
Gulf States may soon need coal imports to keep the lights on

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It is reported that Emirates were built on oil and provide fuel to the world but already they need other sources of energy. Now the oil rich Gulf States are planning to import coal. An acute shortage of natural gas has led to the city states of the United Arab Emirates seeking alternative fuels to keep the air cool, the lights on and the water running.

Abu Dhabi is working with Suez, on a nuclear power project but coal is emerging as the best quick fix to avert blackouts as the world's biggest hydrocarbon exporters struggle to cope with high prices for oil and natural gas, infrastructure weakness and a development boom. Some of the world's biggest oil exporters may soon find themselves reliant on imported fuel from a leading coal exporter, such as South Africa.

As a result, Abu Dhabi's national energy company Taqa plans to take a half share in a proposed EUR 500 million coal fired power plant, while Dubai Electricity & Water Authority hopes to start work on a clean coal project this year.

Oman Power & Water Procurement Company indicated in December 2007 that a planned 700 MW power and water desalination plant may need to be fuelled by coal instead of natural gas.

The dramatic transformation is taking place because, for the first time, the Gulf States are beginning to feel the burden of the soaring cost of fossil fuels. In March 2008 Dubai introduced an electricity pricing system that increased tariffs for heavy users. The new tariffs apply only to foreign businesses, expatriates and foreign-owned businesses. Emirates are exempt.

The sudden gas shortage has caught the Gulf States by surprise at a time when demand for power and water desalination is increasing annually at double digit percentage rates. Investment in infrastructure has lagged behind the region's population expansion and construction boom. Anecdotes abound of apartment complexes left empty because there is not enough capacity in the local electricity grid.

Last summer Abu Dhabi's oil output fell by 600,000 barrels per day as natural gas was diverted from injection into oil wells to power stations to meet peak demand for electricity. The Emirate has substantial reserves of gas but much of this is earmarked for injection into wells to maintain pressure and to improve oil output. With the crude oil price reaching USD 125 per barrel, the diversion of gas into local power stations is a huge cost to the country.

Meanwhile, the price of natural gas in the Gulf has soared amid shortages and increased global demand. Local gas resources in the Emirates have dwindled, and Abu Dhabi and Dubai are already importing gas by pipeline from Qatar.

Iran, which holds some of the world's biggest gas reserves, is another option, but relations between the Western friendly Emirates and Iran are uneasy. A project led by Dana Gas, a private sector company based in the Middle East, to bring Iranian fuel across the Gulf to Sharjah has been locked in pricing disputes.

In a desperate attempt to avert power and water shortages in the summer, Dubai entered into a 15 year contract with Royal Dutch Shell last month to supply liquefied natural gas in the summer period from 2010. However, this is an expensive fuel and the Emirates have built their economies on gas at almost nil cost.

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