

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 T. Rielley, Committee Member, Thoroughbred Breeders Victoria.

The CHAIR — We welcome this afternoon to our inquiry representatives of Thoroughbred Breeders Victoria. We received a fairly detailed submission from TBV in April. We have had the opportunity of having some informal discussions with Richard and others and we are very grateful for that. This is a public hearing for the purposes of the Committee producing a report to Parliament and the proceedings are being recorded by Hansard. A formal record will be produced in the next couple of weeks and we will circulate that to you so that you can correct anything that needs alteration. We will use that extensively for our report which will be tabled before the end of the year. Your comments today are being recorded and are covered by parliamentary privilege, but that privilege does not extend beyond this room so if there is anything you need to say that is fairly contentious, please be mindful of that. We should also record for Members here that Ruth Frenzel, who was listed to appear, is an apology.

Tim, we will give you the chance to speak to your presentation — I think you have supplemented that with a handout — and then we will ask questions.

Mr JOHNSON — Thank you for the opportunity to come and speak to your committee. Firstly, I would like to apologise for Mike Becker, the President of Thoroughbred Breeders Victoria, who is overseas at the moment and unable to attend.

As you mentioned, we supplied a submission in April and that is pretty much what we are here to talk about today. Naturally, once you get submissions put together discussions happen and things keep evolving; so nothing is ever static, particularly in the breeding industry. I have highlighted some of the issues we would like to bring to your attention. One of the strengths of this state and one of its key features in the breeding industry is the smaller owner-breeder participant who might have one or two broodmares and breeds mares to local stallions on the whole and then either races his offspring by himself or, generally, with a syndicate or contacts through trainers, etcetera. Some sell, others sell every second year and some breed every second year because of the financial impost on them. It is very much a hobby-type environment for the majority of mare owners.

Obviously, at the other end we have the commercial spectrum of big farms standing stallions and owning mares. A large proportion of breeders in this state have private properties where they house their own mares and are not necessarily interested in standing stallions. That way they are free to choose whatever stallions they feel best for compatibility to breed that champion racehorse or to maximise commercial return in the sales. So we have a wide spectrum of breeder profiles.

What we have identified — and perhaps that is why your committee has been formed — as to the profile of the breeding industry in this state is that whilst those in the industry are fully aware of the strength underlying it, at the top end the commerciality does not appear to have the highlights that people see — the Hunter Valley in particular. We tend to compare ourselves to the Hunter Valley because that appears to be the pinnacle. It is where the leading stallions stand and it was never more evident than when Encosta de Lago, the state's leading stallion, was relocated there.

Moving on from that, obviously stallion retention and procurement is, we think, vitally important. With respect to stallion strength, whilst we have many participants in the industry we do not necessarily have the stallions that give us the profile in the national and international industry making people think of Victoria as the home of the thoroughbred in this country. That is not to say it has always been that way. Historically, Victoria did have leading stallions in number and mass. Some time ago — back in the 1930s and 1940s, I believe — we were very much to the fore with our stallion strength. But over time that has ebbed and flowed and Century and Showdown are our last two national leading stallions if you go by prize money. Things have changed and New South Wales has kicked ahead for differing reasons which are largely historical. Star Kingdom stood there in the late 1950s and became an instant success. The winners of the first five Golden Slippers were all by Star Kingdom horses. What you find is that if you can get your stallion strength up, the long-term benefits can be absolutely enormous.

Other sequences of events have been taxation investment-driven strategies by individuals emanating out of Sydney. A lot of tax money was put into the breeding industry and this generated huge investment in properties, broodmares and stallions. That infrastructure has remained to this day, even though the participants who were there to take advantage of the taxation benefits are no longer, perhaps, availing themselves of those benefits. What has happened is that, I suppose, the infrastructure is there and success breeds success.

In this state we have gone along with a very sustainable industry, but without huge investment in properties, in historical terms. More recently — in the last five to seven years — we have had significant investment in largely

private broodmare farms as much as commercial stallion-standing farms. Consequently what has happened with the mares is that because of people wanting commercial success they have ventured elsewhere and there has been a leakage — which has been acknowledged in other submissions — to New South Wales. Super VOBIS did turn that around to a large degree when it was implemented and it was strengthened by going from VOBIS to Super VOBIS and has been a huge incentive to people to breed in this industry. That has certainly been a significant part of the State in recent times, but that is also perhaps losing its edge in that other states have similar schemes, and that certainly needs to be looked at.

With respect to overseas influences, there is stallion strength as I have mentioned. But the shuttle stallion has changed the whole lay of the land as far as how you go about getting stallions. Getting stallions to this country is now far easier as far as accessing them. The biggest problem there is that we tend to lease them so the money that the lease funds derive leave this country and go elsewhere, and the foreign entities that own the large stallion band have significant taxation advantages that this country does not offer. But that is a Federal or perhaps an international issue. Equity in stallions is the answer to that. If we owned Encosta de Lago here in Victoria, obviously someone can always make an offer and commercial practices might deem you to take the offer and sell him to wherever. If he was 100 per cent owned in Victoria, no doubt that horse would potentially still be here.

Part of the scenario for Victoria is to attract the stallions to stay here so the mares will stay here to be bred, but also that we have equity in those horses so that if and when they do become highly successful and are then able to generate huge sums of income, we have control over them. That is something that we all need to aspire to; the one advantage with horse flesh is the good stallion potential could be on our doorstep now and might be coming from a low base such as Encosta de Lago came from an \$8500 service fee in his first year. It is not all about straight dollar investment like you might have in other industries. You can have some luck and things will come Victoria's way, but we need the infrastructure, we need the investment to heighten our chances of reaping those benefits. Having a bit of luck is the best way to put it.

We touched on the Stud Book. That is a major issue to us at TBV and to breeders in Australia because we are a professional industry; we are a huge industry, breeding in this country and racing as we know it, and yet we do not have a marketing levy board like our cattlemen do, or our sheep industry or wool industry. We do not have anything there as a pinnacle that is able to fund initiatives that any industry should undertake to strengthen their industry and give local strength. That is something out of the control of the State Government here, but it is an issue that should always be looked at. Times change — and times have changed — and that is why that it should always be on the agenda that the Stud Book should become more purposeful and utilised as any other industry would use such a resource.

Obviously the most national idea of breeding in this country is our yearling sales system. There are sales held in virtually every state and centred at Easter in Sydney, the Gold Coast at different times of the year and here in Victoria we have our autumn period of time where we have two sales — the premier sale and the autumn sale, the secondary sale. William Inglis are our domestic agents. They purchased the business from Dalgety International who previously purchased that from Wright Stephenson who previously purchased that from my grandfather — but the money is long gone.

Once again, things evolve. It has not always been William Inglis as the selling agents in this state. We have had other minor sales companies that tried to capture a part of the market without success and, as it stands now, basically thoroughbreds are sold in this country under a duopoly system of William Inglis and Magic Millions, neither of which are based in Victoria as such — head offices are both elsewhere. One would argue naturally that their shareholders have different emphases and different priorities to one which was owned purely by a Victorian person or an industry or a company and that is the way it is. That is a commercial realisation.

What we need to do as a breeding organisation is to strengthen our sales to give us a healthy profile so that people feel that they can sell their product locally, which will thereby substantially reduce the costs and make it more profitable to give them more incentive to invest or at least stay in the industry. If we can lift our domestic sales, it can only be good. There is no easy answer to that, but certainly nothing stays the same in this industry or in the world as we know, so that is something to be looked at. If we are going to strengthen our sales we need to market ourselves nationally and internationally. In developing our international markets — ours is a mature market in Australia — there are obviously always new frontiers out in the world when it comes to racing and gambling, as we know, particularly South-East Asia is the obvious one at the moment in all sorts of different parts, so we need to have control of that. In the Victorian industry historically we have relied on our selling agents perhaps or individual

breeders and maybe we should get our industry as a whole through vehicles such as TBV to really look at and address that situation. We should tap into our strengths in this state which is our racing; it is not disputed how strong racing in Victoria is. We can feed off the back of that — things do not happen overnight — utilise our strengths, and obviously that is one of our major strengths, and tap into that more and work hand in hand with RVL which we do at the moment. There is certainly room for improvement and growth in that area.

Getting back to the horse itself and international best practice, live foal rates are an issue: if you are going to breed a horse, you want a foal — simple as that. So if we can increase the number of live foals on the ground that ultimately gives the broodmare owner the reason why he is in it and also produce racehorses for the track to benefit our racing and wagering and whatever to make the whole industry stronger. We have tabled live foal fertility rates in our submission. Individuals do achieve world best practice on that score. What you tend to find, as I mentioned earlier, is that a large component is a hobby-type breeder and being a hobby, by definition, they are not as professional as the bigger operations that are able to have the volume, the very best veterinary practice and the best trained staff etcetera. That is something we can improve, largely through education, and as an industry once again a vehicle such as ours should be out there able to address these issues, but the way we are currently structured with funding we just do not have the resources to do that; we are certainly always endeavouring to.

We can supply an educational service to all participants and future participants because this industry does have a reasonably high turnover. People who start to breed horses find out that it is not for them through either bad luck, or their life situation changing, but we do get new people who come in for the glory, for the love of the horse, and we need to tap into those people early and educate them to try and get the very best practice as opposed to other countries where people who breed horses are often the socially well off. In this country with racing horses and breeding you can have extremely wealthy people breeding horses and you can also have anyone on a finite wage having a love of a horse and breeding. That is something we have to look after and make sure those people still participate in it because it is an experience that can often give them great interest for many years and keep them occupied.

Employment and investment issues change from time to time. The reintroduction of the Pastoral Industry Award has certainly been addressed. I think you are aware that we held a seminar which was well attended and greeted positively. People are aware of what today's obligations are and these might change in the near future. We see it as our role to try and keep abreast of those things, but also passing that information on to our members and other people in the industry who are not necessarily our financial members.

OH&S is obviously a major issue and there has been WorkSafe meetings and seminars held recently and we have tried to disseminate that information out to our members so that they can attend. I know certain members have attended and got packs there. I am sure they have not read the whole depth of them yet, but that will happen.

Education and career paths, as the industry has got larger, have come into far greater focus in Victoria. Historically, not that long ago, it was deemed you had to go to New South Wales or overseas to get a real experience of working on a horse farm. That has definitely changed and there are people who are educated in our TAFE systems now who are attaining jobs straight out of school on local farms, working there, but also getting development there. It is something we can always improve and as the industry grows, obviously the number of positions grows and also the relative seniority of positions will improve. Because of the size of our industry in the past a lot of farms are small and owner-occupied and therefore there is not really a defined career path because of lack of management positions, but we are finding that a lot of the farms are now expanding and there are different roles with far greater emphasis on management and different skills, so you do not necessarily have to go to a Hunter Valley farm that employs 50 or 60 people to get those skills.

Mr ANDREWS — It should also be noted that Thoroughbred Breeders Victoria supplies financial scholarships to all the major TAFE colleges that carry out these educational courses with regard to the breeding industry.

Mr JOHNSON — That is something we do take very seriously and, once again, resources limit how far we go with that, but as an employer myself, I know the standard has improved significantly and will continue to improve. Some of the courses available to the students are excellent. Sometimes the biggest problem we find is marrying that course with the right individual to go into it because of the different philosophies. Once you become a worker in the thoroughbred breeding industry it is very different from going out and saddling your pony and riding it. The emotive issues are not nearly as obvious when you are out there feeding in the rain.

What we do find in Victoria is our input costs are lower than in New South Wales. Land values are cheaper; the cost of raw material such as feed and fodder is lower, we tend to find; and the nature of our state in proximity to Melbourne means accessibility is far greater. We do have significant input cost benefits in this state that we need to market more and show to potential investors that a horse can run just as fast by being bred in Victoria as it can in New South Wales and the benefit of that view can save some money by doing it here.

Then we touch on branding. I know the North East Thoroughbred Industry Alliance put in a submission on that, and it is a new initiative in the north-east which can only be good in that we work harder in the marketing position. We support their endeavours and certainly want to market the thoroughbred product — full stop — for all our breeders. If every region had its own North-East Alliance as such it could only be good for everyone, but we need to work harder at marketing ourselves. There are no short cuts to that. It takes time and resources and a constant effort rather than a haphazard ‘Today we will go and see so-and-so’, and expect them to turn up and come and buy horses from us just because we have a sale next week. That is a strategy that has been very successful in WA where they have had people initiated through their sales company over there regularly calling on ports such as Malaysia and Singapore — on a regular basis, not ad hoc.

I have touched on education briefly. Domestic employees are already in our state’s education system. We see potential for growth in educating foreign students from our developing neighbours. Horse skills do not happen overnight, particularly for our Asian neighbours that have not been brought up with horses. It is certainly not second nature to them to go out and put a bridle on a horse or a head collar and lead it into a barn.

If we can work hand-in-hand with these markets, bringing students to Victoria to be educated who then return to these developing countries, not necessarily for breeding but for racing, then we feel that if we give them a rounded education and a fulfilling one, the spin-offs would lead to their having an affinity with Victoria and hopefully that region of their country aligning itself with us, knowing that is where to get the product, utilising our skills, whether at RVL or TBV. That can lead either to investment directly here, if it is not feasible in their country because of land values, climate or whatever, so they see Victoria as the place for them to invest to produce a product for their market, or we just supply their market with our product and learn what the product is that they want and cater to their needs. But that comes with confidence and a mature affinity with such areas.

Regarding veterinary support, currently Melbourne University is undertaking a restructuring building program to make sure that all our vets trained here in Victoria have the highest rating level in the world. Obviously the higher dollar value stock you have, the greater the need for professional veterinary care, and that is happening. We certainly support those efforts and we are fortunate to have expert vets, particularly in the north-east.

The committee that the Parliament has formed to look into our industry has brought RVL and the breeders closer together and obviously got minds thinking. It got us active and discussing all sorts of things and that can only be good. But as I have said before, TBV as the industry body as such is very limited in funds. We are self-funded, and I have listed where we get most of our money from, but basically it goes out. We do spend a lot of time worrying about fundraising and also how we can conservatively expend the money. We are limited in how much we can go out and drive the industry.

One issue which I think RVL touched on that we see the State Government can impact directly on is the issue of stamp duty on insurance premiums. Elvstroem is a classic example of how the amount of money that is represented by one horse, one investment in this state, whilst hugely significant in its dollar value, has direct benefits to the state in dollar terms without worrying about the fact of how much money is going to be generated by Blue Gum Farm that stands him and everything else.

Another breeder who is a large breeder and new to this state has indicated its annual premium in insurance is \$600,000 alone, thereby generating \$66,000 for this state. So perhaps that is a hidden benefit that Treasury have kept hidden, I do not know.

The CHAIR — Thank you for throwing some light on it. We will now go back and ask some questions.

Mr JOHNSON — I hope I have touched on most of the issues.

The CHAIR — Thank you very much. You touched on marketing, and I want to start the questioning with one about marketing. I accept there is a lot more we could do with marketing than what we do in Victoria. I want to give three examples and seek an opinion from you.

One, in your submission you touch on it in Appendix 1, stallions in Victoria 2004, with service fees of over \$5000. I looked through that list, and one horse that stands out is Umatilla from the point of view that the service fee of \$6600 results in an average sales price of over \$30,000. It seems to me that one of the ways of highlighting the value argument would be an informal indicator like the stock market, which has the price earnings (PE) ratio, and every commentator will talk about the PE of this and the PE of that, and it is used to determine good value. I would not think there would be too many stallions standing anywhere in Australia that would have an average sales figure to service fee ratio of about four and a half to one or more. I think that is quite acceptable. If you apply that to Redoute's Choice, you would have to be selling progeny at \$1 million each, and that is not going to happen. I wonder in fact whether we could do more on that side of things.

Secondly, when we were in Ireland, the Irish breeders asked us why was it that the Australian breeders were not represented at the last international conference in South America, and we all looked at each other sheepishly and said, 'We have no idea, but we will ask them', but I understand it is simply a question of resourcing?

Mr ANDREWS — I do not think we were even informed that the conference was going on.

The CHAIR — That is probably a very good reason then, but obviously if we are not being represented nationally or even at a state level at these international conferences, then our capacity to sell the good story or good message is diminished. Thirdly, as to export sales, it surprises me that in the state of Victoria we do not seem to have a program of active support for the breeding industry in export sales, yet the figures will show that we sell 100 to 200 horses a year at least to overseas markets, but all that seems to happen informally, and yet if the government department was called upon to offer some support, that effort could probably be enhanced.

So I see just three examples of where we could do better. But one of the problems would appear to be the way in which the industry resources itself to enable it to be able to do more either alone or in conjunction with government. Apart from VOBIS, with the yearly nomination fee which generates a return, and apart from your own resources, which are the membership fees paid by many members, which allows you to do a little bit, we do not seem to have any self-funding mechanisms. In Ireland they have a levy on horse sales, and they use that. I think it is about 1 per cent, from memory.

A third of that goes into marketing, a third goes into clinical and veterinary support, and a third might go into training, administration or whatever. Is that a viable source of funding, a better marketing effort in Victoria in years to come, possibly in conjunction with things the government does separately or funds separately, because it seems to me we have to answer this question: how are we going to better resource ourselves to do the marketing effort?

Mr JOHNSON — The biggest problem we have within this country, in this industry as we do with most industries, is the state system, obviously, and when it comes to a levy, we do have a sales levy, optional, of half a per cent, that William Inglis kindly enables us to collect, but the person has to tick the box to say, 'Yes, William Inglis and Son are able to deduct that half a percentage from my sales levy'. Now, the problem is that, because the catalogue itself is made up of a large percentage of New South Wales, South Australian and Queensland horses, if they do tick the box, where does that money go?

Mr ANDREWS — It will come to us, but obviously being an interstate operation, they do not particularly feel obliged to contribute towards the state associations, such as TVB, so we are heavily reliant on the generosity of the Victorian vendors ticking the box, which a lot of them do, and of the money raised from that — for example, this year I think we will receive just under \$40,000 in sales levies from the Melbourne premier 1, premier 2, and autumn sales — basically we raise that money on the proviso that it will obviously be spent on the marketing of that sale, and we pay travel rebates to interstate buyers.

We fund a part of their accommodation and air fare to encourage them to come to the sales, but obviously that can only be a fairly small figure, so there is only so far that that dollar can be driven. Obviously if it was compulsory for anyone that was going to come to a Victorian sale that they had to tick the box, then that figure could be almost multiplied.

Mr JOHNSON — It would be substantial.

Mr ANDREWS — By anywhere between 5 to 10. So unfortunately the way it is structured, we are basically reliant, like a lot of other things like our tender scheme and membership, on the generosity of the breeders as it stands.

Mr JOHNSON — But our argument would be that the Stud Book is the vehicle that is in place. The mechanism is there. It is just that because it is owned by parties other than the breeding industry, they do not see the need for it. The proceeds of the Stud Book go to the proprietors of the Stud Book, which historically have been substantial, bearing in mind the financials of the Stud Book are closed and for anyone to look at them, they are sworn to secrecy that they will not reveal the contents. But if you look at your VRC annual report, I have done a bit of homework and have a fair idea of what the Stud Book is earning every year, because they do not capitalise it as such.

The CHAIR — Give us a wild guess.

Mr JOHNSON — I think the balance for the VRC currently is about \$375,000 or \$325,000.

The CHAIR — So that is its accrued worth?

Mr JOHNSON — It will be cash sitting in the bank because, I understand, of their accounting procedures which I investigated two years ago.

The CHAIR — And that is their half?

Mr JOHNSON — That is their half.

The CHAIR — What would that generate per annum, do you think, currently?

Mr JOHNSON — That was last year's profit.

The CHAIR — So that is an annual — —

Mr JOHNSON — That was an annual. The Stud Book is now far more — and I do believe them — in the market of just trying to not exceed; they are non-profit. They are deemed as non-profit.

Mr ANDREWS — They are not supposed to be a commercial entity.

Mr JOHNSON — They are not a commercial entity as such, but some years ago they handed out many millions of dollars to the two stud proprietors under previous management. If that money had gone back to the breeders who were the contributors like it would in any other industry, you would find breeders would have got the benefit of it. But in this case the VRC got the benefit, not even Moonee Valley or the other race clubs, and they do not get the benefit of it today, but I am not saying they are ripping the system off. What I am saying is that the Stud Book is there. It could be like the Irish Levy Board, and utilise it and become an industry body to do this.

The CHAIR — In other countries how is the Stud Book — —

Mr JOHNSON — It varies. It is the Jockey Club in America. If you are rich and famous, you become a member of the Jockey Club and you can control it through historical breeders, the breeders of many years, generations even, of membership. Japan has the Department of Agriculture, and it is Weatherbys in England and Ireland, a private company that also has a bank, insurance and travel industries. It is like BHP owning the Stud Book.

Mr ANDREWS — In relation to your comment about international representation, we can probably use an example of the president of our Thoroughbred Breeders Australia Association, who in any one year will contribute up to \$20,000 of his own money to travel interstate and internationally to be represented at these sorts of functions and conferences, so they also have similar sorts of problems as we have with raising money.

I am sure that if anybody else had been doing the job other than the current president, we probably would not have representation at all, but certainly with regard to the South American conference that was on, I know that even some of the major studs in Victoria had no idea it was on, and we certainly had no promotional advertisements or fliers forwarded to us at any stage, so that is one of the problems.

Mr JOHNSON — It is an honorary position.

Mr ANDREWS — Yes.

Mr DELAHUNTY — Can I just ask a question in relation to the Stud Book? I notice in your submission you said it is currently endeavoured to ensure fees are kept as low as possible. The Stud Book has a role to play in relation to the role it does play, obviously, but you are wanting to extend that into marketing and other opportunities; is that what I am reading from you?

Mr JOHNSON — Philosophically, they are putting on the right hat, perhaps, that we keep the costs as low as possible so that we keep our participants in the industry, but the reality is the costs of your Stud Book fees are so low relative to every other facet of the industry. Your mares are returned for \$40 and then you get your blood typing and your DNA for an extra \$100 or \$80, or whatever it is. It is so minimal, bearing in mind the fact that to do all the things they want you to do to get your foal into the Stud Book — your vet has to come and do it, and he is charging \$50 or \$60 to do one procedure, and then another \$50 or \$60 to do another. Just one veterinary procedure in the breeding season costs \$40 or \$50 so the privilege of owning a broodmare at \$120 is so small now. It is not the thing that will stop people wanting to breed horses. People use it as an excuse. We all say, 'You cannot put the fee up' but the reality is that a bag of chaff now costs \$20 and a bale of hay is \$8, \$9 or \$10.

Mr DELAHUNTY — Just to get to my point, do you want the Stud Book to do more than it actually does; in other words to go into other fields where fees should be charged for marketing or research or whatever it may be?

Mr RIELLEY — We could probably use it as a tool to collect money for an industry-funded scheme for promotion and those sorts of things. In fact, we have already been trying to do that. But it has to be a national scheme because it has flatly refused to collect that sort of money for any single state.

Mr JOHNSON — And again this national thing is the biggest problem. If it is going to be implemented it has to go to all the states. To get the five states to agree on how it is then dispersed is perhaps another nightmare and that is why to be proactive in this state we have forgotten about that issue. It is something that should always be there but in the meantime we cannot wait for it.

Mr PULLEN — Just following up on the Stud Book, earlier today we got the impression that really it is a lost cause to try and get anyone else to take it over.

Mr JOHNSON — Nothing is ever a lost cause because the AJC and the VRC are made up of individuals, and if those committees went back to their historical position of the breeders being the committee members, then we could change it — or if you had like-minded people on those committees.

Mr PULLEN — Page 13 of the submission states that:

A concerted marketing campaign and promotional data to highlight the potential of investment in bloodstock and property is seen as vital to ignite an interest in the industry. This could be a joint promotion between government, RVL and TBV, again based on the strength of the Victorian racing industry'.

Do you have any ideas on how that would come about?

Mr JOHNSON — Really it is just up for discussion. Basically we would need to get a marketing strategy in place and then work out who would be best. TBV is Thoroughbred Breeders Victoria and our members are breeders: we represent breeders. RVL obviously represents the stakeholders, of which we are one, but most of those stakeholders are more racing oriented. I see TBV largely as being at the forefront but against that tying in with the racing strengths and tourism. We would certainly want all three parties involved.

Mr ANDREWS — One of the fastest ways to create a marketing role for the Victorian breeding industry would be to create a DVD, in conjunction with Racing Victoria Limited, that highlights the areas of the state with regard to the properties, the horses and the racing here, just an overview of the state, which I am sure is done in the grain industry and other industries. That could be distributed through the international trade offices that the Victorian government has around the world.

In particular, when one of our committee is going overseas on business or pleasure they could drop into a local racing authority or breeding authority and leave a number of DVDs so we at least have some sort of presence in those countries around the world. At present we have no representation. Whether it is a poster or a DVD that could be distributed it would certainly put us some way to having a marketing presence, but again that comes back to finance.

Mr PULLEN — At the bottom of page 8 you mention the commission rates of 8 per cent and 10 per cent respectively and say that:

Australia has the highest selling commission of the major breeding companies ... No accountability is given for these costings other than advertising cataloguing expenses.

My understanding is that those sorts of rates are what are generally applied across the auctioneering industry in Australia. Have you any comment comparing it to overseas and other auction houses within Australia?

Mr JOHNSON — Tattersalls and the like are 5 per cent or 6 per cent in England and Ireland. Other industries certainly do not exist with such fee structures, for example, real estate and cattle. The producers are not paying that sort of commission when there is an auction system. It is an historical thing that people charged it and got away with it, but the businesses that are charging it are profit-making organisations, and they charge what the market will bear. But that does not necessarily mean it is right. As we know with other industries, when competition arrives fee structures change dramatically.

Mr PULLEN — Mainly I understand that with real estate, but I thought that was the sort of rates that auction houses charge on motor vehicles or whatever they sell. Have you taken it up with Inglis and the other people?

Mr JOHNSON — No. I think it has been raised from time to time in the past. Other incentives have been given. It reduces on a sliding scale when you get to a certain point to give incentives to broodmare owners to select that sale over another sale, so it is somewhat dynamic. Magic Millions say that it is 10 per cent because it puts the 2 per cent extra directly into marketing. I do not know how it accounts for that to its vendors except that people can see that it spends lots of money on marketing.

Mr ANDREWS — Given that Inglis and Magic Millions are profit-making companies, I think it probably relates more to a branding issue with regard to, for example, hypothetically if there was a Victorian sales company that could charge a lower commission fee to encourage home-bred horses to be sold through their own sale. So, for example, if TBV owned that sales company, we would be working in a not-for-profit situation but we could pass that money back through to the marketing and promotion of the local product.

The CHAIR — I want to ask you a question about this as breeders representing an organisation made up of many hobbyists who breed to sell. A lot of the hobby breeders would breed to own and race, and some would just breed to sell; some would do both. I think it was either Colingrove or Chatswood who made a submission to us saying that many sellers of horses take a loss at the sales. They drew up the statistics using the median price of the Victorian sales where a horse was selling at \$19,000. They said that on the median sales figure there were some \$10 500 of sales-related costs and the net figure was a loss of \$5000.

It was put in such a way that made me think that it is happening time and again. Year after year, a half or more of our breeders are selling horses at a loss through the sales. If that is an experience that is happening over and again I wonder why we have not necessarily seen the emergence of alternative forms of sales? Why for example, and excuse my naiveté in this, do we not see breeders selling off the farm and avoiding the sales, if we know that half of what will be offered this year will result in a loss on those figures to the breeder?

I think down in the Western District they tend to sell a lot as weanlings. A lot of their customer base is farmers so they sell straight back to the farmers rather than bringing their produce up to Melbourne to sell. I would be interested in getting your perspective on this because I am interested in exploring the alternative sales mechanisms as a means of combating what people feel are the limited opportunities of the one sales company in Melbourne. I understand there might not be one perspective here, there might be a whole series of them.

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

Mr ANDREWS — The other problem is, obviously, without an ASIC-credited dealer's licence if you would like to sell a horse and you have already sold too many to friends and family and you need to go outside the realms of that — even if you want to put up an ad at a local football club or in a milk bar or in the *Winning Post* newspaper for example — without a dealer's licence you simply cannot do that. There are obviously only so many horses you can sell to your friends and family before the well dries up.

The CHAIR — Although that is more of a recent problem, isn't it, than one that was around 10 years ago?

Mr JOHNSON — Yes. There have always been private sales. There are some breeders — less now than there used to be — that would have private sales on their farm and just do it all themselves.

The CHAIR — And do not necessarily advertise that fact to the world; they have a clientele.

Mr JOHNSON — Some have, historically. Some have done the full promotion, the full thing themselves and had a private sale and there is no commission because it is their sale. The strategy there, of course, is that to get the repeat business you have to provide the winners, and just on the pure statistics of our horses there are going to be more losers than winners at a certain level.

But the reality is that the private sales are usually good to a point, in dollar value. After that it becomes very hard to define what a horse is worth in the market and that is where the auction system has always been a strong, preferred system because it determines the price. It is not like other assets where you can get a valuer in easily who can just say, because it has four wheels and two headlights, that that is its worth.

With us there is the fashionability of the stallion at the time, the mare's pedigree, the conformation, the colour, whatever — the sex. There is variation in sex values of progeny by a stallion, whether it is a colt or a filly. The auction system has always been the traditional place once you get into the so-called commercial market because valuing them is very hard.

Against that, a good number are sold privately and probably the higher-priced private sale is when someone has raced a particular horse with success and then they seek out the breeder who has the full brother. They will then come to an arrangement and that might involve a substantial sum.

Ms BOLING — There is also pinhooking which is where someone comes in and buys a weanling off the farm and takes it to the yearling sales in the hope that it is going to grow up really well and they are going to make a good profit out of it. There is a degree of that market as well.

The CHAIR — Do you think that is becoming more common?

Ms BOLING — I think so — in Australia. It is an art form. It is risky.

Mr JOHNSON — It is risky. Generally, the ones that do well with it look at many horses to buy a few.

The CHAIR — Is this one of the challenges for TBV and for hobby breeders — someone decides they want to develop the interest to the point of going into the business? Do hobby breeders have enough sources of information to advise them on what the options are in trying to sell horses, or is this something where people typically have to learn the hard way?

Mr JOHNSON — That tends to be what happens. A lot of the hobby breeders come into it. There is the scenario where you race a mare and decide to breed from it because of the sentimental attachment, or she should have won 10 but was unlucky in 6, so, 'We are going to breed from it'. By the time you have one old enough to go to the racetrack you have probably got two more foals on the ground. Your intention to start with might have been to race the progeny but then you find out that you cannot afford to keep four units now - the mare plus three foals - so you have to sell something. All of a sudden you have gone from not being a commercial breeder to being a commercial breeder because of necessity.

Mr RIELLY — There are a lot of hobby breeders who are affiliated with bigger farms anyway and they use that farm's expertise to market and sell on behalf of or on account of and that sort of thing, so it is not as if there are literally thousands of 1-acre blocks with one owner and a mare sitting on them.

Mr ANDREWS — I certainly receive phone calls from the hobbyists we are talking about here asking, ‘What should I do with this horse? Should I sell it?’ and whatnot. I obviously say, ‘I think it would be a good idea to sell here’. But it is then up to the selling agent to decide which of their five or six sales around the country they think that horse is appropriately going to be sold through. We can only advise them to a point.

The CHAIR — Just before lunch Martin O’Connor gave us an overview of the tax laws, and there is some complexity with those. I imagine that a lot of your members are hobbyists who might develop into business operatives. Are the tax arrangements and the apparent inconsistency of rulings something that members raise regularly as a problem?

Mr JOHNSON — They have not lately, have they?

Mr ANDREWS — No, not really, but they are probably not going to complain to us.

Mr JOHNSON — What tends to happen is that of course with all taxation issues, until they are picked up they go down the path they go down. Because their accountants are not au fait with breeding — they have their other business or they are an accountant who has never had a client before who has raced a horse and they look up a book — they are not getting professional advice on a complex issue. So until the tax commissioner knocks on his door and says he has been claiming all these expenses — and from my experience of our clients, once they get a broodmare and it is going to breed that next good horse, they like the deductions.

Mr ANDREWS — As Martin alluded to as well, a lot of them that are probably going to be caught out in the current audit that is being conducted by the Tax Office are working on historical information that was supplied to them 10 years ago when they tried to register their business and were told that they were a hobby operation. They have obviously had success in between that they have not declared on their tax returns, and have now become a business. I would be guessing that a few of them are going to get caught out, but probably not because of trying to be secretive about their operations, but more because they were just working on information that was given to them by the Tax Office previously.

Mr JOHNSON — There is a lot of naiveté too.

Mr ANDREWS — We are currently publishing a booklet in conjunction with Martin O’Connor and Partners. We have had Volume 1 and we are now doing Volume 2 of a booklet called *Tax Tips*. We are also doing Volume 1 of a business tips guide. It sells for \$12.50 and it just tries to outline a lot of the misconceptions people may have about this. Obviously they do not want to pay a large amount of money to get advice from an official accounting firm, and it is part of our process to try to provide information for members at a low cost to help them with their operations.

Mr DELAHUNTY — Going back to the start again, in relation the funding of your organisation, you said one of your income streams is subscriptions. Is there one set fee or do you have categories for those so-called hobbyists as against so-called professionals? How do you structure that?

Mr ANDREWS — It is a one-off payment whether you have 1 mare or 100 mares. It is \$132 a year including GST. It runs from 1 July to 30 June, the tax year. There is no sliding scale for participants with any number of mares.

Mr DELAHUNTY — Do you have an estimate of how many breeders are members of your association, percentage-wise?

Mr ANDREWS — In any given year, the definition of a registered breeder is someone who has returned a broodmare return in the previous year. That runs anywhere between 2500 to 3000 registered breeders per year, of which 400 to 500 will be members of our association. A lot of them do not want to become members for historical reasons. They may have had problems with committees or in other areas that are out of our control now. We certainly try to provide as many membership benefits as we can with that subscription to encourage people, such as discounts on transport and feed and other publications that might be of interest. We certainly go back to them every year to try to encourage them to become members but, as they say, you can lead a horse to water but you cannot make it drink.

Mr DELAHUNTY — What do you market as the benefits of being involved with your association?

Mr ANDREWS — The list of benefits includes an annual copy of the stallions magazine, which retails at \$120. To become a member of the TBV, if you had no other subscription to the *Australian Bloodhorse Review*, you get your money back straight away through that copy, which is a very popular book. We then have a 10 per cent discount on livestock transport, so any of our TBV members who are sending horses to sales or to their stallions around the state or interstate get a 10 per cent discount, which is not offered to anyone who is not a member. We have deals with the Australian Trainers Association supplies shop which provides a 5 per cent discount on feed and other equipment that may be required on the properties. We have deals with publications such as *Thoroughbred Express*, which provides a weekly copy of its breeding supplement which can only be purchased through newsagencies with a form guide. We have free access to four or five major metropolitan race meetings. We have discounts to country race clubs and the list is ever growing, and we obviously continue to grow it to encourage people to become members.

Mr DELAHUNTY — It sounds good value to me.

Mr ANDREWS — It certainly is. For \$11 a month, you certainly get that back and more, but for some reason some people do not want to become members.

Mr DELAHUNTY — That is really good information. This morning we focused particularly on looking at the higher end of the breeding industry, and during our discussions this morning I really think we might have missed the boat in relation to the so-called hobby breeder. That is a very important part of the Victorian breeding industry. Do we need to treat them separately because we are keen to keep the premium stallions in Victoria and those types of things? We are also keen to keep the hobby ones that probably do not use the premium stallions. Do you have any comment in relation particularly to the hobby breeders and how we can help grow that industry for the sake of Victoria?

Mr JOHNSON — In our submission we put a table of commercial studs in New South Wales, Victoria and Queensland.

Mr DELAHUNTY — You did and it stayed fairly static, except the other states have gone down.

Mr JOHNSON — The other states have gone down and that is what I am trying to highlight. The benefit of having a highly commercial industry is that your hobby breeder can get lost if things get out of control. The interesting thing is that in 1984 in New South Wales — and the way we did this was by going through the industry stallion register or stallions book as such — 84 individual studs were advertised. That was down to 56 in 1995, of which 13 of those original 84 were still in place. That was an 11-year period and we had a huge drop-off in number and an even greater change. By 2004, another nine years later, we are down to only 8 of the original 84, so 10 per cent over a 20-year period, and when you bear in mind the investment in a horse stud and the time it takes to develop a broodmare — you are down to 8 of that and we are at 35 in number, but only 8 original ones — the attrition rate is enormous. In Victoria we have gone from 28 — percentage-wise, you can see we are much stronger in our attrition rate.

Perhaps we are stronger in our attrition rate because we have not had the Darleys or Coolmores come in and dominate the market. Thereby people are encouraged to buy a property, put a stallion on it and then promote themselves and their business. That in itself cannot be a bad thing. But against that, because we do not have that strength and the concentration of stallions on these bigger farms, we do not have the buying power in one place. We spread our resources and we are all out there marketing. We are spending more money marketing ourselves, whereas the big farms have so many stallions if you divide their marketing budget by the 10 or 20 stallions they stand — A, because the average service fee is much higher, and B, they have a lot more stallions — they can spread that far better than us having one or two stallions on our farms. It is a catch-22; it is great to have participation but it does not necessarily mean that your industry is stronger at the commercial level. But I think you will find that the owner-breeder is getting the benefit of that today.

Mr ANDREWS — Yes, and I think one of the biggest tools we have to retain hobby breeders and encourage hobby breeders is obviously Super VOBIS. Over the last 18 months one of the key factors that Super VOBIS has found with the drop in numbers with regard to the category A nominations — that is, foals by Victorian stallions — is the number of mares that go to stallions standing under \$5000, and the drop in numbers there can be attributed to the drought — for example, the extra feed and water obviously has had a catastrophic effect on those smaller breeders. Some of the incentives that Super VOBIS has put in over the last 12 months have included the

introduction of the summer series where a number of bonuses were increased over a number of race meetings. Yesterday at Ballarat we had the Ballarat Super VOBIS day where all races held bonuses, and I think 7 of the 8 races actually went off with Super VOBIS bonuses. That really gives the opportunity for a small breeder-hobbyist to see that they are getting something that they were not getting before and can encourage them to send that mare every year to a stallion under \$5000, rather than every two years, which not only supports the smaller market of the stallions in the state but also increases the racing numbers over the following years with regard to race sizes and obviously those horses competing for prize money. With the development of Super VOBIS recently and I am sure in the near future, the hobby breeder will certainly come back into play.

Mr JOHNSON — They are two different categories.

Mr DELAHUNTY — Reading Emma's profile, I note she has only got a couple of mares. Is Victoria servicing you well in relation to the opportunity for racing, firstly, and secondly, as owners — I suppose owners and racing go hand in glove — but also selling centres to service your needs? Are we meeting those requirements?

Ms BOLING — I basically have been predominantly breeding at the commercial end of the market and not at the hobby end of the market. It is a different experience, definitely. I think for the hobbyists there is certainly the requirement for more information, but again it is a catch-22. If they became members of our organisation they would be supplied with a lot of information and would be able to request information as they required it. I concur that there is definitely a disparity between the hobbyist and the commercial breeders.

Mr ANDREWS — Given that I am the only one in the office taking these phone calls from these sorts of people you are talking about, we certainly do not ask them before we answer their questions if they are a member of the association. For a lot of these people we are giving them the same service as our members, but we do not just want to throw them to the wolves. As much as we encourage them to become a member, again they decide for whatever reason whether they do or they do not. Through our office, as small as it is, we certainly have the ability to service these people. Again I would just put it back to the fact that Super VOBIS is really the tool that does service them more than anything else because they do get an ongoing payment should their horse become successful, whereas in other states that ability is certainly limited.

The CHAIR — I want to ask you about the leakage of service fees interstate. You have produced a really good table in your submission. We estimate that \$22 million approximately goes into the Hunter Valley. I imagine there is a little bit of reverse leakage from southern New South Wales into Victoria, but let us assume that the figure runs to around \$20 million a year. What can we do to address that in the short term? I mean longer term we would probably need better stallions here. What can we do in the short term?

Mr ANDREWS — Probably the biggest problem in particular, as you saw in 2004, was the 738 mares leaving the state. If you have a look at the number of Victorian mares served by Darley in 2003, it was 35; in 2004 that increased to 143. Given that they have a marketing budget and are not necessarily running a stud for massive profits, they can offer service fees and deals on their services to stallions that Victorian studs certainly cannot offer.

Given the recent economic crises that have been experienced by, in particular, small breeders with drought and what not, if you can get free transport to a stallion standing in New South Wales, then it does not really matter that it was not standing in Victoria. If you can then be offered a service fee payment where you are basically waiting for the foal to be born before you need to pay for that service fee, then you obviously know that your expense is going to be incurred possibly three to five months after it possibly would have been in Victoria. There are other deals that they could possibly offer — and I am sure Tim could probably explain it a bit better as an owner of a Victorian stud with stallions standing on it — that the Victorian studs simply cannot compete with in the short term. Whilst those horses may not necessarily sell well down the track, for whatever reason, it certainly puts them at an advantage to be able to encourage the smaller breeders to send their mares up to the Hunter Valley.

Mr JOHNSON — There are huge incentives in the marketing budgets. In certain cases, particularly with the Darleys, it is not the primary source of income for the principals of that business: it is as simple as that. Whereas it is the primary source of income for every Victorian stud. Their income is from horse flesh, so to compete you subsidise it — you have investors that are happy to subsidise those things, and to have foreign investment, like every industry, is fantastic. At the end of the day they are investing here for whatever motive, but it is not a level playing field because they are not paying the same tax that you or I are, so it is very hard to compete. But against

that there are people like Arrowfield, for instance, in the market, which has survived despite having to sell the property to Coolmore. Clearly if they were travelling that well, they would not have had to sell their property.

A champion stallion is one thing, but you have to have a farm to stand him on. It goes to show how these influences can really quickly impact on your business if you are investing in stallions. We are paying 30 per cent tax if we are profitable because we have a good stallion — when we are profitable with a champion stallion — and these other people in the same industry as us are paying no tax. Every time a stallion comes on the market, they are in a 30 per cent better-off position to bid on the horse, without going into the fact that they have another farm in the northern hemisphere where they can take it without having to pay fees to that farm to stand it. In an ideal world we would have our own Victorian farm in the northern hemisphere, as has happened in the trotting industry with Alabar; they have farms around the world. Unfortunately from an Australian taxpayers position, we would then be paying tax somewhere else.

Ms BOLING — Another key issue is that while we are breeding up north, taking all of our broodmares straight up the highway, it would have to be the perception that at the commercial end of the market to try to sell into the sales you actually need to go to a Hunter Valley or New South Wales stallion to get accepted into the sales. I think Richard has some statistics on our latest premier sale and the number of interstate stallions there.

Mr ANDREWS — I think this year's Melbourne premier sale was probably the best result of any Melbourne premier sale with regard to averages and all the rest of it, but from a Victorian point of view it had the lowest representation of Super VOBIS qualified yearlings in it, and 75 per cent of the stallions represented at that sale stand outside of Victoria.

Mr JOHNSON — That creates a major issue when people are trying to decide, 'I am going to send my broodmare somewhere; I want her progeny to get into the Melbourne premier sale or maybe the classic sale, or the Sydney yearling sale'. Who do you go to? You go to a stallion where you believe that progeny will be accepted into the sale.

The CHAIR — Graham Duff's view was fairly much the same this morning. I asked him whether an idea like a subsidy for transportation of broodmares to Victorian broodmare owners, or even offering it in southern New South Wales, would assist in redressing this leakage. He thought not. He thought the bigger temptation was that going to a stallion in New South Wales improved your chances markedly of getting into the Sydney sales.

Ms BOLING — And other sales.

Mr JOHNSON — And Victorian sales.

The CHAIR — Just on your point, though, about the autumn sale, I was looking at the stats in the catalogue for the premier sale, and even allowing for my relative ignorance on these matters, just looking at the 597 yearlings offered, by my stats only 52 were from black type winning dams, and of the 52 black type winning dams, only 17 it would appear had raced in Victoria. If you consider that it was probably 6 to 10 years since the dams had raced on average, perhaps one or two mares per year from our racing program are going to stud farms and producing progeny offered back for sale in Victoria. It seems to me — and I am relatively ignorant on these matters — to be a very low number. We lose some of those broodmares interstate. We seem to have a number coming in from interstate and from New Zealand in particular. I wonder whether there is more we need to do to both look after broodmare owners, but also to raise our broodmare stock.

Mr ANDREWS — I guess again it comes down to the two main trains of thought for selecting a stallion. If you look at the example of the Victorian mares leaving for the Hunter Valley, the two trains of thought would be that, one, you are going because you think it is commercially a better proposition for your broodmare to go there with regard to a major yearling sale. Now, whether or not that stud will allow that broodmare to go to the stallion that you want, given her race performance, is another thing. But the second main train of thought is that it is just a cheaper deal and a better deal to go to that stud because they do have a good marketing budget, and you are hoping that those stallions are going to perform down the track. But again it really is a perception that there may be a horse standing at \$10,000 in Victoria that may be producing just as good a result as a stallion standing at \$30,000 or \$40,000, say, at Darley, but because they can market that stallion better, they can produce a nice big glossy brochure, DVDs, CD-ROMs and all the rest of it, then the perception of that broodmare owner, whether or not they have a really good look into it or not, is that they believe they are going to a better stallion for their broodmare. Whilst that does not necessarily address all the issues about the best mares in Victoria leaving the state, it certainly

covers the early issues of whether or not somebody wants to go to a stallion because of the deal they are getting or because of the resultant progeny they are going to get from going to that stallion.

Mr RIELLY — Mr Chairman, were you concerned about the number of horses to black type horses represented in the sale? Was that your question?

The CHAIR — I just ran the comparison with what the Irish told us.

Mr RIELLY — I am presuming that 50 is correct on your — —

The CHAIR — It could be wrong.

Mr RIELLY — I presume that if a mare is a black type producing mare or is a black type winning mare, and is commercial, she would probably end up in one of our leading sales anyway, and that would be probably the Sydney Easter sale or on the Gold Coast, merely because that is probably where the owner is going to get the best value for that yearling out of that mare. Until we turn that around, there is going to be that smaller number of black type mares in that catalogue; that is all there is to it.

Ms BOLING — I think again there is a bit of a catch-22, though, and that is when you were referring to keeping the top broodmares or getting the top broodmares into the state, the strength of our stallion market is the concern. The stronger the stallion market is, the more likely broodmares are going to be brought into the state either by interstate owners who float them down themselves and go back the other way, or by the purchase of those broodmares into this state.

The CHAIR — I raised that point because the Irish said to us that their race program was a lot more attuned to the breeding industry. They seemed to be quite closely aligned and they claimed — I do not have the exact stats here — somewhere about 15 per cent of their races are black type races, so they are just producing more horses whose owners will be attracted to keeping them in stud in Ireland, or that overseas interests will seek to base some of their investment in Ireland. It made me think about what would happen if we started with a blank piece of paper and asked what, for the purpose of devising a Victorian breeding strategy, would be our objectives or our benchmarks. I am really intrigued as to what we would put down, because as much as many of us will go around and say we have the best racing in Victoria and we have a really good value for money breeding system, I do not know what the exact statements or dot points are where we would be able to go around the world and hold ourselves up, by any analysis, as being as good as what anyone else does.

For example, with the live birth rate I think Japan has 71 per cent and we are around 60 per cent. It seems to me that one of our objectives in a breeding industry strategy should be that we are up around 70 per cent, if we can get there. I am not sure what other measures we ought to apply. We have as an objective that net returns to owners ought to be raised to a certain level. Perhaps we ought to be concentrating on the gap between the average sales price in Victoria as opposed to the Sydney sales, or the number of horses we are breeding that are competing in the nation's group 1 races or have been placed in those races. It seems to me that we do need to devise a series of objectives and say that these are the benchmarks we are aspiring to; and export sales, the numbers of horses we are exporting, might be another one. Until such time as we can do that, it is very hard for us to go anywhere in the world and say our industry is as good as any anywhere else in the world, because we cannot prove it. I am interested if we start with that blank piece of paper what ought it to be?

Mr JOHNSON — The problem now is that, for instance, the highest-priced yearling ever sold in Australia is by a Victorian breeder. No-one identifies that, because the horse happened to be bred and reared in the Hunter Valley and sold in Sydney. The person who actually sold it is a new major investor in this state. We will never get recognition for that whilst horses are going to be sold in Sydney, particularly when it is by a New South Wales stallion. Yes, the benchmarks are very difficult because our strength is often hidden. The best broodmares owned in this state often are owned by someone who sells interstate or retains the stock and does not sell anything and races them and sells his rubbish. We cannot necessarily identify those people until they go out and win a race. So it is hard to say who belongs to what. It is the state system again. If we just said nationally we have this number of group 1 winners bred in Australia, it is a lot easier. Group 1 winners is probably a good benchmark: bred, firstly, by Victorian stallions; and secondly, by Victorians. We should try to identify that, because that is the pinnacle of our industry and that is really what everyone is aiming for. That is something that we could look at.

The CHAIR — Can I leave that with you as an open question and welcome your input at some point down the track? Much as we have lots of ideas of what we can put in our report in terms of recommendations, at some point in a strategy that might evolve from our report or from what RVL is doing we need to have a series of benchmarks by which we can say these are the things we are doing that are as good as what is being done anywhere else in the world and can be demonstrated as such, or these are the things we aspire to achieve over time in the future because they will give us an edge over competitors interstate and internationally. I have just run through a few that have occurred to me, but I would welcome your contribution to that down the track.

Mr PULLEN — Richard will probably answer this. On bad debts, you mentioned that credit referencing strategies for participants need to be investigated. Have you done any investigations through, say Baycorp, I think it is called now, a credit reference association which organisations can become a member of, to try to combat that at all?

Mr ANDREWS — No. We have not at the moment, but certainly I am getting an increasing number of phone calls from studs in Victoria that are all having exactly the same problem of bad debtors. Through our stallion tender scheme we are exposed to it first hand as well, in regard to people submitting their broodmares for tender, winning that nomination and then not paying. That can sometimes total 10 per cent of our total income that we can raise from that tender scheme, which is a fair chunk given the finances we have available. Given that we have not had a model in place to try to combat these sorts of issues, there could be a situation where we do need to look at that area. We would like to have a database with the names of all the people who are bad debtors and supply that to the studs so that alarm bells are set off as soon as they try to book them in. Obviously, with privacy laws and what not, that is not a possibility from a legal point of view. That would certainly be the best possible way for us to do it, to be able to house those bad debtors. We seem to be the dumping ground for the bad debtors from every other industry. It has now got to the situation where it will start crippling farms around the state, so I certainly think we need to look into that.

Mr PULLEN — I recommend that you have a talk to Baycorp. They will put you on the right track.

Mr RIELLEY — It is very difficult to obtain credit references. My business is made up of selling racehorses and breeding. A lot of trainers will have 10 owners in a horse; 8 of those owners will pay on 30 days and you will get two that it is almost impossible to get money out of. Even the contracts that have been talked about are very difficult to get signed as well when you have so many shareholders in the one animal. Often a horse ends up on your doorstep through the trainer, whom you trust and so on. Without being able to obtain these things it is a paper nightmare, basically.

Mr ANDREWS — Whilst it probably should come back to best practice of farms, it is so heavily reliant on clients. You need clients and you do not want to do a complete credit check on every single person who walks through the door because the year they come to you they may actually pay. The fact that they have not paid for two years before that does not necessarily mean that they are not going to pay you.

Mr JOHNSON — A lot get out of control, too. They start off being great payers.

The CHAIR — My experience of human nature is that about 5 per cent of the people you deal with are ratbags or recidivists. It is probably the same in the breeding industry.

Mr JOHNSON — The reality with the breeding industry is that for most of these people it is a hobby — particularly racing is a hobby, obviously. Even for a lot of the broodmare owners it is a hobby. So when the funds are a bit short you pay everything else and the last thing you worry about is your hobby.

The CHAIR — Where this goes on and on, where it is a recurring pattern and people just do not pay, do we need the rules of racing to be tightened?

Mr JOHNSON — There are some serial professionals.

The CHAIR — We exclude people from race tracks if they are of unsound character. I imagine that if you are go around chalking up debts all over the place maybe there is a role for the racing industry to play.

Mr ANDREWS — You can actually advise the Stud Book, to ensure that that foal cannot be registered.

The CHAIR — What about just the rules of racing, to say you cannot own a horse, you cannot be the registered owner of a horse?

Mr JOHNSON — That would be unbelievably successful. That would be ideal.

Mr ANDREWS — Yes.

The CHAIR — Is it justified?

Mr JOHNSON — I think it can be. I think at the moment it rarely, if ever, happens. We do not license our owners as such, but in some countries such as England you have to pay so much money into the Jockey Club as security bond for your training fees, etcetera, which goes against the nature of racing in this country, where everyone is equal. That would mean that only a certain level of wealth would deem it important enough to lodge a bond, as it is, with the racing authorities. They apply that in other countries.

Mr DELAHUNTY — I was particularly pleased that you talked about employment and investment opportunities, particularly focusing on rural and regional Victoria. That does have a big impact on those area. My long-term sustainability issue relates to qualified and skilled equine practitioners, veterinarians and others. Do you have any comments to make on that?

Mr JOHNSON — For veterinarians it is obviously a commercial enterprise, the decision making as to whether they go down that path, to specialise in equine. I do not think there are too many equine vets suffering financially, so maybe that needs to be promoted more in the vet schools. I know there has been a major complaint about the size, a horse being a large animal. The majority of vet students are now females and the physical aspects of getting in to scan and such things is of concern, although I have seen some very short female and male vets who seem to be able to do it. I have heard that expressed by people from vet schools.

Just on general education, one issue that could be taken up as such is that in the law society we have paralegals. Maybe for the Stud Book we could have paravets go out to microchip, pull the hair, do the DNA testing, the identification and the branding — whatever — so that we are not being charged the full hourly rate for a professional but for a semi-professional.

That sort of issue is something that could well be taken up in the industry to save costs, because on the racing side, even more than the breeding, one of the largest costs is veterinary support. In yesteryear, the farm manager would have the experience and confidence to do something, but now you ring a vet to do it because it is the way of the world.

Mr DELAHUNTY — Can I go a bit further, then? It has been suggested here that we need an education program, and to start that at the secondary level to get people interested in the industry; do you support that?

Mr JOHNSON — Veterinary nurses are a huge asset to any veterinary practice. Competent veterinary nurses do a hell of a lot in my experience, and I am sure everyone's experience. The cost of training a vet through Melbourne University as opposed to training a nurse I am sure is significantly different. That is another career path for an equine interested person, as is even working on a horse stud in the office doing the accounts, marketing, telephone or administration. There are many facets to our industry that are related, as we know. We perhaps do not market them properly to the kids that think they are going to be out there but who do not enjoy perhaps physically touching the horses as much, or mucking out boxes or standing out in the heat in the middle of summer waiting for the vet to turn up. There are these other things.

Once given a grounding in the basics then we can have, for instance, blood stock agents. There is no qualification for a blood stock agent; it is hands-on experience. If you look at the average age of those employed at William Inglis in Melbourne, as in William Inglis in Sydney and even Magic Millions, you will find there is no career path. We do not have cadetships in that. It is a cost factor; it is not something that is deemed appropriate. So these are all avenues where if we can get people in there are many opportunities out there.

The CHAIR — I think we have finished. Thank you very much for your time. It has been terrific. We may find we need to talk to you again at some stage, either informally or formally. Hopefully we will be able to organise that.

Mr JOHNSON — There is just one issue that I should have brought up, about the livestock impounding act, and the fact that there is a three-month moratorium. That really needs to be probably 9 to 12 months, rather than a 3-month period. As I said, people can be paying really well and have been with you for two and three years, and all of a sudden something changes in their life, or they have got too many horses, and the bad debts very quickly add up. Because they have been a valued client you do not rush off to get a judgment against them, or to go down that path of selling their stock. Before you know it six months is up and their accounts have got right out.

Mr ANDREWS — Most people in this industry do not pay up to 90 days anyway, so if you pay within 90 days you are classified as a pretty good payer.

Mr JOHNSON — Which perhaps is the unprofessionalism of our industry, but that is the reality.

Mr PULLEN — We know that.

Mr JOHNSON — Because of the hobbyist nature of it. That is just one specific issue.

The CHAIR — Thank you very much. Thanks to all of you for your contribution. I think we have learned an awful lot this afternoon. We will make sure a copy of the transcript comes out to you in the next two weeks or so for any corrections you would like to make, which you can send back to us. I am sure we will catch up with you again either formally or informally before we are due to report. Thanks for your time.

Committee adjourned.