

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

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

Nagambie — 22 June 2005

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Witness

Mr A. Sangster, Collingrove, Nagambie.

The CHAIR — Welcome, Mr Sangster. Thank you for attending these hearings and for your hospitality last night; also, when I was up here a couple of weeks ago. You will have heard what I said earlier about the committee's inquiry, so I will not repeat it.

Could you give us some background to your operations here? Thank you for your submission, which we received some time ago.

Mr SANGSTER — I will run through the submission, get to the points and just add to it. A few things have developed since we submitted the submission at the end of April.

Overheads shown.

Mr SANGSTER — This property or establishment, Collingrove, welcomes the opportunity to address the submission made to the parliamentary committee examining the viability of the Victorian breeding industry. We regard Collingrove as representing exactly the type of investment in Victoria the committee would like to see facilitated by its recommendations. Established 10 years ago as a greenfield investment by the British-based Robert Sangster and the South Australian-based Colin Hayes, Collingrove has grown to be one of Victoria's largest thoroughbred studs, handling 600 mares per year with a roster of seven imported and locally bred stallions.

This paper has been put together by what Collingrove considers people who understand the industry and addresses several issues which we would like to draw to the committee's attention, highlighting difficulties faced by the main part of our client base—the smaller breeder.

On declining foal production as a middle-ranking thoroughbred stud catering mainly to Victorian breeders, we regard their wellbeing as essential to our own ongoing viability. However, the steady decline in the number of mares being bred nationwide demonstrates that small breeders are leaving the industry. We believe the main reason is the poor returns experienced by the majority of breeders for the investment and risk concerned. In Victoria this trend is amplified by strong competition from New South Wales studs, meaning that while this state is seeing a modest decrease in mare numbers, Victoria is experiencing a larger decline than the national average.

According to a recent news item from the Australian Stud Book:

The keeper of the Australian Stud Book, Michael Ford, recently conducted a survey amongst breeders who have not returned mares over the past two years. The results of this survey indicate that economic conditions, the cost of service fees and farm management policies are the main reasons that the mares have not been served or returned. These issues accounted for 75 per cent ... of the reasons cited by the 360 breeders who responded to the survey ... Several breeders made the point that it was cheaper to buy a yearling at a sale than to breed it, and the rising costs in many areas could be not recovered.

This is evidenced by the increasing number of stallions and mares dropping out of the stud book as shown in the table above. Those dropping out include deaths, which may be from natural causes or from being culled, otherwise thoroughbred mares may survive but are used for breeding performance horses for purely equestrian purposes. As a rule, once they are not returned to the stud book, they are never used again for breeding and racing thoroughbreds. We are concerned that many breeders are cutting back on mare numbers or ceasing to breed thoroughbreds completely due to the inability to earn a satisfactory return for the risk and effort they have put in.

Mr PULLEN — With those figures, Adam, that you had on the overhead — I presume they are for Australia or just for Victoria?

Mr SANGSTER — Australia.

The CHAIR — We could break those down, I imagine, with an analysis for Victoria.

Mr SANGSTER — I refer to the submission's mention of decreasing sales. The table above illustrates the fact that increasingly breeders, unable to obtain a satisfactory return through sales, are returning horses themselves. The figures obscure the fact that a significant number of transfers, leases and syndications also include breeder participation. In other words, breeders are finding it increasingly difficult to sell a horse outright and are therefore forced to retain it and race it themselves. However, the high costs of training means that only the very best of what they retain is raced — meaning overall that the number of registrations continues to decline. In 2003–04 the numbers of horses registered nationally to race was 13 585 and was the lowest since 1977–78 in which there were 13 068.

Headlines at this year's sales would suggest that the industry has never been better with record sales prices achieved. However, we would contend that many of the prices achieved reflect irrational exuberance in the market which has not seen a significant downturn in prices in 15 years. The reality is that if the market was really as good as the headlines suggest, new players would be flocking to it in droves. This is certainly not happening.

Much of the record prices being fetched reflect a money-go-round at the top end of the market where a few players buy and sell with each other, but little fresh money is introduced. It has the unfortunate effect, however, of inflating the value of the stallion propositions in particular, meaning that the average breeder is forced to pay extravagantly high service fees with no guarantee of recovering them through the sales route.

A market reality is that the vast majority of mares — around 80 to 90 per cent — are not top quality, yet continue to produce their fair share of winners of our best races. However, breeders are being dissuaded from using these mares because the cost of a commercial stallion is beyond their reach; or if they use a less fashionable stallion more suited to the value of the mare the prospects of a profitable sale from resulting progeny are poor. Racing the horses they breed is not an option either because prize money levels are such that only 50 per cent of the training expenses are earned by the average horse. Ideally, racing should be undertaken by those for whom the thrill of ownership is sufficient return on their investment.

The over-regulation of sales is my next point. The recent Racing Victoria ownership survey demonstrated that the vast majority of owners participate for enjoyment, with only a few people expecting that they make money out of it. However, we believe that the treatment of purchasing a share in a racehorse as an investment subject to the control of the Australian Securities and Investments Commission is totally unwarranted for what is for most people a recreational expenditure.

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.

As can be seen from the table above — 'Horses sold/leased versus breeders retained' — the number of syndicated horses has grown from 219 to 444 over the past five years. While this is a 100 per cent increase in number, the additional 200 or so horses syndicated is insignificant in terms of the total number of horses available for sale. In fact the Racing Victoria survey highlighted the fact that licensed syndicators are responsible for only 5 per cent of owners deciding to buy into a racehorse.

From a licensed syndicator's point of view he needs to purchase a horse worth \$50,000 or more in order to justify a profit margin on the sale of shares of maybe \$20,000. His own marketing expenses are able to add to this amount, meaning that the retail sales value of a \$50,000 horse can easily be \$80,000. 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. This is in addition to the cost of breeding and rearing the horse in the first place. Thus the breeder's return on his \$50,000 sale may be less than \$10,000, while the consumer has paid \$80,000. The table illustrates the comparison between auction sale and private sale costs of the progeny of a mare valued at \$15,000 bred to a stallion with a \$15,000 service fee.

A fair percentage of horses are unsuitable for sale as yearlings due to conformation defects, a temperament problem, or simply being too small due to late foaling. All breeders are forced to rely on sales of their best horses to pay for the costs of those which do not make it.

Recently I was at the Korean racing conference and the subject of ASIC was raised with the international panel by Bob Charley, asking whether other countries have the same problem with ASIC rules. America has the same problems and the head of the racehorse owners association, which is the strongest body in America, said their business is being strangled by these strong rules being put on it.

He asked the delegation to try and take a mirrored view of the Shadai farms that have been set up in Japan by racing clubs which has proved very successful. England has started to do this as well. I do not know whether you

saw it the other day but the Royal Ascot Racing Club owned the derby winner Motivator. Some of the members of that included Sir Andrew Lloyd Webber and Simon Carroll. It has had enormous publicity and it has been a very well-instigated way of getting around the racing clubs taking on these buyable horses to stop the over-expense of it all.

The analysis of sales values of 5581 horses sold at auction in 2004 showed that even \$50,000 is a pipedream for most breeders. At the top end of the market the 25 per cent of horses sold at auction for more than \$50,000 averaged \$142 197. Given the higher service fees usually commanded for these horses, combined with the greater value of the mare, the extra revenue cannot be added to the profit figure. However, the rearing cost will be about the same, while the selling cost would be perhaps two to three times greater given that the commission will be higher, as shown.

The 75 per cent of horses sold for less than \$50,000 averaged just under \$19,000 and with the costs of rearing and selling this means that the vendors are going backwards, as illustrated in the table. The result is that unless breeders can afford to produce a horse valued at \$50,000 or more, which is valuable enough to justify the high cost of auction sale, they are condemned to a sales environment which allows their horses to be purchased well below cost.

If they choose not to sell at a loss by passing in the horse at auction, they are faced with equally demanding costs to race the horse themselves in an effort to get a return on their investment. It should also be noted that the above profit and cost figures only relate to horses successfully sold. The selling costs for passed-in horses are not much less. In addition, no provision is made in these figures for the holding costs of mares who fail to produce a live foal or for paddock accidents causing death or serious injury to young stock. Also, no provision is made for wages to the mare owner or for a return on the cost of property, plant and equipment required for a stud operation.

It is no surprise therefore that breeders are leaving the industry and overall production is declining. This will undoubtedly have a negative impact on the racing industry as the size of fields will have to come down, leading to a reduction in wagering turnover. Less races will be programmed and some clubs may not even have enough acceptances to run a viable race meetings. The reduced numbers of horses in work will lead to less opportunities for trainers, jockeys, feed merchants, veterinarians and so on. In short, the poor viability of breeding at present will have an effect on a host of other areas if not addressed.'

What is the solution? It is ironic that the excessively legalistic procedures derived from protecting investors saving for their retirement are allowed to colour the entire regulatory environment in the racing industry for people participating in what they believe is a purely recreational activity. The 5 per cent of horses which are actually marketed through licensed syndicators are allowed to set the marketing climate for the other 95 per cent in an entirely inappropriate way. Primarily the breeder who dares to advertise the fact that shares in a horse he bred are for sale is harassed by everyone from racing authorities to licensed syndicators trying to protect their turf, to ASIC and anyone else who wants to have a go.

He is instead forced to participate in an extremely expensive auction sale process which often sees him paying a commission on the sale of the whole horse just to take in a partner for a half or third share. In any event, the so-called professionals in the industry — the trainers, racing clubs and syndicators — are responsible for 25 per cent of all sales, meaning that in the majority of cases the breeder is doing the selling anyway.

Ideally, a breeder should be able to market his horse, or shares in his horse, directly to the consumer without having to line the pockets of the auction houses or being subject to excessive administrative interference. He should, however, have the freedom to go to auction or employ a professional syndicator if he prefers. We believe this can be accomplished by seeking state government support to have racehorse syndication removed from the ambit of corporate laws, returning responsibility for it to the racing industry. Current regulations came into force in the 1980s when racing was run by bodies such as the VRC and the AJC, who did not have the resources to control such issues.

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.

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, perhaps using the broadcasting facilities of the industry-owned ThoroughbredVision to promote their wares.

Such a marketing approach will also allow breeders to bring in additional partners to help with the cost of proving potential stallions and brood mares on the track, allowing them to have control of the horses while they are racing and be able to buy out their racing partners when the horses become breeding propositions.

As an alternative to using auction sale prices to substantiate a market valuation, there are grounds for using a standard cost base to establish a fair market value for a horse being syndicated by its breeder. This should incorporate agreed figures for rearing a foal to yearling stage, plus the service fee and provision for amortisation of the mare value. Importantly, a breeder should be able to add his advertising costs to the syndication value, so that he is not at a disadvantage compared to a traditional syndicator in terms of recovering his marketing costs.

Such a calculation can be used by a breeder to justify his syndication price, but market forces will still apply. In other words, he should be able to charge a premium for an exceptional animal and he should be penalised for a substandard product. However, if he breaches the code of practice he will be penalised for doing so.

We see this managed approach as also being an ideal structure to introduce new industry participants to both racing and breeding. The current structure leads to a very tough learning environment for new players with little opportunity for them to participate without taking great risks.

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.

We ourselves are prepared to make our own staff available to offer advice and assistance to our clients. We believe that if this was backed up by other industry participants prepared to do the same, combined with training to be provided through TAFE colleges and the like, we could reduce wastage and improve the economic returns to Victorian industry participants by at least 10 per cent.

Collingrove is doing this at the moment with our new stallion Dash for Cash. We have 140 foals; we sent out letters to all those people who got foals saying that we were doing on-site inspections and offering that basically if they wanted to sell their weanling to us, we would consider buying it if it was the right type and that also if they wanted to sell it commercially they could come into the Collingrove draft and we could market them as a whole at a markedly reduced commission rate, which can only help them.

While it would be undesirable to make such participation compulsory, one way in which our clients could be encouraged would be to tie satisfactory compliance with high standards to eligibility for a collective marketing program, whereby Collingrove and its clients would be able to jointly promote the progeny of Collingrove stallions to potential buyers.

The same program could be mirrored by other Victorian studs, with stud clients able to participate in multiple programs if they were clients of more than one stud. While within Victoria there would be some overlap and maybe competition, interstate and overseas the compound effect would be to spotlight the Victorian-bred horse and the high standards observed by those producing them. At present, knowledgeable buyers deal with studs which they can trust because of prior good experience.

However, for new or smaller breeders wanting to make a start in the industry, 10 years or more may pass before they become a recognised safe producer. For many that is so long that they become an ex-producer well before the 10 years is up. As an industry, we have a short and brutal tolerance to new players and all training comes from the school of hard knocks.

On the issue of marketing support, if excessive regulation of sales can be overcome by removing ASIC from the oversight role and production of a reliable high-quality product can be ensured by peer review and support, then the way is open to market the Vicbred product within Australia and overseas. We see this being accomplished both by outright sale and the creation of racing or racing/breeding partnerships incorporating a number of horses.

As most people involved in racing are doing it purely for recreational purposes, there is clearly scope for directing the funds they are prepared to spend towards breeders who are prepared to stay involved with the racing careers of these horses they have bred. The breeders are of course interested in achieving the best racecourse success possible for their produce. In doing so they achieve twin benefits: the value of close relations to the successful horses is enhanced; the breeder retains an ownership interest and the potential to buy back successful mares and colts for breeding.

One of the drawbacks of the traditional multiple shares in horse syndication is that the average horse races only 6.9 times per year. This means that for 358 days of the year nothing exciting is happening. By combining 5 or 10 horses into the one package, the overall interest level is greatly enhanced. On average a horse wins only once every 10 starts, so the excitement of winning occurs once every 18 months for a single horse ownership. Again with multiple horses, the wins should come more often and the invariable disappointments from injury and misadventure are less demoralising.

Such larger packages of horses will require greater groups of owners to reduce the per owner cost, but the ability to manage smaller groups and cost-effectively communicate with them has been substantially improved via the internet and mobile phone.

In Korea we spoke to the various racing identities over there, and they would certainly consider coming into that sort of package of horses. They thought it was a great sort of idea and certainly support it.

From a racing administration point of view, it is clear that large-scale horse ownership offers potential to greatly increase racecourse attendances. Social activities incorporating groups wanting to combine a visit to the races with watching their horses run offer great opportunities for corporate sponsorship and promotion for racing generally. More particularly, they lend themselves well to introducing younger people to racing, a demographic which is proving difficult to capture on a permanent basis.

Mr Chairman, I actually sent you something in the last couple of days. I had a paper written by a lady in the equestrian industry who keeps on talking to me about the transition from equestrian into horses and how there has never really been a strong drive from it, although I noticed in the report that Racing Victoria does try to make that process a lot easier. She has written a 10-page report, and I have sent that on to you to try to encourage that.

Again, we at Collingrove believe we have the capability, between ourselves and our clients, to identify clusters of horses of sufficient quality to create marketable packages. Together with suppliers of internet and hospitality services and training from our shareholder, Lindsay Park, we could work with Racing Victoria to create a model to get hundreds, if not thousands of new people into racing ownership.

Finally, on the tourism opportunities: in keeping with the less-onerous syndication regulations outlined before, we believe that well-managed breeding/racing partnerships provide an ideal product to sell to international investors. The prestige of owning not one, but a whole group of well-bred horses, some of them in work and others at various stages of the breeding cycle, would certainly appeal to wealthy individuals in Asia and other parts of the world.

With diligent attention to communication facilitated by the Internet, combined with the highest standards of integrity and management, we believe that a Victorian-based bloodstock interest could be as compelling as membership of the most exclusive country clubs.

Such owners would be encouraged to visit Australia to see their horses race, as well as going to see their mares and foals. Clearly such visits also involve hospitality and can incorporate wineries, shopping, restaurants et cetera. We see enormous potential to package all of this into a most attractive tourism promotion.

Just talking about the tourism promotion, at the moment the Melbourne Cup is being presented to most European cities and racing communities. It is a perfect opportunity for not just Victoria to be out there praising the Melbourne Cup but it is a stand-out start for government agencies in each particular country to get behind Victoria and really push the buttons through the Melbourne Cup, which everybody in the world has heard of.

The CHAIR — It is a very popular brand. Thank you, Adam, that was a comprehensive presentation and particularly your use of statistics has really given us some insight. I want to make sure I understand clearly that the number of breeders who are retaining ownership of their horses is increasing as a direct result of the inability to sell

the horses at a good price in the sales ring. I think you have said the statistic is now up to about 35 per cent of breeders who are retaining, and that is almost double what it was four or five years ago.

Mr SANGSTER — Yes

The CHAIR — When we look at the statistics from the sales — I think this is a compelling statistic — 75 per cent of the horses go through the Melbourne sales for less than \$50,000. Breeders are losing substantial money on it.

We are very interested in looking at alternatives to the sales, to the auction process. My reading of this is that the number of people going through and losing money just happens year after year after year after year. So yesterday we heard here that some people in the industry are having some success selling horses over the Internet and off the farm and seems to be way of avoiding some of heavy sales-related costs.

I want ask you another question as well — that is, to what extent could the sales process be modified to generate some of the improvements we are seeking? I am thinking in particular if Melbourne's leading sale, at Oaklands in March, did not have 597 but was capped at 300, I presume the criteria would be on the breeding, the confirmation of horses and that the average prices of the 300 that go through would be greater than the average price that is recorded when you have 597 go through? Putting aside for a minute what you do with the other 297, would that be a manipulation of the existing sales process that would deliver a better benefit to those who do go through the sales ring?

Mr SANGSTER — I think I will take the first question first. Basically if you talk to a lot of the horse transport companies after a sale, a lot of those horses go back to the original farms that they came from — an horrific amount — which means that a lot of horses are passed in and dealers do have them before the sales process actually happens.

The actual sales of the horses that are knocked down under the hammer is so much so that I would say that the prices which you see of passed-in horses, which could be 25 per cent, is probably a lot more than actually is officially reported. The sale over the Internet — we have had various yearlings up for the sale on the Internet since Easter which have consequently been sold at Magic Millions last week, in the actual sale there, yet they were cheaper on the Internet for what they actually sold at the sale.

The CHAIR — So they did not sell over the Internet and they were cheaper?

Mr SANGSTER — Yes.

The CHAIR — Is that a question of marketing to the audience, and saying, 'Look it is not just about the sales'?

Mr SANGSTER — There is only so much marketing you can do. If Collingrove is marketing again, they will just delete it. There is only so much information you can give; people get a little bit exhausted by overselling. I think a lot can be done by on-site selling, bringing people to the farms and having a look at them. But I suppose you could oversell a horse and maybe bring too many people in, where you could be breaking the law. Talking from a family point of view, we are the prime targets for someone who if they want to have a go will have a go at us before they have a go at anybody else.

The CHAIR — No, I presume for the sake of this discussion that you could sell off the farm and it would not be illegal; it would be perfectly above the law and all of that?

Mr SANGSTER — I do not know that it is true.

The CHAIR — Let us just assume that it is for the moment; let us assume that was not a problem. I imagine that in the north-east, for example, with the number of yearlings or foals that would be produced this season, the general body of opinion is that they are going to struggle due to their breeding to make it through the sales to get a good return.

Actually if they go through the sales process they will be in that 75 per cent and the breeder will lose money. To what extent would it be possible with some additional support to be able to go around to those owners and say 'Look, we do not want you to go through and get slaughtered in the sales ring; we think that is no good for you; it is

no good to anyone. Why don't we band together and see if we cannot get a regional off-the-farm sale?'. If you have 30 or 40 people wanting to do that, that might work.

Mr SANGSTER — Yes, that certainly could work especially if you bring in an overseas entity down to create a foundation for those lesser bred horses. I think by bringing international people into our market gets rid of the low end bracket of horses which you see every year, and they only compound our problem. Taking the market to overseas allows these breeders to buy a better bred type of mare.

I think certainly over the last few years it was a 'quantity' of horses, now it is 'quality' of horses you have got to have to make money. Certainly in our operation we have reduced our mare levels by at least 40 per cent to make sure that firstly, we can get into the sales and secondly, we can actually sell the product and pay the high price of service fees. We pay an average service fee of about \$45,000 to \$50,000 and we hope to make an average of \$120,000 but the wastage level of that is pretty significant — and that is going to the stallions we do not own shares in. We used to own shares in a number of stallions but sadly they passed on. So to have a business plan, which you have to adopt in every business, is one thing a lot of racing or breeding people do not do. It is very important to have a structure.

The CHAIR — When you put up the statistical evidence, I think people would be mad not to.

Mr SANGSTER — Yes.

Mr DELAHUNTY — I am really concerned about the number of breeders that buy back their yearlings. Financially how sustainable that is in the long term has a real question mark over it. I would love you to give an answer: what is your prediction in relation to that?

Mr SANGSTER — I have got to say that emotion does come into it a significant amount. We act on behalf of a number of clients to advise the client what their level should be to sell, to clear. Now that client has read in newspapers how well that particular stallion is going, or the dam or relation has succeeded so mentally they have already got a figure in their mind and they talk to various people who may not have seen that progeny and seen it in the paddock and watched it being reared.

We give an appraisal of that horse to the client ready to get it onto the market. It is not the figure we expect him to get; it is just to get onto the market. I am sure that you have seen when you go to a horse sale you see the auctioneer stand up and say, 'This horse is on the market'. New mares come in.

To answer your question further, I would say the only way they will stop breeding or buying these horses is basically by going through the school of hard knocks. You have just got to sell — sell and regret, but sell. It is very hard to do that especially if you and your family watched your foal grow up over the years.

Mr DELAHUNTY — I have no doubt that a lot of people would be burnt by it and leave the industry. Are we seeing a growth in new investment in this industry?

Mr SANGSTER — Sure, I think a lot of people do want to come into it but they do not really know the area and how to get into the business. By pooling together a number of horses I think that certainly is the way forward, and I am sure Racing Victoria and TBV are certainly making inroads into that sort of process, but again it is something which I feel will certainly increase without a doubt. But the problem is now I would say that the foundation of Australia, which in the country we will always be led to believe families used to breed three or four mares generation after generation — that has been wiped out.

That is a significant cornerstone to our country racing market, and by not replacing that we will find it very hard to compete with numbers in the race fields, especially with the amount of pressure put on by the race clubs to race horses over the weekends and at night races, and the amount of pay we have to pay overtime staff. With the rules that have come in we have just increased our salaries by 15 per cent, but I suppose we probably have not been paying them a gross amount in the past, but it is certainly having an effect. The margin is so small that it is getting harder.

The CHAIR — Can I ask you, to build on Hugh's question, about the impact of the drought. We have had protracted drought conditions across the country and in large parts of Victoria. It has been put to us, and it may not be the case so much in the north-east but in other parts of breeding industry, and I think the Western District is

probably the leading case here, that the incidence of drought means that many farmers who would send the mare in the back paddock down for a service just will not do it this year. They are not doing it this year, they did not do it the year before, and they are not doing it repeatedly. So we understand the impact of drought, although we have not been able to measure it as such, on the breeding industry. Do you see that as a big factor amongst your clients? Is it a substantial factor?

Mr SANGSTER — It is. There is no doubt there is an effect on that, and some clients will do that. On the other hand, they may get a phone call from Darley saying, 'Don't worry about that. I will come to your farm and pick up your mare and take it across the border'. Those operations — although we work very closely with them — have by sheer manpower a lot of people on the ground, and they can afford to have more troops. Any army will win with the biggest amount of troops. It depends what their weapons are.

The CHAIR — We see that the total of Victorian mares in the Hunter Valley rose from 479 in 2003 to 738, so it has gone up remarkably in a year.

Mr SANGSTER — They are saying that this year they have had the best year they have ever had. That is certainly affecting our business. The client now wants a significant discount on a service fee, and we — and a number of studs here — think that the positioning of their service fees have got the discount in it already. Generally people want 20 per cent off guaranteed as soon as they pick up the phone, so it is probably best to increase your prices by 30 per cent to take that 30 per cent off.

The CHAIR — So the drought has accentuated as a factor by virtue of what Darley in particular can do? They can target the people who are experiencing the drought where cash flow is a problem, and they can exploit that opportunity pretty ruthlessly?

Mr SANGSTER — Probably because they do not have a stud down here, and nor does Arrowfield, and they can be like the Avon lady. These guys are paid to perform, and they can get in the car and go and see the people, which others just cannot do through financial reasons. At Collingrove we put on this gentleman called Louis Le Metier, who is basically just going to get in the car and go and see the farmers. But having said that, a lot of the farmers do not like our studs coming on because they do not want to be put in a position to sell nominations — to try and accept the nominations — so we have to have an excuse to go onto those farms which basically was through Dash for Cash foals and progeny like that, which is a new program we started, and get off again.

Mr PULLEN — In your covering letter here — and excuse my ignorance on this — you say:

Removal of the artificial restriction on breeders syndicating their own horses will allow them to retain more of the sale proceeds and maintain management control over horses during their racing career and eventually when they go to stud.

Can you explain that a little bit more?

Mr SANGSTER — Yes. It basically means that we as a breeding operation cannot go to a group of people who come onto the farm and after we show them the horses, ask whether they would like to come and invest? They may come in at 25 per cent. We then have to go out and try and find other partners to get involved in this horse, and that generally has to go through a sale, because it creates a price for that horse. If a syndicator comes onto the property and we pay him a certain amount, he can then syndicate that through other public means.

Mr PULLEN — How could that be changed?

Mr SANGSTER — It could basically be changed. I would say that for the top end, rules have to be in place for maybe horses which are purchased over \$200,000; but certainly for a hobby breeder, I would say that is probably the restriction of trade for them trying to get a few friends in from the pub or from the local Rotary Club, but certainly these practices have to be put in place for expensive horses.

Mr DELAHUNTY — You might not know the figures, but what is the break-up of your business with your commercial operations and what you describe there as hobby farms?

Mr SANGSTER — The break-up?

Mr DELAHUNTY — Your clients?

Mr SANGSTER — Basically the break-up of our business would be that 70 per cent of our clients come back every year. As to the breakdown of it, are you saying people who come out of the city?

Mr DELAHUNTY — The commercial business operators' tax returns as a business as against a hobby?

Mr SANGSTER — I would not know, but I would say a general figure round about 30 per cent would be for business.

Mr DELAHUNTY — So we really do have a two-tiered system, haven't we? The committee has to be careful as we talk a lot about the higher end stuff, but the grassroots enterprises are the ones that really keep the basis of the industry — —

Mr SANGSTER — Absolutely.

Mr DELAHUNTY — We have to be careful particularly when you look at your figures showing \$50,000 and above, or under \$50,000 — the difference there is enormous.

Mr SANGSTER — The worry is the number of horses in the fields. If we are going to continue getting the TAB or whatever turnover for betting to prop up the prize money and people get in, so much pressure is being put on racing and the breeding of the foundation horses has got to be stable, which is mainly the hobby breeder.

Mr DELAHUNTY — You are spot on because even though Victoria has some of the best prize money compared to other states, I hear criticism that the prize money is not enough.

Mr SANGSTER — That is why superVOBIS is such a good venue.

Mr DELAHUNTY — Exactly.

The CHAIR — I want to ask you about marketing, Adam. You have mentioned that in your presentation, and we talked about it quite a bit. In Ireland we met with thoroughbred breeders, the Irish Racing Authority and the Irish marketing people, and we understand that they have a very well-developed marketing program and that it is funded, I think in part, by a levy on sales. I think the levy is divided three ways.

I think they get a third of the proceeds raised and they do things like offer free air fares to people who purchase horses in Ireland and things like that. To what extent are you familiar with the marketing effort in other industries such as in New Zealand and Ireland? Do you have an opinion as to who has the best marketing program going around for a national industry?

Mr SANGSTER — Correct. The Irish Thoroughbred Marketing Board is a division which has been set up through the levy and is helped by the government. They were up in Korea and they had the Irish ambassador in Korea at the conference taking out people, pushing Ireland, pushing their horses, with DVDs, pictures of the Ring of Kerry — they were really pushing that.

New Zealand has the same thing. They have the New Zealand Thoroughbred Marketing Board, which Julie used to be involved with. She had been put in place by the Prime Minister, Helen Clark. England is a little bit more laid back on that inasmuch as they do not chase it as aggressively, and their explanation is that there is no need to.

We were talking beforehand about horses being sold into Asia, there is an interesting statistic on the shuttle horses who come down to Australia but on the actual progeny of the northern hemisphere-bred horses are going into Asia. Eighty per cent of the races won by the same stallion-bred horses are won by Australian-bred and New Zealand-bred horses rather than the European-bred horses, which I think is an extraordinary statistic. They are the same stallions, but it seems that the way we breed the horses in the paddocks and the nurseries, and their toughness, has proved that.

The CHAIR — Does Kentucky do much in the way of marketing?

Mr SANGSTER — Kentucky being what it is, the Keenan Racing Board — and in fact I am wearing a Keenan tie — is pretty strong. Over the years they have seen a lot of change in Kentucky. The other day at the Melbourne hearings you read out some figures which said that in 1980 there were 84 studs in New South Wales. At the present day only 10 per cent still exist, and the same sort of thing happens in Kentucky.

I feel that unless it is backed by the government and by an industry — with a lot of players who come in and through no fault of their own, through market conditions or other business activities, fall by the wayside — then someone else has to replace them, and sometimes that does not help. 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. But at least it is very static.

The CHAIR — In your experience getting around the world and into different thoroughbred markets, Australia has not — either through any state-based agency or effort of anything at a commonwealth level — ever had a presence like this that could compare with what the Irish and the New Zealanders do?

Mr SANGSTER — There were 200 Australians in Korea out of 900 delegates, but it seemed that everybody was pushing the same wagon without a direct focus, without one particular point.

The CHAIR — Doing it individually. So without some sort of personal relationship which might pre-exist you would sense that everything else being equal, the industries which are there represented by official government bodies or who have an ambassador there are always going to have the foot in the door first and will get to a deal quicker than what you might be able to do individually?

Mr SANGSTER — Yes, but I feel that an individual's name could help you out and identify other people in that particular area that he could bring to the party to discuss these things. We certainly saw that with the Irish. They were talking through the Irish ambassador to some people there from Greece who were into horses and who had TAFE experience. I think the north-east TAFE was represented up there and they got a huge delegation from the Turkish government to come down to those guys.

The CHAIR — We need to do more in that area, that's for sure.

Mr PULLEN — I am really interested to hear that Collingrove has been established in Victoria for 10 years. The Collingrove brochure was in my room last night — I do not know if it was in everyone's rooms! I notice there is a property in New South Wales with all the big shots up there. I was wondering how long this has been going and what sort of effect or advantages it has compared to the Victorian operation?

Mr SANGSTER — Rory's Jester has a lot to answer for the Sangsters and the Hayes' stud operation at Collingrove. We had to purchase a stallion, Rory's Jester, and also one called Cyrian Vanian in, I think, 1988 but in order to purchase the stallion we had to buy the property. So we purchased the 1500-acre property. We then stood shuttle stallions there for a number of years. The Sangster family bought out David Hayes after his father died about six or seven years ago. But then 10 years ago when VOBIS introduced superVOBIS we purchased Collingrove, Nagambie, because Rory's Jester was such a prolific horse — a precocious 2-year-old — and he fitted into the superVOBIS model particularly well.

That was the reason why we moved down there. Since then we have set up a commercial sort of stallion on the back of it. Sadly, Rory's Jester has now retired. But the Sangster family basically breeds most of its horses to New South Wales stallions, and they are based up at that property in the Hunter Valley. We have a number of clients who also do that.

Mr DELAHUNTY — I also read through your submission last night. We have often been told about the difference in costs between Victoria and New South Wales, whether it be agistment fees or any other fees, and your submission highlighted that. For the life of me I cannot understand why we have such a big variance in costs, when there is only a line on the map, being the Murray River. Can you explain the differences?

Mr SANGSTER — At the operation in Collingrove we are well below what the other studs charge because we are out of town. We are probably 40 minutes from Scone.

Mr DELAHUNTY — But why is there the difference in costs?

Mr SANGSTER — There are different costs up there because you may as well come into line with other people, what they are charging and what is expected in order to make a profit.

Mr DELAHUNTY — Can I ask my last question on the financial side of things? We hear about a lot about the problems to do with lack of capital, and an understanding of financial institutions like banks, and then I

hear about some organisations where you do not have to pay for three years. Do you believe that there is enough understanding in the financial sector — banks, lending institutions or whatever you might call them — of the thoroughbred breeding industry?

Mr SANGSTER — I believe that in the past banks allowed all the purchase or the lease of horses, and there were significant losses when the downturn in the market happened. I believe it is a good thing, but you have to look at the fine print very closely before entering into a deal, because if your horse becomes successful, that is when your fine print comes into reality. I would just be a bit careful about that. But I would certainly encourage any financial institution to try and explore the further development of financial help for horse breeders.

Mr DELAHUNTY — That is my reading of it, too.

The CHAIR — Adam, I want to pick your brain again about Ireland, and your knowledge of Ireland in comparison with Australia. I am just looking through my notes from when we met with Horse Racing Ireland at the end of March. They advised us that one of the strengths of their industry was the export of horses, and they gave us statistics on that, including the prize money as opposed to what is on offer throughout the rest of Europe, and I think it is as good if not better than anything else.

They also talked about black-type races. They aim to have at least 10 per cent of the races as black-type races, and they also have distance races. They structure that along the lines of the classic and most lucrative races. They actively discourage underperforming horses. We talked to a few other people who said, 'If you have a horse in Ireland and it really has not won a race after five starts, it would be out with the flappers before you know it'. This was an interesting thought. They seemed to have aligned the racing program much more closely with the breeding side and the export side and all of that. I am not sure that we have such a close relationship in Australia. I think our race programming is designed to generate revenue and what it might or might not do apart from that is incidental.

We were trying to work out what the proportion of black-type races would be in Victoria, and I think it is far less than what it would be in Ireland. Their view is that they want to make sure that as many horses as possible are coming through which are identified as champion horses, then for the purposes of going off and becoming quality brood mares or stallions. Is there more that we could do? In your view is that a good model or does it not make that much of a difference?

Mr SANGSTER — I think you will find that in Ireland the administration wants to increase black-type races and that would be a good thing, but I feel that it would be very strictly run.

The CHAIR — Yes.

Mr SANGSTER — I would welcome more black-type racing especially for mares, because generally that is where all the breeder's income comes from.

The CHAIR — Is it a weakness of the sales catalogue in Victoria, as opposed to Sydney or overseas, that a lot of the dams will either not have raced, or if they have raced they have not won races, or if they have won races they have not been at the standard handicap?

Mr SANGSTER — 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 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. I feel that just the proximity to the Gold Coast, with what comes with the Gold Coast and what comes with Sydney, is a massive advantage to where our physical base is. But the sales company itself does a damn good job; it is just the proximity of the actual auction.

The CHAIR — Thank you very much for your time this morning, Adam. We will probably be in touch informally in the next few weeks and months to pick your brain a bit further on different things if that is all right?

Mr SANGSTER — Yes.

The CHAIR — Thanks for your time.

Witness withdrew.