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CHINA HAS EIGHT COAL-TO-OIL PROJECTS IN THE PIPELINE

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China's biggest coal producer, Shenhua Group, plans to convert coal into 30 million tons of oil by the year 2020 in four northern provinces.

Three of eight projects planned will be completed by 2010, Zhang Yuzhuo, in charge of Shenhua's coal liquefaction business, told an energy forum hosted by the China Energy Research Society in Beijing yesterday.

The first three plants are expected to have a total capacity of 4 million tons a year, said Zhang.

"We aim to produce 30 million tons a year by 2020," the company executive said.

The eight plants will be built in Shaanxi, and the autonomous regions of Inner Mongolia, Xinjiang Uygur and Ningxia Hui.

The State-owned energy conglomerate plans to partner with foreign companies, such as Royal Dutch Shell and Sasol, based in South Africa, over technology transfers.

"We have almost finalized talks with South Africa and will possibly sign a deal with them sometime next week," Zhang said, declining to give details of the accord.

China's abundant coal reserves, surging oil demand and soaring world oil prices suggest good prospects for the coal-to-liquids (CTL) technology.

This can turn coal into oil and chemical products such as diesel, gasoline and naphtha, a raw material for producing other petrochemicals, Zhang said.

China is expected to use 115 million tons of gasoline and diesel by 2010, a figure expected to reach 216 million tons by 2020, Zhang said.

Building CTL facilities with a capacity of 10,000 tons a year will cost about 100 million yuan (US\$12.5 million), at least seven times the spending to build a oil refinery or other petrochemical complexes, Zhang said.

Despite the hefty investment, Zhang said CTL is still a very lucrative business, as crude

oil prices are not expected to fall much in the near term.

"If crude oil prices stay above US\$40 a barrel, we will see our investment returned within eight years," Zhang said.

Crude oil reached a record US\$75.35 a barrel on the New York Mercantile Exchange last month, the highest price since trading began in 1983.

Beijing-based Shenhua will start production at its first coal-to-liquid project at the end of next year in the northwestern Ordos Basin.

The project will supply 1 million tons of oil products a year to North China, Zhang told China Daily in a March interview.

The company has also signed a memorandum of understanding with Shell to develop another coal liquefaction project in Ningxia.

CTL projects require large amounts of water to turn coal into oil.

Producing 10,000 tons of oil from coal will need about 100,000 tons of water, Zhang said.

Shenhua's CTL projects will use water from the Yellow River in the north, the second-biggest river in China, he added.

It will use a total of 1 per cent of the river's total water.

Coal now supplies more than 70 per cent of China's energy demands, and the country's proven coal reserves amount to about 1 trillion tons, Zhang said.