AUSTRALIAN FAIR PAY COMMISSION

SUBMISSION – 2008 MINIMUM WAGE REVIEW

SUBMISSION OF: SOUTH AUSTRALIAN WINE INDUSTRY ASSOCIATION INCORPORATED

(A South Australian Employer Organisation)

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Basis of Submission

The Australian Fair Pay Commission (AFPC) is seeking submissions from interested groups and individuals who wish to provide input into the 2008 Minimum Wage Review. This Review will take into account recent stakeholder and consultation sessions, as well as the AFPC’s recently released *Economic and Social Indicators – Monitoring Report* commissioned research.

The South Australian Wine Industry Association (SAWIA) welcomes the opportunity to make a submission to the Commission in relation to the 2008 Minimum Wage Review.

SAWIA’s submission addresses the following three of the four key objectives of the AFPC in performing its wage setting function, which is to promote the economic prosperity of the people of Australia having regards to:

- the capacity for the unemployed and low paid to obtain and remain in employment;
- employment and competitiveness across the economy; and
- providing a safety net for the low paid.

SAWIA’s submission also addresses the impact of the AFPC’s wage-setting decision handed down on 20 June 2007 in relation to the above objectives, minimum wage rates in general and in particular the Exceptional Circumstances deferral from the AFPC’s Wage-Setting Decision 3/2007.

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1 July to December 2007, Issue 01
2 The fourth being to provide minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.
1. Summary of Submission

A summary of SAWIA’s submission is as follows:

1. The capacity for the unemployed and low paid to obtain and remain in employment

- The wine industry has base level positions for inexperienced persons, which offer employment opportunities for the unemployed with the opportunity to progress to higher paid and more skilled work.

2. Employment and competitiveness across the economy

- According to the Australian Wine and Brandy Corporation (AWBC)\(^3\), the 2008 Australian vintage is set to come in at between 1.55 million tonnes and 1.65 million tonnes. This figure is up on the 2007 grape harvest of 1.4 million tonnes which was down 30% being the smallest harvest since 2000;

- Water restrictions are currently in place in many parts of Australia due to the severe drought;

- Many businesses have purchased water in order to maintain the viability of their crop. This has increased the costs to business;

- The ramifications of conditions on the wine sector are immense, placing pressure on grape harvest tonnages and wine production;

- These issues, when combined, impact on employment opportunities within the wine industry;

- Whilst we have not evidenced significantly lower employment levels to date we have seen increased redundancies. Lower employment levels does remain a risk due to the on-going impact of the drought, reduced water allocations and the increasing value of the Australian dollar;

- A number of wine industry employers will suffer financial hardship as a result of the current environmental conditions, and this will significantly affect their ability to pay higher wages to their employees.

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\(^3\) Source: The Australian Financial Review Friday 29 February 2008
3. The provision of a safety net for the low paid

- Safety net wage rates provide a guaranteed living wage and a certainty of income level, which assists employees to meet their cost of living;

- Safety net wage rates have to be at a level that employers can afford to pay (taking into account current national economic indicators such as the unemployment figures, the Gross Domestic Product, wages growth, the Consumer Price Index and industry performance), in order to retain and recruit new employees and not act as a disincentive for workplace bargaining.

4. The impact of the AFPC’s 2007 Minimum Wage Decision

- It has been just over five months since the last pay increase arising from the AFPC’s 2006 Minimum Wage Case Decision was effected. While there have been no reports to SAWIA that wine industry employers had difficulties paying the last increase, the full impact of the on-going drought and water restrictions may be realised with the next increase if there is no relief in sight.

Further water allocation cuts (possibly to zero) can only be avoided by getting significant rainfall during winter 2008. With limited access to irrigation water, wine industry employers will start to face difficulty in meeting their financial obligations including paying their employees. Any increase awarded by the AFPC in the 2008 Wage-Setting Decision will add to these financial pressures;

5. Conclusion

- The Australian wine industry along with many in the agricultural industry has been severely impacted by the on-going drought and water restrictions and a number of employers in the industry are facing financial pressures;

- The March 2008 drought update from the Murray Darling Basin Commission shows that inflows remain at record low levels and the outlook for 2008/09 remains grim despite the recent floods in Queensland and parts of New South Wales;

- Subject to the rainfall we receive in 2008 winter the drought situation is not likely to improve enough by the time the AFPC hands down its Minimum Wage Review decision in mid 2008;
• As a result of the drought and water restrictions, the AFPC should consider the financial pressures currently facing the wine industry when making its 2008 wage-setting decision.

2. 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), often through company owned distribution channels.

The wine industry in Australia has grown significantly over the past 15 years. Strong industry growth in the early 1990’s was further spurred by Strategy 2025, the industry’s blueprint for success released in 1996 and the massive planting spree of wine grape vines that followed.

The Strategy 2025 target of $4.5 billion in annual sales was surpassed in 2005 – 20 years ahead of time. However, after a decade of unprecedented change in global wine trading conditions there was a need to reassess the priorities and challenges facing Australian wine, most of which were anticipated in Strategy 2025. That reassessment was Directions to 2025 launched in May 2007 and is a process which represents the best opportunity to secure the future of Australian wine through economic prosperity, environmental sustainability, technological innovation and social responsibility.

Based on the most current statistical information Australia has 2,146 wine producers and the industry employs around 31,000 employees. Best estimates indicate that the wine industry workforce employs males and females in the ratio of 62% / 38%.

In South Australia there are some 560 wine producers employing some 12,000 employees and produces 60% of export sales for Australia. Impacts within the South Australian context affect the Australian wine industry

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4 The 2008 publication of The Australian and New Zealand Wine Industry Directory is due out in April 2008
significantly with over 30% of all winemaking locations being in South Australia and these account for 43% of the national wine grape crush\(^7\).

It is important to note that despite a reasonable increase in exports\(^8\) the average price per litre dropped from $3.82 in 2005-06 to $3.66 in 2006-07.

It is likely we will see the average price drop again in 2007-08 with the recently rising Australian dollar. For the past five or so months the Australian dollar has been US$0.94\(^c\) or more, resulting in being one of the biggest problems facing the wine industry causing profit margins to contract.

Hence with less money being generated via exports the ability to reinvest income back into the business, including covering the rising costs of employment through wages, becomes challenging.

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);
- cleaning (cleaners);
- 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, viticulturalists & management)

\(^7\) Source: Australian Bureau of Statistics 1329.0 – Australian Wine and Grape Industry, 2007 published on 29 January 2008

\(^8\) Australian wine exports continued to increase, reaching 787 million litres (up 9%) for a total value of $2.9 billion (up4%). Source: Australian Bureau of Statistics 1329.0 – Australian Wine and Grape Industry, 2007 published on 29 January 2008
3. Economic Prosperity

a. The Capacity for the Low Paid and Unemployed to Obtain and Remain in Employment

The wine industry in Australia predominantly employs people in the vineyards, cellar, cellar door sales, laboratory, bottling, warehousing and supply streams. Trainees can be employed in all of these streams at the base level. In addition to the permanent and casual workforce of wine industry employers, temporary or seasonal labour is often specifically engaged for the vintage period (within the vineyards or wine production for example).

There are a number of awards that cover employment in the Australian wine industry and each of these awards contain a unique classification structure which form part of the preserved Australian Pay and Classification Scales (Pay Scales). As has been the case with the past two SAWIA submissions, the *Wine and Spirit Industry (South Australia) Award (NAPSA)* is referenced in order to illustrate the base level duties to which an inexperienced person can be employed and the opportunities available for an employee to progress through the Levels in the classification structure.

Under the *Wine and Spirit Industry (South Australia) Award (NAPSA)*, an inexperienced person can be employed at the base level (Grade 1) in the bottling stream (for example) to be trained in attending packaging equipment, performing repetitive tasks (eg hand labelling, carton making) and conducting bottle hygiene/housekeeping. The employee can then advance through the Grades in the bottling stream by completing the required training and receiving successful assessments on the skills and competencies gained.

Classification structures that contain the opportunity for employees to gain skills and competencies in order to advance through the Grades are of benefit to both the employers (eg higher skilled workforce, higher morale) and to the employees (eg higher remuneration, greater job satisfaction).

Annexure A shows a comparison of current wage rates (which operate as preserved Pay Scales, the wage rates shown incorporate the 2007 AFPC increase) between the Australian wine industry awards / NAPSA’s.

The wine industry therefore has base level positions, which offer employment opportunities for the unemployed and the ability to progress to higher paid and more skilled work.
b. Employment and Competitiveness Across the Economy

2007 and 2008 Australian Wine Grape Harvest

The 2007 vintage delivered a total grape crust of 1.4 million tonnes, 500,000 tonnes less from the previous vintage. This produced 978 million litres of wine, down by nearly a third (32%)\(^9\). Seasonal conditions conspired to reduce yields (tonnes per hectare) to the lowest levels in 30 years however unlike last year’s vintage 2008 vintage did avoid the damaging frosts and early harvest rains.

The 2008 Australian wine grape harvest was almost half way (50%) completed by the end of February with estimates at that time predicting that it was set to deliver between 1.55 – 1.65 million tonnes\(^{10}\). Whilst this estimated figure is above the forecast of 1.22 million tonnes it is still below the average-sized vintage of 1.9 million tonnes.

However if already reduced water allocations are cut further or remain at zero (in some cases) then the yields for the 2009 vintage remain uncertain but in all likelihood will be well below average.

However, while it is likely that the Australian wine industry will return to a supply-demand balance by 2008-2009, SAWIA reiterates that wine industry employers will be facing financial difficulties in the interim as result of reduced grape harvest tonnages and a strong Australian dollar.

Effect of Drought and Water Restrictions on Employment Levels and Ability to Pay Higher Wages

Water restrictions remain in place in parts of Australia due to the severe drought. As a result, vineyard managers will need to closely evaluate their irrigation management practices in order to ensure that future production capacity is protected with very limited water supplies.

The Australia Bureau of Statistics reported that during 2007 there were 8,041 vineyards in Australia, and nearly all (84%) were irrigated. With more than 60% of wine grape production being sourced from regions that take their supplementary water from the Murray-Darling Basin system\(^{11}\), the 2009 Australian wine grape production yield will be strongly influenced by water allocations dependant on the winter rains.

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\(^{10}\) Source: Australian and Harvest Report 2008  
The March 2008 drought update from the Murray Darling Basin Commission (the MDB Commission) shows that despite flooding rains in Queensland and parts of New South Wales this year the water availability remains low and the Murray system is still in drought. Therefore the MDB Commission are continuing to tightly manage the system to conserve as much water as possible in major storages to maximise water availability to the states in 2008/09. Opening water allocations for Murray water users in 2008/09 are again expected to be very low or zero – but with some carryover water allocations. Allocation improvements during the season will be highly dependent on rainfall and inflows over winter/spring 2008.

Given this situation the drought situation will not improve by the time the AFPC hands down its Minimum Wage Review decision in July 2008 but more information about allocations may be know by the time the decision is due to become effective in October 2008. If the drought continues with no improvement in water allocations then the outlook will be grim for the wine industry.

Whilst the wine industry does not appear to have made significant reductions in employment levels in the last 8 to 12 months we have seen an increase in business restructures and redundancies, either resulting in the position disappearing all together or changing one or more positions in an organisation to part-time (mainly representing a reduction in work hours). Many businesses are mindful of the skills shortage in some parts of Australia and want to maintain their workforce yet climatic conditions are challenging that objective. Whether redundancy remains a sustainable employment strategy heading into the 2009 vintage because of the increasing impact of the drought and water restrictions remains to be seen. If the drought continues, and further water restrictions are applied (or sustained zero allocations remain in place for some time), the ongoing viability of some wine industry businesses will also be tested.

Based on the issues facing the wine industry, employers will suffer financial hardship, which will significantly affect their ability to pay higher wages to their employees.

**Deferral of Wage-Setting Decision 3/2007 for farmers in receipt of the Exceptional Circumstances Interest Rate Subsidy (ECIRS)**

SAWIA made a request to the AFPC following the announcement of its Wage-Setting Decision 3/2007 that the Australian Pay and Classification Scale (Pay Scale) derived from the Wine and Spirit Industry (South Australia) Award NAPSA be included in the Exceptional Circumstances deferral from the AFPC’s increase under the Wage-Setting Decision 3/2007.
The AFPC made a determination that employees employed by employers who were in receipt of the federal Government’s ECIRS and who are covered by the following Pay Scales:

- derived from the *Wine Industry AWU Award 1999*;
- derived from the *Consolidated Wine Industry (State) Award*; and
- derived from the *Wine and Spirit Industry (South Australia) Award NAPSA*.

were exempt as of 30 September 2007 from the increases awarded by the AFPC in Wage-Setting Decision 3/2007.

Following SAWIA advising its members of the AFPC’s deferral determination we were not made aware of any members who sought more information or actioned this aspect of the decision. As raised above, whilst the drought continues to impact on wine businesses we have seen an increase in redundancies.

SAWIA has made a number of requests of the relevant State Government departments about the uptake of the ECIRS within South Australia however at the time of lodging this submission we have not received a response to our requests or provided with any information.

Whilst we have not been able to provide any evidence of uptake of the deferral by employers who employ workers under the above awards at the very least the deferral was, we would submit, a symbol of recognition of the hardship that people in rural regions were experiencing, and continue to experience, and this may have provided them with the comfort of knowing there were alternative options to continue employment that could be pursued. Not exercising an option (to not pay increased wages in this case) does not make the deferral a valid recognition of the challenges for rural businesses.

The pruning season and a successful 2009 vintage will continue to be challenged by the drought and reduced water allocations. Potentially grape growers within the wine industry will have a greater need for financial relief in the future. The AFPC must also take into account that the longer the drought continues the more we will see on-going low or reduced water allocations. This combined with unprecedented spells of hot weather affecting the 2008 vintage\(^\text{12}\) will contribute to financial hardship taking its toll on businesses in the industry.

**c. Provision of a Safety Net for the Low Paid**

The provision of safety net wage rates for the low paid has been a feature of the Australian industrial relations system over many years.

\(^{12}\) Particularly in South Australian during March 2008
With the Wage-Setting Decision 3/2007 announced in July 2007, the AFPC has ensured that employees not covered by a Pay Scale (other than juniors, employees subject to training requirements and employees with a disability) must be paid at least the standard Federal Minimum Wage of $13.74 per hour. The increase also adjusts the minimum rates of pay for every employee covered by a Pay Scale with the applicable basic rate of pay for their classification (which cannot be less than the Federal Minimum Wage). This increase was effective from 1 October 2007. The 2007 Wage-Setting Decision came ten months after Wage-Setting Decision 3/2006 resulting in an increase in the Federal Minimum Wage of $37.62 per week.

These safety net wage rates provide a guaranteed living wage and a certainty of income level, which assists employees to budget their cost of living expenses accordingly.

However, the safety net wage rates have to be at a level that employers can afford to pay in order to retain and recruit new employees. The Consumer Price Index (CPI) and Wage Price Index (WPI) are good national indicators in this regard.

Principal objects listed in Section 3 of the Workplace Relations Act 1996 relating to the provision of a safety net for the low paid are as follows:

**(c)** providing an economically sustainable safety net of minimum wages and conditions for those whose employment is regulated by this Act;

**(g)** ensuring that awards provide minimum safety net entitlements for award-reliant employees which are consistent with Australian Fair Pay Commission decisions and which avoid creating disincentives to bargain at the workplace level; and

**(k)** protecting the competitive position of young people in the labour market, promoting youth employment, youth skills and community standards and assisting in reducing youth unemployment.

Whilst the emphasis of the Work Choices legislation to encourage individual agreement making will inevitably be repealed shortly there does remain an emphasis on collective agreement-making and we will see a return to award-reliance for many employees. It should also be noted that many employees on Pay Scales would not be considered as low paid and so it is important that Pay Scales are not adjusted by the AFPC to a level that acts as a disincentive to workplace bargaining. Also it should be noted by the AFPC that a large number of employees will return to award (NAPSA) reliance, and Australian Workplace Agreements will cease to be a valid industrial instrument upon the

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13 An increase from $13.47 per hour under the 2006 wage-setting decision
14 Effective since December 2006
likely passage of current the Workplace Relations Amendment (Transitional to Forward with Fairness) Bill 2008.

d. The Impact of the AFPC’s 2007 Minimum Wage Decision

The Wage-Setting Decision 2/2007 handed down by the AFPC on 20 June 2007 granted a general pay increase that adjusted the standard Federal Minimum Wage and Pay Scales as follows:

- An increase of $10.26 per week ($0.27 per hour) to the standard FMW bringing the weekly rate to $522.12. The standard FMW increases from $13.47 to $13.74 per hour;

- An increase of approximately $10.25 per week ($0.27 per hour) in all adult Pay Scales that currently provide for a basic periodic rate of pay up to the level of $700.00 per week; and

- An increase of approximately $5.30 per week ($0.14 per hour) in all adult Pay Scales that currently provide for a basic periodic rate of pay above $700.00 per week.

By the time the 2008 Wage-Setting Decision becomes operative it will be 12 months since the last pay increases arising from the AFPC’s 2007 Minimum Wage Case Decision effective on and from 1 October 2007. While there have been no reports that wine industry employers had difficulties paying those increases, the on-going drought and water restrictions will continue to threaten the financial viability facing wine industry employers as outlined in section 3 of this submission.

The Australian Bureau of Statistics released its labour force figures on 13 March 2008\(^\text{15}\). These figures show that the seasonally adjusted unemployment rate dropped by 0.1 percentage points in February 2008 to 4.0%, down from 4.1% in January 2008. As a point of comparison the seasonally adjusted unemployment rate for February 2008 has dropped by 0.6% since February 2007 (4.6%). The male unemployment rate decreased marginally to 3.6% (in February 2007 it had decreased by 0.1 percentage points to 4.2%), and the female unemployment rate decreased by 0.2 percentage points to 4.4% (in February 2007 it had increased by 0.2 percentage points to 5.1%).

In the AFPC’s 2008 Minimum Wage Review, the AFPC should take into account these latest unemployment figures plus the December 2007 figures for GDP, wages growth and CPI.

\(^{15}\) Source: ABS publication 6202.0
The Australian Bureau of Statistics released its Consumer Price Index figures on 23 January 2008\textsuperscript{16} showing the CPI movement rose by 3.0\% from the December Quarter 2006 for the 12 months to the December Quarter 2007. From the September Quarter 2007 to the December Quarter 2007, the CPI increased by 0.9\%. Figures for the March Quarter 2008 will be released on 23 April 2008, and SAWIA submits that the March Quarter 2007 figures should be taken into account by the AFPC in the 2008 Minimum Wage Review.

Pay Scale Summaries

It was announced on 18 December 2007 that the AFPC, following advice from the newly elected Federal Government, will no longer create and publish Australian Pay and Classification Scales (Pay Scales).

It is our understanding, as at the time of this submission, that those Pay Scale summaries\textsuperscript{17} which have been published up to the time of the announcement will remain in existence and will be adjusted to take into account the AFPC’s June 2008 Decision (operative from October 2008).

4. Conclusion

It has only been just over five and a half months since the last pay increases arising from the AFPC’s 2007 wage-setting decision effective from 1 October 2007. Since this time the Australian wine industry has commenced the 2008 vintage and, whilst yields are up on predicted forecasts the wine industry (particularly South Australia) has been severely impacted by the current drought and water restrictions with a number of employers in the industry continuing to tackle financial pressures.

Given the drought update\textsuperscript{18} from the Murray Darling Basin Commission that despite flooding rains in Queensland and parts of New South Wales the water availability remains low and the Murray system is still in drought. The Murray Darling Basin Commission will consequently continue to tightly manage the system to conserve as much water as possible in major storages to maximise water availability to the states in 2008/09.

Whilst the wine industry has seen an increase in redundancies in the last 12 months the ongoing impact of the drought and water restrictions may see employment levels continue to reduce next year. If the drought continues, and further water restrictions are applied, the reduction in employment levels may be the only employment strategy available to employers in order to remain viable.

\textsuperscript{16} Source: ABS publication 6401.0
\textsuperscript{17} That had been prepared for nearly 400 of the most commonly used awards
\textsuperscript{18} March 2008
Based on the issues facing the wine industry, employers will suffer financial hardship, which will significantly affect their ability to pay higher wages to their employees.

SAWIA submits that the AFPC should consider the financial pressures continuing to be faced by the wine industry when making its 2008 wage-setting decision.
Annexure A – Summary of Award Wage Hourly Rates across Australia

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NOTE: these award rates are current as at March 2008 to the best knowledge of SAWIA.

* The hourly rate for the Fruit and Vegetable Growing Industry Award – State 2002 in Queensland is based on a 40 hour week.

19 Wine Industry – AWU – Award 1999 (Pre-Reform Award)
20 Wine Industry Consolidated (State) Award
21 Wine and Spirit Industry (South Australia) Award (NAPSA)
22 Wine Industry (WA) Award 2005
23 Fruit and Vegetable Growing Industry Award – State 2002 (Northern District) applicable to persons employed in fruit growing industry, including the preparation of the land, cultivation, planting, care, picking, handling, treating, packing and dispatching all fresh fruits..., on or from...vineyards. For persons employed in wine production refer to the Federal Wine Industry – AWU – Award 1999 for those named employers.
24 Farming and Fruit Growing Award applicable to persons employed in viticulture and / or grape growing including management, cultivation, picking, grading, processing. The Federal Wine Industry – AWU – Award 1999 is not applicable to Tasmania.