The Trump “bump”:
How it’s shaping the US mining industry’s future
Introduction – a brighter outlook for the US mining industry

What a difference a year can make. If we rewind the clock to the end of 2015, we see that the mining industry was still in a state of crisis and we seemed to have a global race to the bottom. Mining company valuations were at an all-time low, most commodities were still at rock bottom, many US coal companies were teetering on or in bankruptcy reorganization and the industry as a whole was searching for a path forward on shoestring operational budgets. However, as the first quarter of 2016 began, we were starting to see clear signs of a recovery.

Trump presidency a surprise to most

Throughout 2016 most commodities - whether bulk (coal and iron ore), precious or base metals - saw some level of recovery (albeit a bit bumpy) with coal and iron ore leading the way. Miners continued policies of operational excellence and capital discipline, repairing balance sheets through significant debt restructuring at the expense of new projects and expansion. However, as we approached the US presidential election in November 2016, the mood for US coal miners was particularly pessimistic; it was widely believed that Hillary Clinton would win the Presidential race and carry on with many of the anti-coal policies of the Obama administration. But as the Twittersphere began to buzz on the morning of November 9th, the US awoke to Donald Trump as our 45th president.

The Trump “bump”

Speculative trading began almost immediately, with volatility reaching new highs through the end of 2016 and early 2017. The “Trump bump” was alive and well in the US stock market and the US coal industry had signs of life. Capital markets soon opened back up to coal miners, allowing the financial health of the industry to vastly improve. Some coal producers have even returned to the public exchanges. However, fundamental supply and demand dynamics soon took over primacy in setting prices and the long term effects of actual policy change are yet to be determined.

Recent legislation

There is no question that the agenda of the Trump administration is pro-mining and many changes have been made already to positively impact US miners through regulatory relief, but there is still a great deal of uncertainty about the long term prospects in the US, most specifically for thermal coal producers. Let’s look at the steps taken by the Trump administration to date.

Legislative actions through Congressional Review Act:

- **Voided the Steam Protection Rule:** this rule would have redefined “waterways” and increased the required buffer zones that had to be maintained around them, drastically reducing reserve life and increasing mining costs.
- **Voided the Resource Management Planning (2.0) Rule:** this rule impacted the Bureau of Land Management (BLM) which oversees 250 million acres of land in the West. The rule would have shifted control over land management to the federal government and lobbyists and away from local officials and communities.
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Executive Orders:

- Directs the Environmental Protection Agency (EPA) to rescind and rewrite the Clean Power Plan (CPP): in April 2017 there was a halt on litigation and compliance with the CPP not required until it reaches final resolution. This provides the Trump EPA time to revoke or rewrite the plan. Under current terms of the Plan, coal fired power plant retirements would have accelerated.

- Clean Water Act/Waters of the United States (WOTUS) Rule: executive order issued to revoke the WOTUS. This rule would have shifted control away from states and given the EPA broad authority over regulating pollution of wetlands and tributaries, whether dry or wet.

Administrative Stays & Extensions:

- EPA Financial Assurance: decision delayed, but final resolution required by December 2017. A new Federal financial assurance requirement for US miners could see a US $7bn obligation need addressing, with cost estimates to miners as high as US $175m. Liabilities in perpetuity are being mentioned which has many mining companies and insurers alike on edge.

- MSHA Metal/Non-metal Workplace Examinations: compliance delayed until October 2017. This new set of standards and record keeping requirements would lead to an increase in cost to most miners.

- MSHA Pattern of Violations (POV): litigation settlement proposed

- EPA Ozone NAAQS (National Ambient Air Quality Standards): one year compliance extension

- DOI Stream Protection Rule Biological Opinion

- Dept. of Interior (DOI) Coal Royalty Valuation

- EPA Power Plant ELGs (Effluent Limitations Guidelines)

Presidential and Secretarial Memos:

- Dept. of Energy (DOE) issues Review of US Electric Grid: Energy Secretary Rick Perry orders the review to assess whether federal policies have hurt the grid’s supply of base load power.

- Streamline Permitting: Interior secretary Ryan Zinke proposes a streamlined and accelerated permitting process of hard rock mining and federal coal leasing.

- Expediting Environmental Reviews and Approvals
Regulatory relief will have cost impact

That’s quite a list for only six months. Some of these actions are aimed at the power sector and some directly at miners, but all have some bearing on the US mining industry, particularly coal companies. Other than the legislative actions, much of this is still pending final resolution. Certainly the regulatory relief is palpable and some coal miners estimate an ultimate reduction in cost of up to US $2/ton, though that economic relief has yet to materialize.

Coal industry still faces challenges

Coal is going to be a major part of our energy mix for the next 10-15 years, and likely well beyond that, but despite President Trump’s best intentions, the industry has other challenges, such as persistent low natural gas prices coupled with improved transportation, renewables continuing to gain social popularity and pressure from large corporations that have begun to wield their influence in states’ power generation future. Non-governmental organizations continue to be organized and well-funded. Major utilities who fear a quick reversal of policy continue to shy away from new coal fired developments.

The volatile risk profile of the US mining industry – and its impact on its people

The long term impacts of President Trump’s administration won’t be known for some time, but it came at a crucial time for the mining industry which has taken a much needed deep breath. Anticipation of policy change that would have significant impacts to a mining company, whether positive or negative is vital to providing good advice. At Willis Towers Watson, our global team of mining specialists endeavors to help our clients stay ahead of a changing risk profile.

We meet with surety markets to understand their willingness to address possible new state and federal requirements for mine closure financial assurance in order to quantify what this means for mining companies from a credit availability and cashflow from standpoint.

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Opportunity for growth as the next generation emerges

With more stability on miners’ balance sheets, improved prices and the possibility of fast tracked permit applications and environmental reviews, we see opportunity for growth once again in the US mining industry. Our colleagues specializing in health and benefits, as well as talent and rewards, ensure that our mining clients understand what motivates today’s generation of employees and what makes a satisfied employee. We help them understand what the industry standards are so that they can benchmark their plans, and assist them in crafting a compelling package that attracts new talent as the industry positions for growth.

Safety and risk control team engagement

As mining company staff have been thinned, there is a larger need to leverage broker resources. Our safety and risk control teams are actively engaging with our mining clients. They work with their safety and engineering departments as an extension of their teams, rather than as an auditor, to create continual improvement programs and best practice processes and procedures. This ensures that they are prepared for changes such as the MSHA Metal/Non-metal workplace examinations and that we are able to drive cost out of their Workers Compensation programs by demonstrating industry leading safety cultures and practices, coupled with steadily improving loss rates.

Volatility is here to stay regardless of who is in the White House. Managing that volatility will be a key challenge for miners to address in the coming years. A broker that actively integrates into a client’s operations, thinks creatively and a few steps ahead can help mining companies improve their outcomes.

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