

That Cowboy Is No Economist, or Be Careful What You Wish for, Mr. Bundy

[planetexperts.com /that-cowboy-is-no-economist-or-be-careful-what-you-wish-for-mr-bundy/](http://planetexperts.com/that-cowboy-is-no-economist-or-be-careful-what-you-wish-for-mr-bundy/)

About
Us

1/21/2016

The [standoff in Oregon between the Bundys and their adherents](#) and the federal, state and local authorities and citizenry, is ridiculous at best, and demonstrates the total lack of understanding of the function of the federal government by adherents of what has been labeled the “Sagebrush Rebellion.” And contrary to the Bundys’ claim, federal control of these lands [is appropriate and legal under the U.S. Constitution](#). Their demand that the federal government cede federally-managed land to state and local control, if successful, could be a nightmare for the oil & gas, timber and mining industries, and especially ranchers.



Ammon Bundy and his militia at the Malheur National Wildlife Refuge. (Source: YouTube screenshot)

Yes, these industries have bridled under ever-evolving environmental laws and governmental regulation, but for the most part, these laws are applicable whether their operations are on federal, state or privately managed lands—and states have their own set of regulations, sometimes more stringent than the Fed’s. Royalties and lease payments for utilizing and exploiting resources on federally-controlled lands are generally below market and essentially subsidized by the government, whether it be timber, mineral extraction, oil & gas or grazing. If the states were to assume management, lease rates, royalties and grazing fees would likely increase across the board without the congressional constraints imposed by Congress. Raising the royalty rates for mineral extraction, grazing fees and timber have continually failed in Congress.

The Sagebrush Rebellion is not based or grounded in fiscal reform. Rather, it is an anti-government movement [that considers the federal government intruding on their rights](#) when told what is acceptable and not acceptable activity on land held in trust for the benefit of the American people.

Let the States Manage the Land

There have been numerous studies by various universities and think tanks as to the economics and viability of transferring management of federal land to the states, and most if not all arrive at the conclusion that it wouldn't be such a good deal for the states from a financial stand point. The [Center for Western Priorities](#), a nonpartisan conservation and advocacy organization, has studied this [matter extensively](#). And [polls show](#) that the majority of the population of the western states believe protecting the environment is a higher priority than exploiting its resources for profit.



Uinta Mountains, Utah. (Photo Credit: jaybeyer.com via Jon Chatelain)

One of the most aggressive states in pursuing this land transfer is Utah. The State legislature passed the “Transfer of Public Lands Act” (TPLA) in 2012, which mandated that the U.S. Forest Service and Bureau of Land Management (BLM), relinquish their “domain” to the state no later than 2015.

In 2014, they [commissioned a study](#) to evaluate the feasibility and economic impact of assuming management of federal properties in the state. Though one of the assumptions made is the state would allow a higher level of exploitation of its natural resources, their scenarios used assumptions that do not reflect today's market, and possibly the market for oil and gas, and minerals into the future. For their optimistic vision, they used an average case scenario of oil at \$92 per barrel and natural gas at \$5.10 per thousand cubic feet (mcf), and for their low case scenario, an average of \$62 a barrel and gas at \$3.30 per mcf. They also assumed that the state would receive 100 percent of the royalty fees rather than the 50 percent they currently do (something the rest of the country might take issue with).

At the low end, they admit the economics might not be so good (“without a change in the royalty revenue share, oil and gas royalties would never be sufficient to cover the state's costs”). Unfortunately, they failed to model the current situation (i.e., oil at under \$30 per barrel and natural gas hovering in the \$2.00 range). The fact that such minerals as copper and molybdenum are trading at eight- to ten-year lows wasn't mentioned in the report, and only passing mention of reduced grazing land availability and quality due to an ongoing three-plus year drought. How long would the citizenry of the state of Utah be willing to sustain a money-losing operation?



Angus cattle ranch. (Photo Credit: Creative Commons)

A study done by the Bozeman-based [Property and Environment Research Center](#), which describes itself as “the nation’s first and largest institute dedicated to improving environmental quality through property rights and markets,” attempts to demonstrate that the states would manage federal lands more efficiently and profitably, based upon historic analysis of various states’ land management operations (e.g., return on monies spent to manage state properties). The problem with their analysis (which they somewhat obliquely make reference to) is the states generally required far less analysis than the federal government in evaluating the impacts of oil & gas, mining, grazing and timber operations; mandate less public consultation; and charge higher royalty rates and fees. Multi-use consideration and protection of sensitive habitat beyond meeting minimum federal regulation for many states is a low agenda consideration and often ill-defined

or not mandated under state laws. Congress has tended to [micromanage and underfund U.S. Forest Service and BLM operations](#), and politicians have pandered to their industry by keeping fees and royalties unchanged for decades and below market.

Grazing



Photo Credit: Creative Commons

The federal government fee for grazing was recently raised from \$1.35 per animal unit (AUM = cow and calf, five goats or five sheep, one horse) per month to \$1.69. In the private sector, average grazing fees are in the \$20 range. Oregon recently raised its grazing fee for state property to \$17.99 and Montana charges \$11.41 per AUM. The federal government takes in approximately \$18.5 million from grazing fees...but management of this program costs the Feds approximately \$144 million.

Oil & Gas

Operators of oil and gas leases on federal lands must pay a minimum royalty of 12.5 percent, a figure not updated since the 1920s. Texas charges a 25 percent royalty for leases on state lands; New Mexico and North Dakota charge 18.75 percent for oil and gas production on their public lands; Wyoming, Utah, Montana and Colorado, charge a 16.67 percent royalty rate on state-owned land.

Federal bonding fees to cover compliance with land leases (e.g., land restoration, well abandonment, plugging) date back to the 1950s and 60s: \$10,000 for an individual lease; \$25,000 to cover all leases of a single operator in a state; and \$150,000 to cover all leases of a single operator nationwide. Wyoming requires a bond of \$10 per foot or \$100,000 for a blanket bond. A 2010 Government Accounting Office (GAO) analysis of BLM data listed \$162 million in bonds for 88,357 wells and \$1,833 per well. In 2009, BLM had spent \$3.8 million to abandon and plug 290 wells, or \$12,881 per well.

Minerals

Regulations governing the leasing of public lands for the purpose of extraction of minerals date back to the General Mining Act of 1872 and the Mineral Leasing Act of 1920. For someone wanting to mine a claim, an initial filing fee of \$189 is required with a \$140 annual maintenance fee. Historically, reclamation bonds were generally not required by the federal government. The Bureau of Land Management and U.S. Forest Service have identified over 48,100 abandoned mines in the West (though total abandoned mines in the U.S. is believed to exceed 500,000). It was not

until passage of the Federal Land and Management Act of 1976 that BLM was authorized by Congress to require bonds and reimbursement of management expenses for mining operations. It is estimated that addressing the abandoned mines problem could cost billions of dollars.



Mi Vida uranium mine near Moab, Utah. (Image Credit: Wikimedia Commons)

Timber

The most simple explanation of federal management objectives versus State can be found on the [U.S. Forest Service website](#). The acrimony between industry and loggers surrounding federal timber management policies is legendary. How not to manage timber harvesting is best represented by what Pacific Lumber Company—purchased by Maxxon in a highly leveraged buyout—[did to pay down debt](#). The company took on so much debt that to cover its payments, it had to change its harvest practices from sustainable to unsustainable.

The book, *The Last Stand: The War Between Wall Street and Main Street Over California*, by David Harris, provides a narrative of the chilling allegory of greed and unbridled plundering. Unfortunately, the events described are true.

Sell Your Assets

Within this movement exists a faction that are proponents of divesting of federal land. This faction's political allies introduced legislation in 2013 before Congress (H.R. 2657), the "[Disposal of Excess Federal Lands Act](#)." Many of the Republican presidential candidates have voiced support of the transfer of management to the states and divestment of federal properties to the private section, with the rationale [that states can manage these assets far better than the federal government](#), and as a way to reduce the deficit. Other proponents include such entities as the Koch brothers-backed [Americans for Prosperity](#), and the American Legislative Exchange Council ([ALEC](#)), long associated with anti-government causes and reduced governmental regulation.

Tragedy of the Commons

Managing publicly-owned resources has been one of the successes of the federal government. Yes, they have made mistakes, and yes, they could probably do a better job of it, but they are required to answer to many masters and respond to the changing political climate and its politicians. They are the policemen of the commons, as defined within Garret Hardin's essay, "[Tragedy of the Commons](#)."

It is an unfortunate reality of human nature that individuals and companies too often act in their own self-interest, contrary to the best interests of society, whereby an individual or company exploits or depletes a resource in a manner without concern for his fellow creatures and the damage and havoc they leave behind. The federal government may not have been the best steward of the land, but they are far preferable to the alternatives being proposed by the Sagebrush movement.

© COPYRIGHT 2017 PLANET EXPERTS, LLC - [TERMS AND CONDITIONS](#) [WEBSITE MAP](#)