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Asia`s coal sector sees long, prosperous life despite transition

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Asia's coal sector sees long, prosperous life despite transition

By CLYDE RUSSELL

ASIA'S coal sector has gone from thinking they are in terminal decline as the world shifts to a net-zero carbon future to seeing themselves as being a part of the energy mix for decades to come, while raking in profits.

The bullish narrative was on full display at the industry's biggest gathering, the Coaltrans Asia conference held this week on the Indonesian resort island of Bali.

What has changed for the coal industry is that they no longer believe that renewable energies can be deployed fast enough, cheaply enough and at sufficient scale to push fossil fuels out of Asia's energy mix.

"The reality is that coal demand will continue to increase," Septian Hario Seto, Indonesia's deputy of investment at its Coordinating Ministry for Maritime and Investment Affairs, told the conference.

This was a common view, with delegates expressing scepticism over the pathways to net-zero emissions advocated by Western bodies such as the International Energy Agency.

While thermal coal does see some threat from natural gas, the view of virtually every market participant, from miners to traders to utilities and government officials, was that coal remains the cheaper and more secure alternative.

There is also the realisation that the energy transition means very different things in various regions and countries.

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> Septian Hario Seto

It could be argued that the lesson that most European countries took from the surge in fossil fuel prices and the concern over security in supply from Russia's invasion of Ukraine was that they would accelerate the move to renewable energies.

European nations may be able to afford to take such steps and commit billions of dollars to build wind, solar and storage solutions at an accelerated pace.

The lesson in Asia seems to be the exact opposite, with the main concern being the cost of energy.

To many Asian countries, it's simply too expensive to move rapidly to renewable energies, given the huge investments needed to re-shape electricity grids to cope with variable generation from wind and solar, as well as put in place the generation capability to back up the renewable supplies, such as gas-fired peaking plants, pumped hydro and battery storage.

While solar panels and wind turbines may be relatively cheap when compared to building a coal-fired power plant, the infrastructure needed to support the renewable energies isn't, and this is the main concern of Asian countries.

There is also the view that Asia's energy demand will increase rapidly in the next few decades and meeting that will mean using all resources, including the vast deposits of coal in populous countries such as China, India and Indonesia.

The Asian model of moving to net-zero is likely to look quite different from what is being attempted in the developed world.

What they have in common is a shift to electrify as much as possible, from transport to industrial and residential heating and cooking.

But Asia seems to be content to use coal-fired power to increase its electrification, working on the view that this is a better carbon outcome than continuing to use crude oil and gas.

The appeal of coal is that notwithstanding the current high-by-historical-standards prices, it's still considerably cheaper than crude oil and gas.

Geopolitics is also a factor, and Asian energy importers are becoming increasingly wary of the influence of the Organisation of the Petroleum Exporting Countries and its allies, and are keen to move away from dependence on a fuel whose price can be manipulated by the producing nations.

China, India and Indonesia are currently building 89% of the coal-fired power plants under construction, according to data from the Global Energy Monitor.

While all three of these countries are also expanding renewable energies, the fact that they are boosting coal shows just how differently they view the energy transition.

The aim appears to be to increase the supply of electricity from all generation sources, electrify energy demand as much as possible and then over time gradually phase out coal-fired power and replace it with cleaner alternatives.

To Asian policymakers this makes more sense, as it allows them to increase the supply of electricity at a cheaper cost than rapidly shifting to renewables, while still being able to claim they are on the path to net-zero because they are moving away from oil and gas and can deploy renewables over time.

It's likely that these arguments will be rejected by climate scientists, environmentalists and the majority of developed nation policymakers.

But this just shows the emerging gulf between how the various players view the energy transition.

For the coal market in Asia what they now see is a pathway to staying in the mix.

They expect seaborne thermal coal demand to remain strong, not only from China and India, the world's two-largest importers, but also from other countries that are planning on keeping coal for decades to come, such as Vietnam and Bangladesh. — Reuters

Clyde Russell is a columnist for Reuters. The views expressed here are the writer's own.