

Weather risk in the wind

A LEADING economist and weather risk expert says farmers in many parts of Australia will suffer from drier weather conditions forecast to last until October if they don't take steps to protect themselves.

Rural economies and food prices are expected to suffer as a consequence.

Economist and media commentator Jonathan Barratt, CEO of online weather assurance broker CelsiusPro Australia (celsiuspro.com), Australia's first provider of weather certificates, says, "Adverse weather conditions have this year cost the Aus-

tralian agricultural market hundreds of millions on lost production and under-capacity. With a drier period forecast for south-east, central and north-eastern Australia, and central WA up to October, weather volatility is on the increase.

"Any losses on the farm have a flow-on effect downstream to the whole rural economy, and to consumers buying groceries in supermarkets," Mr Barratt said.

"In the coming months, corn, soy and wheat are all expected to see local price increases due to the US drought. Now, the drier weather in Australia will poten-

tially see additional increases in wheat, barley and canola prices in the next three months."

"In Europe, the risk of such financial losses has been covered across not only the agricultural industries, but in energy, construction, tourism and retail, thanks to their take up of weather certificates. These simple financial derivatives are fast becoming important tools throughout the world to help mitigate the risks associated with adverse weather. For example, harsh winters in 2011 and February 2012 led to large CelsiusPro payouts in Holland's construction industry.

"Unlike weather insurance, weather certificates pay out immediately without the need to make claims. Payouts are based on a weather index developed for each industry, using Bureau of Meteorology data. CelsiusPro is winner of the 2009 Swiss Insurance Industry award for Innovation, and is a strategic partner of Swiss Re, one of the world's largest re-insurers.

"There has been little financial engineering up until now to develop products that can meaningfully be used by farmers and other businesses to cover risks associated with weather."



Jonathan Barratt

RURAL BUSINESS DIRECTORY

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