

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

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

Melbourne — 20 June 2005

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Mr R. Nason, Chief Executive Officer;

Mr B. Saundry, Director, Racing Development; and

Mr T. O'Mara, Manager, Owners and Breeders, Racing Victoria Limited.

The CHAIR — I welcome this morning representatives of Racing Victoria Ltd to the Economic Development Committee's public hearing on our inquiry into thoroughbred breeding. The committee has had the opportunity to previously have some informal discussions with RVL. We thank those present for their attendance today; I understand they will speak in more detail to the submission they have made.

Just before we start I have to go through a formality with our public hearings. We are an all-party committee of the Parliament and we have been given a reference to inquire into and report on the viability of the Victorian thoroughbred and standardbred breeding industries. Evidence taken at hearings such as this are subject to parliamentary privilege — we do not think there is any reason for you to worry about that, but we do need to advise you — but statements made by the committee's witnesses beyond this room are not covered; so just be aware of that. Today Hansard is recording our evidence so that everything you say will be reported. We will make a copy of that transcript available to you in the next couple of weeks; you are welcome to make corrections to that. We will be using the evidence from today to help construct our report, which I think was due by 30 September, but may be a little beyond that on current estimates.

I will start by formally encouraging perhaps Robert to speak first. For the benefit of Hansard we will need you to each state your name and position so that over the next hour or so they will understand who is saying what. We will start with you, Robert.

Mr NASON — I am Robert Nason and I am the chief executive of Racing Victoria. I understand we will just give a brief summary of our submission and maximise the time available for questions. I will commence by saying that we are in the course of doing a strategy for the breeding industry in Racing Victoria; we are looking at a parallel initiative, together with this government inquiry, of developing our future long-term plan for the breeding sector.

In conjunction with our position in other aspects of racing, we lead Australia in the quality of our racing product here in Victoria; we lead Australia in our returns to owners, a position here in Victoria which is significantly ahead of other states; and we have had a history of being able to attract significant investment into the horseracing industry in Victoria as a result of that position. The breeding sector as part of the industry is very important to us in a number of respects, particularly the aspect of providing the horse population that stimulates wagering turnover and participation in the industry in Victoria. That is an obligation of Racing Victoria: to manage the whole value chain associated with horseracing and the breeding sector, a very important element to that.

The other particular aspect that is the future and the one that we are particularly concentrating on in our strategy is the export opportunity provided to the breeding sector. We are increasingly focusing on the international development of our horseracing product. You are increasingly seeing our horses participate overseas. You are seeing our current racing having more international horses participating in them and racing becoming an international industry, and our international name being one on which we think we can develop export opportunities for participants at all levels, but the breeding sector in particular.

The history in relation to the breeding sector as far as we see it is that we had the dominant position in Australia going back about 10 years ago, substantially associated with the introduction of the Super VOBIS, an incentive scheme which led Australia. We attracted a lot of investment into the breeding sector in Victoria as a result of that scheme being in existence. Since that time we have gradually seen all the other states adopt similar incentive measures, so we have lost that competitive edge, if you like. The area that I think concerns us the most is the marketing of our sector as against particularly New South Wales, with the presence of very significant studs now located in New South Wales. New South Wales is seen to have the premier yearling sales in Australia, reflecting that marketing position. We at Racing Victoria wish to take that ground back. This is the only sector of the industry where we would not be regarded as being no. 1 in Australia — somewhat unfairly, when you look at the stats, but it demonstrates the task ahead of us.

That is the background. I would like to hand over to my colleagues just to briefly run through what we see as the opportunities arising out of this review for improvement in the sector with potential as to where government assistance could assist in the strategy of lifting the breeding sector to a prominent position in Australia. I will hand over to my colleague Bernard Saundry.

Mr SAUNDRY — Thanks, Robert. In our submission to the parliamentary inquiry we developed what we see as 11 broad areas as opportunities for growth in RVL and the government working together, and we will just

touch on each of those briefly. Tony O'Mara, the director of Racing Development, can help us as we go through. Robert has touched on the opportunity for us to strengthen the breeding incentive scheme, Super VOBIS. The statistics in the document before you clearly demonstrate that we have fallen off the pace with regard to Super VOBIS. If you look back in the mid-1990s, Super VOBIS was the only breeding incentive scheme in town, and since then we have seen each state develop its own breeding incentive scheme — that is over \$12 million available across Australia. In New South Wales the BOBS scheme will see over the next two to three years developing both financial rewards and sales rewards for breeders in Victoria.

The Super VOBIS advisory panel, which is a panel of representatives from the Thoroughbred Racehorse Owners Association, the Thoroughbred Breeders Victoria, RVL and the clubs, meets three to four times a year to discuss different ways that Super VOBIS and the breeders' incentive schemes can become stronger as we go forward, but we are looking forward to working with government to take the next step in that area.

Other incentive measures: just over the last couple of weeks we have identified where we are at a disadvantage compared with New South Wales when it comes to Victorian stamp duty on thoroughbred horses' insurance. At the moment an owner will pay insurance for a horse and be charged GST plus stamp duty at 10 per cent, when New South Wales owners are currently charged 2.5 per cent. We see that as a disadvantage and anticompulsive towards Victorian racing. Other areas where we would like to see the breeding assisted is maybe some opportunity to support Victorian-bred horses at sales — which leads me into the next point, where we believe there is a terrific opportunity to improve the sales process in Victoria.

Just to set the scene, in Australia we do play second and now third fiddle to the selling of horses. New South Wales has done a very good job in marketing and developing their breeding industry, and we want to work with TBV and the government in placing Victorian racing, Victorian breeding and the sales process at no. 1. We just had a recent experience at the Asian Racing Conference in Korea where we had terrific representation by New Zealand racing, Irish racing and the New South Wales sales system, all very evident up around the Korean Racing Association and the Asian Racing Conference, and we just have to have a better profile in those areas in the future.

One of the options we have talked about in our preliminary discussions with Tony is how do we link racing and breeding together and get our 28,000 owners in Victoria and owners throughout the rest of Australia and internationally focused on the breeding sector? We believe there is an opportunity there to work with the government to have a sale and race meeting extravaganza feature around autumn which could encompass races at Flemington, the redeveloped showgrounds — there will be a terrific opportunity in the next couple of years to have 400 horses stabled at the Royal Agricultural Society, a terrific indoor arena — and bring in the horse racing and sale process closer together and create something similar to what the grand prix does. Racing has developed and wants to develop a profile through that autumn period and we are looking forward to working with our clubs and working with the breeders in coming up with a scheme that promotes economic development and tourism for Victoria.

Another important part of what we would like to see achieved is integrating the Victorian industry at a national and international level. We have seen examples just recently where there have been 30-odd horses exported to Vietnam to start up their racing industry, and that has come out of the south-west of Victoria. We have seen Mike Becker, the president of TBV export 30 broodmares to Korea and starting a breeding and racing operation. That has all been done a bit ad hoc and we believe that there is a terrific export market and TBV wants to harness that energy, certainly so does Racing Victoria (Limited), but we need government help in linking with the Victorian international trade commissioners and ambassadors and providing information to these groups of people across the world that shows off thoroughbred racing across Victoria.

One of the other issues we would like to address is enhancing the Victorian industry adoption of international best practice. We currently, through the advice of our director of integrity services for the veterinary department, John McCaffrey, have a shortage of skilled equine practitioners on a state-wide basis which means that opportunities exist for further investment in that area, and one of the issues is working with government and our veterinary association in finding ways to increase the live foal rate. Our live foal rate sits around 80 per cent and we know that is not world best practice and we are looking forward to working with government in that area.

Tony, could I hand over to you to talk about the educational opportunities and community in schools programs and some of the vocational workplace skills?

Mr O'MARA — Thanks, Bernard. I am Tony O'Mara, manager of Owners and Breeders for Racing Victoria. Looking at the educational opportunities, we believe that there are opportunities to introduce regional horse-breeding courses at secondary colleges. One of the major things we have identified is that there is no early education in the horse breeding industry. So if you go to a careers day for Year 12 students, it is very rare that you would actually find information about the horse side; to look at the opportunity to align the education program to some successful stable hand, jockey and trainer programs that are currently being conducted by the Racing Victoria training centre, so that we actually tap onto the back of those and develop those out of those current courses. In conjunction with Champions - Australian Racing Museum and Hall of Fame we developed a schools pilot program that can be implemented as well, so add breeding and the holistic horse process — not just one aspect of it.

One of the things that has been identified in other areas in rural Victoria has been vocational workplace skills, and through successful government initiatives such as FarmSafe over the last couple of years, there is the opportunity with the assistance of Thoroughbred Breeders Victoria to continue the development of occupational health and safety training, and sexual harassment workplace training issues across a wide section of our breeding industry which currently have not been accommodated. We are also looking at how we increase the retention and career development of graduates. We have a lot of people go through the schools — TAFE system here in Victoria and private colleges — that are then lost to the industry as we have no direct career path for graduates. In looking at other areas that the breeding industry assists as I said with work practices, TBV has already started to address AWU issues. There was a course held last week which 40 members of TBV attended to look at the Pastoral Industry Award and the Horse Training Industry Award and getting their members up to date. So there has been a lot of change in that area and we believe that Thoroughbred Breeders Victoria in conjunction with ourselves are an ideal opportunity to move those areas forward.

Mr DELAHUNTY — Could I ask who ran that course?

Mr O'MARA — It was run by the federal Department of Employment and Workplace Relations in conjunction with Thoroughbred Breeders Victoria. As I said, 40 of their members attended so it was a very good turn-out.

Other areas that we have brought up and had a look at from TBV and our major breeders is to identify the need to review the Stud Book, which is the keeper of the information that currently controls the register of foals and the register of size and currently, due to the historic nature of racing, the Stud Book is owned and run by the former principal clubs of Victoria and New South Wales being the AJC and the VRC. There is an opportunity there for that to be reviewed and that is all we have at this stage.

The CHAIR — Thank you very much for that introduction. Perhaps I can start the questioning. Going back to Robert's first point and the incentive schemes, in Ireland we were advised that they very much have a focus on increasing prize money rather than incentive schemes. I think I am right in recalling, Noel and Hugh, that they do not have an incentive scheme as such, that they just simply try to pay that money into the prize money pool, and they have higher prize money than competing nations. That is one model. New South Wales has its BOBS scheme. I think one of the distinctions there is that prize money is available to older horses more so than in Victoria. New Zealand has some sort of incentive scheme, and Kentucky is having a bit of a discussion at the moment about what it will do at a state level. Do you have any idea at this stage where the Super VOBIS might go, because I imagine there are a number of alternative courses you could take in reviewing it?

Mr NASON — I might start and let Tony and Bernard or Graham follow. The issue for Super VOBIS, and I think that is quite right, is the option you have for putting returns back into prize money, and owners expect to pull money off prize money. You do have to think very carefully about that, and interstate relativities are important. If you just look at the breeding sector, prize money of itself does not necessarily encourage the breeding sector in this state, in that owners in Victoria can go to the Sydney sales and the Brisbane sales and can buy horses bred in other states and race them in Victoria, so the fact that our prize money is strong here does not necessarily mean that we need to have or it will naturally flow that we will have a strong breeding sector. That is the first point.

The second is that clearly this breeding sector has responded to incentives. The success of Super VOBIS by any measure when it was introduced in 1996 did give rise to an enormous amount of investment in Victoria in the breeding sector. We had the opportunity of stealing a march on the other states in that we had the first incentive scheme in Australia, but it gave confidence to those who were making very large investment decisions to locate in Victoria to take advantage of that incentive scheme. The way we read it is that this is a sector that does respond to

incentives and is prepared to invest on the back of specific incentive initiatives. As an industry, though, we are constrained by the need to make sure that returns to owners are satisfactory from a prize money perspective and therefore the level of investment we can put into a specific breeders incentive scheme is necessarily constrained by that. As a tool for prompting investment and stimulating the sector we think it is a very valuable one, and history has told us that it does work.

Mr DUFF — If I could just describe the problem we have with Super VOBIS. Imagine if you will a Victorian breeder who has quite a nice range of mares. The majority of those he will take to New South Wales to be served by New South Wales stallions. He will then return the mare to Victoria for it to foal down and in so doing be a part of the Super VOBIS scheme. He will then take the foal to either the Magic Millions in Queensland or to Sydney for the Easter sales where he can traditionally get a better price for his stock, where it will be bought by a Victorian who will bring the thing back to Victoria, to race in Victoria to be able to participate in the high level of prize money. That in itself is the problem. How do we change the Super VOBIS system so that it actually encourages that foal to remain in Victoria right through the entire process until it eventually comes to race? That is the nub of the problem. You can say the answer is very simply by putting an additional focus on the stallion and where he stands, and by providing a sales mechanism down here that is equal to the Magic Millions and to the Easter sales held by Inglis. At the moment we run a very poor second in our sales area and we are still faced with — every time we get a decent stallion down here — the problem that the big money is going to come out of New South Wales or even to a lesser extent now, but threateningly so, from Queensland.

The best example I think was probably Encosta de Lago, one of the new sires. The progeny started to perform down here and before we knew where we were, there was a huge amount of money offered for the people to take it to New South Wales. We have managed for the moment to keep Testa Rossa in Victoria, but let me tell you, the order of the offers being made for that horse if its progeny go on and start to win a few more races would indicate that we as an industry will have to get behind the breeders down here in order to keep that sire down here. Elvstroem we have managed for the moment again to keep here in Victoria. It is not that hard to keep them before they are proven sires, but once they are proven sires the ability for us to keep them here is severely limited. So there may well be a place for an entirely different scheme that we have not come up with and we will not be able to do it on our own. It will not be possible for us to be able to do it on our own. That is the problem. They are the issues in those two areas that we need to address. If we are to make the breeding industry as good as our racing industry, we need to address both of those issues.

The CHAIR — For the benefit of the committee, can you give us a very brief overview? My understanding is it works through nominations paid up until the time that the foal is ready for a yearling sale, and there are conditions upon the mare or the stallion being based in Victoria and the extent to which it is all self-funding.

Mr O'MARA — Currently Super VOBIS works on yearling nominations, so you are nominating on 1 February each year, yearlings of that year. We pay bonuses on all two and three-year-old races in Victoria, and we also have selected four-year-old and additional races, as we had at Ballarat yesterday with the Super Sunday at Ballarat. We are the only scheme in Australia that pays above four-year-olds. BOBS is restricted to two and three-year-old racing only.

Importantly, for Super VOBIS there are three categories — categories A, B and C. These are very much similar to QTIS and SABIS. BOBS is a little bit different because it is purely a stallion scheme, but we will touch on that in a moment. The eligibilities are basically category A, which is Victorian born and bred horses. Of the 2700 horses that nominate, that tends to make up around about 80 per cent of our annual foal crop, so born and bred horses are very much the lifeblood of Super VOBIS. Our category B is Breedback, and that is where a foal is conceived outside of Victoria, which is out of a dam that was served in Victoria in the previous stud season. That is an area that tends to go up and down. About every second year, the numbers will go up, and there are about 300 foals that come out of that scheme. The third eligibility area is category C, which is with a foal conceived outside of Victoria, which is out of a dam which is beneficially owned by a Victorian. So it benefits the Victorian breeder who may have interests in other areas and then brings that horse back to Victoria, and it is continually there for a six-month period.

Super VOBIS currently pays metropolitan bonuses. We pay a \$30,000 bonus on all metropolitan Saturday and major days, prize money above \$40,000, \$10,000 bonuses on our Sunday and mid-week meetings and \$7000 bonuses on all TAB country meetings in Victoria. Importantly, if we compare it to, say, BOBS, a fee yesterday — and it was Ballarat yesterday — we had a \$10,000 Super VOBIS bonus on every race at Ballarat regardless of the

age of the horse. We had a seven-year-old win yesterday that picked up a bonus. The nominator of that winning horse picked up \$2100, and the nominator in 90 per cent of cases in Victoria is the breeder. So it is the breeder that nominates to the scheme, so therefore that money is going directly back to our breeders. The owner received \$4165, the trainer \$490 and the jockey \$245, and then second and third accordingly. Importantly, the difference between ourselves and, say, BOBS is that the breeder in BOBS would not have received a cent. That is probably the clear factor that differentiates us from BOBS. The stallion owner receives a return, the owner receives a return, the trainer and the jockey receive a return. But the owner of the mare or the breeder of the horse in BOBS does not receive a return from the scheme. That is probably the major difference between ourselves and the BOBS scheme.

Mr DELAHUNTY — Tony, when I look at the submission you put in — and it was a very good submission — there is a lot of talk about shuttle stallions. How do you people monitor where they were serviced?

Mr O'MARA — From the shuttle stallions — it depends where that stallion stands at that particular time. So if someone takes a mare up to a shuttle stallion in New South Wales, that then becomes a category B. If that shuttle stallion is standing in Victoria, that gets back to being a born and bred horse, because that sire is standing in Victoria at that time.

Mr DELAHUNTY — So it does not create any problems?

Mr O'MARA — No, it does not.

The CHAIR — The current yearly nomination fee for Super VOBIS is what?

Mr O'MARA — \$660 for a category A.

The CHAIR — And how has that risen over time compared to, say, yearling sales prices?

Mr O'MARA — The figure itself has not changed for six years. BOBS runs a parallel pricing. South Australia runs at \$440, so \$400 plus \$40 GST, so the pricing for that has not changed as the price of yearlings has gone up. I think importantly what we have noticed with Super VOBIS is the leakage from the scheme has been at the mid to the bottom end. As the scheme has been going, as Robert said, since 1996, we have had rural impact — we have had droughts and we have had the smaller breeders decrease the number of broodmares they have. An important part of racing in Victoria is the farmer that has a couple of broodmares that they have raced. They keep them in the paddock. They send them to a \$3000, \$5000 or even a \$1500 sire. That does not happen as much in New South Wales because it tends to be the bigger end, but as financial hard times have happened in the rural area, there has been a leakage at the middle to bottom end.

We have identified that only 18 per cent of horses nominated for the scheme actually receive a return from Super VOBIS, so importantly out of that there are 400 horses nominated to the scheme that win their first race in Victoria, so of the 400 horses every year that have won a race, they have won it outside of a Super VOBIS race, so there are opportunities to capture those horses back into the scheme. They might be forced to run in an open maiden; they might be a three-year-old; and the programming means that they just fall through the cracks. So there is an opportunity to bring that percentage from 18 up to 36 per cent, which then gives us the highest return out of any of the schemes in Victoria. As you would be aware, we did an owners' survey earlier this year, and that highlighted the wish of many of the owners to see additional races for older horses, particularly in the country where a horse will be bred and not start its racing career until it is a four-year-old. We have to make sure that while we service the top end of town, we also service the country as well, and that is an important part of Super VOBIS.

The CHAIR — Could I ask you as to RVL's position? Hypothetically, if cash was not a problem and this thing had a lot more up its sleeve, would the first move be to extend the number of races covered by Super VOBIS? Would that be the intention, so that you would be aiming to get those 400 horses that win their first race, that that would be a VOBIS race?

Mr O'MARA — When you look at the number of races we program, we program to the horse population, so it depends on the number of two-year-olds or three-year-olds we have racing at the time. In January this year we did a Super Summer. It worked very well, so we highlighted an area in each of the regions across the state of Victoria, and we did Super days where we opened up the scheme and promoted it that so that trainers that had a five-year-old or even six-year-old or seven-year-old — and Liquid Lunch won down at Stony Creek — had the opportunity to set their horses for that program to ensure that they could run for the bonuses, and it helped increase

our field sizes over the summer and increased our turnover. So it was very much where everyone got a piece out of Super VOBIS. Using Super VOBIS to act as a marketing catalyst worked very well, but we are quite mindful of the fact that it is right across the board. The Super VOBIS committee is looking to program those super days again next year in January. Again we are limited by the amount of money that we have.

Mr NASON — Just to be clear, to answer the question, yes, I think we would expand the number of races if we had more money. We would also increase the amount of money. The other thing we are quite interested in is what they have done in New South Wales, where rather than take a cash return you get double the amount if you reinvest that at a future yearling sale. We did not want to commit to that because that could suck all the funds out of Super VOBIS and put the scheme at risk, so we have been monitoring that. It has been received quite well in New South Wales and it is something we do want to have a look at. Again, that would require additional funding to pay out in terms of providing stimulation to the actual sale activity. So there it is again. More money would lift the scheme, and I think in terms of relativity, where Victoria is, it is probably a couple of million dollars shy of where it needs to be to keep the same relativity with the other states. We are now spending about as much as New South Wales, and Queensland is not far behind us now, so we are all spending about the same amount of money.

Mr O'MARA — And we have not been able to keep pace with prize money levels. I think that is it, probably, particularly in the country. The bonus in the city of \$30,000 is great, but \$7000 now with showcase racing and things like that in the country, the country has really gone back over the last five to six years, so when does an incentive stop becoming an incentive, I suppose, is probably a good question.

Mr DUFF — There is another aspect that we would like to do, and that is a dimension that until such time as our financial resources improve in this area it will not be possible for us to emulate, say, Magic Millions, where they are actually providing an additional incentive for horses that are sold in the sales organisation in that state, in the Magic Millions sales. We do not have that arrangement at the moment so there is an incentive for Victorians to send their horses to Queensland to be sold just to register them for that Magic Millions program, which is restricted. Horses sold in the Magic Millions sales can race in the Magic Millions.

I went there this year and I was interested in talking to John Singleton insofar as he has the dream that every race on that day will be a Magic Millions race — that it will be a total program with every race, not just two races, but every race will be for Magic Millions, and every race will have prize money in excess of \$1 million. That is the sort of thing that we need to be able to capture as well. We are missing out on that, if you like, that margin at sales being properly injected back into racing. It is too big an ask to expect just the \$600 from the breeders, plus what we can put in, to be able to stimulate it at that top end.

With respect to the size, of course, that is where the real big drain would be, and we still have to wrestle with doing what we are doing in Super VOBIS, which is very successful. There are two dimensions you need to add: one is the incentive for the stallions to stay here, and the other one is the incentive for horses to be sold here and for a return to come back here. They are the two missing dimensions. We do not have the money.

The CHAIR — I understand that. You say there are two distinct problems: one, that you have some capacity to rejig VOBIS but ideally you would get some outside source of funding; whereas the stallion side of things is a bigger problem that probably requires a longer term view.

Mr DUFF — I am really saying that by rejigging VOBIS we can do some more things, and it has been pretty well enunciated what we can do with rejigging VOBIS, but it will not address those two areas we are missing on.

The CHAIR — I understand that. Referring to the history of VOBIS, when it started in Victoria in the 1980s, the original VOBIS — —

Mr O'MARA — In 1986.

The CHAIR — Did the government provide some seed funding for that?

Mr O'MARA — That is correct. The government at the time, in conjunction with Thoroughbred Breeders Victoria and the Victoria Racing Club, provided the initial seed funding. All up, the seed funding was around the \$2 million mark back in 1986. The program progressed to a stage. Then in the 1990s — work started in 1994 — and there was the roll-out of Super VOBIS in 1996.

The CHAIR — And with the emergence of Super VOBIS, the government did not make a third contribution at that stage?

Mr O'MARA — That is correct, Tony.

Mr PULLEN — I just want to clarify that. There was \$2 million; \$1 million from the VRC and \$1 million from Victoria?

Mr O'MARA — I could not give you the exact break-up, Noel, but there was \$2 million seed funding, and I believe it was around \$600,000 to \$700,000 from the state government.

Mr PULLEN — Where does the money come from now?

Mr O'MARA — Now the money from Super VOBIS comes from two sources. The first source is from the nominations and we receive between \$2 million and \$2.3 million a year directly, straight from the breeders; and the additional \$4 million comes through from Racing Victoria. Robert might like to explain how that works.

Mr NASON — Yes, that is part of the funding model of Racing Victoria, so it comes out of Tabcorp distributions from wagering turnover applied to that. We do have an amount of money, a relatively small amount of money, from the Community Development Fund, which sponsored the programs we had at Ballarat yesterday, the Super Sunday, that sort of program. So there are a couple of hundred thousand dollars of direct government funding out of that fund which is funded out of the EGM levy. But at the moment the industry self-funds Super VOBIS with no direct government assistance.

The CHAIR — One of the points that has been raised by the thoroughbred breeders in their submission to us is the leakage each year from the state in service fees. In appendix 2 of their submission they have outlined that in 2004, 738 Victorian-based mares visited the Hunter Valley. I think I am right in interpreting this. That was for the purpose of a service fee worth more than \$15,000, so the actual number going into New South Wales is probably greater.

Mr O'MARA — Approximately \$22 million of leakage.

The CHAIR — Twenty-two million? There is probably some reverse leakage where New South Wales mares, certainly from southern New South Wales, come to Victoria. But if we assume that \$20 million is the figure, then that gives us something to work with. My understanding is that in the Hunter Valley the bigger studs offer free float transportation, free deals like that, and that is one of the incentives. People who have got mares, perhaps not that well-credentialed mares, will take advantage of that offer and will send their mares interstate. Is there any value in looking at a similar service in Victoria — particularly from your point of view, Graham — looking at how we attract mares to stallions here? Is that something that would boost the return to stallion owners here and help the Victorian industry?

Mr DUFF — If you would allow me just a small bit of tolerance for cynicism?

The CHAIR — Okay.

Mr DUFF — It is a linkage between the breeders and the selling organisations that is the main attraction, if you like. Getting your horse into the premier sales in New South Wales, you will find you need to have the right linkages to do that. If a guy down here has got three or four mares and he wants to take one of them to the Easter sales in Sydney to get the premium that that sale brings in, then he really is going to be battling. It is going to be very difficult for him to do that. The main breeders with the big stallions ensure that they have got a very strong association with the sales company, so that if you take your mare to a stallion there and your mare is reasonably well bred, you could almost guarantee that you will get the progeny a berth at the sales. If you do that, then the premium you may get could be anything up to 20 per cent or 30 per cent because that is where the buyers go. It is a very well promoted, very slick operation. Yes, I am a little cynical about it, only insofar as I have seen better bred horses out of Victoria not get a berth — and that is part of the big problem we have to address.

Mr NASON — I think the other thing there, Tony, is whether the level of subsidy being provided by those studs in New South Wales is sustainable. I think the opinion of the industry, even our analysis, tells us that that is a short-term marketing positioning that they have acquired for stallions. They want to get the presence of New South Wales established, and it is simply not available for the Victorian side to compete against the sort of offers coming

out of New South Wales. They are global. Darley and Coolmore, being global studs, can afford the sort of incentive programs that exist there now, but we do not believe they are sustainable long term. We are concerned about doing a knee-jerk reaction of bringing the whole sector in Victoria down and supporting an unsustainable model of providing levels of subsidies and such like that really will have no effect in terms of improving the industry.

The CHAIR — I can well appreciate that there is a question about dollars in all of this. How do you fund something new like that when you have got an issue before you of VOBIS stallion retention? On that subject, looking at the way the breeding industry resources itself, we have a VOBIS scheme which largely funds through yearling nominations. My understanding is that the vast majority of yearlings go through the sales process through one of our major sellers, the autumn sales or one of the lesser sales. But apart from the GST component there is no revenue raised at that point in the sales process which might be used in the industry. I think in Ireland they have a levy which is used for a number of things — equine services marketing, for example. We do not use the sales process in Victoria or anywhere in Australia for that purpose. Yet it seems to me that is a logical source of raising some revenue that might go back to the industry. Is that something that RVL has looked at?

Mr NASON — It is part of the review that we are doing. The difficulty is, when your sale is sort of regarded as the no. 2 sale, to introduce something that puts it at a further competitive disadvantage, you would have a lot of concerns from the breeding sector. The issue is to lift the standard of that sale, so we have got the sale that everyone wants to be at. Then you have a definite capacity to get an industry return out of being there, but, if you like, the feeling that I get is that the sales companies are doing you a favour by running the Melbourne sale and helping. All the premier stock goes to Sydney and the focus is on Sydney, and we are definitely in that sort of no. 2 position, and even less than no. 2 when you put in the Magic Millions sales in Queensland. They are getting a much greater promotion. It is difficult for us to say we are going to make our sale even less competitive by imposing a levy on top of that. Without our having another broader incentive arrangement, that would not be something that I think would be available to us in the short term.

Mr O'MARA — Importantly too, we are talking about approximately 40 per cent of our yearlings going through the sales process. So you have still got a high — particularly again in the country — amount of horses that are retained, syndicated or owned in partnership privately that have been the hobbyist component of the Victorian breeding industry. It is quite high compared to that of New South Wales. There is still a higher retention. There is a hub of owner-breeders; most of them are domiciled in that 2-hour radius around Melbourne. They make up almost half of our overall investors in the breeding industry. Yes, the sales are very, very important, but they do not make up the whole yearling and horse population.

Mr DELAHUNTY — On that matter, you talked about the Magic Millions. Why is the Magic Millions in Adelaide growing when all their other figures are going down? Can you tell me how that has happened?

Mr NASON — I will have a go and you can clarify it. The sales process is sort of a unique marketing event that has the support of governments, particularly in Queensland, South Australia and New South Wales. We do not get that level of support. They create an event around the sale.

Mr DELAHUNTY — What do you mean by 'support'?

Mr DUFF — The major events corporation in Queensland is actually a partner with the Magic Millions in putting on the sale and the event, and makes a substantial financial contribution to that sales process.

Mr NASON — You want to attract international buyers and national buyers to your sale, so you run a series of events and a major race meeting around that, and it becomes the place to go. So everyone knows when Magic Millions is on. A range of functions are supported around that and it becomes sort of an event in its own right. It is exactly the same in Sydney; everyone goes to Sydney for the Sydney yearling sale at Easter and there is a whole range of events around that, around the carnival that is promoted. Around Melbourne just last year we held an owners' night at Moonee Valley on the Friday night before. That was the first ever event we have run in Melbourne associated with any sale and it just does not have the same buzz. I think that is a major detractor from that. The sales in Adelaide, Brisbane and Sydney have greater prominence in the racing calendar for prospective owners than the Victorian sales.

Mr DELAHUNTY — Let's get fair dinkum about it, then. Why have we lost that opportunity around the autumn racing? Is it because of when the foals are born or is it an age thing?

Mr NASON — I think you have the sale company that runs the sale running the Sydney sale, so it has got the opportunity of deciding where it is going to place horses, and for its own marketing — and it has been successful — the Sydney sale has got the prominence. So we are always running second and we are at the behest of the sale company in terms of trying to get that changed. They are very happy to have all the best international buyers and all the premier stock going to a single sale. They do not support the Sydney and Melbourne sales being of equivalent standing with equivalent stock being sold there. That has been the major impediment as I see it.

Mr O'MARA — And I think discussions with TBV will probably highlight this afternoon that it is really control of your own destiny and ownership of your own brand. The ability of Magic Millions Sales Pty Ltd has been to strengthen their brand. Recently, over the last three weeks, they ran a very successful national sale. But was it a national sale? No, but with marketing and hype associated with it, it ended up seeing the highest price ever paid by a yearling in Australia. It is actually 80 per cent perception.

Mr DELAHUNTY — Livestock.

Mr O'MARA — It very much is, Hugh. People talk about the strengths of Victoria versus New South Wales. A lot of it is about perception. Hunter Valley is about perception. It has been established and marketed a lot better than we have actually marketed our brand here in Victoria because we have not actually controlled all areas of our brand.

Mr DELAHUNTY — Can I just ask you about the sales dates. I note that Inglis announced that next year's premier yearling sale will revert to its traditional March dates: 5, 6 and 7 March. That is being done according to Inglis to ease the congestion of sales that currently occur in the first two months of the year and anyone looking at the sales catalogues would know that. We visited Oaklands earlier this year and the ability of breeders to be able to attend the successive sales is quite limited. They are just too close together.

It seems to me there must be an optimum number of sales and a spacing of sales over the first few months of the year to generate the right sort of returns; and the more sales we have, if we are not careful the prices get pushed down. The Adelaide sales this year for example were fairly poorly attended, with Magic Millions not long after the autumn sale. Is that something RVL has done any work on or do you think we are still always going to be at the mercy of Inglis and Magic Millions and they will structure it?

Mr O'MARA — We have had discussions with both sales companies and they are independent commercial organisations so it is one of those difficulties that whilst we do not control any aspect of the sales, how they place states is really up to their commercial advantage. So you have the Magic Millions pushing back a week next year at New Year, which forced the move of the Sydney Classic and so on. It causes a trickle-down effect by one date being moved. That is part of the reason for what has happened this year.

Mr NASON — That being said, we have a reasonable relationship. We always talk, to try and work something out. There are particular issues around the Commonwealth Games next year, about what happens in that lead-up period that we need to accommodate, so I do not want to paint a picture that we do not have a good relationship with the sales company; I think we do. But is Victoria advantaged versus the other states? No, it is not. That is our positioning right now. We are very keen to improve that positioning — to get our leverage so that when we have these negotiations we are in a stronger position based on what we can do at the sale, what our product is that is going to that sale. We are in a weak position in terms of that negotiation right now.

The CHAIR — Before I hand over to Noel, are you aware of whether the Major Events Corporation here in Victoria has ever been approached or has government been approached to assist with the marketing or the resourcing of the major sales here in the same way that the interstate sales have received support from their governments?

Mr NASON — We have had a number of conversations with Major Events. Their issue I think at that time of the year is that that is probably the period of the year in Victoria where the calendar is most full of events in that autumn period so they have a problem with getting behind another event that might clash with things they are supporting at that time of the year. Again, our feeling is we have one shot at getting Major Events Company support, and we are moving more to looking at the spring time and getting them behind our ability to attract interstate and international visitation to Melbourne during that period to help us promote that internationally and in other states through a range of mechanisms.

We are more leaning now to the spring and giving up on the other period just because of our discussions with them, which indicate that the calendar is so full. Whether we call it major events or whether we call it something else, the prospect of having an attraction to Melbourne over a weekend where we are getting people with wealth that are going to come for a weekend and buy racehorses in Melbourne has a lot of economic benefit to the state, and I think that is what is seen at the yearling sales that are promoted in the other states. There is a very big economic benefit to package something around that to make it attractive for people, not just to fly in and fly out and go to the sales in a day, but to spend three days in Melbourne and go to a race meeting as well as other events. There is a big return to the state in doing that.

Mr PULLEN — I want to congratulate you on your submission. I thought it was tremendous. I have a few questions although most of them have been answered by your presentation here this morning. These are all over the place, but I will go first of all to the introduction and then some more of the detail. If I just read out a couple of lines that you have in here, I was going to ask for further explanations on them. I am looking at page 3 where it says 'Thoroughbred racing markets throughout Asia and the Middle East are presenting major export opportunities and Victoria needs to quickly position itself if we are to take advantage of this new demand'. Would you like to expand on that in any way at all?

Mr NASON — I can talk on a couple of examples, but this is really a very big opportunity and it is something that we are gearing ourselves up to address on a number of levels, the breeding sector being one of them. North of us, in Asia, we are anticipating enormous expansion in racing in places like China, Korea and South-East Asia. We are regarded as not just a national leader but a world leader in terms of the quality of our racing product and the quality of our industry, so we are looking at opportunities to exploit that.

The way we are doing this is basically through communication with those industries and assisting them to develop their racing sectors. We have an assignment with Bahrain where we are looking at developing their racing industry. We are not doing this just for consulting revenue purposes; we are looking at that in terms of developing industry relationships within Victoria. We are looking at supplying the horse population to Bahrain to meet their objectives with the growth of their racing industry over the next 10 to 20 years.

We are looking at training for jockeys and trainers coming to Victoria, to leverage off and turn our training school into an international training school. We are exploring those relationships to do that. The difficulty with an organisation like Racing Victoria where our focus is on administering the local state is to get out there and be able to have these discussions internationally and position our industry ahead of competition that exists globally for these sorts of opportunities. We are looking at building better relationships with Austrade and with the Victorian development offices in some of these countries to assist us with getting in on the ground.

I think we are behind in terms of our focus on that. New Zealand does it extremely well. When we went to Korea for the Asian racing conference, the Queensland government hosted a night for all the delegates there looking at again supporting their breeding industry in Queensland. We have to get ahead, get a lot smarter about how we deal with those sorts of opportunities, because we have the brand name out there. It is Victoria that is recognised for its racing, and we have to then exploit that internationally to try and help the breeding sector.

Mr PULLEN — I also note on page 5 under 'Examine Other Incentive Measures' you say 'Export subsidies and incentives to encourage trade'. You basically answer that with 'Austrade'. What about the Victorian government? Could they assist in any way?

Mr NASON — Yes, and we are getting assistance from the Victorian government office in Dubai for our Bahrain project, so we are building those linkages. But this is new territory for us, and it is going to be part of this strategy that we are developing as to how we get ourselves positioned to exploit the international opportunities because they are very large. I know there was some criticism. I saw a show in New South Wales about the fact that it will detract from our local racing if we are exporting our horses, but we do not see that in Victoria. We see that an export market being developed for the industry here in Victoria can only strengthen it and give us an opportunity to reinvest back into the racing sector for those export returns.

Mr DUFF — There is another dimension to that same issue. For the first time in many years we have had multiple numbers of Victorian horses competing overseas. Once upon a time it would be maybe one odd race, one horse going to Dubai or one horse going to Hong Kong. This year we have had Victorian horses competing all over

the world, from Dubai to Hong Kong to London, and they are competing very favourably on the international scene. That is bringing a focus onto Australian-bred horses and bringing an interest in Australian-bred horses.

We are now finding the Japanese are coming down here to purchase horses far more readily than they would have before. Now, there is a move afoot that they may want to race their horses here. It is the first time ever, I think, when they have half a dozen horses coming here from Japan to race. We have never had that before. We are now getting this coming from America. We are getting that focus. We have to make the connection for them to come here and buy horses. If our horses and our competition is that good that they want to come down here and be a part of it, and we are going up there and being very competitive, then we have to make that connection.

I think we are in the process of doing that, and we would not want to underestimate the value of sending a horse to Japan or to Dubai that wins a race, and the value that comes back here because of the subsidies associated with that. We have a situation that we had a Victorian horse that went to Japan and won the Grand Jump in Japan, but when it came back here we were faced with having to subsidise the quarantine costs or subsidise the transport costs of it going up there. We are constantly getting asked to enter the world market now where subsidies for horses are commonplace and we are not even close.

The CHAIR — We spoke to some people in France and asked them about the value of Australian horses standing at stud, for example, in France. I think the rule was unless the particular horse had won a well regarded Group 1 race in Europe, the service fee would be such that you would barely be covering your costs, and then when you add into it the risk and the insurance costs, it is just not worth your while. If we are to treat the breeding industry as a genuine industry, it seems to me we need to put in place some supports that would not be questioned in other industries. The Department of Innovation, Industry and Regional Development is one that has dealt with this committee previously on rural exports, and they have quite an active program of inward and outward sales missions, but I do not think that has ever been attempted with horses. I think most of the sales activity on horses emanates from the sale ring or the mounting yard after a win, or individual trainers have relationships with race clubs overseas and they tend to negotiate sales privately that way. So I think there is a role for us as a committee, looking at this subject, to question whether more could be done in that area.

Mr DELAHUNTY — Can I just take up a point that Graham has spoken about? You spoke about the fact that Victorian horses are racing overseas and you highlighted that in your presentation just a minute ago, but then you said they come back to buy Australian horses. My reading into that is they are not buying them in Victoria, is that correct?

Mr DUFF — Certainly there is an example of a Japanese trainer who is buying a lot of horses and he is not buying them in Victoria — he is buying them elsewhere — but he will bring those same horses, Australian-bred horses and bred to Australian time, back to compete this year in our Derby because they are bred to our time; therefore he has the opportunity to be able to race them as two-year-olds and three-year-olds. When he decides where to race them, he races them here.

Mr DELAHUNTY — That again highlights that we have got the best racing, the best prize money and all those things but we do not seem to be able to get the stallions or the sales?

Mr DUFF — No. We are going to get to the stage very soon where we are going to have international trainers coming down here and having satellite stables. They will probably come to Melbourne rather than going to Sydney because they are coming down here to race. We just cannot make that connection on that breeding scene that actually gets them to buy Victorian horses. There is a perception internationally that our Australian horses are better if they are bought in Sydney.

Mr DELAHUNTY — That is with livestock, more so?

Mr O'MARA — A good example of that is Sheikh Mohammad's recent purchases, particularly in Sydney at the Easter sales, and all his horses are coming back and will be trained at Flemington by John Sadler, so there is that investment that is happening, external money coming in. He has got, I think, five horses that he has purchased and they will all be domiciled and racing out of Flemington with John Sadler.

The CHAIR — John has done some training in Singapore, I think.

Mr O'MARA — That is correct.

The CHAIR — Which is another feature of our industry — that more and more of our trainers are getting that experience.

Mr PULLEN — I refer to page 6 of your submission with the heading ‘Developing investment opportunities’, where you say:

- 8.1 Develop ... linked tourism strategies in regions between local breeders and other attractions including wineries.
- 8.2 Promote on a regional level, to showcase positive impact that breeding is having on local economy.

I do not know whether you are aware of it, but I came across this brochure called ‘Victoria’s racing tourism plan 2005–2007’. What sort of input are you having or what sort of success are you having with that sort of promotion for the breeding industry?

Mr NASON — I think we are very supportive of Minister Pandazopoulos’s initiative here of linking his two portfolios of tourism and racing and looking at particular benefits to regional Victoria, so we are very much supportive of that program. It is the first time it has ever been done. I think the whole racing sector from a tourism point of view is sort of an untold story about the amount of visitation we get into our regional areas from the city and the ones we get from across the border into our regional centres based on the back of the racing industry.

But the breeding sector in particular, when you look at some of the other centres around the world where you go and visit thoroughbred country and the various studs — we do not promote that anywhere near as well as other regions internationally. Even in New South Wales — the Hunter Valley presentation of the studs up there is better than the presentation we do here in Victoria.

In that north-east sector it is fantastic to drive through there and see the stud farms that are there. We are looking at trying to encourage some level of tourism promotion of visitation there where if you are a horse-lover you can come to Victoria and see the best racing you can find anywhere internationally but you can also visit stud farms and have that experience in Victoria. That is something, over time, we are looking at incorporating into our breeding strategy.

Mr DUFF — Interestingly enough at the Asian racing conference the suggestion was made that Victoria should host that event in 2012, or something, but were we prepared to share it with South Australia because it has the Barossa Valley and Lindsay Park? There is no prize for guessing my answer to that. Again, there was a perception out there that we really did not have the tourist destination relative to our thoroughbred industry in order to provide that additional component which is so necessary if you are going to run an Asian racing conference.

Mr PULLEN — The stud farms we visited overseas were real tourist attractions as far as we were concerned.

Mr O’MARA — I think importantly, Noel, the establishment of that North-East Alliance in particular is actually the first time that we have had local council and government buy in to anything. The studs cannot do it by themselves, they need the local tourism resources from the local council level. It is about the councils getting an understanding of the businesses that are operating in their areas as well so that they can put it into the regional plans, which is the first time that has actually happened up in the north-east this year.

Mr PULLEN — This might be a bit confidential — I was wondering about page 12 of your submission:

Consideration should be given to utilising the new Royal Agricultural Society complex at Ascot Vale...

Has there been any development in that at all or is it just the very early stages?

Mr SAUNDRY — It is a concept at this point. We think that a March sale with the Flemington Super Saturday, is the opportunity to bring international and interstate visitors to Victoria and create what Robert talked about before as a tourism destination for three or four days in Melbourne. We believe it would be a terrific link. It links breeding and racing together. We know that the Super Saturday at Flemington is a great day out for racing but if we could wrap some functions and two or three days of selling horses across that period, and have the Royal Agricultural Society venue, given that the government is spending quite a lot of money over the next couple of years on it as a venue, it will be a world-class venue and we understand it will have facilities to sell horses under a big arena. That is a concept, it is a vision that we have at the moment, but to us it makes a bit of sense.

Mr PULLEN — Just a couple more if you do not mind, Chair. I was interested in page 15 of your submission where it says:

Overseas interests in Hunter Valley breeding enjoy foreign tax advantages not available to Victorian breeders.

How would that be?

Mr O'MARA — If you look historically at say the two major ones, Coolmore and Darley, one is Irish based and the tax incentives that are offered by the Irish government; and the other one is owned by United Arab Emirates interests which have got that much money it does not matter if they pay tax or not; so when you look at the advantages that those two organisations have, it is not purely money driven. They have got a lot more disposable income and a lot more ways to benefit than our guys, which are purely commercial and conscious of every dollar that they have to pay out.

Mr PULLEN — That would lead on to 'Opportunities for future growth':

1. Potential exists to develop and encourage international investment in Victoria through encouragement of the potential of joint ventures between Victorian and international companies.

Mr O'MARA — That is correct but as Robert said earlier with Bahrain, there is nothing to stop a joint venture relationship with established breeding being set up in Victoria.

Mr PULLEN — I am jumping all over the place — page 17, no. 3 down near the bottom, says:

Review the ownership and management of the Australian Stud Book —

I think it covered it very well —

in full consultation with the VRC to provide enhanced operational and marketing support to breeders.

Would that be basically a similar situation — say, Racing Victoria would take over that like they did with racing away from the race clubs?

Mr DUFF — The difficulty we have is that the VRC would be more than happy — and has said so on many occasions — to transfer their 50 per cent interest in the Stud Book across to Racing Victoria. The other partner, of course, is the Australian Jockey Club in Sydney. They do not share that view and I suppose, quite understandably so.

The Stud Book stands out on its own as being an organisation that is owned jointly by the AJC and the VRC, and there are times when it gets to the stage where we are almost ready, in sheer frustration, to abandon it and start our own but it has not quite got that bad yet. But clearly, our view is that the Stud Book should be an integral part of our Racing Information Services — RISA — who control all of the data and who should in fact control for all of Australia, the Stud Book as well and that would have all our data in one book. Quite frankly we are a long, long way away from that.

The CHAIR — Do you sense, Graham, that that is a matter of just ownership where the VRC and the AJC are saying, 'It is ours and you will have to pay us to take it but we are not surrendering it', or is it a matter of control, authority, history and tradition?

Mr DUFF — It is a matter of history and it is a matter of control — I do not think the money has got too much to do with it quite honestly. 'We control the Stud Book and that puts us at a level quite different from anyone else.'

The CHAIR — If VRC's position was to change, would it still be a problem as long as — —

Mr DUFF — VRC have indicated to us that if the AJC are prepared to give up its share, the VRC would give up its share but that is as far as it has got. The AJC has just said, 'No' — full stop!

Mr NASON — And my view is that the origin of the Stud Book was because the AJC and the VRC were the principal racing clubs in both states, and it was just overlooked as a principal racing club function in the establishment of Racing New South Wales and Racing Victoria, and it has retained that, but there is really no rationale for two clubs racing in those states where you now have a principal racing authority as a separate

designation. There is no practical purpose in retaining that ownership other than the fact that historically it has been there. So over time it will eventually move, but we are in the hands of New South Wales.

The CHAIR — And presumably from the TBV's submission, it is the source of some revenue generation as well.

Mr NASON — Yes.

Mr PULLEN — I was very interested in Tony's comments on education. Is there any talk at the moment about these new colleges that are going to be set up by the federal government? I know one is going to be in Warrnambool. Have you any idea about what sort of courses they will have, or anything along those lines?

Mr O'MARA — Not to our knowledge. Putting a submission together actually gave us an opportunity, through our training department, to do a stocktake of which areas provide training. We were quite surprised that Sunraysia, up near Mildura, had started some breeding courses. But no, we have not. It is one of those areas that we would like to address as part of the overall training strategy for all areas of thoroughbred racing.

Mr DELAHUNTY — Can I jump in? When you spoke about secondary education, Tony, my understanding is there is no government secondary college, but I know of some non-government ones like the Hamilton and Alexandra College in Hamilton, and I believe there are others around the state which run strong courses.

Mr O'MARA — One of the things that came through in discussions with our breeders, Hugh, was the need for pre-vocational education, particularly at the Year 11 and 12 levels. Again, without stereotyping, people tend to get involved in the breeding sector with a great deal of romance and make the wrong career decision. So the more pre-vocational training that we can give them means we will get better people making a long-term commitment to being part of the breeding industry.

Mr DELAHUNTY — There are a few opportunities with what is happening at Melbourne University, but you are no doubt aware of that.

Mr O'MARA — Yes.

Mr PULLEN — Page 22 of your submission is headed, 'Geographic concentration of the breeding interest' and you have covered the north-east region very well. It also states:

Potential also exists in Victoria's western districts and Gippsland which have proved to be successful in agribreeding, particularly in cattle.

I notice on the map that was provided on page 13 that at the moment there is nothing in Gippsland — unless we count Pakenham as being in Gippsland. Of course there are also my colleagues in the Mornington area and we have not talked much about development there. Tyabb and Red Hill are mentioned, and you mention the chances in Gippsland. What is the position in the Mornington area at the moment?

Mr O'MARA — Mornington Racing Club is working very closely with all the breeders and trainers and the various interests down in that area. We talked earlier about the potential for boutique sales if we establish a sales brand on the Mornington Peninsula. That was an area that was identified as being able to run a sale in the summer. It gets back to the availability of real estate and suitable land. Tony Santic has quite a substantial investment in the Geelong area. That is because of the land and because a suitable property became available.

If you had someone who decided to invest in the Gippsland area, you would tend to find that it would grow, and then another would grow alongside it, as has happened in Euroa and in other places in other states. So we had discussions with a few of the councils over in the Western District. They highlighted that there was strong growth, particularly in the standard breed, and there were possible opportunities for breeding.

There are quite a lot of broodmares over in the Western District and even up through the Wimmera and the St Arnaud area. So while stallions are not standing there, there is still significant investment in the breeding industry through broodmares, not necessarily stallions.

Mr NASON — But it is a sector that naturally clusters because of the services — for example, veterinarian services. With the sorts of skills you need to run a breeding establishment you tend to have clusters of operations. It is a case of whether there are opportunities for other clusters in Victoria and there is land availability to do it. That is the experience internationally as well. Once you get a centre established all breeders tend to locate within reasonable proximity of each other.

Mr PULLEN — The reason I mention it is the very good point that you make in your submission which states that the geography of the Hunter Valley has assisted in its appeal to international companies in comparison to north-east Victoria's climate. The upper Hunter is a natural valley. Gippsland and the Mornington Peninsula have a better climate — sorry Hugh — to develop these industries.

The CHAIR — We touched on broodmares before, and I want to ask a question about broodmares because obviously stallion retention is important, but ensuring we have a good broodmare stock in Victoria is the other half of the equation. Last night I was reading through the premier sales catalogue for this year and, doing some crude arithmetic, I think I am right in understanding that the entry where it shows the first dam in black capitals refers to a dam that is a black-type winner. A dam that appears in black lower case is a black-type place-getter, and those that appear in plain capitals have not won at a black-type race. If you go through the 597 entries, only 52 of the dams were black-type winners, and of the 52 only about 17 came from Victoria. So that is 17 out of 597. If we look at the age of the dams it would be about 8 or 10 years since they raced. So a very crude conclusion to draw is that each year in Victoria our racing program finds one or two mares that go and provide progeny that come back in the sales. To me that seems to be a very low number. We were advised by the Irish breeders in Ireland that their race program supports a much higher percentage of black-type events than anywhere else in the world — there might have been a touch of the blarney with that claim. But it seems to me that our race program might have the potential to be tinkered with to try to ensure that we have a greater number of mares coming through that have performed at a higher level. I do not say that that is a conclusive ingredient in making sure that the progeny are of higher quality and generate more, but it seems to me that that is a reasonable presumption to make. I wonder if there is any discussion going on at RVL with the racing program to look at getting a greater supply of black-type mares events?

Mr DUFF — There has always been a fair element of debate about black-type events for fillies and mares. We have not really gone in that direction; rather, we have said that we have a problem at the moment with stayers versus sprinters and that is the area that we are more focused on than anything else. Victoria generally has been a pretty strong staying state, even in the country, but certainly in the city, and more so than New South Wales. Predominantly our breeding industry now seems to be heading towards the middle distance rather than the stayers, and we are trying to provide some incentives for people to breed for stayers. New Zealand was very successful with its black-type mares and the best of them always come over here and compete with distinction in our stayers races. Traditionally that is where the stayers have come from. I suppose what I am saying is that it is not an area that we have given enough thought to so far as the breeding side is concerned and black-type mares. Maybe it will happen if we continue this drive that we are trying to make in our patent committee which sets the black-type mares, and try to put a bit of accent back onto stayers racers; then we may well see that being a fact. We are losing a lot of our good stayer mares; they would generally go to New Zealand.

The CHAIR — On stallions — and I know that we do not have that much more time to discuss this at length — I notice in New Zealand the opposition party there has put up a proposal very recently that the taxation write-off for stallions be accelerated from currently 3 to 4 years, to 2 years. I think their write-off for stallions is the same in New Zealand as here — 4 years at the moment? Has RVL given any consideration to the role that the tax write-off rule plays in stallion retention and stallion acquisition, and hypothetically would that, if the Australian tax write-off was changed to two years, accelerate investment both from an organisational point of view and from people who have practical experience of this?

Mr NASON — Certainly any sort of incentive like that has to have a simulation effect. That is more an ARB than a Racing Victoria issue because that sort of provision would apply nationally in terms of a change to our tax laws, and I do think it is under consideration along with a whole range of other issues around tax for the horseracing industry and it is under review by the ARB right now.

Mr DELAHUNTY — When I look at the submissions and what we are hearing today it seems there are three components to the breeding industry: the stallions, the equine practitioners and the link to the sales. Is there

any strong link between Racing New South Wales and the Easter sales, as Queensland Racing has to the Magic Millions? Is there a strong partnership there; is it run separately or altogether?

Mr NASON — There is a relationship there. I think with Sydney the government has got behind that Easter period in a whole range of ways and the sales are an integral part of that; that is, Sydney racing getting the four days of carnival similar to Flemington, and that period of the Easter show has been promoted by New South Wales as the time to visit New South Wales in Easter every year so it is receiving tourism funding and Racing New South Wales is working with the government around that. They are also coming back to us in terms of us scheduling our races so they have their moment in the sun around Easter with which we have difficulty because Easter moves every year and it causes problems clashing with our autumn carnival in Victoria. They are behind that in terms of working in partnership with government, particularly around the tourism aspects of attracting people into Sydney at that time.

Mr DELAHUNTY — Is there any link between Racing New South Wales and Inglis and Magic Millions and Queensland Racing? Is there a strong partnership there, too?

Mr NASON — I would not say that it is a partnership — —

Mr O'MARA — Definitely not in New South Wales as a relationship. I think the partnership of Magic Millions is through the aggressive marketing nature they have established with South Australian Tourism, Queensland Events, Gold Coast City Council and even more recently in Tasmania with the sales down there. They have looked at that as a method of marketing dollars and being aggressive in trying to exploit every opportunity they can — marketing revenue and ways to grow their sales in those three jurisdictions, like going to the government and saying, 'Hey, here's a plan and we want some money'.

Mr NASON — The other observation I would make is the breeding sector in New South Wales seems to be more heavily involved in racing administration in terms of participation at board level; at race clubs and at Racing New South Wales they seem to have a stronger body of opinion of where racing should be than we are getting from the thoroughbred breeders here in Victoria.

Mr DELAHUNTY — That covers the sale part. The last question I have is that we really need to look at how we keep our stallions here and Graham spoke about that earlier; there are a couple of stallions here that we do not want to lose. We would love to hear how we can work together to make sure we keep those in Victoria because that seems to be the key component of the breeding industry.

Mr NASON — To me it is one of the things that we have not applied in the past, but I think in this area we need to be more selfish about looking at Victorians. We do a lot in racing that benefits the Australian racing industry. All of our work with our international horses and breeders is turnover that is stimulated around Australia and the spring carnival generated by Victoria, but it is one of the issues that we need to consider in this sector; whatever incentive programs are applied, they are for the Victorian industry, to stimulate the Victorian investment rather than the national breeding industry and the other sales that very much get a return from the work that we are doing now in terms of promoting our industry internationally. I think that needs to be the focus which will stimulate stallions to be attracted here because the deal is so much better for locating stallions here and the returns going back into Victoria. I think we have an opportunity of differentiating ourselves by taking more of that sort of an approach than treating this as a national issue.

The CHAIR — One of the surprising responses we received out of the sales earlier this year in some of the informal discussions we had with various people was their reaction to the restriction that owners have on contact with their horses on race days. It surprised me as someone who goes to the races that it would be so big an issue, but there is no mistaking that it is a big issue certainly with the TROA and some of the trainers. Can you give us some advice on where things are at as far as RVL is concerned? I know it is something that is being looked at.

Mr NASON — We did our owners survey and that came out as a major issue or concern, and I think in relation to the breeders and what we do with the breeding industry ownership is very much linked with that. We have a major drive to improve the lot of owners in Victoria and then we are going to mount a major recruitment campaign into next year to have ownership expanded. We are looking at getting a 30 per cent increase in the number of Victorians that actually have an interest in a racehorse over the next three or four years and that should flow through to the breeding sector once a horse retires and you are looking at involvement in breeding as a natural extension of that. We are very concerned at the issues raised by owners and that safety policy — we are going to

have a look at it — but we have to remember that there are reasons for occupational health and safety policies that we do have standards that need to be put in place and we do have to protect individuals. It is an area that we and the whole Australian racing industry needs to improve in its occupational health and safety management, and we have been doing that since Racing Victoria started, with a whole range of reforms being there now. Have we gone too far by preventing owners accessing their horses? I think we need to look at that, but we have to look at it in the light of maintaining the right occupational health and safety standards. It is under review, but I would not like to forecast that there will be a change until we can look at how that can be accommodated.

The CHAIR — Are there public liability insurance issues with that?

Mr NASON — Yes, very much so.

The CHAIR — I also note from your earlier comment about stamp duty on horse insurance — just the general relationship of the industry to its insurance providers — there was some discussion with reference to the possibility of the racing industry being involved in setting up its own insurance industry. Would that be just for horses or would it be a public liability thing as well?

Mr DUFF — We already have a public liability captive insurance policy across Australia — not so much all of Australia, but certainly in other states and through the ARB we have got together a policy with respect to public liability and that has worked reasonably well. I think our next step will be —

I do not know of a Victorian owner who would insure his horse in Victoria. If he can get insurance anywhere for it, it will not be through here as it is very easy to assess that the premiums through Victoria are much higher. I insure mine, for argument's sake, out of New Zealand. I get a much better rate, quality insurance company and you would not bother to do it here because of that premium. However, in Victoria I would like to see us establish our own insurance policy for our horses on some sort of captive insurance basis. We have not done much work on it, but with the success of the one we started only two years ago for public liability we think it is highly likely we may well be able to go into a captive insurance and provide insurance cover for the thoroughbreds for a reasonable figure. But quite clearly if we are going to get hit with 10 per cent tax, having the captive here may well be another argument.

The CHAIR — Can I ask on that last point — I have just made a note here; Bernard might be able to provide it — how much does the 10 per cent stamp duty on insurance policies cost the industry a year? Do you have a dollar figure on that?

Mr SAUNDRY — We think it is probably somewhere between \$2 million to \$4 million a year.

The CHAIR — I had one last question to do with bad debts in the industry. This is again something about which Noel and I want to make sure we have it right. We checked this morning and we are up to date with our trainer's fees, but across the industry there are lots of people who are not up to date and this is raised with us regularly. It occurs to me that the rules of racing probably do provide for people of undesirable character or whatever to be excluded, but we do not historically extend that to people who are chronic bad payers or non-payers of training bills. Yet trainers and breeders tells us that this is a chronic problem. There have been some changes with the amendments to the Livestock Act, but has there been any consideration given to increasing the pressure on people currently in the industry who seem to get by with never paying their bills?

Mr O'MARA — Part of our owners' strategy that we identified and are currently working through is reviewing all our contracts that are in place — basically the paperwork side. What we have found is that a lot of the bad debts actually occur through miscommunication to start with and poor contracts being in place from day one. We are currently reviewing our agistment contracts, our contracts from the owners' side with trainers and our contracts in relation to leasing. We want to put them into plain English and make sure the payment terms are spelt out. At the moment there are a lot of mates' deals that happen in racing and they are not clearly defined. Most trainers are very good trainers but very poor accountants, and therefore they do not necessarily have the skills in general to be able to do that; a lot do it through office managers. That is part of our owners' strategy we will be rolling out early in the racing season — plain English contracts. It will be the starting point so that people have the process in place from day one.

Mr SAUNDRY — In addition we will also have a dispute resolution service wrapped up in that. That will help and you would think in the longer term have some impact on reducing bad debts in the industry.

Mr DUFF — But it has to start at the other end. I would have to ask you, as a horse owner, did you get a written quotation from your trainer including the terms and conditions associated with this training? You probably asked him how much a day he charged and that was probably as far as it went. You would not know what it included, what element of bed or whatever. The whole thing starts off as, quite frankly, a mates business that on many occasions just gets out of hand. It really is a misinformation situation. We would like to go back to the start where the owners are made aware of all of the repercussions of training a horse, all of what is included and what is not included, so they have something they can measure it against and that is something that these guys here are trying to develop at the moment.

On the other hand the trainers association, when we raised it at our last consultative meeting, was a little bit aghast at the thought that maybe they had to put all this down in writing and what this was going to mean. When they realised that they would not have so many disputed accounts the penny started to drop that maybe this was the way for them to go. I think as this new owners strategy unrolls we will get a situation where it will become much more clear. By the same token, it does not really alter the case that we have some owners out there who, quite frankly, exploit the system. They run up the bill of one trainer and then slip the horse over to another one without paying the bill. That is a genuine complaint that trainers have. In respect of that, we will be moving that no nominations can be accepted from people who have debts outstanding from a previous trainer until such time as the debts have been cleared up. I think that is probably the direction we will go in. We do that up to a point at the moment. We do not have the legal right, but we do it by suggesting that people should pay their debts. We will make it much stronger in the future, I suspect.

Mr PULLEN — You might even consider joining what I think is called Baycorp Advantage now — it used to be called the Credit Reference Association of Australia. That would help a bit.

Mr NASON — I would like to expand on that because this is an issue for the Committee. With respect to the regulation over the horse sales process, as an industry we are not satisfied with the level of probity in the overall sales process now. There is also unclear regulation in other areas that potentially affects investment. Through the ARB we are looking at the development of a code of conduct for the horse sales process. Clearly some of the experiences with other option processes in real estate and so forth have application to that process as well and need to be looked at. We also have problems with ASIC at the moment in terms of horse syndications and whether that applies to this industry or not. They appear to be in a confused position about that. We cannot get clear guidance from them and we are continuing to work on that. There is a need for significant improvement in regulation, to the extent that there are state-based laws that could be introduced to improve that locally. That is an area of potential differentiation that would give owners confidence in coming to a Victorian sale that has more control over some of the improper practices that might exist elsewhere. That is something that is a focus in the racing industry now, more through the ARB than ourselves, but we are heavily participating in that.

The CHAIR — We have noted the recent commentary about a sales code. We welcome that. We think it is certainly what people have been saying to us.

Mr BOWDEN — I apologise for my late arrival. I have had some medical problems and so forth.

I would like to ask one question through the Chair. I went to Ireland and France recently with the Committee and what I know about racing, I admit, you could put in that cup, so I am far from an expert. But it seemed to me that there was a general underdevelopment or lack of close international connection between Ireland, France and Victoria. I know there are some, of course. We saw superb stallions where we went in France and Ireland and as a non-racing person, but anxious to give you some quality input in the report, my observation from a business perspective is that I would suggest we would value your ideas as to how we may be able to closely work with the international connection, and that seemed to be lacking in terms of what we have here. Also, Ireland and France both mentioned that we have a problem in Australia with the birthday of a horse because it is six months old even if it is a week old in terms of the registration process in the northern hemisphere. I would like to ask your thoughts on increasing the interaction and the financial cooperative connection between Victoria and Europe in particular.

Mr NASON — That is a very good question and one of the issues that is going to be addressed in our breeding strategy is how much intervention we should have as the racing body in Victoria into the commercial arrangements that might exist between our breeding sector here and our breeding sector in other places. How much should we stimulate shuttle stallions coming to Victoria, or not, and those sorts of relationships? Our position to date has been that we assist where we can locally, but we allow the sector to have whatever relationships it has in

terms of buying stallions or selling them or attracting owners to come and purchase stallions. That has been something for the breeding sector. It is one of the things we are addressing. My feeling is that we need to be more interventionist than we have in the past and to actually stimulate that in cooperation with the government which has the trade offices in different locations that we can use to leverage that. So I agree with you it is an unexploited area. We have got into it in the racing sense and we are progressing very well in terms of getting our racing seen overseas and overseas horses coming here, but in that breeding sense we are very much at first base. That requires development and it is something that will be addressed in our breeding strategy.

The CHAIR — Thanks very much, Robert, Graham, Bernard and Tony for your time this morning. It has been tremendously illuminating for us, to get your opinions on the record. We will continue to informally tick-tack with you in coming weeks. There is a number of issues we will require some further clarification of. We appreciate your cooperation to date and look forward to that continuing in the coming months.

Witnesses withdrew.