



Risk Management in a changing climate



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Introduction and outline

- Risk management for a changing climate – from a farm business advisor perspective:
 - Strategic Planning
 - Financial Literacy, Analysis & Budgeting
 - Succession Planning
- Agriculture and risk
- Some observations of farmers
- What's already happening
- Some processes or tools to help decision making

Agriculture and Risk

- Farming is recognised as a risky business
- Agriculture is one of few industries where the main driver of production, namely climate can be highly variable and unpredictable.
- Combine production variability with volatility in prices and some input costs and it creates a very challenging business environment.
- Analysis by the Australian Farm Institute (2013) shows the value of output from Australia agriculture is the most volatile in the world and the most volatile sector of the Australian economy.

What is risk?

- Two aspects of risk:
 1. Negative consequences arising from things going bad;
 2. Rewards that taking a risk offers
- Tension between risk and reward
- We worry about risk in agriculture because it can make or break our livelihood.

Risk is Personal

- Everyone has a different position on risk;
 - Financial security
 - Stage of life
 - Health
 - Family circumstances
- Business and personal goals all influence the amount of risk an individual is willing to take on.
- This position can change rapidly, sometimes triggered by sudden events.
- ***No risk position is right or wrong, it is what you are comfortable living with.***

Three broad groups of farmers

While there are huge generalisations, in my experience, farmers can be grouped in three broad categories:

- No change
- Good managers, but not directly focused on climate change
- Focused on climate change

No Change

- By doing nothing they are going backwards (inflation, declining terms of trade)
- Farming like they always have
- Perhaps characterised by lack of scale, age, off farm income, no debt
- “Foot off the accelerator”
- May be environmentally degrading land without realising.
- *Do we try and change behaviour and attitude?*

Good managers, not directly focused on climate change

- Aiming for profitable, productive business
- Identifying and managing risks as they emerge
- Flexible farm system
- Care for the land and realise they need to manage the land sustainably – it supports their business
- Are open to, and adopt, new ideas and technology
- Make informed decisions
- Farm to their personality

- *Note: Permanent plantings, such as horticulture and viticulture are not as flexible.*

Focused on climate change

- Actively exploring alternative uses for their land
- This might include identifying threats or opportunities
- May be geographically diversifying
- Willing to spend money on biodiversity/conservation
- Able to interpret complex information, and make a decision
- Might use outside expert advice to guide decisions.

What's already happening

- New plant varieties (crop and pasture)
 - Shorter growing season
 - Varying sowing dates
 - More efficient use of water and nutrient
- Changing livestock systems
 - Moving calving/lambing patterns
 - Changing breed
- Insurance
 - Acknowledging more storms and sudden events
 - Multi peril crop insurance

What's already happening

- Sound financial management
 - Being financially prepared for impacts to business
 - Budgets, sensitivity analysis
 - Resilience
 - Farm management deposits (FMD's)
- Improvements in technology
 - GPS – reducing spray area
 - Fuel efficient machinery
 - Control traffic
 - Minimum till
 - Weather forecasting??

What's already happening

- Increased consciousness of land repair/conservation
 - Photo point on property with GPS reference to measure what's happening
 - More efficient use of water and nutrient
- Biodiversity
 - How to measure impact on profitability or production?
 - Where is it – crop, pastures, shelterbelts, dedicated area
 - How do you value (Pollination)

Management and measurement

“Measurement is the first step that leads to control and eventually to improvement. If you can't measure something, you can't understand it. If you can't understand it you can't control it. If you can't control it, you can't improve it”

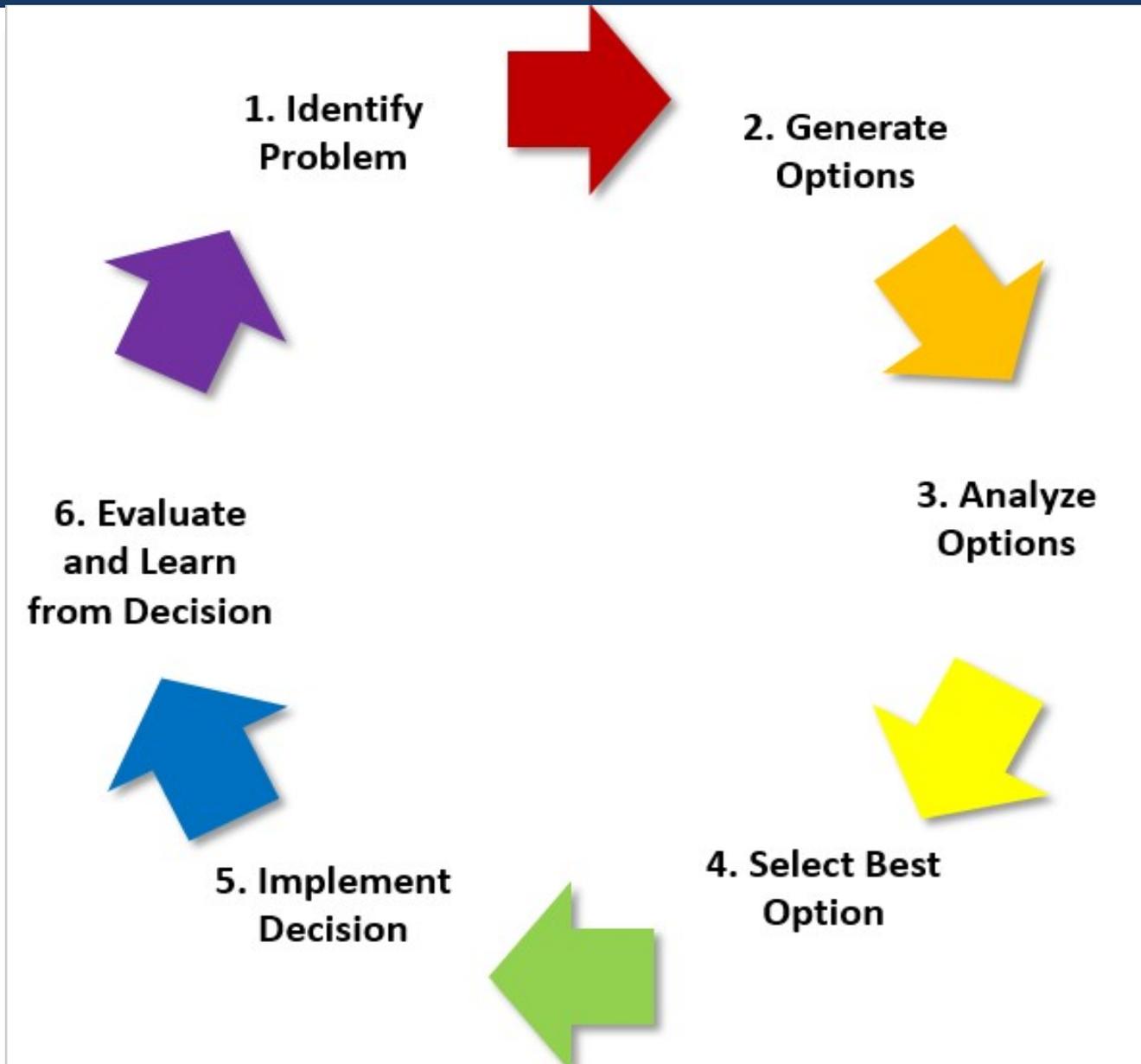
H. James Harrington – International performance improvement guru

An honest and forensic analysis of you own business is important to signpost areas than warrant further investigation.

Important to look at more than one year, and consider seasons, prices etc.

You may be able to make changes to improve your profitability

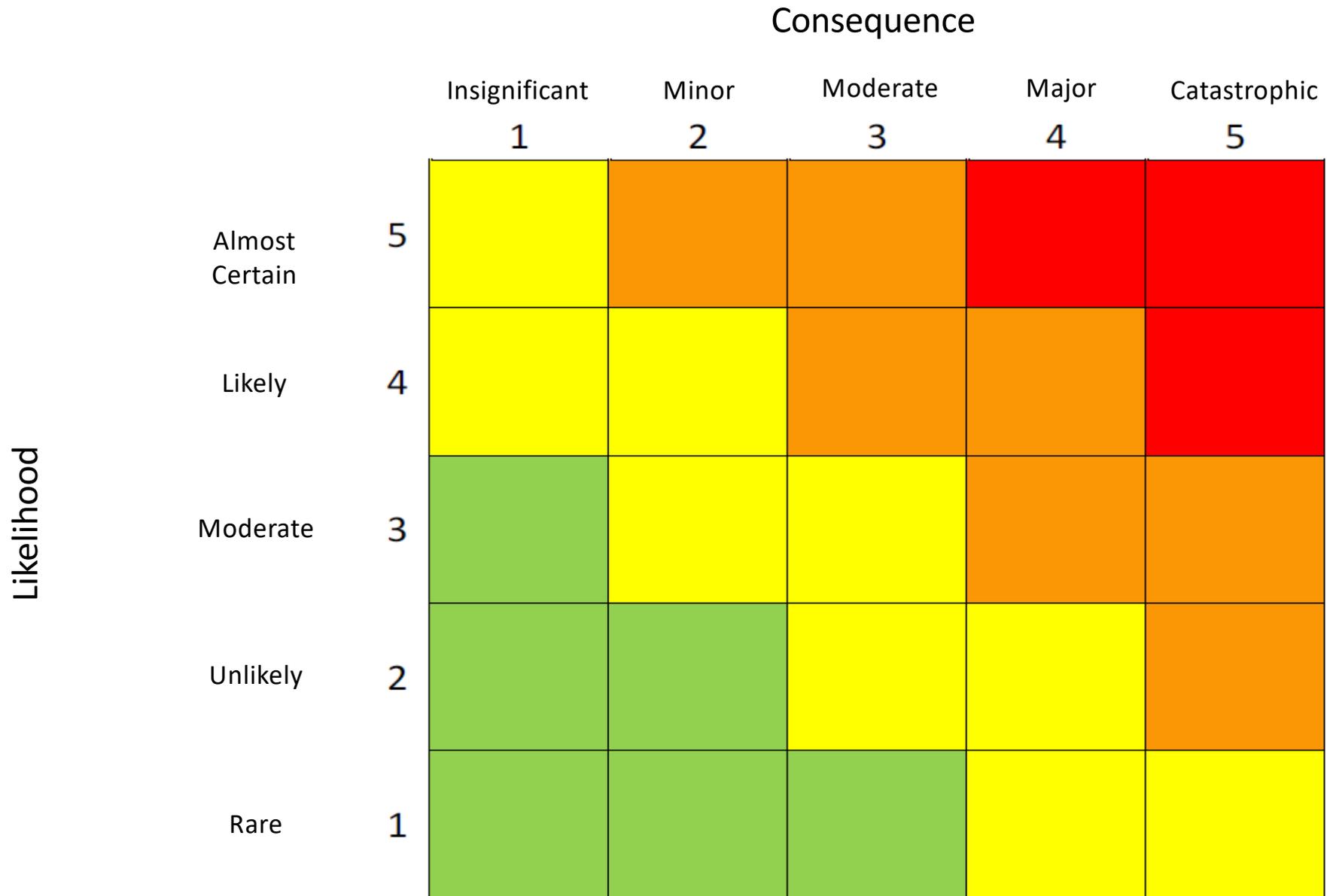
Decision Making



SWOT

SWOT Analysis	<i>Helpful to achieving the objective</i>	<i>Harmful to achieving the objective</i>
<i>Internal Origin (Attributes of the business)</i>	STRENGTHS:	WEAKNESSES:
<i>External Origin (Attributes of the environment)</i>	OPPORTUNITIES:	THREATS:

Risk Management Heat Map





Thank you
and
questions?