

(23) Charles Jennings



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**Address to Planning Assessment Commission
Drayton South Coal Project**

Good ~~morning~~^{afternoon} Commissioners, Mr. Forward, Mrs. Pegrum, and Mr. Hann.
Thank you for your service.

My name is Charles Jennings, and I Chair a 71-year-old business named Goldners Horse Transport. We carried our first Melbourne Cup winner in 1949 and delivered 13 of this year's 24 runners. (unfortunately not the winner) The best of the best horse businesses rely on us for their transport requirements.

Our team of 35 professional drivers and managers has more than 600 years of combined horse transport experience, and we operate a fleet of 16 rigid and articulated vehicles.

We represent 30% or more of the eastern seaboard horse transport industry.

Goldners has many clients in the Hunter Valley, and specialises in interstate and local transport for the racing and breeding industries. We connect New South Wales, Victoria, South Australia and Queensland several times per week, in addition to local transport.

Our business provides for Australian truck drivers and businesses across the eastern states, spending millions of dollars per year on wages, trucks, fuel, and repairs and maintenance.

In the 2016 financial year, Goldners moved over 25,000 horses, with roughly 10% of our revenues directly attributable to the Hunter Valley breeding activities. Including their activities in Sydney and interstate, I estimate that the Hunter Valley clientele represents 50% of our business.





Our revenues rise and fall with the number of thoroughbreds foaled in any given year. The virtuous cycle that drives our business starts with healthy, well-bred and cared for horses that win races and encourage happy horse owners to reinvest in the next generation.

Quite simply, Goldners next 71 years depends on the health of the breeding industry.

Now that you have a sense of our business, I would like to share three thoughts with you. One on clusters, another on opportunity cost, and third from my personal experience.

In a prior life, ^{before my wife imported me} I worked as a venture capitalist in Boston and Silicon Valley. Because of this, I know a little bit about clusters.

The NSW government has identified the Hunter Valley an equine cluster of international significance. BUT, what I fear has been glossed over are the sustaining mechanics of how clusters sustain and rejuvenate themselves.

Successful industry clusters rely on several key attributes:

- Research and Development into innovation.
- Dedicated pools of world-class talent focused on industry leadership.
- Capital formation from two equally important sources:
 - Seed capital from successful entrepreneurs (typically from the above group of talented executives) and
 - Scale-up global institutional capital
- Customers who recognise the unique capabilities of these clusters and seek them out.
- A vast network of supporting suppliers and contractors who allow the cluster to focus on its primary objective of being a global centre of excellence.





To use a classic cluster, let's engage in a hypothetical scenario about Silicon Valley.

In a new gold rush, promising deposits are located next door to Google Headquarters. When the mine lights, blasting, and dust become too disruptive the Googlers decide to depart California, building a new headquarters in Oregon. (with state tax breaks of course, because of all the new jobs Google will bring)

What happens in Silicon Valley as a result?

- **Brain drain** – world-class technology talent leaves Silicon Valley to keep their jobs. This reduces the research and development activities substantially. The one-day per week that a Google engineer works on their passion project is now in Oregon.
- **Start-up stall, driven by a shortage of both talent and capital**
 - **On the talent side** - Previously, Google employees would get an idea for a new product, leave the company and start-up a new firm down the street. Now, Googlers with new ideas are stranded in Oregon, with a drastically smaller pool of the start-up talent they require.
 - **And regarding capital:**
 - Seed capital in Silicon Valley comes from successful technology entrepreneurs backing themselves or the next generation. Google moving to Oregon means that their executives in Oregon don't have as many start-ups to back and the start-ups in Silicon Valley don't have as many wealthy executives to back them. The volume of new start-ups collapses.
 - Institutional capital also becomes stranded. Because of the ^{above} mentioned brain drain and concurrent seed capital shortage, there are simply fewer high quality companies that require large amounts of late stage funding. Giant pools of capital that have been mobilised to back the next





Google go unspent or become poorly spent because the new ventures they seek exist in much smaller numbers and in lower quality.

- **Customer bifurcation** – Google customers still come visit the new Oregon headquarters, but they cannot visit Silicon Valley on the same trip. Google AND the companies in Silicon Valley experience less customer contact, less new product development, and decreasing sales as a result.
- **Supplier / contractor crash-out** – in California, Google enjoyed services many suppliers and contractors that served not only Google but many other similar businesses. When Google departs these companies struggle to maintain their economies of scale, cut services, shrink, and die. (this is where my company comes in)

In the final result, the Silicon Valley cluster significantly weakens from the loss of just one major player.

Commissioners, I would encourage you to think carefully about the scale and irreplaceability of Coolmore and Darley in this context. Either of them being forced to depart the Hunter would be as catastrophic for the health of the equine cluster as would Google or Apple leaving Silicon Valley.

The department's analysis points out that other proponents may take on these properties were Darley or Coolmore to depart the Hunter Valley. This is like saying that because someone (probably multiple companies) would move into the Google Headquarters buildings that the Silicon Valley cluster would continue unharmed. We all know that is preposterous.

It's important to understand the specifics of how the Hunter Valley cluster operates in order to truly understand how it truly has the same cluster effects as outlined in my Silicon Valley example.





Firstly on the research and development side. Goldners, our business, is engaged in a multi-year research partnership with the University of Sydney to improve the impact on horse health and welfare of their transport. We are supporting this research to drive forward the standard of our services, but also to increase the quality of all participants across the industry. We believe this will further improve outcomes to our clients and their clients and strengthen the industry.

Many other services businesses in the Hunter Valley, not to mention the large studs, are also engaged in research, development, education, and training activities to drive the standard of the industry forward. In fact, Darley runs the flagship 'Flying Start' program which is similar to a global MBA for the horse business, in addition to other industry development research activities.

All of these activities are reliant on a robust industry where economies of scale and implementation of R&D can be a focus. I would much prefer to be working today on driving our industry practice forward rather than speaking to you about stopping the cluster from being dismantled.

Looking at the horse concentration element is also important to understand the cluster.

During the 2016 breeding season, which is just drawing to a close, the Hunter is home to 76 standing stallions. Nearly half of these stallions are in town from northern hemisphere breeding clusters and 36% of them are at Darley and Coolmore's properties.

We moved these extremely valuable 'shuttle stallions' from the Australian Quarantine Inspection Service centre outside Melbourne to the Hunter and will take them back to the airport in December.

On average, these stallions will cover more than 100 mares each – many of whom are not from the Hunter Valley. In fact, we also run a direct transport





service between Adelaide and the Hunter and Melbourne and the Hunter during breeding season. Nearly 10,000 of the best mares from around Australia converge on the Hunter for the September through December foaling and breeding season.

There are far more mares than available paddocks at leading studs that 'stand' stallions. Therefore, many businesses have sprung up offering agistment (horse accommodation), foaling down, veterinary services, and transportation to this high value and transient population.

Highly skilled employees who may have been trained and educated by Coolmore or Darley staff these businesses. If more than 1/3 of the stallions and mares left the Hunter, the cluster would suffer and the concentration of talent would disperse.

We must also touch on the capital formation and customer concentration that sustain the leadership of the Hunter Valley cluster.

With 76 standing stallions and as many as 10,000 leading mares, the Hunter attracts customers from around the world and provides a robust market for new stallion prospects.

This provides the confidence for all Hunter Valley studs to invest in promising colts, knowing that the buyers will come to the region to evaluate them. Stallion prospects change hands for double digit million dollar sums – but without the cluster, large chunks of this capital would relocate elsewhere.

As you can see, the Hunter Valley does have the position as the leading cluster in Australia, and the virtuous effects of the cluster are self-reinforcing.

Unfortunately, these same self-reinforcing effects can also lead to a rapid cycle of decline if started in the wrong direction. Silicon Valley has not maintained its global leadership position in spite of regulatory difficulties, but rather





because California has worked very hard to ensure that the golden goose's feathers are not plucked!

Next, I would like to mention opportunity cost; defined as the value of the best opportunity foregone.

The Commission is being asked to weigh up a single mine against an industry cluster of seemingly incalculable value.

Looking at Anglo's most recent annual report, pages two and three show a world map with what they term their 'core assets'. Surprisingly, Australian assets are not included in that graphic or mentioned in the accompanying text, which states Anglo's new focus on diamonds, platinum group metals, and copper. So Anglo isn't really interested in the thermal coal business any longer, but is just trying to maximise their sale price on a non-core asset.

This would be like Darley and Coolmore coming here today and asking you to allow expansion of their horse studs to the detriment of their neighbours while publishing a report indicating their 'core assets' were in real estate development.

The breeders of the Hunter Valley are focused on maintaining a world-class breeding cluster and producing the best racehorses in the world. This is the sole core business.

Sir John Parker, the Chairman of Anglo American, states in his letter to shareholders that 'We will thus, over time, rebalance the Group away from the commodities which are more heavily linked to the steel industry and the urbanisation phase of development in China and other emerging and developing economies.'

Is it worth harming the golden goose of the Hunter Valley cluster to help someone scavenge end-of-life value from a non-core asset? Given their





publicly stated corporate position I am honestly confused why Anglo is here today.

I certainly hope that 16 years from now we're all enjoying a productive Hunter Valley equine industry instead of standing around with an empty hole in the ground.

Commissioners, the opportunity cost of going ahead with Drayton South is that there may not be any horse industry around in 2032 when the mine is done.

Lastly I have a quick personal story. As the Commissioners are very busy, ^{they} ~~no~~ ^{may not} ~~doubt they've had the time to~~ personally observe open cut mining, dust, and light pollution. I have by accident.

My brother-in-law got married in the Hunter several years ago. Six of us stayed in a house near Broke for the weekend. It was a modern house on a small farm with three bedrooms.

As the sun set we heard a low, constant din and saw bright lights washing over the ridge at the back of the property.

It was the Mount Thorley Warkworth coal mine – 3.75 kilometers as the crow flies from the house.

Goldners managers and truck drivers want to keep our business going for another 71 years. We hope that you will help us do so. Thank you Commissioners for your time and consideration.

