

GAO

Report to the Honorable
Mitch McConnell, U.S. Senate

October 1992

INTERNATIONAL TRADE

Restrictions on U.S. Racehorses in Foreign Country Races



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October 30, 1992

The Honorable Mitch McConnell
United States Senate

Dear Senator McConnell:

This report responds to your request that we describe the barriers that limit participation by U.S. thoroughbred racehorses in certain countries' horse races. We focused our work on Japan, which has the highest overall prize money (purse) worldwide and one of the most stringent sets of restrictions. However, as requested, we also reviewed the horse race restrictions of Hong Kong; European Community member countries; European Free Trade Association member countries; and Australia, Thailand, and New Zealand.

Results in Brief

Unlike the United States, most countries have some restrictions on foreign racehorse participation in their races. Japan has the most stringent barriers, not only limiting the number of races for which foreign horses are eligible, but also levying a 4-million-yen (about U.S. \$33,000) import duty on each racehorse. U.S. racehorse industry and government officials have expressed their concerns to Japan about these restrictions.

In October 1991, the Japan Racing Association (JRA), an organization that is wholly funded by the government and that is responsible for overseeing Japan's thoroughbred horse racing industry, announced a 5-year plan (1992-96) to liberalize its restrictive policies by gradually increasing the number of races open to imported racehorses (see app. I and II). However, this plan focuses on expanding access to races for horses without overseas racing experience. Even this plan, however, has encountered strong opposition from local politicians and stud farm owners of the Japan Bloodhorse Breeders' Association. The breeders' association believes that implementation of the plan would endanger Japan's domestic racehorse industry. As a result of this opposition, implementation of the JRA's original plan has been suspended pending discussions between JRA and the breeders' association. For 1992, JRA has implemented an interim plan to allow inexperienced foreign horses to participate in 35 percent of all races (an increase from 30 percent in 1991).

With respect to other countries' restrictions, Great Britain, Ireland, Australia, and New Zealand do not limit foreign racehorses. The Hong Kong Jockey Club, however, has placed restrictions on the participation of

experienced U.S. racehorses in its races. These five countries rank among the top in total annual purses for racing (see app. III). Great Britain and Ireland also are among the top countries to which the United States exported horses for racing in 1991 (see app. IV). Italy, Germany, and France have significant racing activity, with some restrictions on foreign-bred horses. However, these countries have been liberalizing their restrictions over the past few years or plan to by 1993. Norway, Sweden, Denmark, Belgium, Turkey, Greece, Spain, Portugal, and the former Eastern bloc countries have few thoroughbred races. According to the International Racing Bureau, Ltd., a firm that compiles horse racing information worldwide, although these countries have some restricted races, the European Community is directing the eventual phasing out of races restricted to home-bred horses. Thailand's races are restricted to home-breds only; however, their purses are very small compared to the other countries we reviewed.

Background

The movement of racehorses between continents has increased in volume during the last 50 years. This increase has been stimulated by a series of international races started before World War II as well as by the Washington, D.C., International horse race initiated after the war. In the 1980s, this growth was further encouraged by the Arlington Million in Chicago and the Japan Cup, which has representatives from all continents.

During this movement between countries, racehorses encounter various barriers or restrictions in the form of tariffs, races that are restricted to home-country-bred horses, customs delays at country borders, and quarantine delays to determine the health of the imported racehorses. With respect to the latter, the host country establishes procedures to safeguard its livestock industry, and the country from which the racehorses traveled ensures proper national safeguards when the racehorses return.

In 1990, Japan and the United States led the world in total annual horse race purses, with about \$765 million and about \$710 million, respectively. Australia and France were next, with about \$160 million and about \$144 million, respectively. According to 1991 data supplied by the Jockey Club,¹ the United States exported racehorses to the following countries: France (87), Great Britain (76), Argentina (37), Venezuela (29), and Japan (23). According to U.S. Department of Agriculture and industry officials, the

¹The Jockey Club is an organization in the United States dedicated to the improvement of thoroughbred breeding and racing, and is responsible for the maintenance and publication of The American Stud Book, which compiles breeding information on registered thoroughbred horses.

United States does not have any national restrictions on imported racehorses. However, to promote state horse producers, some states run a few low-prized races that are restricted to state-bred horses.

Japanese Restrictions on Foreign Racehorses

Horse racing in Japan is a big, lucrative, and tightly protected industry that has been difficult for foreign interests to penetrate. Currently, Japan limits the participation of both inexperienced and experienced foreign racehorses in its races and levies a 4-million-yen tariff on each imported racehorse. There is no tariff on imported breeding horses. In 1991, the JRA's revenues amounted to about \$26 billion. The average purse for its 10 races with the largest purses in 1991 was about \$1.7 million, the highest in the world. However, Japanese racehorse breeders favor a continuation of the policies that would protect Japan's domestic industry because its racehorses are of relatively low genetic quality, as evidenced by the fact that they have not fared well in the Japan Cup. The Japan Cup is the only big title race in which foreign horses with prior racing experience are allowed to participate. In the past 11 Japan Cup races, Japanese racehorses have won only twice.

The U.S. racehorse industry believes that foreign racing markets hold a great potential for the U.S. industry, and it wants assurances that Japan's lucrative racing market will be open to foreign competition. The U.S. racehorse industry and the U.S. government have voiced their concerns about the Japanese restrictions. For example, at a U.S.-Japan Trade Committee Meeting in December 1991, representatives from the Office of the U.S. Trade Representative and from the Departments of Agriculture and State urged Japan to open its market to foreign racehorses. The U.S. representatives suggested removing the controls exercised by JRA on imported foreign racehorses and phasing out the 4-million-yen per head tariff. According to the chief U.S. negotiator, the Japanese representatives made no commitments to remove these restrictions. They said that it is too early to force domestic-bred horses to compete freely with western horses that are the product of long-term, intensive breeding and training techniques. This matter was on the agenda for a similar negotiation meeting between Japan and the United States that was held in September and October 1992.

Japan's 5-Year Plan to Open More Races

In October 1991, JRA announced a 5-year plan to increase the number of races open to foreign-bred racehorses. As an initial step, the JRA's plan called for easing the former rules by making imported racehorses without

a racing history eligible to enter 40 percent of all races in 1992 (an increase from 30 percent in 1991) and up to 65 percent by 1996. The plan also provided for a first-ever permission to expand very gradually the number of races in which imported horses with a racing history may compete in Japan. Specifically, the plan called for opening 15 additional high-prized races, including 8 races in the highest-prized category, to experienced foreign horses. However, no time frame was established for opening these races. Currently, in the very high-prized category, only the Japan Cup is open to experienced foreign horses. In addition, experienced foreign horses can also race in the Fuji Stakes, a pretrial race to the Japan Cup. These horses must return to their home countries after racing. According to a JRA official, the opening of more of these high-stakes races is dependent upon increasing the amount of quarantine facilities for imported foreign racehorses and the results of the current negotiations between JRA and the Japan Bloodhorse Breeders' Association.

When the original 5-year plan was announced, it encountered strong opposition from local politicians and stud farm owners of the breeders' association, especially in Hokkaido, where about 92 percent of Japan's thoroughbred horses are produced. The breeders' association claims that foreign horses will dominate their market and put them out of business. They believe that Japan's domestic racehorse industry is not competitive in terms of the quality of Japanese thoroughbred genetics and because of the high cost and low quality of land and the high cost of labor and feed in Japan. Also, they believe that if the percentage of races open to foreign horses was increased, buyers would tend to purchase more foreign horses because of the additional opportunity to enter them in more Japanese races. As a result of this opposition, implementation of the JRA's original plan has been suspended pending discussions between JRA and the breeders' association. For 1992, JRA has implemented an interim plan to allow inexperienced foreign horses to participate in 35 percent of all races.▲

In the United States, a representative of the American Horse Council was skeptical of the 5-year plan and said that Japan had presented a similar plan about 5 years ago but no substantial change had occurred. Also, the U.S. Department of Agriculture, which has the government lead in negotiating with Japan on this matter, recently studied the original JRA 5-year plan to determine its implications.

Agriculture's July 1992 study on the status of the 5-year plan said that the plan had been carried out on a reduced scale in 1992, in accordance with the interim plan. The study concluded that even if the original plan were

fully implemented, it would still leave open the important question of experienced foreign horse eligibility for the most highly prized races. In this regard, the study also concluded that Japanese investors would be more willing to purchase a foreign-bred horse if they could benefit from the potential earnings of the high-stakes races.

Other Countries' Restrictions on Foreign Racehorses

Regarding restrictions on racehorses in countries other than Japan, in Hong Kong the government does not currently impose restrictions on imports of racehorses. However, the Royal Hong Kong Jockey Club, which controls the racetracks in that crown colony, imposes certain restrictions that have the effect of limiting the participation of U.S. imported racehorses in its races. As for Great Britain, Ireland, Australia, and New Zealand, these countries do not restrict entrants into their horse races. On the other hand, Italy, Germany, and France have placed restrictions on foreign racehorse entries in some of their races. However, some of these restrictions are being reduced by 1993 or they pertain to low purse races. Very little thoroughbred racing takes place in Norway, Sweden, Denmark, Belgium, Turkey, Greece, Spain, and Portugal, as well as in the former Eastern bloc countries, but even in these nations some races are restricted. Furthermore, in Thailand, only home-bred horses are allowed to race, but the races are for very low purses.

Hong Kong's Restrictions

The Hong Kong government in 1991 changed a technical quarantine restriction that had the effect of restricting imports of racehorses from the United States. However, horse racing in Hong Kong is tightly governed by the Royal Hong Kong Jockey Club, which controls the racetracks in Hong Kong. Its policies limit the participation in ordinary races of horses imported from the United States.

The Hong Kong Jockey Club permits the following categories of imported horses to participate in its races:

- (1) Subscription purchase horses. The Jockey Club arranges with well-known farms to buy groups of griffin horses (horses with no racing experience). These horses usually come from Australia, New Zealand, and Ireland.
- (2) Private purchase horses. In certain cases owners may race imported horses with overseas racing experience.

While the Hong Kong government has removed its restriction affecting imports of U.S. racehorses, the Jockey Club has not changed its own policies that place certain restrictions on the participation of racehorses imported directly from the United States for ordinary races. For example, the Jockey Club prohibits two chemicals, phenyl butazone and lasix, that are routinely injected into horses in the United States. The Jockey Club will allow experienced U.S. horses to race in Hong Kong only if they race for a period in a country that also prohibits these chemicals. Most horses continue to be imported from Australia, New Zealand, and the United Kingdom. In 1991, the Hong Kong Jockey Club did relax its policy so that beginning in 1992 griffin horses would be allowed to race in Hong Kong even if they were imported directly from the United States. However, these horses cannot exceed a purchase price ceiling of \$235,000 nor can they test positive for the two drugs, phenyl butazone and lasix.

In addition, in December of each year, the Hong Kong Jockey Club holds two major annual invitation races, the Invitation Cup and the Invitation Bowl. In 1991, four U.S. horses were allowed to participate for the first time in these races, two in each race, but they performed poorly. In the Invitation Cup, the U.S. horses finished 5th and 7th, while in the Invitation Bowl, the other two U.S. horses finished 5th and 11th. The winner of the Invitation Cup was awarded \$208,000, while the 1992 prize for the winning horse may reach \$300,000. A winning performance by U.S. horses in 1992 could increase interest for importing U.S. racehorses into Hong Kong.

Restrictions in Additional Countries

According to the International Racing Bureau, Ltd., Great Britain, Ireland, Australia, and New Zealand do not place restrictions on their horse races. However, Italy, Germany, and France do have restrictions. In 1992, Italy is restricting foreign entries in 11 races, which account for 25 percent of the total prize money this year. The European Community, to which Italy, Germany, and France belong, has agreed that only 20 percent of Italy's total prize money will be restricted to Italian horses in 1993. Also, in 1992, Germany is restricting 24 races to German-breds only and 8 races to German-trained horses only. The most important races still restricted are the German Derby and the German Oaks; however, these are scheduled to be opened in 1993. France is restricting 36 races; however, according to an International Racing Bureau, Ltd., official, these races are primarily held on provincial tracks that have low purses.

Norway, Sweden, Denmark, Belgium, Turkey, Greece, Spain, Portugal, and the former Eastern bloc countries have very little thoroughbred racing, but

some of these races are restricted. European Community directives are providing for the eventual phasing out of races restricted to home-breds only. In Thailand, the races are limited to home-breds. However, horses may be imported for breeding purposes and their offspring used for racing. The purses for these races are very small: The largest is the Derby, which has a purse of only U.S. \$35,150.

Objective, Scope and Methodology

To describe international barriers that limit participation by U.S. racehorses in overseas horse races, we obtained information from and interviewed officials in the Departments of State and Agriculture; the Office of the U.S. Trade Representative; the Japanese Racing Association; the Jockey Club; the American Horse Council; and the International Racing Bureau, Ltd. Specific data on U.S. exports of racehorses and the number of races and purses in foreign countries were obtained from the Jockey Club. Information on foreign racehorse restrictions by countries other than Japan was obtained primarily from the International Racing Bureau, Ltd. Legal information in this report does not reflect our independent legal analysis, but is based on interviews and documents provided by U.S. government organizations, as well as international racing groups.

We did our work from April through August 1992 in accordance with generally accepted government auditing standards.

Agency Comments

We discussed our report with officials of the U.S. Department of Agriculture and the Japan Racing Association, and they generally agreed with the information presented. We incorporated their comments in this report where appropriate.

As agreed with you, unless you publicly announce its contents earlier we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to interested parties. Copies will also be made available to others on request.

Please contact me on (202) 275-4812 if you or your staff have any questions concerning this report. The major contributors to this report were Phillip J. Thomas, Assistant Director, and John Bachkosky, Project Manager.

Sincerely yours,



Allan I. Mendelowitz, Director
International Trade and Finance Issues

Number of Japanese Horse Races Open to Foreign-Bred Horses

Category	Total no. of races	Open to inexperienced horses		Open to experienced horses	
		1991	1991	1992	Current
Overnight races ^a	2,517	755 ^b	N/A	0	•
Nongraded stakes races ^c	762	229 ^b	N/A	1 (Fuji Stakes)	1
High-priced nongraded races ^d	10	2	3	0	•
Grade 3 races ^e	55	17	22	0	•
Grade 2 races ^e	29	22	22	0	7
Grade 1 races ^e	16	9	9	1 (Japan Cup)	9
Total	3,389	1,034^b	N/A	2	17
Percent of total races	•	30%	35% (Interim plan)	•	65%

Legend

N/A = Not available.

^aInclude thoroughbred flat and steeplechase races. Horses are able to enter with 1 night's notice without an entry fee.

^bApproximate

^cInclude thoroughbred flat and steeplechase races that require two nominations to enter the race and payment of an entry fee.

^dInclude most important thoroughbred steeplechase and Arabian horse races— no flat races.

^eInclude thoroughbred flat races and are graded based on consideration of race tradition, prize money value of the race, and the class of participating horses. In 1991, the prize money for Grade 3 races started at about U.S. \$470,000 and ranged up to about U.S. \$1.9 million in the Grade 1 category.

Source: Japan Racing Association.

Percent JRA Races to Be Opened to Imported Horses, 1990-96

JRA's Original Plan

Category	Actual		JRA plan				
	1990	1991	1992	1993	1994	1995	1996
Low prized							
First race	16	17	30	35	40	45	50
One or more wins	27	36	45	55	60	65	70
High prized							
Nongraded	75	73	85	90	95	100	100
Grades 2 or 3	N/A	53	58	N/A	N/A	N/A	N/A
Grade 1 (special)	N/A	6	6	N/A	N/A	N/A	N/A
Total average	N/A	30	40	50	55	60	65

Note: N/A denotes not available.

Source: Prepared by U.S. Department of Agriculture.

Value of Top 12 Country Horse Race Purses Worldwide, 1990

Country	Total annual purse (dollars in millions)	Number of annual races	Average purse per race
Japan	\$764.57	26,646	\$28,694
United States	710.36	72,664	9,776
Australia	159.78	25,614	6,238
France	144.23	6,470	22,292
Great Britain	92.39	7,019	13,163
Italy	69.26	4,502	15,384
Canada	59.25	9,865	6,006
South Africa	41.63	4,248	9,799
Germany	24.48	2,384	10,268
Ireland	23.17	1,751	13,232
Hong Kong	20.05	486	41,255
New Zealand	18.79	3,419	5,496

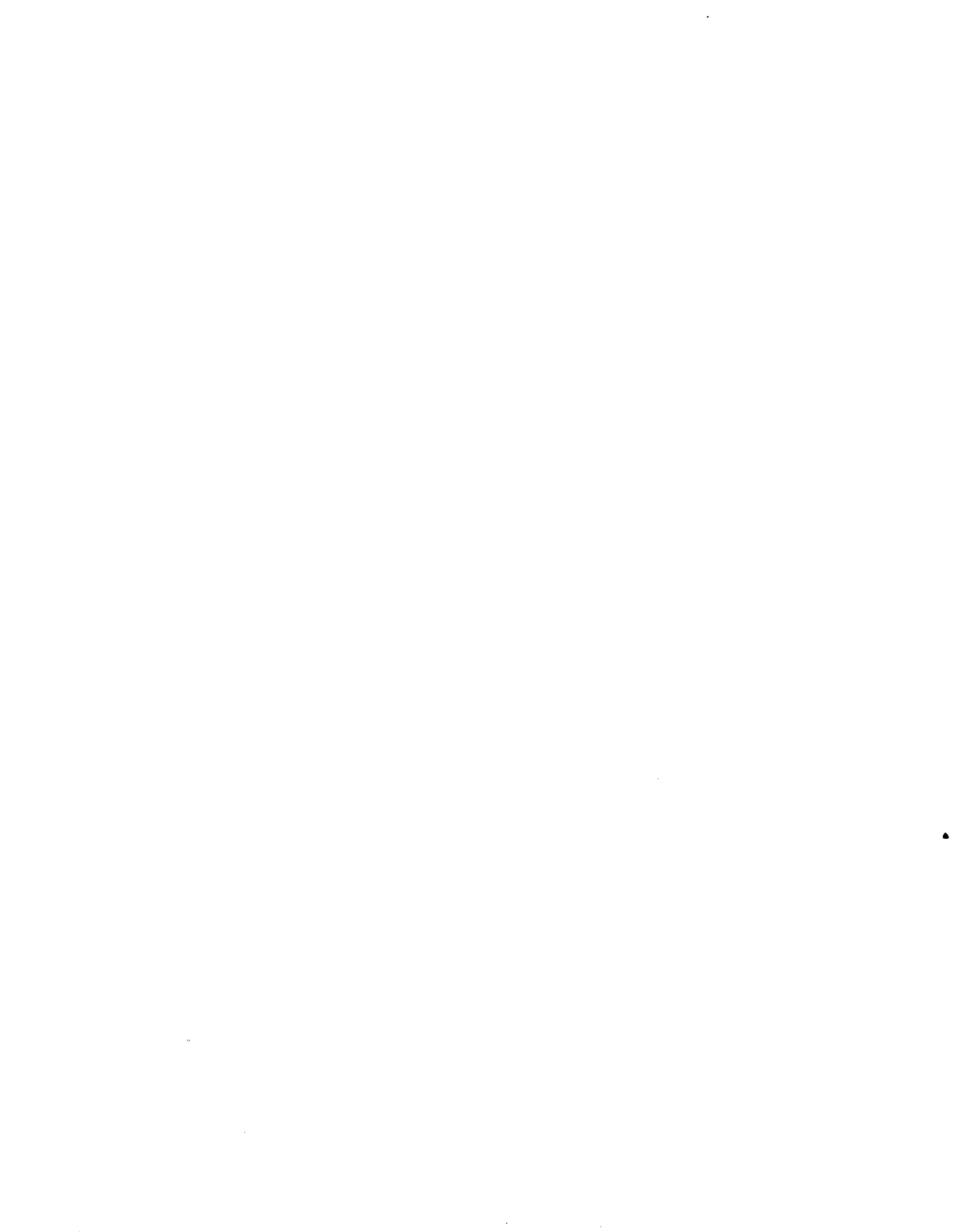
Source: The Jockey Club, using the International Statistical Survey of Horse Racing, and 1990 Statistics, compiled by the Societe d'Encouragement and presented at the 25th International Conference of Racing Authorities (Paris, France: Oct. 7, 1991).

Estimated Number of U.S. Racehorses Exported in 1991

Country	4-year-olds	3-year-olds	2-year-olds	Yearlings	Foals
France	12	13	62	220	90
Great Britain	10	11	55	421	82
Argentina	12	17	8	27	6
Venezuela	8	21	0	0	0
Japan	5	3	15	6	0
Brazil	1	1	18	39	9
Ireland	1	4	14	101	86
Peru	1	8	10	66	13
Italy	0	0	13	54	9
Germany	0	0	5	42	7

Note: Computer files show horses exported but do not specify whether for breeding or racing. To approximate those horses exported for racing, horses over 4 years old were not included. Also, two groups of 4-year-olds were eliminated—those that had never raced and those that had not raced since January 1, 1991. In addition, it was assumed that all 2- and 3-year-olds were exported to race.

Source: The Jockey Club.



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