



**ECONOMIC DEVELOPMENT COMMITTEE**

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**Inquiry into the Viability of the Victorian  
Thoroughbred/Standardbred  
Breeding Industries**

**Report on the Standardbred  
Breeding Industry and Associated  
Industry Issues**

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Parliament of Victoria  
Economic Development Committee

Report on the Standardbred Breeding Industry  
and Associated Industry Issues

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# **ECONOMIC DEVELOPMENT COMMITTEE**

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## **ECONOMIC DEVELOPMENT COMMITTEE**

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### ***FUNCTIONS OF THE ECONOMIC DEVELOPMENT COMMITTEE***

The Economic Development Committee is an all-party, Joint Investigatory Committee of the Parliament of Victoria established under section 5(b) of the *Parliamentary Committees Act 2003*.

The Committee consists of seven Members of Parliament, three from the Legislative Council and four from the Legislative Assembly. The Committee carries out investigations and reports to Parliament on matters associated with economic development or industrial affairs.

Section 8 of the *Parliamentary Committees Act 2003* prescribes the Committee's functions as follows: to inquire into, consider and report to the Parliament on any proposal, matter or thing connected with economic development or industrial affairs, if the Committee is required or permitted so to do by or under the Act.

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## Parliamentary Committees Act 2003

### TERMS OF REFERENCE FOR THE ECONOMIC DEVELOPMENT COMMITTEE

#### Viability of the Victorian Thoroughbred/Standardbred Breeding Industries

The Governor in Council, under section 33(1)(b) of the **Parliamentary Committees Act 2003**, requires the Economic Development Committee to inquire into and report to Parliament on the Viability of the Victorian Thoroughbred/Standardbred Breeding Industries with a particular regard to the following:

1. the strength of the Victorian thoroughbred/standardbred breeding industries compared to other Australian states;
2. the role of overseas breeding interests and the influence that they are having on the Victorian industry;
3. the extent to which the Victorian industries are being integrated at a national and international level;
4. the extent to which the Victorian industries have adopted international best practice;
5. employment and investment opportunities and patterns with particular emphasis in regional Victoria; and
6. the development of skills within the industries.

This will be with a "view to making recommendations on how the industries may be further developed".

The Committee has been asked to present its report to the Parliament no later than 30 September 2005.\*

Dated: 1 February 2005

Responsible Minister:

Hon. John Pandazopoulos, MP  
Minister for Racing

Clerk of the Executive Council

\*Terms of Reference extended to 31 March 2006

\*Terms of Reference extended to 30 June 2006



## ***Glossary***

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Agistment	An agreement between a land-owner and an owner of horses or livestock to graze the horses/livestock on the landowner's land in exchange for money.
Artificial breeding	<p>Artificial breeding consists of all techniques and procedures –</p> <p>(a) whereby semen can be obtained from a stallion and introduced into a mare;</p> <p>(b) relating to the collection, storage, chilling, freezing, transportation and use of semen;</p> <p>(c) relating to the extraction of an embryo from a mare, and the placement of an embryo into a mare, and the transfer of an embryo from one mare to another;</p> <p>(d) which are determined by the Controlling Body to be techniques or procedures relating to artificial breeding.</p>
Australian Trotting Stud Book	<p>A term that refers to:</p> <ul style="list-style-type: none"><li>• the officially published records of standardbred bloodlines and registration in Australia;</li><li>• the compilation is based on results of Services and results of Australian harness racing meetings supplied by the controlling bodies of each State and statistics generated by the Australian Harness Racing Council Database;</li><li>• Standards imported to Australasia are shown with a country suffix (i.e. USA, CA, EU) after their name;</li><li>• the Australian Trotting Stud Book is owned by all Members of the Australian Harness Racing Council.</li></ul>

Black type	In a sales catalogue, the form of any horse who has won a Group race or a Listed race, the most highly valued races, is written in bold type - a horse's connections might aim to 'get some black type', which would thus improve that horse's value at stud.
Breeder	A person who breeds racehorses for a living or for a hobby.
Broodmare	A female horse that is used to produce foals.
Colostrum	The first secretion from the mammary glands occurring after giving birth.
Colt	An entire male horse aged under four years.
Conformation	A horse's muscular and skeletal structure.
Cover	A term used to describe the act of mating a stallion with a mare.
Dam	A female horse that has produced foals.
Farrier	A blacksmith who shoes horses.
Filly	Female horse aged under four years.
Foal	A horse that is in its first official year of life.
Foaling down charge	Fee for foal delivering assistance.
Foal share	Arrangement between stallion owner and broodmare owner that involves deferment of service fee payment until progeny is sold as yearling.
Gelding	A male horse with both testicles removed.
Group race	The Listings of Australasian Grand Circuit and Feature Races into Group and Listed Races are approved and published by the Australian Harness Racing Council and Harness Racing New Zealand. They are recognised by the International Trotting Association by reciprocal Agreement.

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Keeper of the Australian Trotting Stud Book	The Australian Trotting Stud Book is compiled and produced by the Australian Harness Racing Council. This position is currently held by Mr. Rod Pollock. This publication is complimented by AHRC On-Line, Australian Breeding and Results on the Standardbred Industry's national Website <a href="http://www.harness.org.au">www.harness.org.au</a> .
Listed race	See Group race.
Live foal guarantee	A guarantee offered by some stallion owners to broodmare owners.
Mare	Female horse aged four years or older.
Nomination	A right to a stallion service during a breeding season.
Pacing	Standardbreds have two racing gaits - pacing and trotting. Pacers generally race with the guidance of gear known as hobbles and move both legs on the same side of their body forward in unison.
Parentage	The sire and the dam.
Pedigree	A table or tree diagram that sets out a horse's parents, grandparents and a number of generations.
Pinhook	To buy foals with the purpose of making a profit by reselling them as yearlings.
Ready to Run sales	Sale of horses ready to race.
Rules of racing	Racing code for trainers and jockeys etc administered by the Stewards.
Service	The act of mating a stallion with a mare.
Service fee	The cost of receiving a service from a stallion for the purpose of producing a foal.
Shuttle stallion	Any stallion that commutes between hemispheres to cover mares.
Sire	A male horse that has produced foals.
Spell	A period of rest for a horse.

Sprinter	A horse that is suited to running shorter distances.
Stakes race	Group or Listed races. In addition to their important status, stakes races generally offer greater prizemoney.
Stallion	A male horse used to produce foals.
Stand	A term used to describe a stallion being offered by its owner for servicing.
Standardbred horse	<p>A breed of horse tracing to 17<sup>th</sup> &amp; 18<sup>th</sup> Century Euro/Arabian horses imported to the United Kingdom founding the modern thoroughbreds, standardbreds and other breeds.</p> <p>So-called because trotters and pacers had to qualify for the Stud Book on speed and lineage.</p> <p>More refined and larger than the foundation horses of the breed, the current standardbred has robustness and endurance as its greatest attributes.</p> <p>Harness races in Australia are conducted in an anti-clockwise direction mainly over distances varying from 1,609 metres to 2,650 metres.</p>
Stayer	A horse that is suited to running long distances.
Stud farm	Any property where standardbreds and thoroughbreds are bred and raised.
Stud fee	The amount charged by an owner to allow a stallion to service a mare.
Studmaster	The owner or manager of the stud farm.
Syndicate	A group of people who participate as owners of shares in a horse/horses.
Tabcorp	Established in 1994 following the privatization of the Victorian TAB, it is Australia's largest gambling and entertainment group and is one of the major such businesses in the world.

Thoroughbred horse	<p>A breed of horse whose lineage can be traced, through their direct male line, to one of three foundation stallions resident in England in the 17th and 18th centuries.</p> <p>Thoroughbred racing involves horses ridden by jockeys on turf tracks primarily over distances from 800 to 3,200 metres. Most races are conducted over flat courses but there are also a number of hurdle and steeplechase races, and these normally range from 2,800 to 5,500 metres.</p> <p>The term 'thoroughbred' comes from the strict control of the breeding of the horses. Thoroughbred racing is the second most popular spectator sport in Australia (second to AFL) with the Melbourne Cup being the most widely known event.</p>
Trotting	<p>Standardbreds have two racing gaits - pacing and trotting. Trotters move legs on the opposite side of their body forward in a diagonal movement.</p>
Two-year-old	<p>A horse that is aged between two and three years of age.</p>
Wastage	<p>The expression occasionally used within the standardbred and thoroughbred breeding industries to describe the circumstance where horses, for a variety of reasons, are unable to race.</p>
Weanling	<p>A foal that is no longer suckling its dam.</p>
Yearling	<p>A horse that is in its second official year of life.</p>





## ***Acronyms***

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AHT	Animal Health Trust
AHRC	Australian Harness Racing Council
AI	Artificial Insemination
ARB	Australian Racing Board
ARC	Australian Research Council
ASBA	Australian Standardbred Breeders Association
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CGT	Capital Gains Tax
CRC	Co-operative Research Centre
EFU	Equine Fertility Unit
ERRC	Equine Racing Research Centre
FBT	Fringe Benefits Tax
HRNZ	Harness Racing New Zealand
HROA	Harness Racing Owners Association
HRV	Harness Racing Victoria
HBLB	Horserace Betting Levy Board
HIP	Horse Improving Program (Canada)
NZDIR	New Zealand Department of Inland Revenue
NZTM	New Zealand Thoroughbred Marketing
OMAFRA	Ontario Ministry of Agriculture, Food and Rural Affairs
RIRDC	Rural Industries Research and Development Corporation
RVL	Racing Victoria Limited
TAB	Totalisator Agency Board
TR	Taxation Ruling
TROA	Thoroughbred Racehorse Owners' Association
VAC	Veterinary Advisory Committee
VOBIS	Victorian Owners and Breeders Incentive Scheme
VSB&SA	Victorian Standardbred Breeders' and Studmasters' Association
VSTA	Victorian Square Trotters Association
V3	Vision, Value, Victoria



## ***Chairman's Foreword***

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I am pleased to present the Economic Development Committee's second report into the Viability of Victoria's Thoroughbred and Standardbred Breeding Industries. As mentioned in the Committee's first report, this subsequent report is focused on the standardbred industry.

The Victorian standardbred industry is relatively robust as a result of, amongst other things, the introduction of lucrative incentive schemes. The Committee acknowledges the invaluable assistance provided by HRV and in particular the assistance of Mr Rod Pollock, Executive Director, Australian Harness Racing Council.

The report contains a number of recommendations which the Committee believes could improve conditions for the harness racing industry.

The Committee has also included in the report a commentary on the current taxation and regulatory regime and recommended ways in which these could be amended to better facilitate investment in both the standardbred and thoroughbred breeding industries.

The Committee appreciated the assistance of the Australian Taxation Office, the Australian Securities and Investments Commission, the New Zealand Department of Inland Revenue, and the New Zealand Thoroughbred Breeders Association over recent months.

Once again I would like to express my appreciation to the members of the Committee who have participated in this inquiry with great enthusiasm, namely Deputy Chair Hon. Ron Bowden, MLC; Hon. Noel Pullen, MLC and Hugh Delahunty, MP.

The Committee's work continues to be very ably supported by our Research Officer Jonathon Gurry, our Editor Frances Essaber and Office Managers, Andrea Agosta and Mary Pink. In addition, the Committee was fortunate to have been assisted by Professor Andrew Clarke, who researched the Equine Research chapter.

Over the past few months the Committee noted the New Zealand government's enactment of accelerated depreciation allowances on stallions and broodmares. Whilst foreshadowed in the earlier report, the changes open up a disparity with Australia which, in the Committee's view, needs to be addressed.

**Tony Robinson MP**  
**Chairman**



**Chapter 1: Introduction**

This is the Economic Development Committee's second report into the viability of the Victorian standardbred/thoroughbred breeding industries. The first report was tabled on 9 February 2006 and focused exclusively on the thoroughbred breeding industry. This second report is concerned primarily with the standardbred industry, although a number of chapters specifically consider and expand on issues dealt with in the previous report, namely taxation, syndication and equine research. The Committee believes that these are core issues that will shape future investment and growth for both the standardbred and thoroughbred industries.

Over the course of this Inquiry the Committee has come to recognise that while the thoroughbred and standardbred industries are distinctly separate industries, each with their own unique strengths and weaknesses, there are also many issues that affect both industries. For the benefit of the future direction of both industries, the Committee encourages standardbred and thoroughbred industry stakeholders to engage in a way that recognises that there are as many issues that bind the two codes as there are that divide them.

The areas the Committee has been asked to examine include the strength of the Victorian industries compared to other Australian states, the role of overseas breeding interests and the influence they have on the Victorian industries, the extent to which the Victorian industries are being integrated both nationally and internationally, the extent to which the Victorian industries have adopted international best practice, and issues relating to employment and investment opportunities and the development of skills within the industries.

In terms of its future direction, the evidence received by the Committee in relation to the Victorian standardbred industry has been overwhelmingly positive. This was particularly evident in the comprehensive submission

provided by Victoria's regulatory body, Harness Racing Victoria (HRV). The Committee has appreciated the ongoing co-operation of HRV throughout this report. The Committee has also benefited from the assistance of Australia's representative body, the Australian Harness Racing Council (AHRC), and in particular, the time and generosity of its Chief Executive, Mr Rod Pollock.

## **Chapter 2: Overview of the Victorian Standardbred breeding industry**

This chapter provides an overview of the current state of Victoria's standardbred breeding industry. It highlights the importance of the standardbred industry to Victoria's economy, particularly Victoria's rural economy. An earlier economic impact study initiated by Harness Racing Victoria estimated that by 2005 the harness racing industry would be worth \$700 million to the Victorian economy and the breeding industry itself worth in excess of \$200 million to the State of Victoria.

The chapter includes a section on the evolution of the standardbred industry internationally and in Australia. It describes the key differences between trotting and pacing, the prospects for growth for both gaits in the now more integrated standardbred world and the importance of the hobby breeder to the survival of the industry.

The chapter provides an overview of the administration and regulation of the standardbred industry at both a national and state level.

The most important part of the chapter is its focus on the strengths and weaknesses of the industry in Victoria. The significance of a strong wagering environment in harness racing cannot be overstated. In their 2005 annual report, HRV identified the importance of maximising wagering turnover as central to their vision for the Victorian harness racing industry. Wagering is the principal source of revenue for HRV through their joint venture agreement with Tabcorp. Essentially, growth in wagering produces increased returns to HRV from the agreement. Wagering revenue enabled HRV to pay out a record \$29.1 million in prizemoney for the financial year 2004-05.

Overall, the Committee believes that HRV have used their substantial revenue base in the best long-term interests of the Victorian industry. Initiatives such as Vicbred (Australia's richest racing and breeding program with annual prizemoney and bonuses totalling \$4.35 million) and HRV's Free to Race policy (where all race related registration procedures are free of charge for Vicbred horses) are designed to encourage more owners into the industry. Victoria's annual foal crop has been on the decline for many years now - Victoria's recent drought having a dramatic affect on the number of foals produced. The Committee is therefore encouraged at the recent turnaround of foal numbers produced in Victoria and believes that the turnaround can be attributed, at least in part, to the success of Vicbred.

Evidence presented to the Committee made it clear that maintaining a large annual foal crop in Victoria was critical to the industry being able to supply enough horses for Victoria's extensive race program, and thus maintain wagering growth.

Sustaining wagering growth is not just a question of producing more foals. The committee notes that improvements to the quality of the standardbred herd can prolong the racing career of the standardbred racehorse. Similarly, improvements to capital infrastructure have produced positive results for both the longevity of racehorses' careers (as a result of improved racetrack conditions) and the confidence of punters who wager on these improved racetracks. In this regard, HRV will be spending \$20 million on racetrack infrastructure over the next seven years, the bulk of which will be spent in rural Victoria where 90 per cent of race meetings are held.

The chapter concludes with a brief outline of some of the weaknesses of the industry, including tax, syndication and equine research - weaknesses that similarly affect the thoroughbred industry.

### **Chapter 3: Artificial Insemination, Skills and Training**

Australia was one of the last harness racing and breeding countries to adopt Artificial Insemination (AI) as a legitimate means of standardbred equine reproduction. Since its introduction, AI and semen transportation have contributed in vital ways to the economic revival of Victoria's standardbred breeding industry.

The chapter outlines both the advantages and disadvantages of AI. AI has opened Australia to new international markets. It has improved broodmare owners' access to superior stallions and thus improved the quality of the standardbred herd. It removes the risk of transport injuries to mares which were much more prevalent prior to semen transport. Amongst other advantages mentioned in the chapter, AI reduces the impact of an infectious disease outbreak on the industry by allowing breeding to continue while isolating the particular horse or property infected.

One of the disadvantages of AI is that its practice requires a number of different skill sets. These different levels of technical competency can be difficult to achieve at the one time in an industry with participants geographically scattered across the state. Victoria's decentralized harness racing community does not have sufficient access to quality education and training in the area of AI and semen transport, and this leads to wastage in an industry where Victoria's horse population is under constant pressure.

The Committee received evidence from Harness Racing Victoria, the Australian Harness Racing Council and other industry participants about the need for practitioners in AI to become more technically proficient. The Committee was asked to consider the establishment of a specific curriculum in the area of artificial breeding techniques. This proposed new curriculum is part of HRV's plan, in association with other states through a subcommittee of the AHRC, to make significant additions to the existing licensing and registration requirements that currently govern the activities of breeding industry participants.



HRV in their submission to the Committee suggested, that existing educational institutions could be capable of operating the required training courses if additional funding was made available. They also listed the private equine veterinary sector as another resource option. The Committee recommends that the Victorian Government, in association with HRV and relevant standardbred industry bodies, assess the current provision of Artificial Insemination training and accreditation courses across the state, with a view to ensuring that reasonable access is afforded to industry participants needing to upgrade skills to meet HRV's AI licensing and registration standards, and if necessary provide additional resources to achieve this objective.

#### **Chapter 4: Investment Environment**

Victoria's standardbred breeding and racing investment environment has experienced considerable change over the past decade. Ten years ago, Victoria's standardbred breeding and racing industry was characterised by negligible levels of investment and economic growth. It now stands transformed, leading the country in offering the highest prizemoney together with a number of lucrative incentive schemes for owners and breeders of standardbred horses.

This chapter discusses the various industry initiatives that have precipitated Victoria's standardbred resurgence. It outlines in considerable detail the strength and popularity of the \$4.35 million Vicbred program. Evidence presented to the Committee suggests that Vicbred and the breeder bonuses on offer are helping to reverse an alarming trend of declining numbers of foals being born annually in Victoria.

The Committee notes that Victoria's yearling sales environment (in terms of offering vendors a positive return on their investment) does not compare well to the returns experienced by owners in North America or New Zealand. The Committee recognises that Victoria has always had a different sales culture to that of New Zealand. Across the Tasman there are more professional vendor breeders who breed their horses to sell. In evidence presented to the

Committee it was established that only approximately 350 out of around 2,500 horses are sold in Victoria per year, proving that Victorian breeders are more interested in breeding their horses to race.

The modest prices achieved by Victorian vendors at yearling sales (an average price of just under \$11,000) does make investing in a harness racing horse a very affordable investment.

The standardbred industry makes a substantial contribution to Victoria's rural economy. Ninety per cent of Victoria's race meetings are conducted in rural Victoria. Australasia's leading stud, Alabar, resides in the Murray Valley region of Victoria - a region that accounts for fifty-two per cent of all foals born in Victoria annually. HRV's V3 action plan is investing a further \$20 million over the next seven years to upgrade rural infrastructure. A number of racetracks have been closed for race day meetings under this plan and HRV's lack of consultation with the affected clubs was unfortunate and the subject of criticism from the Victorian Auditor-General.

The ability of Victorian standardbred owners to access new export markets in North America (in total 545 horses have been exported to the United States over the past four years) is a development that needs to be closely monitored. While the financial rewards for sales of horses internationally are invariably far greater than the returns achieved by vendors in the domestic market, any dramatic increase in exports needs to be closely monitored by government and the industry to ensure its sustainability in the long-term.

The Committee recommends that the Victorian government conduct economic modelling in relation to the impact of Victoria's standardbred export market with the aim of identifying the number of exports the industry can sustain without threatening the viability of the racing industry in Victoria.

The Committee also makes several recommendations in relation to another serious threat to the sustainability of the standardbred herd - drought. The Committee recommends that the Victorian government, in cooperation with

HRV and the AHRC, commission further research into the creation of more drought resilient pasture.

## **Chapter 5: Equine Research**

This chapter reviews the levels and types of research currently undertaken into both the racing and breeding industries in Victoria. The Committee commissioned Professor Andrew Clarke to assist with its consideration of this issue. It became clear to the Committee that funding for equine research in Australia, compared to other countries, is inadequate.

The Committee is concerned at this disparity of funding. It believes that an equine industry as large as Australia's warrants a far greater commitment to research. For example, in the United Kingdom, \$A6 million are directed to veterinary research out of a total pool of around \$A250 million. In Australia, Racing Victoria Limited allocates approximately \$350,000 from its annual general revenue of approximately \$210 million.

Investment in equine research provides three broad categories of benefits. First, it produces benefits to the health, safety and welfare of horses by, amongst other things, introducing measures to assist the prevention, management and control of infectious diseases. Research carried out in recent years has also produced major benefits for thoroughbred racing participants, through the identification of new training and management strategies designed to decrease the incidence of shin-soreness and new techniques for the early diagnosis of orthopaedic problems before they become career threatening.

Second, equine research provides economic benefits to both industries by, for example, improving the efficiency of standardbred and thoroughbred breeding and the creation of valuable intellectual property. Third, investment in equine research also produces an active equine science base of talented researchers and clinicians to meet the needs of the horse industry.

The chapter includes a study on the Centre for Equine Virology at Parkville where a successful vaccine was developed to help prevent equine herpes virus infections in mares and foals. Royalty payments for the vaccine and an associated diagnostic test return revenue in excess of \$900,000 per annum to the University. The Committee recommends that the Victorian Government work with the Victorian racing industry to ensure that research funding be structured in such a way that it provides for the retention of a portion of any commercial benefits that may arise

## **Chapter 6: Tax and Regulation**

The Committee believes that Australia's tax system, as it applies to participants in the equine industries, requires updating and greater certainty. The chapter covers the particular Tax Rulings that apply to the industry – particularly the core issues of whether a breeder or racer of horses is undertaking a business or participating in a hobby.

The Committee questioned the ATO in evidence about the uncertainty produced by the mass of information available to industry participants, and was pleased to learn of a recent ATO innovation that will hopefully promote greater understanding between taxpayers and the ATO. This innovation allows taxpayers to obtain an anticipated ruling on a question of fact – an option previously not open to taxpayers. The Committee recommends that the Victorian government work with the Victorian racing and breeding industries to promote the availability of this ATO service to industry participants.

The Committee also believes that the interests of both equine codes would be well served by the creation of an industry partnership with the ATO and recommends that the Victorian government assist Victorian breeders to establish such a functioning partnership.

The Committee recommends that the Victorian government support efforts by Victorian breeders to secure a simpler business/hobby test and believes that the interests of the industry would be well served by encouraging the Federal government to consider the New Zealand model.

The Committee also recommended that the Victorian government, through the State Revenue Office, investigate compliance of horse insurance providers with the provisions of the *Duties Act 2000*.

Finally, the Committee recommended that the Victorian government support Racing Victoria Limited's efforts to secure ASIC approval for the regulation of non-commercial horse traders.



## **Recommendations**

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### **Recommendation 3.1**

**Page 31**

*That the Victorian Government, in association with Harness Racing Victoria and relevant standardbred industry bodies, assess the current provision of Artificial Insemination (AI) training and accreditation courses across the state, with a view to ensuring that reasonable access is afforded to industry participants needing to upgrade skills to meet Harness Racing Victoria's AI licensing and registration standards, and if necessary provide additional resources to achieve this objective.*

### **Recommendation 4.1**

**Page 59**

*That the Victorian Government, in consultation with Harness Racing Victoria and the Australian Harness Racing Council, conduct economic modelling in relation to the impact of Victoria's expanding standardbred horse export market in order to identify the optimum balance between exports and the sustainability of the state's standardbred herd.*

### **Recommendation 4.2**

**Page 62**

*That the Victorian Government, in cooperation with Harness Racing Victoria and the Australian Harness Racing Council, commission further research into the creation of more drought resilient pasture.*

### **Recommendation 4.3**

**Page 63**

*That the Victorian Government initiate a conference of relevant state and federal agencies as well as industry bodies, to identify the impediments to thoroughbred and standardbred breeders accessing government support programs, particularly Exceptional Circumstances Drought Relief.*

**Recommendation 5.1**

**Page 69**

*That the Victorian Government work with the Victorian thoroughbred and standardbred industries to ensure that research funding be structured in such a way that provides for the industries' retention of a portion of any commercial benefits which may arise.*

**Recommendation 5.2**

**Page 89**

*That the Victorian Government, in association with relevant industry bodies, initiate discussions with other states and the Commonwealth to identify the means by which a national research funding budget of \$5 million per annum can be realised.*

**Recommendation 6.1**

**Page 96**

*That the Victorian Government work with the Victorian racing and breeding industries to promote the availability of the Australian Taxation Office's ruling on anticipated transactions, on questions of fact, to industry participants.*

**Recommendation 6.2**

**Page 97**

*That the Victorian Government assist Victorian thoroughbred and standardbred breeding representatives to establish a functioning industry partnership with the Australian Taxation Office.*



**Recommendation 6.3****Page 100**

*That the Victorian Government support efforts by Victorian breeders to secure a simpler business/hobby taxation test. While the Committee acknowledges that the current test will continue to be applied by the Australian Taxation Office, it believes the interests of the thoroughbred and standardbred breeding industries would be well served by encouraging the Federal Government to closely consider the New Zealand model.*

**Recommendation 6.4****Page 107**

*That the Victorian Government, through the State Revenue Office, investigate the compliance of horse insurance providers with the provisions of the Duties Act 2000.*

**Recommendation 6.5****Page 110**

*That the Victorian Government actively support Racing Victoria Limited's efforts to secure Australian Securities and Investments Commission approval for the regulation of non-commercial horse traders.*



## INTRODUCTION

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### 1.1 Background to the Inquiry

The Inquiry into the Viability of the Victorian Thoroughbred/Standardbred Breeding Industries was referred to the Economic Development Committee by the Governor in Council on 1 February 2005.

The Committee was specifically asked to examine:

- the strength of the Victorian thoroughbred/standardbred breeding industries compared to other Australian states;
- the role of overseas breeding interests and the influence that they are having on the Victorian industry;
- the extent to which the Victorian industries are being integrated at a national and international level;
- the extent to which the Victorian industries have adopted international best practice;
- employment and investment opportunities and patterns with particular emphasis in regional Victoria; and
- the development of skills within the industries.

### 1.2 Scope of the Inquiry

On 9 February 2006, the Economic Development Committee tabled a Report on the Thoroughbred Breeding Industry as part of the Inquiry into the Viability of the Victorian Thoroughbred/Standardbred Breeding Industries.

Due to the significant differences between the thoroughbred and standardbred breeding industries, the Committee decided to table two separate reports. This report deals specifically with the standardbred breeding industry whilst carrying through several issues dealt with in the previous report, namely taxation, syndication and equine research.

### **1.3 Focus of the Report on the Victorian Standardbred Breeding Industry**

Most of the evidence received by the Committee in relation to the Victorian standardbred breeding industry reflected positively on both the current state of the industry and its future direction.

In their submission before the Committee, Harness Racing Victoria (HRV) described Victoria as “the powerhouse of a smaller national breeding industry”.<sup>1</sup> Victorian breeders similarly endorsed the strength of Victoria’s standardbred breeding and racing industry relative to other states, signalling the lucrative Vicbred program as a major factor in the resurgence of Victoria as a centre of harness racing and breeding excellence.

One of the central aims of this report is to highlight the unique features of the standardbred industry, for example chapter three examines the process of Artificial Insemination – a process that has also been identified as a catalyst for the Victorian industry’s presently strong position in relation to both the national and international standardbred breeding industries.

In terms of the current strength and viability of the standardbred industry, the Committee recognises that circumstances can change quickly. The standardbred breeding and racing industries are influenced by many external factors which are often beyond the control of those responsible for its governance. This report aims to highlight the interdependent nature of the racing and breeding industries. It seeks to highlight the important external factors that can shape the industry and recommend ways in which the risks of those external factors can be minimized.

In this report there will be a further discussion on issues that cut across both the standardbred and thoroughbred industries, for example syndication and relevant tax rules. Having had the benefit of recent informal hearings with the

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<sup>1</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.2.

Australian Tax Office (ATO) and the Australian Securities and Investments Commission (ASIC), the Committee aims in this report to recommend a new, less onerous regime for horse syndication in Victoria. The Committee also highlights recent changes to the tax regime in New Zealand.

The other major aim of this report is to recommend ways in which equine research can be more effectively administered in Victoria. Again, this is an area that cuts across both the standardbred and thoroughbred industries.

#### **1.4 Process for Gathering Evidence**

As in the report on the Thoroughbred Breeding Industry, this report is based on evidence received through written submissions, public hearings, private briefings, informal meetings and site visits held throughout Victoria. The report also draws on information gathered by the Committee during interstate visits and on a visit to New Zealand in May 2006.

The Terms of Reference were advertised in *The Australian* in February 2005 and *The Age*, *Herald Sun* and *The Weekly Times* in March 2005, calling for submissions and further letters were sent to key stakeholders inviting submissions to the Inquiry.

The Committee received 35 submissions from a broad range of individuals and government and non-government agencies. A list of the submissions is set out in Appendix 1.

In addition to the submissions, the Committee has taken into consideration a number of reports, documents, correspondence received and evidence taken at public hearings and informal meetings, from a significant number of individuals, government bodies and non-government agencies.

Public hearings were held in Melbourne from June to October 2005; see Appendix 2 for the list of witnesses. Informal meetings and site visits were also held in Melbourne, regional Victoria, Sydney and the Hunter Valley (NSW). See Appendix 3 for a list of the Committee's informal meetings and site visits.

Professor Andrew Clarke, former Chair of Equine Studies and former Head of the Equine Centre - Werribee, was employed to advise on equine research, see chapter 5.

Following the tabling of the Committee's Report on the thoroughbred breeding industry, the Committee continued to meet harness racing industry representatives, including Harness Racing Victoria, and in April 2006 held informal hearings with ASIC and the ATO. In May 2006 the Committee travelled to New Zealand to consider recent amendments to the taxation system in relation to thoroughbred and standardbred breeding, see Appendix 5.

## **1.5 Terminology**

As the Inquiry's terms of reference call for an examination of the 'viability' of the Victorian horse breeding industries, the Committee believes that it is important to define, at the outset, what is understood by this term.

The Committee therefore has defined viability to mean the industry's capacity to compete successfully, long-term, in the Australian and international markets. The Committee's investigations of both the thoroughbred and standardbred breeding industries have proceeded on this basis.

## Overview of the Victorian Standardbred breeding industry

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### 2.1 Introduction

The standardbred racing and breeding industries represent an important part of Victoria's economic and social infrastructure. Collectively they generate considerable economic activity in the State and provide many employment opportunities for Victorians both directly, through racing and breeding, and indirectly, in areas as diverse as education and tourism. An earlier economic impact study initiated by Harness Racing Victoria (HRV) estimated that by 2005 the harness racing industry would be worth an estimated \$700 million to the Victorian economy, and the breeding industry worth in excess of \$200 million.<sup>2</sup>

The pre-eminent status of Victoria's standardbred breeding industry within Australia was endorsed by witnesses who provided evidence to the Committee.<sup>3</sup> Nationally Victoria's stallion roster includes seven of the top ten sires and seven of the top ten broodmare sires.<sup>4</sup> This chapter will provide an overview of the Victorian standardbred industry. It will highlight the many strengths that presently characterise Victorian harness racing and breeding and the policies that continue to shape its ongoing dominance. The chapter will also identify the underlying weaknesses of the industry; in particular, areas that constitute a threat to the industry's continuing prosperity and growth. The Committee notes that some of these weaknesses also threaten the ongoing economic viability of the thoroughbred racing and breeding industry.

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<sup>2</sup> J. Anderson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.121.

<sup>3</sup> For example, Victorian Standardbred Breeders' & Studmasters' Association Inc, 2005, Submission No. 19, 15 June, p.1.

<sup>4</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.7.

## 2.2 Evolution of the Standardbred Industry

It is generally thought that harness racing, as we know it today, commenced around the beginning of the 19th century. Records can be traced to this period when, in 1806, a gelding called *Yankee* trotted a mile in less than three minutes for the first time.<sup>5</sup>

Three minutes became the time 'standard' - the performance measure for breeders. From then on any horse that could equal or improve on the standard time was referred to as a 'Standardbred' horse.<sup>6</sup>

Most standardbred horses racing today descended from the stallion *Messenger* and his great grandson *Hambletonian*. *Messenger* arrived in the USA from England in 1788 and became a successful stallion of trotting horses. HRV, in their submission to the Committee, describe *Hambletonian*, his great grandson, as "history's greatest progenitor of gait and speed".<sup>7</sup>

The contemporary standardbred bears little resemblance to the standardbreds of the early foundation period. Today the modern standardbred stands between 15 to 16 hands and weighs between 400 to 500 kilograms. Indeed it is difficult to distinguish the standardbred stallion featured on the front cover of this report from a thoroughbred stallion. The modern standardbreds' more athletic constitution can be attributed to improved breeding approaches over generations that have focused on the horses' gait, speed, stamina, conformation and tractability.

The key performance measure for a standardbred remains the time it takes to run over one mile (1600 metres) and, attesting to the improved athleticism of the modern Standardbred, this time has improved 30 per cent over the last 150 years.<sup>8</sup>

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<sup>5</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.4.

<sup>6</sup> [www.harnessnet.com.au/trotinfo.htm](http://www.harnessnet.com.au/trotinfo.htm)

<sup>7</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.4.

<sup>8</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, pp.4-5.



### **2.2.1 Trotting and Pacing – The Key Differences**

Standardbred horses, unlike thoroughbreds, do not gallop, but trot or pace. Horses which gallop are disqualified unless they are quickly restrained. Standardbred horses must have great mental ability as well as physical strength, as horses will usually gallop if unsettled or under pressure.<sup>9</sup>

Trotting (described by many as ‘the international gait’)<sup>10</sup> is the natural gait for horses.<sup>11</sup> Trotting is the natural horse action whereby the near front leg and the off hind leg move forward together in a diagonal action (the same action that a person uses to crawl).<sup>12</sup> In the early part of the 20th century, it was discovered that by hipling the front and hind legs together on the same side with leather straps, and forcing the horse to ‘pace’ in locomotive action, the horse could actually travel in a way that proved marginally faster.

Pacing needs to be bred and trained into the horses as it is a non-natural gait for horses; they then require special ‘gear’ to prevent them from over-extending and galloping. In terms of harness racing in Australia, pacing is a higher money earner than trotting.<sup>13</sup>

Pacing has emerged as the popular gait for North America and Australia, while Europe remains exclusively the domain of the trotter. The trotting gait currently represents 13.6 per cent of the total races conducted by Harness Racing Victoria, with the balance of the races being pacing races.<sup>14</sup> It is interesting to compare this figure with the year 1966-67, when trotting races represented a mere 3.37 per cent of all harness races conducted in Australia.<sup>15</sup> The growth of trotting in this period can be explained in part by

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<sup>9</sup> [www.harnessnet.com.au/trotinfo.htm](http://www.harnessnet.com.au/trotinfo.htm)

<sup>10</sup> Victorian Square Trotters Association, 2005. Submission No. 14, 3 May, p.2.

<sup>11</sup> [www.harnessnet.com.au/trotinfo.htm](http://www.harnessnet.com.au/trotinfo.htm)

<sup>12</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.4.

<sup>13</sup> [www.harnessnet.com.au/trotinfo.htm](http://www.harnessnet.com.au/trotinfo.htm)

<sup>14</sup> Victorian Square Trotters Association, 2005. Submission No. 14, 3 May, p.1.

<sup>15</sup> Victorian Square Trotters Association, 2005. Submission No. 14, 3 May, p.9.

post-war immigration from southern Europe, when many immigrants brought with them their passion for trotting.<sup>16</sup>

### **2.2.2 Prospects for Growth**

While the number of trotting races has increased in Victoria over the last three or four decades, the trotting breeding industry has not experienced the same levels of economic growth as has the more North American focused pacing breeding industry. Owners of trotting broodmares are in the main hobby breeders that breed to race rather than to sell. Service fees for trotting stallions have remained fairly static in recent years in Australia and are low by international standards. Indeed the Australian based trotting stallion that has produced the most winners for each of the last four years stands at \$1000.<sup>17</sup> Given the present service fees available in the Australian trotting market, the purchase of a quality trotting stallion from Europe remains an unaffordable investment for many Australian breeders. Many European breeders are prepared to pay between \$2.5 million to \$6 million for a well-bred and well performed stallion and there are simply not enough trotting mares in Australia to warrant the purchase of a stallion for that amount of money.

The absence of a strong sales environment for trotters is accentuated by the length of time it takes for trotters to reach their racing potential. In their submission to the Committee, the Victorian Square Trotters Association (VSTA) noted that the desire for a faster return on a buyer's investment means that "most trotters are in the hands of part-time owner/trainers who love the trotter for what he is, not how much he will win for them ... and also for the fact that he will usually race on beyond the normal span of a pacer – it is not uncommon to see 13 and 14-year-old trotters still competing strongly".<sup>18</sup>

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<sup>16</sup> Victorian Square Trotters Association, 2005. Submission No. 14, 3 May, p.9.

<sup>17</sup> Victorian Square Trotters Association, 2005. Submission No. 14, 3 May, p.3.

<sup>18</sup> Victorian Square Trotters Association, 2005. Submission No. 14, 3 May, p.9.

The Committee recognises the special place of trotting in the standardbred industry. While the scope for significant economic growth in the trotting sector of the industry is more limited than its pacing counterpart, the trotting industry is nevertheless growing, albeit at a slower rate. The Victorian Standardbred Breeders' and Studmasters' Association Inc (VSB&SA), in evidence before the Committee, described trotting as having "significant untapped potential growth as so far only a small number of trotting racing stock have been exported to America and the potential of the European market is a virtual unknown".<sup>19</sup>

Some 11 years ago, the idea of an all trotters race meeting was mooted by the VSTA in conjunction with the Maryborough Club. Several years ago, because of the increasing numbers of trotters, the Maryborough Club introduced the Redwood Carnival Weekend comprising eight all trotter races on Friday and a further ten races on the Sunday, Redwood day.<sup>20</sup>

The Committee recognises the work of the VSTA in promoting trotting as a rich part of the industry's history and culture. Victoria's role in the resurgence of the trotter throughout Australia has been vital. In July this year, Maryborough hosted the 21st annual Redwood Classic, a prestigious race for 2-year-old trotters.

### **2.2.3 Hobby Breeders**

The level of service fees in the Australian market (particularly for trotters but also for pacers) is such that hobby breeders are not prohibited from breeding and racing horses. At the same time, hobby breeders have the opportunity to receive invitations for their horses to compete in lucrative overseas events, should their horse prove good enough.

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<sup>19</sup> Victorian Standardbred Breeders' and Studmasters' Association Inc, 2005. Submission No. 19, 15 June, p.3.

<sup>20</sup> Les Chapman, Secretary/Manager, Maryborough Harness Racing Club, Secretary, Victorian Square Trotters Association, email received 17 May 2006.

Ultimately it is the passion of the hobby breeders for the sport of harness racing, for both the trotter or the pacer and perhaps for that random chance of glory, rather than more considered investment principles, that drives hobby breeders to continue their involvement in the standardbred breeding industry.

#### **2.2.4 Harness Racing Carnivals**

The Inter Dominion is a harness racing competition held between horses from Australia and New Zealand. The series has been contested since 1936 and alternates between Australia and New Zealand. The 2006 Wrest Point Inter Dominion, which was staged in Tasmania was, at that date, the richest open age harness race ever staged in the world. The Inter Dominion Final carries total stakes of \$1.5 million and the stakemoney for the four meeting Carnival exceeds \$3 million.<sup>21</sup>

The Hunter Cup is billed as the nation's premier harness racing event, and aims to showcase the best trainers, drivers and horses in the Southern Hemisphere. The \$500,000 race is conducted in February each year at Moonee Valley and is considered the highlight of the Hancock Tyres Hunter Cup Carnival.<sup>22</sup>

#### **2.2.5 Semen Transportation**

While trotting remains predominantly the domain of the hobby breeder, pacing is far more a mix of both commercial operators and hobby breeders.<sup>23</sup> Unlike the trotting industry, where breeders' options are more limited, breeders of pacers are increasingly able to access the best quality international stallions. In the early 1990s, breeders did not enjoy the same access to high quality stallions. The harness breeding industry and the interdependent harness

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<sup>21</sup> <http://www.interdominion.com.au/>

<sup>22</sup> <http://www.harness.org.au/NEWS/> and <http://www.raceapacer.com.au>

<sup>23</sup> Victorian Standardbred Breeders' and Studmasters' Association Inc, 2005. Submission No. 19, 15 June, p.1.

racing industry were experiencing negative economic growth, suffering from increased international competition and an administrative approach that did not enable the industry to take advantage of a more globalised breeding industry.<sup>24</sup> In the international harness racing world the governance of Australia's harness racing industry was considered conservative and out of date.<sup>25</sup>

At this time, harness racing and breeding administrators in Australia took the momentous decision to allow artificial insemination (AI) and semen transportation. This represented a major change in direction for the industry and has proved to be the catalyst for industry renewal and growth. Some ten years on, Australian harness racing and breeding (in particular Victorian harness racing and breeding), is experiencing strong economic growth. Chapter three of this report will closely examine the process of artificial insemination and semen transportation and the way in which it has revolutionised the industry.

## **2.3 Administration and Regulation of the Standardbred Industry**

### **2.3.1 Key National Bodies**

**Australian Harness Racing Council (AHRC)** – The AHRC is the harness racing industry's federal regulatory body, with membership comprising each state controlling body (eg. HRV) and the principal harness racing club in each state. It was created in 1974 with duties comprising: the administration of the Australian Trotting Stud Book, the maintenance of a Central Register of Names, record keeping and the enforcement of the Rules of Racing.<sup>26</sup>

The AHRC is also the forum and co-ordination point for ensuring the uniformity of rules and reciprocity between states of horsemen's licences, the

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<sup>24</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.2.

<sup>25</sup> Artificial Insemination and Semen Transportation, in AHRC papers at <<http://www.harness.org.au/ausbreed/papers/ai>

<sup>26</sup> <http://www.harness.org.au/index.cfm?p=f&id=/ahrc/ahrc.htm>

registration of horses and issues concerning suspension and disqualification between state controlling bodies. It also acts as the national body in international harness racing matters and is a member of the International Trotting Association.<sup>27</sup>

**Australian Standardbred Breeders Association Inc (ASBA)** - The ASBA was formed in the 1990s. It is the only national body for standardbred breeders. Membership consists of many of the recognised breeding Associations in each of the states or territories. It is funded by a \$1 levy on each foal born in the member states.<sup>28</sup>

### **2.3.2 Key State Bodies**

**Harness Racing Victoria** - The Victorian industry is corporately administered by Harness Racing Victoria (HRV). HRV officially commenced operation as the Trotting Control Board on 1 January 1947, and HRV was subsequently established under the *Racing Act 1958*. The role of HRV is to administer, regulate and promote the sport of Harness Racing in Victoria. As stated, HRV is a member of the peak body, the AHRC and also of the Inter Dominion Harness Racing Council.<sup>29</sup>

HRV is the co-owner and service provider of the standardbred industry's information systems which support all breeding activities under the uniform National Rules of Australian Racing.<sup>30</sup>

**Harness Racing Owners Association** – Since its inception in 1984, the Harness Racing Owners Association (HROA) has become one of the leading key stakeholder bodies of harness racing. The HROA committee consists of leading and experienced race horse owners and aims to ensure that Victorian

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<sup>27</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.16.

<sup>28</sup> <http://www.harness.org.au/clubmonth>

<sup>29</sup> <http://www.harness.org.au/clubmonth>

<sup>30</sup> <http://www.harness.org.au/clubmonth>

owners are competing for the highest stakes, and racing under the best conditions and administration in Australia.<sup>31</sup>

**Victorian Standardbred Breeders' and Studmasters' Association** – In 1996 the Victorian Standardbred Breeders Association and the Victorian Standardbred Studmasters Association amalgamated to form the Victorian Standardbred Breeders' and Studmasters' Association (VSB&SA). VSB&SA produces *Track Bred*, the only magazine that specifically caters to the needs of breeders Australia-wide. In 2001 the VSB&SA took over the production of the *Vicbred Stallion Guide*, now commonly known as the 'Breeders Bible', which has a current distribution of around 5000 across Australia. The membership of VSB & SA tops 700 Australia-wide.<sup>32</sup>

**Victorian Square Trotters Association** – The Victorian Square Trotters Association (VSTA) was formed in 1979 with Mr Hugh Redwood as President. The VSTA was formed to arrest the declining interest in the trotter through greater promotion of trotting – the Redwood Weekend discussed above, being an example of this. The VSTA has also been active as an association in promoting the trotting gait in other states, mainly South Australia, Queensland and New South Wales.<sup>33</sup>

## 2.4 Strengths and Weaknesses

### 2.4.1 The Significance of Wagering

In their 2005 annual report, HRV identified the importance of maximising wagering turnover as central to their vision for the Victorian harness racing industry:

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<sup>31</sup> <http://www.mga.com.au/hroa/home>

<sup>32</sup> Victorian Standard Breeders' & Studmasters' Association, 2005. Submission No. 19, p.3.

<sup>33</sup> Les Chapman, Secretary/Manager, Maryborough Harness Racing Club, Secretary, Victorian Square Trotters Association, email received 17 May 2006.

*Our mission is to develop a vibrant Harness Racing Industry which promotes participation, integrity and racing excellence, grows wagering and maximises returns to shareholders.<sup>34</sup>*

**Table 2.1: Key Industry Statistics**

	2005	2004	2003	2002	2001	2000	1999
<b>Meetings (TAB)</b>	498	500	490	479	492	494	446
<b>Meetings (Non-TAB)</b>	13	15	26	35	30	29	67
<b>Races</b>	4,158	4,189	4,248	4,236	4,232	4,369	4,177
<b>Horses Raced</b>	4,637	4,598	4,713	4,756	4,728	4,646	4,578
<b>Nominations</b>	58,660	57,088	61,976	62,457	59,151	56,479	55,941
<b>Starters</b>	39,698	38,828	40,511	40,296	39,996	40,265	39,043
<b>Drivers</b>	950	912	971	1,016	905	1,181	1,343
<b>Trainers</b>	1,540	1,520	1,551	1,589	1,435	1,758	1,946
<b>Stablehands</b>	1,300	1,265					
<b>Sires</b>	109	121	120	129	134	146	143
<b>Foals</b>	3,019	2,707	3,083	3,002	3,074	3,035	3,048
<b>Namings</b>	1,831	1,583	1,657	1,732	1,973	1,651	1,735
<b>Services</b>	3,838	4,099	3,829	4,202	4,435	4,429	4,261

*Source: Harness Racing Victoria, 2005. Submission No. 20, 28 June, Appendices.*

The above table of key industry statistics provides a useful insight into the direction of the industry over the past six years. The Committee notes that HRV, in seeking to achieve their mission of 'growing wagering', has increased the number of TAB meetings, while reducing the number of non-TAB meetings by approximately the same number. Wagering is the principal source of revenue for HRV through their joint venture agreement with Tabcorp (which also includes the thoroughbred and greyhound codes). For the financial year 2004-05 total off-course wagering with Tabcorp increased 6.1 per cent from \$472 million to \$501 million.<sup>35</sup> As noted in HRV's annual report, the growth in wagering resulted in income from Tabcorp to HRV increasing by \$2.5 million to \$46.4 million for the year, 84 per cent of HRV's Operating Revenue. This growth in wagering enabled HRV to pay out a record

<sup>34</sup> Harness Racing Victoria, 2005. *Annual Report*, p.14.

<sup>35</sup> Harness Racing Victoria, 2005. *Annual Report*, p.6.



\$29.1 million in stakemoney - an increase of \$1.7 million, or 6.2 per cent on the previous financial year.<sup>36</sup> While there are more TAB meetings than six years ago, the Committee notes the fact that wagering turnover increased in the financial year ending June 2005, despite less TAB meetings being run. As noted by the Chairman of HRV in their annual report of 2005:

*... our growth cannot be sustained by conducting additional meetings, rather by improving the quality of the product we present for our punters. Once again country harness racing was the success story with 80 per cent of Victorian wagering being performed on races in regional Victoria.*<sup>37</sup>

The presence of a strong wagering environment in harness racing is therefore central to the ongoing prosperity of the wider racing and breeding industries in Victoria. In this light, the importance of having a sufficient number of horses to satisfy Victoria's racing program is self-evident.

Significantly, Table 2.1 reflects the fact that the number of foals nominated for the Vicbred scheme has remained fairly static over the past six years. The following analysis of the Victorian standardbred industry's strengths and weaknesses is therefore, in part, based on the Victorian breeding industry's capacity to maintain a horse population substantial enough to sustain the racing program and thus grow wagering.

The Committee also accepts the view of HRV that sustaining wagering growth is not simply a question of producing more foals. The Committee notes that improvements to the quality of the standardbred breed themselves can prolong the racing career of the standardbred racehorse and generally improve the investment profile of Victoria's standardbred industry. Similarly, improvements to capital infrastructure have produced positive results for both the longevity of horses' careers (by virtue of the improved state of racetracks) and the confidence of punters that wager on these meetings.<sup>38</sup>

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<sup>36</sup> Harness Racing Victoria, 2005. *Annual Report*, p.6.

<sup>37</sup> Harness Racing Victoria, 2005. *Annual Report*, p.2.

<sup>38</sup> Harness Racing Victoria, 2005. *Annual Report*, p.2.

HRV's \$1.2 million upgrade of the Yarra Valley track, as described in their annual report, illustrates the point. Since the racing surface has been provided with "optimum camber and radius on the turns" there has been a 19 per cent increase in nominations as well as an increase in wagering turnover of 20 per cent per meeting.<sup>39</sup>

This overview chapter, in conjunction with chapter 3 and especially chapter 4, identifies the various schemes and initiatives designed to address the challenge of maintaining a viable horse population in Victoria and more generally Victoria's profile as Australia's premier standardbred state.

### **2.4.2 The Dominant State**

Victoria is generally accepted as the dominant state in Australia as far as standardbred breeding is concerned. The degree of Victoria's pre-eminence in the national breeding scene is illustrated by some key empirical data. Most significantly, Victoria stands the four highest ranked stallions in the country.<sup>40</sup> Breeders in Victoria spent \$9.1 million on service fees in 2003-04, of which \$5.6 million was invested in Victorian stallions and \$3.5 million on overseas and interstate sires.<sup>41</sup> Forty per cent of the yearlings offered at yearling sales in 2005 were from Victoria. Victoria is also the biggest importer nationally of New Zealand and North American bred stock and the biggest exporter of racehorses to North America.

### **2.4.3 Strengths**

The strong position Victoria occupies in the national breeding scene can be attributed to a combination of sound policies made by Victorian racing and breeding authorities, in addition to a number of positive external factors beyond the direct control of industry administrators. The Committee views the

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<sup>39</sup> Harness Racing Victoria, 2005. *Annual Report*, p.2.

<sup>40</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.7.

<sup>41</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.7.

following factors as key strengths of the Victorian industry. They can be summarized as follows:

- **HRV's Vicbred Program**

Australia's richest racing and breeding incentive program with annual stakemoney and bonuses now totalling \$4.35 million;<sup>42</sup>

- **HRV's Free to Race Policy**

All registration processes are free of charge after the initial foal notification, but only for a Vicbred horse;<sup>43</sup>

- **Infrastructure Investment in the Rural Economy**

HRV is investing \$20 million in rural racetrack infrastructure over the next seven years. Ninety per cent of race meetings are held in rural Victoria;<sup>44</sup>

- **Artificial Insemination (AI) and Semen Transportation**

Semen transportation has revolutionised the breeding of standardbred horses; technological progress in the transportation of semen has made available the best-credentialed stallions from anywhere in the world.<sup>45</sup>

#### **2.4.4 Economic Casualties**

The Committee recognises that while the strengths noted above have had an overall positive impact on the viability of the standardbred industry in Victoria, some of the above initiatives have also created economic casualties. For example, the advent of AI in Australia and the resultant influx of foreign bloodlines (either in the flesh or through their semen), has led to a rationalisation of stallion operators.<sup>46</sup> In addition, the decision by HRV to close certain regional racetracks (pursuant to their V3 action plan) has caused some

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<sup>42</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.27.

<sup>43</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.26.

<sup>44</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.21.

<sup>45</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.2.

<sup>46</sup> Shire of Melton, 2005. Submission No. 10, 29 April, p.3.

disquiet in parts of rural Victoria and criticism from the Victorian Auditor-General.<sup>47</sup> This is discussed further in chapter 4.

#### **2.4.5 The Importance of Supply**

The strengths identified at 2.4.3 share as their basic premise, the goal of encouraging investment in racehorses to sustain Victoria's standardbred racehorse population. The Committee believes this to be the correct approach. It agrees with the premise, as outlined by HRV in their submission to the Inquiry, that "the welfare of the racing and breeding sectors are mutually inseparable".<sup>48</sup> Indeed the Committee believes that fundamental to the preservation of Victoria's standardbred industry is the safeguarding of that most critical of linkages – the ability of the breeding industry to produce enough horses to sustain the harness racing industry.

In their submission to the Inquiry, HRV identified the importance of ensuring that the breeding industry is able to supply the racing industry with a sufficient number of racehorses. It stated, "[t]he increase in race meetings and downturn in foalings over the last decade has stretched Victoria's racehorse population to the limit and without growth in foal numbers, HRV cannot supply further demand for race product".<sup>49</sup>

#### **2.4.6 Weaknesses**

In light of the fact that the principal objective of the breeding industry is to supply the racing industry with a sufficient number of horses, the Committee believes that factors which represent a threat to the breeding industry's capacity to meet that objective constitute the most significant weaknesses of the standardbred industry. The Committee has identified the following factors

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<sup>47</sup> Victorian Auditor-General's Office, 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.265.

<sup>48</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.2.

<sup>49</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.2.

as threats and therefore weaknesses of the standardbred breeding and racing industry:

- The ability of certain parts of the industry to protect itself from and appropriately manage the effects of **drought**
- The presently poor levels of **equine research**
- The onerous system of **syndication** in the *Corporations Act 2001*
- The **tax system**

These issues will be further dealt with in this report.



## Artificial Insemination, Skills and Training

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### 3.1 Origins of Artificial Insemination and Semen Transport

Australia was one of the last harness racing and breeding countries to embrace artificial insemination (AI) and semen transportation. Prior to the acceptance of AI in Australia as a legitimate form of equine reproduction, the harness racing world considered Australia's standardbred industry as conservative and out of date.<sup>50</sup>

In 1991 the Australian Harness Racing Council established a Working Party to explore and consider all issues relating to the technology behind artificial insemination and semen transportation and evaluate its potential strengths and weaknesses for the industry.

In the era of globalisation, the Australian standardbred breeding industry could no longer afford to remain closed to opportunities emerging in the global standardbred industry. Access to the best bloodlines in North America and Europe was suddenly a reality and semen transportation was the key to that reality. This more integrated standardbred world, combined with the economic difficulties faced by both the Victorian and national standardbred racing and breeding industries, was the background to the Working Party's consideration of this issue.

Semen transport developed considerable support from this time to the point where it is now the primary means of equine reproduction used in the standardbred industry. For example, in 1997-98 semen transport accounted for less than 15 per cent of the mares served by Australasia's leading stud,

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<sup>50</sup> R. Pollock, 2002. *Artificial Insemination & Semen Transportation*, in <<http://www.harness.org.au/ausbreed/papers/ai.htm>>

Alabar stud. By the season 2003-04 more than 75 per cent of the 1930 mares served by Alabar's stallions were inseminated with transported semen.<sup>51</sup>

Semen transport has proved to be a catalyst for the economic revitalisation of the standardbred industry in Victoria. Aside from creating the economic and logistical conditions necessary to improve the quality of Victoria's breeding herd, it also saved the breeding industry during the recent downturn in 2002-03, when much of Eastern Australia was in the grip of a severe drought. Prior to the advent of semen transport, the outcome for the industry would have been far worse than what transpired. According to Alabar Stud's John Coffey, "under such conditions, studs in the traditionally rich irrigation and high rainfall areas were simply not able to carry anywhere near the normal number of mares. Prior to semen transport this would have been devastating to the industry. However the 'leave your mare at home and let the semen come to you' approach meant that the effects of the drought on service numbers was minimal".<sup>52</sup>

AI and semen transport have also provided the opportunity for industry participants to diversify their more traditional roles as trainers, breakers, hobbyists or agistment farmers by offering insemination services, often supported by their local veterinarian. The fact that AI and semen transport practices have continued to expand is in many respects a testament to the quality of service and care of many of these operations.

That said, there has been much evidence put to the Committee about a lack of technical understanding of the AI process in certain parts of Victoria and that this skills shortage causes wastage in an industry where numbers are critical to its survival. In terms of industry participants, the Committee understands that Victoria's standardbred industry is decentralized and therefore difficult to regulate from an education and skills perspective.

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<sup>51</sup> Track Bred Autumn 2004. 25<sup>th</sup> Anniversary Edition, p.43.

<sup>52</sup> Track Bred Autumn 2004. 25<sup>th</sup> Anniversary Edition, p.43.



Nevertheless, the AHRC and HRV have submitted proposals to the Committee in relation to the establishment of a higher and more comprehensive skills set an AI practitioner must obtain before being licensed to practice in this area which is obviously an issue of concern to the industry and will be addressed later in the chapter.

## **3.2 Advantages and Disadvantages**

The following lists the advantages and disadvantages to AI and semen transportation. The list is compiled from several leading sources in the field of equine reproduction.<sup>53</sup> The Committee presents these as a basic guide to the fundamental issues that shaped the debate over the introduction of AI in Australia. These factors were considered by the AHRC Working Party and formed part of its conclusions regarding the benefits or otherwise of the introduction of semen transport in Australia.

After examining 31 submissions (of which a majority were in favour) the Working Party carried a motion that semen transportation be adopted in principle and thus precipitated a fundamental change to the economic landscape of Australia's standardbred industry.<sup>54</sup>

### **3.2.1 Advantages**

- Removes the risk of transport injuries to mares which was more common prior to the introduction of AI. By extension, an injured mare, or a mare with an injured foal that was unable to travel would lose a season. In the new AI world, that is no longer the necessary consequence of injuries to broodmares.

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<sup>53</sup> Sybil Leopold, [http://www.equinecentre.unimelb.edu.au/health\\_repro.shtml](http://www.equinecentre.unimelb.edu.au/health_repro.shtml) and Equine Research Centre, Ontario, Canada, *Transported Semen*, Video.

<sup>54</sup> Artificial Insemination and Semen Transportation, in AHRC papers at <<http://www.harness.org.au/ausbreed/papers/ai>

- Opens new international markets. With the use of frozen semen, markets can be reached that were previously not accessible with natural breeding or transported fresh semen.
- 'Life insurance' for the stallion. A semen bank can in some ways constitute genetic 'life insurance'. If the stallion is injured or dies, there remains the opportunity to produce his progeny for years to come.
- The ability of mares and foals to remain on their owners' properties protects them in the event of disease outbreaks. In addition, studmasters, in circumstances of a disease outbreak on their property (including those that may be quarantined), would not be exposed to the same degree of economic loss as they would have if semen could not be transported from their property.
- The improvement to the standardbred herd gene pool as a result of improved access to the semen of superior stallions. Superior stallions can also produce more offspring per season. One ejaculate can be used to inseminate many mares.
- AI encourages new owners in isolated areas to enter the industry as breeders, given the more competitive cost structures of breeding in the age of semen transport.
- AI creates cost savings for the owners of stud farms through the employment of less staff and capital outlay for property, fencing and other related expenses. There are also cost savings for the broodmare owner (travel and agistment) although these may be offset by the cost of veterinary services and freight.
- Reduced risk of infection. Antibiotics are added to extender for the semen, no penetration of stallion into mare.
- Conception rates are comparable to live cover.
- Insemination in the mare is quick and easy. Owner can inseminate if trained.
- Cost. In the long run, AI is cost efficient and allows stallion owners access to most mares.

- The ability of the stallion to serve mares without geographic constraints.<sup>55</sup>

### **3.2.2 Disadvantages**

- Collection can be difficult as you may need a mare in heat to assist.
- One superior stallion can dominate in a particular mare population.
- Semen from some stallions is not suitable for freeze-thawing.
- Increased mare management required to pinpoint ovulation.

The above factors demonstrate the fact that the AI process is dependent on a chain of events working systematically and within set time periods. As noted by Rod Pollock of the AHRC, “the process itself relies on ensuring that the collection, veterinary monitoring, receipt and logistics of transportation then subsequent insemination are strictly timetabled. Stallion semen quality is variable when used in the [context of] chilled and frozen semen made available for transportation. However our experience tends to suggest that most stallion semen works well when inseminated by skilled and experienced personnel”.<sup>56</sup>

In addition, AI has arguably led to a reduction in smaller studs, due to the lost revenue from agistment.

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<sup>55</sup> Sybil Leopold, [http://www.equinecentre.unimelb.edu.au/health\\_repro.shtml](http://www.equinecentre.unimelb.edu.au/health_repro.shtml) and Equine Research Centre, Ontario, Canada, *Transported Semen*, Video.

<sup>56</sup> R. Pollock, 2002. *Artificial Insemination & Semen Transportation*, in <<http://www.harness.org.au/ausbreed/papers/ai.htm>>

### **3.3 Adapting to the Challenges of New Technology**

Victoria is now the national leader in the area of advanced breeding technology, particularly in relation to semen preservation and transport and embryo transfer.<sup>57</sup> There has been significant investment by Victorian stud farms in equipment and infrastructure to assist the transition to AI and semen transport. Alabar, for example, has developed its own semen transport system including the development of a design for a chiller box, and hires its own dedicated courier to bring greater certainty to the delivery process.<sup>58</sup>

#### **3.3.1 International Use of Artificial Insemination**

According to the Equine Research centre in Ontario, Canada, the use of AI with both fresh and frozen equine semen is increasing across the globe. AI is popular in China where between 1980 and 1985 more than 110,000 mares were inseminated with frozen semen. At present frozen semen from over 200 German and Dutch warmblood stallions is available internationally. In North America there are more than a dozen facilities that offer freezing services and the number is on the rise.<sup>59</sup>

The use of AI in the harness racing world is authorized by the International Trotting Association. According to Rod Pollock, “[A]lthough some countries may have differing local regulatory policies, all allow animal husbandry techniques designed to promote the welfare of their standardbred breeding herd. All member countries strictly comply with their own quarantine regulations in this area. A standardbred bred by artificial means is accepted as the same as a regularly bred foal”.<sup>60</sup>

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<sup>57</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, pp.12-13.

<sup>58</sup> Track Bred Autumn 2004. 25<sup>th</sup> Anniversary Edition, p.43.

<sup>59</sup> Sybil Leopold, [http://www.equinecentre.unimelb.edu.au/health\\_repro.shtml](http://www.equinecentre.unimelb.edu.au/health_repro.shtml) and Equine Research Centre, Ontario, Canada, *Transported Semen*, Video.

<sup>60</sup> Rod Pollock, Artificial Insemination and Semen Transport at <http://www.harness.org.au/ausbreed/papers/ai>

### 3.4 Skills and Training

#### 3.4.1 Skills Shortage

While the Committee has received evidence describing the advanced nature of Victoria's technological capabilities in the area of semen transport, it also received evidence to the effect that there are many practitioners in the industry that are not proficient in the techniques required for the proper practice of artificial insemination and semen transport. The Committee is concerned that such inefficiencies are leading to wastage in an environment where Victoria's horse population is already under pressure.<sup>61</sup>

A number of witnesses who appeared and provided submissions to the Committee in the course of this Inquiry have suggested that a greater investment in education and training is required to improve efficiencies in this regard. For example, the Equine Breeding & Animal Welfare Committee of the AHRC stated the following in their supplementary submission to the Inquiry:

*The [AHRC] Committee has identified that a range of functional competencies are necessary in the chain of events which occur in the insemination of the standardbred mare and the resultant foal. In evaluating the chain of events it is considered that functional training will require specific education to enhance the capability and competency of involved industry participants in addition to professionally training veterinarians. Importantly the [AHRC] Committee considers that access to education and training in all artificial breeding and insemination techniques is important to improve the performance of these specific functions.*<sup>62</sup>

The supplementary submission advised that only Glenormiston College offers a short course for the study of artificial insemination and that these courses are neither run every year nor at ideal times.

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<sup>61</sup> Australian Harness Racing Council, 2005. Supplementary Submission. Harness Racing Industry, Artificial Breeding Education and Training, 27 July, p.1.

<sup>62</sup> Australian Harness Racing Council, 2005. Supplementary Submission. Harness Racing Industry, Artificial Breeding Education and Training, 27 July, p.1.

### **3.4.2 A Specific Curriculum**

In their submission, the AHRC encouraged the Committee to consider the development of a specific curriculum in the area of artificial breeding techniques.<sup>63</sup> HRV, in their submission to the Inquiry, went further and outlined to the Committee the type of curriculum they would like to see established in order to address the present deficiencies in the practice of artificial breeding techniques.<sup>64</sup>

The HRV submission proposes a number of initiatives to overcome current deficiencies in the practice of AI.

#### *3.4.2.1 Licensing and Registration*

In their submission to the Committee, HRV described their plan, in association with other states through a subcommittee of the national Australian Harness Racing Council, “to implement significant additions to the existing licensing and registration requirements currently governing the activities of the breeding industry as a whole”.<sup>65</sup>

Under this model, registration would be dependent on participants being able to demonstrate an adequate level of knowledge and expertise in the practices and techniques of AI. The Committee notes that at present the requirements relating to the licensing of artificial breeding techniques are regulated in accordance with Rules 281-290 of the Australian Rules of Racing.<sup>66</sup>

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<sup>63</sup> Australian Harness Racing Council, 2005. Supplementary Submission. Harness Racing Industry Artificial Breeding Education & Training, 27 July, p.1.

<sup>64</sup> Harness Racing Victoria, 2005. Supplementary Submission, 26 August, p.1.

<sup>65</sup> Harness Racing Victoria, 2005. Supplementary Submission, 26 August, p.1.

<sup>66</sup> See <<http://www.harness.org.au/rules>>

Accordingly, to satisfy the new benchmarks for registration, HRV informed the Committee that training must be made available to all participants intending to apply for licenses or registration of premises, in the following three major areas:

- 1. Techniques of artificial insemination and the handling of fresh, chilled and frozen semen.*

As noted above, this area has been covered by annual courses run at the Glenormiston College. In evidence before the Committee, Professor Andrew Clarke noted that in 2003 he conducted a reproduction seminar at the Werribee Equine Centre which was sold out with around 100 participants. There was a follow-up seminar three weeks later with another 90 participants. The Committee believes that the strong demand within the industry for skills and training in the above techniques warrants the provision of more training by both the public and private sector.

- 2. Establishment and maintenance of suitable premises for undertaking procedures associated with collection and handling of fresh semen, handling and use of chilled and frozen semen, artificial insemination, and the effective breeding of mares with transported semen.*

HRV noted in their supplementary submission that most studs and semen stations have become familiar with these techniques over the past 8-10 years by attending veterinary workshops and seminars. Indeed, as already recognised in this chapter, Alabar stud is a leader in these particular techniques. Nevertheless, no regular official courses exist that are recognised by the industry.

- 3. Management of mares for effective breeding with transported semen.*

In their supplementary submission, HRV noted that “this vital area has been almost completely neglected up until now and deficiencies here are probably responsible for most of the reproductive failures reported each season with transported semen use”.<sup>67</sup>

HRV informed the Committee through their supplementary submission that these requirements need to be addressed as a matter of urgency.

#### *3.4.2.2 Options for implementation of required training courses*

In their supplementary submission, HRV suggest that existing educational institutions and educators would be capable of running the required training courses, should funding be made available.<sup>68</sup>

In terms of public sector involvement, HRV listed Glenormiston College and broadly ‘the TAFE system’ as potentially appropriate institutions.

HRV also raised the possibility of private sector assistance in the development of skills and training in the area of AI in Victoria. In their supplementary submission, HRV noted:

*Another valuable resource for learning in the area of equine reproduction is the private Equine Veterinary sector, with veterinarians such as Goulburn Valley’s Angus McKinnon being recognised as experts in the field worldwide, not just in Australia. The Australian Equine Veterinary Association is the professional body that co-ordinates the activities of equine veterinarians, and that would be happy to advise industry on education resources available.*<sup>69</sup>

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<sup>67</sup> Harness Racing Victoria, 2005. Supplementary Submission, 26 August, p.2.

<sup>68</sup> Harness Racing Victoria, 2005. Supplementary Submission, 26 August, p.2.

<sup>69</sup> Harness Racing Victoria, 2005. Supplementary Submission, 28 August, p.2.



### **3.4.3 Overseas Experience**

In a submission to the Committee, Professor Andrew Clarke, former head of the Equine Research Centre in Ontario, Canada, described the “big industry demand for seminars and workshops on the reproduction technologies and how to improve percentage of pregnancies. This ranged from improved detection of oestrous and ovulation in mares to better handling and processing of semen”.<sup>70</sup>

Significantly, Professor Clarke noted that the Ontario Equine Research Centre formed strategic alliances with a large commercial breeder “which had first class facilities and equipment (similar to Alabar’s in Victoria) and suppliers of equipment and reagents to deliver the seminars and workshops”. Professor Clarke added that “this model would work very well in Victoria”.<sup>71</sup>

The Committee believes that the standardbred breeding industry would benefit from the greater diffusion of skills and to this end the Victorian government should liaise with other relevant bodies to identify the additional training courses and resources required.

#### **Recommendation 3.1**

***That the Victorian Government, in association with Harness Racing Victoria and relevant standardbred industry bodies, assess the current provision of Artificial Insemination (AI) training and accreditation courses across the state, with a view to ensuring that reasonable access is afforded to industry participants needing to upgrade skills to meet Harness Racing Victoria’s AI licensing and registration standards, and if necessary provide additional resources to achieve this objective.***

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<sup>70</sup> Professor Andrew Clarke, 2006. email dated 10 July.

<sup>71</sup> Professor Andrew Clarke, 2006. email dated 10 July.



## Investment Environment

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### 4.1 Introduction

The standardbred industry in Victoria has changed significantly over the past decade. Ten years ago, the standardbred breeding and racing industries in Victoria were languishing in a financial environment characterised by negligible levels of investment and economic growth. Much has changed since then. Today, Victoria stands transformed, leading the country in offering the highest prizemoney together with a number of lucrative incentive schemes for owners and breeders of standardbred horses. This chapter will focus on the specific industry initiatives that have shaped this fundamental change and also discuss the way in which external economic and social factors have influenced, and continue to affect, the standardbred industry in Victoria.

The transformed nature of Victoria's investment environment needs to be put in context, as although improving, the average return on investment for vendors at yearling sales remains minimal. Indeed, from a sales environment perspective, there has only ever been one Victorian yearling that has sold for over \$100,000.<sup>72</sup> This does not compare favourably with North America, Europe and even recent sales results recorded in New Zealand.<sup>73</sup>

However, while such comparisons are important and instructive, they only provide part of the picture. It is important to recognise the many gains that have been made in Victoria over the past decade. In considering evidence provided to the Committee, it is also clear that the motivations of Victorian standardbred breeders are different from those in other harness racing countries and in other equine industries.

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<sup>72</sup> J. Anderson, *Harness Racing Victoria, 2005. Minutes of Evidence*, 15 August, p.126.

<sup>73</sup> Rob McAnulty, prominent owner in the thoroughbred code paid out \$NZ170,000 for the Christian Cullen-Soky's Sunday colt named Davy Maguire. <http://www.harnesslink.com/nzsba/>

The standardbred industry in Victoria is made up of predominantly hobby breeders (many operating in rural Victoria), who breed to race rather than breed to sell. As Ms Anne Jacobson from Harness Racing Victoria advised the Committee, “it is a way of life but not a way of making a living ... our people are satisfied with lower rates of return”.<sup>74</sup>

Whilst the Committee believes that the sales environment in Victoria can be developed and promoted more effectively, it appreciates that there are many other important factors that stimulate investment in Victorian standardbred racing and breeding. These factors include the raft of incentive schemes and bonuses for owners and breeders. Maintaining and improving the massive capital infrastructure requirements of the industry is also vitally important. For example, providing better tracks for racehorses will improve the longevity of a racehorses’ racing career, encourage more investment in wagering and more interest in the sport.<sup>75</sup>

The Committee recognises that the promotion of racehorse ownership is a critical factor in sustaining both the standardbred racing and breeding industries. While industry initiatives and incentive schemes provide important rewards for existing owners and encourage new owners to enter the market, the Committee is also aware of the external factors that presently act as a disincentive to new owners purchasing racehorses, most notably the confusing regime applicable to syndicates and the present tax rules that apply to both standardbreds and thoroughbreds compared to those that apply in New Zealand. These rules are comprehensively examined in chapter 6 of the report.

Many factors influence the Victorian standardbred breeding and racing investment environment. The aim of this chapter is to describe these variables in a way that demonstrates that, notwithstanding the present strength of

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<sup>74</sup> A. Jacobson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, pp.125 - 126.

<sup>75</sup> J. Anderson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.121.

Victorian harness racing and breeding, this is no time for complacency. The foundations for strong industry growth exist but there are further challenges for the industry. The Committee hopes that by enabling industry participants to understand the often precarious nature of Victoria's standardbred investment environment, they will motivate such industry participants to address these challenges more effectively in the future.

Given the significance of a strong investment environment to rural employment growth and the many associated industries that benefit from economic activity in the standardbred industry (grain producers, farriers, veterinary practices, saddlery manufacturers, horse float manufacturers and many more)<sup>76</sup> the importance of meeting future challenges cannot be overstated.

## **4.2 Breeding Incentive Schemes**

Victoria's current pre-eminence in the Australasian harness racing and breeding industry owes much to the success of its incentive schemes and breeder bonuses. Victoria has two of the three most lucrative schemes (known as futurities schemes) in Australasia:

- \$4.35 million Vicbred Program; and
- \$1.6 million Australasian Breeders Crown.

Victoria (through Harness Racing Victoria) is also a one-third partner in the other major futurities scheme in Australasia – the \$1.25 million Australian Pacing Gold.

The Vicbred scheme in particular has contributed to the resurgence of Victorian standardbred racing and breeding and in recent years has managed to stem the alarming decline in foal numbers the industry experienced over

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<sup>76</sup> Alabar Stud, 2005. Submission No. 31, 20 October, p.3.

the past decade. Vicbred is described below while descriptions of the other two futurities schemes can be found at Appendix 6 and 7.

As noted by Alabar, Australasia's leading standardbred stud:

*Victorian breeders and stud operators are fortunate to be supported by a strong and ever growing Vicbred scheme which gives the stallion owner a tremendous competitive advantage over other states and makes our stallions sought after throughout Australia and New Zealand. The Vicbred scheme and its wide-ranging benefits to the breeder have ensured that Victoria is the strongest harness racing region in Australia and New Zealand.<sup>77</sup>*

#### **4.2.1 Vicbred**

The Vicbred scheme is Australia's most lucrative racing and breeding scheme with annual stakemoney and bonuses currently totalling \$4.35 million. Vicbred was introduced in 1980 and was originally titled the 'Victoria Sires Stakes'. It was government sponsored and modelled on a successful United States' scheme – it was anticipated that the Sires Stakes scheme in Victoria would enhance the quality of racing, boost wagering turnover, increase prizemoney and strengthen employment opportunities in the same way that was achieved in the United States, after the introduction of their comparable futurities scheme.<sup>78</sup>

Key industry statistics in the first few years of operation suggested that the effects of its introduction to the industry in Victoria were positive. For example, in the five year period from 1981 to 1985, Victoria's foal crop increased by 21 per cent from 3,320 to 4,004.<sup>79</sup>

In 1996 the Victoria Sires Stakes series was expanded and absorbed within a new scheme called the Vicbred program. The new scheme, which offered a

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<sup>77</sup> Track Bred Autumn 2004. 25<sup>th</sup> Anniversary Edition, p.44.

<sup>78</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.27.

<sup>79</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.27.

broader range of incentives and rewards, had an immediate impact on the rate of acceptances for races – increasing 23.7 per cent in its first year.<sup>80</sup> The following table demonstrates the number of horses registered each year in both the Victoria Sires Stakes Scheme and its successor, the Vicbred program.

**Table 4.1: Horses Paid Up Each Year and Annual Growth Variance**

Season	Number of Horses Paid Up				Total of 3 Foal Crops	% of Total Foals	Annual Variance	Annual Growth
	2YO's	3YO's	4YO's	Total				
1981	920			920		%	%	%
1982	756	626		1,382				
1983	910	551	269	1,730	13,004	13.3		
1984	1,012	671	232	1,915	12,803	15.0	1.7	12.4
1985	1,212	789	334	2,335	11,969	19.5	4.6	30.4
1986	1,654	823	339	2,816	11,383	24.7	5.2	26.8
1987	1,577	1,111	372	3,060	10,823	28.3	3.5	14.3
1988	1,547	1,013	393	2,953	11,383	25.9	-2.3	-8.2
1989	1,590	969	351	2,910	11,679	24.9	-1.0	-4.0
1990	1,608	1,085	390	3,083	11,874	26.0	1.0	4.2
1991	1,607	1,090	414	3,111	11,852	26.2	0.3	1.1
1992	1,746	1,070	417	3,233	11,745	27.5	1.3	4.9
1993	1,580	1,154	450	3,184	11,287	28.2	0.7	2.5
1994	1,503	1,050	462	3,015	10,805	27.9	-0.3	-1.1
1995	1,515	1,018	393	2,926	10,341	28.3	0.4	1.4
1996	1,628	1,241	640	3,509	10,022	35.0	6.7	23.7
1997	1,346	1,240	793	3,379	9,553	35.4	0.4	1.0
1998	1,513	1,049	869	3,431	9,182	37.4	2.0	5.6
1999	1,567	1,285	760	3,612	8,963	40.3	2.9	7.8
2000	1,596	1,392	1,071	4,059	9,104	44.6	4.3	10.6
2001	1,548	1,310	975	3,833	9,091	42.2	-2.4	-5.4
2002	1,605	1,358	1,011	3,974	9,157	43.4	1.2	2.9
2003	1,894	1,636	1,210	4,740	9,111	52.0	8.6	19.9
2004	1,923	1,600	1,305	4,828	9,159	52.7	0.7	1.3
2005		576*	459*					
2006			576*					

\* Series Fee paid in advance

Victoria Sires Stakes

Source: *Harness Racing Victoria, 2005. Submission, No 20, 28 June, Appendix, Vicbred Statistics, Table 1.*

<sup>80</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, Appendix, Vicbred, Table 1.

As at 2004, Vicbred nominated horses constituted 52.7 per cent of the total foal crop in Victoria.

Part of the success of the Vicbred scheme has been its ability to function dynamically, adapting to the constantly changing domestic and international standardbred breeding and racing industry. For example, the program changed to accommodate domestic trends in Australia in the late 1990s, when South Australia and Tasmania were suffering as a consequence of the popularity of the Vicbred scheme. In 1999 Harness Racing Victoria amended the program criteria to enable stallions located in South Australia and Tasmania to be deemed Victorian stallions for the purposes of Vicbred eligibility.<sup>81</sup>

In 2000, a mares-based component was introduced to accommodate a more globalised industry as semen transport became a more prevalent practice. This initiative allowed broodmare owners to select a stallion of their choice from anywhere in the world without compromising the Vicbred eligibility of the foal, provided that the foal was conceived, born and notified in Victoria.<sup>82</sup>

Vicbred eligibility has also been extended to the progeny of a Victorian based sire conceived outside Australia; premium fees apply in these cases as opposed to horses where both the dam and the sire are located in Victoria.<sup>83</sup>

#### **4.2.2 Vicbred Breeder Bonuses**

In around 2000, racing administrators were looking for ways to address Victoria's declining racehorse population. Projections made by Harness Racing Victoria in relation to the rate of decline in foal numbers, signalled an urgent need to arrest this trend or risk serious damage to the racing and breeding profile and profitability of the state. In 2001 Harness Racing Victoria

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<sup>81</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.28.

<sup>82</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.28.

<sup>83</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.28.



introduced a Vicbred Breeder Bonus that would commence payments when the foals of 2001-02 raced as 2-year-olds in 2003.<sup>84</sup>

Mr Duncan McPherson of Harness Racing Victoria, in evidence before the Committee, explains the origins of this concept:

*The board was then faced with a decision on how we would actually stimulate breeding. We looked at a lot of overseas experience – we were not seeking to reinvent the wheel, just what had worked in other places and the like. We found a scheme in Europe whereby they had introduced a breeder bonus scheme. Effectively, for any horse that was bred in Europe and raced and won there, the breeder would be paid a bonus, so effectively the breeder maintained some equity in the horse's racing career, even if it was sold at yearling sales. The breeder always maintained an interest. It became very successful in a couple of countries in Europe and was picked up by lots of others. So we looked at that closely and decided that it was worth a shot in Victoria.<sup>85</sup>*

The breeder bonus scheme adopted in Italy was the scheme originally looked at by HRV. In the 1990s Italy was facing similar problems to Australia – experiencing declining numbers of foals, breeders and owners. It was this scheme that was adopted by other countries including Norway, Sweden, Germany, France and Denmark<sup>86</sup> where the bonuses to breeders are considerable – paying as much as 10 per cent to 12.5 per cent.<sup>87</sup>

However, not having the same budgetary capacity as their European counterparts, HRV originally set the breeders bonus at 5 per cent of the total advertised stakemoney, to be paid entirely to the breeder of an eligible Vicbred horse that won any 2-year-old, 3-year-old or 4-year-old race in Victoria and any 2-year-old, 3-year-old or 4-year-old group race in Australia.<sup>88</sup>

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<sup>84</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.28.

<sup>85</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.122.

<sup>86</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.28.

<sup>87</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.122.

<sup>88</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.28.

In 2003 Harness Racing Victoria raised the bonus to 7.5 per cent of total advertised stake money. The decision to increase the Vicbred bonus arose out of concerns over the continuing decline of the national breeding herd, which was suffering due to a protracted drought.<sup>89</sup> In that year owners paid up for a record 4,740 horses. Table 4.2 illustrates the number of foals born each year in Victoria and in other states since the 1994-95 season.

The importance of maintaining a sizable foal crop was underlined by Harness Racing Victoria in their submission to the Inquiry. They noted:

*HRV research shows that, every year, one third of the racehorse population are first starters therefore, in a relatively constant population of around 4,600 horses, the population regenerates every three years.*

*If Victoria's 2003-04 foal crop of 2,221 were also an annual constant, around 1,500 or 70 per cent of them would have to make it to the racetrack to sustain the racehorse population. That's an unrealistic expectation and fortunately Victoria's racehorse population is supplemented by 'Vicbred' horses foaled interstate and by New Zealand imports.<sup>90</sup>*

In this context the decline in foal numbers (31.2 per cent since the 1994-95 season), as illustrated at Table 4.2, is alarming. The Committee therefore welcomes HRV's latest projected figures which reveal an increase in the Vicbred foal crop for the season 2004-05 of approximately 250 with about 150 of them being born in Victoria.<sup>91</sup>

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<sup>89</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.122.

<sup>90</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.12.

<sup>91</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.12.

**Table 4.2: Statistics on the number of foals born each season  
1994-95 – 2003-04**

Season	NSW		QLD		SA		TAS		VIC		WA		TOTAL
	All	%	All	%	All	%	All	%	All	%	All	%	All
1994-95	2,792	33.9	535	6.5	514	6.2	377	4.6	3,227	39.2	788	9.6	8,233
1995-96	2,062	28.6	591	8.2	468	6.5	369	5.1	2,907	40.4	807	11.2	7,204
1996-97	2,414	31.2	707	9.1	369	4.8	386	5.0	3,048	39.4	813	10.5	7,737
1997-98	2,154	29.5	682	9.3	370	5.1	283	3.9	3,093	42.3	727	9.9	7,309
1998-99	2,049	29.6	727	10.5	400	5.8	176	2.5	2,892	41.7	683	9.9	6,927
1999-00	2,003	30.2	692	10.4	226	3.4	150	2.3	3,035	45.7	532	8.0	6,638
2000-01	1,897	29.0	606	9.3	416	6.4	221	3.4	2,724	41.6	679	10.4	6,543
2001-02	1,941	31.6	508	8.3	356	5.8	242	3.9	2,440	39.7	662	10.8	6,149
2002-03	1,760	29.1	583	9.6	356	5.9	232	3.8	2,507	41.5	604	10.0	6,042
2003-04	1,545	28.0	508	9.2	333	6.0	276	5.0	2,221	40.3	627	11.4	5,510
	<b>20,617</b>	<b>30.2</b>	<b>6,139</b>	<b>9.0</b>	<b>3,808</b>	<b>5.6</b>	<b>2,712</b>	<b>4.0</b>	<b>28,094</b>	<b>41.1</b>	<b>6,922</b>	<b>10.1</b>	<b>68,292</b>

Variance – 2003-04 compared to 1994-95

<b>Foals</b>	<b>-1247</b>	<b>-27</b>	<b>-181</b>	<b>-101</b>	<b>-1006</b>	<b>-161</b>	<b>-2723</b>
<b>%</b>	<b>-44.7%</b>	<b>-5.0%</b>	<b>-35.2%</b>	<b>-26.8%</b>	<b>-31.2%</b>	<b>20.4%</b>	<b>-33.1%</b>

Source: Harness Racing Victoria, 2005. Submission No. 20, 28 June, Appendices. Table compiled from AHRC statistics.

### **4.2.3 Funding Vicbred**

The Vicbred scheme requires eligible breeders to pay an acceptance fee of \$198 when their horse turns two and three and four years of age.<sup>92</sup> Harness Racing Victoria heavily subsidise the Vicbred program, with \$916,000 being contributed in 2004 through annual acceptance payments, and the remaining \$3.4 million being drawn from HRV's consolidated revenue.<sup>93</sup> Total Vicbred payments equate to 15 per cent of Harness Racing Victoria's \$29.2 million budgeted returns to owners in 2004-05.<sup>94</sup>

### **4.2.4 Free to Race Policy**

Another important factor in encouraging breeders to remain in the industry has been Harness Racing Victoria's adoption of the 'Free to Race' policy.

As stated by Mr Duncan McPherson in evidence before the Committee:

*A lot of horses are bred that do not go to the races and a lot of those that do go do not win. The free-to-race policy was about abolishing nearly all registration fees for all horses so if you bred a horse and owned it and it was a Vicbred horse, you did not have to pay anything at all to HRV to go to the races other than the official foal notification.<sup>95</sup>*

The Free to Race policy has resulted in approximately \$1.5 million in lost revenue to HRV as a result of the abolition of fees in relation to registration for syndicates, companies, transfers of ownership, leases, naming and interstate clearances, in addition to fees for race nominations and acceptances for races with prizemoney of less than \$100,000.<sup>96</sup>

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<sup>92</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, pp.123-124.

<sup>93</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.29.

<sup>94</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.29.

<sup>95</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.122.

<sup>96</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.14.

### 4.3 The Sales Environment in Victoria

#### 4.3.1 The Effect of Vicbred on Sales

As indicated in the following table, horses registered under the Vicbred program have proved more valuable in the sale ring than those horses that have not paid up for the Vicbred program.

**Table 4.3: Yearling Sales - 2004, 2005**

2004	VIC	NSW	SA	QLD	WA	TOTAL
All Lots	309	369	78	70	154	980
Aggregate	\$3,054,250	\$2,889,450	\$468,650	\$477,250	\$1,425,250	\$8,314,850
Average	\$9,884	\$7,830	\$6,008	\$6,818	\$9,255	\$8,485
Vicbred Yearlings Only						
Lots	290	93	53	5	63	504
Aggregate	\$2,878,750	\$847,550	\$326,900	\$49,750	\$649,500	\$4,752,450
Average	\$9,927	\$9,113	\$6,168	\$9,950	\$10,310	\$9,429

2005	VIC	NSW	SA	QLD	WA	TOTAL
All Lots	380	270	94	74	125	943
Aggregate	\$3,945,350	\$2,971,750	\$640,500	\$687,750	\$1,483,000	\$9,728,350
Average	\$10,383	\$11,006	\$6,814	\$9,294	\$11,864	\$10,316
Vicbred Yearlings Only						
Lots	339	62	63	0	29	493
Aggregate	\$3,561,350	\$812,750	\$495,500	\$0	\$380,500	\$5,250,100
Average	\$10,505	\$13,109	\$7,865	\$0	\$13,121	\$10,649

Source: *Harness Racing Victoria, 2005. Submission No. 20, 28 June, Appendices, Table 5. Sales Company records and HRV database*

### **4.3.2 Yearling Sales in General**

Table 4.3 indicates the comparative strength of Victorian yearling sales to yearling sales in other parts of Australia. Clearly Vicbred has had a significant impact on yearling prices in both Victoria and elsewhere, with money paid nationally for Vicbred yearlings in 2005 accounting for 54 per cent of all yearling sales across Australia.<sup>97</sup>

While the New South Wales average yearling price for 2005 was marginally above the Victorian average and significantly up on its 2004 average, this is in many respects due to the current strength of the Victorian industry. For example, a closer look at Table 4.3 reveals how the highest priced yearlings sold in New South Wales were Vicbred horses. In addition, Victoria sold an additional 71 lots in 2005 than in 2004 while the number of lots sold in New South Wales decreased from 369 in 2004 to 270 in 2005. The fact that Victoria's aggregate increased by almost one million dollars reflects the positive trends taking place in the Victorian sales environment.

### **4.3.3 Return on Investment**

From a 'return on investment' perspective, the average prices for yearlings listed in Table 4.3 reflect the underlying weakness of both the Victorian and national sales environment. Mr Duncan McPherson of HRV, in evidence before the Committee, outlined the difficulties faced by breeders in achieving positive economic outcomes in the sale ring:

*Our range of stallions in terms of service fees might in the main go from, say, \$1000 to \$5000, some higher and some lower, but generally that is what it is. So that element of fixed costs is nowhere near as rampant as in the thoroughbred industry when it can cost you squillions. But all the other costs are the same. To prepare a horse for sale, to feed it and everything else, there is very little difference in the breed. We maintain that the cost of getting a horse to the sales is about \$7,500. You will see from our submission that*

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<sup>97</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.13.

*our average price at the sales was just a tick under \$11,000, so there are obviously a lot of people losing money on the horses they sell, bearing in mind that the average is dragged up by a couple of high price lots that make \$50,000 plus.*<sup>98</sup>

The fixed costs described by Mr McPherson of \$7,500 to prepare a horse for sale do not include the stallion service fee, further exemplifying the narrow margins breeders of standardbreds face when selling their horses in Australia. This situation contrasts significantly from the situation faced by many breeders in New Zealand, where the top priced yearling at a 2005 New Zealand sale fetched \$NZ170,000, an outstanding return on the breeder's investment.<sup>99</sup>

The reasons for this disparity are both historical and cultural. In Australia, until 1996, stallions were limited to servicing 125 mares whereas New Zealand's standardbred authority imposed no such limits.<sup>100</sup> The leading stallion at the time in New Zealand, *Vance Hanover*, was able to artificially cover some 400 mares per season. He quickly became one of Australasia's most prolific sires of winners which ensured more high volume seasons and by logical extension, more success.<sup>101</sup> *Vance Hanover* and other high volume stallions became successful broodmare stallions which gave New Zealand breeders a decided advantage over their Australian rivals in terms of the residual value of their breeding stock. Australian buyers of standardbreds have focused considerable attention and money on the New Zealand yearling market ever since.

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<sup>98</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.125.

<sup>99</sup> Rob McAnulty, prominent owner in the thoroughbred code paid out \$NZ170,000 for the Christian Cullen-Soky's Sunday colt named Davy Maguire. <http://www.harnesslink.com/nzsba/>

<sup>100</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.6.

<sup>101</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.6.

The Committee was advised by Harness Racing Victoria in their submission:

*Since the 125 service limit was discontinued, Australian studs have matched New Zealand's stallion acquisitions and Australian buyers are gradually shifting their focus back to Australian yearling sales.<sup>102</sup>*

The cultural aspect to New Zealand's superior yearling sales figures arises out of the fact that New Zealand has more professional breeders who breed their horses from a business perspective – that is, they breed to sell.<sup>103</sup> Mr Duncan McPherson, in evidence before the Committee, noted that the opposite applies in relation to Victoria. He stated:

*When you consider we are breeding 2500 horses a year and we probably sell about a maximum of 350 at the yearling sales, there are a lot of horses that do not change hands at sales or don't change hands at all.<sup>104</sup>*

The Committee recognises Harness Racing Victoria's desire to improve the sales environment in Victoria and endorses the steps it is taking in making Victoria a more attractive sales environment. The considerable increase in turnover experienced in 2005 in Victorian sales suggests that initiatives such as Vicbred are significant steps in the right direction.

Other initiatives like *Race a Pacer* (see [www.raceapacer.com.au](http://www.raceapacer.com.au)) have also proved successful in terms of marketing the sport of harness racing and its attractiveness to new owners. *Race a Pacer* provides information to prospective owners in a very accessible format that enables new entrants to the sport to assess the merits of investing in the industry. For example, the website notes the affordability of buying and racing a pacer or trotter and the financial and social rewards for those that become involved in the sport. The

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<sup>102</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.6.

<sup>103</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.125.

<sup>104</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.125.



website notes that “recent research of existing harness racing owners found that 81 per cent found the experience rewarding”.<sup>105</sup>

There are therefore some positive consequences to the modest returns achieved by the Victorian yearling market. As noted by the Australian Harness Racing Council, the cost of yearlings, together with reasonable training fees means that “compared to other entertainment pursuits, investing in a harness racing horse is very affordable, and when coupled with the chance of being involved with a champion horse, this represents an extremely good value investment, with enjoyment benefits as a bonus”.<sup>106</sup>

#### **4.4 Capital Investment and the Rural Economy**

In March 2005 HRV released an industry action plan titled Vision Value Victoria, V3. V3 is a 10 point action plan, the principal aim of which is to encourage growth in wagering revenue (wagering being the industry’s basic source of funds) by improving the quality of racecourse infrastructure in Victoria.<sup>107</sup>

The idea behind V3 is to establish ‘racing centres of excellence in strategic locations’.<sup>108</sup> Accordingly, after a venues study and cost/benefit analysis undertaken by HRV, HRV resolved to invest over \$20 million over the next seven years to upgrade regional centres, including Bendigo, Warragul, Nyah/Swan Hill, Ararat/Stawell, Echuca, Cobram and possibly Wodonga. This investment follows \$4.5 million of recent capital works at Terang, Shepparton, Charlton and Yarra Glen.<sup>109</sup>

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<sup>105</sup> For further information see [www.racerpacer.com.au](http://www.racerpacer.com.au)

<sup>106</sup> Australian Harness Racing Council paper, 2001. *The Owner, An Australian and New Zealand Perspective*, presented to the World Trotting Conference, Finland, 11 July, p.8.

<sup>107</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.21.

<sup>108</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.21.

<sup>109</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.21.

Victoria's standardbred industry continues to function as an important part of Victoria's rural economy. Table 4.4 illustrates the degree to which Victorian standardbred racing and breeding is based in rural Victoria.

**Table 4.4: The Standardbred's Contribution to the Rural Economy**

	<b>Total</b>	<b>Rural</b>	<b>%</b>
Race Meetings	505	453	90
Prizemoney	\$29.2m	\$21.1m	72
V3 Capital Expenditure	\$21m	\$20m	95
Off-course Turnover	\$218m	\$177m	81
On-course Turnover	\$17.8m	\$11.7m	66
Attendances	302,000	231,000	76

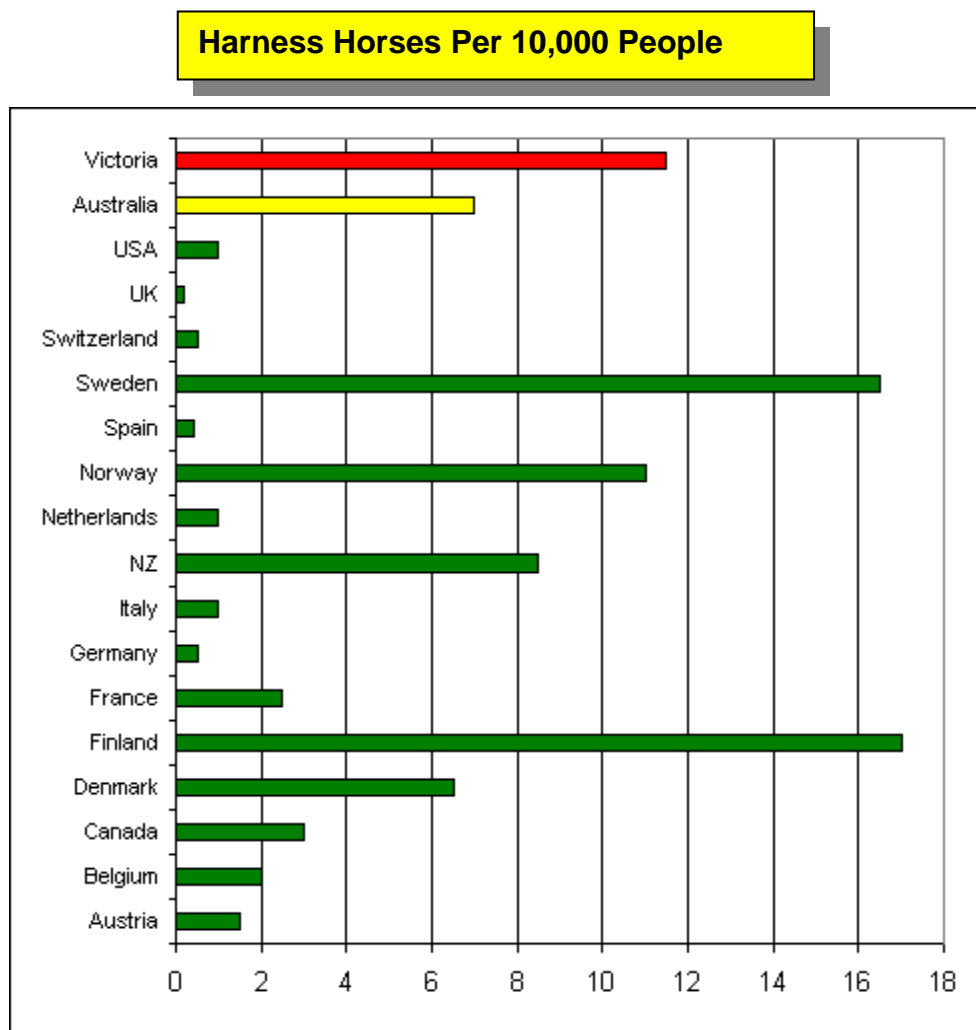
*Source: Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.22.*

According to figures provided to the Committee by HRV, there are over 19,000 horse owners in Victoria of which approximately 17,000 or 90 per cent operate in regional Victoria.<sup>110</sup> Table 4.5 illustrates the number of harness horses owned per capita in different standardbred racing and breeding countries, and Table 4.6 illustrates the number of harness meetings per 10,000 people, and demonstrates the considerable size and scale of rural Victorian harness racing and breeding.

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<sup>110</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.22.

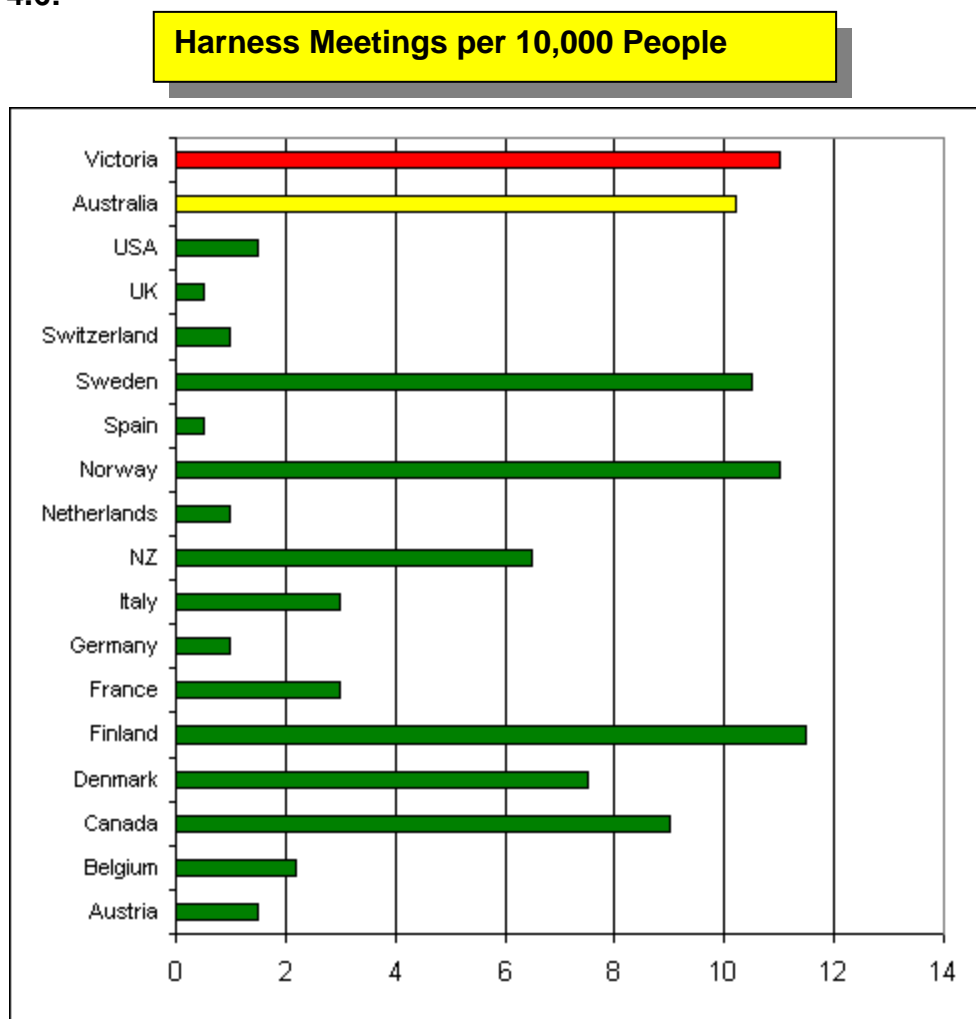
Table 4.5:



Victoria is third in the world behind Finland and Sweden on ownership of Harness Horses per capita.

Source: Australian Harness Racing Council paper, 2001. The Owner, An Australian and New Zealand Perspective, presented to the World Trotting Conference, Finland, 11 July, p.8.

**Table 4.6:**



Victoria is third in the world behind Finland and Norway on Harness Meetings conducted per capita

Source: Australian Harness Racing Council paper, 2001. The Owner, An Australian and New Zealand Perspective, presented to the World Trotting Conference, Finland, 11 July, p.8.

#### **4.4.1 The Significance of the Murray Valley Region**

Of the 11,000 full-time and part-time jobs in Victoria which relate to the standardbred industry, 70 per cent are located in regional Victoria with 17 per cent located in the Murray Valley region.<sup>111</sup> As demonstrated in the following table, around half of Victoria’s foal crop comes from the Murray Valley region.

<sup>111</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.22.

**Table 4.7: 2003-04 Foals by Regions**

Region	%
Murray Valley	52
South West	18
Central	15
Eastern	8
Greater Melbourne	4
Northern	3

Source: *Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.23.*

Significantly, of the 15 stallions with the largest book of mares in 2003-04, 14 reside in the Murray Valley region.

#### **4.4.2 Leading Studs**

The success of the Murray Valley region can be attributed, at least in part, to the decision by Mr Alan Galloway in 1979 to relocate the Alabar stud farm (founded by his parents in the Adelaide Hills) to Echuca in Northern Victoria.<sup>112</sup>

As noted in the harness racing publication "Track Bred", "[T]he availability of irrigated pastures, a warm climate and most importantly the birth of a lucrative Sires Stakes programme were the key factors in the junior Galloway's decision to settle in Victoria".<sup>113</sup>

Alabar has since expanded into the Riverina region of New South Wales and across the Tasman to form Alabar New Zealand and it has established a presence in North America.<sup>114</sup>

<sup>112</sup> Track Bred Autumn 2004. 25<sup>th</sup> Anniversary Edition, p.41.

<sup>113</sup> Track Bred Autumn 2004. 25<sup>th</sup> Anniversary Edition, p.41.

<sup>114</sup> Track Bred Autumn 2004. 25<sup>th</sup> Anniversary Edition, pp. 43-44.

New Zealand's leading stud, the Nevele R Stud, has recently entered the region with a joint-venture acquisition of a property at Tallygaroopna.<sup>115</sup>

### **4.4.3 Industry Consolidation**

#### *4.4.3.1 Stud Rationalisation*

The Committee was advised by several witnesses of the trend in Victoria, towards a rationalisation of stallion bases and studs.<sup>116</sup> Melton Shire Council (Melton being the home of over 90 standardbred operations) submitted in evidence to the Committee that:

*The larger bases are more efficient and provide increased service capability to the industry.*<sup>117</sup>

The need for greater efficiencies has become more important since the industry embraced the use of artificial breeding techniques, including the use and transport of chilled and frozen semen throughout Australia and New Zealand and the end to restrictive limits on broodmares served by the one stallion (otherwise known as 'open books').<sup>118</sup>

Ms Anne Jacobson of HRV, in evidence before the Committee, outlined the trend towards a rationalisation of studs this way:

*One effect of the semen transport is that with the more popular stallions being able to serve as many mares as they can, the less popular and less well-credentialed stallions, which in the past might have served 15 or 20 mares because they got the overflow from everybody else, are going out of commission under semen transport. We do not consider that a bad thing because you are*

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<sup>115</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.22.

<sup>116</sup> Australian Harness Racing Council, 2005. Submission No. 6, 28 April, p.1.

<sup>117</sup> Melton Shire Council, 2005. Submission No. 18, 29 April, p.3.

<sup>118</sup> Australian Harness Racing Council, 2005. Submission No. 6, 28 April, p.1.

*probably looking at the poorer genetic stock that you are getting rid of.*<sup>119</sup>

Being fundamentally concerned in the future viability of the standardbred industry, the Committee accepts that the rationalisation of studs within Victoria is a product of Victoria's increased integration within the international standardbred industry. The Committee believes that on balance, this rationalisation creates greater efficiencies and represents a positive economic development for the industry. As pointed out to the Committee by Mr Duncan McPherson of HRV:

*It is worth saying if we had not improved the breed to the point we have in the last 10 or 15 years through the access to much higher quality stallions – apart from pure speed we are getting much more tractability, conformation and...level-headedness – we would be really struggling to service the racing product that is required of us now.*<sup>120</sup>

Improvements in the quality of breeding of standardbreds is therefore seen by industry stakeholders as a key to maintaining a sufficient number of horses per race.

#### 4.4.3.2 Track Rationalisation

HRV's substantial investment in rural racetracks, as part of the V3 action plan, is predicated on the same economic imperative – that is, by improving racetracks, by making them safer and less physically onerous on the horses, the incidence of injury will be reduced and field sizes will be preserved. Preserving field sizes of between 8 to 11 horses per race on average is seen as a critical part of maintaining wagering turnover and, by extension, ensuring

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<sup>119</sup> A. Jacobson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.135.

<sup>120</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.136.

the viability of the industry which is reliant on its share of the wagering dollar.<sup>121</sup>

#### **4.4.4 Community Consultation by HRV**

The Committee recognises that the rationalisation of tracks may be a characteristic of industry growth. The Committee believes that, where possible, the changes that occur as a result of industry level intervention must at the very least, be made in consultation with the particular individuals or groups affected.

A report of the Victorian Auditor-General in December 2005 drew attention to circumstances where, in the opinion of the Auditor-General, HRV had not, in accordance with their obligations, consulted with clubs adversely affected by the V3 process.<sup>122</sup>

The V3 document referred to results of a venues study undertaken by HRV which had evaluated all harness racing venues against 12 performance criteria and 3 cost criteria. HRV estimated that upgrading all racetracks to meet HRV's standards and to meet occupational health and safety requirements would cost the industry \$31.4 million. The Auditor-General advised the V3 cost-benefit analysis of the venues study concluded:

*The industry will progress and grow by upgrading tracks and investing \$21 million in regional harness centres;*

*The industry cannot afford nor justify spending \$10 million (32 per cent of the required capital expenditure) to upgrade 7 tracks that collectively host only 6 per cent of TAB meetings and generate only 4 per cent of industry turnover.<sup>123</sup>*

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<sup>121</sup> D. McPherson, Harness Racing Victoria, 2005. Minutes of Evidence, 15 August, p.136.

<sup>122</sup> Victorian Auditor-General's Office. 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.265.

<sup>123</sup> Victorian Auditor-General's Office. 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.267.



Accordingly, HRV decided to discontinue holding TAB meetings at seven country racetracks and to transfer their race meetings to alternative venues.

The following table demonstrates where TAB meetings have been discontinued as a result of V3 and the tracks to which these meetings have been relocated.

**Table 4.8: Harness Racetracks where TAB meetings have been discontinued and the replacement venues**

“Home” club	No. of TAB meetings in 2004-05	No. of “away” meetings as per V3 action plan	New meeting venue
Boort	2	2	Charlton
Gunbower	2	2	Echuca
Hamilton	5	5	Horsham and Terang
Ouyen	7	8	Mildura
St. Arnaud	5	5	Charlton
Wangaratta	5	(a) 5	Shepparton
Wedderburn	2	4	Charlton

(a) Number as advised by HRV.

Source: Victorian Auditor-General’s Office. 2005, Results of the 30 June financial statement and other audits, Melbourne, December, p.268.

The Committee notes that the Auditor-General advised that the V3 document also outlined that affected clubs would be paid subsidies to offset any costs associated with running meetings at neighbouring venues and that all venues would be retained for training and club trials.<sup>124</sup>

Concerns were raised with the Office of the Auditor-General that HRV did not consult with the seven affected clubs prior to the release of the V3 document. According to the Report, HRV advised that it “did not formally consult with harness racing clubs prior to the release of the V3 document as HRV was not required to”.<sup>125</sup> The Auditor-General disagreed, concluding that HRV had a legislative requirement to consult with the affected clubs pursuant to amendments made to the *Racing Act 1958* (Vic) (the Racing Act). The Racing

<sup>124</sup> Victorian Auditor-General’s Office. 2005, Results of the 30 June financial statement and other audits, Melbourne, December, p.268.

<sup>125</sup> Victorian Auditor-General’s Office. 2005, Results of the 30 June financial statement and other audits, Melbourne, December, p.269.

Act was amended in August 2004 to expand the purposes of the Board to include consultation with harness racing participants. Section 38 (1) of the Racing Act defines a “harness racing participant” as including a “harness racing club (other than the Board)”.<sup>126</sup>

The Auditor-General further concluded that:

*... the specific statutory amendments concerning consultation have resulted in a ‘legitimate expectation’ on the part of harness racing industry participants that consultation would occur.*<sup>127</sup>

HRV disagreed with the conclusions of the Auditor-General with respect to HRV’s legislative requirements under the Act. Their response, which is detailed in the report of the Auditor-General, included the following:

*HRV’s view – and that of our independent legal advisors - is that there is nothing in the Racing Act 1958 which suggests that HRV had a legislative requirement to consult in relation to the decision to transfer race meetings to other venues.*<sup>128</sup>

The Committee’s view is that irrespective of whether HRV acted in a manner consistent with their legal duty to consult under the Racing Act, a more consultative process was warranted in the circumstances. In this regard the Committee concurs with the Auditor-General’s comments in the report which broadly promote public participation in decisions affecting communities:

*Communities generally now expect governing bodies to make decisions in an open, accountable and consultative manner. A number of studies have highlighted the benefits of public participation and consultation, which include raising the chances of successful implementation and reinforcing the legitimacy of the decision-making process and its final results. The lack of*

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<sup>126</sup> Victorian Auditor-General’s Office. 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.265.

<sup>127</sup> Victorian Auditor-General’s Office. 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.265.

<sup>128</sup> Victorian Auditor-General’s Office. 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.272.

*consultation by HRV denied the affected communities any opportunity to develop creative alternative proposals.*<sup>129</sup>

The Committee therefore welcomes HRV's position that it remains willing at all times to consider such alternative proposals and that it has commenced discussions with one of the clubs affected about the future viability of their venue as a racing venue.<sup>130</sup>

## **4.5 External Factors**

### **4.5.1 Exports**

As outlined in this and other chapters of the report, the Victorian standardbred breeding industry has experienced dramatic change over the past decade. Initiatives such as the ending of restrictive limits on the number of broodmares to be served by a particular stallion and the use of artificial breeding techniques have opened Australian standardbred breeding and racing to the dynamic forces of the global marketplace.

In many respects this new era has produced clear benefits for the industry, particularly in Victoria. Victoria's competitive advantages in terms of its existing capital infrastructure, combined with effective marketing and further capital investment in Victoria's predominantly rural racetracks have enabled Victoria to capitalise on the increasing attention of overseas interests in the standardbred industry in Australia.

Some of the benefits to Victoria arising from the internationalisation of the industry have already been identified in this chapter. The increased access by Victorian broodmare owners to internationally recognised stallions has resulted in clear improvements to the quality of Victoria's standardbred herd.

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<sup>129</sup> Victorian Auditor-General's Office. 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.269.

<sup>130</sup> Victorian Auditor-General's Office. 2005, *Results of the 30 June financial statement and other audits*, Melbourne, December, p.273.

This improved stock has in turn proved more robust and more able to endure the rigours of racing.

Another consequence of the achievement of international benchmarks by Victorian standardbred horses, both in terms of their pedigree and their racetrack performances, has been the ability of Victorian owners to access new export markets in North America and Europe. The export of horses to North America, which is more compatible with Australia due to its predominant use of the pacing gait, has been especially prevalent in recent years.

As noted by Harness Racing Victoria in their submission to the Committee:

*Victoria is the biggest exporter of racehorses into North America although statistics show many of those exports to have departed from Western Australia. In total, 545 racehorses have been exported to the USA over the past four years, with the greater majority city-class horses. Whilst providing trade opportunities for owners and breeders, the depletion of our established stars and proven performers is of concern to racing administrators.*

*Victoria is also the biggest importer of standardbred horses – 1,182 from New Zealand since 2000-01, mostly young horses destined for the racetrack, and 47 from the USA, mostly stallions.<sup>131</sup>*

The Committee agrees with racing administrators such as HRV and the AHRC that the increasing number of horses being exported to North America is something that needs to be closely monitored and evaluated. The increased exposure of Australian standardbreds to international pedigrees combined with the fact that Australia has favourable currency rates compared to other relevant international trading partners, means that the opportunities for export will only continue to increase. That is in many respects a positive development for the industry in Victoria. The financial rewards for sales of horses internationally are invariably far above the returns achieved by vendors in the domestic market. As noted by the AHRC, this provides “an ideal opportunity for reinvestment in future local racing and breeding stock”.<sup>132</sup>

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<sup>131</sup> Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.17.

<sup>132</sup> Australian Harness Racing Council, 2005. Submission No. 6, 28 April, p.5.

The ability of Victoria's standardbred herd to satisfy the racing program as well as cater for any increase in exports, remains problematic in current conditions.

#### **Recommendation 4.1**

***That the Victorian Government, in consultation with Harness Racing Victoria and the Australian Harness Racing Council, conduct economic modelling in relation to the impact of Victoria's expanding standardbred horse export market in order to identify the optimum balance between exports and the sustainability of the state's standardbred herd.***

#### **4.5.2 Drought**

Drought is another serious threat to the ability of Victoria's standardbred herd to supply the racing program with sufficient horses (and therefore maintain its competitiveness as a wagering product in an increasingly competitive wagering market).

According to the Rural Industries Research and Development Corporation Equine Research News "research shows that severe drought affects some part of Australia every 18 years but this is not predictable. The interval between droughts in Australia has ranged from around 4 to 40 years in the time since Australia's weather has been recorded".<sup>133</sup>

In recent times many parts of Victoria have been exposed to drought-like conditions for a longer duration and with increasing frequency. In light of the standardbred industry's strong rural focus, the prevalence of harsh climatic conditions has put sustained pressure on both the state and national foal crops.

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<sup>133</sup> Rural Industries Research and Development Corporation Equine News, Special Drought Issue, 02/05, p.1.

Drought affects nearly all aspects of the equine industries. The economic flow-on effects to the first consequence of drought, a reduction in pasture (feed), reverberate throughout the industry. For example, studs and agistment properties are forced to increase the price of agistment during times of drought. The increased cost of feed is thus passed onto the owner/breeder.

The most important consequence of drought is the impact it has on the annual foal crop. Figures produced by Harness Racing New South Wales and included in the AHRC's Drought Issues Scoping Paper demonstrate the national percentage drop in the number of stallion services and the number of foals registered as a result of those services during times of drought.<sup>134</sup>

**Table 4.9:**

<b>Non Drought Year 1981-82</b>	<b>Drought Year 1982-83</b>
0.65% drop in number of services recorded.	12.25% drop in number of services recorded.
1.15% increase in number of foals registered as a result of those services.	18.81% drop in number of foals registered as a result of drought year services.
<b>Non Drought Year 1993-94</b>	<b>Drought Year 1994-95</b>
0.91% drop in number of services recorded.	11.63% drop in number of services recorded.
1.62% drop in number of foals registered as a result of those services.	12.50% drop in number of foals registered as a result of drought year services.

Source: Australian Harness Racing Council Inc, 2003. *Drought Issues Scoping Paper*, February, p.6.

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<sup>134</sup> Australian Harness Racing Council Inc, 2003. *Drought Issues Scoping Paper*, February. p.6.

Mr David Nash, equine nutritionist and author of the RIRDC book *Drought Feeding for Horses*, discussed in the RIRDC Equine Research News the effects of the 2002 drought on the industry:

*The Autumn break did not occur until late in the season resulting in a lot of regions not having had an autumn flush of pasture growth to provide for their stock through winter. Apart from small pockets of the country the drought is affecting every horse owner from the large breeder to the hobbyist with one horse. This affects nearly all horse owners because most can no longer rely on their own available pastures in supporting their horses' nutritional requirements.*<sup>135</sup>

The increasing frequency of drought and its damaging effects on the equine industry demonstrates both the inherent fragility of the industry and the need to plan for future climate change.<sup>136</sup> The Committee notes that while drought is an external influence beyond the control of the industry, there are steps that all industry participants can take to lessen the impact of the drought.

David Nash further noted that there are basic steps a horse owner can take to improve the amount and type of pasture available in the long-term:

*Take soil tests to find out what the soil requires, eradicate weeds, sow improved pasture species and fertilise as required. Improving pastures will supply a higher quality source of nutrition as well as quantity. Once the pastures have been established for a few seasons you will be able to conserve fodder at the end of spring by cutting excess pasture for hay. Then during times where there is little or no pasture available you can feed your "fodder bank", thus maximising your pasture. Slashing or mulching your pasture before it gets tall and rank will encourage growth and maximise quality.*<sup>137</sup>

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<sup>135</sup> Rural Industries Research and Development Corporation Equine News, Special Drought Issue, 02/05, p.2.

<sup>136</sup> Rural Industries Research and Development Corporation Equine News, Special Drought Issue, 02/05, p.2.

<sup>137</sup> Rural Industries Research and Development Corporation Equine News, Special Drought Issue, 02/05, p.2.

Mr Nash further noted that:

*There needs to be further investigation into drought-proofing and drought management of properties or at least being more resilient via breeding more drought tolerant pasture species and better land management practices, as drought will continue to provide hardships for farmers, stud managers and owners in the future.*<sup>138</sup>

The Committee encourages industry participants affected by drought, to develop best practice drought proofing techniques. To assist farmers, the Committee would like to see wide promotion of RIRDC-commissioned studies into drought-proofing and feed budgets, as well as other drought relief resources.

The Committee recognises that the effects of drought can be mitigated by appropriate planning and that government assistance is also required during times of harsh drought. In this regard, the Committee is concerned at the lack of recognition as primary production businesses, of certain equine properties.<sup>139</sup> The Committee has endeavoured to clarify the situation in relation to eligibility for drought relief assistance but is not satisfied with the responses it has received to date.

#### ***Recommendation 4.2***

***That the Victorian Government, in cooperation with Harness Racing Victoria and the Australian Harness Racing Council, commission further research into the creation of more drought resilient pasture.***

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<sup>138</sup> Rural Industries Research and Development Corporation Equine News, Special Drought Issue, 02/05, p.2.

<sup>139</sup> Australian Harness Racing Council Inc, 2003. *Drought Issues Scoping Paper*, June. p.5.



**Recommendation 4.3**

***That the Victorian Government initiate a conference of relevant state and federal agencies as well as industry bodies, to identify the impediments to thoroughbred and standardbred breeders accessing government support programs, particularly Exceptional Circumstances Drought Relief.***



## **EQUINE RESEARCH**

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### **5.1 Introduction**

Investment in equine research provides a wide range of benefits to the standardbred and thoroughbred racing, breeding and allied industries. These include improvements to the health, safety and welfare of horses, economic benefits and the enhancement of clinical and research capacities to better serve the industry. The aim of this chapter is to review the levels and types of research currently undertaken into both the racing and breeding industries in Victoria.

There have been achievements for the equine industry as a result of research and development investment in Victoria. There are also continuing challenges. Funding for equine research and development in Victoria is inadequate, based on international comparisons with other racing and breeding jurisdictions and research funding for other industries within Australia. The historic fragmentation of the racing and non-racing sectors of the equine industry poses a challenge to gathering the support that is essential to develop and fund a national research strategy. The Committee believes that successful industry research initiatives for diverse industries such as the equine industry, must have the engagement and commitment of participants from all levels of the industry.

### **5.2 Benefits of Investments in Research**

Basically, investment in equine industry research provides three broad categories of benefits:

- Health, safety and welfare of horses;
- Economic benefits; and
- Research and clinical skills development.

### **5.2.1 Health, Safety and Welfare of Horses**

Investments in research will result in, amongst other things:

- Introducing measures to assist the prevention, management and control of infectious and non-infectious diseases that affect horses in the racing and breeding industries.
- Reducing the incidence of injuries to horses in training and racing.<sup>140</sup>
- Improving fertility and successful outcomes of pregnancy for breeding horses.

### **5.2.2 Economic Benefits**

Economic and operational ends are additionally served by investment in research, including:

- Improving the efficiency of standardbred and thoroughbred breeding.
- Preventing losses to breeding, training and racing enterprises caused by disease outbreaks.
- The creation of valuable intellectual property.
- Attracting international investment to build Victoria's biotechnology capacities and capabilities.

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<sup>140</sup> Research carried out in recent years has identified a. new training and management strategies to decrease the incidence of shin-soreness; and b. new techniques for the early diagnosis of orthopaedic problems before they become career threatening.

### **5.2.3 Research and Clinical Skills Development**

Investments in veterinary research and training will also result in maintaining an active equine science base of talented researchers and clinicians to meet the needs of the horse industry.

Benefits can be gained for the Victorian racing and breeding industries from the results obtained from international research. However, it is not always possible to simply extrapolate results obtained between different jurisdictions and the Victorian racing and breeding industries face unique challenges and needs. As an example of the latter, the patterns and types of catastrophic injuries which occur with racing thoroughbreds in Victoria are different from those seen in other international racing jurisdictions.

In addition, there is a shortage of specialist equine veterinarians and veterinary professional development opportunities in Victoria, as identified by Racing Victoria Limited and highlighted in Chapter 5 of the *Report on the Thoroughbred Breeding Industry*.<sup>141</sup>

Full returns on investment in research are only achieved when the practical applications of the research are delivered to those involved in the day-to-day care of horses. The Committee believes that research centres function best when operating as 'learning organisations', engaging participants from all levels of industry including central bodies, constituent groups and individuals.

This broad engagement of the industry is critical to attract and maintain the ongoing support of the industry for research. It is also critical to have the providers of funds actively involved in both the setting of research goals and objectives and the distribution of funds. The Committee believes that failure to do so will disenfranchise the funding bodies which may not feel adequately in control of the funding or sufficiently informed about research outcomes.

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<sup>141</sup> Economic Development Committee, 2006, *Report on the Thoroughbred Breeding Industry*, Parliament of Victoria, Melbourne, February, p.105.

### **5.3 Racing and Breeding Research in Victoria**

The primary source of veterinary research funding within Victoria is Racing Victoria Limited. In 2004-05 \$353,000 of Racing Victoria Limited's total revenue of \$220 million was allocated to veterinary research.<sup>142</sup> These funds were nominally provided through the 'Racehorse Community Development Fund'. The Harness Racing Industry in Victoria does not have a specific veterinary research and development funding program.

#### **5.3.1 Centre for Equine Virology - Parkville**

Racing Victoria Limited funding has been directed to the University of Melbourne's Centre for Equine Virology and also more recently to a Strategic Alliance.

Racing Victoria Limited research funds are distributed by the Racing Victoria Equine Research Committee. Until approximately five years ago the Victorian racing industry's research funds were invested primarily in the University of Melbourne's Centre for Equine Virology. The Centre provides a diagnostic service for infectious diseases which are significant causes of economic loss to both the racing and breeding sectors of the equine industry. The Centre also successfully developed important intellectual property which led to a new diagnostic test and a vaccine to help prevent Equine Herpes Virus infections in mares and foals. The vaccine has been one of the most successful commercialisations of intellectual property ever carried out by the University of Melbourne.

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<sup>142</sup> Racing Victoria Limited 2005, *Annual Report*, p.90.

Royalty payments from Fort Dodge<sup>143</sup> for the vaccine and an associated diagnostic test, return revenue in excess of \$900,000 per annum to the University of Melbourne. Approximately one third of this revenue now provides core operating funds for the Centre for Equine Virology. However, the funding agreement between the University and the racing industry did not secure a commercially based interest for the industry in the intellectual property, and therefore none of the revenue generated from this venture is returned to the industry for investment in further research. It is essential that both the industry and research providers see research funding as an investment capable of generating an ongoing commercial return.

The Committee believes that future funding for equine research needs to include the condition that research funding be structured in such a way that provides for the retention of a portion of any commercial benefits that may arise.

#### ***Recommendation 5.1***

***That the Victorian Government work with the Victorian thoroughbred and standardbred industries to ensure that research funding be structured in such a way that provides for the industries' retention of a portion of any commercial benefits which may arise.***

#### ***5.3.2 Strategic Alliance – Equine Centre, Werribee***

In 2000, a five year strategic alliance was formed between the University of Melbourne and Racing Victoria Limited. Approximately \$300,000 per year of industry funding was provided through Racing Victoria Limited to co-fund a Chair of Equine Studies and provide operating support research, education, training and industry extension. Racing Victoria Limited also provided a one-

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<sup>143</sup> Fort Dodge is a division of Wyeth and a leading manufacturer of animal health care products.

off payment of \$300,000 towards the purchase of a new gamma camera for the University of Melbourne Equine Centre.<sup>144</sup>

The funding provided critical infrastructure support for the Faculty of Veterinary Science to enhance its research, clinical profile and output. Specific research projects were developed in consultation with the Racing Victoria Equine Research Committee with base funds provided by the industry. Complimentary funding and in-kind contributions from industry were accessed through bodies such as the Rural Industries Research and Development Corporation (RIRDC) and the Australian Research Council (ARC) Linkage program.

In total approximately \$1,800,000 of racing industry funds were invested by Racing Victoria Limited over the five year term of the strategic alliance. In simple cash terms these funds were leveraged on a two for one basis. The \$1,800,000 generated in excess of \$5,500,000, an average of \$1,100,000 per year. The impact and benefit of the strategic alliance for the Faculty of Veterinary Science is highlighted by the fact that the veterinary school's annual operating budget is approximately \$25,000,000.<sup>145</sup>

The Strategic Alliance was established with a mandate to revitalize equine clinical research and industry education and extension activities offered through the University of Melbourne Equine Centre. A communication and education plan was developed and approved in November 2002. This followed the launch of the Equine Centre website in May 2002 and the official opening of Stage One of the Equine Centre in September 2002. Clinical expertise was enhanced, facilities were improved and services and revenue of

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<sup>144</sup> The gamma camera is an advanced piece of imaging technology which utilises medical isotopes to perform very sensitive diagnostic testing. The gamma camera can be used to localize small changes in the bones of horses before these changes can be detected by x-rays. A gamma camera is approximately 50 times more sensitive than an x-ray at detecting changes in bone. The gamma camera can be used for the early detection of injuries and is also a powerful research technology tool.

<sup>145</sup> University of Melbourne, 2005. *Annual Budget*, p.85.



the Equine Centre grew. In addition, an extensive series of professional development seminars was established for veterinarians, farriers and other industry participants in Victoria. Strong research collaborations were established with national and international research facilities and providers together with a visiting fellow program to enhance the Equine Centre's research and clinical skills and productivity.

Research projects funded under the strategic alliance included:

- Diagnostic Imaging, which focused on the use of nuclear medicine.
- Epidemiology and risk factor analysis for racetrack fatalities.
- The aetiology of respiratory disease in racehorses in Victoria.
- Exercise-induced pulmonary hemorrhage and performance, prevalence of abnormalities of the upper airway, and risk factors for exertional rhabdomyolysis.
- Pathophysiological mechanisms of equine dyschondroplasia (osteochondrosis).
- Prospective study of pre-sale radiographs of yearling thoroughbreds.
- High speed video gait analysis.

These projects focused heavily on the two main challenges facing the standardbred and thoroughbred industries, namely respiratory disease and musculoskeletal breakdowns and injuries.

Under the Strategic Alliance, however, no projects addressed the critical issues regarding conception and the maintenance of pregnancy nor any studies addressing the fertility of stallions or technologies relating to the use of frozen or fresh transported semen. At present the research into frozen or fresh transported semen relates to the standardbred breeding industry as distinct from the thoroughbred breeding industry. The lack of equine reproduction expertise at the University of Melbourne, together with funding constraints,

precluded the development of a reproduction focused project within the Racing Victoria Limited/University of Melbourne Strategic Alliance.

The lack of research for equine reproduction is an issue Australia wide. Dr Angus McKinnon of the Goulburn Valley Equine Hospital identified this shortfall in the *Report on the Thoroughbred Breeding Industry*.<sup>146</sup>

An independent review of the RIRDC Horses Program carried out in 2003 showed that 5.5 per cent of the budget was dedicated to reproduction, see Table 5.1 for a breakdown of research projects between 1995 and 2003.<sup>147</sup>

That relatively little research funding is directed to equine reproduction strikes the Committee as anomalous. Horse reproduction under the formal rules of both codes offers a limited window of opportunity each year. Furthermore, broodmares have a limited reproductive capacity, stallion fertility rates generally do not exceed 90 per cent, and live birth rates are reported at around 70 per cent. It is the Committee's view that the achievement of more efficient reproductive rates would reap a very substantial economic benefit to the breeding industry, particularly the thoroughbred industry. The Committee does not believe the thoroughbred breeding industry needs to adopt AI techniques to achieve the desired improvements to reproductive rates, but equally maintains that improvements will be far more readily attained as a result of increased research investment.

However, it should also be noted that to date there has been little success in attracting significant financial support from Australian breeders for reproduction research.

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<sup>146</sup> Economic Development Committee, 2006, *Report on the Viability of the Thoroughbred Breeding Industry*, Parliament of Victoria, Melbourne, February, p.106.

<sup>147</sup> Professor Leo Jeffcott, 2003. *Review of the Rural Industries Research and Development Corporation (RIRDC) Horse Research and Development Programme*, p.8.

**Table 5.1: RIRDC Research Projects Horse Research and Development Programme 1995-2003**

Category	No	Value (A\$)	%
Respiratory disease:			
a) Infectious disease			
i) Viral infection	11	759,319	22.7
ii) Bacterial infection	7	331,749	9.9
iii) Non-specific infections	6	63,292	1.9
b) Non-infectious airway disease	2	240,439	7.2
Nutrition/pasture management	11	587,144	17.6
Lameness:			
a) Laminitis	4	319,270	9.6
b) Other orthopaedic diseases	1	55,200	1.7
Exercise Physiology	5	302,071	9.0
Wastage	2	180,281	5.4
Reproduction:			
a) Mares	2	58,950	1.8
b) Other reproductive projects	2	116,840	3.5
Welfare topic	1	60,000	1.8
Parasitology	1	44,000	1.3
Foals & Developmental Orthopaedic Disease	3	37,000	1.1
Transportation	1	15,000	0.4
Internal/medicine/therapeutics	3	24,524	0.7
Other projects	6	145,838	4.4
Total	68	3,340,917	100%

Source: Professor Leo Jeffcott, 2003. *Review of the Rural Industries Research and Development Corporation (RIRDC) Horse Research and Development Programme*, p. 8. Breakdown of 68 RIRDC research projects into the numbers and funding allocated according to broad categories between 1995 and 2003.

### 5.3.3 International Collaboration and Visiting Fellows

The following Visiting Fellows participated at the Equine Centre over the past five years:

- Gregory Daniel, Professor of Veterinary Radiology, University of Tennessee College of Veterinary Medicine
- Professor Ken Hinchcliff, The Ohio State University, Columbus, USA
- Dr John Walmsley, Liphook Equine Hospital, Liphook, UK
- Associate Professor John Mattoon, Ohio State University, Columbus, USA
- Professor Kenton Morgan, University of Liverpool, UK
- Dr Tim Parkin, The Animal Health Trust, Newmarket, UK
- Dr Nola Lester, Murdoch University, Perth, Western Australia

- Dr Colin Dunlop, University of Sydney, New South Wales

Specific benefits arising from the presence of the Visiting Fellows have included the provision of seminars and workshops to Veterinary Clinic & Hospital staff and practising veterinarians, enhanced 'clinical rigour', an increased income stream to the Veterinary Clinic and Hospital, improved operating procedures and policies, increased international recognition with symposiums of international standing, together with significantly enhanced research capabilities and publications.

Visiting Fellow, Dr John Walmsley, provided critical input to the strategic and business planning process for the Equine Centre. During his four month visit, Dr Walmsley provided an operational review of clinical practices at the Centre. The review highlighted areas requiring additional attention to achieve American Veterinary Medical Association accreditation and to meet international best practice standards.<sup>148</sup> The Committee believes that achieving this international benchmark of veterinary accreditation is a very high priority in order to maintain and enhance Victoria's international standing as a world class racing destination.

Key areas highlighted in Dr Walmsley's review of the Equine Centre that would benefit from additional external funding included:

- The need for additional senior clinicians, especially in relation to equine medicine;
- Interns/Residents – structuring the positions as a rotating internship. Seek funding for a resident program;

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<sup>148</sup> John Walmsley was a visiting Fellow of Equine Surgery at the University of Melbourne Equine Centre and is President of the European Chapter of Veterinary Surgery as well as being a member of the Veterinary Advisory Committee (VAC) to the Horse Race Betting Levy Board (HBLB) in England. He is involved with funding veterinary research and postgraduate training in British Universities. John was brought to the Equine Centre Werribee with funds generated from the Victorian Racing Industry. His primary task was to help raise the standards of the University Equine Centre at Werribee and assist with achieving American Veterinary Medical Association accreditation.

- Technical Staff – qualified staff are required including a senior nurse position; and
- Radiology and anaesthetic procedures and practices to be enhanced.<sup>149</sup>

#### **5.3.4 Funding Redistribution**

In 2005 Racing Victoria Limited decided not to renew its strategic alliance with the University of Melbourne and to redirect its annual research allocation of \$350,000.<sup>150</sup> The major portion of the funding, \$200,000 per year, will now be provided to the RIRDC program. Funding to the University of Melbourne will be cut to \$80,000 per year. This has been allocated to the University of Melbourne Equine Centre to support half of two residency positions. The balance of remaining funds will be allocated to research into the detection of drugs.<sup>151</sup>

The most immediate impact of the decision has been on the Equine Centre's communication program. The number of professional development opportunities including seminars and workshops for Victoria's farriers, veterinarians and industry participants has decreased sharply and close inspection of the Centre's Website, which received industry recognition in May 2006, shows that it has not been updated since December 2005.

The Committee was advised by Dr John Walmsley:

*Universities throughout the world depend on funding from outside sources; it is because of a lack of such funding in Victoria that the opportunity for equine research and postgraduate training is limited. This has a detrimental effect not only on the international status of*

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<sup>149</sup> Dr John Walmsley, 2006, *Review of University of Melbourne Equine Centre*.

<sup>150</sup> Director of Veterinary Services, 2006. *Proposed Equine Racing Research Centre, Racing Victoria Limited*. May 12, p.2.

<sup>151</sup> Director of Veterinary Services, 2006. *Proposed Equine Racing Research Centre, Racing Victoria Limited*. May 12, p.2.

*the Veterinary School and its ability to attract high quality personnel, but also on the welfare of racehorses in Victoria ...*

*I can see that more external research and postgraduate funding would make a substantial difference to the standards and status of the faculty and its contribution to the welfare of the horse and the racing industry in Victoria.<sup>152</sup>*

The Committee believes that the reallocation of the funds will compound rather than address the fundamental shortcomings of equine clinical service, veterinary education and research in Victoria as identified by Dr Walmsley. In particular, the reallocation of funds fails to address a lack of research capacity and capability for the breeding industry within Victoria. The funding to RIRDC, a national research/funding body which is primarily based in New South Wales and the ACT, will increase the risk of distancing and disengaging Victorian stakeholders from the funding process.

#### **5.4 Rural Industries Research and Development Corporation (RIRDC) Horses Research Program**

The RIRDC Horses Research Program was established in 1995 when RIRDC appointed an Equine Research and Development (R&D) Advisory Committee to oversee a national equine industry research and development program.<sup>153</sup>

RIRDC programs receive matching federal funds in relation to money raised from industry for Research and Development (R&D). Funds are allocated on a competitive basis from applications received from research providers. Industry funds provided to RIRDC cannot be tied to specific projects. The dollar for dollar leverage is based only on cash received. In-kind contributions from industry cannot be used to leverage extra federal funding to support research.

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<sup>152</sup> Dr John Walmsley, 2006. The Liphook Equine Hospital, email received 11 July.

<sup>153</sup> Rural Industries Research and Development Corporation – Horses Research Project at [www.rirdc.gov.au/programs/hor/html](http://www.rirdc.gov.au/programs/hor/html)

### 5.4.1 RIRDC Funding

The establishment of the RIRDC Horses Research Program in 1995 resulted from an agreement by the then Australian Conference of Principal Racing Clubs (now the Australian Racing Board) to provide foundation funding support.<sup>154</sup> This financial support is provided through a \$20 fee charged when thoroughbred racehorses are registered to race in Australia. Approximately \$300,000 per year is generated through these registration fees.<sup>155</sup>

The Australian Racing Board has remained the single major industry sponsor of the RIRDC Horses Research Program since 1995. The Australian Harness Racing Board contributed approximately \$20,000 until 2003, after which this funding ceased. The explanation recorded was:

*This decision was made as they wanted more specific research in the harness racing area and this had not been happening in the RIRDC program. They only have limited funds to put towards research and development.*<sup>156</sup>

Approximately \$60,000 of revenue is generated per year by the RIRDC from the sale of publications and from contributions from non-racing sectors of the Australian equine industry. Attempts at gaining broad support for an R&D levy from the equine industry have been unsuccessful. Considerable effort was put into the development of a 'horseshoe' levy and there was wide support (approximately 80% for and 20% against). However, this levy failed to gain the necessary industry support to be successfully implemented.<sup>157</sup>

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<sup>154</sup> Rural Industries Research and Development Corporation – Horses Research Project, at [www.rirdc.gov.au/programs/hor/html](http://www.rirdc.gov.au/programs/hor/html)

<sup>155</sup> Rural Industries Research and Development Corporation – RIRDC Annual Operational Plan 2005-2006 at <http://www.rirdc.gov.au/aop05-06/aop1.html>

<sup>156</sup> Rural Industries Research and Development Corporation – 2003 RIRDC Stakeholder and Client Survey, Appendix 6, p.5 at <http://www.rirdc.gov.au/2003survey/2003survey3.html>

<sup>157</sup> Rural Industries Research and Development Corporation – R & D Plan for the Equine Industry Program 2002-2006, p.6 at <http://www.rirdc.gov.au/pub/equiRD1.html>

The major challenge facing the RIRDC Horses Research Program is that its mission is to serve the equine industry across Australia with a budget of only \$700,000. The stated objective of the RIRDC Horses Research Program is:

*Assisting developing the Australian horse industry and enhancing its export potential.*<sup>158</sup>

#### **5.4.2 Industry Comparisons and Industry Partnerships**

The horse industry is one of Australia's biggest industries and is worth more than \$8 billion a year. There are about 1.2 million horses used for racing, equestrian sports and recreation, and there are large racing and non-racing sectors of the breeding industry in Australia.<sup>159</sup>

A stark comparison can be made with research funding secured by the rice industry in Australia. This is a \$500 million industry (one sixteenth of the equine industry) in Australia. A successful R&D levy is in place and the RIRDC Rice program has a total annual budget of approximately \$2 million dollars. There is also a Rice Industry Co-operative Research Centre which has an annual budget of over \$2.5 million, of which the RIRDC Rice program is also a partner. The total \$4.5 million rice industry research budget (provided through RIRDC and the Rice Industry Co-operative Research Centre) is 6.5 times greater than the RIRDC Horse Industry budget for an industry 1/16th of the size.<sup>160</sup>

However, the Committee notes that these funds are raised by way of an industry levy, a funding measure that the thoroughbred, standardbred and non-racing sectors of the equine industries appear reluctant to embrace. It is difficult to implement a funding levy without unified industry support. This is exemplified by the failure of the implementation of a horseshoe levy to fund

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<sup>158</sup> Rural Industries Research and Development Corporation – Horses Research Project, at [www.rirdc.gov.au/programs/hor.html](http://www.rirdc.gov.au/programs/hor.html)

<sup>159</sup> [www.rirdc.gov.au/programs/hor.html](http://www.rirdc.gov.au/programs/hor.html)

<sup>160</sup> [www.rirdc.gov.au/programs/rice.html](http://www.rirdc.gov.au/programs/rice.html)



the RIRDC Horses Program. Resistance by a small number of interest groups prevented the implementation of this levy which had broad but not unified industry backing.

The RIRDC Horses Research Program has been productive with its limited budget and it has funded projects of direct relevance for the Australian and Victorian racing industries. In recent years this has included projects on inflammatory airway disease in racehorses in training, mortality studies at racecourses, exercise induced pulmonary haemorrhage, shin soreness in young thoroughbreds, a database study on racetrack design, exercise and training studies using state of the art equipment and new tests to detect exogenous bicarbonate administration, administered for performance enhancement.

An independent review of the RIRDC program carried out in 2003 acknowledged the strengths and achievements of the program. Recommendations were made to strengthen the program and bring it in line with international best practice. Key to these recommendations was the need to strengthen the scientific review and granting process and provide career path development opportunities for young researchers.<sup>161</sup>

Now that RVL's strategic alliance with the University of Melbourne is completed, and RVL have allocated \$200,000 annually to RIRDC (to be matched dollar for dollar by the Federal Government) the annual RIRDC Horses Program R&D budget will increase to approximately \$1,100,000 per year. This will provide additional competitive funds for equine researchers across Australia. It is also to be hoped that racing jurisdictions across Australia will contribute to the RIRDC program funding, matching the effort of Racing Victoria Limited. The challenge in Victoria will be to maintain the momentum and to build on the achievements made over the last five years.

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<sup>161</sup> Professor Leo Jeffcott, 2003. *Review of the Rural Industries Research and Development Corporation (RIRDC) Horses Research and Development Programme*, p.9.

## **5.5 Australian Horse Industry Cooperative Research Centre Bid**

A bid for an Australian Horses Industry Co-operative Research Centre (CRC) in 2004 laid the foundations on which future state and national strategies can be built. The University of Melbourne was the lead organisation in developing the 2004 Australian Horse Industry CRC proposal. The partners who committed to the CRC were:

- Australian Equine Veterinary Association
- Australian Forensic Laboratories
- Australian Horse Industry Council
- Australian Racing Board
- Bioniche Pty, Limited
- Fort Dodge Australia Pty. Limited
- Hunter Valley Equine Research Centre
- Master Farriers Association
- Murdoch University
- Racing Analytical Services Laboratories Victoria
- Racing Chemistry Laboratory, Western Australia
- Racing Victoria Limited
- RIRDC
- The Australian Harness Racing Council
- The University of Sydney (Faculty of Veterinary Science)
- University of New England (Department of Physiology)
- University of Queensland (School of Veterinary Science and Australian Equine Genetics Research)

The key aims of the CRC were to:

- Undertake high quality research to meet the needs of the equine industry in Australia;
- Disseminate educational tools and safety techniques in the care, handling and enjoyment of horses;
- Provide leadership through the design of new systems to support the breeding, training, welfare and protection of horses, whether for pleasure, competition or as a professional or business activity;

- To create a unified industry that will benefit through a network of support and work cooperatively to achieve an increase in the output of the industry;
- Create strong linkages with all the key state racing and equine bodies to ensure national representation to create a level of critical mass never before seen in the industry;
- Develop annual conferences and forums to improve communication and cooperation among all sectors of the horse industry;
- Develop worlds best practice and education for the trainers, strappers and club owners;
- Become one of the nation's key bodies representing the industry to international groups governing the various disciplines of equine sport, and
- Through the successful commercialization of research outcomes reinvest funds to support these aims and objectives; and
- Provide a corporate structure that would maximize the tax flow-through and return on investment for all stakeholders participating as shareholders and/or investors in the project.<sup>162</sup>

The bid reached the final round of competition but was unsuccessful in the 2004 funding cycle.

Factors that impacted negatively on the bid included:

- An historical low level of industry research funding and commercialisation relative to other industries;
- Time allocations of researchers from some research providers that were too low to have a positive impact on programs, some program leaders offered only 20 per cent of their time;

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<sup>162</sup> Professor Andrew Clarke, 2004. *CRC for the Australian Horse Industry-Application 20040069*.

- The need to more strongly articulate how research outcomes would be commercialised;
- The need to demonstrate the market opportunities available for research outcomes; and
- Concern regarding the difficulty of managing the CRC and its partners given its size.

Key industry partners including two multinational biotechnology companies in the initial bid, indicated that they were keen to progress to the next CRC round.

### **5.5.1 RVL Feasibility Study**

Following on from the CRC bid, Racing Victoria Limited commissioned a feasibility study to evaluate the viability of establishing a private Equine Racing Research Centre (ERRC) to focus on the racing industry.<sup>163</sup>

The intent of having the ERRC was primarily to recognise that the racing industry needs a research and commercialisation peak body to coordinate research and development activity and also, to have an entity with the ability to attract government funding with maximum leverage for industry investment. Potential sources of these funds included Federal and State programs such as CRC funding, RIRDC, Australian Research Council Linkage and Science Technology and Innovation Grants.

The feasibility study identified overhead costs of the proposed ERRC to be in the region of \$300,000 per year. This proposed structure together with a lack of funds available for leveraging, meant that the ERRC would potentially have significant overhead costs with minimal funds to direct into research. Racing Victoria Limited examined two options; the first being to allocate research

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<sup>163</sup> *Feasibility Study for the Establishment of an Equine Racing Research Centre, 2006.*

funds internally within the organisation to build their capabilities and capacity and the second to form a strategic alliance with RIRDC. The decision was made to progress with the latter with the aim of Racing Victoria Limited possibly progressing with a CRC bid in the future as the lead organisation.

The option of continuing the productive strategic alliance with the University of Melbourne was not considered with the feasibility study. This is surprising given that research is not a major core business activity of Racing Victoria Limited and over \$1,100,000 of research, education and training activity was generated in Victoria as a direct benefit of the industry's investment at the University.

Notwithstanding the additional funding provided by Racing Victoria Limited to RIRDC, the Horse Industry Program will remain grossly under-funded in terms of meeting the research needs of the equine industry across the nation. Put most simply, without additional funding from racing jurisdictions across Australia the limited budget available to RIRDC will have to be spread too thinly to effectively engage the racing and breeding industries and meet their requirements on a state-by-state basis.

## **5.6 International Comparisons**

The aim of this section to focus on and compare alternative funding models that could increase research funding for the Victorian racing and breeding industries.

### **5.6.1 *United Kingdom***

With £3 million available per annum, the British racing and breeding industries lead the world in veterinary funding for the thoroughbred. In the UK the government authorises that 2.5 per cent (£2,462,000) of a national betting levy should be devoted to veterinary research and post graduate training; this money is awarded to projects by the Horserace Betting Levy Board (HBLB) on

the advice of the Veterinary Advisory Committee following a peer review process.<sup>164</sup>

Additional industry support is also forthcoming in the United Kingdom from owners (£275,000), breeders (£227,500) and Cheltenham Racecourse (£6,000). To the end of 2005, 100 per cent of funds raised each year from owners and breeders were distributed exclusively to the Animal Health Trust (AHT) and the Equine Fertility Unit (EFU).<sup>165</sup>

Funds raised from the levy are distributed to a wide range of recipients, including the AHT and EFU, university veterinary schools, other university departments, public and private research institutions and veterinary practices.

There is broad support for equine research from across the British racing and breeding industries. The 2006 British Racing and Breeding Review of Veterinary Funding advised:

*The relevance and value of veterinary funding to the industries is demonstrated, inter alia, by the fact that the annual Thoroughbred Racing and Breeding Seminar at Cheltenham racecourse, at which outcomes of the investment are presented, attracts over 400 delegates a year and has become the single biggest conference in the industries' calendar.*<sup>166</sup>

Converting to Australian dollars the funds provided in the UK exceed \$6 million and in Victoria the equivalent amount provided for veterinary research is \$350,000. The total amount levied from betting in the UK is \$250 million and Racing Victoria Limited allocates \$350,000 from its annual general revenue of approximately \$210 million.

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<sup>164</sup> Horserace Betting Levy Board, 2006, *British Racing and Breeding Industries, Review of Veterinary Funding*, March, p.5.

<sup>165</sup> Horserace Betting Levy Board, 2006, *British Racing and Breeding Industries, Review of Veterinary Funding*, March, p.13.

<sup>166</sup> Horserace Betting Levy Board, 2006, *British Racing and Breeding Industries, Review of Veterinary Funding*, March, p.3.

According to the British Racing and Breeding Industries Review of Veterinary Funding, Horserace Betting Levy Board, March 2006:<sup>167</sup>

*In the UK the racing 'industries' veterinary funding is applied mainly to (in decreasing order of expenditure):*

- *Basic and applied scientific research projects addressing a wide range of thoroughbred health, safety and welfare issues.*
- *Diagnosis, surveillance, management and control of infectious diseases.*
- *Specialist research and clinical training of equine veterinarians.*
- *Core funding for scientific institutes (principally the Equine Fertility Unit).*
- *Sponsorship of the annual thoroughbred racing and breeding seminar.*
- *Codes of Practice on disease prevention and control. For breeders, the Codes of Practice on equine venereal diseases are a crucial part of disease prevention and control in the breeding season.*
- *Travel grants.*
- *Support for scientific equipment and facilities.*

**The Home of Rest for Horses** is another major provider of funding for equine research, education and training in the United Kingdom with an annual budget of over £1,000,000. This is an independent charity which provides funding for research primarily from income received from bequests and donations. It has a strong scientific advisory committee and rigorous peer review process built into its funding method.<sup>168</sup> The establishment of a similar charity in Victoria is another potential method for attracting funds for research, education and training.

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<sup>167</sup> Horserace Betting Levy Board, 2006, *British Racing and Breeding Industries, Review of Veterinary Funding*, March, p.8.

<sup>168</sup> <http://www.homeofrestforhorses.co.uk>

### **5.6.2 Ontario, Canada**

The racing and breeding industries in Ontario Canada fund research for both the standardbred and thoroughbred industries through the Horse Improvement Program (HIP). This funding approach is based on the notion that investment in research produces benefits for the industry. HIP is a racing and breeding incentive program that was established in 1968 by the Ontario Government in response to industry requests for assistance. The Horse Improvement Program is managed and administered by the Ontario Racing Commission.<sup>169</sup>

The purpose of the program is to:

- Fund equine research
- Improve the quality and quantity of racing stock in Ontario
- Supplement prizemoney
- Promote the Ontario-bred horse
- Promote horse breeding and ownership in the province

The program continues to stimulate employment in the racing industry, assisting Ontario farms in remaining economically stable and encouraging ownership in Ontario-sired horses.

In 2004 HIP had a budget of \$CA52.6 million.

Significantly, HIP is funded through a wagering levy which amounts to two per cent of total wagering.

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<sup>169</sup> Racing Industry – Horse Improvement Program at [http://www.ontarioracingcommission.ca/industry\\_programs](http://www.ontarioracingcommission.ca/industry_programs)



In 1974 the Ontario Racing Commission expanded the HIP to include a Sires Stakes Scheme. The Scheme receives approximately 8 per cent of the horse industry's share of slot revenue. The Thoroughbred HIP also receives the same percentage allocation from slot revenue.

The funds collected are allocated to standardbreds and thoroughbreds according to the following formula:

### **Standardbred HIP Program**

1. Equine Research: One per cent of the total wagering levy
2. Program Administration  
Of the remaining funds
3. Overnight Purse Supplements (59 per cent)
4. Ontario Sires Stakes Program and Trillium races (41 per cent).<sup>170</sup>

### **Thoroughbred HIP Program**

1. Equine Research: One per cent of the total wagering levy
2. Program Administration  
Of the remaining funds
3. Overnight Purse Supplements (70 per cent)
4. Breeders' Awards, Ontario Sires Stakes and Supplemental Stakes Program (30 per cent).<sup>171</sup>

There is a cooperative funding process in Ontario which involves the HIP, E.P.Taylor Equine Research Fund (an independent charitable organisation established to fund equine research) and the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) which provides infrastructure and operating funds to the University of Guelph to fund research on behalf of the province's agricultural commodity groups including the equine industry.

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<sup>170</sup> Racing Industry – Horse Improvement Program at [http://www.ontarioracingcommission.ca/industry\\_programs](http://www.ontarioracingcommission.ca/industry_programs)

<sup>171</sup> Racing Industry – Horse Improvement Program at [http://www.ontarioracingcommission.ca/industry\\_programs](http://www.ontarioracingcommission.ca/industry_programs)

### **5.6.3 Equineresearch.net**

Internationally increased levels of collaboration and cooperation are being developed between funding bodies and researchers. One example of this cooperative approach is seen with [Equineresearch.net](http://Equineresearch.net), a Web site detailing current equine research funded by four North American organisations which fund equine research. This website is available as a resource to the public and scientific community. It is a cooperative effort of Grayson-Jockey Club Research Foundation, the American Quarter Horse Foundation, the Morris Animal Foundation, and the American Association of Equine Practitioners.

The American Association of Equine Practitioners Foundation also recently convened a summit of representatives from the research community, research funders, government and other stakeholders in equine research in Lexington, Kentucky. Topics covered at this meeting held in April 2006 included attracting more researchers to the profession, procuring more funding and promoting more collaboration among researchers and institutions. The meeting also identified the need to better engage the equine industry in the funding of equine research. An executive summary of the outcomes of the meeting is available at [www.aaep.org/f\\_equine\\_research.htm#whitepapers](http://www.aaep.org/f_equine_research.htm#whitepapers).

## **5.7 Conclusions and Options**

The funding available for equine research, education and training is inadequate in Victoria and across Australia when compared to arrangements in other jurisdictions as well as other industries. In light of Victoria's consistently strong contributions to equine research, the Committee believes that more needs to be done on a national basis.

The Victorian racing and breeding industries and appropriate government agencies and departments should investigate ways of increasing funds for equine research so that the equine and allied industries can achieve the full benefits of this research. These benefits include improved health and welfare of horses, increased economic returns and better trained clinicians and scientists to meet the future needs of the industry.

The Committee believes that Victoria's thoroughbred and standardbred peak bodies should take a lead role in advocating further equine research investment, as the state is well placed to facilitate this investment. The Committee recognises that the responsibility for adequate research provision lies not just in Victoria but is shared by industry bodies and governments across Australia.

In view of the size of the Australian breeding and racing industry, the Committee believes it would be advantageous to set a research funding objective. To this end the Committee believes an Australia-wide target of \$5 million is not unreasonable, and would ultimately deliver significant benefits to the industry.

### ***Recommendation 5.2***

***That the Victorian Government, in association with relevant industry bodies, initiate discussions with other states and the Commonwealth to identify the means by which a national research funding budget of \$5 million per annum can be realised.***

The Committee does not believe that a recommendation on precisely how this research funding objective can be achieved is warranted at this stage. However, the Committee believes that a number of potential sources of funding need to be considered, including:

- Recurrent State and Commonwealth Government funding commitments. The difficulty with this approach is that research would not necessarily rate consistently as the racing industry's highest priority, and it would almost certainly be difficult to co-ordinate and sustain.
- Prizemoney levy. This approach has the advantage of spreading the burden across owners in the two codes, and even a very

modest 0.1 per cent levy would raise substantial funds. The Committee estimates that this would generate approximately \$300,000 across Australia. The Committee acknowledges, however, that even a 0.1 per cent levy would be strongly resisted by owners

- Creating a dedicated revenue stream out of wagering turnover, either out of the existing returns to racing industry or the amounts retained by government in taxation. The current review of the Victorian wagering licence offers some prospect of creating this revenue stream in the future, much in the style of the UK model where 2.5 per cent of the 'betting tax' is directed into research.
- Unclaimed dividends from wagering. At present these funds are transferred to consolidated revenue.

## TAX AND REGULATION

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### 6.1 The Australian Tax System

As mentioned in the Committee's earlier report, the tax treatment of thoroughbreds and standardbreds in Australia, whether for racing or breeding, is contained in a series of tax rulings issued over a number of years. The most important of these are Tax Rulings (TR) 93/26 and 97/11 and Miscellaneous Taxation Ruling (MT) 2004/D3.

From its earlier investigation the Committee appreciated that a key feature of the taxation regime is the business versus hobby test. The consequence of breeders being able to satisfy this test is the allowance of deductible expenses for the purpose of calculating income tax liability.

During the course of this inquiry, the Committee became aware of the significance of taxation to the horse breeding and racing industries. This chapter examines these claims in detail, and incorporates advice received from the Australian Taxation Office (ATO) as well as the New Zealand Department of Inland Revenue (NZDIR) and the Australian Securities and Investments Commission (ASIC).

Criticisms of the current Australian taxation regime include the business/hobby test, disparity with New Zealand, and the Capital Gains Tax (CGT).

#### 6.1.1 Taxation Rulings

Horse breeding is specifically covered by the Australian Taxation Office's 1993 Taxation Ruling 93/26. The essence of this Ruling is that in order to be classified as a business, the breeder would need to satisfy a number of criteria. These include:

- preparatory expenditure on the activity;
- the intention of the taxpayer;
- the existence of a profit making purpose;
- the scale of operation of the activity;
- the degree to which there is repetition of activity;
- the manner in which the activities are organised;
- the nature of the activities; and
- the capital contribution to the activity.<sup>172</sup>

To appreciate the way in which the taxation regime shapes investment in the thoroughbred and standardbred breeding industries, it is necessary to identify the way in which various tax rulings operate.

In response to the Committee's questioning of the matrix of tax rulings, Mr Mark Konza, Deputy Commissioner of the ATO, advised that:

*I do not think there is a hierarchy. What you have seen is a series of tax rulings that address different aspects of the tax system. The advent of the new tax system in 2000 spawned the need for some new rulings on things like business numbers ... there are also some further rulings that have come out in regard to the goods and services tax ... There is no hierarchy to those rulings, they should be largely consistent with each other, except that they tend to deal with different aspects.*<sup>173</sup>

Deputy Commissioner Konza went on to explain to the Committee that public rulings issued by the ATO bind the Commissioner in respect of any transactions that a taxpayer enters into in all the years leading up to the point the Commissioner withdraws that ruling. However, he also advised that public rulings only bind the Commissioner, and not the taxpayer.

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<sup>172</sup> Martin O'Connor, Martin O'Connor and Partners, 2005. *Tax Aspects of the Australian Horse Industry*. Paper presented to the Committee, 20 June, p.4.

<sup>173</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.4.

Mr Konza further explained to the Committee that:

*If the Commissioner makes a public ruling the Commissioner is not able to raise tax in excess of the amount that would have been raised had he applied the public ruling, so he is essentially bound to that public ruling. Taxpayers are not, though; taxpayers can self-assess, they self-assess in our system, and they can self-assess as they understand the law. That is the legal position.*<sup>174</sup>

In his evidence to the Committee Mr Konza went on to explain that taxpayers were free to challenge the ATO, and that where court challenges succeeded, the ATO had changed its rulings. However, the Committee believes few if any thoroughbred or standardbred breeders would pursue this right, and this was essentially recognised by Mr Konza:

*Of course, I am not going to pretend for a moment that people do not see the rulings as being effectively binding on them, because not many people want to take on the Commissioner of Taxation if he or she has a view.*<sup>175</sup>

The Committee sought to achieve a more thorough understanding of the importance the ATO ascribes to various characteristics of thoroughbred and standardbred breeding in order to determine whether a taxpayer's activity constitutes a business. However, the ATO has traditionally been reluctant to offer firm advice on specific circumstances. According to Mr Konza, the ATO relies heavily on the interpretation of taxation legislation by courts. Mr Konza illustrated this point by way of a general observation that:

*It is not only to do with this question, there are a number of common-law definitions that are incorporated into the tax act and indeed in state acts as well. 'Employees' is often a common-law definition and 'business' is another common-law definition*

*In those common-law definitions the courts generally list 10 to 12 factors that should be taken into account, and they are generally very careful to prohibit the Commissioner of Taxation from trying to ascribe any hierarchy to those things or any thresholds to those*

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<sup>174</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.4.

<sup>175</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.4.

*things. The court says that these are things that must all be weighed up in totality.*<sup>176</sup>

The Committee inquired of Mr Konza as to the views of the Tax Commissioner in relation to matters identified by Mr Martin O'Connor in evidence before the Committee.<sup>177</sup> The Committee notes that a 1987 ATO letter conveyed a Commissioner of Taxation view that stakes winnings would not be subjected to the Capital Gains Tax. Mr Konza advised that:

*A letter will bind the Commissioner, at least administratively, which means that, although there is no law there, the Commissioner will hold himself bound to it in respect of the person to whom the letter is sent, but it does not bind the Commissioner at large. Public Rulings which go through a formal process and are gazetted, bind the Commissioner at large.*<sup>178</sup>

### **6.1.2 Class Rulings**

At the same time the ATO does offer taxpayers the right to apply for a class ruling. According to Mr Konza:

*At another level, if you have a particular group of people who are affected, and they are a certain group of people, you can apply for what is called a class ruling.*

*Say you have a syndicate and you are unhappy with what you understand to be the tax law; you can ask for a class ruling, and you will get a ruling from us which is binding on the Commissioner in respect of all those people.*<sup>179</sup>

Notwithstanding the considerable evidence given to the Committee by Mr Konza, the Committee remains of the view that potential investors in the thoroughbred and standardbred breeding industries would find the existing taxation rulings confusing. The matrix of tax rulings, court decisions and

<sup>176</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.4.

<sup>177</sup> Martin O'Connor, Martin O'Connor and Partners, 2005. *Tax Aspects of the Australian Horse Industry*. Paper presented to the Committee, June 20.

<sup>178</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.5.

<sup>179</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.6.



guidance material – while helpful – falls short of offering potential investors a definitive guide as to how the ATO will treat their activity.

### **6.1.3 Rulings on Anticipated Transactions – Questions of Fact**

The Committee questioned Mr Konza about the uncertainty produced by the mass of information available to industry participants, and was pleased to learn of a recent ATO innovation that has the potential to greatly clarify the relationship between taxpayers and the ATO. According to Mr Konza:

*You have always been able to get a ruling on anticipated transactions. However, in the past you have not been able to get rulings on questions of fact. You have only been able to get the law clarified. That has caused some problems because people say, 'Am I in business?' and the Commissioner's response tends to be 'I don't know – are you? You know what you're doing'. People's natural retort is 'I just know what I'm doing; I do not know whether you accept that I am a business'.*

*The rulings laws have been recently changed from the beginning of this year so that people can get rulings from the Commissioner of Taxation on questions of fact. In the past, if you wrote and said 'Am I in business?' we probably would have said 'We do not rule on those questions of fact'. You can now ask for rulings on that, which is a step forward.<sup>180</sup>*

Access to this new ATO service, in the view of the Committee, would be of great value, and would go a long way to clarifying the taxation regime ahead of major investment decisions by breeders. The Committee recognises the value of this initiative by the ATO and hopes that it can be advertised broadly through the breeding industry.

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<sup>180</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.6.

**Recommendation 6.1**

***That the Victorian Government work with the Victorian racing and breeding industries to promote the availability of the Australian Taxation Office's ruling on anticipated transactions, on questions of fact, to industry participants.***

While Mr Konza estimated to the Committee that there were only about 20 to 30 tax rulings made each year, he indicated that the breeding industry was able to approach the Commissioner seeking clarification of the existing law. Mr Konza's further comments concerning the role of industry partnerships in liaising with the ATO on taxation issues were particularly valuable:

*Do we have a racing turf industry partnership? I do not know.*<sup>181</sup>

Assistant Commissioner of Taxation, Mr S. Howlin advised the Committee that:

*There was one in the early days of the GST.*<sup>182</sup>

However, the Committee believes there has been no effective dialogue between the thoroughbred and standardbred breeding industries and the ATO via such a partnership since the introduction of the GST. The advantages of an industry partnership are self-explanatory. According to Mr Konza:

*We have a series of what we call industry partnerships where we try and meet with industry representatives regularly.*<sup>183</sup>

The Committee is strongly of the view that the Victorian thoroughbred and standardbred breeding industries would greatly benefit from the establishment of an industry partnership. While any partnership would have to be nationally

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<sup>181</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.5.

<sup>182</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.5.

<sup>183</sup> M. Konza, Australian Taxation Office, 2006. Minutes of Evidence, 13 April, p.5.

based, the Committee believes that the sooner it can be established, the quicker the benefits of the clarity in taxation rulings will flow to industry participants.

### **Recommendation 6.2**

***That the Victorian Government assist Victorian thoroughbred and standardbred breeding representatives to establish a functioning industry partnership with the Australian Taxation Office.***

#### **6.1.4 Racing**

In the course of this inquiry the Committee received a submission referring to the difficulty of gaining ATO acceptance of racing activity as a legitimate component of a business classified breeding activity. According to Malcolm Gay of business and tax advisory firm Shaw & Gay Pty Ltd:

*The ATO's general rule is that the racing of horses is not accepted as a business if there is not associated breeding or training activities.*<sup>184</sup>

This presumption by the ATO is questioned by Mr Malcolm Gay, who asserts that any owner earning substantial prizemoney from well-bred and expensive racehorses, purchased specifically for the purpose of generating prizemoney and managed in a professional and business like manner, deserves recognition as a business.

During its most recent visit to New Zealand the Committee heard from the New Zealand Thoroughbred Breeding Association and the New Zealand Department of Inland Revenue that breeders are entitled to claim some deductions for racing related activities. The Committee was advised that some racing related expenses are deductible for horses other than geldings.

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<sup>184</sup> M. Gay, Shaw & Gay Pty Ltd, 2006, Correspondence received, 7 April.

While the Committee acknowledges that many Victorian and Australian breeders maintain racing interests, closer examination of the claim could be undertaken through the forum of a breeding industry partnership. For ease of analysis the focus of this chapter will be on the specific tax treatment of breeding interests.

A breeding industry partnership with the ATO would also provide a forum capable of analysing other criticism expressed to the Committee of existing taxation rules. For example, Mr Malcolm Gay believes that the 93/26 Ruling, as the mainstay of the ATO's approach to the horse breeding industry, requires reconsideration. In his view:

*The horse racing and breeding industry has developed into a specialised area since the 1993 tax ruling. A revisiting of the tax ruling to replace the subjective guidelines with more precise rules will reassure and better guide the horse racing and breeding industry.*<sup>185</sup>

Equally the Committee believes the partnership could examine whether the existing rules give adequate consideration to the vagaries and long lead times involved in equine breeding. Writing in *The Australian*, chartered accountant Mr Noel Leckie commented that:

*You could buy a mare for breeding and it will take 11 months to foal and then you may not be able to sell the progeny till it is 18 months old .... you could straddle three financial years before making a profit ....who's to know whether the mare you buy will race well or breed champions ... In the meantime there are huge expenses like vet bills, service fees, agistment fees and so on ...*<sup>186</sup>

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<sup>185</sup> M. Gay, Shaw & Gay Pty Ltd, 2006, Correspondence received, 7 April.

<sup>186</sup> *The Australian*, 20-21 August 2005.

### **6.1.5 Disparity with New Zealand**

In its earlier report the Committee recommended that taxation disparity with New Zealand be avoided, as this would inevitably contribute to some investment being redirected into the New Zealand industry. Taxation disparity takes two key forms.

The first of these relates to the way in which the business/hobby classification is applied in New Zealand. Advice received from Mr Martin O'Connor suggested that the New Zealand Inland Revenue Department utilised a more liberal business/hobby definition that allowed more breeders to claim their activities as a business and consequently secure tax deductibility for relevant expenses. According to O'Connor:

*New Zealand has a similar list of criteria required to establish a business rather than a hobby. However, unlike the ATO, a senior staff member of the New Zealand Revenue Office recently stated 'There is nothing inherently different about the blood stock industry that necessitates a different approach to this question than that propounded by the generic case law on the business/hobby distinction.' Furthermore, it has been stated in New Zealand that they believe taxation ruling 93/26 is ridiculous in stating a specific number of broodmares and setting a dangerous precedent. They also query who can possibly state that a certain mare is not 'of excellent quality' or not a 'commercial blood mare'?*<sup>187</sup>

Details of the way the distinction is applied in New Zealand were provided to the Committee by Mr Kevin Bradfield, an official with the New Zealand Inland Revenue Department.

Mr Bradfield's summary is detailed in Appendix 8 of this report.

Having twice visited New Zealand through the course of its inquiry and conducted discussions with a number of individuals both here and in New Zealand, the Committee believes the New Zealand taxation system offers a

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<sup>187</sup> A. Tims, Partner, Martin O'Connor and Partners, 2006, fax 16 July.

simpler distinction, which, if adopted in Australia, would be of benefit to the Victorian and Australian breeding industry.

### **Recommendation 6.3**

***That the Victorian Government support efforts by Victorian breeders to secure a simpler business/hobby taxation test. While the Committee acknowledges that the current test will continue to be applied by the Australian Taxation Office, it believes the interests of the thoroughbred and standardbred breeding industries would be well served by encouraging the Federal Government to closely consider the New Zealand model.***

The second way in which taxation disparity exists is the recent decision by the New Zealand government to accelerate depreciation rates on thoroughbred and standardbred breeding stock. In March 2006, the NZ Minister for Racing, Hon. Winston Peters, announced that the 2006 New Zealand Budget would contain a reduction in gaming duty for racing and an accelerated write-down regime for bloodstock.

The key changes proposed are:

- A reduction in totalisator duty from a headline rate of 20 per cent down to 4 per cent of gambling profits (amounts bet less amounts paid out);
- A decrease in the write-down period for stallions from 4 years to 2 years;
- A decrease in the maximum write-down period for broodmares from 8 years to 5 years (or 6 years for those few broodmares that commence breeding at age 2). Broodmares that commence breeding at age 8 and over will be written-off in full in the first year of breeding.

- Work in progress so bloodstock sold for export may, at the discretion of the Commissioner of Inland Revenue, be zero rated for GST for up to 2 years.<sup>188</sup>

According to Peters, the New Zealand racing industry directly contributes \$NZ424m to GDP and sustains 9,248 full-time equivalent jobs while generating more than \$NZ130m in export sales.<sup>189</sup>

The changes were given effect in the Taxation (Depreciation, Payment Dates and Alignment, FBT, and Miscellaneous Provisions) Bill, passed by the New Zealand Parliament.

Reaction to the New Zealand proposal has, not surprisingly, been strongly supported in that country. According to Mr John Penny, Chairman of Harness Racing New Zealand (HRNZ), the changes will be a major boost to the industry. Mr Penny stated that:

*The projected additional income (estimated at \$30m p.a.) will be a major boost to the industry.*

*The changes to the breeding tax regime also announced today, is another significant and positive development for the industry*<sup>190</sup>

Leading New Zealand horse breeding tax accountant, Mr Chris Luoni, commented that:

*The write-downs for stallions will increase investment in the NZ bloodstock industry and should encourage new investors to our industry, hopefully many from offshore.*<sup>191</sup>

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<sup>188</sup> Rt Hon Winston Peters (Minister for Racing) 2006, *Racing Finally Gets a Fair Deal – Legislation in Parliament next Thursday – Peters*, Media Release, 10 March

<sup>189</sup> Rt Hon Winston Peters (Minister for Racing) 2006, *Racing Finally Gets a Fair Deal – Legislation in Parliament next Thursday – Peters*, Media Release, 10 March

<sup>190</sup> J Penny (Chairman HRNZ), 2006, *Harness Racing New Zealand Delighted by Tax Equity Decision*. Press Release, 10 March.

<sup>191</sup> Chris Luoni, Partner, Beattie Rickman, email received dated 24 March 2006.

Martin O'Connor, a leading accountant within the breeding industry, also believes the changes will produce benefits in New Zealand:

*You [the Committee] are correct in your assertion that the NZ changes will have a dramatic effect on the Australian industry. We must do everything in our power to convince the federal government to match these changes.*<sup>192</sup>

The proposed changes open up a considerable taxation disparity with New Zealand. Mr Adam Tims has provided the Committee with a brief comparison of the tax regimes. According to Tims, the current write-down period for stallions in Australia is in equal instalments over four years. New Zealand is proposing a minimum two year write-down. Australia's current write-down period for broodmares is eight years, with a full write-off only possible when the mare reaches twelve years. New Zealand is proposing the write-down over five years. Furthermore, New Zealand is proposing that horses exported be zero rated for GST for up to 2 years, whereas in Australia the existing practice is for zero rating to apply for only 60 days, with the Commissioner having power to extend this to twelve months.

Furthermore, Mr Tims asserts that recent history clearly demonstrates the way that investment patterns are modified by taxation changes. Mr Tims advised the Committee that:

*In 1985 the Hawke Labor Government amended the Income Tax Assessment Act in order to obviate the unfair taxation advantages, which were being enjoyed by our New Zealand counterparts. Prior to that time, the New Zealand industry enjoyed a distinct advantage over Australian breeders in the taxation arena, which meant that investors in the industry were able to access better quality stallions and mares from overseas.*

*Unless our current Federal government is prepared to amend the Australian legislation to match New Zealand and at least put our breeders on a 'level playing field' situation, the adverse effects on*

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<sup>192</sup> Martin O'Connor, Martin O'Connor & Partners, email received dated 29 March 2006.



*the currently booming Australian Thoroughbred Industry which is enjoying record exports will be dramatic.*<sup>193</sup>

### **6.1.6 Capital Gains Tax**

Breeders who are not classified as businesses by the ATO are liable for Capital Gains Tax (CGT), in cases where the horse or share of a horse is purchased for more than \$10,000 and later sold at a profit.

When asked by the Committee about the amount of revenue generated by the ATO each year through capital gains tax on the sale of horses, Mr Konza advised that:

*All a tax return has is a label that says 'capital gains'. No we do not collect any data for that level of specification.*<sup>194</sup>

The Committee appreciates that many horses and shares in horses are purchased for more than \$10,000 and therefore attract CGT if later sold for a higher value. What distinguishes horses as a class of personal asset, relative to other types of assets, is the maintenance cost of the animal. The Committee understands that a horse being maintained for racing would cost its owner approximately \$20,000 per annum, which is twice the value of the threshold amount at which CGT applies.

The Committee believes that the concerns expressed about the application of CGT to horses are not unreasonable, and deserve further consideration. Whether this can be undertaken through any industry/ATO partnership is not clear at this stage, due to the ATO's role in enacting Government tax policy rather than setting it. Nevertheless the Committee believes that any partnership formed would be an appropriate step by which the breeding industry could further pursue the issue.

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<sup>193</sup> Adam Tims (Partner, Martin O'Connor & Partners) 2006, *Taxation*, Press Release, 10 March.

<sup>194</sup> M. Konza, Australian Taxation Office, 2006, Minutes of Evidence, 13 April, p.17.

### **6.1.7 Eligibility for Drought Relief**

The Committee received a number of comments through its inquiries concerning the impact of drought on breeders, particularly those based in rural Victoria.

In response to the Committee's query about the role played by the application of ATO status in determining the eligibility of breeders for a range of Government assistance programs, Deputy ATO Commissioner Mr Mark Konza advised:

*We were not aware of anyone using taxation status as a de facto test ... We looked at the Farm Household Support Act 1992, which covers the qualification for exceptional circumstances for all these payments, and that act says that the person has to be a farmer ... and contributes a significant part of his or her labour and capital to farm enterprise and derives a significant part of his or her income from the farm enterprise, is at least 18, is an Australian resident and is in Australia. Five of those six criteria are not criteria that are required by the tax law They are things we might consider but we do not have any tests about the amount of effort you put in other than in a most general sense.<sup>195</sup>*

While the Committee believes that any industry/ATO partnership would be a suitable forum for identifying the precise role of taxation status in determining the eligibility of breeders for government assistance programs, it does not believe the interests of breeding industry participants are well served by waiting for such a partnership to be established.

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<sup>195</sup> M. Konza, Australian Taxation Office, 2006, Minutes of Evidence, 13 April, p.8.

## 6.2 Other Australian Taxes – Stamp Duty

Stamp duty rates applicable to horse insurance policies are governed by state legislation and vary from state to state. The Committee understands the rates in mid-2006 are:

**Table 6.1: State and Territory Stamp Duty Rates**

State or Territory	%
South Australia	11.0
Victoria	10.0
Western Australia	10.0
ACT	10.0
Northern Territory	10.0
Tasmania	8.0
Queensland	7.5
New South Wales	2.5

The Committee is also aware that, by comparison, no stamp duty is imposed on horse insurance policies written in New Zealand.

In Victoria the 10 per cent stamp duty rate is imposed under the *Duties Act 2000*. In its earlier report the Committee recommended a lowering of the 10 per cent rate of stamp duty on Victorian horse insurance policies to the 2.5 per cent rate applicable in New South Wales.

While the Committee accepts that the difference in stamp duty rates between Australian jurisdictions constitutes only a small cost of producing and maintaining breeding stock and race horses, it nonetheless believes that the Victorian rate should be competitive with the lower New South Wales rate, and that a move towards this rate would send a positive signal to investors. The Committee further believes that a breeding industry in which insurance is more broadly utilised would be more productive in the longer term.

### 6.2.1 Stamp Duty Compliance

Through the course of its inquiry the Committee has become aware of uncertainties surrounding the applicable rate of duty for horse insurance policies. Given that horses are occasionally moved from state to state for the purposes of breeding, and that different states impose different rates of duty, the matter is a significant one for the breeding industry.

Chapter 8 of the *Duties Act 2000* imposes duty on the amount of the premium paid in relation to a contract of insurance that affects general insurance.

*Section 176 defines general insurance as any kind of insurance that is applicable to -*

- (a) property in Victoria; or*
- (b) a risk, contingency or event concerning any act or omission that, in the normal course of events, may occur within, or partly within, Victoria-  
or both.*<sup>196</sup>

The Committee has also been provided with a copy of advice circulated by Lloyds Australia Limited which reinforces this view:

*It has come to our attention that a number of bloodstock risks recently placed in the Lloyd's market have been the subject of incorrect stamp duty calculations.*

*The provisions of the various Australian state and territory stamp duty acts prescribe general insurance subject to stamp duty as being insurance applicable to property in the state/territory, or a risk, contingency or event that may occur within, or partly within the state/territory, or both.*

*Specifically in relation to bloodstock insurance, the basis for apportionment of multi-state stamp duty calculations is the state of usual location of the asset.*

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<sup>196</sup> *Duties Act 2000*, Chapter 8, Part 2 – General Insurance.

*We have seen evidence that certain bloodstock risks placed at Lloyd's have had stamp duty calculated in accordance with the provisions of the lowest rated state regardless of whether the risk /asset is usually located in that state.*

*This note is to remind coverholders that the stamp duty on bloodstock risks should be calculated on the **usual location** of the bloodstock risk/asset.<sup>197</sup>*

The Committee's inquiries on this matter lead it to believe that not all insurers are paying the appropriate rate of stamp duty, and that some may in fact be avoiding stamp duty payments altogether. The Committee believes that the provisions of the relevant state legislation needs to be observed, and that failure to do so is not only a breach of the law but allows for a distortion of the insurance market. In order to ensure any existing ambiguities in the market are addressed, the Committee believes an investigation of current practices is required, along with an ongoing compliance program.

#### ***Recommendation 6.4***

***That the Victorian Government, through the State Revenue Office, investigate the compliance of horse insurance providers with the provisions of the Duties Act 2000.***

#### ***6.2.2 Corporate Regulation***

In its earlier report the Committee observed that the requirements of the Australian Securities and Investments Commission (ASIC) regarding public offerings in horses represented an undue burden on the industry in relation to the lower end of the market.

The Committee had the opportunity in March 2006 to receive evidence from Mr John Price, Director of Applications and Licensing at ASIC.

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<sup>197</sup> Lloyd's Australia Limited, 2006. Submission No. 35, 20 July, p.1.

Mr Price indicated that ASIC's involvement with the horse racing and horse breeding industry revolved around three types of complaints:

*Typically, they fall within three categories ... there are complaints around computerised betting systems; there are complaints around the operation of illegal managed investment schemes which take money; and the third category is again around betting investment schemes.*<sup>198</sup>

In relation to the public offering of shares in racehorses, Mr Price commented that:

*The Racing Authority in New South Wales considered some of these issues and decided to become licensed – a subsidiary of it is licensed through ASIC – and they appoint individual promoters as authorised representatives. I have not had any feedback from them as to how that is working, but it is a matter of public record that they have a licence.*<sup>199</sup>

When advised of former Racing Victoria Limited's Chief Executive Officer, Mr Robert Nason's claim in 2005 that ASIC appear to be in a confused position about the regulations which ought apply to particular types of horse syndication, and that there was a need for clearer guidance, Mr Price advised that:

*The only area where I could suggest there might be some confusion is the question of whether something is a managed investment scheme in the first place. As I said, that is really a question of law and of fact – you need to sit down and work through everything and apply it to the individual circumstances of each case. I would be very surprised if there was any confusion in relation to ASIC's requirements more generally.*<sup>200</sup>

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<sup>198</sup> J. Price, Australian Securities and Investments Commission, 2006. Minutes of Evidence, 27 March, p.4.

<sup>199</sup> J. Price, Australian Securities and Investments Commission, 2006. Minutes of Evidence, 27 March, p.5.

<sup>200</sup> J. Price, Australian Securities and Investments Commission, 2006. Minutes of Evidence, 27 March, p.6.

The Committee acknowledges the objectives of ASIC in ensuring that appropriate standards of financial disclosure are enforced. At the same time the Committee believes it should be possible to develop a regulatory scheme covering modestly priced horses which ensures the cost of compliance does not become disproportionate to the value of the animal. In recent weeks a proposal has been advanced by RVL to ASIC which may achieve the desired balance.

RVL's proposal, a copy of which is contained at Appendix 9, envisages that:

*Non-commercial traders (licensed trainers and breeders) be regulated by the lead regulator and therefore be exempt from obtaining an FSL [financial services licence] through ASIC for horses valued at less than \$50,000.<sup>201</sup>*

The value of the proposal is evidenced by RVL's own research which shows that:

*Whilst there are only 29 promoters registered with RVL and ASIC, who race less than 9% of the Victorian horse population of 9,500. This reveals a gap in the regulation of syndication in the Victorian racing industry whereby a large number of promoters who are syndicating horses in Victoria are either not registering with ASIC, obtaining an ASFL, or are working outside the class order.<sup>202</sup>*

The Committee believes that RVL's proposal for supervision of public offerings of modestly priced horses is a positive step, a step which has potential application to standardbred breeders as well, and if successful will provide greater options for breeders.

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<sup>201</sup> S. Allanson, Racing Victoria Limited, 2006. Correspondence to the Committee received 19 May.

<sup>202</sup> S. Allanson, Racing Victoria Limited, 2006. Correspondence to the Committee received, 19 May, Attachment, p.2.

**Recommendation 6.5**

***That the Victorian Government actively support Racing Victoria Limited's efforts to secure Australian Securities and Investments Commission approval for the regulation of non-commercial horse traders.***

Committee Room

20 July 2006



## Appendix 1

## List of Submissions Received

Submission Number	Name of Individual/Organisation	Date Received
1	Kisimul Farm	18 March 2005
2	Rangal Park Stud	12 April 2005
3	Wellington Shire Council	12 April 2005
4	Seven Creeks Estate Farm	27 April 2005
5	Victorian Wakeful Club Inc	28 April 2005
6	Australian Harness Racing Council Inc.	28 April 2005
7	Collingrove Stud	28 April 2005
8	North East Thoroughbred Industry Alliance	29 April 2005
9	Thoroughbred Breeders Victoria Inc.	29 April 2005
10	Melton Shire Council	29 April 2005
11	Ms Maxine Fraser	29 April 2005
12	Mr. Peter Jenkins	2 May 2005
13	Mr. Graeme Kemp	3 May 2005
14	Victorian Square Trotters Association	3 May 2005
15	Thoroughbred Racehorse Owners' Association	4 May 2005
16	Racing Victoria Limited	23 May 2005
17	Equine West	8 June 2005
18	Yallabee Stud and Eliza Park	10 June 2005
19	Victorian Standardbred Breeders & Studmasters' Association Inc.	15 June 2005
20	Harness Racing Victoria	28 June 2005
21	Competitive Edge	6 July 2005
22	Animals Australia	8 July 2005
23	The Australian Workers' Union	28 July 2005
24	Sire Custodians Ltd	18 August 2005
25	Panglossian Urbanisme	24 August 2005
26	Department of Primary Industries	6 September 2005
27	Department of Justice	9 September 2005
28	Department of Education and Training	9 September 2005
29	Australian Harness Racing Council Inc. (Risk Management Initiatives)	19 September 2005
30	Australian Taxation Office	7 October 2005
31	Alabar Stud	20 October 2005
32	Harness Racing Training Centre Bendigo	24 March 2006
33	Inland Revenue Department, New Zealand	29 May 2006
34	Victorian Standardbred Breeders' & Studmasters' Association Inc	30 May 2006
35	Lloyd's Australia Limited	20 July 2006



## Appendix 2

### List of Public Hearings

#### 20 June 2005 – Melbourne

##### **Racing Victoria Limited**

Mr. Graham Duff, Chairman

Mr. Robert Nason, Chief Executive Officer

Mr. Bernard Saundry, Director – Racing Development

Mr. Tony O'Mara, Manager – Racing Development

##### **Martin O'Connor & Partners**

Mr. Martin O'Connor, Senior Partner

##### **Thoroughbred Breeders Victoria**

Mr. Richard Andrews, Executive Officer

Mr. Tim Johnson, Member

Ms Emma Boling, Member

Mr. Tas Rielley, Member

#### 22 June 2005 – Nagambie

##### **Kisimul Farm**

Mr. Kevin Kurrle, Director

##### **Paringa Park**

Mr. Tim Breadmore, Director

##### **Collingrove Stud**

Mr. Adam Sangster, Director

##### **Moyola Park**

Mr. Geoff Barnes, Director

#### 1 August 2005 – Melbourne

##### **Equine West**

Ms Kaye Kilgour, Group Member

##### **Competitive Edge**

Mr. David Higginbottom, Director

##### **The Australian Workers' Union**

Mr. John-Paul Blandthorn, Growth Officer

**15 August 2005 – Melbourne**

**Harness Racing Victoria**

Mr. Neil Busse, Chairman

Mr. John Anderson, Chief Executive

Ms Megan Hughes, General Manager (Legal)

Mr. Shane Gloury, General Manager (Business)

Mr. Duncan McPherson, General Manager (Strategic Planning and Product)

Ms Anne Jacobson, Board Member

Mr. Peter Bourke, Board Member

**Australian Harness Racing Council**

Mr. Rod Pollock, Chief Executive Officer

**William Inglis and Son Ltd**

Mr. Peter Heagney, Manager, Victoria

Mr. Simon Vivian, Victorian Sales Manager

**22 August 2005 – Melbourne**

**North East Thoroughbred Industry Alliance**

Mr. Bob Scarborough, President

**Northern Melbourne Institute of TAFE**

Mr. David Draper, Associate Director, Faculty of Earth Sciences

Mr. Wayne Pappin, Head, Agriculture and Animal Sciences Department

**Marcus Oldham College**

Mr. Nick Roe, Director, Horse Business Management Program

**Sire Custodians Pty Ltd**

Mr. Tony Fleiter, Managing Director

**Panglossian Urbanisme**

Mr. Ian Whalley, Principal, Business Planning Consultant

**17 October 2005 – Melbourne**

**Federation of Bloodstock Agents Australia Limited**

Mr. Tony Cavanagh, Member

**Standardbred Breeders and Studmasters Association**

Mr. Des McQueen, Treasurer

Mr. Ian Kitchin, Junior Vice President

**24 October 2005 – Melbourne**

**Alabar Stud**

Mr. John Coffey, Marketing Manager

## Appendix 3

### List of Informal Meetings and Site Visits

#### 25 March 2005

##### **William Inglis and Son, Newmarket NSW (Site visit)**

Mr. Reg Inglis, Managing Director

#### 21 June 2005

##### **Yallambee Stud – Romsey (Site visit)**

Mr. Peter Woodard, Director

Mr. Rick Woodard, Director

Ms Christie Woodard, Director

Mr. Greg Tobin, Marketing Manager

##### **Eliza Park Stud – Kerrie (Site visit)**

Mr. David Somers, Stud Manager

Mr. Shane McGrath, Sales and Marketing Manager

##### **Chatswood Stud – Seymour (Site visit)**

Mr. Greg Willis, Managing Director

##### **Goulburn Park Stud – Nagambie North (Site visit)**

Mrs Alice Brettingmoore, Director

Mr. Adrian Brown, Manager

#### 22 June 2005

##### **Phoenix Broodmare Farm – Euroa (Site visit)**

Mr. Damien Gleeson, Director

Ms Nina Gleeson, Director

##### **Seven Creeks Estate – Euroa (Site visit)**

Mr. Dennis Marks, Director

Mr. Chris Bakker, Manager

#### 23 June 2005

##### **Dunkeld**

Mr. Peter Armytage, former VRC Chairman and breeder

##### **Wyndholm Park Stud – Mt. Rowan (Site visit)**

Dr. Kim McKellar, Director

**24 June 2005**

**Claremont Thoroughbreds – Balmoral (Site visit)**

Mr. Greg Daffey, Director  
Ms Ainslee Daffey, Director  
Ms Patricia Daffey, Director  
Mr. Royce Dickson

**Yuruga Bloodstock – Great Western (Site visit)**

Ms Anne Jacobson, Director  
Mr. Darren Jacobson, Director

**24 August 2005**

**Marcus Oldham College – Geelong (Site visit)**

Dr. Nick Roe, Director of Horse Business Management Program  
Mr. Simon Livingstone, Principal  
Mr. John Miles, Deputy Principal, Business Development  
Mr. Des Ryan, Practical Skills Coordinator  
Ms Cassandra Houtsma, Lecturer/Practical Skills Coordinator

**Equine Centre – Werribee (Site visit)**

Professor Andrew Clarke, Head of Equine Centre and Chair of Equine Studies  
Dr. Mark Davis, Head of the Veterinary Clinic and Hospital  
Dr. Alan Clarke, Resident Veterinarian – Eliza Park Stud  
Professor Ivan Caple, Dean, Faculty of Veterinary Science

**Racing Victoria Limited – Flemington**

Dr. John McCaffrey, Director, Veterinary Services

**25 August 2005**

**Cumbre Stud – Sedgwick (Site visit)**

Mr. Gavin Beever, Proprietor  
Mrs Heather Beever Proprietor

**Alabar Stud – Echuca (Site visit)**

Mr. Murray Jensen, Stud Master  
Ms Sally Burgess, Office Manager

## Appendix 3 - continued

**26 August 2005****Lynrose Stud – Katunga (Site visit)**

Mr. Graham Ward, Proprietor

Mrs Lyn Ward, Proprietor

**Karamea Farm – Bunbartha (Site visit)**

Mr. Ross Simpson, Proprietor

Mr. Kevin Newbound, Proprietor, Forest Lodge

Mr. Roy Spencer, Proprietor, Perista Park

**29 August 2005****Coolmore Stud – Jerrys Plains, NSW (Site visit)**

Mr. Peter O'Brien, Stud Manager

Mr. Adrian O'Brien, Assistant Stud Manager

**30 August 2005****Darley Stud – Aberdeen, NSW (Site visit)**

Mr. Oliver Tait, Manager

Mr. Alastair Pulford, Nominations Manager

Dr. John Freestone – Veterinarian, Coolmore Stud and Manager of the Horse Industry Research Facility at Rural Industries Research and Development Corporation

**Arrowfield Stud – Scone, NSW (Site visit)**

Mr. Peter Keating, Stud Manager

**31 August 2005****Australian Racing Board – Sydney**

Mr. Andrew Harding, Chief Executive Officer

**NSW Standardbred Breeders Association – Sydney**

Mr. Les Camarda, President

Mr. Rob Nalder, Secretary

**Australian Jockey Club – Sydney**

Mr. Tony King, Chief Executive

Mr. Colin Tuck, Manager, Racing and Betting

Mr. Matthew Wilson, Manager, Human Resources

**Australian Stud Book – Sydney**

Mr. Michael Ford, Keeper of the Stud Book

**1 September 2005**

**Thoroughbred Breeders, NSW – Sydney**

Mr. Michael Ryan, President

**Australian Trade Commission – Sydney**

Mr. David Cockerell, Manager, Legislation and Policy Coordination, EMDG

Mr. Lindsay Collins, National Manager Operations

**Gai Waterhouse Racing Stables, Tulloch Lodge – Randwick**

Ms Gai Waterhouse, Trainer

**2 September 2005**

**Freedman Brothers Pty. Ltd. – Rye (Site visit)**

Mr Lee Freedman, Trainer/Proprietor

Mrs Janelle Freedman, Proprietor

**Lynden Park Stud – Red Hill South (Site visit)**

Ms Julie Nairn, General Manager

**GSA Bloodstock Pty. Ltd. – Mt. Eliza (Site visit)**

Mr. Jonathan Munz, Manager

Mr. Kenneth Neff

**12 September 2005 – Melbourne**

**Department of Justice, Office of Gaming and Racing**

Mr. Ross Kennedy, Executive Director

Mr. Ged Prescott, Manager, Racing

**Department of Primary Industries**

Mr. Peter Bailey, Executive Director, Biosecurity Victoria

Mr. Hugh Millar, Chief Veterinary Officer

Ms Naomi Pearson, Equine Policy and Legislation Officer, Bureau of Animal Welfare

Dr. Brendan Tatham, Animal Industries Investment Manager

Mrs Lucy van Leest, Senior Policy Analyst, Animal Industries

**30 September 2005**

**Arrowfield Stud**

Mr. John Messara, Managing Director

**2 October 2005**

**Magic Millions Sales Pty. Ltd.**

Mr. Paul Weekes, General Manager

Ms Annie McDonald, Marketing and Media Manager



Appendix 3 - continued

**10 October 2005**

**Victoria Racing Club**

Mr. Rod Fitzroy, Chairman

Mr. Dale Monteith, Chief Executive

**17 October 2005**

**Department of Innovation, Industry and Regional Development**

Mr. James Hodges, Executive Director, Office of International Business and Export

Ms Helen Rowell, Manager, Export Co-ordination

Mr. Les Leckie, Manager, Regional Innovation Clusters Program

**24 October 2005**

**Thoroughbred Breeders Victoria**

Mr. Mike Becker, President

Mr. Tim Johnson, Committee Member

Ms Emma Boling, Committee Member

Mr. Richard Andrews, Executive Officer

**Racing Victoria Limited**

Mr. Robert Nason, Chief Executive Officer

Mr. Bernard Saundry, Director - Racing Development

Mr. Tony O'Mara - Manager, Owners and Breeders

**8 December 2005**

**Martin O'Connor & Partners**

Mr. Martin O'Connor, Senior Partner

**27 March 2006**

**Australian Securities and Investments Commission**

Mr. John Price, Director, Applications and Licensing Division

Mr. Matthew Guy, Manager, Government Relations

**Harness Racing Victoria**

Mr. John Anderson, Chief Executive

**13 April 2006**

**Australian Taxation Office**

Mr. Mark Konza, Deputy Commissioner

Mr. Stephen Howlin, Assistant Commissioner

Mr. Domenic Belvedere, Director



## Appendix 4

### Overseas Investigations

#### Ireland

**29 March 2005**

##### **Horse Racing Ireland**

Mr. Brian Kavanagh, Chief Executive

Mr. Raymond Horan, Group Company Secretary

Mr. Michael O'Hagan, General Manager - Irish Thoroughbred Marketing

##### **Irish Equine Centre**

Dr. Des Leadon, Head, Clinical Pathology Unit

##### **Irish National Stud**

Mr. John Clarke, Chief Executive

Ms Sophie Hayley, Marketing Manager

##### **Irish Thoroughbred Breeders Association**

Ms Eimear Mulhern, President

Mr. Dermot Cantillon, Chairman

Mr. Joe Heron, Manager, Coolmore Stud

Mr. Derek Icton, Tara Stud

##### **Racing Academy and Centre for Education**

Mr. Keith Rowe, Director

Mr. Jim Murphy, General Manager

#### United Kingdom

**31 March 2005**

Mr. Miles Littlewort, Former Head, British National Stud

#### France

**12 April 2005**

##### **Haras du Petit Tellier – Sevigny**

Mr. Patrick Chedeville, Proprietor

Ms Antoinette Chedeville, Proprietor

**13 April 2005**

##### **Haras de Fresnay-Le-Buffard – Sevigny**

Mr. Tim Richardson, Manager



## Appendix 5

### List of Informal Meetings in New Zealand

#### 11 July 2005

##### **Westbury Stud – Papakura (Site visit)**

Mr. Russell Warwick, Chief Executive Officer

##### **Alabar (NZ) Ltd. – Pukekohe (Site visit)**

Mr. Graeme Henley, General Manager

##### **Harness Racing New Zealand**

Mr. Peter Smith, Board Member

##### **Nevele R Stud**

Mr. Bob McArdle, Director

Mr. Rob Carr, North Island Representative

##### **Alta Dream Lodge**

Mr. Tony Dickinson

##### **Haunui Farm – Manurewa (Site visit)**

Mr. Ron Chitty, Proprietor

Mr. Carolyn Chitty, Proprietor

Mr. Mark Chitty, General Manager

##### **New Zealand Thoroughbred Breeders' Association – Auckland**

Mr. Peter Francis, President

Mr. Michael Martin, Chief Executive

#### 12 July 2005

##### **Te Akau Stud and Racing Stables – Ngaruwahia (Site visit)**

Mr. David Ellis, Principal

Ms Karyn Fenton-Ellis

##### **Cambridge Stud – Cambridge (Site visit)**

Sir Patrick Hogan, Director

##### **Waikato Region, Thoroughbred Breeders – Cambridge**

Mr. Bob Emery, Belvedere Farm

Sir Patrick Hogan, Cambridge Stud

Mr. Nicholas King, Brighthill Farm

Mr. Gordon Cunningham, Curraghmore Stud

Mr. Des Hawkins, Wentwood Grange

**13 July 2005**

**New Zealand Thoroughbred Marketing – Te Rapa**

Mr. Bill Gianotti, Chairman

Ms Julia Naismith, Chief Executive Officer

**Waikato Stud – Matamata (Site visit)**

Mr. Garry Chittick, Proprietor

Mrs Mary Chittick, Proprietor

**Inland Revenue Department, Hamilton Service Centre – Hamilton**

Mr. Kevin Moody, Service Centre Manager

Mr. Pat Ryan, Manager, Technical and Legal Services Group

Mr. Kevin Bradfield, Senior Technical Advisor, Technical and Legal Services Group

Mr. Geoff Leggett, Policy Analyst, Inland Revenue Department - Wellington

**Beattie Rickman – Hamilton**

Mr. Chris Luoni, Partner, Beattie Rickman

Mr. Geoff Roan, Accountant

**14 July 2005**

**New Zealand Trade Enterprise – Wellington**

Mr. Bruce Gadd, Director, Regional Economic Development

Mr. Tim Green, Manager/Senior Policy Analyst

**Inland Revenue Department – Wellington**

Ms Deborah Russell, Senior Policy Analyst

Mr. Geoff Leggett, Policy Analyst

**Department of Internal Affairs – Wellington**

Mr. Andrew Secker, Deputy Secretary, Regulation and Compliance

Mr. John Markland, Manager, Gaming, Racing, Censorship Policy

Mr. Terry Collier, Ministry for Economic Development

Mr. Jim Kimber, Analyst, Policy Group

Mr. Stephen Reilly, Private Secretary to the Minister for Racing

**New Zealand Thoroughbred Racing – Wellington**

Mr. Allan Fenwick, Chief Executive

Mr. Simon Cooper, Deputy Chief Executive

Mr. Campbell Moncur, General Manager, Corporate Services

**15 July 2005**

**New Zealand Racing Board – Wellington**

Mr. Warren Larsen, Chairman

Appendix 5 – continued

**15 July 2005**

**New Zealand Racing Board – Wellington**

Mr. Warren Larsen, Chairman

**18 May 2006**

**Partner, Beattie Rickman**

Mr Chris Luoni (Tax Accountant)

**Inland Revenue Department**

Mr. Kevin Bradfield (Tax Advisor), Technical Advisor, Technical and Legal Support  
Hamilton Service Centre

**New Zealand Thoroughbred Breeders Association**

Mr. Peter Francis, President

**19 May 2006**

**Inland Revenue Department**

Mr. Mike Nutsford, Policy Manager, Policy Advice Division

Ms Deborah Russell, Senior Policy Analyst

**Department of Internal Affairs**

Mr. Stephen Reilly, Senior Analyst





## Appendix 6

### Australasian Breeders Crown

The Breeders Crown is a futurity race series for 2yo and 3yo pacers and trotters with separate divisions for both sexes.

It is an initiative of Victorian harness racing and heats, subsidised by the Breeders Crown sweepstakes pool, are run in all states of Australia and in both islands of New Zealand. Repechages, semi-finals and finals are all run in Victoria with the venue for the finals series now determined by a bid process.

From its inception in 1998 to 2004 the finals have been run at Bendigo however, in the first ever bid determination, the Cranbourne Harness Racing Club won the right to host the 2005 finals series. A condition of the bid process is that a club cannot host the finals on successive years.

The Breeders Crown is the richest country race meeting in Australasia, of any code. In harness circles, it is the richest or second richest race meeting of the year depending only on the value of the Inter Dominion Championship finals. Finals day at Cranbourne on 22 August this year will carry total prizemoney of \$924,000. Prizemoney for next year's finals day is forecast to be \$1.1 million.

First run in 1998, the Breeders Crown has quickly developed from modest finals of \$60,000 to 2yo finals of \$202,000 in 2005 growing to \$265,000 (est.) in 2006. In total, prizemoney of \$1.6 million will be distributed through the Breeders Crown in 2005.

Eligibility for the Breeders Crown commences with the nomination of stallions followed the next year by the nomination of broodmares prior to foaling and 21 months later on 1 May, the nomination of yearlings just prior to turning 2yo. A once only annual acceptance fee is also payable at 2yo and/or 3yo or owners may elect to make a series payment at the time of the yearling nomination.

*Source: Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.30.*



## Appendix 7

### Australian Pacing Gold

Australian Pacing Gold Limited is an independent company owned by the principal clubs responsible for the three major eastern states' harness tracks:

- NSW Harness Racing Club (Harold Park, Sydney),
- Albion Park Harness Racing Club (Albion Park, Brisbane), and
- Harness Racing Victoria (Moonee Valley, Melbourne).

APG conducts the premier yearling sales in the three eastern states and manages a rich sales linked futurity race series for 2yo and 3yo pacers. Other states have access to the APG race series through an agency arrangement at their respective yearling sales.

Each year, the three member states run APG heats and repechages for each sex with both the \$300,000 final for 2yo fillies and the \$300,000 final for colts & geldings rotated between the three states. The state that misses one of the two 2yo finals, hosts both the \$50,000 finals for 3yo's in that year.

Eligibility for the APG race series is restricted to horses that were foaled in Australia and sold at APG sales on the eastern seaboard, or as APG lots at other states' sales. Therefore, the number of potential starters is relatively limited and the scale of payments higher than for other futurity race series.

*Source: Harness Racing Victoria, 2005. Submission No. 20, 28 June, p.31.*



**Appendix 8****AM I IN BUSINESS?****An explanation of the business/hobby distinction for the purposes of  
New Zealand tax law**

Mr. Kevin Bradfield, Technical Advisor, Technical and Legal Support Group, Inland Revenue Department

**When is business income subject to income tax?**

Section BB 1 of the Income Tax Act 2004 (“the Act”) states that income tax is imposed on taxable income. Section CB 1 of the Act goes on to state that an amount that a person derives from a “business” is income.

The Act defines a “business” as including:

*...any profession, trade, manufacture, or undertaking carried on for pecuniary profit.*

None of these words or phrases is further defined by the Act. This being so, it has been left to the Courts to determine whether a particular venture falls within this definition.

While the majority of ventures will fall within the notion of a “profession, trade, manufacture or undertaking”, decisive to the outcome of any enquiry as to whether they will be a business, will be whether they are “carried on for pecuniary profit” or some other motive; a hobby, for instance.

**A question of pecuniary profit – a bona fide business or a hobby?**

Over the years the question of whether a venture has been carried on for this crucial element of pecuniary profit has exercised the Courts minds on numerous occasions. The leading cases in this area are *Grieve v CIR*<sup>203</sup> and *Calkin v CIR*<sup>204</sup>. These cases make it clear that the business test for income tax purposes requires a two-fold inquiry as to:

- The nature of the activity carried out, and
- the intention of making profits

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<sup>203</sup> (1984) 6 NZTC 61,682; [1984] 1 NZLR 101

<sup>204</sup> (1984) 6 NZTC 61,781

To quote from Justice Richardson in *Grieve*:

*“It follows from this analysis that the decision whether or not a taxpayer is in business involves a two-fold inquiry –*

- *as to the nature of the activities carried on, (which must amount to a profession, trade, manufacture or undertaking) and*
- *as to the intention of the taxpayer in engaging in those activities (it must be carried on for pecuniary profit)*
- Statements by the taxpayer as to his intentions are of course relevant but actions will often speak louder than words.

*Amongst the matters which may properly be considered in that inquiry are*

- *the nature of the activity, the period over which it is engaged in;*
- *the scale of operations and the volume of transactions;*
- *the commitment of time, money and effort;*
- *the pattern of activity, and the financial results; and*
- *it may be helpful to consider whether the operations involved are of the same kind and are carried on in the same way as those, which are characteristic of ordinary trade in the line of business in which the venture was conducted.*

*However, in the end it is the character and circumstances of the particular venture, which are crucial. Businesses do not cease to be businesses because they are carried on idiosyncratically or inefficiently or unprofitably, or because the taxpayer derives personal satisfaction from the venture.”*

The department, when attempting to decide on which side of the revenue line an activity is based, will use these case law tests.

There is nothing inherently different about the bloodstock industry that necessitates a different approach to this question than that propounded by the generic case law on the business/hobby distinction.

In relation to bloodstock activities, the leading case to apply these rules is Case K65<sup>205</sup> which, upon appeal is notated as *Edgecombe v CIR*<sup>206</sup>.

In this case the taxpayer had argued that he was breeding to race as a hobby rather than breeding to sell.

In finding for the Commissioner, both the TRA and High court, in applying the *Grieve* tests, had cognisance of the following matters as being determinative of the issue:

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<sup>205</sup> (1988) 10 NZTC 520

<sup>206</sup> (1991) 13 NZTC 8,140

## Appendix 8 – continued

- the taxpayer had carried out the activities in an organised and coherent manner;
- they were directed towards an end result (producing quality racehorses both for himself and others);
- he used available outside expertise as required;
- he was businesslike in his record keeping;
- he made businesslike decisions in relation to stock management (sold those horses that did not come up to standard, were surplus to requirements or for which he received reasonable offers); and
- the scale and volume of the operations and the necessary commitment of the taxpayer's time and money meant that there was little difference from what he was doing and what would be expected of any "normal" studs operation.

It is these types of factors that the department will look at when deciding how to treat an activity. Particular consideration is given to how (if at all) the taxpayer's activities differ from what would be expected of a "normal" breeding operation. However, it is not helpful, when attempting to distinguish a business from a hobby operation, to compare the taxpayer with a major player in the bloodstock industry. They will always fall short. Following the ratio in *Edgecombe*, what is important is determining whether the breeder is carrying on their activities following industry norms and in a businesslike manner.

Unlike some other tax jurisdictions, there are no artificial benchmarks, in terms of capital injection, profit made or the number and/or value of horses owned by a breeder, that are used to artificially reach a conclusion that a breeder is in business, or conversely that the breeder is carrying on a hobby. What is required is an objective analysis of the taxpayers activities bearing in mind the generic tests expounded by case law. It is only these generic case law tests that are able to be used in making the business/hobby distinction.

### **Business Test/Taxable Activity for GST**

What constitutes a "taxable activity" is defined by section 6(1) of the Goods and Services Tax Act 1985 ("the GSTA").

Although an intention to make a profit must be present before an activity can constitute a business for income tax purposes, it is not relevant when determining whether it is a taxable activity for GST purposes. The key element of a taxable activity is the continuous or regular supply of goods and services for consideration. This can occur without a profit motive (charities for instance).

Excluded from being a taxable activity is a "private recreational pursuit or hobby" (section 6(3)(a) and (aa) of the GSTA). When considering whether what has been undertaken is a "taxable activity" or a "private recreational pursuit or hobby", the Department will consider the following factors:



Appendix 8 – continued

- **The reason for conducting the activity.** While pleasure or enjoyment comprises the predominant reason for carrying on a hobby, it is a secondary one for a taxable activity.
- **The activity structure.** Unlike a hobby, a taxable activity is likely to have frequent supplies, businesslike operations, a structure and organisation and a reasonable level of financial investment.
- **The time input.** Unlike a hobby a taxable activity has a degree of continuity.



## Appendix 9



**Breeders Inquiry Options Paper**  
**ASIC Regulations re Syndicated Offers**  
**May 2006**

## Background

### Current Status with ASIC and Lead Regulators

At a meeting between ASIC, RVL and RNSW in September 05, which was initiated by the lead regulators\* in the racing industry (both RVL and RNSW), the following categories of activities were identified:

\* Under Class Order 02/319 ASIC grants the thoroughbred horse Racing Industry of relief from specific provisions of the Act when undertaking the Syndication of racehorses. The relief is in the form of providing for industry self-regulation, by delegating to the Lead Regulator in each state (in Victoria – Racing Victoria Ltd (“RVL”)) the responsibility for approving and regulating Horse racing syndicates that are within the scope of the CO. Relief is Conditional upon each Syndicate being within the scope of the CO and Complying with its provisions and any other requirements of the Lead Regulator.

**“A” – Personal Offers** – these are usually infrequent or irregular personal offers to take an ownership interest in a horse. In ASIC’s view, if these offers are made more than once a year, then this is likely to be “carrying on a business” and the offeror would be required to hold an Australian Financial Services Licence (AFSL) and comply with the Class Order requirements.

**“B” – Offers** - to 20 or less investors – this is the area of racehorse syndication that is exempt from managed investment registration by virtue of the Class Order but which requires amongst other matters, the registration of the promoter by a lead regulator and the holding of an AFSL.

**“C”** – Large scale offerings to 20 or more persons (usually via shareholding in a company) which must be a registered managed investment.

RVL and RNSW, in relation to the category “A” situation, suggested to ASIC that ASIC considers a simplified approach. Our suggestion to ASIC was to either

- simplify the conditions and require an AFSL; or
- exempt persons who make personal offers from holding an AFSL but require conditions to be met which would be regulated by the racing industry.

RVL and RNSW favoured the latter approach.

In response, ASIC indicated that they would consider these matters but only from a national perspective. However, ASIC did indicate that they were willing to consider these matters and outlined the following issues that they would need to consider (in order of least difficult to most difficult for ASIC):

- Can these issues be dealt with by guidance - Yes
- Can the AFSL conditions be altered - Yes
- Should ASIC Policy Statement 20 and Class Order be altered - Yes
- What regulatory mechanisms will be in place to monitor matters and ensure compliance – recommendation as follows

Since that meeting there has been little activity from ASIC other than appearing before the Victorian Government Breeders Inquiry in March 2006. There has been a growth in momentum from industry stakeholders and the Victorian Government in seeking to expedite the reduction of ASIC regulations at the lower non commercial end of the market.

Racing Victoria has received requests from its stakeholders including ATA, TBV and TROA re the ability of trainers and breeders to syndicate horses at the lower end of the market without ASIC approval. This view has also been supported by the Federation of Bloodstock Agents.

In Victoria there are currently 1,200 trainers and breeders who fall into that category by breeding, purchasing and racing at the lower end of the market.

***Whilst there are only 29 promoters registered with RVL and ASIC, who race less than 9% of the Victorian horse population of 9,500. This reveals a gap in the regulation of syndication in the VRI whereby a large number of promoters who are syndicating horses in Victoria are either not registering with ASIC, obtaining an AFSL or are working outside the class order.***

In 2006 RNSW commenced the roll out of their Trainers Services Centre which will enable trainers utilising the service to offer horses for syndication, whilst this will assist in the long-term, RNSW projects that only 60 trainers will avail themselves to that service by end 2007, still leaving the majority largely unregulated.

In February 2006 the Victorian Government's Inquiry into the Viability of the Breeding Industry highlighted:

- The Victorian Government make representations to the Federal Government that the Australian Securities and Investments Commission's existing regulatory regime governing public offers in horses be reviewed bearing in mind the large number of horses sold at low value for recreational interests.

## Appendix 9 – continued

**Victorian Perspective**

- 86 % of horses sold in Victoria are done so at a value of less than \$30,000
- Only 30% of Yearlings sold in Victoria each year are sold through the yearling sales process
- The 2005 Survey of Victorian Owners highlighted that 90% of owners re involved in racing for social not commercial benefit.
- Of the top 15 Victorian Trainers 14 have connections with Licensed Promoters for the purpose of syndicating horses under current the current class orders.
- The ability of a breeder who breeds to race and the trainer who requires owners to sustain horses in work across all sectors of racing is essential to ensure sustainable field sizes and wagering turnover
- Currently horses many horses are being syndicated, without being regulated therefore exposing owners.

The questions that we need to address are as follows:

**1. Do we support the intent of the Class orders in regulating the sale of shares in horses?**

All agree and support the need for consumer protection and disclosure in the sale of all thoroughbreds for racing.

**2. What is the appropriate model to protect consumers whilst allowing for growth in participation in ownership?**

To enable smaller trainers and breeders the opportunity to syndicate a horse for racing the following is recommended:

A change in Promoting shares in ownership of Racehorses to exempt the need for non-commercial traders (Licensed Trainers and Breeders), from obtaining a FSL through ASIC for horses valued at less than \$40,000. This has proven an onerous task for many Trainers & Breeders since its introduction in March 2004 and acts as a impediment in the growth of ownership and horse numbers.

**Proposal**

- A. Horses to a maximum value of \$50,000 only. Maximum Value adjusted annually in line with CPI.
- B. Shares may be offered by a licensed Trainer, excluding assistant trainers and picnic trainers and all categories of owner trainer in all states and territories. (probity & financial checks currently held)

Appendix 9 – continued

- C. Or a Licensed Breeder (AR 1 Definition applies) and Licenced by State Lead Regulator. This will require probity check & financial statements with the application.
- D. Trainer/Breeder must have unencumbered title to the horse.
- E. Each Trainer/Breeder must lodge a Product Disclosure statement (PDS) with State lead regulator (RVL) for approval of every promotion together with standard disclaimer and application for approval currently used for commercial promoters.
- F. PDS will include :
  - i. Number of Shares and Purchase Price (maximum 20)
  - ii. Valuation
  - iii. Vet Certificate
  - iv. Pedigree and performance of Sire/Dam
  - v. Race Performance (if tried horse)
  - vi. Summary of outgoings including trainers agreement; cost of promoters expenses to date
  - vii. Statement of Purchase/Ownership of promoter
  - viii. Confirmation of holding Trust Account from day of first offer for period of six months
- G. ASIC regulation changed to make publication of Licence number mandatory in print or electronic mediums. This is crucial.

**Other Issues**

- H. Change the title of Company, Stud & Firm syndicates with prefix of “Approved” and delete suffix of Syndicate to lesson confusion with States owner’s cards, present and future.

**Required Australian Racing Rule Changes**

The following rules will be affected by this change.

<i>AR 1</i>	<i>definition of Promoter</i>
<i>AR69 (P) (i)</i>	Licensed by ASIC
<i>AR69 (P) (ii)</i>	Register of Promoters
<i>AR69 (P) (iii)</i>	Unchanged
<i>AR69 (P) (iv)</i>	Unchanged