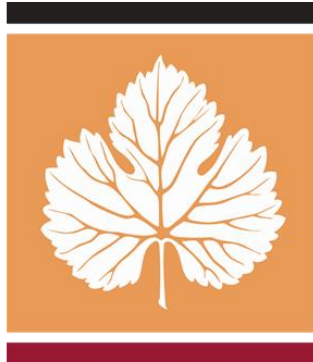


**FAIR WORK COMMISSION  
MINIMUM WAGE PANEL  
SUBMISSION – ANNUAL WAGE REVIEW 2018-2019**



**SOUTH AUSTRALIAN WINE INDUSTRY  
ASSOCIATION INCORPORATED**

**SUBMISSION OF:** **SOUTH AUSTRALIAN WINE INDUSTRY  
ASSOCIATION INCORPORATED**

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**DATE:** 15 March 2019

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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 to South Australian grape and wine businesses so they achieve great things that they couldn't by themselves.

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 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 of 27 September 2018 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 2018-2019 Annual Wage Review (Wage Review).

The Wage Review will take into account stakeholder submissions from interested parties and research reports published for the Annual Wage Review 2018-19 by the FWC.

As in previous years, the South Australian Wine Industry Association (SAWIA) welcomes the opportunity to make a submission to the Expert Panel in relation to the Wage Review.

SAWIA's submission is focussed on issues relevant to South Australia in particular; however we seek to highlight issues and points of view that relate to the national wine industry where we are able to. Consideration is also given to those matters the Expert Panel must take into account in performing its functions or powers under Part 2-6 Minimum Wages of the *Fair Work Act 2009*, firstly the minimum wage objectives and secondly the modern awards objectives.

## 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 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 persons, marketers, export persons, quality assurance, micro-biologists, winemakers, viticulturists & management).

Based on the most current statistical information Australia has 2,377<sup>1</sup> 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 Australia<sup>2</sup>. Best estimates at that time indicated that the wine industry workforce employs males and females in the ratio of 65% / 35% respectively.

## 2. 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.

Figure 1: Crush by State and region<sup>3</sup>

State/Regions	2018 Raw Crush Data Tonnes	% of total crush
South Australia	747,361	49%
New South Wales	317,754	21%
Victoria	68,827	4%
Western Australia	32,819	2%

<sup>1</sup> Source: The Australian and New Zealand Wine Industry Directory 2018, page 1

<sup>2</sup> 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.

<sup>3</sup> Wine Australia 2018, National Vintage Report 2018

Queensland	652	<0.05%
Tasmania	12,549	1%
Australian Capital Territory	12	<0.05%
Murray Darling-Swan Hill <sup>4</sup>	345,458	23%
<b>TOTAL</b>	<b>1,525,432</b>	<b>100%</b>

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 86% of the total crush.<sup>5</sup>

In 2018, the value of Australian wine exports grew by 10 per cent to \$2.82 billion and volume increased by 5 per cent to 850 million litres compared with the previous 12 months. The average value of exports grew by 5 per cent to \$3.32 per litre Free on Board (FOB).<sup>6</sup>

However, the trend over the last 10 years has been an increase in the proportion of bulk wine of the total volume of wine exports. Bulk wine now makes up 56% of the total volume of wine exports, an increase from approximately 35% in 2009.

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 Sector*<sup>7</sup> found that international tourists identify ‘great food, wine, local cuisine and produce’ as a major reason for visiting Australia.

From 1991 to 2007, the Australian Wine industry enjoyed considerable success, tripling in size from less than 400 million litres of production to 1.2 billion litres and growth in export from \$212 million to \$3 billion.

However, the global financial crisis (GFC) in August 2007 put the Australian wine industry under significant pressure. From 2007 to 2012 wine exports fell significantly, by 64 million litres (8% fall) in volume and by \$1.15 billion (38%) in value. The key factors contributing to this fall were a higher Australian dollar, falling demand for Australian wine in key markets, particularly the United Kingdom, United States and Canada, increased competition from other export countries, including France, Italy, Chile, Argentina, Spain and South Africa, and higher costs.<sup>8</sup>

It will take more time for the industry reaching the pre-GFC levels in terms of volume and value.

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 70%<sup>9</sup>, which gives them more bargaining power with wine producers to drive prices down, and results in tight net margins for wine producers.

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<sup>4</sup> This region crosses the State borders of Victoria and New South Wales

<sup>5</sup> The Australian and New Zealand Wine Industry Directory 2018

<sup>6</sup> Wine Australia, Australian Wine Export Report, Moving Annual Total – December 2018.

<sup>7</sup> 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).

<sup>8</sup> Ibid

<sup>9</sup> Roy Morgan 2018, Supermarkets continue to take alcohol market share from hotel bottle-shops, November 08 2018 Finding No. 7753, <http://www.roymorgan.com/findings/7753-supermarkets-continue-to-take-alcohol-market-share-from-bottle-shops-201811080408>

### **3. 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 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.

### **4. Australia's Economic situation for 2018 and the Outlook for 2019**

According to the Reserve Bank of Australia (RBA), the Australian economy is growing little above trend with GDP growth expected around 3.0%.<sup>10</sup>

In terms of the labour market, conditions continue to improve with unemployment for the December quarter at 5%. In the coming months above-average employment growth is estimated. If this eventuates a gradual improvement in the unemployment rate could be expected.<sup>11</sup>

### **5. Effect of water restrictions and electricity costs**

Individual irrigators have continued to face some restrictions on their water allocation in various wine growing regions in South Australia and whilst somewhat the pressure has eased the water cost and access continues to have a negative impact on South Australian wineries<sup>12</sup>.

The industry remains cautious about the amount and quality of water it uses. A number of wine producers have reported that due to their specific locality they often miss out on good rainfalls and as a result need to purchase water at considerable cost.

Electricity costs, particularly in South Australia are also of concern to the wine industry. Close to 40% of South Australian wineries surveyed nominate energy costs as having a very negative impact on their business.<sup>13</sup>

SAWIA understands that, on average, electricity (and gas) prices in Australia have more than doubled over the period 2007 to 2018. For South Australia in 2019, the projections are for an expected average electricity price of \$120/MWh, significantly up from a steady base prior to July 2015 that was about \$40/MWh.

However, forward predictions in the Futures Market to 2020, indicate that prices in Victoria and Queensland will overtake South Australia to have the highest electricity prices of all States within the National Electricity Market.

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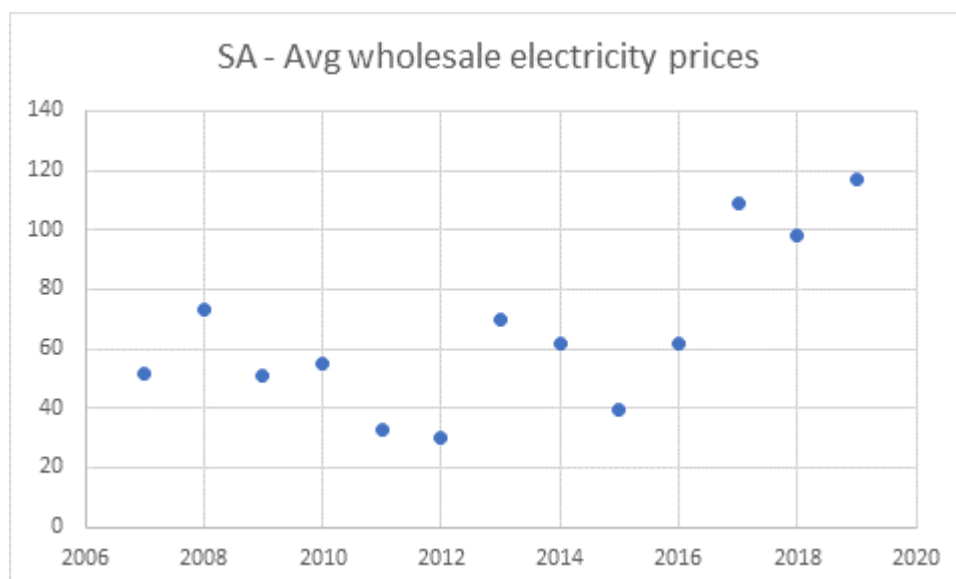
<sup>10</sup> RBA Statement on Monetary Policy – February 2019

<sup>11</sup> Ibid

<sup>12</sup> Bentleys SA and SAWIA 2018, [http://www.winesa.asn.au/\\_r7682/media/system/attrib/file/1602/2018%20Wine%20Industry%20Snapshot.pdf](http://www.winesa.asn.au/_r7682/media/system/attrib/file/1602/2018%20Wine%20Industry%20Snapshot.pdf)

<sup>13</sup> Ibid

Figure 2: South Australia average wholesale electricity prices



Source: AEMO<sup>14</sup> and E4B Consultants<sup>15</sup>

## 6. Impact of global markets for product and the domestic labour markets regulating employment

Global factors have had a significant effect on the Australian wine industry due mainly to the high Australian dollar over the 5 years to mid-2014. The flow on effect of the high Australian dollar over those years has meant that some domestic businesses decreased or ceased exporting products (due to the increased cost). This led to countries such as New Zealand and Chile taking the opportunity to take advantage of lower costs and increase their presence in major wine-consuming markets.

The total value of imported wine has increased from \$431 million in 2008 to \$809 million in 2018. In the last year alone wine imports grew by 7% of which New Zealand is the greatest source of wine imports, closely followed by France.<sup>16</sup>

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

## 7. Annual Wage Review 2018-19

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.

<sup>14</sup> AEMO 2019, <https://aemo.com.au/Electricity/National-Electricity-Market-NEM/Data-dashboard#average-price-table>

<sup>15</sup> EB4 Consultants, personal communication

<sup>16</sup> Wine Australia 2019, Australian Wine Imports Monitor, December 2018



SAWIA refers to the 2010 wage decision where the Expert Panel considered the merits of deciding a percentage adjustment to all modern award minimum wages but in its decision decided on a flat dollar increase for primarily two reasons, *“The first is that to the extent there is a choice between a percentage increase benefiting the higher levels and a dollar amount benefiting the lower levels we think that the current circumstances favour a greater benefit for the lowest paid. We are required in particular to take the needs of the low paid into account.”*<sup>17</sup>

If a percentage increase is applied to all award classifications higher classifications will receive a greater \$ increase than those in lower paid classifications. The additional cost to a small to medium employer, while perhaps not large in the context of an overall annual payroll, will still increase employers' costs.

SAWIA submits that the Expert Panel should consider only a small flat increase that is fair to all employees and **no higher than the rate of inflation in Australia (1.8% in December 2018 quarter), equivalent to an increase of \$12.95 to the National Minimum Wage per week.**

## 8. Industry arrangements in the wine industry

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 2010. 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 penalties and overtime, including weekends and public holidays, as an alternative to engaging external staff.

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 2.2%-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%<sup>18</sup>. Compared to the relevant industry divisions (ANZSIC), the average increases for grape growing and winemaking enterprise agreements are 2.6% and 2.7 respectively<sup>19</sup>.

The average increase for private sector enterprise agreements in the September quarter appears to be lowest ever recorded since the first record in 1991<sup>20</sup>. This highlights the importance placed by private sector employers of controlling labour costs.

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<sup>17</sup> 2010 FWA 4000 Annual Wage Review 2009-10 paragraph 337

<sup>18</sup> Department of Jobs and Small Business 2018, Trends in Federal Enterprise Bargaining Report September Quarter 2018

<sup>19</sup> Ibid

<sup>20</sup> Department of Jobs and Small Business 2018, Historical Trends data – current by quarter

In relation to the wine industry, the reduction in future pay increases demonstrates that employees and employers understand the need to contain labour costs and reflects the current challenges the industry is facing.

## **9. Conclusion**

In 2019 the wine sector continues to face a number of challenges, including:

- Continuing to rebuild international markets for Australian exports of wine
- Combating the steady increase of wine imports to Australia, especially from New Zealand
- Increases in operational costs, in particular electricity (and gas) costs (particularly in SA), insurance cover and labour costs resulting from ongoing regulatory requirements in relation to employment conditions.

The difficulties faced by the wine industry have led to continual restructuring and downsizing within the sector. As a consequence of these challenges there have been redundancies and it is more than likely that the wine industry will continue to see more redundancies in the future. Some companies, while not implementing redundancy programs, are reducing staff by means of natural attrition, i.e. by not replacing staff that leave the business.

Many businesses are at the same time mindful of the skills shortage and the ageing workforce in some parts of Australia and want to maintain their workforce yet climatic, global financial and trading conditions are challenging that objective. SAWIA submits that the FWC Panel should consider that the wine industry is still in a cautious period and continues to face challenging times ahead, as are many industries.

SAWIA submits that the Expert Panel should consider only a small flat increase that is fair to all employees and capped no higher than the rate of inflation. We also submit that any increase should take into consideration the downward trend over the past 5 years of annual wage increases approved in enterprise agreements in the wine industry, and more broadly in other industries.

**E N D**