Joint Ventures and Cutting Rights

TARANAKI REGIONAL COUNCIL

Introduction

In many circumstances, individual landholders cannot afford the establishment and following silviculture costs that go with a forestry programme. One option available is to bring in outside investors to help finance the forest implementation period. This is commonly called a joint venture

What is a Joint Venture?

A joint venture forestry agreement is a contractual arrangement between a landowner and an investor. The landowner and investor enter into a mutual contract, covering any or all of the rights to establish, manage and harvest a forest on a landowners land. While the outside investor is entitled to a share of the final harvest income, the landowner retains ownership of the land. Many types of joint venture are possible and can be worked to suit the landowners requirements.

Three key legal documents are involved in a forestry joint venture:

1. **A forestry right**, which is the formal registration of rights using the Forestry Rights Registration Act of 1983.
   A Memorandum of Transfer is the 'vehicle' by which a right is registered under the Land Transfer Act 1952.

2. **A joint venture agreement**, which embodies the agreement between landowner(s) and investor(s), including the specific responsibilities of the respective parties. This agreement can be included as part of the forestry right.

3. **A Management Plan**, which describes the project, sets out its aims and objectives and the various management operations. Generally, the Management Plan is kept separate from the forestry right so that changes in management do not have to be registered through a Memorandum of Variation.

Forest planted under a joint venture agreement in Taranaki

What will the shares be?

The proportion of the harvest revenues that accrues to each party must be negotiated and settled in advance. A fair decision can be calculated manually, but is a technical task that is best left to experts. The New Zealand Forest Research Institute (NZFRI) is producing a spreadsheet-based software package to simplify the calculations.

The relative share for each party can be based on anticipated costs before forest embellishment begins, or on actual costs with a record of costs kept throughout the rotation.

Every joint venture is unique, depending on the agreement reached between the parties involved. One common model for the respective contributions to a forestry joint venture is as follows:

Landowner

- The land (rental value)
- Fencing (maintenance)
- Access tracks (maintenance)
- Animal and weed control (where necessary)
- Fire control (maintenance and water supply(ies) and firebreaks)
- Rates and insurance
- Other cash or labour inputs (where these are used on the project)

- Custodial care

Investor

- Joint venture set-up costs
- Any new major capital expenditure (fences or roads / tracks)
- Forestry operation costs and / or labour (land preparation, seedling purchase, planting, releasing, fertilising, pruning, thinning)
- Other cash and / or labour inputs (where these are used on the project)

Note: It is possible to design a joint venture where the landowner will receive some rent (or a lump sum payment) as well as a (smaller) share of the harvest return.

Joint ventures in Taranaki

Initially, following the introduction of the Forestry Rights Registration Act in 1983, the number of joint ventures implemented was relatively low. However, the planting boom of the last 4-5 years, most of which has been outside the large corporate forests, has generated renewed interest in this type of forestry investment.

In Taranaki there are a number of forests now planted under joint venture agreements. These vary in size from small woodlots of a few hectares to large areas of more than 100 hectares.

Investors such as Valentine Sawmills, Taranaki Sawmills, Saunders and Thomson, Atawhai Industries, Morris Fisher Forestry and the New Plymouth District Council are all involved in joint ventures in Taranaki.

Forestry joint ventures require appropriate professional assistance to set up. The Ministry of Forestry has published an excellent guide 'Small Forest Management and Forestry Joint Ventures'.

A well designed and planned joint venture should be an informal and hassle-free method of becoming involved with forestry.

Forest Cutting Right

At any stage after forest establishment it is possible to sell the rights to future harvesting of the forest. The value or price at which negotiations begin can be based on the current projected harvest value, discounted at an acceptable rate for the number of years anticipated remaining until harvesting occurs.

A farmer wishing to sell an immature forest as a cutting right would need to at least obtain these values to break even. Any price above the accumulated cost and foregone revenue which the farmer can negotiate will give a return greater than if the farmer continued normal livestock farming on that area.

The Regional Council's Land Management Section and / or forest management advisors can provide assistance with forestry implementation options.

For further advice or information contact:

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