



**HON CRAIG EMERSON MP**

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DEREGULATION

**ABC2 News Breakfast**

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**SUBJECTS:**

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O'BRIEN: Small business leaders will meet banking representatives later today amid growing concerns about the tightening credit market.

TRIOLI: Small Business Minister Craig Emerson called the summit in response to complaints that banks were not giving small businesses the credit that they need. And Craig Emerson joins us in the studio now.

Mr Emerson, good morning.

EMERSON: Good morning.

TRIOLI: Now, credit is still tight so the money is not flowing through the banks. What are businesses telling you?

EMERSON: There are two different propositions, one from small businesses saying that it's tightening up, the other from the banks saying that there are still ample funds available and this has been going on now for weeks and I thought, well, the smartest way of trying to resolve this, to get to the bottom of it, was to get everyone in a room, discuss it, and see if we can find out if there are any systemic problems associated with the provision of funds for small business.

O'BRIEN: As you see it, are there any indicators already to how this can be addressed?

EMERSON: It's more identifying the problem and getting an agreement on the problem, at this stage, because the banks point out, for example, that in total the amount of money available for small business is now \$20 billion more than in mid-2007. Now, this is a revelation to me but I'm sure a revelation to your listeners and viewers. So they're saying the money's there. They're not pretending that nothing's happened in that time. They say they do have to be more careful with their lending practices but they are happy and keen to lend to viable small businesses.

Go now to the small business argument and they come up with lots of stories about how credit is being restricted, about how the price of loans is going up and so if we can identify, as a result of this discussion, any systemic problems maybe - I would like to work with the banks and small business in resolving that.

TRIOLI: So if the money's there, and actually there's a whole lot more money there, then surely this problem actually has to be about the cost of the loans because we know that the interest rates on business loans, they've actually, I think, increased slightly while the interest rates for the rest of us have gone down.

EMERSON: Yes, we've got - that's right.

TRIOLI: So are these businesses simply - they're hanging tough, they're refusing to sign on for the new credit at that price?

EMERSON: Yes, what's happening is that here in Australia with the money that's obtainable in Australia, the Reserve Bank, as you know, has cut interest rates, its cash rate, by a full four percentage points, however, the banks also rely on overseas finance called wholesale funding. Our guarantee has been useful in securing the flow of that funding but it is true that its price has gone up so it becomes a kind of an average of the two.

And so obviously you get small businesses, and I understand this, saying, well, hold on, the Reserve Bank's dropped interest rates a lot and we're paying more so, you know, what we want to do is get to the bottom of this, make sure that the banks do the right thing because, as we know, in an economic downturn it's small businesses who are at the front line of that and if we can continue the flow of credit to small business at a reasonable price, they can keep their staff on and that's what's so important about this summit today.

O'BRIEN: So do you think the banks should be cutting those interest rates for small business?

EMERSON: We'll continue to apply maximum pressure to the banks to do that, to pass it through and especially - especially as the cost of this funding from overseas over time starts falling.

O'BRIEN: You say maximum pressure but you can't make them do it, can you?

EMERSON: No, but in a literal sense what can work, and you might not believe this, but the banks are sensitive to criticism in this area, and they'll get plenty of criticism from us if they don't do the right thing but we need to identify exactly what's going because we're in a world at the moment of he said this, no, she said that, and no one has ever bothered to get people together, you know, the banks or small business, so they've been at 10 paces arguing two different points of view.

So hopefully this will be an important step in the process of getting people together, you know, to borrow a phrase, we're all in this together so let's work together - government, the banks and small business - instead of just slagging off at each other, and get a result.

TRIOLI: The conversation this week has been dominated by the GDP figures reflecting the December quarter.

EMERSON: Yes.

TRIOLI: And how unexpectedly poor they were. You're correct when you say that small business in Australia is at the front line of any economic upturn or downturn.

EMERSON: Downturn, yes.

TRIOLI: Given the situation we're looking at, at the moment, what fears do you have for the health of small business over the next six months? We're going to see some businesses fail, aren't we?

EMERSON: Well, I don't want to be saying on your program that, you know, bad things are going to happen. We need to be realistic about the forces that are...

TRIOLI: But that must be your anxiety though.

EMERSON: Of course I'm concerned about the health of small business and the viability of small business but I'm an optimist by nature. I think it's important in an economic slowdown, with what's happening around the world, you can talk yourself into these things, it just goes down and down and the strongest message, interestingly, that we get from small business, is that they actually identify the media, not the ABC, I'm sure, as...

TRIOLI: They can pick on us too.

EMERSON: [Laughs] As being kind of culpable in talking the place down because what they want is confidence. They want - and there's a lot to this, you know, consumers feel confident they'll spend, if they don't they'll save.

TRIOLI: The question is not to - not to indulge in that sort of, you know...

EMERSON: No, I understand.

TRIOLI: ...let's all talk badly

EMERSON: But we have to be realistic.

TRIOLI: Well, exactly and small businesses actually can be the element that's almost going to pull various communities up and out of this downturn.

EMERSON: Yes, indeed.

TRIOLI: It's more the line you're turning towards, getting them to that situation. Now, credit is one part of it. What are the other elements?

EMERSON: I think confidence in their own ability. I mean, when I speak to small business forums I say, look, you guys are tough and competitive. You have to be to go into small business in the first place and to survive. We'll stand by you, we'll cut red tape, we'll do the sorts of things that governments can do, that is within their power to do, but these are great people.

You know, they are great Australians, the small business community, because they go out, have a go on their own. They don't get protections. You know, if the people aren't coming through the door, if the customers aren't ordering stuff from small businesses, the money's going out and not coming in, yet they still have a go for themselves and their families. So it's that sense of entrepreneurship that I think we need to acknowledge all the time and particularly during this slowdown.

TRIOLI:                   Minister Emerson, thanks for joining us this morning.

EMERSON:               Okay, my pleasure, thanks for having us on.

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