

**FAIR WORK COMMISSION
MINIMUM WAGE PANEL
SUBMISSION – ANNUAL WAGE REVIEW 2019-2020**



**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 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 3 October 2019 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 2019-2020 Annual Wage Review (Wage Review).

In accordance with the Statement regarding updated timetable, [2020] FWC 1337, 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 and hospitality (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 professionals, quality assurance, micro-biologists, winemakers, viticulturists & management).

Based on the most current statistical information Australia has 2,257¹ 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 59% / 41% 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 1.73 million tonnes.

Figure 1: Crush by State and region³

State/Regions	% of total crush
South Australia	50%
New South Wales	30%
Victoria	17%
Western Australia	2%
Tasmania	1%
Queensland	<1%
TOTAL	100%

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 2019, page 1

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 2020, National Vintage Report 2019

⁴ The Australian and New Zealand Wine Industry Directory 2019

In 2019, the value of Australian wine exports grew by 3% per cent to \$2.90 billion, however volume fell by 12 per cent to 744 million litres compared with the previous 12 months. The average value of exports grew by 18 per cent to \$3.91 per litre Free on Board (FOB).⁵

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*⁶ 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. 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%⁷, which gives them more bargaining power with wine producers to drive prices down, and results in tight net margins for wine producers.

Since December 2019, the wine industry has been experiencing significant challenges as a consequence of the summer bushfires and the advent of COVID-19. SAWIA expect this to be reflected in the March quarter export figures and in visitor numbers, including international tourism.

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 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 2020 and the Outlook for 2021

According to the Reserve Bank of Australia (RBA), the Australian economy is expected to grow around 2¾%.⁸

The outbreak of COVID-19 represents a new source of uncertainty. Whilst, this is expected to reduce Chinese and global growth, it is very uncertain what the actual effect will be and the duration of any downturn. RBA observes that previous virus outbreaks have had short-

⁵ Wine Australia, Australian Wine Export Report, Moving Annual Total – December 2019.

⁶ 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).

⁷ 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>

⁸ RBA Statement on Monetary Policy – February 2020

lived, but significant negative impact on economic growth in countries at the centre of the virus outbreak.⁹

However, with COVID-19 now declared a pandemic, there is potential for a far greater global economic impact.

In terms of the labour market, the unemployment rate has remained around 5-5¼% since April 2019. It is expected that employment growth will remain moderate over the first half of 2020, but pick up thereafter.¹⁰

4. Effect of bushfires and COVID-19

In December 2019 and January 2020 South Australia was significantly affected by bushfires. In the Adelaide Hills wine region, 30% of vineyards were in the fire area and either severely or moderately fire damaged. On Kangaroo Island vineyards and wineries were also damaged. This has affected the supply of grapes from these regions and the level of wine production.

However, vineyards that are not fire-damaged may be affected by smoke-taint, which is grapes picking up smoky, burnt, ashy or medicinal sensory characters from the smoke. Consumers respond negatively to smoke tainted wines, which means that wineries need to consider a number of options to reduce smoke-related aromas, flavours and compounds. It may also result in the rejection of grapes, thereby affecting the overall production and impacting on the revenue of wineries and grape growers.

The bushfires have had a negative impact on cellar door visits by domestic and international tourists.

The South Australian wine industry are now experiencing initial effect of the COVID-19 outbreak, with the full effect yet to be seen. Being a tourism industry and a supplier to other hospitality and tourism providers and a producer of an essentially discretionary product, South Australian wine producers are experiencing experienced a downturn in sales, predominately exports. This is not surprising given the outbreak of COVID-19 in China and the fact that China represents approximately 60% of all South Australian wine exports in terms of value (\$735M).

It should be noted that official State and Federal Government statistics have not yet been published for the period post the COVID-19 outbreak. However, with the heavy reliance on the Chinese export market, SAWIA expect that the impact on the South Australian wine industry in relation to export revenue will be significant.

To ascertain the impact so far of COVID-19 on South Australian wineries, SAWIA conducted a survey of its members 17-20 March 2020. The responses represent a significant part of the South Australian wine industry. The results to date, demonstrate that:

- 96% of wineries have experienced a decrease in sales;
- 96% have experienced a decrease in export orders;
- 96% have experienced an impact on the ability to service domestic and international markets;
- 91% of wineries have experienced a decrease in profitability and cash flow; and
- 82% of cellar doors have experienced a decrease in visits.

⁹ Ibid

¹⁰ Ibid

Sales are slowing, both domestic and exports, there are less visitors to cellar doors and this impacts on sales revenue.

Export orders are showing significant decline to having completely stopped for some wineries. In particular, export opportunities in China are very limited.

In relation to wine business opportunities to service domestic and international markets it is reported that with no travel, it is impossible to service the market. For those than can provide service, orders are not forthcoming.

One member informed SAWIA that they are making all of their permanent workforce of more than 20 employees redundant as a result of the downturn in the Chinese market. A number of wineries have closed their cellar doors and restaurants or reduced their opening hours. Market development events, such as tasting events and festivals are cancelled and private functions at wineries, including weddings and birthdays are cancelled or postponed.

These circumstances are exceptional and must in SAWIA's submission be taken into account by the Expert Panel. Further, SAWIA is concerned that the economic data published to date and available to the Expert Panel all relate to the pre COVID-19 period and do not reflect the grave economic circumstances experienced by wine businesses.

SAWIA support employees getting a fair and reasonable wage increase and has supported a wage increase in line with CPI in previous Annual Wage Reviews. However, SAWIA notes that the decision over the last couple of years have exceeded CPI.

Wine businesses are now in survival mode and any wage increase decision in the range of the average 2.94% over the last 5 years would be devastating to wine businesses doing their utmost to retain their workforce and continue operating.

5. Water restrictions and electricity costs

Two thirds of South Australian wineries expect to use relatively low levels of water to irrigate their vineyards until 2023. Water access and costs has been rated by close to 80% of wineries as having a negative impact¹¹.

Electricity costs, particularly in South Australia are also of concern to the wine industry. Close to 90% of South Australian wineries surveyed nominate energy costs as having a negative impact on their business.¹²

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

The volume and value of imported wine continues to grow. This is due to a range of factors, including a historically high Australian dollar up to mid-2014, providing an opportunity for countries such as New Zealand, France and Italy taking advantage of lower production costs and increase their presence in major wine-consuming markets.

Since 2010, the volume of wine imports to Australia has grown from 67 million litres to 101 million litres or 51%. In 12 months to March 2019, the value of wine imports grew with 8%.¹³

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

¹¹ Bentleys SA and SAWIA 2019, South Australian Wine Industry October 2019 snapshot

¹² Ibid

¹³ Wine Australia 2019, Australian Wine Imports Monitor, March 2019

contributed to businesses looking for ways to be sustainable, including restructuring and downsizing workforce numbers, adopting of 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 South Australian wine industry has declined with 21.5% or 2,300 employees, compared to 25% in the overall Australian wine industry.

7. 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%¹⁴. Compared to the relevant industry divisions (ANZSIC), the average increases for grape growing and winemaking enterprise agreements are 2.4% and 2.6 respectively¹⁵.

8. Exceptional circumstances

SAWIA submits that the Australian economy, including the wine industry, are facing exceptional circumstances. This must be taken into account in the wage setting decision.

Given that the National Accounts for the 4th quarter 2019 were released prior to the COVID-19 crisis and the bushfire crises affecting the wine industry, SAWIA submits that the most cautious approach would be for FWC to defer the Annual Wage Review decision until the release of the 1st quarter 2020 National Accounts.

Under section 286(2) and 287(2) of the *Fair Work Act 2009* there is capacity for FWC specify a date of operation for the annual wage determination and the national minimum wage order later than 1 July, if satisfied that there are exceptional circumstances.

¹⁴ Department of Jobs and Small Business 2019, Trends in Federal Enterprise Bargaining Report September Quarter 2019

¹⁵ Ibid

According to the Governor of the Reserve Bank of Australia¹⁶ the COVID-19 situation:

- is an extraordinary and challenging time;
- has become a major economic problem; and
- requires a focus on supporting businesses and households who will suffer a major hit to their incomes.

The 1st quarter national accounts will be released on 3 June 2020. To enable sufficient time for the consideration of the national accounts, SAWIA submits that an operative date of 15 July 2020 is appropriate.

9. 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 after taking these exceptional circumstances into account and the 2020 1st quarter national accounts, FWC is of a mind to increase minimum wages, SAWIA submits that the Expert Panel should consider only a small flat increase and **no higher than the rate of inflation in Australia.**

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¹⁶ Speech by Governor Philip Lowe 2020, 19 March 2020, Reserve Bank of Australia