

PROTECTING OUR DAIRY FUTURE

WHY WATER BUYBACKS HURT FARMS, PROCESSORS AND COMMUNITIES

Australia's southern Murray-Darling Basin (sMDB) dairy industry is facing a defining challenge.

Independent modelling has revealed continued water buybacks pose a severe and disproportionate risk to dairy farmers, processors, and the regional communities they sustain.

Under two plausible buyback scenarios - the recovery of 302GL and 683GL - the analysis shows:

- **Reduced water availability:** Buybacks would reduce the consumptive water pool by 7 to 16 per cent.
- **Significant increases in water prices:** Allocation prices could rise by up to 40 per cent, compounding production costs across the industry.
- **Sharp declines in farmgate milk production:** Annual milk output could fall by 3 to 15 per cent, up to 270 million litres – also disrupting supply chains across states that rely on milk from this region.
- **Farm viability risks:** In an average year, under a moderate scenario, farm earnings could drop by about 37 per cent. In extreme drought years, farm earnings could plummet by up to 535 per cent, with losses of up to \$430,000 for some businesses.
- **Heightened risk of dairy processor closures:** Reduced milk supply and rising costs would force further rationalisation across the dairy processing sector. Under a high impact scenario, the foregone revenue from processed dairy products could be more than \$500 million annually.
- **Community and supply chain impacts:** Farm spending cuts flow through to rural suppliers and service providers, and reduced milk supply threatens associated local jobs, business viability, and the broader regional economy.

The study confirms buybacks would not only impact sellers of water entitlements but would raise input costs and reduce profitability across the entire dairy sector.

DAIRY PROCESSOR CLOSURES

Reduced milk & rising costs
would force rationalisation

DAIRY FARM EXITS

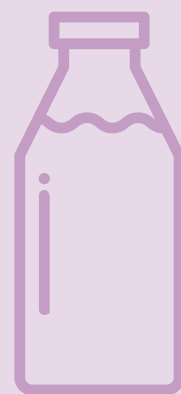
WATER COSTS SOAR



Allocation
prices could
rise by
up to 40%

270M LITRES LOST

Annual milk
production could
fall by 3 to 15%



REGIONAL JOB LOSSES

Contraction in
dairy farms and
dairy processing
threatens rural
jobs, services
and regional
growth



EVIDENCE-BASED ANALYSIS

How reduced water availability will affect dairy farms, dairy processors & local communities.

About the project

Dairy Australia commissioned Ricardo (formerly Aither) to assess the potential impacts of water buybacks on the dairy industry in the southern Murray-Darling Basin (sMDB).

The report provides a detailed, evidence-based analysis of how reduced water availability would affect dairy farms, dairy processors, and local communities.

The project evaluates two buyback scenarios:

- **Moderate:** Recovery of 302GL of water entitlements
- **High-impact:** Recovery of 683GL of water entitlements

The work builds on existing analysis by ABARES and uses real farm-level financial and production data to model impacts under different seasonal and market conditions.

It aims to support better decision-making by government, industry, and farmers by highlighting the risks to dairy production, processor viability, and regional economies if large-scale buybacks proceed.

REDUCED WATER AVAILABILITY

Buybacks would reduce the consumptive water pool by 7-16%. Pushing water allocation prices up by 17-40%, especially during dry years.



A robust and credible methodology

The assessment used a structured, seven-step analytical framework based on:

- Real farm data from the Dairy Farm Monitor Project (DFMP), using 11 anonymised case study farms.
- Scenario modelling of two buyback volumes (302 GL and 683 GL).
- Price impact modelling using a well-established price elasticity method aligned with ABARES standards.
- Three farm adaptation pathways modelled to capture realistic business responses:
 - Continuing to purchase water at higher prices
 - Substituting purchased feed for water
 - Reducing herd size and milk production
- Processor impact analysis based on market consultation and sector economic data.
- Community and supply chain analysis through farm expenditure case studies and local economic modelling.

The approach ensured a rigorous, transparent process aligned with national research standards and incorporated sensitivity testing under "extreme dry" conditions to reflect future climate risk.



KEY IMPACTS IDENTIFIED

Water buybacks pose a material risk to the sMDB dairy industry at every level. Farms, processors, and communities.

IMPACT ON \$\$\$\$

On farm: The financial impacts at a farm, processor and community level are substantial. On farm the report summarised the average impact on Earnings Before Interest and Tax (EBIT) across 11 dairy farms under three response pathways in a moderate scenario extreme drought year.

Response Pathway	Moderate Scenario Impact	Drought Year Impact
A: Purchases entitlement to maintain production	-10%	-92%
B: Substitutes water with additional feed	-37%	-125%
C: Reduce herd size and milk production	-5%	-68%

On processors: The report also modelled the estimated impacts of milk production reductions on processed dairy product revenue under low and high-water buyback scenarios.

Scenario	Est reduction in processed dairy product revenue (\$M/year)
Low impact	\$90 to \$122
High impact	\$405 to \$545

On regional economies: A case study analysis of four farms highlights how reductions in farm income flow through to local service providers and township economies. The report identified potential decreases in expenditure of between \$100,000 and \$1 million.

IMPACT BREAKDOWN

Impact on farms

- **Profitability pressures:** Farms relying heavily on water allocation markets are most vulnerable. Operating costs could rise sharply while earnings fall, with some farms experiencing EBIT losses of up to \$430,000 in a single year.
- **Adaptation challenges:**
 - Buying water at higher prices leads to smaller but still significant financial losses.
 - Substituting with purchased feed can be prohibitively expensive and unsustainable long-term.
 - Reducing herd size cuts revenue and efficiency.
- **Risk of exit:** Farms with low water entitlement holdings face the highest risk of forced exit from the dairy industry, particularly in dry years.

ON FARM

- profitability pressures
- adaptation challenges
- risk of exit

IMPACT BREAKDOWN

A whole-of-industry & government approach critical to safeguarding the future of Australian dairy.

Impact on processors

- **Reduced milk supply:** A smaller milk pool means processors must compete more aggressively for limited milk, raising costs and lowering efficiency.
- **Increased transport costs:** To maintain plant utilisation, processors would need to transport milk from further afield (e.g., Gippsland, Tasmania), adding significant logistics costs.
- **Plant closures likely:** Rising input costs and falling volumes could hasten the closure of underutilised or marginally profitable processing facilities, further consolidating the sector.
- **Market vulnerability:** Domestic and global market competitiveness could erode, with imported dairy products filling the supply gap.

Impact on communities & regional economies

- **Reduced farm expenditure:** Lower farm incomes result in cuts to local spending on feed, services, maintenance, and labour — impacting rural businesses and employment.
- **Vulnerable suppliers:** Small, dairy-dependent suppliers (e.g., feed mills, vets, contractors) are particularly exposed, with limited options to pivot.
- **Regional economic contraction:** The cumulative effect is a contraction in regional economies, loss of services, and a decline in rural community resilience.

ON PROCESSORS

- reduced milk supply
- increased transport costs
- plant closures likely



OUR ASKS OF GOVERNMENT

The report shows that while the industry can adapt, large-scale water buybacks would make the pathway to a resilient, sustainable dairy industry much harder, riskier, and more costly.

ADIC calls on government to:

- **Stop** water buybacks
- **Ensure the current Basin Plan and its review demonstrate environmental outcomes,** protect food production and support the long-term resilience of regional communities.
- **Deliver tailored transition support for dairy** farmers, processors and regional communities to adapt, modernise and grow sustainably.
- **Invest in smart, win-win solutions** including infrastructure, innovation, and efficiency measures that deliver environmental outcomes without compromising dairy production.
- **Fund the research** that has enabled the dairy industry to identify and understand the real and disproportionate impacts of buybacks on farmers, processors and the communities they support.
- **Strategic water entitlement returns** in times of drought to ensure food production
- **Greater water flexibility,** Commonwealth to invest in complimentary measure projects to maximise environmental outcomes from the current water available

A whole-of-industry and government approach is critical to safeguarding the future of Australian dairy.