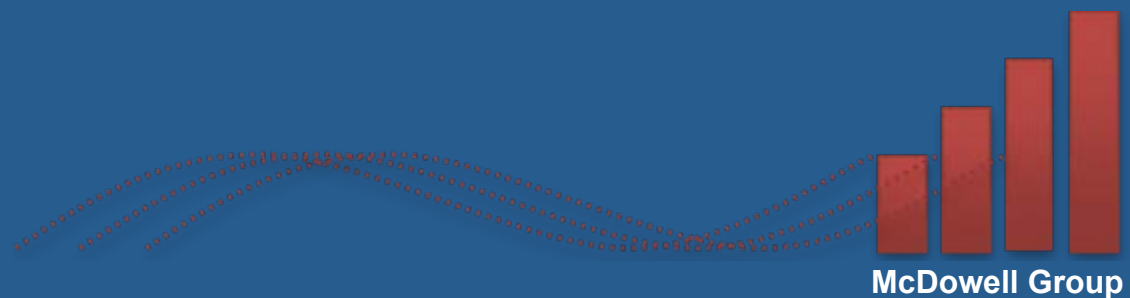


# The Economics of Critical Habitat Designation

**Presented to:**  
**Resource Development Council**  
**November 15, 2012**

**Presented by:**  
**McDowell Group, Inc.**  
**Anchorage · Juneau**



# The project team

- ◆ McDowell Group, Inc.
- ◆ Evergreen Economics
- ◆ Dr. Andrew Plantinga



# The Assignment

Identify and analyze economic impacts from critical habitat designations under the ESA

- ◆ Costs to businesses and investors
  - ◆ *Additional studies*
  - ◆ *Mitigation costs*
  - ◆ *Other Section 7-related costs*
  - ◆ *Litigation expenses*
  - ◆ *Other transaction costs*
- ◆ Impact of CHDs on business activity and investment decisions



# Recent Economic Analyses of Proposed CHD in Alaska

- ◆ Recent Federal economic analyses have raised questions...
  - ◆ EA for Cook Inlet beluga whale CHD reported \$157,000-\$571,000 in total costs over a 10-year period
  - ◆ EA for the 187,000 sq mile polar bear CHD reported \$669,000 in total costs over a 30-year period
- ◆ Studies funded by the State and others found...
  - ◆ Cook Inlet beluga CHD could have economic costs of \$67.2 to \$816.2 million.
  - ◆ Polar bear CHD generate billions in economic impacts



# ESA Listing and Designation of Critical Habitat

- ◆ Listing under ESA
  - ◆ Economics do not factor into the decision to list a species as endangered or threatened
- ◆ Critical habitat designation (CHD)
  - ◆ Secretary directed to consider economic impacts when designating critical habitat
  - ◆ Secretary may exclude any area from critical habitat if the benefits of exclusion outweigh the benefits of inclusion



# “Baseline” and “Co-Extensive” approaches

- ◆ Baseline

- ◆ How the economy would look absent CHD, but with the ESA listing. Baseline is compared to an assessment of the the economy with CHD to identify “incremental costs”

- ◆ Co-Extensive

- ◆ All economic impacts associated with CHD, whether or not they are “co-extensive” with the impacts from the ESA listing or other factors (such as other federal regulations)



# Incremental impacts are a small portion of overall baseline Impacts

Species	Baseline	Incremental CH impacts
Northern sea otter	\$37,791,510	\$622,981
Canada lynx	\$10,848,500	\$769,840
Sierra Nevada bighorn sheep	\$15,521,190	\$94,880



# What are the incremental costs of CHD?

- ◆ Additional Section 7 Consultation costs
- ◆ Project modifications
- ◆ Triggering effects
- ◆ Stigma effects
- ◆ Increased risk/uncertainty
- ◆ Project delay
- ◆ Litigation





# The research challenge....

- ◆ CHD is interwoven in a regulatory environment that can impose a range of costs on industry
  - ◆ Costs associated with listing
  - ◆ Costs associated with MMPA, Clean Water Act, other local, state, and federal conservation measures
- ◆ CHD may be one of several factors driving investment decisions



# Review of 13 Economic Analyses Related to CHD

- Criteria for selecting critical habitat designations:
  - Potentially significant economic impacts
  - Designation covers a large area
  - Likely conflict with future natural resource development



# What we've learned...

- ◆ EAs don't fully capture potential economic effects of CHD
  - ◆ Many impacts are difficult to quantify, thus they are implicitly set at zero
  - ◆ Dependent on best "commercially available data"
- ◆ EAs do little to inform the Secretary about potential exclusions
  - ◆ "Micro-level" information is necessary to inform the Secretary on areas to consider for exclusion
  - ◆ EA budget likely not sufficient to consider "micro-level" analysis



# Next steps in our research....

- ◆ Additional research on Lower 48 CHD economic outcomes
- ◆ Meet with agency staff involved in the development and use of EAs
- ◆ Further outreach to business, industry, communities
- ◆ Report preparation (draft by year-end)



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