

Monday 26 March 2012

Farm businesses, more than twice as risky as the average Australian business

Australian farm business managers have to deal with more than twice the level of risk faced by an average business manager in the Australian economy, and grain growers in particular face higher risks than other farm business managers, according to research reported in the latest edition of the Australian Farm Institute's *Farm Policy Journal*.

Australian farm business managers also have to deal with more risk than virtually any other farmers internationally, and without the income support or subsidised insurance schemes that are available for farmers in many overseas locations.

'The research highlights how adept Australian farmers have become at managing risk in their businesses. Despite severe droughts from 2002 to 2009 and then two years of floods, the Australian farm sector is anticipating record levels of production in 2012, and is projected to earn more from exports than in any previous year.' said Mick Keogh, Executive Director of the Institute.

'While recognising this success, available data indicates that farm business managers need to better understand the cost of risk, and factor that in to their enterprise decisions. For example, there is evidence that farmers who have switched to grain production over the past decade may be underestimating the level of risk they face, which is increasing according to the authors of one of the papers included in the Journal.'

'Governments internationally are responding to the increased volatility of agricultural markets in a number of ways, with major international initiatives to develop better market information systems, and to make market information more transparently available. The extent to which these initiatives are likely to reduce agricultural market volatility is the subject of discussion in a number of the papers included in the Journal.'

'In Australia, the major focus on risk management is at the individual farm business level. Australian governments have signalled that there needs to be a greater focus by farm business managers on risk management, especially in relation to drought preparedness. This will become even more important given that existing exceptional circumstances drought measures are being reviewed by Australian governments.' Mr Keogh said.

'Measures such as Farm Management Deposits and tax averaging provide important tools for farm risk management, as do a range of commercially provided measures such as futures and options markets, and forward contracts. Farmers also diversify enterprises, and build up off-farm investments to manage farm business risk.'

'Maintaining relatively conservative farm debt gearing levels has also proved to be a prudent risk management measure – something that is not always understood by those unfamiliar with the sector.'

'The challenge in future will be for farmers to improve their business management skills in order to better manage risk, because all indications are that volatility is likely to increase in the agricultural sector, rather than diminish.' said Mick Keogh, Executive Director of the Australian Farm Institute.

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The contributors to the Autumn 2012 *Farm Policy Journal* are:

- Jesús Antón and Shingo Kimura, OECD Agriculture and Trade Directorate, Measuring risk in agriculture and implementing good risk management policies.
- Mick Keogh, Australian Farm Institute, Including risk in enterprise decisions in Australia's riskiest businesses.
- Ross Kingwell, Department of Agriculture and Food (WA) and the University of Western Australia, Revenue volatility faced by some of the world's major wheat producers.
- Jean Cordier, Agrocampus-Inra (France), What is the impact of the G20 2011 on agricultural prices volatility, the declared source of global food insecurity?
- William Edwards and Chad Hart, Iowa State University (US), Introduction to the US livestock revenue insurance system.
- David Abler and Danhong Chen, Pennsylvania State University (US and China), The role of contracts in managing risk in the fresh food supply chain.

The Autumn 2012 quarter *Farm Policy Journal* is available online at the Australian Farm Institute website www.farminstitute.org.au or by phoning (02) 9690 1388.

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