

Comments

**On the Draft Economic Analysis of
Critical Habitat Designation for the
Cactus Ferruginous Pygmy-Owl
(November 2002)**

Prepared for

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EXECUTIVE SUMMARY AND READER'S GUIDE

The U.S. Fish and Wildlife Service issued a draft economic analysis of the proposed designation of critical-habitat for the Cactus Ferruginous Pygmy-Owl in November, 2002. In this report we respond to the findings and methods of that analysis. Our approach is three-fold. First, we describe the appropriate role and scope of a technically-sound economic analysis. Second, we evaluate the Service's economic analysis—both its findings and its methods of analysis—with respect to the standards for a thorough and complete analysis. Third, we offer recommendations to the Service as it prepares its final designation of critical habitat and the accompanying economic analysis.

Our key findings include the following:

1. The Service's analysis focuses inappropriately on the potential costs to the near-exclusion of the potential benefits. Although the analysis includes a discussion of the wide body of literature useful for estimating the potential economic benefits of the designation, the Service fails to heed its own findings and fails to incorporate any of the data into an analysis of the net effects of the designation.

2. The analysis treats assumptions inconsistently, resulting in a bias favoring the costs. In the draft analysis, cost estimates are based on a series of projections of the regional economy and cost estimates derived, in part, from other parts of the country. The Service fails to make corresponding assumptions to facilitate the analysis of benefits.

3. By failing to present a balanced assessment of the costs and benefits, the analysis falls short of the requirements of both the Endangered Species Act and the standards of good economic analysis. At its best, the draft economic analysis is an assessment of only the estimated gross costs of the designation. At its worst, it suggests that the potential benefits are inconsequential to the economy. Neither is acceptable.

READER'S GUIDE TO THIS REPORT

In support of these conclusions, we place our comments within the broader context of the evolving relationships between ecosystems and economies. We begin with an overview of the status of the Pygmy-Owl and the process of designating critical habitat. In Chapter Two we outline the appropriate role of economic analysis in the designation process and offer our critique of how well the Service's draft economic analysis met its obligations.

In Chapter Three we provide a conceptual model describing the interactions between the economy and the environment. After we lay the groundwork for analyzing the costs and benefits, we examine the draft economic analysis and comment on the extent to which it represents a complete and reliable basis for making a decision on designating critical habitat in Chapter Four. Given the Service's tendency to overlook the economic benefits of natural-resource protection, we focus our discussion on the benefits.

In Chapter Five, we offer our recommendations to the Service as it finalizes the economic analysis and prepares the final designation of critical habitat for the Pygmy-Owl.

Because many people and public officials are most concerned about how the designation will affect jobs, incomes, and the overall economic structure of local and regional economies, we include a discussion of estimating those impacts in the Appendix.

WHO PREPARED THIS REPORT?

Ernie Niemi and Kristin Lee, economists with ECONorthwest, prepared this report for Defenders of Wildlife. Others provided valuable insights and assistance, but ECONorthwest remains solely responsible for the report's contents.

We have prepared this report based on our general knowledge of the natural resource industries and the economy of the Southwest, as well as information derived from government agencies, private statistical services, the reports of others, interviews of individuals, or other sources believed to be reliable. We have not verified the accuracy of such information, however, and make no representation regarding its accuracy or completeness. Any statements nonfactual in nature constitute our current opinions, which may change as more information becomes available. As time passes, the results of this report should not be used without accounting for more recent data and relevant assumptions.

HOW CAN YOU GET ADDITIONAL INFORMATION?

For more information regarding the contents of this report, please contact:

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