

**FAIR WORK COMMISSION
MINIMUM WAGE PANEL
SUBMISSION – ANNUAL WAGE REVIEW 2022-2023**



**SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED**

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

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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.

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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 29 November 2022 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 2022–2023 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 2,213¹ wine producers. At the last Census (2021) 22,672 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 56% and 44% respectively.

1. The Wine Industry in Australia

The Australian wine industry consists of 65 wine regions across the six states and one territory (ACT). 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, representing 51% of the national grape crush.

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 75% of the total crush.³

In 2022, Australian wine exports decreased by 4% in value to \$1.94 billion and increased by 1% in volume to 623 million litres. The average price per litre declined 5% to \$3.12 per litre.⁴

Exports to China have continued to decline in the twelve months to December 2022, down a further 58%, due to the significant increase in tariffs of up to almost 212% in 2021, which may remain in place for many years.⁵

¹ Source: The Australian and New Zealand Wine Industry Directory 2023

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.

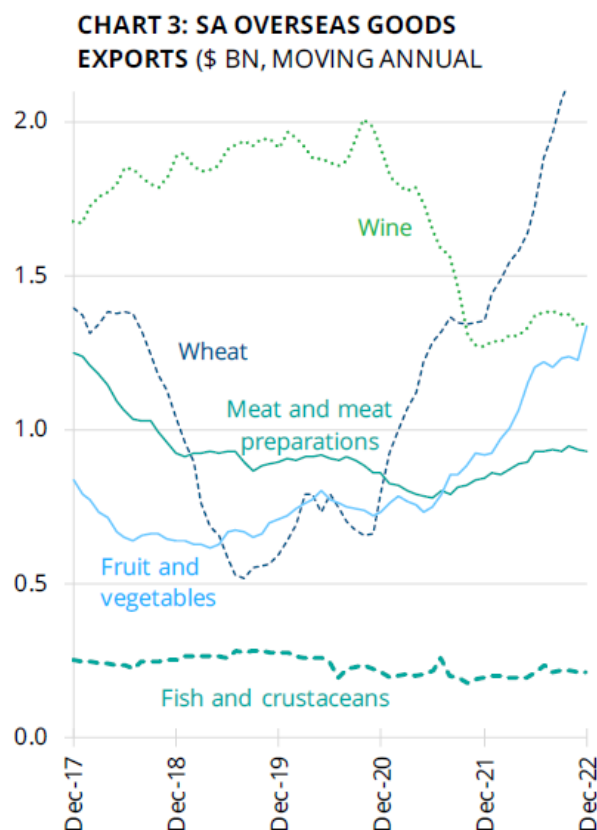
³ The Australian and New Zealand Wine Industry Directory 2022

⁴ Wine Australia 2022, Australian Wine Export Report, Moving Annual Total – December 2022.

⁵ Ibid

Figure 1: SA overseas goods exports (\$ BN, moving annual totals)⁶

In South Australia, wine has fallen from being the single largest commodity export, to now being in third place. Revenue has fallen from a top of \$2 billion in export revenue in November 2020 to \$1.35 billion in December 2022 (moving annual total).



While there has been growth in exports to date, it has not been sufficient to replace the China market, and current shipping and logistics challenges mean it will take significant effort for years to come.

The loss of the China wine market caused wine makers to develop broader sales and distribution strategies that have not yet matured to the size or value of lost sales, which is reflected in the current level of inventory.

Consequently, inventory levels remain high, particularly for red wine. 40% of wineries have high to very high inventory levels, with current stocks of red wine expected to last 2.6 years, longer than what would normally be the case. This means that there is a large amount of unsold red wine sitting in tanks ahead of the 2023 vintage or as bottled inventory. This has an on effect on cash flow, profitability and ability to process the 2023 vintage.

The total value of imported wine has increased from \$431 million in 2008 to over \$1b in 2022⁷. In terms of volume, wine imports have more than doubled since 2008.

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.

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

⁷ Wine Australia 2023, Australian Wine Imports Monitor, January 2023.

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%⁸, which gives them more bargaining power with wine producers to drive prices down, and results in tight net margins for wine producers. There is anecdotal evidence that the major retailers continue to increase their dominance.

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Business confidence in the wine industry is at its lowest level in 6 years. More than half of wine producers are worried about their businesses. Almost one in ten businesses are extremely worried while 52% are somewhat or very worried.

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 2023 and the Outlook for 2024

According to the Reserve Bank of Australia (RBA), the Australian economy is estimated to increase by 1½% during 2023, and in 2024.¹⁰

RBA expects the consumer price inflation (CPI) to be around 4¾% over 2023 and to reduce to around 3% by mid-2025.¹¹

RBA notes that inflation is in excess of the inflation target, but that there are signs both domestically and internationally that inflation may have peaked.

4. Supply chain constraints

Over the last couple of years, the South Australian wine industry has experienced significant challenges associated with international shipping, including delay in departures, difficulty accessing shipping containers, delay in delivery of and delays to pick up of goods.

Wine Australia in 2022 attested to the impact on the wine exports due to the challenges associated with international shipping:

“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

⁸ Roy Morgan 2018, Supermarkets continue to take alcohol market share from hotel bottle-shops, November 08 2018 Finding No. 7753

⁹ Bentleys SA and SAWIA 2022, 2022 Wine Industry Snapshot, https://www.winesa.asn.au/public/86/files/Industry%20%26%20Govt/2022%20SA%20Wine%20Industry%20Snapshot%20FINA%20V2%20LoRes%2004_11_22.pdf

¹⁰ RBA Statement on Monetary Policy – February 2023

¹¹ Ibid

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 2022¹².

The challenges associated with international shipping were subject to an inquiry by the Productivity Commission in 2022¹³.

The Australian Competition and Consumer Commission (ACCC)¹⁴ notes that Adelaide has been particularly impacted, with 20% of shipping services bypassing Adelaide and shipping lines being reluctant to send empty containers to Adelaide as they can obtain higher revenue by shipping goods from China.

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.

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. 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 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.

¹² 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>

¹³ Refer to Lifting productivity at Australia's container ports: between water, wharf and warehouse Inquiry report, December 2022

¹⁴ Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2020-21, October 2021

Agreements that have been negotiated and approved have seen wages increases of around 2%-3.0% for the life of the majority 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 2.9%¹⁵. Compared to the relevant industry divisions (ANZSIC), the average increases for grape growing and winemaking enterprise agreements are 3.15%.

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 10.5% to 11% for July 2023, 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.

The seasonally adjusted Wage Price Index, released in February 2023, is 3.3%.

If FWC is of a mind to increase minimum wages, SAWIA submits that the Expert Panel should consider awarding an increase **no higher than 3.5 percent**.

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¹⁵ Department of Employment and Workplace Relations, Trends in Federal Enterprise Bargaining Report September Quarter 2022