Italy must increase share of coal in energy mix - Assocarboni

London, 13 November (Argus) — Italy must increase the proportion of coal and renewables in the energy mix if it is to reduce electricity costs, secure supply and reinvigorate its industrial base, according to the nation's coal association.

Italy will import 19mn t of thermal coal in 2013, unchanged compared to last year, the bulk of which will come from the US, South Africa and Indonesia —origins that make up 80pc of thermal coal imports to Italy, according to data from Assocarboni..

This stagnant pace of growth is below the European average, which is forecast to increase coal imports by about 5pc on the previous year, according to International Energy Agency (IEA) predictions. Europe takes around one-fifth of global steam coal imports, and prices tend to be lower because of oversupply in the Atlantic Basin. Coal will remain the fastest growing energy this decade, according to the IEA, its demand will outpace natural gas, rising by 2.6pc/yr between now and 2018.

Andrea Clavarino, director of Assocarboni, believes that the deterioration of Italy's industrial base is directly linked to the nation's uncompetitive and unsustainable electricity prices. "If Italy continues to ignore the contribution of coal to the production of competitive electricity, its industrial base will be at risk"

"Italy is the second biggest manufacturing country in Europe, but it also holds the negative record for having the highest electricity bill", he said. "Italian companies are forced to cope with prices 50pc higher than the European average, as the country depends on natural gas and renewables for electricity production for more than 70pc of its energy mix. If Italy continues to ignore the contribution of coal to the production of competitive electricity, its industrial base will be at risk", Clavarino added.

"Less natural gas, which is expensive and carries significant implications in terms of security of supply, and more coal and renewables: this is the simple proposal that Assocarboni put forward in Italy, based also on the experience of other countries, such as UK, Germany, Spain and Turkey, which in 2013 increased the proportion of coal in their energy mix".

Competition with natural gas in the power sector is crucial to coal price formation. In the European Union, which runs explicit carbon pricing under a cap-and-trade system, CO_2 prices have been low for several years. This year prices have fallen further, with the year-to-date average at just under €4.50/t. This, coupled with low coal prices in the Atlantic Basin, has meant that coal has often been the lowest-cost fuel choice in the power sector. Based on existing coal and gas prices, the CO_2 price would need to increase to close to $60/t to enable even a highly-efficient gas-fired power plant to compete against a relatively inefficient 1980s coal-fired power station, according to the IEA.

Italy has three oil-to-coal conversion projects awaiting authorisation —Porto Tolle, Vado Ligure and Saline Joniche. If implemented, they are expected to increase coal's share in the nation's energy mix to 16pc from current 12pc.

"These plants boast an average efficiency of 39pc, with peaks of 46pc in the case of the Torrevaldaliga North and for the prospective oil to coal conversions, compared to the European average of 35pc. This, per se, should lead to a greater exploitation of our coal-fired plants", Clavarino concluded.