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Sky Agenda
With Helen Dalley
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SUBJECTS: *Small business roundtable and Malcolm Turnbull comments on
Therese Rein*

Helen Dalley: How does small business stay in business in Australia? At an emergency summit on Friday small business owners complained that the banks were not giving them enough credit -- literally and figuratively -- in these troubled financial times. The Small Business Minister Craig Emerson will set up a clearing house for complaints about the banks and pass them onto the Australian Bankers' Association who will refer them to the relevant institutions.

Well, joining us now from Brisbane is the minister. Craig Emerson welcome to *Sunday Agenda*.

Craig Emerson: Thanks Helen.

Helen Dalley: Do you think a clearing house of complaints to you will really work. You can't compel the banks to act and fix the complaint, can you?

Craig Emerson: That's correct. And we're not overstating the value of this service but we do get lots of complaints, an increasing number of complaints, indeed even in the last 10 days, Helen, of people who are saying that they're missing out, that they put good business propositions to the banks and are not being funded. And it seemed to me that one purpose that I could serve as a minister would be to give them effectively, a right of appeal, that if they've been knocked back by their local branch manager then at least they could come to us, set out their case. We'll pass that onto the Australian Bankers' Association, who've agreed, and they will then farm it out to the individual banks and also perform the role of following up, so it won't be a dead letter.

Helen Dalley: But does that mean you follow up or the Bankers' Association follows up?

Craig Emerson: The Australian Bankers' Association will. And if we don't hear back of course we'll get in touch with the Australian Bankers' Association. Look, I'm not overstating ...

Helen Dalley: I come back to my question you have no way to compel them ...

Craig Emerson: Yes, I agree with you.

Helen Dalley: ... to fix the complaint, do you?

Craig Emerson: Indeed. I agree with you and I'm not overstating the value of ...

Helen Dalley: So is this just a sop to small business?

Craig Emerson: It is a useful service that they're pretty happy to receive, but it wasn't the focus of the discussion on Friday. The discussion on Friday, I might say, was pretty robust. It was willing at times but it was civil. And I watched the bankers listening to about 15 small business organisations about their particular experiences and complaints. And I saw in those bankers a realisation that all was not right, that there were industries and cases where small businesses seemed to have a legitimate complaint about almost extreme risk aversion on part of local branch managers. Maybe they feel that if they extend a loan that doesn't work out, that's not repaid on time and in full then they'll be in trouble.

And indeed the banks as a response to that on the spot said, well why don't we recommunicate with our branch members, say to them you're not going to get in trouble for providing finance to good viable small business propositions.

Helen Dalley: Well, that sounds like a good outcome. But the Australian Chamber of Commerce and Industry said the banks had failed in general to explain why successful small businesses faced higher lending rates when official rates had been cut. Why should small business, in a way, carry the can from the fallout of the global financial crisis?

Craig Emerson: Well, it comes down to financing costs. Yes, there have been reductions in financing costs here in Australia with the four percentage point reduction in the Reserve Bank cash rate, but increases in wholesale funding costs from overseas. And the banks have a cocktail in terms of the money that they obtain. So it's not just a matter of, if the Reserve Bank cuts its rates by half a percentage point, that it automatically flows on to small business. The banks explained that. I thought that they did that reasonably well. But we said to the banks, and got a commitment from the banks that they must pass on to the maximum extent possible any future reductions in their wholesale funding costs from overseas --consistent with meeting their prudential requirements. And they agreed to that in writing in a communiqué. I thought that was another good outcome of the process.

The banks also undertook in aggregate to have high levels of funding available for small business, but they do point out, and I accept this, that that doesn't mean that they will fund every small business proposition. That's not good for the bank or for the small business if the small business proposition isn't soundly based.

Now, I'm not saying that Friday solved everything but people came out of that feeling more informed, more positive, and there will be follow-up because the banks themselves have said to small businesses, in particular, industries, well, look why don't we get together and talk about these industries and the risk profile of those industries and see if we can do better.

Helen Dalley: Well the banks argued, as we understand, that they wrote 11% more loans over the year to small business as evidence that there's no restricting of credit

to small business, yet the Australian Retailers Association said their members are suffering from a credit crunch.

Craig Emerson: Yes, and that's the reason that I held the meeting. That 11% is a \$20 billion increase in total funding, compared with June of 2007. So the money is available but some industries are complaining, and I think with some legitimacy, that they're missing out, that perhaps local branch managers are being exceptionally risk averse about perhaps all loans coming to them, or particular industries. And so that's why the Retailers Association's Richard Evans made that complaint.

Helen Dalley: Do the banks deserve all the flak they're getting? Banks argue that unless the loan to the small business is backed by a home, for instance, why should small business get the same interest rates as mortgage rates because small business is more risky. Isn't that fair enough?

Craig Emerson: And they did explain that. The level of risk associated with small business lending is greater than with home loans. And they actually cited the figures that the impaired loans, that is, repayments in arrears, that percentage is, I think, about five times greater for small business than for home loans. So again I think that's a legitimate point. We also want our banks to be strong. I think now Australia's four AA rated banks are among only 11 of them left in the world. So it's not a bad thing that our banking system is strong. But we at the same time want to ensure that credit flows to small business because small business are big employers in Australia and that was the purpose of the exercise. It's not the end of the line, it was the beginning of a process that I think will be pretty productive.

Helen Dalley: Well, if that credit does not come forth in greater numbers, won't it spell the collapse of more small businesses and the loss of many more jobs, and that will hurt banks as well as the community and the government?

Craig Emerson: Exactly. And that's why I held the meeting. I mean, cash flow is king for small businesses but that flow of credit from banks to small businesses, existing and new, you know, there can be business propositions, even in these subdued economic times, that are good propositions and it's vital that that credit continues to flow. The banks seem to understand that. But I do think, Helen, that they left that meeting with a lot more information and a lot more to think about than they had when they first came into the meeting.

I'm not going to go on this program and bash banks. I think it was a productive meeting and I think we can now move forward. Certainly, the Council of Small Business of Australia thought it was a really good that we have everyone around the table. So I think we can make some progress here.

Helen Dalley: Well that's good news. Now on a different topic, yesterday Opposition Leader Malcolm Turnbull called Prime Minister Kevin Rudd "hypocritical" because Kevin Rudd had criticised the 'neo-liberal policies' of John Howard's Government in his *Monthly* essay saying, "the failure of those policies caused the financial crisis." And yet the prime minister and his wife, Turnbull says, "profited so extensively" is the quote, from the very policies he denounced. Malcolm Turnbull makes a good point, doesn't he?

Craig Emerson: Well, we've had a convention in Australian politics going over the best part of 100 years, perhaps more, that you don't attack the spouses and the children of fellow MPs on either side of politics.

Helen Dalley: He's not exactly attacking, he's just pointing out ...

Craig Emerson: Well he is, he is.

Helen Dalley: ... isn't he, the hypocrisy.

Craig Emerson: No, he's attacking Therese Rein, as Kevin Rudd's spouse, and it's a low act, it should be condemned. And I wouldn't be surprised if Peter Costello shares my view and shares the view of the government that this is a low act and it's a bad mark against the character of Malcolm Turnbull.

Helen Dalley: All right. What about the basic point that Kevin Rudd and his family have profited from the very sorts of deregulation and outsourcing policies that he was criticising in that piece?

Craig Emerson: Well, lots of people have had prosperity in the last, what, 17 years. I'll even point out that the beginning of that prosperity started with the Hawke and Keating eras. So a lot of the foundations for that were made. We do not criticise people for making money. Lots of people make money. Malcolm Turnbull makes money, that's not the criticism. The criticism is that particularly in Wall Street, Helen, huge bonuses were extracted by executives who entered into extremely risky activities and caused this global financial crisis that has caused in turn a global recession and gave themselves huge bonuses. Now that is legitimate criticism. That is legitimate criticism. It is very different from attacking the wife of the prime minister. That's what Malcolm Turnbull has done and he should be condemned for it.

Helen Dalley: All right. Well, we could go into a much greater discussion which we don't have time for now about the causes. But Craig Emerson, I appreciate your time. Thanks for speaking with me.

Craig Emerson: Okay. Thanks very much Helen.

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