1990

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Darwin Nielsen
Utah State University

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ECONOMIC IMPACT OF PROPOSED PUBLIC LAND GRAZING FEE

Darwin B. Nielsen

On October 12, 1990 an amendment to a public land appropriation bill increased grazing fees on BLM and FS lands from $1.31/AUM to $8.70/AUM. This bill passed in the House of Representatives. The $8.70 is to be reached by the 1995 grazing season. This grazing fee increases the total cost of grazing on public to a level higher than the value of an AUM to most ranchers if not all of them. Given current average non-fee costs of using public lands this fee would put the total cost in the $17 - $22 per AUM range. The only recourse permittees will have is to refuse to do those management functions that go into the non-fee costs. This course of action will go against the current trend where the agencies have been forcing permittees to spend more for water developments, fences, herders and other items required to protect riparian areas. The future doesn't look promising for grazing on public lands.

The proposed grazing fee of $8.70 per AUM seems to have come from a USDA report on grazing fee rates as of July 1990. The $8.70 per AUM rate is reported for the eleven western states for 1989. There are several problems with applying this rate directly to all public land grazing in the West. Many areas in the West were in a drought which put upward pressure on available private land lease rates, thus raising them to unusually high levels. Private lands available for lease were being used to supplement reduced productivity on other private lands plus grazing reductions on public land. Leasing private lands at relatively high rates was a better alternative than reducing cattle herd size with the high replacement cow prices and the limited offering of good replacements in the market to build herds back after the drought.
There is a wide range of grazing fee arrangements between the landlords and tenants. At one end of the spectrum we have a situation where the landlord provides all of the land and livestock management functions while cattle are on his land. On the other end we have a situation where the tenant deals with an absentee landlord and the tenant does all of the land and livestock management functions. One would expect that grazing lease rates would be considerably higher on the lease where the landlord provides the most services. Public land grazing presents a situation where the permittee is forced to provide all of the livestock management and most of the grazing land management while using public land. In addition, the public land permittee is only given part of the usual bundle of rights associated with leasing land for grazing which makes the lease less valuable. For example, the permittee does not control access to leased public land which often increases costs of management. The permittee is subject to a double level of management pressures from the public land agency and the other public land users. Public lands tend to be more remote and inaccessible which increases the cost of management to the permittee. Several other factors increase the non-fee costs of using public lands.

The point of this discussion is that the $8.70 per AUM has private leases included in it where the landlord provides considerably more of the management functions than the government provides to public land permittees. Thus, this private lease rate over estimates the amount that public land permittees can pay in fees. The non-fee costs on public lands are higher than the non-fee costs on most private land leases. Because of increased pressures by the government to force more of the non-fee costs on the permittee and the increasing requirements on permittees for more intensive land and livestock management these non-fee costs are much higher than the actual fee collected by the government. The
total cost to the rancher leasing land, public or private, is the important factor in his decision as to lease grazing or not.

The argument that low grazing fees on public lands causes over-grazing is absurd if one has any knowledge of public land grazing. The argument presented is that at low grazing fees, given a demand curve for grazing, will cause ranchers to demand more grazing than the land will support. How much discretion does the average permittee have in setting stocking rates on a public land grazing allotment? None!! A second problem with this argument is that ranchers base their decisions on the total cost of grazing per AUM not just the fee portion. Thus, low grazing fees and high non-fee costs may restrict the amount ranchers can afford to lease to a level below the stocking rate set by the agency. That is why there are grazing permits (allotments) that are vacant.

The fee increase, when fully implemented, would be $8.70 - $1.81 = $5.89/AUM. In Utah, the increased annual cost of grazing public land would be:

<table>
<thead>
<tr>
<th></th>
<th>Cattle</th>
<th>Sheep</th>
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<th>BLM</th>
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<tbody>
<tr>
<td></td>
<td>484,044 AUMs x $5.89/AUM = $2,851,019</td>
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<td>$9,731,064</td>
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The economic impact this increase in fees would have on each county in Utah is given in Table 1. Since the forests and BLM grazing districts do not fit county lines the allocation per county was based on the proportion of beef cows and sheep in each county.

The above discussion assumes ranchers would be able to afford to pay this increase in fees. A more reasonable scenario is that many of them will not be able to pay the cost
and leave the industry. If a significant number of ranchers in rural Utah leave the industry the impact will be much greater. The $8.70/AUM fee will significantly reduce grazing permit values (value of private commensurate property). If the most efficient ranchers cannot pay the new fee plus the required non-fee costs then the permit will have no value and will be turned back to the agency. Many local lending institutions will be impacted since they have been carrying loans on these ranches for years.
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<th>County</th>
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GRAZING FEE RATES FOR CATTLE BY SELECTED STATES AND REGIONS
JULY 1990, WITH COMPARISONS

<table>
<thead>
<tr>
<th>STATE</th>
<th>ANIMAL UNIT 2/</th>
<th>COW-CALF</th>
<th>PER HEAD</th>
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<tr>
<td></td>
<td>DOLLARS PER MONTH</td>
<td></td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td>ARIZONA</td>
<td>3.92* 3/ 3/ 3/ 10.2 3/</td>
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<td></td>
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<tr>
<td>CALIFORNIA</td>
<td>10.72 10.11 12.22 13.23 11.39 10.46</td>
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</tr>
<tr>
<td>COLORADO</td>
<td>8.39 10.23 10.27 12.04 9.29 9.55</td>
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</tr>
<tr>
<td>IDAHO</td>
<td>6.93 8.42 8.23 10.73 8.61 8.40</td>
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<tr>
<td>KANSAS</td>
<td>10.13 10.58 11.07 12.45 9.35 8.53</td>
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<tr>
<td>MONTANA</td>
<td>9.61 9.61 11.35 11.46 7.2 10.57</td>
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<tr>
<td>NEBRASKA</td>
<td>13.13 15.78 15.89 18.89 12.75 15.16</td>
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<td></td>
</tr>
<tr>
<td>NEVADA</td>
<td>4.18* 3/ 9.21 3/ 7.62 5.41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEW MEXICO</td>
<td>7.51 6.66 10.25 9.17 7.06 7.66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NORTH DAKOTA</td>
<td>8.26 8.52 8.38 10.18 9.23 8.85</td>
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<td></td>
</tr>
<tr>
<td>OKLAHOMA</td>
<td>9.94 4.31 11.24 3/ 5.97 6.02</td>
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<td></td>
</tr>
<tr>
<td>OREGON</td>
<td>7.40 8.30 9.41 10.20 7.55 8.67</td>
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<tr>
<td>TEXAS</td>
<td>9.37 7.61 6.81 8.88 8.35 8.43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UTAH</td>
<td>9.06 7.81 10.47 11.21 7.79 8.81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WASHINGTON</td>
<td>7.94 7.82 9.28 8.67 9.06 8.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WYOMING</td>
<td>10.06 9.64 11.85 11.36 8.89 9.68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIXTEEN STATE (ALL STATES EXCEPT TX)</td>
<td>10.06 10.85 11.94 13.44 9.31 9.61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ELEVEN STATE (EXCLUDES KS, NE, ND, OK, SD, TX)</td>
<td>8.70 9.22 10.31 11.27 8.87 9.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NINE STATE (EXCLUDES AZ, CA, ID, MT, NV, OR, UT, WA)</td>
<td>10.72 11.72 12.66 14.38 9.52 9.60</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Coefficient of variation, greater than 25 percent.
1/ Based on the respective July 1989 and July 1990 Agricultural Survey of grazing fees for private non-irrigated land.
2/ Includes animal unit plus cow-calf rates. Cow-calf rate converted to animal unit (aum) using (1 aum= cow-calf * 0.833).
3/ Insufficient number of reports.
Economic Impact of Proposed Public Land Grazing Fee

Darwin Nielsen, Ph.D.

On October 12, 1990 an amendment to a public land appropriation bill passed the House of Representatives increasing grazing fees on BLM and FS lands from $1.81/ADM in 1990 to a minimum of $8.70/ADM for 1995. This grazing fee increases the total cost of grazing on public lands to a level higher than the value of an ADM to most, if not all, ranchers. Including current average non-fee costs, grazing on public lands would range from $17 to $22. Agencies are forcing permittees to spend more for water developments, fences, herders and other items required to protect riparian areas. The only recourse permittees will have is to refuse to perform those management functions that are part of the non-fee cost. An increase in fee costs would likely result in fewer private investments, a position in conflict with existing practise. The future doesn't look promising for grazing on public lands.

Proposed Grazing Fee

The $8.70/AUM rate is based on prices reported in the July 1990 issue of Agricultural Prices (NASS, USDA). This rate is to apply to eleven western states. However, there are several problems with applying this rate directly to all public land grazing in the West. The current drought has forced private lease rates, upward even though additional private lands have been brought into the market. These new private lands have supplemented grazing reductions on public lands. Leasing private lands at relatively high rates has been a better alternative than reducing cattle herd size. With current calf prices, the high replacement cost for cows and the limited offering of good replacements, building herds back after the drought may not be economically feasible.

At Issue

Large tracts of land in the West are publically owned and managed. These lands often have several uses and have generally been managed according to the concept of "multiple use". One of the traditional uses has been that of grazing livestock. Much of the agricultural industry in the West was founded on the basis of access to these lands. Today, many other uses are being considered. While they do not all conflict with the historical grazing use, some do and it is this conflict which contributes to the on-going multiple-use battle. Changes in use of these lands will have some impact on local users and economies and this report summaries some of those impacts.
Public land grazing presents a situation where the permittee is forced to provide all of the livestock management and most of the grazing land management while using public lands.

Different Grazing Fee Arrangements

There is a wide range of grazing fee arrangements between landlords and tenants. At one end of the spectrum, the landlord provides all of the land and livestock management functions while cattle are on his land. At the other end, the tenant deals with an absentee landlord and performs all of the land and livestock management functions. One would expect that grazing lease rates would be considerably higher on the lease where the landlord provides the most services.

The $8.70 per AUM rate included private leases. On the private leases, the landlord provides more management functions than the government will provide to public land permittees. Public land grazing represents a situation where the permittee is forced to provide virtually all of the livestock management and most of the grazing land management while using public land. In addition, the public land permittee retains only part of the rights associated with leasing land for grazing, reducing the value of the lease. For example, the permittee does not control access to leased public land and must accommodate demands of other public users, a practice that increases the costs of management. Public lands tend to be more remote and inaccessible, further increasing the cost of management to the permittee.

Private Lease Rate

Thus, this private lease rate over estimates the amount that public land permittee can pay in fees. Government pressures force more of the non-fee costs on the permittees. Such investments increase non-fee costs. The total cost to the rancher leasing land, public or private, is the important factor in his decision to lease grazing lands.

Low Grazing Fees and High Non-fee Costs

The argument that low grazing fees on public lands causes overgrazing is incorrect. Essentially, the argument is that low grazing fees, given a constant demand curve for grazing, will cause ranchers to graze more heavily than the land will support. However, the average permittee has no discretion in setting stocking rates on a public land grazing allotments. Those rates are established by the government. An additional problem with this argument is that ranchers base their decisions on the total cost of grazing per AUM, not just the fee portion. Low grazing fees and high non-fee costs may restrict the amount of land ranchers can afford to lease below the stocking rate set by the agency. This explains, in part, why there continue to be vacant grazing permits.

Annual Cost of Grazing

The minimum fee increase, when fully implemented, will equal $5.89/AUM (i.e., $8.70 - $1.81).

In Utah, the increased annual cost of grazing public land would be:

<table>
<thead>
<tr>
<th></th>
<th>FS Cattle AUMS</th>
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$9,731,064

Economic Impact

The primary agricultural economic impact this increase in fees would have on each county in Utah is given in Table 1. Since forest and BLM grazing districts do not fit county lines, the allocation per county was based on the proportion of beef cows and sheep in each county.

This discussion assumes ranchers would be able to afford to pay this increase in fees. In reality many of them will not be able to pay the cost and will leave the industry. If a significant number of ranchers in rural Utah leave the industry the impact will be much greater. The $8.70/AUM fee will significantly reduce grazing permit values (value of private commensurate property). If the most efficient ranchers cannot pay the new fee plus the required non-fee costs then the permit will have no value and will be turned back to the agency.
Table 1. Expected Increase in the Cost of Grazing Public Lands on a County Level

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**In Summary**

The recent proposal to increase grazing fees on public lands was based on inappropriate data and fails to consider non-fee costs. When appropriate adjustments are made, it can be seen that the issue is much more than a simple increase in grazing fees.