

## PAC Presentation

Tom Reilly of Thoroughbred Breeders Australia

My name is Tom Reilly and I'm chief executive of Thoroughbred Breeders Australia, the peak national body representing the breeding industry.

### **SLIDE**

We have almost 4000 members who, collectively, are responsible for over 80 per cent of thoroughbred production in Australia.

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My role also encompasses running Aushorse, the breeding industry's marketing body. Aushorse's charter is to increase investment in the thoroughbred industry, both from overseas and domestic sources.

In trying to increase foreign investment in the past two years I have made 16 trips overseas to countries where we export many racehorses as well as countries with major breeding centres, such as America and England.

These responsibilities give me a valuable insight to be able to comment on some of the issues that are raised by this mine proposal.

I will talk first of the importance of the Hunter and then turn my attention to some of the findings made by the department of planning.

As has already been made clear by many of the previous people who have addressed the PAC, the breeding industry in Australia

is considered to be a world leader: both in the size of its foal crop, which is second only to America, and its quality.

Australian thoroughbreds are in demand across the world: both as racehorses, particularly in export markets such as Hong Kong and Singapore, as well as for breeding prospects.

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Only last week at one of the world's most significant horse sales – Keeneland November – the most expensive weanling to be sold, for almost \$1.5 million US dollars, was produced from a mare which had been conceived and raised here in the Hunter Valley, as her family had for generations before that.

And it is worth emphasizing that Australia's global standing is based almost entirely on the ongoing standing of the Hunter Valley.

Whatever way you look at it, the Hunter is the epicenter of the breeding industry in Australia. You will be well aware that there is no other area that can boast the same concentration of stallions or mares.

But, again, it is worth emphasizing that the reputation of the Hunter is not based on mass production. It is a centre of excellence.

### **SLIDE**

Domestically, you need only look at the two pre-eminent yearling sales: Magic Millions in January and the Inglis Easter sale. On average, in each of the past five years some 95 per cent of the top 100 lots have been conceived here in the Hunter.

And at the highest level of international competition it is locally produced horses that have increased our industry's standing.

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In the past three racing seasons Australian bred-horses have won 32 group one races overseas. These races represent the very highest level of racing: to put that into context, there are more than 30,000 races run in Australia each year, yet less than 70 are considered to be of sufficient standing to be classed as group ones.

Well, of those 32 Australian bred group one winners overseas, all but four were conceived right here in the Hunter.

And when breeders around the world think of Australian thoroughbreds they are almost certainly thinking about horses produced here.

**SLIDE**

There are 16 Australian raised stallions that, in the past three years, have travelled to the northern hemisphere to cover mares. All of them were conceived here and more than three-quarters are based at farms here when they cover mares in the southern hemisphere season.

My point here is not to overload you Commissioners with statistics. It is to try and demonstrate that the Hunter Valley is a unique place and that any mining project in the UpperHunter which could damage the reputation of this critical industry cluster needs to be treated as a significant risk.

While on my travels – whether in Kentucky, America, Newmarket in the UK or even in China, I am continually asked about the land use conflict we are here to discuss.

Will the mine go ahead? What will happen if it does? What will it mean for the rest of the Hunter farms?

These are questions which are not just concerning the people who have gathered here today, but people involved in the breeding and racing business from around the world.

Like so many industries, ours is becoming ever more global, not just in the movement of horses, but the transfer of capital from one region to another.

The Drayton South mine has received significant attention in the industry mediaglobally and investors from across the world will be watching the determination of this PAC very closely.

There is a failure to understand in these major breeding centres why the government will not intervene to protect what are two key assets in a sustainable industry that has been in this region for almost two centuries and could be here for centuries to come.

Kentucky in America is also a state that has a significant breeding industry and coal mining production. There legislators have thrown a blanket of protection ensuring heavy industry cannot threaten the main areas of thoroughbred production.

In Newmarket, England, it is not coal mining but other light industry and urban development that threaten the horseracing industry.

Again governments have intervened to protect the core assets of the breeding and racing, again recognizing the importance of a green and sustainable industry which has been in that part of England since the 17<sup>th</sup> century.

So we have a unique situation here in the Hunter, but the department of planning believe that this mine should go ahead.

Much of their reasoning depends on the work of economist Greg Houston for Anglo and Prof Jeff Bennett's review of that work.

Prof Bennett broadly supports the findings of Dr Houston and ultimately concludes that the application should be approved.

Mr Bennett focuses much attention on what Coolmore and Darley will do in the event of the application being approved.

Both economists suggest that neither farm would likely leave their current position, and that, even if they left, the prestige of the Hunter Valley would quickly recover.

To support this view they have made some assessments of the bloodstock industry that I believe are simply wrong.

Prof Bennett puts much faith in the following arguments and assumptions:

1. That breeders will be happy to have their horses raised just 900 metres from a open cut coal mine,
2. That stallions will follow the mares rather than vice versa and, therefore, Coolmore and Darley would be unlikely to leave their current locations and, if they did, would probably relocate to another site in the Upper Hunter,
3. Substitution in the stallion market would occur, namely new players would enter the market to fill the void left by

Coolmore and Darley should they leave. He even suggests that broodmare farms will change their offering and become stallion farms.

4. Easily accessible shuttle stallions will fill the void if Coolmore and Darley leave.

I'll focus my comments on the idea of substitution and the prospect of other players entering the stallion market.

But I also want to make a point about stallions following mares. As you have heard from many in the industry, the idea put forward by Bennett that stallions follow mares is simply untrue.

Here in NSW we have the example of Newhaven Park, a farm in Boorowa, near Young in central NSW. For a period in the 1970s and 1980s this was one of the biggest stallion farms in Australia, standing a number of leading sires such as Luskin Star and Zeditative.

In those days the Hunter was still the biggest concentration of mares, but because of the stallions Newhaven owned, many hundreds of mares resided in and around Boorowa. They were all sent there because mare owners wanted to use the best stallions available.

*Another example of mares following stallions comes in America. As you will know Kentucky is the centre of the breeding industry; all of the most valuable stallions and mares are based there. This was the case in 1970 as it is today.*

*But for almost two decades many of the most valuable mares in America were based at Chesapeake City in Maryland, about 100km south of Philadelphia, an area which had no history of*

*producing successful racehorses. The reason? A stallion called Northern Dancer, a Kentucky Derby winner who sired a string of good horses when he began breeding in Canada.*

*When his owners decided to relocate him to take advantage of the stronger US dollar, they decided to use a farm they already owned in Maryland – almost 900km from the centre of the American breeding industry.*

*They reasoned breeders would be happy to send their mares to their stallion and they were right. Did it have an effect on the price they were able to charge? Well no, his fee of \$500,000 a cover still remains a world record.*

*While it may seem irrelevant to mention a sire standing so long ago, I do so to illustrate that breeders will send their mares to the best and most commercial stallions they can afford, no matter the location of that horse.*

*\*Removed due to time constraints.*

## **SLIDE**

I have no doubt that if Coolmore and Darley decided to send their top stallions to South Australia, where no stallion currently commands a fee in excess of \$19,000, they would attract the same number and standard of mares as they would receive here in the Hunter.

As for the argument of substitution, that other providers would enter the stallion market, let me provide some concrete information that contradicts Prof Bennett's assessment.

While Prof Bennett says the commercial stallion market is easily accessible, that is simply untrue.

Yes, it might be possible for some broodmare farms to buy a stallion, but the Hunter Valley's reputation isn't based on a farm offering any old stallion, it is based on the very brightest stallion prospects coming here and the best proven horses remaining here.

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And those top stallion prospects don't come cheap. In fact, the numbers are huge. The last two Golden Slipper winners to be sold to stud were bought in deals of about \$40 million dollars.

Coolmore and Darley have invested hundreds of millions of dollars in the past decade on stallions.

The barriers to entry, in terms of capital outlay, are enormous.

Because of this, there are few companies that can compete at this level.

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Let me provide another fact. If we look at freshman sires, those stallions in their first year at stud, there have been 22 horses in the past three completed breeding seasons which have begun their careers at a fee of \$20,000 or above.

These represent the brightest prospects; they all have an elite race track record, have sought after bloodlines and their confirmation, or physical appearance, is without major fault.

Well of those 22 stallions, 13 had been bought to go to stud. But just six farms – all of them Hunter based – had the capital to make these purchases. And of the 22, 10 were stallions owned by Coolmore and Darley.

If Coolmore and Darley were to leave this area, these brightest stallion prospects – not to mention proven stallions of the highest level -would likely be standing in Victoria.

If this were the case how much longer would the Upper Hunter be the centre of the Australian breeding industry? How many of the 150 broodmare farms currently in the Uppper Hunter would remain- not to mention all the other suppliers and auxillary services in the region? Would the Australian thoroughbred industry maintain its reputation as a world leader?

All of these are very real questions that need to be considered by the Commissioners.

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Now addressing the point that shuttle stallions will pick up the slack if Coolmore and Darley were to leave.

This assumption by economists Houston and Bennett takes no account whatsoever of the reality of the market.

Prof Bennett refers to shuttle stallions as a 'disruptive technology', perhaps similar to the advent of online shopping affecting traditional retailers.

But the reality is that the shuttle stallion is not a new phenomena. Sires have been shuttled back and forward from the northern hemisphere for three decades. And it was farms here in the Hunter that drove the development.

However, Australian consumers, the owners of broodmares, have given their views on shuttle stallions in the past decade.

The statistics are easily accessed and undeniable. Twenty years ago there were 43 shuttle stallions brought to Australia for the breeding season and those sires covered 3144 mares.

In terms of production a peak was reached in 2004 when 61 shuttle stallions covered a total of 5,667 mares.

But demand changes and breeders are now less likely to support shuttle stallions until their progeny have proved themselves here in Australia.

I'll ask you to consider commercial freshman sires – those standing for a fee of over \$10,000 - in the past three seasons.

There are 43 stallions in this category, 16 of which are shuttle stallions, bred in the northern hemisphere.

Well those 16 stallions on average covered 96 mares each season at an average fee of \$18,000.

There were 27 domestically raised and raced stallions which covered an average of 150 mares each season at an average fee of over \$23,500.

Clearly, any informed analysis of the stallion market tells you that breeders who currently keep their mares in the Hunter would not simply use shuttle stallion alternatives if Coolmore and Darley were to leave.

There is another aspect of this debate about Drayton South, which I have to say I find frustrating.

Nearly all the questions are prospective: what will happen if the mine gets approved? What will happen in the future?

But to my mind the Department of Planning has been remiss not consider the affects on the Hunter region already and I hope that you commissioners will give this proper consideration.

Despite the acceptance that the Hunter is one of just three globally renowned breeding centres, despite the arguments put forward in favour of agglomeration, no thoroughbred farm in the Hunter has been sold to an overseas buyer in the past five years.

These investors are still bringing their capital to Australia, they have just decided to go elsewhere. Let me run you through a couple of them:

### **SLIDE**

Spendthrift: You have heard this name a few times already, and with good reason. Spendthrift is one of the biggest breeding operations in the world. Owned by a billionaire who is passionate about breeding and racing, this farm covers more mares in Kentucky than any other.

And this is what their General Manager Ned Toffey told me:

“There is no question that the ongoing issues with mining in the Hunter Valley was a factor in our decision to buy in Victoria.”

Now, if Greg Houston was correct when asserting that stallion owners would locate their stallions close to large populations of mares, then they would be here.

### **SLIDE**

Aquis Farm in Queensland is another example. It was previously owned by Nathan Tinkler but was bought by the Fung family in

2013. The Fungs are one of Hong Kong's wealthiest families and they have already begun buying stallions.

This is what their managing director here told me:

*“The uncertainty caused by the mining issue in the Hunter was certainly a factor in Aquis deciding to set up in Queensland. There is nothing that will put off overseas investment more than uncertainty.”*

Michael King, Aquis Farm

### **SLIDE**

Another Hong Kong billionaire, Pan Sutong, was recently looking to buy a farm for his stallion AkeedMofeed. This is what his advisor and trainer, Richard Gibson, who helped select the farm, said:

*“Clearly there's volatility and uncertainty in the Hunter because of the fight over the coal mines. When you are investing a significant sum of money in a property you would be irrational not to take that into account. We (Goldin Farms) certainly did and we decided to set up in South Australia.”*

And it is not just overseas investment that is avoiding the Hunter, locals are also choosing to go elsewhere.

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Darren Thomas is chief executive of Thomas Foods, a family owned company that is one of Australia's biggest meat processors and has a turnover in excess of \$1.5 billion.

Darren is passionate about racing and breeding and has recently bought a farm – in Victoria.

This is what he told me:

*"We have been looking for a suitable opportunity to buy a farm for the past three to four years. With the continued and long running problems relating to mining in the Hunter Valley we decided not to look in that area. Ultimately, we decided it was not a safe place for our significant investment."*

Taken together, these businesses that have set up elsewhere represent hundreds of millions of investment that should likely be in the Upper Hunter. We are talking about hundreds of jobs.

Aquis alone have already invested in excess of \$50 million in just two years.

When Prof Bennett and Houston write about substitution if Coolmore and Darley were to leave, these are some of the very few players who could actually come in to fill the void left behind.

But they won't come here and why would they? After all, if the government, the Department of Planning, cannot protect the two most significant and influential owner-operators in the area, what chance would they have if their investment were to be threatened by mining?

And as for the suggestion, by both economists that Coolmore and Darley would relocate to another site within the Hunter – well, again, why would they do that? We know there are further land use conflicts ahead in this region.

### **SLIDE**

As we've heard from the businessmen who have set up elsewhere, this uncertainty would likely lead Coolmore and

Darley to go elsewhere. And if that happened it could lead to the potentially terminal decline in this critical industry cluster.

When you commissioners deliberate on this application and consider the balance between the mining industry and the breeding industry I hope you acknowledge the damage that has already been done, the investment that has already been lost.

And should this mine go ahead, I have no doubt it will be seen a landmark moment for the future of the Hunter Valley.

The eyes of the thoroughbred industry across the world are on this issue. If Australia is to keep its reputation as a world leader, if we want our horses to be in demand across the world, then it is vital that this critical industry cluster is protected.

Yes, mining and breeding can coexist in this region, but not through this application.

I would urge you to reject this application given the threat it poses to the critical industry cluster.

Furthermore, I would ask you to use all your powers of influence to encourage the government to put in protection zones to give certainty – both for the thoroughbred industry and the mining industry.

It is only this certainty that will encourage investors to consider the Hunter.

Thank you