

MODERNIZING ALBERTA'S PUBLIC LAND GRAZING FRAMEWORK

Background

We are writing to you because we, the undersigned organizations, have worked with the Department of Environment and Parks to modernize Alberta's public land grazing rates. Our industry approached government in late 2013 with a proposal to review grazing lease rental rates and assignment fees. If implemented, the new framework is intended to address the following objectives:

- The rental rate formula should have comparable methodology to other resource sectors
- Remove existing barriers to succession or entry into the industry that result from the current rental rate formula or assignment fee schedule
- Promote and encourage good stewardship
- Address issues regarding social licence and continued market access
- Be justifiable to the Alberta public, other provinces, other resource sectors and grazing leaseholders
- Support the maintenance of native grasslands and recognize the interconnections between public and private grasslands
- Recognize the contributions of good management and private capital to the system
- Be fair to both leaseholders and Government

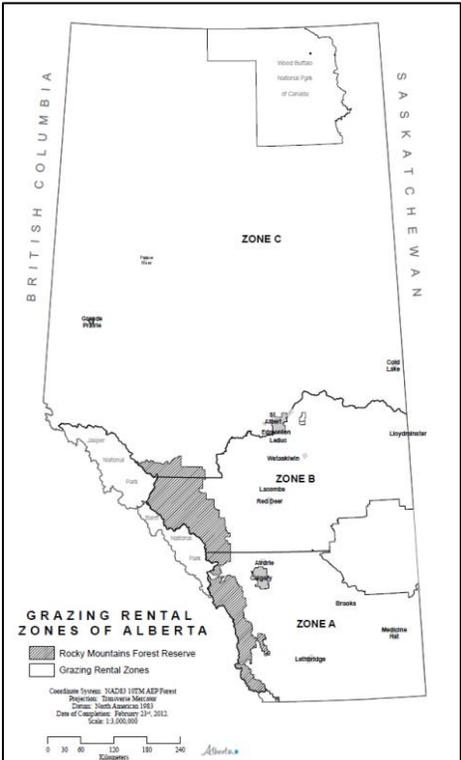
Grazing leases have existed in Alberta in some form since 1880 and have helped maintain Alberta's rangelands in their native state. Moreover, they have benefitted the province economically, environmentally, and socially – through creation of employment opportunities and other base economic drivers, and preservation of renewable resources like forests and grasslands. The societal benefits that accrue from both the economic activity and ecosystem services sustained by land management and commercial activities on these resources are significant.

The importance of the public land grazing program extends beyond Alberta's public lands, as grazing dispositions are intermingled with freehold rangelands, resulting in a patchwork of public and privately held lands that together provide landscape level connectivity and support the maintenance of large tracts of contiguous native rangelands.

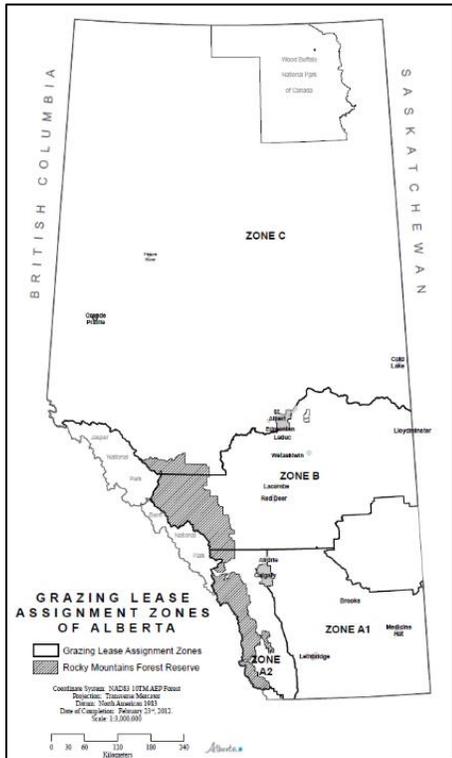
During the early 1990's, concerns were raised by government and the grazing industry about how rental rates and assignment fees were calculated. These fees can be set annually at the discretion of the Minister but have remained unchanged since 1994 in response to these concerns.

The current rental rate system was implemented in 1960 and applies three different rates across the Province, frozen rates are currently:

Zone	Rate
Zone A (Southern Alberta)	\$2.79/AUM
Zone B (Central Alberta)	\$2.32/AUM
Zone C (Northern Alberta)	\$1.39/AUM



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Current assignment fees were also implemented in 1960, and are applied over four zones. In 2003 they were incorporated into the *Public Lands Act* at their current fixed rates:

Zone	Assignment Fee
Zone A1	\$50.00/AUM
Zone A2	\$100.00/AUM
Zone B	\$50.00/AUM
Zone C	\$5.00/AUM

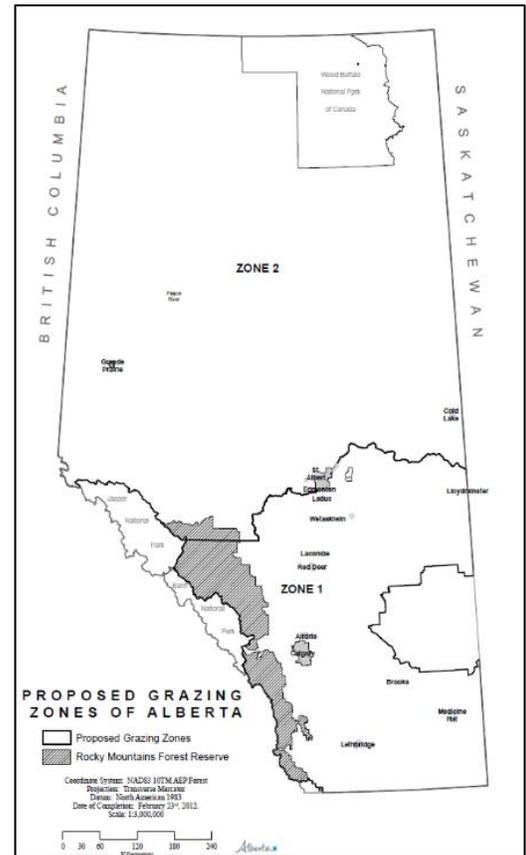
The current rental rate and assignment fee formulas for grazing leases, licences and permits on public lands in Alberta are outdated. Amendments to the *Public Lands Act* and the Public Lands Administration Regulation are proposed to establish a flexible, market-based formula for rental rates that is determined by profitability, responsive to market changes, and uses grazing zones based on true geographic differences. These amendments would also establish an administrative fee for assignments that removes the barrier to entry currently associated with assignment fees.

Proposal

The new fee system proposal will include a rental rate framework founded on a two-zone system with a boundary based on the transition to the boreal region of the province – an area that incurs higher capital costs on grazing leases. These zones would have different minimum rental rates to reflect these differences in capital costs:

Proposed Zone	Rental Rate
Zone 1 (Southern Alberta)	\$2.30/AUM
Zone 2 (Northern Alberta)	\$1.30/AUM

The minimum rental rate would be charged when profits in the grazing sector of the cattle industry are low. As profits rise the rental rate would increase and the formula would capture a progressively greater share of net income. The profitability of a grazing lease will be determined by using previous year's market prices, along with grazing lease operational costs as determined by surveys (adjusted for inflation) modelled after a yearling grasser operation. Rental rates will fluctuate on an annual basis. Rolling averages will be used to address market spikes and ensure that there are no unreasonable fluctuations in rental rates from year to year.



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Implementation

Grazing lease rental rate changes will be phased in over a five-year period. During the phase-in rental rates will be calculated as the base rate plus an annually increasing percentage of the premium beyond the base rate. Under the new formula the rates for 2017 would have been:

Proposed Rental Rate Zone	First year phased rate	Full Rate
Zone 1 (Southern Alberta)	\$3.26/AUM	\$7.10/AUM
Zone 2 (Northern Alberta)	\$2.04/AUM	\$4.99/AUM

Assignment fees for grazing leases and grazing licences will also be updated to eliminate the current tax based system and to introduce a province-wide flat rate fee that reflects the cost of administration. Government has committed to a review of the model five years after implementation to ensure that it is working effectively and meeting the objectives agreed upon by both industry and the department.

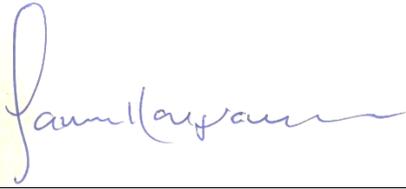
In 2016, MNP_{LLP} was hired to undertake a survey to determine the actual and in-kind costs of grazing cattle on public lands. These costs are used in the proposed formula to determine the profitability of owning a grazing lease and calculate the rental rate.

Summary

Rental rates and assignment fees for grazing dispositions are outdated and based on assumptions that are no longer valid or defensible. 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. It was an industry led initiative developed in collaboration with the Government of Alberta. Additional information on the proposal, including a frequently asked questions section, can be found on the Alberta Beef Producers website, the Alberta Grazing Leaseholders Association website <http://www.wsga.ca/news008.php>, and the Western Stock Growers' Association website <http://albertagrazinglease.ca/documents.php>.

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Signatures



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