

# Chapter 1

## Introduction

### Background

1.1 The global financial crisis has given rise to concerns that foreign banks may choose to concentrate their lending on their home markets, or be required to do so in return for assistance from their governments. This could mean that foreign banks withdraw funding from Australian commercial property projects, even when they still regard them as commercially viable. This market failure could in turn lead to unnecessary economic disruption and job losses if local banks do not fill the gap. If this led to 'fire sales' it could depress commercial property prices more generally, which might further dampen economic activity, such as by preventing small business using property as collateral for borrowing. The Government wants to have appropriate arrangements in place so that a prompt response can be made if these concerns are realised.

1.2 According to the Property Council of Australia, \$30 billion (18 per cent) of the \$165 billion in commercial property debt is provided by foreign banks and \$16 billion (71 per cent) of the \$23 billion in borrowings by Australian real estate investment trusts is in syndicated debt.<sup>1</sup>

### Purpose of the bill

1.3 The Bill provides for the establishment of the Australian Business Investment Partnership Limited (ABIP) under the Corporations Act 2001, to address the potential risk of a funding gap in the commercial property sector due to an anticipated reduction of foreign bank financing.<sup>2</sup> The Explanatory memorandum describes ABIP:

as a temporary, contingency measure to provide liquidity support for viable commercial property assets where financiers have withdrawn from debt financing arrangements as a result of the global financial crisis.<sup>3</sup>

1.4 The Bill also facilitates certain appropriations. The Government will be prepared to lend up to \$2 billion to ABIP which, combined with \$500 million provided by each of the four major domestic banks (ANZ, NAB, CBA and Westpac),

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1 Property Council of Australia, *Submission 9*, p 5. This is consistent with the estimate provided by ABIP's interim CEO, Mr Fahour; *Proof Committee Hansard*, 14 April 2009, p 38. A lower estimate was provided by the National Australia Bank: 'in December 2008, banks held over A\$190bn of commercial property exposure, with an estimated 14% held by foreign banks'; *Submission 11*, p 2.

2 Bills Digest, 17 March 2009, p 2.

3 *Explanatory memorandum*, p 3.

will enable ABIP to onlend almost \$4 billion. If additional funding is required there will be scope for the \$4 billion to be supplemented by the issue of government-guaranteed debt of up to \$26 billion. The initial finance provided by the major banks will not be guaranteed by the Government.

### **Conduct of the inquiry**

1.5 On 19 March 2009, the Senate referred the Australian Business Investment Partnership Bill 2009 and a related bill to the Economics Committee for inquiry and report by 7 May 2009.

1.6 The committee advertised the inquiry on its website and in a national newspaper. A number of organisations, commentators, academics and stakeholders were also invited to make submissions to the inquiry.

1.7 The committee received 17 submissions. These are listed in Appendix 1. A public hearing was held in Sydney on 14 April 2009. The witnesses appearing are listed in Appendix 2. The committee thanks those who participated in the inquiry.

### **Outline of the report**

1.8 The structure and governance arrangements for ABIP are described in Chapter 2.

1.9 There were essentially two strands to the evidence presented to the committee. The first was debate over whether ABIP was necessary or would achieve the economic goals set for it (Chapter 3). The second was whether there was a risk that ABIP could stray from its core responsibilities into inappropriate activities or lead to unintended consequences (Chapter 4).

1.10 Chapter 5 concludes that the bill should be passed.