

MODERNIZING ALBERTA'S PUBLIC LAND GRAZING FRAMEWORK

Frequently Asked Questions:

1) Question: Who does this rate calculation change apply to?

Answer: Grazing dispositions affected by rental rate changes include grazing leases (GRL) grazing licences (FGL) and grazing permits (GRP), while head tax permits (HTP) will remain unchanged. This means that anyone who grazes on a Provincial Grazing Reserve or in the Rocky Mountains Forest Reserve (Forest Reserve Allotment) would NOT see any changes to their rental rates.

2) Question: Are assignment fees changing?

Answer: Yes, assignment fees will be updated from the current rates where a fee is charged per AUM transferred, to a flat-rate fee which will be consistent with other public land dispositions.

3) Question: What are the results of the lease cost survey?

Answer:

2015 Total Public Land Grazing Costs In Northern and Southern Alberta

	Dollars/AUM/Year Individually Held Leases		Dollars/AUM/Year Association Held Leases		Dollars/AUM/Year Combined	
	North	South	North	South	North	South
Total Public Land Grazing Costs	\$57.83	\$40.14	\$37.13	\$36.73	\$47.52	\$38.92

Taken from 'Alberta Public Land Grazing Lease 2016 Cost Survey Results' prepared by MNP LLP, available at <http://www.wsga.ca/pdf/2017/Alberta-Grazing-Lease-Cost-Survey-2016.pdf> and <http://www.albertagrazinglease.ca/downloads/2017/Alberta-Grazing-Lease-Cost-Survey-2016.pdf>.

4) Question: Based on the lease cost survey, how do Crown land leases compare to private leases?

Answer:

Private pasture rates vary widely, as do the responsibilities of the lessee and the land owner, many times the landlord is responsible for the majority of pasture upkeep and taxes, while the tenant is responsible for a portion, or the landlord may be responsible for everything. In areas of high value and interest (land located around Calgary for example) the tenant may be responsible for all developments, maintenance, and taxes.

In 2015 private pasture rental rates as reported in Alberta Agriculture's custom rates survey varied between a maximum of \$45.00/AUM, and a minimum of \$0.65/AUM, with a median rate of \$25/AUM.

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The 'Alberta Public Land Grazing Lease 2016 Cost Survey Results' report found that the average total public land grazing costs for holding a public land grazing disposition in Alberta was \$42.52/AUM. This cost accounts for both the direct and indirect costs undertaken by the leaseholder, including the stewardship and multiple use requirements unique to public land disposition holders.

Based on this information it appears that public land lessees have costs comparable to private pasture rental rates based on the amount of capital and operational investment they put into their leases.

5) Question: How are the spring and fall market prices determined?

Answer: The fall sale price used in the model is calculated based on the 2 year rolling average of the 800-900 lb. steers at the end of September, using CANFAX market data. This provides for more stable rental rates than might be experienced with year to year actual fall market prices but over time should result in very similar rents paid.

The spring price is estimated (not actual) based on the 10 year rolling "Olympic" average difference between the actual CANFAX reported sales price for 600-700 lb. steers at the end of April and 800-900 lb. steers at the end of September.

April prices for 600-700 lb. steers are reliably 9% to 11% higher than the price of 800-900 lb. steers at the end of September. In this sense the rent model uses the September value of the steer to determine lease rent along with the 10-year Olympic average margin between April and September prices typically associated with steers.

The use of longer term averages in the model rent calculation prevents pricing anomalies that could lead to unrealistic and inappropriately high rents. Of specific concern would be a (rare) situation where the calculated margin is unrealistically high due to lower spring prices for 600-700 lb. steers. Though the spring auction represents the market assessment of the yearling, most ranchers don't purchase yearlings for this purpose. Their costs are more stable and better represented in the formula by the long term average margin.

6) Question: Does the new framework mean an increase in rental rates across Alberta?

Answer: No. In a comparison going back to 1996, 16 of those 21 years would have had lower rental rates than the current frozen rate. The new framework is based on profitability so rental rates would only increase in years where there is higher profitability for the producer. If profit is high (and rental rates are subsequently higher than current rates) when the proposal is introduced it will be phased-in over 5 years to mitigate issues with implementing higher rental rates after they have been frozen for so long.

7) Question: How does the model represent a real working ranch?

Answer: The model reflects the grazing industry profitability. It is based on real market data and real costs as reported by leaseholders.

The rental rate framework calculates lease rents based on the **profitability** of operating a grazing lease, considering issues such as market prices, transportation, operating and labour costs. To calculate rent, a model is used that is based on the purchase of yearlings in the spring, weight gain on the lease during the grazing season, and sale price in the fall. Although there is considerable variability in how cattle operations and grazing leases are managed across the province this standard was chosen to provide consistency. Inputs to the model come from actual market reports (e.g. CANFAX) and take into account long standing cycles between spring and fall markets; and yearling and calf markets. Grazing lease cost surveys provide inputs to the model such as weight gain on the lease and direct and indirect operating costs.

The grazing lease rental rate varies as net revenue from cattle (steers) minus additional input costs and grazing lease operating costs (i.e. profitability) either increases or decreases.

8) Question: How do you account for the differences in cattle prices from north to south?

Answer: In collecting data for the model, CanFax (the market analysis division of Canadian Cattlemen's Association) data was used to compare the regional prices and it was found there is no statistically significant difference between regional prices. CanFax currently reports the averages for all of Alberta, and regional feeder prices are no longer published due to lack of difference between regions.

9) Question: Will this proposal help to maintain market access?

Answer: The proposed public land grazing framework addresses long standing concerns over the calculation of grazing lease rental rates, implements a fair and transparent system, recognizes the real value of the lease, and addresses issues with media perception and continued market access.

10) Question: Are grazing dispositions the best use of provincially owned land?

Answer: The grazing disposition program has successfully served as an instrument to conserve and maintain rangelands and the goods and services they provide. The program works to effectively manage agricultural uses on public lands to ensure grazing disposition holders apply proper stewardship principles to sustain the health and productivity of native grasslands, forests and tame pastures. The leaseholder, in fulfillment of their contractual responsibilities, assures that these lands provide a broad suite of ecological services to all Albertans, including biodiversity and watershed values. Having a knowledgeable steward on the land making sure the resource is managed properly to enhance the health of the ecosystem has been the reason these lands have been conserved over the last 150 years.

Leaseholders undertake a significant stewardship role on the land they lease; they are responsible for maintaining range health, and maintaining grazing dispositions ensures that the land is not available for development, allowing them to both protect and maintain environmental values. Adaptively managed grazing is a significant factor in rangeland management and upkeep of ecosystem health.