



ECONOMIC DEVELOPMENT COMMITTEE

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

**Report on the Thoroughbred
Breeding Industry**

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Report on the Thoroughbred Breeding Industry

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ECONOMIC DEVELOPMENT COMMITTEE

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

Glossary

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.
Australian Stud Book	<p>A term that refers to both:</p> <ul style="list-style-type: none">• the officially published records of thoroughbred bloodlines in Australia; and• the organisation which is responsible for the maintenance, accuracy, quality and integrity of those records. <p>The Australian Jockey Club and the Victoria Racing Club are the Joint Proprietors of the Australian Stud Book.</p>
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 purebred horses 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.

FarmBis	FarmBis is a joint initiative of the Federal and Victorian Governments and is administered by Rural Finance. It provides financial support by way of subsidies to assist farmers, fishers, and those involved in natural resource management to participate in learning activities to improve their management skills.
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 Group and Listed races are approved and published by the ARB and are accepted by the International Cataloguing Standards Committee for publication in 'The Blue Book', thereby achieving international recognition for Australia's best races.
Keeper of the Stud Book	The manager of the Australian Stud Book organisation. This position is currently held by Mr. Michael Ford.
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 horse bred to participate in harness racing.</p> <p>The standardbred may look similar to a thoroughbred, but is smaller, with heavier bones, a larger body, shorter legs, a more robust build and greater endurance.</p> <p>In Australia harness horses generally race in an anti-clockwise direction and usually start from a mobile (or moving) barrier. Six or seven horses will start from the front row with any remaining horses lining up behind them. Harness races are</p>

	usually conducted over distances between 1609 metres (one mile) and 2400 metres.
Stayer	A horse that is suited to running long distances.
Stud farm	Any property where 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	Standardbreds have two racing gaits - pacing and trotting. Trotters move legs on the opposite side of their body forward in a diagonal movement.
Two-year-old	A horse that is aged between two and three years of age.

Wastage	The expression occasionally used within the thoroughbred breeding industry to describe the circumstance where horses, for a variety of reasons, are unable to race.
Wearling	A foal that is no longer suckling its dam.
Yearling	A horse that is in its second official year of life.

Acronyms

AFS	Australian Financial Services
AJC	Australian Jockey Club
ARB	Australian Racing Board
ASB	Australian Stud Book
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AWU	Australian Workers' Union
BOBS	Breeder Owner Bonus Scheme
CO	Class Orders
CGT	Capital Gains Tax
DIIRD	Department of Innovation, Industry and Regional Development
DoJ	Department of Justice
DPI	Department of Primary Industries
EMD	Export Market Development
EMDG	Export Market Development Grants
FBT	Fringe Benefits Tax
FOA	Fee on Application
ITM	Irish Thoroughbred Marketing Limited
MT	Miscellaneous (Taxation) Ruling
NETIA	North East Thoroughbred Industry Alliance
NMIT	Northern Melbourne Institute of TAFE
NZB	New Zealand Bloodstock Ltd
NZTBA	New Zealand Thoroughbred Breeders' Association
NZTM	New Zealand Thoroughbred Marketing
NZTR	New Zealand Thoroughbred Racing
PDS	Product Disclosure Statement
RDV	Regional Development Victoria
RIRDC	Rural Industries Research and Development Corporation
RVL	Racing Victoria Limited
TAB	Totalisator Agency Board
TABCORP	TAB Holdings Limited
TBA	Thoroughbred Breeders Australia
TBV	Thoroughbred Breeders Victoria
TR	Taxation Ruling
TROA	Thoroughbred Racehorse Owners' Association
TVN	ThoroughVisioN Pty. Ltd. The Racing Industry owned pay TV.
VOBIS	Victorian Owners and Breeders Incentive Scheme
VRC	Victoria Racing Club

Chairman's Foreword

Victoria has a long and proud history of thoroughbred horse racing. However, without a well established breeding industry, our racing industry would struggle to survive. It is with this in mind that the Victorian Parliament's Economic Development Committee has examined the state's thoroughbred breeding industry and the pressures it faces.

While it is true that Victoria's thoroughbred breeding industry does face considerable competition from interstate stud farms it is not the case that opportunities for growth do not exist. Indeed, the Committee's investigations suggest that there is considerable scope for improving the performance of the industry. The question that has most confronted the Committee is how these opportunities can be grasped.

In formulating its recommendations, the Committee has come to the conclusion that Government assistance is both required and warranted if the industry's potential is to be realised. Our recommendations outline a range of measures that we believe will find wide support within the thoroughbred racing and breeding industries. Importantly, many are based on practices already in place in other jurisdictions.

Through the course of the Inquiry, other Committee members and I have been impressed by the great willingness of racing and breeding industry participants, both in Victoria and elsewhere, to meet with the Committee and express their views. These views have been very helpful in providing Committee members with insights into the industry and how it might be improved.

I would particularly like to thank the following members of the Committee for their enthusiasm and dedication in conducting this Inquiry: Hon Ron Bowden MLC, Hugh Delahunty MP, and the Hon Noel Pullen MLC. We have been ably assisted throughout the past year by Executive Officer Dr Russell Solomon, Research Officers Kirsten Newitt and Jonathon Gurry, Office Manager Andrea Agosta, and our Editor, Frances Essaber.

The Committee has also been actively assisted throughout the Inquiry by the staff of racing and breeding industry bodies across Australia, New Zealand and Ireland. This assistance has been invaluable and on behalf of all Committee members I would like to again express my gratitude.

The Committee will present a second report in mid-2006 dealing with the standardbred breeding industry.

Tony Robinson MP
Chairman

Chapter 1: Introduction

The Victorian thoroughbred breeding industry was historically the leading such industry in Australia. In more recent times, despite the dynamic Victorian thoroughbred horse racing industry leading the country, the thoroughbred breeding industry which underpins racing, has lost its lead to the Hunter Valley region of New South Wales.

The Economic Development Committee was given Terms of Reference to inquire and report on the viability of both the thoroughbred and standardbred breeding industries. The areas which the Committee was asked to examine included the strength of the industries as compared to other Australian states, the role of overseas breeding interests and influences, 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 the issues relating to employment and investment opportunities and the development of skills within the industries.

During the course of the Inquiry, it soon became apparent to the Committee that there are significant differences between the thoroughbred and standardbred breeding industries and that they should be treated separately. The Committee believes this would best be achieved through the production of two reports: one for each of the breeding industries. This first report is on the thoroughbred breeding industry while the second report, on the standardbred breeding industry, will be tabled in mid June 2006.

The Committee was able to speak with many in the breeding and related industries within Victoria as well as industry figures, both overseas and interstate. The Committee found the local thoroughbred industry to be highly supportive of this Inquiry and individuals more than willing to share their often robust opinions with the Committee. As well, the Committee found the regulatory and representative bodies, Racing Victoria Limited (RVL), Thoroughbred Breeders Victoria (TBV), and the Thoroughbred Racehorse

Owners' Association (TROA) were very helpful and willing to discuss issues and provide evidence and information to the Committee throughout the Inquiry.

Of a total of 31 submissions, 25 were, at least in part, focused on the thoroughbred breeding industry and came from a broad range of individuals and groups as well as government and non-government agencies. The Committee also held a series of public hearings in Melbourne from June to October 2005, a hearing in Nagambie in June 2005 as well as a number of informal meetings and site visits in Melbourne, regional Victoria, Sydney and the Hunter Valley (NSW).

The Committee also had the opportunity to travel to New Zealand to consider the operation of the New Zealand thoroughbred breeding industry and earlier in 2005, as part of an overseas study tour in relation to another inquiry, examined developments in the thoroughbred breeding industries in Ireland and in France.

The Committee is appreciative of the support, information and advice provided by the industry participants. However, there have been two obvious constraints on the Committee's research and analysis of this industry. There has been some difficulty accessing commercial information from certain studs due to understandable commercial-in-confidence concerns and, with little scholarly work having been done on the industry, there is a paucity of secondary source material available for analysis.

Chapter 2: Overview of the Victorian thoroughbred breeding industry

This Chapter provides an overview of the Victorian industry as well as outlining a sketch of the major concerns brought to the Committee's attention during the Inquiry. A brief history of the Victorian industry and its position nationally is provided and this is followed by a statistical overview of recent stock levels in terms of mares, foals and stallions.

Victoria's once pre-eminent position as a thoroughbred breeding state has been partly undermined by the amount of capital investment by international breeding operations in New South Wales as well as the internationalisation of the industry. In particular, the Committee received evidence on major international breeding interests in the Hunter Valley, as well as on the growing popularity of shuttle stallions.

Victoria, as compared to New South Wales, is a state where the bulk of the industry consists of small, and mainly hobby, breeders. Of the approximately 11,220 horse breeders in Australia, 2,700 are to be found in Victoria.

The Committee heard evidence that the thoroughbred breeding industry generates significant economic and employment activity, particularly in regional Victoria. As well, the Committee was made aware that the industry makes a significant indirect contribution to the Victorian economy by helping to sustain the Victorian racing industry. The Victorian thoroughbred racing industry, which draws off the breeding industry, has been measured at \$2.2 billion per annum and employs over 66,000 people in 22,000 equivalent full time positions.

This Chapter also outlines the regulatory and representative bodies at both the national and Victorian level. This is followed by a brief detailing of the key strengths and weaknesses of the Victorian thoroughbred breeding industry. This is a precursor to analysing, in following Chapters, how the strengths can be exploited and how the weaknesses may be alleviated. Of the principal weaknesses, Victoria has difficulty competing with New South Wales, particularly in terms of the quality of stallions standing in the state and the availability of capital for investment in the industry. The Committee received evidence that the more Victoria is able to retain their quality broodmares and indeed attract broodmare owners in other states, the more likely there will be further investment in the Victorian industry.

Evidence before the Committee also referred to other weaknesses such as the absence of a Victorian owned sales company, a culture of bad debts which impact on the cashflow of many different parts of the racing/breeding industries, and the lack of an overarching body with sufficient standing and resources at its disposal to promote the many strengths of the Victorian thoroughbred industry. The Committee considered that some of these weaknesses could be overcome through the establishment of a dedicated body which could promote the industry and engage in more effective and aggressive marketing.

The two key strengths identified in evidence before the Committee are Victorian thoroughbred racing and the Super VOBIS incentive scheme. As well, Victoria has price advantages over New South Wales in terms of cheaper land values, the costs of purchasing raw materials and greater accessibility to the capital city. The Committee has noted, however, that the benefit of prizemoney as an incentive to boost ownership levels has been affected by the competition Super VOBIS is receiving from other states' incentive bonus schemes.

Chapter 3: Setting a New Direction

The Committee has taken note of the current representative bodies in Victoria, being Thoroughbred Breeders Victoria (TBV) and Thoroughbred Racehorse Owners' Association (TROA) and appreciates the work done on behalf of their members. The Committee also collected information in Ireland and New Zealand as to the impressive work undertaken by Irish Thoroughbred Marketing Limited and New Zealand Thoroughbred Marketing in promoting and marketing their respective industries and considers that the Victorian industry can learn lessons from their operations.

In particular, the Committee believes that a coordinating agency, established with industry involvement and at arms length from day-to-day activities, would facilitate the promotion and distribution of information and advice on best practice within the Victorian industry.

The Committee recommends the establishment of such a body, nominally referred to as VicStud Ltd, and briefly canvasses a number of options for its structure and outlines the possible functions which such a body could perform. Important amongst these are marketing, the development of a variety of sales options, an advisory service and the promotion of best practice. It is recommended that VicStud Ltd have minimal staffing and second staff from relevant government departments. The Committee recommends that VicStud Ltd develop effective marketing and promotion strategies as well as develop best practice notes and advice to encourage greater investment.

The Committee was made well aware of the need for assistance to hobby breeders in particular, and we recommend that VicStud Ltd develop education and information packages for these breeders. The Committee also recommends that VicStud Ltd be responsible for establishing a state-wide foster mare and colostrum bank service. There is also a need to raise the profile of the industry and the professionalism of its participants. The Committee recommends that VicStud Ltd investigate the feasibility of securing sponsorship and funding for an annual national conference on thoroughbred breeding as well as assist the representation of Victorian thoroughbred breeders at industry forums.

Currently, there are federal government and Victorian government programs available to thoroughbred breeders. The Committee considers that VicStud Ltd could assist breeders in accessing these programs and grants such as Austrade's Export Market Development Grants, the Victorian Department of Innovation, Industry and Regional Development's export assistance program and the Victorian Department of Primary Industries' FarmBis education and training subsidies.

Having considered the Irish and New Zealand marketing operations, the Committee considers that initial funding from government is essential. The Committee recommends that the Victorian government provide VicStud Ltd with seed funding of \$600,000. To give the body a good chance of achieving

funding sustainability, the Committee recommends a compulsory levy or a stamp duty of up to 0.5 per cent on auction house sales in Victoria.

The Committee considers that a three year period of operation for VicStud Ltd would be sufficient to warrant an evaluation of its effectiveness and recommends a review of VicStud Ltd after this period.

Chapter 4: Investment environment and returns to investors and owners

Considerable evidence was received which referred to the high level of risk in the thoroughbred breeding industry and the challenging environment facing Victorian breeders. The Committee has adopted a broad approach to dealing with investment environment issues rather than promoting any particular simplistic solutions. This Chapter seeks to highlight ways in which more favourable investment conditions can be created.

A number of witnesses referred to the need for competition in Victoria with William Inglis and Sons' Melbourne sales. The Committee believes the issue is broader than just competition with the existing sales company and recommends that VicStud Ltd identify new and enhanced sales opportunities for breeders including internet sales, regional sales, and Ready to Run sales. The Committee noted evidence referring to the importance of an annual Victorian sales event and recommends that the matter be investigated by VicStud Ltd in collaboration with sales companies and industry parties.

The Australian Racing Board has a draft code of practice which introduces certain obligations including vendor disclosure on bloodstock agents. The Committee recommends that this draft code be adopted and that it be extended to ensure that it provides for a full disclosure of all treatments to thoroughbred horses being presented for sale.

The Committee has noted the efforts already being made by Racing Victoria Limited to market thoroughbred racing overseas and believes that a body such as VicStud Ltd would complement this work and play a coordinating role

in the marketing of the thoroughbred breeding industry and enhance its export activity. The Committee believes there is potential for the thoroughbred breeding industry to take further advantage of the export assistance and advice provided by both the Federal government's Austrade programs and those of the Victorian Department of Innovation, Industry and Regional Development. The Committee considers that VicStud Ltd could coordinate such efforts by the industry and maximise the effectiveness of such programs for the industry.

The Committee acknowledged that the Super VOBIS incentive scheme was still a very good scheme for providing returns to owners and breeders but that it faced serious competition from interstate. Rather than endorsing any particular new incentive schemes, the Committee considers that there is a need for cooperation between the industry and government to provide an environment conducive to the creation of further incentives. The Committee believes the Super VOBIS scheme should be strengthened and recommends that the government make an assessment as to whether a substantial one-off contribution to the scheme is feasible so as to allow incentives to be paid for more races, and particularly for those in country Victoria and older horses.

Evidence was received as to the value in developing a racing series of direct benefit to Victorian breeders. The Committee saw this issue being linked to the need to encourage investment in quality stallions in Victoria and recommends that the Victorian government, together with Racing Victoria Limited, consider the development of a Victorian Breeders Series with particular emphasis on promoting stallion investment. The Committee also recommends, as an incentive to investment, that the Victorian government adjust the stamp duty imposed on thoroughbred horses' insurance so that the duty does not apply more than it does in New South Wales.

Concerns were raised in evidence to the Committee about the impact of taxation provisions, especially income tax provisions, on the thoroughbred breeding industry. In particular, the Committee heard evidence about the Australian Taxation Office's (ATO) approach to deciding whether a breeder

was carrying on a business or a hobby and as to whether a breeder could claim primary production status and receive special taxation considerations. There would seem to be a valid argument for a review of the somewhat complex taxation provisions and their application by the ATO and this is a matter the Committee may pursue in the second report on this Inquiry.

The Committee heard evidence as to the current taxation write-down provisions for depreciation of breeding stock and the possibility of accelerated depreciation on stallions in New Zealand, which if this did occur, would place the New Zealand thoroughbred breeding industry at an advantage over the Australian industry. In respect of this possibility, the Committee recommends that the Victorian government make representations to the Federal government to ensure that taxation parity is at least achieved and maintained with New Zealand in relation to thoroughbred horses.

Multinational studs and their taxation treatment was the subject of some concerns raised in evidence to the Committee. While the Committee has noted these concerns, it was also aware of the advantages derived by these multinational studs due to economies of scale and their access to capital and appreciates their positive contribution to, for example, the quality of stallions available to Australian mares.

The Committee received evidence about the Australian Securities and Investments Commission (ASIC) Regulations which led it to believe that not all aspects of the compliance regime in respect of the syndication of stallions, broodmares and racehorses were necessary. There would also seem to be a need for greater clarity in terms of the different types of syndication arrangements and compliance obligations that arise from ASIC's application of the provisions of the *Corporations Act 2001* (Cth).

The ASIC regulations provide for a number of conditional exemptions but the Committee heard evidence from witnesses that so far as these affected syndications, there needed to be a more flexible approach and that the level of regulation was too strict. The Committee recommends that the Victorian

government make representations to the Federal government seeking a review of ASIC's regulatory regime in respect of this industry, particularly noting that a large number of horses are sold at low value for recreational interests. As well, the Committee heard evidence that ASIC's licensing requirements for dealers placed another burden on industry participants, especially on those who were at the lower, less commercial end of the industry.

The Committee acknowledges the advice that ASIC supplies to the industry, including by means of Policy Statements, and understands the important role given by ASIC to lead regulators, such as Racing Victoria Limited. However, the Committee considers more could be done by means of direct advice on syndication regulations and recommends that VicStud Ltd, in collaboration with Racing Victoria Limited, arrange regular training and information sessions for owners and potential owners of stallions and racehorses.

Evidence before the Committee referred to the widespread problem of bad debts in the breeding industry. While the racing stewards have the power to prevent a horse from racing and the Australian Stud Book can be advised not to register a foal, this does not solve all the problems faced by breeders. The Committee appreciates the measures that Racing Victoria Limited has put in place, such as their review of contracts, but considers that VicStud Ltd could provide an information and advisory service to increase awareness of this problem and ways of avoiding the accumulation of bad debts. In addition, the Committee recommends that Racing Victoria Limited use its existing powers to develop new exclusion procedures under the rules of racing in relation to defaulting owners.

The Committee heard evidence about the availability of credit reference agencies and recommends that VicStud Ltd, with related parties, identify ways for industry participants to better use the services of credit reference agencies. The Committee also recommends that VicStud Ltd examine the viability of creating a centralised fee collection system for the benefit of the thoroughbred breeding industry. Another issue related to the collection of bad

debts was the need for greater flexibility in relation to the use of the *Impounding of Livestock Act 1994* (Vic) and the Committee recommends that VicStud Ltd, with related parties, examine the current legislation, including the *Impounding of Livestock Act 1994*, to identify ways in which recovery of unpaid entitlements might be further expedited for industry participants.

Chapter 5: Skills training and research

This Chapter refers to the success that Victoria has had in producing skilled workers but also proposes recommendations to enhance the skills base, provide a safer workplace environment, and seek to increase the level of research funding available for the industry.

Evidence received by the Committee referred to how well Victorian equine studies graduates are received both in Victoria and interstate. However, the Committee also considered that with anticipated growth in the industry, it was timely that there be a review of the capacity of Victorian educational providers and an evaluation of the viability of expanding the options in relation to equine education and the Committee so recommends.

The Committee appreciates that the practically-oriented focus of much of Victoria's equine studies is a strength. The Committee also believes that there is a need to broaden the educational infrastructure in rural Victoria and recommends that the Victorian government review existing educational opportunities in regional Victoria and consider expanding them into regions which currently lack but require improved levels of equine education.

Evidence received by the Committee raised concerns as to the need for appropriate industrial protection and occupational health and safety standards for workers in the industry. The Committee recommends that the Victorian government work with relevant federal and state government agencies to ensure agreed industrial standards are monitored and enforced throughout the thoroughbred breeding industry. The Committee also accepts that there is a problem and shares the concern that many young employees are having

difficulty remaining happily and safely employed in the industry. The Committee recommends that the Victorian Workcover Authority undertake an awareness campaign in relation to industrial protection and occupational health and safety standards and develop practical guidelines and ensure industry compliance with the relevant legislation. Traditional models of workplace culture are not particularly worker-friendly and the Committee believes that unless this culture changes, the industry will fail to attract and retain highly skilled and dedicated professional staff.

The Committee notes that there are sound teaching programs for veterinarians in Victoria though informal discussions have raised the issue of their location and the spread of the practitioners. Evidence was received regarding the value of a specific equine nurse qualification and the Committee recommends that the Victorian government, in association with racing industry and educational providers, consider creating such a qualification. The importance of research funding was a matter that was raised in both evidence and in informal discussions. While the Committee notes the valuable and relevant work being undertaken as part of racing projects, it recommends that VicStud Ltd, together with relevant industry and educational bodies, review the adequacy of present levels of research targeted at the horse breeding sector.

Recommendations

Recommendation 3.1 (page 28)

The Victorian Government establish VicStud Ltd as a limited liability company with a board of directors representative of key stakeholders in the industry.

Recommendation 3.2 (page 30)

VicStud Ltd, in association with the Department of Innovation, Industry and Regional Development and other agencies, develop an effective and comprehensive marketing and promotion strategy as well as an export sales plan for Victoria's thoroughbred breeding industry.

Recommendation 3.3 (page 31)

VicStud Ltd develop best practice notes and advice for the purposes of improving standards and promoting greater investment in the Victorian thoroughbred breeding industry.

Recommendation 3.4 (page 31)

VicStud Ltd develop education and information packages for thoroughbred hobby breeders.

Recommendation 3.5 (page 32)

VicStud Ltd develop a statewide foster mare and colostrum bank service for the thoroughbred breeding industry.

Recommendation 3.6 (page 32)

VicStud Ltd, in association with key stakeholders:

- (a) undertake a feasibility study in relation to sponsorship and funding options for a possible annual national conference on thoroughbred breeding; and***
- (b) assist in facilitating the representation of Victorian thoroughbred breeders at industry forums.***

Recommendation 3.7 (page 33)

The Victorian Government establish VicStud Ltd as a body with minimal staff requirements, and allow the entity to negotiate the secondment of staff from relevant Government Departments and industry to help achieve its objectives.

Recommendation 3.8 (page 36)

The Victorian Government provide seed funding of approximately \$600,000 to enable VicStud Ltd to perform its recommended roles.

Recommendation 3.9 (page 36)

The Victorian Government introduce either a compulsory levy or a stamp duty of up to 0.5 per cent on auction house thoroughbred horse sales in Victoria to provide a recurrent revenue stream for VicStud Ltd.

Recommendation 3.10 (page 37)

The Victorian Government, in association with the Victorian thoroughbred breeding industry, review the operations of VicStud Ltd after no more than three years of operation to determine and evaluate its effectiveness in achieving its objective.

Recommendation 4.1 (page 48)

VicStud Ltd identify new and enhanced sales opportunities for breeders, including internet sales, regional sales, and the Ready to Run sales concept.

Recommendation 4.2 (page 49)

VicStud Ltd to investigate, in collaboration with sales companies and industry parties, the staging of an annual Victorian sales event to promote the industry and to coincide with a major Victorian horse race meeting.

Recommendation 4.3 (page 51)

The Victorian Government indicate its support for the adoption by the Australian Racing Board of its Draft Code of Practice, particularly insofar as it introduces vendor disclosure obligations and other intermediary agent obligations (i.e. bloodstock agents).

Recommendation 4.4 (page 51)

The Victorian Government lobby the Australian Racing Board to extend the Australian Bloodstock Code of Practice to ensure that it provides for a full disclosure of all relevant treatments to thoroughbred horses being presented for sale.

Recommendation 4.5 (page 66)

The Victorian Government undertake an assessment as to whether a substantial one-off contribution to the Super VOBIS scheme is feasible so as to allow incentives to be paid for more races, particularly country races and races for older horses.

Recommendation 4.6 (page 67)

The Victorian Government, in association with Racing Victoria Limited, consider the development of a Victorian Breeders Series with particular emphasis on promoting stallion investment.

Recommendation 4.7 (page 67)

The Victorian Government adjust the stamp duty imposed on thoroughbred horses' insurance to be no more than that which applies in New South Wales.

Recommendation 4.8 (page 74)

The Victorian Government make representations to the Federal Government to ensure that taxation parity is at least achieved and maintained with New Zealand in relation to thoroughbred horses.

Recommendation 4.9 (page 83)

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.

Recommendation 4.10 (page 84)

VicStud Ltd, in collaboration with Racing Victoria Limited, arrange regular training and information sessions for owners and potential owners of stallions and racehorses on the nature and extent of syndication regulations as required by the Australian Securities and Investments Commission.

Recommendation 4.11 (page 87)

Racing Victoria Limited to utilise its existing powers to develop new exclusion procedures under the rules of racing in relation to defaulting owners.

Recommendation 4.12 (page 88)

VicStud Ltd, in association with related parties, identify ways in which better use could be made by industry participants of the services of credit reference agencies.

Recommendation 4.13 (page 88)

VicStud Ltd examine the viability of creating a centralised fee collection system for the benefit of Victorian thoroughbred breeding industry participants.

Recommendation 4.14 (page 88)

VicStud Ltd, in association with related parties, examine the current legislation including the Impounding of Livestock Act 1994, in order to identify ways in which recovery of unpaid entitlements might be further expedited for thoroughbred breeding industry participants.

Recommendation 5.1 (page 97)

The Victorian Government, in consultation with key industry stakeholders and education providers:

- (a) evaluate the capacity of existing Victorian educational institutions to adequately provide for the Victorian thoroughbred breeding industry; and***
- (b) evaluate the viability of expanding the educational options.***

Recommendation 5.2 (page 100)

The Victorian Government review existing educational opportunities in regional Victoria in relation to horse breeding and consider expanding the number of courses in horse breeding and related fields into regions that are in need of improved levels of equine education.

Recommendation 5.3 (page 102)

The Victorian Government work with the relevant agencies at Federal and State levels to ensure that agreed industrial standards be monitored and enforced throughout the thoroughbred breeding industry.

Recommendation 5.4 (page 102)

The Victorian WorkCover Authority undertake an awareness campaign in relation to the occupational health and safety obligations of the thoroughbred breeding industry, develop practical guidelines and ensure compliance with the relevant legislation.

Recommendation 5.5 (page 106)

The Victorian Government, in association with the racing industry and educational providers, consider the creation of a specific equine nurse qualification.

Recommendation 5.6 (page 108)

VicStud Ltd, in collaboration with relevant industry and educational bodies, review the adequacy of present levels of research to further develop the horse breeding sector.

INTRODUCTION

1.1 Background to the Inquiry

On 1 February 2005, the Economic Development Committee received Terms of Reference from the Governor in Council to inquire into and report to Parliament on the Viability of the Victorian Thoroughbred/Standardbred Breeding Industries.

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.

The Committee was asked to present its report to the Parliament by 30 September 2005.

Due to the thoroughbred industry's enthusiastic response, the Committee sought an extension to the Inquiry so that it could gather more evidence and consult more widely with individuals and groups from within the thoroughbred and standardbred breeding industries. The Committee was granted an extension until 31 March 2006.

The Committee appreciates the extensive evidence it received from representatives of the Victorian regulatory and representative bodies, being Racing Victoria Limited (RVL), Thoroughbred Breeders Victoria (TBV), and the Thoroughbred Racehorse Owners' Association (TROA) as well as a number of individual breeders. The Committee also had informal discussions with representatives of the Victoria Racing Club (VRC).

1.2 Scope of the Inquiry

From a very early stage in this Inquiry, the Committee found that there are significant differences between the thoroughbred and standardbred breeding industries. A large majority of the written submissions received by the Committee during the course of this Inquiry related solely to the thoroughbred industry. As the evidence was gathered, the two industries raised quite different issues with the Committee. As a result, the Committee has chosen to produce two reports for this Inquiry: one dedicated to the thoroughbred breeding industry, the other dedicated to the standardbred breeding industry.

This Report documents the Committee's considerations and findings in relation to the viability of the Victorian thoroughbred breeding industry. The Committee plans to table its report on the standardbred breeding industry in mid-2006.

1.3 Aims of the Report on the Victorian Thoroughbred Breeding Industry

The Committee received evidence that there is considerable concern amongst Victorian breeders about the current state of the Victorian thoroughbred breeding industry. In particular, a number of witnesses expressed concern that the Victorian industry is under-performing and that it is facing intense competition from larger and better resourced New South Wales studs.

The Committee concludes that there is a valuable and as yet, only partially fulfilled role, for the Victorian Government to play in sustaining and maintaining the industry.

However, the Committee hopes that the Report will act as a catalyst for initiatives by industry participants. This is an important point, as the Committee believes that there is much the industry can do to improve the viability of the Victorian thoroughbred breeding industry.

1.4 Process for Gathering Evidence

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 an overseas study tour in early 2005.

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. Letters inviting submissions to the Inquiry were sent to breeders, studmasters, trainers, bloodstock agents, racing clubs, educational institutions, local councils and shires and key government and non-government agencies in Victoria.

The Committee received a total of 31 submissions, and 25 of these were focussed, at least in part, on the thoroughbred breeding industry. These submissions came 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 account a number of reports, documents, correspondence received and evidence taken at public hearings and informal meetings with a significant number of individuals, government bodies and non-government agencies.

In March-April 2005, the Committee conducted a two week study tour in Europe. The trip was principally focussed on the Committee's separate inquiry into Labour Hire Employment in Victoria which reported in June 2005. However, the Committee had an opportunity to examine developments in the thoroughbred breeding industries in Ireland and in France. In Ireland, the Committee met with representatives of peak thoroughbred industry bodies, whilst in France, the Committee visited two French thoroughbred studs. A list of the Committee's meetings in Ireland and France is set out in Appendix 4.

The Committee held a series of public hearings in Melbourne from June to October 2005 and a hearing in Nagambie on 22 June 2005. A list of these hearings is set out in Appendix 2. The Committee also conducted informal meetings and site visits in Melbourne, regional Victoria, Sydney and the Hunter Valley (NSW). A list of the Committee's informal meetings and site visits is set out in Appendix 3.

The Committee travelled to New Zealand to consider the nature of the New Zealand thoroughbred breeding industry from 10 to 15 July 2005. A list of the Committee's meetings in New Zealand is set out in Appendix 5.

1.5 Terminology

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

The Committee's investigation of the thoroughbred breeding industry has proceeded on the basis that viability must be understood as the industry's capacity to compete successfully, long-term, in the Australian and international markets. Evidence given to the Committee by breeders reinforced the view that the industry does not wish to rely on long-term government support, but that any support would be viewed only as a means of

enhancing economic activity and employment opportunities in this important industry.

1.6 Constraints

The Committee was encouraged by the willingness and enthusiasm of industry participants to provide information and advice as to the issues and problems facing the industry and, in some instances, to provide possible solutions. However, the Committee has also become mindful of a couple of important constraints on the gathering of evidence for this Report.

Due to commercial-in-confidence considerations, the Committee experienced some difficulties in accessing evidence as to the commercial success of particular horses and/or studs. As well, the thoroughbred horse industry has not attracted much research and scholarship about its nature and dynamics. Thus, the Committee found there was a paucity of secondary source material available for analysis in preparing this Report.

Rubiton Inc.

Rubiton is an example of how substantial economic activity can be created by a single horse.

Rubiton, bred on Oamaru Stud at Sunbury, was born in October 1983. As a racehorse his 10 wins, including the Cox Plate and three other Group 1 races in the spring of 1987, helped generate \$1.36 million in prizemoney.

It was *Rubiton's* subsequent stallion career, however, that saw his economic significance emerge. Between 1988 and late-2005 *Rubiton* served approximately 1,300 mares which have produced 944 live foals. His progeny include the 2003 Cox Plate winner, *Fields of Omagh*, as well as 29 other stakes winners. Seven of his progeny have to date earned more than a million dollars in prizemoney, with total progeny earnings exceeding \$32 million.

Rubiton was based at Blue Gum Farm in Euroa for ten seasons up to his death in late-2005, and during that period averaged 88 services. Between 1999 and 2004 his average rose to 98 mares and he achieved a conception rate of over 91 per cent.

At the time of his death *Rubiton's* advertised service fee was \$16,500. Within the thoroughbred breeding industry advertised service fees are not constantly achieved, so a calculation of his gross stallion earnings while based in Victoria can only produce an approximate figure. An estimate, however, of his notional income generation between 1995 and 2004 is around \$4 million.

Several weeks before *Rubiton's* death, the career of a new stallion, *Elvstroem* commenced at Blue Gum Farm. In his first season the former Victoria Derby and Caulfield Cup winner covered more than 160 mares. With an advertised service fee of \$35,000 *Elvstroem's* potential to generate considerable economic activity in north-eastern Victoria over coming years appears strong.

OVERVIEW OF THE VICTORIAN THOROUGHBRED BREEDING INDUSTRY

2.1 Introduction

Victoria has a vibrant thoroughbred racing industry, which is of key economic, social and cultural importance to the state and to the nation. The Committee received evidence that the economic value of Victoria's thoroughbred racing industry may be as high as \$2.2 billion per annum.¹

Victoria's thoroughbred breeding industry plays a vital role in underpinning the racing industry. However, in the course of the Committee's investigation of the viability of the Victorian thoroughbred breeding industry, the Committee received evidence of concerns that the industry is not achieving its full potential. This Chapter will give an overview of the current position of the Victorian thoroughbred breeding industry and will then outline the major concerns that were brought to the Committee's attention during its investigation.

2.2 History of the Thoroughbred Breeding Industry in Victoria

The thoroughbred breeding and racing industries have been an important part of Victoria's history since early colonial days.² Racing was conducted in Victoria as early as 1838.³ The Victorian gold rushes of the 1850s were particularly instrumental in transforming early racing in the colony from an amateur sport into a flourishing industry that supported local breeders.⁴

¹ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.3.

² Andrew Lemon, 1987. *The History of Australian Thoroughbred Racing (Vol 1): The Beginnings – to the first Melbourne Cup*. Melbourne, Classic Reproductions, pp.121-140, 221-246.

³ ACIL Australia Pty Ltd, 1992. *The Contribution of the Racing Industry to the Economy of Victoria*. Canberra, September, p.1.

⁴ Andrew Lemon, 1987. *The History of Australian Thoroughbred Racing (Vol 1): The Beginnings – to the first Melbourne Cup*. Melbourne, Classic Reproductions, pp.221-223.

A 'Grand Produce' race for horses bred in Victoria – a precursor of modern breeder incentive schemes – was held at Flemington in 1855, offering an attractive stake of £800.⁵ However, until the late 1850s, there were still only a handful of quality thoroughbred stallions standing in Victoria.⁶

The first Melbourne Cup was held in 1861. By the 1880s, the Cup had not only emerged as the leading race in Australia, but was also in the process of becoming a national institution.⁷ By this time, thoroughbred racing and breeding had evolved into flourishing industries that provided a livelihood for a growing number of people.⁸

According to Andrew Lemon's history of Australian racing, it was bloodstock agents William Yuille and James Purves who did the most to introduce new thoroughbred horses to Victoria in the early years.⁹ William Yuille made a particularly important contribution to Australian thoroughbred breeding by founding the Victorian Stud Book, which led to the establishment of the Australian Stud Book in the 1870s.

Ownership of the Australian Stud Book stayed in the Yuille family for a number of generations,¹⁰ and was transferred to the joint ownership of the

⁵ Andrew Lemon, 1987. *The History of Australian Thoroughbred Racing (Vol 1): The Beginnings – to the first Melbourne Cup*. Melbourne, Classic Reproductions, pp.221-223.

⁶ Andrew Lemon, 1987. *The History of Australian Thoroughbred Racing (Vol 1): The Beginnings – to the first Melbourne Cup*. Melbourne, Classic Reproductions, p.238.

⁷ Andrew Lemon, 1990. *The History of Australian Thoroughbred Racing (Vol 2): The Golden Years – from 1862 to 1939*. Melbourne, Southbank Communications Group, p.293.

⁸ Andrew Lemon, 1990. *The History of Australian Thoroughbred Racing (Vol 2): The Golden Years – from 1862 to 1939*. Melbourne, Southbank Communications Group, p.304.

⁹ Andrew Lemon, 1987. *The History of Australian Thoroughbred Racing (Vol 1): The Beginnings – to the first Melbourne Cup*. Melbourne, Classic Reproductions, p.239.

¹⁰ Andrew Lemon, 1987. *The History of Australian Thoroughbred Racing (Vol 1): The Beginnings – to the first Melbourne Cup*. Melbourne, Classic Reproductions, p.239.

Australian Jockey Club and the Victoria Racing Club in 1908. Compulsory registration of racehorses was introduced soon after.

A large number of English racehorses were imported during World War I. This enriched the breeding of thoroughbreds in Victoria (and Australia more generally), but destroyed the demand for local stallions for a number of years.¹¹ Imported stallions dominated the top stallion ranks for some time.

In evidence before the Committee, Thoroughbred Breeders Victoria advised that, in the more recent past, Victoria had once been the 'leading breeding state':

... Farms such as Kismet Park, St Aubins and Northwood Park [all stood] champion stallions. In more recent times, Century (1978/79) and Showdown (1977/78) were Victorian sires that were champion Australian Sires. When both of those stallions were at their peak, their respective farms Mornmoot Stud and Stockwell Stud were viewed as amongst Australia's leading farms.¹²

However, the Committee received much evidence to indicate that Victoria is no longer the predominant breeding state, particularly as a result of the amount of capital investment by international breeding operations in New South Wales.

The internationalisation of the industry has been a key historical development. This has manifested itself not only through the presence of large international breeding interests in the Hunter Valley, but also through the growing popularity of shuttle stallions. These stallions commute between the southern and northern hemispheres to service mares over both the southern and northern breeding seasons.

¹¹ Andrew Lemon, 1987. *The History of Australian Thoroughbred Racing (Vol 1): The Beginnings – to the first Melbourne Cup*. Melbourne, Classic Reproductions, p.465.

¹² Thoroughbred Breeders Victoria, 2005. Submission No. 9, 29 April, pp.9-10.

2.3 The Victorian Thoroughbred Breeding Industry

In 2004, there were 6,665 broodmares from Victoria that were sent to stud, and 206 stallions standing at stud. Over the same season, Victorian breeders produced 3,792 foals, which represented 21.7 per cent of Australia's thoroughbred foal crop.¹³ These figures are fairly static and have not varied considerably over the past 8 years as provided in Tables 2.1 and 2.2 below.¹⁴

Table 2.1: Mares Covered

VICTORIA

1996	1996 % Total	1997	1998	1999	2000	2001	2002	2003	2003 % Total	Change to 1996	
6,013	22%	6,285	6,393	6,676	6,373	6,453	6,541	6,123	24	110	2%

NEW SOUTH WALES

1996	1996 % Total	1997	1998	1999	2000	2001	2002	2003	2003 % Total	Change to 1996	
10,974	40%	10,692	9,872	10,067	10,153	10,635	9,842	10,075	40	-899	-8%

Table 2.2: Foals Produced

VICTORIA

1996	1996 % Total	1997	1998	1999	2000	2001	2002	2003	2003 % Total	Change to 1996	
4,037	22%	3,983	4,256	4,260	4,305	4,159	4,560	3,902	23	-135	-3%

NEW SOUTH WALES

1996	1996 % Total	1997	1998	1999	2000	2001	2002	2003	2003 % Total	Change to 1996	
6,789	38%	7,314	6,961	7,207	7,331	7,485	7,201	6,598	39	-191	-3%

Source Tables 2.1 and 2.2: Racing Victoria Limited and Thoroughbred Breeders Victoria, 2005. Racing Victoria Limited Breeding Industry Strategy. Victorian Thoroughbred Breeding Industry Statistics and Fact Pack, 1 May, p.6.

¹³ Australian Stud Book, 2005. Correspondence, 21 October, p.5. Note that these statistics are taken from this later Stud Book reference than those statistics giving rise to Table 2.3.

¹⁴ Racing Victoria Limited, 2005. Victorian Thoroughbred Breeding Industry: Statistics and Fact Pack. (Attachment to Submission No. 16), 23 May, p.6.

Table 2.3: Stallions Standing in Victoria – 2004 Season**VICTORIA**

FOA*	\$1 to \$500	\$500 to \$1,000	\$1,000 to \$2,500	\$2,500 to \$5,000	\$5,000 or more	All	% <\$5,000	% \$5,000 (inc FOA)
31	-	18	52	50	51	202	59%	41%

NEW SOUTH WALES

FOA*	\$1 to \$500	\$500 to \$1,000	\$1,000 to \$2,500	\$2,500 to \$5,000	\$5,000 or more	All	% <\$5,000	% \$5,000 (inc FOA)
39	4	24	99	31	94	291	54%	46%

Source: Racing Victoria Limited and Thoroughbred Breeders Victoria, 2005. Racing Victoria Limited Breeding Industry Strategy. *Victorian Thoroughbred Breeding Industry Statistics and Fact Pack*, 1 May, p.8.

* Fee on application.

The Committee received evidence that over 2,000 people own Victoria's broodmares. This means that a large number of individuals own only one or two horses.¹⁵ The Committee also heard evidence that a larger percentage of thoroughbred owners in Victoria are hobby breeders, compared with New South Wales.¹⁶ Of the 11,220 horse breeders in Australia, 2,681 are based in Victoria.¹⁷

2.4 The Economic Contribution of the Thoroughbred Breeding Industry to the Victorian Economy

It is difficult to estimate the economic contribution of the Victorian thoroughbred breeding industry. On its own, the breeding industry generates significant economic and employment activity, particularly in regional Victoria. However, it also makes a significant indirect contribution to the Victorian economy by helping to sustain the Victorian racing industry.

¹⁵ Racing Victoria Limited, 2005. *Victorian Thoroughbred Breeding Industry: Statistics and Fact Pack*. (Attachment to Submission No. 16), 23 May, p.11.

¹⁶ T. O'Mara, Racing Victoria Limited, 2005, Transcript of Evidence, 20 June, p.9.

¹⁷ IER Pty Ltd, 2001. *Size and Scope of the Australian Thoroughbred Racing Industry*. Report commissioned by the Australian Racing Board. Mascot, December, p.13.

Racing Victoria Limited advised the Committee that:

*Thoroughbred breeding underpins the racing industry and directly accounts for a substantial component of its economic and employment value. RVL recognises the essential and important role that the Victorian breeding industry plays in ensuring the continued viability of racing in Victoria. Without an active breeding industry in this State there would simply not be enough horses to sustain and grow our racing product.*¹⁸

According to Racing Victoria's 2000 report, *The Victorian Thoroughbred Racing Industry: Size and Scope*, Victoria's thoroughbred breeders spent \$780 million over five years on horses, land and improvements.¹⁹

Around 930 Victorian yearlings were sold in the major yearling sales in 2002-03 for an average price of \$23,588.²⁰

Racing Victoria Limited advised that the economic value of the Victorian thoroughbred racing industry has been measured at \$2.2 billion per annum, and that it employs over 66,000 people in 22,000 equivalent full time positions.²¹

One way of appreciating the economic value of the Victorian thoroughbred breeding industry is to consider the aggregate sales prices of progeny of Victorian stallions. Table 2.4 lists the official sales results for 2005. The total return in excess of \$30 million does not include the numerous smaller sales at which the progeny of Victorian stallions are sold.

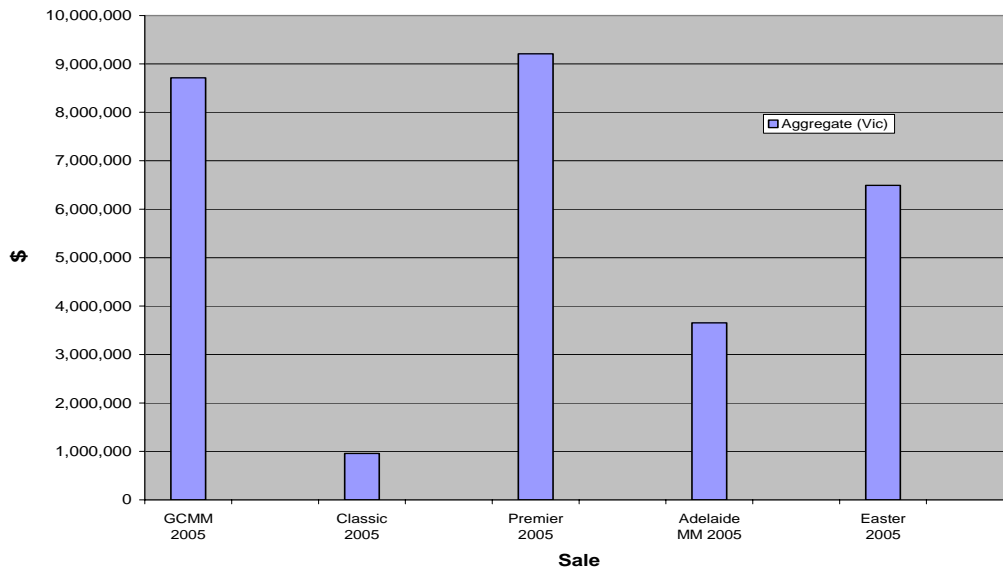
¹⁸ Racing Victoria Limited, 2005. Submission No.16, 23 May, p.1.

¹⁹ Racing Victoria Limited, 2000. *The Victorian Thoroughbred Racing Industry: Size and Scope*. Racing Victoria Limited, Flemington, November, p.6.

²⁰ Racing Victoria Limited, 2005. *Victorian Thoroughbred Breeding Industry: Statistics and Fact Pack*. (Attachment to Submission No. 16), 23 May, p.15.

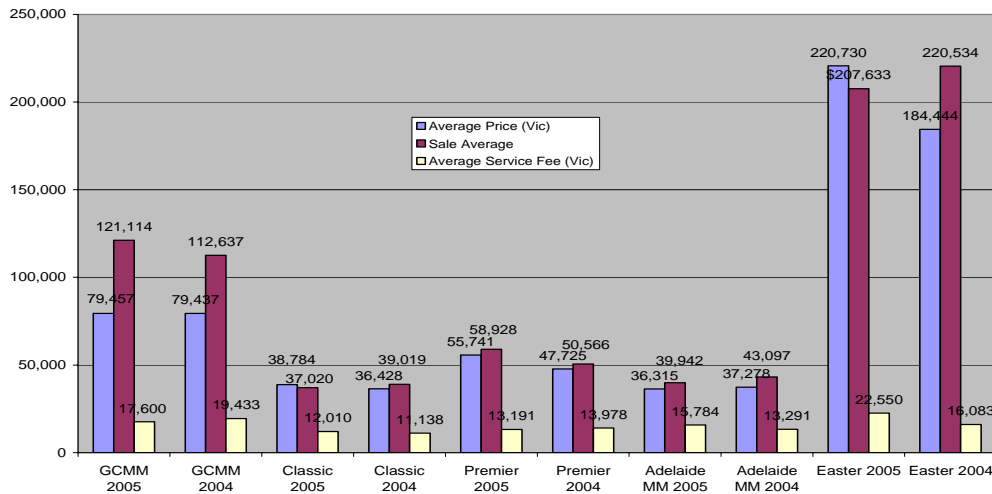
²¹ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.1.

Table 2.4: Aggregate of Victorian Stallions – Progeny Sold



Source: Racing Victoria Limited and Thoroughbred Breeders Victoria, 2005. Racing Victoria Limited Breeding Industry Strategy. *Victorian Thoroughbred Breeding Industry Statistics and Fact Pack*, 1 May, p.16.²²

Table 2.5: Average Price – Victorian Stallions – Progeny Sold



Source: Racing Victoria Limited and Thoroughbred Breeders Victoria, 2005. Racing Victoria Limited Breeding Industry Strategy. *Victorian Thoroughbred Breeding Industry Statistics and Fact Pack*, 1 May, p.16.

²² GCMC refers to the Gold Coast Magic Millions yearling sales. Classic refers to the William Inglis Classic Sale for yearlings. Premier refers to the William Inglis Melbourne Premier yearling sales. Adelaide MM refers to the Adelaide Magic Millions yearling sales. Easter refers to the William Inglis Sydney Easter yearling sales.

2.5 Industry regulation and representation

The Australian thoroughbred breeding industry has a number of key representative and regulatory bodies at both national and state levels.

2.5.1 Key national bodies

Aushorse Limited represents 50 of the major thoroughbred commercial stud farms in Australia. Magic Millions Sales Pty Ltd has recently agreed to commit \$3 million over five years to an Aushorse conducted Inward Buyers' Scheme.²³

The **Australian Racing Board** (ARB) is the peak national administration body for thoroughbred racing. The primary function of the ARB is to ensure that thoroughbred racing is conducted throughout Australia according to the same general practices, conditions and integrity. To this end, the ARB makes the Australian Rules of Racing.

The **Australian Stud Book** ("the Stud Book") is an internationally recognised organisation which is responsible for the maintenance, accuracy, quality and integrity of records of thoroughbred bloodlines in Australia.²⁴ The Australian Stud Book is co-owned by the Australian Jockey Club and the Victoria Racing Club.

The Stud Book is also used as a term to refer to the officially published records of thoroughbred bloodlines in Australia. The Stud Book, together with The Australian Non Thoroughbred Register,²⁵ contains the official parentage, pedigree and identification records of all racehorse foals born in Australia.

²³ Racing and Sports 2005. \$3 million funding for Aushorse Buyers Scheme, in <<http://www.aapracingandsports.com.au>>

²⁴ *Rules of the Australian Stud Book*, p.4.

²⁵ The Australian Non Thoroughbred Register records the breeding history of racehorses that are not eligible for the Australian Stud Book. These may be horses that are not in the Australian Stud Book for administrative reasons, or because not all branches of their pedigree can be traced back to a thoroughbred. Australian Stud Book, 2004. *Rules of the Australian Stud Book*, p.15.

Horses bred by any form of artificial breeding are not eligible for inclusion in the Stud Book.²⁶

Thoroughbred Breeders Australia (TBA) is the peak representative body for thoroughbred breeders at a national level. Amongst its other functions, TBA represents the Australian breeding industry at international breeders' conferences and meetings.²⁷

2.5.2 Key state bodies

Racing Victoria Limited (RVL) has been Victoria's principal racing authority since 2001 and was established to provide independent governance of thoroughbred racing in Victoria. RVL represents the Victorian thoroughbred industry in dealings with bodies such as TABCORP and the Australian Racing Board. RVL is also responsible for the marketing of Victorian thoroughbred racing.²⁸

Thoroughbred Breeders Victoria (TBV) is the peak representative body for Victorian breeders. TBV's primary aim is to promote and advance the interests of the thoroughbred and its breeders in Victoria.

Thoroughbred Racehorse Owners' Association (TROA). Its mission is to be the key industry stakeholder providing an independent voice for all racehorse owners. In partnership with all owners TROA aims to protect their interests, promote increased financial returns and the enjoyment of racing.

²⁶ *Rules of the Australian Stud Book*, p.17.

²⁷ See the Thoroughbred Breeders Australia website for further information about its activities: <<http://www.tbaus.com>>.

²⁸ See Racing Victoria Limited's website for further information about its activities: <<http://www.racingvictoria.net.au>>.

2.6 Strengths and Weaknesses

As noted above, the Victorian thoroughbred breeding industry was arguably once the leading breeding industry in the country. In more recent times the strengths of the Victorian thoroughbred breeding sector have been overshadowed by gains made in New South Wales (which has experienced a dramatic expansion of its industry over the past two decades), and in New Zealand. New South Wales, New Zealand (and more recently Queensland in the context of thoroughbred sales) are now identified as centres of breeding excellence by both Australian and international investors. This decline in Victoria's thoroughbred breeding industry has been accentuated by the rapid global integration of the industry.

In these circumstances, it has become much easier to identify the weaknesses in Victoria than to highlight its strengths and the existence of these weaknesses was, of course, one of the motivations for this Inquiry. Throughout this Report the Committee will be identifying those weaknesses and making recommendations as to the ways in which they can be overcome. The Committee will also be identifying the undeniable strengths of Victoria's thoroughbred breeding industry and the ways in which these strengths can be more effectively exploited for the advancement of the local industry.

The following is an overview of the particular strengths and weaknesses that will be covered in the following Chapters.

Strengths

- Racing Industry
- Super VOBIS
- Lower cost-base

Weaknesses

- Stallions
- Sales process and marketing
- Inadequate resourcing

2.6.1 Key Strengths

2.6.1.1 Victorian Thoroughbred Racing

While Victoria's thoroughbred breeding industry may have declined in prominence in recent decades, Victoria's thoroughbred racing industry continues to grow from strength to strength. The Melbourne Cup Carnival is the signature racing carnival for Australia and indeed one of the most famous in the world. It is the ignition point for considerable economic investment each year in Victoria. According to Racing Victoria Limited, the gross economic benefit of the 2005 Spring Racing Carnival was a record \$524.3 million.²⁹ Beyond the Spring Racing Carnival, Victorian racing offers owners the best returns on their investment in the country. It is Australia's leading state for prizemoney with \$113,786,958 awarded in 2003-04.³⁰

The Committee believes that more work can be done to capitalise on the clear synergies that exist between Victorian racing and Victorian thoroughbred breeding. In their submission to this Inquiry, Racing Victoria Limited noted that:

A crucial aspect of the breeding sector is its major overlap with thoroughbred racehorse ownership. Breeders currently own approximately 10% of the current racing population and are integral to the maintenance and recruitment of the ownership base.³¹

In this regard the Committee notes that, in recent years, there has been an increased injection of capital into Victoria from other states than has previously been the case. This has been invested in breeding and racing properties, or often a combination of the two, and includes the acquisition by Tony Santic (from South Australia) of the property known as Smytzer's Park

²⁹ Racing Victoria Limited, 2005. *Spring Racing Carnival Economic Benefit*. <<http://www.racingvictoria.net.au>>

³⁰ Racing Victoria Limited, 2005. *Victorian Thoroughbred Breeding Industry: Statistics and Fact Pack*. (Attachment to Submission No.16), 23 May, p.3.

³¹ Racing Victoria Limited, 2005. Submission No.16, 23 May, p.3.

near Geelong and investment in Victoria by Wadham Park Stud (from Queensland). Leading Victorian trainers have also made significant investments in Victorian property. The purchase by Lee Freedman of his Rye property 'Markdel' and Danny O'Brien's more recent purchase of property in Barwon Heads are two prominent examples of investor confidence in Victoria.

2.6.1.2 *Super VOBIS*

The viability of the thoroughbred breeding industry depends, amongst other things, on continued demand for the purchase of thoroughbreds. A number of witnesses gave evidence to the Committee that prizemoney – that is, return on investment – is one of the most critical incentives to encourage higher levels of racehorse ownership. The Committee was told that Victoria must maintain competitive levels of prizemoney in order to sustain and increase its current ownership base.

VOBIS (Victorian Owners and Breeders Incentive Scheme) and its successor Super VOBIS have been the key means for linking prizemoney to the Victorian breeding industry. VOBIS was initially introduced in 1986, as a joint initiative by the racing and breeding industries and the Victorian Government.³² It was revamped to become Super VOBIS in 1994. The scheme offers additional prizemoney to horses that are bred as Victorian horses, as decided by the scheme's eligibility criteria.

Overall, the Committee received evidence that Super VOBIS has continued to stimulate demand by providing additional prizemoney for Victorian bred horses. However, the Committee has noted evidence to the effect that Super VOBIS has lost its leading role as compared to other incentive schemes such as BOBS in New South Wales. Super VOBIS is discussed in more detail in Chapter 4.

³² Racing Victoria Limited, 2005. *Victorian Thoroughbred Breeding Industry: Statistics and Fact Pack*. (Attachment to Submission No. 16), 23 May, p.17.

2.6.2 Key Weaknesses

2.6.2.1 Competition with New South Wales

The viability of the Victorian industry is often queried in the context of its ability to compete with the Hunter Valley in New South Wales. The Committee broadly accepts the strength of the thoroughbred breeding industry in New South Wales relative to Victoria. This dominance is generally reflected in the tables provided in this Chapter: tables that highlight key differences between the two states. That said, the Committee also notes that such comparisons (focusing as they do on statewide statistics), are of limited value in that they don't focus on regionally specific areas of each state and fail to account for other factors that may provide a more complete account of the competitive advantages in each state.

Breeding distribution figures demonstrate that the New South Wales industry is substantially bigger than the Victorian industry. For example, New South Wales has 34.8 per cent of the total number of stallions in Australia and 36.5 per cent of the total number of broodmares, while Victoria has 23.7 per cent and 23.5 per cent respectively (see Table 2.6). New South Wales also has a substantially larger number of the total percentage of foals in Australia.

A significant portion of Australian and international investment in the Australian thoroughbred breeding industry is made in the Hunter Valley in New South Wales. In particular, the Committee received evidence that Victorian breeders often feel powerless to compete with large scale international breeding operations such as Coolmore and Darley,³³ which have established studs in the Hunter Valley.³⁴

³³ Coolmore Stud is an international breeding organisation (arguably the pre-eminent shuttle stallion station in the world). Coolmore originates from Ireland and retains a strong position in its home country, together with large studs in Kentucky (USA) and the Hunter Valley (Australia). Darley Stud, which is based in Dubai, is also an international breeding organisation which stood 48 stallions in 8 countries in 2005.

³⁴ R. Nason, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, pp.8-9.

Table 2.6: Breeding Distribution by State 2003-04

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
STALLIONS	330	225	222	103	40	26	1	1	948
% OF TOTAL	34.8%	23.7%	23.4%	10.9%	4.2%	2.7%	0.1%	0.1%	
BROODMARES*	10,399	6,702	5,610	2,845	2,002	724	157	39	28,478
% OF TOTAL	36.5%	23.5%	19.7%	10.0%	7.0%	2.5%	0.6%	0.1%	
FOALS#	6,846	4,044	3,089	1,623	892	430	15	1	16,940
% OF TOTAL	40.4%	23.9%	18.2%	9.6%	5.3%	2.5%	0.1%	0.0%	
LIVE FOALS TO MARES RETURNED	65.8%	60.3%	55.1%	57.0%	44.6%	59.4%	9.6%	2.6%	59.5%
AVERAGE BOOK PER STALLION	32	30	25	28	50	28	(In NSW)	39	30

Note: * includes 6444 broodmares not served

This figure is subject to an increase due to late foal returns

Source: Australian Racing Board Limited, Australian Racing Fact Book, 2003/04, p.30.

The Committee notes that Victorian breeders feel that they are unable to match the quality of stallions standing in the Hunter Valley, as a result of the superior levels of capital investment in the Hunter Valley. Witnesses before the Committee also spoke of the difficulty in addressing broodmare owners' perceptions that stallions standing in the Hunter Valley are superior to those standing in Victoria.³⁵

2.6.2.2 Stallions

Many witnesses appearing before the Committee have emphasised the fundamental importance of stallion strength to the viability of Victoria's thoroughbred industry. It is axiomatic that the stronger the state's stallion profile is, the more Victoria will be able to retain its quality broodmares and indeed attract broodmare owners in other states to invest in Victoria. In this regard, Mr Tim Johnson of Thoroughbred Breeders Victoria, in evidence before the Committee, noted the following:

³⁵ E. Boling, Thoroughbred Breeders Victoria, 2005, Minutes of Evidence, 20 June, p.50.

Things have changed and New South Wales has kicked ahead for differing reasons which are largely historical. Star Kingdom stood there in the late 1950s and became an instant success. The winners of the first five Golden Slippers were all by Star Kingdom horses. What you find is that if you can get your stallion strength up, the long term benefits can be absolutely enormous.³⁶

A useful guide to the relative strength of Victoria's stallion profile can be found in the *Inside Racing Sires Supplement (Inside Breeding 2005)* in Appendix 10 of this Report. The stallion listings by service fee indicate that 25 of the top 27 stallions, are located in the Hunter Valley. Only two of the stallions are located in Victoria.

2.6.2.3 Other Weaknesses

The inability of Victoria in recent years to attract and retain high profile stallions is a major weakness of the Victorian thoroughbred breeding industry. The loss of one of Australia's premier stallions in *Encosta De Lago* to New South Wales is a case in point.³⁷ The Committee considers that the lack of access to capital for the purposes of acquiring high quality stallions is one of the reasons underlying Victoria's inability to attract and maintain quality stallions. Other weaknesses brought to the Committee's attention include the absence of a Victorian owned sales company, a culture of bad debts that impact on the cashflow of many different parts of the racing/breeding industries, and the lack of an overarching body with sufficient authority and resources at its disposal to promote the many strengths of the Victorian thoroughbred breeding industry.

Indeed, over the course of its Inquiry, the Committee has taken particular note of the need for the thoroughbred breeding industry in Victoria to engage in more effective and aggressive marketing and for an entity with sufficient resources to perform this task. In the following chapters, the Committee will

³⁶ T. Johnson, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.38.

³⁷ *Encosta De Lago* is now standing at Coolmore Stud in the Hunter Valley: <<http://www.coolmore.com>>

outline its response to this fundamental weakness. The Committee believes that the creation of a dedicated entity to both respond to the deficiencies of the prevailing system of thoroughbred breeding in Victoria, and to highlight strengths in the system that suffer from a lack of effective promotion, is timely. The Committee is encouraged by the support it has received from key stakeholders and other witnesses for such a concept.

2.7 A foundation for growth

Notwithstanding the weaknesses identified above, the Committee remains optimistic about the future of the thoroughbred breeding industry in Victoria. While the Victorian industry struggles to attract high profile stallions, the Committee believes there are significant opportunities to address this weakness.

In evidence before the Inquiry, both Racing Victoria Limited and Thoroughbred Breeders Victoria Ltd (TBV) referred to the lower input costs in Victorian breeding operations compared to New South Wales.³⁸ In their submission TBV noted that in relation to land values, the costs associated with purchasing raw materials such as feed and fodder, and accessibility to a capital city, Victoria has significant competitive advantages over New South Wales.³⁹

³⁸ Racing Victoria Limited, 2005. Submission No 16, 23 May, p.8.

³⁹ T. Johnson, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.41.

Cumbre Stud

Gavin and Heather Beever operate one of Victoria's newest thoroughbred studs, Cumbre Stud, located at Sedgwick, south of Bendigo.

Both Gavin and Heather have agricultural backgrounds, but their love of horses encouraged them to pursue thoroughbred breeding professionally. Gavin and Heather have adopted an innovative approach to their new business while using their existing skills, knowledge and experience acquired through their previous business.

Cumbre Stud consists of almost 120 hectares, with purpose-built fencing and pre-training facilities. The property has irrigated flats in summer and is close to leading equine veterinary facilities. It is within easy travelling distance of major metropolitan and provincial trainers.

Gavin and Heather Beever's approach to the breeding industry is innovative in two respects. First, they have sought to establish an integrated breeding and racing operation through the creation of Cumbre Racing, an arm of the business dedicated to encouraging race horse ownership. Having secured the necessary Australian Securities and Investments Commission licensing to allow them to advertise shares in horses, Gavin and Heather actively encourage investment in horses they are preparing to race.

Second and in contrast to many others within the industry, Gavin also applies a scientific approach to the management of young horses. His awareness of shin soreness as a critical restraint on many young horses has led Gavin to formulate a Canon Bone Index program. This program involves a series of regular x-ray scans of the horse's canon bone, considered to be a key indicator of whether the horse's skeletal strength is developing at a rate capable of sustaining the added pressure that race training imposes.

SETTING A NEW DIRECTION

3.1 Industry representation in Victoria

As stated in Chapter 2, the Thoroughbred Breeding Industry currently has two representative bodies in Victoria, Thoroughbred Breeders Victoria (TBV) and Thoroughbred Racehorse Owners' Association (TROA). TBV's primary aim is to promote and advance the interests of the thoroughbred and its breeders in Victoria. The aim of TROA, in partnership with all owners, is to protect their interests, promote increased financial returns and the enjoyment of racing.

Whilst recognising the valuable work of these representative bodies, the Committee nevertheless considers that an improvement to the viability of the thoroughbred industry would be best achieved through the establishment of a dedicated body, as outlined in this Chapter, aimed at promotion, sales and marketing for the thoroughbred breeding industry, in ways that have not been possible before.

3.2 Overseas Jurisdictions

In April 2005 whilst in Ireland, the Committee, in meetings with officials of Irish Thoroughbred Marketing Limited (ITM),⁴⁰ was impressed with that organisation's structure and professional approach to promotion and marketing. The Committee also noted that ITM is a dedicated marketing body, supported by its own revenue stream, though it remains a subsidiary of Horse Racing Ireland, the Irish government's industry regulator. As such, ITM is

⁴⁰ Committee discussions with Mr Michael O'Rourke, Director of Marketing and Communications, Horse Racing Ireland, Fairyhouse, Ireland, 28 March 2005; and Mr. Brian Kavanagh, Chief Executive Officer, Horse Racing Ireland; Mr. Raymond Horan, Group Company Secretary, Horse Racing Ireland; and Mr. Michael O'Hagan, General Manager, Irish Thoroughbred Marketing, Kill, Co. Kildare, Ireland, 29 March 2005.

subject to the day-to-day direction of the management of Horse Racing Ireland.

In July 2005, the Committee had the opportunity, during a visit to New Zealand, to speak with officials of New Zealand Thoroughbred Marketing (NZTM).⁴¹ This organisation operates effectively on a small budget. It is, however, a stand-alone limited liability company and while answerable to various stakeholders, is responsible for its own affairs.

As the Committee was advised by Mr Adam Sangster of Collingrove Stud:

*But Ireland being what it is, and New Zealand being what it is, they have really got together rather than taking participation from the actual physical industry — the owners of the studs and proprietors — they have done it through a different levy through a different government board, which can only help.*⁴²

The Committee was informed that NZTM is staffed by a Chief Executive, a marketing executive and a contract journalist to assist in communications. NZTM was established as a limited liability company in 1997. It is funded mainly through both a percentage levy from the sale of horses in New Zealand as well as an initial export levy.⁴³ There are also contributions from the New Zealand Thoroughbred Breeders Association (NZTBA), New Zealand Thoroughbred Racing (NZTR) and New Zealand Bloodstock Ltd (NZB).

Principally through its electronic newsletters, NZTM believes that it has been able to effectively promote its industry, both nationally and internationally. This was achieved, so Mr Gianotti, the Chairman and Ms Naismith, the Chief Executive, advised the Committee, through the frequent reference to high

⁴¹ Committee discussions with Mr Bill Gianotti, Chairman and Ms Julia Naismith, Chief Executive Officer, New Zealand Thoroughbred Marketing, Te Rapa, New Zealand, 13 July 2005.

⁴² A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, p.79.

⁴³ The New Zealand export levy now contributes to higher stakes money: Committee discussions with Mr Bill Gianotti, Chairman and Ms Julia Naismith, Chief Executive, New Zealand Thoroughbred Marketing, Te Rapa, New Zealand, 13 July 2005.

performing New Zealand thoroughbred horses usually from large commercial operations.⁴⁴ In contrast to both New Zealand and Ireland, the Victorian thoroughbred breeding industry does not have a well-resourced marketing body.

3.3 The Need for a Co-ordinating Agency

It became clear from evidence received by the Committee from those in the industry, that the formation of a body focusing on the promotion and marketing of the thoroughbred breeding industry would be a welcome development.⁴⁵ The Committee considers such a body would complement the work currently undertaken by existing representative bodies to advance the industry, while acting to spearhead a more coherent and effective approach to industry development.

The Committee accepts the need for a body which can take a lead in assisting the thoroughbred breeding industry in Victoria to reach its maximum potential. Such a body could facilitate ongoing cooperation between government and industry to ensure the implementation of the reforms which this Report recommends.

The Committee has been encouraged by the participation of the Victorian thoroughbred breeding industry as a whole in this Inquiry. The Committee is pleased that not only does the industry itself see a need for further improvement, but that it wants to be involved in any such body.

Various options were canvassed by the Committee as to the nature of the body to be established to assist in revitalising the industry. These included the body being:

⁴⁴ Interview with Mr Bill Gianotti, Chairman and Ms Julia Naismith, Chief Executive, New Zealand Thoroughbred Marketing, Te Rapa, New Zealand, 13 July 2005.

⁴⁵ B. Scarborough, North East Thoroughbred Industry Alliance, 2005, Minutes of Evidence, 22 August, p.162.

- a statutory organisation;
- a not-for-profit agency;
- a limited liability company; or
- an agency within an existing Victorian government department.

The Committee was mindful of both the breadth of functions required of this body as well as its need to be at arms length from both day-to-day government activities as well as those of industry bodies

3.4 VicStud Ltd

The establishment of a body, which the Committee nominally refers to in this Report as VicStud Ltd, would have the advantage of being a designated entity, separate from day-to-day government and racing industry control while hopefully drawing on the resources and expertise that each has to offer. The proposed body would have a clear statement of purpose which would ensure that it operated independently from the direction of the government of the day. The body should be governed by a board of representatives from government and industry and be chaired by a government appointee.

The Committee does not believe that the work of VicStud Ltd will replicate that being undertaken elsewhere and the entity, by its very existence, will facilitate the promotion and distribution of information and advice on best practice within the Victorian industry. The Committee considered this to be of particular importance given the significance of the hobby breeder sector.

Recommendation 3.1

The Victorian Government establish VicStud Ltd as a limited liability company with a board of directors representative of key stakeholders in the industry.

3.4.1 Functions of VicStud Ltd

The Committee considers that the functions to be performed by such a body will evolve over time and be fashioned by the needs of the thoroughbred breeding industry. The Committee envisages a number of important functions that this body should fulfil from the outset. The core functions of VicStud Ltd would be:

- marketing of the Victorian thoroughbred breeding industry;
- development of a variety of sales options;
- provision of an advisory service for Victorian breeders;
- promotion of best practice;
- to assist the development of scholarships and exchange programs for people employed in the Victorian thoroughbred breeding industry; and
- to ensure appropriate representation of Victorian breeders in industry forums.

3.4.2 Marketing

The most significant of these functions is for VicStud Ltd to be the lead agency in the marketing and sales promotion for the Victorian thoroughbred breeding industry. VicStud Ltd would work with Victorian departments in providing information and advice on the Victorian government's export and industry development programs as well as assisting breeders with information on how to access relevant federal government programs. It is expected that VicStud Ltd would take advantage of current industry-owned mediums of communication, such as TVN and Radio Sport 927, while also developing new mediums to enhance its presence.

VicStud Ltd should become the chief marketing agent for the Victorian thoroughbred breeding industry and this could be achieved, as in the case of New Zealand Thoroughbred Marketing, with minimal staffing and extensive use of the electronic mode of communication, such as an electronic

newsletter. It is envisaged that the marketing role would be performed in liaison with the Victorian industry and in close collaboration with the Department of Innovation, Industry and Regional Development and in association with the Federal government's export development agency, Austrade. The role that these state and federal government agencies perform in regard to the thoroughbred breeding industry are discussed in Chapter 4. The Committee envisages VicStud Ltd working with the thoroughbred breeding industry to target overseas buyers for the Victorian sales and establishing a coordinated approach to future export markets.

Recommendation 3.2

VicStud Ltd, in association with the Department of Innovation, Industry and Regional Development and other agencies, develop an effective and comprehensive marketing and promotion strategy as well as an export sales plan for Victoria's thoroughbred breeding industry.

3.4.3 Advisory and information service

Another key role to be undertaken by VicStud Ltd is that of an advisory service to the industry. The Committee appreciates that to professionally and effectively perform this role, the body will need to call on various experts within both industry and government and that the agency will assist in making information and expertise more readily accessible to industry participants and potential participants.

This may be achieved through the development of best practice notes and guides for the industry and through the establishment of updated databases of relevant experts and sources of advice. An example of VicStud Ltd's role in improving best practice would be through the provision of some general and broadly applicable advice for breeders on matters such as pasture management, sales options, foaling down procedures, as well as, importantly, a list of financial advisors.

VicStud Ltd will also be in a position to organise, in conjunction with industry representatives, seminars and forums for breeders and other interested parties which could provide opportunities for the promotion of best practice throughout the industry. The promotion of best practice by VicStud Ltd would be facilitated by the development of best practice notes, possibly in the form of information and education packages, on a range of breeding aspects of the thoroughbred industry.

The entity could, for example, use its pivotal position to bring together experts to provide information on how best to apply business practices to stud management as well as consolidate information on, for example, foster mare services and the availability of a colostrum bank. It could also provide information on the development of new industry performance indicators, that is, highlighting the success of the Premier Victorian Sales and the value and the linkages to incentive schemes such as Super VOBIS.

Recommendation 3.3

VicStud Ltd develop best practice notes and advice for the purposes of improving standards and promoting greater investment in the Victorian thoroughbred breeding industry.

In consideration of the prevalence of hobby breeders in Victoria and their relative lack of resources, the Committee believes that it is important that VicStud Ltd contributes resources to assisting this section of the industry.

Recommendation 3.4

VicStud Ltd develop education and information packages for thoroughbred hobby breeders.

Recommendation 3.5

VicStud Ltd develop a statewide foster mare and colostrum bank service for the thoroughbred breeding industry.

3.5 National and international forums and conferences

The Committee recognises that the development and promotion of best practice requires that the thoroughbred breeding industry continue to be both professional and outward-looking in approach. Notwithstanding the assigned role of TBA, while in Ireland early in 2005, the Committee was concerned to hear that the Australian industry had not been represented at a recent international breeders conference.

Informal evidence before the Committee back in Australia revealed that with no financial support available for such meetings and conferences, there is some reluctance for breeders to be always financing the representation of the Australian industry overseas. As well as ensuring that current and relevant information and advice is readily available to industry participants, VicStud Ltd should see as part of its role, the development of stronger connections with the international thoroughbred breeding industry.

Recommendation 3.6

VicStud Ltd, in association with key stakeholders:

- (a) undertake a feasibility study in relation to sponsorship and funding options for a possible annual national conference on thoroughbred breeding; and***
- (b) assist in facilitating the representation of Victorian thoroughbred breeders at industry forums.***

3.6 Staffing

The Committee believes that VicStud Ltd, like New Zealand Thoroughbred Marketing, would not require a large staffing complement to fulfil its role as it should be able to negotiate the secondment of staff from both government departments and industry bodies. The Committee envisages that VicStud Ltd will have a close relationship with relevant government departments, and secondment, in addition to a small permanent professional staffing component, is seen as a sensible and cost-effective approach to staffing issues.

With regards to secondments, there are three departments which perform functions of importance to the thoroughbred breeding industry. They are the Department of Justice (DoJ), principally through its Office of Racing, the Department of Primary Industries (DPI), principally through Biosecurity Victoria and its Animal and Livestock Division and the Department of Innovation, Industry and Regional Development (DIIRD) mainly through its Office of International Business and Export and its Regional Innovation Clusters program. The Committee believes that these secondments would assist VicStud Ltd with its own chief executive officer and staff in achieving its objectives.

Recommendation 3.7

The Victorian Government establish VicStud Ltd as a body with minimal staff requirements, and allow the entity to negotiate the secondment of staff from relevant Government Departments and industry to help achieve its objectives.

3.7 The relationship between VicStud Ltd and government agencies

The Committee considered that VicStud Ltd could act to assist breeders to access the export facilitation programs of DIIRD and this assistance would include the provision of advice about how to access grants. VicStud Ltd could also perform a role in helping various studs to 'cluster' together to provide a coordinated approach to DIIRD in order to take advantage of both the export assistance of the department as well as industry development support through the regional clusters program. In collaboration with DIIRD, VicStud Ltd could provide information to breeders as to upcoming trade fairs and missions to which they could then apply for funding (from DIIRD) to attend.

The Committee also sees VicStud Ltd as possibly working with DPI, to facilitate the access of Victorian thoroughbred horse breeders to the FarmBis program of education and training subsidies which the department operates (in conjunction with the Federal government), as well as industry extension programs such as business planning and advice on pasture management and breeding.⁴⁶

VicStud Ltd could be expected to liaise with the Office of Racing in the Department of Justice and promote racing industry initiatives such as breeder incentive schemes to the industry.

In addition, VicStud Ltd could develop a database on skills development initiatives to be available for industry participants and employees together with the Victorian Department of Education and Training and various technical and further education (TAFE) and tertiary education institutions.

⁴⁶ However, to be eligible, a thoroughbred breeder would have to be a 'primary producer' which is defined as those who are "owner operators or managers of a primary production enterprise as determined by the Australian Taxation Office": Rural Finance, 2005. *Agriculture – Advancing Australia*, Fact Sheet on FarmBis, 9 September
<<http://www.farmbis.ruralfinance.com.au/attachment/docs/FB%20Fact%20Sheet%209%20Sept%202005%2Edoc>>

3.8 Funding of VicStud Ltd

Historically, there have been insufficient funds available for the marketing and promotion of the Victorian breeding industry due to the lack of designated state government funding as well as a lack of reliable and adequate industry funding.

In contrast, the Committee was impressed with the effective operation and marketing strategies in both Ireland, by Irish Thoroughbred Marketing and in New Zealand, by New Zealand Thoroughbred Marketing. Representatives of both overseas bodies revealed the need for the provision of a certain level of initial funding to a marketing and promotion body in order to have the best prospects of achieving funding sustainability within a reasonable period of time. The Committee was also made aware of the financial constraint upon Thoroughbred Breeders Victoria (TBV) as a result of only having access to a voluntary levy on sales. Mr Tim Johnson, Vice-President of TBV told the Committee:

.... when it comes to a levy, we do have a sales levy, optional, of half a per cent, that William Inglis kindly enables us to collect, but the person has to tick the box to say, 'Yes, William Inglis and Son are able to deduct that half a percentage from my sales levy'.⁴⁷

Mr Richard Andrews, Executive Officer of TBV, when referring to the voluntary levy, told the Committee:

It [levy proceeds] will come to us, but obviously being an interstate operation [interstate breeders], they do not particularly feel obliged to contribute towards the state associations, such as TBV, so we are heavily reliant on the generosity of the Victorian vendors ticking the box, which a lot of them do, and of the money raised from that — for example, this year I think we will receive just under \$40,000 in sales levies from the Melbourne premier 1, premier 2, and autumn sales — basically we raise that money on the proviso

⁴⁷ T. Johnson, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.42.

*that it will obviously be spent on the marketing of that sale, and we pay travel rebates to interstate buyers.*⁴⁸

The Committee believes that the Victorian government should provide an establishment grant of approximately \$600,000, while a sustainable industry contribution could be provided through either a compulsory levy or a stamp duty of up to half of one per cent on the value of all thoroughbred horses sold at Victorian auction sales.

The Committee notes the evidence of the Department of Primary Industries, in its written submission, which outlines the possibility of the issuance of an Industry Development Order (Order) under the *Agricultural Industry Development Act 1990*. This Order would allow the industry to collect a levy from producers to provide specific services such as market promotion and other related activities. An Order is made for up to four years.⁴⁹

Recommendation 3.8

The Victorian Government provide seed funding of approximately \$600,000 to enable VicStud Ltd to perform its recommended roles.

Recommendation 3.9

The Victorian Government introduce either a compulsory levy or a stamp duty of up to 0.5 per cent on auction house thoroughbred horse sales in Victoria to provide a recurrent revenue stream for VicStud Ltd.

⁴⁸ R. Andrews, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.42.

⁴⁹ Department of Primary Industries, 2005, Submission No. 26, 6 September, p.5.

3.9 Review of VicStud Ltd Operations

The Committee strongly supports the establishment of VicStud Ltd and acknowledges its value will ultimately be determined by the extent to which it receives support from the Victorian industry. With this in mind, the Committee believes the work of VicStud Ltd needs to be subject to an industry review in no more than three years.

Recommendation 3.10

The Victorian Government, in association with the Victorian thoroughbred breeding industry, review the operations of VicStud Ltd after no more than three years of operation to determine and evaluate its effectiveness in achieving its objective.

Claremont Thoroughbreds

Western Victoria is a region of the State not generally recognised for its thoroughbred breeding operations. Mr Greg Daffey and his family's Claremont Thoroughbreds stud in Balmoral, western Victoria, is seeking to alter that perception, recently changing the focus of his farm business from sheep and grains to thoroughbred breeding. Mr Daffey's experience as a farmer has assisted this transition and has informed his use of innovative methods of marketing in raising the profile of his stud.

The Claremont property covers 534 hectares and where it was once a sheep and grains farm, breeding income is now the mainstay of farm income. The business has been specifically tailored to the needs of its western Victoria clients who, unlike other parts of Victoria, are breeding to race rather than to sell at market. As a consequence, there is less concern amongst its client base about the vagaries of the auction house sale process than is evident elsewhere in the state.

An example of Mr Daffey's use of innovation to maintain and expand the business is the marketing of his foundation stallion, *Musee D'Orsay*. Claremont Thoroughbreds have devised an early winners incentive scheme which involves offering the owners of any winning *Musee D'Orsay* progeny a free return service. More recently, Claremont Thoroughbreds acquired a second stallion, *Green Perfume* and between them, the two stallions served 115 mares in the 2005 breeding season. The stud aims to consolidate its client base over the next few years so as to maintain the service numbers in excess of 100 for each season.

INVESTMENT ENVIRONMENT AND RETURNS TO INVESTORS AND OWNERS

4.1 Introduction

The thoroughbred breeding industry poses significant and sometimes unique challenges to investors in the industry. The elements of both risk and reward are perhaps more finely balanced compared with other industries where the investment environment is arguably less speculative. That said, Australian thoroughbred markets have been experiencing strong growth for well over a decade and the recent results at the 2006 Magic Millions yearling sales in Queensland demonstrates a continuing upsurge in demand for the acquisition of racehorses.

While many sellers of yearlings, broodmares and racehorses generally are enjoying the economic benefits of this strong demand, the long lead times of the industry underline the need for both patience and luck. Broodmares have an 11 month gestation period. Furthermore, getting yearlings to the sales ring approximately 15 months after birth can be a difficult and costly exercise. In this context, investment in thoroughbreds is very much an income-deferred process.

The Committee heard evidence from a number of witnesses that called for industry and state government co-operation in the sales and marketing of thoroughbred horses as well as a more supportive environment in terms of the application of taxation and syndication rules to breeders.

Other factors identified by the Committee which influence the investment environment for thoroughbred breeders in Victoria include export market issues; the rules and regulations surrounding the purchase and breeding of horses; the payment of accounts; and prizemoney and incentive schemes.

The Committee is acutely aware that the key relationship between the racing and breeding industries in Victoria is the need to ensure that the expanding racing program is filled in order to maximise wagering turnover. This being the case, the racing industry is dependent upon the thoroughbred breeding industry producing an adequate number of foals each year. The challenge is made more difficult bearing in mind the inherent wastage that occurs in equine reproduction. However, the decision by breeders to invest the substantial sums required to produce enough foals per year is determined only in part by the racing program prizemoney. There are other factors outlined in this Chapter, which also influence the investment decisions of breeders.

4.2 Returns to Investors and Owners

4.2.1 *The Sales System in Australia*

The sales of thoroughbred horses in Australia and New Zealand are principally conducted by auctions undertaken by three selling agents:

- William Inglis and Son Ltd in Sydney and Melbourne;
- Magic Millions Sales Pty Ltd on the Gold Coast, and in Perth, Adelaide and Tasmania; and
- New Zealand Bloodstock in Karaka, New Zealand.

The above three private companies specialise in the selling of thoroughbred horses by auction, and each has distinctive features in their sales, promotion and marketing strategies. Victorian bred horses are sold at all of these sales throughout Australia. Sales are conducted in all major cities throughout the year and a list of the scheduled 2006 sales is provided at Appendix 9.

William Inglis and Son Ltd, a Sydney based company established 1867, is the oldest of these sales companies and took over from Dalgety's the thoroughbred horse sales at Oaklands, near Melbourne in January 1994. The annual Australian Easter Yearling Sale, conducted at Newmarket, Sydney, is Inglis' flagship event. It attracts some of the best young thoroughbreds in Australia and New Zealand, as well as buyers from all over Australia, New Zealand and Asia.

Inglis conducts a number of bloodstock sales each year at Oaklands, including the Melbourne Premier Yearling Sale in February/March, and Victoria's largest breeding stock sale, the June Weanling and Thoroughbred Sale.

In evidence before the Committee, Mr Peter Heagney of Inglis has advised that Inglis made:

A substantial investment into it [the sales complex when it bought it in 1994] and have improved the particular facility whereby today it is as good if not the best in Australia, and comparable to any in the world.⁵⁰

Mr Heagney also advised the Committee that Inglis was:

In the process of building 120 boxes – stables – out there, so we can expand and strengthen the sales... [and] we will be able to have three consecutive days of selling.⁵¹

Evidence received by the Committee suggested the major concerns about the Victorian sales system were the high level of fixed sales costs relative to the average sales price and the ability of agents to dictate the structure of the sales.

⁵⁰ P. Heagney, William Inglis and Son Ltd, 2005. Minutes of Evidence, 15 August, p.151.

⁵¹ P. Heagney, William Inglis and Son Ltd, 2005. Minutes of Evidence, 15 August, p.159.

The Committee heard concerns from breeders as to the pressure on profit margins due to the high costs involved in preparing horses for the thoroughbred auction sales. Mr Adam Sangster of Collingrove Stud, in evidence, told the Committee:

For the breeder, however, a \$50,000 sale will have cost him the best part of \$10,000 in sale preparation, entry, attendance and commission – all of which comes out of his auction sale proceeds. Experienced breeders calculate on a 10 per cent breakage rate when preparing and consigning horses to a sales complex. Of the total number of horses entered it is common to see only 75 per cent that make it through the ring actually sold. Some will have been passed in, while a significant percentage are withdrawn due to injury.⁵²

Mr Sangster, in his written submission to the Committee, provided the table below which illustrates a comparison between auction sale and private sale costs for progeny of a mare valued at \$15,000 bred to a stallion with a \$15,000 service fee.

Table 4.1 – Comparative Costs

Breeder's Costs	Auction	Private Sale
Sale Value	\$50,000	\$50,000
<i>Less Costs</i>		
Service Fee	\$15,000	\$15,000
Rearing Foal	\$7,000	\$7,000
Super VOBIS	\$600	\$600
Mare Amortisation	\$5,000	\$5,000
Production Cost	\$27,600	\$27,600
Sales Entry	\$1,000	
Sale Promotion	\$500	
Sale Attendance	\$1,000	
Sale Preparation	\$4,000	
Sale Commission	\$4,000	
Sale Breakage	\$5,000	
Selling Costs	\$15,500	
Total Costs	\$43,100	\$27,600
Breeder Profit	\$6,900	\$22,400

Source: Collingrove Stud, 2005. Submission No. 7, 28 April, p.7.

⁵² A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, p.71.

As Table 4.1 illustrates, on a \$50,000 sale, Mr Sangster calculated that at the auction sale, the breeder would secure a \$6,900 profit after costs. The comparable figure for a private sale would be \$22,400, though the Committee acknowledges that figures are difficult to ascertain.

The Committee notes the direct relevance of the above table to thoroughbred breeders in Victoria, particularly the Victorian hobby breeder. Collingrove Stud caters mainly to Victorian breeders and in their written submission they outline their concern “that many breeders are either cutting back on mare numbers or ceasing to breed thoroughbreds completely, due to their inability to earn a satisfactory return for the risk and effort they have to put in”.⁵³

The Committee shares Collingrove’s concerns. Statistics from Collingrove’s written submission show that of the 5,581 horses sold at auction in 2004, 75 per cent of these horses sold for less than \$50,000 with the average for this group of horses being just under \$19,000.⁵⁴ According to the Collingrove submission, breeders accepting these modest returns through the auction process are experiencing a loss on their investment of, on average, \$5,700 on each sale.⁵⁵ Small hobby breeders experiencing this negative return would be discouraged from further participation in the industry.

4.2.2 Sales Competition

The Committee heard from a number of witnesses that competition would be a good thing for Inglis’ Melbourne sales. For example, Mr Martin O’Connor, an experienced breeder and tax accountant, told the Committee that:

⁵³ Collingrove Stud, 2005. Submission No. 7, 28 April, p.5.

⁵⁴ Collingrove Stud, 2005. Submission No. 7, 28 April, p.8.

⁵⁵ Collingrove Stud, 2005. Submission No. 7, 28 April, p.8.

*The sales centre we have at Oaklands ... is very, very good [but] I do think that Inglis need competition here in Victoria. ... I would like to see another sales company start up here.*⁵⁶

The Chief Executive Officer of Racing Victoria Limited (RVL), Mr Robert Nason, told the Committee that, in relative terms to other states, there was a need for an improvement in the Victorian sales:

*I do not want to paint a picture that we do not have a good relationship with [Inglis]; I think we do. But is Victoria advantaged versus the other states? No, it is not. That is our positioning right now. We are very keen to improve that positioning — to get our leverage so that when we have these negotiations we are in a stronger position based on what we can do at the sale, what our product is that is going to that sale. We are in a weak position in terms of that negotiation right now.*⁵⁷

In the written submission of Racing Victoria Limited to the Committee, they referred to Victoria's low export numbers as being partly the result of a lack of a local sales agent. As RVL saw it, the sales by William Inglis and Son and Magic Millions focussed on other States.⁵⁸

Of particular concern to the Committee was the perception amongst many in the industry that the Inglis' Melbourne sales ran third to the Inglis' Sydney Easter sales and Magic Millions' Gold Coast January sales and that these sales did not adequately support Victorian bred horses. Mr Graham Duff, the Chairman of Racing Victoria Limited, referred to the importance of the link between the breeder and the sales organisation:

Getting your horse into the premier sales in New South Wales, you will find you need to have the right linkages to do that. If a guy down here has got three or four mares and he wants to take one of them to the Easter sales in Sydney to get the premium that that sale brings in, then he really is going to be battling. It is going to be very difficult for him to do that. The main breeders with the big stallions

⁵⁶ M. O'Connor, Martin O'Connor and Partners, 2005. Minutes of Evidence, 20 June, p.36.

⁵⁷ R. Nason, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.10.

⁵⁸ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.16.

*ensure that they have got a very strong association with the sales company, so that if you take your mare to a stallion there and your mare is reasonably well bred, you could almost guarantee that you will get the progeny a berth at the sales.*⁵⁹

One of Victoria's leading commercial breeders, Mr Adam Sangster of Collingrove Stud referred to the possibility of a Victorian sales company and explained to the Committee why the Sydney Easter sale was seen as the premium sale, even for Victorian breeders:

*The sales agents go out and they do all their due diligence looking at the various horses and then grading them into certain sales, and if you have got a black type winning mare by a prolific stallion, you would probably prefer to go to a bigger market where you will get rather than two or three people [bidding] on your horse, five or six people on your horse to raise the power of the dollar. But there is no reason why a Victorian sales-based company could not be set up.*⁶⁰

The Chief Executive Officer of RVL, Mr Robert Nason, expanded on the concern as to Victoria's apparently inferior sales position and advised the Committee that:

*... the feeling that I get is that the sales companies are doing you a favour by running the Melbourne sale and helping. All the premier stock goes to Sydney and the focus is on Sydney, and we are definitely in that sort of no. 2 position, and even less than no. 2 when you put in the Magic Millions sales in Queensland. They are getting a much greater promotion.*⁶¹

A recent comparison of the leading auction sales in Australia reinforces Victoria's inferior sales position. The 2005 average prices received at Magic Millions Gold Coast yearling sales in January and Inglis' Sydney Easter yearling sales were significantly higher than the average prices for the Premier yearling sales held in Melbourne. In 2005 the average sale price for the Sydney Easter yearling sales was \$207,633, the average sale price for

⁵⁹ G. Duff, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.8.

⁶⁰ A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, p.80.

⁶¹ R. Nason, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.9.

Magic Millions was \$117,261 and for the Melbourne Premier sales the average was \$59,011.⁶²

Thoroughbred Breeders Victoria (TBV), in their written submission to the Committee, expressed concern as to the extent that the premium Sydney yearling sales could provide sales opportunities for Victorian breeders and stated that:

*The ability to secure positions in the yearling sales is becoming harder ... and this trend is certain to continue with the vast numbers of yearling[s] coming from the Coolmore and Darley stallions in particular. The progeny of these stallions again are perceived to be more commercial than the Victorian product, in spite of results, which show otherwise.*⁶³

As well as concerns with the current Victorian sales mechanism, there was also concern expressed by Thoroughbred Breeders Victoria in its written submission to the Committee, that the sales commission rates in Australia, being between 8 and 10 per cent, were amongst the highest sales commission rates of the major breeding countries.⁶⁴ In evidence before the Committee, Mr Richard Andrews, Executive Officer of TBV, stated that:

*... if there was a Victorian sales company that could charge a lower commission fee to encourage home-bred horses to be sold through their own sale. So, for example, if TBV owned that sales company, we would be working in a not-for-profit situation but we could pass that money back through to the marketing and promotion of the local product.*⁶⁵

In informal meetings with breeders and industry figures, the Committee was advised of the need for the widening of access to the sales process and that

⁶² See: <<http://www.ozhorse.com.au/sales/10204133.html>>, <<http://www.smh.com.au/news/Horseracing/Australias-rising-stars-of-the-stallion-worl...>> 30/01/06 and email received from William Inglis and Son Pty Ltd, dated 31 January 2006.

⁶³ Thoroughbred Breeders Victoria, 2005. Submission No. 9. 29 April, p.8.

⁶⁴ Thoroughbred Breeders Victoria, 2005. Submission No. 9. 29 April, p.8.

⁶⁵ R. Andrews, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.45.

this could largely be done through the introduction of regional sales in Victoria. The Committee was also informed of the growing popularity of internet sales of horses as well as the 'off-the-farm' sales.⁶⁶ Mr Tas Reilley of TBV outlined in evidence before the Committee the circumstances in which 'off-the-farm' sales are appropriate:

*Certainly there are a large number of those horses. There is a certain range in the market where it is almost impossible — your costs stay consistent whether it is an expensive horse, or a cheap horse in particular. There is a level in the market where it just ceases to be profitable to produce a horse. I think a lot of those types of horses do get syndicated between mates; that is, sold privately. I know there are quite a few farms doing that: selling weanlings out of the paddock and so on. There is certainly a range of horses that do not make a profit and they are the ones that normally get sold privately or syndicated through a group ...*⁶⁷

As to internet sales, Mr Tim Breadmore of Paringa Park, in evidence before the Committee, stated:

*The IT industry is changing the rule of thoroughbreds. I looked at a horse yesterday, a \$300,000 horse that one of my clients had been offered in Melbourne by a trainer, and he sent some images to me on the computer — three or four of them with the horse running around. I had an amazing ability to actually make some sort of assessment on the horse.*⁶⁸

The Committee, while acknowledging the views and evidence of many before it, does not believe the government should establish a separate Victorian based sales company as a commercial entity. The Victorian government should, however, play a role in the promotion of the sales of thoroughbred horses in this State.

⁶⁶ 'Off-the-farm' sales have always been a small fraction of the sales anywhere in Australia and have usually resulted from a grouping together of a number of breeders to offer their horses for sale.

⁶⁷ T. Reilley, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.45.

⁶⁸ T. Breadmore, Paringa Park, 2005. Minutes of Evidence, 22 June, p.66.

Recommendation 4.1

VicStud Ltd identify new and enhanced sales opportunities for breeders, including internet sales, regional sales, and the Ready to Run sales concept.

The Committee was also provided with evidence by industry representatives that referred to the success elsewhere, of making the thoroughbred sales a major event. Mr Robert Nason, Chief Executive Officer of RVL in referring to this concept, told the Committee that:

The sales process is sort of a unique marketing event that has the support of governments, particularly in Queensland, South Australia and New South Wales. We do not get that level of support. They create an event around the sale.... [The sales in] Adelaide, Brisbane and Sydney have greater prominence in the racing calendar for prospective owners than the Victorian sales.⁶⁹

RVL, in its written submission to the Committee, called for the “introduction of Victorian sales events, [which] combined with the international profile of our racing will assist in the positioning of Victorian sales as major must-attend racing events.”⁷⁰ The proposal from Racing Victoria Limited related to a Ready to Run sale and Owners Expo in the Spring as well as an annual yearling sale at the time of the autumn racing festival.⁷¹

In evidence before the Committee, Mr Bernard Saundry, the Director of RVL’s Racing Development, provided the Committee with a suggestion as to when an event might be staged:

We think that a March sale with the Flemington Super Saturday, is the opportunity to bring international and interstate visitors to

⁶⁹ R. Nason, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.9.

⁷⁰ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.17.

⁷¹ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.13.

Victoria and create what Robert [Nason] talked about before as a tourism destination for three or four days in Melbourne.⁷²

In their submission to the Committee, Thoroughbred Breeders Victoria (TBV) referred to the value in promoting a sale in Melbourne around autumn, probably March and saw it as an:

... unprecedented opportunity for breeders to take greater control in the marketing. A sales company formed by breeders in conjunction with Racing Victoria Limited and the State Government would be an industry first ... It could focus on the Victorian-bred yearlings, promote the sale around Melbourne and the Autumn racing carnival
⁷³
...

Recommendation 4.2

VicStud Ltd to investigate, in collaboration with sales companies and industry parties, the staging of an annual Victorian sales event to promote the industry and to coincide with a major Victorian horse race meeting.

4.2.3 Sales and Bloodstock Code of Practice

The Committee considers that the thoroughbred breeding industry needs to develop a transparent code of practice to ensure that investors will have no doubt that they are receiving value for money, particularly in light of the high prices that are being paid for yearlings.

The Australian Racing Board (ARB) has developed a draft code of practice for bloodstock agents. Styled on the British code of conduct, this draft code will apply to all sales of bloodstock conducted privately and at public auction, as well as sales of stallion shares and nominations. With further consultation to

⁷² B. Saundry, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.13.

⁷³ Thoroughbred Breeders Victoria, 2005. Submission No. 9, 29 April, p.8.

occur during 2005, the ARB expects to have the code adopted for the 2005-06 racing season.⁷⁴

The Code includes a requirement that the agent should avoid circumstances where he/she may come into a conflict of interest with the principal and, if such cases do arise, he/she must disclose any conflict of interest to the principal for whom he/she is acting. As well, the agent must relay any offers to purchase a horse, in its entirety, to the principal and must also not offer any secret profits to anyone he believes to be acting for a prospective purchaser.⁷⁵

Importantly, the Australian Racing Board sees enforcement as the key. In their March 2005 Media Release, the Board said:

*An important aspect of this Code is (sic) the amendments to the Australian Rules of Racing AR.7 (s), AR.175 (v) and AR.209 that have been developed to enforce breaches of this Code. We will be vigorously enforcing the Code to ensure that it is followed and that those who commit breaches are severely penalised.*⁷⁶

Mr Andrew Harding, the Chief Executive Officer of the Australian Racing Board advised the Committee that the draft Code essentially sets out an agent's fiduciary obligations to his/her principals and that while these obligations were basic commercial law, many agents were not aware of them.⁷⁷

As far as the Committee can ascertain, the proposed Code of Practice has been well received by the industry. For instance, a key player in the Victorian industry, Mr Adam Sangster, had this to say in evidence before the Committee:

⁷⁴ Andrew Harding, Australian Racing Board, 2005. *Australian Racing Board Set to Reform Bloodstock Sales*. Media Release, Sydney, 18 March.

⁷⁵ Australian Racing Board, 2005. *Australian Bloodstock Code of Practice*. Sydney, February.

⁷⁶ Andrew Harding, Australian Racing Board, 2005. *Australian Racing Board Set to Reform Bloodstock Sales*. Media Release, Sydney, 18 March.

⁷⁷ Committee discussions with Mr Andrew Harding, Chief Executive, Australian Racing Board, Sydney, 31 August 2005.

The recently implemented bloodstock industry code of practice, to be enforced as a part of the Rules of Racing, provides all the oversight that the industry needs to protect the public from untoward behaviour in the marketing of racehorses. The potential for being fined or banned for malpractice, together with the attendant bad publicity, should be sufficient incentive to ensure that breeders and agents do the right thing in marketing their horses.⁷⁸

As well as the Code's impact in helping to curb any undesirable behaviour in the marketing of thoroughbred horses, the Committee also believes the Code needs to be amended to ensure that all parties are required to give a full disclosure of all treatments given to horses prior to their sale.

Recommendation 4.3

The Victorian Government indicate its support for the adoption by the Australian Racing Board of its Draft Code of Practice, particularly insofar as it introduces vendor disclosure obligations and other intermediary agent obligations (i.e. bloodstock agents).

Recommendation 4.4

The Victorian Government lobby the Australian Racing Board to extend the Australian Bloodstock Code of Practice to ensure that it provides for a full disclosure of all relevant treatments to thoroughbred horses being presented for sale.

4.2.4 Marketing and export programs

4.2.4.1 Marketing

The issue of a new marketing body for Victorian breeders was raised during the Inquiry. For instance, Mr Bob Scarborough, giving evidence as President of the North East Thoroughbred Industry Alliance (NETIA), submitted that

⁷⁸ A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, pp.71-72.

there was a need to establish a Victorian marketing board along the lines of the New Zealand Thoroughbred Marketing Board:

... whether it needs to come out of perhaps a pool of funds that may be made available as a result of the conclusions you may come to as a committee in your recommendations to government or whether it could come out of another pool that is trade related, but I would hope it might be able to come out of another pool and provide an amount of a million dollars over a three-year period ... thereafter the industry itself would need to find the means by which it can continue to support that marketing initiative.⁷⁹

As discussed in Chapter 3, the Committee had the opportunity, while in New Zealand in July 2005, to speak with the Chairman, Mr Bill Gianotti and the Chief Executive, Ms Julia Naismith, of New Zealand Thoroughbred Marketing (NZTM) about the structure and operation of their marketing organisation. The Committee was greatly impressed with the effectiveness of NZTM and notes the high regard which Victorian industry participants have for the way that industry organisation promotes its industry.

The Committee also heard evidence from Thoroughbred Breeders Victoria (TBV) as to the marketing and promotion requirements of the breeding industry. Mr Tim Johnson saw TBV's role at the forefront of the development of a marketing strategy and suggested that, such a strategy could involve breeders, as represented by TBV, racing interests through RVL and government supported tourism promotion.⁸⁰

Mr Richard Andrews, Executive Officer of TBV, in evidence before the Committee argued that:

One of the fastest ways to create a marketing role for the Victorian breeding industry would be to create a DVD, in conjunction with Racing Victoria Limited, that highlights the areas of the state with

⁷⁹ B. Scarborough, North East Thoroughbred Industry Alliance, 2005. Minutes of Evidence, 22 August, p.162.

⁸⁰ T. Johnson, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.44.

*regard to the properties, the horses and the racing here, just an overview of the state ... That could be distributed through the international trade offices that the Victorian government has around the world.*⁸¹

The Committee believes that these industry views endorse its own conclusions that VicStud Ltd would be an appropriate vehicle to market the thoroughbred breeding industry in both Victoria and elsewhere.

Mr Adam Sangster of Collingrove Stud gave evidence before the Committee that there was a potential for breeders, “to work with their clients and identify clusters of horses of sufficient quality to create marketable packages”. He considered that, with Racing Victoria Limited, a model could be created which included internet, hospitality services and training services that would bring many new people into racing horse ownership.⁸²

4.2.4.2 *Export programs and issues*

The Committee accepted evidence from several witnesses that efforts at increasing the horse ownership base in Victoria would inevitably lead to an expansion of horse breeding and racing exports. For instance, Mr Martin O'Connor, an experienced horse breeder and tax accountant, had this to say:

*... if you expand the ownership base you have more people competing for horses and that pushes up the price of yearlings; it helps the breeders, it helps everybody and it increases the exports over a period of time which helps the country.*⁸³

Racing Victoria Limited has indicated to the Committee that they are looking more to the international development of its horseracing product. Chief Executive Officer Mr Robert Nason told the Committee:

⁸¹ R. Andrews, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.44.

⁸² A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, p.74.

⁸³ M. O'Connor, Martin O'Connor and Partners, 2005. Minutes of Evidence, 20 June, p.34.

You are increasingly seeing our horses participate overseas. You are seeing our current racing having more international horses participating in them and racing becoming an international industry, and our international name being one on which we think we can develop export opportunities for participants at all levels, but the breeding sector in particular.⁸⁴

The Committee was presented with RVL's Bahrain project as an example of the efforts that were already being made. Mr Nason informed the Committee that:

[there is] an assignment with Bahrain where we are looking at developing their racing industry. We are not doing this just for consulting revenue purposes; we are looking at that in terms of developing industry relationships within Victoria. We are looking at supplying the horse population to Bahrain to meet their objectives with the growth of their racing industry over the next 10 to 20 years ... [As well they were] looking at training for jockeys and trainers coming to Victoria.⁸⁵

A number of witnesses referred the Committee to the export potential of Asian markets such as Hong Kong, South Korea and Japan. Another country of great potential for Victorian horse breeding and related industries was China. Mr Tim Breadmore of Paringa Park Stud, in evidence before the Committee, advised that:

... we [could] establish ourselves as a presence up there, as a consortium or a group that is able to deliver technology whether it be horses or racetrack technology, totalisator technology, administrative technology or training youth technology.⁸⁶

The Committee acknowledges that RVL and TBV are moving to expand the industry's export market, especially in the Middle East and Asia. However, the Committee considers that the Victorian government could play more of a leading role. Mr Bernard Saundry, RVL's Director of Racing Development, told the Committee that:

⁸⁴ R. Nason, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.2.

⁸⁵ R. Nason, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.11.

⁸⁶ T. Breadmore, Paringa Park, 2005. Minutes of Evidence, 22 June, p.68.

...[their work] has all been done a bit ad hoc and [they want] ... to harness that energy ... but we need government help in linking with the Victorian international trade commissioners and ambassadors and providing information to these groups of people across the world that shows off thoroughbred racing across Victoria.⁸⁷

The Committee is confident that VicStud Ltd will play a coordinating role in the thoroughbred breeding industry which will serve to enhance the industry's export activity.

4.2.4.3 *Export Market Development Grants*

The principal vehicle for government assistance to exporters is through the Export Market Development Grants (EMDG). The Committee heard concerns, including those from the Australian Racing Board⁸⁸ that the rules for accessing the Federal government's Export Market Development Grants (EMDG) require that the product/service leaves the country in order to be treated as an export. As the Committee was advised in informal meetings with Austrade officials who administer the EMDGs, the only industry where in-country products/services qualify for export assistance is the education services industry.⁸⁹

The Committee received evidence which suggests that the thoroughbred racing industry is disadvantaged as a result of the current policy denying eligibility for the 'internal services' provided in the course of exporting racehorses, to be considered as 'exports' for the purposes of the EMDG scheme. As Mr David Higginbottom of *Competitive Edge* consultancy has recently written, this problem is likely to increase because of a number of current export initiatives. Amongst others, Mr Higginbottom cited these:

⁸⁷ B. Saundry, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.3.

⁸⁸ Chairman, Australian Racing Board, 2005. *Letter to Minister for Trade*. Sydney, 21 July. (Letter presented to the Committee during discussions with the Chief Executive Officer of the Australian Racing Board, Mr. Andrew Harding, 31 August 2005.)

⁸⁹ Committee discussions with Mr Lindsay Collins, National Manager Operations, EMDG and Mr David Cockerell, Manager, Legislation and Policy Coordination, EMDG, Austrade, Sydney, 1 September 2005.

Where the thoroughbred horse is purchased by an overseas buyer with foreign exchange ... but the horse remains in Australia.... Where the overseas buyer purchases a stallion service from a stud and the mare is bred to a stallion, the stallion may belong to an Australian stud/owner. Even though the foal is produced and owned by the owner overseas, it remains in Australia to be agisted, fed and serviced ... it is not classified as an export.... The owners are overseas. They purchase a stallion or stallions ... with foreign exchange, and thus export dollars, but they stand the stallion at a stud in Australiabecause the stallion is stood in Australia it is not an export.⁹⁰

In response to the ARB representations, the Federal Minister for Trade, Mr Mark Vaile MP, replied on 19 August 2005 and indicated that the points raised by the ARB in respect of EMDG eligibility for “Australian businesses which breed, train and race thoroughbred horses in Australia after being sold to a foreign owner” would be kept in mind in future considerations of the scheme.⁹¹

In informal meetings in Sydney with Austrade, the Federal government’s export and investment agency, the Committee was informed that the ownership entity was critical to assessing eligibility.⁹² A review of the EMDG scheme in late 2005⁹³ resulted in the Federal Government extending the scheme for a further five years until the end of 2010-11.⁹⁴ However, there does not appear to have been a change in the ownership entity criteria for Scheme eligibility.

⁹⁰ David Higginbottom, 2005. “Export Market Development Grant. Not for the Racing Industry,” *Turf Magazine*, June, pp.56-58.

⁹¹ Minister for Trade, 2005. Letter to Mr Andrew Ramsden, Chairman, Australian Racing Board. Sydney, 19 August. (Letter presented to the Committee during discussions with the Chief Executive Officer of the Australian Racing Board, Mr. Andrew Harding, 31 August 2005.)

⁹² Committee discussions with Mr Lindsay Collins, National Manager Operations, EMDG, Austrade and Mr David Cockerell, Manager, Legislation and Policy Coordination, EMDG, Austrade, Sydney, 1 September 2005.

⁹³ Austrade, 2005. *Review of the Export Market Development Grants Scheme*. Sydney, June.

⁹⁴ Minister for Trade, 2006. *Added Certainty for Exporters as Grants Scheme Extended for Five Years*. Media Release, Canberra, 24 January.

Austrade provided the Committee with a Table of EMDGs to the thoroughbred horse racing⁹⁵ and related industries for the period 2001-02 to 2003-04. The data revealed that the percentage of EMD grants to Victorian Thoroughbred and related industries compared to the national total for these industries had risen from 23 per cent in 2001-02 to nearly 35 per cent in 2003-04. However, the Committee notes that the respective national aggregate distributions were disparate.

In addition to the assistance provided by Austrade through its EMDG program, the Victorian government provides export assistance and advice to industry players through its Department of Innovation, Industry and Regional Development (DIIRD).

As departmental officials advised at informal briefings to the Committee, DIIRD's export programs and initiatives are designed to be complementary to those of Austrade.⁹⁶ The officials also advised the Committee that while none of DIIRD's programs were designed with the horse breeding industries in mind, they would all be applicable, at least in part, to these industries.⁹⁷ Refer to Appendix 8 for a full range of the programs offered by DIIRD.

⁹⁵ No distinction was made in Austrade's calculations between thoroughbred horse racing and thoroughbred horse breeding.

⁹⁶ Committee discussions with Mr James Hodges, Executive Director of the Office of International Business and Export, Ms Helen Rowell, Manager, Export Coordination and Mr Les Leckie, Manager, Regional Innovation Clusters Program, Department of Innovation, Industry and Regional Development, 17 October 2005.

⁹⁷ The Department of Innovation, Industry and Regional Development has produced a booklet to assist potential exporters: *Opening Doors to Export. Export assistance programs and initiatives*. 2005. Department of Innovation Industry and Regional Development, Melbourne.

Table 4.2: EMDG recipients in the thoroughbred horse racing and related industries, 2001-02 to 2003-04 grant years, by state
(paid in the following financial year)

2001-02 grant year	Recipients			Value of grants paid		
State	Thoroughbred	Related industries*	Total thoroughbred & related	Thoroughbred	Related industries*	Total thoroughbred & related
NSW	4	2	6	\$134,545	\$112,859	\$247,404
Vic	1	4	5	\$40,952	\$86,125	\$127,077
Qld	1	3	4	\$23,196	\$82,426	\$105,622
SA	0	2	2	\$0	\$40,398	\$40,398
WA	1	2	3	\$11,632	\$17,682	\$29,314
National	7	13	20	\$210,325	\$339,490	\$549,815
2002-03 grant year	Recipients			Value of grants paid		
State	Thoroughbred	Related industries*	Total thoroughbred & related	Thoroughbred	Related industries*	Total thoroughbred & related
NSW	4	2	6	\$120,744	\$132,813	\$253,557
Vic	2	3	5	\$21,910	\$110,242	\$132,152
Qld	1	4	5	\$69,231	\$149,215	\$218,446
SA	0	3	3	\$0	\$63,015	\$63,015
WA	1	2	3	\$34,885	\$10,000	\$44,885
National	8	14	22	\$246,770	\$465,285	\$712,055
2003-04 grant year	Recipients			Value of grants paid		
State	Thoroughbred	Related industries*	Total thoroughbred & related	Thoroughbred	Related industries*	Total thoroughbred & related
NSW	3	1	4	\$129,463	\$17,494	\$146,957
Vic	1	3	4	\$14,152	\$141,125	\$155,277
Qld	2	3	5	\$80,342	\$28,736	\$109,078
SA	0	1	1	\$0	\$9,892	\$9,892
WA	1	0	1	\$23,323	\$0	\$23,323
National	7	8	15	\$247,280	\$197,247	\$444,527

*related industries: includes horse feed, veterinary services, education, publishing, and equipment and turf manufacturing

Source: EMDG database, August 2005. (Email from Mr. David Cockerell of Austrade, 1 September 2005.)

In accessing the Victorian export programs, the Committee was made aware that these cannot be used by the horse breeding industries to try and poach business from industry participants in New South Wales as there was agreement between the two states that such program would not be used for that purpose.⁹⁸

The Committee envisages that VicStud Ltd will be the formal coordinating body to facilitate Export Market Development Grants for the thoroughbred breeding industry.

4.2.4.4 The Cluster Program

The aim of the program is to develop and support business clusters to strengthen innovation, productivity and competitive advantage in rural and regional Victoria. The Department of Innovation, Industry and Regional Development has provided assistance for the development of the Victorian thoroughbred breeding industry through the regional innovation cluster program, a pilot program launched in May 2004. Regional Development Victoria (RDV), a branch of DIIRD, released a presentation document in August 2005 titled *North East Region Thoroughbred Breeding Cluster*. This outlined clustering as a tool for economic development and set out a number of priorities.⁹⁹

⁹⁸ Committee discussions with Mr James Hodges, Executive Director of the Office of International Business and Export, Ms Helen Rowell, Manager, Export Coordination and Mr Les Leckie, Manager, Regional Innovation Clusters Program, Department of Innovation, Industry and Regional Development, 17 October 2005.

⁹⁹ These priorities were the mapping and audit of the competencies of North East Thoroughbred Industry Alliance members and others; an audit of education, training and research capabilities across the region; the development of a strategy for the thoroughbred breeding cluster; the linking of this strategy into the region's tourism strategy; investigating, determining and planning the bloodstock and services exports into South Korea, Vietnam, Bahrain and China: Regional Development Victoria, 2005. *North East Region Thoroughbred Breeding Cluster*. Euroa, August, pp.5-6.

This document suggested that an application be made to Regional Development Victoria for funding assistance.¹⁰⁰ This cluster proposal involved RDV working closely with the North East Thoroughbred Industry Alliance (NETIA), a collection of breeders in northeast Victoria, and the Strathbogie Shire Council as well as others.

The Committee believes that VicStud Ltd will be able to work closely with DIIRD to maximise the effectiveness of that department's cluster program.

4.2.5 Prizemoney and the Incentive Scheme

4.2.5.1 VOBIS and Super VOBIS

The Committee was made aware by both written submissions and the presentations of a number of witnesses that breeders looked for industry support through the incentive scheme, which has bolstered prizemoney for Victorian bred horses. The major source of industry support for thoroughbred breeders in Victoria comes from the VOBIS (Victorian Owners and Breeders Incentive Scheme). This Scheme commenced in 1986 and originally the Victorian Government matched industry contributions on a dollar for dollar basis up to \$500,000. This government contribution was financed through the then Racecourse Development Fund.

Following the privatisation of the Totalisator Agency Board (TAB) in 1994, an industry allocation of \$16 million was made to VOBIS which was the equivalent of \$2.25 million per season. Super VOBIS was launched as a revised scheme to be jointly funded by both the Victorian Racing Industry and

¹⁰⁰ There are four components of assistance provided under the Cluster Program, depending on the cluster's size and development: seminars and workshops with grants up to \$2,000 to raise awareness and up to \$5,000 for more technical type seminars or workshops; grants up to \$50,000 for potential and emerging clusters; grants up to \$100,000 per cluster to further develop establishing or existing clusters; and grants up to \$150,000 to enable an existing cluster to become more globally focused: Regional Development Victoria, 2005. Regional Innovation Clusters Program. *Fact Sheet*.
<<http://www.business.vic.gov.au/CA256E36001D1550/RV/26ACD4B120FE5972CA256E55001BAF10?OpenDocument>>

Victorian breeders. By 1996, Super VOBIS had expanded to cover all 2-year-old and 3-year-old races throughout Victoria.¹⁰¹ For information about Super VOBIS refer to Appendix 11.

The scheme provides for varying bonuses to be paid to owners of nominated horses upon winning certain races ranging from a minimum of \$7,000 on all two and three-year-old Victorian Country TAB races to up to \$30,000 on all two and three-year-old Victorian Metropolitan races.¹⁰² Super VOBIS rewards owners, breeders and trainers with bonuses in excess of \$6.7 million a year, according to Racing Victoria.¹⁰³

The Committee heard evidence from industry representatives that Super VOBIS now had serious competitors in other states and that the scheme was no longer delivering the competitive advantages it once did. RVL's Director of Racing Development, Mr Bernard Saundry, in evidence before the Committee, stated that:

*If you look back in the mid-1990s, Super VOBIS was the only breeding incentive scheme in town, and since then we have seen each state develop its own breeding incentive scheme — that is over \$12 million available across Australia. In New South Wales the BOBS scheme will see over the next two to three years developing both financial rewards and sales rewards for breeders in Victoria.*¹⁰⁴

In referring the Committee to the chart below on Super VOBIS Yearling nominations, Racing Victoria Limited, in its written submission to the Committee, advised the Committee that in recent seasons there had been a falling off of nominations for the scheme from smaller and hobby breeders.¹⁰⁵

¹⁰¹ Racing Victoria Limited, 2005. *Victorian Owners and Breeders Incentive Scheme Timeline*. Paper provided to the Committee, 18 October.

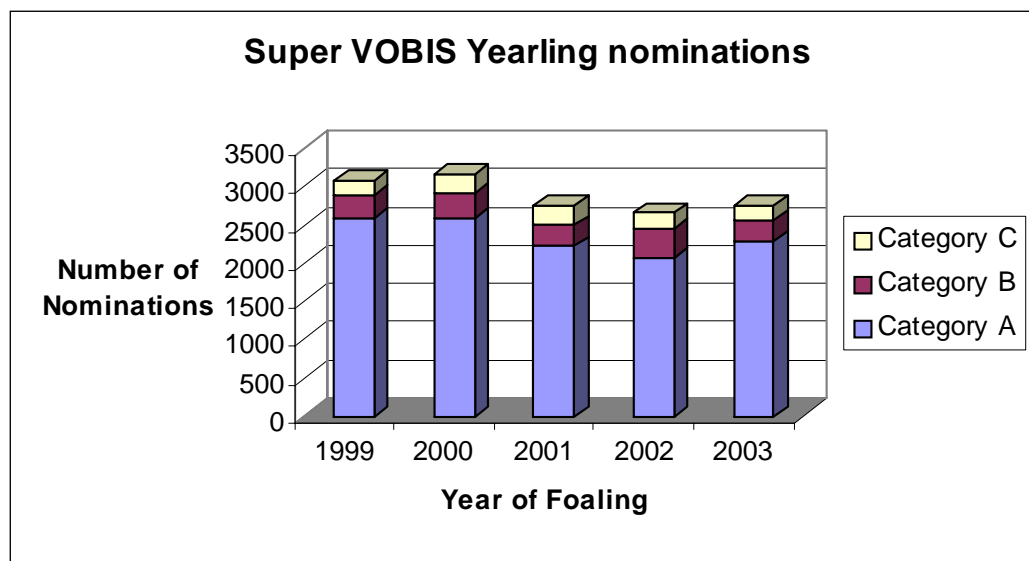
¹⁰² Racing Victoria Centre, 2005, *Super VOBIS – Information Guide & Nomination Form*, Flemington, p.3.

¹⁰³ *Winning Post*, 2006. January 28, Melbourne, p.84.

¹⁰⁴ B. Saundry, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, p.3.

¹⁰⁵ Racing Victoria Limited and Thoroughbred Breeders Victoria, 2005. *Racing Victoria Limited Breeding Industry Strategy. Victorian Thoroughbred Breeding Industry Statistics and Fact Pack*, 1 May, p.17.

Table 4.3



Source: Racing Victoria Limited and Thoroughbred Breeders Victoria, 2005. *Racing Victoria Limited Breeding Industry Strategy*. Victorian Thoroughbred Breeding Industry Statistics and Fact Pack, 1 May, p.17. Categories A, B, C are to be found in Appendix 11.

The Chief Executive Officer of RVL, Mr Robert Nason, referred the Committee to the continued importance of Super VOBIS as the incentive scheme for owners:

The issue for Super VOBIS, and I think that is quite right, is the option you have for putting returns back into prizemoney, and owners expect to pull money off prizemoney. You do have to think very carefully about that, and interstate relativities are important....As a tool for prompting investment and stimulating the sector we think it is a very valuable one, and history has told us that it does work.¹⁰⁶

The Chairman of RVL, Mr Graham Duff, in evidence before the Committee, saw the problem with the Super VOBIS scheme as being “[h]ow do we change the Super VOBIS system so that it actually encourages that foal to remain in Victoria right through the entire process until it eventually comes to race?”¹⁰⁷ Industry representatives expressed their concern to the Committee at a reduction in the take-up of the scheme by various sectors of the industry. Mr Tony O’Mara, RVL’s Manager, Racing Development told the Committee:

¹⁰⁶ R. Nason, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, pp.4-5.

¹⁰⁷ G. Duff, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, p.5.

... the leakage from the scheme has been at the mid to the bottom end. As the scheme has been going...we have had rural impact — we have had droughts and we have had the smaller breeders decrease the number of broodmares they have. An important part of racing in Victoria is the farmer that has a couple of broodmares that they have raced. They keep them in the paddock.¹⁰⁸

In suggesting to the Committee how the Super VOBIS scheme might be improved, Mr O'Mara referred the Committee to a shortfall in nominated horses in Victoria actually receiving a return from the scheme:

Only 18 per cent of horses nominated for the scheme actually receive a return from Super VOBIS, so importantly out of that there are 400 horses nominated to the scheme that win their first race in Victoria, so of the 400 horses every year that have won a race, they have won it outside of a Super VOBIS race, so there are opportunities to capture those horses back into the scheme. They might be forced to run in an open maiden, they might be a three-year-old; and the programming means that they just fall through the cracks. So there is an opportunity to bring that percentage from 18 up to 36 per cent, which then gives us the highest return out of any of the schemes in Victoria.¹⁰⁹

The Committee has been mindful of the fact that the Victorian thoroughbred breeding industry has a large proportion of smaller and country based breeders. As Mr Tony Fleiter, a leading syndication lawyer, told the Committee:

VOBIS probably does affect the breeder who races and the person who races in the lower to middle part of the market. But VOBIS probably does not affect the hard-nosed professional racehorse owner...or the hard-nosed commercial breeder.¹¹⁰

Accordingly, the Committee also took note of comments from Racing Victoria Limited that their owners' survey had identified a desire to see additional races for older horses, which would be of particular interest to country based

¹⁰⁸ T. O'Mara, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, p.6.

¹⁰⁹ T. O'Mara, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, p.6.

¹¹⁰ T. Fleiter, Sire Custodians Pty Ltd, 2005. Minutes of Evidence. 22 August, p.194.

breeders, an important part of the Victorian industry.¹¹¹ The Committee was also apprised of concerns as to the prizemoney available for racing in regional Victoria whereby the Super VOBIS \$7,000 bonus now offered in the country (for 2-year-old and 3-year-old races) represented a slide backwards over the past five to six years in terms of what is now expected of country racing.¹¹²

Thoroughbred Breeders Victoria (TBV), while joining with Racing Victoria Limited to call for an enhancement to Super VOBIS through some financial assistance from the government, brought to the Committee's attention some recent additional incentives provided through the Super VOBIS scheme. Mr Richard Andrews, Executive Officer of TBV, in evidence before the Committee referred to:

The introduction of the summer series where a number of bonuses were increased over a number of race meetings ... really gives the opportunity for a small breeder-hobbyist to see that they are getting something that they were not getting before and can encourage them to send that mare every year to a stallion under \$5,000, rather than every two years, which not only supports the smaller market of the stallions in the state but also increases the ... numbers [of horses racing] over the following year.¹¹³

In its submission to the Committee, RVL in full consultation with the industry stakeholder TBV, called for a range of incentive measures which included:

- direct payment to breeders;
- sales discounts for Victorian bred horses;
- export subsidies and incentives to encourage trade;
- support to Victorian bred horses competing in major overseas races; and
- tax incentives at both Federal and State levels to encourage investment in the sector.¹¹⁴

¹¹¹ T. O'Mara, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, p.6.

¹¹² T. O'Mara, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, p.7: This compared with the city bonus of \$30,000.

¹¹³ R. Andrews, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence. 20 June, p.48.

¹¹⁴ Racing Victoria Limited, 2005. Submission No.16, 23 May, p.5.

While the Committee acknowledges that a number of these proposals are not reliant on the support of government alone, at either state or Federal level, the Committee appreciates that there is scope for cooperation between industry and government in order to create an environment where some, if not all of these incentives, are available.

As Mr Richard Andrews of TBV advised the Committee:

The drop in numbers with regard to the Category A nominations – that is foals by Victorian stallions – is the number of mares that go to stallions standing under \$5,000, and the drop in numbers there can be attributed to the drought [in regional Victoria].¹¹⁵

Further evidence before the Committee emphasised the importance of the Super VOBIS scheme to the lower end of the Victorian horse breeding market. Mr Peter Heagney, the Victorian Manager, William Inglis and Son Ltd, told the Committee:

There are a number of people, particularly syndicators and people at the slightly lower end of the market, who are definitely influenced by an incentive scheme such as Super VOBIS. In fact only on Friday night at the TBV and Super VOBIS award ... the leading country owner for the season said he would not contemplate looking at a horse that was not Super VOBIS-qualified to race in this state.¹¹⁶

The Committee accepts that Super VOBIS has been a strength of the thoroughbred breeding industry and should be maintained. The Committee considers that Super VOBIS warrants a further Victorian government contribution but that this should be a one-off contribution to ensure that the industry will develop greater self-reliance. Any further capital contribution to the incentives scheme from the Victorian government should be matched by a

¹¹⁵ R. Andrews, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence. 20 June, pp.48-49.

¹¹⁶ P. Heagney, William Inglis and Son Ltd, 2005. Minutes of Evidence. 15 August, p.158.

formal review as to how the incentives can be restructured to maximize their benefits to Victorian breeders.

Recommendation 4.5

The Victorian Government undertake an assessment as to whether a substantial one-off contribution to the Super VOBIS scheme is feasible so as to allow incentives to be paid for more races, particularly country races and races for older horses.

4.2.5.2 Other incentives

As a further acknowledgment of the linkage between the breeding industry and Victorian racing, the Committee understands the need for more incentives in the Victorian racing program which would encourage the sale of quality horses in Victoria. Racing Victoria Limited in its written submission to the Committee highlighted what they saw as the benefits to breeders of the "... potential to develop [a] major profile Breeders Cup Race Series for sales graduates [and that this series be] linked as a national and international incentive for purchasers to buy at the Victorian sales".¹¹⁷

The Committee appreciates the need to ensure that the Victorian racing program provides some incentive for the sale of quality bloodstock in Victoria. It considers there is value in the development of a racing series which would be of direct benefit to Victorian breeders. The Committee considers that this issue is related to another concern, expressed to the Committee in evidence and at informal meetings, being the need to encourage investment in quality stallions in Victoria.

¹¹⁷ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.13.

Recommendation 4.6

The Victorian Government, in association with Racing Victoria Limited, consider the development of a Victorian Breeders Series with particular emphasis on promoting stallion investment.

At the same time the Committee recognised that the benefits of the proposed Breeders Series would not be fully apparent for a number of years and consideration needs to be given as to whether the support sought would be of greater value to the industry if redirected.

The Committee also heard evidence of other incentives for thoroughbred breeders and of suggestions where the industry could receive further government assistance. As with much of the evidence that came before the Committee, the comparison was made with how New South Wales treated its thoroughbred horse breeders. In relation to one area of Victorian government revenue, Mr Bernard Saundry of RVL, in evidence before the Committee, advised that:

We have identified where we are at a disadvantage compared with New South Wales when it comes to Victorian stamp duty on thoroughbred horses' insurance. At the moment an owner will pay insurance for a horse and be charged GST plus stamp duty at 10 per cent, when New South Wales owners are currently charged 2.5 per cent. We see that as a disadvantage and anticompetitive towards Victorian racing.¹¹⁸

Recommendation 4.7

The Victorian Government adjust the stamp duty imposed on thoroughbred horses' insurance to be no more than that which applies in New South Wales.

¹¹⁸ B. Saundry, Racing Victoria Limited, 2005. Minutes of Evidence. 20 June, p.3.

4.3 Taxation Rules

4.3.1 Horse breeding provisions

In its written submission to the Committee, the Australian Taxation Office (ATO) advised that there are relatively few specific rules that apply to the horse breeding industry as taxation is usually applied to broad concepts rather than to the specific business activities.¹¹⁹ Indeed, the ATO did point out to the Committee that Sections 70-60 and 70-65 of the *Income Tax Assessment Act 1997* (ITAA) are the only provisions which specifically relate to the horse breeding industry. These provisions which deal with the formula for the valuation of horse breeding stock and 'horse opening value' are to be found at Appendix 6 (A) and 6 (B) of this Report. In its submission to the Committee, the ATO advised that:

[b]efore considering the valuation of horses and horse breeding stock, the participant must determine whether or not a business is being carried on and if so, the type of business eg, breeding, racing, and also the horses that fall within each category.¹²⁰

4.3.2 Horse breeding as a hobby or a business

As a guide, the ATO, in its written submission to the Committee, advised that Taxation Ruling (TR) 93/26, together with TR 97/11 and Miscellaneous Taxation Ruling (MT) 2004/D3 provide an indication as to whether the breeding activity will be considered as a hobby or as a business. In TR 93/26, the ATO states that a breeder would need to hold six quality broodmares to be considered to be running a business, although it does provide for a lesser holding if the horses are of excellent quality.¹²¹ Importantly, as to that Ruling, the ATO stressed in its written submission, that in relation to determining

¹¹⁹ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.2.

¹²⁰ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.9.

¹²¹ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.5.

whether a business is being carried on or a hobby, the ATO saw each case turning on its own particular facts and circumstances.¹²²

As Martin O'Connor, a tax accountant specialising in the horse industry, advised in a paper presented to the Committee, these facts and circumstances 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.¹²³

The Committee was made aware in informal discussions with industry participants that the ATO could change the ruling as to whether the taxpayer is conducting a business or a hobby if, in the opinion of the ATO, the taxpayer's circumstances have changed.

Racing per se was not considered to be a business as it needed to be connected with breeding and/or training activities to constitute a business.¹²⁴

In TR 93/26, the ATO, in its written submission, indicated that "to overcome the general rule and demonstrate that the racing of horses is being conducted as a business rather than a hobby, the taxpayer must:

- Demonstrate that he or she is conducting the activity as a business with an intention of making a profit and not primarily for pleasure or because of an interest in the activity,

¹²² Australian Taxation Office, *TR 93/26: Income tax: issues relating to the horse industry*.

¹²³ 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.

¹²⁴ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.5.

- Demonstrate that the activities are so considerable, systemic and organised as to exceed the activities of a keen follower of the turf,
- Demonstrate that the activity is being conducted in such a way that it is reasonable to expect that it can become commercially viable, and
- Demonstrate that the activity does not rely primarily on chance as distinct from business acumen.

In particular, it may be necessary to outline whether, given the number and quality of the horses, it is reasonable to expect that the taxpayer can make a profit if the horses are reasonably successful".¹²⁵

Interestingly, the Committee, while visiting New Zealand, was advised by Mr Chris Luoni, a tax accountant, that the Australian Taxation Office's 'business test' was so much more demanding than that provided by the New Zealand equivalent. For instance, Mr Luoni referred to the Australian breeders who made financial losses over three of five years and therefore cannot be seen as being in business while a comparable New Zealand breeder did not face the same problem.¹²⁶

4.3.3 Primary production status

During the Inquiry, the Committee was apprised of concerns that some breeders could not be considered to be in the business of primary production.¹²⁷

In its written submission to the Committee, the ATO advised that a "taxpayer must first be considered carrying on a business before due consideration can be given as to whether that business is a primary production business".¹²⁸ For

¹²⁵ Australian Taxation Office, *TR 93/26: Income tax: issues relating to the horse industry*.

¹²⁶ Committee discussions with Mr Chris Luoni, Partner, and Mr Geoff Roan, Accountant, Beattie Rickman, Hamilton, New Zealand, 13 July 2005.

¹²⁷ See, for instance, M. O'Connor, Martin O'Connor and Partners, 2005. Minutes of Evidence, 20 June, p.25.

¹²⁸ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.6.

the ATO, the most relevant provision in the legislation for this industry is that, “a taxpayer carries on a primary production business if a taxpayer carries on a business of ...

(b) maintaining animals for the purpose of selling them or their bodily produce (including natural increase)”.

The Committee was advised by the ATO in its written submission that, while not specifically identified, it would refer to the following in assessing that part of the proceeds from horse breeders that comes within paragraph (b) above. These were:

- the proceeds from the sale of horses that are trading stock;
- the proceeds from the sale of produce; and
- the assessable balancing adjustments from the disposal of any depreciating assets.

In conducting a business as a primary producer, a person would be eligible for special taxation considerations. The principal benefit of being so categorized is that “a taxpayer who is an individual can even out their income tax liability from year to year”.¹²⁹

As to the business of primary production, the ATO in its 1984 Ruling IT 2113 stated that even where the taxpayer had a lack of capital and had to “sporadically change direction in his breeding programme”, this did not mean he was not carrying on the business of primary production.¹³⁰

Mr Martin O'Connor, in evidence before the Committee, highlighted concerns as to the lack of breeders' access to these benefits and advised that:

¹²⁹ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.6.

¹³⁰ Australian Taxation Office, *IT 2113: Taxation Ruling Income Tax: Business of Primary Production – Horse Breeding*.

*The difficulty in establishing whether a business exists for tax purposes is highlighted in the definition of how you determine whether primary production activities amount to the carrying on of a business. The Income Tax Act is not very helpful. It says that a primary production business is defined inter alia as maintaining animals for the purpose of selling them or their bodily produce. The Act does not contain a definition of 'carrying on a business'. Accordingly you need to examine the case law and work out what the criteria are for determining whether or not a business exists.*¹³¹

In his written presentation to the Committee, Mr O'Connor also advised that the Income Tax Assessment Act does not define what is meant by 'carrying on a business' but pointed out what he saw as an important distinction in the legislation:

*... a person who owns racehorses and who conducts a business of owning racehorses is conducting a business but is not conducting a business of primary production.*¹³²

As the ATO advised the Committee in its submission, it was their view that generally the courts would not hold racing per se to be a business.¹³³ Accompanying its written submission to the Committee, the ATO provided a copy of the Commissioner of Taxation's 1997 Ruling (Taxation Ruling 97/11) dealing with the question of whether the business of primary production is being carried on. In this Ruling, the ATO admits that "it is not possible to lay down any conclusive test of whether a business of primary production is or is not being carried on ...".¹³⁴ The ATO further advised in its Ruling that "[w]hat

¹³¹ M. O'Connor, Martin O'Connor and Partners, 2005. Minutes of Evidence, 20 June, p.23.

¹³² Martin O'Connor, 2005. *Tax Aspects of the Australian Horse Industry*. Paper presented to the Committee, 20 June, p.2.

¹³³ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.5.

¹³⁴ Australian Taxation Office, 2005. *Taxation Ruling 97/11: Income Tax: Am I carrying on a business of primary production?* Paragraph 12. The ATO referred to a number of indicators which it said the courts had held to be relevant. See Appendix 6 (c) for a list of these indicators as found in Paragraph 13 of this Taxation Ruling.

is important is that the taxpayer's primary production activity amounts to the carrying on of a business".¹³⁵

4.3.4 Depreciation of breeding stock

Concern was expressed to the Committee as to the current taxation write-down provisions from witnesses at formal hearings and at informal meetings. As Mr Martin O'Connor explained to the Committee in evidence, the current depreciation regime came into existence in 1992:

*Instead of having the 50 per cent write-down on stallions and the 33⅓ per cent write-down on mares on a diminishing value basis ... [this was] adjusted ... so that the stallions could be written down at the rate of 25 per cent per annum prime cost, which meant over four years, and female horses could be written down by 33⅓ per cent per annum prime cost but on an age basis, which meant that if you bought a four-year-old mare your write-down was only going to be 8 per cent or 8½ per cent per annum, which is very low indeed. They agreed that by the age of 12, all broodmares could be written down to \$1 which virtually wrote them off.*¹³⁶

While in New Zealand in July 2005, the Committee met with officials of, and was presented with written information by, the New Zealand Inland Revenue Department as to the write-down provisions relevant to stallions and mares. In the written advice received, the Committee was advised that stallions in New Zealand receive a specified write-down of 25 per cent per annum which meant that write-downs occurred over a four year period as in Australia. For mares, the specified write-down reduces the book value of breeding stock to one dollar at age 11 years.¹³⁷

¹³⁵ Australian Taxation Office, 2005. *Taxation Ruling 97/11: Income Tax: Am I carrying on a business of primary production?* Paragraph 14.

¹³⁶ M. O'Connor, Martin O'Connor and Partners, 2005. Minutes of Evidence, 20 June, p.26.

¹³⁷ Committee discussions with Mr Kevin Bradfield, Senior Technical Advisor, Mr Kevin Moody, Service Centre Manager, Mr Pat Ryan, Manager, Technical and Legal Services Group and Mr Geoff Leggett, Policy Analyst, New Zealand Inland Revenue Department, Hamilton, New Zealand, 13 July, 2005.

Prior to the New Zealand election of September 2005, there was a commitment from the opposition New Zealand National Party that should they win office, they would accelerate the depreciation on stallions to 50 per cent per annum enabling a breeder to write off the cost of the stallion over two rather than four years.¹³⁸ While the ruling New Zealand Labour Party was returned to office at the recent election, it did so as a minority government. The Committee has been informally advised that the new Minister for Racing,¹³⁹ has expressed support for improved depreciation for horse breeders. Should this occur, Australian breeders would be relatively disadvantaged in terms of attracting investment in stallions.¹⁴⁰

The Committee remains mindful of these concerns and of those relating to the write-downs on mares and of geldings¹⁴¹ and calls for efforts to maintain taxation parity across the Tasman. In relation to the thoroughbred breeding industry, the Committee makes the following recommendation.

Recommendation 4.8

The Victorian Government make representations to the Federal Government to ensure that taxation parity is at least achieved and maintained with New Zealand in relation to thoroughbred horses.

¹³⁸ Committee discussions with New Zealand Thoroughbred Breeders, Cambridge, 12 July, 2005

¹³⁹ The new Minister for Racing is the Rt Hon Winston Peters who is the leader of the New Zealand First Party, a centre right party which has a policy position in support of improved depreciation for the New Zealand horse industry.

¹⁴⁰ However, given Mr Peters' position as the leader of a minority party supporting the government on supply and confidence matters, it is by no means certain that the New Zealand thoroughbred breeding industry will succeed in successfully advancing its case for accelerated depreciation.

¹⁴¹ Under New Zealand Taxation legislation, infertile horses such as geldings are treated as having been sold by the stud on the day that they are sent for racing and at their market value: *Bloodstock Industry. Breeding Racing*. 2005. Presentation by Mr. Kevin Bradfield, Hamilton, 13 July.

4.3.5 Other taxation issues

In its written submission to the Committee, the ATO advised that a Capital Gains Tax (CGT) liability may arise on the disposal of rural property where the rural property is used for a business activity such as breeding.¹⁴² The ATO also advised the Committee that horse breeders may also be liable for Fringe Benefits Tax (FBT) where “horses owned by a company [that] are registered to race ... are being registered in the names of a director and/or their spouse as individuals using the company ABN”.¹⁴³

4.3.5.1 Multinational studs and their taxation treatment

The Committee received evidence, both formally and informally, expressing concern at the favourable tax arrangements enjoyed by the major multinational studs which have set up in the Hunter Valley in New South Wales. The Coolmore stud, based in Ireland, was the major focus of this attention. While the Committee was aware that this stud was not taxed on its stallion service fees by its home country, the Committee realizes that, in light of a recent decision by the Irish government,¹⁴⁴ this tax free status for Irish studs, will cease to exist in a few years.

The Committee is aware of the concerns, expressed in evidence by, for example, Mr Tim Johnson, Vice-President of TBV, as to possible overseas tax advantages enjoyed by multinational studs and their strong market position. Together with the international shuttling of stallions, Australian studs have been placed at a disadvantage. Mr Tim Johnson told the Committee:

¹⁴² Australian Taxation Office, 2005. Submission No. 30, 7 October, p.9.

¹⁴³ Australian Taxation Office, 2005. Submission No. 30, 7 October, p.9. The issue the ATO is concerned with is whether there has been a disposal to an associate or use of a company asset by a director or associate attracting FBT.

¹⁴⁴ In its 2006 Budget, the Irish Government recently removed the 36-year-old tax free status of Irish stallions as from July 31, 2008: “Irish breeders lose tax exemption on stud fees”, *Thoroughbred Times*, 8 December, 2005. <[http://www.thoroughbredtimes.com/todaysnewsarchive/todaysnewsviewarchive.asp?.](http://www.thoroughbredtimes.com/todaysnewsarchive/todaysnewsviewarchive.asp?)>

With respect to overseas influences, there is stallion strength as I have mentioned. But the shuttle stallion has changed the whole lay of the land as far as how you go about getting stallions. Getting stallions to this country is now far easier as far as accessing them. The biggest problem there is that we tend to lease them so the money that the lease funds derive leave this country and go elsewhere, and the foreign entities that own the large stallion band have significant taxation advantages that this country does not offer.¹⁴⁵

While the Committee accepts these concerns, it also appreciates that some studs, both multinational and Australian-based, will enjoy certain advantages over others because of economies of scale and access to capital. The Committee is also mindful of the advantages of the presence of multinational studs in Australia such as through the enhanced quality of the stallions available for Australian mares.

In the Committee's view, the taxation laws, as they apply to the racing and breeding industries, would seem to be in need of a review due to their complexity and difficulty of interpretation. Given that the taxation regime is such a key driver of investment, its impact on levels of investment cannot be overstated. The Committee has recently become aware that the New South Wales horse breeding industry is in the midst of a substantial audit by the ATO. Overall, the Committee is not satisfied that the principles underlying the taxation regime are fair and equitable in every respect and this matter will be considered further in the Committee's next report.

4.4 Syndication and the Australian Securities and Investments Commission Regulations

The Committee has considered the regulations governing the syndication of stallions, broodmares and racehorses as specified in the *Corporations Act 2001* (Cth) and administered by the Australian Securities and Investments Commission (ASIC). The Committee understands that the intention of the

¹⁴⁵ T. Johnson, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.39.

compliance regime is to maintain the integrity and efficiency of the practice of syndication. This would in turn increase investor confidence and hopefully lead to an increase in participation of investors in the ownership of horses. However, the Committee is not convinced that all aspects of this compliance regime are absolutely necessary.

4.4.1 Types of syndication arrangements

The Committee considers there is a need for clarification of the different types of syndication arrangements and the compliance obligations, in order to evaluate whether these regulations are appropriate for the horse breeding industry in Victoria. The syndication of stallions and racehorses are by either private syndication or public syndication.

In respect of stallions, this may be by *private offer* where shares are offered personally by direct offer to specific persons and while these are limited to no more than 40 shares, there is no specific requirement to lodge returns and compliance audit certificates with ASIC. While a public advertisement is not permitted, the Committee was advised that there would seem to be nothing to prohibit studmasters from inviting existing clients to acquire shares in such syndicates.¹⁴⁶ The alternative is the *public syndication* of stallions which is unrestricted as to both the capital of the shares and the number of shares. Such public syndication must, however, be registered with ASIC prior to the issuing of a PDS (Product Disclosure Statement).

¹⁴⁶ T. Fleiter, 2005. *Seminar on Racehorse and Stallion Syndication*. Paper presented to the Committee, 22 August, p.8.

In respect of racehorses, a private syndication may be either offered to a private social grouping or by *private offer* where shares in a horse are offered personally by direct offer to specific persons or a company.¹⁴⁷ In each case, the syndicate must be registered with the Registrar of Racehorses (in Victoria, Racing Victoria Limited) and is regulated by the Australian Rules of Racing, AR 69. In the case of the *private offer*, there is the restriction that the seller of the shares is not permitted to sell more than 20 shares by private offer in any one year or shares with a cumulative value exceeding \$2 million.

The public syndication of racehorses can be either restricted or unrestricted. If it is restricted, there are allowed to be no more than 20 shares with a cumulative value of not more than \$250,000. The PDS for these syndicates must be approved, and registered by, a lead Regulator. Where the public syndication is unrestricted, there is no restriction on either the number of shares or the cumulative capital value of the shares and it is registered with ASIC prior to the issuing of a PDS. This type of syndicate is regulated by ASIC, the Lead Regulator and the Rules of Racing.

4.4.2 Exemptions to ASIC Regulations

As to broodmare schemes, ASIC grants exemptions from the operation of the Corporations Act where it can be shown that the promoter or seller has not issued or sold more than 20 interests in any horse breeding scheme in the previous 12 months. In its written responses to the Committee, ASIC advised that:

Generally, offers to join the scheme must be made personally by promoters and sellers reflecting the fact the relief is limited to small-

¹⁴⁷ Australian Rules of Racing, AR69A For the purpose of these Rules the word 'syndicate' shall mean and include any one of the following: owning or leasing a racehorse by (a) A company. (b) A combination of persons not exceeding twenty. (c) A firm. (d) A stud which has been registered as a syndicate in the name of the stud.

*scale private schemes. Hence the relief would not be (sic) usually be available for publicly advertised schemes.*¹⁴⁸

With regard to private stallion schemes, ASIC has informed the Committee that exemptions are granted from a number of provisions of the Corporations Act and the schemes are not required to be registered or provide a PDS when:

*...Interests are issued or sold by a promoter or seller who has not issued or sold more than 40 interests in any horse breeding scheme in the previous 12 months.*¹⁴⁹

As to horse racing schemes, the Committee has been informed by ASIC that conditional exemptions (from disclosure requirements) are granted where:

- the scheme's promoter is on a register of promoters kept by an ASIC approved lead regulator;
- when fully subscribed, [the scheme] will be registered with an ASIC approved lead regulator;
- the subject of the promotion is a specified horse (or horses);
- the scheme does not comprise more than 20 members; and
- the total amount sought by way of subscription does not exceed \$250,000.

The conditions for the granting of this relief include the need for the promoter to (a) hold an Australian Financial Services (AFS) licence, (b) provide all prospective participants with a current disclosure statement approved by the lead regulator, and (c) comply with all relevant rules and guidelines of the lead regulator.¹⁵⁰

¹⁴⁸ Australian Securities and Investments Commission, 2005. *Horse Breeding and Horse Racing Schemes - Current Regulatory Framework*. Responses to Questions from the Committee. 21 November, p.2.

¹⁴⁹ Australian Securities and Investments Commission, 2005. *Horse Breeding and Horse Racing Schemes - Current Regulatory Framework*. Responses to Questions from the Committee. 21 November, p.3.

¹⁵⁰ Australian Securities and Investments Commission, 2005. *Horse Breeding and Horse Racing Schemes - Current Regulatory Framework*. Responses to Questions from the Committee. 21 November, p.3.

The Committee heard from a number of industry participants at informal meetings that ASIC was interpreting the regulations covering syndications too literally and that there was a need for a more flexible approach. Mr Adam Sangster of Collingrove Stud, in evidence before the Committee, advised that the level of ASIC's regulation of syndicates of horse owners was greater than was necessary:

The excessive regulation of syndication — meaning ASIC itself, Racing Victoria and the syndicators — sitting between the respective owner and his share in a horse can only have the effect of making the whole process expensive and cumbersome. Worse, the requirement for most syndicators to demonstrate an arm's-length purchase means that syndicated horses must be sold through auction sales, compounding the expense of the sale process for a breeder and adding to the cost of the horse when purchased by the public.¹⁵¹

In evidence before the Committee, Mr Tony Fleiter, the Managing Director of Sires Custodians Limited informed the Committee that the nature and level of ASIC's regulation had become more important because compliance had become more important:

ASIC has thrown this great big web over horseracing and horse breeding and it should not be there..... There is not much difference in the wording of the class orders now from what they were 10 years ago in stallions and racehorses, and it is just now that everybody has become much more compliance conscious.¹⁵²

The Committee was informed as to the nature and importance of certain Class Orders under ASIC's regulatory regime. In a written paper presented to the Committee, Mr Tony Fleiter advised the Committee as to Class Orders (CO) 02/178 and 02/319 which provided, respectively, relief to the thoroughbred breeding industry in the form of self-regulation by a syndicate (so long as there is compliance with certain conditions) and relief in the form of industry self-regulation through delegation to the lead regulator (in Victoria this is

¹⁵¹ A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, p.71.

¹⁵² T. Fleiter, Sires Custodians Limited, 2005. Minutes of Evidence, 22 August, p.187.

Racing Victoria Limited). It was Mr Fleiter's view that the steps involved in the application of the Class Orders were "clear and appropriate".¹⁵³

The Committee also heard evidence that ASIC's licensing requirements for dealers placed another burden on industry participants. Mr Adam Sangster further informed the Committee that:

*More importantly, the removal of the onerous and expensive licensing procedure required by ASIC — it is estimated to cost \$25,000 just to apply, with substantial ongoing costs — will allow breeders to more freely advertise what they have for sale.*¹⁵⁴

4.4.3 Restrictions related to low priced racehorses

The Committee also noted the concerns, expressed informally, of numerous industry participants with regard to the appropriateness of ASIC's restrictions on public offerings of low priced racehorses.

ASIC does not permit public advertisements of shares in racehorses, regardless of the value of the shares, unless such advertisements are in the name of the licensed syndicate. Trainers, therefore, are not permitted to advertise directly without a licence. The Committee appreciates that regulation is important but is also aware that many people who purchase shares in horses do so for recreational reasons.

In written responses to questions from the Committee, ASIC has sought to answer these criticisms by referring to the exemptions that are available for small-scale offerings of managed investment schemes. It was ASIC's considered view that, in general terms, neither licensing, scheme registration and product disclosure statement (PDS) requirements applied where the scheme "had no more than 20 members in total, all offers of interests in the scheme are certain 'small-scale personal offers' and the managed investment

¹⁵³ T. Fleiter, Sires Custodians Limited, 2005. *Seminar on Racehorse and Stallion Syndication*. Paper presented to the Committee, 22 August, pp.3-4.

¹⁵⁴ A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, pp.72-73.

scheme is not promoted by a professional promoter.”¹⁵⁵ To understand the role of the exemptions, the Committee considers that it would be helpful to outline the managed investment scheme.

4.4.4 What is a managed investment scheme?

If a horse racing or horse breeding scheme is structured as a collective investment scheme, then it is referred to by ASIC as a ‘managed investment scheme’ and falls within ASIC’s jurisdiction.¹⁵⁶ The Committee has been advised by ASIC that for a particular arrangement to be considered a ‘managed investment scheme’, it must satisfy the legal definition of that term as set out in Section 9 of the *Corporations Act 2001* (as amended).¹⁵⁷ In general terms, Mr Matthew Guy, the Manager of Government Relations at ASIC, explained that definition as:

- There be a contribution of something to acquire rights to benefits produced by the scheme;
- Any of those contributions are pooled or used in a common enterprise to produce financial benefits; and
- Members don’t have day-to-day control over the operation of the scheme.¹⁵⁸

Mr Guy also pointed out that “whether something is a managed investment scheme is a question of fact that turns on the precise circumstances of each case...”¹⁵⁹ The Committee has also been made aware that a Managed

¹⁵⁵ Australian Securities and Investments Commission, 2005. *Horse Breeding and Horse Racing Schemes - Current Regulatory Framework*. Responses to Questions from the Committee. 21 November, p.1.

¹⁵⁶ Australian Securities and Investments Commission, 2005. *Horse Breeding and Horse Racing Schemes - Current Regulatory Framework*. Responses to Questions from the Committee. 21 November, p.1.

¹⁵⁷ Email of Matthew Guy, Manager, Government Relations, Australian Securities and Investments Commission, 7 December 2005.

¹⁵⁸ Email of Matthew Guy, Manager, Government Relations, Australian Securities and Investments Commission, 7 December 2005.

¹⁵⁹ Email of Matthew Guy, Manager, Government Relations, Australian Securities and Investments Commission, 7 December 2005.

Investment Scheme must be registered, under section 601 ED (1) of the *Corporations Act 2001*, if, in the following circumstances:

- It has more than 20 members;
- It was promoted by a person, or an associate of a person who was, when the scheme was promoted, in the business of promoting managed investment schemes;
- A determination under section (3) is in force in relation to the scheme and the total number of members of all of the schemes to which the determination relates exceeds 20.¹⁶⁰

According to Mr Tony Fleiter of Sires Custodians Limited, registered trainers and commercial breeders are seen as being in the business of promoting the sale of horse racing/horse breeding interests and therefore come within the scope of Section 601 ED (1)(b) of the *Corporations Act 2001*.¹⁶¹

Recommendation 4.9

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.

4.4.5 Communication of ASIC regulatory requirements

The Committee acknowledges there are some problems with the ASIC regulations in respect of horse syndications but considers an important issue is the need to ensure that the lead regulators who regulate on behalf of ASIC, such as Racing Victoria Limited, are aware of the role that ASIC intends them to play. These regulators should be kept up to date with the nature of the

¹⁶⁰ T. Fleiter, 2005. *Seminar on Racehorse and Stallion Syndication*. Paper presented to the Committee, 22 August, p.2.

¹⁶¹ T. Fleiter, 2005. *Seminar on Racehorse and Stallion Syndication*. Paper presented to the Committee, 22 August, p.2.

regulations and possible exemptions from compliance obligations. In evidence before the Committee, Mr Tony Fleiter of Sires Custodians Limited advised:

I do not believe there has really been any problem with the regulations as such. I believe there are two issues. Firstly, ASIC never sat down with its lead regulators to whom it delegates the authority to regulate racehorse syndicates — let us focus on that — to exempt them from the requirement to be registered as managed investment schemes. They never sat down with their lead regulators and told them what was expected of them or gave them any sort of formal training.¹⁶²

The Committee acknowledges advice supplied to it by ASIC which highlighted a number of Policy Statements provided for racing and breeding industry participants and available on the ASIC website and Infoline.¹⁶³ The Committee has also been made aware of the important role performed by the lead regulators pursuant to ASIC's co-regulation policy. However, the Committee remains concerned that more could be done directly to inform those in both the racing and breeding industries of the precise requirements under ASIC's regulatory arrangements.

Recommendation 4.10

VicStud Ltd, in collaboration with Racing Victoria Limited, arrange regular training and information sessions for owners and potential owners of stallions and racehorses on the nature and extent of syndication regulations as required by the Australian Securities and Investments Commission.

¹⁶² T. Fleiter, Sires Custodians Limited, 2005. Minutes of Evidence, 22 August, p.188.

¹⁶³ Australian Securities and Investments Commission, 2005. *Horse Breeding and Horse Racing Schemes - Current Regulatory Framework*. Responses to Questions from the Committee. 21 November, p.5: ASIC referred the Committee to Policy Statement 20 on horse racing schemes; Policy Statement 91 on horse breeding schemes; Policy Statement 164 on licensing: organisational competencies; and Policy Statement 146 on licensing: training of financial product.

4.5 Bad Debts

The Committee received evidence from industry representatives and breeders that the existence of bad debts was a significant problem throughout most areas of thoroughbred breeding and related industries. While the Committee believes that the racing industry has an effective means of tackling the problem of the accumulation of bad debts through the exercise of the racing stewards' powers to prevent a horse from racing, it is apparent that many within the thoroughbred breeding industry continue to experience bad debts.

While this problem is, not surprisingly, mostly found amongst relatively new participants in the industry, the Committee was made aware that it is by no means confined to these new industry players. The Chairman of RVL, Mr Graham Duff, explained the problem in these terms:

*The whole thing starts off as, quite frankly, a mates business that on many occasions just gets out of hand. It really is a misinformation situation. We would like to go back to the start where the owners are made aware of all of the repercussions of training a horse We have some owners out there who, quite frankly, exploit the system. They run up the bill of one trainer and then slip the horse over to another one without paying the bill. That is a genuine complaint that trainers have. In respect of that, we will be moving that no nominations can be accepted from people who have debts outstanding from a previous trainer until such time as the debts have been cleared up.*¹⁶⁴

The Committee believes that the provision of better information to industry breeders, be they new or existing participants, is necessary and the Committee refers back to its recommendations 3.3 and 3.4. in the previous Chapter which sought to have the proposed agency, VicStud Ltd, provide an information and advisory service which would assist breeders and other related industry players to be aware and avoid accumulating bad debts.

¹⁶⁴ G. Duff. Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.19.

The Committee understands that it is often just a matter of how a breeder arranges his/her affairs and the maintenance of good business practices in order to avoid having large accounts outstanding. However, the industry is one where it is expected that credit is given and sometimes difficulties in securing payment can result in default. As Martin O'Connor, an experienced thoroughbred breeder and tax accountant, advised the Committee in relation to the practice of selling horses by auction where a debt is owed, there can still be problems:

*... breeders [have] the opportunity of putting that horse back in the ring, collecting what they are owed and sending the balance back to the owner. But unfortunately what happens is that quite often the horses are not worth what they are owed. So it is a problem, and certainly a problem for trainers. I think it could be very easily overcome if the Trainers Association and RVL introduced the system they have in England whereby you pay the authority the training fee; and if you do not pay, your horse does not run ...*¹⁶⁵

The Committee was informed in evidence presented by Racing Victoria Limited (RVL), that they have measures in hand to try and address the problem.¹⁶⁶ Mr Tony O'Mara, Manager of Racing Development, RVL, informed the Committee that:

What we have found is that a lot of the bad debts actually occur through miscommunication to start with and poor contracts being in place from day one. We are currently reviewing our agistment contracts, our contracts from the owners' side with trainers and our contracts in relation to leasing. We want to put them into plain English and make sure the payment terms are spelt out. At the moment there are a lot of mates' deals that happen in racing and they are not clearly defined. Most trainers are very good trainers but very poor accountants, and therefore they do not necessarily have the skills in general to be able to do that ;... That is part of our

¹⁶⁵ M. O'Connor, Martin O'Connor and Partners, 2005. Minutes of Evidence, 20 June, p.34.

¹⁶⁶ The Committee was also informed, in evidence, that a dispute resolution service would, in the long-term, have an impact on reducing bad debts: Mr B Saundry, Director of Racing Development, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.18.

*owners' strategy we will be rolling out early in the racing season — plain English contracts.*¹⁶⁷

Thoroughbred Breeders Victoria (TBV) informed the Committee that the incidence of bad debts in the industry was widespread and, apart from advising the Australian Stud Book to prevent a foal being registered (which would be of greater importance if you were seeking to race the horse), something had to be done to forewarn breeders in an effort to reduce the problem. Mr Richard Andrews, Executive Officer, TBV, told the Committee that:

*We would like to have a database with the names of all the people who are bad debtors and supply that to the studs so that alarm bells are set off as soon as they try to book them in. Obviously, with privacy laws and what not, that is not a possibility from a legal point of view.*¹⁶⁸

Recommendation 4.11

Racing Victoria Limited to utilise its existing powers to develop new exclusion procedures under the rules of racing in relation to defaulting owners.

The Committee heard evidence from a number of witnesses who endorsed the value of credit reference agencies. The services of these agencies could be used by breeders and related industry participants prior to committing themselves to any commercial arrangements. Rather than endorse any particular credit reference agency and, as an acknowledgment of the impact of the debt problem, the Committee considered that an industry specific approach to solving the issue is perhaps warranted.

¹⁶⁷ T. O'Mara, Racing Victoria Limited, 2005. Minutes of Evidence, 20 June, p.18.

¹⁶⁸ R. Andrews, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.52.

Recommendation 4.12

VicStud Ltd, in association with related parties, identify ways in which better use could be made by industry participants of the services of credit reference agencies.

Recommendation 4.13

VicStud Ltd examine the viability of creating a centralised fee collection system for the benefit of Victorian thoroughbred breeding industry participants.

An issue relating to the collection of bad debts, and raised before the Committee, was the need to provide greater flexibility in relation to the provisions of the *Impounding of Livestock Act 1994*. The Committee acknowledges that recent amendments to this Act have improved the capacity of affected participants to take action, but further consideration needs to be given as to how the Act can lessen the financial burden on industry participants suffering unpaid debts.

Recommendation 4.14

VicStud Ltd, in association with related parties, examine the current legislation including the Impounding of Livestock Act 1994, in order to identify ways in which recovery of unpaid entitlements might be further expedited for thoroughbred breeding industry participants.

4.6 Concluding comments

In considering the full scope of the investment environment in which the Victorian thoroughbred breeding industry operates, the Committee believes that it is necessary to adopt a broad approach in seeking to find ways in which the investment environment can be improved so as to enhance the state of the industry.

The Committee eschews any simplistic approaches which place unnecessary emphasis on improving just one feature of the industry in Victoria, such as calls for the basing of more stallions in the state. Attracting top quality stallions to Victoria is of paramount importance but is not a problem that can be addressed without improving other fundamental aspects of the investment environment in Victoria. Improving the quality of Victoria's broodmare base and encouraging such quality broodmares to visit Victorian stallions is one example of the many factors that need to be addressed. There is a clear connection between stallion success and quality broodmares.

The Committee is attracted to the improvement of the investment platform for breeders through, for instance, the enhancement of prizemoney and incentives, the reduction in regulatory obstacles and confusion, and the adoption of more efficient and businesslike practices. As outlined in Chapter 3 above, the Committee considers that a body, such as VicStud Ltd, would assist in improving businesslike practices while working with industry to help develop stallion investment platforms that would be attractive to potential investors.

Eliza Park

The Fleming family's Eliza Park is the largest commercial thoroughbred horse breeding operation in Victoria and employs approximately 60 people. The business operates from three separate properties which together cover nearly 810 hectares. The breeding operation is found at the better known Kerrie property, some 25 kilometres north west of Melbourne's Tullamarine Airport. The racing operations are based at nearby Macedon Lodge while at Berrigan, in New South Wales, there is a rearing and spelling centre.

Jim Fleming's family has been involved in thoroughbred breeding since the 1930s though the purchase of the former Dorrington Park stud in the mid-1990s was the first venture by the family into Victoria. According to Eliza Park staff, a key reason for the move into Victoria was the state's owners and breeders incentive scheme, Super VOBIS.

In addition to being a significant employer in its local region, Eliza Park has made strong connections with international breeding operations, employing two experienced men from Ireland as its current managers. As well, the stud actively supports employee exchanges, and operates a scholarship in association with the Irish National Stud. In recent times, Eliza Park stud has also developed a close relationship with the Werribee Equine Centre of the University of Melbourne.

Eliza Park's contribution to the Victorian industry is considerable and with the standing of eight stallions at its Kerrie stud farm in 2006, this will result in the stud generating millions of dollars in service fees during the coming season. This season Eliza Park are standing group winning sons of *Encosta De Lago* (*Delago Brom*) and *Royal Academy* (*Bel Esprit*). The Committee sees the standing of these two quality racehorses recently retired from the racetrack, as a positive step for Victorian breeding. Eliza Park's commitment to young marketable stallions leaves the Committee hopeful that with a newly energised and unified breeding industry in Victoria, this State can once again emerge from the shadow of New South Wales as a centre for thoroughbred breeding excellence.

SKILLS TRAINING AND RESEARCH

5.1 Introduction

In previous reports, the Economic Development Committee has identified a highly skilled workforce as fundamental to industry sustainability and growth. For example, the EDC's report into labour hire identified skills and professional development as critical factors in stimulating investment, employment and economic growth.¹⁶⁹

In the context of the thoroughbred breeding industry, a skilled workforce is essential. Thoroughbreds are particularly sensitive and unpredictable animals. The potential for the thoroughbred to cause injury (to animal or human), combined with the considerable economic value of the thoroughbred, underlines the paramount need for a workforce with strong horse management skills.

The development of skills within the Victorian industry is one of this Inquiry's six terms of reference. The Committee acknowledges however, that the issue of skills and training is fundamental to many other aspects of this Inquiry and that such issues are directly relevant to the Committee's central concern of the viability of the industry. As stated, an industry recognised for its highly skilled workforce will, as a corollary, attract significant investment. The promotion of a skilled workforce is also an important part of achieving international best practice.

In addition, a highly skilled workforce can only enhance the welfare of the thoroughbred and thus promote the reputation of the industry. This Chapter will demonstrate the success Victoria has had in producing such skilled workers. It will also propose recommendations where those skills can be

¹⁶⁹ Economic Development Committee, 2005. *Final Report: Labour Hire Employment in Victoria*. Parliament of Victoria, Melbourne, June, Chapter 5.

provided to a broader number of Victorians (particularly in rural areas). This chapter also raises concerns about the degree to which young Victorians are leaving the thoroughbred breeding workforce in favour of other industries and the occupational health and safety and employment issues that underpin these concerns.

5.2 Educational Providers

Within the Victorian thoroughbred industry, as in other industries, educational providers at the tertiary and technical and further education levels provide the primary source of skills development and training. Victoria is fortunate to have some of the leading educational providers in Australia in the equine skills/training field and these include:

- Marcus Oldham College, Geelong;
- Goulburn Ovens Institute of TAFE, Wangaratta;
- the Northern Melbourne Institute of TAFE, Epping;
- Glenormiston College (now part of South West TAFE);
- East Gippsland Institute of TAFE, Bairnsdale;
- University of Ballarat;
- McMillan College, Warragul;
- Racing Victoria Limited;
- Box Hill TAFE, Box Hill.

During informal meetings both in Victoria and interstate, the Committee was advised that Victoria's system of training students for the equine industry is generally highly regarded. Many of the above institutions have developed reputations for producing graduates of outstanding quality.¹⁷⁰ Thoroughbred Breeders Victoria supplies financial scholarships to all the major TAFE

¹⁷⁰ T. Johnson, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.40.

colleges that provide courses in relation to the breeding industry.¹⁷¹ In recent times, as the thoroughbred industry worldwide continues to grow and become more integrated, many Victorian graduates have obtained work interstate or overseas. Indeed, informal advice to the Committee during its visit to the Hunter Valley suggested that Victorian graduates are very much in demand from leading New South Wales studs, on the basis of the high quality of skills training available at Victorian tertiary institutions.¹⁷²

5.3 Formalised Training

Formalised training for Victoria's thoroughbred breeding industry is a relatively recent development. Mr Kevin Kurrle, a former teacher at Wangaratta TAFE, in evidence before the Committee, noted that formal courses for the racing and breeding industry only emerged in the mid-1980s, with Wangaratta TAFE being one of the first to adopt a course in 1985:

*When I started running it in 1985 I had 12 students, a syllabus, and that was all. There was no facility, no teachers, nothing.*¹⁷³

Northern Melbourne Institute of TAFE (NMIT) is a good example of the way Victoria's education sector is expanding to service the needs of the thoroughbred breeding industry. The Institute currently has 75 students enrolled in its breeding courses as well as 65 students engaged in racing studies. As the only provider of farrier training in Victoria, NMIT also currently has 32 farriers in training.¹⁷⁴

¹⁷¹ T. Johnson, Thoroughbred Breeders Victoria, 2005. Minutes of Evidence, 20 June, p.40. Annual scholarships of \$550 each are provided by TBV to Marcus Oldham College, Wangaratta TAFE and to NMIT. A gift is also provided to the winner of the Marcus Oldham College Thoroughbred Scholarship of the memorabilia from a Group 1 winner, such as the Cox Plate winner: Email from Mr Richard Andrews, Executive Officer, Thoroughbred Breeders Victoria, 19 January 2006.

¹⁷² For example, Committee discussions with Mr Peter O'Brien, Stud Manager, Coolmore Stud, Jerry's Plain, 29 August 2005.

¹⁷³ K. Kurrle, Kisimul Farm, 2005. Minutes of Evidence, 22 June, p.60.

¹⁷⁴ Northern Melbourne Institute of TAFE, Paper presented to the Committee, 22 August 2005.

The Committee heard evidence that there is considerable export growth potential in industry training and skills development. According to Mr David Draper, Associate Director, Faculty of Earth Sciences, NMIT runs about 25,000 student contact hours internationally at full cost recovery, which is the fee equivalent of about 50 students. The training is also provided into Malaysia, Hong Kong and Singapore with Mr Draper confident that further opportunities exist to export Victoria's equine education services to Turkey, Dubai, South Korea and Vietnam.¹⁷⁵

NMIT is continuing to expand its range of courses, and in mid-2005 was given accreditation to offer a degree in equine studies. The three-year course will be one of the first offered by a TAFE and will cover equine studies as well as business management.¹⁷⁶

Glenormiston offers three specialist management courses in relation to the thoroughbred industry – an Advanced Diploma of Horse Management; a Certificate IV in Horse Management and a Certificate IV/Diploma in Racing (Thoroughbred).

Goulburn Ovens Institute of TAFE at Wangaratta is the home of a highly regarded equine studies department. The department (which is located on the Park Lane Stud Farm) emphasises a hands-on approach to training. The physical features of the site include a stable complex, twenty thoroughbred mares and two stallions, 60 acres of fenced pasture and workplace based flexible training for racing staff. It offers accredited and nationally recognised programs including traineeships, Certificate IV and Diploma programs.¹⁷⁷

¹⁷⁵ D. Draper, Northern Melbourne Institute of TAFE, 2005. Minutes of Evidence, 22 August, p.169.

¹⁷⁶ D. Draper, Northern Melbourne Institute of TAFE, 2005. Minutes of Evidence, 22 August, p.169.

¹⁷⁷ Goulburn Ovens Institute of TAFE,
<<http://www.gotafe.vic.edu.au/Equine/index.cfm>>

Marcus Oldham College, located at Geelong, has been operating a horse business management course since 1979. The course is full fee paying and currently costs \$27,000 per year, \$5,500 of which funds tours of both the Hunter Valley and New Zealand.

Marcus Oldham College has a very strong international reputation. Each year between 4 and 12 overseas students enrol in a training course in equine studies. The Malaysian Equine Council sponsors one student to come every year. In addition to its popular horse business management course, Marcus Oldham offers a Bachelor of Business (Rural Management), a Diploma in Agribusiness and an Associate Diploma in Rural Business Management.¹⁷⁸

According to Dr Nick Roe, Director of Marcus Oldham's Horse Management Business Program, the course covers three main areas – practical skills, horse husbandry and business subjects. Dr Roe, in evidence before the Committee, informed the Committee that his college aimed:

*At producing middle management and above-type people or people who can run their own business as far as dealing in horses or bloodstock agents*¹⁷⁹

In evidence before the Committee, Dr Roe estimated that up to half the graduates from Marcus Oldham College found work within the thoroughbred breeding industry, and a smaller number went on to further training. He estimated that only about one quarter of those working in the thoroughbred breeding industry remained in Victoria. Dr Roe attributed this to both the mobile nature of the industry and the attraction and opportunities provided by large organisations:

¹⁷⁸ Dr N Roe, Marcus Oldham College, 2005. Minutes of Evidence, 22 August, p.177.

¹⁷⁹ Dr N Roe, Marcus Oldham College, 2005. Minutes of Evidence, 22 August, p.179.

*We have them linking up with big organisations and then they move around, whether it is in the Hunter Valley or around Euroa or over in Ireland or America; it is pretty mobile.*¹⁸⁰

5.4 Demand for Victorian Graduates

Evidence provided to the Committee by both the NMIT and Marcus Oldham strongly suggests that the thoroughbred breeding industry is in a growth phase and that demand for graduates continues to grow. In evidence before the Committee, Mr David Draper, on behalf of the NMIT noted that:

*...the industry is snapping these people up and they are not getting the opportunity to finish the course. So NMIT had to then introduce both night and weekend classes to enable students to finish their particular course that they were undertaking. One of the criticisms I guess that we have received is that we cannot train enough people quick enough for the industry.*¹⁸¹

Referring to the international context, Dr Roe of Marcus Oldham College informed the Committee that:

*Internationally, the thoroughbred industry is booming and we need to make sure we keep it up. As far as our graduates are concerned they are in hot demand. If I had 20 more graduates sitting in my back pocket tomorrow they would all have jobs.*¹⁸²

In light of further anticipated growth the Committee considered that it would be timely for the Victorian government to review the capacity of existing educational providers to meet any increased demand.

¹⁸⁰ Dr N Roe, Marcus Oldham College, 2005. Minutes of Evidence, 22 August, p.179.

¹⁸¹ D. Draper, Northern Melbourne Institute of TAFE, 2005. Minutes of Evidence, p.169.

¹⁸² Dr Roe, Director, Horse Business Management Program, Marcus Oldham College, 2005. Minutes of Evidence, 22 August, p.179.

Recommendation 5.1

The Victorian Government, in consultation with key industry stakeholders and education providers:

- (a) evaluate the capacity of existing Victorian educational institutions to adequately provide for the Victorian thoroughbred breeding industry; and***
- (b) evaluate the viability of expanding the educational options.***

One of the features of the various courses offered by Victorian tertiary institutions is their commitment to practical and field training. For example, NMIT has its own thoroughbred stud, as does Marcus Oldham College and Goulburn Ovens TAFE. In addition, there is a commitment to provide professional placements at studs for students at various stages of the courses. This enables the students to expand their skills in a professional context.

5.5 Rural Access to Education

The Committee recognises that the practically-oriented focus of Victoria's tertiary institutions in the equine area, constitutes an important part of the reason why Victorian graduates are so highly regarded and in such demand in the thoroughbred breeding industry. The Committee also recognises, however, that there are still many participants in the thoroughbred breeding industry in Victoria who are denied the opportunity to develop their skills through appropriate training. In this regard, the Committee has identified rural Victorians and smaller hobby breeders as groups that may not always have the opportunity to access courses which could expand their skills and assist their small breeding operations.

Through the course of this Inquiry, the Committee has come to appreciate that Victoria's large hobby breeding sector would benefit from further training, although it is sometimes difficult for many participants to undertake further training due to other commitments.

In evidence before the Committee, Mr Adam Sangster of Collingrove Stud acknowledged the importance of ensuring a high degree of skills on the part of the hobby breeder in the context of the overall success of the Victorian breeding industry:

On the skills development side of things, one of our frustrations at Collingrove is that for the most part we are dependent on our clients to rear the horses they breed from our stallions. While many are quite proficient to do so, we believe that it can be helpful to them and ourselves if they are assisted to achieve world best practice in horse husbandry and farm management. To that end we believe it would be helpful to have government assistance to train our breeder clients to improve their procedures, with horse handling, nutrition, pasture management, safe fencing and a host of other factors addressed in order to maximise their ability to profitably market their horses.¹⁸³

The Committee believes that one way of ensuring hobby breeders access informal advice on improving their practices would be through an advice service provided by an entity such as the proposed VicStud Ltd. See Chapter 3.

Access to tertiary education or on-going professional development courses is problematic for hobby breeders, as for many others, due to a number of factors including those relating to financial, geographical and logistical matters. An example was provided by Mr Draper from the NMIT who identified the region surrounding Ararat as an area in Victoria where rural Victorians find it difficult to access quality training:

¹⁸³ A. Sangster, Collingrove Stud, 2005. Minutes of Evidence, 22 June, p.73.

Four or five years ago the Bracks government redeveloped the Aradale Psychiatric Hospital at Ararat and NMIT has developed what was called the Australian College of Wine which is an actual wine label, and that has been very successful. There is potential out at that Ararat campus to set up also equine studies training given that that whole region has very little training available to them. [These] small concern[s] find it very difficult to get access to the current education that is out there because at the end of the day their dollar really is then working in the field not sitting in a classroom. Even though we run courses over the weekend and in the evenings for a person to travel from Horsham or even farther afield, say, Swan Hill, it is a little bit difficult.¹⁸⁴

As to accessing training in eastern Victoria, Mr Bob Scarborough, President of the North East Thoroughbred Industry Alliance noted:

The North East is well serviced by the Goulburn Ovens TAFE and the Dookie College which does provide educational opportunities, however more work is required to ensure that the needs of the thoroughbred industry are being incorporated into courses offered by these educational institutions.¹⁸⁵

The Committee believes that in light of the strong rural base to Victoria's thoroughbred breeding industry, an expansion of educational opportunities in regional Victoria is an important part of ensuring the sustainability and growth of the industry. Indeed, the Committee considers that establishing a broader educational infrastructure in rural Victoria is not only an important part of improving the skills for rural Victorians who work in the industry, but will more generally raise the profile of the region and increase employment and investment opportunities in regional Victoria.

¹⁸⁴ D. Draper, Associate Director, Faculty of Earth Sciences, Northern Melbourne Institute of TAFE, 2005. Minutes of Evidence, 22 August, p.170.

¹⁸⁵ North East Thoroughbred Industry Alliance, 2005. Submission No. 8, 28 April, p.4.

Recommendation 5.2

The Victorian Government review existing educational opportunities in regional Victoria in relation to horse breeding and consider expanding the number of courses in horse breeding and related fields into regions that are in need of improved levels of equine education.

5.6 Professional Development and Workplace Culture

As referred to above, graduates of Victoria's major equine educational courses are in high demand. The Committee has been advised however, that this demand is not simply a consequence of strong economic growth in the thoroughbred racing and breeding industries, but also due to the high attrition rates of young employees in the industry.¹⁸⁶

Various individuals and parties that have made submissions and given evidence at hearings during the course of this Inquiry, have attested to this high attrition rate and the underlying reasons.¹⁸⁷ Of course, the reasons for an individual departing a workplace are many and varied and depend often on individual circumstances. Nevertheless in the course of its Inquiry, the Committee has identified particular themes, as being significant influences on the nature of the thoroughbred breeding workplace and more specifically its appeal to young students or employees in the industry.

The Committee has been concerned to note that in much of the industry there is a culture of indifference to appropriate workplace standards. As Mr David Draper of NMIT noted, "[T]en per cent of the industry is well set up and is

¹⁸⁶ D. Draper, Northern Melbourne Institute of TAFE, 2005. Minutes of Evidence, 22 August, p.169.

¹⁸⁷ For example, D. Draper, Northern Melbourne Institute of TAFE, 2005. Minutes of Evidence, 22 August, p.169 and Mr Blandthorn, The Australian Workers' Union, 2005. Minutes of Evidence, 1 August, p.113.

doing quite well and their standards are appropriate. It is the other 80 to 90 per cent that have major problems".¹⁸⁸

Mr Draper further advised the Committee that:

*...as time goes on, that positions within a lot of these studs and stables, if they are linked to the Australian quality training framework and the appropriate salaries are paid and the appropriate qualifications are there for those people, a lot of the problems will be weeded out.*¹⁸⁹

The Committee recognises that there are clearly issues in respect to both appropriate industrial protection and occupational health and safety standards in the industry. Mr John-Paul Blandthorn appeared before the Committee on behalf of the Australian Workers' Union (AWU). Mr Blandthorn noted that the problem of employers' commitment to appropriate industrial standards for their workers goes beyond the issue of what is the appropriate industrial award.

The AWU argues that the appropriate award is the Horse Training Industry Award 1998. Mr. Blandthorn stated that:

[R]egardless of that fact, from our membership and from going around and talking to people we have found out that a lot of people are not even employed under an award or an AWA or anything. The contracts are just simply saying, 'You show up and we will give you work'. A lot of employees do not get payslips or these sorts of things, so there is no accountability of employers. If they did realise they were under the award there would be a lot of breaches of the award regulations. Not only that, we have found that a lot of employees are not actually aware that there is a new Occupational Health and Safety Act, and in a lot of the material employers talk about the 1985 Occupational Health and Safety Act....We think there probably needs to be more education of employers as to their

¹⁸⁸ D. Draper, Northern Melbourne Institute of TAFE, 2005. Minutes of Evidence, 22 August, p.170.

¹⁸⁹ D. Draper, Northern Melbourne Institute of TAFE, 205. Minutes of Evidence, 22 August, p.171.

*responsibilities on both industrial and occupational health and safety matters.*¹⁹⁰

The Committee heard evidence of the incidence of young female staff departing the thoroughbred breeding industry. For instance, Mr Blandthorn in evidence before the Committee noted that:

*There are an amazing number of people who are employed in this industry, and the majority of them are young females who have a love of horses. We feel they are often exploited. It is often their first job, and they are not aware of their rights industrially or under the Occupational Health and Safety Act.*¹⁹¹

The lack of recognition by certain employers of appropriate laws and standards (particularly occupational health and safety and employment contracts) is of particular concern to the Committee. Clearly it is a problem that many young employees (especially women), are having difficulty remaining happily and safely employed in the thoroughbred breeding industry.

Recommendation 5.3

The Victorian Government work with the relevant agencies at Federal and State levels to ensure that agreed industrial standards be monitored and enforced throughout the thoroughbred breeding industry.

Recommendation 5.4

The Victorian WorkCover Authority undertake an awareness campaign in relation to the occupational health and safety obligations of the thoroughbred breeding industry, develop practical guidelines and ensure compliance with the relevant legislation.

¹⁹⁰ J. Blandthorn, Australian Workers' Union, 2005. Minutes of Evidence, 1 August, p.111.

¹⁹¹ J. Blandthorn, Australian Workers' Union, 2005. Minutes of Evidence, 1 August, p.113.

The Committee recognises that the thoroughbred breeding industry does not function effectively without a workforce that enjoys fundamental employment rights. Without basic terms and conditions under the contract of employment being satisfied and a similar commitment to workplace safety, too many young and talented workers will continue to find other industries more appealing.

The viability of the Victorian thoroughbred breeding industry is inextricably linked to the quality of its skilled labourforce. If the Victorian thoroughbred breeding industry continues to lose quality workers then this will have a deleterious effect on the quality of horse care. In these circumstances, investors will be less inclined to send their horses to Victoria.

5.7 Cultural Change

The Committee has been encouraged by recent developments at Flemington racecourse in relation to workplace culture. A number of trainers at Flemington have successfully lobbied officials to keep the track open in the mornings until 9am, rather than 8.30am. This change means that strappers and training staff can start work up to an hour later. It is a policy shift that some of Melbourne's leading trainers see as the first step towards making the industry more worker friendly and thus more attractive to well qualified people. Linking the welfare of the industry to the welfare of the industry's employees, leading trainer Danny O'Brien was quoted in a recent Age newspaper article stating:

"We want quality people who want to build a career in racing...The one thing that holds them back is the hours".¹⁹²

The racing and breeding industries are interdependent and share many fundamental characteristics including their workplace culture. The above example of workplace conditions in the racing industry has parallels in the

¹⁹² Stephen Howell, 2006. "Out of the Dark", in Ageform, *The Age*, pp.1-2 and 11.

breeding industry. Both industries have been characterized by a reluctance amongst some to change traditional workplace regimes notwithstanding the often archaic nature of those regimes. The Committee believes that such a reluctance to embrace change (even where existing practices are not consistent with contemporary laws and workplace values) impedes industry development and the achievement of best practice. The Committee notes that unless changes are made to traditional models of workplace culture then the industry will fail to attract and retain highly skilled and dedicated professional staff to the industry.

5.8 Research and Veterinary Care

In both evidence before the Committee and at informal meetings, the Committee has been advised of the importance of funding for research for the maintenance of a successful breeding industry in Victoria.

The Committee met with Professor Andrew Clarke, the Chair of Equine Studies and Head of the Equine Centre, Werribee. The University of Melbourne's Equine Centre is a division of the Veterinary Clinic and Hospital which is a department of the Faculty of Veterinary Science.¹⁹³

The Equine Centre focusses on three core activities:

1. **The Clinic.** The Centre provides veterinary care for over 3,000 horses 24 hours a day 365 days a year.
2. **Training.** The Centre is the primary provider of equine education for vets in Victoria and trains over 80 veterinary students each year.
3. **Research.** The Centre is responsible for world class research both in its own right and through collaborations and partnerships.¹⁹⁴

¹⁹³ Informal meeting, Equine Centre, University of Melbourne, 24 August 2005.

¹⁹⁴ Informal meeting, Equine Centre, University of Melbourne, 24 August 2005.

The Equine Centre is one of only four university teaching hospitals in Australia that also operates as a specialist equine referral clinic. It works in collaboration with veterinary practitioners and equine centres and institutions across Australia and around the world. The Centre's current focus on equine studies was precipitated by a strategic partnership formed between Racing Victoria Limited and the University of Melbourne. Phase 1 of the project was completed in 2002 when sophisticated veterinary equipment such as a gamma ray camera, exercise physiology treadmill and an ultrasound machine were acquired.

Racing Victoria Limited, in its written submission, noted that Victoria's breeding efficiency has improved since the 1970s through improved farm management regimes and increased veterinary intervention.¹⁹⁵ This is illustrated by the fact that Victoria's live foal rate was 60.3 per cent, ahead of the Australian average of 59.5 per cent and on a par with the US. Great Britain and Ireland have live foal rates of 61 per cent whilst Japan, due to a higher level of professional farms and increased veterinary intervention, was at 71 per cent.¹⁹⁶

The Committee has been informed that the Victorian thoroughbred breeding industry has access to a number of high quality private veterinary practices. In particular, Racing Victoria Limited in its written submission, identified Dr Angus Mckinnon (Goulburn Valley Equine Hospital), Dr Alistair McLean (from the Equine Centre, Werribee) and Drs John Hyland and Terry Lewis from the Avenel Veterinary Clinic.¹⁹⁷

The Committee was also informed by Racing Victoria Limited, in its written submission that, notwithstanding the existence of quality practices in some regions, "there is a shortage of skilled equine practitioners on a statewide basis. An opportunity exists for further investment in this area to ensure that

¹⁹⁵ Racing Victoria Limited, 2005, Submission No. 16, 23 May, p.18.

¹⁹⁶ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.18.

¹⁹⁷ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.18.

there are adequate skilled veterinarians available to service the Victorian breeding industry throughout the whole of the state".¹⁹⁸

Evidence was received from Dr Nick Roe of Marcus Oldham College about the need for a new training qualification, being that of veterinary nurse:

*Also there is maybe a need for a specific equine vet nurse qualification. On these studs if someone gives a needle to a horse and for whatever reason there is an adverse reaction, the person who gave that needle is not covered by insurance unless they are a veterinary surgeon. We need to have people out there. My colleagues will not like me saying it but we need people who are able to administer penicillin and be covered by insurance.*¹⁹⁹

Recommendation 5.5

The Victorian Government, in association with the racing industry and educational providers, consider the creation of a specific equine nurse qualification.

The Committee has been advised in informal discussions with a leading veterinarian, Dr Angus McKinnon, that the thoroughbred industry is fragmented. Dr McKinnon called for a regional focus and for the establishment of a centre for research and a centre for breeding. Dr McKinnon advised that it was with a regional focus in mind that he established his practice in Shepparton as he believed the future of the horse breeding industry in Victoria lay in this area.²⁰⁰

As to research, Dr McKinnon considered that reproductive research suffers from inadequate funding. Further, Dr McKinnon informed the Committee that much of the research undertaken by the major equine research centres in Australia (principally the Werribee Equine Centre and the Rural Industries

¹⁹⁸ Racing Victoria Limited, 2005. Submission No. 16, 23 May, p.18.

¹⁹⁹ Dr. N. Roe, Marcus Oldham College, 2005. Minutes of Evidence, 22 August, p.184.

²⁰⁰ Informal discussions with Dr Angus McKinnon dated 13 October 2005.

Research and Development Corporation at the University of Sydney (RIRDC)) is racing focussed rather than breeding focussed. In an informal discussion, Dr John Freestone, Manager of the Horse Industry Research Facility at the RIRDC and a resident veterinarian at Coolmore Stud, informed the Committee about the efforts being made in terms of national equine research (by RIRDC).²⁰¹ Following an agreement with the then Australian Conference of Principal Racing Clubs (now the Australian Racing Board) to provide funding support, the RIRDC established an Equine Research and Development Advisory Committee to oversee a national research and development program. This particular Committee oversees the investment of partnership funds from industry and government in equine R & D projects.²⁰²

As the major research centre in Victoria, the Werribee Equine Centre is funded from a number of local (such as Racing Victoria Limited) and interstate sources (such as the RIRDC). A number of their current projects include:

- Diagnostic Imaging
- Musculoskeletal Soundness
- Respiratory Disease (a major cause of wastage in the thoroughbred industry)
- Exercise Induced Pulmonary Haemorrhage (EIPH or bleeders) in thoroughbred racehorses
- Osteochondrosis (OCD)
- Racetrack Fatalities
- Tying Up²⁰³

While many of the above projects relate to racing and not strictly to breeding, the Committee appreciates the close synergies that exist between the racing and breeding industries and endorses the research that is undertaken by the Equine Centre, Werribee. The Committee believes that this type of research

²⁰¹ Committee discussions with Dr John Freestone, Muswellbrook, 30 August 2005.

²⁰² Rural Industries Research and Development Corporation website: <<http://www.rirdc.gov.au>>

²⁰³ Equine Centre, Werribee, 2005. *Current Equine Centre research projects* at: <http://www.equinecentre.unimelb.edu.au/_framesetc/fr_research.htm>

(which is aimed at identifying the source of problems that afflict thoroughbreds as well as helping to resolve them), produces benefits that transcend its apparent racing focus and necessarily produce direct and indirect benefits to the breeding industry. For example, there is an obvious connection between shortened racing careers and economic loss. Establishing ways of improving the health of the thoroughbred horse and the longevity of their racing careers are therefore important factors in encouraging more investors into the industry.

In conclusion, the Committee notes that there are sound teaching programs for veterinarians in Victoria although some informal discussions have raised the issue of the location and spread of the veterinarians and the veterinary hospitals that support them. The Committee notes the tax deductible status of donations to the Werribee Equine Centre and considers this to be an important incentive for encouraging investment in equine research.²⁰⁴

Recommendation 5.6

VicStud Ltd, in collaboration with relevant industry and educational bodies, review the adequacy of present levels of research to further develop the horse breeding sector.

Committee Room

27 January 2006

²⁰⁴ Equine Centre Werribee. Website: <<http://www.equinecentre.com.au>>

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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

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

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

- **Yallabee 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
- **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

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 Hernon, Manager, Coolmore Stud
Mr. Derek Icceton, 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

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

Income Tax Assessment Act 1997 – Sect 70.60

Valuation of horse breeding stock

- (1) For a horse at least 3 years old that you acquired under a contract and hold for breeding, you can elect a value other than the values in section 70- 45.
- (2) The value you can elect for the horse at the end of the income year is worked out using the table:

<u>Value</u> of horse breeding stock	
If the horse is:	...you can <u>value</u> it at this amount:
female 12 <u>years</u> or over	\$1
any other horse	The * <u>horse opening value</u> less the * <u>horse reduction amount</u> (see section 70-65)

- (3) However, if the value worked out under subsection (2) would be less than \$1, you must elect the value of \$1.
- (4) A horse's age is to be measured in whole years as at the end of the relevant income year. The age of a horse not born on 1 August is determined as if the horse had been born on the last 1 August before it was actually born.

<http://www.austlii.edu.au/au/legis/cth/consol_act/itaa1997240/s70.60.html>

Income Tax Assessment Act 1997 – Sect 70.65

Working out the horse opening value and the horse reduction amount

(1) The horse opening value is:

- (a) if the horse has been your * live stock ever since the start of the income year – its * value as * trading stock at the start of the income year; or
- (b) otherwise – the horse’s base amount (see subsection (3)).

(2) The horse reduction amount is worked out as follows:

(a) for female horses under 12 years of age:

$$\frac{\text{Base amount}}{\text{Reduction factor}} \quad \times \quad \frac{\text{Breeding days}}{\text{Days in income year}}$$

(b) for any male horse:

$$\text{Base amount} \quad \times \quad \text{Nominated percentage} \quad \times \quad \frac{\text{Breeding days}}{\text{Days in income year}}$$

(3) In this section:

base amount is the lesser of:

- (a) the horse’s * cost; and
- (b) the horse’s * adjustable value when it most recently became your * live stock.

breeding days is the number of whole days in the income year since you most recently began to hold the horse for breeding.

nominated percentage is any percentage, up to 25%, you nominate when you make the election in section 70-60.

reduction factor is the greater of:

- (a) 3; and
- (b) the difference between 12 and the horse’s age when you most recently began to hold it for breeding.

Paragraph 13 of Tax Ruling 97/11
Income tax: am I carrying on a business of primary production

13. The courts have held that the following indicators are relevant:

- * whether the activity has a significant commercial purpose or character; this indicator comprises many aspects of the other indicators;
- * whether the taxpayer has more than just an intention to engage in business;
- * whether the taxpayer has a purpose of profit as well as a prospect of profit from the activity;
- * whether there is repetition and regularity of the activity;
- * whether the activity is of the same kind and carried on in a similar manner to that of the ordinary trade in that line of business;
- * whether the activity is planned, organised and carried on in a businesslike manner such that it is directed at making a profit;
- * the size, scale and permanency of the activity; and
- * whether the activity is better described as a hobby, a form of recreation or a sporting activity.

The Breeding Process: Key Facts

The primary source of income for broodmare owners comes from the sale of their mares' progeny, although breeders may retain some progeny to race and ultimately breed from. If a breeder sells a horse, it may be bought by another breeder who may wish to add the horse to their own breeding stock, or by someone who wishes to race the horse.

Alternatively, breeders who own, lease or rent stallions will derive income from charging service fees for having their stallion service (or mate) with other breeders' mares. These may be local stallions or 'shuttle stallions' that are based in the northern hemisphere (usually Ireland or England). They travel between hemispheres to cover mares in both the northern hemisphere breeding season and the Australasian breeding season. Shuttle stallions have become increasingly popular over the last ten years.

A horse's pedigree is a key consideration for breeders and buyers of bloodstock. When selecting the stallion that will serve their broodmare, breeders will analyse the pedigree of stallions and broodmares over a number of generations in an effort to produce a foal with the best pedigree that they can afford. However, choosing the pedigree that will deliver the best return at sale is not always straightforward. A number of witnesses gave evidence to the Committee that there is an element of fashion involved in pedigrees and a particular stallion may come in and out of fashion quickly.

As well as pedigree, buyers will look for good conformation (a term that refers to a horse's muscular and skeletal structure) and strength in young horses. It is fundamental that breeders present horses at yearling sales that are as strong and mature as possible. Generally horses that are born early in the breeding season are advantaged in this regard, although there is no exact science to this process. Indeed the exigencies of breeding thoroughbreds makes planning season to season a highly problematic exercise for broodmare owners.

On its first 'birthday', the foal becomes a yearling. However, for the purposes of racing, a thoroughbred horse's birthday is considered to be the first day of August next after its birth, irrespective of its actual date of birth.²⁰⁵ This means that the true age of a yearling – as opposed to its official age – is variable.

The most intense breeding activity takes place around the beginning of the official covering season. Thoroughbred foals are only allowed to be conceived according to natural means.²⁰⁶ Due to a horse's gestation period being around 11 months and 11 days, foals conceived around this time will be born around 1 August.

²⁰⁵ Australian Stud Book. *Rules of the Australian Stud Book* (updated October 2004), p.7; Rule 46; Australian Racing Board, *Australian Rules of Racing* (amended to 1 August 2005), p.21.

²⁰⁶ See: Australian Stud Book. *Rules of the Australian Stud Book* (updated October 2004), p.17. This is unlike standardbred horses, which are conceived through the use of artificial insemination.

The range of programs offered by DIIRD

- *First Step Exporter* program which offers financial assistance to Victorian companies seeking to research and explore opportunities in their first export markets;
- *TradeStart* program which is run in conjunction with Austrade and aims to help companies assess their export capability and provide advice on selection of export markets, offers assistance in visiting markets and follow-up support;
- *Next Step Exporter* program which provides funding to selected auspice organisations to provide companies with access to specialist export advice; and
- *Grow Your Business* program, a part of the export assistance program but is a component of DIIRD's broader business assistance program.

Grants are also available to subsidise the cost of participation in export related workshops or to collaborate to exploit opportunities beyond a company's individual reach and as officials advised at their informal hearings before the Committee, this program is to be found at the planning stage. Other departmental assistance includes the

- *Export Communication Network*, which provides emailed export information, market intelligence, and
- *Export Networks* which is a new program designed to bring companies together to exchange knowledge, experience and ideas.

There is also financial assistance available to groups of companies and industry bodies for collaborative export development initiatives as well as funding to assist groups attending trade fairs and for groups developing and implementing a strategy to showcase Victorian capability internationally.

Thoroughbred Horse Sales – Australia

William Inglis and Son Ltd, 2006 Sales,²⁰⁷

Sales	Venue	Sales Date
Classic Yearling Sale	Newmarket, NSW	12 & 13 February 2006
Summer Thoroughbred Sale	Newmarket, NSW	24 February 2006
Premier Yearling Sale	Oaklands, VIC	5, 6 & 7 March 2006
March Thoroughbred Sale	Oaklands, VIC	24 March 2006
Autumn Yearling Sale	Oaklands, VIC	2 & 3 April 2006
Australian Easter Yearling Sale	Newmarket, NSW	18, 19, & 20 April 2006
Australian Select Weanling & Broodmare Sale	Newmarket, NSW	23 & 24 April 2006
Red Centre Yearling Sale	Alice Springs, NT	28 April 2006
Autumn Thoroughbred Sale	Newmarket, NSW	5 May 2006
Scone Thoroughbred Sale	Scone, NSW	18 May 2006
H.V.B.A Scone Yearling Sale	Scone, NSW	21 May 2006
June Weanling Sale	Oaklands, VIC	25 & 26 June 2006
June Thoroughbred Sale	Oaklands, VIC	28 & 29 June 2006
Winter Thoroughbred Sale	Newmarket, NSW	14 July 2006
Winter Weanling & Yearling Sale	Newmarket, NSW	16 July 2006
August Thoroughbred Sale	Oaklands, VIC	25 August 2006
Spring Thoroughbred Sale	Newmarket, NSW	15 September 2006
2 & 3 Year Old Ready to Run Sale	Oaklands, NSW	5 & 6 November 2006
December Thoroughbred Sale	Oaklands, NSW	1 December 2006
Christmas Thoroughbred Sale	Newmarket, NSW	8 December 2006

²⁰⁷ <<http://inglis.com.au/information/saledates.php>>

Magic Millions Sales Pty Ltd, 2006 Sales:²⁰⁸

Sales	Venue	Sales Date
Conrad Jupiters Yearling Sale Sessions 1-4	Gold Coast, QLD	12-15 January 2006
Conrad Jupiters Yearling Sale Session 5	Gold Coast, QLD	16 January 2006
Conrad Jupiters Yearling Sale Sessions 6-7	Gold Coast, QLD	18-19 January 2006
February Monthly Sale	Gold Coast, QLD	10 February 2006
Premier Yearling Sale	Perth, WA	14-15 February 2006
Autumn Yearling Sale	Perth, WA	17 February 2006
Select Yearling Sale	Launceston, TAS	20 February 2006
March Monthly Sale	Gold Coast, QLD	10 March 2006
Yearling Sale Sessions, 1-3	Adelaide, SA	14-16 March 2006
Yearling Sale Session 4	Adelaide, SA	19 March 2006
March Monthly Sale	Adelaide, SA	March 2006
Premier Yearling Sale	Gold Coast, QLD	26-28 March 2006
Lakewood Unreserved Sale	Wellington, NZ	-
April Monthly Sale	Gold Coast, QLD	7 April 2006
April Monthly Sale	Adelaide, SA	April 2006
National Stud Farm Sale	Malaysia	April 2006
May Monthly Sale	Gold Coast, QLD	12 May 2006
May Monthly Sale	Adelaide, SA	May 2006
National Yearling Sale	Gold Coast, QLD	4-5 June 2006
National Weanling Sale	Gold Coast, QLD	8-9 June 2006
National Broodmare Sale (Ses 1-3)	Gold Coast, QLD	11-14 June 2006
National Broodmare Sale (Ses 4-5)	Gold Coast, QLD	15-16 June 2006
June Monthly Sale	Gold Coast, QLD	-
Mixed Thoroughbred Sale	Perth, WA	
Lyndhurst Stud Farm Sale	Warwick, QLD	-
July Monthly Sale	Gold Coast, QLD	
July Monthly Sale	Adelaide, SA	
Graeme Rogerson NT Dispersal	Darwin, NT	-
August Mixed Thoroughbred Sale	Gold Coast, QLD	27 August 2006
August Monthly Sale	Gold Coast, QLD	-
September Monthly Sale	Gold Coast, QLD	
September Monthly Sale	Adelaide, SA	
Spring Thoroughbred Sale	Perth, WA	-
Horses In Training Sale	Gold Coast, QLD	1-2 October 2006
Horses In Training Sale	Perth, WA	6 October 2006
October Monthly Sale	Gold Coast, QLD	-
November Monthly Sale	Adelaide, SA	
November Monthly Sale	Gold Coast, QLD	
Malaysian National Stud Farm Sale	Ipoh	-
December Monthly Sale	Gold Coast, QLD	-

²⁰⁸ <http://www.magicmillions.com.au/sales_results.html>

Stallion Service Fees, Australia 2005 (above \$30,000)

Stallion	Stud Farm	State	Advertised Service Fee	Services
Redoute's Choice	Arrowfield	NSW	\$220,000	190
Encosta de Lago	Coolmore	NSW	\$132,000	213
Elusive Quality	Darley	NSW	\$110,000	
Rock of Gibraltar	Coolmore	NSW	\$82,500	168
Giants Causeway	Coolmore	NSW	\$77,000	
Fusaichi Pegasus	Coolmore	NSW	\$77,000	
Lonhro	Woodlands	NSW	\$66,000	
Exceed and Excel	Darley	NSW	\$55,000	
Fastnet Rock	Coolmore	NSW	\$55,000	206
Red Ransom	Vinery	NSW	\$55,000	
Anabaa	Widden	NSW	\$44,000	
More than Ready	Vinery	NSW	\$44,000	164
Cape Cross	Darley	NSW	\$44,000	
Dehere	Arrowfield	NSW	\$38,500	
Falbrav	Arrowfield	NSW	\$38,500	
Elvstroem	Blue Gum	VIC	\$38,500	F166
French Deputy	Arrowfield	NSW	\$38,500	
Danehill Dancer	Coolmore	NSW	\$35,700	
Galileo	Coolmore	NSW	\$35,700	
Testa Rossa	Yallambee	VIC	\$35,000	
Flying Spur	Arrowfield	NSW	\$33,000	
Tale of the Cat	Coolmore	NSW	\$33,000	
Danzero	Arrowfield	NSW	\$33,000	
Octagonal	Woodlands	NSW	\$33,000	
Reset	Darley	NSW	\$33,000	
General Nediym	Widden	NSW	\$30,800	
Choisir	Coolmore	NSW	\$30,250	

F = First year stallion

Highest priced stallion in Queensland for 2005 was listed at \$22,000.

Highest priced stallion in Western Australia for 2005 were listed at \$13,000.

Highest priced stallion in South Australia for 2005 was listed at \$8,800.

Highest priced stallion in Tasmania for 2005 was listed at \$4,400.

A variety of conditions were attached to advertised service fees including GST inclusion, 45 day positive pregnancy tests, live foal, and delayed payment offers.

All NSW listed studs are located in the Hunter Valley. It is estimated that of the approximately \$180 million generated annually in stallion service fees in Australia, Hunter Valley studs account for approximately two-thirds.

Source: *Inside Breeding 2005, Inside Racing Sires Supplement.*

Super VOBIS