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NEW REPORT WARNS OF RESOURCE BUBBLE

A new report from Standard and Poor's global rating service has warned that current conditions in the commodity markets may represent an unsustainable bubble which is open to a sudden correction.

Responding to the report Hugh Tobin, Director of the North Australia Project at free market think tank the Institute of Public Affairs said: 'Standard and Poor's have said that current commodity prices are unprecedented and are susceptible to even a modest economic slowdown in China. Australia needs to be ready for the impact of a potential fall in commodity prices.'

According to the report commodities prices this year have been at or near record levels: 'Standard & Poor's Ratings Service is naturally concerned that the current situation represents an unsustainable bubble, subject to a sudden correction. Market bubbles inevitably burst.'

'Any sudden correction in commodity prices would have a profound impact on the profitability of the Australian mining sector. If the drop were sudden and sustained, the federal government would need to fill a massive black hole in the budget if it is to return to surplus by 2013/14,' said Mr Tobin.

'Despite the current boom conditions, the resource sector in Australia is under significant global pressure to remain competitive. We need to ensure that we are doing everything possible to put in place policies that support the resource sector in the long term,' said Mr Tobin

According to Standard and Poor's commodities such as iron ore, coking coal, aluminium and copper could fall by as much as 30 – 40% in a price correction.

'Australia's future prosperity is linked with ongoing prosperity in the resource sector. We need to show some vision and plan for the inevitable price shocks and other hiccups that will no doubt hit the sector.

'Australia needs to create a supportive business environment that promotes investment and development. Special Economic Zones have been used around the world as a way to stimulate the local economy and encourage domestic and international skilled migration.

'Australian policy makers should be looking at establishing a Northern Special Economic Zone to help ensure that our resource sector is as competitive as it can be,' Mr Tobin concluded.

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 Standard & Poor's report is available by registering at <http://www.scribd.com/doc/57178346/S-P-Commodities-Report>.

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