

**FAIR WORK COMMISSION**  
**MINIMUM WAGE PANEL**  
**SUBMISSION – ANNUAL WAGE REVIEW 2016-17**



**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 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 and services which underpin the sustainability and competitiveness of members' wine business.

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 developed expertise in industrial and workplace relations which is of interest to and is a service to members. 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.

## **Basis of Submission**

The Fair Work Commission (FWC) in its Statement of 24 August 2016 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 2016-2017 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 2016-17 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.

## 1. 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);
- cleaning (cleaners);
- security (security officers);
- 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 2,468<sup>1</sup> wine producers. At the last Census (2011) around 28,000 people stated that their primary industry of employment was either the grape growing or wine manufacturing industry<sup>2</sup>. Best estimates at that time indicated that the wine industry workforce employs males and females in the ratio of 67% / 33% respectively.

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' share of the Australian alcohol retailing market is now approximately 60%, which gives them more bargaining power with wine producers to drive prices down, and results in tight net margins for wine producers.

It is reported that difficult trading conditions have plagued the wine production industry over the past five years. Volatile demand from key export markets, a high Australian dollar to 2014, and rising competition from low-cost overseas wine producers have all hurt wine exports. In the domestic market, producers have contended with changing consumer preferences and

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<sup>1</sup> Source: The Australian and New Zealand Wine Industry Directory 2016, page 10 Table 21

<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.

have lost bargaining power to retailers. Additionally, an oversupply of wine grapes – and the resulting oversupply of wine – has pushed prices downwards<sup>3</sup>.

## 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>4</sup>**

State/Regions	2016 Raw Crush Data Tonnes	% of total crush
South Australia	926,430	51%
New South Wales	348,441	19%
Victoria	63,933	4%
Western Australia	39,055	2.0%
Queensland	2,168	<0.05%
Tasmania	10,214	1%
Australian Capital Territory	-	<0.05%
Murray Darling-Swan Hill <sup>5</sup>	416,966	23%
<b>TOTAL</b>	<b>1,807,207</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 85% of the total crush.<sup>6</sup>

The Australian Wine industry makes an important contribution to the Australian economy. According to the 2011 Australian Census the industry, including wine producers and wine grape growers, provides direct employment to 22,000 Australians.

In 2016, the value of Australian wine exports grew by 7 per cent to \$2.22 billion and volume increased by 1 per cent to 750 million litres compared with the previous 12 months. The average value of exports grew by 6 per cent to \$2.96 per litre Free on Board (FOB), the highest level since 2009.<sup>7</sup>

The trend over the past 10 years (since 2005-06) has been a decline in overall volume and value of bottled wine exports (both red and white) and a corresponding increase in bulk wine exports, while the total volume of exported wine has been between 700 million litres and 800 million litres per annum, with a total value of between A\$1.8 billion and A\$3 billion FOB.<sup>8</sup>

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>9</sup> found that international tourists identify 'great food, wine, local cuisine and produce' as a major reason for visiting Australia. Tourism Research Australia estimated that in 2014-15 there were 15.8 million domestic visitor nights and 44.2 million

<sup>3</sup> IBISWorld - Wine Production Market Research Report | ANZSIC C1214 | Dec 2015

<sup>4</sup> Winemakers' Federation of Australia 2016, Vintage Report, July 2016 <http://www.wfa.org.au/assets/vintage-reports/Vintage-Report-2016.pdf>

<sup>5</sup> This region crosses the State borders of Victoria and New South Wales

<sup>6</sup> Ibid 4

<sup>7</sup> Wine Australian, Export Monitor, February 2017

<sup>8</sup> Ibid 7

<sup>9</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).

international visitor nights associated with Australian wineries. Overall wine related visitor expenditure totalled \$9.2 billion. The report also highlighted the wine sector's significant contribution and its central role in regional economies. This was despite hardships over more than a decade including the GFC, unfavourable exchange rates, increased global competition and the resulting drop in profitability.

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. Close to 100% of the growth was exported into key markets, including the United Kingdom, United States and Canada.<sup>10</sup>

However, from 2007 the Australian Wine industry has been under significant pressure commencing with the global financial crisis (GFC) in August 2007. 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>11</sup>

The depreciation of the Australian dollar since 2013-14 has helped to improve the competitiveness of Australian wine exports, but that it is only one factor and it will take a long time to return to the pre GFC export levels in terms of volume and value, and indeed if it ever returns to those levels.

### **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 2016 and the Outlook for 2017**

According to the Reserve Bank of Australia (RBA), year ended December 2016 growth in the Australian economy had slowed. GDP fell in the September 2016 quarter and consumption growth was subdued in mid 2016; it is expected to recover but remain below its historical average. This is consistent with relatively weak growth in household income and a gradual improvement in labour market conditions.<sup>12</sup>

GDP growth is expected to pick up over 2017 to 2½–3½ per cent, supported by low interest rates, the diminishing drag on growth from falling resource investment and rising resource exports. However, overall growth is not expected to be sufficient to generate much of a decline in the unemployment rate over the forecast period.<sup>13</sup>

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<sup>10</sup> Winemakers ' Federation 2013, Expert Report on the Profitability and Dynamics of the Australian Wine Industry

<sup>11</sup> Ibid 10

<sup>12</sup> RBA Statement on Monetary Policy – February 2017

<sup>13</sup> Ibid 12

The AgEconPlus report *Economic Contribution of the Australian Wine Sector*<sup>14</sup> defined the Australian wine sector as wine grape growing, wine making and wine related tourism. Their research has quantified the direct and flow-on effects of the Australian wine sector.

The key results from the analysis are as follows.

- Supports 172,736 full and part-time jobs most of which are located in regional Australia. (Jobs supported by the wine sector include direct employment of 68,395 within the sector and a further 104,341 full time and part time jobs due to induced effects).
- Income from both direct and flow-on employment in the wine sector totals \$10.4 billion
- Contributes \$40.2 billion to the value of gross output for Australia.
- Adds \$19.7 billion in value-added to the Australian economy.

The report also includes the average effects of a contraction or expansion within the wine sector, suggesting:

- The wider economy would gain an extra 1.53 jobs for every job gained in the wine sector.
- The economy would gain an extra \$2.01 million for every additional \$1 million of gross output generated by the wine sector.
- The economy would gain an extra \$2.17 million in contribution to value-added for every additional \$1 million of value-added generated by the wine sector.

Whilst the wine sector is buoyed by the depreciation in the Australian dollar, it still remains relatively high and countries such as France, Italy and Spain continue to take advantage of lower costs to increase their share in the export market.

The Australian wine sector makes a substantial contribution to Australia's national economic prosperity. The Australian wine sector has the features of agricultural production, manufacturing and the consumer goods sector.

## **5. Effect of water restrictions and electricity costs on the wine industry**

South Australia is the principal grape and wine producing state in Australia, contributing 51% of the total 2016 Australian wine grape crush<sup>15</sup>. In recent years South Australia has experienced severe water restrictions in various wine growing regions across the state and whilst somewhat the pressure has eased it is likely to continue experiencing constraints in its access to water due to a number of key pressures including agricultural sector growth plans, population pressures and climate change.

Vineyards in South Australia accounted for 45% of total water use. Watering by drip or microspray is still the most popular method of watering with 120,000 hectares of vineyards watering this way nationally.<sup>16</sup> According to the most recent statistics from the Australia Bureau of Statistics in 2012 there was an 11% decrease in the water usage to 372,000 megalitres due to a higher rainfall in the previous two seasons.

Whilst South Australia is not currently experiencing major water restrictions, 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.

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<sup>14</sup> Ibid 9

<sup>15</sup> Ibid 4

<sup>16</sup> ABS – Water Source and Water Methods Cat no: 1329.0.55.002

Electricity costs, particularly in South Australia are also of concern to the wine industry. SAWIA understands that, on average, electricity (and gas) prices in Australia have doubled over the period 2004 to 2016. Looking forward to 2018 in South Australia, the futures market indicates an expected average electricity price in the vicinity of \$120/MWh, significantly up from a steady base prior to July 2015 that was about \$40/MWh.

## **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 2007-08 to \$708 million in 2015-16. Value declined from \$713 million to \$697 million (-2%) in the 2016 calendar year compared with 2015.<sup>17</sup>

Now that the Australian dollar has retreated to lower levels over the past two to three years wine businesses need to expend significant amounts of capital to refresh their export markets.

Domestically, identifiable cost increases for employers under the *Wine Industry Award 2010* (and other relevant modern awards) over the past 5 years include: the increase of casual loading to 25%; high weekend penalty rates, particularly in “cellar doors”; and the ongoing and continual changes to employment legislation that equate to an additional cost and possible further red tape burden. These costs are and will continue to have a significant impact on employers’ labour costs.

SAWIA also notes the recent penalty rates case decision<sup>18</sup> that has proposed a decrease to Sunday penalty rate for a limited number of specific Awards. In particular, the Hospitality Industry (General) Award 2010 (the Hospitality Award) Sunday penalty rate for permanent employees is proposed to be decreased from 175% to 150% (with no change for casuals which remains at 175% (inclusive of casual loading)). By comparison, Sunday ordinary hours penalty rates for cellar door sales workers covered under the Wine Industry Award 2010 are 200% for permanent employees and 225% for casuals (inclusive of casual loading) which are substantially higher than those in the Hospitality Award.

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.

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<sup>17</sup> Ibid 7

<sup>18</sup> 4 yearly review of modern awards — Penalty Rates - AM2014/305 [2017] FWCFB 1001

## 7. Annual Wage Review 2016-17

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.

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>19</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 *Wine Industry Award 2010* (the award) has a spread of 5 classifications and the majority of employees who are covered by the award are classified as Grade 3. If, for example, a Grade 3 employee received \$2.50 a week more than a Grade 1 employee (due to a percentage increase being awarded) the Grade 1 employee would simply receive an increase that compensates for inflation and the Grade 3 employee would also be compensated for inflation but also receive a wage increase “premium”. 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 during an enduring difficult period for the wine industry.

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.

## 8. Industry Enterprise Agreement Making

Since the Annual Wage Review 2009-10, collective and enterprise bargaining activity within the national wine industry have led to a number of agreements being renegotiated and approved by the Fair Work Commission, whilst some enterprise agreements are currently up for renegotiation. The majority of enterprise agreements were negotiated with an employee association.

The average term for enterprise agreements in the wine industry is 3 years. Recent agreements that have been negotiated and approved have seen the previous trend of wage increases of around 3% - 3.5% per annum decrease to between 2% – 3% (with some agreements linked to CPI increases only) for the life of the agreement. 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.

The majority of enterprise agreements provided for a specific wage percentage amount to be increased, whilst other agreements have aligned their wage increases to specific CPI factors. Increases above 2.5% have generally been based on agreed productivity improvements that mitigate against increased wages costs.

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<sup>19</sup> 2010 FWA FB 4000 Annual Wage Review 2009-10 paragraph 337

## 9. Conclusion

In 2017 the wine sector faces formidable demand and supply challenges that are eroding the previous successes of the past two decades.

In summary, the wine industry is facing many challenges in 2017 including:

- Continuing to rebuild international markets for Australian exports of wine
- Combating the steady increase of wine imports to Australia, especially from New Zealand
- Falling margins for domestic wine sales values
- Increases in operational costs, in particular electricity (and gas) costs (particularly in SA), insurance cover, emergency services levies (in SA) 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 and as mentioned previously in this submission, businesses are facing losses due to the challenges faced in exporting wine due to a fluctuating Australian dollar. 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 speaking.

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