CORNHUSKER ECONOMICS

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Institute of Agriculture & Natural Resources
Department of Agricultural Economics
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A Primer on Federal Grazing Fees

Market Report	Yr Ago	4 Wks Ag	6/22/12
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$112.37	$122.76	$115.67
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	149.00	182.65	167.54
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	136.25	153.60	*
Choice Boxed Beef, 600-750 lb. Carcass	177.16	194.88	197.45
Western Corn Belt Base Hog Price Carcass, Negotiated	99.47	82.33	101.68
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	97.70	79.22	97.61
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	*	151.00	137.50
National Carcass Lamb Cutout, FOB	402.81	366.74	342.71
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	6.43	6.16	6.36
Corn, No. 2, Yellow Nebraska City, bu.	6.62	5.99	6.25
Soybeans, No. 1, Yellow Nebraska City, bu.	13.36	13.57	14.14
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	10.54	9.63	9.84
Oats, No. 2, Heavy Minneapolis, MN , bu.	3.45	3.18	3.52
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	185.00	207.50	207.50
Alfalfa, Large Rounds, Good Platte Valley, ton	135.00	140.00	140.00
Grass Hay, Large Rounds, Good Nebraska, ton	72.50	97.50	97.50
Dried Distillers Grains, 10% Moisture, Nebraska Average	197.00	215.50	225.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average	70.00	75.75	81.50

*No Market

The federal government owns nearly 30 percent of the land area in the United States. The vast majority of this land lies in the western U.S. For example, 81 percent of Nevada's, 63 percent of Utah's, 61 percent of Idaho's and 48 percent of Wyoming's land mass is owned by the federal government. In contrast, 1.10 percent of Nebraska's land mass is under federal ownership.

Most of the public lands in the western U.S. are under the jurisdiction of the U.S. Forest Service (USFS) or Bureau of Land Management (BLM), and many are utilized for livestock grazing. Fees for grazing public lands were first assessed in 1906 by the USFS, and in 1936 by the BLM. With the current discussion of a new Farm Bill, the equity of the federal grazing fee is again being discussed.

The current federal grazing fee formula was established under the Public Rangeland Improvement Act (PRIA) of 1978. The PRIA fee formula for the current year (t) is calculated as $Fee_t = \$1.23 \times ((FVI_{t-1} + BCPI_{t-1} - PPI_{t-1})/100)$. The formula uses a $1.23 base forage value that is adjusted by annual changes in the previous year's (t-1) private grazing land lease rate (FVI), prices received for beef cattle (BCPI) and costs of beef production (PPI). The PRIA fee formula was indefinitely extended in 1986, with an imposed minimum fee of $1.35 per animal unit month (AUM). An AUM is the amount of forage required to maintain a cow and calf per month.

The $1.23 base fee was established in 1966 by comparing the total costs of grazing on private leases to the cost of grazing on public leases. This methodology has been termed the total cost approach. The total cost of grazing private leases includes both the fee (fees paid to the lessor for forage and services), and nonfee (addi-

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tional costs incurred to utilize the forage, such as transportation and livestock care). After comparing the total costs incurred by grazing private leases with the nonfee costs of grazing public leases, a $1.23 Federal Grazing Fee equated the two (USDA/USDI, 1977).

In 1992, the USFS and BLM commissioned a study to examine the value of grazing on federal lands in anticipation of a proposed incentive based grazing fee. As a component of that study, the total costs of grazing on 173 BLM allotments, 72 USFS allotments and 151 private leases throughout Idaho, New Mexico and Wyoming were collected (Van Tassell, Torell, Rimbey and Bartlett, 1997). The total cost, including the lease rate, of grazing on private leases was $19.04/AUM, while the total cost of grazing cattle on BLM and USFS leases, excluding the federal grazing fee, was $15.41and $21.89, respectively. This implies that a BLM grazing fee of $3.63 and a USFS grazing fee of -$2.86 would equate the total costs of grazing federal and private leases. This suggests that ranchers would be better off financially if private leases could be obtained, rather that grazing USFS allotments. The higher costs of grazing USFS allotments compared to private leases included lost animals, association fees, moving and herding livestock, miscellaneous labor, vehicle expense and horse costs. The idea of a differentiated fee between resource or environmental areas was dismissed because the variation of grazing costs within resource areas was as great as the variation between resource areas.

One cost of grazing on federal lands that was not included in the total cost study was the expense of purchasing Federal Grazing Permits. While legal precedence suggests that permit value need not be considered in federal grazing fee policy (Pankey Land and Cattle Co. v. Hardin and Hickel, Cite 427 F.2d 43 1970), the cost of obtaining a Federal Grazing Permit is often at the center of the fee controversy. To understand what permit value represents, it is important to understand some of the history behind grazing on federal lands.

During the 1800's as agriculture moved west, ranchers typically homesteaded the most productive lands; lands that had access to water and land where crops could be raised. Because the Homestead Acts limited the acreage homesteaded to less than what constituted an economically viable operation in the arid west, less desirable lands that were not homesteaded were used in common by grazing animals to supplement deeded forage.

Little control of the common grazing lands was maintained by the federal government until the early 1900's. The authorization to graze livestock on federal lands was controlled by issuing grazing permits to those who met the "prior use" (i.e., had previously been grazing on lands that were now under federal jurisdiction), and "commensurability" (i.e., had deeded land in the area to support the livestock when they were not on federal grazing lands) requirements. To partially compensate for this new government intrusion and to encourage private investment on the rangelands, the original permits to graze on federal lands were given gratis to ranchers, and grazing fees were set at levels below market value. Thus, federal lands were incorporated into many ranchers' forage rotations and became an integral ingredient to successful ranching in the arid West. The excess forage value and economies of size offered the permitted ranchers were quickly capitalized into the value of the base ranch.

Nearly all Federal Grazing Permits being held by ranchers today have been purchased from a prior owner. Therefore, most ranchers feel they have paid for the right to use federal lands and they are not receiving a subsidy from the government, with the windfall accruing to previous holders of the permit and not the current holder.

Given the $1.92 federal grazing fee paid in 1992, the capitalized value of the grazing permit and the willingness to pay the extra nonfee grazing costs, public land ranchers in 1992 were paying the full cost of grazing, but the federal government was not collecting the full cost of grazing because the value of grazing permits was not accruing to the federal government. The 1992 study concluded that public land ranchers exhibited a willingness to pay between $3.00 and $5.00 per AUM (Torell et al., 1993).

Since 1992, the PRIA grazing fee has been at the $1.35 base fee 60 percent of the time. Torell et al., (2003) concluded that the BCPI and PPI indices have biased the PRIA formula rather than adjust for short-term profitability fluctuations in the livestock industry, as originally intended. One of the recommendations of the 1992 grazing fee study (Torell, 1993) and of Torell et al., (2003) was that the $1.23 PRIA base, or a politically negotiated base, be annually adjusted by the FVI to better tract the dynamics of the private lease market. If the $1.23 PRIA base would have been adjusted only by the FVI, the 2011 federal grazing fee would have been $5.42 instead of $1.35.

The federal grazing fee is much more complex than directly comparing the federal grazing fee with average private grazing fees. Differences between the costs of grazing private leases and the costs of grazing public leases must also be recognized. At some point, increasing the federal grazing fee will also theoretically reallocate some portion of the permit value to the federal govern-

ment. The fairness of that reallocation also must be discussed. It is rather obvious that the $1.35 base is not the market value of forage, especially in Nebraska. It is equally obvious that the value of grazing on federal lands is not equal to the value of grazing private leases. The true value of grazing federal lands is somewhere between the two.

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