

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

13 – 14 February 2013

Question: AET 66

Topic: MRRT & Iron Ore

Hansard Page: Page 110, 14 February 2013

Senator WHISH-WILSON asked:

66. **Senator WHISH-WILSON:** Just more for curiosity's sake: I know that you have not been able to work out the shortfall in the MRRT yet and whether that has come from commodity prices or other issues. You also discussed that iron ore seems to be where the majority of the revenue has come from. Do you have a breakdown of the big companies with the iron ore, what is now traded on the spot market versus long-term contracts?

Mr Brake: It is probably a question best directed to our macroeconomic group colleagues. We could take it on notice and—

Senator WHISH-WILSON: I am just aware that a lot of the big iron ore companies increasingly have been moving towards the spot market and using derivatives to cover the spot market. It would be very hard to work out what their effective price is actually going to be, and if you have to forecast that your forward estimates are going to be quite complicated.

Mr Heferen: They are very difficult. Granted the argument about the spot price, it does take time. There is some lag for the spot price to feed through, and then its balance. You are right: it is one of the complexities in the system, trying to get a good handle on the actual effect of the change in prices to the revenue being collected.

Mr Brake: Our macroeconomic group colleagues to put a lot of focus on commodity price forecasts.

Senator WHISH-WILSON: Yes, you would have to go to the companies directly. It would be quite hard to know in advance what they are going to trade on—particularly what they are going to put on the forward markets to cover their spot. Do we know roughly what they are doing in the spot market versus—

Mr Heferen: No, as Mr Brake said, we will have to take that on notice and provide an answer from people who actually work on this stuff and will be able to—

Senator WHISH-WILSON: I will be very interested to have a look at that, thank you.

Answer:

66. Specific details on trades that occur in the iron ore market are not publically available. Such trades are generally of a commercial nature.

In March 2010 BHP Billiton announced that it had reached agreement with a significant number of customers throughout Asia to move existing iron ore contracts that were previously priced annually onto a shorter term landed price equivalent basis. BHP Billiton stated that the agreements reached represented the majority of BHP Billiton's iron ore sales volume.

The Australian Bureau of Statistics provides data on the total value of Australian exports of iron ores and concentrates sold and the total volume Australian exports of iron ores and

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concentrates. The Bureau does not provide or share information about the proportion of trades sold on spot markets. From the published data it is possible to determine the average price received per tonne of Australian iron ores and concentrates exports. This is ultimately the iron ore price that has the largest bearing on Australian incomes.