

Coal, a scarce commodity?

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 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. 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 a year earlier.

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 Oct. 20, up 36% from the low so far this year of \$72.42 in May.

In a normal market, higher prices would result in supply rising to meet 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 last week in Barcelona.

While rising exports from the U.S. can meet some of the shortfall, Mr. Echeverri expects the supply deficit to persist in 2018, meaning that Newcastle prices have to remain above \$80 a tonne in order to incentivise U.S. 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 traditional export powerhouses: Australia, Indonesia and South Africa. "Coal is becoming scarce," Guillaume Perret, who runs a consultancy bearing his name, told the event.

Investment constrained

He said there is likely to be deficit in seaborne coal of between 5-30 million tonnes a year for the next five years.

What is different about this price cycle is that additional demand hasn't resulted in more investment in supply. Coal's reputation as a major contributor of climate change has made it difficult for would-be coal miners to obtain financing.

Public opposition 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, has become a headache for its Indian owners, Adani Enterprises.

Green activists have been successful in mounting 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 opinion polls continue to show a majority of Australia oppose the development, 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.

(Opinions expressed here are those of the author, a columnist for Reuters.)

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