

**FAIR WORK COMMISSION
MINIMUM WAGE PANEL
SUBMISSION – ANNUAL WAGE REVIEW 2021-2022**



**SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED**

SUBMISSION OF: **SOUTH AUSTRALIAN WINE INDUSTRY
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South Australian Wine Industry Association

The South Australian Wine Industry Association (SAWIA) is an employer and industry association representing the interests of wine grape growers and wine producers throughout the state of South Australia. SAWIA (as it is known today) was established in 1840 as the Society for the Introduction of Vines.

SAWIA is a not-for-profit incorporated association, funded by voluntary member subscriptions, grants and fee for service activities, whose mission is to provide leadership, advice and support to South Australian grape and wine businesses assisting them to prosper within a dynamic, diverse industry.

SAWIA membership represents approximately 96% of the grapes crushed in South Australia and about 36% of the land under viticulture. Each major wine region within South Australia is represented on the board governing our activities.

SAWIA has a strong track record as an industry leader and innovator in many areas. SAWIA pro-actively represents members and the greater wine industry with government and related agencies in all aspects of business in the wine sector.

What SAWIA does for members is covered in four key areas:

- Representation and Leadership
- Advice and Information
- Products and Services; and
- Promotion and Opportunities.

SAWIA has a strong track record as an industry leader and innovator in many areas. SAWIA pro-actively represents members and the greater wine industry with government and related agencies in all aspects of business in the wine sector.

SAWIA is a registered association of employers under the South Australian *Fair Work Act 1994* and is also a Recognised State-Registered Association under the *Fair Work (Registered Organisations) Act 2009*.

SAWIA has a long-standing interest in employment, immigration and related policy areas. SAWIA's policy positions in relation to employment are proposed and endorsed by our Employee Relations Committee, which comprises of HR Executives and Senior Managers, some with national responsibilities, drawn from the membership.

Basis of Submission

The Fair Work Commission (FWC) in its Statement issued on 9 February 2021 announced the timetable for the making of submissions in the Annual Wage Review. Submissions are invited from interested groups and individuals who wish to provide input into the 2021–2022 Annual Wage Review (Wage Review).

In accordance SAWIA makes the following submission.

Overview of the Wine Industry

The wine industry is both unique and complex in nature. It takes raw produce, wine grapes, and turns them into a value-added product, wine, that is sold throughout the world. Unlike other manufacturing sectors, the wine industry's viticultural foundations require long lead times to a produce a crop and based on the vagaries of nature each vintage make the balance of supply and demand a constant challenge.

The industry is ‘vertically integrated’, spanning agriculture (wine grapes), manufacturing (winemaking) and sales into a global marketplace. Sales growth is driven by exports through the main channels of off-premise (supermarkets and wine retail) and on premise (restaurants, clubs, pubs) venues, often through company owned distribution channels.

Some businesses in the wine industry are extremely diverse, and employ persons in any number of the following occupations:

- agriculture (grape growing);
- manufacturing (winemaking);
- science (laboratory);
- retail (cellar door sales);
- horticulture (nursery);
- food and beverage (cellar door / café & restaurant);
- administration (clerks);
- barrel manufacturing (coopers);
- warehousing and packaging (store persons);
- transport of grapes & bottled wine (drivers);
- maintenance (mechanics & welders);
- planning & technical production / tasks (engineers); and
- other professionals (accountants, sales, marketing, export professionals)

Based on the most current statistical information Australia has 2,268¹ wine producers. At the last Census (2016) around 21,000 people stated that their primary industry of employment was either the grape growing or wine manufacturing industry in Australia². Best estimates at that time indicated that the wine industry workforce employs males and females in the ratio of 65% and 35% respectively.

1. The Wine Industry in Australia

The Australian wine Industry consists of 65 wine regions across the six states and one territory (ACT), see Figure 1. While wine grape growing and wine production occurs in the six States and the ACT, the crush data demonstrates that South Australia is the single largest State in terms of crush, with a total national crush of 1.52 million tonnes.

Figure 1: Crush by State and region³

State/Regions	% of total crush
South Australia	52%
New South Wales	29%
Victoria	17%
Western Australia	2%
Tasmania	1%
Queensland	<1%

The crush data also reveals that the Australian wine industry comprise of a small number of large wineries and a large number of small wineries. The 20 largest producers account for at least 80% of the total crush.⁴

¹ Source: The Australian and New Zealand Wine Industry Directory 2021

² This excludes casual workers such as grape pickers and other seasonal workers not working in those industries in the week prior to the Census. It also excludes people who worked in the wine and grape production industry as a second job.

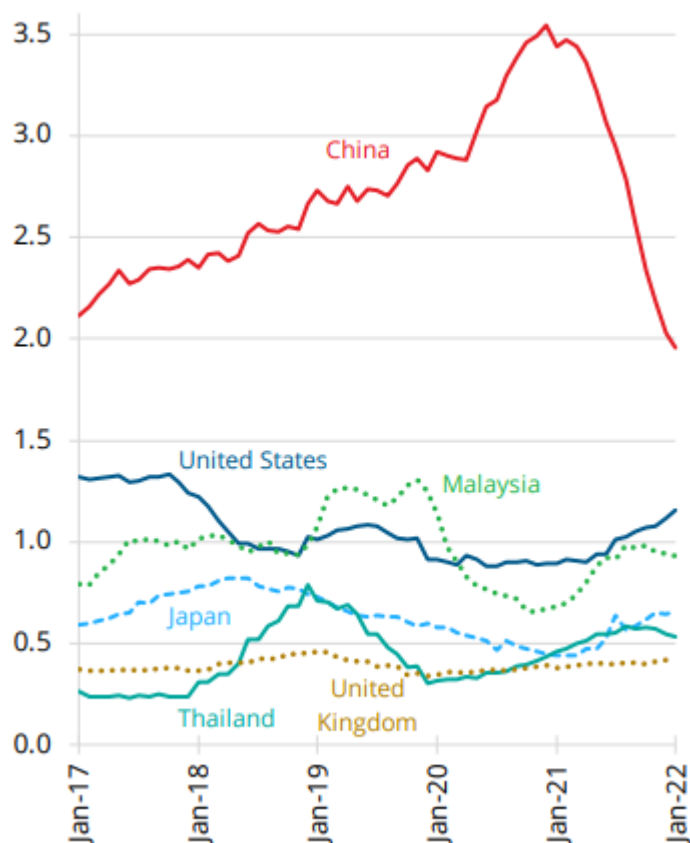
³ Wine Australia 2021, National Vintage Report 2021

⁴ The Australian and New Zealand Wine Industry Directory 2021

In 2021, Australian wine exports decreased by 30% in value to \$2.03 billion and by 17% in volume to 619 million litres. The average price per litre declined 15% to \$3.27 per litre.⁵

Exports to China have continued to decline in the year to January 2022, down a further 43% (\$1,486 million), due to the significant increase in tariffs of up to almost 212% in 2021, which may remain in place for many years.⁶

Figure 2: SA overseas goods exports (\$ BN, moving annual totals)⁷



In South Australia, wine exports recorded a decline of 29% (532 million) in the year to January 2022 compared with the year to January 2021.⁸

The total value of imported wine has increased from \$431 million in 2008 to \$948 million in 2021⁹. In terms of volume, wine imports have more than doubled since 2008 from 2021. The three top import markets of wine to Australia are New Zealand, France and Italy, taking advantage of lower production costs, including lower wage costs.

There is also widespread concern in the wine industry in relation to the dominance of the larger supermarket chains and their increased presence in the liquor retailing market. The supermarket giants' market share of the Australian alcohol retailing market is now close to

⁵ Wine Australia 2021, Australian Wine Export Report, Moving Annual Total – December 2021.

⁶ Department of Treasury and Finance, South Australian Government 2022, SA Overseas Goods Exports, January 2022

⁷ Ibid

⁸ Department of Treasury and Finance, South Australian Government 2022, SA Overseas Goods Exports, January 2022

⁹ Wine Australia 2021, Australian Wine Imports Monitor, December 2021

70%¹⁰, which gives them more bargaining power with wine producers to drive prices down, and results in tight net margins for wine producers.

Apart from contribution to the nation's overall export revenue, the wine industry also generates substantial revenue to the tourism industry. The AgEconPlus report Economic Contribution of the Australian Wine Sector¹¹ found that international tourists identify 'great food, wine, local cuisine and produce' as a major reason for visiting Australia.

Since 2020, the South Australian wine industry has been facing many challenges with COVID-19 and associated public activity restrictions, including domestic and international closures. The China trade barriers on Australian wine have been widely reported and caused a sharp contraction in Australia's main wine export market and over the last two years the industry has experienced significant challenges associated with international shipping.

In addition, COVID-19 has made the domestic market difficult as well. The lack of on-premise and restaurant sales due to lockdowns and restrictions has strongly affected domestic sales. Domestic competition negatively impacted nearly half of wine businesses, meaning loss of the China wine market will be difficult and will take time to overcome.¹²

2. Minimum Wages Objective

The FWC must establish and maintain a safety net of fair minimum wages, taking into account the requirements of Section 284(1) of the *Fair Work Act 2009*.

In making this submission SAWIA takes into account these 5 objectives but with the specific knowledge it has of the wine industry in Australia. Whilst SAWIA is South Australia based, the industrial relations system has taken on a greater national significance with almost all wine industry employers and employees now operating in the federal industrial relations system. As a consequence, this submission is made with reference to the wine industry on a national basis.

3. Australia's Economic situation for 2022 and the Outlook for 2023

According to the Reserve Bank of Australia (RBA), the Australian economy is estimated to increase by 4¼% during 2022, but slow to 2% in 2023.¹³

RBA expects the consumer price inflation (CPI) to be around 3¼% in 2022 and a reduce to around 2¾% during 2023.¹⁴

4. Supply chain constraints

Over the last two years the South Australian wine industry has experienced significant challenges associated with international shipping.

Wine Australia has recently attested to the impact on the wine exports due to the challenges associated with international shipping:

¹⁰ Roy Morgan 2018, Supermarkets continue to take alcohol market share from hotel bottle-shops, November 08 2018 Finding No. 7753

¹¹ AgEconPlus and Gillespie Economics report Economic Contribution of the Australian Wine Sector (Dec 2015), prepared for the Australian Grape and Wine Authority (AGWA/Wine Australia).

¹² Bentleys SA and SAWIA 2021, <https://www.winesa.asn.au/public/86/files/Industry%20%26%20Govt/SA%20Wine%20Industry%202020%20Snapshot.pdf>

¹³ RBA Statement on Monetary Policy – February 2022

¹⁴ Ibid

“The global freight crisis emerged in the second half of 2021, hampering exporters’ ability to get wine into markets – particularly in the US and Europe. Logistics companies Hillebrand and Flinders Port Holdings reported that the combination of a fundamental shortage of container ships and a sudden and strong rebound in global demand driven by the US and China – compounded by COVID-19 related labour shortages and other factors – led to port congestion, worst ever schedule reliability and increased costs.

Exporters experienced both increased delay times and increased costs of containers over the past year. Flinders Port Holdings reported that Australia also represents only 1 per cent of global container throughput, so we are at the mercy of bigger international players with this increased demand for freight. The crisis is not expected to be resolved before the end of 2022¹⁵.

A survey undertaken by SAWIA in January-February 2022 found that in terms of costs of international shipping, 63% of SAWIA members have experienced cost increases in the range of 100-200%, 15% in the range of 200-400% and 7% in the range of 400-600% in the last 12 months.

By way of example, one of our largest wine producing members with a presence in more than 100 markets have experienced a 400% increase in shipping costs over the last two years. In terms of timeliness and reliability, according to this member, Oceania has experienced some of the biggest delays overall. In addition, reliability and service continues to deteriorate, yet prices continue to increase.

Looking ahead, 46% of SAWIA members expect the current situation to be about the same, with 45% expecting the situation to get worse or much worse. This is based on direct feedback to members from shipping lines and brokers advising of price increases, less vessels arriving in Adelaide and a backlog of freight orders to action.

5. Industry arrangements in the wine industry

Minimising fixed costs continues to be a priority for businesses in the wine industry as they look to the long-term viability. One or more of the above factors have contributed to businesses looking for ways to be sustainable, including restructuring and downsizing workforce numbers, adoption of automation and new technology, reviewing distribution arrangements domestically and internationally, and diversifying interests with the acquisition of other wine brands.

This restructuring is evident in the total number of employees directly employed in the South Australian and Australian wine industry. Since 2006, the number of employees directly engaged in the wine industry has declined significantly.

The most common industrial arrangement for Australia’s wine producers is to pay their employees minimum award wages in accordance with the Wine Industry Award 2020. Therefore, any movements in award wages will be felt across the wine industry.

For small and medium sized wineries, labour costs are often the single largest expense. There is often very little scope for small and medium sized wineries to reduce other costs by for example obtaining more favourable terms and conditions in relation to utilities.

The cost of labour, taking penalty rates and overtime rates into account are constantly assessed to determine the most optimum staffing levels and operations, including cellar door trading hours. This also includes owner-operators working longer hours and shifts attracting

¹⁵ Wine Australia 2022, End of year 2021 export figures show global challenges continue to impact Australian wine exports, <https://www.wineaustralia.com/news/media-releases/wine-australia-export-report-december-2021>

penalties and overtime, including weekends and public holidays, as an alternative to engaging external staff.

Over 60% of South Australian wineries surveyed nominate labour costs as having a negative business impact.¹⁶

Whilst there are approximately 60 current Enterprise Agreements in the wine industry, they almost exclusively apply to Australia's 15 largest wine companies. The majority of these enterprise agreements were negotiated with an employee association.

The average term for enterprise agreements in the wine industry is 3 years. Agreements that have been negotiated and approved have seen wages increases of around 2%-3.0% for the life of the agreement. Such increases have been negotiated in exchange for operational efficiencies and flexibility. This is broadly in line with the average annual wage increases for all current private sector enterprise agreements of 2.7%¹⁷. Compared to the relevant industry divisions (ANZSIC), the average increases for grape growing and winemaking enterprise agreements are both 2.3%¹⁸.

In relation to the wine industry, the reduced percentage increases within these relevant industry divisions demonstrates that employees and employers understand the need to contain labour costs and reflects the current challenges the industry is facing.

The planned increase to the superannuation guarantee from 10% to 10.5% for July 2022 will also be a cost burden for business and applies to all employees and will be based on employees' actual wage.

6. Conclusion

The Expert Panel is established under the Fair Work Act 2009. The Panel is required to review modern award minimum wages and to make a national minimum wage order.

The minimum wages objective requires the Panel to establish and maintain a safety net of fair minimum wages. The modern awards objective requires the Expert Panel to ensure that modern awards, together with the National Employment Standards (NES), provide a fair and relevant minimum safety net of terms and conditions.

If FWC is of a mind to increase minimum wages, SAWIA submits that the Expert Panel should consider awarding an increase **no higher than 2 percent**.

END

¹⁶ Bentleys SA and SAWIA 2021, <https://www.winesa.asn.au/public/86/files/Industry%20%26%20Govt/SA%20Wine%20Industry%202020%20Snapshot.pdf>

¹⁷ Attorney-General's Department, Trends in Federal Enterprise Bargaining Report September Quarter 2021

¹⁸ Ibid