Coal to surpass oil as top global fuel by 2020 - Woodmac

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By Florence Tan

DAEGU, South Korea (Reuters) - Coal will surpass oil as the key fuel for the global economy by 2020 despite government efforts to reduce carbon emissions, energy consultancy firm Wood Mackenzie said on Monday.

Rising demand in China and India will push coal past oil as the two Asian powerhouses will need to rely on the comparatively cheaper fuel to power their economies. Coal demand in the United States, Europe and the rest of Asia will hold steady.

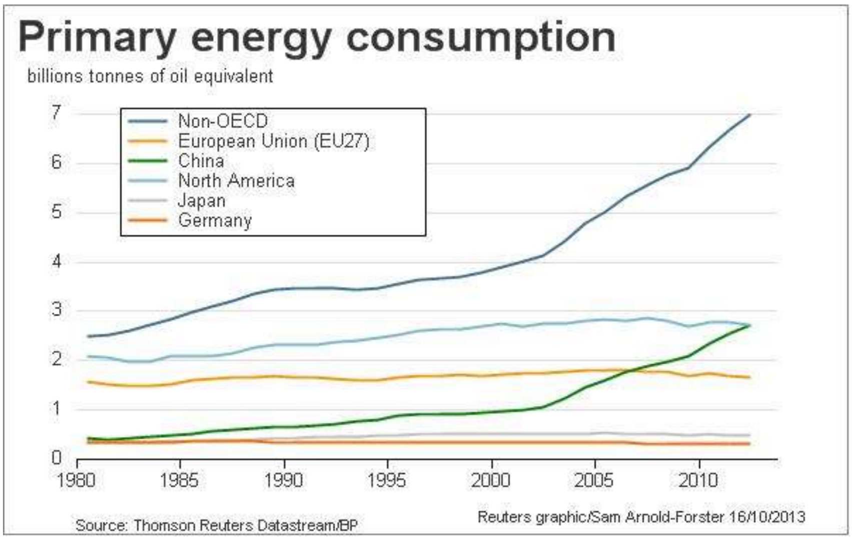
Global coal consumption is expected to rise by 25 percent by the end of the decade to 4,500 million tonnes of oil equivalent, overtaking oil at 4,400 million tonnes, according to Woodmac in a presentation on Monday at the World Energy Congress.

"China's demand for coal will almost single-handedly propel the growth of coal as the dominant global fuel," said William Durbin, president of global markets at Woodmac. "Unlike alternatives, it is plentiful and affordable."

China - already the top consumer - will drive two-thirds of the growth in global coal use this decade. Half of China's power generation capacity to be built between 2012 and 2020 will be coal-fired, said Woodmac.

China has no alternative to coal, with its domestic gas output limited and liquefied natural gas (LNG) imports more costly than coal, Durbin said.

"Renewables cannot provide base load power. This leaves coal as the primary energy source," he said.



ASIA TO FOCUS ON LOW-COST COAL

Power infrastructure provider Alstom (ALSO.PA: Quote, Profile, Research) estimated that across Asia close to half of the 600 gigawatt of new power generators to be built over the next five years will be coal-fired, Giles Dickson, a vice president at the company said.

"Coal prices are low," he said, adding that coal is about one-third of the price of LNG in Asia and about half of the gas price in Europe.

Abundant supply is also supporting demand for coal. The traded volumes of coal will increase by a further 20 percent by 2020, Dickson said, including supply of lower grade coal from Indonesia, Australia and South Africa.

"As the lower grade coal comes into the market, further downward pressure on prices will further drive demand," he said.

Excess supply and faltering demand growth have depressed global coal prices this year. European coal futures have tumbled more than 20 percent, while Australian coal prices have plummeted from the record $130 per tonne hit in 2011 to around $80 per tonne as China's demand grew slower than expected.

"If you take China and India out of the equation, what is more surprising is that under current regulations, coal demand in the rest of the world will remain at current levels," Durbin said.

High fuel import costs and nuclear issues will support coal use throughout Northeast Asia, while in North America coal is still competitive in many locations despite abundant low-cost shale gas.

"The struggling economy and low coal prices has rendered the European Union (EU) Emissions Trading Scheme (ETS) ineffective," Durbin said. "The carbon price will need to reach 40 euros per tonne to encourage fuel switching, which is unlikely before 2020."

In Southeast Asia, coal will be the biggest winner in the region's energy mix. Coal will generate nearly half of Southeast Asia's electricity by 2035, up from less than a third now, the International Energy Agency said in early October.

This will contribute to a doubling of the region's energy-related carbon dioxide emissions to 2.3 gigatonnes by 2035, according to the IEA. (Additional reporting by Meeyoung Cho and Jane Chung; Editing by Tom Hogue)