

Senate Standing Committee on Education and Employment

**QUESTIONS ON NOTICE
Supplementary Budget Estimates 2014-2015**

Outcome 2 - Workplace Relations & Economic Strategy

Department of Employment Question No. EM1640_15

Senator Lines provided in writing.

Question

Fair Entitlements Guarantee - proposed changes

Is the Department aware of concerns that the changes to the FEG may act as an incentive for vulnerable automotive component manufacturers to close their doors early, while their employees remain covered by the current FEG arrangements? Let me put this to you, if particular automotive component manufacturers close early, this may deprive car makers of key components for the assembly of their vehicles, making continued production of specific models no longer possible. With a 'knock-on effect' this in turn may precipitate the early closure of production at Ford, Toyota or Holden, which will in turn precipitate the early closure of further automotive component producers that supply other car makers. In this way, the closure of two or three small automotive component manufacturers may spark the mass closure of automotive manufacturing in a short period of time. This will cause major economic dislocation as car makers and their employees cannot complete their planned, orderly wind down of operations and component makers lose the opportunity to diversify their businesses. Was this situation considered by the Department?

Answer

No concerns have been formally raised with the department about the impact of changes to the Fair Entitlements Guarantee (FEG) on automotive component manufacturers.

A key eligibility condition in the FEG is that the employer has entered liquidation and there are insufficient company assets to cover employment entitlements. Under the *Corporations Act 2001* it would be an offence for an employer to continue to trade in the knowledge that it is insolvent. The suggestion that an automotive component manufacturer may deliberately arrange its company affairs to take advantage of a generous condition in the FEG illustrates the moral hazard that the scheme presents.