Australian Dairy Industry Council Inc.

Wednesday 13 August 2025

Water for the Environment Special Account Review Panel
c/o Department of Climate Change, Energy, the Environment and Water
E: WESAreview@dcceew.gov.au

RE: Submission to the third review of the Water for the Environment Special Account (WESA)

The Australian Dairy Industry Council (ADIC) welcomes the opportunity to provide input into the statutory review of the Water for the Environment Special Account (WESA).

The Australian dairy industry plays a critical role in regional economies, national food security, and export markets. The Murray–Darling Basin, particularly its southern regions, is home to a quarter of the nation's dairy farms, producing more than 1.85 billion litres of milk annually, home to 36 dairy processing businesses, and supporting more than 7,000 regional jobs. This production system is fundamentally reliant on irrigation, which in turn relies on stable water policy settings and long-term investment confidence.

The Water for the Environment Special Account (WESA) review presents a vital opportunity to rebalance Australia's water recovery approach. While significant volumes of environmental water have been secured, the delivery of ecological benefits has been constrained by physical, regulatory, and operational limitations. Meanwhile, buybacks, have imposed serious costs on irrigated sectors like dairy, including farm exits, processor closures, job losses, and increased reliance on imported dairy products.

Further water recovery, particularly via entitlement purchases, risks compounding these pressures unless alternative recovery mechanisms are prioritised. The Victorian Government's emerging prospectus model, coupled with investment in system modernisation and outcomes-focused reform, offers a more strategic path forward - delivering measurable environmental improvements while sustaining regional production and community wellbeing. Similarly, the NSW Government's *Alternatives to Buybacks Plan*[1] outlines practical recovery options that avoid direct entitlement purchases, such as targeted infrastructure upgrades, improved water efficiency projects, and strategic re-regulation works. These initiatives highlight that Basin states are actively identifying win–win opportunities for the environment and communities and demonstrate that the Basin Plan's remaining recovery targets can be met without further eroding the productive capacity and resilience of irrigation-dependent sectors like dairy.

[1] Alternatives to Buybacks Plan, 2024, NSW DPIE

Summary of recommendations

- **Pause further water buybacks** until revised operating rules are in place, additional environmental outcomes are clearly defined to justify further recovery, and safeguards are established to protect food production and the long-term resilience of regional communities.
- **Shift to outcomes-focused water management**, investing in delivery infrastructure, constraints relaxation, and complementary environmental measures.
- **Work with Basin states to co-design community-focused water recovery solutions** - ensuring projects are developed with local input, minimise social and economic disruption, and deliver environmental gains in ways that strengthen regional resilience and livelihoods.
- **Invest in smart, win-win water management solutions** including infrastructure, innovation, and efficiency measures that deliver environmental outcomes without compromising dairy production. **Improve transparency and accountability** of WESA-funded projects by requiring robust business cases and publicly reporting benefits.

This submission calls for a policy reset towards smarter, community-supported investments that deliver environmental water where it's needed, without eroding Australia's capacity to produce food, support regional jobs, and sustain strong irrigation communities.

About the Australian dairy industry

The ADIC the peak national body of the Australian dairy industry, representing the interests of dairy farmers and dairy processors through its two constituent bodies Australian Dairy Farmers and the Australian Dairy Products Federation. It aims to create a more prosperous and sustainable future for the local industry and the regional communities that rely on it.

Australian Dairy Farmers (ADF) is the national peak Industry Representative Body (IRB) representing all dairy farmers from across Australia's six dairy producing states. ADF's membership includes the State Dairy Farming Organisations from each State as well as direct farmer members.

The Australian Dairy Products Federation (ADPF) is the national peak policy and advocacy body representing the post farm-gate members of the Australian dairy supply chain, including processors, traders, and marketers of Australian dairy. ADPF members

process more than 90% of Australian milk volumes and provide dairy products for both domestic and export markets.

Dairy Australia (DA) is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's research and development corporation (RDC), it is the 'investment arm' of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

1. Context

1.1 The current state of the Australian dairy industry

Australia's dairy industry is a major contributor to the national economy, regional employment, and food security. It is the third largest Australian rural industry, with a farmgate value of $6.2 billion. Overall, the dairy industry generates $18.5 billion in economic impact across products and value chains, employing a direct workforce of almost 31,300 across dairy farms and processing. Australia is a significant exporter of dairy products. In 2023/24, 32 per cent of milk production was exported, valued about $3.6 billion.

The Murray-Darling Basin, particularly the southern MDB (sMDB), is a vital dairy-producing region, hosting about 24 per cent of Australia's dairy farms and contributing about 22.8 per cent of national milk production - about 1.85 billion litres annually[2]. Dairy production in the Basin is concentrated in northern Victoria, southern New South Wales, and South Australia's Riverland region. Farms in these irrigated areas depend on water entitlements, allocations, and water markets to manage seasonal variability and production risks.

The sMDB dairy industry supports a comprehensive network of about 36 processing facilities, dairy farms, transport operators, and service industries, underpinning regional economic activity. The region directly employs more than 7,000 workers, contributes about $1.494 billion in farmgate value, and generates a total economic impact exceeding $2 billion per annum[2]. Dairy processing is particularly asset-intensive, operating continuously year-round due to the perishable and nutrient-dense nature of dairy products. Stable milk volumes are crucial to maintaining plant efficiency and economic viability.

Since late 2022, the sector has faced considerable stress, with 20processing businesses announcing closures, and others suspending or rationalising operations[2]. The region's dairy output is integral to domestic and export supply chains, supplying processing plants both within and beyond the Basin, notably in Queensland, New South

[2] Impact of Water Buyback on the SMDB Dairy Industry: June 2025, Ricardo

Wales, and South Australia. Milk from the sMDB is processed into diverse products, including cheese, milk powders, butter, liquid milk, and specialised nutritional's, linking regional production closely to national and international markets. Ongoing production declines threaten supply chain stability, regional economies, and the broader structure of Australia's dairy industry.

Milk production across the Basin is highly influenced by climate variability, infrastructure condition, and water availability. Dairy farmers are continually adapting to conditions ranging from floods to severe droughts. In 2024–25, severe drought impacted South Australia and southwest Victoria, exacerbating existing pressures such as rising input costs, biosecurity threats, and workforce shortages, and contributing to projected falls in national milk production[3]. Despite these challenges, Basin dairy farmers continue investing in infrastructure and water-use efficiency, although their capacity to absorb further shocks, such as reduced water availability, is increasingly limited.

1.2 Findings from the Murray–Darling Basin Dairy Industry Strategy

The Murray-Darling Basin Dairy Industry Steering Committee has recently launched the Murray-Darling Basin Dairy Industry 2025 Strategic Plan – a comprehensive blueprint designed to strengthen the competitiveness, sustainability, and prosperity of the dairy sector across the Basin and beyond[4].

The Murray–Darling Basin Dairy Industry 2025 Strategic Plan provides critical insights that underpin this submission. It highlights three interconnected findings:

- **Dairy needs irrigation.** Reliable irrigation is essential to maintain consistent milk production, underpin dairy processing capacity, and support Australia's domestic and export markets. Irrigation gives dairy farms the flexibility to sustain production across varying climatic conditions and ensures a stable supply base for processors.
- **Irrigation networks need dairy.** Dairy farms provide a large, steady demand for water throughout the irrigation season. This demand improves the efficiency and viability of irrigation networks, which in turn supports other industries such as horticulture and cropping and facilitates environmental water deliveries.
- **Communities need dairy.** Dairy farming and processors sustain regional communities by providing year-round employment and investment, supporting local businesses and services, and contributing to social and economic

[3] Situation and Outlook Report - Mid-year 2025, Dairy Australia
[4] Murray Darling Basin Dairy Industry Strategy - Gardiner Foundation

resilience. Dairy processors are often the largest employers in their towns, and their viability depends on a strong and stable local milk supply.

These findings from the Murray Strategy reinforce that any water recovery approach must protect the delicate balance between irrigation systems, productive agriculture, and community wellbeing.

2. Water recovery to date

The Basin Plan's overall recovery target of 2,075 GL of water has largely been achieved through a combination of infrastructure projects and earlier rounds of buybacks. However, the 450 GL of additional environmental water intended to achieve enhanced environmental outcomes is far from complete. As of July 2025, only 157.3 GL has been recovered or contracted.

Additionally, the MDBA's 2025 Basin Plan Evaluation report indicates a likely shortfall towards the upper end of estimates, close to 300 GL, for the Sustainable Diversion Limit Adjustment Mechanism (SDLAM)[5].

With the Commonwealth continuing buyback programs to address these gaps, there's a strong likelihood of substantial further entitlement purchases unless alternative recovery mechanisms are prioritised.

Without a policy shift, a significant portion of remaining water recovery will likely rely on buybacks, carrying serious implications for irrigation-dependent industries like dairy, as well as the communities and regional economies reliant upon them.

2.1 Impacts of water buybacks to date

Water buybacks have been a significant mechanism for environmental water recovery under the Basin Plan, but they have also contributed to harmful structural changes across irrigation communities.

In Victoria, analysis of the social and economic impacts of water recovery highlights that buybacks have accelerated the reduction in irrigated dairy production, especially in the Goulburn Murray Irrigation District (GMID)[6]. Between 2001 and 2021, total water use in the GMID fell by about 50 per cent, with water recovery contributing to this decline. Many dairy farms sold their entitlements during earlier buyback rounds, resulting in reduced water availability for productive use and contributing to a decline in the number of dairy farms and overall milk production.

---

[5] *2025 Basin Plan Evaluation Report
[6] Social and economic impacts of the Basin Plan in Victoria

The Victorian Government's report noted that water recovery via buybacks played a role in the disconnection of land from the irrigation delivery network. This led to stranded assets, increased delivery costs for remaining irrigators, and reduced efficiency of water infrastructure systems. These changes undermined confidence in the future of irrigated agriculture, contributing to land use change, lower levels of on-farm investment, and community concerns about long-term viability.

This uncoordinated approach has been referred to by stakeholders as the "Swiss cheese" effect - where water is removed unevenly across the system, fragmenting production landscapes and weakening the viability of entire irrigation districts. Compounding this is a perceived lack of transparency surrounding the Commonwealth's current water purchasing strategy, including limited clarity on where and how purchases are being targeted, and whether they align with Basin-wide irrigation and environmental objectives.

In the Murrumbidgee Irrigation Area (MIA), ABARES[7] found Commonwealth water recovery, including through buybacks, had contributed to structural adjustment in the region. One clear outcome has been a shift in land use towards permanent plantings, which offer higher returns but require secure water. This transition has reduced the prevalence of mixed farming systems, including irrigated dairy and annual cropping, and increased exposure to water market volatility. While some irrigators have expanded or intensified production, others, especially those with low water holdings, have exited the industry.

To help communities adjust, the Commonwealth's Sustainable Communities Program has allocated $160 million to NSW for structural adjustment and economic diversification in affected Basin regions. However, the scale of this support falls short when compared to the magnitude of the impacts; for example, ABARES modelling suggests that buybacks of just 70 GL could reduce production by around $35 million per year[8] - highlighting the mismatch between one-off adjustment funding and the ongoing economic losses to regional industries and communities.

Although the overall gross value of agriculture has increased in some areas due to high-value horticulture, the gains have not been equally shared. Dairy-dependent regions have seen job losses, service closures, and a decline in social and economic resilience. The 2025 MDBA Basin Plan Evaluation Report[9] confirms that water buybacks have contributed to rising water allocation prices, reshaped market behaviour, and increased

[7] Economic effects of the Commonwealth water recovery programs in the Murrumbidgee Irrigation Area, 2017, DCCEEW
[8] Socio-economic considerations of the Restoring Our Rivers: 2024 Selected Catchments Open Tender purchasing program
[9] *2025 Basin Plan Evaluation Report

the vulnerability of irrigators who rely on allocations. The Victorian Government found that water prices have risen significantly, with modelling showing an average increase of $72/ML due to reduced consumptive pool volumes, particularly in dry years. About 50 per cent of irrigators in the GMID now rely on the temporary water market to meet their water needs, increasing their exposure to market volatility[6].

These cumulative impacts show that, while buybacks may deliver water volumes, they do so at a high cost to local economies, community wellbeing, and future food security.

2.2 Impact of SDLAM projects to date

The 2025 Basin Plan Evaluation Report confirms that SDLAM projects have delivered measurable environmental benefits and social co-benefits where implemented. These include improved ecological outcomes and community benefits in areas where environmental works and operating rule changes have been successfully delivered.

However, the Evaluation Report also highlights the full potential of SDLAM has not been realised, in large part due to rigid design, overly prescriptive funding requirements, and implementation risks. A number of key projects are not expected to be completed by the legislative deadline, contributing to a projected shortfall of up to 300 GL in expected offset volumes.

The MDBA concludes that more flexible and less prescriptive project requirements are needed to improve SDLAM delivery in future. It recommends changes to the SDLAM framework and funding settings to support delivery of projects beyond 2024 and to unlock additional offset potential that cannot be achieved under current policy constraints.

These findings reinforce the value of SDLAM as a mechanism that can support both environmental and community outcomes when well-designed, well-implemented, and backed by community confidence. However, the rollout of SDLAM projects, especially constraints measures, has not always been managed well in the past. In some cases, poor planning, inadequate engagement, and a lack of transparency have eroded trust, despite communities generally understanding the need for these projects and supporting their objectives.

.

While state governments are responsible for the delivery of SDLAM projects, the Australian Government has an obligation to ensure their timely and effective implementation. Reforms are needed to enable greater project innovation, strengthen genuine community co-design, and address risk aversion in delivery agencies. These changes would help ensure remaining SDLAM opportunities are captured and delivered in a way that builds rather than undermines community support. Without them, the

pressure to meet water recovery targets through entitlement purchases will continue to grow.

2.3 Delivery of water for the environment to date

While substantial volumes of environmental water have been recovered under the Basin Plan, its delivery has been constrained by physical, regulatory, and operational limitations within the river system. These constraints have hindered the ability to achieve intended ecological outcomes, particularly in key environmental assets such as floodplain forests and wetlands.

In many areas (such as the Goulburn River, Barmah Choke, and mid-Murray reach) channel capacity limits, landholder concerns, infrastructure bottlenecks, and conservative river operating rules have restricted the timing, duration, and volume of environmental flows.[10] Even when environmental water is held in entitlements, it cannot always be delivered in a way that meets ecological flow objectives.

These challenges mean water recovered for the environment is not necessarily translating into environmental outcomes. For example, constraints have prevented the delivery of flows at heights required to inundate floodplain vegetation or support bird-breeding events. Operating rules, shaped by third-party impact risks and delivery safety, have grown more cautious over time - further reducing the effectiveness of water delivery.

3. Impacts of further water recovery

The dairy industry commissioned independent consultants Ricardo (formerly Aither) to assess the potential impacts of future water buybacks on the dairy industry in the southern Murray–Darling Basin (sMDB)[11]. The analysis modelled two plausible buyback scenarios: a moderate case involving the recovery of 302 GL of water entitlements (aligning with the outstanding component of the 450 GL target), and a high-impact case of 683 GL (reflecting the potential inclusion of a Sustainable Diversion Limit Adjustment Mechanism (SDLAM) shortfall of up to 300 GL.

The findings confirm further water recovery via buybacks poses a material risk to dairy farm and processors viability, supply chain resilience, and regional economic stability.

3.1 Economic impact on farms

---

[10] Page 12 of the Independent Panel for Capacity Project: https://www.mdba.gov.au/publications/mdba-reports/river-murray-water-delivery-shortfall-risks

[10] Page 79 and 80 of https://www.water.vic.gov.au/__data/assets/pdf_file/0021/600717/Social-and-Economic-impacts-of-Basin-Plan-water-recovery-in-Victoria.pdf

[11] Impact of Water Buyback on the SMDB Dairy Industry: June 2025, Ricardo

The Ricardo modelling found a 302–683 GL reduction in the consumptive pool would lift allocation prices by 17–40%, particularly during dry years. This has direct consequences for irrigators who rely heavily on the allocation market, such as many dairy farmers in the sMDB.

The financial impacts at a dairy 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 (302 GL – Timeseries average EBIT % change)	Drought Year Impact (683 GL - Average EBIT % change for drought year)
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

Financial impacts under extreme drought scenarios are severe. The modelling showed, operating costs could rise by as much as 40 per cent, and, in some cases, net losses of up to $430,000 per year were projected.

Farms with lower water entitlement holdings are especially vulnerable. These businesses often face sustained financial strain, making continued operation unviable and increasing the likelihood of farm exits. While adaptation options were modelled - such as purchasing more expensive water, substituting with feed, or reducing herd size - none fully offset the economic impact, with all resulting in negative outcomes for productivity or profitability.

3.2 Supply chain and community impacts

Industry contraction would not be limited to the farm gate. Ricardo modelling indicates:

- a potential three to 15 per cent reduction in annual milk production in the sMDB, equivalent to 60–270 million litres, and

- revenue losses from processed dairy products could range from $90 to $122 million per year under a moderate buyback scenario, and as much as $405 to$545 million per year under a high-impact scenario.

Processors facing lower milk volumes and higher sourcing costs may be forced to rationalise operations. This includes:

- increased transport costs (up to 40 per cent) as processors seek milk from more distant regions such as Gippsland or Tasmania
- reduced plant utilisation and increased unit costs
- risk of plant closures, particularly among marginal facilities, and
- reduced international competitiveness, with imported dairy products filling market gaps - an issue already apparent with one in four dairy items in Australian shopping baskets now imported.

The ripple effects extend into regional economies, which included:

- reduced farm income leads to cuts in spending on local inputs such as feed, labour, and equipment
- local service providers (including contractors, feed suppliers, and veterinarians) experience financial strain, and
- regional towns face declining employment, reduced service levels, and long-term risks to resilience and growth.

3.3 Food-security and sovereign food production risk

While past buybacks have already reshaped irrigation communities, further recovery without a more strategic approach risks compounding pressure on dairy producers, processors, and the broader regional economy.

Reduced domestic milk production increases Australia's reliance on imported dairy, undermining sovereign food production and contradicting the objectives of the National Food Security Strategy and campaigns such as Buy Australian.

As noted in recent Productivity Commission reviews and economic roundtables, a resilient domestic food system is essential to long-term productivity, trade security, and community wellbeing.

These impacts underscore the need to prioritise alternative water recovery mechanisms that deliver environmental outcomes without eroding the capacity of Australia's regions to produce high-quality, nutrient-dense food for domestic and export markets.

4. Recommendations for WESA Review Panel

4.1 Delay additional water purchases

Considering the challenges and unintended consequences associated with previous water entitlement purchases - including price volatility, reduced production capacity, and community disruption - further water buybacks should be paused until:

- Revised operating rules are agreed upon, with clarity on how and when environmental water will be delivered.
- Environmental outcomes are clearly defined, measurable, and demonstrate benefits that exceed the cost of recovery.
- There is balanced investment in both water entitlements and complementary environmental measures that enhance ecosystem health.
- Safeguards are established to protect food production and support the long-term resilience of regional communities.

4.2 Shift toward outcomes-focused environmental water management

The recovery of environmental water must not remain solely focused on volume targets. Gigalitre-based targets fail to guarantee environmental benefits, particularly in the absence of appropriate delivery infrastructure and operating rules.

Significant constraints in the current system, such as those in the Goulburn River and Barmah Choke, have limited the capacity to deliver environmental water in line with ecological objectives[12] [13]. Even where water is available, peak flows required to support floodplain forests and waterbird habitat cannot always be delivered safely or legally.

Operating rules have become increasingly cautious in response to these delivery risks, diminishing the real-world utility of recovered water. Meanwhile, objectives such as keeping the Murray Mouth open and exporting 2 million tonnes of salt annually are now widely accepted as unachievable under current conditions - even with full recovery of the 450 GL target. Reviews by the MDBA (2020, 2022)[14] and the Productivity Commission[15] have recommended re-evaluating these targets.

---

[12] Page 12 of the Independent Panel for Capacity Project: https://www.mdba.gov.au/publications/mdba-reports/river-murray-water-delivery-shortfall-risks

[13] Page 79 and 80 of https://www.water.vic.gov.au/__data/assets/pdf_file/0021/600717/Social-and-Economic-impacts-of-Basin-Plan-water-recovery-in-Victoria.pdf

[14] https://www.mdba.gov.au/sites/default/files/publications/review-of-water-quality-targets-in-the-Basin-Plan.pdf

[15] https://www.pc.gov.au/inquiries/completed/basin-plan/report/basin-plan.pdf

To ensure water recovery delivers environmental value, WESA investments should support:

- constraints relaxation and addressing system bottlenecks, whilst ensuring constraints projects are supported by impacted communities, and impacts to agricultural production are minimised and/or compensated
- reform of operating rules to ensure water can be delivered when and where needed
- complementary measures, including fish passage, habitat restoration, and invasive species control, and
- establishment of clear, quantifiable outcomes before further recovery is pursued.

This shift is reflected in the Victorian Government's emerging prospectus-based approach.

4.3 Work with basin states to co-design community-focused water recovery solutions

Past recovery programs have often lacked strategic coordination and genuine community involvement, contributing to economic disruption and reduced trust. The Australian Government should work collaboratively with Basin states to co-design water recovery approaches that:

- Are developed with local and regional input, ensuring strong community ownership.
- Minimise social and economic disruption to irrigation-dependent industries.
- Deliver environmental gains in ways that strengthen regional resilience and livelihoods.

This cooperative model should integrate lessons from both successful infrastructure modernisation projects and state-led initiatives, such as the Victorian Prospectus Approach or the NSW Alternatives to Buybacks Plan, to ensure water recovery aligns with local priorities and Basin-wide objectives.

4.4 Invest in smart, win–win water management solutions

While the MDBA Evaluation Report acknowledged the limitations and delivery challenges of SDLAM projects, including rigid frameworks and incomplete delivery, there remains strong evidence that well-targeted, locally co-designed infrastructure

projects can deliver shared benefits for both the environment and irrigation communities.

Modernisation efforts offer a proven pathway for achieving water recovery objectives without undermining regional economic resilience. When supported by flexible delivery settings, these projects can improve environmental outcomes, reduce operational losses, and secure the long-term viability of irrigation networks.

Examples include:

- **Goulburn-Murray Water Connections Project**: 92 per cent of surveyed farms reported improved water efficiency and increased resilience.
- **Rutherglen Reuse Scheme & King Road Wetlands (WISER 2025)**: 425 ML/year of new water supply created through wastewater reuse.
- **Broken Reconfiguration Project (2025)**: Recently funded and yet to commence, this project aims to improve system reliability, support environmental flows, and reduce transmission losses.

Projects like these also:

- keep irrigation networks viable for horticulture, grains, and environmental flows
- enable greater use of recycled water, supporting emissions and circular economy targets, and
- generate both construction and long-term skilled employment in regional towns.

Additional opportunities exist for partnership with local councils and communities to develop infrastructure that supports environmental goals and regional productivity.

4.5 Improve transparency and accountability for WESA-funded projects

Public confidence in WESA investments relies on transparency and rigour in project selection and assessment. Funding should only be provided where:

- a robust business case demonstrates that the benefits of public investment clearly outweigh the costs, and
- project objectives, environmental outcomes, and community impacts are clearly articulated and reported.

5. Conclusion

Water buybacks pose a material risk to the sMDB dairy industry at every level – farms, processors, and communities. A whole-of-industry and government approach is critical

to safeguarding the future of Australian dairy, ADIC looks forward to working with government to ensure this happens and welcomes the opportunity to discuss our submission in more detail.

Yours sincerely,

Ben Bennet

Chair

Australian Dairy Industry Council

John Williams

Deputy Chair

Australian Dairy Industry Council

Contact for Service

Sophie MacAskill – Policy Lead, Environmental Sustainability

Dairy Australia

0429 561 518 | Sophie.macaskill@dairyaustralia.com.au