

In bizarre twist, coal may become a scarce commodity

Barcelona: The idea of coal as a scarce commodity seems somewhat preposterous given it remains one of the most abundant mineral resources on the planet, but the coming years may see a deficit in seaborne markets for the polluting fuel.

The current debate surrounding coal is generally one of how long it will continue to play a role in the world's energy mix before it is replaced by cleaner alternatives, mainly renewables such as wind and solar.

While various analysts will disagree on how quickly this process will occur, the reality is that coal, particularly in Asia, will remain a bedrock of energy supply for at least the next decade.

With the exception of India, most major coal importers in Asia have increased purchases this year, with top buyer China boosting imports by 13.7% in the first nine months of the year, compared to the same period in 2016.

This demand has boosted the Asian benchmark thermal coal price, the Newcastle index back to levels close to \$100 a tonne, with the marker ending at \$98.25 in the week ended 20 October, up 36% from the low so far this year of \$72.42 in May.

In a normal market, the higher prices would result in supply rising to meet the extra demand, but the dynamics in thermal coal have altered.

There will be a supply shortfall of 22.7 million tonnes in 2017 in the global seaborne market, Rodrigo Echeverri, head of energy coal analysis at Noble Resources, told the World Coal Leaders conference this week in Barcelona.

While rising exports from the United States can meet some of the shortfall, Echeverri expects the supply deficit to persist in 2018, meaning that Newcastle prices have to remain above \$80 a tonne in order to incentivise US shipments.

The issue for global coal markets is that despite the rhetoric of countries trying to lower coal consumption, in reality this has been increasing.

China's thermal power generation rose 6.3% in the first nine months of the year, one the reasons that the world's leading coal importer was boosting its purchases from the seaborne market.

The further problem is that meeting extra demand has become harder for the traditional export powerhouses, Australia, Indonesia and South Africa.

"Coal is becoming scarce," Guillaume Perret, who runs a consultancy bearing his name, told the Barcelona event.

Perret expects Indonesia can boost exports by 20 million tonnes to 360 million in 2017, but Australia will only increase its shipments by 1.8 million tonnes to 201.5 million, while South Africa will be flat at 75.5 million.

Russia will make up some of the shortfall by lifting its exports by 8.9 million tonnes to 115 million, Perret said, adding that overall there is still likely to be deficit in seaborne coal of between 5 million and 30 million tonnes a year for the next five years.

What is different about this coal price cycle is that the additional demand hasn't resulted in more investment in supply, and may not even if prices remain elevated.

Coal's reputation as a major contributor of man-made climate change has made it difficult for would-be coal miners to obtain financing.

Even if a coal mine can secure money and regulatory approval, public opposition and protests can make life difficult, especially in more developed countries like Australia.

The world's largest planned coal mine, the 25 million tonne-per-year Carmichael project in Australia's Queensland state, has become a headache for its Indian owners, Adani Enterprises Ltd.

Green activists have been successful in mounting popular protests against the mine, and while politicians from both the ruling centre-right Liberal Party and the opposition Labor Party continue to voice support for the mine, if the opinion polls continue to show a majority of Australia oppose the development, the politicians may change their minds.

Adani's struggles in Australia are likely to be mirrored for other coal developments in the world, making it all the more likely that supply will be constrained in coming years.

While the ensuing higher prices will no doubt be welcomed by coal miners, they are a double-edged sword.

Thermal coal prices above \$80 a tonne will make competing fuels such as liquefied natural gas (LNG) more appealing to buyers, as well as boosting the attraction of renewables.

While LNG is likely to remain more expensive than coal for generating power, new LNG plants are boosting the availability of the super-chilled fuel and security of supplies may become a factor for Asian countries looking at whether to build coal or natural gas power plants.

Coal's advantage in Asia has been its was cheap and abundant, and both of those long-standing assumptions are now being challenged by market dynamics. **Reuters**

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