

THOROUGHBRED BREEDERS

Australia

Japan/Australia FTA Submission

25/2/2009

EXECUTIVE SUMMARY

Japan has a strong racing and breeding industry. The racing is split into two administrative systems; the Japan Racing Administration (JRA) run on a national level, and the National Association of Racing (NAR) run on a local government level.

The JRA system boasts some of the highest prize money on offer in the world and both the JRA and NAR administrations have a higher average prize pool per race than Australia. This gives Japanese owners some of the best buying power in the world.

The reason for Japan's high prize money is that it is derived from a healthy wagering system taking benefit from large human population. Japan's human population is approximately 127 million, while Australia has only 21 million people.

Japanese yearling sales in 2008 were strong with an average of US\$78,168 for 862 yearlings sold. In Australia, there were 4,903 yearlings sold for an average of US\$50,076. Australia exports around 2,000 horses annually, and less than 2% of the horses exported from Australia are sent to Japan. The total value of yearlings sold to Japan at present is small at approximately \$2.5million per annum.

There are two main reasons for the low volume of sales to Japan. The core reason is the high tariff on imported thoroughbreds. This currently stands at JPY3.4m (or A\$57,000). For a A\$100,000 yearling transported to Japan, the final cost of the horse is almost double at an estimated A\$190,000.

The other reason is the practical difficulty presented by the six month season gap. Horses born in Australia in the southern hemisphere season are disadvantaged when racing in Japan against their northern hemisphere peers. Many races have a weight allowance to compensate for this, and this gap reduces as all horses mature.

There is currently many restrictions on foreign-bred horses racing in Japan, and horses who have racing outside of Japan prior to importation are restricted to only 123 'international' races that are run at the most competitive level. For ordinary horses, they must be unraced at importation to be able to compete at the lower levels; and even then some restrictions apply.

The greatest restriction in trade is the import tariff and the reduction or removal of this tariff would make Australian horses affordable for Japanese buyers. This in turn would encourage a greater familiarity of the two industries between both countries. This increase in familiarity would lead to more trade between Japan and Australia in favour of both countries. More Australian horses would be imported to Japan, and

the consequence of that is that the Australian breeding industry would become more familiar with Japanese racing, and would purchase breeding stock from Japan for use in Australia. This would eventually flow onto the purchase of Japanese racehorses for specific races here.

As it currently stands, trade between Japan and Australia is small, and is restricted largely by the import tariff to Japan. A reduction in this tariff, along with more open conditions for foreign-bred horses, will increase the familiarity between both countries, leading to greater trade in both directions.

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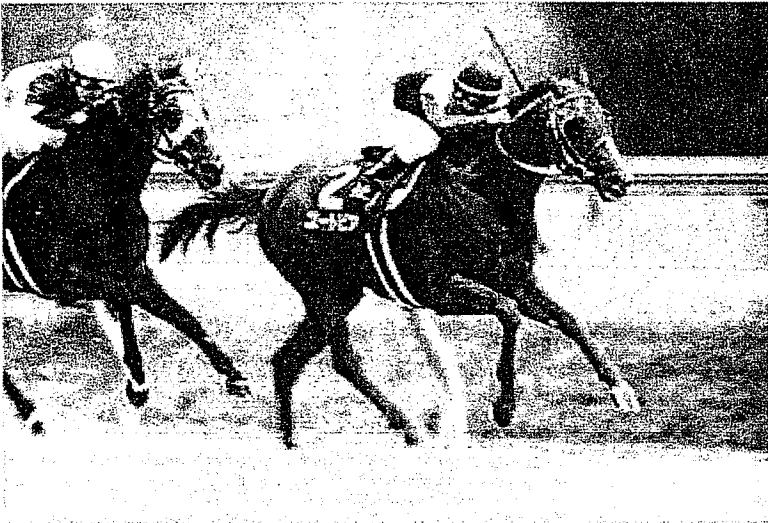
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JAPAN RACING INDUSTRY

Racing in Japan has a long history. English style thoroughbred racing was established in 1861 and was run by local authorities. After World War II, a new system was implemented, and this was updated in 1954 with the establishment of the current system.

The Japanese racing industry is overseen by the Ministry of Agriculture, Forestry and Fisheries. There are two national systems under which racing is administered; the Japan Racing Association (JRA) and the National Association of Racing (NAR). The JRA provides revenue to the national government, while the NAR is run by local governments and provides revenue to designated local governments.



The JRA was established in 1954 as a public entity to ensure "the integrity of horseracing and the development and improvement in the breeding of racehorses and other livestock". JRA are governed by a Board of 6 MAFF representatives plus the JRA CEO. This Board set the direction and budgets for the JRA. The operations are run by a Board of Directors (14 members) who run a national network of 10 racecourses and 38 off-course

betting facilities. The JRA contributes 10% of its turnover to the national government's treasury; as well as 50% of any surplus profits at the end of the financial year. In 2007, JRA paid approximately US\$2,862m in taxes. The use of this is legally specified to be used; 75% for the improvement of livestock breeding and 25% for public or social welfare.

The NAR was established in 1962 to unify the operations of racing held by local governments. There are 16 local governments which conduct horse racing. These are further divided into 47 prefectures, 14 of which contain 20 racecourses. In total there are 28 racecourses in Japan; 8 are JRA only, 2 are joint use and the remaining 18 are NAR.

Ownership of racehorses in Japan is generally restricted to Japanese residents only.

RACING STATISTICS

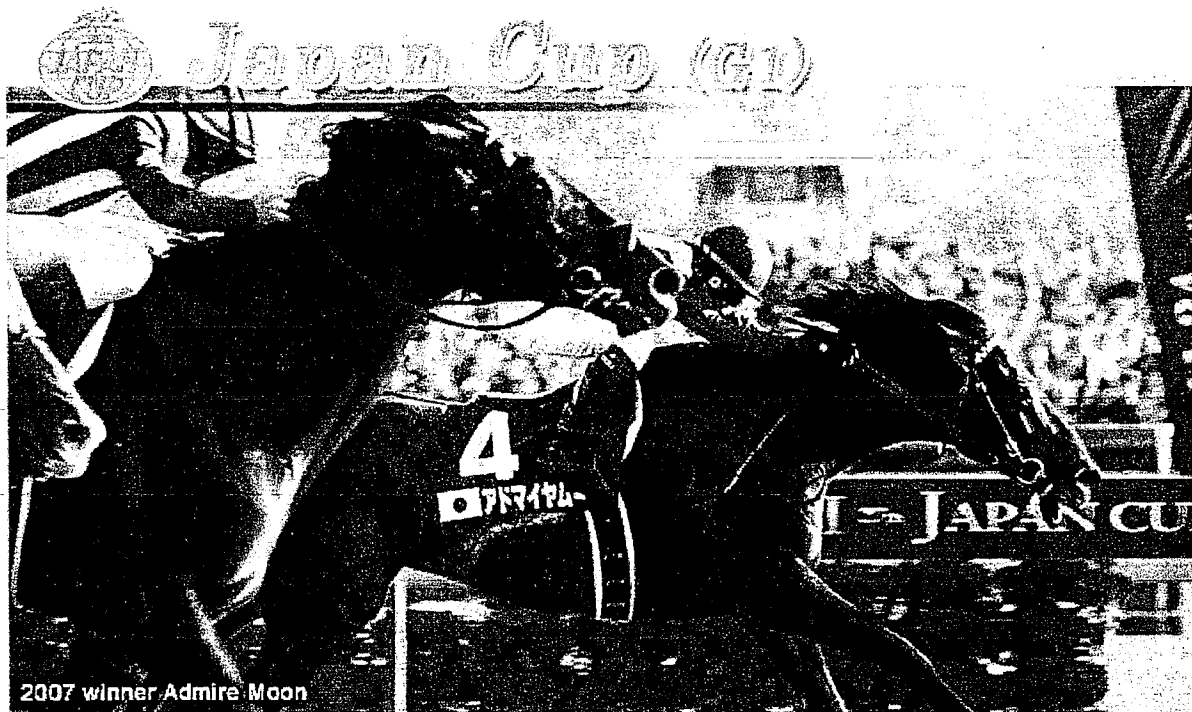
	Year	Racing Days	Races Run	No of Starters	Prize money	Avg per race (USD) ¹
JRA	2007	288	3,453	48,788	JPY111,276,267,280	\$354,486
NAR	2007	2,256	15,233	148,060	JPY29,799,898,000	\$21,519
AUS	2006/07	2,691	19,545	194,006	A\$428,329,417	\$14,245

Table 1²: Racing data for 2007 comparing the two racing systems.

Overall, the size of the racing industry in Japan compares with the industry in Australia with approximately the same number of race days, races run and number of starters.

This table outlines the strength of the Japanese racing administrations, with the average prize money per race in the JRA system being a staggering figure. Even the much poorer NAR system has a higher average prize money per race than Australia.

The richest race in Australia is the A\$5.5million Melbourne Cup. By comparison the richest race in Japan is the second richest race in the world, with prize money of JPY533,500,000 (US\$4.6million).



2007 winner *Admire Moon*

¹ For this document, the exchange rates used are JPY to USD 0.011 and AUD to USD 0.65.

² Data from: <http://japanracing.jp/japan/index.html>

This impressive prize money structure provides a huge driver for general horse values in Japan, and gives Japanese owners massive buying power both locally and internationally.

BETTING STATISTICS

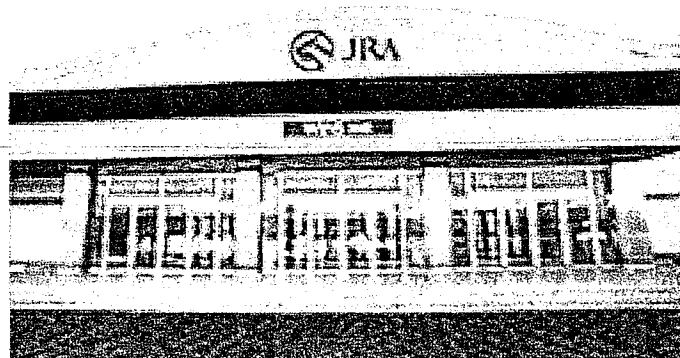
	Year	On-course (JPY)	Off-course (JPY)	Total (JPY)	Total (USD)
JRA	2007	226,453,757,400	2,540,432,166,600	2,766,885,924,000	\$30,435,745,164
NAR	2007	104,478,184	277,090,118	381,568,303	\$4,197,251

Table 2³: Betting information in 2007 in Japan

	On-course (A\$)	Off-course (A\$)	Total (A\$)	Total (USD)
TAB	703,230,000	8,639,080,000	9,342,410,000	\$6,072,566,500
Bookmakers	1,003,890,000	2,503,730,000	3,507,620,000	\$2,279,953,000

Table 3⁴: Australian betting information for 2006/07 season

The amount wagered in the JRA system outstrips the Australian wagering by a staggering figure, as shown in the above tables. This directly reflects the human populations in each country, as Japan has a population of 127 million, while Australia's is much lower at 21 million.



JRA WINS (betting shop)

³ Data from: <http://japanracing.jp/japan/index.html>

⁴ Australian Racing Board; Australian Fact Book 2006/07

BREEDING INDUSTRY COMPARISON

Both Japan and Australia have strong thoroughbred breeding industries.

	Year	Stallions	Broodmares	Foals bred
Japan	2006	292	10,255	7,655
Australia	2005/06	883	29,070	17,854

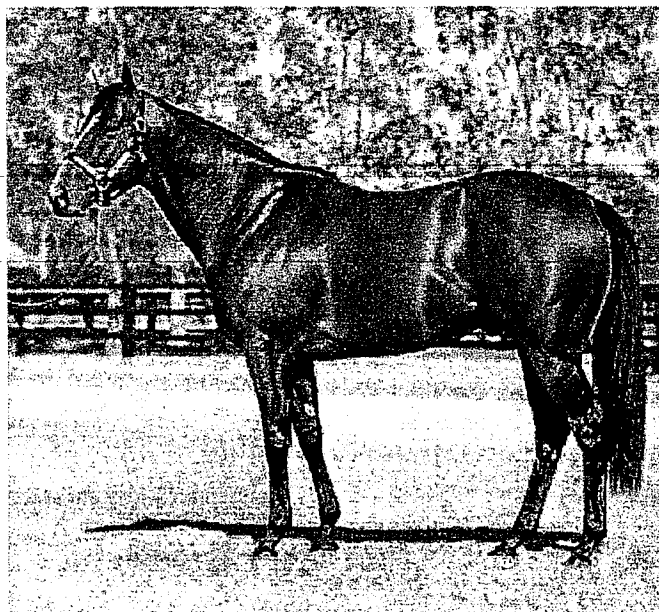
Table 5⁵: Breeding comparison between Japan and Australia

Of the 271 stallions standing in Japan during 2007, 170 were bred in Japan and 101 were bred overseas. The Japanese-bred stallions covered 6350 mares (average of 37), while the foreign-bred horses covered 4855 (average of 48).

The JBBA website compares this data with 2001, where 186 Japanese-bred stallions covered 5327 (average of 29) mares, and 172 foreign-bred horses covered 7486 (average of 44) mares. In 2001 the proportions of the stallions were reasonably equal, yet the foreign-bred horses covered more mares.

By 2007 there is a definite change in the trend, as the statistics show that of all mares covered in 2001, 41.6% were by Japanese-bred stallions, and by 2007 this has risen to 56.7%. The JBBA believe this demonstrates a trend in favour of Japanese-bred stallions.

Only one Australian-bred horse has stood in Japan in recent times: Snitzel (pictured below) who shuttles from Arrowfield Stud in NSW.



⁵ Data from JBBA and Australian Racing Board

2008 SALES RESULTS

There are 6 sales companies in Japan who hold 14 different sales throughout the calendar year. The full results are in Appendix 1.

Type	Offered	Sold	Gross (JPY)	Top (JPY)	Average (JPY)	Average (USD)
2YO in training	359	163	924,745,500	42,000,000	5,673,285	\$63,739
Foals	630	304	8,251,555,000	220,000,000	27,143,273	\$304,955
Yearlings	2392	862	5,997,389,500	245,000,000	6,957,528	\$78,168

Table 6⁶: Japan 2008 sales results

Type	Offered	Sold	Gross (\$A)	Top (\$A)	Average (\$A)	Average (USD)
2YO in training	721	358	\$11,646,628	\$280,000	\$32,533	\$21,146
Foals	1769	1208	\$31,398,000	\$700,000	\$25,992	\$16,895
Yearlings	6974	4874	\$371,701,486	\$2,700,000	\$76,262	\$49,570

Table 7⁷: Australia 2008 sales results

The strength of the Japanese racing industry is shown in their purchasing statistics. The average spend by buyers is much higher than in Australia, particularly in foal sales. This is an advantage for Australian breeders, as our horses become good value on the Japanese scale.

However, once you add the import tariff as well as the cost of transport to Japan, the average spend on Australian horses increases to reduce the price advantage enjoyed by Australian horses on a global scale.

The tariff then becomes a price disadvantage for Australian horses, making it hard for them to compete with the local Japanese product.

⁶ Data from Japan Bloodhorse Breeders Association (JBBA)

⁷ Data from Arion Pedigrees

GOODS TRADING TO JAPAN

CURRENT EXPORTS TO JAPAN

The Australian Stud Book records all stock imported and exported from our shores for each financial year.

Year Ending Jun 30	Total Exports from Australia	Exports to Japan	Public Sales for Exports to Japan	No Sold	Shuttle Stallions
2002/03	1401	28	\$2,830,000	9	10
2003/04	1517	34	\$6,105,000	22	7
2004/05	1573	33	\$2,676,000	18	8
2005/06	1695	22	\$1,556,000	12	8
2006/07	2383	46	\$3,378,000	21	9
2007/08	1061	22	\$2,342,500	16	5

Table 8⁸: Thoroughbred export figures for Australia and Japan.

This table shows that small proportion of exports to Japan as compared to all thoroughbreds exported from Australia. In 2006/07, horses exported to Japan represented only 2% of all exports. As a comparison, 606 (25%) horses were exported to the other four major Asian racing nations (Hong Kong, Malaysia, Singapore, Macau) in the same season. These countries enjoy a more relaxed import scenario as only Malaysia has a breeding industry, and therefore the majority of horses racing in these nations must be imported from breeding countries.

A 2007 report on the size and scope of the Australia racing industry⁹ estimated that total international exports were valued at approximately \$775million and imports valued at \$1,104million. It is unclear whether these sums include the value of stallions who shuttle between hemispheres.

The 2007/08 figures for the breeding industry in Australia were skewed by the adverse effects that the outbreak of EI had on the industry and thus aren't an effective illustration of a stallion's value.

In 2006/07, there were nine shuttle stallions who were exported to Japan for the northern hemisphere season. It is difficult to put an exact value on a stallion, but some assumptions can be made from their southern hemisphere serving statistics.

⁸ Data from the Australia Stud Book (for the year ending 30 June) Sales figures from: www.stallions.com.au

⁹ Economic Impact of Australian Racing 2007: Australian Racing Board

Stallion	2006 Service Fee	No of Live Foals	Estimated 2006 income in Australian based season*
Black Hawk	\$5,500	21	\$80,850
Falbrav	\$27,500	38	\$731,500
Fantastic Light	\$27,500	64	\$1,232,000
Grandera	\$8,800	62	\$381,920
Grass Wonder	\$11,000	17	\$130,900
Rock of Gibraltar	\$82,500	107	\$6,179,250
Snitzel	\$33,000	87	\$2,009,700
Tayasu Tsuyoshi	\$5,500	37	\$142,450
Timber Country	\$6,600	31	\$143,220

Table 9¹⁰: Shuttle stallions exported to Japan in 2006/07.

As this table shows, the range of service fees and popularity for different stallions shows the different range of stallion values. However, without knowing the insured value of each horse at time of export, it is virtually impossible to come up with a concrete value for each stallion. The number of variables in such an equation is truly massive. It would be unreasonable to come up with a value for a stallion based on a single seasons breeding results.

Even the estimated annual income will be too high when simply multiplying the service fee by the number of live foals. Many stallions serve mares owned by the stallion owners, and these foals don't contribute to the stallion's annual income. In addition, some externally owned mares may be given discounts for varying reasons, eg to increase the quality of a stallion's progeny through a high quality mare, or simply to increase the number of mares served. To take this into account, the estimated income in the table is: 70% of Service Fee x No of Live Foals*.

So in 2006/07, the 21 horses exported that were sold at public auction had total sale receipts of \$3.4million; and the nine shuttle stallions were responsible for approximately \$11million in breeding earnings for the season. This compares to over 2300 horses exported globally for an estimated total value of \$775million. Thus, the current trade with Japan represents only a minor proportion of Australia's total globe trade in thoroughbreds.

As a comparison in terms of volume, the largest exports to Japan in 2007 were:

Type	Value
Coal	A\$9,000m
Iron Ore	A\$4,501m

¹⁰ Data from the Australian Stud Book

Bovine meat	A\$1,908m
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Table 10¹¹: Exports to Japan in 2007 by value

CURRENT TARIFF

The current tariffs on importing livestock into Japan are:

- Pure-bred breeding cattle are tariff free
- Feeder cattle weighing not more than 300 kilograms is ¥38,250 per head on CIF (cost, insurance, freight) value
- Feeder cattle weighing more than 300 kilograms is ¥63,750 per head on CIF value
- Horses for racing is ¥3,400,000 per head on CIF value
- Other horses are duty free

QUARANTINE REQUIREMENTS

Horses are required to enter Japanese quarantine for a period of 7-21 days prior to importation. There are two quarantine facilities in Japan and both have training tracks to allow a fit racehorse on a temporary assignment to continue fitness work while under quarantine conditions.

VACCINATION

There are four major diseases that are discussed when importing a horse to Japan.

1. Equine Viral Arteritis (EVA). If a horse carries antibodies for this virus, they will NOT be granted entry to Japan. Vaccinating for this disease will mean the horse cannot be imported into Japan.
2. Equine Influenza (EI). All horses imported into Japan must be vaccinated for EI. Japan does not allow use of a live vaccine, so do not use a live vaccine within 14 days of importation.
3. West Nile Virus. This virus has several differing conditions depending on where the horse originates from. For Australian horses, this is irrelevant as the disease is not present in Australia.
4. Japanese Encephalitis (JE) Virus. The Japanese Government recommend that all horses are vaccinated for JE prior to being imported into Japan. This disease is common in Japan, particularly between July and October. All Japanese horses are required to be vaccinated between May and June on an annual basis.

¹¹ Department of Foreign Affairs and Trade – Country economic fact sheet

JAPAN TO AUSTRALIA

There is currently a quarantine restriction by AQIS on horses from Japan. A statement from AQIS on this issue is below:

Following the EI outbreak, it was determined that the biosecurity risks of importing horses from Japan needed to be re-assessed, and new import conditions developed. The existing conditions allowing importation from Japan were suspended on 10 October 2007 pending this re-assessment.

Biosecurity Australia is currently conducting an Import Risk Analysis (IRA) on the importation of horses from all countries from which horses are currently permitted. Japan will be included in this IRA.

Year Ending Jun 30	Imports from Japan
2002/03	22
2003/04	32
2004/05	26
2005/06	35
2006/07	31
2007/08	16

Table 11¹²: Thoroughbred imports from Japan

IRT representative Brooke Matthews stated that some horses from Japan are being imported into Australia, but the current regulations state that these horses must spend 60 days in another country before arriving in Australia. The few horses that have arrived this way have spent a minimum of 60 days in the United States of America.

The issue of reciprocal rights between the two countries was mentioned by many stakeholders, but trade from Japan to Australia is reliant on the results of the IRA by AQIS.

¹² Data from Australian Stud Book

INVESTMENT AND IMPACTS

JAPANESE INVESTMENT IN THE AUSTRALIAN ECONOMY

As at February 2009, the Japanese investment in the Australian racing industry is largely limited to the Yoshida family.

The Yoshida brothers, Teruya, Katsumi and Haruya, jointly own Shadai Stallion Station. This famous farm stood the multiple Champion Sire Sunday Silence, whose impact on the Japanese racing industry has never been equalled in their history. The three brothers have their own racing and breeding operations.

Teruya owns Shadai Farm and made his first Australian purchase in January 2009. At this stage it is likely that the \$A700,000 Redoute's Choice-Unearthly filly will remain in Australia for racing and breeding.

Haruya owns Oiwake Farm and is yet to venture to Australia.

The middle brother, Katsumi, owns Northern Farm and currently has a major Australia presence through his joint venture with Arrowfield Stud. Northern Farm own around 40 mares who agist at Arrowfield. The joint venture shares in the progeny of these mares, taking some to sale and retaining some for racing. The mares involved include some of the most prestigious in Australia such as;

- Weekend Beauty: the dam of Horse of the Year Weekend Hussler.
- Kirov Premiere: A Gr3 winner by champion sire Sadler's Wells who is the dam of Cesario; the third top filly in the world in 2005 thanks to her victories in the Hollywood American Oaks and the Japan Oaks. Kirov Premiere has had two yearlings sell at auction in Australia, making \$350,000 and \$400,000.
- Reann: winner of the 2008 Blue Diamond S Gr1.

In addition, Katsumi purchases fillies with excellent pedigrees to race in Australia and these fillies are retained for breeding in Australia. NZ filly of the year in 1998 Tycoon Lil is one such mare.

The Arrowfield Joint Venture is restricted in trade in both directions due to the tariff on arrival in Japan and the AQIS restrictions on Japanese horses entering Australia.

MEASURES THAT MAY IMPACT ON INVESTMENT

There are two major restrictions on trade with Japan at this moment in time.

The current import tariff of JPY3.4m on racing stock is a major restriction. This tariff adds approximately A\$57,000 to the purchase of a horse, and also applies to breeding stock and racehorses temporarily imported for a specific race. For a horse purchased for A\$100,000, the eventual cost of the horse once it arrives in Japan is almost double. The transport of the horse is in the region of A\$33,800 and with the tariff, the horse will have cost its new Japanese owners an approximate A\$191,200.

There is also a hemisphere restriction which impacts on the value of bloodstock. The Australian racing industry operates on the southern hemisphere season (starting 1 August), while the Japanese industry operates on the northern hemisphere season (starting 1 January). For example, a horse born in Australia on 1 August 2007 turns one on 1 January 2008 (while aged only 5 months old). When this horse races in 2yo and 3yo age restricted races in Japan, it has a maturity disadvantage against its older peers.

A solution to this would be for owners of young horses purchased in Australia to race these horses in Australia while they were young, and to import them into Japan once they reached maturity at age 4. However, a further restriction applies in this case. An unraced horse entering Japan can be eligible for all races, but once a horse has raced outside of Japan, the horse is deemed an international performer and can only race in races open to international horses. There are a restricted number of these races, highly increasing the risk of importing a tried racehorse. In addition, all international races are held at the highest level of racing, so are only open to the very best racehorses.

This restriction means that it is currently unviable to race a horse outside of Japan before importation if the owner intends on racing in Japan.

Removing this restriction on tried horses will increase the number of horses who are eligible for racing in Japan. With Australia's prizemoney stacked in favour of 2yo and 3yo racing, the opening up of this restriction will make the idea of purchasing a yearling in Australia more desirable for Japanese owners.

They can buy a horse for a longer term investment; racing the horse in Australia for a couple of seasons in its own age group, hopefully gathering prize money, then bring the horse home to Japan to chase the riches available for older horses.

COSTS AND BENEFITS OF REMOVING TARIFFS

The core benefit for the Australian industry of removing the import tariff would be an increased presence of Japanese buyers at the Australian sales. This would, in effect, open up a new export market for the Australian horse and would see more trade between Australia and Japan.

With more Japanese buyers tempted to Australia, in search of quality racehorses at a cheaper price than available in Japan, these buyers would become more familiar with the Australian racing industry. This works in reverse as well, with Australian breeders and buyers becoming more familiar with the Japanese industry; and therefore increasing the investment in both directions.

There is huge scope for more Australian owned stallions and broodmares to move between the two countries and to be traded for the benefit of both countries. The removal of the tariff and the consequential familiarisation of both industries with each other will benefit the breeding industry, increasing the number of Australian stallions in Japan from the one currently present there.

The hemisphere difference will always be present, but with appropriate racing allowances in place, and an increase in the races that foreign-bred horses are eligible for, this difference will be less significant. In Singapore, also run on northern hemisphere time, some 50% of racehorses are Australian bred, and these horses have no trouble competing at all levels of racing there.

The increase in familiarity between the two industries will have wider benefits to both countries than just trade. The Australian industry could gain benefit from looking at the betting taxation systems, and the administration systems to increase the flow-through from betting income to prize money. The two racing industries can gain wider benefits through personnel movements such as Japanese jockeys and trainers working in Australia and vis versa to better understand the different systems.

STATEMENTS FROM STAKEHOLDERS

INGLIS

Inglis is the Australia's leading thoroughbred auction house commenced its operation in 1867. The Australian Easter Yearling Sale, conducted at Sydney Newmarket every Easter, is the flagship event on the Inglis calendar, attracting the finest young thoroughbreds in the Southern Hemisphere, as well as buyers from all over Australia and throughout the world. It is the barometer for all thoroughbred interests in Australasia and has become an integral part of the Australian horse racing culture. Our export markets consist of numerous countries in the world and we have developed the export business to Japan over the last 10 years.

Japanese buyers have been purchasing thoroughbreds from US and UK, mainly because of the fact that the Japanese racing follows that of US and UK. Also horses in those countries are bred in the same time of year, thus there is no difference in their maturity level compared to the Japanese bred horses. The Southern Hemisphere bred horses are six month younger than those bred in the Northern Hemisphere and this is the one of the most disadvantageous factors that we have been experiencing when exporting horses to Japan. Another major factor impacting on investment by Japan is the high tariff imposed on imported thoroughbreds in Japan.

If the tariff was waived, Australia would become an attractive market for Japanese buyers to source thoroughbreds with international pedigree. There would be more Australian bred horses racing in Japan and the awareness of Australian breeding and racing industries would increase that would grow the number of people come to Australia to purchase horses or to learn horse related skills. Moreover, inward investment opportunities might be created from the Japanese breeders expanding their breeding operation to Australia.

No tariff on horses imported from Australia will give greater opportunity to the Australian breeding industry providing an outstanding advantage compared to the US and UK markets.

Another issue relating to exporting thoroughbreds to Japan is in the JRA's racing calendar. 3yo maiden races in JRA end before Australian bred horses become 3yo that limits the opportunity for Australian bred horses to prove their capability in the JRA circuit. We hope JRA to extend the period of the maiden races in Japan.

MAGIC MILLIONS

Magic Millions is Australia's second largest thoroughbred auction house with an annual turnover that has grown in the last 12 years from \$20million to over \$200million. Each year we auction approximately 7,000 yearlings, weanlings, broodmares, stallions and racehorses at various sales here at our head office complex on the Gold Coast, and also in WA, SA and Tasmania. A strong international buying bench is crucial to our business, and through our (and Aushorse) marketing efforts offshore, our major annual yearling sale at the Gold Coast this year saw approximately \$20 million worth of bloodstock sold to overseas buyers. This represented approximately one quarter of the sale's turnover.

This year at the same sale \$1.23 million was spent by Japanese horse owners and trainers. This was a markedly lower percentage than buyers from other countries.

We travel to Japan twice annually, and the biggest complaint we hear from Japanese buyers is the high import taxes placed on horses from Australia. This is without doubt the major stumbling block in our efforts to attract Japanese buyers. Australia is an ideal marketplace for buyers from Japan – many world class stallions shuttle to Australia in their off season from the Northern Hemisphere to serve Australian mares during the Southern Hemisphere breeding season. These stallions are some of the best from Europe, the United States and indeed Japan. Japanese buyers are able to purchase progeny of these stallions here in Australia at substantially lower prices than they would pay in the Northern Hemisphere. However the high taxes imposed on imports negate the cost savings to be made by buying from Australia.

Japanese buyers at our sale in January this year purchased yearlings ranging in price from \$80,000 to \$700,000 – the majority around the \$150,000 mark which has also been the case in previous years.

We are advised by Austrade that the import duties for horses to Japan are as follows:

- Duty of JPY 3.4 Million (Around \$60,000 on today's rates)
- Plus 5% consumption tax on the combined customs value of the horse plus transportation costs (currently between \$10,000 to \$25,000 per horse), plus insurance costs plus the import tax of 3.4 million Yen.

IRT

IRT was formed in 1972 in Melbourne, Australia and now with offices in NZ, USA & United Kingdom IRT makes arrangements annually for approximately 5,000 horses to be moved worldwide. Leaders in the Australia/NZ region, IRT has been responsible for the shipment of many horses to and from Japan over the last 30 years.

Exports to Japan

IRT is able to offer regular shipments from Australia to Tokyo (Narita). Flight dates are based on Post Arrival Quarantine availability in Japan. Horses can either travel alone or up to 3 horses travelling in an airstable. The transport from Australia is quite cost effective, however our clients have been concerned by the import taxes on arrival in Japan.

Imports from Japan

Post Equine Influenza horses are required to reside in an approved country prior to arrival in Australia. For example they would have to fly to the USA, reside in the USA for 60 days before returning to Australia under USA to Australia import conditions.

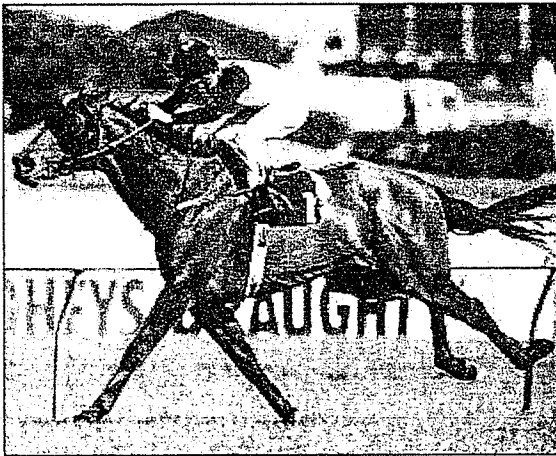
As the airfreight costs have always been extremely high ex Japan to Australia, the costs has only marginally increased with the new protocol. However the major problem is the length of time required to import the horse.

EG; Pre export quarantine in Japan, flight to USA,, 60 days residency including 21 days pre export quarantine and 14-21 days post arrival quarantine in Australia.

INTERNATIONALISATION OF JAPAN RACING

The internationalisation of Japanese racing began in 1971 with the easing of restrictions on the importation of racehorses. In 1974, the JRA joined the International Agreement on Racing and Breeding bringing the local industry in line with the major global players. The first International Stud Book Committee meeting is held in 1979 and Japan became Asia's representative.

The JRA's drive towards becoming a global player in the thoroughbred industry was defined by the inaugural running of the Japan Cup in 1981. This first running was restricted to horses trained in Japan, USA, Australia, Canada, New Zealand and India, as well as horses who were specifically



invited. The American mare Mairzy Doates won from Canadian trained Frost King. In 1982, the restrictions on entry were abolished and the best horses from around the world were invited. The Japan Cup remains an invitational race and a true international championship for stayers. The prizemoney in 2008 was JPY533million (US\$4.6million) and the race is run on turf over 2400m.

The Australian horse Better Loosen Up won the Japan Cup in 1990, and remains the only Australian winner of the race.

But it was the win by Delta Blues (JPN) in the 2006 Melbourne Cup opened the eyes of the Australian racing industry to the strength of the Japanese industry. For the first time, a Japanese trainer had specifically targeted an Australian race. Katsuhiko Sumii brought Delta Blues and Pop Rock to Australia for the race that stops a nation, and came away with the quinella. Delta Blues was the first Japanese bred horse to win Australia's richest race.

INTERNATIONAL RACES

There are currently 123 races on the Japanese calendar that are deemed 'international'. In addition, there are 8 'big races' for JPN bred horses only. As with racing anywhere, each race has its own set of criteria and conditions, such as WFA, 2yos only, etc.

For example, the Gr1 February Stakes, held in late February, is for 4yo and up racehorses and run over 1600m on a dirt surface. All horses carry 57kg, but there are exceptions. Mares get a 2kg weight allowance, while horses born in the southern hemisphere get a 1kg allowance. This means

that a mare born in Australia would carry only 54kg compared to a Japanese born colt carrying 57kg.

There are currently severe restrictions on horses who have competed in racing outside Japan. The majority of races are for domestic horses only, and the JRA are very strict on registrations for horses who have debuted outside Japan. There are two types of races open to foreign-bred horses; "kokusai" are the top end races and include some of the 123 'international' races and "kongou" are races open to both Japan-bred and foreign-bred horses and are run at all grade levels. Approximately 55% of all JRA races carry either of these two designations. In 2010, JRA are to open all group races to international performers.

There is also a further restriction that may still apply to young horses. To be allowed to compete on the lucrative JRA circuit, 2yos had to win a race before November, otherwise they are relegated to the NAR circuit. For Japanese bred horses, who turn 2 on 1 January, they have the whole year to qualify. For Australian horses who are purchased as yearlings, this restriction doesn't allow enough time for our horses to be prepared for this racing. An Australian horse born in Sept 2006, turns 2 in Japan on 1 January 2008 (when only 16 months old). If this horse is sold in January 2008, and imported to Japan, it must win a race before November of that year, leaving not much time for travel recovery, breaking in, and racing preparation; let alone the issues surrounding the individuals lack of physical maturity. Inglis representative Satomi Oka states that there is a similar restriction on the qualification for 3yo horses.

These restrictions mean that Australian bred horses have fewer opportunities for racing in Japan when compared to Japanese bred horses, especially at the lower grades.

AUSTRALIAN PRESENCE IN JAPAN

Country of Birth	Runners	Starts	Winners	Wins	SW	Earnings (US\$)	Average Earnings (US\$)
JPN	20396	179748	8897	16791	147	\$ 894,218,962.46	\$ 43,842.86
AUS	50	360	24	48	1	\$ 4,968,880.98	\$ 99,377.62
Others	845	5992	349	681	11	\$ 61,678,981.56	\$ 72,992.88
Total	21291	186100	9270	17520	159	\$ 960,866,825.00	\$ 45,130.19

Table 4¹³: 2008 Japan racing statistics by country code

This data is skewed by the discrepancy between the earnings in the JRA and NAR systems. Earlier in table 1 the difference in average prize money per race between the JRA and NAR systems is shown. This huge difference creates a false impression that the internationally bred horses

¹³ Data from Arion Pedigrees

are better performers than the Japanese bred ones. The internationally bred horses race almost exclusively in the JRA system, while the Japanese horses are spread across both systems. This is largely to do with the higher cost of purchasing and importing international stock – only the best are bought, and therefore they only race in the higher prize money races.

Since 2000, there have been four standout performers in Japan who were born in Australia. This may seem low, but at 1.77% of the Australian bred runners, our top horses have occurred at a slightly higher ratio for all horses in Japan (1.19%).

FAIRY KING PRAWN

An Australian bred horse who raced primarily in Hong Kong, Fairy King Prawn won the 2000 Tokyo Yasuda Kinen (Jpn-1). He was sold at the W Inglis & Sons Australian Easter Yearling Sale for \$170,000.

Fairy King Prawn (AUS)
Bay Gelding, foaled 13 Oct 1995

Brief Race Record

Season	Country	Age	Starts	Wins	Seconds	Thirds	Earnings
1998	HK	2	1	1	0	0	HK\$302,670
1999	HK	3	8	4	3	0	HK\$6,108,163
2000	HK	4	6	1	4	0	HK\$5,494,704
"	JPN	"	1	1	0	0	97,864,000¥
2001	HK	5	7	4	2	0	HK\$12,652,050
"	JPN	"	1	0	0	0	-
"	UAE	"	1	0	1	0	1,464,000Dhs
2002	HK	6	1	1	0	0	HK\$1,140,000
Totals			26	12	10	0	HK\$25,697,587, 97,864,000¥, 1,464,000Dhs

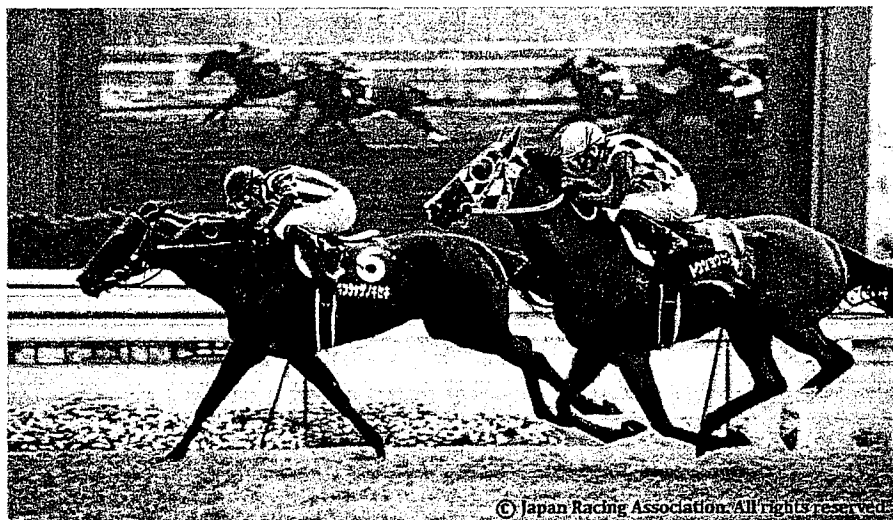
Winner from 1000m to 1600m

Age	Performances
At 3 years	HKJC Chairman's Prize, HK-1 , Country Club Challenge Cup., Berlin H., TVB Cup, 2d Sha Tin Vase, HK-2 , Telecom Cup, Sprint Trial Trophy
At 4 years	Hong Kong Sprint, L , 2d HKJC Chairman's Prize, HK-1 , Centenary Cup, HK-2 , Bauhinia Sprint Trophy, HK-3 , National Panasonic Cup
At 5 years	HKJC Stewards' Cup, HK-1 , Bauhinia Sprint Trophy, HK-1 , Tokyo Yasuda Kinen, Jpn-1 , HKJC Chairman's Sprint Prize, HK-1 , Happy Valley Trophy, HK-3 , 2d Hong Kong Mile, Gr.1 , Nad al Sheba Dubai Duty Free S., Gr.2 , HKJC Sprint Trial Trophy
At 6 years	HKJC National Day Cup

KINSHASA NO KISEKI

This colt was bred in Australia by the Arrowleave Joint Venture and has no sales results. He is by Japanese born sire Fuji Kiseki from Keltshaan

(USA), a Northern Farm owned mare. He was exported to Japan in June 2005 and did all his racing in Japan. His half brother was purchased in 2008 by K Yoshida for A\$120,000 and exported to Japan in June 2008.



Kinshasa No Kiseki (AUS)
Bay Horse, foaled 2003

Brief Race Record

Season	Country	Age	Starts	Wins	Seconds	Thirds	Earnings
2005	JPN	2	1	1	0	0	7,000,000¥
2006	JPN	3	7	2	0	1	77,142,000¥
2007	JPN	4	5	2	0	1	70,210,000¥
2008	JPN	5	6	1	2	1	133,837,000¥
Totals			19	6	2	3	288,189,000¥

Winner from 1200m to 1600m

Age	Performances
At 3 years	Nakayama Junior Cup, Kyoto Katsuragawa S., 3d Tokyo NHK Mile Cup, Jpn-1 , 4th Hanshin Marguerite S., L
At 4 years	Niigata Tanigawadake S., L , Tokyo Capital S., L , 3d Hanshin Centaur S., Gr.2 , 4th Hankyu Hai, Gr.3
At 5 years	Hakodate Sprint S., L , 2d Nakayama Sprinters S., Gr.1 , Chukyo Takamatsunomiya Kinen, Gr.1 , 3d Sapporo Keeneland Cup, L

SILENT WITNESS

Another horse born in Australia, who raced predominantly in Hong Kong, Silent Witness won his first 18 races in succession to fall only one short of the modern day record of 19¹⁴. He was sold at the W Inglis & Sons Classic Yearling Sale for \$55,000.

Silent Witness (AUS)
Bay Gelding, foaled 1999

Brief Race Record

Season	Country	Age	Starts	Wins	Seconds	Thirds	Earnings
2003	HK	3	5	5	0	0	HK\$3,915,900
2004	HK	4	6	6	0	0	HK\$16,416,000
2005	HK	5	7	6	1	0	HK\$18,575,000
"	JPN	"	2	1	0	1	121,912,000¥
2006	HK	6	4	0	1	1	HK\$1,507,500

¹⁴ This record is currently jointly held by Peppers Pride (USA), Gloaming (AUS) and Desert Gold (NZ).

"	JPN	"	1	0	0	0	14,000,000¥
2007	HK	7	4	0	1	0	HK\$2,782,500
Totals			29	18	3	2	HK\$43,196,900,
							135,912,000¥

Winner from 1000m to 1400m

Age	Performances
At 3 years	HKJC Sha Tin Vase, HK-2 , Sound Print H., Hennessy H., Mastermind H., Gay Eighties H.
At 4 years	Hong Kong Sprint, Gr.1 , HKJC Bauhinia Sprint Trophy, HK-1 , Centenary Sprint Cup, HK-1 , Chairman's Sprint Prize, HK-1 , International Sprint Trial H., HK-2 , Sha Tin Sprint Trophy H., HK-3
At 5 years	Cathay Pacific Hong Kong Sprint, Gr.1 , HKJC Bauhinia Sprint Trophy, HK-1 , Centenary Sprint Cup, HK-1 , Chairman's Sprint Prize, HK-1 , Queen's Silver Jubilee Cup, HK-2 , Cathay Pacific International Sprint Trial H., HK-2 , 2d Champions Mile, HK-1
At 6 years	Nakayama Sprinters S., Jpn-1 , 2d HKJC Queen's Silver Jubilee Cup, HK-1 , 3d Chairman's Sprint Prize, HK-1 , Tokyo Yasuda Kinen, Gr.1
At 7 years	2d Cathay Pacific Hong Kong Sprint, Gr.1 , 4th Nakayama Sprinters S., Gr.1 , HKJC Cathay Pacific International Sprint Trial H., HK-2

TAKEOVER TARGET

The ultimate Australian international performer, Takeover Target has won in Australia, Great Britain, Singapore and Japan. Owned and trained in Australia, he travelled to Japan to compete on the international sprint circuit in 2006. He won the Nakayama Sprinters S., **Gr.1**. Takeover Target was sold as an unraced older horse in 2003 for \$1,250.

Takeover Target (AUS)

Bay Gelding, foaled 1999

Brief Race Record

Season	Country	Age	Starts	Wins	Seconds	Thirds	Earnings
2004	AUS	4	6	6	0	0	A\$206,400
2005	AUS	5	5	1	1	1	A\$439,000
2006	GB	7	3	1	0	1	£151,255
"	AUS	"	7	4	0	1	A\$1,225,700
"	JPN	"	2	1	1	0	122,854,000¥
2007	GB	8	2	0	1	0	£86,788
"	AUS	"	3	1	1	0	A\$512,600
2008	GB	9	2	0	1	0	£73,937
"	AUS	"	4	2	1	1	A\$230,750
"	SIN	"	1	1	0	0	S\$570,000
2009	AUS	9	2	2	0	0	A\$326,250
Totals			37	19	6	4	£311,980,

A\$2,940,700, S\$570,000, 122,854,000¥

Winner from 1000m to 1400m

Age	Performances
At 4 years	Gosford RC Pacesetter S., L , Clarence River JC Ramornie H., L , AJC Harrington Park H., STC Carsguide H.
At 5 years	VRC Salinger S., Gr.1 , 2d Qld Tatt's RC WJ Healy S., Gr.3 , 3d BTC Doomben Ten Thousand S., Gr.1 , 4th BTC Cup, Gr.2
At 6 years	VRC Newmarket H., Gr.1 , Lightning S., Gr.1 , BTC Summer S., Gr.3 , Doomben S., L , 3d MRC Oakleigh P., Gr.1 , 4th VRC Salinger S., Gr.1
At 7 years	Nakayama Sprinters S., Gr.1 , BTC Doomben Ten Thousand S., Gr.1 , Royal Ascot King's Stand S., Gr.2 , 2d BTC Cup, Gr.1 , Chukyo Centaur S., Jpn-2 , 3d Royal Ascot Golden Jubilee S., Gr.1
At 8 years	AJC Razor Sharp H., L , Arrowfield Stud Sprint Quality H., 2d Royal Ascot Golden Jubilee S., Gr.1 , AJC Villiers H., Gr.2 , 3d TJ Smith S., Gr.1 , 4th Royal Ascot King's Stand S., Gr.2
At 9 years	WATC Winterbottom S., Gr.2 , AJ Scahill S., Gr.3 , Singapore TC Krisflyer International Sprint, L , 2d Royal Ascot King's Stand S., Gr.1 , 4th Golden Jubilee S., Gr.1

APPENDIX 1: FULL SALE RESULTS

Sale	Year	Type	Offered	Sold	Gross (JPY)	Top (JPY)	Average (JPY)
JRHA	2008	Foals	314	222	7,339,000,000	220,000,000	33,058,559
JRHA	2008	Yearlings	151	105	2,347,600,000	245,000,000	22,358,095
Hokkaido	2008	2yos	181	82	434,595,000	29,400,000	5,299,939
Hokkaido	2008	Foals	178	58	776,475,000	63,525,000	13,387,500
Hokkaido	2008	Yearlings	228	107	1,157,625,000	30,450,000	10,818,925
Hokkaido	2008	Yearlings	1124	354	1,599,675,000	21,210,000	4,518,856
Hokkaido	2008	Foals	138	24	136,080,000	18,900,000	5,670,000
Hokkaido	2008	Yearlings	764	266	813,004,500	15,855,000	3,056,408
Chiba	2008	2yos	54	30	172,830,000	13,020,000	5,761,000
Chiba	2008	Yearlings	8	1	5,250,000	5,250,000	5,250,000
Hachinohe	2008	Yearlings	76	20	60,795,000	6,930,000	3,039,750
Kyushu	2008	Yearlings	41	9	13,440,000	2,310,000	1,493,333
Kyushu	2008	2yos	8	6	11,445,000	3,675,000	1,907,500
Hidaka	2008	2yos	116	45	305,875,500	42,000,000	6,797,233

Table 12¹⁵: Full sales results for Japan in 2008

Thoroughbred auction markets held in Japan include the sale of foals, yearlings, and two year olds, training sales and the sale of broodmares.

Their schedules and organizers differ little from year to year. Sales of foals are mainly held in July through October, yearlings in May through October and training sales of two year olds in May. Sales of racehorses and broodmares take place in October, or November.

¹⁵ JBBA sales results: <http://www.jbba.jp/en/market/index.html>

APPENDIX 2: NEWS ARTICLE

SNITZEL JOINS IMPACT AT JAPANESE STUD

BY TONY ARROLD
October 16, 2006

SNITZEL will join Deep Impact, syndicated last week for a Japanese record Y5.1 billion (\$58 million), as the newcomers on the Shadai Farms 2007 stallion roster.

By champion sire Redoute's Choice, Snitzel was signed up as a shuttle horse for Japan's leading breeding operation on the back of Takeover Target's win in the Group I Sprinter's Stakes (1200m) at Nakayama two weeks ago.

The lightly raced Snitzel won February's Group I MRC Oakleigh Plate (1100m), with Takeover Target third.

He is presently covering more than 140 mares on the Arrowfield Stud at Scone, NSW, in his first stud season.

Arrowfield and Shadai have been shuttle partners for more than a decade but until Snitzel, the arrangement has been one-way traffic, from Japan to Australia.

Arrowfield arranged to send a select batch of mares to Shadai to be covered by its all-conquering Sunday Silence, a venture that ended with the death of the Halo horse in 2002.

Sunday Silence was too valuable to move off Shadai and that is the position with Arrowfield's Redoute's Choice, which will cover a select band of mares to northern time early next year.

Katsumi Yoshida, a brother in the family that runs Shadai Farms, is among breeders from the northern hemisphere with mare bookings to Redoute's Choice.

Yoshida bred Deep Impact and sold him as a 2002 foal to Makoto Kaneko, who raced the son of Sunday Silence to win 10 of his 12 starts, earning more than \$11.5 million.

Two weeks ago, Deep Impact ran in France's Group I Prix de l'Arc De Triomphe (2400m), finishing third to local colt Rail Link, which like Snitzel is a grandson of dual-hemisphere champion Danehill.

Deep Impact may have one or two more starts, possibly the Group I Japan Cup and Arima Kinen, before moving to Shadai.

A triple crown winner and horse of the year for 2005, Deep Impact beats Japan's previous high syndication mark of Y2.1 billion for King Kamehamaha, by Kingmambo.

🌿 THE AUSTRALIAN