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REPORT TO CONGRESS  
AND TO  
THE SECRETARIES OF  
THE DEPARTMENTS OF THE  
INTERIOR AND AGRICULTURE

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A Comparative Analysis of the Economic, Financial and  
Competitive Conditions of Montana Ranches Using  
Federal Forage and Montana Ranches Without Federal  
Grazing Allotments

GERHARD N. ROSTVOLD  
Professor of Economics

*and*

THOMAS J. DUDLEY  
Professor of Quantitative Methods

July 1993

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PEPPERDINE UNIVERSITY

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Graduate School of Business and Management

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# PEPPERDINE UNIVERSITY

SCHOOL OF BUSINESS AND MANAGEMENT

July 1993

The Honorable J. Bennett Johnston  
United States Senate

The Honorable Bruce Babbitt  
United States Department of the Interior

The Honorable George Miller  
United States House of Representatives

The Honorable Mike Espy  
United States Department of Agriculture

Dear Gentlemen:

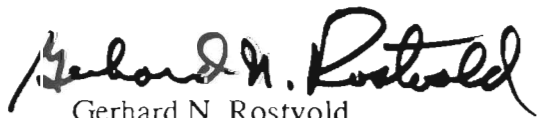
As you well know, it has been argued for decades that western ranchers who use federal grazing lands enjoy significant economic, financial, and competitive advantages over the livestock operator on privately-owned grazing lands. It has been assumed, further, that privately-leased grazing lands are economically and financially comparable to federal grazing lands. As such, grazing fees on private lands have been held to be a proxy measure of the value of forage produced on federal lands.

The facts yielded by this study fail to support these assertions, at least with respect to a broad cross-section of ranches in the State of Montana in 1993.

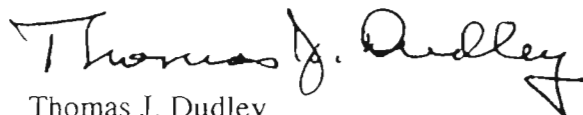
Based upon a detailed empirical analysis of the operating revenues, expenses, net incomes, costs of capital, productivity, and investment returns of Montana livestock ranches which rely upon federal grazing lands, versus a sample of ranches with minimal or no reliance on federal grazing lands, we conclude that the livestock operator who uses federal grazing lands enjoys no economic and financial advantages. On the contrary, the opposite is true. Our factual findings are summarized in the pages which follow.

Your consideration of the findings of this study will be greatly appreciated.

Respectfully yours,



Gerhard N. Rostvold  
Professor of Economics  
Pepperdine University



Thomas J. Dudley  
Professor of Quantitative Methods  
Pepperdine University

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## PREFACE

This study summarizes the results of an in-depth comparative economic survey of 166 ranching operations in the State of Montana. The object of the analysis was to compare the financial and economic performances of a sample of Montana ranches utilizing federal grazing lands with a group of ranches that do not rely upon the availability of federal forage.

Using a questionnaire survey technique, we have compiled comparable financial and economic data on Montana ranch revenues, costs of operations, profitability, cash flow, productivity, taxes, costs of financing, rates of return on ranch investments, and other aspects of operations. These data address directly the question of the comparability of privately-owned versus publicly-owned grazing lands.

For purposes of presentation, all of the survey data have been converted to index numbers, with the data from ranches not utilizing federal grazing lands (Group I) equated to an index number of 100.0.

We have used the index number approach since the publication of actual dollar values and other raw data from the survey sample would violate the confidentiality standards of Montana Livestock Ag Credit, Inc., the primary source of our data. Verification of the accuracy of the data collected for use in this research is available through arrangements with an independent auditor and Montana Livestock Ag Credit, Inc.

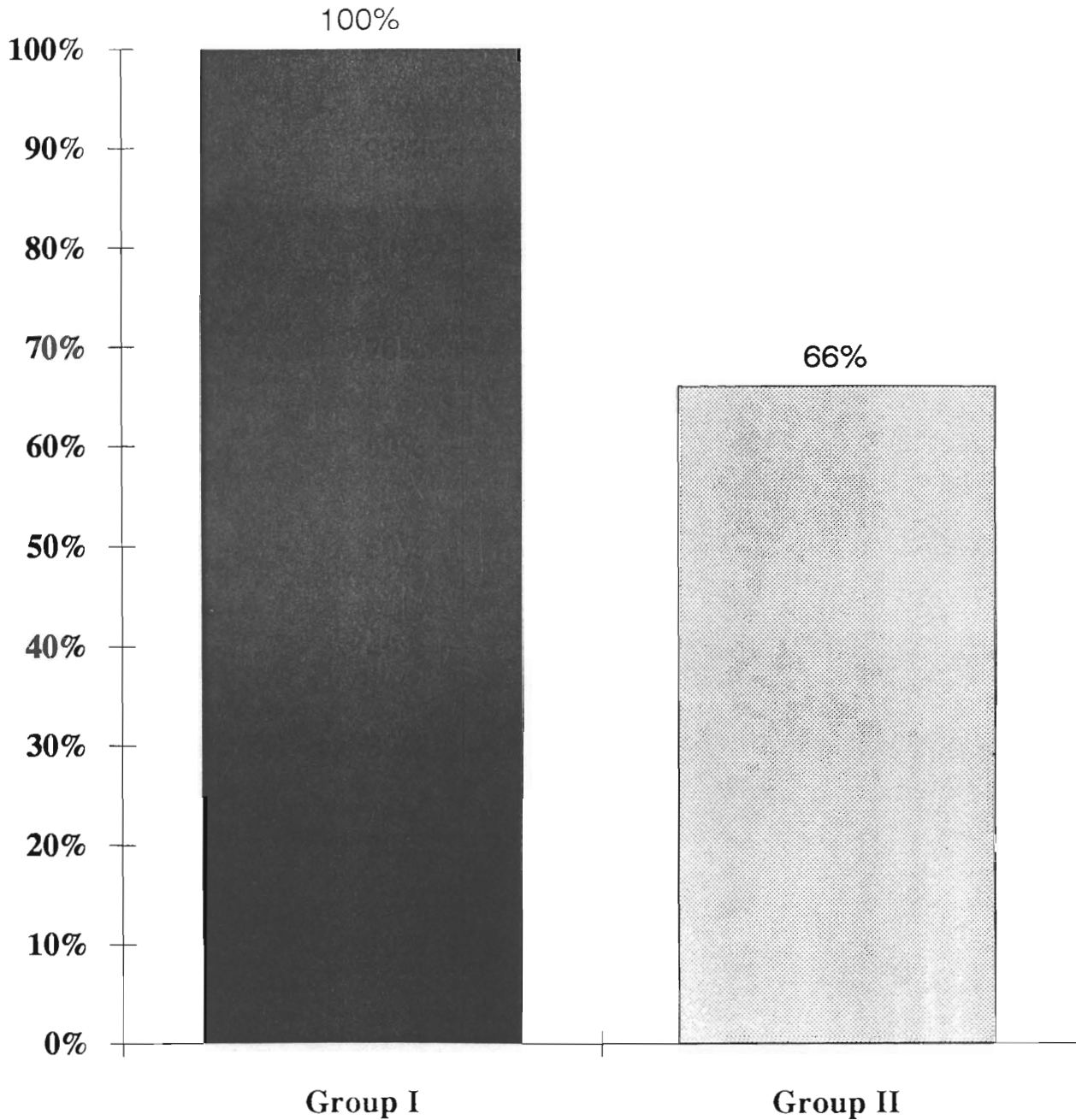
The authors would like to emphasize that the findings of this study apply specifically to a cross-section of Montana ranch operations so they do not necessarily reflect comparative financial and economic conditions of the total ranching industry in other geographic areas of the West. As such, this should be looked upon as a pilot study which may very well provide a blueprint or model for more extensive studies of other ranching regions in the West under the sponsorship of the Bureau of Land Management, the U.S. Forest Service, or the Governors of the western states.

This study was made possible through funding provided by the Western Livestock Producers Alliance and the cooperation of Montana Livestock Ag Credit, Inc.

It goes without saying that the interpretations of the data and the conclusions drawn are those of the authors.

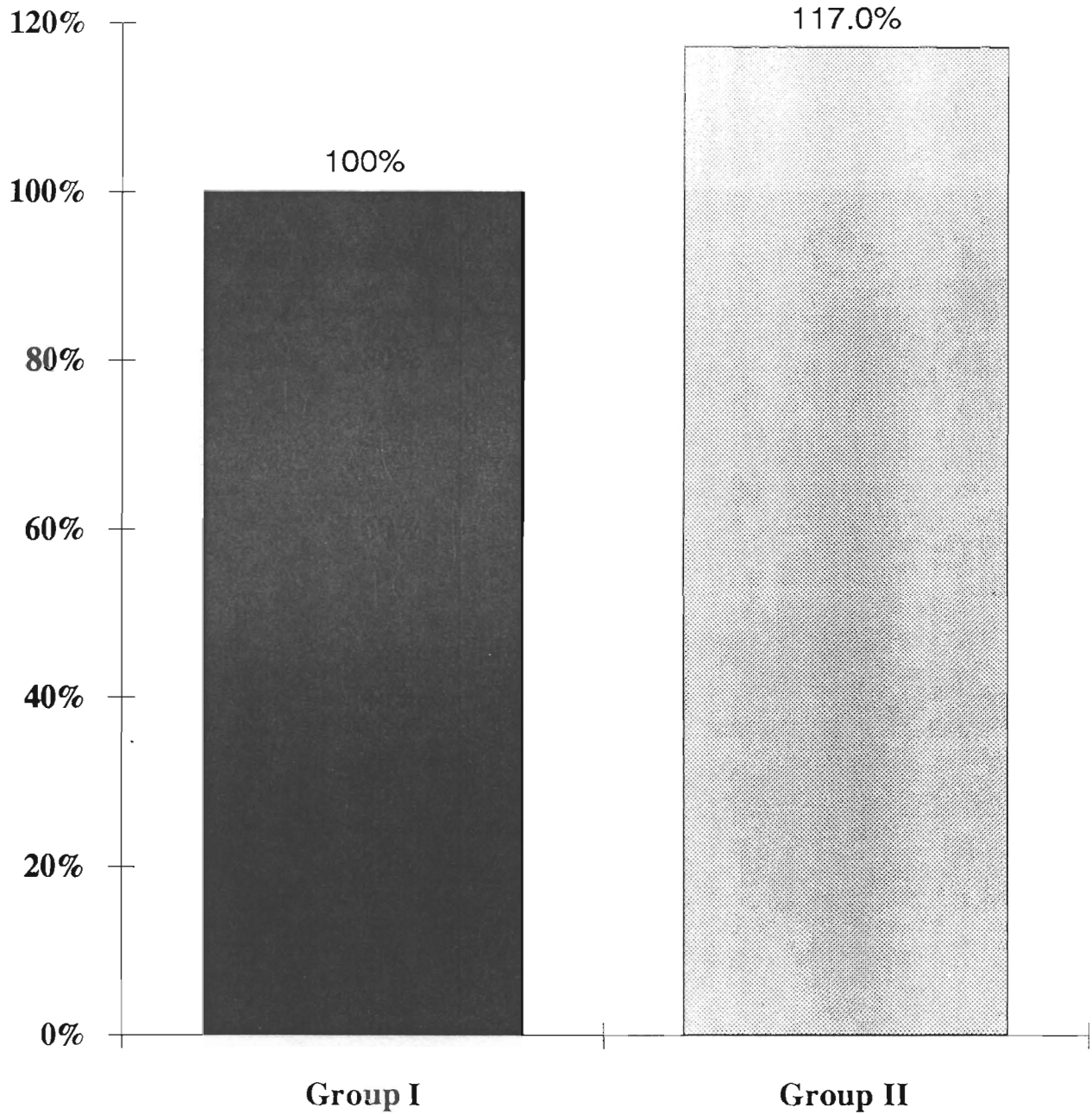
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**Figure 4. NET ECONOMIC PROFIT PER ANIMAL UNIT**



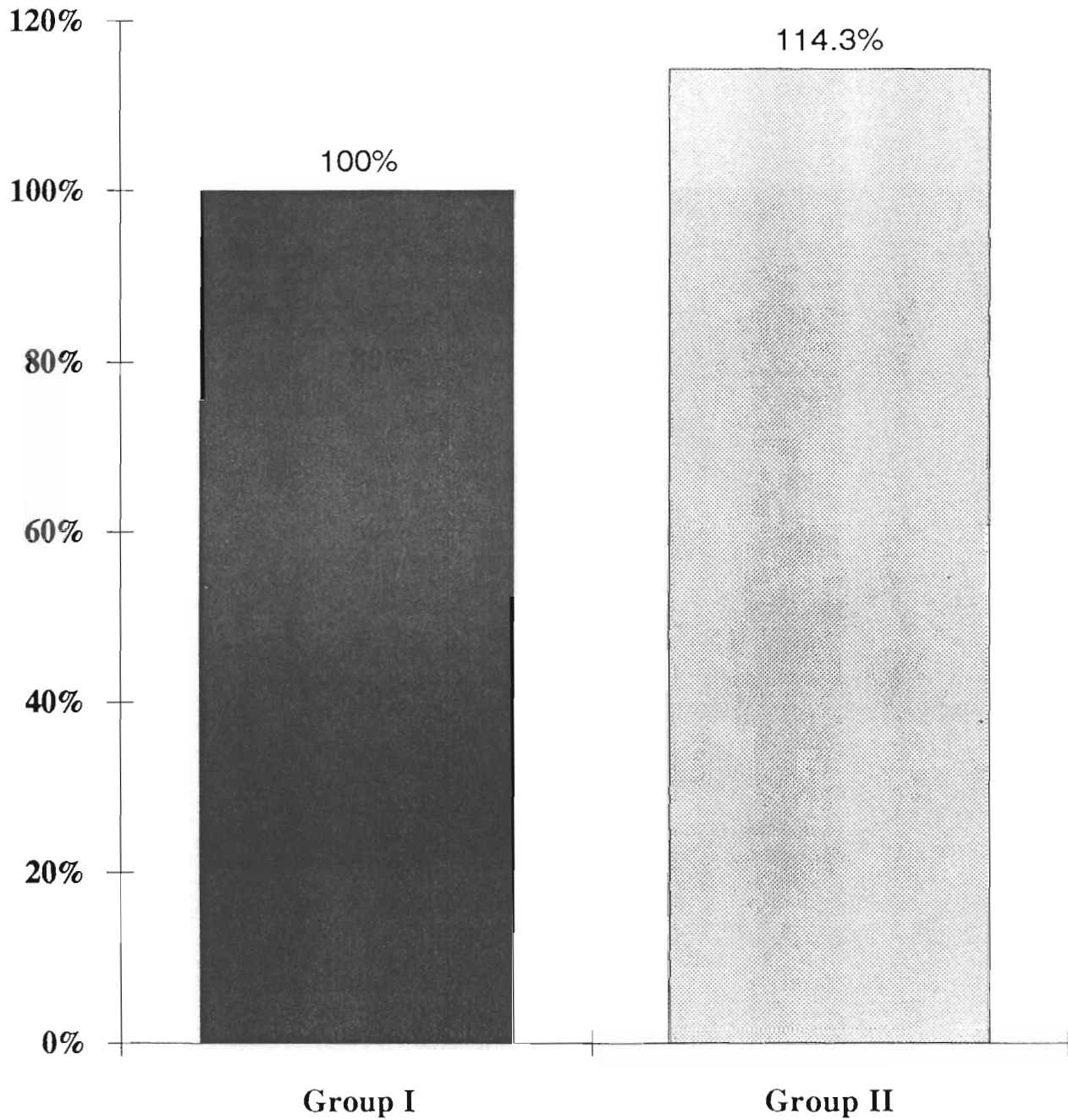
If we deduct interest expense from, and add the owner-operator's salary, to the net operating income of each ranch category, we find that the "bottom line" net economic profit of the ranch operations using federal grazing lands is only 66.0 percent of those ranches in Group I.

**Figure 15. DIRECT LABOR COSTS PER ANIMAL UNIT**



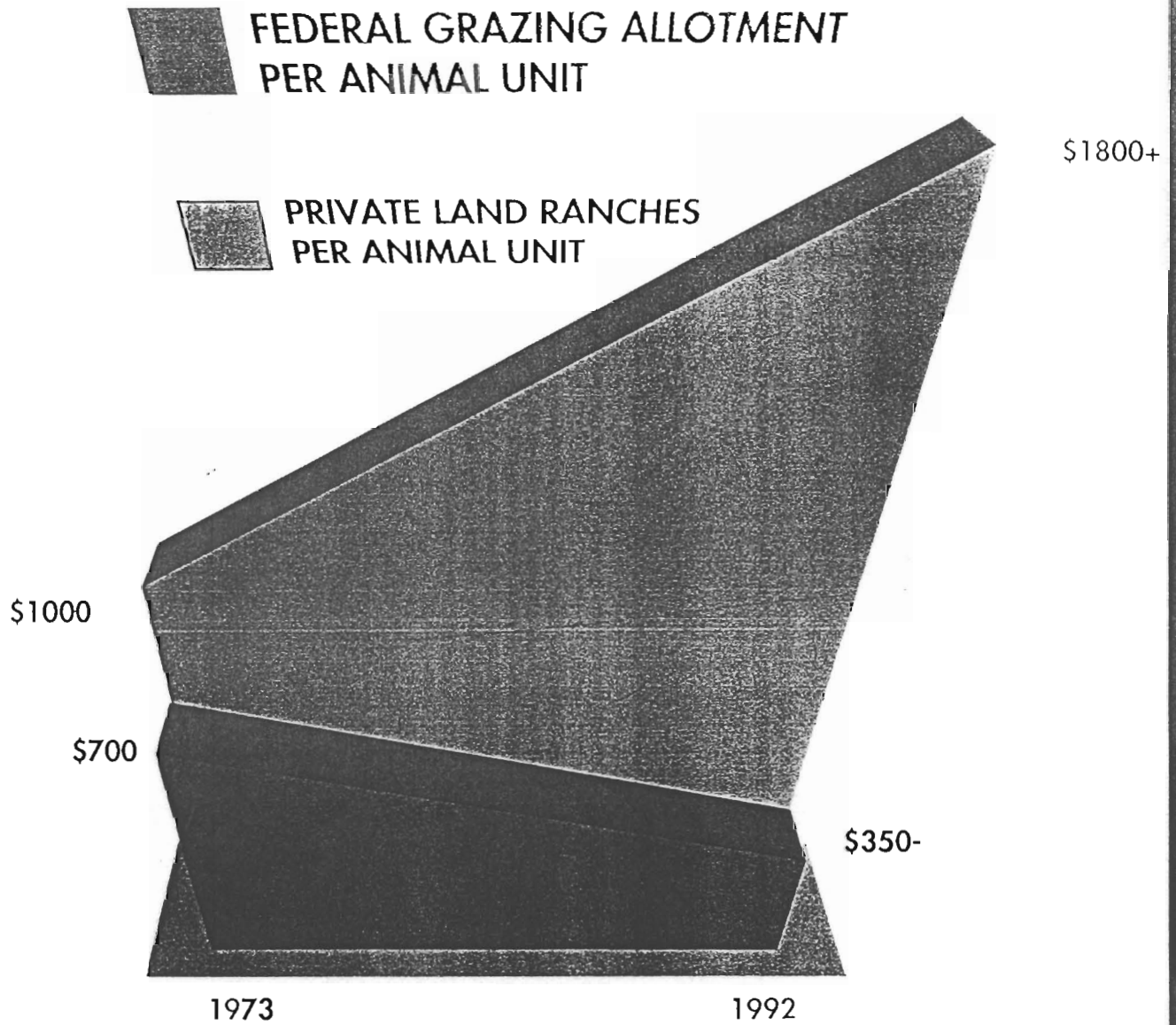
Because of the inherent nature of his ranching operation, e.g., the need for more grazing acreage per AUM, the Montana rancher utilizing federal grazing land incurs a higher direct labor cost per unit of ranch output.

**Figure 17. FIXED COSTS OF RANCH OPERATIONS**



5. The fixed costs of ranch operations for Group II ranches are more than 14 percent higher than the Group I ranches.

# Federal Grazing Allotment Market Value Trend



SOURCE: MLACI & Industry Appraisers, Senate Sub-Committee on Public Lands, National Parks and Forests of the Committee on Energy and Natural Resources. Sept. 1992

## CONCLUSIONS

The preceding analysis provides clear-cut answers to the three questions which are the focal point of this empirical study.

1. Montana ranchers who rely upon access to federal grazing lands and forage do not have a competitive advantage over other ranchers in the state.
2. Livestock operators with direct access to federal forage do not enjoy significant economic/financial advantages over ranchers who do not utilize federal forage.
3. The two categories of livestock operations are not comparable in terms of productivity, revenues, operating expenses, and profitability.

The facts yielded by this study support these conclusions for a broad cross-section of ranches in Montana.

The results of this study specifically show that the Montana livestock operator who uses federal grazing lands:

- realizes lower gross revenues per animal unit;
- incurs virtually the same operating costs per animal unit;
- receives less net operating income per animal unit;
- is subject to higher costs of borrowed capital per animal unit;
- pays higher effective interest rates per animal unit;
- has less discretionary cash flow;
- draws an annual salary equal to about three-fourths of that of ranchers in group I per animal unit;
- faces a declining net ranch market value per animal unit;
- earns a significantly lower net economic profit per animal unit; and
- earns a significantly lower net economic rate of return on his ranch investment;

. . . than does the livestock operator in Group I.