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The Secretary  
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Dear Ms McNally

**Submission in response to Anglo-American's Response to the Planning Assessment  
Commission Review Report Drayton South Coal Project May 2016**

This is Coolmore Australia's sixth submission on Anglo American's application to develop a large open cut mine at Drayton South directly to the Department of Planning and Environment. Coolmore has made a further five submissions to the Planning Assessment Commission (PAC), and three public presentations to the PAC.

The Coolmore Australia September 2015 submission to the PAC provides important additional information and rebuttal to the positions of both the Department of Planning & Environment at that time and Anglo American. This submission was provided directly to the Department on 10 June 2016. As the mine plan is unchanged since the Review PAC, there is no need to repeat all of its contents in this paper, but rather to attempt to assist the Department in identifying the serious problems in the analysis provided by the proponent in its report of May 2016, and correcting those.

*Contents*

1. Context
2. Department Preliminary Assessment
3. PAC Review Report November 2015
4. NSW Government Policy
5. Impacts of Proposed Mine on Coolmore
  - *Direct*
  - *Operational*
  - *Reputational*
  - *Client Survey*
6. Response to Anglo American Submission
7. Response to Report of Houston Economics
  - *Assessment of Coolmore's Business*
  - *Impact on Hunter Valley Cluster*
  - *Relocation*
  - *Moving in of other actors*
  - *Revaluation of Asset*
  - *Edinglassie*
8. Conclusion

Appendix A: Coolmore Australia Client Survey

Appendix B: David Redvers Interview – Sheikh Turns Back On Hunter

Appendix C: Chris Waller PAC Review Submission – September 2015

Appendix D: Formal Industry and Community Objections to Drayton South Proposal

## **1. Context**

- Coolmore Stud is the largest commercial thoroughbred breeding and racing operation in the world, with stud farms in Ireland, the United States and Australia. Coolmore Australia directly employs up to 150 people, 95% of those are Australian citizens and permanent residents.
- Coolmore has been independently assessed as one of the two most significant and central businesses in the Hunter Equine Critical Industry Cluster.
- The thoroughbred industry in the Hunter employs 4,797 full time equivalent employees and generates \$546 million annually in the Hunter economy<sup>1</sup>.
- Coolmore acquired its property in the Hunter Valley in 1995, when there was neither a development consent nor exploration licence in force over the neighbouring area (contrary to Anglo American's statement on page 28 of its May 2011 response), then known as Saddler's Creek.
- Coolmore Australia's property has been used for thoroughbred breeding for over 100 years, is one of the finest land holdings for this purpose in Australasia, and has received infrastructure investment of over \$100m in the past 20 years.
- The Drayton South proposed project would come to within 900m of Coolmore Australia's fence line.
- Coolmore cannot operate to its standards in such close proximity to an open cut coal mine.
- To date, four Planning Assessment Commissions have found that open cut coal mining and international level thoroughbred breeding are incompatible land uses - three regarding Drayton South and one relating to the Bickham Coal Project in 2010.
- Coolmore has evidenced substantial direct and indirect impacts on its operations, viability and investment should mining be permitted on the Drayton South site and in close proximity to Coolmore. More than 30 technical experts have contributed independent evaluations of these impacts.
- No stud farm of Coolmore's scale or standards operates closer to a coal mine than Coolmore currently does - at 4km from Hunter Valley Operations. Drayton South is the first coal mine to which Coolmore has objected.
- Coolmore's stakeholders - employees, broodmare and stallion owners, racehorse trainers and competitors - have expressed serious concern about the implications for Coolmore, for their own businesses and for the Hunter Valley Equine Critical Industry Cluster should Drayton South be allowed to proceed.
- A June 2016 survey of Coolmore's entire client base - that is, for the most part, commercial breeders - shows that 96% believe that it is unacceptable to locate an open cut coal mine within 900 metres of a stud farm. 94% believe that an approval for Drayton South will damage the Hunter Valley's reputation as a prime location for thoroughbred breeding.

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<sup>1</sup> Office of Liquor, Gaming and Racing Report 2014 – Size and Scope of the NSW Racing Industry

## **2. Department Preliminary Assessment**

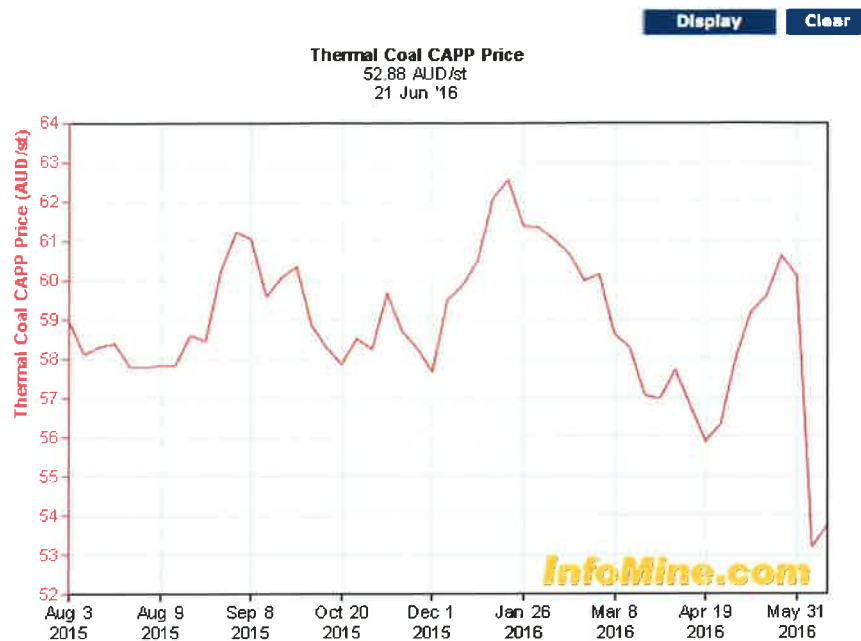
The Department of Planning and Environment last considered Anglo American's Drayton South proposal in August 2015. The Secretary's Environmental Assessment Report contains some substantive factual errors and misunderstandings. Nonetheless, the Department did acknowledge that "there is some uncertainty about the potential impact of the project on horses at the studs" (p 56). The Department also found that:

**image and visual presentation are critical to the business model of the studs as they are inherently linked to client perception, investor confidence and the reputation of the thoroughbred breeding operations.** If meaningful protection is to be afforded to the studs, in accordance with the SRLUP, the proximity of mining must not be permitted to materially diminish the brandscape of these businesses.  
(SEAR p 49) (emphasis added)

At that time, the Department recommended approval of the project because it was persuaded by the economic benefit being in the public good, and because it questioned the effect on the Equine Critical Industry Cluster if Coolmore and Darley were forced to relocate.

Since August 2015, the following has changed:

- Anglo American has confirmed its exit from the coal industry - despite every assurance to the contrary - and has put Drayton South up for sale.
- The credibility of the economic modeling on which this proposal was justified has been significantly questioned by a number of economists, in particular the coal price assumptions. Anglo American has confirmed that the assumed coal price used in their modeling is actually AUD \$102 per tonne, and not AUD \$87 per tonne as previously stated in their report, and as would have been relied upon by the Department of Planning in preparing their Preliminary Assessment.
- The world price for thermal coal has fallen by almost a further 10% since August 2015.
- It has been announced that mining will cease at Drayton in September 2016, so any possible opportunity to transfer the workforce to a new mine has now closed. We will note here that even had planning permission been granted to Drayton South, it would still have had to pass an internal investment decision by Anglo American, and that Anglo American has determined to exit the coal sector.



- A number of other large-scale mining project extensions have been approved in NSW, including many that offer significant employment.
- The thoroughbred industry has witnessed continued growth in its sector over the past five years. The gross sales of the two premier yearling sales in the Southern Hemisphere, the Magic Millions Gold Coast Sale and the Inglis Easter Sale have increased from \$142m to \$223m, an increase of almost 58%; strongly aided by the continued growth in international investor participation. International investors alone accounted for 24% and 37% of lots purchased respectively, at the 2016 Magic Millions Gold Coast Sale and the Inglis Easter Sale representing investment of \$32m and \$28m.
- A third PAC has recommended against approval of Drayton South, if anything in stronger terms than the previous PAC reports. This PAC included the Chairperson, Lynelle Briggs and two other expert members, all appointed by the NSW Government.

At the time the Department was preparing its Preliminary Assessment in 2015, Coolmore had not received reports from many of the independent experts it had engaged to review the project. These reports were completed in time to submit to the PAC for its Review as was the additional information provided by Darley Australia, the Hunter Thoroughbred Breeders' Association and a number of other parties that identified both the direct and indirect impacts the proposed Project would have on Coolmore, Darley and the Equine Critical Industry Cluster.

We hope that the Department can now benefit from this information and the extensive 14 week review undertaken by the PAC in coming to their recommendation that the Project should not proceed.

As the Department considers this application, these facts show that the balance has shifted even more definitively to supporting a cautious approach. Recommending refusal of Drayton South will protect the Equine Critical Industry Cluster which is a long-term, sustainable economic driver for the Hunter.

### **3. Planning Assessment Commission Review November 2015**

The critical points made by the Review PAC in relation to Drayton South were that:

- The proposal involved a new open cut area within 1km of two of Australia's most important studs
- The PAC could not be assured that the risks could be adequately mitigated
- These risks could impact on the reputation of the studs and to a lesser extent, on their operations
- There could be potentially catastrophic consequences to the equine industry in the Hunter if Coolmore and Darley relocated
- Mining and stud land use is not compatible in close proximity and this conflict cannot be overcome
- There is a need for better strategic planning for land use, particularly where there is potential conflict between industry groups. A policy gap is evident that needs to be addressed to provide clarity to all parties.

The PAC's primary concern related to the impact on the Equine Critical Industry Cluster and the uncertainty about the survival of this industry in the Hunter should Coolmore and Darley have to leave. The Review PAC was concerned about balancing the possible loss or downturn of an economically important industry with a relatively small additional mining area.

The Review PAC was not convinced that there would be no damage to the horses and the studs' operations due to visual, noise and other impacts. Damage to reputation is an impact that has standing under the Environmental Planning & Assessment Act, contrary to Anglo American's assertion. Reputation is critically important for businesses to survive and grow, and can be harmed as a consequence of an adverse impact from a development.

While impact on reputation may not be common in the assessment process, this does not mean it is invalid for consideration, as asserted by Anglo American (p 13). It is absolutely appropriate in these circumstances. Coolmore's business and operations are sophisticated and have a very high degree of sensitivity to external factors and there will unquestionably be direct environmental impacts from the Drayton South project.

Furthermore, the importance of reputation to the Hunter Valley Equine Critical Industry Cluster is recognised by;

- three Planning Assessment Commissions: “The risks of each impact cannot be considered in isolation when the primary risk to the Equine Critical Industry Cluster is one of overall reputation and brand” (PAC Review Report 2015 p49).
- the Department of Planning & Environment: “image and visual presentation are critical to the business model of the studs as they are inherently linked to client perception, investor confidence and the reputation of the thoroughbred breeding operations.” (SEAR Report p 49)
- Dr Greg Houston, who identifies it as one of the four most important qualities of the CIC
- Anglo American which states: “Anglo American acknowledges the importance of the ‘brandscape’ developed by Coolmore and Darley consistent with their place in the equine industry cluster and the perception and reputation derived from it” (May 2016 p19)

Coolmore has previously explained that approving the proposed project at Drayton South would put Coolmore’s operations, reputation, brand, viability and investment at risk from the high impact activities of a third party, which has no alignment with or self-interest in protecting Coolmore’s business.

#### **4. NSW Government Policy**

The Government of New South Wales has acted to assess lands in the State according to their agricultural significance, and according to various Critical Industry Clusters. Subjecting mining development applications to the additional scrutiny of the Gateway Panel is an illustration of the objective of the Mining SEPP to protect the presence of the equine industry in areas such as the Upper Hunter.

All of Coolmore Australia’s property has been designated as Strategic Agricultural Land, and as part of the Equine Critical Industry Cluster.

The proposed mine pit would come within 900m of the boundaries of Coolmore’s land - the existing Drayton operations are at a distance of 9.5km.

#### *State Environmental Planning (Mining, Petroleum and Extractive Industries) Policy 2007*

Clause 12(d) (iv) of the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 places the sustainable growth of agricultural industries on an equal footing to the sustainable growth of the mining industry in establishing a gateway process ‘to provide for the sustainable growth of mining, petroleum and agricultural industries.’

The incompatibility of any proposed State significant mining project with existing land uses is a key consideration under the Mining SEPP.

Clause 12 provides:

“Before determining an application for consent for development for the purposes of mining, petroleum production or extractive industry, the consent authority must:

(a) consider:

- (i) the existing uses and approved uses of land in the vicinity of the development, and
- (ii) whether or not the development is likely to have a significant impact on the uses that, in the opinion of the consent authority having regard to land use trends, are likely to be the preferred uses of land in the vicinity of the development, and
- (iii) any ways in which the development may be incompatible with any of those existing, approved or likely preferred uses.”

In determining that there is a fundamental land use incompatibility between thoroughbred breeding land uses and the proposed Drayton South mine, the Review PAC has clearly observed Clause 12. An incompatibility of this nature could result in the decline or forced removal of Coolmore’s existing operations in the Hunter region.

*Upper Hunter Strategic Regional Land Use Plan 2012*

The Upper Hunter Strategic Regional Land Use Plan 2012, developed by the Department of Planning and Infrastructure, put in place mechanisms to protect Strategic Agricultural Land. It states “The thoroughbred horse breeding industry... has grown to be one of the major horse breeding areas in the world... Over \$2 billion has been invested in the region’s stud farms and horses in recent years.” (p 12)

This plan expressly recognises the need to balance the competing interests of mining and agriculture. It states in relation to the thoroughbred and wine industries:

“If the critical mass of these industries declines (due to mine expansions or mining impacts) or the image of the region suffers, there could be appreciable damage to the wider industry and economy.” (p 44) (emphasis added)



“Significant and well established agricultural activities need to have confidence that their future in the region is secure and there are opportunities for their industry to develop and grow, particularly as these industries have the potential to continue sustainably well beyond the expected lifespan of most coal mines.” (p 45)

*Draft Hunter Regional Plan*

The Draft Regional Plan, publicly exhibited in November 2015, but yet to be finalised states:

“The Hunter’s .... equine [industry is] as mature as its coal mining industry... [This industry] will continue to benefit from the quality of the region’s natural features and systems (topography, soils, water and air) for their ongoing success, and from capitalising on new and emerging opportunities in both the domestic and Asian markets. Land use planning can assist by maintaining the availability and quality of terrestrial and aquatic resources that have the potential to sustain these industries within the region.”  
(p 18 Direction 2.1)

*Muswellbrook Local Environmental Plan 2009*

The particular aims of the Muswellbrook Local Environmental Plan 2009, the environmental planning instrument made under the EP&A Act include

- “to encourage the proper management of the natural and human-made resources of Muswellbrook by protecting, enhancing or conserving:
  - (i) productive agricultural land, and
  - (ii) timber, minerals, soils, water and other natural resources, and
  - (iii) areas of significance for nature conservation, and
  - (iv) areas of high scenic or recreational value, and
  - (v) places and building of archeological or heritage significance.”
- “to protect and conserve:
  - (i) soil sustainability by controlling development in accordance with land capability, and
  - (ii) remnant native vegetation, and
  - (iii) water resources, water quality and wetland area, natural flow patterns and their catchment and buffer areas.”
- “to provide a secure future for agriculture by expanding Muswellbrook’s economic base and minimizing the loss or fragmentation of productive agricultural land”

It is a clear objective of the Muswellbrook LEP that mining is not to destroy or impair the production potential of agricultural land, or unreasonably restrict or otherwise affect any other development at the surface.

An approval of Drayton South would run counter to the Mining SEPP, the Upper Hunter Strategic Land Use Plan and Muswellbrook Local Environmental Plan.

## **5. Impacts of Proposed Mine on Coolmore**

Coolmore has provided extensive details about its business and the risks posed to it by the Drayton South proposed development in previous submissions to demonstrate the basis for the strength of its opposition to the project. This section provides a short summary of the key impacts.

### *Direct Impacts*

If the proposed mine were to proceed at the currently proposed proximity of 900m to our operations, Coolmore's operations and viability would be damaged and severely compromised.

According to the Department's estimates, Coolmore will have 1,482 blast events within 3km, and more than 1,000 within 2km.

These blasts will result in 115m kg of dust being created. It is also important to note that the proposed mining operations will create more dust in the years in which it comes closest to Coolmore's operations than in earlier years - the source will be greater, the proximity greater, and the risk greater than the average for the life of the proposed mine. Emissions from the mine will not be confined to just dust particles, but will include gases and other potential irritants including: carbon monoxide, sulphur dioxide, oxides of nitrogen, hydrogen sulphide, methane, etc.

The risks to surface and ground water systems remain undefined, issues that were identified by the Review PAC in 2013. Given our fundamental reliance on the Hunter River as a secure source of clean and safe water to operate our farm this is of the utmost concern; concerns that were endorsed by the report of the Independent Expert Scientific Committee in July 2015.

Contrary to the claims of Anglo American, the mine would be directly visible from the Coolmore property. Furthermore staff, clients and prospective investors travelling to Coolmore along the Golden Highway and Edderton Road would have direct views of the mine to within less than 1km of our property.

Visual impacts from blasting, dust plumes, lighting, etc would become a common event and would be seen from Coolmore and all approaches to the property.

Given the significant value of the assets involved, no studies have been undertaken to examine the full impact of emissions from coal mines on thoroughbred horses. The Review PAC acknowledged in 2015 that competing Victorian and New Zealand stud farms may claim that there are health impacts, for their own advantage. Coolmore is live to this competitive threat yet has been compelled to provide both the PAC and the Department of Planning with the expert opinions of a number of veterinary professionals on this matter. These include those of our Resident Senior Veterinarian, Dr John Freestone. We have also sought and provided the opinion of independent Veterinarians Dr Brett Tennant Brown, Dr Van Epps, Dr Jenny Hodgson, Dr Laurent Couetil and in the field of equine behavior, Dr Andrew McLean at various points during this process. The Department and the PAC have also received extensive submissions on the potential impact to the thoroughbred from the Scone Equine Hospital (the largest equine hospital in the Southern Hemisphere).

#### *Operational Impacts*

A key component of Coolmore Australia's business is the agistment of bloodstock 365 days a year for a broad client base. To present our business model as exclusively the standing and management of stallions, albeit a critical component, is a considerable misunderstanding.

As part of the daily care and provisioning for 1000 horses, our staff and service providers interact with them daily, be it through morning and evening inspections, feeding, paddock movement, farrier work, veterinary work, dentistry, physiotherapy etc. Given the continuous nature of this work and the scale and intensity of our operations it is impossible to adapt our operating procedures to blasting and other impacts. The 10 second period mentioned by Anglo American does not reflect the disruption to the business at having to pause operations for the entire period of the blasting window allowed - typically 45 minutes or more.

At key times in the year, Coolmore's operations include bringing young horses into stables for periods of more intensive handling and training. The first of these is the weaning process, the second is the sales preparation and the third is the breaking in process. All three of these periods represent times of increased risk for the safety of both our handlers and the horses. Similarly it is not feasible to adapt our operating procedures to blasting and other impacts.

The covering process represents one of the most sensitive, unpredictable and high risk activities undertaken on the farm. Given the intensity of this process in which timing is critical, it would be impossible to adapt our operating procedures to blasting and other impacts.

It would result in the loss of stallions standing at Coolmore as their owners would not be prepared to leave these very valuable horses in close proximity to open cut coal mining, in particular those stallions that shuttle from the northern hemisphere. Furthermore it would place Coolmore at a competitive disadvantage in tendering processes to secure new stallions to stand at the farm, an area where Coolmore's current offering places it in a position of significant strength.

Coolmore welcomes over 1,900 visitors to the farm annually. It would not be possible to conceal the reality of a large open cut coal mine within 900m of their highly sensitive and valuable assets.

These factors have the potential to result in the loss of agistment clients both immediately and progressively, the inability to charge a premium rate for boarding and other services, additional veterinary costs, higher insurance premiums, additional costs in monitoring impacts on the environment, nutrition and equine health and additional marketing costs to attempt to rebalance and offset the damage being done and competitor activity.

Coolmore would find difficulty in attracting and retaining the best and most skilled staff due to the reluctance of people to live and raise a family in such close proximity to an open cut mine.

Should Drayton South be recommended for approval, there would be a dramatic devaluation of the property and the extensive capital investment, in excess of \$100m, that Coolmore has invested.

### *Reputational Impacts*

Economists accept that companies rely on tangible and intangible resources to gain competitive advantage. Corporate reputation results in financial benefits, including supporting premium prices and attracting investment. A study on the impact of reputation on market value showed that in 2012, company reputations accounted for close to 26% of the total market capitalisation of the S&P500<sup>2</sup>. Coolmore's concerns regarding the damage to its reputation of operating 900m from an open cut coal mine extend beyond the impact on its business in Australia, but also the damage that would be done to its brand internationally.

The importance of reputation to the Hunter Valley thoroughbred industry is recognised by three PACs, the Department of Planning & Environment and by Dr Greg Houston, as well as being a major aspect of contributions from other industry actors and commentary in general and specialist media. Speaking in 2013, Mark Cutifani, chief executive of Anglo American stated in relation to the mining industry: "While there are few household brands in our sector, reputation does matter."<sup>3</sup>

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<sup>2</sup> Cole, Simon. "The Impact of Reputation on Market Value" *World Economics* 13/3 2012. pp 47-68

<sup>3</sup> Cutifani, Mark. SRI Analyst Speech, 18 June 2013

Anglo American state in their May 2016 report that: “Image, reputation and branding impacts have been grossly overstated” (p 4). This is untrue.

A fully representative poll of adults in New South Wales (666 people) carried out by Newspoll for Coolmore in February 2015 showed that only 13% of the general public believes thoroughbred breeding and open cut coal mining are compatible in close proximity. Coolmore has previously posited that this figure would be even lower were it asked of people with expertise and knowledge of, and investment in, the bloodstock industry.

Until this point, Coolmore has tried to avoid raising the issue of Drayton South directly with its clients - though it has been frequently raised by them. However, to assist the Department in its deliberations, Coolmore issued a short, anonymous survey to 1,809 clients. More than 455 responses were achieved in 48 hours (See Appendix A for a complete set of the survey responses).

The survey shows that

- 96.3% of Coolmore’s clients believe it is not acceptable to locate an open cut coal mine 900 metres from a stud farm. Of clients with more than 10 mares - that is very significant investors - it is even higher at 97.8% saying it is unacceptable and only one of 136 saying it is.
- 94% believe that if the Government of NSW decides to approve Drayton South that it will be damaging to the reputation of the Hunter Valley as the prime location for thoroughbred breeding
- when asked on a scale of one to five how damaging they believed this would be to the Hunter Valley’s reputation, where one is damaging and five is the most damaging possible, 78% responded five and 17% responded four.

This clearly shows that of commercial breeders, active in thoroughbred breeding in the Hunter Valley, the vast majority believe that approval of Drayton South is the most damaging possible event to the reputation of the Hunter. This is an extremely high percentage of Coolmore’s clients and their views cannot be ignored.

Clients were given the opportunity to add a comment if they wished. More than 200 did, which indicates a high level of concern and engagement with the issue. A significant number stated they would move their horses elsewhere. Some of those comments include:

“Whilst the damage to all other thoroughbred properties in the Hunter would be immense, should Coolmore and Darley, as a result of such a decision, withdraw their support through their shuttle stallions and their involvement in the Australian racing and breeding industry as a whole, the damage to the industry would be incalculable”

“It is reprehensible that the NSW Govt has left this issue open after three consecutive PAC hearings finding against the proposal. If Coolmore were to move their operations elsewhere, we would simply move our broodmares to wherever they relocated. Such a move, combined with a similar move by Darley, would significantly affect the local economy and this would be magnified at a time when the mining industry is experiencing a major cyclical downturn....In stark contrast, the NSW Govt can directly offset this major downturn eg redirection of jobs, by supporting the thoroughbred industry, more so as this industry is in a very healthy condition at this point.”

“There is nothing balanced about an open cut coal mine 900 metres from an international standard thoroughbred horse stud farm on prime agricultural land.”

“Hunter Valley along with parts of Kentucky and Ireland is one of three premier horse raising regions of the world. It would be economically silly to do anything that would damage the integrity of this horse growing region..... I am all for progress and understand the need for a coal industry. It just doesn't belong alongside our premier horse studs.”

“I will move my 30+ mares and multiple foals to another location. I will also cease negotiations to acquire 300 acres for agistment purposes.”

“I haven't had a horse in the Hunter since the mining boom.”

“Australia's sprinting thoroughbreds are probably the best in the world and it would be a great shame to put that status and position into test.”

“I would be very reluctant to visit Darley or Coolmore in these circumstances and to leave my broodmare with them.”

“I work in the mining industry and I therefore understand the industry and its sensitivities. Mining is important to our national and local economies. It however has no place near rare, existing, world class sustainable agriculture practice.”

“It is a great worry that Australia's greatest thoroughbred nurseries will have their young stock exposed to damaging coal dust. Major investors in the industry are very worried about this issue. It is a threat to one of Australia's premium products.”

“Coolmore and Darley provide international credibility to the Australasian thoroughbred breeding industry... I say this as a Kiwi.”

“It would threaten the commercial viability of the two major operations in the Hunter Valley whose presence underpin the success and prosperity of the thoroughbred community there”

These comments are just a sample of those received. It is difficult to imagine how Coolmore, or any business receiving such market feedback, would begin to deal with this level of concern and negativity among its client base. This is particularly the case as Coolmore could not assure clients that there would be no impacts on its operations and the health and performance of bloodstock on the farm.

Approval of the proposed Drayton South project would run contrary to the significant concerns of 96% of Coolmore’s clients. Consequently it stands to have an immediate and detrimental impact on Coolmore’s business.

## **6. Response to Anglo American Submission**

Anglo American’s response of May 2016 does not specify the material errors it maintains are contained in the PAC report and therefore it is difficult to respond in detail.

However, it is clear that Anglo American attacks the PAC’s findings on the basis that they are premised on self-interested claims by Coolmore and it alleges that the PAC had relied solely on the submissions of Coolmore, Darley and the HTBA in coming to its conclusions and recommendation. The PAC Review Report makes it clear that, as required by the terms of reference, the PAC has considered the Environmental Impact Statement, issues raised in the submission, the formal response to the submission by Anglo American, as well as meeting Anglo American.

Anglo American further requests that the determining authority should ‘disregard the PAC’s recommendation in the Review Report that the project be rejected’ (p 8). This would be an error of law - the consent authority is legally obliged to consider the PAC’s recommendations.

Anglo American has not shown how the PAC’s description of the project as a new open-cut mine (the word ‘new’ is used just twice in the PAC report) has materially impacted its conclusions. Whether it is a new mine or not, the matters that the PAC are required to consider in assessing the proposal are the same.

It is a new mining area, 5.4km from the current Drayton mining area at its closest point and less than 1km from Coolmore's operations. This is incontrovertible.

Anglo American's view that Coolmore and Darley would be unlikely to leave the area is its opinion, at best. Anglo American is not in the thoroughbred business, and has demonstrated continually its lack of understanding of the dynamics of that business. Even setting aside the obvious self-interest, Anglo American is incapable of determining the extent of the impact on Coolmore's businesses.

While the Department and Anglo American claim the project is consistent with established standards - a point of contention with many of Coolmore's technical experts - there are no standards established for impacts on large-scale thoroughbred breeding enterprises, nor do these standards have the capability to identify cross-industry issues. The State Agencies whose advice is sought in relation to the application are very unlikely to have any detailed experience with the operational aspects of the thoroughbred industry.

Anglo American states in its report: "The evidence demonstrates no safety risk to staff handling horses anywhere on the farm as a consequence of blasting." (p 24). There is no such evidence provided. This is a cavalier statement, is an evaluation Anglo American is in no position to make and shows a disregard for the health and safety of Coolmore's employees.

We also observe that Anglo American maintains that Drayton has a 40 year potential, although they are closing the operation in September 2016, and their application for Drayton South is for a 15 year mine life.

Anglo American complains that the PAC has exceeded its terms of reference in making statements about land use planning. This is a point to which the PAC may wish to respond but it should be noted that in fact the Minister requested the PAC to "make recommendations on further measures to avoid, minimise and/or manage the potential impacts of the project".

Anglo American referred to *Telstra Corporation v Hornsby Shire Council* (2006) as setting out the approach to subjective evidence and stated that the determining authority should prefer a view that finds justification in specific, concrete, likely effects of the proposed development. Those comments were made by his Honour, Justice Preston in a case where concerns were raised by residents about the effects of electromagnetic energy in circumstances where there is an Australian Standard relating to electromagnetic energy. Anglo American's comments in this case is not accurate. There are no standards that apply to the impacts of coal mining on thoroughbred horses and stud farms. In relation to Drayton South, the concerns of the studs have not only been raised repeatedly by Coolmore and Darley, but have been supported by expert reports and other operators within the Critical Industry Cluster, including the Scone Veterinary Hospital and owners and investors in the thoroughbred industry.



The distinguishing fact is that there is and will always be scientific uncertainty, and there is no standard that governs impacts for coal mining operations on thoroughbred horses. As such, the point sought to be made by Anglo-American should be given little weight by the Department.

## **7. Response to Report of Houston Economics**

### *Assessment of Coolmore's Business*

Dr Houston's assessment and understanding of Coolmore's business is wholly inadequate and includes very serious misrepresentations. Anglo American may assert that it is "unequivocal": it is also incorrect.

While his report goes into some detail regarding Darley and focuses on its business, his commentary on Coolmore is much shorter and much vaguer, despite that he acknowledges there are very fundamental differences between the Coolmore and Darley operations, organisations and ownerships. At multiple points, he states only that "Many of these considerations also apply to Coolmore." (eg pp 5, 18, 30, 32). This is not the case. The different ownership structures of Coolmore and Darley understandably affect the business models. For example, Coolmore has to operate as a highly commercial stand-alone bloodstock breeding business, and is less involved in breeding to race.

It is not apparent that Dr Houston has undertaken any analysis of Coolmore's business such that the Department could or should rely on his work and his conclusions in relation to it. His references show that he has not even visited Coolmore's website, much less the farm, nor has he interviewed anyone connected with Coolmore, nor has he requested from Coolmore any factual information regarding its business. At the one point in his report where he does attempt to discuss impacts on Coolmore, he refers more than once to the views from Trig Hill as one of his principal arguments. No part of Trig Hill is on Coolmore's property.

His work, in reference to Coolmore, is both unfounded and entirely inadequate. We respectfully suggest that it should be set aside by the Department in its considerations.

### *Impact on Hunter Valley Cluster*

The main purpose of Dr Houston's report seems to be to argue that Coolmore and Darley would not relocate from the Hunter Valley, and that in the event that they did, their absence would not cause the collapse of the Critical Industry Cluster but rather that it would survive and thrive. This is a viewpoint previously espoused also by the Department of Planning & Environment, though without any evidence to back it up. Coolmore's PAC submission of September 2015 deals specifically and in detail with the Department's position on this topic.

The flawed logic of Dr Houston's argument is evidenced in that so many of Coolmore's competitors have publicly adopted strong positions in opposition to Drayton South, and taken the time and trouble to make submissions and presentations at public hearings on the matter. Dr Houston contends that these businesses would stand to benefit in the event that Coolmore and / or Darley were forced to leave the Hunter Valley. This is not the view of the businesses themselves, who are unquestionably in a better position to make this assessment than Dr Houston.

Wayne Bedgood, General Manager of Cressfield Farm submitted to the PAC that "Cressfield is a multi-million dollar operation that relies directly on the Coolmore and Darley operations for its livelihood, as well as the 25 full and part time staff that it supports."<sup>4</sup> Craig Anderson of Amarina Farm told the PAC that "80% of our business is interconnected to and reliant on Darley and Coolmore operations by way of stallions of choice, client perceptions and expectations, marketing and buyer support."<sup>5</sup> Peter O'Brien of Segenhoe Stud said "Our industry cluster is entirely centred around stallion farms and it is quite simple - no stallions, no Segenhoe... We have nearly 200 mares boarding at Segenhoe of which 80% are being bred to either Darley or Coolmore stallions."<sup>6</sup> Dr Houston identifies Newgate Stud as a potential gainer should Coolmore and Darley leave - in fact Henry Field, Managing Director of Newgate has also addressed the PAC on the risks of this eventuality for his business.<sup>7</sup>

Simply put, Dr Houston believes that other stallions will be able to absorb the excess capacity left, and that other farms will invest in new stallion prospects.

First, there is a natural limit to the capacity of a stallion to cover and most stallions will not reach 200 covers in a season, even if such a high level of market demand existed for them. Second, Dr Houston's assumption is based on the idea that Coolmore and Darley would no longer be in the market competing to purchase stallion prospects. They would of course continue to buy promising sires, but they would be locating them elsewhere. The stud farms identified as potential beneficiaries of Coolmore and Darley departing the Hunter Valley would still be in competition with them for stallions. Thirdly, it is not true that people won't travel mares, though admittedly not in the final stages of pregnancy. Transporting mares to Victoria - a 10 hour journey - is not a significant obstacle.

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<sup>4</sup> PAC 2013

<sup>5</sup> *ibid*

<sup>6</sup> PAC 2015

<sup>7</sup> PAC 2014

Finally, Dr Houston's argument demonstrates insufficient understanding of the importance of quality as a value generator, and that he believes that getting eight stallions will be adequate to replace horses of the calibre of Fastnet Rock. Such horses do not come along very often.

The economics on which Dr Houston's argument is based are also rather unclear. Although Anglo American maintains that he has significant experience in the thoroughbred sector, this relates to one single project (of 127 listed) that he carried out nearly five years ago. Dr Houston can justifiably claim expertise in electricity and utility markets, of which more than 50 projects are listed.

Dr Houston seems to believe that the Equine Critical Industry Cluster has always been present in the Hunter Valley at the same scale and value. This is not the case. An important point for the Department to bear in mind when reviewing Dr Houston's submission is that in 1996, about the time Coolmore acquired its property, is that the Hunter Valley had just 18.5% of the share of broodmares in Australia. In the succeeding 20 years, this climbed to 40%. More importantly, the value of covers in the Hunter Valley was \$68m in 1996 and is now \$281m.

In his report for Anglo American, Dr Houston maintains that mares will remain in the Hunter Valley even were Darley and/or Coolmore to relocate. In his evidence on the thoroughbred industry on 19 December 2012, he made a number of comments which run counter to the argument he is now attempting to set forward in his report for Anglo American, including: "Mr Houston said that ... there was no information to indicate that most or many mare owners chose to have their mares covered by stallions within close geographical proximity."<sup>8</sup> (emphasis added).

In 2016, Victoria has 25% of Australia's broodmare population, a greater proportion than the Hunter Valley had in 1996. Were 3,000 mares to migrate to Victoria, as supposed by Dr Houston, the respective shares of the market would be almost directly reversed, with 43% of the market share in Victoria and 26% remaining in the Hunter Valley.

Nor does Dr Houston consider the breeder incentive programs and supportive government policies in place in Victoria and Queensland. For example in Victoria, the Victorian Owners and Breeders Incentive Scheme (VOBIS) was introduced to encourage owners and breeders to invest in the Victorian breeding industry. This scheme provides monetary bonuses to both the breeder and owner of Victorian bred horses that win or are placed in Victorian 2 and 3 year old races.

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<sup>8</sup> Federal Court's Judgment, *McHugh v Australian Jockey Club Ltd and Others* (No 13) [2012] FCA 1441,

It is regarded as the most successful breeder incentive scheme in the Southern Hemisphere enabling eligible horses to race for up to \$10 million in bonus payments. In 2012 and again in 2015 the scheme was enhanced further generating a potential bonus pool now of more than \$20m.

This has significantly increased the desirability among purchasers of purchasing Victorian bred horses and its competitive threat to the New South Wales breeding industry has led to a review of the structures in place in NSW.

Dr Houston believes that the attractive features of the Hunter Valley are sufficient to retain Coolmore and Darley, that the Hunter Valley would still have the greatest number of covers (though he does not claim the highest value). Some of these features he identifies were in existence 20 years ago, yet the cluster was not as valuable or dynamic as it is today. His other justifications are that

- *the Hunter Valley is close to major ports and markets (in particular Sydney):* this is irrelevant and also inaccurate. Horses can just as easily be flown in and out of Melbourne, and in fact the National Quarantine Facility has been relocated to Melbourne from Sydney. As of December 2015 all horses entering Australia must do so through the Mickleham Post Entry Quarantine Facility in Victoria, this includes all shuttle stallions returning to Australia. Melbourne also has a sales complex infrastructure, significant spelling and preparation farms (farms that facilitate horses when in pre-training / light training or on a training break) in addition to large scale training operations, which are the end market for the breeding industry. It is just a ten hour journey from Scone to Nagambie, Victoria.
- *it has the best reputation of any thoroughbred breeding area in the southern hemisphere:* we would respectfully suggest that this reputation is based on the quality and calibre of the businesses in the Hunter Valley, and that were they no longer to choose to locate there, the Hunter Valley's reputation would be greatly diminished. In fact, the long-running uncertainty around Drayton South has already seriously damaged the reputation of the Hunter Valley within the thoroughbred industry (cf Chris Waller submission to the PAC and David Redvers of Qatar Racing).
- *it has a large number of high quality service providers:* these service providers will follow into areas where their services are in demand. A review of Coolmore's almost 200 suppliers shows that many of our most crucial and largest suppliers already also have operations in Victoria.
- *it has an ideal environment for breeding thoroughbreds:* this environment is seriously compromised and threatened by the Drayton South proposed project and this is the central element of Coolmore's strong objection to it. While the Hunter Valley has many attractive physical characteristics for thoroughbred breeding, they are not so dramatically superior to the qualities in Victoria or New Zealand. The difference in the Hunter Valley is the clustering of major players. Without those, and in the event of Drayton South proceeding, both the physical and commercial environment of the Hunter Valley would no longer be as attractive for thoroughbred breeding.

If Drayton South were to be developed, even the relevant points above (bullet points 2 and 4) would no longer hold true. This is a circular argument presented by Dr Houston.

Relatively little is known about how clusters evolve over time and why some clusters decline. Dr Houston speaks about the ‘collapse’ of the cluster - in fact it would be an unwinding that may take a couple of years to be fully apparent. For example, in 2008 there was a change in an incentive for stallions in Ireland. In 2008, there were 410 sires in Ireland, today there are 206. The industry had shown this would be the case, and while it is a dramatic drop, it was not experienced overnight.

The survival of clusters is naturally of importance to policy makers, as decline will cause turmoil in regional economics. One of the two principal components of cluster decline is the exit of key firms.

On the one hand, foreign Multi National Companies increase the employment level and bring investments and new knowledge into the cluster, but on the other hand, they are ultimately footloose and will quickly withdraw from the cluster in times of crisis.

A risk to the Equine Critical Industry Cluster should the Department recommend approval of the proposed project is the signal that the Government of NSW does not value the thoroughbred industry and the economic and social contribution it makes to the State, particularly in the Hunter Valley.

Cluster decline does not necessarily lead to disappearance of all activities within a thematic field, but is linked to a loss of identity. The identity can be understood as the regional industrial identity.... which emerges from the shared perception of internal and external audience about the features of the industrial activity in a certain region.<sup>9</sup>

On p 9 of his report, Dr Houston states that “The main objectors to Anglo’s planning application... are Coolmore and Darley.” Obviously with the proposed project coming to within 1km of these businesses fence lines, their businesses and investments are at greatest risks. However it is important to note that there are many other opponents of the proposed project, including many people who rely on Coolmore and Darley for their own livelihoods. These include many of our competitors.

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<sup>9</sup> Ostergaard, CR and Park, EK. “Cluster decline and resilience” *Denmark* January 2013

Dr Houston places significant weight on his belief that the Hunter Valley would remain the largest thoroughbred breeding location in Australia. This in itself is highly questionable, but he also omits to address the question of value. His own evidence in 2012 allows that ‘a significant fraction of the market for stallion services is driven by the output of a small number of high-priced stallions’ and that ‘a feature of stallion breeding services is a small number of larger studs and popular stallions.’<sup>10</sup>

Dr Houston believes that the Upper Hunter has had the most potential customers for stallion owners over the last decade (p 27). It would appear that Dr Houston believes that most broodmares in the Hunter Valley are owned by people in the Hunter Valley. This is incorrect.

An analysis of Coolmore’s clients in the 2016 breeding season shows fully that 70% of Coolmore Australia’s clients have no connection whatsoever with the Hunter Valley. Just 11% of Coolmore’s clients are ‘Hunter Valley breeders’ while 19% are not based in the Hunter Valley but do have land-holdings there.

In fact, 12.4% of Coolmore Australia’s clients are from Victoria, with no interest in the Hunter Valley - more than are from the Hunter Valley. A further 8% are from outside of Australia, notably New Zealand - even excluding mares owned by the principals.

Dr Houston makes the extraordinary claim that the ‘willingness of broodmare owners to pay for stallion fees is likely to be lower in Victoria’ (p 24). Victorian breeders are already paying those higher fees and sending their broodmares to the Hunter Valley to access the best quality stallions. Were those stallions to relocate to Victoria, why would the breeders not wish to continue to use them and move their mares back to their home state? This analysis makes no sense and in fact confirms the industry’s argument that broodmares follow stallions.

Dr Houston states that the Equine Critical Industry Cluster would not decline if Coolmore left with its stallions because it would still be close to major ports and markets; its reputation and history would be the same; it would still have high quality service providers; its ideal environment for breeding thoroughbreds would not change. These are for the most part irrelevant comments that would not in any case be true in the event of an approval of Drayton South. It seems Dr Houston is trying to avoid the central truth of the cluster - that its growth and continued success depends on having the best bloodlines available to breeders, and those bloodlines will only be available so long as the environment is conducive to supporting a world-class, international thoroughbred breeding business.

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<sup>10</sup> Federal Court’s Judgment, *McHugh v Australian Jockey Club Ltd and Others* (No 13) [2012] FCA 1441

While Coolmore would acknowledge there may be some lower value mares that would remain in the Hunter Valley, it is reasonable to estimate that 3,000 could migrate from the Hunter Valley should Coolmore and Darley be forced to leave the Hunter and relocate, for example, to Victoria.

During the 2015 breeding season 19,282 mares were covered in Australia. Of this total Coolmore and Darley (Hunter based) stallions covered 3,126 mares. The tables below demonstrate the impact the transfer of 3,000 coverings from the Hunter Valley to Victoria would have on the respective market positions of the Hunter Valley and Victoria in the Australian thoroughbred market.

**2015 Australian Market Share - Hunter Valley and Victoria**

	Covers	Market Share	Market Value
VIC	5,314	28%	\$61,341,350
HV	7,974	41%	\$281,837,500

**2015 Australian Market Share Following Transfer of 3000 Coverings**

	Covers	Market Share	Market Value
VIC	8,314	43%	\$189,892,981
HV	4,974	26%	\$153,285,869

The tables above clearly demonstrate the re-positioning of Victoria as the primary market player in Australia, in fact with a larger percentage market share than the Hunter Valley currently has. It would see the movement of 15% of the Australian market interstate and \$129m per annum in nomination fees.

If we adopt Dr Houston's supposition for a moment that there would be a loss of 503 covers for horses with a stallion fee of over \$50,000 following the exit of Coolmore and its stallions from the Hunter Valley. According to Dr Houston's calculations this alone would total \$48 million per annum in stallion fees and \$15m in agistment fees.

Dr Houston's analysis does not appear to consider the tens of millions of investment that would be required into new sires to stand in the Hunter Valley by Arrowfield, Vinery and Widden to limit this loss in this bracket of the market to 'just' \$48million even if such stallions were possible to source. Were Coolmore and Darley forced to relocate their operations, as previously explained, they would still be in the market for stallion prospects, and so there is no advantage for other studs in financing stallion acquisitions.

As the largest actors in the cluster, Coolmore and Darley have naturally shown a high willingness to invest in stallion prospects. The studs identified by Dr Houston do not necessarily add to their roster on a yearly basis. In recent years the most sought after stallion prospects in Australia, most notably Pierro, Vancouver and Pride of Dubai, now stand at Coolmore.

Dr Houston's assertion that only six per cent of covers would be lost assumes first that other stallions in the Hunter Valley have the right pedigrees / cross, sufficient fertility, and have spare capacity to assimilate. This is not the case.

Dr Houston asserts that there is a "desire to move broodmares only a limited distance whilst they are in foal" (p 10) - this is unsourced and incorrect. Broodmares are often shipped long distances during their 11 month gestation period, albeit less so as they get closer to foaling. He is correct in stating that there is an advantage in having stallions near broodmares but everything in the thoroughbred industry shows that this fact results in broodmares locating near stallions, and not the other way around.

It is fully established and understood in the thoroughbred industry that mares follow stallions rather than the other way around, due to the need for natural conception. There are examples of clusters created in areas without large broodmare populations but with good stallions - one such being Coolmore's operations in Ireland in the 1970s and 80s.

A further real life example is that of Northern Dancer. A Canadian winner of the Kentucky Derby, he stood his first four seasons in Ontario - mares travelled from all over the US and from Kentucky to him. Later in his career, he moved to Maryland - still a 600 mile, 14 hour journey from Kentucky. By the end of his 22 year long stud career in 1987, breeders paid \$1 million for a cover, with no foal guarantee. It was written of him that "Taylor could probably have stood [Northern Dancer] on a barge in the middle of Lake Ontario and thoroughbred breeders would still have shipped their finest mares to him."<sup>11</sup>

#### *Assertions about Coolmore*

Dr Houston does not accept the importance of marketing and perception to Coolmore's business, even though this is expressly acknowledged by both the PAC and the Department. He states that firms producing specialist and luxury products can be expected to "spend a substantial amount of money trying to attract customers. This does not imply that elements of that perception are critical to the success of those businesses" (p 20) though he does concede that it may generate greater profits.

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<sup>11</sup> Lennox, Muriel. *Northern Dancer: the legend & his legacy* Mainstream 1999. p 118



This argument runs counter to generally accepted business principles in many sectors. Businesses in Australia spend \$17.5 billion annually on advertising alone. It may be the case that Dr Houston feels marketing and reputation management is an optional expenditure for businesses, but few would agree with him.

Dr Houston continues on this point to state that he believes that the 12 full-time gardeners employed by Coolmore are used to tend to paddocks and not for the purposes of landscaping. He is not correct. All 12 full-time jobs are for tending to the gardens and landscape values which are such a fundamental part of Coolmore's business model, as recognised by the reports commissioned from independent experts Richard Lamb and Terry Short by the first Review PAC in 2013. For information, Coolmore employs a further 21 people to 'tend to paddocks'.

Dr Houston compares the cost of employing the gardeners to Coolmore's revenue from stallion fees. Coolmore Australia has previously explained that its revenue is based on a fee from stallion owners to manage their stallions and the agistment business (which is not considered at any point in Dr Houston's report), and not the overall stallion fees generated, which are paid to the syndicates that own the stallions. This has been explained in Coolmore's Submission to the PAC September 2015 which appears in Dr Houston's references. It follows then that the investment is very significant to the business and that Dr Lance Bell is correct in his assertions to the Review PAC in 2015.

Dr Houston relies on the fact that there is already mining evident in the Hunter Valley: this point is extensively dealt with in our previous submissions but Coolmore will once again observe that none of this mining activity is in such close proximity.

Comparing Argyle Thoroughbreds to Coolmore's activities based on all publicly available information is incongruous. This farm, beside a gold mine, in 2014 returned 29 mares to the stud book from its operations compared to almost 1,400 at Coolmore. Based on currently available information for 2015 the figures are 9 at Argyle, compared to 1,590 at Coolmore.

These few examples illustrate the degree to which Dr Houston's report is founded on assumptions relating to Coolmore's business, which are factually wrong. At no stage did Dr Houston contact Coolmore seeking to ascertain the facts on which his assumptions may be based.

We would caution against reading Dr Houston's report as any valid assessment of Coolmore's business, and even more so the speculation, based on his incorrect assumptions, about what Coolmore would or would not do in the event that the proposed project were approved.

### *Relocation*

Dr Houston states that were Coolmore to relocate due to an open cut coal mine operating in close proximity, that Coolmore would seek to remain in the Hunter Valley.

Coolmore has put on record many times, including by Ken Barry, Chairman Coolmore Australia Advisory Board, in his public presentation to the Drayton South Review PAC hearing, on Thursday 10 October, 2013 that Coolmore has put considerable time into assessing alternative locations in New South Wales. No alternative location in New South Wales offers the required

- scale
- variety and quality of soil types
- water
- topography

Furthermore, from our experience, even for land of the quality of the current farm, it takes as long as eight years to bring pasture up to Coolmore's required standard for paddocks, fencing and improvements. Coolmore has invested more than \$100 million in infrastructure on the farm over the past 20 years.

One of the properties suggested by Dr Houston as a possible acquisition for Coolmore is Patinack, which has been on the market for more than two years - a sign that the Hunter Valley cluster is currently at a point where uncertainty is discouraging new entrants. Patinack is

- one-third of the size of Coolmore Australia, which is the scale required for the business at its current level - every part of the farm is used
- it does not offer the possibility of extension and amalgamation
- it has half the broodmare capacity
- one-quarter the foaling units
- half the covering shed and stallion barns
- one veterinary facility compared to three at Coolmore
- less than half the number of residences
- has stood a maximum of five stallions compared to 17
- maximum covers carried out at Patinack are less than one-third that of Coolmore
- the most expensive stallion ever standing at Patinack had a nomination fee of \$38,500 compared to \$275,000 at Coolmore.

Dr Houston asserts that 'the cost of moving out of the Upper Hunter is not so much greater than moving to another Upper Hunter property for Coolmore' (p 33). Nor would be the cost of, as would be required, moving out of New South Wales.

Should Coolmore be forced to relocate its operations from its current location, we can state with confidence that New South Wales does not offer an appropriate alternative.

The factors which Dr Houston identifies as being barriers to Coolmore exiting the Hunter Valley are in many respects the same factors Coolmore has identified as being at risk in the event of the proposed project being approved and developed.

At 3.3.2 Dr Houston argues that leaving the Upper Hunter would involve the significant risk for Coolmore that:

- *some of the stallions' owners would keep their thoroughbreds in the Upper Hunter when Coolmore left.* Coolmore knows for a fact that this would not be the case and furthermore, it is the attitude of the stallions' owners that would require Coolmore to relocate. Coolmore is obviously in constant, daily contact with the owners of the stallions it stands, and the issue of Drayton South is an extremely high priority and a major concern for them. We can state with absolute certainty that Dr Houston's assertion that 'at least some of the stallions that currently stand at Coolmore would remain in the Upper Hunter' is wrong.
- *Coolmore would lose key members of staff.* There is no doubt that Coolmore will lose key members of staff, and find it extremely difficult to recruit into vacancies, should Drayton South be developed, and this has been a key point in many of Coolmore's submissions. This is evidenced in that staff members have come to discuss the issue with senior management, especially as it pertains to their young families, and from submissions by members of staff to the PAC. Furthermore, Coolmore's specialist staff have ordinarily worked with the organisation in Ireland, the United States and Australia, as well as affiliate farms in South America and New Zealand. Their accommodation is provided on the farm. It would seem rational and probable that they would choose to continue their career with Coolmore rather than remain in the Hunter Valley.
- *Coolmore would require new suppliers.* This may be the case, however there is no reason that firms currently providing services to Coolmore Australia would not organise themselves to provide the same services in a new location, particularly as they would know and expect that the best quality broodmares would be migrating to this new location. Furthermore a number of key suppliers to Coolmore already have operations in Victoria.
- *Coolmore would lose customers, many of which are likely to remain in the Upper Hunter.* Were Drayton South to proceed, Coolmore will certainly lose customers, as evidenced in numerous submissions from independent third parties to the Planning Assessment Commission. Furthermore, only about 11% of Coolmore Australia's customers are located in the Hunter Valley (fewer than come from Victoria), and fully 70% have no connection whatsoever with the Hunter Valley.

*Moving in of other actors*

The ongoing uncertainty regarding mining approvals in the Equine Critical Industry Cluster is already limiting the number of new entrants to the cluster. David Redvers who was seeking an investment for Qatar Racing, one of the world's largest investors in bloodstock, said in April 2014:

The Hunter Valley, having seen what I have seen, will have to come straight off the shopping list.... We've been looking at investing in a Southern Hemisphere farm, and a big one, to stand our stallions and breed our racing stock... we have gone from one horse winning the Melbourne Cup in Dunaden, to having 240 horses in training.<sup>12</sup>

He signalled their intention to locate their stallions and breeding operations in Victoria or New Zealand instead.

John Warren, racing manager to Her Highness Queen Elizabeth in January 2014 warned discerning international horse owners would reconsider sending prized thoroughbreds to the Hunter if coal mines continued to spread closer to leading studs: "If China takes off those owners won't want to be in Australia - they'll want to be in New Zealand. You shouldn't shoot yourself in the foot."<sup>13</sup>

There has been just one new stallion farm established in the Hunter Valley Equine Critical Industry Cluster and one change in ownership in the past five years. There has been some changes in ownership at some of the broodmare farms but no major new entrants. However in the same period, Aquis has established a stallion farm in Queensland, Sun Stud established in Victoria and has since expanded into Queensland, Spendthrift has established in Victoria and Goldin Farms has established in South Australia. Additionally both Qatar Bloodstock and Inner Mongolia Rider Horse Group have chosen to partner with studs in New Zealand for their growing interests in the thoroughbred breeding industry. This is not addressed by Dr Houston.

*Value of Asset*

Dr Houston suggests that Coolmore would be able to sell its land were it forced to relocate. He does not consider at any point the damage done to the investment and the value of that land should the proposed project be approved.

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<sup>12</sup> *ABC Rural*

<sup>13</sup> Lehmann, John. 'Queen's man warns coal a threat to equine reputation' *The Daily Telegraph* 11 January 2014

An independent indicative market assessment of Edinglassie Stud carried out by Yield Property states: “The coal mining industry in the Hunter locality is posing a threat to the viability of horse breeding enterprises in the region.” It assessed sales evidence from eight stud farms.

These include Parsons Creek Farm at Milbrodale, which at the time of sale was 5.5km from the nearest coal mine - the closest of the eight studied. Notwithstanding its ‘as new’ fencing, water and pasture improvements, it sold in October 2011 for just \$4.5m. The cost to initially establish the farm including land acquisition was believed to be in the vicinity of \$12m. At the time of sale the Mt Thorley and Warkworth Project Applications were being considered which would significantly reduce the distance of the property to the nearest mine.

Edinglassie, with irrigable Hunter Valley flats, has superior country to most of the other properties sold. The report states “the immediate proximity to two large scale open cut coal mines is an over-bearing adverse feature that would deter most buyers in this market segment.” Yield Property adopts an indicative land value of \$6,000 per hectare for Edinglassie. “If the property had a sufficient buffer from the mines, say 5km or more, a market land value in the \$10,000 to \$12,000 per hectare could be expected.”

It is surprising to say the least that none of the economic analysis carried out has considered the immediate loss of value to Coolmore’s investment on approval of Drayton South, with the land value alone likely to halve.

### *Edinglassie*

Coolmore has been explaining in detail since September 2013 the limitations of Edinglassie as a comparison to its business. This argument was assessed independently by the first review PAC who commissioned Terry Short to review the situation. He stated that the Edinglassie case study is “neither a useful example of co-existence between the thoroughbred breeding and coal mining industries nor any benchmark of co-existence” (La Tierra Report, November 2013 Page 35 of 42).

We refer the Department to Coolmore’s September 2015 submission to the PAC, which details again the differences between Edinglassie and Coolmore. In that submission, Coolmore evidences that the agistment rates charged by the farm - fully half of the business’s income - attract a premium of between 11% and 70% over and above those services provided at Edinglassie. Dr Houston downplays the fact that yearlings consigned by Coolmore on average earn twice as much at sales than those consigned by Edinglassie. It is surprising that an economic assessment would not give consideration to this loss of value.

The relevance of Edinglassie's dramatically smaller client base - we estimate fewer than 10 people compared to Coolmore with almost 2,000 - is that while Edinglassie may have some chance of convincing a small number of people to entrust their mares to them, this is much less likely to be possible with such a large number of people. The survey of Coolmore clients proves this to be the case. We are not aware of the commercial arrangements between Edinglassie and their clients, nor with the landlord, BHP Billiton.

## **8. Conclusion**

In conclusion, Coolmore believes that

- there have been sufficient and significant changes in the backdrop to this application such that the Department has even greater reason to take a precautionary approach than ever before
- As per p 49 of the SEAR report, "image and visual presentation are critical to the business model of the studs as they are inherently linked to client perception, investor confidence and the reputation of the thoroughbred breeding operations."
- Dr Houston's report is flawed and mistaken in relation to facts and interpretation of Coolmore's business, such that it is not a reliable source for the Department in its deliberations
- the Department now has direct evidence of the extent and strength of market intolerance among Coolmore's customers and therefore of the consequential damage to Coolmore's business
- a recommendation to refuse consent by the Department would be fully in accordance with the local development plans and Strategic Land Use Policy
- the three Planning Assessment Commissions have taken their assessments of this project with great seriousness. We note that other mining companies are not raising the same complaints about the PAC as does Anglo American.
- The strategic, operational and financial implications of the Drayton South proposal on Coolmore's business are such that it is impossible to see how Coolmore could continue the scale and standard of its operations *in situ*. Given the absence of a viable alternative to Coolmore's current facility in New South Wales, were Coolmore forced to relocate, it would have to be to a location outside the state.

Dealing with this planning process has consumed an enormous amount of financial and time resources for Coolmore, particularly over the past four years. It has created anxiety and uncertainty among our staff and clients, and the broader Equine Critical Industry Cluster. Only the Department of Planning and Environment has ever considered the project to be approvable, even when it was within 500 metres of Coolmore's fenceline. This is a unique land use conflict in terms of the scale and quality of Coolmore's business, and its significance to the Hunter Valley's equine industry, and the comparatively small and marginal mine proposed. We strongly urge that the PAC Review be endorsed, the Department recommend refusal of this mine and that the Drayton South Proposal not be given consent.

Yours sincerely



Tom Magnier

Principal