



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

**AUSTRALIAN BUSINESS INVESTMENT
PARTNERSHIP BILL 2009**

**AUSTRALIAN BUSINESS INVESTMENT
PARTNERSHIP (CONSEQUENTIAL
AMENDMENT) BILL 2009**

Second Reading

SPEECH

Tuesday, 17 March 2009

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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Questioner
Speaker Robert, Stuart, MP

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Mr ROBERT (Fadden) (7.28 pm)—I rise to consign the Australian Business Investment Partnership Bill 2009 and the Australian Business Investment Partnership (Consequential Amendment) Bill 2009 to the dustbin of history, to which they indeed belong. It would be nice to propose amendments, but these bills are so egregious in their thought, intent and principles that no amendment would suffice.

Let me tell the nation a quick story. I look at these bills and I see a bunch of banks with large exposure to commercial property—property that may well be losing its value. If they have exposure to unlisted property trusts or mezzanine finance firms, they know that syndicated loans form a large proportion of this property exposure. They know if one part of that syndicate pulls out at less than 100c in the dollar they are left wearing a range of exposure. I think they just went to Mr Dumb-Money Rudd himself and said: ‘How about a Ruddbank? How about a bank where the Commonwealth wears all the risk—where we are the beneficiaries and wear no risk and this bank helps us prop up commercial property prices on our balance sheets?’ A thinking government would simply laugh. Mr Dumb-Money has said yes; hence we have the spawning of this mongrel runt called the Ruddbank.

The Commonwealth will provide \$2 billion and the four big banks will provide \$500 million each. There is a contingency within this legislation for the Commonwealth to provide a further \$26 billion, so the Commonwealth may provide \$28 billion of funds for this, while the four big banks will provide only \$500 million each. The Commonwealth money will all be borrowed from the international monetary markets through the raising of bonds and we will wear the liability for it—and this is supposedly a good idea.

When the Prime Minister issued his press release to explain his intent, it was about refinancing existing commercial property syndicated loans on commercial terms when the withdrawal of funding by a participant syndicate threatens a loan. The partnership will focus on completed commercial property investors. There are not a lot of jobs in completed commercial property investments and partially completed development projects. It will be structured to provide financing in other areas of commercial lending should the need arise and the government and the four big banks

jointly agree. Yet the Reserve Bank’s February 2009 statement on monetary policy said:

Over recent months there has been some speculation that many foreign-owned banks will withdraw from the Australian market and that this will create a significant funding shortfall for businesses. While there is a risk that some foreign lenders will scale back their Australian operations, particularly if offshore financial markets deteriorate further, at this stage there is little sign of this, with most of the large foreign-owned banks planning to maintain their lending activities in the Australian market.

The Reserve Bank’s statement says there is no indication of foreign money pulling out, which is the basis of this foolish Ruddbank in the first place. So, if the foreign banks are not pulling out from their syndicated loans, what is the point of this ridiculous venture that will put \$28 billion of taxpayers’ money at risk?

We know there is approximately \$60 billion of foreign debt in commercial syndicated loans. So let us look at what will happen when the ‘Mr Dumb-Money’ Ruddbank is set up. The problems may actually be compounded. While the intent, albeit misguided, is to discourage foreign banks from exiting Australia, the proposal actually encourages any foreign bank that wishes to exit by allowing that bank to be paid out 100 per cent at face value. Right now, foreign banks can say: ‘This asset’s looking a little toxic. Its commercial value is going out. Mr Dumb-Money has stumped up a bank but we can get 100 per cent. We’re outta here.’ Rather than staying in there with the pressure the rest of the syndicate put on them to hold their money in, this will actually accentuate the flight of foreign currency from Australia. In an article in the *Australian* on 27 January, Henry Ergas stated:

In the short run, the scheme seems likely to induce developers to play off their existing foreign lenders against the safety net the scheme provides. This could accelerate the very withdrawal of foreign lenders the scheme is intended to guard against, while allowing developers to secure some free kicks on the basis of what amounts to taxpayer-funded insurance.

Ruddbank exposes the Australian people to a liability of up to \$28 billion in what may well be toxic commercial assets, yet the Commonwealth only has a 50 per cent shareholding in the company. Does the Prime Minister really think it is a good bet to say to the

four big banks: 'You put in \$500 million each. We'll put in up to \$28 billion. We'll hold all the risk—so we're holding 95 per cent of the funds and a hundred per cent of the risk—but we'll only hold 50 per cent of the shares'?

There is a good reason. It is clear that no-one in the Labor Party has run a business. If this is the basis of their business acumen, may I suggest they get a big, fat, red 'Fail'. It is no coincidence, with the Labor Party being the political arm of the union movement. They do not run businesses; as union thugs, they simply stomp all over them. This will add \$28 billion in borrowed money to the \$200 billion in borrowed money that the Rudd government is planning over the forward estimates.

Ruddbank is a response to a problem the government created. Large amounts of syndicated debt must be replaced in 2009 not just in commercial property but across corporations in general. One of the reasons for refinancing is that companies are being crowded out of debt markets by banks operating with a Rudd government unlimited guarantee, and one problem always accentuates and causes another. The major banks are already beneficiaries of the government's bank guarantee. They run big, profitable companies, and with the benefit of the guarantee the balance sheets of four of the most secure banks in the world are well placed to handle any shortfall.

Mr Zappia interjecting—

Mr ROBERT—Ruddbank is not designed, I say in deference to the member for Makin, to make funds available to small businesses, as he tried to put it—small businesses in the community who are employing people. This is about the big end of town. This has nothing to do with small or medium sized business. Every dollar the government makes available to refinance large commercial projects is money not available to assist other areas of the economy.

The minister also states in the legislation that it specifically authorises the shareholders agreement and the activities undertaken by Ruddbank, its shareholders, directors, officers et cetera to be exempt from the competition provisions of the Trade Practices Act. This is being justified as necessary to remove any uncertainty. In fact, I suggest it creates an enormous amount of uncertainty as to how Ruddbank will operate. The exemption is somewhat extraordinary. It breaches any concept of good governance by having representatives from the four big banks and the Commonwealth, rather than an independent board, making decisions in the interests of the country. No matter how the government seeks to rationalise this, there will always be some suspicion that the bank nominees will represent their own interests rather than

the interests of the organisation financing and wearing the risk—the taxpayers of Australia. Worse still, it will be hard to justify just whose interests are being served and, more importantly, who is ultimately accountable for decisions.

Whilst it may seem alarmist, the record of Labor governments in the 1990s when it came to major banking is not exactly the great resume that Labor would like to show. The State Bank of Victoria, under Labor's watch, lost around \$3 billion, mainly through its subsidiary Tricontinental. Other parts of the sorry tale are the Victorian Economic Development Corporation, where the final cost to taxpayers was counted at \$4 billion; WA Inc., another great Labor brainchild; and the State Bank of South Australia, which had to be bailed out by the state government at a final cost to taxpayers of \$2.2 billion. The Labor Party does not have a whole heap of form when it comes to banking. Then again, what would you expect from the union movement? Royal commissions were conducted into the debacles, and governments fell.

There is nothing positive about this legislation. The banks do not need it; they are just looking for an easy way out. It will cause a rush of foreign investment to leave—why would you hang onto a potentially toxic asset when Mr Dumb-Money himself will take it over for you? The legislation offends every principle of good governance. It is a significant and major retrograde step to put the taxpayers of Australia into a further \$28 billion worth of debt just because Mr Dumb-Money was conned by big banking.