Are we done horsing around?

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 The edge of the proposed Drayton South operation is about 2km from the nearest Woodland fence. Photo: Peter Braig

by **Matthew Stevens**

They say the nation stops for the Melbourne Cup. They are wrong. Just like the rest of mining Australia, the haul truck drivers at the Hunter Valley's Drayton coalmine diligently ignored Flemington's glamour.

Mind you, it seems big horse racing will eventually stop Drayton miners. The coal at Drayton will be exhausted by 2017. And, rather famously, the NSW Planning Assessment Commission recently knocked back an extension of the mine called Drayton South. The PAC found the new mine posed too much of a risk to the thoroughbred horses that populate two nearby stud farms.

The battle to block Drayton South was led by the thoroughbred industry generally and the internationally owned Darley and Coolmore studs particularly.

To understand why the horsey view has prevailed, we have spent a bit of time pouring through the accounts of the two refusenik studs in questions. But this, it would be fair to say, has not helped our understanding of the priorities that could condemn unemployment on 530 local miners.

Because, if the numbers are to be believed, these studs operate, at best, on the margin of viability.

Neither appears to pay Australian tax and both are sustained only by borrowings obtained exclusively from their owners.

The numbers suggest these businesses would generate no government income outside of PAYE contributions and whatever indirect taxes might be generated by gambling on the horses they sustain. Arguably, of course, that gambling would happen with or without the Darley or Coolmore contribution.

To put that into some sort of competitive context, the sponsor of Drayton is Anglo American. It operates coalmines in NSW and Queensland. In 2012, when coal prices were higher than at present it paid $1.12 billion in company tax, $1.1 billion in royalties to the Queensland government and $126 million in NSW's royalties. It paid a further $131 million in other sundry federal and state imposts and a $675 million in payroll tax for the Commonwealth.

While that income tax bill would be lower right now, the revenue-based royalty flow would continue. Drayton alone generates $35 million in state royalties and the Drayton South extension would have pumped upwards of $70 million into the local economies of Muswellbrook, Singleton, Scone and Maitland.

OWNERSHIP

Darley is owned by Sheikh Mohammed bin Rashid Al Maktoum . He is said to be the richest man in the world and is the ruler of Dubai. Which is good because that would appear to be the only way anyone might be able to afford to carry the financial basket-case that is Darley Australia.

Sheikh Mohammed bought his first Australian stud in 2003 but Darley and Drayton were introduced until 2008 with the breeders acquisition of the Woodland stud.

By that time Drayton had been running for 25 years and everyone in the area appreciated that expansion within the mine's lease would be needed to sustain its future.

Darley's opposition to coal mining feels a bit like buying a house next to a pub then complaining about the noise on Saturday night. The edge of the proposed Drayton South operation is about 2 kilometres from the nearest Woodland fence and 3.5 kilometres from Coolmore stud.

This is too close for equine comfort according to the PAC. It concluded that a mine that had already cleared human environmental hurdles should be stopped because it affects the health of the horses. Coolmore Stud is the generic name of a global thoroughbred business. We are not big on the rich history of horse racing. But Wikipedia tells us Coolmore was started in County Tipperary in the late 1960s by a former Battle of Britain pilot called Tim Vigors. He went into partnership with Vincent O'Brien and Robert Sangster. O'Brien, one of the greatest figures of post-war racing, eventually took control of the thing and extended its horizons from Ireland to Kentucky and the Hunter Valley. It is rated the biggest thoroughbred breeding business in the world. Its corporate structure is very complex and opaque. From what we can see, there are two Australian registered companies associated with the global business: the locally registered Coolmore Stud Pty and Swiss domicile Calogo Bloodstock AG.

The Swiss company trades as Coolmore Australia. It is registered in Swiss canton Zug, which is renowned as a useful sort of tax haven. While the accounts suggest Calogo pays some sort of income tax, it seems unlikely, given the corporate structure put in place, that Coolmore Australia pays any income tax here.

THE BOOKS

The most recent accounts we have from Calogo Bloodstock AG are the 2012 numbers. They were lodged in June this year and they show the company made a small profit (about $484,000) that helped it reduced an accumulated deficit of about $2.5 million to $1.83 million. It generated about $22 million in revenue and its operating expenses topped $18 million. The business borrowed a further $2 million through the year from its owners and other related parties, increasing its total debt to about $56 million. All of those borrowings have been made from its owners. It is not at all clear from the Calogo accounts if they represent all or only part of Coolmore's Australian story. So it would be unfair to draw too many conclusion from what we can see. Getting to grips with the Darley numbers is a tad easier, but no less comforting.

The Australian operating entity is Darley Australia Pty. It has issued 200,000 ordinary $1 issued shares and they are 100 per cent owned by DSMUS Limited, a company registered in the Bailiwick of Jersey.

Darley has generated negative cash flow from operating activities for the last 7 years. Last year was pretty typical. Darley generated $57 million in cash flow and spent $64 million doing that. Overall, it lost $21.6 million before accounting for a net gain of $58.8 million from the change in fair value of its "biological assets".

The $20 million profit Darley booked helped reduce its accumulated losses to $400 million. The business boasts assets of $669 million but the balance sheet carries $1.069 billion in intercompany loans. Darley paid no tax last year and the state of the accounts suggests it never will.

BETTER THAN COAL?

Informatively, Darley Australia's accounts makes no reference to the status of the Drayton South Coal mine and any potential adverse impacts on the business .

Both Darley and Coolmore told the PAC they would be forced to relocate in the mine was approved.

The sell up and relocation costs would be material enough to require definition under the accounting standards. Yet, under the heading "Likely Developments " Darley states only that "it will continue its involvement in the thoroughbred horse breeding and racing industry". Which suggests that, as recently as April 2014, Darley did not believe a retreat from coal was likely.

What both the directors and auditors do note is that Darley is sustained only at the whim of Sheikh Mohammed.

"Should this support be withdrawn there is material uncertainty whether the company can continue as a going concern," the directors noted in the 2013 financial report. The accounts were qualified too by auditors KPMG, which observed the same "material uncertainty".

How this is all a better bet than coal, well, that is a matter the PAC and Premier Mike Baird might well ponder.

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