

## **GME NEWSLETTER – Issue no. 178 now online**

Rome, 15 February 2024 – Issue no. 178 of the newsletter of *Gestore dei Mercati Energetici* (GME) is now downloadable from [www.mercatoelettrico.org](http://www.mercatoelettrico.org).

This issue opens with an article by Agata Gugliotta from *Ricerche Industriali Energetiche* (RIE) about the growth in the consumption of coal, in spite of the measures taken in the most developed countries to decrease reliance on this fuel. Gugliotta notes that *after the debacle recorded in 2020, mistakenly suggesting that an all-time peak in coal demand had been reached and passed, coal usage rose again (+5.8%) starting from 2021, surpassing the levels recorded in 2019 and the maximum ones reached after 2014. This upward trend continued even in the following two years: after the tragic year 2022, when record gas prices and, at the same time, lower supply of alternative sources sustained coal demand in all the main sectors of consumption; and also in 2023, when the usage of coal went up, in spite of expectations about limited increases of a merely temporary nature.* Indeed, preliminary estimations by the International Energy Agency (IEA), headquartered in Paris, indicate that, *in 2023, coal consumption stood very high and slightly increased as against its 2022 record levels, reaching roughly 8,550 million tonnes (Mt), i.e. +1.4% on a year-on-year basis. The driver of this new peak was a higher demand by such countries as China, India, Indonesia, Vietnam, and the Philippines (accounting together for 70% of global consumption). This counterbalanced the decline in consumption recorded in the most advanced economies, first of all the United States and Europe.* Gugliotta stresses that, in Italy, *after a sharp drop in the 2019–2020 period (by over 20% on average, i.e. higher than the -10% on average per year in the previous three-year period), total consumption of solid fuels (chiefly coal), both in 2021 and 2022, was up by 10% and 25%, respectively, thus exceeding pre-Covid levels. In particular, in 2022, the positive change proved to be more marked owing to a higher reliance on coal for thermal power generation (+60% based on Terna's data), given the urgent need to make up for the shortfall of gas from Russia. In contrast, in 2023, primary demand for solid fuels (especially coal) had a decline, whose extent has not yet been accurately quantified.*



Terna's data provide a snapshot of the demand for this primary source for thermal power generation: *-42% on a year-on-year basis (12.1 GWh vs. nearly 20.1) and a share of coal in the electricity generating mix falling from 7% to 4%. As regards supply at global level, coal consumption, driven by the Asian giants, was covered by an increasing supply by the key producing countries. Gugliotta recalls that, starting in October 2021, the need for coping with continuously rising gas prices, in a context of bullish prices affecting all other energy commodities (including coal), led governments and companies (attracted by higher profits) to exploit domestic coal resources in a more resolute way. This fact enabled coal to reach record figures. At global level, in 2023, the production of coal amounted to over 8,700 Mt, i.e. +1.8% vs. 2022, when its growth rate was nearly 8%. As it happened on the demand side, increased production in some countries (foremost among them: China, India, and Indonesia) more than offset the decrease in other countries. Hence, the year 2023 ended on a bittersweet note: excessive acceleration of demand in one part of the world and insufficient slowdown in the other part. This poses questions about the future of coal, a source that has long been regarded as doomed and whose demand peak has been procrastinated. Gugliotta concludes that, while scenarios point to a slowdown (the IEA estimates that coal will fall in 2024 and reach a plateau by 2026), news about new investment to expand the stock of coal-fired power plants (China and India), difficulties in investing in renewables (India), and opposition of entire regions to the phasing-out of coal (Germany and Poland) question the reliability of the above estimates. Even in countries like Italy, where the role of coal in the energy mix is marginal, energy security concerns and difficulties in completing the decommissioning of power plants, especially in regions like Sardinia, have made it imperative to reformulate the phase-out policy, moving the deadline for stopping the use of this source in power generation from 2025 to 2028.*

This issue of the newsletter comes with the usual technical commentaries about European and national power exchanges and environmental markets, a section focused on the analysis of Italian gas market trends, and a section with insights into the trends of the main European commodity markets.



As has become customary, the publication also reports the summary data of the electricity market for the month of January 2024.

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Press Release