Australian coal industry at “unprecedented risk” as major powers act on fossil fuels

SYDNEY// June 6, 2014:

The Australian coal industry is at significant financial risk of stranded assets as major global powers act on climate change, with regulatory changes threatening to destabilise a number of Australian projects.

Government action on fossil fuels in the US, China and South Korea, combined with investment in renewables, distributed solar and energy efficiency, constitute an “unprecedented risk” to the traditional demand base for thermal coal, a new report details.

The briefing note from the Institute for Energy Economics and Financial Analysis (IEEFA) focuses on the implications for Australian fossil fuel investment taking into account regulatory, market, technological and reputational risks resulting from the transformation of global energy markets.

Tim Buckley, Director of Energy Finance Studies, Australasia for IEEFA and author of the report said:

“Regulatory changes such as limitations on carbon emissions in some of Australia’s major export markets are creating an unprecedented challenge the coal industry.

“Commitments by the US and China to cut and cap carbon emissions, along with South Korea’s decision to tax coal used for power, combine to create further uncertainty for Australian projects that are already financially questionable.

“Our analysis investigates the challenges facing the thermal coal industry, with evidence demonstrating that it is overwhelmingly suffering structural and not just cyclical decline.

“The fact that Australia’s government is not acting on carbon emissions is irrelevant because the domestic coal industry relies on export markets and we’re now seeing the governments of those nations acting decisively. The Australian coal industry is being fundamentally destabilised by actions that are out of our government’s control.
“Australian investors should be cautious about backing new greenfield domestic coal projects because the reliance on export markets means they are increasingly financially vulnerable.

“Evidence continues to mount that investment in renewables, distributed solar and energy efficiency is also driving down the traditional demand base for thermal coal.

“This is a well established trend in developed countries like Germany and the United States. Germany’s coal demand was down 11% year-on-year in the March quarter of 2014. President Obama’s decision to regulate air pollution combined with record solar installs and a resurgence in US wind installations further spells the progressive decline in U.S. coal demand.

“China is pursuing an energy policy that is based on funding and supporting energy sources other than coal, which further undermines the viability of Australian export coal. This is evidenced by the US$400 billion Russia-China gas transaction, the doubling of China’s solar target by 2017 and the trebling of its installed nuclear capacity by the end of next year.

“India is the last major bastion of growth in imported coal demand, but IEEFA’s modeling shows it’s also unviable for Australian export coal, which requires a wholesale price of electricity double India’s current levels and is therefore an unattractive prospect.

“India’s new Prime Minister Narendra Modi aims to kick-start investment and remove domestic growth impediments and if growth targets are met, there will be limited need for further growth in imported coal.

“Additionally, we question why India would lock in imported fossil fuel inflation when domestic renewables are more commercially viable and can be rapidly deployed without undermining India’s current account deficit.

“Global financial markets continue to facilitate an increasing flow of capital to renewable energy. We are also seeing an increased focus on the risks of stranded fossil fuel assets, evidenced by growing divestiture trends,” Mr Buckley said.

-ENDS-

Tim Buckley is the Director of Energy Finance Studies, Australasia for the Institute for Energy Economics and Financial Analysis. He has 25 years of financial markets experience, including 17 years with Citigroup culminating in his role as Managing Director and Head of Australasian Equity Research. Mr Buckley has spent the past five years investigating trends in global renewable energy.

Copies of the briefing note can be found at the IEEFA website http://www.ieefa.org/category/reports/ or by request.

Mr Buckley is available for interview: +61 (0)408 102 127 E: tbuckley@ieefa.org

Media enquiries:
Alison Martin: +61 (0)432 941 533 E: alison@holdfastcommunications.com.au