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INTERNATIONAL WARNING TO AUSTRALIA ON LOOMING IRON ORE PRICE THREAT

A new report this week from prestigious international journal *The Economist* has warned that Australia's current iron ore prices are at risk from competition with Brazil and Africa.

Responding to the report Hugh Tobin, Director of the North Australia Project at the IPA said, 'The cost of shipping iron ore from Brazil to Australia is dramatically falling as a result of the introduction of new larger iron ore carriers. Our competitors are going to use these carriers to try and knock Australia off of its perch.'

The Economist report comes two weeks after the IPA released a landmark study which showed that Australians did not believe that Canberra was in touch with the needs of families and businesses living in Northern Australia.

According to *The Economist* in 2008 the cost advantage Australia had over Brazil in transport of iron ore to China was US\$40 per tonne. Today it is US\$12 per tonne.

'No one in Canberra is talking about this major threat to our current resource boom. It confirms that they are out of touch with what is going on.

'New producers of iron ore and other minerals are gearing up to compete with Australia. Whilst demand will increase for these resources there will also be a massive increase in supply,' said Mr Tobin.

The Economist painted a relatively bright future for Australia, but this was not guaranteed: 'Some believe the current boom could end as soon as 2014, if inflation takes off in America, leading to declining terms of trade and a falling exchange rate,' it stated.

'Brazil produces better iron ore than Australia. If Brazil can continue to find ways to transport its iron ore more efficiently to China, then the Australian mining boom will be under major threat.

'The development of Very Large Ore Carriers (VLOCs) has meant it is fast becoming as cheap to ship minerals from Brazil and Africa to Asia, as it is from Australia,' said Mr Tobin.

An Ernst & Young report released in March 2011 stated that China had 'shifted its strategic direction' towards Brazil, Ecuador and other parts of Africa, and away from Australia, for its iron ore requirements.

'Policy makers in Canberra should be looking for new ideas like a Northern Special Economic Zone (SEZ). A SEZ in the north would reduce tax and streamline regulation, encouraging investment and helping Australia to compete with developing nations,' said Mr Tobin.

The IPA is working with Australians for Northern Development and Economic Vision (ANDEV) to develop policies for a more competitive Northern Australia. More information is available at www.andev-project.org.

The Economist report on Australia can be found at www.economist.com.

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