

Equine Business Report.

Impacts the Recession has had on the Irish Thoroughbred Industry and Potential New Sources of Income for the Industry.

B.B.S Equine Business.

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# Abstract.

The purpose of the following report is to examine the impacts the recession has had on the Irish thoroughbred industry. The thoroughbred industry is one which Ireland has excelled in throughout its history. The report identifies the key areas that were impacted by the recession. Employment levels and opportunities are examined and analysed. The level of funding the industry receives from government sectors is critically assessed. Throughout the report there is statistics and annual comparisons which compare funding and sales performance of thoroughbreds in Ireland both prior and during the recession. Betting laws are examined to see how they could benefit the thoroughbred industry by an improved taxation system. The sales numbers are critically examined and results are formed that it is not totally negative that numbers are falling in this area. It is commented on that the fact that quality stock is now being produced in Ireland instead of high levels of average stock is a good thing. The report also examines the deal which the Chinese and Irish governments have struck. The objective of the deal is for Ireland to act as an advisory for China as they bid to establish themselves in the thoroughbred industry. Results for this show that the deal could be worth over €40 million euro to the Irish thoroughbred industry. It also provides opportunities for Irish businesses which was proven by Connolly’s Red Mills, a horse feed producing company. The major conclusion was reached that Ireland’s expertise in the industry will guide it through the turmoil of the recession.

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# Authors Declaration.

I hereby declare that this EQ190A Project report is entirely my own work. It has not been submitted for any other academic award, or part thereof, at this or any other educational establishment.

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# Introduction.

1.1 - Ireland is world renowned for its capacity to produce, train and race thoroughbred horses. The country is the third largest thoroughbred producer in the world, after America which is first and then Australia. (Indecon 2004). This is a significant achievement considering America has over sixty times the population of Ireland at 313 million people and Australia has over four times the population of Ireland at 22 million people. (CIA World Factbook, 2012). In my opinion this reflects how the nation has excelled in the thoroughbred industry in the past. Skills, knowledge and expertise have been passed down from generation to generation which has continued the success and growth of the thoroughbred industry. In the process of carrying out this report I came across two quotes which I thought summed up these credentials very well. “He’s perfect, the perfect racing machine. He is the point to which thoroughbred breeding, after 300 years, has arrived", the words of the world famous trainer John Oxx after the legendary Sea the Stars won the treble, the 2,000 Guineas, the Epsom Derby and the Eclipse Stakes (O’Sullivan, 2012). While this is a present opinion, I also found a valued past opinion. In 1399 Sir Richard Credon, a French knight fighting in a Norman campaign against the Irish said that Irish horses “galloped so hard that in my opinion, I never saw hare, deer, hound or any other animal run with such speed” (Lewis, McCarthy, 1977).

1.2 - The vast history that is associated with the Irish thoroughbred is the main reason why I have chosen to carry out this report. In recent years Ireland’s financial credibility has deteriorated due to the recession. Funding is very hard to come by for the governing bodies involved in racing and breeding industries. I plan to examine what affects the recession has had on the thoroughbred industry as well as how the industry is trying to combat these affects.

# Government Funding

2.1 - The Irish thoroughbred industries main source of income is The Horse and Greyhound Racing Fund which was set up in 2001 by the Horse and Greyhound racing Act. It provides a substantial scheme of state support for the horse and greyhound racing industries in Ireland. It has proved to be a crucial scheme for the improvement of the racing industry, as between the years 2001 and 2006 €396 million of public funds was allocated to both industries. With horse racing being the dominant of the two industries, the funding was divided in the ratio of 80% (€317 million) to horse racing to 20% (€79 million) to greyhound racing. At its origin, policy makers guaranteed the fund until 2008. (Fahey, Delaney, 2007). Consequently, the fund has consecutively fallen for the five years succeeding 2008 as the result of the economic recession that hit Ireland during that period. The Irish bloodstock industry anticipated another cut in 2012 however they were allowed to breathe a sigh of relief when the announcement came that the maximum cut for 2012 would be €800,000. This meant Horse Racing Ireland was granted a sum of €45 million for the year, a €16 million drop from the funds peak in 2008. Anticipated increases in media revenue for 2012 are expected to make up the deficit (O’ Sullivan, 2012).

# Betting Policies

3.1 - A highly controversial topic in recent years concerning the funding of the thoroughbred industries has been the taxation of betting, or lack of it to be more precise. In the Budget Perspectives 2007 the horse racing industry is highlighted as being the major contributor to the gambling market in Ireland. This is due to the fact that one of racing’s biggest ploys is the gambling aspect. The target audience is huge. An example of this would be Grand National day when people with no background or interest in racing find themselves shouting at television screens across the country, cheering their horse to the post. In 2005 the gambling market in Ireland was estimated to be worth €2.6 billion. The challenge the horse racing industry is facing is that the betting shops and bookmakers which handle this revenue are self-governing companies. There is no legislation to say that these bodies must make a direct return to the industry which they benefit from. It is highlighted as being the “free rider problem” that the industry faces (Nolan, Walsh, 2007).

3.2 - As an immediate result of this problem a Betting Bill was recently announced at a HRI ceremony at Leopardstown racecourse. Mr. Simon Coveney, Minister for Agriculture, explained that the purpose of the amendment is to collect all types of betting into a tax net. At present, offshore betting is benefitting from a loophole in the tax system which means they are making no returns at all to the Irish government. Hence there is less revenue available for the Irish government to invest in the thoroughbred industry. Offshore betting consists of companies who deliberately establish themselves in specific regions to avoid paying high levels of tax. These regions are commonly known as tax havens (O’Sullivan, 2012). It would be a major step forward for the thoroughbred horse racing industry if they were able to tax offshore betting as it has be consistently growing in popularity in Ireland over the past number of years. In 2008 HRI estimated that that off course betting (betting in bookmakers and betting shops in Ireland) totaled €5.5 billion, however approximately 30% (€1.8 billion) of this was unaccounted for due to off shore betting (Dukes, 2008). It is crucial that the government gets the bill into action as for every €1,000 spent on betting, the Irish exchequer receives €10, however if the betting is done online or via phone to an off shore agency, the amount the exchequer will receive is zero (Horse Racing Ireland, 2012).This shows the importance of introducing the Betting Bill as it would be a huge source of income for the Irish government and furthermore the thoroughbred racing and breeding industries. “The fact that the Government has accepted the principle of the bloodstock industry being funded via a return from all forms of betting is a welcome development” (Niamh O Sullivan). In my opinion this quote reflects the views of the entire Irish bloodstock market.

# Employment

4.1 - The thoroughbred industry is an essential part of the Irish economy, reason being, it provides thousands of jobs throughout rural Ireland. In 2008, employment in the thoroughbred equine industry amounted to 22,084 full-time staff. This dropped to approximately 19,383 in 2009, 17,351 in 2010 and is estimated to have fallen to around 16,500 in 2011 (HRI World Factbook). This indicates a loss of around 1,300 jobs a year. The fact that the thoroughbred equine industry shows pattern of employment situated particularly in rural areas, it would be fair to assume alternative employment opportunities would be limited. Furthermore, loss of employment in the thoroughbred industry would be likely to have a ripple effect on other industries, as a broad diversity of social networks (hotels, restaurants, pubs etc.) are used by the people involved in the industry. Due to the drop in employment levels the Department of Jobs, Enterprise and Innovation have stopped issuing new permits to non EU employees who want to travel to Ireland to work in the Irish thoroughbred racing industry (Department of Jobs, Enterprise and Innovation, 2012).

# Sales and the Breeding Sector.

5.1 - During the Celtic Tiger the Irish thoroughbred industry found itself flooded with new entrants. People on good incomes with high levels of disposable income were buying racehorses and broodmares, regardless of how much knowledge they had of the industry. In 2007 there were 1,449 new owners registered for that year alone. In 2004 Ireland was accountable for 42% of total EU output of thoroughbreds (Indecon, 2004). The increased demand meant that prices of thoroughbred stock were kept at a high level, as seen in the table below where the average price in 2006 for a thoroughbred purchased in Ireland was just under €24,000. Vendors were receiving healthy returns from their investments.

5.2 - When the recession hit Ireland, the thoroughbred industry was one of the worst affected industries. There was less revenue in circulation for the purchasing of thoroughbred horses. In 2010 the number of new owners registered was nearly halved from the levels of 2007 at 776 (Irish Thoroughbred Marketing, 2012). Similarly, the drop in demand for thoroughbreds can be seen in the table below. The average price of a thoroughbred horse fell by over €7,500 in a three year time frame (€16,183 in 2009 from €23,746 in 2006).

5.3 - In addition to the drop in prices, the number of lots sold in recent years has decreased drastically. As you can see from the table the number of lots sold dropped by nearly 4,000 between the years 2006 and 2011. Owners with average stock were eliminated from the market. The horses with top notch pedigrees that were perfectly sound and had a certificate of health were becoming the only sought after horses. On the 30th of September 2010 there were 7,128 foals registered in Ireland. The previous year there was 9,581 foals registered in Ireland, which means there was a 25% decrease in 2010. The highest number of foals registered was in 2007, when there were 12,633 foals registered (Irish Thoroughbred Marketing, 2012).

5.4 - It is fair to say that the Irish breeding industry is experiencing tough times due to the economic downturn and there is no sign of any great changes going to happen in the immediate future either. However there is one positive factor that the Irish thoroughbred industry as a whole can take from the drop in production numbers of foals in Ireland. As I have outlined in the beginning, Ireland is world renowned for its ability to excel in the industry. We are home to some of the leading jockeys and trainers in the world, Ruby Walsh, Nina Carberry, Johnny Murtagh, Aidan O’ Brien, John Oxx Dermot Weld, the list goes on. Ireland is also known as “The Nursery of Europe” as regards the production of world class racehorses with Istabraq, Dawn Run and Arkle being followed by the present stars such as New Approach and Sea The Stars (O’ Sullivan 2012).Sea the Stars was the world champion Horse in 2009 (Dukes, 2012). The effects of the recession have meant that fewer mares are being bred. For the most part these mares tend to be ones with proven success in their bloodlines, which means Ireland is producing mainly quality stock, with the average/bad stock being eliminated as it is not financially viable for owners. This is important for the industry if it wishes to maintain its stature as a world leader in the thoroughbred industry.

**IRISH SALES SUMMARY 2006-2011**

**2006 2007 2008 2009 2010 2011**

Catalogued 14,258 15,337 13,071 8,204 7,929 7,315

Offered 11,625 12,326 10,173 6,867 6,639 6,226

Sold 8,063 7,684 5,446 4,172 3,987 4,248

Aggregate €’000 191,463 178,738 99,500 67,500 68,025 80,636

Average € 23,746 23,261 18,270 16,183 17,061 18,982

Fig. 5.5 (HRI Factbook, 2011)

The table shows the sales figures of thoroughbreds bought from Goffs, Tattersalls or Goresbridge auctions between 2006 and 2011. It shows how sales drastically declined between 2006 and 2010. The sales figures show the first signs of improvement in 2011, however the 2011 figures are somewhat unjust due to extraordinary prices received for a select few horses (Banimpire €2.3 million, many of Sea The Stars first crop of foals also made €800,000 plus).

# 5.6 - Mick Kinane on the legendary Sea The Stars.



# Foreign Relations.

6.1 - The Irish thoroughbred industry throughout Ireland is set to receive a huge boost as a recent announcement has outlined how China has chosen Ireland as its partner in establishing themselves as a leader in the thoroughbred industry. The announcement came from Minister for Agriculture, Mr. Simon Coveney in April 2012 after one of many high-profile trade seeking missions. Horseracing was only legalised by the government in China in 2008, so they are relatively new to the industry. This is where the Irish expertise will come into action, with Coolmore Stud highlighted to be an advisory facilitator for the Chinese government (The Irish Times, 2012).

6.2 - The deal is said to be worth €40 million to the Irish thoroughbred industry. For its inaugural year, China aim to stage 40 races in the Tianjin Equine Culture City, the first establishment of its sort in China. The state of the art complex is estimated to cost €1.5 billion and will boast 4,000 stables, a vetinary clinic, 150 trainers’ stations equipped with five training tracks, as well as two world class racetracks. The same facility, which is located on a 3.3 million square metre site, will have an international equestrian college, a grandstand and a thoroughbred auction company (The Irish Times, 2012).

6.3 - Regardless to say, this will create a huge range of business opportunities for Ireland, which is not limited to the racing industry. In early April 2012 Connolly’s Red Mills, situated in Goresbridge Co. Carlow, secured a license which will allow them to import horse feed into China (The Irish Field, 2012). This deal would not have occurred had it not been for Ireland’s label as a world leader in the thoroughbred market. As a result it will create new employment in Connolly’s Red Mills and in many other firms such as haulage industries. The breeding programme established jointly by the Chinese government and Coolmore contains an agreement to import over 100 broodmares in the next three years. The project will also require 600 to 800 horses for the first year for the 40 races it plans to hold. Coolmore along with the rest of the Irish thoroughbred industry will be hoping that China will source these horses in Ireland. A new market for Ireland’s thoroughbreds would help to get the breeding industry back to a healthy, sustainable and viable level (The Irish Times, 2012).

# 6.4 - An aerial view of the Tianjin Equine Culture City.



(The Irish Times, 2012)

# Conclusions.

7.1 - After conducting this report I think it is fair to say that the recession has had the type of impact you would expect it to have on the thoroughbred industry. Numbers are down all around and the levels of employment have fallen. However there is light at the end of the tunnel. Even with the cutbacks to funding and the difficulties that come with it, progress is still being made. The deal with China has ignited a new flame within the people in the thoroughbred industry. It has created a sense of optimism and excitement which is needed in the industry while it is fighting its way through the recession. The window of opportunities is endless for this foreign market, both practically with the exportation of horses but also academically. The National University of Ireland, Maynooth already has an up and running degree in Equine Business which will give the people in the industry the opportunity to have a certified qualification in the industry. Combine this with the fact that the university also has an Arts Degree in the Chinese language, and you would have an unrivalled education in the industry.

7.2 - The Betting Bill which was announced is a key element in ensuring Ireland remains internationally competitive in the thoroughbred industry. When it begins it will provide increased revenue for both the government and the thoroughbred industry.

7.3 - The main factor the government should address in the thoroughbred industry is employment. Employment levels have decreased in the industry since the recession has hit and the Irish government should put emphasis on trying to get these people back to work or into courses such as the ones run in RACE, CO. Kildare. These courses give people who are interested in the thoroughbred industry a chance to educate themselves in the industry which will increase the likelihood of them attaining employment.

7.4 - The high profile stars are such as Banimpire are also helping by attracting foreign investment to the country. Bought as a yearling by Dermot Weld for €60,000, Banimpire returned to Goffs bloodstock sales just three years later to be bought an American syndicate for a colossal €2.3 million.

7.5 - These factors together with the passion Ireland has for horses will be the essential factors that will maintain Ireland as a world leader in the thoroughbred industry. As Sir William Temple said “Horses in Ireland are a drug” (Horse Racing Ireland, 2011). Forever that will be the case.

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