

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

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

Melbourne — 20 June 2005

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The CHAIR — Martin, welcome. I just need to give you some advice preceding your comments. As you are aware, this is a public hearing of the Economic Development Committee of the Parliament of Victoria, looking at the Viability of Victorian Thoroughbred and Standardbred Breeding Industries. The evidence that you are giving today is being recorded by Hansard. Under the laws that govern parliamentary committees your evidence today is covered by parliamentary privilege — not that we imagine that too much of what you have to say would need that protection, but we need to point it out to you. In about two weeks we will make available to you a transcript of today's evidence. You are welcome to make any corrections you need to make to any of the points you have made to more accurately reflect what you want to say. Then the committee will use that evidence in compiling its report, which should be completed by the end of this year.

Martin, perhaps we can start. I know you have given us a presentation. I will encourage you to speak to it in a few minutes. Perhaps just by way of background you could outline for us and Hansard your background in the racing industry.

Mr O'CONNOR — Thank you for that. I go back a long time, being now aged 62. I grew up amongst horses near the Caulfield racecourse and worked in stables before and after school. I left school and went into the public service, which was the thing to do in those days. I joined the tax office and there studied accountancy. I specialised in the horse industry because nobody else wanted to do it and then left in 1971 to set up my own practice. I have been through a series of partnerships and businesses solely devoted to the Australian thoroughbred industry.

At the present time, we say we have what we believe is the only chartered accountancy practice in Australia that is solely devoted to the Australian thoroughbred and harness horse industry. During that time I have bred and raced many horses. I had the great fortune to breed and part own a Cox Plate winner, for which I take no credit whatsoever. I think all of that is due to his wonderful mother and to a lesser extent his father. He is still going. But we have had plenty of country horses as well. We had a third at Ballarat yesterday, and it was very exciting. I am a great believer in the importance of country racing as well as city racing.

I hope that when we get through the tax aspects of our discussion today we might get onto those other aspects as well for the simple reason that, as you would know — and I do not know whether the other members of your committee would know — I am the chairman of the Thoroughbred Racehorse Owners' Association as well as the chairman of the International Home of Rest for Champion Horses. Hopefully if we get a few minutes to be able to speak about those entities, I would appreciate it.

The CHAIR — Martin, before you take us through your paper, would you like to give us a summary of where you think the Victorian thoroughbred breeding industry is compared to other parts of the world and certainly other states of Australia?

Mr O'CONNOR — I do not think you can look at the breeding industry in isolation for the simple reason that 99.9 per cent of breeders are owners, and I think when you are looking at the breeding industry, you need to look at the ownership as well. The Victorian breeding industry has suffered over a number of years mainly because of a lack of finance, but there are many other reasons as well — a lack of opportunities, a lack of size, a lack of people involved in the horse industry. Those are the sorts of areas that we need to address.

Certainly the quality of broodmares in Victoria has diminished. Years ago, we had a wonderful band of broodmares in Victoria. That has diminished, but hopefully we will be able to increase that in the future. The biggest hurdle that we have faced in recent times has been a lack of capital and a lack of finance. You could ring your bank manager — each and every one of you — and say, 'I want to borrow \$900,000 to buy a Mercedes Benz', and he would have the paperwork done in 5 minutes.

If you said, 'I want to borrow \$200,000 to buy a broodmare', he would say no. And that is the problem that the industry faces even though it is the same person to the bank manager. Until we can overcome this problem, it will become increasingly harder for people to finance their horse operations. You can have a business that borrows \$10 million on the strength of property, and the bank will lend you \$6 million or \$7 million. But if you want to put \$10 million into horses, it will lend you nothing.

That makes it extremely difficult, and in Victoria particularly where we do not have the capital to be able to purchase horses, it places us at a distinct disadvantage with particularly New South Wales which has what appears to be an unlimited supply of capital through the influx of the international organisations Coolmore and Darley, and

the fact that the main Australian operation, Arrowfield, has done so well and also seems to have an unlimited supply of capital, but the rest of us are struggling, and that particularly applies to Victoria.

The CHAIR — Why do you think those big studs have chosen to locate in New South Wales? Why is it that the Hunter Valley is the magnet for them?

Mr O'CONNOR — The answer to that is 'history'. It is an historical perception in Australia that the Hunter Valley is the best breeding ground for horses in this country. It is something that I vehemently disagree with, but we have a similar situation in Victoria where the majority of people think that the best breeding ground for horses in Victoria is in Nagambie and those sorts of areas across the Great Divide, and I disagree with that, too. I think we have arguably the best breeding ground for horses in Australia that is, in Gippsland. People will say, 'It is too cold and too wet', and I will say, 'Have you ever been to Ireland? Have you ever been to New Zealand where it is cold and wet and miserable?'. They are the perfect places — and Kentucky is the same — to bring up horses. Yet we have this perception that we need to go to Euroa and Nagambie and those sorts of areas in Victoria and to the Hunter Valley in New South Wales. In my view, it is wrong.

The CHAIR — Would you like to take us through a summary of your paper, Martin, and then we will fire some more questions at you.

Mr O'CONNOR — I have highlighted there that it is not exhaustive, that I have picked out various aspects of it that I thought — —

The CHAIR — For the benefit of the Committee, I think this is Martin's owners and breeders tax manual, and that is fairly exhaustive.

Mr O'CONNOR — Yes, it is reasonably.

The CHAIR — Thank you for not presenting a copy of that to everyone this morning. I am a third of the way through it.

Mr O'CONNOR — Most importantly, Mr Chairman, on the front page is a wonderful photo of the mother of the Cox Plate winner. I have divided the paper up into various sections, business versus hobby. It is very important — the business versus hobby aspect — because it is necessary for people to convince the Tax Office that they are in a business rather than a hobby, because hobbyists are in a no-win situation because they are subject to capital gains tax, and I will talk about that later. Also the business person in the breeding industry being involved in primary production is entitled to special taxation considerations, and so they should be.

The reason for that is that in trying to attract people to invest in primary production in general, and horses in particular, the long lead time involved in breeding horses lends itself to the necessity to have special taxation considerations. If you decide today to go into a business of horse breeding, it will be three years, providing you buy, say, fillies off the track before you earn an income let alone a profit. Unless you can access those tax considerations, why on earth would you bother to be investing in horses?

You can invest in a manufacturing business that will give you an income within a month. You can invest in BHP shares which will give you dividends in six months or 12 months. But here in the horse business you have a situation where there is a long lead time. The same applies to any primary production business. The avocado business, which is thriving these days as a good export business, is another example. If you start off with an avocado business today it takes seven years for your trees to bear fruit. Unless there are special taxation considerations, who in their right mind can afford to wait seven years for a business to generate an income, let alone a profit?

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.

Some years ago the tax office came out with a ruling — that is, Taxation Ruling 93/26 — where they examined what they believed constituted a business, but unfortunately it was very inaccurate and very misleading. The reason for that was that the people who wrote it did not understand the first thing about the horse industry. They said, as an example, the Commissioner requires that a person has six valuable broodmares before the Commissioner will accept that a business occurs.

What a nonsense that is! Can you tell me that if you have one broodmare worth \$1 million, producing foals that you are selling for \$300,000 or \$400,000, you are not in business? That is an absolute nonsense, yet people take that literally and say, 'I am not in business because I do not have six broodmares'. That is the problem with the ruling. That ruling is the Commissioner's opinion — and just that! It is not law. It is his opinion, and it is for that reason that we fight it.

The CHAIR — That is still currently one of the guiding principles.

Mr O'CONNOR — That is still what they are going on. The various cases over a period of years — and I have studied all of them in that particular publication — lead us then to say these are the criteria that you need to fulfil to establish whether a business exists. The intention is obviously important because if you do not intend to make a profit, the odds are that you will not. You have to have a profit-making purpose. Quite often you will see a situation where people on 10 acres, with a house and a couple of paddocks and a couple broodmares down the back paddock that they mate with very poor quality stallions, will try to maintain they are in a business, and obviously they are not — and neither should they be classified as a business.

The interesting thing in going through all of those cases was that there was not one case with which I disagreed about the result, and when you think about that it is rather amazing. But then again what happens is that the tax man tends to pick on the cases that he thinks he is 99 per cent certain to win; if they are in doubt he does not take them on, and, with very few exceptions, in those cases he won nearly each and every one of them, so it is not hard to extrapolate that belief that that sort of situation exists.

The scale of the operation is obviously very important. If you have got 500 acres and 25 valuable broodmares you are not going to have a problem convincing the tax man that you are in a business. However, if you have got two or three broodmares, you do have. I have seen cases where one broodmare was accepted as a business, and I have seen cases where 10 broodmares were not, but in the latter case the person concerned had 10 broodmares that were worth \$200 each. He was mating them with very inferior stallions and had no hope in the world of making a profit. Therefore I did not blame the Commissioner for classifying that as a hobby rather than a business.

The repetition is obviously important, because if you are breeding and selling and turning over all the time, the Commissioner then looks at that favourably. The organisation is important. Unfortunately in the horse business people tend to treat it so differently to other activities. Most successful businesspeople would not go into a business activity without consulting their accountant or solicitor. Unfortunately in the horse business that is not the case. I do not know why, but they tend to just fall into it, get carried away at auctions or yearling sales, do not seek professional advice and thus pay the penalty.

The capital contribution again is important because of the size of the activity. If you have got a person putting \$1 million into the activity compared to somebody putting in \$10,000, the scenario is obviously totally different, and the Commissioner looks on the capital contribution as a very important part of the overall scheme of things. Of all of those items, each one is looked at separately. You do not have to have each and every one, but you have to have a majority of those particular aspects going in your favour.

The importance of addressing the business or hobby situation will be discussed as we go through the paper, but obviously there are GST consequences, there are capital gains tax consequences, and because, as we will see as we move through, it is very, very difficult for a hobbyist to be successful. At least for a business person you know that if you are accepted as a business, all of your losses can be offset against any profits and you know where you stand, whereas the hobbyist, if he or she gets a successful horse, is going to pay dearly if they sell that particular horse.

There is a small item on farm business expenses that I do not intend to go through. I do not think it is important in the context of this meeting here today. The non-commercial loss rules certainly are. These were introduced in 2001, as the commissioner believed that some individual taxpayers activities often amounted to nothing more than hobbies or lifestyle choices. That is fine, but the provisions apply to small horse owners, breeders, trainers etcetera, particularly those who are in the start-up phase of their business, and this can be very, very unfair because what

happens under the non-commercial loss rules is that the loss from the activity is quarantined and allowed to be offset in future years. But that is unfair because on the one hand the Commissioner is saying you are in business, but you are in a non-commercial business. How can you have a non-commercial business? It is not possible. It is either a business or it is not a business. What the Commissioner should do is rely on whether or not the activity constitutes a business. If it is a business, the losses in the start-up phase should be allowed against income from other sources.

The four prescribed tests of the non-commercial loss rules are, firstly, that the assessable income from the business activity for the year is at least \$20,000. How can you have that in a business that is starting up, when it is possibly three years before you get any income, let alone a profit? So that is a nonsense. Second is the profit test, that in at least three of the past five income years a taxable profit occurs. Again, in the horse business that is very difficult to achieve. The third is, that real property of at least \$500,000 is employed. Again, that is a major operation and does not allow for the small breeder to be able to offset his losses against profits. The other assets test is that you must have at least \$100,000 engaged in the activity. That means if you politicians, for instance, decided to start today and bought two broodmares for \$90,000, you would not be able to offset the losses that that generated against your income from other sources. That is clearly unfair. If you are in a business, you should be able to do it.

There is an exception, and that is that the activity is a primary production business — it has got to be a business anyway — and that the assessable income from other sources is less than \$40,000. Again, that affects you politicians and a lot of other people who may have income in excess of \$40,000 who want to start a business of breeding horses, and yet you are not allowed to offset the losses from that activity against your other income. I argue that in this day and age, when we are trying to attract investment into the horse industry, providing you are operating a business you should be allowed to offset your losses against your income from other sources, because that is the attraction, that you will be able to do that; that you will be able to build up your business gradually and not have that ridiculous restriction.

A simplified tax system was introduced from July 2001, and although basically it is a good system, it does not go far enough. What happens is that for what we call STS taxpayers, the business incomes and deductions are recognised when received or paid, which means that the taxpayer is assessed on a cash basis. Under the system, depreciating assets costing less than \$1000 each are written off immediately, and there is a simplified trading stock regime for most businesses. That does not apply to horse businesses. However, to be accepted as an STS taxpayer, the taxpayer needs to carry on a business. The average turnover of the business is less than \$1 million and the depreciating assets are less than \$3 million.

Again, \$1 million in this day and age is not a lot of money for a turnover, particularly when you are breeding top quality stock. You might have two or three valuable mares you are sending to Redoute's Choice and averaging, say, \$600,000 or \$700,000 for the progeny, and automatically, because of that, you are going to be cut out of the STS system. That \$1 million needs to be increased to at least \$2 million, if not \$3 million. Under this system, if you comply, a 12-month prepayment rule is an immediate deduction for those prepayments, and that is the only situation these days in which you can get a prepayment. They were cut out years ago because they were considered to be tax avoidance or tax evasion, which they were not, but they were considered to be.

I want to get on to livestock. On 19 September 1985 the then Prime Minister, Mr Hawke, announced that there would be the inclusion of special write-down provisions in the Income Tax Assessment Act in relation to horses. At the time many sections of the press, many politicians, including some from his own party, said this was an appeasement for Hawke's racing mates. Nothing could be further from the truth. At that time in federal Parliament and the Labor Party we had a number of people who were very interested in the horse industry, including the Prime Minister, of course, and people like Lionel Bowen and Michael Duffy and those sorts of guys, who at the request of a number of people, including myself, agreed to the introduction of these write-down provisions to put us on the same level as New Zealand. It was as simple as that.

New Zealand was getting all the investment in the horse industry because of these write-downs that they had and we did not. It was a great shame that the interpretation of that was that it was an appeasement for Hawke's racing mates, because it was not. It was the Prime Minister listening to the calls of industry, and that was the starting point or the beginning of the situation that you see today where the thoroughbred industry in Australia is greatly improved. It still has got a long way to go but it is greatly improved.

Those write-down provisions attracted great investment. What happens is that livestock need to be valued basically at either cost price or market selling value. However, the introduction of the special write-down provisions meant that a person buying a stallion was able to write down that stallion for tax purposes at the rate of 50 per cent per annum on a reducing basis. With mares it was on a basis of 33 $\frac{1}{3}$ per cent write-down, and this of course meant that if you bought a mare or a stallion, you were able then to offset that deduction against your income from other sources, so it gave you a temporary tax saving. Giving people a temporary tax saving encourages them to invest in this sort of industry whereby they do not get an immediate return on their investment.

Unfortunately in 1992, for reasons best known to him but I think possibly political, the new Prime Minister decided that he wanted to change them. Mr Keating, no doubt believing that these write-downs were an appeasement for Hawke's racing mates, decided that he was going to drastically adjust them, which he did. Instead of having the 50 per cent write-down on stallions and the 33 $\frac{1}{3}$ per cent write-down on mares on a diminishing value basis, he adjusted it 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 33 $\frac{1}{3}$ 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 8 $\frac{1}{2}$ 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. But it did not encourage people to buy young broodmares, which was what we intended and wanted to do, because the increase in the industry comes from the young broodmares. Unfortunately Mr Keating emaciated that provision and even though it is still of some benefit, it is a minor benefit.

An interesting thing occurred last week. The National Party in New Zealand announced that it was going to, if it got into government, allow the write-down of stallions in two equal instalments over two years. I do not know whether the National Party in New Zealand is going to get into power on this, or if this will ever become legislation, but it is something that we need to monitor very carefully because we need to have a level playing field with New Zealand, otherwise we will go back to the pre-1985 days when they had all the taxation advantages and got all the investment.

Natural increase with horses has to be valued at a minimum of \$20 or the extent of the service fee paid. In the case where the stallion or the stallion share is owned by the taxpayer that is still at \$20. But if a service fee is being paid — for instance, if you pay a service fee of \$220,000 to Redoute's Choice — you have to value that foal, when it is born, at \$220,000, or probably \$200,000 when you ignore the GST. That can be very unfair because, as you would know, when it is born the foal by Redoute's Choice might be an outstanding type that is worth \$500,000 or it might have shocking legs and be worth \$10,000. Here you are, forced to bring that horse to account at \$200,000 when its real value is \$10,000.

The sting in the tail on 19 September 1985, when the Hawke government introduced the special write-down provisions on horses, was the capital gains tax. I do not think any fair-minded Australian really minded the introduction of a capital gains tax; it exists worldwide. It is something that we never had and I think we believed that there should be a capital gains tax. The problem was that it had very unintended consequences for horse people. I will give you an example of just how unfair it can be.

Somebody goes to Inglis's and buys five yearlings at \$20,000 each, and four of those yearlings prove to be useless and he gives them away. If one of them proves to be a fair horse and he sells it for \$100,000, he has made a capital gain on that one horse of \$80,000, and even though he or she has made no profit at all on that transaction, they are not allowed to offset the losses against the gain. So even though there is no profit whatsoever that person is required to pay capital gains tax on \$80,000. That is clearly unfair. Even though we believe that it is an unintended consequence of the legislation, surely it must be changed so that hobbyists can offset their losses against their gains. The reason they cannot do that is because a horse is classified as a personal-use asset, and when you look at the legislation you cannot argue that the commissioner is right; it is a personal-use asset. But the unfairness is that because it is a personal-use asset the losses cannot be offset against the gains. There is no doubt that the legislators, when they are introducing the legislation, are thinking of one-off transactions. Certainly one-off transactions do occur in the horse industry, but quite often you will find that people buy a number of horses at the same time and if they fall into this situation they can be very unfairly treated.

One of the amendments that came forward in 1997 when the Act was amended was that the new Act said that if you paid \$10,000 or less for a horse, or for your share in a horse, you would not be subject to capital gains tax. That at least gave some relief inasmuch as if you bought a horse for \$10,000 and sold it for \$1 million you would not

pay capital gains tax, but if you bought it for \$10 001 and sold it for \$1 million, you are going to pay capital gains tax on \$990,000 for the sake of \$1. This legislation needs to be amended to change that ridiculous situation. That is why we say that the hobbyist is in an unfair position and that basically, for each and every person who is involved in the horse industry, they are better off trying to turn that activity into a business. I have only ever seen one case of a person who was a hobbyist and should remain so. He was very lucky because the horse he bought cost him \$10,000 and he had a huge capital gain that was not taxed. But that is very unusual. Therefore we say to people, wherever possible turn your activity into a business so at least then you will know that your losses are able to be offset against your profits, and if you happen to strike that good horse which you would sell for \$1 million and make a huge profit, okay, you will pay tax on it, but at least you have had the benefit of the losses.

Are stake winnings subject to capital gains tax? They are not for the hobbyist, but of course they are for the business person. Again people say, 'I do not want to pay tax on my stake winnings'. That is fine, but given that the majority of horses do not make a profit stake-money-wise, if you happen to be lucky enough to have a horse that wins a substantial amount of prize money, then you will pay tax on that prize money, but you have got the money to pay it because you have won all that prize money.

The CHAIR — A good problem to have.

Mr O'CONNOR — It is a nice problem to have. That, Mr Chairman, is basically a quick summary of the areas that affect the horse industry participants. If anybody would like to ask any questions I would be only too happy to answer them.

The CHAIR — I will start off, Martin. Thank you very much for your comprehensive summary. I had no comprehension before this inquiry started that it was that complicated for serious breeders. With the tax system I imagine the reason the tests are as tough as they are is because most people who go into the breeding industry and the racehorse ownership side of things end up recording a loss. That would be the typical experience of most people. So the rules are designed to protect revenue; otherwise there would be massive write-offs. But let's work it backwards. Some people would accept early on that, 'I am just doing it for a hobby; therefore I do not declare any of my expenses or earnings out of it for tax purposes because I believe it is a hobby', but who then by good luck end up being an owner of an outstanding horse that is either sent to stud or starts winning large amounts of money. Are there cases where the tax office suddenly knocks on the door and says, 'Guess what? We think that this is a business and we want to talk to you about it'? Does that happen?

Mr O'CONNOR — Yes, and as the law stands the Commissioner can say, 'You were in a hobby for the last 10 years, but in that particular year you were in a business and I am going to tax you on it, and following on from there you go back to hobby'. That is why it is so important for people to decide here and now whether or not they are going to be in a business situation or a hobby situation and organise themselves accordingly, because they can be treated so unfairly in that one particular year.

The CHAIR — Let me understand this. I could organise my affairs and go to the Tax Office and say, 'I have become a breeder. Here is all the evidence and I would like this income to be treated as business income for the purpose of assessing my tax return', and the Tax Office would say, 'No, you have not passed those tests so we are denying your claim'. And you say, 'All right, I have tried that; if I am not a business I am a hobbyist by the Tax Office's own definition'. Then the business grows or circumstances change and you encounter some good horses and you start making more money out of it, but the Tax Office can still turn around and knock on the door and say, 'Guess what? Since we last spoke to you and denied your claim we have had a think about it, and half of that money you earned will now be assessable'.

Mr O'CONNOR — The problem is that the activity never stays the same. If it stayed exactly the same they cannot change their opinion, but it never does stay the same because you have got additional foals, or you have got this or that or whatever. They can then turn around and say 'You have changed from a business to a hobby', or, 'You have changed from a hobby back to business'.

The CHAIR — So this makes it quite an exception. I can go out and buy shares and I probably would not even need to get an accountant to tell me what the basic rules of deductibility and income assessability are. I could buy property and negative gear it. I could buy into a forestry plantation. For all of these things it is readily accepted I could claim against those expenses because I am earning income from them, but the horse industry seems to be

out on its own in that you could not with much confidence go out and plan a large investment knowing exactly how the Tax Office would treat you both at that point and in the future. Is that fair to say?

Mr O'CONNOR — Yes that is true but the important thing is to work out exactly which way you want to go. The problem is that the Tax Office does not have the people or the expertise to judge whether or not a person is in a business or a hobby. They tend to tax profits and disallow losses because that protects the revenue. They do not have any regard to the importance of the industry. The horse industry in Australia is just a vital to the national economy. It employs so many people. It employs so many unemployable people who could not get a job anywhere else. They get a job because of their love and affinity to the beautiful animal, the horse. The Tax Office could not care less about that. All they see is revenue. They do not care whether it is genuine or not — they could not care less. They try, and if they see a dollar in it they will try to organise themselves accordingly.

The CHAIR — You referred to the National Party push over in New Zealand towards being able to write-off a stallion in two years. Is that similar to what we had in Australia in the mid-1980s? Are they adopting the Australian system or is it a little different?

Mr O'CONNOR — It is a little different inasmuch as it is in equal amounts. So if you bought a stallion for \$1 million you could get a \$500,000 write-off in each of two years. Whereas in Australia in the old days under the Hawke regime it was 50 per cent diminishing value. So you would get \$500,000 in the first year and \$250,000 in the second year, but again, you had written three-quarters of it off in two years. That is where the majority is needed; in those first two years.

The CHAIR — With the situation in New Zealand, I thought I noted in one of the summaries on one of its web sites that it had an arrangement where the service fees paid to shuttle stallions were also tax deductible. Are you aware if that is the situation in New Zealand?

Mr O'CONNOR — The service fees paid are tax deductible?

The CHAIR — Yes, for shuttle stallions.

Mr O'CONNOR — They are here too.

The CHAIR — So there is no difference on that side. Finally, what would be the impact at a national level if we were to adopt the New Zealand position of being able to write-off a stallion in two years?

Mr O'CONNOR — It would have a double impact. It would nullify the advantage that New Zealand is going to get over Australia, and it would attract additional investment into stallions, which is what we need to do. Years ago when the shuttle stallions first came to Australia a lot of people said, 'This is ridiculous. All of this money going out of the country for service fees'. The clever people at the time said, 'Yes, that is true, but that will change', and it is about to change. We are going to get the benefit from that.

As a matter of fact, perhaps five years ago now former Prime Minister Hawke said it was unfair that the service fees paid in respect of these shuttle stallions was going back to Ireland where service fees were not taxable, and therefore the shuttle owners had a distinct advantage over the Australian owners. The fact of the matter is that the service fees that are paid to these international organisations do not go to Ireland at all. They go to Switzerland and to Dubai, so they do not pay tax on them anyway. There is an argument to say that something should be done to make these people pay some sort of a tax in Australia, whether it be a withholding tax or something like that, because that service fee income goes out of this country untaxed. But again, it gets back to the fact that people need to understand what is happening before they make comments about what should happen. That was quite clearly wrong. Here was Mr Hawke saying that the service fees were going to Ireland and were not taxable, when they do not at all.

The CHAIR — There is a fairly common conception that that is the case, but it is not actually true?

Mr O'CONNOR — Yes, that is right.

Mr DELAHUNTY — I have been reading through some of the material that we have been given. Some is from the Thoroughbred Racehorse Owners study which says on page 5 that only 2 per cent of owners purchase a horse with the intention of making a profit.

Mr O'CONNOR — True.

Mr DELAHUNTY — That worries me a bit. It goes back to your point before when you were critical of the fact that a lot of people get into this business before they talk to their accountant or their solicitor. We have this background before we get to where we are today.

Mr O'CONNOR — Bear in mind that there are something like 25,000 owners in Victoria. The majority are people who have a 10 per cent or 20 per cent interest in a horse so they are obviously not looking to make a profit; they are looking to have fun — and we desperately need those people. I am talking about the actual breeders who are also owners, and number-wise those people are very small. They need to be looked at differently to the person who has a 10 per cent interest in a horse.

Mr DELAHUNTY — That then goes on to my next question. You own a number of horses, and I will not mention the number but it is in the document here. You own stallions, mares, foals and racehorses. My question is: do you use the Victorian breeding industry or do you go outside Victoria? If you are, why are you going outside Victoria?

Mr O'CONNOR — Both. Wherever possible I use the Victorian breeding industry. I do not have a property. My mares are located at five different studs in Victoria. Sometimes I send my mares to interstate stallions because I believe that it is important to mate mares with stallions which are compatible. I tend not to look at breeding and I do not believe in the so-called nicks and crosses, but I look at a successful stallion and I look at my mare and try to breed out the faults in my mare by going to a particular stallion. If he happens to stand in New South Wales, I go to New South Wales. But our Cox Plate winner was solely bred in Victoria by a Victorian-based stallion who is still standing, and I am sending mares to him this week.

Mr DELAHUNTY — I am trying to highlight that it is done for breeding purposes, not for taxation purposes or any other artificial incentives.

Mr O'CONNOR — Any person who wants to get involved in the horse industry just for taxation purposes is kidding himself or herself. Whilst there are advantages tax-wise initially, and you need to use them to maintain cash flows and things like that within your business, sooner or later it comes to a situation where the tax man comes a'knocking, and that is fine. We all expect that and we hope we make the profits the tax man wants a share of. But it is the unfairness of the tax situation with some people that we are highly critical of.

Mr DELAHUNTY — From our point of view — and we do not look after taxation, even though Victoria makes nearly all the GST money — what we are hearing is that the main focus is to be able to keep our quality stallions in Victoria to encourage our breeding industry. Have you got any thoughts about how we can do that, from a Victorian perspective?

Mr O'CONNOR — Yes, I certainly have, and that is to increase the availability of capital. Without that capital and the access to it people cannot afford to invest in stallions. In recent times we have had stallions syndicated for \$200,000 and \$300,000 this year. I would love to be able to buy a share in those stallions, but I can't because no organisation will say to me, 'Martin, here is \$300,000, go and buy a share in a stallion', even though on a year-by-year basis I have to pay service fees which is tantamount to the same thing. You cannot borrow the money up front to enable you to invest in those stallions and you have these organisations in New South Wales that have unlimited funds.

Mr DELAHUNTY — Is that external funds you are talking about?

Mr O'CONNOR — External and internal for some of them because they are very wealthy organisations. We do not have those organisations in Victoria. We do not have the old traditions of some of the leading studs in New South Wales and we do not have the access to unlimited international funds like Darley does. Darley can write out a cheque — and has already. Look at a horse like Reset that they bought for \$20 million to \$22 million. We would have loved to have stood him here in Victoria but nobody could afford to pay that sort of money.

The CHAIR — On that subject, Martin, increasing the provision of capital is in part a function of financial institutions. You are saying that they just do not lend on horses. It is not a question of them having low lending ratios, it is more that they just do not lend?

Mr O'CONNOR — No.

The CHAIR — Is that the same all around the world, or is it a problem peculiar to Australia?

Mr O'CONNOR — No, it is not the same all around the world. In the United States they will lend you 50 per cent of the value of a horse. In Ireland they will lend you at least 50 per cent of the value of a horse, but here they will not. I have been trying for 16 years now to establish a finance company in the horse industry. We have just started one but it is very limited at the moment and we are hoping to obtain a line of credit of \$100 million to enable people to buy shares in expensive and valuable stallions. I have a meeting only this week with a leading bank. Whether or not we can achieve it, I do not know.

William Inglis and Son have provided limited finance for a number of years, but it is very limited. We just have not had the access to capital that we need. Until we can get the access to capital we are just not going to be able to stand the stallions because the New South Wales studs can outbid us.

The CHAIR — And the starting price today for a top stallion is \$20 million — or is it?

Mr O'CONNOR — Sure. We have been lucky enough to retain Elvstroem — how, I do not know, but whoever did it needs to be congratulated. But there are a number of stallions we should have retained, but we haven't.

The CHAIR — Currently in Victoria, if Victorian interests decided that they wanted to either try and retain a stallion currently here or identify a stallion who was racing for breeding purposes and keep the ownership in Victoria, or look at acquiring one from, say New South Wales, that person or group of people would have to go around and talk to a substantial number of potential investors, all of whom would have the issue of going through and identifying how the Tax Office might treat that potential investment, not just this year but many years into the future. Would that be the case?

Mr O'CONNOR — No, probably not because the sort of people you are talking about and the stallions that they are looking at buying put them well and truly into the business category, so they are not a problem.

The CHAIR — But we are talking about a fairly limited number of people who are potential investors?

Mr O'CONNOR — Yes, and unless they are people with unlimited funds or access to substantial amounts of capital, it becomes very difficult. It is going on at the present time and it happened with Elvstroem. I know a number of people got together and they were able to buy him, which was good, but that is not happening enough. If we are going to put ourselves on a par with New South Wales to a certain extent and compete with New South Wales, we need to substantially increase the number and quality of our stallions. I do not think we would ever beat New South Wales, and I do not think we should even try, but we need to be a good second, and we are not running a good second at the moment.

Mr PULLEN — You have answered most of the questions that I was going to ask, Martin, in reply to Hugh's questions. If I remember rightly, there used to be advertisements on Radio 927 about lending for horses. Obviously it folded, or whatever the case may be. I am just a little confused about the amount of capital that would be needed if you were trying to set up your own finance company and so on at the moment with a major bank, or whatever the case may be. What sort of loan would be necessary for someone to get into that? Did Tony use a figure of \$20 million or something like that?

Mr O'CONNOR — Up to \$20 million. To answer the first part of your question, though, there are finance companies around that will lend small amounts of money. They will lend you \$50 million at 18 per cent and things like that, which is just ridiculous. It does not help people buy stallions or valuable broodmares. Certainly we have to look at being prepared to spend between \$10 million and \$20 million on stallions because that is what they are doing in New South Wales. If we are going to compete, we have to come up with the same sort of money.

Mr PULLEN — Just putting aside the National Party in New Zealand — and I might have missed a point here — how does the situation in Australia compare to New Zealand at the present moment?

Mr O'CONNOR — They do not get the write-downs that we get, and the National Party has realised that in the last 20 years the New Zealand breeding industry has been decimated partly because of tax deductions, not 100 per cent but partly because of it, and they are trying to redress that by encouraging people back into the

industry to compete with Australia, because all of the good horses in New Zealand come to Australia. We have got all the trainers coming to Australia and the breeders are breeding in Australia, so they have to make these adjustments to try and get the situation back to where it was, and we have to make sure they do not.

Mr PULLEN — Once again, following up on what Hugh asked in relation to this being a Victorian inquiry, most of this stuff is a federal issue, and for Victoria we have to get more capital into the lending side with stallions, but is there anything that the Government can do, because with tax laws we cannot do much other than make recommendations to the Federal Government? Is there anything we can do as a government, and what sort of reaction are you getting? Have you put this to the Federal Government at all?

Mr O'CONNOR — The first thing to do as a politician is support the industry. For far too long in this country we have had a glaring lack of support from both State and Federal politicians, from both parties, both sides of politics, and that is something that needs to be changed.

I was delighted when I read about this particular inquiry. It is long overdue, and there is no point in going back into the past, but I think you have the perfect opportunity to realise the importance of the Australian horse industry and the Victorian horse industry to rise above party politics. Put that to one side. You will notice in my CV, if you have read it, my two referees are Andrew Peacock and Michael Duffy, both of whom are wonderful people on different sides of politics, but they have that one thing in common — they love the horse industry. They are both breeders and racers, and this is what I implore politicians to do: forget about your party differences and look after the horse industry because it is so important to the national economy and it does so much good for the national economy. With the influx of shuttle stallions that I started talking about before, people said, 'All this money is going overseas. Look at the money that is now being spent'. That \$22 million for research was spent by the Arabs. That is export dollars. With the Chinese market opening up, which we expect it to do, there is only one country in the world that can supply China, and that is Australia, so we need our governments to say, 'We have got this industry, we have got to do something about it'.

We have ripped money out of it for years through the TAB. It is now time to start looking at it and putting something back. We are not saying subsidise the industry. The industry does not need subsidies. It needs government recognition, and it needs leadership. There has been a dramatic change in the last 12 months in the leadership of the thoroughbred industry in Victoria. The cooperation between Racing Victoria and the Thoroughbred Racehorse Owners Association has been magnificent.

In turn we have the cooperation now of the previously recalcitrant racing clubs who are now looking at owners as being terribly important, and we need governments to do the same thing because we are facing a situation at the moment where ownership is declining. The Government needs to realise that ownership is vital to the success of the horse industry in Victoria. We need to attract more owners, whether that be by taxation or by capital, or whatever, or the race clubs putting on a better show for the people. We are in the entertainment business and we are competing.

I noticed recently overseas that the Hong Kong Government and the English Government have now changed their systems of taxing turnovers from TABs or totes, etcetera, and they are now looking at taxing the margin rather than the gross. The idea of that — I have not got all the details — is that it will make it more attractive to the big punters, and that is what we need to do. Wagering on horse racing remains static. We need to attract people into wagering on horse races and away from casinos, if that does it. And as I said, I do not know the full details, but have a look at it. Have a look at the situation in Hong Kong and England, and see if you can introduce that in Victoria which will expand the revenue for the horse industry and also expand government revenue.

Mr BOWDEN — Mr O'Connor, if we could today just for this discussion ask you to identify one or two things that you would ask us and we would say, yes, if we could do that, what would be those two things you would ask us to grant?

Mr O'CONNOR — One or two?

Mr BOWDEN — One or two things. What is the most important or the second most important thing that you would ask this committee to consider recommending — something specific?

Mr O'CONNOR — Certainly to do your utmost to convince the financial institutions that they need to inject capital into the horse industry and certainly review the take-out by government from the industry. I am not

saying for one minute that the Government should drastically cut the take-out from the TAB from 19 per cent to 5 per cent. I am not saying that at all. Have a look at it, review it and see, as they have done in England and in Hong Kong, if there are ways and means that you can adjust it to improve the returns to the horse industry and the returns to government.

In a general sense, I think the most important thing you can do is to convince your colleagues of the importance of the horse industry, and that is going to be terribly difficult, but you have the opportunity. It might sound crass to say it, but you have the opportunity to create history because this has never been done before and, whilst I am critical of the fact that it has not been done before, you can draw a line in the sand and say, 'Forget the past and let's look at the future'. You have a very difficult task, not only of making the recommendations, but of then seeing that the Government and the Opposition agree with your recommendations and it is not just thrown in the wastepaper basket.

That is why I urge you to come up with bipartisan support for a document that both sides of politics will then look favourably upon and not have dissenting opinions based on party lines as we so often see from committees, because that defeats the whole purpose of the examination. I think there is so much that could be done, there is so much that you can encourage your fellow politicians to do, and that is going to benefit this state and this country enormously.

Mr DELAHUNTY — Martin, this is an all-parliamentary committee. All parties are represented and in the six years I have been a parliamentarian, the reports from most of the committees I have been on have come down with an all-party view, so it is beneficial from that point of view. But my question to you is: just looking at the long-term sustainability of the breeding industry in Victoria, we have talked about stallions and this and that, but have you got any opinion on the long-term sustainability of equine practitioners — veterinarians? Do you have any opinion on the skills of the people we have got within the region and the succession planning?

Mr O'CONNOR — Yes, I am very biased towards equine practitioners. I have often said they are the unsung heroes of the horse industry, the men and women who specialise. They get unfairly criticised over their bills and their ability, and whenever I hear a client complaining about the bills for a vet, I say, 'Have a look at the bills from your lawyers and your accountants'. It is these people who are so important to the industry as a whole, and I suppose I am biased because I was fortunate enough many years ago to become very friendly with a vet called Dr Peter Fallon. He influenced me tremendously in my attitude towards horses and he revolutionised the whole horse industry from a veterinary practitioner's side. He was about to go to England to lecture the English on reproduction when he unfortunately died.

In those days there were probably three or four equine vets. Today there are very many of them. But they are so important for the industry and I say to people, 'For goodness' sake get an expert opinion. You come to me if you want to know something about your business, but you are going to spend \$200,000 on a horse'. I have stood there with Peter Fallon and he would say, 'Have a look at that horse; it will never ever see a race track, and some wealthy businessman has paid \$200,000 for it without bothering to get an equine vet to have a look at it.' Now that is crazy. And they still do it today. I would not buy a horse without an equine vet looking at it, and yet, I mean, I have had a reasonable amount of success but an equine vet is trained to look for things that I cannot see. To not use them for the sake of \$100 is crazy when you are spending thousands of dollars on a horse or a broodmare or whatever and you do not get an expert opinion.

Mr DELAHUNTY — Are we training enough?

Mr O'CONNOR — I think we are training enough. The biggest problem I see with equine vets at the moment is that they are running scared, and I do not blame them because of the litigious nature of the situation these days — we are unfortunately following the Americans where we sue everybody for anything, which is unfortunate — and I think they are afraid to make decisions or recommendations sometimes. But a lot of them are not. People have to realise that they can be wrong. Judging whether a horse is going to get to a racecourse or not is not an exact science. If my vet says, 'Look, that horse has got this problem; I think it will be all right; I think it is worth taking a risk', that is fine. If he is wrong, he is wrong. We can all be wrong, but they are so important to the future of the industry and we should encourage them.

Mr DELAHUNTY — Just a quick question: you were talking about your expertise in the horse industry. Is that both in harness as well as thoroughbreds?

Mr O'CONNOR — No, just thoroughbreds, but from the tax aspect we have clients in both, and the Tax Act does not mention the word thoroughbred or harness horse or Welsh mountain pony. It just says 'horse', so the tax law just applies to both sides. I do not have anything to do with the harness horse industry apart from the taxation.

The CHAIR — Martin, we have covered stallions in some detail. Tell me about broodmares. Again I imagine that the provision of capital is an issue, but are there other things we can do to improve the quality of the stock of broodmares that is currently available?

Mr O'CONNOR — Definitely. I often get asked by clients I have had for many years, 'Would you recommend a broodmare?' and I say, 'No, I would not, because I am a chartered accountant. Even though I breed and raise horses I do not consider myself an expert in that area. But I say, 'Have a look at the statistics'. It gets down to the number of good horses that have been produced in this country — look at the number of them that are out of imported mares, particularly Irish mares. I think it is important for people to continue to import overseas mares, particularly the Irish mare, to keep improving the quality of our bloodstock. Just as we have done with stallions I think it is more important with broodmares.

The late Peter Fallon taught me — and I still believe it — that horses get 80 per cent of their ability from their mothers. I think humans are the same. I have always stood by that, and when you look at the number of mares that have produced good horses by different stallions, some of whom could be regarded as very ordinary stallions, I think it emphasises the fact that the broodmare is more important than the stallion. However, most breeders think of it the other way around. I am not going to argue with them, that is just my personal opinion. But as a general rule we should be looking to continuing to import broodmares to improve the quality of our stock.

The CHAIR — Putting your TROA hat on, do you think there are enough good races for mares? Is that something that needs to be improved?

Mr O'CONNOR — I do not think there can ever be enough but we are better off than New South Wales. Certainly I think the new invigoration that is going on at the moment will mean it is going to be even better. But there could be more races for fillies and mares.

The CHAIR — As a TROA owner can we also get your thoughts on VOBIS. We spoke to RVL this morning and it is doing a number of things to do with Super VOBIS to see how it might make it more effective. Do you have a particular position on that?

Mr O'CONNOR — I think it is arguably one of the best things that has ever happened to the Victorian thoroughbred industry, but I also think it is tired. It needs to be revamped and reviewed. Like everything, we cannot sit on our heels. Everything has to be reviewed. Things that happened years ago were good at the time, but now is the time to review them, and VOBIS is one of those.

One of the big complaints I have about the Australian and Victorian horse industry is that we go around congratulating ourselves all the time. We say, 'We have the best racing in the world'. We do not have the best racing in the world. We have excellent racing, but it is not the best in the world. We do not have the best horses in the world. We do not have the best race clubs in the world. We need to go back and continually review these things and change them so that we can aspire to greater heights, and VOBIS is one of those things. VOBIS was unique when it started, and it was an absolute boon, but now it needs to be reviewed. It needs to be expanded, and that is where the Victorian Government can come in. The Victorian Government was terrific with VOBIS all those years ago; now is the time to come to the party again and expand it.

The CHAIR — We talked to RVL about that. One of the things that was pointed out was that the yearling nomination — the \$360 — has not changed in five or six years. I am interested in understanding what the relativity of that should be to, say, the averages sales prices which do seem to go up. Hypothetically, the Government could provide some more funding, but is there a case for the yearling nomination fee to be raised?

Mr O'CONNOR — Definitely. People cannot expect everything for nothing. If you are going to expand the payout of VOBIS, you have to expect to pay a little bit more; there is no question about that. One of the things that disappoints me about VOBIS is that it is paid on 2 and 3-year-old races and a very limited amount on 4-year-old races. At a time when we are trying to encourage stayers, who do not race as 2-year-olds, we have all of these VOBIS bonuses going to 2-year-old horses that are never going to do any good for the industry. They should

be drastically reduced, if not outlawed, and instead of that it should be put on the 4-year-old races to encourage people to keep running their horses.

The CHAIR — The other point that came up in discussion this morning with RVL was looking at resourcing, particularly with regard to marketing. A sales levy applies in Ireland and the proceeds of that are used to support Irish thoroughbred marketing as well as some clinical veterinary services. Do you think owners and breeders would support an arrangement in which some part of an enhanced marketing effort would be funded through some levy at the point of sales?

Mr O'CONNOR — There has been a reluctance in the past to support that, but like everything else it depends on how it is presented. If it is presented as a win-win situation and the benefits can be shown, and people appreciate that we are in the entertainment business and are competing against all of the other things, perhaps they will agree to it. The industry as a whole forgets that it does not cost anything to get into the casino, and there is lovely, air-conditioned comfort. We have to look after those people and if we are going to charge a levy, that is fine so long as they can see a benefit for it. They need to get that benefit.

The CHAIR — Fair enough. In the time still available to us, can I ask you about bad debts in the industry? We have heard from a number of people including trainers, breeders and to some extent from owners and veterinarians that bad debts are a real problem. It is probably an industry that has a higher percentage of bad debts across it than others. To some extent we accept that that is a product of old-fashioned, traditional management and that perhaps trainers in particular take a handshake or a verbal assurance that all will be right before taking prudent measures to get what they are owed. Do you see this as a problem in the industry, and do you have any suggestions about how it might be improved?

Mr O'CONNOR — Definitely. Years ago under the Livery and Agistment Act we had access for breeders to auction off horses for which they had not been paid. That was repealed some years ago, but it is back now in another form, and I forget what it is called. But it now affords breeders 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; it is as simple as that. I think that sort of thing has to be introduced here. It is a little bit different for breeders.

The CHAIR — Okay, that is a commonsense suggestion. Thank you for that. I want to touch on two things. Wearing your TROA hat you talked about racehorse ownership levels declining — —

Mr O'CONNOR — Yes.

The CHAIR — Is that something you want to address? What do you think are the top two or three things that could be done to deal with that particular issue?

Mr O'CONNOR — I think we have started doing that. First of all we have the cooperation between TROA, RVL and the race clubs in the new owners strategy whereby every person who has owned a horse in the last 12 months will automatically become a member of TROA. That is going to make TROA a very powerful body with a lot of members, and because of the number of members we are hoping to attract sponsorship. We are hoping to do more things for owners.

Owners are going to have a special owner's card which we believe will make them very proud that they are a horse owner. Our research indicates that people are very proud to be horse owners. We are hoping that it will be a co-branded card, and we believe when young people particularly go for drinks on a Friday night and flash their owner's card that people will be able to spread the gospel and explain to their friends how enjoyable it is to own racehorses. We are going to dramatically increase the race day experience and we are hoping in that way to expand the ownership base. Of course, 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.

The very basis of the industry is expanding the ownership base and that is why we are so keen to do it, and we are having wonderful cooperation. I do not think that what is happening at the present time between the three of us has ever been seen in the industry before, and I think the next few years will be wonderful.

The CHAIR — I cannot let you leave without some comment on insurance. This morning we heard from RVL that insurance is a real problem, and that insurance offered in Victoria, for example, is uncompetitive with what is offered in New Zealand. We have also heard about the issue of stamp duty on insurance policies, and that we are at a disadvantage compared to New South Wales in that regard. How much of a problem is that for your clients in the business of seeking insurance cover, and what are the typical rates that are charged on someone who might own a stallion or a broodmare?

Mr O'CONNOR — The typical rate is 3.5 to 4 per cent. I do not know what the rate is in New Zealand, but I know it is much higher than that in America and Europe.

The CHAIR — Nor can I let you leave without telling us a little bit about that International Rest Home for Racehorses. I know you want to talk about it, so the floor is yours.

Mr O'CONNOR — We have leased a property from the Victorian Government out at Woodlands. There is something like 1000 hectares out there and we have leased about 60 or 70 hectares with the historic homestead. What we are going to do is install the former champion racehorses out there for people to come and see — to look at and pat. The reason for that is that here we have a racing museum which deals with the past, but we wanted to have a living museum where people could go from here out to see the horses that are highlighted at the property and be able to pat them. Unlike people like me who grew up with horses — the baker and milkman had a horse and cart — children today do not see horses. Even when they go to the races, because of the OHS problem they are not allowed to go near them which they could years ago. Out there they will be able to go near them.

We decided to create the property and organisation, which is a world first and is unheard of. There are similar homes of rest for horses but not for champion horses. We are hoping to attract mum and dad and the kids to come out, have a barbecue and picnic and pat the horses, enjoy them and see where the past champions are today. They will go out to various functions — like the Melbourne Cup parade and things like that — when they are wanted. It will be free. We were going to charge people to get in, but we said, 'No, that defeats the purpose', because we want to encourage young people particularly in the love of the horse, that beautiful animal that we all enjoy so much but which so many of them do not get near. When you see the parades of horses down here in Swanston Street and the people who line the streets just to get a glimpse of them, out at this place they will be able to not only get a glimpse of them but pat them and enjoy them — obviously over the fence, so we can overcome OHS problems.

We have had tremendous support from the State Government. Minister Thwaites came out to the official announcement. We have had enormous support from people at Parks Victoria, who have just bent over backwards to help us in every aspect of it. When it came to the official announcement out there I said, 'Will you invite the Minister?'. They said, 'We'll invite him, but he won't come, because he doesn't go to things like that'. He came and he was just absolutely magnificent in his praise of what we are trying to achieve, and promised us everything he could to help us — except he will not write a cheque!

The CHAIR — Almost everything.

Mr O'CONNOR — His support has been enormous. So we are hoping to get that off the ground later this year. We have already been promised Northerly, Might and Power, Better Loosen Up and those horses. The catalyst for all this was, of course, Fields of Omagh, that Bryan Martin and I part own. We were wondering what was going to happen to him when he retired. We did not want him to go a property that I or somebody else bought to sit in the back paddock for the rest of his life. We want him to be able to be used and for people to see. He is a Cox Plate winner and people will be able to relate to him — and to all the other past champions. We think it is going to be a great adjunct to the horse industry, to encourage young people to go to horse racing and enjoy every minute of the horses themselves. It will be what I call a Catholic function — because it will cost you nothing to get in but a fortune to get out. We are going to have a lot of memorabilia and things like that for sale.

The CHAIR — For Noel's benefit, can you just give the address?

Mr O'CONNOR — It is on the corner of Sunbury Road and Oaklands Road — right on the corner, next to the airport. We are hoping that the Western Australian people, for instance, who come over for the football — the bus picks them up at Tullamarine airport — will go via our place to see Northerly and then go to the MCG, and things like that. It is just to create additional interest in the horse and horseracing, because we have lost the horse. He is not an important part; he is just a figure. We want people to really appreciate the animal.

Mr DELAHUNTY — You have not talked in your presentation about the importance of a sales centre. Do you consider it relevant to the breeding industry here in Victoria?

Mr O'CONNOR — The sales centre we have at Oaklands at the present time is very, very good. I do think that Inglis need competition here in Victoria. They have the whole of Victoria; there is no opposition at all. In the rest of Australia they have competition, of course, with the Magic Millions. I would like to see another sales company start up here. The venue could be the showgrounds, or whatever — I do not know what the new set-up is going to be there. Oaklands, Inglis's set-up, is very, very good.

The CHAIR — I think we are done. Thank you very much, Martin. One thing we will follow up with — we will not ask you about it now because it is fairly complex — is getting a summary from you in your own words as to the sorts of changes you think are needed to tax law that would encourage investment. I do not want to try to interpret from what you have said today — I would probably get that wrong. If we could get that from you in a succinct form, on the four or five things you talked about, that will probably help.

Mr O'CONNOR — Not a problem.

The CHAIR — Thank you very much for your time today. We really appreciate it.

Witness withdrew.