

# 'No fat in the system'

Rising fuel costs and the EU trade deal are threatening the future of cheap milk.

BY TAHLIA WHITFIELD



“Everything we touch is diesel,” said Ben Bennett, president of Australian Dairy Farmers and a farmer in southwest Victoria.

On a dairy farm, fuel sits beneath the tractors, irrigation pumps, grain deliveries, refrigerated transport and distribution corridors that carry fresh milk into Australian supermarkets each morning. Dairy is one of Australia’s most important rural industries, producing an estimated 8.8 billion litres of milk a year, employing 33,500 people and creating \$6.1 billion in farm gate value. Victoria accounts for about 63 per cent of national milk production. Fewer than 4000 dairy farms remain.

For retailers, milk has long been the democratic staple, considering it is reliable, chilled, replenished and affordable enough to disappear into the weekly shop without much thought. For Bennett, that price obscures a more brittle arithmetic. Australia exports about 30 per cent of its milk production, much of it in the form of cheese, butter, UHT milk and milk powders. Yet amid a newly introduced European trade agreement that will eliminate tariffs on Australian dairy exports, Bennett sees danger in the romance of open markets with Europe, a vast cheese producer itself.

## A 20-year decline

“We’ve been on a decline in the last 20 years,” Bennett told *Inside FMCG*. “We were regulated, and our regulation was particularly state-based on our pricing. We’ve moved away from that to a deregulated open slather.” In Queensland, he explained, producers have lost over 65 per cent of their milk, making the state what he calls a “net importer” of milk. Dairy Australia has described the outlook as “cautious” despite strong domestic retail demand, while a recent industry report claims producers face the 2026/27 season with limited margin for error as fuel, fertiliser, water, labour and interest rates bear down.

Geography adds its own discipline, as Bennett argues only 0.2 per cent of Australia’s land mass is suitable for low-cost dairy farming. “Consistent rainfall, temperate temperatures. Cows generally don’t like it over 25 degrees.” Northern Victoria, once the engine block of dairy for Australia, has lost 1.2 billion litres of milk, he said, mainly due to the Murray–Darling Basin water policy and the rising cost of irrigation water. The consequences are also slow and stubborn. “We can get rid of a cow tomorrow, but it takes us three years from conception to getting that calf commercially into the dairy.” Milk supply, in other words, has a good memory.

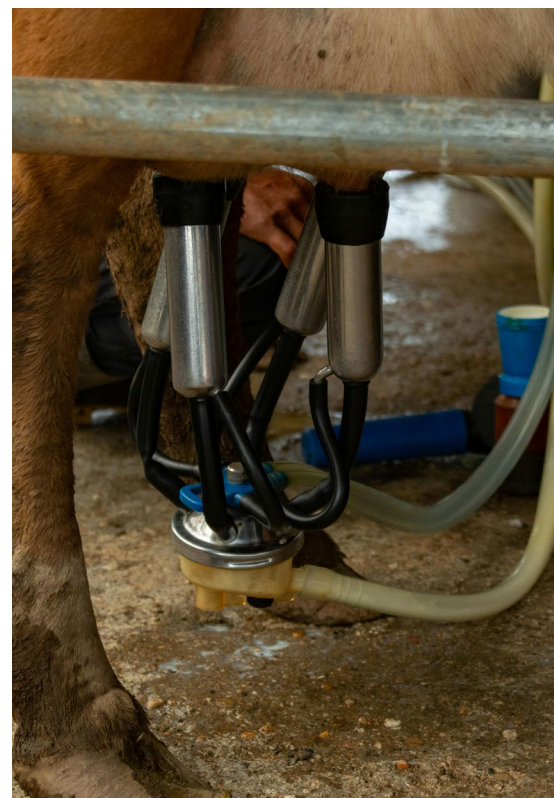


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Rabobank's Australian Dairy Outlook report claims input costs led by fuel, fertiliser, water, labour and interest rates are pushing production costs close to "break even". Bennett gives the farm-gate version. "A lot of farmers are really reliant on trade credit," he said. "We employ a lot of other people, like grain companies, other farmers, croppers, fodder suppliers." Bennett pointed to a stark reality on how money moves through the farm with speed and at no point landing to those most deserving. "A dairy farmer, really, in an economic sense, is sort of give us \$1, we spend two."

In May, Bennett wrote on the ADF website that Australian milk may look cheap and abundant, yet the system producing it is under increasing strain. He called for a minimum 30 cents per litre increase in retail milk pricing, with guaranteed pass-through to farmers, saying fresh milk would remain under \$2 a litre. In the interview, his frustration sharpened around supermarket power. "The supermarkets have ensured that we are commoditised, and they control the brand in one way or another," he said. "The time delay in considering, not accepting, considering a price change from the processors is ridiculous."

Meanwhile, the major supermarket chains continue to frame grocery pricing through the lens of household pressure and the war in the Middle East. In April, Woolworths announced a three-month price freeze on 300 staple items including eggs, bread, chicken and pasta, with CEO Amanda Bardwell saying the retailer would "absorb any extra costs that are agreed with suppliers"



as fuel and fertiliser prices rise. Yet the supermarket sector still remains under scrutiny. The ACCC's recent supermarkets inquiry raised concerns that Coles and Woolworths had "limited incentive" to compete aggressively on price while questioning bargaining power imbalances between major retailers and suppliers.

### The future of dairy

Reports expect national milk production to decline by 1.2 per cent in 2026/27, a third consecutive annual contraction. Bennett, who supplies Bulla, warns that low shelf prices can become a kind of retail theatre, soothing at the checkout while eroding the system behind it. "The evidence is our industry is retracting," he said. "The alternative is to get up seven days a week, in the dark, in the mud, have all the stress and have a pile of bills at the kitchen table."

For most Australians, milk arrives with such dependable regularity that the labour behind it is easy to overlook. The shelves at Woolworths, Coles and Aldi are stocked each morning as the industry contends with volatile weather, rising fuel and fertiliser costs, mounting debt and wafer-thin margins. Bennett's concern is that consumers have become detached from the effort required to keep fresh milk flowing through supermarkets at low prices. If more farmers leave the industry, Australia risks losing not only local production capacity, but the regional skills, processing networks and farming communities that have almost silently sustained one of the country's most essential food chains for generations. ▀



*Ben Bennett, president of Australian Dairy Farmers.*