Risk management on Australian farms

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Risk is about variation

Probability of occurrence

Farm cash income

2016-17

Beef

Cropping

- $100,000 $0 $100,000 $200,000 $300,000 $400,000

$100,000 $200,000 $300,000 $400,000
Key sources of risk

Variation

%  

Beef  
Cropping  

Climate  
Price
Farm risk management tools work!
Business survival from 30 June 2012 to 30 June 2015
Weather derivatives

- Index based products
- Low cost / low complexity
- Basis risk can be a problem

Weather station locations
Multi-peril crop insurance

- Simultaneously covers a variety of perils – drought, flood, heat, frost, wind, disease
- Relatively high premiums
- Currently take-up across Australia is low
Mutual arrangements

• Cooperative approach

• Pooled funds

• Coordination and selection of members can be a challenge
Future for risk management tools

• Traditional approaches will likely remain dominant

• New approaches will be adopted where they are cost-effective

• Ongoing role for government and industry in providing underlying infrastructure such as weather stations, weather data, farm models
Data for risk management is improving

• BOM weather stations and modelling

• Grower group tools

• Digital agriculture / big data

• ABARES and CSIRO models