Report to Mr. Demar Dahl
President
Nevada Cattlemen's Association

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As per your request, the following is my summary of the recently completed grazing fee report titled "The Federal Grazing Fee 1993." As I undertook the study of data presented in the "Grazing Fee Task Force Report," commissioned by the Department of Interior in 1992, I was struck by six separate realities:

First; there was a clear understanding that any increase in the grazing fees would result in a decrease or elimination of permit value.

Second; when costs of operating on federal lands rise it is always the small operator that is hurt the most.

Third; the majority of permittees are already paying more to operate on federal lands than they would be paying if they leased private pasture.

Fourth; the increasingly severe adverse actions Forest Service permittees have been experiencing in recent years is being reflected in greater non-fee costs.

Fifth; even though this initiative is being billed as "incentive based," it was found any increase in grazing fees would work to destroy permittee incentive to improve resources.

Sixth; when permit values are diminished, the value or wealth in the permit is transferred from the permittee to the government.

1. Loss of permit value:

It is interesting that although the Grazing Fee Task Force was said to have been formed to recommend an incentive based grazing fee formula, indications are that the primary purpose for increasing grazing fees is to diminish permit value. As an example, page 76 of the report reads:

Federal Agencies contend that permit value belongs to the federal government... Yet, allocation of permit value lies at the heart of the grazing fee debate. Private markets and past policies have allocated this value to ranchers; higher grazing fees would reallocate this value to the government.

Dr. Allen Torell and an associate, J.P. Doll, in a 1991 study conducted in New Mexico, found that when grazing fees were raised from $1.60 to $3.31 on State Lands in New Mexico, permit values dropped $30 an AUM for every $1 increase in grazing fees (page 54).

2. Small operators are hurt the most:

As I have become increasingly involved in Federal Lands issues, I have become aware that even though the anti-ranching rhetoric is most often directed against the large or corporate rancher, it is most often the small family operations that come under agency attack. Therefore, when I began seeing information within the report indicating the small operator is always hurt the most when fees are raised, or an agency instigates new adverse action, it grabbed my attention.

As was pointed out on page 34 of the report, the strongest relationship found affecting variable cost was the tendency for non-fee cost to increase as the size of the allotments decrease. This was particularly true in New Mexico where there are a great many Hispanic families running fewer than 100 head of cattle. As stated on page 5 of the report, "These minority and cultural groups may be impacted excessively... In these cases, grazing fees based on cost-related market values could adversely affect the heritage and cultural values of these minority groups."

3. Fees are already too high:

Generally, when all costs of running livestock on federal lands were taken into consideration, including the extra cost of moving livestock, fence repair, water development and the fee itself, it was found that 34% of all cattle producers and 60% of all sheep producers on BLM lands pay more to graze than they would on private pasture. On USFS lands 62% of all cattle producers and 92% of all sheep producers pay more than on private pasture. These percentages result even before the permit investment was considered (page 74).

4. USFS leads adverse action:

For those who have noted the Forest Service always seems to lead new adverse actions, our suspicions are supported in the report. When comparing USFS non-fee cost to BLM non-fee cost it was found in every instance the cost of running livestock on Forest lands was significantly higher than the cost of running livestock on BLM lands. In fact, data referred to on page 52 indicates a negative forage value of $3.98 per AUM for running livestock of USFS lands.

5. Increasing fees destroy incentive and stewardship:

Throughout the history of mankind, there has only been one stewardship program proven to be successful in terms of actual resource enhancement. This is the system of private incentive via private investment or ownership.

As an example, when a rancher pays $45/AUM for a permit, it is a primary objective of his to maintain or enhance that value. He knows if he takes care of "his range" or improves its value, his permit will increase in value as well. However, if the value of his permit was destroyed by adverse action, he would essentially become a lessee of land, with no incentive to take care of, or invest back into the land.

But even worse, some people are now advocating an "incentive based" formula which would allow agency employees the discretion of rewarding "good operators" with reduced fees. Such a system would be extremely corrupt. It would place agency employees in a position capable of penalizing any permittee who disagreed with agency policy or failed to offer favors to government agents.

To adequately protect the resources involved and do right by those ranching families directly impacted, it is critically important that permit values are maintained. The best method to accomplish this is to see that grazing fees are held in check and interference by the government agencies is reduced.

6. Takings may have already occurred:

> *"There is a strong theoretical linkage between grazing fees and permit value. As grazing fees rise, permit values erode and wealth is transferred from ranchers to the land agencies." (preface)*

Such a scenario is far from theoretical. Available data now indicates that at least one-third of the range livestock industry has been destroyed in the last ten years alone.

Quite obviously, once it becomes more costly to run livestock on federal lands than on private leased lands, permitees simply walk away leaving the government all their values such as water rights, range improvements and even the value of the permit itself. I look for a tremendous number of "takings" cases to be brought against the Federal Government in the next few years.

ADDITIONAL COMMENTS

Base Value:

On page 74, reference is made to the Court Case, *Pankey Land & Cattle Co. v. Hardin & Hickle*, (427, F.2d 43 1970) where it states permit value (cost) need not be considered when setting fee policy. However, the court did not infer permit value cannot be considered. In fact, the Public Rangeland Improvement Act of 1978 (PRIA) reads:

> *... to prevent economic disruption and harm to the western livestock industry, it is in the public interest to charge a fee for livestock grazing permits and leases on the public lands which is based on a formula reflecting annual changes in the cost of production.*

Certainly permit value or investment is a cost of production. Let's consider also the language found in the Federal Land Policy and Management Act (FLPMA).

> *The Secretary of Agriculture and the Secretary of the Interior shall ... [conduct] a study to determine the value of grazing on the lands under their jurisdiction in the eleven Western States with a view to establishing a fee to be charged for domestic livestock grazing on such lands which is equitable to the United States and to the holders of grazing permits ... And that the Secretaries shall report the results of such a study [and make] ... recommendations to implement a reasonable grazing fee schedule based upon such study (underlines added).*

Clearly, the above language illustrates it was never the intent of Congress to establish a fee schedule based on forage value as if the agencies were selling the feed to ranchers. Forage value is added to the formula by the agencies. Congress only asked that fees be fair and equitable to both the permittee and the United States.

The $1.23 base forage value used in the current PRIA formula was established in 1966 by subtracting the non-fee cost at that time from the average fee being charged for private pasture. Hence the $1.23 figure. If the same procedure was applied today, as discussed on page 45 of the report, the base forage value would be $0.89 per AUM for cattle and a minus $5.41 per AUM for sheep or a weighted average forage value combining sheep and cattle of $0.13 per AUM. [1]

Adverse agency action destroys permit value:

Although no reasons are given for the high costs born particularly by the sheep industry (a minus $5.41 per AUM for sheep), it is most likely due to increasing adverse agency action. Systematic reductions in predator control have severely impacted the sheep producer. Twice in the report (pages 38 and 74) it is mentioned that "Vacant sheep permits exist in nearly all of the western states," and "Vacant sheep permits can be obtained without purchase in many western states."

In personal communication, Dr. Torell related that in 1966 non-fee costs of running livestock on federal lands were 16% higher than they were on private lands. In 1992, non-fee costs were 60% higher than they were on private lands.

CONCLUSION

This data leads one to conclude that if there is to be a new formula adopted, it should be constructed in a manner whereby the government is required to pay ranchers for all negative costs incurred as a result of adverse agency action.

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[1] Note that when establishing a base value in this manner, the cost of the permit or permit investment is not taken into consideration. If the cost of, and investment in, the permit were taken into consideration, the base forage value would be even lower. Note also that sheep and cattle were weighted by the proportion of AUM's included from each class in the grazing study; 88% cattle, 12% sheep.

APPENDIX A: COST CALCULATIONS AND ASSUMPTIONS

Assumptions

Labor rates were determined through analysis of existing crop and livestock enterprise budgets, conversations of knowledgeable individuals within the test states and data reported in the grazing cost survey. Vehicle and equipment rates were determined from Wyoming and Colorado publications (Burgener and Hewlett 1993, Redmond et al. 1993). Horse use costs were determined through budget analysis of annual horse maintenance costs and included feed, shoeing, pasture and veterinary care. Livestock prices used to value death loss/disappearance were determined through analysis of regional livestock markets. Initial market projections were validated by project staff of the Western Livestock Marketing Information Project (Jim Robb, personal communication, Denver, CO 1993).

Labor	
Owner/Management	$8/hr
Unpaid family Labor	$5.50/hr
Exchange Labor	$5.50/hr
Hired Labor	as reported in the cost survey
Vehicles and Equipment	
3/4 ton 4X4 Pickup	$.37/mile
2X4 Pickup	$.31/mile
Stock Trailer	$.21/mile
2 Ton Truck	$1.00/mile
Semi-Truck (livestock)	$1.98/mile
ATV and Motorcycles	$.25/mile
Sedan/Family Car	$.28/mile
Caterpiller (D-8)	$80/hour
Caterpiller (D-4)	$40/hour
Small Tractor	$5/hour
55 HP Tractor	$10/hour
80 HP Tractor	$13/hour
100 HP Tractor	$18/hour
Road Grader	$40/hour
Backhoe	$40/hour
Airplane	$70/hour
Horse Cost	$715/year
Livestock Prices	
Steer Calf	$97/cwt
Heifer Calf	$90/cwt

Yearling Steer	$82/cwt
Yearling Heifer	$78/cwt
Cow	$700/head
Bull	$1500/head
Lamb	$58/cwt
Ewe	$60/head
Ram	$250/head

AU Conversion Factors

Livestock numbers and dates of use were used to calculate AUM's of use for each allotment or lease. In performing these calculations, the following Animal Unit (AU) conversion factors were used:

Cow	1.0 AU
Yearling	0.75 AU
Horse	1.25 AU
Bull	1.25 AU
Sheep	0.2 AU