senior Vice President, Planning and Development

Company address: 2500 Fidelity Building, Philadelphia, Pennsylvania 19109

Parent company: none

Background: 44 years old, 16 years in the coal business. From 1972 to 1978, Mr. Brinley held, at various times, the titles of Treasurer and Secretary, Vice President-Administration, and President of Westmoreland Resources, Inc. In 1978, he was elected Vice President-Eastern Operations, a position he held until his election, effective June 1, 1981, as Senior Vice President-Planning and Development. Mr. Brinley is currently Senior Vice President, Finance and Administration.

Total number of employees:

1983-3,321; 1982-3,294

Coal production (in thousand tons):

1983-12,708; 1982-12,642

Coal sales (in thousands):

1983-$549,287; 1982-$548,059; 1981-$480,291; 1980-$447,820; 1979-$385,305

Total assets (in thousands):

1983-$404,441; 1982-$401,425; 1981-$376,296; 1980-$370,448; 1979-$387,254

Total net income (loss) (in thousands)

1983-$15,287; 1982-$8,423; 1981-$(14,775); 1980-$340; 1979-$1,754

Message from 1983 Annual Report: Although most coal producers sold less coal and earned less money in 1983 than they did in 1982, "Westmoreland was able to run counter to the trend." This was attributed to a reduction in costs and improved productivity.

Diversification: Westmoreland Coal Company is engaged in the mining and preparation of steam coal sold primarily to electric utilities and metallurgical coal sold to the steel industry. They also have subsidiaries which sell coal produced by other mining companies.

WESTMORELAND COAL COMPANY

Charles E. Brinley, Senior Vice President of Planning and Development

August, 7, 1984

Seltzer:* We were just talking about a mine where you went from eight sections down to three sections after you had talked straight from the shoulder with your employees saying, "Here's the kind of effort we need to make this mine profitable." Even after giving a "valiant effort", the logistics of the mine were such that it couldn't work on a profitable basis with eight sections. How did you handle that situation with your work force? What were the effects in that community of that decision?

Brinley: It wasn't a great deal of a shock. First, we let the employees know what they were faced with. They had as much knowledge as we did about the possibilities. We didn't know how it was going to turn out when we put that challenge to them. We actually developed it with them, and they understood our numbers. But recognizing the possibility, we stopped hiring at other mines to hold spots open for the people that might be laid off when this mine would be cut back. So we were able to replace many of those people into new areas when the reduction did occur.

Another step we took was to bring the Virginia Employment Commission to the mine to work with the miners when the reduction did occur to offer their services. As required under the [UMWA] contract,

*Curtis Seltzer, interviewer.

everybody that would be laid off was encouraged to panel onto a new mine. We have had enough turnover that a good number of those people that did not immediately get placed somewhere else have since been able to get back into our work force. So it was not a severe impact. I know that some did get jobs elsewhere at smaller mining outfits. We did not communicate to Big Stone Gap or Wise County [Virginia] because we didn't know how it was going to turn out until the decision was reached.

Seltzer: When you face a decision about what to do about a mine, whether to close a section or open a new section, do you consider what the effects on community structure are? Do you consider that factor a constraint? Or do you consider it as a positive thing that will encourage you to open up a new section? How does it play into your planning?

Brinley: I don't think that we've ever had such a big reduction that it had a disastrous impact on the community. We tend to do what makes sense for the business. We've done some things to try to help the employees. We don't sit and say, "Gee, we've gotta work with the community to help ease the impact on the community." If the community came to us and said, "We want to do planning with you and we want to know the possibilities," we would work with the community. But I don't think we would go out to the community and announce we are going to have a reduction in advance on an unsolicited basis.

Our philosophy is the community has to take the lead, not the company, in community-related planning. The company will cooperate in whatever ways it can. We are not going to be, as I've seen in some communities, a company that literally runs the community.

Seltzer: How did that philosophy evolve?

Brinley: I don't know. I think it predated me. It's not one that is written down anywhere in the company. It's just one that exists.

The willingness to work with the community is something that has gradually grown in the last few years. I don't know whether it's ten, fifteen or five, because I don't know enough of the history before my time.

Seltzer: Why do you think it's grown?

Brinley: I don't know why it grew that way. I could hazard a guess just based on common sense. Wherever you have seen companies in any type of industry dominate a community, there is tremendous ill will towards that company. Even though their intentions are excellent, it's just a very negative atmosphere in the community and even in the employees' reaction toward that company.

I lived in a town in the South where that occurred. The employer tried to be a benevolent employer, but [it] affected the community so much in what it could and couldn't do.

For example, the company put in its own recreational and entertainment centers, and there were so many employees that worked for that company that there wasn't enough of a base left to warrant the community putting in its own. Therefore, only the employees of the company got the benefit. Everybody else got squeezed out because the community couldn't afford separate facilities.

It is our company's unwritten policy to encourage people to get involved, our current and retired employees, in the areas where we do business. But we want them to act as individual citizens and not as corporate representatives. They are not there to say the company wants us to do A, B or C.

I can use an example. We had two employees who were county commissioners in Wise County [Virginia] when I ran the operations. I never once communicated with them any desires or needs of the company that should be reflected in their voting as county commissioners in Wise County.

Seltzer: Do you think they knew anyway?

Brinley: I think they could use common sense. But I doubt they voted on what was important to Westmoreland Coal as an individual entity. They may have been concerned with the strength of industry in the county and its position, but we never tried to use that for the benefit of Westmoreland.

Seltzer: The answer to my question about why things changed over the last 10 or 15 years, has to do with two factors. One is that people were pushing coal companies more in the 1970s to take a different position vis-a-vis what economists call, "cost externalities"--surface mining, reclamation, mine safety, coal haulage roads, community relations, all of those things. Secondly, for the first time in 50 years, coal demand was rising and the price of coal was going up. That combination of public pressure plus an industry that looked like it was making a lot more money than it had been--certainly in the 1950s and 1960s--combined to create within the industry a different sense of responsibility for being a citizen and a neighbor. I think the things that you are describing are the consequences of those processes.

For example, four or five years ago you got involved in the southern West Virginia Coal Field Housing Project. What has been your experience with that project? Would you do it again the same way. Would you do some things differently? What has been the outcome of it?

Brinley: We thought it was an extremely worthwhile program for a number of reasons. One, we were concerned with the availability of housing for our employees. So it was self-enlightened interest if nothing else. It was worthwhile for us. We liked the aspect that it was a cooperative effort between the United Mine Workers and company management. There you have a mutually desirable goal matched with parties that ought to be working together. I believe that is now disbanded pretty much. Am I correct on that? While it made some progress, I'm not sure it ever achieved its full potential.

I would expect the decline in the coal market and the reductions [in work forces], closures of mines, were probably as harmful to it as anything, and, therefore, it didn't achieve its full potential. But we were very committed to that program.

Let me go back to something you mentioned about why the change. You were saying [there were changes in] the social demands or the roles that corporate institutions were to play--pressure was placed on them to be more concerned. Obviously, I agree with you that was made possible with the amounts of money that became available through the higher profits of the 1970s. That gave companies more money to support community activities. Also the advent of laws demanding things be done that affect communities, such as reclamation, came in the late 1970s.

But another thing that has happened is a modernization over time of management attitudes in the coal areas, and that has made some difference. Greater communication between the United Mine Workers and management--

that has helped open the atmosphere and has led indirectly to more responsible community support.

Seltzer: How has that modernization come about? Does it come about internally from within the coal company? Does it come as the result of new blood either from the oil industry or modern management schools coming into the industry? Has it come from the ranks?

Brinley: It's because times change, people turn over, new attitudes. For example, the work force--I'm not just talking about union employees--I'm talking about what their goals and aspirations are for their life have changed. I think management changes. Sometimes a little more slowly than it should, but it still changes. There are a whole spectrum of things that caused that. You named a group of them, and I'm sure there are more. What is senior management in the companies trying to achieve? What are the backgrounds of people that are put in the job in terms of education, the breadth of their view? I think it's seen that working with the changed environment is more productive than trying to work with the old one that no longer exists. All those things add up, and they build momentum.

Seltzer: One of the things I noticed when I was living in West Virginia was that the adversarial structure of the work place often carried over into the community. There was never room in a company town for disputes to cool off. There wasn't any space for things to calm down. If you got into a dispute with your section boss underground, it carried over on top at some level or another.

One of the things coal companies often tried to do was to create a different model of relations between worker and company above ground than they had underground. And it didn't work. One of the things I have been learning as I interview people like you is that improvement in community relations at some level has to start with, or be an expression of, improvement in relationships at work.

Brinley: I agree with you. That's the key to it. In the smaller towns you cannot get away from the work relationships. They are so dominant at affecting the total spectrum of relationships in and out of work environments that you have to do something about the work environment. That's where we focus a lot of our efforts.

Seltzer: What kind of objectives do you have?

Brinley: Well, you can state them in a highly sophisticated manner. Or you can state them in a simple manner. I'll try the second one. Simply stated it was a recognition that the people who worked in the mines had goals and needs. They had skills, and they had decent minds. If you could reset your management style to encourage the management in the mines to try to satisfy those people's needs, emotional needs, then you would get more out of them. That included things like more participation from labor in decisions, problem-solving, better understanding of the company's problems and how it would influence everyone's destiny.

We put in a behavioral-management program to rebalance communications between management and employees. From a very negative reaction when things were wrong...to a much more positive recognition system of the good things. It was that type of thing. Trying to upgrade the special skills of managers to try to cope with those things and not to be threatened by disagreement.

We are really trying to talk about changing the relationships between the parties to give more room to the nonmanagement work force to have input, have some say in their destiny without turning over control of the company to them. That was <u>not</u> what we were doing.

Seltzer: A lot of people have a vested interest in maintaining adversarial relations. It's the way it's always been done in a lot places. Political careers both in the company and in the union are built on being "tough" with the other side. How did you work around that? Or did you work with it?

Brinley: The biggest challenge was to get the people to open up their minds. You would never get all the people under any type of program to open their minds to see if it worked and to see examples of it working. We tried to pick some high-profile areas to accomplish this and have the people, management, start to become believers. When they saw this movement, they said "Well, maybe I'd better try this." In fact, there was some snowballing effect.

A couple months ago, I was at one of our operations and one of the management people came up to me and said, "You know when you were here, I didn't believe in what you were doing. But now that I've seen all the effects of it, I believe in it."

I think what you're talking about is conditioning through examples, creating heroes of people who have done it right. Giving them a profile by making sure the recognition systems you put in are consistent in recognizing good performance that matches what you were trying to accomplish, including management style. And not letting somebody say around the back door: "I know what he's saying, but that's not what he really wants." One manager punishing a lower manager for complying with what you [upper management] were trying to put in--[is not what we want].

When changes were first being put in, for example, I was the initiator of it, in charge of the operations. One manager would say to a lower manager, "That stuff's nonsense. We're not going to do that. And if you try to do that, I'm going to fire you." In fact, I went to some management training programs for new managers where they [lower-level managers] said, "We believe in what you're trying to do, but we want to know that we can call you when we do it and we're told we're going to get fired because we're doing what you want and not what somebody else wants."

Those are the kind of atmospheres you need to overcome. You can't do it in six months or a year. It's a few years to make a major dent. I think we were successful. We're not there all the way. No one is in our industry, but it's progressed a long way from where it was when the United Mine Workers' contract expired in 1977. That was probably the peak of the difficult times. I don't think we're the only company that has striven to make those kind of changes. A lot of the major eastern companies have tried to do those things. Each company is using slightly different strategies, but all the goals are probably about the same.

Seltzer: How much weight does the baggage of history have when you are trying to effect changes in management and in your employees? Does the fact that Westmoreland operates older mines in older communities that have been there for years--does that have an effect in the flexibility, the resilience, the willingness of people to try something new? I've run into the attitude, for example, that it is a company game. Whatever "it" is, it's a company game. Or, on the other side, what's the union up to now? Both of those attitudes, stem from terribly debilitating relationships that evolved in this century.

Brinley: Obviously, you are implying it is a problem in your observation. I agree with that.

It's easier to make changes in small units than big ones. We do have a number of larger, older mines. So--the time required to meet that challenge is probably longer than if you have a two-section mine or a one-section mine. And because we tend to have older employees who are more steeped in the traditions both ways between union and management, that made it even more difficult. There's been a lot of material written about the culture of companies. The culture in this case is the history of the relationships between management and labor as they built up. I was pleasantly surprised if you look at the "historical baggage," as you call it, as to how fast we were actually able to implement changes. I don't want to imply that we didn't try to do anything before 1978 because there were programs we put in the mid-1970s that really set a basis where this was more possible than it would have been--communication programs and that sort of thing. I was pleasantly surprised at how rapidly we were able to make progress.

One of the interesting things I observed was that older employees--I'm talking about miners now--had a great deal of loyalty to the members of management they thought were fair, honest, open people. They were very antagonistic at times to other people (management) that didn't fall into that category in their mind. We were able to use, in many cases, those people that the older people had great respect for to help initiate this change. There was a good deal more trust in getting that done with that kind of relationship than trying to do it through people that older workers might not have liked and didn't trust.

That's not to say that some of these older workers--or even the younger workers--might not have regarded the changes we were putting in suspiciously at times. That really came down to the proof of the pudding in the end. As long as we played it straight and were willing to be patient, I knew in the end it would turn out that we would have built our credibility. Credibility was almost the number one byword of anything we did. How was it going to impact on the credibility of the relationship we were trying to build?

Seltzer: How do you handle the question of productivity with your workers?

In a competitive market place, you need to be as productive as possible to maintain sales. The consequence of productivity increase is often less employment either from attrition, or from cutting sections, or from introducing new machinery that is more efficient. Over the last four or five years, as productivity has begun to rise in the coal industry, a lot of people have been laid off. Markets have been blamed. EPA has been blamed. But a solid portion of that layoff has been because of the cumulative effect of productivity increase, which is basically a helpful proposition from the private sector's point of view. From the public sector's point of view and from the people who are affected from those layoffs, it's a considerable problem. It's not likely that they are going back to work unless demand increases, which is problematical. What responsibility do you think you have as a company, if any, to handle that attrition caused by a natural, understandable, and perfectly justifiable effort to improve productivity--what kind of responsibility do you have to the people who have been working for you?

Brinley: I'm not sure I can answer that question because we never really had to handle that problem. We never had any cases where productivity gains led to reductions because of a limited market.

When we went through our temporary closures, or mine idlings, we did it essentially at those mines where there was a negative cash flow. Of the mines that were left--where they were performing far under their potential, where they had the risk of a closure if the market tightened, where the cost deterioriated or where it was borderline to operate them--we communicated with the management and the employees as to what the situation was. In many cases, they responded and are still responding with increased productivity. But we are able to sell all the coal. We are able to sell it because the quality of the products we have is right. We have developed the markets over the years for those coals. So we haven't had the circumstance you are talking about. We closed the mines that were just disasters economically and then set about [improving] the ones we had left.

Seltzer: On the basket-case mines--did you have a sense of corporate responsibility beyond the paycheck? Did anyone ever come to you and say, "Is there some way we can ease the transition?"

Brinley: I told you what we did on the reduction in that one case, and we have done similar things. We try to work with the state employment organization. But I guess if I were to tell you honestly, that falls into the category of leaving no stone unturned. There isn't a lot that those agencies can do for those people when their whole life's work has been coal mining, and they are really not interested in anything else. They don't have the training.

I'll give you an example. When we had a reduction in West Virginia, there was funding [economic assistance to unemployed workers] that you could get if you lost [markets] on account of foreign competition. We put in an application to get funding for our laid-off employees because they had been hurt by the importation of steel that led to the reductions in the coal-mining industry. We brought it to Governor Rockefeller's attention and asked for his support. His office supported the thing, and we were successful in getting that for our employees. That program provided two things. It provided higher unemployment compensation than they would have gotten from the state alone for a period of months that might have been even slightly over a year. The other thing was that it provided training funds for laid-off employees who might want to go into another area.

So within the constraints of what we knew about that program, and what is reasonably achievable in terms of that kind of support, we like to help the employees. When you have the kind of layoffs we had in the late 1978 through 1982 time-frame, there's a lot of people laid off and you feel a moral sense to try to help those people the best you can. But the company has pretty limited resources. If you didn't have limited resources, you could hang on for a little while longer. But at the time, we were facing break-even levels of profitability, so we couldn't--and I don't think we have the responsibility to--go out and fund all sorts of things beyond what we are required to do, such as unemployment compensation, or doing things like this trade program subsidy.

Seltzer: If you were sitting in the governor's office in West Virginia rather than on the 25th floor of the Fidelity Bank Building in Philadelphia, and you had an objective which would be economic and community development in the southern coal fields of West Virginia, what kinds of a programs would you do? Obviously, those programs would have to start with coal as part of your economic base. But it raises the question of other businesses that would take up the slack when coal tails off.

Brinley: You put your finger on it. The first thing we would have to look at is coal and what could you do for that. The second thing is what can you do to expand the base of employment or diversify the base.

I'm not highly knowledgeable on what Governor Rockefeller's office has done, but I know that they have tried to make efforts to do that [diversify]. Since I haven't heard a lot about it, I suspect without a lot of success. They were hurt in part by the recession, obviously. If I were him, I would do the kind of thing that they have done in Montana. They have a program there that Governor Ted Swinden is pushing called "Build Montana." He's gotten a lot of elements of the state together--business people, ranchers, and so on--in a cooperative effort to do something about it and supporting it with state funds, state regulatory people helping out, and private enterprise helping out. Now it's in its infancy stages, but there is a momentum building which is encouraging.

Seltzer: Part of what they are trying to do in Montana, as I understand it, is to take that 30% severance tax and use it to diversify the base of the communities.

Brinley: That's a part of it, but the real key probably isn't that severance tax as much as it is, first and foremost, getting the attitudinal changes in government, private industry, to pull together in a direction and create a climate. In years past, the Montana legislature talked a good game, but, in fact, it was really not encouraging people to come into the state.

In West Virginia, there are some signals that are not as favorable as other states about what they are willing and not willing to do to make it a good climate in which to do business. Whether or not it's justified, I won't argue. The important thing is what is the image outside of the state? You also have to be concerned with what are the resources they have to work with. Do they have the qualified labor? Do they have the proper tax base? Do they have the educational institutions and other things that attract industry or government? I don't know what it is for West Virginia, what it is they should do in terms of taking a particular development plan to get that done.

Seltzer: Most attempts at diversifying the economic base have not been very successful. There are a few plants here and there throughout the coal fields. The answer to most of your questions are answers that place West Virginia, the eastern part of Kentucky and southwest Virginia below the national average in terms of attractiveness to other industries. They suffer locational problems, lack of education, roads, a work force that has had a union tradition with high expectations for wages, poor banking facilities, all of that stuff.

What hasn't been tried is to take the land, coal and timber resources and get the existing private sector to help diversify those economies.

Brinley: I could take a cut at a slightly different direction, just off the top of my head. What you have in West Virginia for the most part are people who know how to mine coal. You've got coal. You've got corporations with a lot of dollars sunk in the ground that are not movable, so to speak. It is sunk costs, literally and figuratively. Where the interest of those companies might be is in building markets for a product from the things it knows how to do. If West Virginia would move in the direction of doing things that would build markets for the usage of coal, timber or chemicals, it would make it a more attractive place.

Seltzer: Are you talking about adding value to the...

Brinley: Yes, a value-added concept. Now that is easier said than done. But over a long period that would be worthwhile because you could have more stablility. What you don't want to do, in my opinion, is to take people out of the business that they know well and ask them to manage--I'm talking about the management of coal companies--and ask them to manage something they don't know. According to most studies, that results in a prescription for failure and could take the coal business with it, too. So there could be a total loss.

With the exception of the coal businesses owned by companies like Du Pont and the oil companies, you don't have the kind of financial muscle to do a lot of what you are talking about with the other coal producers. Westmoreland is basically a coal producer with a few minor business sidelights. There are others that fall in that category.

Seltzer: An ever smaller number, though.

Brinley: They are large in number because you go downhill from us in terms of size. Then you've got the small producers who make up most of the numbers. If you put all of the financial resources together, probably 80% of the financial resources available, fall in the oil companies, Du Pont and so on. But then, unless it builds markets, nothing you say or I say is going to entice a Du Pont to come to West Virginia.

Seltzer: I know what you're saying.

Brinley: There are more attractive places for them [the oil companies] to do business, looking at where they have chosen to do it. That's not a judgment I'm making; I'm looking at their judgment.

Seltzer: That may be the answer to the question of what is the future for economic development in the older coal fields of America. It may be that there is no future other than what's there. Whatever benefit there is from coal mining is what people can expect, and that's it.

Brinley: Let's address that for a minute. I think the coal business can be a better business.

Seltzer: How?

Brinley: You have to start from the standpoint that there's a coal market, and we are in a free enterprise, a free market kind of environment. Like it or not, it's a matter of national policy. So we've got to operate within it. It's an industry whose structure is less favorable than many other industry structures. It's got low entry barriers, meaning it's easy to get in. It's got high exit barriers, which makes it very hard to get out. A good deal of them [exit barriers] are a result of government regulations. There's a great deal of buyer leverage, railroad leverage. All of which makes it an industry with high risk and low profitability. It's a very fragmented industry.

To make it a better industry, it seems to me some of the structural things have to be changed, assuming you can't change the marketplace (which I don't think is going to be done in my lifetime in terms of socialized-type controls.) So you have to change the structure.

What are the things in the structure that you can change to make the industry a steadier profit per-former. The first thing you've got to be able to do--this is not in order of priorities--you've got to be able to get rid of the nonperformers, those operations that are too high cost to reliably compete. It is inherent in the coal business that there are going to be some in and out all the time, as mines mine out or costs get higher. But on balance, you should be able to maintain a less volatile work force swing.

The second area is the government regulatory area on coal. I'm not giving you a pitch on MSHA or something of that sort. I'm giving you a pitch on things that make it hard to get out of the business so that you can keep supply and demand in balance. Otherwise, we are always going to have excess supply capacity over demand for the product.

If you can change that structure--looking to government, looking to the balance between the buyers and the industry, the balance between railroads and the industry, between taxation and the industry. All those things. If you redo that structure, which would not be easy to accomplish, it would end up putting supply and demand over a period of time into a much better balance. You would end up with greater sustained profitability, which means more stability in the area where mining occurs. When that occurs, then coal is a much more stable business for the community and that's a plus for the community whether you are looking at a small community, the state, or even a region.

Seltzer: I agree absolutely with that analysis, save for one thing. One structural thing you didn't mention was a way to make demand more stable and more predictable. If that problem could be addressed, then all of the supply side things you mentioned--transportation, government regulation, improvements in technology, and the work force--are of secondary importance. They would fall into line if there was a way demand could be made more predictable.

There have been attempts over the years to make demand more predictable. In the 1930s, there was a federal attempt to do that. That tended to be more on the production side by forming marketing agencies for coal. In the 1950s, there was the private sector's attempt to limit competition to drive the small operator out of the business, to control competition from the big producer's point of view. Those things don't work anymore. They haven't been tried recently in a way that might make them work.

The industry at a national level has come out with something that resembles national energy planning as kind of a back-door attempt to get at the problem of creating stable, predictable coal demand. Part of that national energy plan talks about using coal for synthetic fuels. Another part has been to say that the federal government should require certain utilities to not burn gas, not burn imported oil and burn coal. The highest and best use for coal is to make electricity. The highest and best use for gas and oil are other things.

Whether it's a private-sector initiative or a public-sector initiative, that's the direction the public debate is going in. Some way of apportioning energy markets so that there is more predictability both to the consumer and the producer. Does that make sense to you or does that smack of socialism?

Brinley: It smacks of socialism but [as a way] to kind of open up this conversation. Like it or not, we have an economy that operates under the general philosophy of free markets, and I don't see it happening. There may be some things that introduce artificial market demands, such as happened for high-sulfur coal when the 1977 Clean Air Act Amendments required scrubbing on new plants. There may be some of those things. But I think they are temporary in effect. They may allocate certain coals to the market, but even in those markets they haven't done much to increase the stability. Even after that was in, there was still a wide fluctuation.

It's been exacerbated by the fact that so much coal is exported from the eastern United States into areas where there's growing competition. We are competing with Poland, South Africa, Australia, Great Britain, German coal, China, Colombia, and eventually Venezuela. It's going to be growing. As long as we export coal, a certain portion that goes out of the United States is going to be competing against lower-cost sources. Lower cost because of government subsidy, or because of low labor costs, or the type of mining, or a combination of them.

If it [competition] gets tough enough, then that coal's going to flood back onto the U.S. market, and it's going to drive prices down again. Then people start closing down, and eventually supply and demand come closer to balance. Or what happens is there's an external event, such as an Arab oil embargo that creates a temporary surge in the marketplace. It's inherent in the fact that coal is a commodity-type product and that it's so economically and strategically intertwined with oil, nuclear and gas, as well as world events and the world economy. Absent a very socialistic type of economy, which I don't believe will happen in my lifetime, I don't think that [public planning] will overcome those things.

Seltzer: I'm not suggesting a socialist type economy. I'm suggesting there is an increasing momentum toward public planning, particularly in energy, for the simple reason that it seems to make sense. Most of the countries in the world have some sort of national energy planning. We're the only country as far as I know that doesn't. We are edging in that direction. This is not talking about the question of ownership; socialism generally implies government ownership of producers.

Brinley: No. I mean a more controlled economy in allocation of markets. I did not mean government ownership.

Seltzer: Let me play it out on those terms. If, we had a national energy plan that said by the year 1990 in the electric utility market, we were going to be 15% nuclear, 2% oil, 5% gas, a little bit of hydro and the rest coal, that would be a goal. There would have to be a plan evolved as to how we were going to get there. Which utilities are going to burn what. What makes sense?

Brinley: Do you think that's achievable? Honestly? Practically? Do you think you will see that in your lifetime?

Seltzer: It may not be called [national energy planning]. But, yes. I think that has to come about.

Brinley: I will be very surprised.

Seltzer: My hunch is that it's in your interest that it comes about.

Brinley: Well, maybe. I'm not fighting it. I'm asking you whether it's realistic.

Seltzer: I think it's realistic because the coal industry has been the victim of its own competitive forces. It can not get rid of the excess capacity that is built into the kind of operation it is. Other fuels have consistently over the last 60 or 70 years taken markets away from coal. If that doesn't make an argument to a coal producer to say, "Gee, my interest is in having the federal government come up with a national coal policy that says by 1990 I'm going to be selling this amount of coal to this utility," I don't know what does.

Brinley: We will end this particular discussion on a note of disagreement as to our prognosis for the future.

Seltzer: I have been surprised at the number of coal executives who have said they see the same thing coming down the road. Essentially for the same reason--that it's in their long-term interest. Not to have the government own your coal company or expropriate it, that's not what I'm talking about. But it's in their [your] interest to have a fixed market. Basically, that's what a long-term contract with a utility is. There are areas for negotiation even during the term of such a contract and there are adjustments as you go along. But, as I understand it, a long-term contract with a utility means you dedicate a mine and say, "Okay, for the next 15 or 20 years we know where we are going to sell our coal, generally at what price; here's how we're going to resolve differences on costs and prices; we can predict from this contract what we are going to be doing in terms of sales."

Brinley: With a great deal more stability than playing on the spot market or the metallurgical market. That's true. Because you are dealing with a more stable buyer.

Seltzer: That's right. What makes sense at the micro level ought to make sense to the industry without trying to impose Soviet-style controls and heavy-handed bureaucracy. I'm not saying government bureaucracy is going to be any better at planning than private industry, but it recognizes that there now exists a private-planning system. Public intervention could help the public in terms of predictable power from fuels that ought to be burned for electricity.

Brinley: I have one disagreement with you that I will register. Predicting where the market will be by saying such and such percentage will be coal over different increments of time, will not, if history is any lesson, guarantee there won't be an excess of supply.

When presidents, for example, Nixon, started talking about energy independence, the industry invested a great deal of money and provided way over the capacity that was really needed. I'm afraid that is inherent in the industry now. To be effective in controlling the market in any form, you would also have to find some way to influence the capacity numbers. That's where you are going to run into the problem.

Seltzer: You might have to determine who is allowed to produce and who is not allowed to produce.

Brinley: Yes. Or regulate it some other way.

Seltzer: But there are companies that have died from regulations already.

Brinley: Well, not really.

Seltzer: Sure.

Brinley: In any event, not as much as I had thought would occur. But let's put that aside for a minute.

In the West, there are companies that would still like unlimited leasing to get their reserves. Yet there are huge excesses of capacity for the foreseeable future in the West. Very large companies are on both sides of the fence as to whether they would like to have leasing restricted or have more leasing. Even if you could devise a plan for how much western coal for each of the next five-year increments over 20 or 30 years would flow into the marketplace, you would still have companies trying to achieve lease position there, even if it was apparent their coal wasn't needed. They would think they could serve the market better, get there more cheaply, have a better product, or have a strategic opportunity that's unique to them in dealing with a buyer.

If the markets were to be controlled through allocation of energy supply under a federal plan, you have to tie it back to the production side to have it make sense. That's another point where it breaks down, why I suspect that, (a) the industry won't support it, and, (b) it won't happen.

Seltzer: And a and b are probably related.

Brinley: Yes. Sure. Then you've got another quandry that always faces people in business. You want a free-market environment. You like our economic system more or less. I'm not talking about unemployment levels. But you like the theory behind it. Yet you want protection for your industry and your business, but you don't want the other side of the coin. If you are a victim of regulation, you don't like it. But when it's to your advantage, you do like it. You can end up, therefore, taking one position on one issue and the opposite position on another issue in terms of market control. It raises a big quandry on the need for consistency. I'm sure people in business ask themselves, "Am I evidencing the integrity I ought to be evidencing to be for controls in this area and opposed in another area?"

Seltzer: Do you think that is part of the reason why eastern coal producers have not fought the importation of western coal into the eastern market to satisfy EPA regulations? Or, for example, they have not opposed a backout of nuclear power? Things that would seem to be in the benefit of people who are mining in the East?

Brinley: A number of companies in the East are also in the West. The industry tries not to shoot at itself too much because it's hard enough keeping it together. If you oppose things affecting utilities, you risk whether or not they are going to do business with you in the future. There are a lot of reasons.

Seltzer: You raised a point about how coal mining might benefit communities more in the future than in the past. We've done some research on that point. We found that indices of economic growth expressed as per capita income, family income, and wages don't necessarily translate into indices of community improvement. They're not coupled. We have some ideas why that's the case. It's in the coal industry's interest to have communities improve rather than being dumping grounds, being national sacrifice areas. So how can that link be made better? Your responsibility as an employer is to pay wages and taxes, be an ethical, responsible businessman, obey the laws.

Brinley: Provide jobs.

Seltzer: All those things. That's the traditional view, and there's nothing wrong with it. The problem is that for a whole set of reasons--there's not land available, the bank structure, etc.--there is not that translation--there's not the coupling--of wage levels to public-sector community improvement. If you are looking at it as an "input-output analysis," the input you are paying in terms of wages doesn't have the possible outputs in terms of better schools, highways, medical facilities, housing, etc. How do you deal with that?

Brinley: I'm not sure I know the reason why that exists. I think some of it is probably a cultural-type problem. Many communities you drive through do not put money into those areas just as many wage earners who have the money don't buy a nice house with a mortgage--they choose to live a different way. I don't know. Workers seem to--not all of them by any means, but enough of them that you notice when you drive around--seem to live a life that has room for a lot of contingencies. I'm not sure, but maybe that arises out of the history of the way they had to live in the past. Maybe some of that [changes with] the passage of time, a more modern society, a more modern working relationship.

I think the ups and downs of the industry, as witnessed in the last three or four years, raise a question as to what kind of fixed costs a community can build up. Or what kind of commitments it can make into the future.

The most important thing to lead to the translation you're talking about is stability. Stability of the community so it can count on funds to do those things, and for the industry so it can be profitable enough to throw back some of its money in the form of help. You are not going to get a great deal of money out of the small operators. You are probably talking about the bigger companies plus a few very community-minded small operators. But you aren't going to get a lot of money out of the latter category.

Seltzer: The problem with taxation is that if a single county, a single community, or a single state raises its tax on a particular industry, it disadvantages that industry in the marketplace.

Brinley: Yes, and that is a very significant factor.

Seltzer: Not only for people who are operating at the current time, but it affects future investment decisions. If the solution is partly money, then a way has to be devised for the burden of taxation to fall equally across an industry. That talks about a multi-state approach to taxing coal. Set up a community investment fund, for example, where everybody pays an equal share so that nobody is disadvantaged in terms of competing against the other party. Does that make sense?

Brinley: Again, I don't know whether it's a realistic political objective or even one that would fly constitutionally.

I don't know enough to know the answer to that. It certainly would fly in the face of past history.

We, as a company, are extremely concerned about competitive cost. If you don't have competitive cost, you aren't going to make it. Then all the worst things that can happen. A company in decline has to lay off employees to survive, and provides less job security. All those things translate into negatives for a community. So things that equalize costs as far as external factors go, I would think are a good idea.

The strip mine act was a great concern when I was in Montana. When I was out there, we had an extremely stringent set of regulations, relative to many other areas, and they were very expensive to follow. If you could go to the state next door and find a relatively lax set of regulations and a more favorable taxing environment, then they put Montana at a huge disadvantage. As a result, you were potentially a much less long-term, stable supplier and citizen in the community. If you can't compete and make a reasonable profit over a sustained period of time, you are going to have a very significant problem pumping capital back into your business in a particular community and remain competitive. You can't ride on the shirttails of what you did ten years ago and not reinvest capital. Your equipment will get old; you are going to become unproductive. When that happens you start going downhill.

I believe the key thing that's achievable is for all the institutions that are involved with the business to pull together to make very competitive stable, cost-efficient products so that we can compete out of this country.

Now what are the institutions? They are the railroads; the states, federal government; the industry itself--the corporations, the producers; unions, such as the United Mine Workers. It takes a lot of cooperation. If you can go that route, it's an unwritten pact that everybody has to pull together in a cooperative atmosphere. Then a lot of headway can be made.

Seltzer: What's standing in the way of doing that? If that is in everybody's interest, why hasn't it happened?

Brinley: I guess for the same reason you have in Congress; it's so difficult getting things done. Everybody in the economic system represents a different constituency with different interests.

For example, the railroads now want to see coal producers spend the capital to build [export] facilities, such as rapid-loading facilities, that will benefit the railroad in terms of better car utilization. The railroad has indicated some willingness to share the benefit of the better car utilization with the industry, but not all of it. Then you have other railroad cases where they think they can squeeze the industry down in terms of profitability, and industry will get rid of its excess capacity and only the most efficient cost producers will stay. Why should it come out of the railroad's hide when it can come out of the producer's hide? There is going to come a point where the railroads are going to have to get more efficient. But because they have this near monopolistic control over such large portions of [coal] production, they aren't forced to get more efficient until they have competition. Where there is competition between railroads, we see more aggressive rate making and more concern with cost efficiency than where they have a free ride.

Seltzer: By being the only game in town.

Brinley: Yes. The other part of that is they say, "Obviously, we have a check and balance on us because we want to keep the [coal] business from [being priced out of] the export market. To do that, we've got to restrain prices." That will become truer in the future. Right now, I think they are probably banking on the political allocations these countries are making. They know certain countries will probably buy a certain percentage of their coal needs from the United States for political reasons, stability, and so forth.

Eventually, as we see Colombia, maybe China, and eventually Venezuela come on, we are going to see the railroads getting squeezed to where they have to take some very significant steps to improve their costs and get more competitive. But I don't see that happening right now except where there is competition among the domestic railroads.

Seltzer: Most people say unionization is an impediment to productive mining practices. If that's the case, why not take the steps necessary to go nonunion?

Brinley: I'm not sure I buy that statement. I think unionization in itself isn't a permanent and necessary restraint on efficient mining practices. Historically, it has grown that way for some good reasons and some bad reasons. Over time, it can be reversed to where a lot of parties are going to have to change attitudes. It's not going to be easy. I really think it can be reversed a lot. Now whether it will be or not, I don't know. It can, if all the parties cared.

Seltzer: Is there a choice? If you were sitting in Trumka's office, what choice would you have? He has to do something different if he wants to preserve his union.

Brinley: That suggests he'd better be more flexible about doing things that will improve the efficiency of the union and preserve their viability. That's exactly why I think it can happen--why it's possible. Whether his constituency, by the time it's divided up, will permit it to happen, I don't know.

Seltzer: His internal political stuff is such that the things he would have to do to make union labor as competitive as nonunion labor are things that are politically unpopular. If he starts messing around with "past practices and customs," that steps on everybody's toes.

Brinley: I don't know how to predict this thing, because you are talking about some potentially significant change. But based on the change of attitudes I saw in the time from 1978 through 1981, when I was down in the mines, those kind of changes are possible, at least in small groups. But there has to be a much greater trust than probably exists on the institutional levels between the BCOA and UMW.

It's hard to build trust between the United Mine Workers and the portion of the industry bargaining with it. [It's hard for] a leader of the union to have confidence that work rules won't be abused. On the other hand, the industry has come a long way.

AMERICAN ELECTRIC POWER COMPANY, INC.

John E. Katlic, Senior Vice President, Fuel Supply of the Service Corporation

Company address: 1 Riverside Plaza, Columbus, Ohio 43215

Parent company: American Electric Power operates eight utility subsidiaries.

Background: 57 years old, 37 years in the coal business. Mr. Katlic joined the Service Corporation in October 1983. In his current position, he is responsible for the general management of the mining subsidiaries of the AEP systems operating utilities as well as overall fuel procurement activities. He was Executive Vice President, Engineering and Governmental Affairs, of Island Creek Coal Company from January 1981 through November 1983 and Executive Vice President, Administration, at Island Creek from November 1975 through January 1981. He is a graduate of West Virginia University and received a B.A. and M.A. in mining engineering. Mr. Katlic began his career in the mining industry in 1948 with Rochester & Pittsburgh Coal Co. He has held such positions as mine superintendent, general superintendent, senior mining engineer, vice president and general manager with Consolidation Coal Co., Eastern Associated Coal Corp., Allied Chemical, and was executive vice president of administration with Island Creek Coal Co. He has been a director of West Virginia, Kentucky, and Virginia coal associations; was chairman of the board and director at West Virginia Coal Association 1981-82. He is currently a director of the National Coal Association, the Colorado School of Mines Institute, Bituminous Coal Research, Inc., National Mine Rescue Association, and Society of Mining Engineers of AIME.

Total number of employees (parent company):

1983-24,072; 1982-24,269; 1981-26,392; 1980-26,659; 1979-25,538

Coal production:

Prior to 1983, AEP supplied about one-third of its own coal requirements. Starting in October 1983, AEP started selling or transferring their mining properties. Tons of coal mined (in thousands of tons):

1983-13,263; 1982-14,703; 1981-11,459; 1980-14,056; 1979-13,062

Total parent company sales (in thousands):

1983-$4,368,000; 1982-$4,314,000; 1981-$4,599,000; 1980-$4,536,000; 1979-$4,435,000

Coal sales: AEP used their own coal.

Total parent company assets (in thousands):

1983-$12,831,843; 1982-$12,223,786

Total parent company net income (in thousands):

1983-$427,956; 1982-$335,027; 1981-$368,279

Message from 1983 Annual Report: "The year 1983 was one to test the mettle of the American Electric Power System...."

Diversification: AEP is a public utility holding company which operates electric utility subsidiaries.

AMERICAN ELECTRIC POWER COMPANY (AEP)

John Katlic, Senior Vice President, Fuel Supply

August 17, 1984

Katlic: Buchanshire* was put in because we [Island Creek] were to have almost 3,000 workers in an area that did not have any housing. They were traveling 30, 40, 50 miles to get to work. And it was all brand new mines. Metallurgical market. Expensive mines. Good people. We needed to train them all; get them in there. Train them and keep them. But there wasn't any social infrastructure for them. Mountainous country, hard to travel.

Duncan:** Would that be Buchanan County, Virginia?

Katlic: Yes, Buchanan. It required a lot of coordination. We <u>did</u> realize we had to have a community. We realized we could not have a company town.

Seltzer: Why did you realize that?

Katlic: Because of our experience in the past.

Island Creek's roots went back to Holden [West Virginia], which was probably one of the most ideal company towns in the country. It, and one of Eastern

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*Katlic was formerly with Island Creek Coal Co. Buchanshire was a housing project Island Creek began in the late 1970s.

**Curtis Seltzer and Cynthia Duncan, interviewers.

Associated Coal's, Kopperston. The steel companies had model communities. Those were not the ones people thought about; they thought about the ones that sprung alongside a tipple, the naked light bulbs, the guys washing in the tubs in the backyards. That's the public's image of a company town.

We [Island Creek] had tried earlier in the North [Northern West Virginia] to put in communities that people would use. We would fund them. We would help them get built, then they [the miners] would buy in. We would arrange low-interest loans. But the people wouldn't come and live in them. We had a heck of a time, even with our own supervisors. But they [miners] were more mobile up in the North. They could get around. They didn't want to leave the Morgantowns and the Blacksvilles, so they didn't use ours. Two or three builders went broke even though we were carrying them. We were trying to build a house the miner could buy. I'm not putting the miner down, but the miner's idea of a house, the cost of a house, is a lot different than the [actual] cost of a house. It's one thing to be used to a trailer that you used to be able to get into for $5,000 or $6,000 and take it with you when you went. That's not what it takes to buy any kind of a house today. So his [the miner's] view of what he could afford to pay versus what it took us to build were just too far apart. They didn't sell very well.

Seltzer: Even if you were telling your miners, your hourly employees, that this was a long-term situation, even then they wouldn't invest in a house?

Katlic: No. I think it's probably an evolutionary process. It's time. And, of course, nothing has happened yet to confirm that when a fellow goes to work at a mine, that's where he is going to be able to work for 20 or 30 years. There were those times in the past with major mines. But this business is so cyclic that nobody can be certain. So there's a reason for his [a miner's] belief that, "I don't know whether I want to get hooked to this long mortgage. I may not be working here." He's not used to moving around, selling his house, buying another one.

The bankers and the financial people--they didn't stop this from happening. They were most supportive. They were prepared to loan him money. They had the low-interest money and were willing to do it. This goes back to the late 1960s; they just wouldn't buy a $15,000 house. So we had to give it up.

When I went with Island Creek we were starting this Buchanshire project. These mines were to be permanent. They were deep. They required enormous investment. They were in the heart of southwest Virginia. They were premium metallurgical coal for coking, and that market was running wild. So there was great optimism that it would work. We had to put a lot of money in it, though. The company must have expended, before I left, $15 or $16 million. That was for things you had to have to have the town. It wasn't just having the land. They had to have the state roads, water, sewage. We had to help them get all that. We had to give them seed money. Everytime we turned around, it was a quarter of a million dollars or a million dollars. But the company had the resolve that they wanted to do that, to make an attractive community for anybody, not just our miners. There was no preference. We said we have to keep this antiseptic. When we create Buchanshire, anybody can go up there and buy. The churches were interested. The hospital was interested. Everybody was interested.

I don't know how it will survive since I left. I'm not saying I'm the answer. But it takes someone keeping the thing on the table when money is short. When they say, "Why are we spending this money?" We got it through three or four of those little capital purges.

Seltzer: Hurdles.

Duncan: When you got it through, was it accepted on the basis of the social responsibility of the company?

Katlic: That was it. And the investment, the number of people. But you [I] were fighting and clawing and the fact you were an officer of the company. If you had one thing [social project] you were holding on to, they generally would let you hold on to it. You had to fight and claw, and say, "I'll give up something else."

Seltzer: Why did you choose to develop mines in that area when you knew you had to spend $15 or $16 million dollars to get it going? It would not be as productive as...

Katlic: That's where the coal is. The Lord put the coal in some odd places. We're driven to where the deposition is. And at the time steel was picking up. Japanese wanted premium coal to make coke, so you needed a premium coal. Those are the premium, low-volatile Pocahontas seams. And gradually they've disappeared too. So it required extensive investment. But the market was great. The price was great.

Seltzer: $50?

Katlic: Fifty dollars, $60, $70 a ton. In the mid-1970s, this little market anomally which got the business all hepped up, wasn't real. It was a ghost. The Japanese wouldn't take [what they said they wanted].

Seltzer: Why didn't people know that? When I was in West Virginia, I kept looking at the numbers. I saw the price going up, but the tonnage wasn't going up. I said, "This is not a boom."

Katlic: It wasn't. The Japanese fooled the American producer into believing there was more [demand] there than there was. The Americans built a lot of capacity on the basis of the Japanese telling them they would buy it. And contracting to buy it. But if your [Japenese] boats don't come, it doesn't matter. If your boat's not coming, the railroad doesn't give you permits, your mine doesn't run. It doesn't matter if you've got a contract with the Japanese. If you don't send the boats, you don't get to mine your coal, see. These breaches of contracts don't mean anything. They're written for ten, 15 years, with the rights to make up quantities that aren't delivered in a given time. So it was a case of the Japanese getting the American producer overextended. Then that capacity [orders] wasn't there.

I think this paper [refers to speech by Carl Bagge, President of the National Coal Association, "The Samurai and the Cowboy on the Road from Norfolk," at the Fourth U.S.-Japan Coal Conference, May 21, 1984] is one of the finest efforts on the part of an association [trade] to cut through a cultural barrier. You're never allowed to talk to the Orientals directly about things. It's always an embarrassment. You have to do these things with great sensitivity. The guy's putting a sword through you, you've got to be diplomatic, right? Worry about this "cultural approach" to all of these problems. The ingredients of what I'm describing are in this paper.

Duncan: Do you think Island Creek is going to run new risks with the deal in China?*

Katlic: That's a little easier. While their [the coal company's] engineering helped them, the parent company, Occidental [Petroleum] and some of its consultants, will run that project with a few Island Creek people. It'll not be an Island Creek project.

I don't think that's so risky. Because it is using a property the Chinese have and want. So it's using their own. It's a little different than if we said we'd sell them coal. I don't think that's a risk. I think it's a good project. Because it is situated to take whatever they want of the Pacific Rim market. As opposed to American coals, which have had to compete with Australia, South Africa, West Coast of Canada. We can't do it.

Seltzer: Were there no legal recourses you had in that situation [where Japanese consumers didn't buy as much coal as they had contracted for]?

Katlic: No. Mainly because they were the only game in town. You could have gone to arbitration, an international court. But they were the only customer of the future you could see, so you really weren't in a position to play hard with them. You knew a time was coming around when they can help you again with another million tons. To the American producer in the last couple of years, a million tons looked pretty good. So you don't play with those guys.

They're down investing money in Australia [coal mines] and this last one [Japanese coal buy] is really slapping the American producer because they went over and bought some coal from the Russians. "X" percentage of our GNP goes to defend shipping lanes for Japan, and they're buying from people that are [our] tacit enemies.

Seltzer: Not to mention [buying] oil in the Middle East.

Katlic: The whole thing. It's just awful.

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*Island Creek Coal, a subsidiary of Occidental Petroleum, arranged a joint venture with the Peoples' Republic of China to develop a large steam-coal mine. See interview with Bruce Wilson of Island Creek.

Seltzer: But now you're on the other side of the desk [as a coal buyer].

Katlic: I'm on the regulated side, right.

Seltzer: Does it work the same way? Do you feel you have your producers over a barrel because the market is tight? Can you pretty much write your own terms?

Katlic: Yes, it is tight. It's overcapacity. It's a buyer's market. It's the best time in the world to be sitting where I am. Except! Until a lot of these long-term contracts, which were made in times of short supply, are gone, I can't circumvent them because they have built in escalatable, indexed costs. I can't get out of them. I've got to wait as these contracts go out [expire]. I can go down to minimums, but I've got to be mindful that we made arrangements at a time when we were in short supply and they were coming out of a time when they had not recovered all of their costs. When they redid these agreements, they did a very tight job. Producers learned a lot in the last few years in this country. Because they had been hurt. They were unable to recover all the costs that were incurred--pass them through.

Seltzer: One idea we've been developing is that the ability of the coal community to benefit from coal mining often depends as much on market forces as any other factor. As a fellow who's reponsible for buying 23 or 24 million tons a year and taking another 13 or 14 million tons from captive operations, the decision may cross your desk in some way or other as to whether you are going to take five million tons of western coal this year to meet air-pollution requirements or stick with what you've got.

Katlic: It's not just some way or another. We determine that. We set that course. We decide how that happens. Some's quality, some's costs. We can decide where it comes from and do.

Seltzer: Does your historic role in a place [mining community] ever figure into that decision?

Katlic: It does, but usually negatively. It's nice to look at a producer and say, "I'm confident they can do all they say they can."

It's usually negative when you look at history. You want to see all the things that have happened that might keep this arrangement from happening. How does it affect my confidence in them, doing what they do? You expect to make an arrangement and they'll do it.

I do believe market prosperity ties in. The mine working. Those things do mean a lot to the community. There's a four-, five- or six-to-one multiplier out there. And if the mine's working, you've got a million-ton coal mine with an $80 or $90 million payroll. You've got a half a billion dollars around it. Feeding it and playing games with it. It's healthy. If it's not there, you've got zip.

It's [the market] been so erratic. It's just been so erratic that it's unpredictable. Yet if you wanted to look at stewardship of resources, values that companies have, assets..., there's a company that has millions and millions of low-volatile metallurgical coal at a time when the whole world said, "I'll kill to get this stuff."

Seltzer: You're talking about Island Creek now.

Katlic: Yeah. There had to be a special reason [for Island Creek to develop Buchanshire]. You had to say, "Look, I'm like in a zone all my own. And it's tough. I've got the best workers. I have to give them a place to live. I have to give them the ability to raise their families and be educated. And do all those things we do where we work."

Even though people today travel a lot to work, fundamentally, that's not what you want. You'd like to draw a 15- or 20-mile radius and say, "We're all right there."

It was a great gamble on their [Island Creek] part. It [building a community] has never worked in this business with the exception of the 1920s and 1930s in the classic places that you and I can look at historically. The Wheelwrights, the Stotesburies, the Kopperstons, the Keystones. They were the classic company towns by reputable companies. It was a pretty good town. Yes, you had your manager's white home up on the hill. Yes, you had a certain different structure for your foremen and supervisors. But those homes were neat as a pin, clean, painted. I know all the history. They weren't many of them [model towns]. And once those big operations went down and you started to get a lot of other people in the business and you started to go out and open up other areas, the [model company] town, the community concept, disappeared.

We [Island Creek] tried to get it back. We tried every way imaginable in two or three places, and we failed. We couldn't do it even though we wanted to. We were mindful of the fact that it had these references to the past. You had to watch the company town. Did the company want to spend a lot of money doing something that everybody [public agencies] else does [should be doing]? They did. They [Island Creek] had to struggle because those mines are not doing good. Those mines are shut down. They're working slow. The market's not there. They [community development projects] stand to have different [current] management decide it's not worth screwing around with, put it on hold. It isn't like an arm or a leg. A million or two dollars a year to keep it [the projects] going. But now people are starting to criticize the company.

Seltzer: People in that area?

Katlic: People who like to criticize coal people. Harry Caudill.* He continues to have a little article in the Lexington paper about twice a year. "By God, they said they're going to build these houses. Where are they?" Then the company gets all up tight because they're trying to keep the damn project going and he's saying, "I've looked at the record. You said you were going to have 28 houses in 1976. Where in the hell are they?" And you're trying to keep the thing going and build it right. And they've [Island Creek] spent millions of dollars. Those towns couldn't handle it; you had to help them get sewer lines and roads. And sewer plants, they didn't have plants.

Seltzer: The real variable here is the market. If the market was there, the company would invest...

Katlic: Oh sure, they wouldn't even bat an eye. They still do. There was a lot of glamour in it. It [Buchanshire] was well done. It was well designed. It was glamour. It was a successful effort in the face of never having been one since those towns I talked about. So it was the only modern, successful effort of substance that I know of. Everybody wanted me to join in saying, "Well the others ought to be doing this. You're in the front of the pack." I said, "Look, I can't do that. I'd like to stand up and say well if we're doing it,

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*A Kentucky author and critic of the coal industry.

they can.... But I can't do it, because it's not fair to them." When you look down through eastern Kentucky, you can't find a company of size spread out over these 30 or 40 miles. How do you tie them all together? There aren't communities of size. There aren't companies of size to get that kind of an effort.

Duncan: Maybe MAPCO would be the main exception to that.

Katlic: MAPCO might. But you see, MAPCO, if I had to wonder why they might not, it would be the fact that they are consciously--and spend every day of their lives--staying away from any collective activity. MAPCO's a nonunion company. They don't want anything that says they're going to deal with their people for collective reasons.

Duncan: Do you think that's because they have a temporary feeling about being there? I mean it's mysterious to me...

Katlic: No, I think it all goes back to unionism. They are so afraid that any assembly or any community identification would lead to collectiveness. They're a nonunion company. They believe they have more productivity. Their costs are lower. They benefit. They get markets. They sell. They make more money because of that. They'd be very sensitive to anything that, even though it may be social, would put more union to them.

Seltzer: If you're buying from a nonunion [supplier], would they be more productive?

Katlic: Yes.

Seltzer: Do you have any plans to go nonunion?

Katlic: That's pretty terse.

I've always been a [unionized operator]. I've been around unions all my life. I was a member myself.

They [nonunion] would be more productive. Because of work rules. We are forced to have more people on the payroll than we need. That comes through "go-to-hell" days, paid days off, graduated vacation and helpers on machines who don't have to do anything and aren't there for a purpose. [Machine helpers] got in there in 1974 [contract], and you can't get rid of them. We do have more people we have to employ than we need or to replace people who are not working. An average miner with seven to ten years has over 35 paid days off a year. Multiply a payroll and see how many extra people you've got to put on to be there when he's not.

Seltzer: Why don't you buy coal from nonunion sources?

Katlic: We buy some. But, again, we're traditionally union ourselves. Our mines are union. We buy from major companies in Appalachia, and most of the majors are union. Those roots are going to be the hardest to extract. They're right down through Appalachia. They're the original companies--the Consols, the Easterns, the Islands Creeks. It's not simple, and people tend to put coal down. Coal's a very difficult thing to handle. It is a complex item. It has varied qualities. It has enormous heritage. You cannot say this applies across the business. What I told you about Pennsylvania would not apply to West Virginia; would not apply to southwest Virginia; would not apply to West Kentucky; would not apply to Illinois or Indiana; would never apply to Wyoming or Utah. We keep saying THE coal business; THE coal miners. Even within that, there's these little clans, the culture. A guy doesn't cross a hill down there at Holden, West Virginia, and work on the other side. It isn't that there might not be a job over there, he just doesn't do it.

It's a complex business. Even though it looks crude and basic, it's not. It suffers badly from a lot of things that have nothing to do with coal. They have to do with the social structure of Appalachia and the social problems of Appalachia. The industry has been looked upon to solve social problems which most other communities in this country settle through the system of taxation, city councils and governments. You can't even go to the United States government and get approval to build the kind of town you'd build. That's why we built Buchanshire. We couldn't get HUD money because we couldn't satisfy the fundamental HUD equations of how you provide so many gallons for every person that's in this thing. That's why these people don't build it. They can't get through the morass of the government regs [regulations] set up for a city.

Seltzer: Even in the Reagan Administration?

Katlic: Well, I don't know about the Reagan Administration because there hasn't been anybody to play with. The Democrats spent it all. I don't think politics is the answer. You can't change these things in four, eight or 12 years. I'm talking about a long time.

Duncan: Are the problems that prevent these communities from becoming better places, are they topographical problems, mountain problems? Or are they problems with the way people are able to take charge?

Katlic: I'd say a little bit of both. Topographical's the toughest. It just happens to be that that's where our coal is. In the toughest places. It's enormously expensive to build a road in West Virginia or eastern Kentucky. They could build 20 miles of road here [Ohio] for what you'd build one mile of road down there. The old pork barrel says, "Ohio got $20 million so I want $20 million." They [Ohio] can cross the state [with that money], while you're down there trying to cross a hollow. There's a disproportionate evaluation of the need.

Duncan: But all those people stay there, even though the topography is rough, it's isolated and hard to support a community infrastructure. They stay because the coal industry is there. Do you think that gives the coal industry an extraordinary responsibility to the community?

Katlic: Surely, you're responsible for your employees. You want to do more for your employees than just what you're required to do. I think most do. A very few say, "I'm going to skin their ass."

I gave a safety speach at VPI [Virginia Polytechnical Institute]. They [UMWA representatives] were into this, old "Blood on the coal, boy, you'll do anything to get a ton. Boy, these guy's kill you at the drop of a hat. Shit, they don't care about you." I finally told them, "Look, if you don't think I'm humane--you think I'm business--I want to tell you, I want a safe mine. I want to take care of the miner because I'm in business. I can't afford to have him hurt. I can't jeopardize that mine. I can't blow up that coal mine. I can't use replacement people who won't produce as much. I can't have a labor strife because I worked a guy out of turn. Don't give me that. You don't want to call me humane. You want to move me over onto the business side. I want that thing [mine] as clean and as neat and as safe as it can be."

But make the laws. A Federal act took care of mine catastrophes. It did. It really jolted the business with an enormous cost. It went way overboard, but it has taken the catastrophe out of this industry. But you're down now to personal stuff [on accidents]. It's personal. It's work habits. It's personal safety. It's lifting, stumbling, tripping, bumping. You can say I'm responsible for the guy, and I am. But, by golly, when I put everything I have to train them, talk about it and tell him to help it, sooner or later he is going to have to help. His buddy is going to have to help. His union is going to have to help by running him out of there if he won't work safe and do what he's supposed to do. They'll [the union] defend him [an unsafe worker] until the mine dies. They're forced through their heritage to defend him to the death. Even though 500 guys out here aren't going to work. Those are historical [factors]. They'll gradually work their way out. Maybe their new management, their new leader will be able to bring them out of this.

Duncan: If you had a "referendum" in West Virginia and eastern Kentucky, everybody would support coal. They want to produce competitive coal because their economy depends on it. But they're limited in what they can extract from coal. Whether it's taxes or taking care of roads, particularly in both those places.

Katlic: The problems are even more severe. As you get into the mountains where you have smaller operations, the roads do take a beating because there is more coal trucked.

The states and the local governments have been fairly sensitive that they've got a bad deal, but coal is the only thing they've got. So they tried to go and get some of their monies back. Then, of course, you're playing the political game. Are you getting your money back commensurate with the amount of damage being done? Then you have to watch because if you tax too heavily they don't sell their coal. It's that old blasted circle. If you put a big severance tax on, then their coals are not competitive. A producer moves to West Virginia or Ohio.

It's complex. We can answer in principles. But it's complex. There are traditional things that are the same. The political pork-barrel approach is the same. The lack of taxation effort is the same. The cost is the same. The politician can only live on compromise and there are three or four items that cannot be compromised. He does not know how to deal with them.

Duncan: And what are those?

Katlic: Acid rain is one. Railroads are another. They [politicians] cannot deal with it. It scares them to death. It goes back to their psyche I guess. I'd deal with Tyrone Power and John Wayne. They're fairly neat. People forget that railroads crossed this country, right? Killing, looting and running through towns. My grandfather was a railroad guy. But these guys [railroads] are stealing our profits. We can't make any money.

Duncan: I can't understand why they're so much more powerful than the coal industry.

Katlic: Who can? They don't have any [justification] to get up and tell anybody they are. They haven't made a nickel since Bo was a pup. Their workers are priced out of business. They're crying about the imported steel, and they're buying imported coke. So here we are. Coal gets branded as one of the big guys. You remember back--the cigar-smoking stogy guys out of Pittsburgh. Steel, coal, railroads.

Seltzer: George Love?

Katlic: The Loves, the Irelands, the Mellons. Coal--there were some big guys in there. But coal was always at the mercy of these other guys. These other guys left them at the table because you needed somebody's money. You needed somebody to take your coal. You could haul it. You could make pretty things out of it. But you certainly did not want to have to go out there and dig it. So they left the coal guy at the table because he would do something the others didn't want to do.

The steel people. They haven't done any good. I was sympathetic for awhile. I said, "OK, after the War, you know, we'd creamed the Japanese and the Germans. We built all these new [steel] plants. What's happened for 35 years? Coke making, nice alibi, huh. I [a steel company] can't afford to build coke plants. I can't afford the environmental requirements and all that crap." I just refuse to believe the American worker cannot out produce anybody in the world. He always has. When he's put to it. When he has confidence in his management.

Seltzer: Coal is an industry that, in some ways, has done what people think Americans ought to do by copying the Japanese. You have pushed technology as hard as you can. You're more productive than any other country.

Katlic: Have you ever heard them say that anybody in this world out produces the Americans in coal? You're on to it.

Seltzer: You've applied the R & D. Productivity, after that temporary dip in the 1970s, is going up. It is likely to keep going up through better management, better technology, better cooperation with your workers. The joker in that, if you're looking at it from a community point of view and in terms of employment, is that as you increase productivity, you need fewer workers to produce the same number of tons. If demand for electricity is more or less stable over the next ten or 15 years, as the efficiency of your generating plants increases, as the productivity of your mine increases, it is perfectly likely that people are going to be continued to be laid off in the eastern coal fields. That's a problem. It's not a problem from your [production] end as much as it's a problem from the perspective of community development.

Katlic: It's surprising though. It is a problem for us because of our traditional relationships. Also, we [utilities] can't just burn homogenous [coal] quality. Every plant we have, every boiler is designed for different qualities. There's that great mix that we have to play with.

There has never, never been a time in the coal business when there was not enough production to satisfy all the market would take--1974 included. Even in the wars. There has never been a time in our business--track the data all the way back--when there was not enough market for all of production. It has always been a competitive, hard-nosed, competitive business. From day one.

Now, producers spoiled people, along with the utilities, by letting them believe it [mining] was a lot easier than it was. We did that through productivity, which the union under John L. Lewis, recognized. He put no restriction on mechanization. He said, "I'll charge you [operators] so much a ton." That had vision. If he hadn't, you'd have zip people, and he wouldn't have had any blasted support [money] for his pensions, his retirements and hospitalization. He was smart enough to say, "Cents per ton." But he had to say to his guys, "We must recognize productivity and we must help it happen." He left us mechanized. We went through these big changes in equipment. We went from conventional to continuous miners, to, now, longwalls.

Outside, they went to big surface mining equipment and better drag lines.

Coal operators weren't able to benefit from these things. These were just keeping you in the business. Over here [1969] you had a Federal Act that added $4 [a ton] for safety. You had a Surface Mining Act [1977] that added $2 for reclamation. You had a major union reformation where they zimzammed through two or three presidents who couldn't even wipe their tails. They took their union straight down. Nobody with any vision. All of this added another three or four bucks a ton for those shenanigans. Meanwhile, you're losing productivity, deep. But, you're raising it, surface. So the country thinks you're hanging on. But you're not hanging on; you're dropping. You're losing your tail, going from 20 to nine [tons per worker per shift] on deep while you were going to 20 to 50 on surface. Now you've got to go out West and say, "Hey, you can't look at the [eastern cost] equation with the West." Those guys are out there with about 50 feet of cover and 200 feet of coal and big machines that take a hundred yards every time they dip. They give the coal away. That's not the real world.

Now the deep mine productivity has turned back up to around 12 to 15. But surface, after the [regulations] went after their tail, they're kicked down to about 25.

The business looks like it's just barely improved [overall] in productivity. But it hasn't. It's taken enormous improvement to satisfy everything that's been thrown at this business [after 1969] and do it right. American coals are carrying social responsibility that no place else in the world carries. There are a lot in this country who may think we should do more. But I want to tell you, compared to the rest of the world we're saints. But from that standpoint, though, we're not competitive. We are performing on a world basis on a higher social level than any industry, but we can't sell our product because of it. Can't sell it off the coast of the United States. When you finally use all the training and all the people to get to a position where you can try to influence these things, then maybe you can.

Let's look at the United States. I said you can't export because the Japanese played games. We didn't have ports. We went to the East Coast and they [Japanese] said, "You fellows don't have enough port capacity. We have big demurrage. We're in trouble." When I say East Coast, I'm talking about potential markets for Appalachia. You can't send West Virginia coal down to Mobile. You can't get it out West. They're worried that western coals are going to come back and get them, right?

Seltzer: They are.

Katlic: To a slight degree.

Seltzer: Fifty million tons moved across the [Mississippi] River a few years ago. If acid rain legislation is passed, you're going to have a lot more western coal moving East.

Katlic: That's a whole new game.

Let's talk about western coal. The railroads are the killers. Western coal has about 9,000 British thermal units versus 13 back here. They've got heavy moisture, even though they're low ash and sulfur. What you pay for is cents per million Btus. For every ton coming back here you got to have a ton and a half [of western coal] to match the thermal efficiency of eastern coals, albeit their sulfur and ash are better. And you're hauling water. Western coal has 15-20% water. I've got to haul two tons of western coal to replace one ton of eastern coal. The railroad's saying, "Oh, boy, I love this."

Let me give you a corollary or two. Eighty-five percent of the coal that's mined in the West will be consumed in the West, west of the Mississippi. They're never going to continue bringing low-sulfur, low-ash crap into the South [east of the Mississippi] because Exxon's ready to bang Colombian coal that can get clear up the river and into a station off of West Virginia at 200 cents per million [Btu]. They've run it out. They've got their people playing with it. Now we're going to be looking at Colombian coal that took the one grand little bit of daylight these Appalachian producers had.

Met [metallurgical] coal demand is flat. Met in this country has always been flat because the steel companies ran their own. The only way a commercial played [sold metallurgical coal] would be to give them whatever when they were running flat out. They've never taken anything [bought much coal] from the commercials. It [commercial coal] had to go off the coast. So it went up with the Japanese. Steam's [exports] rising, but steam dropped off. Why? Australia. South Africa. And now Colombia. Plus the world economy. All these countries are tracking our economy. They will pick up; they will come back. Now we'll get one more piece of the domestic equation. We have to know these things. What I tell you is what I base my judgment on. We're the largest consumer of coal in the United States.

Duncan: Would you buy that Exxon coal from Colombia? You would be in a position where you'd have a choice.

Katlic: I don't think I would. Now someone might come up to me with a gun and say, "You must buy it."

Duncan: Like the PSC [Public Service Commission]?

Katlic: If it were the cheapest coal I could buy, I'd still have a problem with it. Just from the standpoint of some of these other things we've talking about. I will not buy from somebody who does not have a good safety record?

Duncan: Why? What would you lose if you bought from someone who has a bad [safety] record? You John Katlic; you AEP.

Katlic: We are a regulated business. We are chartered by the citizens and the public. We do have a responsibility that goes beyond a standard company. That may sound hokey. We should buy from people who do a good record environmentally, who have a good labor record, who have a good safety record.

Duncan: Do you get credit for that? How does it play out?

Katlic: No.

Seltzer: Is that your policy or a company policy?

Katlic: It's our management's. There's nothing written. Nobody's written this down and says, "Thou shalt." It's our people. It's a management philosophy. It's mine.

Duncan: Doesn't it cost you more to do that?

Katlic: Yes it does. There's where we have problems. This system of being a regulated business [public utility]. We must get acceptance of our rates and increases, our fuel costs, by commissions, citizens panels, public service commissions. They do not generally recognize why we should pay one cent more when you can get it somewhere else.

One example is these [long-term] contracts we talked about which are built with traditional companies. They [contracts] support big long-range operations. But in a period of overcapacity, we've had an awful lot of distress coal coming at us that we could buy for five or six dollars a ton on a given day.

We are criticized by [peoplc] saying, "Why do you run your own operations?" "Why do you buy affiliate coal?" "Why do you deal with a Consol or Eastern, when you could be buying on the spot market for five dollars less?" And we'd say, "You don't understand." We are seldom able to recover our costs [at our own operations]. And in fact, we had to walk away [close down mines] in southern West Virginia. We had to give up three or four properties because they [utility regulators] will not let us recover more than the spot-market price. And the power company [American Electric Power], which owns the coal company that I run, cannot make a return on its investment. So we sold them [the mines].

Seltzer: But you're still planning to buy coal from Eastern, Ashland, and...

Katlic: Yes. But I'm not going to go out in front of the public service commission.

Seltzer: Can they run it more efficiently than you?

Katlic: These companies [purchasers of AEP's mines] want to deal. They were willing to give us a contract which was better than what we ourselves were doing. For that 15 years, [the term of the new contract], it will reflect an enormous savings to the citizens. It will get us out of the criticism of doing those things.

Some of it has more to do than with just public service commissions. It has to do with certain states, which have a different heritage. West Virginia has certainly been a tougher climate in which to operate than Virginia. Kentucky has always been fairly good, but it has differences East and West. They still out produce West Virginia because they have always been a little more liberal with the business. People might critcize that. Well, you're coal in Kentucky, do what you want. If you're a horse in Lexington, you do what you want, too.

I would be very sensitive to external sources [of energy] because I have seen what happened to this country oil-wise. My sympathy certainly does not go to South Africa or Columbia. I just talked about American coals carrying social responsibilities of social welfare, retirement, hospital plans, safety, environment, reclamation. Regardless of activists out there that think we don't do all the things they'd like. They're looking for maybe purity. I want to tell you this business does a class-ass A job. We spend our lives doing it. That's a burden we face, and they [foreign coal suppliers] don't. I would not be comfortable buying coal from outside this country. Even if it could come up the Mississippi and deliver to our plants cheaper than I could produce it, I wouldn't be comfortable doing it. I'd fight it.

Duncan: Isn't there that same kind of difference between small and large operators within the Appalachian region? Some of the larger producers are going to be both more stable and better about safety.

Katlic: Yes. But they [larger mines] are not making it because the very nature of mining says they must carry different costs and their time is longer. The Federal [surface-mining reclamation] law has made it tougher because you must have permits. You must put the land back right. You must get bonding. But there's still a sort of a gypsy [operator] that can play around those things. He gets in and out quick. He doesn't have an investment. He doesn't have to sustain ten miles of haul roads. He doesn't have to sustain a $30 million preparation facility. He can get in and out.

Duncan: Aren't those the guys that are offering you these spot-market coals?

Katlic: Yes.

Duncan: Can't you say that to the PSC, say, "Look..."

Katlic: We've tried. We have a responsibility. I'm just learning it because I've only been here about a year. I came from the merchant's [coal-producing] side. But I don't see any difference in it [the sense of responsibility] as far as what your job is to do. I can see more restraints upon them [utilities] doing their jobs, because of these public commissions. We must go in front of citizens and say, "I've done right." The management check off. If I was with an Island Creek or Consol [private coal suppliers], they [public critics] might criticize me. But unless they got my boss really ticked and unless he changed his entire style of management, he knew I was doing what I could do with the resources I had. The public doesn't have that tolerance.

Duncan: Do you think that the public service commission and its constituency force the coal industry and the coal fields to absorb more external costs because they favor tight competition, in the same way that railroads benefited from competition at the turn of the century?

Katlic: They already are.

Duncan: What can be done about that?

Katlic: I think it has to come from the other side. It'll never come from our side. We can get better at what we do. We can answer properly. We can continue to show that our judgment was as good as it could be. We are doing the right things for the right reason over a long time.

Duncan: Are you speaking as a utility now or as coal?

Katlic: As a utility who faces that all the time.

The kind of people that end up on these commissions--or are visible enough that the public believes they'll do a job--are not usually that middle-of-the roader who's ready to say, "I'm looking at both sides." He doesn't have our [industry's] side. He goes into it with the idea that I'm not doing the right job. That we are charging the citizens too much. That we are not good managers, and therefore the citizen is paying for something. He goes into it with that attitude. It's a prejudicial environment, and we [the utility] are not going to change that. The citizens have to change it. The citizens can't change it. For them to change it, they've got to admit they're ready to accept more costs every month. I don't know if they're ready.

Now we get into a whole new social look. Coal production leaves a residue where you mine it. A lot of people benefit from our product without taking the leavings. You [coal consumers] are buying chicken [clean coal]. You're not buying feathers, or cackles or combs. Somewhere back there, they had to clean the chicken yard, get rid of the feathers, drain the place, pretty it up and haul the grain. With coal, it's the same way. We mine it. We've got to worry about the spoil [preparation-plant wastes, mine wastes, overburden]. We've got to worry about the rough terrain, drainage and reclamation. People [electricity customers] have been spoiled by saying, "I'll plug the damn thing in and it's always there. It's cheap, and it's good." They don't know about [all the problems in getting coal mined and delivered to the power plant]. These people [consumers of electricity] do not want to pay for this [cost internalizations in the coal fields]. They don't believe they should. I don't know how we'll ever solve that. That goes way beyond a businessman. Right?

If it were costs, pure costs, we wouldn't even be talking. Because coal, one ton of coal, could give you three or four barrels of oil, of energy on a cost basis. Coal would be selling for $150 a ton [if it were selling at an oil price equivalent]. My God, we could gold plate the tipple. So if it were costs, on the basis of cents per million Btu, versus oil, we wouldn't be in a fight. [Coal would win.] So that doesn't answer it. You say, "Well, gee, aren't there values to having an indigenous fuel?" We keep worrying about the Arabs in the Mideast, and we're sitting on top of 300 years of coal. Everybody would love to have it. We've got the best miners. We've got the best managers. There's not going to be any major changes. No surprises. We've got the infrastructure. Why wouldn't we be using it?

Seltzer: If you were writing a national energy policy to make coal the cornerstone of America's fuel mix, how would you require the country to burn more coal? Should we have a national energy plan that says, "You [certain consumers] burn coal and you [certain suppliers] produce it"?

Katlic: This is tough. Years ago they did have an energy plan which said, "You shall convert. You will do it over a period of time." They gave them a lot of time, probably too much

Seltzer: Which plan was this?

Katlic: The first Clean Air Act says, "You will convert."

A lot of this may just be understanding people [management] who would then make their people do things. Conversion will be driven by two reasons. Either you'll be mandated to convert or the cost will be right. I've already said it isn't the cost. The cost of coal is a bargain. One-third the price [of oil]. But to retrofit your little plant [with scrubbers] and comply with the Clean Air Act requirements, you say, "Ah, hell. I can't do [afford] it." So a lot of plants won't make [convert] it. The Clean Air Act says any new plant built since 1977 has to put out pristine air. There's no problem with new plants. The old plants also have controls. They have to meet standards, and they're meeting them.*

But there's an element in the country that's not satisfied that you're meeting legitmate Congressionally passed air standards. They can't stand it. Why can't they stand it. What's the impatience? Congress passed the Clean Air Act. It's working even with growth. We're burning 85% more coal. We reduced our emissions 25%. What's wrong?

Seltzer: I think the answer to your question is that we're learning more about the problems you have when you burn coal. When Congress passed the Clean Air Act it didn't have the level of understanding we have now. Not to say that we have perfect knowledge.

Katlic: Yes, we have more.

Seltzer: We just know more.

Katlic: We do know more.

Seltzer: That's the problem. If we had known then what we know now, we might have had different standards. You're caught in the middle.

Katlic: Yes. I think they've spread these [sulfur-removal] technologies around too far. We never want to say, "Let's pick one." How can we keep going? There's limited resources. This pork barrel stuff. Geez, who's got enough clout? Who has got enough leadership in Congress, the Senate, or the Presidency to say, "We can't keep doing this, [changing air-pollution emission standards]." We just keep dragging this, and dragging this and dragging this and we're not any further to it. One of the people in the coal business said, "Yes, five dollars a million Btus [is] a heavy price to pay."** Five dollars is a heavy price. What is it

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*Older plants are required to meet lower SO_2 emission standards than newer plants.

**Current prices range from 100 to 225 cents per million Btu, depending on quality.

[price of steam coal] out there now? It won't be long. Another ten years and it'll be there.

We couldn't recognize South Africa. We don't have relationships there. The Sasol project [a synthetic oil plant that uses coal as a feedstock] is over there. They've done two or three of these. It goes back to the Lurgi process, goes back to Fluor. It's functioning. They've built their third one.

Seltzer: But it's competitive for two reasons: it's based on cheap labor, and they don't have a choice. They need an alternative [to imported oil].

Katlic: They don't have an alternative fuel. But what are our choices? Hell. Drive over past Ashland, Kentucky, to the H-Coal [a synthetic fuel] plant. It worked.

Seltzer: If there's a market in this country, why doesn't the market drive it [use of coal to replace oil]?

Katlic: I don't know. Coal never fits the market equations versus other fuels. It does on its own, but not with other fuels. It does not compete with other fuels.

Seltzer: It's one-third cheaper than oil.

Katlic: And it will not move. Right. It's a puzzling situation.

Seltzer: All right. If you were Secretary of Energy, would you write a national energy plan that says, "Utilities burn coal?"

Katlic: No.

Seltzer: All new capacity is to be coal fired.

Katlic: That would be one way. But there isn't any [planned new] capacity so that wouldn't solve the dilemma either.

We bought a year of conservation. Remember three or four years ago. You actually had a little bit of negative growth in the electrical business. When we went through switch your lights off, do things efficiently. There was a year of about 8% conservation. The country did a hell of a job. You only do that one time though. You only save all you've been wasting one time. You don't continue to conserve 8% every year. You can do it once. You can't sustain it.

Instead of these meteoric 7% or 8% growth rates [GNP, and growth in the consumption of electricity], people are now cautiously saying, "I think three, two-and-a-half, three percent." That's fairly slow isn't it? Two or three percent, if you could be confident it is real and goes on for the next 20 years is fairly respectable growth. The people in my business, the electrical business, say GNP and energy consumption track each other like they're glued all through the last decade or two.

Seltzer: I'm not sure they're coupled in the future.

Katlic: I don't know either. But up till now, they have.

We're back, of course, to the same old thing with oil. As long as oil is selling for $20 a barrel, nobody's going to convert [to coal].

When I was with Island Creek, I thought we had some innovative management. I think they're gone now. We said we've got to develop a market for our low-vol coal. But there's no steel market. How could we get it in a boiler when its very nature is not having volatility? It has high Btus, low sulfur, low ash. God, it's great stuff. It grinds so soft, and it doesn't have any volatility. Maybe if we mixed it with oil, which has high volatility. So we went with coal-oil mixtures. Government has done a lot of that. We built a plant in Jacksonville. Built it ourselves. We hit it with ultrasonic sound. It settles out. We worked pretty hard and developed a little plant that would make a million barrels a year so we could put coal in the boilers. We had enough money in the dingle to give the guy a nice return on his investent and pay for his retrofit. The application was fairly easy. Kilns, you know. We tried it in one of Oxy's boilers. It did pretty good. The price of oil was around $30. Oh boy, people's eyes were gleaming because look at this return on investment. Look at this compensation. Then that son-of-a-bitchin' oil went down to $10 a barrel. Our thing went into mothballs. Nobody would talk to us. It didn't matter how good it was. Didn't matter [national] dependency. Didn't matter that the boogey man would be back. You tend to get a little jaundiced after awhile. You say, "Geez, these guys didn't even want a free lunch." It's tough, and it's going to be tougher. The ones [coal suppliers] that survive are going to be good.

The myth of the little guy [small coal operator]--we came up against this when we were talking about slurry [pipelines] transportation. We wanted alternatives. Hell, I wouldn't build a pipeline. Who could? But we wanted railroads to know we had an alternative. Oh, my God, they came up there [to Congressional hearings] with guys in wheel chairs, the railroad pensioners. The little coal operator would never get his coal out because this [slurry pipeline] would be a big volume deal. I'm thinking, "Aw shoot. The little guy doesn't send his three or four cars out of the hollow like he used to." He now deals with a guy who says, "I'll build a nice [preparation] plant down here at the junction. You bring your coal to me, I'll take it. Don't you worry about it." When you go down those hollows, you no longer see a little guy with a little siding and two or three cars. You'll see him trucking to a guy who's picking up off four or five of these guys and they're darn happy to do it. They want to be able to say, "I took my coal down there. I didn't make a killing. But he took it. He's cleaning it. He's selling it."

That's the nature of the business. The real little guy has had it anyhow. From historical American traditional sense you hate to see little guys bumped out of it. He's out there, but he's out there feeding a Consolidation, a central handler.

Seltzer: Are you buying 10% of your coal off the spot market? From the little guys?

Katlic: This year we probably have. But only because we've had to beef up our inventories in anticipation of a work stoppage [1984 UMWA strike]. Normally, it isn't that high. We've been criticized for it. We were not able to take advantage of the [lower spot-market] prices.

Seltzer: We've asked other producers about their contracts. They generally say if a [utility] customer says the spot market is $10 less, they're going to make an adjustment even though they're not legally required to.

Katlic: That's right.

Seltzer: That's because they want to keep your business?

Katlic: It depends on who they are. You'd have to look at each one of those. We'd hate to say that is generally true because we have arrangements to go to minimums [tonnage orders] in our agreements. We can make some arrangements through acceleration of volumes. But it's not simple with a long-term contract of substance.

There was a time when the other side [utilities] took a beating. If we make an agreement, it's important for us to stay fairly close to it because they could expect us to do things we might not be able to. We're set by our conditions. We don't have the luxury of making judgments. When we have a contract, I can't give them a dollar more than the contract just because he's in trouble and the business is bad. They'll [public utility commissions] take my skin and not give me the dollar. He's [supplier] the only one that knows what he can mine it for and what his costs are.

Seltzer: Does that mean that it would be in AEP's interest to buy all of its coal on the market?

Katlic: We can't.

Seltzer: No, not the spot market. I mean not have any captive operations.

Katlic: That goes back to my personal philosophy about strategy. We have eased up on what we control internally from about 14 or 15 million tons to about 12 or 13. I'm building it back up. We're going to 15 million tons, but we'll do it with fewer mines. We'll do it in places that like us. Those places being southern Ohio, central Ohio, around Fairmont. Large-scale mines where we are an employer of substance, where the community likes us and will listen to us. And our people will do a good job. I think AEP's demand for coal is too big, to rely entirely on the commercial world to provide our needs.

Duncan: Your own little security.

Katlic: We already have these mines. The capital is invested. They're dedicated. They're plugged into the plants. Delivered costs are getting better. We're getting very competitive. We need to know what's going on in the mining business. And the only way you know what's really going on is to be in it yourself--the costs, the effect of the laws, the lobbying, the association concerns--you need to be a part of the business, a presence in the business. Since coal is the current fuel in our system, we need to influence the actions of the business because it goes right through to our rates. From those standpoints, my goal is to keep about 25% in hand. Of the outside [purchases], maybe three quarters, long-term, versus 25% spot. I think that will be very healthy.

We're keeping our own transportation. We've got substantial barging. We have 25 tow boats, 800 barges. We do [get] better rates [on barging coal] than the outside world. I intend to keep that close because the railroads were given the right to buy American Commercial Barge Lines. And what did the ICC [Interstate Commerce Commission say, "Why, we won't bother them. There's so much competition on the river [Ohio-Mississippi], we won't bother them." You got to get coal to the river. Who sets the rates from point A to B on the river? The railroad. Where would you go if you were the Chessie? Would you not go to your own [barge lines] rather than somebody else's? And nobody's going to make them go to another barge because the ICC belongs to them. This is so naive. It gets so ludicrous you don't even get mad. It's Will Rogers: the ICC never met a railroad it didn't like. They're the Will Rogers of the transportation world.

Seltzer: Speaking of things you don't like, talk to me about acid rain.

Katlic: Oh boy, that's my favorite subject. It's not acid rain, it's "half-assed" rain. It sounds like I meant it. What do you want to know about acid rain?

Duncan: What's your prediction about it?

Katlic: Acid rain is an example of what I was talking about before. The Clean Air Act, passed by Congress, is working. The air is cleaner and we have growth. We're burning more coal and emitting less. What's the impatience? Why would you want to change a system which is growing and in which the air is improving? Why would you say, "I think we ought to reduce this [sulfur-oxide emissions] another ten or 15 million [tons]." Is the world going to hell in a basket? Is paint coming off cars? Are people dying? What is this problem when you're not sure? If you spend $100 million and don't improve the health of the people, then what are you going to do? Are you going to say, "Ah jeez, I wonder what it really is?

Now that I know more about what it takes to run power plants, I have a problem. If somebody says to put a box [scrubber] on a stack and that'll take care of it [SO_2 emissions], I know it's not that simple. Boilers are made to burn different kinds of coal. It isn't a question of just putting in a low-sulfur ton. It isn't a question of how much power it takes to run a precipitator, or whether you can dispose of a pile of [scrubber] sludge. You may not be solving the problem people think exists--if it is a problem in the first place.

People say acid rain's bad. First, all rain is acidic--slightly acidic. No legitimate technical group of the last 200 or 300 the government has asked has been able to cite a cause and effect and a source with accuracy. Out of 200 or 300. Not people that AEP's hired. I'm talking government, intercouncil, interagency task force. 300.

What's the problem with these lakes? Fish dying in these lakes. They find out that out of the 250 lakes, 206 are in New York. Four percent of the lakes' surface area in the state of New York has an acid problem. The people [companies] that have forests, they aren't sure what's causing it. Whether it's the air, whether it's not having stuff on the forest floor. What the hell it is. Even people that cut wood for a living are not ready to cite acid rain as a problem causing forest damage. Now are we willing to put a burden on this public? The citizens of this country have limited resources. They have already gotten their 98% cleanliness. What causes acid rain? Automobile exhaust, catalytic convertors, smelters, coal from the Midwest, air currents? What's it doing? I don't know. But I'm patient enough to try to wait three or four years to find out before I commit the company's money or the country's money to it. <u>That</u>'s what bothers me about acid rain. It's not that at the end of five years, they might say, "By God, the Midwest is a dirty bastard and clean it up!"

Seltzer: Three years down the road, let's say they come up with that conclusion.

Katlic: Then you gotta do it.

Seltzer: How's that going to effect AEP?

Katlic: AEP will look at its 30 stations. We already know what we put out.

Seltzer: Are you going to have to shut down a couple?

Katlic: Yes. Not just a couple. We will not retrofit quite a few of these plants.

Seltzer: How would you meet a ten-million-ton [sulfur oxide] reduction target?

Katlic: I don't know. The company knows. I don't know. I know what the emissions are. They know the capabilities. Some plants would fall, would not survive. They would put the boxes on others. We'll meet any standard. But it isn't a question of whether it's a coal-burning plant from the Midwest. New York's problem may not be this AEP plant that has to put a box on. They may force us to put boxes on that may still not cure New York's problem. Acid rain may not be caused by what people think it is.

Duncan: But if they do pass legislation, you're in a bind. You've got 25% of your coal coming from high-sulfur coal in southern Ohio and you're going to...

Katlic: No. Those mines are OK because the bulk of our burn is high-sulfur coal. Our problem is to maintain our supply and our quality with our higher sulfur Ohio coals. That's why you see Ohio people [politicians] opting for emissions [controls]. They think if they opt for controls we'll have to put boxes on and burn higher sulfur coal from Ohio. But it isn't as simple as that. It has to do with boiler design. It has to do with ash handling and removal, sludge, boiler efficiencies, and heat. It isn't as simple as saying, "Yep."

Seltzer: In other words, you still may be buying low-sulfur coal from the West even if you have to put on scrubbers?

Katlic: Some, sure.

Seltzer: So the spillover [benefit to Ohio producers from acid-rain legislation] may not materialize.

Katlic: I'll give you a good example. Why wouldn't the people in the high-sulfur business be the ones that would like to see this happen the most?

Seltzer: What's the answer?

Katlic: They're not pushing for it. Are they doing it just to be sensitive to their customer's concerns? Or are they smart enough to realize that may not be the way they're going to survive it? Power plants still need quality.

Congress gave standards for new plants. These old plants have 20 and 30 years on them. They're not going to make it anyhow. The Clean Air Act knew we would do the best we can with these old plants, trying to pull the pounds [sulfur] down. You do that through the quality [of coal] you burn and improving the efficiency of the boilers. Some of the old plants are already gone. We're leveling two or three now. You bring these new big guns on board. They're good, big new units. They're heavy, got lots of capacity. We know how to run them. They're picking up the load. So, it [the SO_2 problem] is taking care of itself. It's doing it through plant attrition rather than throwing the baby out with the bath water.

This country has always been sensitive to letting every jock stand up on a box and be heard. The guy stands up and says, "I don't care what 300 government agencies say, we've got a problem." And everybody says, "Oh, geez. What's the matter here?" We're paying these [research] guys billions of dollars. National Academy of Science--this isn't me. And one guy doesn't like it. So everybody says, "We got a problem." Some little guy up there in New York on CBS's "60 Minutes" says, "I don't catch any fish here. I been fishing this little pond for 40 years." The son of bitch is fished out is what it is. He's sitting on a boat and honest to God, the pond's no bigger than my room. He says, "I just don't understand. I don't catch them big ones like I used to." That son of a bitch, "60 Minutes" is giving him full glare.

We'll do what we have to do. The biggest fallacy in the country would be to confuse acid rain with the Clean Air Act. They are not after the same goals. There's an effort by those who have been unable to modify the Clean Air Act to use acid rain to get back into the hen house. That's a mistake. Acid rain has nothing to do with the Clean Air Act.

Seltzer: There are two problems if they pass acid-rain legislation. One, it's a big hassle for you. Second, it costs a lot of money.

Katlic: Who's going to pay for it?

Seltzer: That's the question. I'm assuming that some legislation is going to be passed at some point whether you like it or not, whether it's right or not. My hunch is it's going to happen.

Katlic: A hundred billion dollars up front! A hundred billion dollars!

Seltzer: That's retrofitting. That's putting boxes on a lot of plants. You don't want the cost spread on your shareholders. You want to spread as little as possible on your rate payers. It's fair to ask the people who benefit, that is the people who are downstream from the plants, to pay some of it.

It's also probably fair to ask the taxpayers, the general taxpayer, to pay some. If the costs are spread, does that affect your position on the issue--rather than have you eat it all?

Katlic: It doesn't really affect it at all. If a thousand people say a foolish thing, it's still a foolish thing. It doesn't make it right in the use of a resource. It is not right to spend resources when you're not sure what you're doing. You're not sure if it's going to cure it, if it's going to be helpful. It may not be. I don't care if all 200 million people kick in a buck versus the people in the Midwest or the State of New York. It doesn't change my thinking at all. As a businessman, it would help pay for this crazy thing, but it's not right.

Duncan: If it happens, it's not going to change who you buy coal from? Is that what you're saying?

Katlic: Well, it might. It doesn't change our contracts that much. But we could burn a lower quality coal. See our supplies are out there washing high-sulfur coal for us now. We do some washing of our own. We size it, we screen it, and we crush it to get some sulfur out. We reduce the ash and moisture. We beneficiate [sic] the product. Commercial operators are giving us a pretty competitive price after they've washed it. [Acid-rain legislation that requires scrubber retrofit and a percentage removal standard may encourage] us to buy it off them raw. No more washing. That might help the social problems in Appalachia because they wouldn't have to throw as much away. Railroads would like it because they'd be hauling more rock. They like that. But over here where we're burning the stuff, we're going to have ballfields full of sludge. We're going to have to go to different ways of handling our refuse.

Seltzer: How close are you on fluidized bed?

Katlic: Pretty close. This company's been pushing the pressurized [fluidized bed] and injecting limestone. Now this is where we do have pluses. Rather than putting a box on a stack or trying to stop you from ever using the stuff, we're onto the combustion process itself. Fluidized bed combustion. Limestone injection. They're getting better. The pressurized fluidized bed looks good.

Seltzer: If legislation would pass in the next year or two, would you be just as likely to go with a fluidized bed on a 1,000 megawatt plant?

Katlic: On some of these plants I'm sure. I'm not sure if it's far enough along to do it that big. But legislation would accelerate development.

But they may not let you have that option. See, the same blasted crazy people that mandate these things don't like to give you options. This has always been a criticism of the Clean Air Act. They gave you a standard, but they told us we had to burn this kind of coal or do that kind of a thing. Why should they do that? As long as the SO_2 comes out of the stack the way Congress said [emissions were controlled], what do you care how I'm doing it? Right?

Seltzer: They didn't want the industry to shift totally to the West. That was a political thing.

Katlic: The marketplace normally takes care of itself. The cat cleans itself. You should not play with the marketplace. I really believe that. These things will generally find their levels and their places. Western coal is not coming back here. It won't come back here because you just can't transport two or three times the quantity of anything. I don't care how good you are.

Seltzer: You said you shouldn't mess with the market. I remember the Rockefeller Commission, which you appeared in front of, came out with a recommendation--although no one asked them for it--that 110 boilers ought to be converted to oil. That's monkeying with the market.

Katlic: Yeah. I know. That isn't us. Rockefeller is not a businessman, for crying out loud. He was trying to do something for West Virginia. I told him--this was the first time we started talking about overcapacity--"With all due respect, if you improve labor relations and productivity, you've got a problem." He said, "Well, what do you mean?" I said, "We've got 15% overcapacity now." "What do you mean?" [he said]. That's why you had an ex-Secretary of Labor [Willard] Wirtz [convene] a special committee. He said, "Young man, you mentioned 15% overcapacity. When could this industry get another 100 million tons of coal a year?" I said, "Monday." He said, "Maybe you didn't hear me. I said a 100 million tons." I said, "Monday, it could be going out of the coal fields at a rate of a 100 million tons a year graded. Monday, if the market will take it."

Seltzer: Inefficiently though.

Katlic: But very quickly. We did a lot of studies on this in Island Creek. We developed a "demonstrated capacity" program. Our prime case was not what people were telling the government they were going to build, could be on line or planning. Our data base was how much coal was actually shipped out of each area over a six-week period. We could tell you at any given time what the "demonstrated capacity" was in a given region by types of coals, regions, and everything. If it [overcapacity] fell under 10%, you could get more money. Nobody would blink an eye. If it was 15%, you really clawed and scraped and better play tough. The day she fell under 10% you [a producer] could go in and say, "Look, I can give you that, but by God, I need another buck." The customer would say, "Ok, Ok, just get it to me." Producers didn't have to fight at all. We were sitting back there calculating the demonstrated excess capacity and we had it too. "Demonstrated capacity" is not what they're telling the Bureau of Mines or the government that they're going to build, on the drawing boards; it's in their capital plan. Nineteen million tons came out in one of those weeks. Multiply 19 by 52 and what do you get? That's close to a billion tons. No big stock-piles. They worked those down. People were stocking the stations now. This business has 1992 production capability in place as we sit here today. That means tough business.

Seltzer: If all that coal came on to market, the price of coal would fall...

Katlic: No. Because coal has to go to a limited amount of inventory on the customer's side, and it must be hauled. So customers play with giving you permits, letting you haul on their schedules. It's an interest-ing business--very misunderstood. It's a sophisticated business that could give a GE, IBM, or General Motors some lessons.

Duncan: Is it "newly" sophisticated in the last ten years?

Katlic: I think within the last 15. The oils, the chemicals, the utilities--they've put a business touch on us. We had been just hard-nosed production people. But think about it. If you can bring the tough street kid and make him smart in business, by God, that's pretty good, isn't it? That's what we've done in the coal business. We've taken street fighters and made smart-assed business people out of them.

Seltzer: Why doesn't the coal industry through its trade association lobby Congress to phase out nuclear power as a way of increasing coal consumption?

Katlic: I have to sit here and gulp. My chairman will take my head off.

Seltzer: You only have one nuclear...

Katlic: And it's a fine, well-run plant. We don't say much about it because we're afraid somebody will realize how good it is. Be that as it may, [since I was] part of the decision-making and the strategy setting of four or five major companies in the last 20 years, I think I can answer that. I think there is consistency as to why.

Coal's prime customers are the generators of electricity. Eighty-five percent of the coal consumed in the United States is by someone who generates electricity. He wants to generate in several different ways, and he doesn't want to be told how. I agree completely. Whether he does it with coal, nuclear or hydro, he is your prime customer. You want to work hard and persuade him that coal is the way and all that, but don't tell him how to do his business. He likes coal. He burns a lot of it. He likes some nuclear, and he's having a hell of a time.

Seltzer: So even though it would be in the self-interest of coal producers to say sell more...

Katlic: Sell more. It's going to happen itself. It's like Chinese gonorrhea. You're not going to have to cut it off; in three or four weeks, it's going to fall off. The markets, the citizens and the do-gooders. You think coal's having trouble, boy, have they taken the nuclears apart. It's a shame. The country needs some nuclear energy. There are some places that need nuclear energy. Those plants sit there, albeit high capital, but very neat and trim, functional and banging power.

Seltzer: But coal is cheaper?

Katlic: Coal's cheaper to build. But not cheaper once it's on the line.

Seltzer: I've seen it costed out in any number of ways.

Katlic: Depends, I guess, on how you do cost it. Up front, nuclear is more capital intensive. Once it's on line, it runs with not much attention. ...Lot more attention now. Coal is a cheaper plant to build, but takes more labor and handling and providing. So you trade off those things. The value of money. Your ability to get it and all of that.

It's almost a moot point at this stage. Who's going to let anybody complete a nuclear plant? If you did, who's going to permit him? Who would be crazy enough as a chief officer to go to his board and say I want to build one? That ship has left. It's a shame.

Canada's sitting up there banging power down into the United States. Canadians are also very interested in telling us how badly we're doing with acid rain. Isn't that funny? Canada--they're sitting there with hydro and nuclear. They went with a standard nuclear plant. Agreed by the government. They're sitting there with more megs [megawatts] than you can talk about. Wanting to sell it in the United States. We're so damn gullible--they even want us to take their nuclear waste. They're selling power to the United States in deference to our society and our people. And they're going to ask us to take their waste. I don't think anybody should be playing with that radioactive stuff. That's forever and a day. They say, "You guys are bad guys. You're acid rain." Look what Canada is doing. They've got the biggest polluter in the world in their little Sudsbury plant up there. They do not even require catalytic converters on automobiles. They've committed themselves to reduce air pollution, acid rain, by 30%. They're saying, "See, what good people we are." They haven't done zip one. But they said they're going to do it. And the levels they're talking about are what we've already done in our country.

I don't know that there's a conspiracy. Here's a good book if you get a chance to read it. Sign on the Line. [Displays book on desk.] These guys are playing games. The Canadian Minister of the Environment says on national television, "We don't think your people and your administration's doing the right thing about this acid rain, and we're going to let the public know about these things."

See, where I come from, you don't go to somebody's house and criticize the way he hangs his pictures. You stay the hell out. Nobody should come down here and tell us our government's not doing right. I don't go for that. I still carry some of those old John Wayne, Tyrone Power-type things.

Our kids probably wonder what it's all about. The young kid now is not going to go for this activist crap. If we can just get through the next four or five years. We got this one specter. Acid rain. If we can get past this one specter. The young person coming out of school now is a conservative. We know they've changed. They've got their heads on. But they're going to have a tough time. They're all going to have to work. They want to get their lifestyle. Their expectations are high. Any one of my kids is going to have a hell of a time living like he was raised. He's not going to go for this soapbox crap--everybody's bad. He's tired of that crap.

Seltzer: How have those forces managed to wield so much power if the trend is against them?

Katlic: There's apathy. The malleability lies on the part of the elected official who does what he does because he wants to get re-elected. He does not want controversy, and he does not know the answers. And he lets his staff play with it.

Seltzer: Those who subscribe to the "Common Cause" newsletter would say that PAC money, political contributions, determines the outcome of public policy. Business PACs exert more influence than union....

Katlic: Union PACs are bigger than business PACs, and they don't have the restrictions on them. At least they don't adhere to them like we do. The main value of a business PAC is that you show a little bit of recognition, and you get to go in and talk about an issue. Business PACs are not big enough. Hell, the law is too blasted tight on the amount of money that can go into PACs, how they are used, the restraints, and everything. PAC money is a force, but it's balanced.

Seltzer: Unions say your PACs are distorting the process.

Katlic: That's what they say. I'll tell you what's wrong today. I have another parody which I call the "modern monster." When I was a kid, you only had a couple of monsters. You had Frankenstein. You had Dracula. But Frankenstein, they killed him only once. Ten years later you had the son of Frankenstein, the daughter of Frankenstein, but you never saw the original monster again. Today, you've got a modern monster. You can't kill the guy. You stab him, claw him, club him, ax him, drown him, burn him.

Seltzer: Who is he?

Katlic: Whoever the kid is with the sack over his head. As long as the box office receipts are good, you are going to have a monster that keeps coming back. That's acid rain. They keep playing with the box office.

Seltzer: Gene Samples said he believes there is a terrorist conspiracy...

Katlic: Terrorist?

Seltzer: Yeah. That was his word. A terrorist conspiracy of environmentalists, no-growth advocates...

Katlic: They've just about succeeded as far as no growth.

Seltzer: Amory Lovins, soft-path advocate? He thinks those people are controlling the concepts and the thinking of the people who make public policy.

Katlic: I don't know about a conspiracy. I do think there's an element of hard-core environmentalists who do not want anything disruptive to go on. I believe a lot of them are sincere.

The Sierra Club's stated position at this moment is to stop the consumption of coal in the United States because they believe it is keeping us from going to solar, wind, or whatever. They have taken a public position, not just: "We're for nature. We're for protecting." But they have gone beyond that. There's a sophistication to it and probably an influence from somebody else who sees it as a medium with which to work.

I don't think there's a conspiracy that's able to change people's minds that easily. But what they do is make so much public airing of it, and it's so controversial, that the citizen himself doesn't know what's going on. Then the legislator says, "Oh, geez. What do I do?" This is why we are at the stage where we [industry] can't afford compromise, and the only way he [a politician] exists is compromise.

Seltzer: Most of the people who argue for the soft path say the market will eventually force renewables into the utility system. They assume that the costs of conventional fuels will continue to rise and the problems of burning conventional fuels--including nuclear--will continue to mount. Sooner or later, whether you like it or not, you are going to go into a transition with an increasing mix of renewables with your conventional. Eventually, renewables will replace conventional. When you cost it out, does it come out that way?

Katlic: No, absolutely not.

Seltzer: Not even in 25 years?

Katlic: Not even in 25 years. We were looking at what would be driving it and trying to project the strategic plans of major companies. Our projections were checked off by people that had nothing to do with the coal business. People in chemicals and oils. Very sophisticated business people--bankers and international business.

It bothers people because it looks obvious that solar and wind would be great. You see a few of these solar panels around, heating hot water in the house. I hate to type cast people, but the guy that's gone that far--if you knock on his door, you are going to find he will be the pure activist type--listening to an owl on a craggy cliff. He's not the business guy from Columbus, Ohio.

Seltzer: He will also be a person who has capital.

Katlic: We've run out these things as to how long it would take. First, is it efficient? Can you do it? In some parts of the country, "Yes, it would do enough over a year's time." But some would never pay out for the installation.

Seltzer: You drove your model on price?

Katlic: Yes.

Seltzer: The driving force was the price of international oil?

Katlic: Or coal.

Seltzer: Either one?

Katlic: Yes. As far as we could see--past the year 2000.

Now someone might get out of the atmosphere and do some exotic things. There was a time when we, ourselves, were saying maybe 20% hydro, for wind, solar, buffalo chips, geo-thermal, all that stuff. Past the year 2,000. Maybe 20%. Forty for coal, 40 for nuclear, and 20 for all these other things. A little bit of oil, little bit of gas. I don't think it's even 20% now. You can't continue to burn oil in a boiler. You shouldn't.

Seltzer: Even though we're burning resid [residual oil], which can't be used for much else.

Katlic: They use it to start up and even out temperatures. I feel comfortable because our company is almost 90% coal. A lot of companies aren't.

Sooner or later something could happen. We are still in a tenuous thing in the Mid-East. Maybe we don't get but eight or nine percent of the oil now. But the market, the world. Who knows what might happen? There are all kinds of coal, and it's at a good price. We will be able to burn it cleanly. It's here. So, coal has got itself that 40% locked in and probably even more now that nobody is going to finish these nuclear stations. Our company is even going to convert one to coal. So the nuclears aren't going to be completed. That is another piece out there for coal. Coal is probably going to have 50% of the pie.

Seltzer: Even if we don't get beyond 80 quads of energy consumption per year, you believe coal's share will increase as it is substituted for other fuels? That's the guarantee?

Katlic: Yes. They don't let just anybody in this poker game. Only three or four people get to the table. They are not going to let the little guys get in the game. Solar and wind don't have the ante. Even hydro is not really working out. It's not really that good. We've got a few of them.

Seltzer: What about Canadian hydro capacity?

Katlic: Well they're big.

Seltzer: They are talking about damming the Minas Basin. If they dam the Bay of Fundy and let the tide pull the water in and run it through a turbine coming back out, that's cheap power.

Katlic: But enormous expenditure. Enormous money.

Seltzer: That's right.

Katlic: If they don't see the need for that capacity, they will keep delaying.

Seltzer: But if I were a utility in New England, I would certainly buy that power rather than mess around burning coal.

Katlic: That's what they're doing.

Duncan: In that case, environmentalists might be the friend of coal because they aren't going to like damming the Bay of Fundy.

Katlic: That could happen, I guess, but more often than not we are in more trouble. Canadians are already taking our business because New England buys a lot of Appalachian coal. Some of it now goes over to these new ports and up on these 30,000-ton, sea-going barges. Very efficient. If they [Canadians] bump them out of that, then our overhead costs rise, and our ability to make money gets less. Sooner or later that cost is recognized somewhere through the coal business, if they can't market their coal. Of course, railroads don't help us either.

Duncan: I am unclear about how the railroad industry can have coal over such a barrel about pricing since regulations...

Katlic: They have the customer over the barrel--not the coal industry. The customer pays for transportation. Coal still is sold f.o.b. the mine. Some is sold destination. Some c.i.f. on overseas stuff. But for all practical purposes within the United States, it's f.o.b. mine. The customer pays this. If the mine cost is $13 a ton and the customer pays $38, he knows the railroad has a play on rates and districts.

Look down the coast of the United States. West Virginia is sitting there plugged into Baltimore or Norfolk. The L & N in Kentucky has only recently gotten across. Generally, they just screwed around. Kentucky can't get to the East Coast. Lucky to get South, because of the railroads. Every time you start to talk going South, you say, "Gee, maybe I ought to go to the water [barge]." New England decided to do that with their own vessels. We finally got ports where we won't have demurrage; you'll load fast at unit train rates. Railroads decide in southwest Virginia and Kentucky, when to issue you permits to allow you to ship your cars or receive empties. To do it, you've got to tell them, "I have a ship waiting. He's coming on the 17th of August." Then they charge you $15.00 to get it over there. There are a lot of mines mining for $25 a ton, and by the time it gets to the coast, the railroads have added two-thirds more to it.

Duncan: Are you saying you could sell more coal if it were more competitive, if it weren't for the Staggers Act?

Katlic: Absolutely. This is what foreign coal buyers say. Why is this happening? Here we go again. We had to favor deregulation in principle because we believe you should deregulate these industries. We cannot say it works for you but not for me. We do believe in deregulation. The Staggers Act is not bad. But it's the method in which the Staggers Act is enforced. It's the method in which you look at the asset base the railroad uses to determine whether to calculate their 15% return plus inflation. That's pretty damn good. They are allowed a 15% increase plus inflation? My God, I'll take that one, won't you?

Seltzer: Sure.

Katlic: They've built in an enormous automatic trigger. You don't even need to go back to the trough [ICC] on this one. And if you did go back to the trough, who are you facing? The ICC has never denied the railroad anything.

Seltzer: If AEP can own a barge line, can it own a railroad?

Katlic: I don't know. I doubt if we can own a railroad. We own railroad cars.

Seltzer: I know railroads can't own coal companies, but why can't it work the other way? Why don't you use your financial and political influence with bankers....

Katlic: To buy a railroad?

Seltzer: Yes.

Katlic: There are only going to be about three.

Seltzer: You need to break one of them.

Katlic: It would not do any good because of the territory. The Burlington Northern, they got the northwest. The L & N got Kentucky. The Chessie is absorbing these little ones. It's got a piece of Pennsylvania and northern West Virginia. The Norfolk and Southern got the South. There's some places you can't get to because they got to hand off to each other. Even if you load it on one, he's gotta deal with the other one before it gets where it's going. You can't go from West Virginia through Pennsylvania to get to New England because ConRail wants their piece of the pie. I'll tell you it's so locked in you can't do it; you give up.

Seltzer: In that situation coal might say, "Look, this is an intolerable situation. Why don't we have a national railroad authority to smooth out the logistics..."

Katlic: Well, again, we're hoisted on our own petard. We favor deregulation. We don't like nationalization.

Seltzer: I'm not talking about nationalization.

Katlic: Yes, but it is.

Seltzer: I'm not talking about ownership. I'm talking about policy.

Katlic: They fight it. They fight it in Congress. If you made the railroad measure assets that apply to hauling coal rather than all this crap, if you made them live in the real world, the Staggers Act would function. Railroads are getting better at what they do, but their rates have gone up three and four times while coal stayed in one place. The customer says, "Why are my costs going up?" What are you going to do? It's a locked situation. I can't get out from a certain place in West Virginia any other way. I must use that railroad system with those costs. They've got you even though the rates are set. The rates are bad, but they are set, and everybody is paying them.

Now there are some benefits to deregulation. The ability to contract. Your coal exporter has found that attractive. The railroad, the customer, and coal producer--we can make an agreement that I will provide these tons if they will haul it at a time when this guy says he will buy it. So you don't have a universal need to go in and shake the whole bag. Some are doing alright under it. Cry a lot. This slurry pipeline stuff really puzzled me. I would have bet my wages that we would have got it this last time. But they [rail lobbyists] were shrewd, very shrewd, very able people.

Acid rain is a big one, and it's coming off the mark. It'll be the first congressional action off the mark.

Seltzer: What do you see as the future of labor relations?

Katlic: Mining?

Seltzer: Yeah. Most of your operations are union.

Katlic: I think it's good. I think they [UMWA] have a new leadership. Trumka is educated. He's resourceful. He's young. He carried more votes than most of his predecessors ever have. Last two or three presidents just barely got in there by the skin of the teeth. He carried two-thirds. We will see shortly if he can bring them through this first negotiation with coolness, not having interruptions. I think he's ready to take them into the next era.

Seltzer: He campaigned on a platform of no take aways, no concessions, no backward steps. The economic forces in the industry won't let him do that.

Katlic: It may be perspective in how you measure those things. There are some things [modifications in the contract] you could do in a wage agreement that would not be a backward step. If everybody knew they hadn't been good to start with, and they weren't helping and, in fact, were hurting things. I don't think he's going to have to go back in economics. The concessions, if there are any concessions, will be in work rules. We talk about paid days off. "Go to hell days." Job bidding where you are allowed to bid on jobs and every three weeks you got to post them. There are some things that would just clean up the mine and let it be more stable and more productive that would not be what you'd call concessions. Taking helpers [on machines] out of the mine would probably be looked at as a concession.

Seltzer: I was talking to a union negotiator yesterday. He was saying he thought the union would buy continuous operation in return for protecting some of the days off and work rules.

Katlic: But their problem is they gotta sell something that's worth something. When you are a young girl, you got something that everybody is after. But when you are 60 or 70, it's something else, right? Continuous operation was a big deal in 1974. It's something we should have the right to do. But it's only good if you can sell your volume. You get to run the mine seven days a week. You do it with swing shifts. It's like a factory. But if you can't sell 30% more volume, then why would you want to put a value on it? You would like to have the flexibility. Its a principle that's needed in the agreement, but it's value as a trade item may not be as heavy as it was.

Seltzer: If the market were there...

Katlic: Then it would be big. Where you can sell the volume, you would add 25% more people to the mine payroll. Go into a four-shift operation and run like factories. It was a great deal. Hell, we had it. It was safer. It's better cost. People could predict when their time was to work. It has a problem, though, in persuading miners about [working] Sundays. Miners consider themselves very religious. I don't know of any, hardly, that go to church. But they are in the Bible Belt, and they will tell you they are very religious. They don't like to be scheduled to work Sundays. Continuous operation revolves these shifts so that there comes a time when a Saturday or Sunday is just like any other day. You might have a problem in what people don't want to do.

Seltzer: Joe Brennan was saying something that I think is right, which is if the industry does not want a strike, you have to give Trumka a contract that will wash the first time around.

Katlic: Of course, but it never has since 1964.

Seltzer: Certainly in the last two rounds, you didn't give....

Katlic: The last two rounds the industry had to get to a point where they said, "We are not going to stand any more of this. We might as well just not do it as to have continued labor disruptions." The net results, even though it was an arduous time of it, have been stability and an understanding of the relationships.

This time around, we'll get a little bit of productivity. A rather lengthy work strike. Most of the ingredients of the wage agreement are pretty well known, pretty well understood. We don't have a lot of major problems. The only hazard to that will be whether they create an emotional problem of some kind, nonsignatory coal, something like that. Enabling clauses, rights of succession. You are getting down to real principle things. The operators have trouble because some of those agreements are illegal. We are not allowed to make them, but we have made them. Making miners join the union. Things like that. I think there's optimism. But there's always been a little bit of an interruption because the miner believes that if he got it that easy, there's more. The ratification process, while it's very commendable from [a] democratic standpoint, it's a horrible thing administratively. It's horrible to let the craft decide which battlefield you are going to fight on, which target you are going to attack, which guy you like and which you don't. Let's face it, it's something too big for a democracy. I hate to be speaking against a democracy, but it isn't healthy to have all the miners decide what the rules are.

Seltzer: Does a selective strike strike fear in anyone in the industry?

Katlic: Well, I'm sure you don't want to be the one that's picked.

The selective strike is a good move. He's built a strike fund. It's unlikely that he would strike outside the BCOA, though. The BCOA is the only formal, national group assembled to recognize the relationship. If he does away with them, he's in trouble. There isn't an international [union] at that stage.

He stands to do better for his people if he strikes one of the majors within the BCOA. Then he'll get unemployment compensation for the rest. If one's addressed, they all walk. Now whether they will or not I can't tell you.

If they would pick a smaller one, the others [operators] could agree to work and take care of this guy while he negotiates. It's an option, but I don't think it's likely. If they pick one, they will likely pick a major because the others [BCOA members] will pull out. That will be a lockout, and Trumka will get unemployment comp for his people with the exception of that one. It just makes sense. Why not have a strike subsidy if you could?

Duncan: Do you think the personal experience you have in coal production makes you better able to do your job at AEP?

Katlic: No question. I have to think that.

The American coal miner has been maligned. His leadership has to take him into the next generation. It doesn't know how. He could be looking at a lot of parallels waiting out there if he's not careful. But we have a plus. Nobody can point to the American [miner] and say, "Everybody's better than he is"--not with coal mining. Out of all the industrial workers, nobody's ever attacked the American coal miner because they know they can't. Why don't we take that as a plus? There's a flag bearer for the country's patriotism.

Seltzer: Trumka realizes that as productivity increases, the same thing that happened in the 1950s is going to happen in the 1980s: fewer people are going to be members of his union [because of layoffs]. That's his box.

Katlic: Yes. He'd be smart to have a smooth negotiation because then he'd have 30 or 40 million [dollars from the strike fund] to organize. To organize, though, you have to show where you have something to offer people. And what can they offer to a guy who's getting paid well, has good benefits and is on a long-term contract? The union doesn't have anything to offer the nonunion guy because he's no longer working for a little dog hole [small mine] that's skinning his tail. They are good, well-run big mines. The MAPCO's. They are not little gypsies anymore.

Trumka's got a tough road to show those guys that he has something to offer them. What's he have to offer? His sterling leadership? His collectiveness that will keep them working? They have 40% of the national production. If he tells you 50, they are wrong. They have 40. And if you look at the projection, it's going down all the time.

Seltzer: The contracts they have been signing over the last six months are getting rid of the pension liabilities for the 1950 pensioners.

Katlic: The union pension is funded in the next two or three years. It could be set aside. The other one [way of funding a pension plan] is on a man-hour-of-work basis--not tonnage. The original was on tons mined. It [UMWA pension plan for retirees who left before 1974] will be funded in 1986 or 1987. You can set it aside. That's for the 1950 guy [pensioners who retired before the mid-1970s]. But you see, we keep going into these negotiations and the union says, "Oh, these poor old timers. They are not getting as much as these young fellows." Well, we don't have the stand to fund it. The young guy, 30 years old, you got 25 years to fund him. He's not in any problem for his pension. It's a macabre sort of view that you see. Eight hundred dying and 300 coming on. Every time you get into negotiations, he tries to negotiate additional pensions for those old guys and up she goes again. Then the union operator has to pay a buck more and can't sell his coal.

Seltzer: It would be smarter from his [Trumka] point of view to not put money in those 1950 pensions and put it in things that he could...

Katlic: Sure. There were a bunch of guys [operators] that took advantage of them. They quit the business and did not pay the payroll. Hell, we know these specters. That's not the real world today. There are too many laws protecting the guy today--not company laws, but national and state laws. You don't do that now.
He's talking about maybe taking the hospital plans back. They had these union health cards, and it was the biggest abuse you ever saw. The BCOA companies paid a lot of money and set up their own plans. They do a pretty damn good job. Now you got a problem. Here's a year when an awful lot of people have been laid off. Their benefits ran out. What do we do? Are we cradle to grave? You might say you take care of these guys till they die, but that's not what it is. That's what you might want.

He ought to let the companies take the pensions on their own. We have big pension plans. The law covers them. The law is going to take care of the miner. Why should you want to pre-empt the federal law? Why would you want to do that? Why not set that aside? But I don't think he can do it. The companies would put their guys into a legitimate pension plan that would be well-managed and wouldn't cost $2 and $3 a ton.

MAPCO COALS INC.

W. Jeffrey Hart, President, MAPCO Coals Inc., and Tom Patterson, Executive Vice President of Operations

Company address: 1800 South Baltimore Avenue, Tulsa, Oklahoma 74119

Parent company: MAPCO, Inc.

Backgrounds:

W. Jeffrey Hart: 44 years old, 18 years in minerals and energy, including 14 years in coal. Mr. Hart received a B.A. in chemical and petroleum refining and an M.S. in mineral and energy economics from Colorado School of Mines. He was hired by MAPCO in 1979 as their Vice President of Marketing. He was promoted to President in July of 1983. Prior to joining MAPCO, he spent five years as Vice President, Coal Marketing, for Coastal States Energy Co. From 1971 to 1975, he held positions with Utah International and Getty Oil Co.

Tom Patterson: 69 years old, 50 years in the coal industry. Mr. Patterson began as a mechanic with Hanna Coal Co. (now Consolidation Coal Co.), St. Clairsville, Ohio, in 1935. He worked for Warner Collieries Co., E. Springfield, Ohio, as a master mechanic, and later, as chief electrician for Midvale Coal Co. at New Philadelphia, Ohio. He returned to Warner Collieries as superintendent at Wolf Run Mine at Amsterdam, Ohio as superintendent. Then he went to Elm Grove, West Virginia, as general superintendent for Valley Camp Coal Co. He then returned to Warner Collieries as general manager of Ohio and West Virginia mines. Next he worked in Carlsbad, New Mexico, as the superintendent of Southwest Potash Co., and then went to Wyoming to work for Peter Kiewit Co. as mining consultant. In 1967 he came to Kentucky and developed Dotiki Mine, which was later sold to MAPCO. At that time he was vice president of operations for two mines. Later he was named executive vice president, operations. He plans to retire December 20, 1985.

Total number of employees (parent company):

1983-6,075 (1,660 in coal); 1982-6,632; 1981-6,654; 1980-5,813; 1979-5,167

Coal production (in thousands of tons):

1983-6,784; 1982-8,220; 1981-7,867; 1980-7,338

Total parent company sales: (in millions)

1983-$2,064.7; 1982-$1,993.0; 1981-$2,179.0; 1980-$1,769.7; 1979-$1,261.4

Coal sales: (in thousands of tons)

1983-7,179; 1982-7,791; 1981-8,283; 1980-7,280; 1979-6,150

Total parent company assets: (in thousands)

1983-$1,641,100; 1982-$1,723,025; 1981-$1,612,754; 1980-$1,478,456; 1979-$1,097,583

Total parent company net income: (in thousands)

1983-$54,056; 1982-$73,822; 1981-$96,890; 1980-$122,260; 1979-$88,660

Message from 1983 Annual Report: "Our strategy is to continue to reduce [coal] production costs through higher productivity and operating efficiencies, and to increase our market share by maintaining our position as a low cost, reliable producer."

Diversification: MAPCO has subsidiaries involved in petroleum, transportation, oil and gas, coal, and minerals.

MAPCO

Jeffery Hart, President, and Tom Patterson, Executive Vice President of Operations

December 20, 1984

W. Duncan:* MACED is an economic development organization that has operated in Kentucky for almost ten years. We finance small businesses. The primary industry here is the coal industry. We want to look more closely at its developmental impact and potential. We are talking with leading coal executives operating in the area. We are finding that growth in coal has not improved the coal fields. What does this mean to you?

Hart: Looking at the people you've [already] interviewed, you are certainly not interviewing thinly capitalized companies.

W. Duncan: Yes, we're not offering them money. [Laughter]

Hart: What's the point?

W. Duncan: The point is after 100 years of coal development in eastern Kentucky, we are still famous for poverty and underdevelopment. The linchpin to the economy of eastern Kentucky is coal. The primary corporate citizens in eastern Kentucky are the large coal companies operating in the area.

C. Duncan: We are here to find out what you think about your role in these communities. In the last ten years, there

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*William Duncan and Cynthia Duncan, interviewers.

has been a lot of growth in the coal industry. Yet conditions are still lagging behind the nation.

W. Duncan: What are your perceptions of operating in Kentucky? MAPCO operates around the world. Your coal operations are in Illinois and places other than Kentucky.

Hart: To answer your original question of why, with industry in an area, poverty still exists. There must be studies the University of Kentucky and local universities have undertaken to look at the overall population. How many people are employed by the coal industry? What percent of the people are employed? What's the income level of the people employed by the coal industry? What _is_ the percent of people that work for big coal companies in east Kentucky?

C. Duncan: In the counties where there is coal mining, about 40% of the employment is in coal mining. In Martin County, it's up to 87% or so.

Patterson: That's the only thing there is in Martin County.

C. Duncan: That's right. Does MAPCO feel it's harder to work there and that you have more responsibility than another type of company would to help that community improve?

Hart: MAPCO has done quite a few things that are community-related. We've been a good neighbor in that community and tried to help out.

C. Duncan: When you do something like donate the site for a sewer and water system, is that something that local residents of Martin County came to you about? Or did one of your people have the idea?

Patterson: Martin County came to us on the water supply and also the garbage disposal. On all those things done over there, they came to us.

W. Duncan: If I were operating a company in eastern Kentucky, I would say that this is a historically underdeveloped area. Why do you think that when you employ people, somehow the benefits of that cash flowing into the economy don't percolate into quality of life investments in the community?

Patterson: That's the difference between your environments. We operate mines in western Kentucky, too. But they are different.

W. Duncan: How?

Patterson: They are a more conservative people in western Kentucky. These people [in east Kentucky] spend every dime they make and don't expect to ever have anything. Their standard of living is much smaller. If you've been up some of those hollows, you know what I mean. You can come over to west Kentucky and find people with boats, cars, and brand new homes, drawing the same rates as our people do over here. They draw more money over here than they do in west Kentucky. It's environment--it's what the people's been used to. They don't want anything more.

W. Duncan: So you tangibly feel that difference?

Patterson: I really feel that way. Why sure. I see it every day.

W. Duncan: Are the politics different?

Patterson: Politics are a lot different in east Kentucky than they are in west Kentucky, I'll guarantee you. There was never anything there before the coal companies moved in there. You've just got a different kind of people in east Kentucky.

Hart: Have you interviewed the N & W Railroad? They're the ones that put the line up there that opened the coal fields in Martin County.

W. Duncan: The railroads have a more complex role in all this. Coal companies are on the ground producing. Railroads are a vital link and have an important role, but less of a day-to-day role. As owners of the resource, they are parallel with coal companies.

Hart: You must have seen that [news] special that Bill Moyers did on the "Bill Moyers' Journal," going into Martin County.

W. Duncan: What did you think about that?

Hart: What did you think about it? I thought it was fairly one-sided.

W. Duncan: He'd seen an article in a magazine and that was the news. The article said, "Here's an issue." And somebody charismatic who can talk about it--the editor of the newspaper. The scenery is dynamite as a background. So he had himself a story.

Hart: He developed one side of the story. He didn't ask the question you are asking, "What have the coal companies done for the community?" He asked the question, "What have the coal companies taken from the community?"

Patterson: I don't know what our payroll is over there, but...

Hart: It's quite a bit.

Patterson: I don't know how much a year it'd be.

Hart: It's several million.

W. Duncan: When you decided to locate a mine there, you made a cost/benefit decision vis-a-vis a lot of other potential investments. Right?

Hart: In theory. That's what they teach you. That's the textbook theory.

W. Duncan: How did you end up there? I'm interested in what goes into that decision from your point of view. What issues are most important?

Patterson: Reserves. Market.

W. Duncan: The availability of reserves. And you had a customer.

Patterson: Sure. And markets.

Hart: Access to transportation. If the N & W hadn't put that line in, there'd be no coal companies.

W. Duncan: Right. According to those three criteria, you still could have put it about anywhere in the country.

Patterson: If it had to be done today, it wouldn't be done.

C. Duncan: Why is that? Because of the market?

Patterson: Because of the market, the present coal market. And because of the experience we have behind us.

C. Duncan: Would it go somewhere else? Would you still invest in coal somewhere else?

Hart: You can't build a new coal mine today. You can't build a new steel mill. You can't build a new refinery.

C. Duncan: But doesn't coal have a solid future if you look over the long term?

Hart: They'll be mining coal over the long term. Is coal going to grow at a rate comparable to personal computers? No. Our industry isn't going to go away. Neither is the steel industry. But are they the stellar growth industries of the 1990s? MAPCO's in the energy business. There's one school of thought that says oil companies are in the process of liquidating themselves. The major oil companies. It's just a long, slow liquidation process.

W. Duncan: But MAPCO isn't. Right?

Hart: Isn't what?

W. Duncan: Liquidating itself out of the energy business?

Patterson: We can't afford to keep some of the leases we have today. We're letting leases go. Leases we acquired over the last ten years. We can't afford to hold them.

C. Duncan: And closing mines?

Patterson: Because the market is not there.

Hart: We're not <u>closing</u> mines. Today, you can't get enough of a margin. The market price relative to the cost to produce the coal won't give you [an adequate] return on investment, with the huge capital cost it takes to put in a new coal mine in today's environment.

W. Duncan: The one you've got there. The return on investment must be competitive with other investments you have...

Hart: Once you've made the investment, good or bad, you've got it. That's true of anybody. Nobody's crystal ball is good enough to look 10, 15 years, even 5 years. In today's environment, [looking ahead] a couple of years, you're pretty lucky if you are reasonably close.

W. Duncan: MAPCO is nonunion and relatively productive--the Martiki mine, for example. If you look at your crystal ball about coal demand and the price of coal over the next period of time, you expect to make money, right?

Hart: The biggest single [factor] in mining coal is how much--a strip mine--is how much rock do you have to move? Martiki--they move a hell of a lot of dirt.

Patterson: We move more rock than we do coal.

C. Duncan: More than you expected, I gather.

Patterson: We will leave a nice flat mountain over there about seven years from now. Anybody can make a housing development or anything they want on top of that mountain. I guess you know what we've done for Morehead University over there?

W. Duncan: Yes. We were involved in a housing development project with Martiki people about the same time.

Labor, labor productivity, taxation, and state policy--these things that are pretty sensitive issues--aren't among the issues you mentioned when you were talking about deciding whether and where to open up a mine. You would consider those unimportant?

Hart: If someone is looking to locate a manufacturing industry somewhere in the U.S., they do these studies and go into all that kind of stuff in huge detail. With coal the dominant thing is the geologic situation. What is its quality? What is its access to transportation?

C. Duncan: The condition of communities in east Kentucky compared to west Kentucky doesn't affect the cost of operations? It's entirely the geological characteristics?

Hart: Geology is the single most dominant factor in determining the cost of producing coal.

C. Duncan: When we talked with Bruce Wilson, who had been at MAPCO, he said MAPCO didn't open mines in West Virginia because the political climate there was anti-coal. He said when you can choose where to mine coal (because it is geologically available in a number of states), if states are going to raise your costs or make things hard for you, as he felt had happened in West Virginia, then MAPCO was not going to move there. This relates to our economic development problem: if conditions are bad, or if politics are different, then it's affecting your decision.

Hart: I said the dominant factor in determining whether you're going to have any prospect of opening a coal mine is geology. That's it. It overwhelms everything else.

C. Duncan: Today you are in eastern Kentucky. You've got a lot of capital invested. You are going to keep mining. If Kentucky either raised its severance tax or Martin

County tried to take more taxes from MAPCO, would it affect your long-term position there?

Hart: Sure it would. Absolutely.

Patterson: Especially severance tax, or any kind of a tax. We are taxed to death.

Hart: We're an economic company. We work for the shareholders, just like any public company. Anything that is going to affect costs or is not profitable, we can't do it.

W. Duncan: Is there a difference in the labor force in western Kentucky from eastern Kentucky? Do you see any difference turn up in labor productivity? Say you've got a similar amount of rock, does the work force perform the same? I imagine there would be greater difficulty in holding management in eastern Kentucky compared to western Kentucky. Does that make a difference? Those kinds of operating issues?

Patterson: As far as underground mining is concerned, I don't think there's too much difference as far as the quality of work and hardworking people, between the two areas. With strip mining, I don't know. There was a lot of people that came out of New Mexico and Utah who came in as key operators for the biggest part of that equipment there [East Kentucky]. They were not natives of that area. I'm not so sure that we wouldn't have been better off if they had been natives, instead of coming from Utah and other areas. I don't think the labor in East Kentucky is detrimental to an operation. I wouldn't say that. I couldn't say that.

W. Duncan: During testimony on the unmined minerals tax, MAPCO made public its profit figures at that point. Say it was $5 million that year for mining coal in 1983. It was a breakeven proposition that year. It must be better this year. But maybe it's still low profit.

Hart: Why is it better this year?

W. Duncan: Is it not? I don't know.

Hart: I don't know.

W. Duncan: This will be a record production year in Kentucky for coal. Right? But employment hasn't been back up. So I would say there is more margin there.

Hart: We are producing about the same amount this year as we did last year. The incremental production comes from the small producer.

W. Duncan: You buy as well as produce?

Hart: Buy...?

W. Duncan: Coal. For resale, as well as produce it?

Hart: We buy very little coal for resale. Most companies broker a lot more coal.

C. Duncan: Do you employ the same number of people this year that you did last year in coal?

Hart: Overall, no.

C. Duncan: Produce about the same amount of tonnage?

Patterson: Uh huh.

W. Duncan: Less?

Patterson: The coal division employs fewer people.

C. Duncan: Because the miners are more productive?

W. Duncan: The operations are more productive?

Patterson: No.

Hart: Business is so bad. The coal business is not a good business. I don't know what the rest of these people told you.

[Laughter]

W. Duncan: Nobody has said otherwise. There's no premise that it is otherwise. Part of our inquiry is whether this kind of uncertainty, cyclicalness and persistent low profit, is what leads to the lack of sustained development in an area where coal is the predominant economic force. Although it doesn't look very likely right now, what would happen if one version or another of the proposed acid rain control legislation went through?

Patterson: We'd be in good shape in one area and another shape in other areas. Again, it's geological area. We have compliance coal in some areas and noncompliance in other areas. It would be a wash out, wouldn't it?

C. Duncan: Do you think there's something federal or state governments could do that would make coal do more for communities?

W. Duncan: Or just be profitable? What would it be about the structure of the industry or the market?

Hart: Coal is our most plentiful energy commodity in the United States. There's a bigger oversupply of coal than any other energy commodity in the U.S. It's a very competitive business.

W. Duncan: As simple as that?

Hart: Yes. There's 300 years of coal reserves.

W. Duncan: And it's easy to get into? So there's lot's of overcapacity.

Hart: Look at all the little people in Appalachia that get in and out of the coal business.

W. Duncan: If you were in a position to do it, would you propose some kinds of public policies that would keep that from happening [since] it's bad for everyone?

Hart: No. Look what happens when the federal government starts making public policies to regulate oil production, natural gas prices and sets prices under all the FERC [Federal Energy Regulatory Commission] proposals that existed in the Carter years.

Patterson: MSHA. [Mine Safety and Health Administration in the U.S. Labor Department].

Hart: There was a lot of disallocation of resources in the marketplace because you didn't have a true marketplace working. You had regulations.

C. Duncan: In coal, you have had the truest marketplaces of all. It's been pretty tough on the industry and the community.

Hart: Sure.

C. Duncan: A number of people with whom we've talked thought a national energy plan that required that utilities use a certain amount of coal would benefit the industry.

Hart: Well, there's a law in place right now which says you cannot build a new oil-fired or gas-fired power plant. Isn't there?

We've already got one of those laws.

W. Duncan: Your office sent your annual report. 1983 wasn't a great year. 1982 was a pretty good year in the coal division, wasn't it? It made a return on investment that was similar to that of the rest of the company. Why the discouragement after two years of a bad market?

Hart: Coal is a cyclical business. If you plot out the prices that are published in Coal Week, they always seem to rise before a UMWA strike. 1981 was the year of a strike and most of the prices for 1982 were set at the end of 1981. So we were fortunate in having high prices in 1982 because of the artificial market created by the strike. In 1983 those prices collapsed. We had a terrible year. 1984 was the year of a [potential] strike and prices improved. The economy is better today than it was in the recession in 1981. We did better in 1984 than we did in 1983. But there was no strike. In 1985, stockpiles are high. Overall business activity is a little better, but not great. 1985 doesn't look like a great year.

C. Duncan: Is that true of all the divisions of MAPCO, or are you the black sheep?

Hart: [Laughter from Hart] I don't know.

W. Duncan: MAPCO's in an energy business which is cyclical overall.

Hart: Sure.

W. Duncan: It looks to me as though they are on something like complementary cycles.

Hart: We like cold weather at MAPCO. The colder, the better.

C. Duncan: You don't produce coal overseas, do you?

Hart: No. We sell coal overseas, but we don't produce coal overseas.

Exports are another thing that propped up prices in 1981. A lot of people turned to the U.S. for steam coal who normally wouldn't buy from here. You had the Solidarity Movement in Poland. You had strikes going on over there. They weren't shipping their normal amount of coal, practically no coal. You had strikes in Australia, and they weren't shipping coal. You had a poor expansion going on in South Africa, where the existing capacity was cut in half.

All the normal flows of steam coal and met [metallurgical] coal into the world market were stopped up. All of them [factors that blocked the flows] were temporary things. Foreign buyers turned to the U.S. They sent ships over, sat at anchor and waited for coal. Prices went up. Not only did you have a strike year in domestic utility buying, you had the best year ever in international steam coal sales.

No wonder prices went up in 1981. But how many times are all those things going to come together again?

W. Duncan: So a good market in the coal business is an anomaly?

Hart: It's a commodity that is in oversupply. Whenever you have a disallocation in the marketplace that restricts supplies, prices are going to go up.

C. Duncan: Is Colombia a threat to MAPCO's business?

Hart: Sure. Look at the future. Not only Colombia. South Africa is producing coal like crazy. Australia is producing coal. Colombia is coming into the marketplace.

C. Duncan: And selling to Florida. Are they going to be directly taking your sales?

Hart: I don't know. Ask the Florida utilities.

W. Duncan: But MAPCO continues to invest new money as well as old money in coal?

Hart: We haven't opened up any new mines in a long time.

W. Duncan: From your point of view, you are in and you can't get out. MAPCO will make the best of it, but it's a lousy business and there isn't too much to do about it.

Hart: Those are your words. [He laughed]

Patterson: We can get out. If it becomes a place where you don't make any profit, why operate it?

W. Duncan: Right.

Patterson: We're not going to operate it at a loss. So we are not there to stay.

Hart: You can close down and write it off your tax books and get so much tax savings out of it. If you can't make any more money than what you can get in tax savings by writing off and closing an operation, why operate it?

W. Duncan: There's enough to keep you in?

Hart: We've cut back our production. We've laid off people. We're continually analyzing performance of our assets. We're trying to optimize what we can. If we are unsuccessful, we might have to make some hard decisions in the future. I don't know. Do you know what's going to happen in the marketplace in 1986?

W. Duncan: If you're right that any good market is an anomaly caused by several one-time things coming together, then I would say it'll be a lousy market in 1986, unless something unexpected happens.

Hart: We have no plans to put in any new mines. Did anybody you talk to?

W. Duncan: Not that I know of.

C. Duncan: No. Many were dealing with laid off employees and some were trying to figure out how to handle the lay-offs, in the sense of what their community responsibility was. Some were deciding whether to take more of a role assisting those workers than the law required. A number said their coal companies do have a bigger responsibility to the communities where they mine coal than the law requires.

W. Duncan: In the cases of layoffs, what are MAPCO's policies?

Hart: I don't think I want to talk about that.

Patterson: What does that have to do with this?

W. Duncan: It has to do with the case where you are saying margins are not good. (That has been true historically. There's no debate about it.) Margins are small and undependable in the coal industry. The result seems to be externalized costs. Wherever it's possible--many people say this, often rhetorically--the costs of producing coal and dealing with its volatility are externalized.

When the roads get used up by hauling coal over them and the costs of reclamation and environmental protection are higher than can be borne by the mining, those costs are left to be borne by the counties or communities where mining happens. What I'm trying to get at is, number one, whether you agree with that analysis, and number two, is there any way to consider a more optimistic scenario in the future?

Hart: How much money of the Kentucky severance tax goes into the state coffers? The problem is how money is allocated out.

C. Duncan: The problem is in state government, you think?

Hart: If you are saying roads aren't kept up and this isn't kept up and.... Does anybody look at how the State of Kentucky allocates its money? Where does it go? How much goes back to East Kentucky? How much goes back into West Kentucky. How much stays in central Kentucky?

W. Duncan: Would MAPCO support an effort to get more of that severance tax back into eastern Kentucky or western Kentucky, the mining counties?

Patterson: We don't have any jurisdiction. The county judges allot that money. They allot [the money] to the different magistrates in the districts, and they tell you how they are going to spend the money. If they want to spend it on roads, they can. But they spend it on things like tennis courts, swimming pools, city parks. Things they don't really need.

W. Duncan: But <u>most</u> of it they [the counties] don't get.

Patterson: They get a percentage of it.

W. Duncan: They get a portion of anything over $177 million.

Hart: I'm asking you. I don't know how much of it goes back to East Kentucky.

W. Duncan: Very little.

Hart: I don't know. That's a question.

W. Duncan: The answer is not elusive. Very little goes back.

Hart: You probably know much more about that than I do.

W. Duncan: Little goes back. It would be a real constructive proposal that more should go back. It's not a new proposal.

Hart: Okay.

W. Duncan: It's not a new proposal, but it hasn't had enough political support to make it happen. The coal industry in the state has the ability to add its support to such an effort. Is that something that MAPCO could do?

Hart: Well, I think East Kentucky ought to get its fair share.

Patterson: We belong to the Kentucky Coal Association. That is something the Association should take up. They are the people that can get to the government--we can't.

W. Duncan: Has that come up in Kentucky Coal Association discussions?

Patterson: I think it has. We were out of it for a couple of years, but we got back in this year. It used to be quite an issue. It finally got to the place where everybody threw up their hands and said they can't do anything about it because of these county people.

W. Duncan: MAPCO, as one of the largest producers in the state, has de facto leadership in setting coal industry attitudes toward these issues. It happens by intention or not, either way. Talking to you is important for that reason.

We want to try to assess [whether] there is a future for the coal industry in general and the industry in Kentucky, which employs 45,000 people. We couldn't contemplate the idea of a dramatically smaller industry. We've got a future in the coal industry in Kentucky, but when you look at history, it hasn't translated into what you would call economic development.

C. Duncan: Even over this growth period of the last decade, the 1970s.

W. Duncan: As one of the largest producers in the state, what does that mean to you? Is there something to do in the future which can change that economic result? We're looking for it. It's an important piece of the economy in eastern Kentucky, and, as economic developers, we say, "What can be done about this?"

Hart: My answer to that would be related to the Bill Moyers' Journal: what is going to happen when the coal is gone? That's the big question. At Martiki, we've got a reclamation project going there. There's going to be land available there.

C. Duncan: Why was that project undertaken?

Patterson: It's a commitment they made back when they started that mine. They decided that's what they were going to do. They were going to have a flat-top area.

C. Duncan: Did they do it because of a sense of corporate responsibility on the part of the board of directors? Or because it would improve the public image of coal? Why did you do it?

W. Duncan: Pocahontas Land Co. had been visible in that project as well.

Patterson: They were in it as a joint venture, too.

Hart: One thing different in 1984 than back in the 1970s is that the energy industry did not turn out to be as profitable as people thought it was going to be. A lot of people made a lot of investments--coal, uranium, oil and gas production--and they just haven't turned out to be as profitable as was originally anticipated.

C. Duncan: Additional community commitments were made by a lot of coal companies based on markets that then collapsed.

Patterson: Absolutely. A lot of companies went out and picked up lots and lots of reserves, based on [expectations of markets for] synthetic fuels.

W. Duncan: If the company's commitment to a project like the housing project is a barometer, it was on the rise for a while and then the market went bad. It seemed a little expansive to be doing a real estate development project outside of Inez when the market wasn't very good. Is a project like that, which is consistent with the other parts of MAPCO's corporate presence in Martin County where reclamation is way over what is necessary for the investment, is that....

Patterson: It got derailed, the housing project.

W. Duncan: By the road not getting paved, or something else?

Patterson: The road got built. You know it came down through the middle.

Hart: Have you got a developer for the housing project?

W. Duncan: Sure. Absolutely.

Hart: Do you?

W. Duncan: You may not get anything back out of it.

Patterson: There might be some land you [MAPCO] can give them to get started on it.

CONSOLIDATION COAL COMPANY

B. R. (Bobby) Brown, Chairman and Chief Executive Officer

Company address: Consol Plaza, Pittsburgh, PA 15241

Parent company: A wholly owned subsidiary of Conoco Inc. which is a subsidiary of E. I. du Pont de Nemours.

Background: 53 years of age, eight years in the coal business. Mr. Brown was elected the chairman and chief executive officer of Consolidation Coal Company (Consol), as well as president-coal operations of Conoco Inc., in September, 1982. He is also a member of the Conoco Board of Directors and Management Committee. From November 1977 until September 1982, he was president and chief operating officer of Consol. Prior to that he was executive vice president. Before joining Consol, he was senior vice president of personnel for Conoco Inc. He joined Conoco in 1957 in their production department in Houston, Texas, and held various production and management positions. He was named manager of personnel and industrial relations for Conoco in July 1970 and was made vice president in May 1974. He was elected a senior vice president of Conoco in August 1975. Mr. Brown received a bachelor of science degree in economics from the University of Arkansas. Mr. Brown is vice chairman, director, and executive committee member of the National Coal Association; chairman of the American Coal Foundation; and former chairman of the Bituminous Coal Operators' Association. He also is vice chairman of the National Coal Council, director of Organization Resources Counselors Inc., Industrial Relations Counselors Inc., and the Regional Industrial Development Corporation of Southwestern Pennsylvania. He is a trustee of the National Safety Council and is on the Excellence Program Advisory Council at Lamar University.

Total number of employees (parent company):
(excluding government-owned plants)

1983-159,231; 1982-165,013; 1981-177,235; 1980-136,259; 1979-136,942

Coal production: (tons)

1983-38,186,268; 1982-47,834,174; 1981-39,938,016; 1980-45,642,205; 1979-44,439,968

Total parent company sales: (in millions)

1983-$35,378; 1982-$33,331; 1981-$22,810; 1980-$13,744; 1979-$12,650

Coal sales: (in billions)

1983-$1.4; 1982-$1.7; 1981-$1.5

Total parent company assets: (in millions)

1983-$24,432; 1982-$24,343; 1981-$24,372; 1980-9,792; 1979-$9,134

Total parent company net income: (in millions)

1983-$1,127; 1982-$894; 1981-$1,081; 1980-$744; 1979-$965

Message from 1983 Annual Report: "Productivity at Consolidation Coal Company's mines increased more than 18 percent versus 1982, reflecting the benefits of the efficiency programs, shifting of production to more efficient mines, higher machine productivity as a result of working fewer shifts per day, and improved labor relations." This increased productivity minimized the effect of earnings of lower volume and reduced prices.

Diversification: Du Pont's industry segments include biomedical products, industrial and consumer products, fibers, polymer products, chemicals, petroleum, and coal.

CONSOLIDATION COAL

B.R. (Bobby) Brown, Chairman and Chief Executive Officer

February 1, 1985

Seltzer:* How do you see the future of the Appalachian coal industry shaping up over the next decade? How do you see Consol's role in that region?

Brown: You have to look at the marketplace for coal. You have to do that on a geographical basis because of the railroads.

The Northeast is going to be growth-limited for two reasons. First, the demographics are not here. As you know, people are moving to the Sunbelt. So there is population loss in the Northeast. But more importantly in the near term--I'm talking about to the early 1990s--the nuclear plants, which are in the final phases of development and construction, are going to be completed. Most of those are in the Northeast, or serve the Northeastern electrical market. They are going to be base-loaded. Their cost is not the $800 million that they thought back in the 1969-1971 period when they were planning those plants, but $3 or $4 billion.

Seltzer: So that backs you [coal] out?

Brown: That's going to back out some coal in the Northeast. So growth-wise--when you talk about NCA [National Coal Association] forecasts or other forecasts of coal

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*Curtis Seltzer, interviewer.

growth in the U.S.--they are totally right. It's going to be in the three percent range or equal to GNP. But not in the Northeast. In that time frame, you wouldn't be looking at more than one percent consumption growth.

Now move to the Southeast--a different market completely, because of the railroads and, secondarily, because of the coal they burn...which their boilers are designed to burn. The Southeastern market is going to show, if not the fastest growth, near the fastest growth in the nation--in the six percent range. They burn a Kentucky, Virginia, southern Appalachian-type coal. There's going to be solid growth in that market.

Now, shift to the Midwest market. It's going to have some growth, but not like the Southeast, probably in the two percent or three percent range. The question there is: what will they burn in the Midwest? They have some options on transportation. It is possible on the fringes of the Midwest that they could burn Western coal. Not probable, but possible. So their basic choices are going to be either to buy from suppliers in Kentucky, West Virginia, Ohio--or to utilize their own Midwestern coal. Some states--like Wisconsin--are moving away from Midwestern coal. In Wisconsin, recent state legislation lowered permissible air-pollution emissions. That means there will be a loss of production of the Illinois and western Kentucky coals. But the growth is there.

In the West, I think the market will be flat. I don't think there will be any new coal-fired plants in the West.

Seltzer: You're talking about Texas?

Brown: No, I'm talking about West Texas, New Mexico, the Four-Corners area that will supply power to the West. There won't be any new power plants in California. There's not one on the drawing board, and I don't think there will be.

Seltzer: You're talking about building coal-fired plants in the Southwest and wheeling power to the [West] Coast.

Brown: The growth in the Southwest is going to continue to be very strong. Their demographics are all up. They are going to have strong growth.

Seltzer: Is it fair for me to summarize that you are describing a very tight picture for a company such as yours?

Brown: Very tight. That's correct. We're not going to have strong growth in our main market, which is the Northeast and has been the Northeast all these years. That's why Consol has moved to lower sulfur coals. Not low sulfur, but <u>lower</u> sulfur: 1-1/2 percent sulfur versus 2-1/2 to 3 percent sulfur.

For instance, we recently reached a supply agreement with Detroit Edison, but not for a 2-1/2 or 3 percent sulfur coal. It's a 1-1/2 percent sulfur coal, which will be blended with their present coal out of Decker, Montana. The blend will meet all air pollution control specs.

Now, that's the tight market. There will continue to be the fully scrubbed market. Of course, we'll continue to be very strong in that market, the new plants. But there are not going to be any new plants in the Northeast. We're working right now in the Florida market with a West Virginia coal, a higher sulfur coal.

Seltzer: What happens to all of your mines in northern West Virginia, southeast Ohio, the Illinois Basin--coals that are more than two percent sulfur?

Brown: One scenario--which we believe will materialize--is that there will be acid-rain legislation. I've said it will not happen in 1985, but it is going to happen because it's a worrisome issue to the public. Politicians--and I'm not trying to downgrade politicians--are very short-term, crisis-type thinkers in our system. If they perceive it's a crisis, they'll act on it. Most of the time wrongly. I think you can count on that. So we continue to believe that there's going to be some type of acid-rain legislation. Will politicians allow the Clean Air Act to do what it was set up to do--apply "best available technology," which all new plants have to have? That's favorable to the high-sulfur market.

Seltzer: I've read the Arthur D. Little study.** It's exactly what we (MACED) have been doing. The same perspective.

Brown: Exactly. The other side is: will Congress go back and tinker with the law? As you know, we've come from 48-49 percent of the entire utility market in the U.S. burning coal to 54 percent in the time frame since the Clean Air Act. Today, nationwide emissions of SO_2 are about 10 million tons lower than they would have been without the Act. Now, whether we have the time in an alleged crisis period to let the law work, I don't know. I think there will probably be some legislation.

Seltzer: As I recall Consol's public position on acid rain, it is not what you just described. It's: "We don't want any law."

Brown: Our public position is that there is no need for legislation. There is no crisis. Even though we decided to investigate the indirect costs of acid-rain control in addition to direct in the A.D. Little study, our fundamental position is still that we don't believe controls are justified. Consol does not believe that the law should be tinkered with. We don't believe that American policy makers know enough about the science of acid rain to know what we're talking about. And we've probably spent more money than the rest of the industry combined to try to find out what is going on scientifically. Nevertheless, I want you to know I still believe that there is going to be some legislation. Now, that's one scenario; the other one is more likely. I believe that legislation will protect the higher sulfur coal producers. And if you look at it longer term, it will be to the benefit of the consumer because there is a heavy price in transportation of eastern Kentucky coal to Maine. Like three times as much as from northern West Virginia.

Seltzer: Let me make sure I understand what you're saying. You think there's going to be a law sometime in the future?

Brown: Yes.

**Consol commissioned a study from Arthur D. Little Co. assessing the total public and private costs of reducing sulfur emissions through policies that promote fuel switching to lower sulfur coals against one that would require retrofitting emission-control systems on existing coal-fired plants. The study found higher total costs were incurred with fuel switching than with technology retrofits.

Seltzer: Although you don't think it's justified.

Brown: I do not believe a law is justified.

Seltzer: And you also think that [the coming] law will conform with the scenario you outlined--that is, a full-technology, scrubber-oriented policy?

Brown: I believe that it will. But the reason I believe that is not because of Congress' belief in technology. It's their social beliefs.

Seltzer: Which are rubbing awfully thin these days in Washington.

Brown: It's the tremendous cost in shutting down entire communities, the displacement of people and services. That's the underlying, gut issue.

Seltzer: I agree. But if you're sitting in Congress...

Brown: It's not because it's going to cost the stockholders of Consol to shut down a bunch of coal mines. That doesn't have anything to do with the politicians' thinking.

Seltzer: Absolutely true. But what we are setting up here is the situation where you are asking the federal taxpayer to subsidize 20,000 to 30,000 coal miners.

Brown: Not necessarily.

Seltzer: Now I may be sympathetic with that--and I am--and I can give some public-interest arguments to say why that's a reasonable thing to do. But as the budget crunch tightens in Washington, it's going to be awfully hard to get that kind of special-interest legislation through.

Brown: I agree with you.

Seltzer: Let me just add one other thing. Were I sitting in your office, the choice I would be faced with is: Can we get that kind of legislation through--the full scrubber option--by sitting back and saying we don't need a law? Or can we best get that legislation through by acting aggressively and saying, "Yes, we have our doubts about the scientific justification of the law and we don't think it's fully warranted, but, at this point, we believe the most responsible thing we can do and the best thing for our own interest is to back a full-scrubber law."

Brown: Well, you have a full-scrubber law in place for all new plants.

Seltzer: I'm talking about scrubbing existing plants, the Waxman-Sikorski approach.

Brown: The only reason we don't do what you're suggesting is because I personally do not believe two things. One, I don't believe we need any law. I don't believe the Clean Air Act needs to be tinkered with. I'm going to continue to say that because I believe that. Secondly, the public service commissions of the various states do not allow pass-through of construction costs, including the cost of building scrubbers at existing plants. Therein lies a tremendous problem with our customers, which are the utilities. They cannot in any way at this time support _any_ change in the law because of the cost. Scrubbers cost money, and there's no pass through. The utilities are in dire financial straits today. Anybody will agree that utilities are in pretty bad financial straits. I don't know of any utilities in the Northeast that are rated above a triple B, and that rating would be very good in the present circumstances. They have a problem. They are not going to support any acid-rain legislation until it goes much farther down the road.

It doesn't take a genius at all to understand supply and demand. Utilities are not going to be able to buy $24 to $28 lower sulfur eastern Kentucky coal--as they can today--if the market tightens up. It doesn't take many tons to tighten up the market. I don't believe you can alter the market just by edict without price consequences. It'll be $150 a ton, as you and I know.

Seltzer: The market is in a peculiar situation now. You have legislation being considered that says to 50 utilities, "You do this. You retrofit or you buy compliance coal." That's not a market the way I learned about markets in college.

Brown: Nor me. You and I agree.

Seltzer: It's a form of public planning or imposing a public direction on free enterprise. It occurs to me in that framework that what's lacking in the coal industry that communities and mining companies need is some predictability or stability in demand.

As you know, overcapacity has been a problem since the 1920s in the industry. The consequences of overcapacity have devastated communities, labor relations and mining companies. If even a Reagan Administration can be thinking about that kind of intervention in the market, it seems to me that it makes sense--particularly for a company like yours--to talk about what ways federal policy can stabilize coal demand. Partly that might be backing out oil in certain sectors, the utility sector. It appears to me that that's where this whole thing is leading to. What's your feeling about this?

Brown: Well, I think that you're right. Public policy is tending to lean in that direction. I do not agree that you should plan the marketplace. I think that's wrong. I think long-term it's wrong for the consumer. It's wrong for the nation. But I do agree that federal policy makers are tending to lean in that direction. I doubt that that's going to happen. One, those types that are leaning in that direction do not understand that you are dealing with a depleting resource. Coal mining is not factory production. Two, they are dealing with an industry that is demand-limited, not supply-limited. Three, they are not dealing with General Motors, Ford, and Chrysler, the only three motor companies in the United States. They are dealing with an industry that's like a gravel pit--everybody's got one in their back yard. That's not going to stop. You are not dealing with just Consol and Peabody. You are dealing with hundreds of small and medium-sized companies operating thousands of mines. Policy makers don't understand any of these points. They are going to continue to lean in that direction, but I don't think it's going to happen because they get a better deal for the consumer, the public, in what they have today.

Seltzer: I think what we're talking about on this acid-rain issue is how federal planning of energy demand is--regardless of whether you agree with the scientific justification--at least necessary politically to satisfy political pressure in West Virginia, Pennsylvania, Ohio, and Illinois.

Brown: That political pressure is kind of like Medicare. Back when they wanted to put in Medicare, it was only going to cost $180 million a year, if you recall. At that time I was in a different job, and I said, "That's not right. That's totally wrong." The backers said: "Well, you are probably right, but we'll blame the doctors and the hospitals when it goes up. But you're probably right." And you know what it's costing now versus what they said then? It's not all inflation. The first year was about 100 times more than they said.

I think you've got the same thing here. There are not many big, coal reserve holders in the United States. There are not many customers that take 30-year contracts. Consol is the leader by far. We will put in a coal mine and will guarantee security of supply--a 30-year deal. The most influential person is the small operator. We operate in too many states. The small operator's a very influential person. He's going to continue. He's not going to go away. You can get into the social obligations as long as you understand these political priorities.

Seltzer: If the drift of public affairs is in the direction of more federal planning than you've had in the past, doesn't it make sense from the industry's point of view to...

Brown: The drift is in that direction now because of the last fact that the public policy makers haven't learned yet, but which they will learn. The drift is into this planning that you are talking about, but that small operator can't furnish the amount of coal that long-term planning might require. He doesn't have the coal available to him to furnish a 30-year supply. When they ask him to sign it, he says, "I can't do that. I want to do it year-by-year. Every year I'll just renegotiate." But the public utility commission says, "Well, we don't want to do that. We want a secure supply." But, the small coal operator says, "Well, I can't do that."

The second thing is that it tightens up the supply chain. They [a utility] buy coal this year for $24, but then next year the small coal operator may want $34. Then the public utility commissions become confused. Ten years ago the PUC's called in utility execs from all over the United States and beat them over the head--"Negotiate long-term supply contracts." Now, with oversupply, they call them in and beat them over the head--"Don't buy more than 20 percent of your supply long-term and buy the rest on the spot market." There's a very narrow line between supply and demand. It can dry up fast.

Seltzer: Wouldn't it be to the interest of the large suppliers to have a federal policy that said, "This sector of the utility industry burns coal and this...

Brown: Would it be in Consol's interest? The answer is, yes. Do I believe in it? No.

Seltzer: Your company has survived over the last four or five years by increasing productivity. You've been doing an excellent job at that. The problem from the community's point of view with increasing productivity is that as you increase productivity, there are fewer workers employed. We've [MACED] been doing some forecasting. It appears from our forecasts that you can expect modest growth on the order of what you were talking about, two or three percent a year...

Brown: And that's pretty big growth if you look at moving from an 800-million-ton base.

Seltzer: I'm talking about Appalachian coal.

Brown: Okay.

Seltzer: Modest growth. Acid-rain legislation is a wild card. We don't know how that's going to fall out. If you look at the forecasts from the Department of Energy, ICF, Coalcast, they never project any increase in productivity to speak of.

Brown: Right.

Seltzer: If you assume a modest level of productivity increase on the order of three percent a year, that modest increase in tonnage in 1995 falls out to no net gain or even a net loss in coal mining jobs. If you increase productivity more than that modest three percent, the fallout in jobs is even greater. We've seen that over the last three or four years. What Consol has done in your labor relations is contained labor costs. I think that's likely to go on for another five, six or eight years.

From our perspective, we are trying to anticipate what the consequences are of the trends in the industry. One trend is modest production growth. The other trend is decline in net employment. Now, what do you do in that situation? What do you do as the head of the major coal company in the United States--not the biggest, but the leader in the industry. Certainly [you're] the leader in the eastern part of the industry. Do you feel, for example, that you have any obligation to the communities where you mine coal where that's going to happen? Some people I've talked to have said, "Yes" and some people have said, "No. Obligation stops after the mine closes down."

Brown: I'll go back and I'll start with coal--the key resource. I know and the miner knows--and it's not accepted by either one of us--but we know that the Bailey Mine, for example, is a 40-year reserve at three million tons per year. We both know that the mine has a limited life. Depletion is a known fact.

You have to get the company's obligations in the proper priority. The obligation of a publicly held company is first and foremost to the stockholder. Secondly, I think without a doubt, we are obligated to the employees. And thirdly, what are the company's obligations to the communities in which we operate? I think we have obligations. I think we've tried to show that.

Beginning in 1977, Consol--not the industry--increased productivity. The industry has seen a productivity increase only since 1980. But Consol has had an increase in productivity since 1978. We just completed our seventh consecutive year. We have reduced our work force, but we have not moved our employees up and down like a yo-yo. I think our long-term contracts have a lot to do with that.

Let's talk about Southern Appalachia. Over a period of time, inefficient coal mines--such as Crane Creek 6, or Crane Creek 12, or Maitland--have been phased out. But we did not reduce our production of low-volatile coal. While we were phasing them out, we built the Buchanan Mine, which is 35 miles away in Virginia. We hired no "red hats" [inexperienced miners], only experienced miners in that new operation. There's been no reduction in the low-volatile coal we are exporting. That shows some obligation that we feel to our people. At the same time, it's not detrimental to the stockholder.

Now the community. We look at that in several ways. We encourage the participation of our employees--from senior vice president to mine superintendent to hourly worker--in the communities. We want them to be, and we hope they will be, a voice in the community.

We break down our financial obligation to the communities into philanthropy and financial aid to education. The philanthropic program is designed to help the hospitals, the Girl Scouts, the baseball leagues, the volunteer fire departments, and a variety of other organizations that are important to the community. And it is different in Tazewell, Virginia, than it is in Morgantown, West Virginia, than it is in Pinckneyville, Illinois, because the communities are different. And in some communities, Consol has a larger presence than in others. I think you have to be part of the communities where you operate mines.

At the same time--and you can go back to what I've said over eight years--Consol is not the community. We do not believe in company houses or company stores. We believe in the community, the business people of the community. They own the stores. And we didn't sell some of our former company houses and stores. We gave them away. We are part <u>of</u> the community. We <u>do</u> have a certain obligation. But we are not <u>the</u> community.

Seltzer: If you were advising Governor [Arch] Moore of West Virginia about the future of the coal industry in his state and you painted a picture similar to the one you painted today--modest growth, probably a decline in employment--what policies would you recommend to him to adapt to that future? His perspective is quite different. His perspective is, "Let's go with coal. Coal will be the engine of economic growth in our state."

Brown: Coal will continue to be the largest engine in his state. I agree with him on that. He and I would probably project a different curve from most economists. They do not believe there will be continued productivity increases. I don't agree with that. I can only speak for Consol because the industry was late in getting into the productivity swing. The industry will continue to be late in getting into that swing. But there will continue to be productivity increases in Consol in the foreseeable future. There's no reason not to have it.

Seltzer: Where are they coming from?

Brown: You start with what's caused the increase in the industry, and to some extent it's been one of the factors at Consol: closing inefficient coal mines. Competition drove them out. Secondly, there is the technological change that has gone on in mining. Everybody likes to talk about the longwall, but let's talk about the continuous-mining machine. The new generation of continuous miners is not the same old conventional piece of equipment. They have more power to turn the cutting head. They will bolt the roof and mine simultaneously. Then there's the technological change in the removal of methane gas from the coal mine so that you don't mine 10 minutes and sit idle 50 to bleed off the gas. Horizontal drilling, vertical drilling ten years in advance of mining to remove the gas from the seam of coal. That means improved safety and productivity. That's all going on. Not in the industry generally. Two or three companies, but notably Consol.

Seltzer: What you are saying is that you're anticipating productivity increases in five to ten years...

Brown: I said it publicly before the contract negotiations started. I anticipate 2-1/2 to 3 percent annual productivity increases during the period of this contract [1984-1988]. Fortunately, Mr. [Richard] Trumka [UMWA President] agreed. I think we're both right that you'll see this productivity gain during this contract period.

Seltzer: That increase in productivity is not coming from a sea-change in mining systems. It's coming from incremental improvements, substitution of new equipment. But nothing like in situ gasification or something like that?

Brown: No. And I don't see that. When I started to school a long time ago, I read on the third line of the basic engineering book what was going to happen in [coal] gasification. It is still the third line and it's still the same length of time out--ten years. It's going to be that way unless we have a crisis. We are crisis people. If there's a crisis in the Middle East or somewhere else, we're quickly going to divert our attention to these technological advances we know how to do. Gasification is workable. But it is not workable at $27 a barrel for crude oil.

Seltzer: If I were Trumka and if I were a legislator in West Virginia, I would say to myself that the crisis is pretty close.

Brown: I would, too. But you and I are not politicians.

Seltzer: Certainly not me.

Brown: I join you. I'm not because I totally believe they only operate in a crisis. And they do not believe the crisis is there because it's going to happen over a period of time, which they perceive is not a problem. You and I know it is a problem.

Seltzer: Yes it is.

Brown: But politically it is not a problem.

Seltzer: I don't personally feel that a private company has any responsibility to speak of once the market determines that it can't economically produce whatever it's producing. I think it probably has a responsibility to ease the transition as much as possible, and I'm sure you do some of that by transferring laid off miners to one of your working operations.

Brown: That is what I was saying. If you go back and look at the record, go to where the records have to be filed correctly at MSHA [Mine Safety and Health Administration of the U.S. Department of Labor]. We were a company that recognized the need for productivity increases eight years ago. Over a period of time, Consol closed mines and built other mines. The [coal] industry only recognized it when they didn't make a dollar, and it came crashing down on their heads. This made labor and labor negotiations a very, very tough thing to do. It would not be tough at all if you handled it over a long period of time. I guess that gets back to social responsibility. But, if you recall, at the end of the 1977-78 debacle [3-1/2-month strike], Consol announced before the strike ended what mines were going to come back to work and what mines weren't going to come back to work. We have continued that throughout this period of time. Our mines are in good shape, fairly efficient. You know, the work ethic of a coal miner is still the best in the world. The coal miner doesn't have a peer. They will work.

Seltzer: I hear both sides of that.

Brown: I don't believe the other side, and I've said that publicly. I've said that across the bargaining table. The coal miner is a hard worker.

Seltzer: When I lived in West Virginia for five or six years, people [miners] preferred to be busy when they went to work rather than just lay around. There was always an exception or two, but generally that's what I found. People liked to work efficiently.

Brown: Take maintenance of equipment. In 1977, our availability on a piece of equipment was 68 percent. Today it's 88 to 90 percent. What does that do to the employee? He's not home shaving in the morning already telling himself that that piece of junk is not going to work. Company maintenance policy has a lot to do with his attitude. When equipment goes down now, he's on top of it repairing it because it's not supposed to go down. It's good equipment. Attitude. I said, "We're not going to live with 68 percent availability, period." Now I'm saying 92 percent, even though that's unheard of. Eighty-eight is phenomenal. But we've already done that. Now I think 92 probably is not a bad number. There's a lot of things going into that. We now know that we're only going to overhaul the machine one time. You go down in our mines and an hourly man will tell you how many tons we're going to run on this machine.

Seltzer: When you next talk to Governor Moore or Governor [Martha Layne] Collins [Kentucky] and they ask you questions about coal, what advice might you give them about how to strengthen their economic base? They can count on coal for something. It's not going to be the engine of job development that it was in the past.

Brown: It's not going to be the growth area. That's correct. A governor has to--and should--be reaching outside of coal for other industries that would fit into the economic picture. That's not easy in southern Appalachia.

Seltzer: What can they do? They [governors] have all the negatives they [coal-field sites] have to deal with--poor location, lack of capital, lack of entrepreneurial abilities, all of that.

Brown: I have never studied, nor has the company since I've been here, what would be the proper type of industries. I surmise it would be small industries that can handle the transportation problem. I think you are not talking about a paper mill. You are not talking about a steel mill. You are talking about other industries. I'm not talking about service industries.

Seltzer: Is there a role that...the coal industry in Appalachia might play in beginning a dialogue about the future of economic development in that region, based on what your perception is of likely trends in your industry?

Brown: I would answer it this way. I've never been invited to participate in a dialogue of that type with the governors. But I would say this. The coal industry should be involved in that type dialogue. That won't be easy to do because you are talking about a very diverse industry, ranging from a Consol to a mine with one piece of equipment.

Seltzer: Let me ask you a question about taxes because it bears on the capability of a state to do economic development work. One of the ideas we're thinking about is to propose a compact among eastern coal-producing states which would have the effect of equalizing the tax burden on coal industries so that no one state disadvantages or advantages its coal by virtue of a tax burden. The market would make decisions about who sells how much and where based on factors other than the public burden of taxation. From your point of view, does that make sense?

Brown: No. That's a <u>basic</u> belief of mine that that doesn't make sense. That doesn't make sense to me the same way that you should not publicly plan the marketplace. The other side of that question is: do we tend as a nation to be leaning in that direction? The answer is yes. That's why I said the coal industry should participate, <u>not withdraw,</u> from that type of dialogue. But, no, I disagree with tax equalization.

Seltzer: Is [state] taxation a variable that is so important in your thinking that it would be the fulcrum over which you would make a decision as to whether you invest or not?

Brown: I would say there is a tremendous economic difference in Ohio and West Virginia. And there is a tremendous difference--just red to black--in financial factors in Illinois versus West Virginia.

Seltzer: But are you saying that the low taxes is the reason?

Brown: No, that's just one of the reasons. In Illinois they are more diverse and have a much larger tax base. In West Virginia, you and I both know that if they need more money, it's coal. They never think of chemicals or anything else. "Let's get the coal companies first," and it certainly has made West Virginia coal less competitive. But you notice I didn't say it is the only item that's made it less competitive. Terrain is part of it. They can't change the geology. But I know where they are going to come from in West Virginia when they are in trouble. You don't have the same problem in Ohio, Illinois, and, to some degree, in Kentucky. Certainly not in Virginia. Now, will a plan to equalize state coal-tax burdens be successful? I don't think so.

Seltzer: Because nobody wants to...

Brown: Not even the states [are] going to want to.

Seltzer: We found some people in each state who are, as you would expect, sympathetic to that kind of idea. There have been some people that I've talked to--coal executives--who think it's not a bad idea.

Brown: I would want to participate in the dialogue. It's a terrible idea.

Seltzer: (Laughter.) Can it be made a better idea? The basic thrust of the idea is to, again, try to put some stability into [the production side].

Brown: I doubt it. I will never say it can or cannot be done. I doubt, though, the states will ever get anybody from even three states to agree to that. It doesn't fit their modus operandi at all. It would take away flexibility they have today. Elected officials are there only for a short period of time.

Seltzer: Wouldn't that help a company like Consol that has a lot of operations in a high-tax state like West Virginia, if the tax burden were equalized? I'm not talking about higher [taxes]. I'm talking about equal.

Brown: Who is the biggest operator in the State of West Virginia? Consol. Who is the biggest taxpayer in West Virginia? Consol. But I do not believe we should do that. I think that takes flexibility away from the state. Kentucky is never going to pay the bill for West Virginia when you get right down to it.

Seltzer: But is flexibility a more important good than making coal sales?

Brown: I believe our economic and political system is not a bad system. It's expensive, but it's not a bad system. After traveling the world I'd say, it's the best system in the world. I doubt we are going to tinker with it too much.

Seltzer: Let me ask you a question about labor relations. You've seen both the storm and the peace over the last seven or eight years.

I recently finished a book on coal's labor relations. And I see the UMWA, if it does nothing different, becoming a remnant, an industrial artifact. It will be increasingly concentrated in small pockets of Pennsylvania, West Virginia, and Illinois. Its membership base will decrease. It's not because the operators are any tougher or meaner, but that's what the cards [economic trends] say. Is that how you read it?

Brown: Yes. I've said that. I've said that to Rich Trumka, said that to Sam Church [former UMWA president], and I've said that publicly. I even tell you now that the UMWA will continue as a regional union east of the Mississippi and will be very important in West Virginia and some pockets of Pennsylvania, Virginia, Illinois, Ohio. It will continue to decrease, though, as a force in the coal industry because of the biggest growth and where it's going to come from.

Seltzer: I agree with you on that. Why, then, do you continue to negotiate with them at all? Is it simply a matter of the next five years you will continue the framework? Or is it simply the pension obligation?

Brown: I said, back in 1981, the industry should prepare itself for regional bargaining and local bargaining. The industry's not ready for that. Certainly, the UMWA is not ready for that. I believe there's a workable solution to that, but it takes time. I believe you don't turn labor like a spigot. You work with labor and you hope that in your lifetime you've turned them a quarter degree. You hope you can attain that much because labor is not a spigot. You just don't turn them 180 degrees overnight. That's been tried. That won't work. That won't work with any labor group, not just coal. At Consol, we don't care whether it's [labor contract] national, regional, or local. Any part of that suits us fine. If you go back and study the contract of 1977, there's hardly any local issues left in the contract. They've all been removed. It was done without a lot of fanfare, but I guess there were a hundred and some odd changes in 1981, and there were 76 changes in 1978. The industry still stands around and says, "We didn't get any changes this time." There are no changes to be made. There are no work rules left in the contract. They are handled locally and by practice, by custom, by precedent. We have the right to run our business so long as we don't exceed good judgment.

Seltzer: What did you learn in the 1977 and the 1981 negotiations that you applied in 1984?

Brown: I had arrived at Consol in 1977 just before the strike. I was not at the bargaining table in 1977 until the 106th day [of the strike] or so. But looking backward, what happened probably had to happen. It had to reach that low spot to ever get the opportunity to come back. I can be less critical today than I was back in 1977 and 1978 when Consol walked out of BCOA. This is not disparaging to labor. This is disparaging, as far as I am concerned, to management. There was no organization. There was no discipline. I'm probably not nearly that critical anymore because after you get yourself in the front seat, you are less critical than when you weren't in that seat.

Seltzer: Do you see the model of labor relations that you're crafting with Trumka as being similar to the one that Lewis put together back in the 1950s?

Brown: No, I don't see that. For instance, I've got all the contract bargaining experience that I'll ever need on my resumé

Seltzer: Probably more than you care to have.

Brown: I'm busy enough that I will not miss doing the negotiations. So, I'm not a volunteer.

I believe you have to work with labor every day. Never let a week go by that you're not. The other side has to know precisely what you're thinking. It doesn't hurt anything if the other side lets you know precisely what they're thinking. I do not see it as a John L. Lewis/George Love-type thing. The industry's too big for that. Given the fact that we are talking about a regional union, I believe Consol will have a great amount of influence in those negotiations because of where we operate, that's east of the Mississippi. We believe in 1988 that we'll have some influence in that negotiation, but I am not a volunteer to lead it.

The UMWA will continue to be very strong where Consol operates. And for the owners--which is my first priority--if it requires me to go to the table, I certainly would because of its importance. But I have enough to do without that.

Seltzer: It appears there's a long-term decline in political power in the union. As fewer and fewer jobs are generated by the industry, that decline is going to keep them more willing to talk than to strike.

Brown: On the other side, in some people's thinking that decline in union power could become a very worrisome thing--I'm not talking only about the UMWA; I'm talking about labor generally--when they have less and less influence. To continue the trend we've had in the U.S. during the past three or four years could become very worrisome.

Seltzer: You mean that they [labor] would become so desperate they would...

Brown: No, the pendulum swings too far in management's favor. There has to be some kind of a balance in the United States for us to run our business.

Seltzer: That's very curious you would say that. Why?

Brown: I worry when the pendulum swings too far because we might take advantage of that situation.

Seltzer: Your tongue is not in your cheek when you say that?

Brown: No. Not at all. There have been some rulings that I publicly disagreed with. I said, "That's too far." It goes back to my thinking that you don't just jerk people around. If you are going to change something--and I think there's a lot of things that need to be changed in the United States--you do it over a long period of time. You don't surprise people.

The newspapers, back in 1977, 1978, and even 1981, said I was the meanest, no good, S.O.B. they'd ever known. That's not true. But, that's fine. It may have been what we needed at that time. I would go to the coal mines in Fairmont or Bluefield and then I would write a letter and I'd tell them exactly what I think: this is what we have to do and here's why. I find people very responsive if you then don't tell them the next day, "Oops! I really didn't think that. I thought something else." The worst plan that can be drawn up is a good plan if everybody knows it. They will make it work. People and their work ethic are good. You need to be sure you know what you want to do. You've got to be sure if you find out you were wrong that they don't find out about it in the newspaper or that they conclude it at home. You have to go back and tell them "I was dead wrong. I did not tell you the truth and this is what I want to do." Don't wait until they tell you, because they are always ready to tell you what to do. Tell them:

"This is what I want to do." They say, "Well, he's no good, but by God, this is what we're going to do."

Seltzer: If the energy market could tell the coal industry what it was going to do, it would simplify your life. Why doesn't the energy market make a decision for coal if coal is cheaper; coal is abundant; it's domestic; it has overcapacity? Why aren't the utility market and certain industrial markets moving more quickly toward coal? Why are we still burning oil and gas [where coal is appropriate and competitive]?

Brown: First and foremost coal is coal is coal. It's dirty. It's hard to transport. It's hard to use. Oil is dirty, but it's inside a pipeline. It's easy to use. Secondly, the clean-air regulations are not as prohibitive. It boils down to a cost factor. It costs utilities money to retrofit, to get rid of the oil burners and to go to a coal-burning boiler. Therein lies the problem. They do not have the money nor do they want to spend the money in that way. There have been a few retrofits, but nothing like what was predicted because there's no crisis. Now, as oil prices drop, persuading utilities to use more coal and retrofitting scrubbers is going to be a bigger problem. Coal will continue to be the cheapest source, but it is still black, dirty, and hard to handle. And the retrofitting cost factor is there.

Seltzer: And coal is two to three times cheaper than oil.

Brown: At this point, yes.

Seltzer: And likely to be cheaper over the long-term.

Brown: It will be cheaper and the reason is that the supply [of coal] is available.

Seltzer: Sure.

Brown: As oil prices dropped, coal prices didn't increase. They've decreased.

Start with the export market. When I came to the industry, a low-volatile coal was in the $58- to $62-per-ton range. Today, it's in the $36- to $39-per-ton range. Mid-vol was $52 to $55 a ton in 1977-78. Today, $34 to $36. Maybe. There's a lot going for $31. High-vol. There's a coal that can go either way--into boilers...as well as using it in steel production because of its coking characteristics. There's a coal that was selling in the mid-forties, that is selling now for $29 or $30. To me it's not a question about whether coal is going to be the cheapest source. It will continue to be.

We do not believe there are going to be any new nuclear plants ordered. There hasn't been one put on the drawing board and there won't be. Even if we had a national policy to build more nuclear plants, there couldn't be anything until 2010.

Seltzer: But that's what people were getting to in the mid-1970s with Ford's energy plan and Carter's energy plan. They were talking about a coal-oriented energy base.

Brown: Yes. And that's what caused part of the problem now. Coal producers believed that.

Seltzer: And you invested as if that were going to happen.

Brown: Yes.

Seltzer: Is there a way that national policy could be recast, that the balance could be recast, in a way such that, for example, nuclear power was discouraged, oil conversions were encouraged...

Brown: I would disagree with policy if it were written the way you just said it. I've always believed there needs to be an energy policy in this nation. We don't have one--probably won't have one, but I think there should be one. If I were writing it, I would encourage coal <u>and</u> nuclear. I think we need them both and I think we'll find out--probably not in my lifetime. But very likely, in the early 2000s, we're going to find out that we are way behind.

Seltzer: But would your energy plan say "We as a society want to have 50 percent of our total energy consumption in the year 2005 based on coal and 20 percent based on nuclear? And here's how we're going to get to those goals."

Brown: I was thinking more like 75 percent, 25 percent.

Seltzer: Seventy-five percent coal?

Brown: Sure.

Seltzer: And then here's how we're going to get there?

Brown: Any policy they write would not need to indicate a specific percentage of coal, nuclear, or other. The policy should state where we want to get to, and it <u>will</u> be coal. It is the cheapest source. It is going to be coal. The policy needs to go further, though. The nation needs to decide--not in a crisis atmosphere--what we need to do with oil shale, liquefaction and those other things that we have to have to keep the machines running.

I do not believe oil or gas should be used under a boiler. They are depleting sources. That should not happen. They should be used for what they're good for. Coal should be used for what it is good for. But we should have a protective insurance device in this nation, as rich as we are, for a certain part of our energy--and I'm talking about the synthetics side--so we are not crippled if there is a crisis in the rest of the world. But the policy makers don't have to say electrical generation should be 75% coal, because that is going to happen anyway. Because of cost, we have no other alternative. There is not one new plant on the drawing board that's not coal. Why? Economics. Stockholders. It doesn't have to do with the environment. It doesn't have a thing to do with anything except what it costs.

Seltzer: You don't see renewables as a significant factor?

Brown: No.

Seltzer: For cost reasons?

Brown: For cost reasons at this time. As a nation, we certainly ought to have them in place. To do that, we probably have to guarantee certain things. In other words, guarantee the delivered price so that the investment and the risks can be justified.

Seltzer: What's the proper role for a federal energy department? The President is talking about phasing it out altogether and shifting some functions back to the Interior Department.

Brown: If they are going to continue to use it the way they have, I probably agree with the president. When it was established under former President Carter, his thinking was right. It was going to set priorities and recommend policies to the Congress to get the job done. But it has gotten into some things that it shouldn't be in.

Seltzer: Like?

Brown: The Federal Energy Regulatory Commission and the oversight. It doesn't hurt me, but it certainly is costing the utility industry a great amount of nonproductive time when you already have a PUC consumer advocate in place. FERC policy is doing the very thing you don't want to happen, and that is the transfer of power by line.

Seltzer: There's talk now about making agriculture a market-oriented sector of the economy and stripping federal price supports from agriculture. If that model were applied to coal and the federal regulatory role was taken out of the supply side and the demand side, what changes do you think would result?

Brown: I strongly suspect that the consumer would benefit from a lower price.

Seltzer: How would that be?

Brown: There would be a far-reaching shakeout in the industry. We have always seen sick companies in the coal industry, but very few deaths.

Seltzer: That's right.

Brown: Under that scenario, there would be some deaths. The shakeout would mean only the efficient would survive because you are not going to stop that consumer advocate, that PUC which would require utilities to buy the lowest priced coal.

Seltzer: But there's an argument that says the weight of federal regulations falls heaviest on the least efficient. The most efficient companies, like yours, can live with them.

Brown: Of course, that's not true. The opposite is true.

Who is inspected more per shift in the United States than the large producer? Nobody. Who does MSHA come to when it has an idea that's going to cost another million dollars per shift to do the research? Can they do it in our mine or will we pay for it? It's going to be Consol. Same with FERC. They are not going to go down and open the books of a small producer in the Pittsburgh area. They are going to come to Consol and then they will make their decision for the whole industry. Why? Because we are large and perceived to be the most efficient.

Seltzer: But the cost of compliance is greater on the smaller company in proportion to their available capital than it is to a company like Consol.

Brown: No. I disagree totally.

Seltzer: Then why are all those little companies going out of business?

Brown: I'll go back to safety. The cost in safety to comply with federal regulations is not even a third for the small coal company. It may not even be inspected. You know that.

Seltzer: Well, I know it.

Brown: I've known it all along. It's been brought to [public] attention by Mr. Trumka. He's said to MSHA, "You guys are not doing your job." Responsible operators will tell you this. I have nothing against a good safety inspection of the coal mines. But I have a lot of problems with citations that don't relate directly to making the mine safer. MSHA was not created to establish jobs. It was created to enhance safety. So we have a lot of problems when they get outside their realm. But we have no problem with a stiff inspection. We don't know that we need 2.4 inspectors per shift, per mine. That's what we had. That's even hard for Trumka to believe. <u>Per mine</u>. <u>In all mines</u>. And Consol is only 75 percent [production] deep, 25 percent [production] surface. So we do not agree that it is more expensive for the small operator to comply with safety regulations nor do I agree that MSHA is doing a good safety job.

We are now required to report total accidents and lost work-day accidents. And we don't have a problem with that...because statistics do tell you something. As the band-aid cases [non-lost-time accidents] increase, you are just around the corner from an increase in lost-time accidents. And when they start to increase you are just around the corner from a fatality. That's a proven fact. So we have no problem with accident reporting. But we've come from a frequency rate of lost-time accidents in 1977 of more than 11 accidents per 200,000 hours of exposure to a total non-lost-time and lost-time frequency rate of 3.3, half of which is non-lost-time. And we've got a long way to go.

Seltzer: But you're saying that doesn't have anything to do with MSHA's policy? That's internalization of responsibility by the company.

Brown: On that question, I want to tell you again that it is more expensive per ton to Consol than it is to a small operator.

Seltzer: And why do they focus on you? Because you are willing to let them in [cooperate]?

Brown: We are favorably disposed to safety. That's not to say the small operator's not. But he has one small coal mine, two sections maybe, and that's it. We have 50 million tons.

Whether we like it or not we are high profile. We would prefer a lower profile. If we are going to do something for the community, for example, we don't need to announce it in the newspaper. If we do it, we do it locally. The senior vice president of the region--Eustace Frederick--is the company representative in Bluefield [West Virginia]. He's the one who sits on the board of trustees at Bluefield State College, at Virginia Polytechnic Institute. Not me.

Seltzer: Would your local people be willing to work with other local businesses to get some replacement business going in communities where you are running a mine? There are certain communities where you are going to be phasing out or not growing, and there's no local--I hesitate to use the word planning--there's no local group that's thinking about what we are going to do. And, as you say, until the crisis is dropped in their laps, they are not going to do anything.

Brown: Right.

Seltzer: Your perspective in an odd way is very similar to mine in that if you see writing on the wall you start to do something about it.

Brown: Yes.

Seltzer: It would seem to me to be useful to have people in Beckley [West Virginia] or McDowell County [West Virginia] who are associated with Consol to start working with a group of people in that community to say, "Okay, what can we do here?" Rather than just be the victims of economic forces over which nobody has much control.

Brown: I believe we are very active right now in certain communities, like Bluefield, Beckley, and Welch [West Virginia]. I'm talking about Eustace Frederick with the Chamber of Commerce, for example. I'm the guy invited down once in a while by the Chamber of Commerce to bring them bad news. I tell them that there isn't going to be continued growth of seven percent. I say: "I told you that last year; I'm telling you again right now."

I think if you will look at that area, they have begun to establish businesses other than coal mining. But the leadership--and leadership can be defined a lot of ways, because those are not all executives when you get down there--is at least beginning now to work on their problems. We are participating in those efforts. Eustace Frederick is extremely active as are his lieutenants. Are we doing any good? I don't know.

Seltzer: MACED started out thinking coal was not likely to grow in such a way that a lot of community development would result. It would grow, but it wasn't going to pull everybody up along with it. MACED started with the idea that we needed to diversify the coal-field economy. So we started businesses to do that. We started a lumber company to market lumber for little sawmill operators and loggers. Then we put together a $30 million mortgage pool for low-income housing. Things like that. Then we started thinking more about coal. How could coal become a better promoter of community development? I would summarize our conversation today by saying you can't count on coal dragging everybody along.

Brown: That's correct.

Seltzer: Coal will carry its own weight but nobody else's weight. But we might be able to expect some help--I'm not talking about financial help--advice and counsel from local coal people on economic development projects.

Brown: Without a doubt. That's right. When you get local, a superintendent runs the coal mine. He is the boss. He certainly would not tend to want to help you and give advice because it might take away from what he considers his labor market. I'm the opposite. We don't believe that you are going to bring in anything that bothers our [coal mining's] labor market anyway. It would improve the community.

Seltzer: [Non-coal business]...certainly will not offer the same kind of wages you are offering. No competition.

Brown: I just don't have that worry at all, but I can see the reservations of a superintendent on the scene, in the community, who lives there. He would be very protective. Diversification is not going to affect Consol's local operations. When I came to the coal industry I was told there's not enough people out there to do what we've got to do. There's plenty of people. You don't have to worry about that. It's a matter of training the ones you have to do a job. There's never a shortage. There never has been a shortage. We've had some law changes that put us in short supply of a certain category of people like foremen. Like the 1969 Health and Safety Act, where they required particular things that mine operators have to do in an eight-hour period that necessitates more expertise. We had a short-term problem getting new foremen trained and ready.

I don't believe your objectives [diversify local economies] would be detrimental to the coal industry at all. To the contrary, I think it would be beneficial to the coal industry. We've got a depleting industry, a depleting resource, and we know we can't stay there forever.

EXECUTIVE ENERGY COMPANY

Stonie Barker, Jr., President

Company address: 3060 Harrodsburg Road, Suite 104, Lexington, Kentucky 40504

Parent company: None

Background: 59 years old, 35 years in the coal business. Mr. Barker was the President and Chief Executive Officer of Island Creek from 1970 to 1983. He served as their Chairman of the Board during 1983 and 1984. He graduated in 1951 from Virginia Polytechnic Institute in mining engineering.

The Executive Energy Company was formed late in 1984. Company functions include locating sources of coal production, both domestic and foreign, and trying to find customers for the coal. The company locates buyers for coal properties that are for sale, and does consulting work for companies in the coal business relating to any coal operation.

EXECUTIVE ENERGY COMPANY

Stonie Barker, President

February 12, 1985

Seltzer:* What do you think the future of the Appalachian coal industry is likely to be over the next ten years or so?

Barker: Long-term, the coal business in the Appalachian area has got to be good.

Seltzer: You're talking about Central Appalachia?

Barker: All the way from Pennsylvania down through Alabama. It can only be good. I say that for this reason. Last year, 1984, this country had an all-time record burn, consumption of coal, of something like 875 million tons. That's an all-time record. Approximately two-thirds of that comes from east of the Mississippi. And it's going to continue to grow. The energy demands this country will place on coal will be such that coal will continue to grow at a good healthy rate over the next ten years.

We have seen a market depression in the last year or so in the coal business, but there's [still been] an all-time record burn in 1984. It's only a matter of time in my opinion until supply and demand get in balance and the market improves and you get price stability again. I'm optimistic. Always have been. I view the coal industry in the Appalachian area as having an excellent future.

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*Curtis Seltzer and Cynthia Duncan, interviewers.

Seltzer: Are you as optimistic about medium and higher sulfur coals as you are about low-sulfur coals?

Barker: No. I was just getting ready to say that with the advent of the Clean Air Act and with the passage of the acid rain bill some time in the future...

Seltzer: Do you expect that to happen?

Barker: Yes. It's just a matter of time. Whether it comes this year or next year. I think that's going to place an additional demand on the low-sulfur coals you find here in the Appalachian area. I don't think there's any question about it. It's too much of a political animal to think it's not going to pass. I think it will pass in time. There are not too many people, I think, who understand it and know all of the answers to acid rain. But there's too many people talking about it and there's too many people that don't understand it and feel the effects are all bad coming from high-sulfur coal. With those things in mind you are going to see an additional demand placed on the low-sulfur coal here in the Appalachian area. That can only be good for the next ten or fifteen years.

Seltzer: I asked that question of Bobby Brown [President of Consolidation Coal] and he said exactly the same thing with the proviso that he thought the bill would be something like the Waxman-Sikorski bill that mandates retrofitted scrubbers to protect high-sulfur coal producers. Of course, his interest in that is obvious.

Barker: That's true. He's got lots of high-sulfur coal.

Island Creek* had over a billion tons [in reserves] in West Kentucky of high sulfur, and they are now down to one operation out there. But I shouldn't say that with the implication that it is because of high sulfur. They have had some other problems they haven't properly addressed. [They are] the reasons they are down to the one operation. Still, they have the problem with the high-sulfur coal in the marketplace today. Two or three of the very large companies have done an excellent job of lobbying for these scrubbers. Once you clean up the sulfur in high-sulfur coal then, of course, you will still have a market for that

*Barker had formerly been Island Creek's president.

high-sulfur coal. But I would still rather have a lot of holdings in the Appalachian area with low sulfur.

Seltzer: You could sell that at a premium price. When we are talking about the future of the coal industry, what's your sense of how productivity is going to change over the next five or ten years? Do you expect annual increases in the productivity rate?

Barker: Oh, absolutely.

Seltzer: Three percent or 5% a year?

Barker: Let me put this in perspective for you. Underground productivity reached a peak about 1969. Something like 15.6 tons per man per day. With the advent of the Federal Coal Mine Health and Safety Act [of 1969], we saw productivity decline through the 1970s. Probably hit a low point about 1978 or 1979. Since that time, we've seen it bottom out and then turn up. Productivity has come from a low of around 8 tons per man day to something like 11-1/2 or 12 tons [in 1983]. I think you will see this continue to increase over the next five or ten years. Not as rapidly, perhaps, but nevertheless you will see an increase. Hopefully, it will get back to where it was in 1969.

Seltzer: What do you think will cause that increase in productivity?

Barker: There are two or three things that cause it. You have a much higher production base in the country. The industry is currently capable of producing a billion tons or more per year. We've opened up a lot of properties. Some of them are good thick coals, excellent physical conditions. A lot of the older properties that have been around for twenty, thirty, forty years--their productivities are low. You will see those drop by the wayside. They will close out as they become uneconomic. You will see [them replaced by] newer properties where you are able, with good physical conditions and a change in mining equipment, to increase productivity consistently. So I see the productivity gain coming from change in the mining systems, better equipment, and older operations being phased out and replaced by newer more efficient ones.

Seltzer: Better management?

Barker: Yes, and especially better management. You have a better quality of management in the industry today than you had over the years.

Certainly you can attribute a good portion of that increase to better management.

Seltzer: What do you think the implication is for labor of the productivity trends you just described?

Barker: I figure your question relates to the unions, or is it labor overall?

Seltzer: It relates to two things. First, it relates to how many people you think are going to be employed over the next decade. Do you think there is going to be an increase or decrease in employment? The second thing is what do you think about labor relations? I know you were instrumental in the 1978 contract negotiations.

Barker: I definitely think you will see an increase in the numbers of people in the coal industry. The number of laborers. I think you will see a gradual increase. It is probably at a low point right now but....

Seltzer: About 170,000?

Barker: 165,000 - 170,000 somewhere in that area. You will definitely see an increase.

As far as labor relations in the industry. In my view, it hit an all-time low in 1976-78. We had strikes over steel studs in winter tires in West Virginia. There was a tremendous amount of wildcat strikes. That was a turning point in 1978 in labor relations in the industry. Two or three things caused that. We had bonus plans introduced into that contract with the UMWA for the first time. That was helpful. They were able to participate in some [bonus-for-production] benefits over and above the base benfits provided in the contract. Miners liked it; at least they had a choice. That's the first time that we had written in the contract that individuals had a right to discuss grievances with their immediate foreman and it didn't become a precedent. [Because of that] many grievances were settled and never reached a second stage. That was extremely helpful to the improving relations we have seen in the industry subsequent to the 1978 agreement. You've got a better quality of management today than you had 20 years ago in the coal industry, even 10 years ago. Those three factors have contributed and will continue to contribute toward better labor relations in the industry. One other thing in the 1978 agreement was that the individual miner got a little better feeling of comfort as far as his health benefits and retirement was concerned with the 1978 agreement.

Seltzer: You're referring to the switch from the UMWA's prepaid health-care plan to company health plans?

Barker: Yes. You [unionized operators] must control the cost of those plans. If the costs run wild, they will eventually destroy themselves. Starting with 1978, you got good control on the costs. I always got the feeling that individual workers felt more comfortable, that they had greater security with those pension and health funds, than they had prior to 1978.

Seltzer: Do you think the rate of productivity increase is going to be higher or lower than the rate of increase in production over the next period of years? If production increases more slowly than productivity there is going to be a net loss of jobs, which is what we've seen over the last two or three years.

Barker: You really should look at this problem in two areas; east of the Mississippi River and west of the river. When somebody answers your question, they're going to say you are certainly going to get an increase in productivity. If they stop at that, I don't think it answers your question.

Western coal has grown much more rapidly in the last five years than eastern coal. When you are talking about western coal, you are talking about big thick seams--most of them are surface mineable. Even the underground seams are thick. You are talking about surface-mine productivity out there [sometimes] exceeding 100 tons per man day. Your underground productivity--much of it is in the range of 20, 30, 35, even as high as 40 tons per man day. Productivity is going to increase very rapidly out there. When you consolidate [productivity rates for] the country as a whole, it becomes a little distorted.

If you look at productivity in Appalachia, I don't think it will increase as rapidly as out there. Nevertheless, you are getting an increase here. You will continue to get an increase in productivity in the Appalachian area.

You ask if productivity will increase faster than volume. I doubt that.

Seltzer: Brown said that he thought it would.

Barker: Well, I'm thinking about it.

Seltzer: For eastern surface mining, he said he didn't think so; he thought productivity would be about the same.

Barker: Yes.

Seltzer: When the Department of Energy does its forecasts, they project no increase in productivity over the next ten years.

Barker: Oh, that's not going to happen.

Seltzer: Cynthia has done an extensive survey and research project over the last two years [where she] compared coal counties and noncoal counties in terms of how much income and social services has grown. In the [Kentucky] coal counties, she found that growth has occurred and the main benefit in having coal in the county is jobs. The problem [with jobs as a benefit] is the market fluctuates....

Barker: It's volatile, up and down.

Seltzer: Employment goes up and down too. If strong productivity increases are occurring rapidly and are seeded through the industry, the implications for employment in those counties where coal is mined are a little bit scary. There will be a lot of unemployment, a big need for social services and things like that. Cynthia can fill you in on what she's found because you would be interested, coming from Logan County, [West Virginia, a coal county].

Duncan: We started this project with the aim of asking what effect coal and coal growth had on conditions in coal-field communities. The coal counties between 1960 and 1980 had much greater earned income growth than noncoal counties [in Kentucky], but you didn't see a greater improvement in conditions there. We're thinking it has to do with the instability [in the coal industry]. Even when we got really good growth in coal, we didn't see it pay off in a developmental sense. Even the miners' money doesn't appear to have been recirculating in those counties in a way that allowed them to pick up conditions.

Barker: You don't see it finding its way into improvements in the educational systems?

Duncan: Even poverty levels weren't improved much.

Seltzer: Why doesn't [job income] circulate the same way it circulates in Lexington?

Barker: I don't know. I guess we have seen too much of this boom and bust thing. We've seen good periods of the coal business in East Kentucky. The people there--do they think it's here for a year and gone for another five years? Do they let short-term benefits override lasting long-term benefits [investments] that they could be making with their income? I just don't know.

Seltzer: When you headed Island Creek, you had to deal with the everyday consequences of a cyclical market and its great fluctuations. You tried to protect yourself by negotiating long-term contracts.

Barker: I also tried to protect us with putting in some coal terminals where I could store up a million tons of coal.

Seltzer: Were those covered terminals?

Barker No. Just stockpiles on the [Ohio] river up here. One on the Chessie system; one on the N & W. And you are exactly right: I tried to protect us through working five days a week year-round and [store] the tons to smooth out those fluctuations caused by the marketplace.

Seltzer: That is an extremely important point. It's the first time we've heard that kind of corporate strategy to deal with the ups and downs in the market.

Barker: It helped. I felt that Island Creek Coal Company was the best company in the business in 1983. It was positioned better than any other major- or medium-size coal company in this country to operate year-round on an efficient basis. I and my staff were primarily responsible for our export terminal at Baltimore, the two on the river on the Chessie system, one on the N & W, and an interest in one in New Orleans. We were getting ready to put one at Norfolk. Those terminals would allow me to take the coal from all our mines and store it in these locations [from which it could be sold or held, depending on sales.] When you are loading boats for export market, as we were in a big way, some export customers want their coal from February through July. Maybe the shipments are heavier during that period than other times of the year. Somebody else doesn't want any in December, January, February. [Our terminal storage capacity] would allow us to operate our mines on an efficient basis, the most efficient basis. Keep employment at a constant level and move the tonnage out. And smooth out the fluctuations. Of course, I had a selfish motive. It would increase the profits. At the same time, it would help the people.

Duncan: How many people did you employ at that time?

Barker: We had 9,500 people.

Seltzer: That was a painful year for the industry and, as I recall, for Island Creek.

Barker: Which year?

Seltzer: 1983. Island Creek dropped from about 19 million tons to about 13 or 14 million. And you had $17 million loss.

Barker: Well.

Seltzer: And you had been making $120 to $200 million a year until then.

Barker: We made about a billion dollars from 1974 through 1982. I am not going to go into the reasons why. That's why I left the company. I got disinterested, and I left of my own choosing.

Seltzer: After making the company a billion dollars over eight years?

Barker: Yes. The company--I'm just going to touch on it because these are some sensitive areas. We [Occidental Petroleum, owner of Island Creek Coal, ordered its coal subsidiary to] split four mines off from the parent and set up Enoxy Coal [a joint venture with the Italian government]. Those four mines are excellent quality coals.

Seltzer: Were those your [Island Creek's] four blue-chips mines?

Barker: Yes, four good ones. They were new ones I built from scratch. They were very profitable. Especially one of them in East Kentucky. We [were told to] set those mines off in a company to compete against Island Creek. And certainly against my better judgment and wishes. It's just something that good business people wouldn't do.

Duncan: Those four mines are still producing well?

Barker: Losing money. I am just telling you that they [Occidental] split four off and then sold off four other properties that were excellent quality coals. These are the things that contributed to the decline. I saw this happening and I said, "I spent my life here trying to build a company as the best." I don't want to dwell on this.

Seltzer: I have asked other folks in the industry about building stockpiles as a way of smoothing out market fluctuations. The answer I generally get is that when a company puts a lot of coal into a stockpile, they run into various problems. There's a problem in the loss of Btus over time from rain and weather affecting the heat content of the coal.

Barker: Not great, but go ahead.

Seltzer: Some. And you have to count that in. There are problems with spontaneous combustion if you don't manage the pile properly.

Barker: Yes. That's correct.

Seltzer: There is also the cash-flow problem. You are keeping your miners employed and you are putting the coal into a pile and waiting for a customer to buy it.

Barker: Yes. But if you put $50 million dollars investment in a coal property and have 400 people at that operation, it is costly to lay off half of that work force even temporarily and to leave that investment idle. Go ahead.

Seltzer: So when you penciled it out and had to make a corporate decision about how you are going to face this problem, your pencil told you that it was in the long-run interest to build the terminals and stockpile.

Barker: Oh, absolutely. No question about it.

Seltzer: And it wasn't even close?

Barker: No. You build a mine on the basis of the market and what you can sell. Your customers for a given mine will take "X" number of tons annually. Some months they would be down at half rate and some months it may be twice the normal rate. That's the kind of thing I was taking care of. It allows you to operate your investment on a normal basis. You eliminate overtime, for example.

Seltzer: That makes sense.

Barker: In Virginia, eastern Kentucky in certain places. There is not enough level land to store much coal at the mine locations. When you do store it, you got about half a dozen problems. You got a community problem in that it's dusty and people don't like it. It doesn't do anything for the image of the coal business. When you pile it up and it rains, it's going to wash into streams and you are going to get stream pollution. You are going to have the environmentalists on your back. It also costs you when you truck it, say, 500 yards, dump it in a flat place, and pick it up--it costs you a couple of bucks a ton to do that. If you can run that coal daily into a railroad car and ship it to your terminals, you eliminate all those problems and those excess costs. As for the economics of the system, as far as I am concerned, there is no comparison. It is the way it ought to be done. We had Island Creek positioned to do this. I put money in non-coal-mine activities and it is paying off. Will pay off.

Duncan: What money do you mean?

Barker: To put in, say, terminals. Most people put money into operating companies to build a new coal mine. But you need distribution and transportation systems to go with them.

Seltzer: What can be done at the federal level to smooth out coal's problems in meeting supply and demand and avoiding overcapacity?

Barker: Keep them out of our business.

Seltzer: Okay, they are out of your business.

Barker: Keep them out of the business. I think the less federal intervention you have, the better off you are.

Seltzer: In many ways, coal on the demand side is not a regulated industry.

Barker: I understand. Yes.

Seltzer: On the supply side, you are absolutely right. You are about the most regulated industry in the country. On the demand side, it is pretty much a market industry.

Barker: That's right.

Seltzer And the market has created 20% over capacity.

Barker: Yes.

Seltzer: Ups and downs.

Barker: You got overcapacity resulting from the investments made all the way up through 1978-79. It's still overhanging the market today. Until it clears up--that other 150 million tons--you won't see price stability return to the coal industry.

Duncan: Do you think it will return because of the shaking out in the industry itself, or because demand will go up?

Barker: Combination. You're shaking out now. You are phasing out some old operations that will never go back; they have become uneconomic.

Duncan: What about the small operators? Kentucky has a lot of small operators. Do they affect that in a negative way or a positive way, in your view?

Barker: I love little operators.

Duncan: At Island Creek--were they a benefit to you? To have small operators in the business?

Barker: Absolutely. This is an opinion--the most efficient operation you can have is the smallest unit, whether its conditions allow it to produce 500 tons a day or 2,000. That one unit of people gets so they feel like they are a part of the mining system. I would rather have ten units like that, all separate, producing for me, than to have one under Island Creek Coal Company, or Consol, or Peabody. <u>In Search of Excellence</u> says the smaller the producing unit, the more efficient they are. I think small operators just need a little help.

Duncan: From whom?

Barker: Generally speaking, they don't have expertise in finance and marketing areas. Those are the key areas where they need help. They need to be tied into a system that can supply that expertise where they are deficient.

Duncan: Does contract mining do that a little bit?

Barker: Yes. Oh yes. I love the small operator.

Duncan: Do you think they can be as safe and clean and responsible?

Barker: They could. I know what you are bordering on.

Duncan: No, I'm not bordering on anything. I just...

Seltzer: I'll border on it. I think they are a lot worse than Island Creek on safety....

Barker: They don't have the expertise in some of those areas, but they could get it.

Duncan: But they can't afford it. Aren't they stuck by size?

Barker: They are limited. And you are going to get into the safety record.

Seltzer: Of course, overall the big companies have been more responsible.

Barker: Oh, no question about it.

Seltzer: If we are trying to make coal communities a better place to live, the initiative and the ability to do that is not going to come from the small companies. It is going to come from the big companies.

Barker: The small operators we had through contract mining at Island Creek, we supplied them a lot of help in marketing and other areas.

Duncan: Should you [Island Creek] assume some kind of responsibility for how they treated labor, or for the health and safety of their miners?

Barker: Indirectly you do, I suppose. I wanted good operators, good people, working with us. It doesn't do anybody any good if they are constantly in trouble with federal inspectors, state inspectors, or the environmental people. If they are not responsible, you gradually drop them and you improve the quality of the ones you keep. That pretty much has to do with the philosophy of the company that is doing it. We wanted a good bunch [of independent contract operators], responsible people, only those who belonged to the UMWA, because we were under signature to the UMWA. We insisted that they stay in good standing with the UMWA. They didn't work if they didn't stay in good standing with the UMWA. Not only would they not work, we wouldn't work either. So we demanded that they stay in good standing with the UMWA--pay their fees and dues. Now, we couldn't go to that extreme in the federal and state agencies because then we would have had to assume that responsibility. We would have been liable instead of them and that is what we didn't want. I understand it is difficult for the small ones to be as responsible as some of the bigger ones that have more resources behind them.

Seltzer: You were at Island Creek when Jack Katlic was working on that housing project, the Buchanshire development.

Barker: I believed in it.

Seltzer: Why?

Barker: Again, you might say it is a selfish reason. [We were looking at] seven operating coal mines in Buchanan County, Virginia, with an influx of labor from 2,500 to 4,000 in years to come. Because of the terrain, you have limited areas for adequate housing. I could see that this [lack of housing] was going to be a tremendous burden on the people that were going to be our employees. The land wasn't available to them. They didn't have adequate housing. We figured it would cost them $10,000 to just bulldoze a wedge out to put a house trailer on those mountain sides. We could acquire 1,200 acres at a reasonable cost. We planned to build some access roads and put in adequate sewage- and water-treatment facilities. It was a good investment for us. It was going to pay dividends. The profit motive again helped motivate me to do it. Now maybe you say that's a selfish way of looking at it. At the same time, I felt we could control the [quality of the] housing and make sure it was done properly so we didn't see the housing up on stilts--the ones that CBS, ABC, and NBC take pictures of all the time. Those are the reasons why I did it. Listen, I'm the one who pushed the project along with Jack and got the money to do it. They [Island Creek] haven't built the first house yet, but we would have spent about $15 million buying the property and putting in good access roads.

Seltzer: That's a lot of money.

Barker: Plus we were hooking onto the sewage-disposal systems in the area. We gave them $250,000 one time to increase the [sewage] capacity to take care of it properly and adequately. We brought power into the area. All the utilities. We were going to spend all this money before we were going to build the first house. We were going to do this project right. Jack was a tremendous advocate for the project. He was sold on it as well as me.

Duncan: Could you do that today?

Barker: Would I? I wouldn't hesitate a minute.

Duncan: What prevents it happening right now?

Barker: I'm sorry?

Duncan: What would prevent it from happening [being built]? Didn't [construction] depend on long-term market expectations?

Barker: Well sure. It's got to depend on those things. We are in the business of mining and selling coal at a profit. If you take that away, then you can't do it. But you are not going to take that away. That coal is valuable. It is always going to be valuable. Right now they are experiencing a down cycle in the market; you have some shifting in the markets there. But that coal has got a place. It will be mined.

Duncan: You could have done less there. Was there something besides a profit motive in how you went about that project? You could have put up manufactured housing.

Barker: I've seen temporary housing, prefabricated housing, done. Many of them, as you well know, become eyesores. They become problems for the community. This is something we didn't want. I felt we had that project laid out properly. We had recreational areas. We had clinic facilities for the doctors. We had areas for, say, $150,000 homes. We had areas for apartment buildings for single, professional people. We had other lower-cost housing. But it was all good.

Duncan: Is there a difference in how Island Creek would run mines in West Virginia versus Kentucky, in terms of labor relations and whether they are unionized?

Barker: Miners want to raise their families like other people. They want their kids to get a college education. They like adequate housing as well as nonmining people. They become better employees if they have those opportunities and those things available. I can only see where my [the company's] productivity was going to increase steadily over the next 10 or 15 years. You would have a much more contented employee. It would pay off with increased productivity and increased profits.

Seltzer: Did the company just mothball that project [Buchanshire] after you left?

Barker: I don't think so. You had a downturn in the market for that coal. I don't know what's happening to it right now, but it's in a position where it could be developed just like that. Much of the money has been spent developing roads, bringing power into the area, and the sewage and water systems. They should be in a position to start developing areas now for housing.

Seltzer: We've been talking to politicians in Kentucky and West Virginia, asking them to think about how coal can be a better engine of economic growth and development in the coal counties than it has been in the past. If you were governor of West Virginia or Kentucky, and the question was put to you: How can coal bring more benefits to local communities than in the past? How can it promote more economic development? How can we bring stability to the supply side? What kinds of public policies would make some sense to you that would fit with where the industry is now and take whatever next steps you think are necessary?

Barker: I am not sure.

Seltzer: That's a fair answer.

Barker: I am not sure how to answer that.

I am a firm believer in keeping the government, both federal and state, out of our business as much as you can. I am not sure how I would answer that.

But before you leave the housing project, one thing I want to clear up. There was no way that I wanted Island Creek Coal Company to get back into the ownership of housing. That business. We were setting Buchanshire up so that individual employees could own their homes. We made it possible; they could buy the land and build a home. We would help them arrange their financing. But we would not finance it for them. We did not want to get back into the housing business. I want you to be sure of that. We were not regressing back to the 1930s, the company towns.

Seltzer: MACED put together last year a $30 million mortgage bond issue with East Kentucky banks to provide low-interest, long-term mortgage money to low-income people.

Barker: Those are the kind of things I think state governments could do too. That's part of the answer to your question. Make money available through bonds so people can own their own property at a reasonable interest rate. [Home construction and ownership] probably would improve and get more money staying in local areas than anything else....

Seltzer: There are roughly 70,000 people who are not working in the coal industry this year who were working in 1980. If you were the governor of Kentucky, you have maybe 15,000 of those people, mostly in East Kentucky, some in West Kentucky. If you are the governor of West Virginia, you have 20,000 of those people. What should [public policy] do about unemployment in these coal counties? Traditionally, the answer has been: some people will leave; some people are going to stay because their family is there and they will scrape by one way or the other; some people are going to wait for the next upturn in the coal market. As a politician, you have to think about the political pressures on you. And the mine worker's union is going to put some pressure on you. As someone who knows the coal business inside and out, what do you think is the best response for those governors where there is a lot of coal unemployment? What should they do about that problem? Should they do nothing? Should they do something? Should they let the shakeout go on [in the private sector] and just let it take it's course?

Barker: Well, it is going to happen. And it is happening that way.

Seltzer: Yes, that is right.

Barker: The shakeout continues. What can they do in order to increase the demand and put all those people back to work in the coal business?

Seltzer: Can they do anything?

Barker: They are very limited as to what they can do. If there are specific problems that are hindering one state versus all the others, something controllable, they should do whatever they can to eliminate it so that you [coal suppliers] are allowed to compete with the surrounding states. I honestly have to say they [politicians] are limited as to what they can do.

Seltzer:	What would you think about a program stimulating economic development of noncoal businesses in coal communities? Something like that, to sop up the surplus labor.
Barker:	Those help. Those help.
Seltzer:	Get some coal people involved at the local level and work on it.
Barker:	I think those programs--some of them are good. But I think they have their limits.
Seltzer:	We think they have their limits, too.
Barker:	I don't want to go into all the reasons why, but they have their limits as to how much they can help. And when the coal business comes back, everybody concentrates back on coal. Those little projects you are talking about are left to become eyesores.
Duncan:	What would you do if you were a county judge in a coal county and you wanted to try to improve its local economy and the local school system? What "handles" do coal-county officials have?
Barker:	What can they do to help the local economies? To put those people to work? There is only one or two things they can do. Either you got to get major companies in there or you got to get small operators going. If they can do things to help the small independent operators work, produce and move the product, then the chances of doing that [reducing employment] are far greater than by trying to entice some of the bigger companies. For every big company [you might get], you would probably have 25 small ones [open up].
Duncan:	Yes. But if you can't sell the coal, if the market is saturated, you don't really have that option to use the coal business in that way.
Barker:	Now, wait a minute. The market may be saturated, but keep in mind there was an all-time record consumption of coal in this country in 1984.
Seltzer:	Consumption or production?
Barker:	Consumption. Both production and consumption. But there was an all-time record consumption.
Seltzer:	East of the Mississippi a lot of that production went

into stockpiles in anticipation of a UMWA strike in 1984.

Barker: I am not talking about stockpiles. I am talking about what was burned and used. Now, very bluntly, somebody is selling coal and making money when this kind of situation prevails. Even though the market may be down and the price may not be what it was three years ago. How can you help those small independents, those small companies, market their product and move it to markets? This gets a little into some areas where you don't like to see government maybe get involved. They need help in marketing their product. Whatever form that help can take without getting the government too involved, I don't know what it might be, but that's where they can be helped.

Duncan: Do they know they need the help? Do they accept that reality?

Barker: Yes. The major companies have adequate staffs, sales organizations, people who have expertise in marketing coals. You are not going to find that in all of those little companies or the medium-size companies. They cannot afford it. They cannot afford that expertise. It costs money.

Duncan: Isn't that the working of the market?

Barker: Yes.

Duncan: You think it's justifiable to get in there and mess with that and subsidize [assistance to small operators]?

Barker: That is exactly some of the things I am going to do [as head of Executive Energy Company].

Duncan: You can make a profit helping those companies? They are willing to accept your help?

Seltzer: It sounded to me that you were saying that government should try to do [for small operators] exactly what you did at Island Creek. The government should act as Island Creek did for small producers: purchase their coal, group their coal, put their coal in terminals and market it for them.

Barker: Well, it is hard to do it when you have government doing it. If you can do it some other way.

Seltzer: Is that what you are doing here at Executive Energy Company?

Barker: I would love to get into doing some of that. [Laughter]

Seltzer: Makes sense.

Barker: They need help. I have some expertise and I know I can help them. I am going to have some people with me with expertise. There are just hundreds and hundreds of little ones out there that need that help.

Duncan: Will you move their coal, too?

Barker: Sure.

Duncan: Is your bias against government doing something like that [based on the feeling] that government just seems to be incompetent when it takes on a business like this?

Barker: No. I just don't like to see the government involved. There are ways that government can help do it without getting government directly doing it.

Seltzer: How? What are you thinking of?

Barker: I am reluctant to see the government playing a major role in setting up a marketing organization. There are other ways that a private enterprise system can do it that will make it more efficient and work better. It needs to be done by somebody. That would result in more immediate benefits in those local counties than just about anything you could do.

See, those people [small operators] can't have that expertise. They know how to mine. This is the philosophy I used in developing contract mining for Island Creek. There are any number of reasons that I did it. Your management [costs are] lessened. The problems in management are lessened. Your labor problems are lessened. You get all the management [you need] without having to hire people at a headquarters level. Your capital investment is less. Those people [hourly workers] have an interest in it. The system is inherently more efficient and thereby results in greater profits.

Seltzer: Someone in your position has to have the cash....

Barker: That's right.

Seltzer: ...and the connections.

Barker: That's right.

Seltzer: So you are the cash and connections. And you plan on making a lot of money doing it.

Barker: Sure. At the same time, you have helped those people and done the things you are talking about.

Duncan: What proportion of East Kentucky coal is from small operators compared to big companies like Island Creek?

Barker: I honestly don't know. I would guess off the top of my head probably half or more. The largest [property] we [Island Creek] had in the eastern part of the state was in Martin County, and we didn't produce any of the coal. We had [contracted with] small companies producing those tons. Three-and-a-half million tons a year.

Seltzer: What do you see the future being for the mine workers union [UMWA]?

Barker: They are down to about 40%-42% of national production. I would see that declining in the next five to ten years even further.

Duncan: If you were still at Island Creek, would you consider having nonunion mines as well as union mines in this new world we are in?

Barker: I might have had nonunion while I was there. [Laughter] Listen, there is nothing wrong with nonunion operations. There is nothing wrong with that. Too many people today, when you talk about nonunion, they think in the past--what they read about 30 and 40 years ago, when it was a different era. If you build a nonunion operation today, your direct wages and benefits have got to be as good or better than--in most cases better--with the UMWA. You are going to have hospitalization and fringe benefits.

If I was going to put $50 million in an operation today, I would certainly give consideration to doing it nonunion. You would put a benefit package together that would be as good or better than they could get anywhere else. You would pay them as good or better than they would anywhere else. Unless you do it better than someone else, you are not going to have the highest productivity and you won't have a good profitable project.

Duncan: If the union really declines where it is not a threat to you as an operator of a big mine, is there still some pressure on you to keep your benefits at a high level [comparable to] the UMWA?

Barker: Yes, there is pressure there today because you are competing against other businesses, other ways for people to earn a living. Whether you have the UMWA around today or not, you have that inherent pressure built in. You are competing in the Twentieth Century, not back like it was in the 1920s, 1930s, and early 1940s.

I don't look at nonunion as trying to exploit people, to beat them down, so to speak. If I were head of Island Creek today and had the opportunity to build a nonunion operation, it would probably be better in every respect than anything we had under the UMWA.

Duncan: What would Island Creek do for its workers that would be better?

Barker: Yes. Yes. Maybe, I think differently than some people. You know there are not a lot of housing projects being put on like we were doing in Buchanan County, Virginia. But I didn't hesitate at all to put the money into that because I could see benefits to the company down the road. I don't think that the modern day we live in would permit somebody to take advantage of labor in a nonunion situation. You can to a degree maybe, but not in any major way.

Seltzer: If what you are saying is the overall costs of running a mine with a union contract are higher than running a mine nonunion, why don't unionized companies break their union contracts? Why doesn't the BCOA disband? Why don't companies gradually end their union contracts if the costs are so much more appealing going nonunion?

Barker: It is tough to do. It is extremely difficult to do. You are talking about something that is tradition in a lot of areas of the country where they have the UMWA. You have generations that have grown up with the UMWA.

Seltzer: I think what you are saying is that the UMWA is pricing itself out of the market.

Barker: Yes.

Seltzer: Not in terms of the dollar cost of their wages and benefits....

Barker: No, their lower productivity. The lower productivity the problem. The cost of labor is not the problem.

It is the lower productivity that results from the system under the UMWA that is doing it.

Duncan: And what causes that? Work rules?

Barker: Work rules, regulations and so forth. You get a lot of people that will bring the safety issue in. That's always an argument against going nonunion. I am sure there are substantial nonunion operations that are just as safe or safer than some of the UMWA operations.

We get hung up too many times with the real small company that may take shortcuts, does things that gets them in trouble. Then you get that stigma attached to them. That image prevails over the smaller independent operator. You know those things are going to happen. Everybody is not going to operate the way they should. You know that. You have 100 people out driving a car, you are going to have two or three of them that are going to cause an accident because they violate the law some way. That is why we have laws and regulations to govern and control that.

Seltzer: Let me ask you a question about taxes. West Virginia has a B & O [gross sales] tax. Most people we talked to who operate in West Virginia say it is an anti-business tax that creates an anti-business climate. They would prefer not to invest their money in a place like that. Kentucky has a severance tax....

Barker: A lot of states do. Montana has a 30% severance tax.

Seltzer: Severance tax money goes back to the coal counties in Kentucky only when the amount collected exceeds about $177 million a year. Is the rate of taxation a factor that will determine where you invest and where you disinvest? If you were thinking about a way of taxing coal--either the same way it has been taxed or in a different way so that the industry carries its own weight and an unfair burden is <u>not</u> put on the industry--how would you modify how taxes are levied?

Barker: It has got to be a factor. I think the labor climate in West Virginia may not be the best. The agencies up there that have enforced some of the regulations [have been perceived as anti-coal]. I have heard several companies say they wouldn't operate or build an operation in West Virginia because of that climate.

On the other hand, it is impossible to be tax free. This money <u>should</u> go back to building schools and improving the local areas where you are taking out the coal and you are employing the people. I don't think the industry expects to be completely free of taxes [and regulations]. They want a climate where they can operate, competitively speaking, as well in West Virginia as in eastern Kentucky or Virginia. It all boils down to what that ton of coal is going to cost you and what you can sell it for in the marketplace. If there is not a profit margin left, you cannot do it. Whether it is in West Virginia, East Kentucky, or wherever. There is coal in West Virginia that cannot compete with East Kentucky coals and vice versa. We have heard a lot about the business climate in West Virginia in the last few years and a lot of people--I won't say a lot of people--a lot of companies are reluctant to make big investments up there because of that.

Seltzer: Do you think that is going to change with Governor Arch Moore?

Barker: Yes. I think he has a personal objective to change that. To make West Virginia as good a place to work, and for companies to develop projects, as any other state in the union. I think he will do it. Within certain limits. I don't mean he is going to sacrifice safety or environmental safety to do it. But I think the climate has got to change there to a degree.

Seltzer: Why do you think the energy market isn't drawing coal out [demanding more coal supply] at a faster rate than it has been? Coal is two to three times cheaper than oil and gas. Why isn't it backing out oil and gas at a faster rate?

Barker: Well, it has not always been that way. You are looking at the current...

Seltzer: Even in the 1950s and 1960s.

Barker: Now in the 1950s and 1960s...

Seltzer: It was still cheaper than oil and gas.

Barker: No. No.

Seltzer: Yes sir. On a Btu basis it was. We are talking about $5 a ton coal.

Barker: And we are talking about $2 a barrel oil being dumped all along the eastern seaboard from Venezuela in the sixties. Coal lost its markets and...

Seltzer: Was it for price reasons [that coal lost markets to imported oil]?

Barker: Let me make some observations. There was a lot of cheap oil in the late 1950s, early 1960s that was being dumped all along the eastern seaboard. Along with that you had the environmental movement come along with the clean-air limits on SO_2. Utility companies and people who were burning coal at that time began to replace coal with oil. Coal lost its markets on the eastern seaboard. Now, they make some big investments to burn oil and other fuels, primarily oil. They scrapped or wrote off their capital investment in coal facilities. Many of those companies that are using or burning oil today find the economics of going back to coal are beginning to look better to them. As their current facilities become written off, I am sure there will be serious consideration given to going back to coal where they can still meet environmental requirements. We have already seen some of it.

When you look at the situation today and you say coal is cheaper than oil and gas, I agree with you. Coal is probably one-third as costly as oil and half as gas. If you could just wipe that slate clean and throw away all that capital investment through government incentives and then put some new investment in coal-related facilities, then you would see it [coal conversion] done much faster. But there are things that keep those companies from switching back to coal.

Seltzer: Is there anything that public policy can do to move the market toward coal?

Barker: Yes. Provide some rapid depreciation. Increase it and let them write it off. Give them a break on that so that they are not penalized for putting new capital money in. You just don't switch from oil to coal or coal to oil in a matter of a month or two. It takes several months and a lot of investment to go either way.

Seltzer: When you look at the utility market and the number of nuclear plants that are going to come on in the next five or six years, do you think the growth in the utility sector is likely to be solid enough to justify utilities scrapping oil plants even with rapid depreciation to build a new coal plant with a scrubber?

Barker: You got to temper that with reason and judgment. Yes. Most plants are only built for a life of maybe 25 or 30 years. If you have got a brand new oil-burning plant that came on five years ago, I am not going to say go out and scrap it. But if it has got ten years or less of remaining life, yes. The economics would not prevent you from scrapping it and, with some government incentives, you could to that.

Duncan: And the rationale for the government to do that is that it's better to burn home-grown coal than imported oil?

Barker: We are exporting a lot of dollars every time we buy imported oil. We are getting about four million barrels a day, a little more. But it is down 20% from what it was a year ago. You can stop exportation of American dollars. Our deficit last year--exports versus imports--over a hundred million dollars worth. It would certainly keep those dollars home and develop energy sources here that would be far better than the importation of oil.

PEABODY COAL COMPANY

Wayne T. Ewing, President

(Ron Greenfield, Director of Public Affairs, Peabody Holding Company, also participated in the interview)

Company address: 301 North Memorial Drive, St. Louis, Missouri 63102

Parent company: A subsidiary of Peabody Holding Company

Background: 51 years old, 22 years in the coal business. Wayne T. Ewing is currently president and director of Peabody Development Company. He has executive responsibility for all domestic and international coal marketing, coal reserve development, and U.S. and overseas management services activities of this wholly owned Peabody Holding Company, Inc. subsidiary. He started with Peabody as a laborer with the Broken Aro Mine in Coshocton, Ohio in 1963. He has stayed with Peabody since that time, holding various managerial positions in Ohio, Indiana, Illinois, and Missouri. He received a B.A. in business administration from Georgetown College and a master's degree in education from Western Kentucky University. Some of his activities include: Director and Member Executive Committee, National Coal Association; Director, Magna Group, Inc.; Board of Associates, Georgetown College; Chairman (1982), Illinois Coal Association; Member, Goodale Lodge No. 372, A.F.& A.M.

Total number of employees (parent company):

1984-13,094; 1983-11,649; 1982-12,671; 1981-13,569; 1980-14,407; 1979-15,814

Coal production (tons):

1983-56,158,992; 1982-57,303,114; 1981-50,310,124; 1980-58,391,219; 1979-63,886,461

Total parent company sales (in millions):

1984-$1,483; 1983-$1,244; 1982-$1,282; 1981-$1,123; 1980-$1,151; 1979-$1,147

Coal sales (in millions of tons):

1984-65; 1983-54; 1982-58; 1981-53; 1980-60; 1979-65

Total parent company assets (in millions):

1984-$1,862; 1983-$1,845; 1982-$1,727; 1981-$1,555; 1980-$1,505; 1979-$1,441

Total parent company net income (in millions):

1984-$126; 1983-$111; 1982-$101; 1981-$63; 1980-$90; 1979-$12

The following is from a 1983 Peabody brochure, The First One Hundred Years:

"As Peabody looks to its second hundred years, its reserves total about eight billion tons of economically recoverable coal, enough to last the company 142 years at present mining rates. A $500 million capital investment program during the past five years has strengthened Peabody's market position with new mining equipment, improved facilities, expanded production capacity and additional coal reserves."

Diversification: Peabody is the nation's largest coal producer.

PEABODY COAL COMPANY

Wayne Ewing, President and
Ron Greenfield, Director, Public Affairs,
Peabody Holding Company

March 27, 1985

Seltzer:* What do you see as the future trend in coal production in the eastern United States?

Ewing: Production east of the Mississippi River? There were a lot of projections early in the mid-1970s about the real steep growth curve it was going to take. I don't see it being that steep. I don't think anybody does at this point. We have lowered our sights as to what the growth pattern might be over the next few years. I think we're probably looking at a growth pattern in the 2-1/2-3% range as reasonable. Regulations could have some affect on eastern production....

Seltzer: Particularly acid rain.

Ewing: That's right. Anything to do with environmental laws would depress the use of high-sulfur coals that are mined in the Midwest. It's going to affect production in East Kentucky, West Virginia--where they produce low-sulfur coals. It would also affect low-sulfur production in the western part of the country. Some of those production trends could go upward and be changed dramatically if there's an environmental [acid-rain] law.

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*Curtis Seltzer and Cynthia Duncan, interviewers.

Seltzer: We basically agree with the 2 or 3% production forecast to 1995. What's your sense of productivity trend in the same period?

Ewing: I feel pretty good [about productivity] at this point. We've had some good productivity gains the last few years--I'm talking about over the last three or four years. Productivity was on a steep incline when I came into the coal industry early in the 1960s. Through the 1950s, productivity was going up every year. Then we hit 1969--the Mine Health and Safety Law--and then other laws that came after, productivity took a downward dip. We bottomed out in the late 1970s. It took a learning curve for us to understand how to live with the laws, to know what was expected, to get our equipment, to know what to do.

Also the 1970s was not a good period for labor relations. The 1978 labor negotiations were strong medicine for both sides. Both labor and management saw that the long strike that we had at that time wasn't really good for the industry in any way, shape, form, or fashion. So after that we began to move forward.

The key thing was we learned how to live with the [1969 safety] law. We adjusted to what was expected and what to do. We spent a lot of time and effort in those years trying to understand what was required under the law, and we weren't concentrating on productivity. We weren't concentrating on productivity every day at the mines. We know how to live with those laws now, and we have been able to turn our attention back to those things that are necessary to increase our productivity and to work on those things in our coal mines. And we have had good results. I'm very pleased about what's occurred over the last three or four years. I can see us inching up a little bit each year. We made improvements in 1984 over 1983, and we are projecting to do a little better in 1985 than we did in 1984.

Seltzer: What will drive your gains in productivity over the next four or five years?

Ewing: Two or three key things.

Number one, I think, is the men. The attitude of our work force is good, and their attitude is a very key ingredient. The day our work force understands more of what the problems of the industry are [is the day] they take a little broader view of the industry. Most of the work force does [more of that] today than might have been in the past. I no longer...see that real adversarial relationship between management and the work force. I see the work force and management working together more because we both understand what's going to be necessary for this industry, our company, that particular coal mine, and that individual worker to survive. They understand those problems better. The real driving force behind the men's attitude is: "Hey, we've got to be competitive. If our industry, or our mine, isn't competitive, then we are going to get gobbled up and we aren't going to have a job." That is one key ingredient.

Secondly, we are making improvements in equipment. It's not dramatic changes, but subtle changes. In underground equipment, for instance, we are making small changes in continuous miners every year--in their maneuverability, propelling them, their cutting ability. The key ingredient we have added to our continuous miners has been a fluid-bed scrubber which takes the dust out of the air when the miner is cutting. Peabody has been very instrumental--in fact, we have a patent in developing this feature of the continuous miner. Digging the coal out of the face created a lot of dust.

Seltzer: Is that different from water sprays?

Ewing: Yes it is. We use them both in combination. We spray a mist of water into the air as it's cutting. But also intake inlets suck the air, the dust, through a scrubber mechanism, through filters and another spray mist of water. The filter collects the particles of dust. The atmosphere that miners work in today where we have these scrubbers on continuous miners would surprise you. The air, for all intents and purposes, is almost like this room. Not only does it make a better atmosphere for the miner to work in for inhalation of dust, but it also helps our ventilation because that suction of air across the face helps our ventilation sweeping across the coal face. There have been a lot of interesting models of this down at the School of Mines in Missouri. We have had tremendous success with it and it has been very helpful for Peabody.

As far as equipment is concerned, we also have worked very hard on remote control. Remote-control operation of continuous miners coupled with the scrubber has made it a tool that can do a much better job than before. Gosh, a man can stand back under a supported roof, not be cramped in that cockpit or under the canopy, can see where the machine's going, and can direct it. Where roof conditions are good enough and we are able to get permits, we can take deep cuts with this machine...up to 40-foot cuts, where a normal machine might only take a 10- or 12-foot cut. That deeper cut is helping our productivity. As you know, moving equipment from one place to another is what takes up a lot of time. Where we are able to take these deep cuts without moving, we increase productivity. Those machines just sit there and continue to dig. Then you have to get the coal away from the face, the haulage; that's another problem, too.

Seltzer: Do you anticipate that you are going to have higher productivity gains in your underground operations than in your surface in the future?

Ewing: I think so. The big concentration of productivity gain will be underground. Productivity at...surface mines to a large extent is a function of equipment. The major tool of the surface mine is the stripping equipment. So it's a matter of how big a piece of equipment we've got there, how thick the coal seam is, what the ratio is of overburden to the coal, and getting the coal away from it. But big productivity gains are going to come in our underground mines, and that's where they have been.

Seltzer: What annual productivity increase do you think the eastern coal industry, that is east of the river, is likely to achieve over the next ten years? Is 5% reasonable?

Ewing: I think it is. I'm not going to be satisfied with anything much less than that. That's a reasonable goal. It's an attainable goal.

This was something we had to consider when we purchased our West Virginia property, the Armco properties, in February of 1984. One ingredient in evaluating those properties was whether we could get some of the productivity gains over the next five- to ten-year period that we had achieved in the previous three- or four-year period in our Illinois and western Kentucky underground mines. Whether we could come close to achieving those rates of productivity gains with the West Virginia mines was a key element in our thoughts about purchasing them. Obviously, we thought we could do it or we wouldn't have purchased the properties. Mining conditions there are good. We felt we could make these kind of productivity gains in the future.

Seltzer: I am pursuing this line of questioning because we are interested in the economic benefits that coal mining brings to coal-mining communities. The principal one is employment. Over the last years, we have seen production increase modestly while productivity has increased at a greater rate. If we project those trends over the next ten years, you end up with a situation where the annual rate of productivity increase exceeds the annual rate of production increase, which means fewer jobs. And we have been doing some forecasting, and we think the 3% to 5% range for productivity is a reasonable expectation over the next ten years. If you plot that out against employment, you find, depending on what the production scenario is, either a net loss in jobs or no gain at all.

That has large-scale social and political implications. Peabody has to seek productivity. You don't have a choice about it. But from the public sector's point of view, if you were the governor of Kentucky or West Virginia, the mayor of Madison, West Virginia or a retail business in states where coal is the driving engine of economic development, you would be concerned by a trend that says fewer jobs even if more coal is to be mined.

Ewing: One little fly in that ointment is the fact that in production east of the Mississippi River, production growth in the future is going to be more in the underground mines. You are going to have large surface mines who have fewer people working in them going by the wayside. The new production in the future is going to be those underground mines, which are going to require more jobs. They require more people to man those mines than the mines that are going to be depleting. Although productivity gains may outstrip production growth, I am not sure it is true that the coal industry jobs would go down by the difference in whatever productivity gains might be versus whatever the growth might be. The changing mix in types of production will affect net employment.

Seltzer: That is altogether possible. I worked out some numbers for Illinois. Using DOE's production forecasts, we are talking about a 50% increase in production from 1983 to 1995, from about 60 million tons in 1983 plus 25 million tons more in 1995. Assuming a three percent productivity increase and assuming that DOE's shift between surface and deep mining is what is likely to happen, there is a net loss in employment.

But you are absolutely right that we have to take that shift into consideration. We, too, think that there will be more deep mining than surface mining.

Ewing: Just look at the State of Illinois and our own company, for instance. By the year 1990, we [Peabody] will be 100% deep mining in the State of Illinois. And almost all of our operations in Illinois were surface mines until about 1970. Then we began to have some underground mines, but surface mines overshadowed them. Now our surface mining will go by the wayside by the end of this decade.

Seltzer: Is that principally because of the sulfur content of the coal?

Ewing: No. The reserves are depleted. You are going to find this if you look at the other major companies in Illinois. New mines that are coming onstream today. Kerr-McGee's new mine is going to be quite a large underground mine. MAPCO is putting in a large underground mine. Our future production will all be underground mines in Illinois. Our surface mines are going to be depleted. The two major companies that probably still will have surface mines in any degree in Illinois are Consolidation Coal Company and AMAX. But AMAX's surface mining is going. They have already closed one mine, probably another this week. They are relatively close to working out their reserves. And Consol is depleting their reserves. Freeman United has some surface mining, but the new mines they are bringing on are new underground. Monterey Coal is coming into the state with two underground mines. Old Ben--their mines in southern Illinois are all underground. I don't really see any large, new surface mines opening in Illinois right now.

Seltzer: But you do see new Illinois mines coming in despite the sulfur content of the coal?

Ewing: Yes, I do--despite the sulfur. There is also some lower sulfur coal in Illinois. For instance, the new Kerr McGee mines are now developing two seams, Number 6 seam and Number 5 seam, which is a lower sulfur coal. They will blend those two together. I think the MAPCO mine is in the Number 5 seam, which is a lower sulfur coal. Some of the other mines--Old Ben's, Inland Steel--are the same type of coal.

Seltzer: What's your sulfur hurdle? What is the sulfur content above which you would not open a mine in a seam?

Ewing: I don't know at this point because we would not open a mine on speculation. If we open a mine, we open it with a particular customer in mind. If that customer was going to be served by a new-source power plant with scrubbers, then the sulfur content would be okay in whatever seam we mined in Illinois. You are going to find Illinois high-sulfur coal going to the new generation of power plants and those with scrubbers, and the lower sulfur coals going to the other plants that have to meet certain standards. There is really no definitive hurdle. It's a matter of tailoring it toward a customer or a potential customer.

Seltzer: Is it fair to say most of your reserves are higher sulfur coal?

Ewing: Peabody's? Yes. We do have some lower sulfur coal in Illinois. It's deep--the second seam down. But, the bulk of our coal is predominately higher sulfur [in Illinois].

Seltzer: How does that affect your position on acid-rain legislation?

Ewing: The whole Midwest in general--Kentucky, Indiana, Illinois--is where our real big bulk of reserves are. Our position on acid rain is very clear. I get amused sometimes when I hear "low-sulfur coal companies want this" and "high-sulfur coal companies want that."

Peabody has been very much out front in our opposition to real restrictive, acid-rain bills that have been proposed in Congress. We feel very strongly that we don't know enough about the problem. We don't think the legislation should get ahead of what the scientists can tell us. But back to my point earlier.
We are almost as big a low-sulfur producer as we are high-sulfur when you consider our production in western states and our mines in West Virginia. But we are trying to take the approach we think is best for the coal industry, not necessarily what might be best for Peabody. I think it is best for the country not to move to a quick political solution to a perceived problem, that may not be there, until we really know what that problem is and know what is the best cost-effective way of meeting that problem, if we really do have it. And that has been our position on it, very clearly. We could take a business position that says, "Heck, we'll back an acid rain bill that will let us just sell off all of our low-sulfur West Virginia coal. Or sell our western coal." But that's

not best when you talk about jobs, when you talk about how it might affect the people across this country. Acid-rain bills would have a real detrimental affect on communities, people, and the economic viabilities of Illinois, Indiana, western Kentucky, Ohio.

Seltzer: If you were betting, where would you put your money? Would you put your money that Congress is going to pass a bill in the next several years? And would it be a Waxman-Sikorski [requires scrubber retrofits on older power plants] approach? Or do you think that it is likely to be a bill which allows fuel switching? Or pass no bill at all?

Ewing: I doubt that we'll have a bill this year. I don't see a clamor to have a bill as strong today as it was a year ago. We see that coming down a little bit. It's probably going to be a year from now before joint US-Canadian recommendations on acid rain come back in. I don't know what the mood of the country will continue to be. Last year, I would have said we are probably going to have some sort of a bill some time or other. And it may still be true. What type of bill it is, I don't know. Nobody knows.

We really need to see what the scientists come up with. We've put a program in place to do research, to measure the sulfur dioxide effects in the Northeast and in Canada. Are they caused by coal being burned in Midwestern power plants or is something else involved? There are all kinds of pros and cons to that. As a country, we can't afford just to plunge headlong into any kind of bill. Some of the bills that have been proposed would be disruptive in the coal states as far as jobs and communities. I'm not sure that the benefits that we would derive, assuming everything that people allege [about the effects of acid rain] is true, would be worth the cost [in disruption] that the people are going to pay. The Clean Air Act mandates that all power plants after 1978 have to have sulfur-dioxide removal equipment, pollution control equipment on them. In time, we'll reach those [SO_2-reduction] goals. The passage of time, with that law, will make that happen. Over the last several years, we've [already] had a considerable reduction--I think 25%-30% reduction--in SO_2 loading into the air. Coal consumption has gone up. The use of coal has gone up, and we've had less loading. By the year 2010, a new generation of power plants will [be in place] that are mandated to have scrubbing equipment on them to reach those SO_2 goals.

Seltzer: But wouldn't a Waxman-Sikorski approach give you--Peabody--a new market opportunity? If scrubber retrofits were required on existing power plants, you could take some of your high-sulfur coal in Illinois and start selling it to Ohio River Basin power plants.

Ewing: It might be, but I really don't know that we need to legislate markets. I'm not looking for some law to legislate a market advantage for me over somebody else, because I think there would be a cost attached to that bill. There's going to be a cost to electricity. We are already reaching the point in a lot of states where the cost of electricity is at its maximum. Everybody can see that by the utility bills they pay. Now how much does this [acid-rain protection] add to the cost of electricity? If we do these things, is the consumer really able to afford to pay the cost? And will what the consumer has to pay be worth the benefits that might be gained from less SO_2 loading in the air? I'm not sure all of that has been worked out. I'm not convinced at this point that that's the right thing to do.

Duncan: Would a fuel-switching bill force you to close down mines in western Kentucky?

Ewing: Yes. Fuel switching probably would. Any type of law that would mandate or encourage fuel switching would shift demand toward low-sulfur production.

Duncan: Couldn't you do fuel blending as you are in Illinois?

Ewing: You could. There's some. But economics, again, dictates what the customer's ultimately going to do. We've done a lot of computer models to forecast the effect of certain bills. What would this utility do? What would that utility do? What is their likely course of action? Could they blend coals? Could they fuel switch, or would it be more economical for them to install scrubbers? We play those games and have a pretty good handle on what we think might happen. But the customers have their own set of circumstances, their ability to raise capital. Your computer model might say, "Well, you should put a scrubber on this plant," but the utility's economic condition may say, "Hey, we can't raise the capital to put on the scrubber. We are better off to buy low-sulfur coal, although it may cost us $20 a ton more to have it hauled in here, because that goes through the fuel-adjustment clause and doesn't require new capital on our part." A lot of things enter into that equation [choice between low-sulfur coal and retrofitting a scrubber] that maybe doesn't make the best economic sense, but each plant has to assess its own situation. That leaves the coal industry up in the air; we don't know exactly what course of action they might take.

Greenfield: I've heard it said that it would cost as much money to put a scrubber on a plant--one that's 15 years old--as it would to build the plant in the first place.

Ewing: Some of them. It's according to the age of the power plant and their circumstances.

Greenfield: It's not a minor capital cost, it's a major capital cost. So the decision-making by the utilities is more complicated than it appears to be on the surface.

Ewing: But any fuel switching that goes on here [Illinois Basin] is going to hit the coal towns in Illinois, southern Illinois, the towns in western Kentucky, the towns in Indiana--straight between the eyes. They're the towns that really will be hit if there is fuel switching and that change in coal usage patterns by utilities. Utilities are our principal market.

Seltzer: We agree with that.

Greenfield: Let me elaborate a little bit on your comment about Peabody being a high-sulfur coal producer. Peabody is the largest high-sulfur coal producer in the world and also the largest low-sulfur coal producer.

Seltzer: By tons or Btus?

Greenfield: Apparently, we also produce more low-sulfur coal than any other individual company. And we've got billions of tons of low-sulfur coal reserves. So it's not that Peabody's only position is as a high-sulfur coal producer now or our reserves are bad.

Seltzer: You're sort of a political schizophrenic if an [acid-rain] bill comes up before Congress.

Greenfield: It appears that we are defending a position because we're only a high-sulfur coal producer. That is not the case. We are on both sides of that equation. We meet it with mixed emotions. And maybe we are in a better position to see it more objectively.

Duncan: But you have separate markets for those two sets of coal. You are not going to sell your low-sulfur coal to eastern utilities.

Greenfield: I'm not so sure. What is it? Forty percent of the coal used in Illinois comes from out of state?

Ewing: That is one of the biggest detriments to the Illinois coal market today. Here the State of Illinois has more coal than any of the Midwestern states by far. And today the coal mining industry has gone out [of the state]. Of the coal burned in Illinois, about 40% is imported. All of the imports are from the western states--Wyoming and Montana. And that's to meet air-quality standards for some of the power plants built between 1970 and 1978. Coal's principal user in Illinois, Commonwealth Edison, chose to switch fuels for those power plants. They chose to bring in low-sulfur coal much to the detriment of the Illinois coal industry. If you look at the delivered prices of that coal coming in, a big portion goes to freight. The freight rate on it is three times as much as the coal is.

Seltzer: $20 a ton [for haulage]?

Ewing: Yes, something of that nature. Then you compare the delivered cost per million Btu of that coal at those plants versus coal here in state. One of our biggest customers--Illinois Power Company--has a big central station at Baldwin, Illinois. We have coal mines adjacent to it. The delivered price of Illinois coal into that power plant versus the delivered price of western coal--there's quite a variance.

Our computer modeling would say that the Baldwin station in all likelihood would probably install scrubbers if an acid-rain bill came in. But I'm not sure what Illinois Power's overall [financial] position will be with their Clinton nuclear plant, where they are in relation to cost overruns and how strapped they may be for capital. With Baldwin station, they might say, "We don't want to invest $300, $400, or $600 million to put in scrubbers." They might say, "We'll bring in some low-sulfur coal so that we can pass through [our costs] with the fuel-adjustment clause, rather than go that route." Even when the best economics might be to scrub and burn local Illinois coal.

You are correct in a sense that we are on the border line--right on the fence--not knowing a lot of times which way to jump. We are trying to take the approach that we think is best for the coal industry. We are the largest in the coal industry. We think we ought to exert that type of leadership, and that's the type of leadership that we are trying to do. We are trying to make a choice that is best for the coal industry--not just what's best for Peabody.

Seltzer: Our perspective is the social and economic development of coal communities. We see instability in supply patterns, temporary layoffs related to market conditions, federal regulations that encourage or require production to shift from one part of the state of another or from region to another region--those actions have a devastating effect on local mining communities. Those communities generally don't have other kinds of businesses that they can count on when coal goes down. They don't have planning processes in place to develop other sorts of employment. Now it looks as if coal is going to shift away from those places. That raises the question, what kind of federal policy is compatible with the coal industry's perspective? What kinds of policies that would lead to more stability in supply and demand patterns do you think are advisable, if any?

Ewing: I'm not for the federal government being deeply involved in the coal industry. The laws that we have on the books today, as far as the Clean Air Act is concerned, we all know what we are looking at. I think we know where that leads us as far as the coal industry is concerned. Communities can plan now that we know that certain plants are required to have scrubbers with high-sulfur coal. Then, it's up to us to market, to get our productivity up, to get our costs down to where we can encourage traditional customers to continue to burn Midwestern coal and to scrub it in their plants. As a company, we'll work together with communities to that end. But if we inject new legislation, new uncertainties, new quick-fixes like some of the acid-rain bills--that will be a very quick, sudden jolt to a lot of communities.

One other thing that I see happening today that didn't happen a number of years ago is that communities are beginning to do some planning for the time when there may not be that real base of the coal industry there that supplies the jobs and everything. You have severance taxes in several states and some of this money, if it's used correctly, will be used to develop those ends. That was why some of those taxes were put in place in certain communities.

I can just relate to my own home county, which is Muhlenberg County in West Kentucky, one of the largest coal-producing counties. Some of our people participate with industrial development agencies that work and fund that, to try to do what can be done to attract other types of industry using severance tax money that is available in Kentucky. Our company participates with them in planning. We have lots of property, and they need property for industrial development. We can help in that particular area.

Seltzer: So you are willing to get into that?

Ewing: Yes, we have worked in that area some. We are willing to do that because we have been part of a lot of these communities for many, many years. Those communities have been good to Peabody. We can't say we are going to guarantee there's going to be some kind of other industry. But I think we can help. We will help. We've done what we can do, contribute and work. Not only in money, but in time with our people to work in these areas. It's something our company should be doing.

Duncan: You don't see that kind of economic planning happening in the Appalachian area as much. As a Kentuckian in the coal business, in your judgment, why is there a difference between the Appalachian coal communities and western coal or Midwestern communities about planning? Is there a difference in the role of the coal companies?

Ewing: I'm not as familiar with Appalachia as I am with western Kentucky, Indiana and southern Illinois. I think that you find, though, there is more of this when you have the larger responsible companies like ourselves involved. This is no knock on the small companies, but you find throughout Appalachia a lot of small companies, companies that are not, maybe, industry-oriented as much as the larger companies, those that might be here today and gone tomorrow. You will find that gives the coal industry a blacker eye than most anything. When you do find companies like Consol or the larger companies in Appalachia, they are involved in communities. U.S. Steel has been involved in communities in East Kentucky. Armco, who we bought out in West Virginia, was very much involved in a lot of the communities in which their people lived. Peabody is going to do that same thing in West Virginia. We are going to be involved with our communities.

Duncan: Do you see a different political climate in Kentucky and West Virginia? Did you consider buying out U.S. Steel in Harlan instead of Armco in West Virginia?

Ewing: Those U.S. Steel properties weren't on the market when we were looking for properties. We did a survey of a lot of different properties that were available. We thought the Armco properties were the best opportunities for us. We thought those properties fit our mode of operation better than anything else we looked at. They gave us more opportunities than any other properties.

Duncan: You said in a speech that you gave when you went over to West Virginia that you felt the business climate was changing in West Virginia. A lot of people we have talked with have said that West Virginia's previous climate has been a barrier to investment.

Ewing: That was a big question. That was one of the first questions the press asked me.

Duncan: [When I read the speech,] I wondered who asked all the questions.

Ewing: At a press conference. They [reporters] said, "Well, we're surprised." You read every day about people knocking the business climate in West Virginia. Why would you buy mines here?

We had analyzed it. We didn't see anything in the business climate that we couldn't operate with. We thought we could do it successfully. We thought we could work with the governmental agencies in West Virginia. So we put our money down and said, "We're going to do it."

I haven't seen anything to date that tells me we made a mistake. We've been there now slightly over a year. Market conditions aren't as good as we thought they might be at this point. The export market is down. The pricing of the export market is down, but we aren't discouraged. We are spending a lot of money on this property. We are making a pretty big bet that it's going to go in the future. We've already spent in excess of $25 million of new capital expenditures on those properties. We are now looking at our ten-year plan forecast, and we show spending a lot of capital in West Virginia to improve and develop those properties.

Duncan: On the basis of expanded demand or taking markets from other companies?

Ewing: Expanding market share of our own. Some of that will come from other companies, certainly. We are going to compete in that marketplace. The way to compete is to be a low-cost producer, and we are going to try to be a low-cost producer. We have a quality product. It's a very high-quality coal. If we can be a low-cost producer, then we are going to increase our market share.

You read everyday of other companies--rather sizeable companies--cutting back on production. Some of that is because of their costs; they aren't able to meet the market that's there today. I'm not happy with today's market. The market of four or five years ago was very inviting compared to what it is today. It would have made our investment a heck of a lot better--the market four or five years ago. Given the quality of coal we have over there, if we reach our goals of production cost and productivities, our market share is going to increase.

Duncan: And you will be opening mines and employing more miners over there? If Governor Moore called you today and said, "What's it look like?" Do you have an "employ-more-people" scenario?

Ewing: Our forecast scenario says that we will do that in the next ten years. We are doing more this year than we did last year. Our production over there is going to be more in 1985 than in 1984. Our forecast says we are going to produce more coal in 1986 than in 1985. We are going to produce more coal in 1987 than in 1986. Now we are at a point where we think we may level off a little bit in our growth pattern. But at this time next year, when we update that plan, that might change a little bit. It changes every year when you update a plan. That's the whole purpose of planning and long-term planning. When we looked at our plan last year, markets were a little different. The export market was a little stronger pricing wise. Our expectations were a little greater than they are today. We look at it at this time from the realization side, the selling price is down somewhat from what we saw a year ago. But conversely, our production cost estimates are also down somewhat from what we projected them to be a year ago. We are hopeful that trend is going to continue. I am confident we will do that.

Seltzer: Is there a way that local communities could be folded into your planning process so they could have some sense of whether you are going to increase or decrease investment? That would give them clues as to what sort of business development strategy they ought to pursue.

Ewing: Yes, I think to a certain point. That is one thing we've tried to do. We've tried to be relatively open with our communities. We've been pretty responsive to our communities trying to keep them informed to the best of our ability as to what our thoughts are. There is nothing worse than when big shocks come about. We've done this where we have had mines that were on the borderline--where if we didn't make some improvement in production costs that mine was going to go by the wayside because we weren't going to be able to compete. We've been pretty candid with our work force, [putting the facts] on the line, showing them exactly where we stood and where their particular coal mine and community stood, and how it would affect them. We've gotten some good results. We have not cried "wolf." We've tried to be straightforward.

One of the best examples of that is down in Shawneetown, Illinois with our Eagle II mine. In 1979-1980, we were just on the verge of closing that mine. We had a long-term coal-supply agreement out of that mine with Gulf Power Company in Florida. A good contract--everything--but we couldn't meet the production. The production costs, productivity--we were losing. We lost about $19 million in the coal mine in a five-year period. That's a lot of bucks to lose at a coal mine. So we came up with a plan to change our equipment, add different equipment. We sat down with the people, the committees from the mine, and said, "Look, this is where we've been for the last several years. We've lost this amount of money and here is where our productivity is, here's what's happened. Now we have a long-term contract that says that this mine can go for another 20-25 years here. It's a good contract. Our coal out of this mine can meet the quality specs. It's not likely to be affected by environmental laws. We are willing to spend another $10-12 million at this point in time. But to do that, we have to meet certain goals as far as production and costs are concerned."

We talked to the people and they said, "We believe we can do that." And we said, "Well, fine. We are going to work hand in hand to do this thing." Not everything works out the way you would like it to work out, but that worked out real fine. We spent the money in it. The people responded. It's one of our good producers today. It's going to be a good situation for that whole community, for Peabody, and for that group of men down there. But we were on the verge of closing because we had tremendous problems. Wildcat strikes almost every other week. We said, "Hey, we've just got to work this thing out." I met with them myself, personally. I said, "Tell me all your problems. Here's what our problems are. Take off the gloves and let's talk about it." And it worked and we've had that work in other cases. I'm willing, as a company, to sit down with people, level with them, tell them what our problems are, what we all need to do and set realistic goals that we need to attain in order for us to be successful. That's the type of company we are at this point in time. We work on a very goals-oriented type of management. We set goals and let our people set their goals at what they think they can attain. We may prod them a little bit and say their goals aren't quite high enough. That's the basis on which our company operates on today. We are able to get our people to respond more positively working in this manner.

One other thing--it leads to some of the things you are talking about as far as communities are concerned. Back in the late 1970s, we changed our management style from a highly centralized style from here in St. Louis dictating what was going on to a decentralized style. We set up divisions; I was fortunate to be one of the first division presidents. We took our divisions with a geographic area that makes sense and give those managers responsibilities and staffed them just like any other company. Their company could stand on their own--each one of those divisions. Managers of those divisions are able to make better decisions because they are closer to the problems, they are closer to the communities, and they live in those communities. That's what has made our company make the progress it's made in the last four or five years. Yes, our profits have increased and all of that in the last four or five years, but our relationship with the communities [also] has improved tremendously. If a manager is responsible for an area, if he is part of a community, he is going to be more responsive to the needs of that community than somebody sitting up here would be. If somebody sits in their ivory tower in St. Louis or New York or Chicago or wherever, it's much harder for that person to say, "No" and not want to work together than if they are located in those communities. That is part of the real success we've had in the last few years.

Duncan: Does this decentralized management system translate into deliberate efforts to increase what economists call "economic multipliers?" For example, does the Henderson County Division use a local bank and do the payroll through a Muhlenberg County bank?

Ewing: The one function that we haven't decentralized is treasury. All of our collections come into various points in the country, the various banking relationships we have in the country. But we do have a banking relationship with those communities. We don't pay our payrolls there, but we have a relationship with them because they handle our payroll checks. We have different types of working funds. Each one of our coal mines has a certain amount of money for day-to-day bills to pay for freight, emergency pays and different things. Every one of our mines has a bank account they manage. So the banks do benefit because we run a tremendous amount of our checks through some of those banks. But we do the centralized payments.

Duncan: One way that Appalachian communities might get more benefits from growth in the coal industry would be a system to set up better servicing among local banks. Could we convince coal companies to do their payrolls through local banks, if the servicing is available? Is it servicing that prevents you from using a local bank, or is it your own need for central...

Ewing: To a certain extent it's servicing. But we are doing some [aspects] of our payrolls with those banks, where they can automatically deposit their payroll checks. With moving people into that area, we have needed home mortgages, which has been a big asset to those communities.

One thing about purchasing, too. Although we buy a lot of things on national contracts where it really makes sense to buy, we try--it if makes any economic sense at all, even to the point of paying a little bit of a premium in certain cases--to buy materials locally as much as we can. We have a policy of trying to do that. Repair work and other services that are required--we try to do as much locally as we possibly can to run our coal mines because it's good for the community. It's good for us to do those things, it encourages the communities, and makes us more part of the communities. So we have encouraged that, even to the point of encouraging minority vendors to go into business. We have done that in several cases.

Duncan: And that comes under the rubric of Peabody's social responsibilities?

Ewing: I think it does. One other thing, and it's something you wouldn't have seen or heard in our company ten years ago. I was talking to one of our division presidents yesterday. I said I was going to do this or that and asked what his schedule was. He said, "Well, I've got to go to a Chamber of Commerce meeting this afternoon. And on Thursday there's a Rotarian meeting that I think I ought to go to." We didn't have this before. We didn't have that involvement before because the people we had working for us were only people at the coal mines. All that other type of management was centralized in St. Louis at that time. And now with our people being in Henderson, Evansville, Flagstaff, Denver, and Charleston, we push and encourage those people to get involved.

Duncan: It must make good business sense, too. It's part of what shows your good faith as your Illinois example shows. Is it sold in the company as good business, as more than good neighbor policy?

Ewing: Yes, I think so. We aren't a social company. We don't do everything for social benefits. We do certain things we think are good business for us to do. We think we do have certain social responsibilities that we ought to meet because we are part of the community. That's the thing we try to tell our managers that they are part of that community. And in a lot of communities we are the biggest industry there--by far the biggest industry. We ought to be a leader in that community. The mine superintendent ought to be a leader. He ought to participate in what's going on in Freeburg, Illinois, or whatever town you might want to name where we have a coal mine. I think it has paid off. It has paid off because people know our company is interested. People who work for our company want to do well and want to respond production-wise so our company can continue to grow and afford to invest in new properties in the future. We sell that idea.

Seltzer: I have a little broader question. In the last four or five years in the coal industry, particularly in the Appalachian coal industry, we've seen the market forcing efficiencies. We've seen productivity increase to maintain sales in tight market situations. We've seen production not growing in many places. You now see an industry that's employing between 60,000 and 75,000 fewer miners than it was in 1980. It's a situation where the market forces the private sector into doing things that make it more efficient in terms of supplying the product. But the market produces, in some sense, social inefficiency. It disemploys in one area. It disrupts communities. Richmond, West Virginia, for example, is a dead town right now. It was a vibrant town in the late 1970s. From the point of view of a general policy, the single most useful thing that the coal industry and federal policy-makers could do would be to think of some ways of smoothing out market fluctuations, demand fluctuations, over-capacity--the things that destabilize production patterns and make shifts that are not necessary in terms of where the coal is produced. You don't have a whole wide range of options on how you might approach that. Some companies, for example, will build stockpiles in order to smooth out market fluctuations. Utilities stockpile for the same reason. At the national level, there have been pieces of legislation that have sought to increase overall coal production and consumption, sometimes at the expense of other fuels, as in the case of backing out oil at East Coast utilities to conform with federal energy plans.

Everyone in the industry is opposed to federal planning. That's no news to anybody in this room. The question that intrigues me is are there policies that industry leaders would support to get at the problem of smoothing out the instability as it effects local communities? Are there things that the industry can do on its own, to put their good mental faculties to work on the problem? Are there federal policies you can live with if that became an item on the agenda of federal policy?

Ewing: We all recognize our country doesn't have a real clear energy policy. We recognize that. We have gone from one extreme to the other. We have gone to where the energy we imported was ridiculous. Oil, by virtue of its pricing, drove a lot of coal out of the market for the production of electricity. The embargo came along and changed that pattern. We had to make a quick change. That changed the shape of the coal industry very quickly. We've had other things. We've talked about proposed laws, acid-rain laws that would have the same effect.

What we saw last year in our labor negotiations is significant. It's an important element that will help us in the future as far as some of the smoothing out effect. We all stretched because the market demanded it. A big bubble [emerged] in the marketplace the first three quarters of last year because people were scrambling to build coal stockpiles on the assumption that we couldn't make a settlement with our labor union without a long strike. That's had a detrimental effect on the export market. Foreign buyers have been reluctant to tie up to American producers for long periods of time because every three years we had a disruption. We had to have a strike. They couldn't settle their differences without having those things. This bubble in the market last year encouraged some people to jump into the coal industry who had no business in the coal industry. It was just a quick little bubble that encouraged anybody who could borrow enough money to buy a couple of bulldozers and a truck to scrape off an acre or two with the thought that this was going to last forever. Well, we knew it wasn't going to last forever. It was just a bubble that was going to turn around. Now, when we are able to settle our differences, the utilities and industry work down their stockpiles. They have a lot of cash invested in those stockpiles. Like anybody else, they have to bring them down. That's disruptive. You had the joy of being able to settle a contract without a strike. The two sides could sit down and reasonably talk out our differences and face the realities of life. Then, we had to turn around and layoff people in various parts of the country because of the market situation, because of stockpiles. That's the wrong kind of message to send after having a good, successful labor contract. I think, for the most part, people affected by the layoff have a hard time stomaching those things. The leadership of their union, Mr. Trumka and the other people, understand those things and we think the public as a whole understands. I think there's hope. I think there's a good possibility of us continuing this pattern of stability.

Seltzer: Labor stability.

Ewing: Labor stability. We are in a period now where we are going to have seven years of pretty stable labor relationships--good relationships. I feel very confident we are going to continue to develop that relationship. This message clearly goes out to industry, to the utility industry, to the foreign buyers: "We are not going to have those big disruptions that we've seen in the past. We can plan on a more stable basis. We are not going to have to have a big bubble. We are not going to have big stockpiles that last for 90 days or 120 days." If you look at those stockpile levels today, they are coming down. They are not going to stop at what might have been the traditional level of 75 days. You are going to see them come down to maybe a 60- or to a 45-day. That's a confidence level, and I think that confidence is there. That's going to smooth out the industry a little bit.

Seltzer: Do you think those 70,000 people are going to go back to work?

Ewing: Not in the foreseeable future.

Seltzer: I agree with you.

Ewing: To say never--no, I don't think that's true. Our work force will increase as the years go on because coal production is going to increase as the years go on. But as you point out, productivity gains and the nature of the increase in coal use, those things have an effect on how many workers are going to be in the industry.

Seltzer: What would your advice...

Greenfield: Was there a bubble of employment increase when the MSHA law came in in 1969? Did we need to add a lot of employees in order to try to meet our tonnage commitments?

Ewing: Some.

Seltzer: It mostly came in the mid-1970s when you had a number of things happening at the same time. Surface mining laws were passed, which required more people. You had changes in the UMWA contract requiring helpers on certain pieces of machinery. You had a price boom that encouraged...

Ewing: Because of the oil embargo...

Seltzer: That's right. ...that encouraged a lot of investment in capacity. You had not enough trained foremen. You had a lot of "red hats" coming in at the same time because a lot of people who were in their fifties were retiring in the early 1970s. You had to hire new people to replace them. Then came the weeding out process.

Greenfield: Do we have any idea what part of that 70,000 [unemployed] was really a false employment need being created by that regulation?

Ewing: There's some percentage of it. I don't know what it is. All of us scrambling to meet the law, you had to add people. As we have been able to live and adjust to the law, we have found we don't have to have that many people to attain the same compliance that we thought we needed in the beginning. I don't think that's unhealthy. It may be unhealthy for somebody who may not have had a job. But maybe a lot of those people who are now not in the industry were the people who hadn't been in a long time, who came in because of union laws and regulations.

I don't think it's unhealthy that we are becoming more productive, that we are being more conscious of what our costs of producing coal are and the competitive nature of that. I don't think people as a rule object to that. Most people are competitive. Most people understand those facts of life. The coal industry has to be competitive. The only thing they don't understand, and it's a very difficult thing, is where you have to compete against subsidized-type competition.

Seltzer: Are you talking about international competition?

Ewing: International competition, yes.

Duncan: Could you say the same thing about small operators? Is that like "subsidized competition?" They sell on the spot market and often don't absorb the same safety and environmental costs that Peabody does.

Ewing: It is to a certain extent. It's a false economy. We have had people jump into the business, produce some coal, and sell it. Yes, they don't have all the costs we do. Some people do not comply with all the laws and regulations that we do. They haven't provided for their workers' future as far as black lung, retirement--all those things. It is a little unfair competition.

Duncan: If they weren't out there producing that coal, could big companies like Peabody be producing a good deal of that coal? Or is it mostly little reserves that you wouldn't be mining anyway?

Ewing: Yes, it is a two-sided argument. It's not necessary that you produce in that particular locale or that particular place. It might be produced someplace else. Again, we're not taking a hard knock at the small producer. There's a lot of very competent small producers out there. But we do have some people who have jumped into the industry--jump in and jump out--and that hurts us all.

Seltzer: Would the industry be more stable if the small-operator sector were not as substantial as it is today?

Ewing: I don't know. I'm not sure how big a percentage they have of the marketplace at this moment. They have a bigger percentage of the marketplace in the real up times--in the bubble times. In the real competitive times we're in now, certain areas, circumstances, locales, things like that give them an advantage over larger companies. But in the industry as a whole today, the larger companies have as good as or better opportunity to compete.

Seltzer: In terms of federal energy policy, would it make sense for coal to have a set of goals for different forms of energy? A set of goals for ten years in the future such that X percentage of America's energy needs would be supplied by coal and X percentage would be supplied by imported oil? The market is redistributing where our energy is coming from. Does it make sense from your view as a coal producer to have a more predictable idea about your market situation five years down the road than signals the market's giving you now?

Ewing: Certainly it would be more comforting to be able to do that. We need an energy policy that talks about what types of fuels should be utilized; what is the dominant fuel in a particular sector. We need to think about our own country as a whole. You know how much coal there is in the United States and what percentage of the energy it could furnish. The utility sector for the generation of electricity needs to be strongly geared toward the use of coal. We ought to have nuclear; there's no question about it, and we will need nuclear in the future.

Seltzer: That's interesting. I haven't met one person in the coal industry who is opposed to nuclear power, except some miners.

Ewing: That's true. As our country grows in the future, there is going to be a place for the production of electricity with nuclear power. We are utilizing natural gas and imported oil in sectors where we have no business being dependent on them. It's wrong. It doesn't make sense from the point of view of our country. We're too vulnerable. Our importation of oil is way down, but it's still not down to where it ought to be. There is no point in us making those countries rich with a lot of the things they are doing, when we could be producing coal and utilizing our own natural resource in this country.

One of the biggest disappointments I have had in the last three or four years is the demise of our synfuel industry. That should have been perpetuated. It should be brought on. It has a lot of promise for the future. Now we've hit this lull when the oil price came down and interest is not there in the synfuel industry. We are going to become complacent again. We will get hit between the eyes again by the oil-producing countries one of these days. Then we will be on a crash program of spending billions of dollars excessively to develop that industry, where today we could be doing it on a very rational basis. We could be doing it at the least costly time in our history. We could be creating jobs that our country needs in developing this industry. It is just something that needs to be done. Unfortunately, it's not being done.

Seltzer: But you see it as a federal responsibility rather than the private sector's?

Ewing: It has to be in the early developmental stages. It has to be federal. The federal government has to be involved either in direct investments or in subsidies for the product which is produced. You can get private money involved in this investment. The key is giving support from the federal government in taking the product and support as far as price. It needs to be subsidized until we can get these plants built, and we get them producing a product that's competitive with the natural product. That's going to take time. Private industry cannot do it alone in today's world.

Seltzer: Say you were a governor of West Virginia or Kentucky, states with a traditionally strong coal industry and where over the last five years you've seen a substantial amount of unemployment. You are uncertain about coal's future, and you don't have much in the way of other industry in many counties where you are producing coal. What state policies do you think would make sense to encourage other kinds of businesses and to reap more benefits--economic and social benefits--from the coal that will be mined in the future? What kind of policies would Peabody feel comfortable with that had those goals?

Ewing: The governors, both of Kentucky and West Virginia, are working very hard to develop some alternatives in their states to offset some of the downturn in the coal industry. They know the real heart of the economy in those two states is in the coal industry. Governor Collins in Kentucky is taking a very strong stand as far as the use of coal in the future. She is trying to encourage the continued use of coal and more use of coal in the future. She has to look also at other areas of economic development. They are plowing some of the taxation money from coal, the severance tax money in Kentucky, into economic development to encourage other industry to locate in the state and create jobs. They are using some of the money derived from the production of coal today to change to some other industry to take up some slack from the lack of coal production in the future. That is being done today.

I see a lot of things going on. Governor Thompson in Illinois is working very hard to see what state government can do with the funds they have, whether it's different taxation, tax breaks, to encourage other industry to locate in the state. This is kind of new--this heavy lobbying and solicitation of business--on the part of chief executives of these states. They are recognizing that they have to go out and sell their states. Sell the benefits of their states. Sell what they have to offer in their states to encourage industry to come in.

[They have to] look at themselves very clearly to see what their taxation policies are, what their workmen's compensation laws are and all of the things that might be a detriment to business. Illinois is one of the highest states as far as the cost of workmen's compensation is concerned. Legislation will be looking at those things. Kentucky has some other elements they are looking at to see if there is something detrimental to businesses operating there. West Virginia is doing the same thing. Their business and occupation tax to see whether there should be some relief in that area.

I see those governors saying:

We want to do what we can. We are going to work to the best of our ability to encourage the coal industry. To help perpetuate the coal industry. To help it through this period of time. To see that there are no detrimental things to depress the coal industry but to encourage it. But on the other hand, we've got to make some plans to see if we can make some inroads for other industry to come into the state. In using some of those resources we may be gathering [from] coal today to do those things with it.

I see governors in Indiana, Illinois, Kentucky, West Virginia doing those things.

Greenfield: This Saturn plant from GM is a classic example of a state trying to sell their location.

Ewing: You've seen them really become aggressive. It's not like the governor sits back and pats himself or herself on the back and says, "Hey, what a good state I've got." They are going to have to do some far-reaching planning because there is a change in industry. There is a change in the type of employment the people in the state might be doing in the future. They are trying to make some accommodation to that, which I think is healthy. It's not a pleasant task; it's not an easy task. But we will have to go through it and a lot of states will have to go through it in the future.

Duncan: In this battle for industry that all the states are going through, those in the Northeast who are coming back to life are winning on the basis of their quality of life. In Kentucky we are working hard to fund better education. The Montana governor has just suggested that he would lower the tax on coal to see whether it actually improved production and had a net fiscal benefit for the state. Do you see a conflict between lowering taxes and building up the schools, or other aspects of the quality of life? What are the limits to the taxes coal can contribute to improve the quality of life?

Ewing: It's just the law of supply and demand in economics today. The more cost you tack onto us, the less competitive we are going to be. That's hurt Montana. We have a large mine in Montana. The coal industry with that high severance tax they have--30%--has just killed off the coal industry. There is just no way we are going to make any new sales out of Montana. We have a lot of undeveloped property in Montana--low-sulfur coal. But Montana can't compete with Wyoming's Powder River Basin today. Not only have you got a rail disadvantage to a certain extent, but also the severance tax disadvantage, which pushes business for that type of coal from Montana into Wyoming. In Illinois about every year there is a bill introduced to put a severance tax on coal. We don't have a severance tax today; we have a business use tax. I've argued against a severance tax. And people say, "Why do you argue against it when you have one in Kentucky?" I say it's the competitiveness of the coal. Illinois coal is high sulfur, and it is competing against Kentucky and other states.

Duncan: In addition to Colombia.

Ewing: Colombia. That's true. It's going to be a factor for coal in the Midwest because the markets for that Colombian coal will reach the Gulf Coast and other areas which are part of Peabody's marketplace. Anything we do hurts our competitiveness as far as coal is concerned. As far as the state [Illinois] is concerned, the best thing we can do is to keep our product competitive, to sell more of it, produce more of it, and create more jobs. The state will gain from the revenues. But to tack it on each ton of coal when we can't compete today just shoves another nail in our coffin. Now, your thoughts are on the other side; and they have some validity.

Duncan: I just see coal-dependent counties like Pike County in Kentucky trapped. If they have to depend on miners' occupation tax or corporate income tax, there are real limits to the tax revenues they can get from the coal industry, despite the jobs.

Ewing: That's true. It's a real difficult problem.

Seltzer: Would it make sense to try to equalize coal taxes among coal producing states so that you don't get a Montana-Wyoming situation?

Greenfield: How do you do that with Colombian coal?

Seltzer: You don't. You keep the overall level of taxation on U.S. coal competitive internationally, but you equalize among the states so that you don't get shifts due to different taxation levels.

Ewing: Of course, the only way you can do that is if you get down to government control of the coal industry. You are not going to get states to agree. They won't split their revenue one with the other. It would be very difficult. Philisophically you couldn't get them to agree to do that. It would be difficult to do that.

Greenfield: I read recently that Appalachian coal cannot be shipped down to Florida and compete on a price basis with Colombian coal. I think we are going to see in coming years a need for the U.S. coal industry to be even more aware of the need to compete on a worldwide market basis rather than just our own.

Ewing: Peabody is just now beginning to reach that era in our company. We have always been a domestic producer. Now with West Virginia properties, we are beginning to get our feet wet in the international market. It is not the most comfortable water to step into at this particular time. It is going to be interesting. You have coal from Poland, South Africa, and Australia coming into the United States. The question is brought up: Should we have an import tax? I'm not sure that's the right thing to do. I'm not for that. It would be easy to be for it, but you have to see the flip side of that. We are a country that believes in free trade. Other countries could erect barriers [if we do], and already have to a certain extent. We've got a lot of things to export out of this country. The trade imbalance is pretty bad at this point. I think we ought to compete for awhile. If we did something to prevent something from coming into this country--taxation--then that product is going to move somewhere, hurting our sales elsewhere. It's like punching a balloon. It's going to go in someplace and it's going to come out some other place. If we can't compete with the foreign coal here, it's going to be backed up at some other destination point around the world. So we are going to have to compete. I don't like some of the competition. I don't like the subsidized competition. It's not exactly a free boxing match. But it's there, and we are going to have to face it.

Duncan: Of course, that is Exxon producing Colombian coal. Could Peabody be in Colombia or Venezuela producing coal to compete with U.S.-produced coal?

Ewing: We had the El Cerrejon property first. We did a lot of exploration on it. We did a lot of the early work and established the first camp in the boondocks for exploration. It was such a big project for a company our size to take on. We didn't think we could manage that capital investment. You are talking about a complete infrastructure, from 150 miles in the bush to the port. You have to build towns, railroads, port facilities, the whole shooting match. Now we did that in Australia back in the 1960s. We were part of a consortium with an Australian company and a Japanese company. We were the managers. They put up most of the money, and we did the managing of the project. The port facility and the rail facility and everything had to be built. But we didn't have to put up all the money. The Japanese did. The Japanese were the customers. Exxon took up where we left off in Colombia.

Seltzer: Maybe they'll have better luck than they did in Wayne County, West Virginia.

[Laughter]

KENTUCKY COAL ASSOCIATION

Tom Duncan, President

Company address: 340 South Broadway, Lexington, Kentucky, 40508

Parent company: n/a

Background: 57 years old, 12 years in the coal business. Mr. Duncan attended the University of Louisville and graduated from the University of Kentucky. He taught at Clay, Kentucky High School and has been a part-time instructor at the University of Kentucky. He was a newsman with Lexington Herald and Lexington Leader and Associated Press, the Courier Journal of Louisville, and WAVE Radio-T.V. in Louisville. He was Director of University Information Services at U.K. from December 1971 until December 1973. From there he went to the Kentucky Coal Association.

KENTUCKY COAL ASSOCIATION

Tom Duncan, President

April 9, 1985

Seltzer:[1] Can you give us your sense of the production trends over the next 10 years in the Kentucky coal industry.

T. Duncan: ...I think sometimes our idea of long-term planning is where do you go for lunch. [Laughter]. I think some companies can make judgments. There are some you can probably make. If you look back at the kinds of projections that were made by very knowledgeable people 10 years ago, and then look where we are, it's a very difficult thing. You could not imagine the industry in the shape it was on September 30th last year.

All the stuff...we see looks like...domestic electrical generation going up 2-1/2 to 3-1/2%, somewhere in there. Figuring that that's our big market, you would think that we [Kentucky coal tonnage] ought to grow 2-1/2 to 3-1/2%. We've had some advantages; we have outgrown some other states. It may not be our [the Kentucky coal industry] great ability, but in some ways other states have been even worse to their coal industries than our state has been to us. So we've grown.

But we have...in the last 10 to 15 years--maybe a little longer--lost market share. Our share of the domestic production is down from 22 or 23% to probably below 19% now. You have the additional factors of Colombian coal that are going to attempt to invade the market.

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[1]Curtis Seltzer and Cynthia Duncan, interviewers.

So many factors are beyond the industry's control. I would guess the nearest to making a projection would be to take that base line electrical generation projection, and we ought to be somewhere in that range. Even that kind of projection has varied all over the lot. It got up above 7% some places, and there are a few generating facilities that are monuments to that judgment. I would think that with our variety of coal, we ought to be able to stay in step with whatever that base line turns out to be.

Seltzer: If you were sitting in the Governor's office, the Governor of the State of Kentucky...

T. Duncan: [Laughter] That's the second worst job around.

Seltzer: ...and wanted to promote Kentucky coal for all of the economic benefits the coal industry brings to Kentucky, what would you do? What would your policy be for the state's coal industry?

T. Duncan: They have done some of it gradually. Regulation ought to be result oriented rather than structure. They have been boxed in by the feds on a lot of things, but they have brought some on themselves. They have got elements inside the state government that are basically anti-coal. These people are effective. They will build obstacles that are completely unnecessary and unproductive to restrict it.

Probably, the thing that would help the most is a gradual--and I think this is a dream--decrease in the severance tax rate. We have said from the start that the way to let us generate revenue, jobs and purchases is to let us expand volume. It's a very competitive market. We have coal coming into Kentucky from outside where the difference in the bid is less than the amount of severance tax. This is coal coming in from states without severance taxes. That kind of thing--and I know it's a pipe dream--I think the economic benefits to the state aside from the revenue would be greater if we could increase production.

Seltzer: The Kentucky Coal Summit that is scheduled for next week commissioned a consulting report from Data Resources. They did some modeling and what they found was--I expect you've seen those?

T. Duncan: I got through the first volume, and it did not have that.

Seltzer: What you'll see is that they say coal produciton is not very sensitive to price.

T. Duncan: [Laughter]

Seltzer: ...to marginal price increases or decreases. That other factors shape demand more than small changes in prices.

T. Duncan: Overall demand. That is probably true. The question is, how much of the demand does Kentucky satisfy? That is very price sensitive.

Seltzer: Is the position of the Kentucky Coal Association that there should be no severance tax, or a lower severance tax?

T. Duncan: No, that isn't policy. You asked me what I would do if I were sitting in the Governor's chair. Just as a feeling of the people I've heard--and we haven't had a policy on it since the last increase--is that if you are taxing coal to generate revenue, that is probably the proper method. Now as to the rate, that is a completely different thing. Our rate is effectively probably the highest in the country. Wyoming and Montana numbers are not comparable in that the ultimate sale price of our coal is greatly taxed [while] they [western coal] are valued at the pit.

Of course, we don't have a severance tax anymore except by nomenclature. We've got a gross receipts tax. When it was initiated, it was because this was a nonrenewable resource that was being taken from the Commonwealth and somehow the Commonwealth had a vested interest. If you accept that, that's one thing. But...when you tax the value after processing, you've got a completely different animal. It's not a severance tax. It's a tax on manufacturing as well as severing. But the rate, of course, is not carved in stone. It's been increased effectively twice. It went from 4 to 4-1/2% and then from the severed value to the ultimate sale price less transportation.

Seltzer: If Kentucky would reduce its severance tax rate on coal, my hunch would be that West Virginia and the other producers would probably be forced to reduce their taxes on coal.

T. Duncan: The others haven't got much to reduce. West Virginia is the only one that has a comparable burden to us. That theory in reverse has been used all the time about raising it; other states will probably come along. The only thing I can say to that theory is that it hasn't worked. The only one that has done it effectively--and, of course, they've done it with the B and O tax rather than the severance tax--is West Virginia. Nobody else around us taxes at anything like the rate we do. They'll have a 1% for counties...or a flat amount per ton. But nobody except West Virginia taxes anything like [we do].

M. Duncan: What proportion of Kentucky coal is sold on long-term contracts compared to the spot market?

T. Duncan: I'd guess our percentage of the spot market may have been higher over the years than some other states because of the number of small mines we have. Normally, we've got 80% in the coal market--80% contract and 20% spot. That was changing for a good while, going more and more to long-term. After the wide swings in prices, we probably got nation-wide maybe 90%. That's a guess. It's now shifting back the other way some.

Utilities are not making long-range commitments for various reasons. They are pressured by the Public Service Commission and consumer groups because the spot market price has been lower [than the long-term contract price] over the past [few years.] They [utilities] also have a real dilemma in many cases about emission standards that can be changed on them by a stroke of the Congressional pen. I would guess that the amount of spot market coal is probably going back up some. But I don't know that. There are two areas that we stay out of. Somebody anointed in heaven decreed before I got here that we stay out of sales and labor relations. If you took the historic figures, I'd guess you would be in the 80/20% range.

M. Duncan: And it would be the 20% that would be more affected by the reduction in severance tax?

T. Duncan: No, no. Not necessarily.

M. Duncan: No?

T. Duncan: It isn't just the tax that is on right now, it's the look at the future. One of the reasons we have a problem with obtaining long-term contracts is that in almost every session of the legislature there are proposals of various taxes. If you have a contract that has a pass-through, the consumer has to pay. So he [a utility] is signing on to a blank check, [which he doesn't] like to do. It's like trying to sell a variable-rate mortgage. It's just hard to sell to them. The threat of the increase that is going to be passed on is a real hurdle for us to get over. If the movement were toward lower taxes, then you'd have an incentive [for a utility to buy Kentucky coal on long-term contracts] there. Some bulb would come on. But I think I am probably wasting your time talking about that.

Seltzer: No. I understand what you're saying.

T. Duncan: It's [current severance tax rates] not going to probably affect that volume of coal that is mined in Appalachia or the Illinois Basin either one. But it will affect the amount of coal Kentuckians sell--very directly.

M. Duncan: If there were a multi-state severance tax, it wouldn't affect coal production.

T. Duncan: Sure, it still would. If it were national and you didn't have foreign competition, maybe. But there aren't any laws now.

It's a world energy market. The companies that are in it are world players to a large extent. One of our problems in competing with Colombia and South Africa--not that they can mine coal any better than we can or that they have any better coal. It's that their labor costs are lower. They don't have the same environmental and safety regulations. We've got the situation where one of our members last year sent a million dollars to Washington on the federal Black Lung Tax. He had <u>one person</u>, ex-employee, drawing federal black lung claims of $14,000. Now, that's a loss of $900,000 plus just right out of this industry that had to come out of somewhere. And it doesn't matter if it's national or not. It has some effect. It is more direct on our problem if it is a state tax....

It's [coal] a pretty heavily taxed industry. ...[Taxes] have to come out of that ton of coal. There's not anyplace else for it to come. If the amount of the [production] cost and the taxes and the levies is more than [what you make], you lose money as long as you can and then you go broke or get out or do something different.

Seltzer: Most of the competition that Colombian or South African coal might present to Kentucky is marginal. It's coal that would be sold on the Gulf Coast, the Florida utility market.

T. Duncan: Well, right now, that's where. But the Mississippi doesn't flow that strong; you can go upstream. And the

Tennessee-Tombigbee [Canal] doesn't have any flow. Water movement is the cheapest way to move [coal]. So I don't know how far they're constrained.

Seltzer: Most of the studies I have read suggest that there's a limit to the penetration of Colombian and South African coal into the Ohio River Valley where most of your coal is being sold. Your coal moves south, but most of it is either burned in Kentucky or moves north...

T. Duncan: No, the southern market is bigger than the northern.

Seltzer: Is that right? But it's not the coastal market?

T. Duncan: Oh, yes. We sell down to Duke Power. We've got coal that goes into Florida.

What would seem to be the limits aren't necessarily those limits. They're burning Powder River Basin [Wyoming] coal at Rockport, Indiana, right across from Owensboro [Kentucky], sitting in the middle of a coal field. That stuff is...very high in moisture. It's low Btu. They bring it by rail from Wyoming all the way to the Mississippi River, put it on a barge down the Mississippi, up the Ohio, and burn it here in the coal field. And they've got to trans-load that. I hope that their [foreign coal] penetration is limited, but it will be limited only by the dollars or the insanity of the federal government.

Seltzer: If you see state taxation on the coal industry as a key variable as to whether your coal can be sold in one place or another, then...if you equalize the taxation on the industry in the Appalachian area--I'm not talking about higher or lower, I'm just saying equal--then you eliminate that factor in competition except for the competition that South African and Colombian coal would present.

T. Duncan: Yes. I think we're off on a trail. I wasn't saying it was the key factor. You said, "If you were sitting in the Governor's chair." This [lower taxes] is one thing that would stimulate production. There are probably some others that are more likely to happen. It is true that if you had [tax] equality across the board, you obviously eliminate that factor.

But we've got other factors at work, too. There is no direction you can ship Kentucky coal without going through another coal-producing state. We are surrounded by coal-producing states. To get to any outside market, we start at a transportation disadvantage. So we've got that factor. We've probably got the highest worker compensation cost of any around. The last study I saw by the West Virginia Research League said that if you took the tax burden on the states, West Virginia's was the highest, unless you included workers' comp. In that case, Kentucky was the highest. But that is one [lowering taxation] that could be addressed. This is probably not the time since they [state politicians] are looking for more money. I think over the long haul it [lowering taxes] would generate more [public revenue].

Seltzer: What's interesting from the interviews we've had is that coal company presidents argue that they are less concerned about the issue of taxation in Kentucky or West Virginia and are more concerned that the money in Kentucky, for instance, goes into the general revenue than to the local coal-producing counties.

T. Duncan: That is a real problem.

Seltzer: Their perspective on the reform of the taxation system is to change the distribution rather than to lower the rate, although I'm sure they would like lower rates.

T. Duncan: That is why I'm saying that it is just a mirage that we could get it down, probably. It is much more important to our immediate situation that the counties get more of this [severance tax] money. The people from the coal counties--the legislators from the coal counties--have been whipsawed by the changes in the formula. Last time, there was little or no effort to change it because each time it had been changed, the coal counties came out with less, probably by no one person's or no one group's intent.... The changes in the formula have left people gun shy of it. There's not enough votes from coal counties to change it. So it's got to be something that is part of a package. But for the companies and for the industry, it may be a more pressing need than an absolute reduction. I think, overall, in the long haul, a [tax] reduction could be beneficial to the state, not just us.

Seltzer: You were saying that you thought if all other things were equal, Kentucky's production over the next 10 years would more or less track a 2-1/2 or 3% average annual increase with some flexibility on both ends. What's your sense about the future of productivity? How do you see that?

T. Duncan: If you could do it in a sterile atmosphere, I think it would increase.

There are two or three things that are hard, at least for me, to factor in. I think we will see a higher percentage of underground productivity. Historically in Kentucky, underground productivity has not been as great as surface mines. You've got that. You normally mine your easiest reserves. So we are going to be into more difficult mining.

There are some other things that will work toward it [higher productivity]. We are getting a labor force that more and more understands that productivity is the key to maintaining that job. We went through a period when...we lost a generation of miners [during] a decline in the industry and then a sudden demand increase that allowed for some fat. [We saw] some of the ingrained attitude, "Don't hurry up because you'll put yourself out of a job." That kind of thinking over a period of time had a real effect. Some of that is changing. We've got factors that nobody can predict--certainly I can't--of what does the government do next? The big decline in underground production goes right back to the 1969 [Federal Coal Mine Health and Safety Act]. It may have been worth the price; I don't mean to make a value judgment on it. Regulations and the laws change productivity despite the very best management and labor. You would think that overall we would get better at it, but we will be working in tougher conditions.

Seltzer: Deep-mine production and productivity over the last four or five years has been increasing. You are absolutely right that most of the trend forecasts suggest that there is going to be a shift from surface mining in the East to deep mining in the East, and that will...

T. Duncan: There's got to be some.

Seltzer: Yes. Just because the strip reserves are playing out.

T. Duncan: And you have almost outlawed contouring in a great number of cases.

Seltzer: A lot of the things that caused the productivity decline in the 1970s seem to have washed through the system, like labor problems. The industry has adapted to certain mining regs and safety regulations and knows how to comply with those laws. Whereas, in the seventies it took [operators] a long time to figure out what they had to do to comply. In conversations I've had, I don't get the feeling in 1985 that I got in the late seventies that federal regulations are the impediment to production that [coal] people thought that they were five or six years ago. The plain fact of the matter is that production has been increasing in the 1980s even though it's a very tightly regulated industry.

T. Duncan: I think you have two, if not fallacies, at least two factors in there that belie some of that.

Some of the statistical productivity increases, I would submit, may be a mirage. If you've got a company that operates ten active mines, but can only utilize [sell] the production of nine of them, assuming that all ten can meet the specifications, which one will they close? What does that company's productivity do?

M. Duncan: Are you saying that's a one-time gain? Why is it a mirage? It's real productivity gains.

T. Duncan: No.

M. Duncan: Closing inefficient....

T. Duncan: Well, sure. But it doesn't mean that any operation has become more efficient.

Now some do. There is much better planning [today] in the industry. One thing that the laws and regulations have done is to force much better planning so that you have a situation where a number of factors have been taken into as careful consideration as they can. What I am saying is that some of the numbers are at least misleading. They may not be false.

Seltzer: I understand your point. You're right.

T. Duncan: You do have some developments that can be, over a long range, very substantial factors. Longwalling, which is completely new to this country, anyhow, and some other things.

The other thing about the regulations. It's not just learning how to cope with them, it's picking the place you can do it [mining]. You change the whole situation. They [operators] have adapted amazingly well to an ill-conceived scheme that has some elements of just pure punitive harassment. Coal industry management has been much maligned. They have been amazingly adaptive to a hostile environment both ways, naturally [geologically] and governmentally. The thing that happens to them is not just the restrictiveness of the regulation, it's the change [constant changing of the regulations]. We are in the middle of court battles over them.... I don't know what the next go-round could bring, but we've got a situation now in the broadform deed case, for instance, [where] the value of a tremendous number of reserves could be wiped out. If House Bill 32 should be upheld as constitutional, you could have the mineral owner having no other right but the right to keep somebody else from mining that coal. That would be his only right in some instances. What does that do to you [the operator]? I don't know. I don't want to exaggerate, but that kind of thing can change the whole outlook for a segment of the industry at any time. I would hope productivity will go up. I don't know it at all.

Seltzer: My question is that you are right that over the last three or four years that inefficient sections and inefficient mines have closed down, and that's boosted productivity. The flip side of that is if we were to use all of our capacity to produce coal, our productivity would decline.

T. Duncan: Sure.

Seltzer: You would be bringing all those inefficient sections and all those inefficient mines back in and you would have people digging coal with shovels. If the price of coal went up, productivity would go down because it is pulling everybody back in.

T. Duncan: Sure.

Seltzer: The feeling I get from these conversations is that most suppliers feel that that factor in productivity pretty much played out. They are expecting productivity increases over the next 5 or 10 years to come from substituting better and more efficient equipment for older equipment and less efficient equipment. Doing what you suggested, which is to mine the seams that are most efficiently mined by current methods and go in there and not bother with the marginal seams. To manage better and develop more and better employee programs. They see productivity [gains in the future] as being genuine productivity gains rather than the kind of productivity gains you get from closing down inefficient operations.

T. Duncan: Don't mistake me. The labor force has a different feeling, that this mine has to produce or there won't be the jobs. I think that some of that is real. What I'm saying is I think that some of it is a mirage for projecting purposes because you have wrung it out.

I'm not sure the shakeout's over. I would have thought so, but I just don't know. You've been talking to substantial, well-managed companies that are in for the long haul and who can turn their attention to these things. The industry is very diverse. They may be the cream of it as to their approach and their ability to cope. I would say that there could be [genuine productivity gain]. Longwalling is a very productive method if you can do it.

M. Duncan: What proportion of Kentucky coal is mined by small operators under 100,000 or 200,000 tons?

T. Duncan: I don't know. They've had the numbers in the Coal Journal. ...The percentage may [be] down to 20% or so. We had a tremendous number of small mines, but not great total production. But that number may be wrong and you would need to check.

They have been a very important segment of the industry for a number of reasons. There are some places and some blocks of coal that [can't support] a major installation. They [small operators] are very resourceful people who know their area and their coal. They furnish employment in some places that a large operation simply wouldn't. In Kentucky, we've got a number of pretty inaccessible areas, but the people want to stay. They don't want to go. ...There are a whole lot of people in western Kentucky, too, but I think more in eastern Kentucky who don't want to leave their area. Some of these smaller operations also furnish a good hunk of surge capacity of the industry. They may not be in all cases as efficient, although some of them are very efficient. But if the price gets right, they move the coal out. The limitation would be transportation, probably. All of that has now changed because of the permitting process, what it is now. I don't know that they can react to quick demand like they used to. We'll just have to see.

M. Duncan: Do you get different demands on you as the head of the Kentucky Coal Association from the small operators than the big operators in the state? Do you find yourself that their needs conflict?

T. Duncan: There are some. Over the years, the large operators have realized the value of a small operation pretty well. Although some of the smaller operators may think this big company is casting too big a shadow..., they are pretty resourceful people, too.

When the Federal Surface Mining Act had no provision for regulating two-acre operations, we said we wouldn't go along with a complete exemption but tried to make it as reasonable as we could at the time. We did not write the law or anything like that, but there were a couple of reasons. If you [the law] prevented off-site damage, then [we argued to] let them operate pretty much as they would. I thought that it might demonstrate a couple of things including the insanity of eliminating the high wall and some [other] things that don't make any sense to me. Now, the two-acre issue has just erupted. That may be the basis for some real conflict because it has been so abused that there will be an effort to eliminate them. I don't know how you would do that exactly. There will certainly be an effort to make the permitting process the same no matter the size. That would be a burden to those who have tried to do it legitimately. But it's like a lot of the rest of the industry. The good operator has paid the price for the sins of the bad operator over the years. Those two-acre permits have been abused badly.

Seltzer: What's the best answer to that problem of environmental abuse by a small sector of the industry? Is there some way that the industry could police itself? If the industries can't do it, then you are left with the public sector policing you.

T. Duncan: I don't see how the industry could do it. There might be some way, but I couldn't figure it out. We have not done a policy thing on it, but I think almost everybody realizes it's become just outrageous. The only quick fix that I can see is that they would have to go through the same process as everybody else. That triggers a lot of other problems. It has been abused--not just environmentally--it's been abused economically. It has distorted the market. It has resulted in outright theft of coal. We've just got a bad situation out there and they may come up with a better answer. As to the overall industry paying the price for the bad apples, that's happened to us over and over. The Courier Journal will run the picture of the worst one. We are used to that price. If you'd give me the answer, I'd sure appreciate it. It's bad enough to pay for your own sins, but to pay for the ones of others or imagined.... If anything goes wrong, sue the nearest solvent coal company. It's like the black lung thing. I call it the each-one-catch-one system.

Seltzer: You have to admit on black lung that the industry has been subsidized far more than it's been taxed.

T. Duncan: I don't know about being subsidized. I don't think the industry's been subsidized.

Seltzer: It's the federal taxpayer who has paid $14 billion since 1970 in black lung benefits.

T. Duncan: Well, I don't know that they've paid it. The fact of it is--maybe more true in Kentucky than other places--is this was a responsibility put on this industry retroactively that is a completely different breed of cat. I can't believe that if it had been any other industry the courts would have upheld it. What you had was all this accrued liability which, again, had to come out of that ton of coal, but nobody was told it had to come out of that ton of coal. All this liability was lumped into one shot. The liability had accrued on coal that was sold below the real cost.

Seltzer: That's right...

T. Duncan: I think Congress was subsidizing their own "do-gooder-ness." Congress decided that this was a disease and that these were the compensable criteria. And then said, "Okay, from back to when the memory of man runneth not to the contrary, you'd better put in this liability."

Seltzer: How should they have handled it?

T. Duncan: I don't know. At this stage it's like trying to unmix an omelet. But I think anytime you do something retroactively, you are at least arbitrary if not capricious.

One of our pleas on taxes to the state and to the feds has been that we would like to know January 1 what our liability is going to be December 31. You simply cannot get it. It doesn't matter what it is, it changes on you and very seldom to the better. When you've got a hunk of money like that, it is a social problem. It isn't just an industrial problem. You've got coal companies that have a greater black lung liability than their entire net worth. Big ones [companies]. Very big ones. And it was something that all of a sudden was decreed from on high, and then they said do the best you can. The black lung tax [doubled] and it's [the black lung trust fund] gotten almost on a break-even basis. Every now and then it will break even. Although the net cost of that has been greater than the coal industry has paid in, I'm not sure that subsidizing the industry is the right term.

M. Duncan: What do you think right now the effective tax rate is on the industry in this state?

T. Duncan: I don't know. It would vary.

The best study I've seen on it--and apparently it's got some flaws--but the fellow laid out his methods pretty well. I think these were 1981 or 1982 numbers. Each coal mining job represented $9,000 in direct revenue to the state and $40,000 into the economy. We've never been able to get a break out of numbers on such things as sales-and-use taxes and individual income taxes so that you can get it.

Seltzer: Who did that?

T. Duncan: I think John Abell. His conclusion was that we were a net producer, a plus, to the state economically, even if he took into consideration the education of the children of coal miners.

Seltzer: And the main benefit was employment and the income generated by employment.

T. Duncan: And severance tax. We pay all the other taxes that everybody does plus the severance tax with the exception of the rate on unmined minerals, which is not a rate that was invented for us. It was a rate that was already on the books.

Seltzer: If you project production going up two or three percent a year over the next ten years and productivity goes up about the same rate, there's no net gain in employment.

T. Duncan: Not in numbers.

Seltzer: That's right. Now there might be a net gain in disposable income.

T. Duncan: There probably would be.

Seltzer: But just looking at the numbers of workers employed in the industry, it's flat.

T. Duncan: Yes. It very well could be flat or even decline some. I don't know. I think the more important thing is if you did have demand increasing at a steady rate and if you did have productivity increasing at a steady rate, you might have the one most elusive dream--of stability.

M. Duncan: And what could bring about that steady increase in demand?

T. Duncan: We are subject to fluctuations of the economy plus kinds of things that you have with a labor agreement. I don't know that you can ever get real stability, but you would hope to improve it some. That seemed the direction we might have been moving in as you increase the percentage of production that was sold on long-term contracts. I'm afraid there's a lull in that with the discrepancy between [long-term and spot] prices. The more fluctuations you get in the economy and the higher percentage that is sold on the spot market, the more instability you get. It's just part of it.

M. Duncan: Could the small operators in Kentucky fill long-term contract orders if the contracts are out there? Or do they depend on the spot market entirely?

T. Duncan: I think it's probably a mixture.

Most of them would have real difficulty selling to electric utilities on a long-term contract. They [small operators] simply don't have the size and volume that they [utilities] want to handle. Some [small operators] probably participate through brokers or through a larger company that uses some of their production--either by buying it directly or having them as contract operators. Some [small operators] may find themselves a [niche] in the industrial market, then get a contract. It's just a mixed bag. They have more difficulty because [when] you've got one small operation and something goes haywire, your flow is interrupted. A larger company or one that has various sources can give the consumer more guarantee of a steady supply. I think that pressure is going to increase because, here in Kentucky and probably elsewhere, of pressure from public service commissions to reduce stockpiles. [Utilities will tend to] get more dependent on a stable and reliable source of supply. The larger your stockpile, the less you are dependent on whether you get the shipment this week or this month. The pressure is to decrease the size of utility stockpiles. Where they'll stop, I don't know.

M. Duncan: If that continues to change in that direction, would our state have enough big operators with long-term contracts that the net production of the state would stay the same? If small operators decrease production because of acid-rain legislation or other environmental legislation that restricted them, I'm wondering how that slack is going to be filled in our state.

T. Duncan: I simply don't know. The one thing I'd say is that I would never underestimate the ingenuity and tenacity of some of these small operators. They've survived the lethal in the past. A lot of them are very resourceful people. But they've got just tremendous difficulties. The permitting process now is an absolute--I don't know words strong enough to put it--it is just tremendously difficult to obtain a permit.

M. Duncan: When a small operator is under contract to a large operator, who gets the permit?

T. Duncan: That would vary. A lot of the larger ones offer an umbrella of services. They've got engineering and legal, probably accounting talent and resources. That is one of the attractions. That is one of the directions it will probably move, you will have more of them becoming, in effect, contract operators...with the nonoperational matters taken care of by a larger operation.

M. Duncan: That would really improve stability to the extent that small operators can make those arrangements.

T. Duncan: Yeah. Some.

M. Duncan: Do the small operators you know tend to be a certain age group? Do we see 30-year-olds becoming small operators?

T. Duncan: You see some. Raymond's [Bradbury of Martin County Coal Corporation] son is in. Of course, he's just a really bright boy. He's bright and he's knowledgeable. But you'll see some who simply have nothing else to do. Or you'll see some that start in being just a miner and then see a chance to establish some credit. I don't think we are attracting the numbers that did continue before. The penalties are just so great to get in, and you've got to take a risk. You are in an operation where somebody who may not have many qualifications at all can come by your place that day, and you are out of business. They can red-tag you and you're gone.

M. Duncan: Is there enough credit around for someone like--not Raymond Bradbury's son who's made a reputation with his father as a miner--but somebody who's got his kind of savvy and smarts and wants to start a mine? Can he go and get money from a local bank?

T. Duncan: I don't really know. I'd say that would be dependent on what kind of track record he had established. There are bankers in the coal fields that are very familiar with operations--in fact, probably could have kept a bunch of our people from making bad mistakes if they'd listened. Credit is always a problem. I don't know the availability on starting out. [A prospective borrower] would have had to establish some kind of track record whether it was in the [coal] business or what. There are bankers in small communities that will lend it to somebody just because they know he or she will work hard. And a lot of equipment companies will lease you equipment. But still the start-up costs could be substantial. I don't know how big a constraint that is, but I'd say it's a pretty good-sized one now with the market as bad as it is.

Seltzer: I was going to ask you a question about the Kentucky Energy Cabinet. They've done research on various uses for coal and they are putting on a Kentucky Summit. What more or what different might they do to help the state's coal industry do its work better? Or do you they are doing a good job?

T. Duncan: I think they are doing a good job. It's a relatively new entity. I'm an admirer of all three secretaries we've had. I think they've tried to guide it. The situation has changed on them, terrifically. The research was really all through IMMR [Institute of Mines and Minerals Research] until whatever date. Somewhere in that time the synfuels matter became the pre-eminent research priority not just in Kentucky, but as far as coal was concerned, anywhere in terms of dollars and emphasis. Probably rightly so. They've gone too far in some ways, but I think it is a very defensible thing--and still is--that we ought to have some of these synfuel plants as a matter of national security, economic security, whichever tag you want to put on it. With the winding down of the oil crisis--if anyone's attention span is shorter than the coal industry's--it's got to be the federal government. If it's not a crisis, forget it. So that big shift caused some reassessment out there. Secretary

Evans...still contends that synfuels is a worthwhile goal, but, as a matter of practicality, he is trying to go for things that can both gain support and produce results now. The attention that has been given to [develop] coal-fired locomotives is well worth an effort. I have no idea how soon you could make the conversion assuming you develop the prototype. It obviously has some potential. It is absolutely clear that [research on] coal preparation is very important. I don't know how far you can go in improving that, but more and more coal is washed and more and more is going to be washed. Reclaiming old refuse piles to recover energy...is an area where we've made substantial progress. We've had people...objecting to what they were doing in some stages. One of the [IMMR] directors explained one time that you can only do research that your people were qualified to do and interested in. They are also locked into the state salary system. I think they are doing the best they can. They had a [coal] liquefaction plant at Catlettsburg [Kentucky] that worked. It flat did. It didn't get to the next scale, which is just about criminal in my estimation, but it was not all theoretical. You can put coal in the front end and get a pretty good grade of synthetic crude out the other end.

Seltzer: I don't think there is any question that it is technically feasible.

T. Duncan: Yes. It's going to be like the fluidized bed thing. I think the fluidized bed [combustion system] has great potential. How fast we can get there, I don't know. I doubt that it [a demonstration project] would be down at Shawnee [power plant] if it weren't for the Energy Cabinet.

M. Duncan: The Summit idea came about because [Governor] Martha Layne Collins wanted to encourage the national government to have an energy policy that would allot a certain amount of our energy consumption to coal. Do you think that has a prospect of coming out of this [the Coal Summit]?

T. Duncan: I think they are approaching it as a first step. I don't think that anybody thinks you will come out of 2-1/2 days with a national energy policy. But the fact is that we haven't had one [a national energy policy]. Well, we've had maybe 15, but we've never had a national energy policy of any real import since I've been around. I think that if you were to get one, obviously coal has a role to play. If the [coal] industry doesn't make an effort, that role won't be as great as it should be.

I was reading in the last day or two about projections on our domestic energy usage--I guess this was to 1995--where coal's share would only go up 22% to 23%. That is probably accurate because of various factors. But it [the small increase in coal's share]...really ought to be of grave concern to a lot of people.

I'm convinced that if the government gets in there [energy policy] with too heavy a hand, it'll mess it up. Where the energy situation in this country went to shambles, I think, was in artificial control of natural gas at the well head and the dumping of residual fuel oil. That kind of thing just distorted the market. I'm not sure that a completely free market will work to a country's benefit, either. Theoretically it ought to, but [foreign coal suppliers don't operate with] the same set of constraints we do. If they came from the same set of constraints, I'd say a free market would just about be right except that there are some industries that you simply have to have or you are at the mercy of everybody else. You need a base. That's where I would make a case for synfuels--that you have some of those to demonstrate you can do it. [Synfuels development] may have been a factor in the lowering of some oil prices, too; if they [oil prices] got too high, this country would react. That may have been as much a stabilizing factor as the glut. The glut is only a glut if you are not making money. Some kind of a mixture [free market and national energy planning] like that.

Secretary Evans once said, and I think he was about right, if the coal industry had had for research what the nuclear industry had for public relations, we'd be in pretty good shape. There has to be some movement and some push by the [coal] industry to say, "We want our share of the attention and the backing." Whether it develops into an enunciated energy policy or simply the recognition of how these factors probably ought to work and how little the government should do--but where it should do it--that will be an important first step. We've had the statement of President Carter that we were going to open 200, 240, major new coal mines. Now I don't know where they are, but....

Seltzer: But that's looking at the supply side. It's the demand side--that's the tricky part of it. ...If you just look at where the supply of energy could come from, you end up with a distorted sense because you don't know where it's going to be used and for what.

T. Duncan: Right.

Seltzer: If you take that a little further, then you get into a problem of do you want the federal government setting goals for the energy industry in 1995, or in the year 2000? We will be making electricity 75% coal, 25% nuclear, no oil and maybe a little gas and hydro. Other NATO countries, with whom we ally for purposes of defense, put a heavier federal coordinating role on energy demand patterns than we do. Lots of people talk about a federal energy policy. I never quite know what's being talked about there.

T. Duncan: I don't know what the governor or secretary is thinking, but I think they are talking about evolving something. That was why I was trying to make clear that I think the most difficult decision may be to what extent [should] the government interfere [in the market] and in what places. [Should we] prevent...the development of nuclear energy in this country and then buy surplus nuclear energy from Canada and let them beat us about the head and body over acid rain at the same time, although there's been some shift in that lately? That definitely becomes a federal question. Whether you are urging action or not, it's still a question. Do you allow Colombian coal to come in here without any tariff or impediment when it has not been mined under the same constraints as imposed on our producers? I think it's obvious that policy on rail transport is going to influence the national energy situation. Now it isn't a question of whether it's happened; it's already there.

One of the things that's been lacking is a rational approach to just how far do you go when you've got "new new" oil and "new" oil. Nobody outside the industry can understand it, and I don't think many inside could. There was a federal bureaucrat on the air some years ago explaining that, and I made my wife listen to it. I told her I wanted her to hear what we've got to put up with all the time. He was a veteran at it. To hear him talk, the federal government had it all worked out just the way every barrel of oil ought to go from and to. One of the biggest things to happen to mess up the energy picture in this country was artificial control of gas at the wellhead. You've got people burning the really exotic fuel [natural gas] under boilers. That's criminal. People burning metallurgical coal in boilers? That's criminal. But what else are you going to do? With the met coal market, we can see people bailing out. As one notable guy in the industry said, "We're burning some of the greatest chemical compounds on this earth in our boilers."

M. Duncan: Did that push the coal industry into being for controlling imports with steel, as well as with Colombian coal?

T. Duncan: You probably get a mixed bag. Those who are in favor of either limits or tariffs are saying, "Don't let them dump <u>subsidized</u> steel here."

One of the reasons that they moved to the second type of solution was that they were limiting imports of a <u>particular</u> type of steel. The countries would just rotate; whatever was limited, they would dump the others. It's the same thing as Poland dumping coal on the market just to get the hard currency. They were doing it at a net loss, but they are going after the hard currency. People who have to compete with another government subsidizing it really have a legitimate gripe. It's [protectionism] a very dangerous road over any kind of extended period and it starts to grow on you. Every shirt factory wants tariff protection.

There are some industries that you have to preserve a core of. If we were completely dependent on imported steel, you are just vulnerable as can be. You have to have some basic industry. We can't all make a living taking in each other's wash. We have to do some things; make some things. Some [industries] are basic to the national security. It's [protectionism] a very dangerous thing over the long haul, and I would hope that the coal industry doesn't have to get into that posture. But I can understand somebody whose costs for environmental, safety, and social responsibilities are pricing him out of his market. Here comes this subsidized or slave-labor-produced coal into his market; he loses a little feeling for the long-range, theoretical picture.

M. Duncan: It is complicated further by the fact that Peabody first explored that Colombian coal and now Exxon is producing it. When our own companies are finding it...

T. Duncan: Oh, sure. You've got foreign companies that have bought properties here. Our companies have bought properties elsewhere. In theory, if you had a free market in energy all over, we'd probably be better off. The fact is that it's already been distorted. And we are distorting it again when we talk about ultimate use. How in the devil can an electric utility start a nuclear plant today? It can't. They would be certifiably insane. It's difficult enough to figure a coal plant. The reason you've got that plant down at Rockport burning Powder River Basin coal is that American Electric Power is not going to put scrubbers on its plant if there's any other way. And I don't blame them. LG&E [Louisville Gas and Electric] made a commitment to scrubbers early. They've got access to that [high sulfur] market, and they make their own decisions. But in both cases, the decision was an artificial one caused by the federal government--not the market.

Seltzer: It was caused by the federal government because Congress and the executives determined that there was a reason to control SO_2, NO_x and particulates.

T. Duncan: But that decision is one thing and a 1.2 pounds [of SO_2] per million Btus is a completely different thing. It's the same thing with acid rain. If you say, "Yes, we are going to reduce emissions," then everybody says, "Okay." But do you do it right now? Do you do it over a period of time and let the Clean Air Act work? Do you try to go for that last percentage [of SO_2 removal], which is always the most expensive? Do you try to retrofit old, outdated plants? Those are the decisions that really get very little rational treatment when you get into a federal bureaucracy.

M. Duncan: If we keep our coal industry operating under safety and environmental laws with good wages for labor, we can't make Colombia do that. If we had a free world energy market, we'd not have a coal industry in this country because we have demanded that the coal industry operate more safely and more cleanly than Third World countries have.

T. Duncan: That's what I'm saying. That's a real problem.

M. Duncan: So you can't have a free energy market.

T. Duncan: No. It's a little bit like the guy who was holding a wildcat. Somebody said, "Do you want me to help you hold the wildcat?" He said, "No, I'm doing fine, but I'm going to need a little help to let it go."

Your situation is such that now you can't do it [return to a free market]. If we had had no interference from year one, we probably would be better off

today. You would have had some wild fluctuations, but probably no wilder than we have had.
I think, though, that you have to do some things temporarily even if they are not good over the long haul. You've got to address some of the immediate problems. It's one that really has to be done carefully or we are going to trigger another round of protectionism that may be the most dangerous economic threat to us.

Seltzer: You've observed this for a number of years. Do you think our system the way it's set up--with interest groups lobbying for their own interests, politicians responsive to various pressures and one piece of the energy industry competing against another--do you think the system is capable of rational decisions? Or do you think that the future is really a matter of everybody adapting to some set of next best or next-next best solutions?

T. Duncan: Probably a mixture of both. If you look back on it, democracy is the worst of all governments except the others. You don't get rational decisions as a steady diet. We react pretty well to crisis. We don't work on problems. If it isn't a crisis, forget it. If it's a crisis, come in and take your number, wait in line, and then you can have your crisis. I think our government has gotten that way, partly by the election process. You've got people running all the time now--both in the state and federal. And you've gotten business and industry where everybody is looking at the quarterly income report. We've got a very short attention span. Particularly in an industry like ours, it's a tough way to have to do it. We're dependent so much on electric utilities and basic industry and their swings. I don't think there is any necessary solution or pattern. We will probably be like our British ancestors and muddle through, but this kind of effort is worth making because some things can be addressed at least partially, maybe before they get to the crisis stage. We've got a situation with Canada that needs some real addressing.

Seltzer: Because of imports of electric power, hydro and nuclear?

T. Duncan: Yes, that's a symptom.

Seltzer: Most people I've talked to in the industry think that there is no scientific justification for an acid-rain bill. Some of these same people think that there will be some bill in the next two or three years. If...there will be a bill, what do you think is the most sensible approach to obtaining an eight- to ten-million-ton reduction [in SO_2] by the mid-1990s? Sensible in terms of weighing all of the private and public interests involved.

T. Duncan: I really don't know. I think the view you cited is probably pretty prevalent. I simply don't know. You are going to have dislocations. The approach of trying to find out not just what are the causes but what other possible methods to address them is the route to go. The right answer...for a bill in two or three years might change between now and then depending on what is determined. The [Kentucky] Energy Cabinet's study indicated that Kentucky may contribute 2% to [SO_2 deposition in the Adirondacks]. I can't believe that that's too significant a contribution to whatever may be their real or perceived problem.

Seltzer: It's the same situation that we faced 15 years ago with black lung in that there is a liability that has accumulated over a number of years. Then for political reasons, there's momentum to address the problem. The technology-based alternative--to retrofit scrubbers financed by general revenue funds of the federal government--is in a sense the same approach that was taken for black lung. If you want to deal with the liability question, you retrofit the scrubbers and have the federal government pay it out. The fuel switching is a different idea. Current consumers pay for past liability.

T. Duncan: Your choices might change. Fluidized bed may be a better way.

Seltzer: Better than scrubbers?

T. Duncan: Could be. I simply don't know. I don't think there is going to be an answer that's going to fail to cause real dislocations. Right now they ought to pursue the research as diligently as they can to find out what, in fact, are the problems and what are the real results. How much is caused by what? I don't know that anybody can say at this stage how much is from nitrogen oxides and how much is from sulfur dioxide, how much is from the acid in the forest bed surrounding those lakes. Until you are faced with the choices at the time, I don't know what my board would say ought to be done.

Seltzer: I'd like to be a fly on <u>that</u> wall.

T. Duncan: It's a very difficult thing. You've got in Congress people with their constituencies. You can see in the committee makeup and on the floor that this [the issue of acid rain] is not mainly a national issue; it's mainly a regional issue. The regions and their coalitions will shape how it's going to move. We may choose what is a very unpalatable bill, but it's better than nothing. We had a big go in 1976. Some of the industry said that we should accept the Surface Mining Act as it was proposed then. There was a real hue and cry and we fought the 1976 version. But the industry and the country would have probably been in much better shape had the 1976 bill gone through and been implemented by the Ford Administration instead of the 1977 Act by the Carter Administration. I don't see how we could have been much worse off. I think we probably would have been better off.

Whether we will reach that same stage on this [acid rain] or not, I don't know. I'm more worried about getting through the next session of the [Kentucky] legislature. On this one, if it can stay on the back burner for time enough to get at least some valid data--there just isn't a whole lot of really valid data collected over the years--then maybe it will become a more rational fight and less over the lack of fish in so many lakes in the Adirondacks.

Seltzer: You mentioned that there would be a substantial dislocation [of production and employment] depending on how the problem [of controlling SO_2 emissions] is approached. Whose responsibility is that to start thinking and planning for dealing with those problems of dislocations?

T. Duncan: It's probably everybody's responsibility that is party to the industry or the Commonwealth. I'm afraid there's not a great deal you can do about some of it.

For instance, assume that whatever bill comes along costs 10,000 jobs in one area and adds 10,000 in another. There's not a great likelihood that those 10,000 unemployed will move to those 10,000 jobs. The cost to the state--not just tax revenue--will be much greater for those 10,000 out than the 10,000 added can counterbalance. You can figure a move will set you back about a year. When you've got the unemployed, your costs aren't just the loss of that wage earner. There are tremendous other costs, including crime, long-range costs. That's been one of our problems. Some of the long-range costs in these areas are bad, and you don't recover from them. There's no way that the good years make up for the bad.

I don't know the extent [of the dislocation]. You wouldn't know even if you saw the bill. With the studies that I see on any of these bills, we are going to have some. You try to minimize it. We've been trying to bring in new industry in eastern Kentucky. They've been more successful in the western Kentucky coal field, probably because of transportation and site availability. It's just tremendously difficult to bring outside industry into eastern Kentucky and I'd say parts of West Virginia, Virginia and Tennessee. It may change, but some awful smart people have worked on it a long time. It's hard to get somebody to come in.

Seltzer: We've found the coal people we've talked to are very supportive of diversifying local coal-county economies.

T. Duncan: Oh yeah. Sure.

Seltzer: That wasn't the case 10 or 15 years ago. I think they saw it as competition back then. They don't see that now.

T. Duncan: I don't know back then. I think the start of the Appalachian Regional Commission, that commission on the future of eastern Kentucky, two of the leaders were Harry LaViers, Sr., and B. F. Reed, both coal industry leaders. There are ones who probably [think] completely different and may be antagonistic to anyone coming in. But it's been a long time, except for a brief period, when there was any labor shortage in this industry.

M. Duncan: Do you think Letcher County is going to keep the high rate of unemployment it's got now? It's almost 30%.

T. Duncan: It's difficult to get the inertia turned.

M. Duncan: Which inertia is this?

T. Duncan: To make a significant impact on that [unemployment], you would have to have some major development or reopening. [Coal production is] market constrained. They've got good coal there [in Letcher County] and they've got good people, but you've got to find a market at the price. They've had good operators in there, still do. I don't know of any noncoal development that's going in there to turn it around.

M. Duncan: If we continue to see long-term structural unemployment in coal fields, is there any way that state policy can operate so that the coal industry does more for that region?

T. Duncan: As you said earlier, [there is a] need for a larger proportion, or more total dollars, of severance tax money to get there. One of the big constraints in Letcher County for coal is transportation. [I don't know] whether state government can do anything about that or not. The Staggers Rail Act has not done what it was sold as going to do, at least in regard to the Kentucky River Basin. If you are going to do anything down there besides coal and maybe even coal, I don't think there is any answer that doesn't involve education. What to do is something else. The only answer for those folks if the coal industry or some other industry doesn't provide jobs is education. We lead the country in dropouts before high school graduation.

M. Duncan: It's much worse in coal counties.

T. Duncan: It is not because of coal. And it is not for a lack of the family caring. It's partly inertia. "I didn't have a high school education, therefore nobody needs one." There are some people who I admire greatly who didn't have much educational opportunity but value it very highly. They are probably the most admirable players in the whole picture. But there is this inertia--the only word I know to describe it--that you have to overcome. But I don't think the welfare program and the give-aways have done much good. They may have prevented or postponed some starvation, but I think they have been a blight in general. You've bred cycles of it through no fault of the people implementing the program as far as intent or recipients. One of the most dangerous words in the whole English language is "entitlements." What the hell are they "entitled" to? What am I "entitled" to? Once they get into that feeling, you've just got a terrible problem. The only way out of it that I can see is education.

M. Duncan: Could the Kentucky Coal Association throw its weight in the next legislature behind returning the coal severance tax to the coal-producing counties and have that go to education?

T. Duncan: You've got a really double-barreled question. I don't know what'll be proposed.

M. Duncan: You can separate them.

T. Duncan: The thing that happens to you is, if you are not careful, or lucky or both, is you go in saying, "Let's do this," and what they [legislators] say is, "We can't give up our parcel, we'll just add some more to [your] tax." We haven't used the song that we get blamed with, the "This-will-bankrupt-the-coal-industry-song." It's not going to bankrupt the coal industry, but it could bust a few companies. What we've said to them [the legislature] is: "If you close [because of tax increases] one 100-employee mine, [you lose] a million bucks in revenue in the total economy." There is nothing that this Commonwealth can do for that county to make it in as good a shape as it was before that 100-employee operation closed. Nothing. We've said, "Don't single us out." We've been singled out pretty heavily. If you are talking about a shared burden, we feel like we've paid our share. I think most of our folks would say, "Make sure you get your money's worth."

M. Duncan: It's a little risky that you might get a higher tax if you start to mess with the tax. [But you would gain in public image; you are always fighting that bad image. If the Kentucky Coal Association came out and said, "We think all this [severance tax] should go back to education because we care about the region." Wouldn't that give you points you could use later, or is it still too risky?

T. Duncan: We live with risk all the time. In most of the media, which is where most of the public gets its knowledge of the workings of government, I think we get precious little credit.

M. Duncan: I think you'd take them by surprise.

T. Duncan: Oh, it'd be a bad shock for 30 seconds, maybe. ...I wouldn't advise our folks to do it on the basis of possible change in image....

Seltzer: But you might advise them to do it based on self-interest.

T. Duncan: That's right. I think that's the only way.

Seltzer: I was tremendously impressed with the fact that Raymond Bradbury is doing exactly what he should be doing for education. He has devoted the equivalent of about $500,000 on excavating a couple of school buildings in Martin County. At one point one of his blasting engineers was detailed for three or four months to supervise that job. That's a big chunk of money.

T. Duncan: We've got some awful good citizens. They have been so burned in the media that they do not tell their own story as often or as well as they should. I would say to them individually and collectively that they better start out with the idea that virtue is its own reward rather than any credit they would get from the media. There's not any more first-class guy around here than Raymond Bradbury.

MARTIN COUNTY COAL CORPORATION

Raymond Bradbury, President

Company address: HC69, Box 640, Inez, Kentucky 41224

Parent company: Martin County Coal is a subsidiary of A. T. Massey Coal Co., Inc. (A. T. Massey Coal Co., Inc. is a division of St. Joe Minerals Corporation of the Fluor Corporation and the Scallop Coal Corporation of the Royal Dutch/Shell Group of Companies.)

Background: 57 years old, 35 years in the coal business. Mr. Bradbury started in the coal business in 1950 with Armco Steel Co., in their mining division's supervisory training program, after receiving a B.S. degree in engineering at West Virginia University. He joined the Air Force in 1951, then went with Midwest Utilities Coal Company in Sparta, Illinois, where he stayed until 1956. Next he joined Princess Elkhorn Coal Company in David, Kentucky, where he eventually became general superintendent of two mines. He resigned Princess Elkhorn in 1962 to go back to Armco Steel Mining where he was a mine superintendent in Montcoal, West Virginia, until 1966. He then went to Kentucky as manager of mines and, later, division manager for Evans-Elkhorn Division of Island Creek Coal Company until 1969. He left to work at Martin County Coal, starting there in November, 1969 as vice president and general manager. In 1973, he was named president.

Total number of employees: Not available.

Coal production (tons): Not available.

Total parent company sales: See A. T. Massey information sheet for parent company information.

Coal sales: Not available.

Total parent company assets: See A. T. Massey.

Total parent company net income: See A. T. Massey.

Message from 1983 Annual Report: See A. T. Massey.

Diversification: See A. T. Massey.

MARTIN COUNTY COAL

Raymond Bradbury, President

April 10, 1985

Seltzer:* Tell us a little bit about how you got in the coal business, and how you came to be sitting here rather than somewhere else.

Bradbury: My father and his two brothers were in the coal business all their lives. My father is from England as were his two brothers. I was born in England. They started at age 14 and 16. This goes back to the early 1900s. They started it as far as I was concerned. I just followed along in my father's footsteps.

Seltzer: He was a mine engineer?

Bradbury: He went to night school. His family was very poor. They couldn't afford to send him on to what would be equivalent to a college. He had to leave school and go to work when he was 13. His mother passed away and his father couldn't let the boys go on to school. But he went to night school all the time he was working, for about seven or eight years after that. He got what would be equivalent to a mining engineering degree, at least an associate degree. He came to America in 1927. There was a strike going on in '27, which affected work a lot. He was in Illinois at the time. They called him after that ended. They wanted him to come back because he was a good worker. He'd been demonstrating and installing Wilson loading machines.

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*Curtis Seltzer and Cynthia Duncan interviewers.

He returned in early 1928, working the coal mines in and around Belleville, Illinois. He then went to work in mine safety in 1933, following the election of Democratic governor, Henry Horner, in Illinois. He was superintendent of the first aid and mine rescue station in the southern part of the state. After two terms of office, the Democratic administration was defeated. My father found employment in Kentucky. He came to Wheelwright, Inland Steel Company. He became know as Mr. Mine Safety among some circles in eastern Kentucky. Mine rescue work, he was an expert in that. He was responsible for reducing the number of fatalities that occurred in and around the Inland Steel Company mines until he retired in 1963.

Living in Wheelwright and knowing my Dad's career is what led me in that direction. I went to work on the night shift on my eighteenth birthday as a handloader at Wheelwright...after World War II. After I graduated from Berea College Academy in 1946, I loaded coal for about nine weeks [in the summer]. I got to spend my last two weeks on a mechanical section for loading and cutting machines, just to get a little exposure to that before I went off to West Virginia University. I continued to work at Wheelwright during the summer while I was attending college.

Seltzer: Those were UMWA mines.

Bradbury: Oh, yes. Until I came to Martin County Coal, that was the only experience I'd had. I used to attend union meetings. They encouraged you to. The UMWA members did. I felt if I'm going to belong, I ought to attend. I came to learn how some of the company officials were regarded.

Prior to graduation, I had some interviews. There were supervisory training programs available at that time. Companies like Island Creek, U.S. Steel, Consolidation. We didn't have cooperative type programs that some universities went to in the later 1950s and 1960s where you go to school a semester and work a semester. Armco Steel had a mining division. (It's the one Peabody just purchased.) They didn't have any young men in their supervisory training program. I felt Armco would be a good place to start.

But then the Korean thing started, so I volunteered. Wound up becoming an aerial navigator and flying in the service for almost four years.

I went to work in November, 1954, at a mine in southern Illinois where my father's older brother was president. Harry Bradbury was his name, Midwest Utilities Coal Company. Bradbury Mine was its name. He needed an [assistant] engineer to support his mine superintendent. It was a family-oriented operation. It was a good opportunity because I got to do engineering work as well as supervisory work, filling in for section foremen. He called me assistant superintendent. I spent about 20 months there. I left in June of 1956 for Princess Coal at David, Kentucky, near Wheelwright. That was another well-run company and community. It wasn't exactly the model mining town that Wheelwright had been publicized and heralded as. Those of us who had grown up at Wheelwright, we knew a little differently about it. Anyway, I chose to do engineering work close to my parents' home. This was the way you started at Princess Coal. David L. Francis was president of Princess Elkhorn Company at David. They had a sister company, Powellton Coal Company in West Virginia. David L. was a very progressive individual and did a fantastic job at David, Kentucky. We had one of the most illustrious alumni groups at David, Kentucky--men like I.C. Spotty, John Stratton, and Gene Mathies.

Seltzer: When you say he was "progressive," you're using it in the sense that he was investing in new equipment?

Bradbury: New equipment, good management practices, development and managing people. Use of industrial engineering techniques were not that common. We had incentive programs and bonus programs. Supervisors were covered by the bonus, a production bonus and a safety bonus.

Seltzer: This was a UMWA mine?

Bradbury: Yes. Very low coal.

Seltzer: Conventional methods?

Bradbury: Yes. No continuous miners in that type coal then. Under David Francis the expansion of the company took place in about 1960, a rather poor time to be picking up other properties. Things didn't go that well. The soaring 60s didn't soar.

Seltzer: That was the right time to buy property in coal. You got it when it was cheap.

Bradbury: Buying was cheap, but I'm not sure Mr. Francis succeeded in that. Things went downhill. The market went sour. After being senior industrial engineer and then director of industrial engineering, I was elevated to general superintendent in 1960 and held that position until I left that company at the end of September, 1962.

During one year when I was general superintendent we had an average coal height in two mines, six sections, of 30 inches for the whole year. We mined some down to 25-3/4 inches, and rarely did we get anything over 36 or 38. In that low coal, we were really ahead in mechanization. We had good mining conditions. You didn't have to bolt in some places. We had less than 3% ash. It was a premium quality stoker coal used in industrial applications and retail trade like hospitals, apartments, and some factories. While I was general superintendent in 1961, we experienced the first real reduction of the work force those people had ever experienced. It was traumatic for them. We first tried working the day shift for two weeks and the night shift would be off two weeks. We, in effect, tried to cut our production in half and shared the work. That way they [miners] would be eligible to draw unemployment for a period of time. It was part of Mr. Francis' thinking, trying to look after the people...living around David. But, that didn't work. We finally had to go through with a major work force reduction, both at Princess #2 and Princess #1. I researched their seniority, background, job qualifications and classifications. We didn't have any problems with it. We conducted the layoffs without any interruptions at all. Later in the year we were able to call a great number back to work. Mr. Francis wanted to expand further, but he just couldn't negotiate a successful lease for a profit. Princess was already beginning to retreat several of the sections at David itself.

So I went back to work for Armco Steel in October of 1962 and took a job as industrial engineer. Armco had a beautiful looking layout on the surface, but, boy, were they behind times when you got underground. They were using little 24-inch conveyor belts and some old Jeffrey equipment that took two days to change the motor in the cutting machine. Part of it was the equipment design; part of it was the lack of real good management. After I'd been over there for nine months, I was installed as acting superintendent in what is known as the Robin Hood mine, #8 Mine, near Twilight. I went there as acting superintendent for about nine months, kind of helped pave the way for another fellow coming along. Armco's a good company.

Of course, right now it's really down, down, down. They're just having to sell off everything now. Any real assets in order to get back into basic steel. They made a mistake I think, in getting into so many other areas.

Anyway, I took right in with those people [UMWA miners] over there. We got things going in the right direction again. They seem to take to me. I found them to be good workers. They just really hadn't had an opportunity to produce like they were capable of producing.

We were retreating this mine and Armco just hadn't done a lot of good mechanization. They'd gotten [only] one continuous miner. I convinced the management they ought to go with other [continuous] miners. They had to get more horsepower in them. We were dealing with Lee Norse at that time, and we got a 48H which was strictly a hydraulic machine. We turned that #1 mine completely around. Here they had been retreating using conventional equipment, cutting machines. They would slave around on one stump of glossy coal a whole shift to get one, or maybe one-and-a-half cuts by undercutting, drilling, blasting and loading. We put these miners in there and we picked up the production. We had some tremendous partings in there, got to be as heavy as 18 or 20 inches of sandstone. They were just breaking the backs of our continuous miners, replacing bits all the time. We finally had to leave some of those areas. We just couldn't take it.

An opportunity arose in 1966 when Mr. George Evans became president of what became known as the Evans/Elkhorn Division of Island Creek. He had the Spurlock mine. He wanted somebody who was home-grown as manager of the mine. I came to Spurlock in May of 1966. One time in about 1969 we had over 1,100 employees in that division. Actually, it had more employees than the board of education did. They always prided themselves as being the largest single employer in the county.

I came to work for Martin County Coal, first of November, 1969. This was an entirely new property. The company was then known as Martin County Coal Corporation. Mr. Morgan Massey of A. T. Massey Coal Co. hired me to work for him. This was the biggest single undertaking that A. T. Massey had ever embarked on. It was a combination of Duke Power Company, the customer, Pocahontas Land Corporation [which owned the property] and A. T. Massey, the operator. Duke, at that time, had a financial interest in our company. Between Massey and Duke, they had come up with one of the first cost-plus contracts over a very, very, long-term--thirty years. At first, Duke took two million tons a year. Then it was amended to two-and-a-half million tons a year. That is what we are providing now.

Seltzer: Is it still on a cost-plus basis?

Bradbury: No, that was changed last year. That didn't turn out to be so good for some power companies in the latter 1970s and early 1980s. This was probably the outstanding example of the way it was supposed to be worked. Duke Power Company--they did well. Martin County Coal could produce better for them, a lower cost product than any of the other people who were on similar arrangements. Certainly better than some companies have done for other power companies in similar arrangements.

Seltzer: A couple of questions occurred to me when you where talking about how you got into the coal business.

We're doing forecasts of production, employment and productivity over the next ten years for Appalachian and eastern coal. What we're finding is that production is likely to go up modestly over the next decade. But productivity is likely to go up at a faster rate. That means declining employment even as production increases. In the early 1960s your company had to handle layoffs--part of which were from demand factors and part because of capital investment in new mining systems. What's the company's philosophy about handling layoffs when layoffs are produced by demand forces or productivity improvement? How do you, with your industrial engineering background, look at productivity improvement? How do you approach it?

Bradbury: Part of the answer to the question of productivity goes back to our buying out Duke Power's ownership in this company. With a two-and-a-half million ton production contract for Martin County Coal, I always thought, "What if they decided to limit us to that?" We achieved for the first time the two-and-a-half ton production in 1979. In 1980, it was 2.621. In 1981 it got up to 2.664. In 1982, we got pretty close to 2.7. In 1983 they said wait a minute.

Seltzer: They were taking all this coal? Were you selling it spot?

Bradbury: Oh, no, no, no. Our contract required that every bit go to them.

Duncan: They were your only customer?

Bradbury: One and only, that's right. That always bothered me. I was using some contractors on the property to help us reach that two-and-a-half-million-ton level. By 1978, we had arrived at that two-and-a-half-million-ton capability, but there was a three-month strike by BRAC [Brotherhood of Railway and Airline Clerks], which impeded coal haulage from the mine.

We only worked nine days out of a possible 62 during that [strike] quarter. We laid off all of our workers, and finally laid off 40% of our salaried people--all in September.

Duncan: How many miners did you have at this time?

Bradbury: We were up to almost 600 people at that time, total across the board: guards, custodian workers, myself. The contractors were still working then too. They had been very helpful to us during the UMWA [strike] in 1977-1978 and again in 1981. We would always be picketed and UMWA people attempted to interfere with our production. The pickets thought that a shut down [of our non-UMWA mines] would help them get their contract sooner. Of course, our guys continued to work for the most part. Our [non-UMWA] contractors helped keep our level of production up. By late 1982 we were continuing to improve our own efficiency just through our workers reaching a level of skill and ability that produced good productivity, underground and on the surface. Then in 1983, when Duke imposed a limit of two-and-a-half-million tons, I had to cut my contractors off. I cut off two and had to negotiate our way out of those agreements. Fortunately, they all expired that year. In one case we had to go ahead and let one contractor get his 20,000 tons a month. He didn't phase out until September of 1983. This was rather difficult because I had [always] told my employees tha if we ever faced lost work-time, the contractors would go first.

One thing I have established during the years I've bee here is credibility. My employees have come to believ what I tell them. I'm honest with them. I'm always straightforward. We just had to convince them that i we lose some time in 1983 it's because we're limited [in our production] by our customer. We don't have the right to go into the open market according to our contract. They understood and accepted that.

In September of 1983, we had a reduction of 23 people. We were not able to use those people in that kind of production and stay at our two-and-a-half-million ton limit. All but two of those people were underground. So that cut us from 12 sectional shifts of production per day, underground, to 10. We cut off what amounted to two night-shift units. Fortunately, though, I was able to get to the customer [Duke Power] and ask him, "Couldn't you give us a break in the last quarter of 1983." He did. That let us get 11 additional trains which is roughly another 100,000-105,000 tons of production. Our production dropped back to a little over 2.6 million in 1983. Last year [1984] we saw we were improving our equipment (continuous miners), methods and...our overburden removal so that we had coal uncovered in the pits that was just ready to be picked up. We had a surplus at that point. This is what led us to renegotiating our contract with Duke to get us away from...our sole dependency on their taking the coal. And away from the cost plus arrangement. It must have been about a year of negotiating to get a price that is fixed at this time.

Seltzer: When you had to cut out a section, did you look at your 12 and take out the high-cost section?

Bradbury: We eliminated two night shifts. We didn't stop a section as such. Actually, it generated more production because of the new methods we were turning to. That has an interesting effect on people, too. It represents an incentive to our workers. We got the same tonnage from 10 sections that we had been getting from 12 sections previously. We'd gotten a little bit apathetic maybe; let ourselves get a little bit sloppy in an area or two. These were the units that we eliminated. We did it by taking a seniority approach. We didn't pick out workers arbitrarily, because I might not care for them, or I didn't think they were working as hard as this guy over here. There was no real serious problem with it; hasn't been.

Last year we achieved almost exactly 2.7 tons, and we're now selling coal to other customers. We sacrificed a little bit on the price. At times, almost distress [prices]. Duke feels they came away from the negotiation with a pretty good arrangement, a pretty good contract. If we're going to remain in business, continue to improve production and remain profitable and be able to buy new equipment, it's going to have to come from productivity.

Seltzer: What do you anticipate your average annual productivity increase over the next five or ten years would be? Do you think you can do a 5% a year increase?

Bradbury: If I get 12% in the next two years, this year and next, I will consider that pretty good.

Seltzer: Six percent a year?

Bradbury: Yes. That's going to put us somewhere near 3 million tons a year.

Seltzer: And after that, somewhat lower than 6%?

Bradbury: We'll have a problem then because our preparation plant won't be able to take much more than that [3 million tons]. We'd have a bottleneck. But we can handle up to that total.

Seltzer: If the prep plant wasn't a bottleneck and you were trying to mine as much coal as you could, could you continue to improve your productivity by 5% or 6% a year?

Bradbury: I think we could probably come somewhere within the neighborhood of 3-4%.

Seltzer: How would you do that?

Bradbury: We're already doing it by continuing to phase out certain pieces of equipment. Continuous miners for one. We are eliminating an all-hydraulic Jeffrey continuous miner. It has two main electric motors, 300 horsepower each. But everything else, all the functions, are hydraulically operated through a serious of clutches and transmissions. They're high-cost machines. They were the best available at the time, back in the early 1970s. It was after that that Lee-Norse and Joy began developing all-electric continuous mining machines.

Seltzer: You can get more torque on the new ones.

Bradbury: Yes, that's exactly right.

Seltzer: So you're moving to the all-electric machines to get more horsepower?

Bradbury: Yes. Jeffrey saw what was happening. They were beginning to lose part of the market. We've always been an outstanding customer of theirs. We told them, "If we're going to be competitive, you're going to have to develop another continuous miner."

Seltzer: And they developed that themselves?

Bradbury: They knew it was coming, yes. It wasn't us that led them to recognize this. They were seeing it because they were losing business to Joy. They knew that we would be willing to let them bring their machines in and perfect them. That's what we've done. In order to spur them on a little bit, we also have a Joy miner here on a trial basis and a National Mine Service, Marietta Miner, a new one.

Seltzer: What's your equipment availability percentage?

Bradbury: Right now, it's slightly better than 90%. Our surface mines runs 94-97 or 98%.

Seltzer: Tell me about your underground sections.

Bradbury: We've got a very good maintenance program here.

Seltzer: What do you do to get more than 90% availability. Do you rebuild your motors only once?

Bradbury: No, we rebuild at least twice. Scheduled overhauls.

Seltzer: How many hours do you put on it?

Bradbury: It was really more from the experience of tons rather than on an hourly basis.

This coal seam has a lot of impurities. If we get 50% recovery, we're doing well with continuous miners. That does include some seam dilution, taking some top and bottom, which we're trying to eliminate. We've improved on that last year and this year. We found the continuous miners were going to have to be beefed up, even though they were pretty well-built. We had to beef them up ourselves. When we'd bring them into our shop, we improve on their strength. Where they'd have half-inch metal plate, we'd put in 3/4 or one inch. We added additional weight and made a better machine out of it.

Duncan: So you do all your work here, all your repair and overhauls right here?

Bradbury: We don't do repairs on motors. We don't do repairs on hydraulic components. We job that out.

Duncan: Does the repair work get done in Martin County?

Bradbury: Oh no. There are very few shops that have started here in Martin County. Most of them are in Logan County, West Virginia. There was one Martin County rebuild shop a few years ago down in Lovely, but nobody has seen fit to get into that kind of business right here in Martin County.

Duncan: What do you attribute that to? I'm curious. Why not?

Bradbury: I don't know. Perhaps they just didn't recognize that might be a possibility. Logan County's pretty close you know. Those people came over here to get the business. I've never given it a whole lot of thought. Someone here might not want to start such a business.

Duncan: Can you get as much work done as you need done? Is there a shortage of people?

Bradbury: No. Generally, they're competing, fighting for the business. There are several of those kinds of shops available, both hydraulic and electric motor repair.

Duncan: So you don't lack people to do that work?

Bradbury: No.

Duncan: Any kind of repair work, even on the mine site? You don't have a hard time finding the skilled people to do that?

Bradbury: No. With surface equipment, when you buy Caterpillar equipment or International Harvester, Euclid Trucks, these people also have their own service facilities. They send service trucks to your job. The difficulty with that, though, was they may leave Ashland at 7 o'clock and we don't see them till 9 o'clock. They might not stay as late either, or they'd dally along the road somewhere. In fact, we saw that we had an opportunity for contract welders and contract mechanics with their own trucks. We'd provide the oxygen, acetylene, welding rods. We developed this contractor competition to these other equipment distributors. I have at least seven contract welders and four contract mechanics doing that kind of work. We pay them by the hour for their services, their trucks and their ability. We've got an outstanding maintenance program.

Seltzer: You control your down-time by equipment maintenance, by having back-up equipment?

Bradbury: Some spares, that's right. But also a very good preventive maintenance program. We don't run on a breakdown basis. Of course, we have breakdowns, just like others. We don't have mechanics on the night shift, except for about three contract people on the surface operations. If something breaks down, they can get a spare piece of equipment. If it's just changing hoses, the foreman and the equipment operator can take care of that. We have skilled people in our warehouse who can run parts over to them. If it's major, it can wait until the next day. The supervisor on the night shift will leave word or call and have the superintendent make arrangements before he comes to work the next day.

Seltzer: From what you've said, I assume you're about peaking out on your productivity. Where do you think you could get that next 3-4-5%?

Bradbury: It'll be the further implementation of these electric-drive, continuous-mining machines.

Seltzer: Did the Reagan Administration's tax reform proposals, the accelerated cost recovery system, did they have any effect on your investment decisions to go to these mining machines?

Bradbury: No. It's purely from a competitive standpoint to improve our costs. If there's one thing I've tried to practice here, it is to run an operation like we're always practicing austerity.

Back in the boom times--in the mid-1970s--even on a fixed tonnage contract, cost-plus, we weren't going to run that price up. We were envious of these $50 and $60 price figures that some of our other divisions might have been receiving. Especially met coal, that's always been higher. But when things came back down on the downhill side, we still had our contract, which left us on a kind of steady basis. Buying new equipment was strictly to improve our costs and come up with other means of improving productivity.

Seltzer: Do diesels [underground] allow you to use more haulage vehicles than electric?

Bradbury: Yes. For one thing they're [diesel-powered haulage vehicles] more flexible, versatile, very reliable, and safer. But, again, more costly. To overhaul a diesel engine, they're expensive. We don't get the life on the diesel engines underground that you can get on the surface. We change our air filters every 50 hours or what amounts to once a week, and we still do well if we get 2,800 to 3,000 hours on a new engine. We've never been able to get that regularly on a rebuilt engine. The cost is anywhere from $6,000 to $8,000 for an engine rebuild. It became less costly for us to replace them after one or, at the most, two rebuilds.

Duncan: Does your contract with Duke Power mean that you pretty much have had the same number of employees the whole 14 or 15 years you've been operating?

Bradbury: No, it built up. We gradually built up, adding both surface and underground operations since 1971.

Duncan: Since 1979, when you hit two and a half million tons, your contract limit, have you had the same number? You haven't had any layoffs?

Bradbury: We had a reduction [in force] in 1979. A "reconstitution," is what I call it, of an original surface-mine operation. We'd gotten a little bit sloppy. We had three or four surface-mining scattered permits we were working on. I just didn't have the supervisory manpower to put one guy with every one of these little bitty old pieces of a job. We had to reduce our force by eight people in 1979. Took a nucleus of the original people and put them on a brand new 300-acre permit, transferred several underground, transferred six to the prep plant. We spread them out as much as possible over the work force. Then there was a reduction of 23 people in September, 1983. Now, we're letting attrition take care of some of the improvements in productivity. Or, at least, the maintenance of that productivity level.

Seltzer: What do you do with your work force that you could not do under a UMWA contract?

Bradbury: Probably the biggest thing from my experience of 31 years is the ability to work right along with our workers. I find that useful. And so do our workers. That doesn't mean that a supervisory guy is working his fool self to death, when two or three hourly workers are goofing off somewhere.

Seltzer: But if the foreman sees a switch that has to be thrown, he throws it rather than calling an electrician.

Bradbury: Absolutely. I was up at the old Inland Steel operation where if a section foreman picked up a box of cutter bits from here and walked it 20 feet to the mantrip, the guy would demand a [UMWA] shift, and get it! Our operation is a much more cooperative effort. I try to tell my [hourly] people: this isn't you against us, company against workers. We are all in it together. If we can't satisfy our customers with a quality product and the coal he needs at a good, competitive price we won't be here, fellows. I've got ladies, too; I don't call them fellows. If I want to go out here and dig out a gobbed-up belt or shovel around the truck ramp, I can do it. And you know what? Our workers like that. "Hey, look here. Raymond's out here. He's one of us." Why shouldn't it be? In the UMWA that's replacing somebody. That's displacing someone. There are UMWA employees, local committee members and officials, who are just waiting there, ready to pounce on that as an opportunity to get some easy money for doing nothing--just because a foreman wants to be helpful or gets a little bit careless in his thinking. I don't encourage my supervisors to work to the point of neglecting their responsibilities.

We have an excellent safety record here. If there's one thing I learned from my father, it was to promote mine safety. It's a strong belief of mine that people can work in and around coal mines safely. They do not have to come to work each day with the constant shadow hanging over them or in their subconscious, that this might be my last day or I may get hurt today. It takes vigilance on their part, great awareness, understanding their job and roof-control permits and following them. We have a form of safety discipline where we discipline continuous-mining machine operators, roof-bolting machine operators, ventilation people, and supervisors. As much as two days or three days off penalty; foremen generally get a week off if they're guilty of going out from under supported roofs. That's the worse offense. We are consistent in using those penalties. Our workers know that. We told them right from the start: "We are trying to prevent you from losing your life and getting hurt." Fortunately, I have some very good, older, experienced [supervisory] men. It took some of the hourly workers quite a while to understand how fortunate they were to have the kind of experience that I was able to bring to work here. For the most part, we hired inexperienced Martin Countians for our hourly workers. At least 80% of these men in the underground mines never worked anywhere else. They got their start here. In many ways that may be a disadvantage because they have no basis for comparison. They don't really know how well off they are because they can't compare it with low coal, for instance.

Seltzer: You're mining six- or seven-foot thick seams?

Bradbury: Yes, this one has gone as high as 13 feet.

Seltzer: Some mines have good safety records and some mines have bad safety records. If you ask the mine superintendents of both, they'll say, "We run a safe operation and safety is our number one priority." What do you do differently to have your hourly employees practice safety rather than just be able to say the words? Do you have a system of incentives? Disincentives?

Bradbury: We have incentives. They didn't come on until just in the last two or three years. They're not heavy financial incentives either. We have had a production bonus since 1974. It's not safety; it's a production bonus. That was one of the incentives to be more productive, certainly. We have an attendance bonus, for a full month without any absences, excused or otherwise.

More than anything else in those early years when we were trying to promote a good safety record, we instilled the need to work safely, trained them our way--what we consider to be the right way, the safe way, the efficient way. We did something I dare say very few coal companies in the whole business have done. Our company came into being at the same time as the 1969 Coal Mining Health and Safety Act. As a result of that, we recognized that training was going to be more important than ever because we hired so many inexperienced miners from Martin County. We had to instill in them the desire to be safe workers. We started insisting on our workers going to safety training classes in 1972. It wasn't mandated until 1977. We did that by having them come in on Saturdays and paid them overtime. Or take two hours after their regular workshift and paid them overtime. Now, we can't do that. When the law was changed in 1977, you had to bring them in on their regular shifts. It saves us money, but you lose a shift's production if you get right down to it. But we can handle that. We program that right into our budget projections. That was one of the first things we did, to instill this in them. And myself, letting them know that I wanted it that way. We have structured our safety functions around training. I don't have a safety director, manager of safety, safety engineer. I have a director of training. I was the first director of training. We do our own electrical training. We have really some well qualified individuals in these jobs. It's a good strong organization, and that goes back to my experience at Princess Coal where I recognized how important it is to have a good management organization.

Seltzer: So a training dollar in your perspective is a dollar that pays off?

Bradbury: I think very, very much so--absolutely. My director of training has been doing it now for 12 full years. He just loves it. He's good at it. Our re-training sessions are not the same, old repetitive stuff year after year. It's new. We have our own video camera equipment. We go out on the job and use our subjects, our people.

Seltzer: That's really important. When I got my mining papers in West Virginia the training was just a joke. Cartoon characters, stuff that was so abstract you couldn't apply it. It was presented in a way that everybody just sort of put their time in. It occurred to me that if you really were going to do training in a useful way, you had to get it as close to the job as you possibly could. And have actual real-life examples.

Bradbury: That's correct. We use some of our own supervisors who ask for an opportunity to participate. And we invite guest speakers. Blasting supply companies come in and give a couple hours of work. They love to have an opportunity to participate [in training our workers]. Dr. Peter Bethell goes to all the various [Massey] properties to help improve preparation plant efficiency. Those men at that preparation plant--I guess now we have about 47 or 48--there's not more than one or two that have ever worked at a preparation plant before. And he [Bethell] told us, "Raymond, you've got the most cooperative group of guys, intelligent, the most receptive and here to learn and want to be part." They don't just drop what they're doing, put in their time and run. If there's something to be done, they want to stay a little while. They learn something. They have questions to ask. I've been real fortunate in finding this kind of worker. And the kind of supervisors that go along with them. I think we've really got a good team.

Duncan: Do you think your workers feel more secure about their employment than other companies around here?

Bradbury: I think they have to. They have seen reductions at Pontiki Coal Corporation. They have seen reductions at Martiki Coal Corporation. Island Creek has cut back.

We had some things happen in 1981 and 1982. We just had a lull, a let down.

We have had only one fatal accident to our employees the whole time I've been in business, and we get 1,100,000 hours of exposure every year. Nonfatal days, lost occurrences (or lost-time injury accidents)--in 1981 we had 69. A number of them were single-day losses. One day is all it takes to be considered a reportable, lost-time injury accident as far as MSHA standards and the State Department of Mines and Minerals. We were not leaning on people. I don't mean to lean on them and make them real uncomfortable, but, hey, why lose one day? If you will exert yourself just a little bit. In 1982 we had 89, of which 35 were single and 53 were either one, two, or three days. So if we could work on reducing single-day injuries, we thought we could really improve our record. In the latter part of 1982, in retraining sessions, we brought this to the attention of our underground employees--and that's where a lot of this was occurring. "We didn't realize this was happening. You mean to tell me that many of us lose just one day?" Three of them were repeaters and had three single-day losses. It's either an injury or alleged injury. Even David Zegeer [head of the Mine Safety and Health Administration] will talk to you about alleged injuries.

Seltzer: But he'll also talk about "light-duty" assignments.

Bradbury: Yes. We don't do that.

Seltzer: No? No bench warming?

Bradbury: No way. Not at all. Absolutely not. When we tell you we've had only two so far this year, that's what we've had through the first quarter.

Anyway, we refreshed our employees and told them we needed to concentrate on reducing these single-day accidents. We went from 89 to 36 in 1983, a 56% reduction. We had one single-day type in all of 1983. We got our message across.

Then we started implementing some incentives. For instance, I gave everybody on the job a belt buckle, which is a very insignificant thing when you get right down to it. We also had a set of decals that our director of training originated. We came up with a set of decals for the number of accident-free years. My director of training has got some real novel ideas. He started out a decal for each month, "Pulling for Safety 1984." These are locomotives. For every month without an accident: a coal car, January, February, March, all the way through. A caboose, for the end of a perfect year. It's a novel little thing. He's sends that out each month with a letter bringing everybody up to date on what we are accomplishing and how well they are doing. Then we started giving some knives out. Coal miners are great collectors of knives for one thing, and guns, too. We got a set of knives and displayed them at Christmas of 1983. For each quarter that a particular crew worked, they'd all get one of these knives, <u>if</u> <u>nobody</u> on the crew suffered a nonfatal, single-day accident and also worked 90% of the available work days. That worked real well. I hoped we could generate a 25% [reduction]. But we reduced it to 16 [in 1984], a 57% reduction for the whole year.

Duncan: With the same miners all the time?

Bradbury: Oh, yes. Same people. I've been out to every one of the retraining sessions this year to commend them on what an outstanding job they'd done. We had a 2.67 incidence rate [nonfatal injuries per 200,000 hours worked]. We had a 6.26 in 1983 and 14.88 in 1982. I'm hoping for another 25% drop.

Duncan: I wanted to ask you about the fact that 80% of your miners are Martin Countians, people who either were born and stayed here, or who came back when coal boomed.

Bradbury: Let me correct one thing now. Eighty percent of these people underground were inexperienced and, for the most part, were from Martin County. On our total job, it is more like between 55% and 60% come from Martin County.

Duncan: Would you say that most of your miners who live in Martin County own homes in Martin County? Do they see this as their permanent home?

Bradbury: Oh, yes. A great percentage of them would. Many went through the phase of owning trailers first, until they acquired some money. Many of them were given the opportunity to put their trailers on their parents' property or were granted some property from their parents. Now, they are in a second stage. A lot of them do own their homes. You passed several pretty nice-looking homes on your way up here. Some of them are owned by employees of mine who built those homes.

Seltzer: Hourly employees?

Bradbury: That's right.

Duncan: And do they expect their children to work here in this county? Not in this company, perhaps, but in this county?

Bradbury: This is going to be a tough one. We are at a point of saturation in the mining industry in Martin County. The youngsters who were getting out of high school in the early 1970s have now been working for my company for ten years. They were the fortunate ones. The ones who graduated in the latter 1970s and early 1980s. The jobs aren't there now.

Duncan: Thirty-six percent of the 16 to 19 year olds in coal counties don't do anything. They don't go to school. They aren't in the Army. They aren't even looking for work--that's how bad it is. That is one area where we look for ways that coal can be a better development engine--build opportunities for those kids. Can it? Is there some way? Do we have to tax coal more and attract other businesses? Or do we have to do more...

Bradbury: I hope not taxing coal more. We feel we are already taxed quite a bit.

Duncan: What would you do?

Bradbury: We've got to find some sort of other industry--and I don't think it's going to be heavy industry. It isn't going to be a Saturn plant from General Motors.

For instance, we've got a new airport under construction. It'll be completed this year. I have been a member of that regional airport board for seven years. The next stage is to pave it. Pocahontas Development Corporation gave us 150 acres on which to put that. It's a good site. We've leveled off a lot of land. Originally it was proposed to go on our lease from Pocahontas, but we had a great big hollow to fill and it would have cost an awful lot more money to do it. So we moved over to the Rebel Coal Company's site on the Island Creek lease, Enoxy Coal. We got their okay. They are willing to mine only a certain percentage beneath it. Around the airport site, I'd say there is a possibility of attracting some kind of industry. I don't think it'll be another American Standard plant. There was a shoe factory just outside of Prestonsburg. Another plant manufactured canvas products--parachutes and other products for the services. It didn't last. Maybe the market died for it.

Part of it's the labor. It's UMWA intensive. Not that there's anything particularly wrong with unions, but they can be very restrictive. They can jump on you, pounce on you, before you really get a chance to get your business established. That doesn't mean established to the point where it has to remain union free. But people at American Standard, a lot of them came from David, Kentucky and Auxier and were strong UMW thinking. They were programmed that way. They were unionized. There are good unions. There are some unions that you can actually work within their framework. Steel Workers of America never had a reputation for wildcat strikes. Their own union leaders didn't support them. They wouldn't sanction them. That isn't so with UMWA. No contract; no work. And wildcats. They will go out and support the very worst guy you've got on the job. They know he's wrong, but the company fires him. It's that old clinging together....

Seltzer: Have you ever had a wildcat strike here?

Bradbury: Oh, yes. We are not without the capability of having strikes. We are job posting and bidding, which we instituted and implemented in 1981. I had strikes in 1972 to force us to hire only Martin Countians. They accused us of not doing this. Oh, yes. We wrote the book! I showed them figures that we were hiring Martin Countians, but I had to have one or two experienced people. I hired some from Pike, Floyd, maybe Johnson. "Well, you are not hiring enough from Wolf Creek."

Seltzer: Who was saying this to you?

Bradbury: The guys that wanted jobs who weren't hired yet in 1972.

Seltzer: And some guy with a high school education walks into your office and says, "By God, I want to be hired. I'm from Wolf Creek."

Bradbury: They set up picket lines here at the main road down here. It was difficult. Even though we started out nonunion--union free is a term we've picked up during the last two or three years--why, many of these guys were grandsons or sons of UMWA people, or nephews. But if we're going to put any coal mines in Martin County, we were going to hire Martin Countians.

With that kind of attitude and mentality, it's going to be difficult to put more industry into this area with a large labor force. If you can keep it small, not necessarily family operations or family oriented, but keep it controlled until the guy has got his business established. I don't know whether leather goods, that type of thing. I'm just throwing things out. I haven't given it a lot of thought myself. Small electronics plant. Not big appliances, but electronic components that can be used in other things. Just small industry.

Duncan: Do you think that the miners that work for Martin County Coal believe there's a future here? Or do you think they see it as they are here while they've got their jobs, but they expect their kids to leave.

Bradbury: They probably are wondering, "What will we do when the coal is gone? What will our children and grandchildren do?" I'm telling people, "Martin County Coal can sustain operations here for 35 years." But I used to say 50 years.

Seltzer: You have a 110-million-ton reserve base?

Bradbury: Yes. Two big leases. Even up to the 2.7 and getting up to the 3-million-ton level. Now there are some guys who aren't going to be here that long. Pontiki said they were only going to be a 20-year operation. They cut way back over two years ago. They've been rebuilding. They've got a different work force down there now; they are more productive. Martiki still has a big work force and is a big producer. Over here on the Island Creek property? I don't know. I don't know if they'll ever mine [some] seams over there.

Seltzer: Are you getting 70 or 80% recovery?

Bradbury: Yes. We are up in that neighborhood--80% in the Stockton seam. Not that much in Coalburg. We are reaching an area now where we will be recovering pillars in the Coalburg seam where it isn't as high.

Seltzer: I've never been in a section with coal that high where you are robbing pillars.

Bradbury: It's tough. We are trying to be a good lessee to Pocahontas and trying to be conservation-minded, too. I learned that from Armco Steel. We tried to get 97% recovery. That's why they sawed away at a stump half a day trying to recover it. I thought it was good training on my part, to learn that coal was a very valuable resource.

Seltzer: How did you keep the roof up? Did you gob back in?

Bradbury: All kinds of timbers.

We convinced Pocahontas that where we have this great [seam] height--with the rider seam being anywhere from 20" to 40" thick--it would be smarter to do a real good job of mining off the entries, to narrow the room centers to 50/50, and the breakthroughs to 50/50 and leave a small stump. After we mine the top, we go back and get that lower bench. And they've been satisfied with that. To get those little old 30" by 30" [coal] columns, it would be rather hazardous, trying to put trees in there that size. It's more hazardous to handle the [roofing timbers].

Seltzer: Twelve foot posts? You would have back injuries coming out of your ears.

Bradbury: Exactly. They questioned us just recently on an area that we retreated from. The top was bad. It was out on a finger, a point. We had all kinds of cracks in the top. Unfortunately, the inspector now here isn't as experienced as some of the previous inspectors working for Pocahontas. But when their head guys came in to look at it, they were convinced that we were doing the right thing. I told them, "Hey, you guys know what my own experience is and what we've done here so far for you. We are not going to turn our backs on your resources."

Anyhow, getting back to your subject, perhaps there is something industry could tie in with as a result of that airport going in over there. The roads are going to be real good. The new Route 3 will be connected from Inez. That's going to be extended all the way to 23 near Auxier. They are going to put a road directly to that airport for us.

Duncan: Do you think there's more that state government could do to help the coal employment and coal income that does exist in eastern Kentucky to be turned into more development?

Bradbury: I doubt it.

Duncan: Do you think anything is going to come of the Kentucky Coal Summit? Is that going to help?

Bradbury: We are one of the contributors to financing the thing.

Duncan: What is that doing for Martin County Coal?

Bradbury: Probably nothing directly for Martin County Coal. We, the planners of the Coal Summit, wanted to get as many public figures as possible. We are covering subjects like transportation, exports and environmental issues. I know environmentalists haven't been invited as was pointed out by the Lexington Herald-Leader. I was a member of Governor [John Y.] Brown's Coal Policy Council. You know he was a great one for forming these councils. We used to have a meeting three times a year. Governor Brown and Bill Sturgill, who was his Energy Secretary, went to Italy and tried to develop a coal market. They did try to get a lot of small companies up here get more export business. But that's not something the state needs to get into. Coal exporting companies have been doing that for years. If they can't get the business, how is the State of Kentucky going to get it any better?

Duncan: Nothing really much came of it, either.

Bradbury: There was very little business generated. The whole time the Coal Policy Council worked on the thing, we were having difficulty resolving the differences between the East Kentucky coal field and the West Kentucky coal field. West Kentucky has high-sulfur coal. We couldn't agree on what was the best approach on SO_2 emissions to cut down on acid rain. Some in eastern Kentucky said, "Go ahead and put in that acid-rain bill. So what? We're predominantly low-sulfur coal. It isn't going to hurt us. Our customers won't require scrubbers." But that's not what's best for the coal industry of the United States in my estimation.

Duncan: Was there a mix of small and larger operators on that Coal Policy Board?

Bradbury: Sure were.

Duncan: Did they generally see the issues the same way, or was there a difference in perspective about government involvement?

Bradbury: I don't know. We touched on subjects very generally. We got into education for a while. We could agree on certain things. We were all interested in promoting the use of coal, but we didn't really come up with anything. I guess the Energy Cabinet in Kentucky has done as much as anything to promote greater utilization of coal. Maybe they'll be successful in developing this new steam engine [locomotive] that they have been working on. This individual who ran a coal-fired steam locomotive between Huntington and Hinton for a month. He may even build those things in West Virginia.

We don't need a whole Saturn plant. We couldn't handle a Saturn plant in eastern Kentucky as it is right now. That isn't to say some supplier of parts to General Motors or to a Saturn plant couldn't be established in eastern Kentucky--that phase of the business. I'm not planning to start it myself, but I would hope that somebody could.

Seltzer: But you might play a role in encouraging some noncoal business to locate here to diversify the local economy.

Bradbury: We do need it. There isn't any doubt about it.

Seltzer: I don't think it would be competition for the labor force from your point of view.

Bradbury: Not at all. I would promote it. Absolutely. I think it would be great. Our company has tried to be a good citizen. Tried to contribute to the community--not just by paying my employees their wages, but also being available, trying to help.

I'll tell you what we have done. In 1983, we wanted to build two new grade schools in Martin County, one in Inez and one at Warfield. They didn't have the money for both a school <u>and</u> the excavation for the school site. We were approached, "Would we be willing to make some equipment available?" My son, Phil Bradbury, was manager of my surface mines. We took Vernice Cole, our drilling and blasting superintendent, and put him down there full time for 3-1/2 to 4 months. We took our equipment and our operators down there. The whole project was almost half a million bucks to do this work. And they built a beautiful school there. We excavated that thing. It was just a terrific layout. We made a field up there. Excavated it. High walls. Fine job. And they built the school.

Unfortunately, they needed a school at Warfield just as bad. They have flat, level land to put it on. [But Martin County Coal and MAPCO got involved in a suit over a 3% utility tax at the time that delayed the Warfield project.] We and MAPCO, back in September of 1982, had to repay this 3% utility tax to Martin County for 39 months. A law was passed that every county in the state can, through the board of education, make use of this 3% utility tax. But it's a matter of convincing the citizens of the county that they ought to pay this additional 3% on their power bills. Our tax consultants for A. T. Massey, along with my controller, said that because we are a user of energy to produce energy that we were not required to pay this 3% utility tax. So we began withholding it. We paid [withheld] $82,000 in 39 months, under $2,500 a month. So it went to court all the way through 1983. We entered into a lawsuit, our companies, defending the position that we were not required to pay this. The [Martin County] board of education took the other position. The Franklin Circuit Court judge ruled against us. We appealed it. So now the Concerned Citizens of Martin County see us as the culprit preventing the Warfield school from being built because it was going to built with these huge amounts of money. The newspaper here was quoting $500,000 a year that they were being denied.

Seltzer: This lawsuit was happening at the time you were excavating the Inez school?

Bradbury: Yes. Sure. "Hey, what have you done for me lately, yesterday, or whenever."

Duncan: What proportion of that utility tax is coming from you, and what proportion from MAPCO and the rest of the world?

Bradbury: The whole county, residents, businesses all pay. Finally, we were ruled against, and we accepted it. Just six weeks ago I took a check down there for October 1, 1982 through December 1984--$88,000, which included interest....

Seltzer: [Getting back to your aid to the Inez school construction,] how could you block out the time for all that equipment and manpower to build a school when you are running a business?

Bradbury: We didn't build the school. We just did the excavation work.

Seltzer: Just to do the excavation. You are talking about three or four months of time of one of your chief engineers and supervisors and equipment.

Bradbury: We did it. Voluntarily. We put about three equipment operators down there and Mr. Cole [our drilling and blasting supervisor]. My son would go there about twice a week and get with him any other time it was necessary. MAPCO [another coal company in Martin County] put equipment down there and a couple of equipment operators. One of my contractors...loaned his equipment for drilling. We supervised the blasting. This was in an area where residences were very nearby. I wanted Mr. Cole to be in charge of the blasting because I knew it would be done properly and safely. The board of education recognized the project by taking out an ad in...the only paper in Martin County at the time.

Seltzer: Your comment raises the question about the proper way for a county to tax coal. When I was talking to Morgan Massey, he said, "Paying taxes is one of the things we should do." He didn't have any problems with that.

Bradbury: That's right.

Seltzer: [Let's say] you were a county supervisor or a county judge and the main part of your economy was coal. You had two or three big companies and two dozen little companies in your county. What's the best way of putting a fair tax on coal and retain it [the revenues] locally, not send it up to the state?

Bradbury: My feeling is that the first one quarter of one percent of the severance tax ought to remain here. Maybe two or three years down the road depending on how the state took to that, raise it up to one-half percent. That would remain here first. Not as it is now, sending $177.6 million to the state first, to establish that cut-off, then sending 50% of revenue over that back to coal-producing and coal-impacted counties in the state. The severance tax was great when it was first started by then Governor [Wendell] Ford at somewhere around 4%. It was Governor [John Y.] Brown who got the legislators to agree to this cutoff level in the first legislative session under his administration. That's good as long as boom times, good times, exist. But when lean times appear, the counties were really saddled [from the absence of needed revenues]. Pike County especially. They lost their [severance tax] money in 1982 and '83; that's when they were hurt the hardest. I think they started getting some of it returned last year because production increased again last year.

Seltzer: Do you think a tonnage tax is the best or a gross sales tax?

Duncan: We have a minimum severance tax of 50 cents a ton, but it's actually based on the price of coal in the state.

Bradbury: Yes. It is 4-1/2% of the gross selling price. My company paid $4 million last year.

Seltzer: A gross sales tax seems to be a better way of doing it than a tonnage tax because you have differences in coal quality and coal price. If you put a uniform tax a ton on all coal, you will hurt people who are selling junky coal or low-price coal.

Bradbury: I think that works out in your negotiations with your customers. If they are selling that kind of coal, they are selling it for distress prices. We, who are guaranteeing a certain quality of coal because we have a long-term contract, might have a higher price certainly than what [coal is being sold] for on the spot market. They [producers of low-quality coal] are more prone to sell that kind of coal on the spot market.

I am not opposed to a severance tax. It is not such a bad deal. In fact, I think Governor Ford hit on something great for the state. And Kentucky would never want to do without it. Since that formula was arrived at five or six years ago, members of the coal caucus [in the Kentucky legislature]--the representatives of the coal counties--they are afraid, and so are coal associations, to go back to get the severance tax reformulated so that more revenue is returned to coal-producing counties for fear that that might start rocking the boat and maybe the tax will be increased. Paul Patton [Pike County judge], I thought, not long ago was considering the idea of proposing that a very small percentage, a fraction of 1%, stay with the coal counties. Pike and Martin Counties would benefit the most from that change because we are the number one and two producers in the state.

Seltzer: What are the things that Martin County could use that kind of money for? What are the greatest needs right now in this county?

Bradbury: Some additional recreational facilities. We have a good swimming pool and that came about largely as a result of severance tax money. We have good playgrounds; our company has been as heavy as anybody into that. Lighted the ball fields. Our company has helped promote the county fair.

They are supposedly getting a sewage system in Inez. [Martin County] needs a water system that would extend over all of the county. We have a reservoir that the past two or three years has dried up due to a lack of rainfall <u>and</u> more usage. It [the existing water system] has been extended. It goes to Warfield now, and probably four miles up Route 3. One [integrated] system could pump from Tug Fork River [and supplement the existing reservoir]. [Another possibility is] MAPCO's huge reservoir [at a mine site] that they've backed up. They are [already] allowing their property to be used as a garbage-disposal landfill. Martin County might be able to use water in that reservoir long after MAPCO's gone. The pipelines and the pumping facilities, whatever it would take to get that water out over the county [would be needed as well]. At this new airport, no water is available. We've got to figure out a means of getting water there. Drilled wells are not successful here because of the high mineral content, salt content, or lack of any water at all. We've drilled wells and we couldn't begin to run a preparation plant. We may have to dam up Wolf Creek and pump our water into a reservoir. That's one idea.

Inez is putting in a sewage system. We have consented to allow Inez to dispose of its solid waste from its sewage system on our property. We felt we could help them doing something like that for the good of the community. That's part of [their] permit. [But] they are having trouble getting all of the people signed up to hook onto the new sewage system. They only have until the 15th of this month to get the necessary subscribers. People don't even know we've entered into this. Once they get the subscribers, then we and the City of Inez will make an announcement. It's all ready to go.

When people hook on, they will run their septic tanks into the line. As you came through Inez, you might have seen markings on the street. They [Inez] are also going to put a new drainage sewer system in. When we get heavy rains, the streets are just covered with water. In a real heavy downpour, it'll be laying in the streets of Inez. It doesn't drain off. We are going to put those drain lines in and this sewage system in the same ditch. This is what they hope to accomplish. They want to do that this summer. When everybody hooks on, they have to pump out every septic tank to start. We are going to make our surface mine facilities available to dispose of it, the waste sludge. Once they get into operation, twice a year, they will have to haul that stuff up here. It's not a huge amount. Once every four years, every one of those septic tanks has to be cleaned out again. That's the kind of help we are trying to provide.

Seltzer: Do the small companies in this county do a proportional share of that sort of work? Or is [it only] the Martikis, MAPCOs, Wolf Creeks, Masseys....

Bradbury: Island Creek doesn't even participate like we do and they are in Martin County. They are on a different watershed. Their office has been at Paintsville.

Some of the smaller companies have helped. L. T. Ruth was in here for a while; I think he's gone out of business, though. I'm not sure how much help Ashland Coal--it was [formerly] Addington Brothers--did. They are not doing a whole lot of mining in Martin County right now. I'll tell you one that bothers me. The gas company has been here years longer than the coal companies have.

Seltzer: Is that Columbia Gas?

Bradbury: They've quit trying. They don't even ask anymore.

Seltzer: Why wouldn't they pull their own weight?

Bradbury: Bogged down in red tape. Have to go all the way to Charleston. That's the excuse they've always used. We [at the mines] can get it [appropriate money for community projects]. I can write it out here at a moment's notice.

Duncan: Can MAPCO do the same thing?

Bradbury: No, it takes them a little bit longer. They've got to go through Tulsa. That's our advantage. Morgan Massey [president of A. T. Massey Coal Co., owner of Martin County Coal Co.] once said, "All of the Massey companies are independent." It's a decentralized operation. It took me, with an Island Creek mentality, six months or more to realize that I don't have to call Morgan Massey every day to ask him what to do or tell him what I'm doing. If we aren't successful, it's me who is responsible for it. If we are successful, then I guess I can take some credit for that, too. That's the way it works. Martin County Coal has been one of the more successful operations in the Massey organization.

Duncan: From Martin County's point of view it's a pretty big deal to have you here in Martin County able to make those decisions, able to be involved in an airport and make the decision about the school.

Bradbury: It does. It really pays off. I think my employees, probably more than anybody else in the county, recognize and know about our participation.

Duncan: What percent of the county's coal employment is Martin County Coal?

Bradbury: That would be a hard one. Just guessing, 2,500 to 3,000 people employed. Ours [employment] is stable, but employment went down when Pontiki cut its operation in December of 1982. It's gradually building back up but it hasn't reached anywhere near the level it was then. Martiki had two reductions. That's what brought on an effort by the union to get the UMWA contract down there last fall. Wolf Creek, like us, is not expanding any further. There aren't very many new small companies going in at this time. This is not the best time for people to be going into the business as a small operation.

Duncan: You really don't anticipate more coal employment in this county over the next period of time.

Bradbury: I sure don't. It's tailed off the last couple years. It has probably reached a level of stability now, a plateau. No, I don't see now our county production rising over what it was in 1982--16 million tons. That was probably the peak year.

Duncan: Are you going to be able to remain steady and employ the same people over the next few years?

Bradbury: Right now we are about 540, so you can see we've had a...

Seltzer: That's down some.

Bradbury: Yes.

From in the middle of last year, we had to discharge two security guards. Our superintendent of maintenance left the job. My son, who was manager of surface mining, left. We had a truck haulage foreman leave. We discharged two underground mechanics for stealing in November.

Seltzer: Copper?

Bradbury: Yes. Cable is what they were stealing. And one of them made $70,000 the year before. Why does he have to be a thief? What a foolish thing to do. The other guy was making at least $50,000. They'd come to work even if you had a little strike or interruption. Those two guys weren't replaced. One of my men out of my accounting office left. He finally decides he's going on long-term disability. The doctor had been trying to get him to quit for awhile. He had a heart problem. Work up here is almost traumatic for him--the pressure, I guess. He brought it on himself. The pressure is not that great. Believe me, it isn't. Anyway, that's about eight people I just counted. None of them replaced. The name of the game right now is to be as competitive and as productive as we possibly can.

Seltzer: You have to.

Bradbury: Absolutely. You know that. The market. You have to be.

Duncan: So the kids of those coal miners are going to have to leave Martin County to get work probably?

Bradbury: Unless.... Why didn't somebody start a rebuild shop here? The one I told you about down in Lovely, Kentucky, Martin County Rebuild. We did a little bit of business with them. But I don't think they had the expertise to compete with people like Logan Hydraulics.

Duncan: Could you justify giving them a little concessionary gearing up time? Mr. [Wayne T.] Ewing at Peabody--they have the same system that Massey does, the regional decision-making--suggested that sometimes a division manager will deal with a local repair shop even though he can get a better price from a larger or out-of-state supplier.

Bradbury: We would do that, too. We do that now as much as we can.

For instance, I've been using mostly Chevrolets as company vehicles. I've been dealing with a local Chevrolet dealer. We had a leasing program with them, but we found it looks like buying is the best way to go. They don't have good maintenance for us down there. We let them work on our trucks and Blazers until they can't fix them. Then maybe I'll go to a bigger dealer in Prestonsburg. I'm not talking about the big rock trucks we use out on the job or a coal truck. But as much as possible I try to do business in Martin County.

We have a local supplier of the [underground ventilation] curtains, plastic cloth, that we use and [mining] bits. His bits are the best. But we found we were paying a little bit more to this guy here locally. Other distributors in areas outside of here, in West Virginia, could give us a better price. So what we did was not cut him out, but we said, "Hey, Randy, don't you think you can treat us better than that? Don't you think we ought to have that kind of consideration? Now here is what they are doing in West Virginia." So, he drops the price. I still think we are paying him probably a little bit more than the others, but we are doing business with him here.

Seltzer: If you were selling on the spot market, could you still do that? Could you have that flexibility, that ability to pay a little bit more?

Bradbury: I would still buy a quality product first, and that guy's service. It's worth a few cents more if he can come to me in the middle of the night to pick up something for repair. Or if he can deliver whatever we might run out of. We don't have a big warehousing capacity. We let our suppliers and vendors be our warehouse. We have what I call a supply house. We try not to keep huge quantities in inventory up here and tie up that money.

Seltzer: But if you were selling spot in a tight market, it would be hard for you to make a buck and do what you are doing. The fact that you are on a long-term contract...

Bradbury: Makes it a little more palatable, certainly. We'd have to practice good economic sense [if we were selling on a tight spot market]. We'd say, "If you can go along with us [on price], we'll give you the opportunity. Here is your chance. If you will go with us, I'll still stay with you." That sort of an attitude.

I try to practice that sort of approach. We try to be fair and go with the local people if we can. There aren't a great many suppliers here in Martin County. Our diesel fuel and our explosives both come from Floyd County. I have had a good business relationship with those people back to 1960. They are two of our biggest suppliers. But rather than put all our eggs in one basket, we also get a few from a Chevron distributor over in Johnson County. Back when there was a fuel premium in the 1970s when we had the oil embargo, there was a shortage of diesel fuel. Gasoline, ammonium nitrate fertilizer--we had to get it where we could. We were fortunate to find people who were willing supply us. But [I made it plain to them:] "Look, guys, I appreciate your helping us out. We are begging. [But] I'm not sure I will be able to continue the business with you later on."

Seltzer: The Kentucky Coal Summit doesn't have a place on its agenda for conversations like the one we're having about the role of the coal industry in economic development in local communities. That struck us as being a mistake. If you are in the public sector--the governor, a state senator--you have to be concerned about the long-term trends in this industry. One is a flat employment curve. Another is the need for improving sewage systems, schools and those things. Another is trying to put stability into the coal market so that there's not rapid hiring and rapid firing every time the market goes up or down a buck or two a ton. There's no place on the Summit's agenda for that kind of discussion. The coal industry and the people in state government who deal with the coal industry seem to be afraid of that discussion. We've been [privately] talking to coal executives who are not afraid to talk about those things. If we bring up taxes, you are not afraid to talk about them because you pay them. But in a public session, there's a hesitancy to open that discussion. It doesn't make a lot of sense to me because they are issues you deal with every day.

Bradbury: I can see why it strikes you that way. When [Governor] Martha Layne Collins addresses those people [at the Coal Summit], she will be trying to take the initiative toward gaining a national energy policy. She'd like to be hostess to that sort of a get-together.
Mr. [George] Evans [secretary of the Kentucky Energy Cabinet] has been responsible for the whole agenda. I don't know how much input Governor Collins had into the thing. Now I read the other day where she's [only] <u>tentatively</u> scheduled to be there. If she doesn't show up for that thing when it was her idea.... If I were her, I'd be there kicking it [the forthcoming Summit] off. It was her idea. Here it is nine months later when it's going to happen. Things have cooled a little bit. I guess she was in Japan trying to interest those people in buying Kentucky coal or maybe even bringing

a plant to Kentucky. Hey, that's what we need over here in Martin County--a bunch of Japanese.

Seltzer: Maybe the Japanese will start a rebuild plant in Inez.

Bradbury: Could be. They [the Japanese] need to buy more American coal as well as other products. It's a different world dealing with the Japanese. It takes long years of developing a trade relationship. We were quick to recognize their quality and buy their automobiles in favor of our own until guys like Iacocca, and then Ford and GM woke up.

Seltzer: But if Detroit hadn't lost a share of the market, they would never have modernized and redesigned.

Bradbury: No, they wouldn't. They'd become lethargic and unproductive. Auto workers were responsible for a lot of that. My God, the management let the wages inflate. Nobody attempted to hold the line and say, "Hey, wait a minute." Now we are all having to tighten our belts. I don't see that it's all that bad if we can cut back in some of these areas.

Seltzer: Speaking of wages, you mentioned that one of your hourly employees with overtime was making $50,000 to $70,000.

Bradbury: Our average is $42,000 for last year. We had almost a $25 million payroll last year. That includes all overtime, all bonuses. I divided by 567 to get that average.

Seltzer: That's only hourly workers?

Bradbury: No, no, no. All workers. Hourly, the average will be $40,000. Our salaried people, there isn't that great a spread for quite a few of them.

Seltzer: Is there any difference at all between what you offer in terms of wages, job protection and job rights than what the UMWA contracts offer? Are you better or worse?

Bradbury: Oh, yes. We have been better ever since we've been in operation--anywhere from 25 cents to $1.15 an hour better. We make increases as they [UMWA miners] make their increases quarterly. Last year we had a 49 cent increase. I think UMWA might have had 65 cents counting the new contract they put in, something like that.

Seltzer: What about pensions and health programs?

Bradbury: Far superior. We work a nine-hour day. Everything over 8 hours is time and a half that day.

Seltzer: That's nine hours portal to portal?

Bradbury: Yes. We have one more productive hour available to us.

Seltzer: Is that straight time or overtime that last hour?

Bradbury: Overtime.

Seltzer: Eight hours is straight and then that extra hour is mandatory, but it's time and a half.

Bradbury: Yes. Saturdays are time and a half. Sundays are time and a half. We don't pay double time.

Seltzer: Is overtime mandatory?

Bradbury: Yes. Everybody works nine hours, minimum.

Seltzer: Is Saturday work mandatory?

Bradbury: No.

Seltzer: So it's 5 days, 9 hours?

Bradbury: Yes. Saturday work as we need it. If we have to load two or three extra trains in the course of a month and we have to schedule Saturday work, I'll post a notice well in advance to schedule work. We just schedule work for everybody. And we get it.

Seltzer: So what you are saying is the UMWA can't compete against the package that you offer and are delivering on?

Bradbury: Yes, because we have this production bonus. Under the UMWA contract you can't have it. They are allowed a safety bonus. Probably a lot of companies have taken advantage of that. There are quite a few union operations that have good labor relations, probably have a good work force. I know when I was working with the people in David, Kentucky, there was a fine group of workers there. Island Creek, the former Inland employees, I'd have to rate them pretty good. Armco, they seem to go at a little slower gait. I don't know what Peabody's going to do with them now that they own them. We pay all hospitalization except for a private room that a patient requests. If a doctor says he has to have a private room, it's paid. We pay semi-private.

Seltzer: And you have a pension program as well?

Bradbury: Eye care plan, dental plan. You can get an eye examination once a year. Lenses replaced annually. Frames every three years. Dental and orthodontic plan. We used to have a one hundred dollar deductible on orthodontics but now we start paying right off the bat up to a thousand dollars per family member per insurance year. And pension? Yes. You have 25% invested after five years. Five percent a year on up until it's 100% after thirteen years. Payout after 15 years continuous service. Age 62, normal retirement. I can work five more years and then I can retire if I want. Early retirement at 55.

Seltzer: Would you do all this [for your employees] if there wasn't a union?

Bradbury: If there wasn't a union?

Seltzer: That's right, if there wasn't a union in the industry.

Bradbury: Yes, I would do it from the standpoint of trying to get the best, the most skilled workers I could possibly find. [I would hope] to offer them good wages, good benefits, to keep them working at a company that represented stability to them. Good earnings potential and good long-range prospects of jobs and retirement. Now, if things went down hill, an energy glut again pushed the price down, I would come to my workers and say "Hey, look. This is our situation. We have got to remain competitive. We have got to either produce better or I am asking you to defer any wage increase or even take a cut if it were necessary." I would try to sell that idea. If worse came to worse, I could do it. My workers would believe what I was telling them.

Duncan: Where does your payroll go? The county really doesn't get it; there's no occupation tax. There are only so many houses you can build for 560 workers.

Bradbury: There aren't a lot of good clothing stores and shops. Most of them will buy their groceries here. Gasoline, I don't know. I don't think there is anybody even in the county who sells boats. That has been a big item. A lot of our employees are just looking for places to go for recreation. We now have a snow skiing club--the Black Diamond Club--here in the county. A lot of them are my employees. I tell them, "Don't you dare break a leg." Some come limping back once in a while with a hurt leg.

Duncan: Do you think the county would support an occupation tax?

Bradbury: I doubt it.

Duncan: Say an occupation tax that would be used for education, or something earmarked like that?

Bradbury: They might. We have these forums the governor initiated. There is a Martin County Educational Council, like there are in many counties. Two of my employees are now serving on that educational council. They know we will help with contributions from time to time. We give $5,000 a year to the board of education. Just outright, "Here. Use it the best way you can." That approach eliminated all the schools across the county in both directions, calling us for individual contributions for this, that and the other.

I stipulated that one program in particular received funding from our contribution. My daughter, when she was a junior down in high school, and a daughter of another one of my [former] employees went through a program called Presidential Classrooms for Young Americans. They spent a week in Washington. Gee, it was a great educational opportunity. Kids came from all over the country for that. I started paying their transportation costs, the plane flight from Huntington to Washington and back. I felt, "Well, that would help them enough and they ought to be able to get their parents to pay the rest." And then that changed from the Presidential Classroom to Closeup. That is another one of these programs where you go to Washington. It is up to five, six and seven students. When we give that $5,000, I say, "Superintendent, I want to maintain what we have done right along. I want that money earmarked for transportation costs for the students." The school superintendent didn't get that message across to some of the teachers and students. I still have individual students write me a letter. They want [us to pay for] the whole thing. Foot the bill for that.

Seltzer: This [going to Washington] is going to backfire on you. They will go off and come back writing regulations.

Bradbury: They may. But, we encourage this.

There is a lady in this county known as Jo Boomsma. She came here about 1970 with an outfit known as Appalachian Reach Out from up in Michigan representing a church. She now has her own organization known as Christian Appalachian Home (CAH). I've known her ever since she popped up on our job one day way back about 1972. One of my truck drivers came in here and said "Raymond, there are two ladies out here at the truck dump looking around and I don't know who they are or what they want." Well, I went skeedaddling out there and introduced myself, asked them what their business was. And one of them was a little old gray haired lady, not Jo. And she was just roaming around the county and found this road, came through our gate, right on up and that is how I first got to know her. She established this home.

It took us forever to find grants from foundations and organizations that were willing to grant her some money. Of course, we make her a reasonable contribution. She calls in and says, "Hey Raymond, we want to take a trip to Cincinnati and Kings Island. I need about $150. Can you help?" "Yeah, I guess I can help you on that, Jo." She's a good friend.

Seltzer: As a company, do you have a certain portion of your gross income or your net income set aside for community projects?

Bradbury: That's a good question.

Seltzer: How do you handle that?

Bradbury: It was with Duke Power's approval and blessing. At one of our directors' meetings, going back to about 1979. We'd already been making contributions but they [the board] said we ought to give a mil per ton. That's $25,000 I was allowed.

We have contributed to Highland's Regional Medical Center because a lot of our employees use that hospital: $10,000 in December, 1981; $15,000, December, 1982; $15,000 in December, 1983 for their development fund; $40,000 total. To the Jenny Wiley Drama Association, we're giving anywhere from $3,000 to $6,000 a year. Our company is the biggest business contributor in the area to that cultural and entertainment opportunity. This will be their 20th season. They always run in the hole. They used to get state funds, state subsidy. But they're paying last year's bills this year. We've always helped them. I buy a lot of extra tickets and make them available for employees. Last year, after they had some rainouts, we bought them a complete set of used lights. I think about 60 of them at $30 apiece in addition to giving them outright about $3,500 cash. Last year, $5,000.

I like what I am doing. I got a lot of good people. A lot of fine employees working. We have got the best one in the Massey organization. That is what I think, anyway. I have been treated real well. The coal industry has been good to me. It has been a great profession. I was proud to be able to follow my father and his two brothers. I have a son now who is the third generation [in the coal business]. He has a degree from Eastern Kentucky University in radio or TV production. He worked here four summers. He learned how to do a lot of surface mining. He doesn't care about being a "mole." That's what he calls underground miners--moles.

CONOCO INC.

Ralph E. Bailey, Chairman of the Board and Chief Executive Officer of Conoco

Company address: 1007 Market Street, Wilmington, Delaware 19898

Parent company: A subsidiary of E. I. du Pont de Nemours

Background: 61 years old, 36 years in the coal business. Mr. Bailey is Vice Chairman of the Board, Director and Member of Executive and Finance Committees since 1981; Chairman of Conoco Executive Committee since 1981; Chairman of the Board and Chief Executive Officer of Conoco since 1979; and was Deputy Chairman of Conoco 1978-1979. He joined Consolidation Coal Co. in 1965, and in 1975, he became Vice Chairman and Director of Conoco.

Total number of employees (parent company):

(excluding government-owned plants)
1983-159,231; 1982-165,013; 1981-177,235; 1980-136,259; 1979-136,942

Coal production (tons):

1983-38,186,268; 1982-47,834,174; 1981-39,938,016; 1980-45,642,205; 1979-44,439,968

Total parent company sales (in millions):

1983-$35,378; 1982-$33,331; 1981-$22,810; 1980-$13,744; 1979-$12,650

Coal sales (in billions):

1983-$1.4; 1982-$1.7; 1981-$1.5

Total parent company assets (in millions):

1983-$24,432; 1982-$24,343; 1981-$24,372; 1980-9,792; 1979-$9,134

Total parent company net income (in millions):

1983-$1,127; 1982-$894; 1981-$1,081; 1980-$744; 1979-$965

Message from 1983 Annual Report: "Productivity at Consolidation Coal Company's mines increased more than 18 percent versus 1982, reflecting the benefits of the efficiency programs, shifting of production to more efficient mines, higher machine productivity as a result of working fewer shifts per day, and improved labor relations." This increased productivity minimized the effect of earnings of lower volume and reduced prices.

Diversification: Du Pont's industry segments include biomedical products, industrial and consumer products, fibers, polymer products, chemicals, petroleum, and coal.

CONOCO, INC.

Ralph Bailey, CEO

May 14, 1985

Seltzer:[1] What do you think the likely trends will be in productivity in underground and surface mining in the Eastern United States?

Bailey: I think we will see a continuation of the productivity increases we have been able to achieve over the last several years.

There are several reasons for that step up in productivity. One reason has been the improved equipment we have been able to install in our mines, principally the utilization of longwall equipment. Also, we've been able to design around some of the production constraints we've been dealing with since the mine law [1969 Federal Coal Mine Health and Safety Act] was put in place back in the early 1970s. Part of this productivity has been a maturing of management. There was an awful lot of young management in our ranks back in the early 1970s. Our mine worker force is better trained, our worker skills are higher.

The stabilization of labor has been a major factor. We don't have the debilitating wildcat strikes of the kind we experienced all through the early 1970s. There has been a period of adjustment where we have adjusted to the different regulations we deal with, whether they be environmental or the 1969 mining law itself, an adjustment with very much more stabilized

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[1]Curtis Seltzer, interviewer.

and better labor relations, a maturing of management, a maturing of the work force.

All of that has been driven by an absolute necessity of improving [lowering] our costs because of falling prices. We're now in a period, if not disinflation, certainly a period of very low rates of inflation. Owing to the inability to pass on some [new] costs because the market simply wouldn't accept those increases, the industry has been driven to find ways to cut its costs. Since labor itself is a very high percentage of our total costs, we've been able to find ways to do this [boost productivity to reduce labor costs].

We've gone through a period of two or three years when there have been no price increases of any substance available in the market place. The only way to keep the margins the same, and even widen the margins, is cost reduction. That means productivity improvement. I think the industry record has been pretty impressive. In our own company [Consolidation Coal], we've made very impressive gains in productivity over the last five or six years. I think that will continue for some time to come.

We probably have only just seen the beginning of what will be a whole new technological advancement that we can apply to the average mine. We have many mining entities in the country--this industry's made up of several thousand mines. Many mines are on the lower end of the spectrum as it relates to productivity. There's much opportunity for them to improve. Even if they don't do more than just catch up to where the most advanced mines are today, that suggests plenty of opportunity to advance. The more modern mines will continue to try to find ways to make the American mining industry more competitive in the international marketplace.

Seltzer: Are you talking about a [productivity] rate of about four or five percent [gain] a year industry-wide? Do you think that's achievable?

Bailey: I don't actually have a figure. That sounds high to me.

Seltzer: The 5 percent sounds high?

Bailey: For the industry average, that might be high. But it's not unreasonable. We [Consolidation Coal] have actually exceeded that. Several companies have, I'm not sure how many. We have exceeded that rate the last few years. But for a ten-year period, 5 percent per year for ten years might be a little high.

Seltzer: If productivity were to rise 3 to 4 percent a year and that would be about the same as the rate of production growth, there would be no net gain in employment.

Bailey: That's right. There's a geographical implication here that has to be taken into account. Our [Conoco] energy forecast [plots] where we think the rate of growth for coal is heading. We're one of the few companies that still make that forecast, looking at energy supply and demand, for oil, gas, coal, nuclear and other sources. We see an average growth rate for coal of about 3 percent a year. In the early part of the next ten years, there will be more growth in [coal] production in the West and Southwest than there will be east of the Mississippi where we've got so much productive capacity overhanging right now. The market and market growth are a little slower in the East, in terms of new electric-generation plants being completed. So growth is not going to be evenly spread over the United States.

If the industry does what I expect it will do, its productivity growth will in fact match, or exceed, the industry growth--production growth--so that there probably will not be net new jobs until that sort of catches up. Once we've exhausted the ability to improve productivity, then it stands to reason that with a 3 percent annual growth rate, that there will be new industry jobs created. But I think it may very well be a little while.

Seltzer: Suppose you were advising the governors of West Virginia, Pennsylvania or Kentucky about economic development in the coal mining areas of those states and you had the discussion [with them] that we just had about what you can expect coal to provide--the tax income, wage income and benefits that [they could expect from coal]. What sort of advice would you give them about economic development, given the limited amount of employment that coal will provide? This isn't to blame coal; it's not putting any fault on your shoulders. We're just saying this is where the trend is likely to go. If you're interested in getting new jobs and new manufacturing started in those areas, which is hard enough to do anyway, you have to do some long-term planning and thinking. When I talked to Bobby Brown [president of Consolidation Coal, a subsidiary of Conoco], he said he's never been asked that question by any of the politicians in those states. I'm curious to see whether you have any advice.

Bailey: I haven't been asked that question, either. If I were asked this morning, without benefit of some detailed examination myself, I could only give you a generalized answer.

The best, for the near term, the governors in these high coal-producing states might expect--might hope for--is that the current downturn in the industry will improve. The downturn is principally due to very soft markets as a result of electric utilities working down stockpiles they created last year in expectation of a long coal strike. Once we get that behind us, a lot of mines that are now idle will be back at work. There will be some improvement just ahead in terms of total employment.

But so far as new jobs created because new mines are going to be opened up, I just don't see that as a major factor for a while. [Partly, that's because] we've got so much excess [coal production] capacity overhanging the market. Also, there are still a number of nuclear plants under construction that will be completed in the next four or five years.

After this round of nuclear plants are completed, the next generation of power plants will be medium-sized, coal-fired, scrubber-equipped, or [otherwise] equipped to deal with the stack-gas emissions. That kind of plant will be easier to site, easier to permit, easier to finance. It fits better the load growth of the utility involved. On down the road a bit, there will be the prospect that many new mines will have to be built for these new plants. You also have to keep in mind that 3 percent or so of the productive capacity each year depletes; these mines work out. That too will create the need for some new mines.

That [growth] comes [only] after this big production overhang we've got now is used up. Then you must look at the net of all that as to whether or not there are <u>net</u> new jobs involved. These new mines that are to be built will be more productive, to be sure, than the older mines they replaced.

For a few years, I don't see a lot of net new jobs created. The prospect is more that some laid-off miners will go back to work when this current market softness is behind us.

Seltzer: Are there some ideas that the coal industry would support in terms of getting other kinds of businesses started in traditional coal-mining areas? Do you think, for example, that local coal companies would have some of their executives spend some time working on industrial development sites? Would you think that some companies in the industry might put some of their payroll deposits in local banks? Some of [the interest on that] money could be earmarked for development efforts of one sort or another to get some more capital in local areas.

I've talked with different companies about doing things that some others are already doing--donating equipment time and personnel to prepare industrial sites, [helping with] marketing surveys, things of that sort.

At some level it's not in your interest to spend <u>your</u> time and <u>your</u> money to get other businesses going. At another level, it is in your interest. Where you cut it is an interesting question. In our interviews we found a number of companies, including Consol, do quite a bit. They just don't toot their own horns.

Bailey: Ours is an industry that has a good deal of impact on the communities in which we operate, and on society in general. Ours is a rather high visibility industry.

Seltzer: The taller the stacks get, the higher the visibility.

Bailey: That's right. It's for that reason that many of us felt an incentive to help create additional community growth and development. So we support that. We've got a societal need there to fulfill. I have found most coal companies and coal executives are keenly interested in their communities and states and are quite willing to expend time and effort to promote development, to revitalize some of these communities in which mining has now become less of a factor than it used to be. There is nothing more desolate than a mining town where the mine is shut down. We don't like to leave those kinds of monuments behind. We'd very much rather see the communities in which our people live and our investments are made be healthy while we're there and healthy after we leave.

My guess is you might be surprised at just how much support could be derived from the industry. There's another reason for it. The coal industry is made up of many small, individual companies...that are very central in the communities where they are located.

Particularly in states like Kentucky, Virginia, Pennsylvania, Illinois and Ohio. Mining companies can be very effective, influential and helpful in this whole idea of stimulation of development in the mining area.

Seltzer: Let me ask a question about acid rain. When I talked to [Consol's] Bobby Brown, he said the company's position was that there is no scientific justification for an acid-rain proposal being enacted. He also said he expected one would be enacted sometime in the future, not because it was justified on its merits but because political forces have been gathering that are likely to force Congress to act. Acid-rain controls would have a substantial effect on your company and [all] companies mining higher sulfur coal, whichever way the legislation falls.

Our study of the employment implications of various acid-rain proposals found that most models overestimate the number of mine-worker jobs and coal production that would be displaced by the various SO_2-control plans. The models overestimated the employment impact because they use a factor of between zero and 1 percent annual average productivity gain per year. That is not realistic; it's too low. Where some models were talking about between 50,000 to 90,000 mine worker jobs displaced--varying according to the proposal they were [studying]--the estimates we're coming up with are closer to 25,000 to 35,000. That's still a lot; I don't mean to minimize it.

Are there any [acid-rain control] strategies that the industry would consider that would minimize the amount of dislocation both to the high-sulfur industry and to mine workers' jobs? Is there any flexibility in your thinking on that particular issue, or are you dead set against it?

Bailey: I have some very definite views about it. I start from the fundamental premise that if acid rain is, in fact, a problem for the country, then we must solve it. I have no quarrel at all about dealing with the issue. I'm also very sensitive that when we take these steps, that they must be very careful steps.

I watched, for example, this industry put our black lung legislation in place. There's no question in my mind that there was coal workers' pneumoconiosis in the mines, and there were some victims of that disease. But legislation was drafted and put in place in such a helter-skelter, emotional way that it is [now] probably one of the biggest boondoggles ever put on the shoulders of the taxpayers. The black lung law has not been well administered at all. In a similar vein, the Federal Coal Mine Health and Safety Act was passed at a time of high emotion. We didn't take the time to carefully analyze what was needed and what would be effective. I feel the same way about acid rain. We must know what that problem is before we attempt to effect a cure.

If you look at the energy supply requirements for the country, we know coal is going to play an increasing role. We've now had opportunity to look at the alternatives, and we didn't find very much. We know oil and gas supplies will be limited in the future. They'll be more dear in terms of their costs. This country is not going to expand our nuclear industry much beyond where it is now, if any. I don't think there's an electric utility chairman in his right mind who would order a [nuclear] reactor. His board would probably commit him. We've looked at all the renewable [energy] opportunities, such as solar and wind. We didn't find much there. We're right back to oil, gas, nuclear and coal. With the limitations on oil, gas and nuclear, that means it's coal.

The biggest energy bargain in the country today happens to be high-sulfur coal, at least in the eastern part of the country. That's because of its geological condition. The way it's put in the earth, for the most part, [means] that [high-sulfur] coal is cheaper to extract and transport than low-sulfur coal. If we're going to have the need to use more and more coal, then we need to use <u>both</u> low-sulfur and high-sulfur coal. That dictates that we have to solve the [acid-rain] problem to the extent it exists. I question not that we have to improve on the rate of deterioration of air quality. You do that by cleaning up the stack gases.

Looking at acid rain per se, we, as a company, have probably spent more time, money and effort on acid rain than maybe anybody else other than the government. We did so because we happen to be the owner of a very large quantity of high-sulfur coal reserve; that's where the bulk of our business is. A lot of other companies are in the same shape. We felt we had to know and understand a lot about acid rain. We put scientists within our own research organization to work on this several years ago. We examined the early claims that were made about acid rain. We have caused others, including the government, to conduct a good deal of work trying to understand it. And one thing is certain. The more we learned over the last several years, the more it calls into question just what the cause-and-effect relationships really are to the release of SO_2 and NO_x, the acid-rain phenomena itself.

Then one has to ask himself, "Do we really have a crisis? Do we have such a crisis in this country that we don't have time to wait and see whether we're right or wrong?" There is a broad argument about it, and I make no case about who's right and who's wrong. I make a strong case that we'd better find out who's right and who's wrong.

I start by looking at the parts of the acid-rain debate. Start first with the lake and stream acidification. A very small percentage of the total number of lakes and streams have actually been sampled. The [available] information suggests there are as many lakes where the acidification level has gone down as where it has gone up. There is no indication, even though less [annual] SO_2 has been emitted over the last several years, that there has been any pick up in the amount of acidification. But, assuming there is a [lake and stream] problem, then that [affects either] recreational fishing or commercial fishing. I don't think that you can put that in the category of a "national crisis," [a crisis] that says you can't take three to five years, or some reasonable time period, to find these answers.

The next issue is whether there's forest damage. Virtually all the experts only point to certain species of spruce trees in higher elevations in the Northeast [that are at risk or being adversely affected]. When I look at the paper and pulp industry, I see it going through very difficult times [depressed markets; overcapacity]. I don't see [acid-rain caused] forest damage or that the rate of damage and [evidence] that [observable] damage can be assignable to SO_2 release is really in the crisis stage. It too can wait a few years until we know.

Then I shift to crop growth. Many people say there is as much benefit as there is damage from the release of sulfur so far as growing crops are concerned. But even assuming there is damage, when I look at the government crop support programs and the fact that our farmers are having to cut back on their rate of crops, I can't put that in the crisis situation either.

The last and most important of all is whether or not the current situation really impacts on human health. That happens to be the one area where both the environmental side and the side of industry can agree. We really have no emergency or crisis, or can even point to where there is damage to human health [from acid rain].

To me, that adds up to, for goodness sake, let's find answers before we legislate.

Having said all that, your question is, "What does this mean as it relates to jobs in these mining communities?" Identifying the problem and identifying the cure would let us continue to mine coal in traditional [high-sulfur] areas where coal is now being mined. We [as a country] will continue to consume high-sulfur coal. It [possible acid-rain legislation] doesn't mean we'll shut down the high-sulfur coal industry and just plain not burn coal. The electric utility industry and the industrial plants that consume coal will be able to pace their effort to advance the technologies that deal with the stack-gas problem just as quickly as research identifies what the problem really is.

From the standpoint of what is right in terms of how we spend our dollars, how we protect jobs and how we protect the environment, [we need] a common-sense approach to make sure we know what we're doing and then do it. A part of the slowdown in the legislative process right now on acid rain is the sudden realization that we really don't have the crisis that has been portrayed and we do have time to find answers.

There may be some legislation [that will emerge] that I would characterize as an interim step. I don't support that; I don't think it's necessary. But being politically pragmatic, [I understand how] it may very well happen. Not this year, because it's somewhere on the back burner. Those who worry about protecting jobs would be better off being stronger advocates, not just for continuing to burn high-sulfur coal and continuing the same level of SO_2 and NO_x releases per se, but supporting the premise that first find out what the problem is and then we'll deal with it by building new plants equipped [with SO_2 control systems].

All these electric-generation plants have a life of their own, an economic life. Some are phased out every year. The new plants that come on will be equipped to handle stack gases. Given time, this is almost a self-correcting situation. It doesn't require that we take large amounts of capital and rush in to retrofit old plants with new equipment. That money should be spent on new plants. Those plants will be more efficient.

Experience has taught us that we are driven to help this [SO_2-control] technology by the economics of our business. Efforts are going on in many research institutions and some private companies to find a way to burn coal cleanly.

I accept the basis that if we are going to burn more and more coal, we ought to remove as much sulfur and other pollutants out of these stack-gas streams as we possibly can for each and every plant. That lets us build that many more plants over the next several decades.

Seltzer: The question you raised about capital stock, about the replacement of existing capital stock in the older coal-fired plants, is an interesting one. Congress has chosen not to define NO_x from the transportation sector as a problem...or...define oil combustion as contributing to SO_2 and NO_x. Congress has chosen so far not to define industries other than utilities as the problem to be regulated. Congress has defined acid-rain controls only as a problem of older, coal-fired utility plants. Thus, the problem of financing new capital stock to control SO_2 falls exclusively on one sector of the utility industry.

Do you really think there is some level of scientific proof that would [convince] the coal and utility industries three, four, or five years down the line after we've done the research? Do you really think [acid rain is] an issue that can be proved to everyone's certainty? Or is it the kind of thing that you can never prove 100% or 90%, and certainly not to everyone's satisfaction? Is it an issue, in other words, where you [inevitably] are going to have to make some assumptions, some jumps, some inferences about what you think are cause-and-effect relationships?

Bailey: That's a very, very good question. I would be foolhardy to suggest that there will be answers that are so clear that they convince everybody. There will always be skeptics. There will always be some around who, even though they think the evidence is very convincing, will publicly say otherwise.

But we have some very simple, unanswered questions that can be answered. For example, there is no answer yet as to just what the effect of long-distance transport is. I know we've got the ability to find out whether SO_2 released in Indiana is having any impact on Vermont. But even that work has not yet been done.

I know we have the ability to find out whether lake and stream acidification is the result of acid rain or natural factors. And to what degree other factors [are responsible]. When I look at the data and our scientists look at the data, we aren't at all convinced.

Same thing applies to forestry. There seem to be as many foresters who believe the [red] spruce problem [growth reduction, decline and death of red spruce reported in Vermont, New Hampshire, New York, North Carolina and other states] in the upper elevations Northeast is as much associated with the drought in the 1950s as it is with acid rain. A lot of simple answers research will tell us. Whether acid rain is increasing or decreasing--we don't even know that.

I'm also bothered that with a lot of the monitoring data that exists. The monitoring points are not common over long periods of time.

We will have evidence as soon as some of...the basic problems or basic claims are answered one way or the other. When we've got knowledge about that, then most of the opponents of legislation would be quite prepared to lower their voices and see something constructive done.

Seltzer: But at one level or another, the issue of sulfur and SO_2 was fought out and decided in the 1977 Clean Air Amendments where technology-based controls [scrubbers] were mandated for all new plants. What [acid-rain legislation] is dealing with is the failure of Congress to focus on the older plants...that were grandfathered in or allowed to build tall stacks. That's the problem.

Bailey: Yes.

Seltzer: There is not 100% certainty--and I don't mean to suggest that--but there is a fair amount of evidence that sulfur has detrimental effects on human health.

Bailey: On human health?

Seltzer: Yes, not acid deposition. I'm talking about the deposition of sulfates. A number of studies that have wide currency, if not absolute credibility in the industry, estimate about 50,000 premature deaths a year from coal-fired sulfur emissions. OTA [U.S. Congress, Office of Technology Assessment], GAO [U.S. Congress, General Accounting Office] and DOE [Department of Energy] all use that number, about 2 percent of U.S. mortality annually. It's not a clear, hard-and-fast solid number, I'm not suggesting it is.

Bailey: The work I have seen or had discussed with me would suggest that those are pretty wild claims. It's almost sheer poppycock--some of the comments that claim there are these deaths they can point to. You know, the whole subject of mortality...

Seltzer: It's statistical deaths.

Bailey: Yes, it's statistical deaths. There's some nonsense about those sort of things.

Let me give you an example. In New York City, where there has probably been more study of the mortality tables than almost any place I know about, it's statistically proven that the death rate, the mortality rate, goes up, when it's either very hot or very cold. That says something about the availability of electricity for heat or air conditioning. I am very, very skeptical when I look at the actuarial tables in this country. This claim that mortality rates are up is a scare tactic. There are so many other countervailing factors that deal with human health. I'm no human health expert, very few of us are. But when I hear some doctor talk about his claim that the death rate is suddenly up because of sulfur emissions, I call into serious question whether he really knows what he is talking about.

Seltzer: If there is political consensus [in Congress] about limiting sulfur dioxide emissions, there are better ways and worse ways for dealing with how we cut SO_2 emissions. One better way, for example, would be to wash coal. GAO and some other studies have recently estimated the potential for physical coal washing is about two to two-and-a-half million tons of sulfur dioxide removed per year. That seems to me to make sense. You [high-sulfur coal producers still] sell your coal. It's a cost-effective approach, a first step.

Bailey: I'm not opposed to that at all.

Seltzer: That seems a sensible thing that has gotten lost in the discussion.

Bailey: It's a very, very sensible thing to do because there are other benefits to it.

Seltzer: Right.

Bailey: There are a lot of other benefits.

Seltzer: [Lower] transportation [costs]. [Coal field] employment.

Bailey: Boiler efficiency.

Seltzer: Scrubber efficiency as well.

The other thing that makes sense to me is for the coal industry to put pressure on the government to keep doing R & D on technologies that would allow the cleaner burning of coal like LIMB [Limestone Injection Multiphase Burning], dry scrubbers and different fluidized-bed combustion systems. I don't get the sense the Reagan administration is investing in those technologies that can help the coal industry, help the utility industry deal with an emerging political consensus in Congress [on acid rain]. Scrubbers are an on-the-shelf technology that work if you monkey with them enough. Their problem is you may be saddling 50 or 60 plants with a technology that is going to be out of date in four or five years [if acid-rain legislation requires scrubber retrofits on existing power plants].

Bailey: I share your concern about that. It bothers me that most of our utility customers are strongly opposed to building and utilizing scrubbers. They're concerned about the disposal of the waste from the scrubbers. They're opposed to the reduction of plant efficiency from the use of scrubbers. It takes a large part of the station's output just to operate the scrubber system. Some of these plants are so old that it [is] foolhardy to spend all that money. In many cases, scrubbers would cost more than the plant. It makes a whole lot more sense to spend that [environmental protection] money on new plants that are being built. Then find a better way of running these old plants until they're not needed any more.

[Coal] beneficiation is a very good way. It has got lost somewhere. One problem is there are so many small coal producers that don't have washing plants. A requirement for total coal washing would say either the utility has to do the washing or a lot of small producers have to arrange for washing. That's an industry problem without apparent solution. My guess is that enough very large companies have washers in place, or would be prepared to spend the money for washers, that the market may adjust to that. I don't think we have studied that in detail. But coal washing is absolutely the first step that ought to be taken. It's the most economical thing you could do for the ratepayer.

Seltzer: Let me ask you a question about national energy policy. The problem in the coal industry has been over capacity since the 1920s.

Bailey: It's been that way as long as I've been in it.

Seltzer: The problem is not supply-side regulation, and it's not producing as much coal as can be sold. The problem is demand. If you're trying to develop a national energy policy that tries to increase demand without interfering in the market, what options do you have?

Bailey: Do you have a copy of NEP 3 [National Energy Plan 3] from the Department of Energy? I helped put that together. I was in charge of the petroleum and coal piece of that plan. That was done when [Energy] Secretary Edwards became head of the DOE, and there has not been an update since.

In there, we made some sensible recommendations about how to utilize more coal. We need to consume coal as close to the generating plant as we can. We shouldn't be transporting coal tremendously long distances because that takes a lot of energy. Electric utilities don't like to transmit power over long distances because there's a lot of loss. We need to have power plants and the coal supply located as close together as we reasonably can. That suggests we're going to continue to mine coal geographically in most of the regions where it's now mined. That says we have to use both high-sulfur and low-sulfur coal. Mother Nature did not put very much low-sulfur coal in the East. It doesn't make much sense to transport the extensive reserves of low-sulfur coals we've got in the West back to the East; there's too much transportation.

We've got to adopt sensible policies to deal with the clean-air problem. <u>That</u> is the big issue with respect to larger coal consumption. There are transportation problems involved, and they need to be dealt with. We've got to have the rail and the river capacity to move the coal. There are some problems with our river system--locks and dams, that sort of thing--that need to be attended. Our railroads are in much better repair than they were a few years ago before deregulation.

We're making dramatic improvements in the health and safety as far as the miners are concerned. That, too, was once of great concern--that a sensible energy policy would not call for more coal because that would cause more mine-worker deaths. That's why some very dramatic improvement has been made in the accident rate in these mines. A miner in a modern mine today can expect to go to a work place that is just as healthful and just as safe as almost any other place he could go to work. It has to be that way. We've made tremendous strides in that direction. I no longer see [safety] as a serious impediment to more coal use.

Dealing with the environment as it relates to clean air, clean water and acceptable land utilization is [a serious impediment to more coal use]. The principal one is clean air. That's why our energy policy should suggest that we spend enough money for the next few decades in research to identify what the environmental problems as they relate to clean air really are and develop the technology to deal with them. That means clean-burning coal technology. The amount of research that has been done in terms of learning how to burn high-sulfur coal in an environmentally acceptable way really is not all that impressive. We're one of the few companies in the entire coal industry that's got our own research program to come up with ideas [clean-burning technologies for high-sulfur coal] we think can be commercialized.

My guess is within the next two to five years there's going to be some dramatic breakthroughs in that regard. We've been pushed to do it. We've had a test just recently at one of Du Pont's plants in Virginia where we took high-sulfur coal and a sizeable boiler installation and we affected between 50 and 75 percent SO_2 removed in an existing boiler.

Seltzer: How? Is this a different combustion system, a fluidized bed?

Bailey: It was not a fluidized bed. We introduced the limestone around the flame at the burner tip. We got the chemical reaction between the sulfur and the limestone in suspension. Then we built a special electrostatic precipitator behind the plant to capture combustion products and filter them out. That was one way.

The other thing we did was called "cool side" SO_2 removal on the same boiler. This was no small test I'm talking about. We spent several million dollars. We introduced into the stream, coming from the boiler, slake lime. We controlled the relative humidity inside that stream to get--just ahead of the electrostatic precipitator--a chemical reaction between the slake lime, which was a great deal more expensive than crushed limestone, and these gases. Then [we routed it] right to the same precipitator and dropped it [sulfur] out. We got about 60 percent [SO_2] reduction doing that, and we weren't doing a thing inside the boiler. We are working with a couple of utilities. One in particular we think is interested in doing this on a full-scale basis on a couple of hundred megawatts.

Seltzer: It strikes me there's common ground here with environmentalists.

Bailey: Of course, there's common ground. There really is common ground...

Seltzer: And the common ground is to get as much money into as many projects like that as possible.

Bailey: That's where the money ought to be spent.

Seltzer: The hurdle [related to funding research] I see is on the environmentalists' side as much as it is in the Administration [reluctance to fund research] and the politics of the budget deficit. There's an argument that says industry, utilities and coal should carry most of the research freight. I would urge environmental groups to put some of their own money into funding it, a direct cash contribution. I would certainly try to persuade people on the Hill and in the Administration that that's what they ought to be doing. It makes no sense to me to invest four or five billion dollars a year in scrubber technology [to control SO_2 emissions] if something better is [only] three or four years away.

Bailey: You couldn't make that point better. How foolish it will be, and how foolish we're going to look, if we suddenly build all these scrubbers and no more than get them completed than we've got [better] things.

I hope we can find some way to do this job that doesn't require the utilization of such large quantities of limestone, [which produces]...all that sludge [that has to be disposed.]

We are beginning to get some [new sulfur-control] ideas; I'm beginning to see the ideas come now. I would like to see more research effort by government. We've made that point. Sound energy policy should funnel a good deal of government research in this area. There's plenty to be done.

The coal industry has a hard time doing research as an industry. We're so badly fractured into so many small pieces that only the large companies can really undertake it. Bobby Brown's company [Consolidation Coal] is one of the few that really has bona fide research facilities that are funded on an annual basis. It lets them conduct a fair amount of effective work.

Some other things are on the horizon about how you can go at this and wind up with electricity that will be cheaper at the busbar than if we go the scrubber route. I hesitate to put that idea out on the table right now because we've got work going on and it's not ready to be announced. This will not be [a retrofit] for the old plant. This will be for the new plant of tomorrow. But you won't have to do all this scrubbing. You won't have to generate a lot of sludge and go through all that expense.

Seltzer: You've something up your sleeve...

Bailey: I've something up my sleeve, right. [Laughter.] We really ought to be working together better, and maybe we're beginning to. I think the rhetoric has cooled a little bit from both sides.

Seltzer: That's true.

Bailey: If we could get the leadership on both sides to spend a little bit more time talking about it and examining where we're headed, we'll make a heck of a lot better progress.

Seltzer: Let's end it there.

The Mountain Association for Community Economic Development (MACED) is a regional organization which combines research and policy analysis with technical assistance and financial investments to stimulate development that benefits low income households in Appalachia. Since 1977, MACED has worked with community groups and local leadership on economic development projects. Over the past three years, the program has concentrated on "sectoral interventions," attempts to stimulate incremental change in an important industry to benefit poor people and poor places. Currently MACED has projects or investments in housing financing and banking, the hardwood lumber industry, water system management, and the coal industry. The staff of 13 people works on research, technical assistance, investment, or policy analysis, as the issue requires.