

FINANCIAL REVIEW

SE News - Opinion

HD There are big bets being placed each way on the future of coal

BY Tony Wood

WC 857 words

PD 21 November 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 39

LA English

CY Copyright 2014. Fairfax Media Management Pty Limited.

LP

Carbon policy There is plenty of life left in coal. But its long term future will ironically depend on putting a strong price on carbon. Tony Wood

Tony Abbott is half right. Coal has been good for Australia and for humanity. Since the early 19th century, energy from burning fossil fuels has enabled humans to break the bonds imposed by the muscles of man and beast. Even today, coal still looks like the best bet for the many millions of people who simply do not have access to the affordable energy that underpins our economic prosperity.

TD

Yet the mining and burning of coal has caused much pollution and many premature deaths over the past couple of centuries. Above all, the ongoing burning of fossil fuels is incompatible with reining in climate change. We are stuck.

The latest forecast to 2040 by the International Energy Agency indicates that while growth in energy consumption in much of Europe, North America, Japan and Korea will be flat, consumption will rise in other places, including the rest of Asia. The forecasts show global coal demand will grow by 15 per cent, although two-thirds of that growth will occur over the next 10 years.

Growth in coal use is slowing, but from a historically high base. Global coal use between 2000 and 2010 grew by more than 50 per cent, nearly as much as aggregate growth from all other energy sources. The main cause was the extraordinary growth in Chinese consumption over the first decade of this century. On these figures, the coal supertanker still has lots of momentum.

Yet coal now presents a huge challenge to our society and economy. Burning coal to deliver reliable and affordable electricity has been achieved at a cost that we have not recognised financially. Markets are not good at recognising environmental costs. The result is a large and growing subsidy from future generations to our own.

In the past two weeks we have seen some significant and sometimes conflicting announcements. The historic deal reached by the leaders of China and the US to reduce their carbon emissions throws down a gauntlet to the rest of the world. Yet at the same time, the free trade deal between these countries will lift the recently imposed import restriction on non-coking coal after two years. India will grow as a major coal consumer. The Queensland government will bankroll infrastructure for big coalmines in the Galilee Basin. Big bets are being placed in both directions.

Governments are not about to abandon coal, and they will be urged on by large resource-based vested interests. Yet the conundrum remains. Based on the best scientific advice, the world's governments have committed to limiting the long-term global average temperature increase to 2 degrees centigrade. Even the scaled-back forecasts of the IEA for growth in coal demand are incompatible with meeting that objective.

How can we deny the world's poorest people access to the low-cost **energy** that fuelled our own economic prosperity? Surely **coal** must continue to be a major **energy** source for many decades? Yet how can we sentence the global community to the results of unmitigated climate change?

For now there is only one way to resolve the impasse. In the words of a 2007 report co-authored by Ernest Moniz, the current US Secretary of **Energy**: "CO2 capture and sequestration (CCS) is the critical enabling technology that would reduce CO2 emissions significantly while allowing **coal** to meet the world's pressing **energy** needs."

There are many strong arguments raised against CCS. It is unproven, too expensive, and simply delays the inevitable transition from fossil fuel combustion. Its supporters argue that it will be no more expensive than **solar** or offshore **wind**-power. Yet development of CCS at the scale needed to prevent runaway climate change is daunting and progress is excruciatingly slow. The first integrated CCS project on a power station was unveiled only a few weeks ago in Canada. It is simply unclear which side of the argument will prevail. The problem is that, like all low-emission technologies, CCS needs government support and clear long-term climate change policy direction, and that exists nowhere. In many countries, including Australia, the fossil-fuel industry has raised the loudest voices against the introduction of emissions constraints. It is therefore encouraging that the heads of both BHP Billiton and Rio Tinto made positive responses to the **China**-US announcement. Both companies have also pointed to the need for clear direction on climate policy and the role that CCS can play in a low-carbon future.

The logic should be clear and inescapable. There is no long-term future for **coal** without CCS, yet there will be no CCS without a strong price on carbon. When the **coal** industry itself embraces this reality, then we might be at the beginning of a real journey towards a sustainable **energy** future in which the conundrum of **coal** is finally resolved.

Tony Wood is **energy** program director at the Grattan Institute.

CO inenag : International Energy Agency

NS gclimt : Climate Change | gglobe : Global/World Issues | nedc : Commentaries/Opinions | gcat : Political/General News | genv : Environmental News | gwea : Weather | ncat : Content Types | nfact : Factiva Filters | nfcpx : C&E Executive News Filter

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020141120eabl0000q