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## SUBMISSION FROM THE BREEDERS CONSULTATION #2

### 1. THIS SUBMISSION

NZSBA has a goal of:

***'Breeders producing sufficient pacers and trotters for a viable and sustainable harness racing industry'***

NZSBA acknowledges the current work and focus of HRNZ to the breeding sector, with an aim of increasing breeding numbers.

NZSBA recognizes HRNZ as our key partner in achieving long-term sustainability and viability of standardbred breeding in New Zealand.

This submission on Change of Birthday Consultation #2 is prepared by the NZSBA Executive<sup>1</sup> and provides feedback on three areas:

- The proposed 'Ratings and Bonus Series', specifically the Breeder Bonuses and funding of, by way of an 'Export Fee'.
- Supply of horses to sustain current level of racing.
- Complementarity with key Australian carnivals and prestigious races.

### 2. BREEDER BONUS / EXPORT FEE

NZSBA requests that HRNZ / the Racing Working Group reconsider its proposed idea of funding the breeding incentives attached to the 'Rating and Bonuses' by an export fee.

NZSBA believes the scheme has significant flaws that could potentially cause a further decrease in breeding numbers, which is counter to its aim.

#### (a) Potential Harm Which Significantly Outweighs the Benefits

With the annual export of approximately 500 eligible horses, \$1.25 million dollars would be collected from owners (60% of which are also the breeder).

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<sup>1</sup> Brad Reid is on the Racing Working Group and took no part in preparing this submission. Colin Hair (as an HRNZ director) and Katrina Price (as a breeder) have participated in RWG briefings.



Those most impacted by the flat fee will be the less expensive horses, who are most likely being sold as they are not financially viable to race here after meeting their mark or don't meet owner's needs. With this fee owners will have to accept \$2,500 less in sale proceeds or not proceed with an export sale.

The export fee is being heralded as a way of reducing leakage, by discouraging export sales. The reality is that those horses could have always been sold in NZ if there was demand. A horse bought domestically is at least \$10,000 cheaper than when exported, due to landing costs of transport, import levy etc. Therefore, serious consideration needs to be given to the potential fate of a glut of unsaleable horses – rehome, euthanise.

Disregard of the financial realities of horse ownership and breeding risks further contraction of breeding and ownership numbers. Most breeders and owners require sales to fund their future involvement within the sport. Most do reinvest. Breeding is only viable if demand for horses exists either from self as owner/breeder or breed to sell.

### (b) Lack of Benefit to Breeders

If 60% of the 500 horses sold are breeder owned in some way, 300 breeder/owners pay \$2,500 each through the proposed fee contributing \$750,000.

This is a sacrifice of cash immediately available for service fees etc swapped for an opportunity at a chance to win one of the lower rated race bonuses:

- 40 x \$5,000 bonuses, split between owner & breeder \$3,000 / \$2,000
- 68 x \$1,000 breeder bonuses with a \$300 entry series fee

Even if those breeder vendors have a horse to race this is a very select band of races.

In effect the scheme has exporting breeder/owners paying \$750,000 and only \$148,000 being returned to breeders, with the \$5,000 bonuses being shared with the horse breeder and owner. Furthermore, breeders will have to wait for their chance to win the bonus, so money is not immediately available for breeding reinvestment so potentially less horses bred.

### (c) Misleading Promotion

The export fee is being promoted as a means of funding breeding incentives.

Approximately \$1.25 million will be collected by the export fee, based on last season's export numbers. The series proposes the bonuses above.

No details have been provided of what will happen to the balance of the proceeds – approximately \$800,000. It is misleading to label and promote the scheme as a 'Breeders' Incentive' without additional details or a commitment to 'ring-fence' these funds.

The scheme risks creating ill-feeling being directed towards breeders if other participants feel they are being stripped of money for redistribution to breeders. Most of the exports are at the lower end of the market. \$2,500 is a significant sum and when



added to a trainer's sale commission takes a significant sum from the vendor who has paid all the training costs on that horse.

Given the relatively low return to breeders we do not see that the return / reward to breeders is worth the potential ill-feelings the export fee may bring.

#### (d) Lack of Access

With only 108 bonuses available on a selection of races within a specific rating band, the incentives are not available to all breeders.

#### (e) Lack of Evidence of Efficacy

Given the aim of the scheme is to increase breeding numbers, is there solid evidence that breeder bonuses directly achieve this?

Over the last decade NZSBA has looked at many such schemes.

The starting point is what drives investment by owners and breeders. Overseas research demonstrates that there is a clear correlation between stakes (driven by wagering), employment in the industry and breeding.<sup>2</sup>

The evidence for breeders' bonuses is less convincing.<sup>3</sup>

NZMTC research indicated that their \$500 breeders' bonus was influential on breeder/owners when they had a choice of venues as to where to race.

If there are to be breeder bonuses then what is the most effective format of breeder bonus distribution? Will cash payments linked to the R&B Series be more effective than other options such as breeding vouchers attached to fillies and mares races?

Looked at another way can we say that \$1.25m invested in breeder incentives will be more efficient for the sport as a whole, than \$1.25m being added to stakes representing an increase of three percent across the board?

#### (f) Legality

As per the 2002/03 Kotzikas/CSBA v HRNZ Accreditation Case ruling, does HRNZ have the authority to charge an export fee?

With an '**ultra vires**' precedent set by this case, and the new Act making it clear now that HRNZ's rules cannot breach the "general law" it would be frustrating for all industry participants if precious resources were spent on litigation.

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<sup>2</sup> European Pari Mutuel Association, The Economic and Social Contribution of Horseracing in Europe, September 2009, Exhibits 9, & 10 pp 17 & 18 [https://www.parimutuel-europe.org/Download/EPMA\\_Economic\\_impact\\_of\\_horse\\_racing\\_03Sept09.pdf](https://www.parimutuel-europe.org/Download/EPMA_Economic_impact_of_horse_racing_03Sept09.pdf),

<sup>3</sup> Smith, M. 1999. "Breeding Incentive Programs and Demand for California Thoroughbred Racing: The Tradeoff between Quantity and Quality." Prepared for the American Agricultural Economics Association Annual Meeting, Nashville, August 8-11, 1999. <http://ageconsearch.umn.edu/bitstream/21711/1/sp99sm01.pdf>



In conclusion, NZSBA is supportive of the recognition and commitment HRNZ is currently making to the breeding sector. However, NZSBA opposes the Rating and Bonuses Series Breeders' Incentives in the format and funding method as currently proposed.

NZSBA supports further investigation and research into the efficacy of possible breeding incentive schemes and alternative funding options. Australia and other jurisdictions have run such schemes for a number of years. Lessons may be available.

NZSBA is available to actively participate in the research of these schemes, and if proven effective development of possible breeding incentives.

## 2. SUPPLY OF HORSES FOR CURRENT LEVEL OF RACING

The Change of Birthday Consultation Presentation states its overall goal '**is to create opportunity and increase horse start numbers...**' It recognizes that breeding numbers are the worst since 1965.

To mitigate the threat of not being able to maintain the current level of racing due to decreasing horse numbers, three strategies have been promoted. These are to reduce leakage through export sales, to increase breeding numbers, and to encourage the current racehorse population to race more starts per season. Most of the proposed changes focus on the final strategy.

Has HRNZ given consideration to the nearly 50% of each year's foal crop that goes unraced? Many of these horses are sound and healthy but for various reasons, including financial viability and an assessment of being uncompetitive in the current system, have not been given a race start.

With such a large proportion of the horses bred going untried, investigation of the causes, including evaluation of the handicapping / programming systems could be valuable. It would be beneficial to all sectors of New Zealand Harness Racing if more of these horses could be used for the purpose they were bred for – racing.

Race field sizes aside, with increasingly strong societal focus on the issues of animal welfare and sustainability of resources, can we continue to produce and waste such a high proportion of our core resource?

NZSBA is working with Jaz Tanner as part of her PhD to further research in the causes of wastage. Recently she presented a paper of early findings: **A case study of wastage from foaling through to racing in a cohort of Standardbred foals** to the NZ Equine Vets Assn. Jaz has suggest a complete reviews of the whole cohort that was bred to produce the current 4YOs. A study of a subset of this crops suggests significant loss from the weanling and yearling stage due to musculoskeletal injuries both by misadventure and disease (OCD). While we the performance records of workouts, trials and races, but need to know about horses with no performance records including those just sitting in paddocks, also the horses notified as dead or hacks.

After such a study which would engage with every breeder/owner of horses in that crop NZSBA suggests that HRNZ look at strategies to encourage a greater proportion of each year's foal crop to start at the races.



### 3. COMPLEMENTARY WITH AUSTRALIAN FEATURES

Research shows that buyers factor into their purchase price the opportunities for their prospective purchase to race and earn money. Part of this calculation is the placement of sweepstake / sales race series and high stakes races in New Zealand, and Australia.

We have just seen a contingent of our horses head to Brisbane after the Jewels for a very successful raid.

NZSBA looks at some of the proposed scheduling and wonders whether the policy adopted by the RWG is designed to allow owners of our better horses to access the key Australian races. Or, as it seems, it is an either-or situation?

The current scheduling of key races over two premier days at one venue often allows participation in Australia and a return to a NZ premier race day.

Examples of meetings that we could build around, and which we have done well at are:

- Hunter Cup in Victoria in February
- Great Southern Star in Victoria in February.
- Ladyship Mile, NSW Oaks last week February
- Miracle Mile, NSW Derby held first week March 2021
- Queensland Winter Carnival
- Victoria Oaks and Derby early October
- Interdominion late November to mid December

We acknowledge that we do not have the information available to HRNZ when these drafts were formulated. Nor has HRA exposed its 2022 group race schedule. However, we are conscious that some owners could forgo travelling to the spread-out northern 'carnival' in the first half of the year and head west, similarly later in the year when our key racing is planned for the southern carnival.

NZSBA recognises that change is necessary for the long-term sustainability of harness racing in New Zealand. NZSBA acknowledges the body of work completed to date in an attempt to improve harness racing's future. NZSBA commends HRNZ for recognizing that breeders play a vital role in ensuring this achieved.

NZSBA looks forward to working with HRNZ in its aim to provide an enriching and sustainable future for harness racing and standardbred breeding in New Zealand.

Prepared by NZSBA National Executive