Liz Penfold MP

MEMBER FOR FLINDERS

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Mr Ian Macfarlane,
Governor, Reserve Bank of Australia,
GPO BOX 3947,
SYDNEY NSW 2001.

Dear Mr Macfarlane,

Re: Exchange Rates

My electorate of Flinders in the South Australian Parliament covers the agricultural areas of Eyre Peninsula. It is a region about the same size and potential as Tasmania and has a similar length coastline, but only 22,000 voters. However it already exports around $1 billion worth of produce and goods, and could easily triple this if the necessary power and water were provided.

I am writing to place before you the problems being created by the Australian exchange rate increasing to a greater extent than, I believe, any other country in the world. Most obvious is the USD, but with such trading nations/states as China, Hong Kong and Malaysia being locked to the USD - and most other countries trying to minimise the loss of markets through adverse exchange rate movements - the adverse effect on this region has been substantially magnified.

I was very grateful that interest rates were not raised again this last week. My electorate is similar to many regional areas in the country however the economy is more fragile than most. Almost everything produced on Eyre Peninsula is for export or servicing export industries. The region's main income is 40% of the State's grain plus about 65% of the State's fishing and aquaculture production. We have a very limited number of public servants bringing in external income, no investment except that related to the exports and housing. Port Lincoln, the region's biggest city (although said to be a city with many wealthy people), has one third of its population on welfare.

I attended the Monash "City & The Bush" seminar in Melbourne last year and was disappointed to find that, by their calculations, Eyre Peninsula had only been moved from 56th out of 56 to equal bottom region on the list of growth expectations. The statistics used were old. When I protested, the researchers subsequently acknowledged the figures were misleading when compared with the more recent results. However they do illustrate the position of the region 10 years ago.

My concern is that the region is being moved back to that position due to the sharp escalation of the exchange rates. It must be kept in mind that, compared with the cities, we are a monoculture. In the city, many importers and consumers would be winning on the exchange rates, and their view would be reflected in the proud manner that television announcers comment on rate increases against the USD. Eyre Peninsula has gained little by way of offsets. For instance fertilizer is costing significantly more and fuel has not fallen substantially from its peak.

Eyre Peninsula fortunately missed the worst of the drought and has had an unusual run of good years. This combined with the higher prices and lower interest rates has enabled the farming industry to recover from many years of bad seasons. A bad year combined with substantially lower prices would reverse this. As an example of the expected falls in income due to exchange rates, ABB Ltd has just advised that they expect a drop of $30 per tonne (one fifth to one sixth) in barley prices.

Many in the fishing industry are having major problems with a sharp drop in demand and prices due to SARS, flu and competitors who have maintained their position in relation to our markets. Prices received for tuna, rock lobster and abalone are about the cost of production. While not all of the problems are due to exchange rates, they are a significant factor.

I am particularly concerned with the apparent use of interest rates to dampen the price escalation of houses and the comments that it is merely moving interest rates to the long term neutral position. I am not an economist but it appears to me that in relation to house prices, interest is a cruelly indiscriminate method of dampening demand as it is being used to influence people who have a choice when the main adverse effect is on exporters who have no choice. In relation to the moving to neutral territory, I cannot understand how this could apply when our interest rate is over five times that of the US and almost infinitely higher than Japan. The relative position in relation to the world's two largest economies would appear much more relevant, and our relative interest rates must be at an all time high

I would appreciate the needs of, and damage being done to, this region (and the large number of similar regions) by interest rate and exchange rate increases being more fully considered when your Board next meets and in the future.

Yours sincerely,

Liz Penfold

Mrs. Liz Penfold MP

cc Bam Walcelin
Rob Lucas