# Australia: Commodity prices soar as Queensland becomes “inland sea”

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The submergence of an area of Queensland, the size of France and Germany combined, has already resulted in the tragic loss of dozens of lives and thousands of homes and livelihoods. But the reverberations of the disaster will be felt far more broadly than just in Queensland itself.

Even before the flash floods of the last few days wreaked havoc in the regional centre of Toowoomba and outlying towns, the economic damage of the floods was conservatively estimated at $6 billion. The clean-up is expected to cost at least $5 billion, with at least $1 billion needed for restoring roads and the impact on Australian gross domestic product (GDP) calculated at around a $2.5 billion loss.

These figures were revised sharply upwards by Reserve Bank of Australia board member Professor Warwick McKibbin who told the *Sydney Morning Herald* today: “If you look at the infrastructure damage and all the networks that have been broken, a hit to the economy of 1 percent is not out of the question.” This translates into a $13 billion impact on the Australian economy.

“Queensland is not a little island sitting out there somewhere north of Newcastle,” he added. “There will be permanent loss of national income.”

Economic analysts are predicting a $2.5 billion drop in coal production alone, with further major losses in wheat, cotton, sugar cane and other agricultural production, construction, transport, and the tourist industry. Fruit and vegetable prices—already up about 46 percent in the last five years—may climb as much as 30 percent in Australia over the next six months. Higher prices for ethanol, a cheap fuel additive, will flow onto domestic petrol rises.

The Queensland floods, in fact, provide a powerful demonstration of how Australia, despite its relative geographic isolation, is completely integrated into the global economy. Already estimates are being made of the impact of lower Australian production in coal, wheat and other raw materials on international markets.

The inundation of Queensland coal mines, which supply more than 50 percent of the global seaborne market in coking coal, for example, could send global coal prices as high as $US330 per tonne, a new record. Thermal coal, which is used for power generation, could rise from $US129 to $140 per tonne.

India’s Steel Authority has already agreed to pay $US225 per tonne to coking coal suppliers, including Australian-based BHP Billiton, even before the waters stopped rising. This is 74 percent more than the authority paid for coal in the year ended March 31.

According to Macquarie Commodities Research, a coking coal price of between $US300 and $US330 per tonne would have a shock effect across all the Asian steel industries, in part because of the high quality of Australian coal. One manager of the Shanghai-based Shasteel told the *Australian* newspaper: “All steel furnaces with more than 4,000 cubic metres capacity need good-quality coke. Australian coke has become irreplaceable to us”.

Higher coal prices will, in turn, mean higher global steel prices, including for the already overheated Chinese construction industry and property market.

The prospect of a $2.5 billion reduction in Australian GDP is based on quarterly coal exports of $7.5 billion from Queensland coal mines and the assumption that either mine closures or closed rail transport links will shut the coal industry down for a month. But the effect will be even greater, with estimates that it could take two or three months for normal production to resume.

Seventy-five percent of Queensland coal production has been halted with half of the mines making *force majeure* declarations on their supply contracts, relieving them not only of obligations to supply coal in the short term, but until further notice.

According to UBS analyst, Glyn Lawcock, “It is impossible at this stage to predict the eventual period of disruption or the financial impact on both the Queensland coal system and also to individual coal companies.”

The Queensland government held emergency talks with Xstrata, Bandanna Energy and other thermal coal exporters yesterday over rapidly dwindling fuel supplies at the Stanwell power station, the state’s largest, just outside Rockhampton and about 600 kilometres north of Brisbane, the state capital.

QR National, Australia’s largest coal-freight company, has closed two Queensland coal rail lines—the Blackwater line and another servicing mines northwest of Brisbane.

Coal supplies to the 1,440 megawatt Stanwell station have been cut by flooding while the Swanbank power station, near Brisbane, is also affected after a landslide blocked rail lines from the New Hope mine.

Australia is the world’s fourth largest exporter of wheat behind the US, Canada and Russia. Wheat prices rose almost 4 percent this week, as projected Australian shortages caused by drought in Western Australia and flooding in Queensland and parts of Victoria, combined with last year’s drought in Russia, impacted on global supplies. According to *Bloomberg Business*, about 200,000 tonnes of wheat and barley may have been lost in Queensland because of heavy rain and delivery disruptions caused by the floods.

Projected cotton exports from Australia, one of the world’s biggest producers, are forecast to decline by 8 percent this year. Yesterday cotton price futures jumped 2 percent after earlier increasing by the maximum 4 percent permitted on the Chicago exchange.

Australia is also the second-largest exporter of raw sugar, after Brazil, and sugar prices climbed to 30-year highs this week over concerns about the Australian crop. Queensland Sugar, Australia’s biggest sugar exporter, has boosted its imports of raw sugar from Thailand and Brazil, in response to dwindling domestic supplies.

South and central Queensland produces over 30 percent of Australia’s domestic supplies of tomatoes, beetroot, sweet potatoes, zucchinis, spring onions, watermelon, corn, lemons and avocados. Prices in these basic items will skyrocket when new crops are planted in the autumn, impacting on the already declining living standards of ordinary Australian workers and their families.

While the giant coal mining corporations and agribusinesses will eventually recover from floods, the disaster’s greatest impact will fall on thousands of small farmers and businesses—retailers, local contractors and service industries—and the more than 200,000 working class families in scores of communities across Queensland whose homes and livelihoods have been ravaged by the floods.

The state government has already received 1,000 inquiries from small business owners and farmers for emergency grants of up to $25,000 for repairs and temporary costs. But these amounts will do little to overcome or repair the escalating damage costs, or provide paid employment for workers laid off due to the floods. Hundreds of businesses were damaged in Toowoomba on Tuesday and, according to the latest reports, 23,000 Brisbane homes and businesses will suffer flood damage in the next few days.