Farmers urged to insure crops against drought failure

Farmer Robin Gourley with his son Ian on their farm outside Narrabri in northern NSW.

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Farmers are being encouraged to take out commercial crop insurance policies to help their businesses become more financially resilient against drought.

The measure was one being pushed yesterday at Canberra’s drought summit, with the few pioneering grain growers who have bought crop insurance premiums this year now being rewarded with hefty cheques despite their failed crops.

Crop insurance is a common farm risk-management tool in the US — where the government pays half the cost of insurance as a farm industry subsidy — but remains novel in Australia despite having been available for the past five years. Narrabri farmer Ian Gourley was forced to watch in despair this year as the 7000 hectares of wheat, barley and chickpeas he sowed in May barely made it out of the soil.

By August, when the farm had received just 80mm of its average annual rainfall of 650mm, Mr Gourley was forced to write off all his crops. But the $350 he had spent on every hectare of his land in sowing, fertiliser, machinery and land lease costs, had not been lost.

Mr Gourley is one of more than 80 NSW farmers with failed crops because of the drought, who have wisely taken out “crop income protection” insurance earlier this year with insurer Latevo.

He paid $20 a hectare in insurance premiums effectively to cover his production and input costs — a big $140,000 insurance fee that guaranteed Mr Gourley would be refunded 40 per cent of his average final harvest income if he suffered crop failure because of drought, hail or flood.

His cheque from underwriter Lloyd’s for more than $2 million is now in the mail, covering the sowing and lease costs and allowing him to pay suppliers and keep his three staff employed.

“It’s not as good as the income I would get from an average harvest, but it’s peace of mind because it’s the only income I will get for the next year while this drought goes on,” Mr Gourley said.

“I’d rather get my normal grain cheque — we average 3.5 tonnes of wheat a hectare and wheat prices are now high at $450/t — but at least [the insurance payout] is something; the premiums are affordable and it’s about managing risk.” Few farmers have yet adopted crop or multi-peril insurance because there is a belief the premiums are too high to make it worthwhile.

Early insurance policies had premiums for paying out on lost harvests set as high as 30 per cent of final income, but now new options allow growers like Mr Gourley to insure at lower premiums to just cover the costs of production already outlaid.

Latevo chief executive Andrew Trotter said yesterday the average premium cost is now as low as $17 a hectare; entirely affordable when average Australian grain yields are 1.8 tonnes a hectare at an average sale return of $250-$300 a tonne. “This is about using insurance to mitigate against the risk of drought and climate change variability; just as most Australians do with car or home theft insurance,” said Mr Trotter, pointing out 80 per cent of Canadian grain growers use crop protection insurance.

“The government needs to intervene because farmers need a nudge. We have a problem that is cultural not financial yet this can protect the government from making huge emergency payments in times of drought like we are seeing now.” Mr Trotter said the average premium for smaller farmers than Mr Gourley insuring 2000 hectares of crop was $45,000; a small annual sum in an enterprise with sales valued in the millions in good years.

Farmer organisation GrainGrowers Australia yesterday appealed to the federal government to introduce a range of initiatives to help support improved risk management by grain farmers to eliminate short-term thinking and emergency drought handouts.

GrainGrowers Chairman Brett Hosking said there was both was an immediate need for financial help to take the pressure off farming families suffering from the drought and failed crops, but also more long-term drought policy.
“The longer-term question is how to improve the range of risk management tools farmers have at their disposal to deal with increasing climate variability and build resilience,” Mr Hosking said.

“Farmers want to be able to ensure their production and income risks from lost crops can be managed; that’s where products like crop insurance are important.”
The government has not yet responded to farmer requests that it introduce a 150 per cent tax incentive for the next five years to stimulate the immature market to take out multi-peril crop insurance as part of its broader drought-resilience policy.

Source: The Australian