

# Supporting small business

THE  
GREENS



***Small business is the mainstay of the Australian economy, employing five million people, or half of all those in the private sector. The Greens have a strong record in the Senate of supporting small business across a range of issues including anti-competitive pricing and superannuation. The Greens policies to promote renewable energy and energy efficiency measures to address climate change create enormous opportunities for new green small businesses across the country.***

The Greens' initiatives for small business

1. Initiatives to improve the fairness, competitiveness and efficiency of small business' access to finance.
  - Legislation to require lenders to offer small business 'fixed interest gap loans' with an interest rate set at a negotiated margin above the lender's cost of funds.
  - Cap exit fees on loans to small business at the cost to the lender of the early termination.
  - Support the introduction of portable bank accounts.

The proposal for the fixed interest gap mortgages and capped exit fees are similar to the provisions contained in Senator Brown's *Banking Amendment (Delivering Essential Financial Services for the Community) Bill 2010 (the Essential Financial Services Bill)*.

2. The Greens' renewable energy and energy efficiency opportunities for small business
  - Planning for a 100% renewably-powered Australia, with a minimum of 30% by 2020.
  - improve the existing Renewable Energy Target, including raising the target from 20 to 30% by 2020 and introduce a national gross feed-in tariff – a policy that would create numerous new opportunities in the solar PV sector in particular.
  - The Energy Efficiency Target scheme will create demand for energy efficiency certificates to be met by new small businesses conducting energy efficiency audits and upgrades in the residential, commercial and industrial sectors.

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## 3. Greens record of support for small business in the Senate

- The Superannuation Clearing House legislation which assists small businesses to administer their superannuation obligations passed only with Greens support
- Support a full review of National Competition Policy and changes to the Trades Practices Act to strengthen the anti-competitive pricing provisions.

## Background

The global financial crisis has had a significantly adverse effect on the ability of small business to access credit. The Senate Economics Committee inquiry into small business found that 'since the global financial crisis<sup>1</sup>, there has been a marked slowing in the provision of credit to small businesses in Australia', and 'overall business loan interest rates have risen by more than the banks' cost of funds'.<sup>2</sup> Submissions to the inquiry blamed a lack of competition in the banking sector, the difficulty of switching between banks and the disincentive posed by loan exit fees. The Committee's recommendations were criticised by the sector for being too weak<sup>3</sup> and the Greens favour taking bolder action by extending some of the reforms we are pursuing in personal banking to small business banking. We also support the portable bank accounts initiative that has been explored in foreign jurisdictions and recently advocated by the Council of Small Business Organisations of Australia (COSBOA).<sup>4</sup>

## Details of access to finance initiatives

### *Fixed interest gap loans*

Overall business loan interest rates have risen by more than the banks' cost of funds. This is possible because lenders may vary the rate on existing variable rate loans at their discretion. Fixed interest gap loans would address this problem by keeping the lender's margin on their mortgage constant, and faithfully passing on changes to the lender's costs under the supervision of an independent authority.

1 Senate Economics References Committee, Access of Small Business to Finance, June 2010, p.11.

2 Ibid, p.30

3 Sam McKeith, SMEs angry at inaction on finance, Australian Financial Review, 7 July 2010.

4 Ibid

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Fixed interest gap mortgages in the Greens' Essential Financial Services Bill require lenders to offer a variable rate mortgage with an interest rate that is fixed at a negotiated margin above the lender's cost of funds. The lender's cost of funds is calculated according to a formula approved by the Australian Prudential Regulation Authority. Fixed interest gap loans will offer small business access to finance on the same terms.

## Capped loan exit fees

Exit fees on loans may be undermining competition in the small business debt market, according to evidence presented to the Senate inquiry.<sup>5</sup> The majority Committee report recommended that banks should voluntarily abandon such fees. The Greens favour a more direct approach.

The Australian Securities and Investments Commission (ASIC) noted in the mortgage market 'some [exit fees] do not appear to be related to the underlying costs they are purporting to recover' and 'the size of these fees might now present a barrier to switching loans'.<sup>6</sup> The Greens' Essential Financial Services Bill caps mortgage exit fees at a level which recovers only the costs incurred by the lender as a result of the early termination, and requires lenders to inform customers up front about these fees. The Greens will extend this initiative to loans to small business customers. Legitimate costs resulting from a breach of contract would still be recovered by lenders, but excessive fees could not be levied in an effort to deter dissatisfied small business customers from switching to a rival institution.

## Portable bank accounts

'Portable bank accounts' have account numbers that are linked to customers, rather than institutions, so customers can retain the same account number if they switch to another financial institution. This removes much of the stress and expense from changing banks. There is no need to advise anyone who makes regular deposits or withdrawals of the change, or to change account details on company documentation, websites, etc. COSBOA argues that such a change would assist small business.

<sup>5</sup> Note 1, p.41.

<sup>6</sup> ASIC, Review of Mortgage Entry and Exit Fees, 2008, p.17.

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In fact, it would benefit all banking customers by bringing greater competition to the sector. There is no doubt that initially such a change would be complex, expensive and temporarily disruptive. However, as the European Competitions Authority (a forum for the competition authorities of each country in the European Economic Area) which considered this issue in 2006 found that while 'the costs of investment in achieving this would be huge', this 'could be more than matched by the long run economic benefits'.<sup>7</sup>

The Greens believe that the initial costs should not deter a reform that stands to offer enduring benefits to small business and other banking customers. The change should be undertaken in consultation with the sector to determine the best way to manage the transition.

## **The Greens' renewable energy and energy efficiency opportunities for small business**

The Greens have a vision for a 100% renewably-powered Australia, with a minimum of 30% by 2020. There is no technical or economic reason why Australia cannot get a steady, safe and reliable supply of energy from a mix of solar, wind, ocean, biomass and geothermal power. Many of these technologies are made in Australia, are ready to scale up to utility size now, and will revitalise regional communities across Australia with new, long-term and high-quality jobs.

Small businesses will be the major beneficiaries of the Greens plan to improve the existing Renewable Energy Target, including raising the target from 20 to 30% by 2020 and introduce a national gross feed-in tariff – a policy that would create numerous new opportunities in the solar PV sector in particular. These measures are set out in Greens Safe Climate (Renewable Energy Electricity) Amendment Bill and the Safe Climate (Renewable Electricity Feed-in Tariff) Bill, which were introduced in the Senate in 2009.

The Greens Safe Climate (Energy Efficiency Target) Bill also creates new opportunities for small business. The Bill establishes an Energy Efficiency Target to run in parallel with the Renewable Energy Target. Just as electricity retailers are now required to surrender certificates created by the production of renewable energy, the Energy Efficiency Target scheme will require the surrender of certificates representing verifiable energy savings (often

<sup>7</sup> ECA, Financial Services Subgroup, Competition issues in retail banking and payments systems markets in the EU, May 2006, p.42.

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known as 'white certificates'). The scheme will require electricity retailers to purchase and surrender certificates for the equivalent of 3% of their total sales each year. The demand for energy efficiency certificates will be met by new, frequently small businesses conducting energy efficiency audits and upgrades in the residential, commercial and industrial sectors.

The Greens are determined to drive improvements in energy efficiency. Energy efficiency is the fastest, cheapest and easiest way to reduce greenhouse emissions, particularly in a country whose energy supply is as carbon polluting as Australia's. It is the low hanging fruit that Australian governments and industry have completely failed to pick.

Studies have shown that Australia's energy demand in the household, commercial building and industrial sectors could all be cut by a massive 30% using technologies and techniques that are available now off the shelf and will pay themselves back in 4 years. After that, it's savings all the way, with lower power bills, less need to bolster existing overloaded electricity grids and fewer polluting power stations to replace with renewable energy.

## **The Greens record of support for small business in the Senate**

The Greens support was essential for the passage of legislation introducing the Superannuation Clearing House which assists small business with superannuation administration. The Coalition opposed this legislation and it would not have passed without Greens support.

The Greens also support a full review of National Competition Policy and changes to the Trade Practices Act to strengthen the anti-competitive pricing provisions. For example, Greens Senator Christine Milne was vocal member of the Senate Economics committee inquiry into competition and pricing in the dairy industry.<sup>8</sup> The committee report made a suite of recommendations including calling for a review by the national competition tribunal into the effectiveness of Section 46 of the Trade Practices Act in preventing price discrimination and consider reinstating anti-price discrimination provisions, particularly to protect those parties participating in industries dominated by multinational corporations.

<sup>8</sup> <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:chamber/hansards/2010-05-13/0000>