Australian Dairy Industry Council Inc.

8 April 2026

The Hon Murray Watt
Minister for the Environment and Water
Parliament House
Canberra ACT 2600

Via email: senator.watt@aph.gov.au

Re: Rising input costs and the immediate need to pause water buybacks in key dairy regions

Dear Minister,

We write to seek an immediate pause on further water buybacks in key dairy regions, particularly Northern Victoria and Southern New South Wales, due to their escalating impact on farm viability, processing capacity and regional economies.

Dairy farmers are already managing sustained increases in key inputs, including fuel, fertiliser, feed, power and labour – all of which are being intensified by global instability and supply chain disruption.

In irrigated regions, water is the most critical input and current Basin settings are compounding these pressures. The continuation and expansion of water buybacks under the Murray–Darling Basin framework is directly contributing to higher water prices, reduced allocation reliability and increased production costs.

Independent modelling confirms that buybacks reduce the consumptive water pool by between seven and 16 per cent, resulting in allocation price increases of between 17 and 40 per cent. These impacts flow directly into higher costs of production for all irrigators, not just those who sell water.

At the farm level, these cost increases drive difficult and often unsustainable decisions. Farmers are forced to either purchase higher-priced water, substitute with increasingly expensive feed, or reduce herd size and production. The modelling shows that under moderate scenarios, farm earnings can fall by about 37 per cent, with far more severe impacts in dry years where losses can exceed $400,000 per farm.

These pressures are already pushing farm businesses to the brink and increasing the risk of permanent industry exit.

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The impact is not confined to the farm gate. Reduced water availability is projected to drive a decline in milk production across the southern Murray–Darling Basin of between three and 15 per cent, equating to up to 270 million litres annually.

This has direct and material consequences for dairy processors, who rely on consistent milk supply to maintain efficient operations.

Lower milk volumes reduce plant utilisation and increase per-unit processing costs, as fixed costs are spread across a smaller production base. At the same time, processors face rising input and logistics costs, with transport distances increasing as milk is sourced from further afield, adding significant inefficiencies to the system.

Dairy processors have limited capacity to pass these full costs through the supply chain due to competitive domestic and global markets. This creates sustained margin pressure and increases the likelihood of reduced profitability, plant closures and industry consolidation.

Under higher-impact scenarios, the foregone value of processed dairy production is estimated to exceed $500 million annually, highlighting the scale of risk to regional manufacturing and export capacity.

These impacts extend beyond individual businesses. Reduced farm income and processor activity flow directly through to local suppliers, contractors and service providers, driving broader regional economic contraction and job losses.

Without intervention, the outcome is clear: fewer dairy farms, reduced milk production, declining processing capacity and weakened regional communities.

At a time when global events are placing immense pressure on food systems and supply chains, domestic policy settings must not further undermine Australia's productive capacity.

We recognise and support the need for environmental outcomes under the Basin Plan. However, those outcomes must be delivered in a way that does not come at the expense of viable farming systems and regional communities.

The Water Act requires that "all reasonable steps" be taken to deliver water recovery. Given the scale of economic and regional impact now clearly evidenced, it is appropriate to ask whether further buybacks in these regions can still be considered reasonable.

A more balanced, evidence-based approach is required.

We are therefore calling on the Government to take immediate, practical steps:

- Pause further water buybacks in key dairy regions, particularly Northern Victoria and Southern NSW
- Examine opportunities to rebalance or return environmental water where productive use can be achieved without compromising environmental outcomes
- Ensure water policy aligns with food security, regional employment and economic sustainability objectives.

We would welcome the opportunity to meet at your earliest convenience to discuss this further.

Please contact Australian Dairy Farmers CEO Stephen Sheridan on 0408 664 841 for meeting arrangements.

Yours sincerely, `

Ben Bennett
Chair
Australian Dairy Farmers

John Williams
Deputy Chair
Australian Dairy Products Federation

CC: The Hon Julie Collins MP
Minister for Agriculture, Fisheries and Forestry

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