Horse Slaughter: an unnecessary evil

Profit and expediency drive the market

White Paper
Published, 2002
Commissioned by: The Thoroughbred Retirement Foundation, Inc.
Authored by: Raymond Goydon & Stephen Kindel
The Fourth Wall Inc. 270 Bierys Bridge Road
Bethlehem, PA 18017 (610) 868-5444

The continuation of horse slaughter is based on the demand for horseflesh on the dinner tables of Europe and Asia. It is driven by profit and motivated by expediency, not by any concern for the humane treatment and welfare of the horses.

Logic and decency dictate that those who earn their living "on the backs" of horses; those who love and respect horses; and all those with humane values join together to end this unsupportable practice. To accept the slaughter of horses as a "necessary evil" is to validate the position of those who would place a greater value on the bottom line than on life itself.

Horse Slaughter: An Unnecessary Evil

Commissioned by: The Thoroughbred Retirement Foundation, Inc.

Authored by: Raymond Goydon & Stephen Kindel
The Fourth Wall Inc. • 270 Biery's Bridge Road
Bethlehem, PA 18017 • (610) 868-5444
info@fourthwallinc.com • www.fourthwallinc.com

Copyright © 2002 The Fourth Wall Inc.

Foreword

Throughout our nation's history, Americans have relied on horses. Horses have been, and remain today, a source of labor, jobs, profit, transportation, pleasure and companionship. In turn, horses have come to depend on man for food, care and shelter … nothing more than they have earned and surely deserve.

Yet, when horses are no longer able to provide their appointed services, some will face neglect, starvation, transportation abuse, and the pain and terror of death in a slaughterhouse.

As this research analysis reports in detail, there are no supportable reasons for this inhumane tragedy to continue.

Following the initiative of the Thoroughbred Retirement Foundation, the Thoroughbred industry asks all those with reason and humane values to join together to end the cruel and unnecessary practice of horse slaughter in America.

Copyright © 2002 The Fourth Wall Inc.

Executive Summary

The question of horse slaughter has gained national attention in recent years. In 2003 a federal bill that would ban the sale, transportation and slaughter of horses for human consumption was introduced in the US House of Representatives. The bill (H.R. 857) was assigned to a sub-committee of the Committee on Agriculture. Several states, including California, Texas and Indiana, have also instituted or introduced legislation affecting horses destined for slaughter. Yet despite these legal efforts, the broad attendant publicity, and the sense of dismay and revulsion that horse killing and the consumption of horseflesh evoke among most Americans, there remain pockets of support for its continuum.

Two of the principal arguments used by those who support slaughter are these: First, they contend that if slaughter is eliminated, horse neglect and abuse will increase dramatically. Their second contention is based on the legal status of horses as livestock and possible changes in that classification. Any change, it is argued, would be harmful to both equine welfare and to the horse industry in general.

Based on research conducted in this study, it is clear that both principal arguments are specious at best. And at worst, they are motivated by political and economic expediency rather than any concern for the horses.

All available data refutes the first contention that eliminating the slaughter option for horse owners will increase abuse within a greatly increased population of unwanted horses. In fact, the number of horses slaughtered in the US has been steadily declining for over a decade -- from nearly 350,000 in the late 1980s to about 60,000 in 2001 and approximately 40,000 in 2002. Yet despite this massive influx into the total horse population, no marked increase in cases of neglect or abuse has been observed by animal rights or humane monitoring organizations across the nation. (The federal government keeps no records of equine abuse.)

We can only conclude that owners are utilizing other available options -- sales, gifting, placement in equine sanctuaries, and euthanasia -- to dispose of their horses. They are not simply leaving them in their fields to wither and die. Nor are they trucking US horses to Canada and Mexico as some have suggested. To the contrary, data reveal that the number of live horses exported has actually declined. For example, US exports to

Copyright © 2002 The Fourth Wall Inc.

Canada have ranged from just 23,000 to 30,000 head over the past seven years. During that time the number of horses slaughtered in the US dropped from 110,000 to 50,000 annually. Even if all of the horse sent north were earmarked for slaughter, the numbers clearly show that Canada's processing industry is not absorbing our "unwanted" horses.

Similarly, government statistics attest that exports to Mexico averaged just over 1000 head annually for the past seven years. A mere fraction of our excess. Moreover, any Mexican option quickly falls apart on economic grounds. Trucking horses to that country -- inexplicably bypassing the two remaining US slaughterhouses -- would significantly increase a dealer's transportation costs. Given this added financial burden, seizing the "opportunity" to sell horses at Mexico's already low market prices defies all business logic.

The supposed legal arguments against changing a horse's status are also ill founded. Viewed by some as a backdoor approach to ending human consumption of horsemeat, changing a horse's classification from livestock to companion animal, non-food animal, or some other designation is not even mentioned in anti-slaughter legislation. In fact, while all horses have the potential to be classified as livestock, the vast majority does not qualify as such. They are already considered purely recreational animals, not used in commercial pursuits. Thus the notion that the flow of government monies for equine research, protection and humane law enforcement depends on retaining livestock classification is little more than polite fiction.

Rather than the well-being of the horses, the greater concern among those opposing slaughter or changing their status based on legal grounds appears to be the possible negative tax and economic consequences such actions might have on horse owners. However, according to studied legal opinions, these concerns too appear unwarranted. IRS code takes no position on horses per se. Simply put, the relevant sections of the tax code that apply to the horse business are the same ones that apply to all businesses. Nowhere in the code does a horse's status as livestock impinge on its tax status as an asset in a business, except within the depreciation schedules of farms operated as businesses. And insofar as there is any relationship between slaughter and tax concerns, it is in the area of depreciation.

Copyright © 2002 The Fourth Wall Inc.

Conclusion

The continuation of horse slaughter is based on the demand for horseflesh dinner tables of Europe and Asia. It is driven by profit and motivated by expediency, not for the by any concern for the humane treatment and welfare of the horses.

Logic and decency dictate that those who earn their living "on the backs" of horses; those who love and respect horses; and all those with humane values join together to end this unsupportable practice. To accept the slaughter of horses as a "necessary evil" is to validate the position of those who would place a greater value on the bottom line than on life itself.

Copyright © 2002 The Fourth Wall Inc.

Introduction

Horses occupy many different niches in their relationship with humankind. Over time, they have been ridden, used as pack animals, harnessed to pull plows and to provide wagon-drawn transportation, raced, jumped, shown and simply owned for the pure pleasure of interacting with a highly intelligent member of another species.

In the United States, the central role of horses in the both the history of the nation and development of the economy has earned them a place of respect among all animals. That respect early on led to the creation more than a century ago of the very first humane societies and the original American Society for the Prevention of Cruelty to Animals, which was dedicated to alleviating the suffering of urban horses used for transport.

As the work role of horses has diminished in the U.S., respect for horses has increased among average Americans. Most people have little or no direct contact with horses, but most people would acknowledge that race horses are among the best athletes of their time, and that many display the qualities of heart, courage and determination worthy of the best athletes in any sport.

Although many Americans have heard the old cliches about racehorses that finish out of the money being sent to the "glue factory," or being made into dog food, it would probably come as a great surprise that horses are still sent to slaughter in the U.S. They are not killed, though, for glue or dog food. In fact, the primary reason that horse slaughter still exists is to serve European and Japanese meat markets. Despite the distaste that the human consumption of horsemeat evokes among opponents of horse slaughter, there are many people who support not only the continuation of horse slaughter, but also the right of owners to send their animals off to slaughter, should they so choose. (Surprisingly, many groups in the pro-slaughter apologists' camp are ostensibly dedicated to the care, protection, enjoyment and commercial use of horses.) The arguments used by those who support slaughter are often based on scare tactics, misinformation, and a loose libertarianism, which argues that, even if horse slaughter is uncomfortable, it is a ***necessary evil.*** And, as a result, they believe that efforts to legislate or litigate out of existence the two slaughterhouses that remain in the U.S should be opposed. [See Appendix I, an analysis of the U.S. horse slaughter industry, page 20 and Appendix III, a discussion of Thoroughbreds sent to slaughter, page 44.]

Copyright © 2002 The Fourth Wall Inc.

It is the intention of this white paper to prove the argued suppositions in favor of horse slaughter to be wrong.

The Apologist's Tale

The arguments proffered as justification for the "necessary evil" are few. ***They are also unsupportable.*** First and foremost, the apologists for horse slaughter say that it offers horse owners an easy way to dispose of animals they no longer want. More importantly, this argument continues, if the slaughter option were eliminated, the abuse and neglect of unwanted horses would increase. Certain disposal of unwanted horses at a federally regulated slaughterhouse is, in this view, preferable to the potential long-term mistreatment of these animals.

The second argument used in defense of the "necessary evil" is a purported connection between the practice of horse slaughter, its proposed legislative ban, and the legal status of horses as livestock, a change in which, some in the apologist camp contend, would be harmful to both equine welfare and to the horse industry in general.

The purpose of this paper is to refute the validity of these hypothetical arguments, which defy logic, ignore historical data, and rest on a wobbly foundation of misconception and questionable supposition.

The Primary Argument of the Apologists

The most common argument employed by proponents of slaughter suggests that a ban on horse slaughter would result in an increase in the abuse and neglect of unwanted animals. In order to understand why this is not likely to happen, it is first necessary to understand the mechanisms by which horses change hands.

There are essentially five ways to dispose of an unwanted horse: sell it to someone; give it away; place it in a sanctuary; euthanize it; or send it off to slaughter.

Selling a horse to someone who wants it allows the horse owner to reclaim some fraction of the money already spent on horse ownership. The sale of a horse may have tax consequences depending upon its former status as a farm animal, a racehorse, a show horse or an animal used for breeding purposes. A riding horse sold to another rider is treated, for tax purposes, as similar to the sale of an auto or any other piece of tangible

Copyright © 2002 The Fourth Wall Inc.

property. The difference between buying and selling price, over a certain amount, must be reported as income.

An owner may also give the horse away, either to any earnest taker, or as a gift under provisions of the tax code. A horse given away has no tax issues, except those issues dependent upon the prior former status of the horse (as a racehorse, breeder, show horse or farm animal). The tax issues pertaining to the disposal of horses are covered in considerable detail in the "Horse Owners & Breeders Tax Handbook," published by the American Horse Council and written by Thomas A. Davis.

Horses that cannot be sold or given away can often be sent to one of the increasing number of horse sanctuaries that are springing up all over the U.S. Some, such as those run by Thoroughbred Retirement Foundation, focus on only a single breed of horse. Others will accept horses of any breed.

Horses that cannot be sold or given away can be humanely put down. The American Veterinary Medical Association keeps no records on the number of horses euthanized, but it is a widely held belief in the equine community that mostly old, sick or injured horses are put to death in this manner. ***The reason for this is that euthanasia is the one form of disposal that costs the horse o wner money out of pocket.*** The cost, according to Dr. Ellen Buck, former director of equine protection at the Humane Society of the United States and other experts, ranges between $50 and $150 for a vet to come and give a horse a lethal injection, and another $100 to $200 to remove the carcass for disposal.

Some pro-slaughter apologists' bluntly warn that there will be no way to dispose of the increased numbers of horses that will be humanely euthanized if slaughter is banned. The fact is that the number of horses being slaughtered has been in steep decline in the United States for more than a decade (as we will explore in much greater detail below and in Appendices I & II, pages 20 and 35 respectively). Despite this, there is no evidence that carcass disposal poses anything approaching an intractable problem. Where local statutes prohibit on-site burial, an owner must identify a landfill or other site approved for the burial of large carcass animals or arrange to have the dead animal delivered to a rendering plant (at some charge that includes the rendering plant's fee and

Copyright © 2002 The Fourth Wall Inc.

the cost of transportation). In some sections of the country, cremation is yet another disposal option, albeit one that comes with its own costs and logistical concerns. But, once again, these options have proven adequate to the task. Indeed, there is as yet no evidence that the capacity of rendering plants around the U.S.—there are over 285 in operation today—to process horse carcasses is being taxed. To the contrary, “the rendering industry,” according to Dr. Don Franco, vice president of scientific services for the National Renderers Association in Washington, D.C., “has the capacity to perform the carcass disposal of horses [that are now slaughtered].” This is so, says, Dr. Franco, because the number of horses slaughtered in this country pale in comparison to the huge number of cattle, sheep and hogs processed annually. He continues: “Obviously, [rendering] will be associated with some type of fee for service…. The geographic distribution of horses throughout the country could parallel the geographic distribution of rendering plants, give or take 50-100 miles here and there.”

The fifth and final option, intentionally sending a horse to slaughter, can be accomplished in one of two ways. The first is to sell the unwanted horse directly to one of a small group of freelance buying agents used by the Texas slaughterhouses, a practice often employed by disgruntled racehorse owners eager to rid themselves of “unproductive” animals; or, to sell the horse directly to the slaughterhouse. (Direct slaughterhouse sales are the exception, however, given the logistical problems and costs individual owners face in transporting one or two horses to the plant.) In reality, horses are often sent to slaughter as the ***unintended consequence*** of an owner selling a horse at auction, where a slaughterhouse buyer trolling for bargains buys it. Unscrupulous buyers and others posing as legitimate "adopters" also obtain horses through ***deliberate misrepresentation of their intended use.*** As a result of this often-repeated deception, many of these animals are added the ranks of unintended (by their owners) slaughter victims, as are a number of ***stolen horses.*** (See Appendix VI for a discussion of horse theft and buyer deception, page 52.)

Slaughter, then, is just one of a number of options available to owners of unwanted horses. Despite this, the “necessary evil” school of thought contends that without the slaughter option, a substantial number of owners would hold onto unwanted horses and

Copyright © 2002 The Fourth Wall Inc.

begin to neglect them — cutting back on routine feed, care, grooming and medical attention, or worse, simply leaving them to wither and die.

The Numbers Don't Lie: Ending Slaughter Will Not Increase Abuse

The horse slaughter apologist's dire warnings of increased neglect and abuse are typically couched in speculative terms and phrases: "such a ban has a ***high probability*** of increasing the ***potential*** for abuse for those [unwanted] horses"; "taking this option away ***could make conditions worse*** for some horses"; "[an unwanted horse that] cannot be sold at a sale because it may go to a processing facility, ***might become a candidate for abuse***." [Italics added in all quotes.] Rather than hard data or fact, ***conjecture, motivated by a desire to preserve a lucrative "convenience,"*** is the driving force behind the apologists' claims.

A hard look at the historical record of horse slaughter in the U.S. effectively debunks the claims of the apologists. Here is why: The number of horses slaughtered in the U.S. has waxed and waned over the past twenty or so years, peaking at nearly 350,000 annually in the late 1980s, and falling to a bit more than 42,000 in 2002, its lowest level in recorded history. That represents an almost 89% decline in the number of horses killed for their meat over a fifteen-year period. [See Appendix I, page 20, on the U.S. horse slaughter industry for a detailed analysis.]

Amazingly, the apologists for the slaughter industry fail to take these numbers into account. Their concern over the potential for abuse and neglect has remained consistent and unwavering whether the number of unwanted horses totaled 350,000 as it did in 1989 or 42,000 in 2002. But if it were true that preventing slaughter leads to an increase in abuse and neglect, wouldn't we have seen a marked, observable increase in such cases over the past decade and a half? Between 1992 and 1993, for example, the number of horses slaughtered in this country went from 246,400 to 167,300—a drop of more than 79,000 in a single year! Between 1993 and 1994 the falloff was nearly as steep, 67,000 head. Again, if the gloomiest forecasts of the apologists were valid, hundreds of unwanted horses would have been keeling over daily in fields and pastures all across the country. Under these circumstances—and in an era of ever increasing concern over animal rights and welfare and intense media scrutiny—wouldn't someone have noticed?

Copyright © 2002 The Fourth Wall Inc.

In fact, no one has observed such a rise in neglect or outright abuse. Although, ***no national records of equine abuse and neglect are kept***, some people do monitor these developments locally. Surprisingly, many of them report a sharp drop in horse abuse. Kimball Lewis, who has worked in the field of equine protection for more than twenty years, and who teaches the American Humane Association's course in equine protection, also says that actual abuse is extremely rare, and that 95 percent of reported cases involve neglect. Kimball further says that horse neglect is a problem that can be corrected by educating owners and potential owners. Greater vigilance by equine protection organizations and stricter enforcement of animal rights statutes are other factors limiting abuse. Discussions with more than a dozen or so local animal control officers and representatives of equine rescue groups and local S.P.C.A.s echo these observations. ***The argument that doing away with slaughter will lead to an increase in horse neglect and abuse simply has no basis in fact.*** Horse slaughter has been in decline for more than a decade, and so, apparently, has horse abuse and neglect.

What is the likely response of the "evil necessity" proponents to this conclusion? Predictably, to suggest that unwanted U.S. horses are trucked off to Mexico and Canada for slaughter. This is what we call the "inverse relationship" argument. Simply put, the apologist believe that for every unit decline in the number of horses slaughtered in the U.S., there is a corresponding unit increase in the number of live horse exported to Canada and Mexico. That closing U.S. slaughterhouses, doesn't put an end to the "necessary" evil, it merely relocates it.

This contention is utter nonsense. Available data reveal that the number of live horses exported from the U.S. has remained fairly stable throughout the 1990s. Indeed, the data show that rather than increasing over the past 10 years or so—as the inverse relationship argument says they will—that the number of live horse exports to our nearest neighbors has actually declined. [For a more detailed analysis of the live horse export question, see Appendix II, page 35.]

In Canada, for instance, the United States International Trade Commission (USITC) reports that US export of live horses (other than purebred breeding stock) to that country ranged between 23,000 and 30,000 head per year for the past seven years -- a period of time during which the number of horses slaughtered in the US has dropped from nearly

Copyright © 2002 The Fourth Wall Inc.

110,000 to around 50,000 annually. Even if all the horses sent north were earmarked for slaughter -- and this is certainly not the case -- the numbers just don't add up. Canada's horsemeat industry alone is not absorbing America's unwanted equines.

But what about Mexico, which, according to the USITC, showed an increase in the number of horses it slaughtered during the period from 1989 to 2001? First, if the argument that horses from the US were being shipped to Mexico to be slaughtered for the European and Asian markets were true, Mexican horsemeat exports would have risen substantially throughout the 1990's. They didn't. According to the FAO, Mexican exports rose only a few thousand metric tons through mid-decade before declining to a ten year low of 2,159 metric tons in 2001. Furthermore, the Mexican explanation falls apart on practical grounds: trucking horses to Mexico -- and driving past the two remaining US slaughterhouses -- would increase overall costs and complicate matters by introducing an international border crossing into the mix. The most compelling evidence against the "shipment to Mexico" argument, however, comes from the USITC, which says that exports of live horses to Mexico have averaged just over 1,000 head per year for the past seven years.

These authoritative numbers do not lie. If, indeed, there were an inverse relationship between slaughter and exports, the number of total live horse exports to Canada and Mexico would have risen as steeply as the number of horses slaughtered fell. And this simply didn't happen.

Argument Number Two

The apologists second argument, that there is a legal connection between the practice of horse slaughter and the legal classification of horses as livestock is a bit more difficult to deconstruct, but the easier to refute.

As we've just mentioned, argument number two hinges horse slaughter and the legal status of horses as livestock (or animals housed on farms, ranches and similar settings and used in pursuit of commercial interests). The concern about the change in the horse's status from livestock to some other legal definition — companion animal or non-food animal — has perhaps found its clearest expression, not from a bona fide legal or accounting source as one might expect, but rather in a copyrighted article by the

Copyright © 2002 The Fourth Wall Inc.

American Association of Equine Practitioners. While lacking the appropriate credentials, the A.A.E.P. nevertheless attempts to answer the question, "What effect might changing the legal status of horses have on the industry? this way:

> "**State and federal support and moneys**. The care and regulation of horses and horse related activities come under the purview of the United States Department of Agriculture on the national level. In most states, the state department of agriculture is charged with the regulation of horse related activities on the state level. Part of the responsibility of the USDA is to improve and maintain farm income; develop and expand markets abroad for agricultural products; protect the soil, water, forests and other agricultural products; and carry out agricultural research.
>
> The USDA provides valuable technical expertise and monetary support for such things as research into the prevention of equine diseases…. If livestock status is taken away from horses, there is a possibility of losing the already limited financial support equines receive from the United States Department of Agriculture for research, regulation and disaster relief.
>
> **Humane laws**. All 50 states have animal anti-cruelty laws. Some of these laws are written specifically for livestock and others are written specifically for non-livestock. Livestock anti-cruelty laws are usually written to ensure the humane treatment and care these animals deserve, while still providing for the use of the animal. If horses are legally considered non-livestock, livestock anti-cruelty laws will no longer apply.
>
> **Limited liability laws**. Many states are now passing what are commonly referred to as "limited liability laws." One of the purposes of these state laws is to provide stable owners, equine event organizers and trail ride organizers protection from lawsuits that may arise if an individual is injured while attending or participating in such an event. Those involved in the horse industry realize the horse is a potentially dangerous animal, and are aware of the risks when dealing with them. However, many of these state laws are not limited only to horses; they encompass all livestock or farm animals. If horses are no longer considered livestock, a law that so many horse people worked to pass might no longer protect them.
>
> **Tax issues.** Currently, under federal tax law, commercial horse owners and breeders are treated as farmers. This has certain tax ramifications that could not be changed if horses were considered livestock. In addition, horse owners and breeders are treated differently by state excise and sales taxes because horses are considered livestock. These advantages could be lost. If horses were no longer livestock, horse breeding would no longer be an agricultural endeavor and federal and state taxes for horse operations could increase."

It should be pointed out that the article never makes a connection between a legislated ban on the slaughter of horses and a change in their legal status. Indeed, an editor's note accompanying this article at the A.A.E.P.'s web site says quite explicitly that the article

Copyright © 2002 The Fourth Wall Inc.

was written in response to reports that "Several states have been looking into the possibility of changing the legal definition of horses under state law to companion animals, non-food animals or other similar designations." The article does go on, however, to say that some opponents of the horse slaughter industry see a change in the legal status of horses as a "backdoor" approach to ending the consumption of horsemeat—or more specifically, the role the U.S. plays in supplying it.

Others, however, have appropriated the article's arguments against changing the livestock status of horses and used them in public statements opposing proposed federal and state legislation to ban the commercial transport of horses to slaughterhouses. (Such a ban has been in effect in California since November, 1998; attempts to get similar legislation passed at the federal level—a move that would essentially close the horse slaughter industry in the U.S. and prevent American horses from being trucked to Mexico and Canada—have bogged down in committee.) The link between the status change and the legislation is tenuous at best. Neither of the two most recent bills dealing with the subject introduced in the 107th and 108th Congress—H.R. 3781 and H.R. 857—would alter the status of horses—in fact, the words "livestock" or "companion animals" do not appear in either bill.

Frankly, though all horses have the potential to be classified as "livestock," the majority of the six to seven million horses alive in the U.S. today [see Appendix II for a discussion of the domestic horse population, page 35] do not qualify as such, since they are purely recreational animals not used in commercial pursuits. In light of this, it seems that the suggestion that the flow of state and federal monies earmarked for equine research and protection, the enforcement of humane laws, and the application of limited liability laws depends on this livestock designation ***is little more than polite fiction.*** In fact, because the government does not consider horses to be part of the human food chain, this "flow" is destined to remain at the current level -- a relative trickle -- regardless of the horse's classification.

What's more, in reality, the tax treatment of most horse owners does not derive from their classification as farmers, as the A.A.E.P. suggests, but from the nature of the businesses they operate, as the following discussion demonstrates.

Copyright © 2002 The Fourth Wall Inc.

Equine Tax Issues

The A.A.E.P. and the American Horse Council, among others, have suggested that banning horse slaughter or changing the legal status of horses from livestock to companion animals would affect the tax consequences of horse ownership, and could indeed have grave economic consequences for the horse industry. Initially, these positions caused both groups to oppose a total legislated ban on horse slaughter. However, they have since altered their stance and are currently officially neutral on the issue. Regardless, a fairly extensive research effort—which included a review of the relevant tax code, a thorough reading of the 2002 edition of the *Horse Owners and Breeders Tax Handbook,* published by the American Horse Council, and interviews with a number of experts on equine law—shows that neither statement is true. (This conclusion is offered with the following caveat from a prominent equine tax attorney: “An attorney’s opinion is just that, an opinion. That’s why cases wind up in court for decision, and even then, the law may continue to remain uncertain.”)

Nevertheless, it is a fact that the IRS code takes no position on horses per se. The relevant sections of the tax code which are applied to horse businesses are those applied to all businesses where it is difficult to determine whether or not the enterprise is being operated properly, that is, for a profit. It is only interested in whether or not any enterprise that claims losses or expenses as a tax deduction has been operated with the aim of making a profit. If so, the business—not the horse—is entitled to those legitimate deductions. If not, the deductions will not be allowed. Nowhere in the tax code does a horse’s status as livestock impinge on its tax status as an asset in a business, except within the depreciation schedules of farms and ranches operated as businesses. And, in so far as there is any relationship between slaughter and tax concerns, it is in the area of depreciation.

Regarding horses as a component of a horse business, the tax code provides that an individual or an S corporation cannot deduct expenses that are greater than the income from an activity if that activity is "not engaged in for profit." (IRS Sec. 183) This provision of the tax code is often referred to as the "hobby loss" provision. There has been little change in the substance of the hobby loss provision since it was enacted in 1969. The provision means that losses from a horse activity cannot be deducted against

Copyright © 2002 The Fourth Wall Inc.

income from other sources unless the horse activity is a business and not a hobby. Losses from a hobby are considered personal expenses and are not deductible, except to the extent the losses consist of personal items that are specifically allowed as itemized deductions under the tax law—items such as taxes and home mortgage interest. According to the IRS, whether an activity is a business depends upon whether the facts and circumstances indicate that the taxpayer entered into or continued activity with the objective of making a profit. The IRS has listed nine factors that are normally taken into consideration in determining whether a profit objective exists. These factors are:

1. The manner in which the taxpayer carries out the activity.
2. The expertise of the taxpayer or his advisors.
3. The time and effort expended by the taxpayer in carrying on the activity.
4. Expectation that the assets used in the activity will appreciate in value.
5. The success of the taxpayer in other similar or dissimilar ventures.
6. The taxpayer's history of income or losses with respect to the activity.
7. The amount of occasional profit, if any, which are earned.
8. The financial status of the taxpayer.
9. Elements of personal pleasure or recreation.

Each of these factors and their relationship to horse ownership is discussed at some length in Appendix V, Equine Tax Implications, page 49, of this paper. For now, we need to point out that it is only in Factor 4, the expectation that your assets will appreciate in value, that some might argue a connection to horse slaughter. After all, a horse acquired for nothing or a very low price, and sold for a profit, is a horse whose value as an asset has appreciated. Certainly, those who purchase horses or accept them for sale to slaughterhouses fit within this category, and would, presumably, argue strenuously that they are in the business of acquiring assets which appreciate in value, and are therefore entitled to business deductions for the losses incurred in the operation of their business (transportation, their farms or ranches, labor, etc.) While this argument might be legitimate, for the present, with the continuing decline of horses accepted at the

Copyright © 2002 The Fourth Wall Inc.

slaughterhouse gate, and falling prices paid by the slaughterhouses, it is only a matter of time before this business becomes uneconomical. As the courts have repeatedly held, most businessmen are not in the business of losing money. While banning the outright slaughter of horses is one way to save horses, in the absences of such a ban, any regulation or legislation that increases the economic burden on the killer buyers is likely to work, for tax purposes, just as well. For example, enforcement of existing state regulations regarding horse transport would likely double the cost of transporting horses to Texas or Canada, at the same time that prices are falling, thereby helping to push the buyers into the red. [See Appendix IV, page 46, for more information on The Horse Transportation Problem.]

What would happen if the status of horses was changed from that of livestock to that of companion animal? ***The IRS, for purposes of determining whether or not you are operating a business, does not care.*** The same IRS regulations that apply to horses operated for business purposes—breeding, racing and showing—also apply to dogs, cats and birds used for the same purposes, according to a noted animal rights' attorney who deals with legal issues pertaining to companion animals. Dogs, cats and birds are all recognized as companion animals and not as livestock, and yet, if used in the pursuit of a profit, they are subject to the same tax treatment as horses. Therefore, the name status of an animal would not appear to impinge on its tax treatment within a business context.

The second tax issue relating to horses is their asset depreciation value as farm animals. Horses used in a horse business for draft, breeding, or sporting purposes can qualify for capital gains treatment if they are (1) not held primarily for sale to customers and (2) held for at least 24 months. If horses are not held for the required period of time, gains and losses from the sale of such property are treated as ordinary business income and ordinary business losses, fully includable and fully deductible, whichever the case may be. If the horse is held for less than 24 months and is sold at a loss, if, and only if, the horse was used in a horse business, the seller is entitled to deductions limited to the value of the sale. But if the horse is used in a horse business, it may be entitled to capital gains treatment even if held for less than 24 months. This is especially important for horses used in racing, which may be sold at claiming races long before the 24-month period has been reached. The courts have recognized this fact repeatedly, and allowed

Copyright © 2002 The Fourth Wall Inc.

owners to claim capital gains. The tax basis of a raised horse or other livestock is zero if you have previously deducted all costs of breeding and raising the animal. In this case, the gain that must be reported if the horse is sold is the amount of cash received plus the value of any other property and/or services which were exchanged for the horse. Why? Because for tax purposes the horse owner has invested nothing in the animal which he has not already deducted. If these costs were allowed in determining the profit when the horse was sold, the seller would be getting a double deduction: once when the expenses were incurred and again in computing the profit on the sale or exchange. If an owner capitalizes costs of breeding and raising a horse, the costs will be included in the raising of the horse.

Conversely, the tax basis of horses or other livestock that have been purchased, rather than raised, is determined like the tax basis of any property and is not unique to a horse's status as livestock. Normally, this means that the only adjustment to the original cost of the animal is the amount of depreciation that has been taken or should have been taken since it was acquired. All other costs, such as feeding, boarding, training, veterinarian costs, etc. are ordinarily deductible as current expenses, and, if deducted, are not added to the tax basis. (IRS Sec. 1012)

Again, this provision of the tax code seems to benefit solely people who are engaged in the business of buying and selling of horses rather than the raising of horses. Banning horse slaughter outright, or changing the legal status of horses to that of companion animals, would have no impact on this section of the law, because again, the IRS code concerns itself solely with the deductibility of expenses within the context of a sale. The tax code does not distinguish between one kind of sale and another. It merely describes what can be deducted if the sale takes place, for whatever the purpose.

If you cannot sell your horse, and must therefore destroy it, what happens to deductibility? Again, the answer in the IRS code lies in the use to which the horse was put during its lifetime, not what happens to the horse after it is dead. Under current law, a horse that is culled from a herd — and disposed of by whatever means — provides a deduction for its owner if the disposal was to make the business more efficient; that is, to either make a profit or increase the chances of making a profit. If there is a charge to the

Copyright © 2002 The Fourth Wall Inc.

business for disposing of the horse, this is deductible as a normal business expense, such as feed, veterinary bills, etc. A horse that is used for recreational purposes is the responsibility of its owner and expenses cannot be deducted under any circumstances.

In the final analysis, ***the fact that horses are still slaughtered in this country has absolutely no bearing on the legal status of horses as livestock.*** Consequently, if a ban on horse slaughter were to be implemented tomorrow, the legal status of the horse would remain unchanged. That these two topics are so often connected in the ongoing debate over efforts to shut down the horse slaughter industry reveals at best a sloppy analytical approach on the part of the apologists or at worse their blatant disregard for the truth.

The Final Analysis

The sad, inescapable truth is this: In the final analysis, the slaughter of horses in the U.S. is ***an unnecessary evil***. An evil that has enjoyed the well intentioned, but misguided and ill-informed support of a number of individuals and horse industry groups for far too long. By falling back on the same tired arguments—year-in and year-out—the apologists for the horse slaughter industry have failed to recognize the marketplace's remarkable capacity to adapt to changing circumstances. Look at it this way: In 1989, 348,000 horses were sent to slaughter in the U.S. ***Bolstered by a growing public awareness for the unspeakable nature of slaughter and the potentially ruinous commercial consequences to its practitioners, the number has declined steadily since then,*** so that each year a growing number of "unwanted" horses that might have been slaughtered have been saved from that horrible fate. How many? Cumulatively, since 1989, it could be argued that as many as 2,491,000 horses that might otherwise have perished at the slaughterhouse have not done so. Obviously there have been resources to put them down humanely or to find homes—neglect and abuse-free homes—for virtually all of them. [See Appendix II, page 35.] If this extraordinary record of dealing with "unwanteds" is true—and the best available information says that it is—why is so difficult to imagine that another 40,000 or so horses per year represents an insurmountable challenge? On balance, the weight of available evidence shows the two primary arguments used to oppose a ban on horse slaughter to be remarkably flimsy. Unless the apologists can come up with alternative

Copyright © 2002 The Fourth Wall Inc.

reasoning, they must refute their past support for the continuation of horse slaughter in the U.S. and begin work for its abolition.

Copyright © 2002 The Fourth Wall Inc.

Appendix-I
The U.S. Horse Slaughter Industry: Forty Years of Cruelty

The slaughter of horses has never been a big business in the U.S., at least by the standards of modern corporate America. Even back in the 1950s, arguably the industry's heyday, there were never more than 35 horse slaughterhouses in the country. Today, there are only two.

Why has a business that was relatively small to begin with grown even smaller over the past 50 years? The reason is simple: horsemeat consumption by humans in the U.S. has never been anything but the product of extreme deprivation—in other words, an act of desperation, an anomaly. Indeed, the only Americans to ever eat horsemeat regularly and in large quantities are four legged — cats, dogs and some zoo animals. (Horsemeat byproducts have been used for decades as a component in certain animal feed, but these byproducts come from rendering plants which do not slaughter the animals they process.) Many observers have speculated about why this is so. Some say that the horse became an early partner in taming America's vast frontier and was much too valuable an asset to dine on. Later this partnership was mythologized in film, literature, advertising and television. Would The Lone Ranger eat Silver? Wilbur, Mr. Ed? Hardly. By contrast, for centuries and throughout the Twentieth Century, a certain percentage of the population in Europe and Japan has made horsemeat a part of its day-to-day diet. As the numbers reported below will show, it is this foreign demand alone that allows those last two remaining slaughterhouses to continue operating.

But for how long? The history of the horse slaughter industry over the past 50 years is one of consistent, some would say, inexorable decline, for which there is ample statistical evidence. The relevant numbers—the total number of horses slaughtered, the tonnage of the horsemeat shipped overseas or the dollar value of those shipments—have fluctuated from year to year, rising and falling with changing circumstances. But the overall trend has been downward. Only about half of the thirty-plus horse U.S. slaughterhouses in

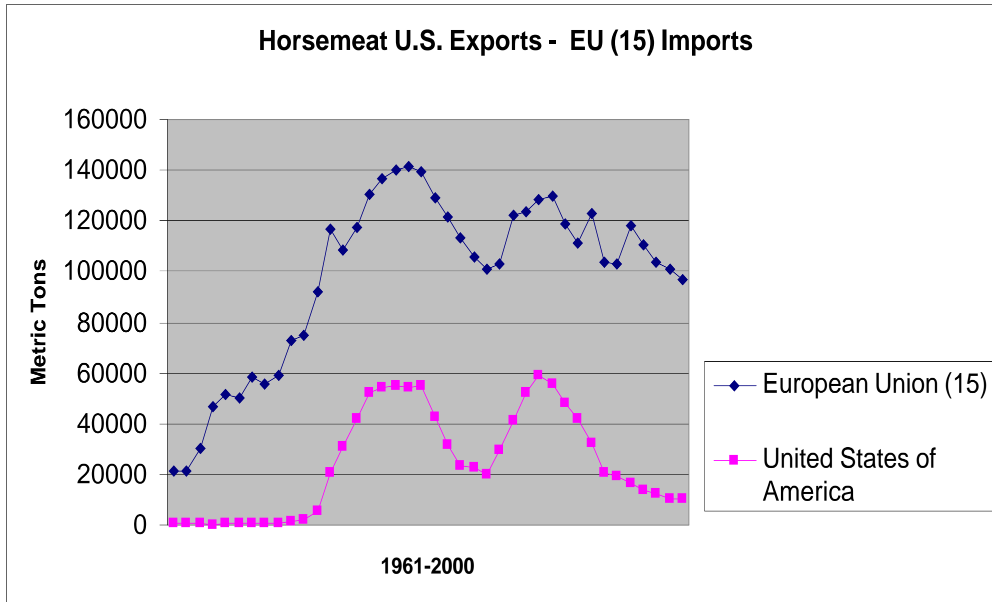
Copyright © 2002 The Fourth Wall Inc.

operation in 1959 were in operation in the late 1980s. That number dropped to just four in 1999 and then to two, both in the state of Texas, by mid-2002.

The most important factor contributing to the decline occurred back in the mid - to late-1960s. It was during those years, according the Pet Food Institute, an industry trade group, that America's cats and dogs had a change of diet. Marketers at the major pet food manufacturers saw an opportunity to gain an advantage over their competition by offering products that were different, more palatable — or that at least seemed more palatable to the pet owners who purchased them. The earliest commercially prepared pet food was a dog biscuit created in England around 1860. ***When pet food manufacturers expanded their product lines to include canned meat, horsemeat was the protein of choice.*** Thanks to the 1966 Fair Packaging and Labeling Act, which required all consumer products to be "honestly and informatively labeled," pet owners could see for themselves what "Tabby" and "Prince" were really eating. ***They didn't like what they saw. As a result, pet food manufacturers who were already looking for competitive advantages turned from horsemeat to beef (and other meat byproducts) as a substitute. The shift proved a boo n for the beef slaughterhouses that found a new and growing market for their byproducts. The horse slaughterhouses, however, didn't fair as well. Many were entirely dependent on the pet food market and were force to shutter their doors.*** Those that remained had to scramble for new customers.

Under these circumstances, it was only natural for the industry to look abroad, specifically to Europe and Japan, where the consumption of horsemeat by humans was commonplace. The marriage of domestic supply and foreign demand is illustrated in the following chart, which tracks U.S. horsemeat exports and European Union's horsemeat imports from 1961 to 2000, using data from the Food and Agricultural Organization of the United Nations (FAO).

Copyright © 2002 The Fourth Wall Inc.

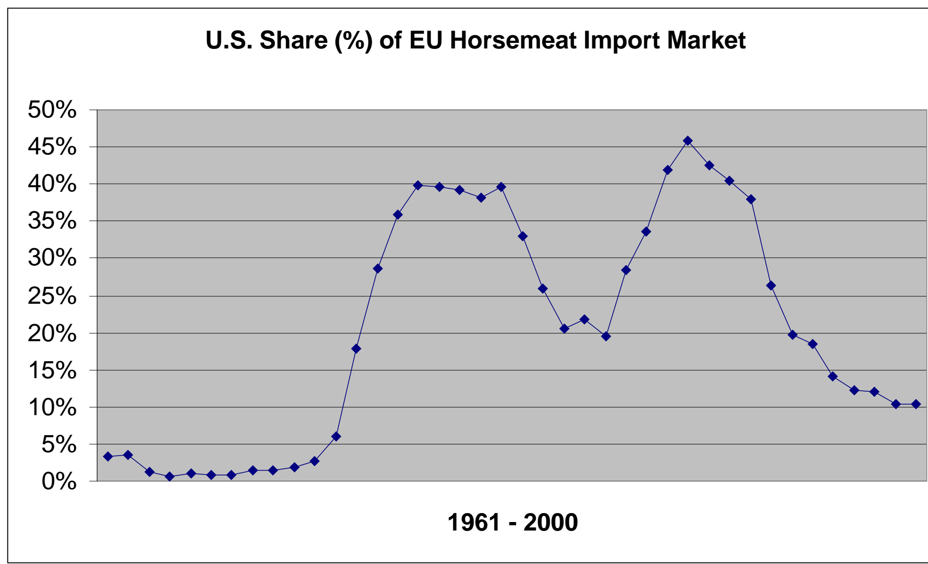


Note that at no time during the 1960s did U.S. horsemeat exports rise above 1,000 metric tons (abbreviated Mts., a metric ton equals 2,200 lbs.). This, of course, was the period in which domestic pet food demand for horsemeat started its decline. Then, starting in 1970, horsemeat exports begin a steep, forty-fold rise—from 1,350 Mts., in 1970 to over 55,000 Mts., in 1980—that closely parallels the EU's total demand for imported horsemeat. In 1981, when EU demand declines for the first time in more than a decade, American exports also begin to slump.

The relationship between European (EU) demand and the production of horsemeat in the U.S. has been noted for years, though little or no attention has been paid to how closely the supply and demand lines track one another. If the U.S. were the sole supplier of imported horsemeat in Europe, those lines would, of course, be identical. But the U.S. is just one of a number of horsemeat suppliers, a group which includes Argentina, Australia, Brazil, Canada, the United Kingdom, and Uruguay. In fact, over the past forty years, based on FAO data, the U.S.'s role as a player in the world horsemeat market has

Copyright © 2002 The Fourth Wall Inc.

fluctuated from bit player to major star [see chart below]. Back in the 1960s, when pet food claimed most domestic horsemeat production, the U.S. share of the European market averaged only around 1.5%. By 1976, however, that percentage soared to over 40%, where it leveled off for the next four years only to drop relatively quickly to half that level by 1985.



At this point two factors merged to produce what, in retrospect, will probably be seen as the last great gasp of the horse slaughter business in the U.S. The first factor was a reversal of a six-year slide in EU demand for horsemeat. The second was a change in U.S. tax code. That change—or more accurately, those changes—came with passage of the U.S. Tax Reform Act of 1986, a largely unexplored, yet seminal event in late 20th Century American history.

The Act caused a sharp decline in the use of tax shelters by the wealthy when it eliminated the investment tax credit for the purchase of depreciable assets and redefined passive loss limitation rules. The earlier passive loss limitation rules allowed losses from activities in which an individual did not materially participate to be deducted against

Copyright © 2002 The Fourth Wall Inc.

other source of income (except other passive investments). These rules had had a profound impact on almost every part of the U.S. economy—from the construction of speculative office buildings to the purchase of Thoroughbred racehorses. Indeed, it was liberal investment tax credits and passive loss limitation rules that helped inflate the "Bluegrass Bubble" of the early 1980s, a time when millions and millions of dollars were pumped into horse owning syndicates, breeding and racing operations. In reality, the Bubble extended well beyond the Thoroughbreds grazing the manicured spreads of Kentucky's legendary racing country to envelop Quarter Horses and Arabians. According to the Jockey Club, an organization that, among other things, maintains *The American Stud Book*, the Registry of all Thoroughbreds foaled in the United States, Canada and Puerto Rico, the combined total of Thoroughbred, Quarter Horse and Arabian registered foals (the three most popular of the 11 different breeds tracked by the J.C.) in 1975 was 141,108. By 1985, that total had risen nearly 70% to 237,797.

Then the bubble burst. Without the advantages afforded by the previous tax codes, interest in many types of passive investments—including horse ownership—waned. The number of foals registered on an annual basis began to drop almost immediately. But, in the eyes of many observers, the damage had already been done. Tens of thousands of horses were alive and kicking, but the cost of maintaining them was now more burdensome than before. Horse owners looking for an out then (and now) really had only three options: 1) sell to a new owner willing to take responsibility for the horse; 2) have the horse put down (euthanized); or 3) sell the horse to a slaughterhouse. The first option is, of course, the one that most reasonable people would find most appealing. Unfortunately, there were just too many horses and too few buyers for this to happen. Option two, while unpleasant, surely seems preferable to the slaughterhouse option. The problem with euthanasia, however, is cost. In order to have a horse put down, an owner must not only pay a veterinarian to do it and then arrange for the disposal of the carcass, usually an additional expense [these costs are discussed in an earlier section of this paper]. Under these circumstances, the slaughterhouse option grew more attractive. After all, generally speaking, it was relatively easy to arrange (horse auction sites operate in almost every part of the country) and much more lucrative than the euthanasia option. (To a financially pressed owner, a horse sold to a slaughterhouse buyer for even a few

Copyright © 2002 The Fourth Wall Inc.

hundred dollars has obvious advantages over laying out cash to put an otherwise unwanted horse down.)

The growth in what might be described as the “surplus” horse population, along with an upsurge in EU demand for horsemeat, helped drive the market share of U.S. slaughterhouses to new heights. From a twelve year low of 20% in 1985, that share of the total EU import market grew each year for the next four years, finally topping out at 46% in 1989.

At the time, it would have been hard to see that this high point in industry performance would mark the beginning of a steep decline. But that was indeed the case, as a look at the market share chart above confirms. Beginning in 1990, U.S. slaughterhouse share notches down each year for the next ten years, bottoming out at 10%, it lowest point since 1972.

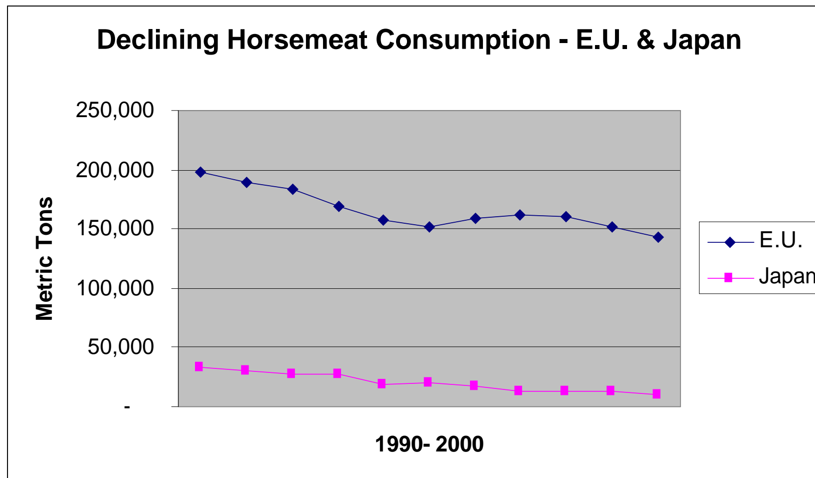
What does the forty year long roller coaster ride in market share numbers say about the horse slaughter business in the U.S. and, more importantly, about its future prospects? To answer that question, it is important to understand the significance of market share in the business world.

Though it varies from industry to industry, market share is generally thought to be a key measure or indicator of a company’s strength and long-term viability, for, generally speaking, market share eventually translates into profit. For this reason, in some businesses, market share is seen as so important that companies will reduce the price of their products and forgo profits—sometimes for extended periods of time—simply to maintain or increase their share numbers. The reputation, not to mention the tenure, of many Chief Executive Officers rides on how successful they are in this regard. Jack Welch, the legendary CEO, reshaped General Electric’s strategy and took it from No. 8 in stock market value to No.1 by insisting that GE be “No. 1 or No. 2” in every market it participated in. Those divisions or businesses that couldn’t make the cut were sold.

Most sober-minded business managers would be appalled by the horse slaughter industry’s volatile market share record. And rightly so. The wild undulations in market share—the inability to sustain a given share level for more than few years at a time—would be seen for what it is: a sign of weakness and instability. Uncertainty makes it

Copyright © 2002 The Fourth Wall Inc.

difficult to run a business—any business. It makes it practically impossible to plan, to anticipate problems, to capitalize on opportunities. It subjects the enterprise to the whim of outside forces. In short, it makes long-term business viability very questionable, especially when total market share drops to dangerously low levels, as it has for the two remaining horse slaughter operations in the U.S. (The five slaughterhouses still operating in Canada find themselves in a similar position.)



Even worse for U.S. horse meat producers is their near total dependence on foreign demand, which despite a recent uptick attributable to European fears of Mad Cow Disease, has been in general decline for decades. According to *MHR Viandes* , a French meat industry trade publication, total consumption in the eight largest horsemeat consuming countries in Europe fell from 198,200 to 153,000 metric tons between 1990 and 2001—a decline of nearly 23%. (Data from MHR Viandes show horsemeat consumption in France in the first four months of 2002 falling below the levels reached in the same months in 2001 when fears of Mad Cow disease caused some consumers to look for an alternative to beef.)

In Japan, the largest Asian consumer of imported horsemeat, the decline in consumption has been even more pronounced: According to the FAO, the Japanese, who are almost entirely dependent on foreign suppliers for their horsemeat, imported over

Copyright © 2002 The Fourth Wall Inc.

51,000 metric tons of it in 1980. By 2000, that total had dropped nearly 80% to just over 10,000 metric tons, a number which is expected to continue falling in coming years. [See chart previous page.]

The American horse slaughter business in the U.S. (and Canada) is, undoubtedly, in serious trouble. Plagued by a chronic inability to maintain its share, which is now at its lowest point in percentage terms in thirty years, almost totally dependent on a single source of demand that is itself shrinking on an annual basis, and battered by intense negative publicity, it's surprising the business is here at all. In fact, if it weren't for the fact that the American horse slaughter business isn't American, it would likely have collapsed under its own weight long ago. Not American?

That is correct. Although the two remaining slaughterhouses are in Texas and are technically Texas corporations, they are owned by foreign meat concerns. Bel-Tex, the larger of the two, is in Fort Worth, Texas, and is owned by Multimeat, NV, a Belgian company. Dallas Crown, in Kaufman, Texas, less than 80 miles east of the Bel-Tex facility, is owned by Chevideco France, headquartered in Roncq, a suburb of Lille, a city in France close to the Belgian border.

What difference does foreign ownership make? Actually, foreign ownership of a horse slaughterhouse in and of itself is not critical. It's the other businesses that these foreign owners operate that is. Multimeat and Chevideco are meat traders, wholesalers and distributors. Their primary product is beef; horsemeat is a sideline. (The amount of beef and veal consumed in Europe in 2000 and 2001was ten times greater than the amount of horsemeat consumed, despite widespread concern about bovine spongiform encephalopathy or "mad cow" disease, according to MHR-Viandes). When these companies purchased controlling interests in America's horse slaughterhouses, they were simply engaging in vertical integration, a business strategy that allows a company greater control over its source of supplies and raw materials. For Multimeat and Chevideco, owning an American slaughterhouse means that neither has to bid against other European horsemeat importers, they, in essence, buy from themselves.

Vertical integration also allows marginal independent businesses—those consistently operating at or below breakeven—to continue operating. How so? Vertically integrated

Copyright © 2002 The Fourth Wall Inc.

firms can use the profits earned at one stage in the supply (or value) chain to offset losses incurred at another. In the other words, Multimeat and Chevideco can operate their American slaughterhouses at breakeven or worse for extended periods of time, so long as the profits they earn from their meat wholesale and distribution operations back home are ample enough to guarantee their overall profitability.

Are they? The honest answer is that there is no way to tell with absolute certainty. Both Multimeat and Chevideco are privately held companies. Information on how much they sell annually and what it costs them to do so is nearly impossible to come by. Even if they were publicly traded, it would be highly unlikely that they would detail the profit and loss of their small U.S. divisions, opting instead to fold those numbers into those of other divisions or the overall company itself. The horse slaughter business in the U.S. is not a popular one and both European companies are understandably reluctant to speak about their involvement. A public relations spokesman, employed jointly by the European meat purveyors to field questions generated by the recent introduction of a Congressional bill (HR 857) to ban the slaughter of horses in the U.S., refused to say how many people the two U.S. facilities employ. (Independent research has put the figure at well under 300 people, about 45 of whom work at the Dallas Crown plant and the balance at Bel-Tex).

Despite these obstacles, there is a way to get a feel for the financial health of the slaughterhouse operations, if not individually, then certainly as an "industry." The process begins with estimating how much revenue they generate each year. Fortunately, this information is, in a way, a matter of public record since the majority of the horsemeat produced at the Texas slaughterhouses goes overseas and the amount and value of those shipments are tracked by government agencies. (The word "majority" is used here because both Bel-Tex and Dallas Crown sell a portion of the horsemeat they produce to domestic zoos and animal parks.)

Using information from various U.S. and international agencies, it is possible to estimate the value of U.S. horsemeat exports. During the period from 1990 to 2000, the total average annual value of the horsemeat exported by U.S. processors was $78.8 million and the average price per pound for those shipments was $1.44. In the year 2000

Copyright © 2002 The Fourth Wall Inc.

the last year for which hard data are available), with only Bel-Tex and Dallas Crown still in operation, the total value of American horsemeat exports was $30.5 million dollars and the average price per pound was $1.38.

Can a slaughterhouse operator survive selling meat for $1.38 a pound? Well, it all depends, of course, on how much the operator spends to produce a pound of meat. Again, without detailed information from the producers themselves—information which is not readily forthcoming—this calculation can be tricky. For starters, it requires a fair estimate of the "cost of goods", a generally used accounting term which, in the case of a slaughterhouse, would include the cost of acquiring horses for slaughter and the cost of shipping the meat they yield to customers. To that, employee salaries and benefits and all other standard overhead items must be added.

Just how much a slaughterhouse is willing to pay varies from season-to-season and, of course, year-to-year. Virtually no one involved in the industry is willing to talk about it. First of all, the buying, selling and transporting horses for slaughter is one of the most controversial aspects of the business. Neither of the Texas slaughterhouses, according to their spokesman, employs a horse buyer. Instead, both rely on agents — infamously referred to by the equine rescue community as "killer buyers" or more euphemistically by others as "slaughter buyers" — from around the country. These freelance buyers regularly attend one or more of 100-plus horse auction sites currently operating in this country, one of the largest and best known of which is run every Monday by New Holland Sales Stables, Inc., in New Holland, Pennsylvania. These buyers also, according to reliable eyewitness accounts, visit Thoroughbred, Standardbred and Quarterhorse racetracks in search of owners looking for a quick and easy way to dispose of unwanted horses.

Each slaughterhouse, according to the industry's spokesman, stays in contact with its own circle of buyers, periodically communicating its needs—the type of horse (generally overall size and conformation, not breed) and the number of horses it requires and how much will be paid — on a week-to-week basis. The process, according to a highly placed manager at one of the plants, is very informal and difficult to manage, with supply and demand rarely in sync. As a source of supply, the horse auction sites are notoriously

Copyright © 2002 The Fourth Wall Inc.

unreliable. Some weeks owners looking to unload horses arrive at auction sites in large numbers; other weeks their numbers dwindle, without apparent reason. Which breeds of horse are put up for sale each week is equally hard to predict. During a recent sale in New Holland, PA, for instance, only five of the approximately 250 horses offered for sale were Thoroughbreds, and only two of them were sold (the other three failed to reach the individual owner's reserve price and were pulled off the block.) Because of these variables, many "killer" buyers must pick up horses when they can—sometimes only one or two at a time—and then hold them at a farm or ranch until they have a buyer for a shipment large enough to be economically practical. And, these days, economic practicality is almost entirely determined by transportation costs. A typical load in a double-deck trailer, a now commonly used mode of horse transport recently banned after the year 2006 by the USDA's Commercial Transportation of Equines to Slaughter rules, might run about 40 horses, according to published sources. But whatever the number, with only two slaughterhouses left in the country and both of them in Texas, many of the horses sent to slaughter must be shipped over long distances. New Holland, Pa., the site of the largest regularly scheduled horse auction east of the Mississippi, is, for example, some 1,450 miles from the Dallas Crown and Bel-Tex facilities—a distance that would take over 24 hours to drive at an average speed of 60 mph. The total cost of trucking a horse to slaughter—a cost shouldered by the "killer buyers" but factored into their selling price—can be broken down to three major factors: 1) time; 2) fuel; and 3) operating costs (insurance, maintenance and depreciation). Truck drivers, of course, must be paid, and the longer a trip takes to complete, the greater the overall shipping cost. Fuel cost, another variable, is strictly determined by distance and m.p.g. (miles per gallon) efficiency (which is itself affected by equipment type and the weight of the load being hauled). The maintenance/equipment depreciation costs can be arrived at in a number of ways but, whichever technique is used, boils down to dollar amount per mile driven that includes the pro rata costs to buy, insure and keep a tractor-trailer rig in good repair.

But back to the question: How much do the slaughterhouses pay for a horse? Or, put another way, how much are the "killer" buyers willing to accept given the fluidity of their business and the expenses detailed above? It depends. And it depends on so many variables that a dollar amount agreed on today might be irrelevant next week. Les

Copyright © 2002 The Fourth Wall Inc.

Sellnow, a freelance journalist, wrote an article for the December 1999, edition of *The Horse* magazine that is, undoubtedly, the most comprehensive and well-balanced appraisal of the horse slaughter industry written to date. In it, Sellnow describes the interaction between a Canadian slaughterhouse representative and a "killer" buyer, suggesting as he does a theoretically acceptable buying and selling price for a horse:

> "…The basic approach involves the plant representative informing the buyer what will be paid for certain types of horses. The buyer then buys these horses at public auction (some privately) with his profit coming from the difference between his purchasing price and what he receives from the slaughter facility. If he buys a horse for $500 and the plant is paying $600 for that type of horse, his markup margin is $100, less transportation costs."

Sellnow goes on to point out that horses weighing 600 pounds or less are shunned by slaughter plants because they do not yield enough useable meat. The "the ideal horse", he writes, is a "nicely fleshed saddle horse weighing in at about 1,200 pounds."

Elaborating on his scenario, a "killer" buyer able to put together a slaughterhouse shipment—a double-deck truckload of, say 30 head of "ideal horses"—would stand to earn, after deducting the cost of transportation which could easily reach $1,500, or about $50 dollars per head, depending the distance travel and how strictly the trucker adheres to federal transport rules and regulations. If the horses are less than "ideal", then the profit per head is even smaller. This margin, while not exceptionally thin, is borderline. A mechanical problem, a prolonged weather delay, a fine for some infraction experienced along the way, and a killer buyer could see his profits for a given trip evaporate.

The slaughterhouse side of the economic equation is equally, if not more, gloomy. After all, a slaughterhouse is paying 50-cent per pound on the hoof when it lays out $600 for a 1,200 pound horse, but the cost per pound will more than double after the horse is slaughtered and butchered. How so? Well, the average yield from a horse of this size is about 550 pounds of useable meat. Divide the $600 purchase price by this yield and the cost per pound paid on the hoof rises to $1.09 per pound of useable horsemeat. (Yield per horse is primarily a function of the size and health of the animal, a slaughtered draft horse

Copyright © 2002 The Fourth Wall Inc.

yielding more, but generally speaking less desirable meat than a Quarterhorse or Thoroughbred, all other factors being equal. [The question of what percentage of the total number of horses slaughtered each year are Thoroughbreds is something of a mystery. See Appendix III, page 45, for a more detailed discussion.] Yield is affected by others factors as well. Bruised or otherwise damaged flesh is, according to Food Safety Inspection System standards, trimmed and discarded. See chart below.) Many critics of horse slaughter would take little comfort in this number. For years, they have expressed outrage at the price horsemeat commands in Europe and Asia—typically quoting it at somewhere between $15.00 and $20.00 per pound. In truth, according to the Sunday Times of London, horsemeat, in the midst of the mad cow, was selling in Parisian butchers' shops for just over $7.00 per pound, compared with $11.00 for beef and $11.55 for lamb. But regardless of the retail price, the only number that really matters from a domestic horsemeat processor's perspective is the value of a pound of horsemeat as it leaves the U.S., which in 2000 was $1.38, according to the FAO. Compare this figure to the $1.09 cost of producing a pound of horsemeat and the dilemma of the U.S. slaughterhouse industry is apparent. (Remember, out of this 29-cent per pound gross margin, the slaughterhouse must pay its workers and managers and all other overhead expenses.)

Ultimately, the answer to the question of how much a slaughterhouse can pay for a horse lies at the intersection of the price paid per pound on the hoof and the value of each pound of useable meat the horse yields. (Slaughterhouse byproducts such as hides and offal—the waste parts of a butchered animal—do provide additional revenue but are not thought to be significant enough to alter the basic financial picture of the slaughterhouses.) The chart on the following page illustrates this relationship:

Copyright © 2002 The Fourth Wall Inc.

Cost Per Pound of Horsemeat Produced - [Meat Yield (lbs.) / Price Paid Per Head Matrix]

	$ 150	$ 200	$ 250	$ 300	$ 350	$ 400	$ 450	$ 500	$ 550	$ 600
200/lbs	$0.75	$1.00	$1.25	$1.50	$1.75	$2.00	$2.25	$2.50	$2.75	$3.00
250/lbs	$0.60	$0.80	$1.00	$1.20	$1.40	$1.60	$1.80	$2.00	$2.20	$2.40
300/lbs	$0.50	$0.67	$0.83	$1.00	$1.17	$1.33	$1.50	$1.67	$1.83	$2.00
350/lbs	$0.43	$0.57	$0.71	$0.86	$1.00	$1.14	$1.29	$1.43	$1.57	$1.71
400/lbs	$0.38	$0.50	$0.63	$0.75	$0.88	$1.00	$1.13	$1.25	$1.38	$1.50
450/lbs	$0.33	$0.44	$0.56	$0.67	$0.78	$0.89	$1.00	$1.11	$1.22	$1.33
500/lbs	$0.30	$0.40	$0.50	$0.60	$0.70	$0.80	$0.90	$1.00	$1.10	$1.20
550/lbs	$0.27	$0.36	$0.45	$0.55	$0.64	$0.73	$0.82	$0.91	$1.00	$1.09
600//lbs	$0.25	$0.33	$0.42	$0.50	$0.58	$0.67	$0.75	$0.83	$0.92	$1.00

On the left-hand side of the matrix are meat yields in useable pounds—ranging here from 100 to 600 pounds per horse. Typical yields from the most commonly processed horses (Quarterhorses, Arabians and Thoroughbreds) tend to run in the 500-pound range. Those familiar with U.S. slaughterhouses say that they shy away from small horses and ponies because of low yields in the 200 to 300 lb., range or less, but these numbers are included for purposes of comparison. Similarly, yields from draft horses typically exceed 700 pounds, but these breeds too are avoided because the meat they produce is, generally speaking, tougher and less desirable.

The numbers running across the top row of the chart are the price per head paid for an individual horse, ranging from a low of $150 to the high of $600. This is not to say, of course, that horses have never been purchased for less than $150 or more than $600 a head, but given the economic realities of the horse slaughter business, prices at either extreme would be exceptional.

The dollar figures in the matrix represent the cost of producing a pound of useable meat and they are derived by dividing the cost paid per horse by the total number of useable pounds of meat that horse yields. The matrix numbers in red equal or exceed the

Copyright © 2002 The Fourth Wall Inc.

$1.38 per pound valuation the FAO put on U.S. horsemeat exports in 2000. In other words, a slaughterhouse facing these costs would, by definition, be operating at a loss. Those numbers in black represent costs presumably low enough to allow the slaughterhouses to operate at breakeven or better. And finally, those figures in gray fall into, well, a gray area where it's difficult to tell whether or not they would allow for profitable operation.

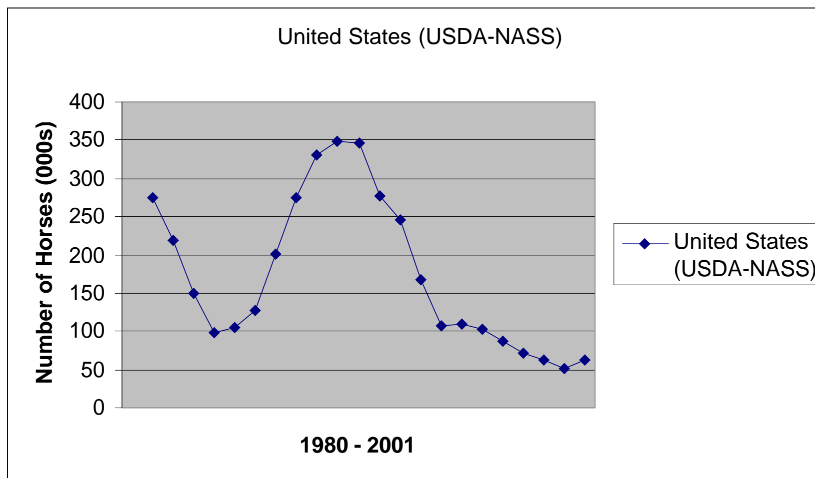
What's the point of the matrix? Simply to expand on the example given earlier—Sellnow's $600, "nicely fleshed saddle horse weighing in at about 1,200 pounds", which yields 550 pounds of marketable meat costing $1.09 per pound—and demonstrate the narrow margins within which the slaughterhouses must operate.

Anyone searching for proof that the business of slaughtering horses in the U.S. is dying—and dying for reasons that have little or nothing to do with pressure brought to bear by the equine protection and rescue communities—need not go any further than this. While it is undoubtedly true that foreign ownership of the slaughterhouses has forestalled their inevitable demise, it will not do so indefinitely. Yes, it does appear that the Europeans have been using profits from operations farther up the value chain—their own wholesaling and distribution divisions—to offset losses at their U.S. operations. But given the low and steadily declining share numbers the U.S. facilities have put up over the past five years, it already seems that Multimeat and Chevideco have begun to look elsewhere for their supplies of horsemeat. And why wouldn't they? According the latest information supplied to the FAO, only Canada among the nine largest horsemeat exporters gets more for a pound of horsemeat shipped overseas than the U.S. The other seven—Argentina, Australia, Brazil, Mexico, Poland, the United Kingdom and Uruguay—sell at discounts ranging from 12% to 57% of the U.S. price. Simply put, the immunity foreign ownership provides the U.S. slaughterhouse operations is wearing off. Their end is near.

Copyright © 2002 The Fourth Wall Inc.

Appendix - II
Where have all the horses gone?

Hidden within the mass of data documenting the downward slope of the horse slaughter industry—the market share percentages, the metric ton yields, the dollar valuations, the demand curves—lies a stark fact that many individuals and groups across the country find disturbing: Since 1980, nearly four million horses have gone to slaughter in the U.S. for food. If there is any solace for the concerned in all of this, it is that the number of horses doomed to this fate has dramatically declined over the past twelve years. This extraordinary drop is worth reviewing:



In 1989, the total number of slaughtered horses reached 348,000. The next year that number hardly budged, slipping just eight tenths of a percentage point to 346,000. In retrospect, however, 1990 was a watershed year, for larger drops were to follow as EU demand for horsemeat slumped and, in the minds of many, the surplus supply of horses produced during the Bluegrass Bubble evaporated. By 1994, the number of horses slaughtered in the U.S. reached a ten year low of 107,000, where it plateaued for two years before heading downward again to levels not seen since the mid-1960s. In 2000 and 2001, just over 50,000 and 62,000 horses respectively met their end. (The uptick in 2001, according to meat industry analysts, was due entirely to increased European demand

Copyright © 2002 The Fourth Wall Inc.

prompted by concern over mad cow disease. Reports on EU horsemeat consumption for the first few months of 2002 show a return to pre-mad cow levels. Consequently, North American horsemeat exports are expected to resume their pattern of decline.)

What's behind the decline in U.S. horse slaughter activity? That's a question many observers are wondering—and theorizing—about. True, European and Japanese demand for horsemeat has declined, but not nearly enough to explain the 82% falloff at America's slaughterhouses. The U.S. share of the EU horsemeat import market, after all, shrunk to 10% from 46% during the period from 1989 to 2001, so demand alone cannot explain the steep decline in the total number of horses slaughtered here.

What might? Well, numerous newspaper, magazine, and Internet reports (and an untold number of individual apologists) speculate that U.S. horses are being shipped to Canada and Mexico for slaughter, processing and eventual shipment abroad. But, as the chart below [data provided by the FAO, USDA and the CFIA] shows, this is not likely to be the case.

Number of Horses Slaughtered Annually

	Canada	Mexico	U.S.	Total
1989	133,000	560,000	348,400	1,041,400
1990	129,900	575,000	345,700	1,050,600
1991	113,800	590,000	276,900	980,700
1992	88,800	606,000	246,400	941,200
1993	85,200	610,000	167,300	862,500
1994	59,700	618,000	107,000	784,700
1995	59,600	626,000	109,200	794,800
1996	63,500	630,000	103,700	797,200
1997	64,500	630,000	87,100	781,600
1998	65,400	630,000	72,000	767,400
1999	62,300	626,000	61,700	750,000
2000	60,900	626,000	50,400	737,300
2001	66,300	626,000	62,000	754,300

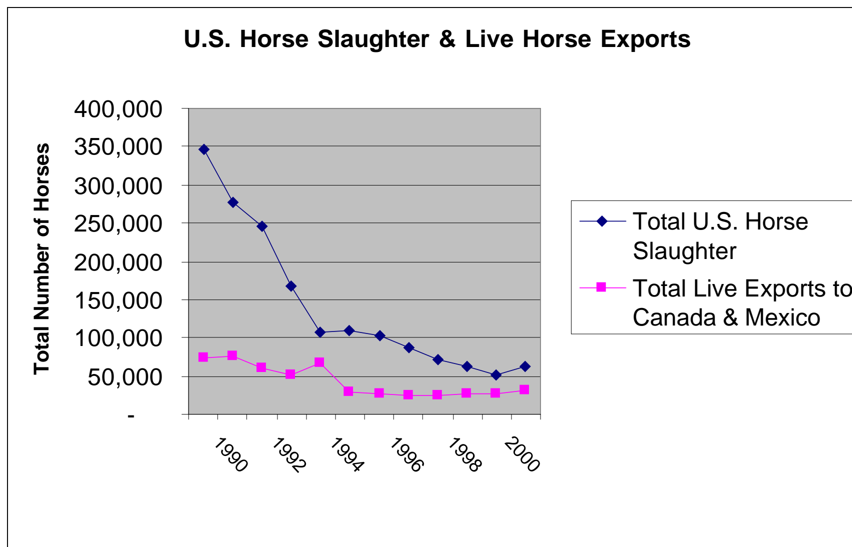
Copyright © 2002 The Fourth Wall Inc.

The number of horses slaughtered on an annual basis in Canada, for instance, has dropped by more than 50% since 1989. Despite this dramatic reduction, the speculation that Canada's five remaining slaughterhouses serve as a last-resort outlet for America's unwanted horses persists. Fortunately, hard data available from the government undermines this assertion. According to the United States International Trade Commission (USITC), the export of live horses (other than purebred breeding stock) to Canada has ranged between 23,000 and 30,000 head per year for the past seven years—a period of time during which the number of horses slaughtered in the U.S. has dropped from nearly 110,000 to around 50,000 a year. Even if all of the horses sent north were earmarked for slaughter—and this is certainly not the case—the numbers just don't add up. Canada's horsemeat industry alone is not absorbing America's unwanted equines.

But what about Mexico, the only country, among the three nations included on the chart above to show an increase in the number of horses it slaughtered during the period from 1989 to 2001. First, if the argument that horses from the U.S. were being shipped to Mexico to be slaughtered for the European and Asian markets were true, Mexican horsemeat exports would have risen substantially throughout the 1990s. They didn't. According to the FAO, Mexican exports rose only a few thousand metric tons through mid-decade before declining to a ten year low of 2,159 metric tons in 2001. Furthermore, the Mexican explanation falls apart on practical grounds: Trucking horses to Mexico—and driving past the two remaining U.S. slaughterhouses—would increase overall costs and complicate matters by introducing an international border crossing into the mix. The most compelling evidence against the "shipment to Mexico" argument, however, comes from the USITC, which says that exports of live horses (other than purebred breeding stock) to Mexico have averaged just over 1,000 head per year for the past seven years.

For years, the apologists have claimed that ending horse slaughter here in the States will simply result in horses being sent to their deaths in Canada and Mexico. In essence, this argument insists that there is an inverse relationship between horse slaughter and live horse exports. That, in other words, a decline of 10,000 horses slaughtered in the U.S. would result in an increase of 10,000 live horse exports to our nearest national neighbors. That closing U.S. slaughterhouses, doesn't put an end to the "necessary" evil, it merely relocates it.

Copyright © 2002 The Fourth Wall Inc.



This contention is utter nonsense. Contrary to the apologists assertion, live horse exports to Canada and Mexico have not increased as the number of horses slaughtered in the U.S. has plummeted, but have actually declined as well (as the chart above shows). If, indeed, there were an inverse relationship between slaughter and exports, the line representing the number of total live horse exports to Canada and Mexico would have risen as steeply as the slaughter line fell. It didn't.

No, these numbers show that, at the very least, a significant portion of the decline in U.S. horse slaughter is real and that countries other than Canada and Mexico are picking up the slack in meeting worldwide horsemeat demand. A likely suspect is Brazil, whose horsemeat exports have risen nearly fourfold to 15,000 metric tons over the past decade, according to data it provides to the United Nations. Poland and Uruguay have also boosted their horsemeat exports. (What's more, international reports say that Poland has begun to ship live horses by rail directly to slaughterhouses in Belgium and France rather than process the meat itself.) That Poland is a source for much of the EU increase can be seen in the sharp rise in horsemeat consumption in nations directly neighboring Poland. Consumption has risen sharply in Russia, Austria and the Czech Republic, which are all

Copyright © 2002 The Fourth Wall Inc.

within short transport distance of Poland, even as horsemeat consumption continues to decline in traditional European markets such as France and Belgium.

All of this raises a question: If the U.S. is slaughtering hundreds of thousands fewer horses each year than it did a decade ago and it isn't shipping them somewhere else to be slaughtered, what ***is*** it doing with them? Where are the horses?

Where are the horses, indeed?

The simplest answer is that a) the horses are where they've always been: at racetracks and boarding and training facilities, at farms and ranches, at breeding operations, and at private residences where they are maintained for personal use; or b) that some or all of these unwanted horses are being euthanized then buried or sent to rendering plants; c) that some or all of the them are being exported alive for some reason other than slaughter; or d) a portion of them are dying of natural causes.

One way, it would seem, to get a handle on what's happening is to look at the total horse population and whether it is trending up or down. After all, if the number of horses being slaughtered year after year keeps going down, it's natural to assume that, all other factors being equal, the total number of horses in the country should be going up. That sounds reasonable enough, but, as it turns out, the question of "How many horses are there in the U.S.?" is practically impossible to answer.

Why? Well, for starters, no one, including the Federal Government has the resources or the budget to count them regularly and well, according to an "Equine" specialist at the National Agricultural Statistics Service (NASS) in Washington. Years ago, when most horses resided on farms and ranches the job was considerably easier. Back then governmental agencies on the local, state and federal level made it their business to know how many farms there were and what they produced. It was important information that helped gauge the health and vigor of the overall economy and how well the country was fairing vis-à-vis the rest of the world. But as the number of horses at non-farm locations—racetracks, boarding facilities and private residences—increased, the job grew more challenging. The last time the NASS set out to take what it calls the "inventory of equine in the United States" was back in 1999, when it concluded that the total number of horses, ponies, mules, burros and donkeys was 5.32 million—up 1.3% from a year

Copyright © 2002 The Fourth Wall Inc.

earlier. According to the National Animal Health Monitoring System (NAHMS), 90% of the equine population are horses and over 5% are ponies—a combined total of just over 5 million head.

How does that number compare to earlier counts? It doesn't. Which is to say that all of the earlier horse census data, according to the NASS specialist, relates primarily to farm animals and comparing those figures to the 1999 information isn't really fruitful. (What's more, the NASS specialist conceded that the 1999 data, though the best currently available, is somewhat suspect. The agency will be releasing new data, compiled using survey methods comparable to those of the 1999 survey, in January 2003.)

Another indication of how tricky counting America's horses can be comes in the form of two highly publicized and often quoted studies. The first, conducted by the Barents Group for The American Horse Council Foundation, concluded that that there were 6.9 million horses in the U.S. in 1996—a total wildly at odds with the government's later estimate. In the second, the American Veterinary Medical Association claimed that the number of "pleasure horses" in the country declined from 4.9 million in 1991 to 4.0 million in 1999. Who is right? No one can be certain, but the smart money would probably go to the National Agricultural Statistics Service because of its ability to tap into the USDA's extensive network of local and state field offices.

The lack of reliable horse census data makes it impossible to tell if the total number of horses in the country is growing as the number of horses slaughtered each year declines. But what about euthanasia? Are horses being put down instead of slaughtered?

Once again, the answer is "no one knows", according to Dr. Ellen Buck, former director of equine protection for the Humane Society of the U.S., because no records are kept. When a veterinarian is called to put down a horse, he or she simply performs the procedure, collects a fee, and moves on. No forms or paperwork must be filed. No governmental or quasi-governmental agency need be notified.

Is there any anecdotal evidence that horse euthanasia is increasing? Dr. Buck, someone well positioned to get wind of such a development, and a number of other veterinarians and equine rescue workers who were asked, say no. Euthanasia, like the horse population angle, is another blind alley.

Copyright © 2002 The Fourth Wall Inc.

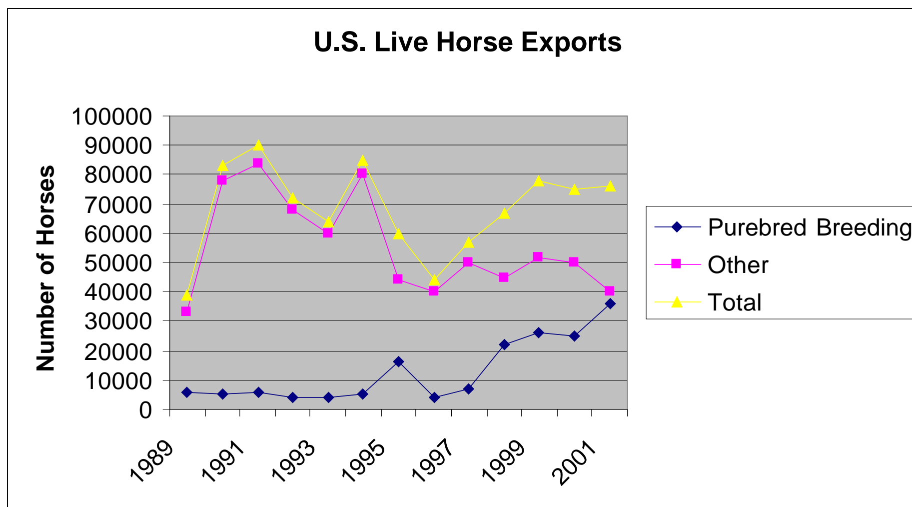
But what about rendering plants? Surely, they must keep records of the number of horses processed. Any increase in these numbers might account for some or all of the horses that are no longer being sent to slaughter. Unfortunately, there are no hard numbers to appeal to. Dr. Don A. Franco, of the National Renderers Association, an industry trade group representing about 85% of the approximately 285 rendering plants in the U.S, says the rendering plants do not track the types of animal carcasses it processes, so it is impossible to say if the number of horses rendered has increased. Based on his personal knowledge of the business, however, he believes that the number of "horse carcasses or their parts has declined dramatically" over the past 15 years. The explanation for this is simple: horse slaughterhouses send offal—the waste parts of a butchered animal—to rendering plants. Since horse slaughter is down substantially, so is the amount of material sent off for rendering. In fact, horse byproducts have never been a major part of the rendering industry mix. Despite the proverbial destiny of the racetrack also-ran, horses have not been sent to the glue factory in decades for essentially the same reason that they no longer wind up in pet food: they have been displaced by far more numerous, and cheaper, cows. (In 2001, according to the Food Safety Inspection Service, 39 million head of cattle (including calves) was slaughtered, compared to only 62,000 horses). Beef and its rendered by-products supply nearly everything that a horse can supply—with the exception of horse specific products, such as violin bow strings and iron supplements. Until well into the 19th Century, horse-based glues were common, used in furniture making. By the beginning of the 20th Century, horse-based adhesives had begun to give way to cow-based products in commercial applications, especially with the growth of Borden Chemicals, an offshoot of the Borden Dairy operations. Their Elmer's line of adhesives, which include commercial (carpentry) as well as domestic products, is the No. 1 selling adhesive line in the U.S. Moreover, as the demand for high-performance adhesives has grown in industry, this has been met by the development of synthetic adhesives that use no animal products whatsoever. Companies such as H.B. Fuller and Eastman Chemicals supply much of the high-performance adhesives market, and neither uses animal products or by-products in their adhesives. It is probable that there is now no horse-based glue made in the U.S., and little made in Europe, where it is still used for antique furniture conservation and restoration.

Copyright © 2002 The Fourth Wall Inc.

Despite this, rendering plants, by and large, have sufficient processing capacity and are still willing to accept a single euthanized horse carcass. The burden of transporting the carcass inevitably falls on the animal's owner, who must arrange and pay for shipment by a third party or pay a fee to the rendering company if it is willing and able to make the pickup. How much that shipment will cost depends on the proximity of the rendering plant and, consequently, can vary dramatically from one part of the country to another.

Once again, "where are the horses" that are no longer being sent to slaughter? Unreliable horse census numbers and the absence of euthanasia records offer no help in answering the question. Ditto for rendering plant activity. But what about option c) that some or all of them are being exported alive for some reason other than slaughter.

Here, at least, there are numbers to work with. According to the USITC, the U.S. exported 890,000 live horses between 1980 and 2000—over 2.5-times the amount exported in the preceding decade and more than the combined total exported in the 1960s and 1970s.



Does this help explain, at least in part, where some of the unwanted horses no longer sent to slaughter went? Perhaps. About 20% of the live exports were purebred breeding stock. (In recent years, the number of purebred horses exported annually has risen substantially—moving from 4,000 head per year in 1996 to 36,000 head in 2001, when

Copyright © 2002 The Fourth Wall Inc.

purebreds accounted for over 47% of all U.S. live horse exports.) Unfortunately, there is no way of knowing what the composition of the balance of the live export group—the non-purebred breeding stock—looked like. What can be said with certainty is that horses exported overseas are not likely to be slaughtered for food—the cost of shipping a live horse by air or sea would simply be prohibitively expensive. It would seem safe to assume, however, that the increase in live exports experienced in the 1990s was driven, at least in part, by the decline in the number of horses being slaughtered.

Finally, is it possible that a substantial portion of the missing horses simply died of old age, disease, neglect or abuse? Well, based on evidence presented earlier, abuse and neglect are extremely unlikely explanations. The same is true for disease and old age. Why? For starters, almost every expert asked agrees that the average age of the U.S. horse population—whatever that total may be—is inching upward, thanks to improved equine veterinary practices and the willingness of owners to pay for them. Dr. Buck, formerly at HSUS, says, “more is being done today to maintain the geriatric horse” than ever before in history. Consequently, horses today routinely live to 25 years of age or longer.

At the end of the day, the inability to reasonably account for the final disposition of the horses that weren’t slaughtered during the 1990s raises a question. Is it possible that the number of horses in the U.S. has grown—and dramatically so—over the past twelve years and no one seems to have noticed? It’s an intriguing—and possibly, troubling—conclusion that even the NASS equine specialist charged with keeping track of the nation’s horse population agrees can’t be dismissed out of hand.

Troubling conclusion? Maybe. For while very few people would dispute the idea that the world is a better place because horses are in it, no one has thought about the consequences of having many more horses than it can reasonably sustain.

Copyright © 2002 The Fourth Wall Inc.

Appendix – III
The Thoroughbred Question

Dozens, if not hundreds, of articles have been written about the horse slaughter business in the U.S. over the past decade. Few of them are flattering or supportive. Most question why it is that in a country that elevates the horse to near mythological levels allows the practice to continue. Almost all of them at some point cite statistical evidence of the carnage: “103,700 head slaughtered in 1996” or “over 3.8 million horses butchered since 1980.” Many of the authors can’t resist tugging at the heartstrings of their readers by suggesting that “10% of the horses slaughtered annually are Thoroughbreds.” They do this advisedly, for the equine athlete—Sir Barton, Citation, Secretariat and others—holds a special place in the hearts and minds of the American public, and that the thought of sending one of these glorious animals to slaughter seems incomprehensibly cruel.

The fact is, with the notable exception in 1997 of the great Exceller, the glory horses of racing are not sent to slaughter. That’s a fate generally reserved for the also-rans—the maidens and claimers that can’t pay their keep with purse money earned on the track.

But what about that 10% figure? Were 10,370 Thoroughbreds slaughtered in 1996? Have 380,000 of them been processed for meat since 1980? No one knows for sure, because no one has ever bothered to count.

Interestingly, however, that 10% estimate pops up almost anytime the topic of horse slaughter in the U.S. is discussed, so often, in fact, that it is now, more or less, accepted as common knowledge.

Dr. Ellen Buck, thinks she knows where it all started. In a recent interview, Dr. Buck traced the 10% estimate to the early 1990s, when as part of a project conducted before she joined the organization, the Humane Society sent observers to horse auction sites in Maryland, Virginia and Pennsylvania. Based on their reports, it was estimated that 10% of the horses sold to slaughterhouse buyers were Thoroughbreds. Dr. Buck does not know how the observers came to this conclusion—whether they were basing it on body type or conformation or whether they actually examined lip tattoos (which racing Thoroughbreds have). Whatever the case, the estimate, attributed to the Humane Society,

Copyright © 2002 The Fourth Wall Inc.

was published once and then repeated over and over again since then without further checking or verification.

The fact that it wasn't verified is not surprising—even the slaughterhouses themselves don't know how many of the horses they process are thoroughbreds. The reason for this, according to several sources intimately familiar with the plants in Texas, is that breed is just not important. Size and conformation is, however. The cuts of meat a horse ultimately yields—and their desirability in the marketplace—has more to do with whether the horse has, say, narrow or broad hindquarters, not if it is a Quarter Horse, Thoroughbred, Paint or Appaloosa, say industry insiders. (When asked to comment on the Humane Society's 10% estimate, a senior manager at one of the Texas plants said he really didn't know, but thought that "3% to 7%" was closer to the mark. No one else with direct experience at the plant, not the Texas and Southwestern Cattle Raisers Association agents or FSIS veterinarians, would even venture a guess as to the accuracy of the estimate.)

In the final analysis, then, any estimate of the number of Thoroughbred horses sent to slaughter each year is idle speculation.

Copyright © 2002 The Fourth Wall Inc.

Appendix – IV
The Horse Transportation Problem

In 2001 and 2002, there were a spate of bills passed by both the Federal government and various state legislatures that were meant to reform the transportation of horses. These were designed to ensure that horses were transported in a more humane fashion. Aside from details such as mandating non-skid flooring, tie-downs for horses, ventilation and adequate spacing requirements, the central aim of all of the bills is to do away with the use of double-decked trailers for horse transport. These trailers, which have six-foot ceilings, were designed for the use of cattle, and will not easily accommodate a horse's longer neck. The standard horse transport trailer uses a seven-to-ten foot ceiling, and every legitimate horse transportation firm uses ten-foot trailers. In addition, the laws also mandate the time between when horses must be fed and watered, and rest periods, so that horses do not spend excessive amounts of time in the trailers between pickup and their final destination.

Prior to June 2001, California, Connecticut, Massachusetts, Minnesota, Vermont and Virginia had bans on the use of double-decked trailers, with some of the state laws on the books as long as 25 years. In June 2001, both Pennsylvania and New York implemented double-decker bans as well. Governor Tom Ridge signed the Pennsylvania Horse Transport Law on June 25, 2001. On September 4, 2001 ten days after the law went into effect, a driver for Sugarcreek Livestock Trucking, Inc., Sugarcreek, Ohio was arrested with 31 horses on a double-deck cattle trailer in Lancaster County, PA. In December 2001, the company pled guilty to 31 counts of the PA Crimes Code, Title 18, Section 5511(e.1). The company was fined $1,600 and the 31 horses were forfeited.

Subsequently, Federal legislation that is similar to the Pennsylvania and New York bills passed the Congress and was signed into law in February 2002. The law provides added impetus to the enforcement of the Department of Agriculture's Final Rule on the Commercial Transportation of Equines to Slaughter that calls for a phase-out of the use of double-deckers by 2006. State bans, however, would seem to push the issue forward at a faster pace, since they are outright bans without a phase-in period. But the real question is whether the implementation of such legislation really results in more humane treatment

Copyright © 2002 The Fourth Wall Inc.

of horses. The evidence suggests it does not. There is hypocrisy in the system that leads to a lot of good words, but not much enforcement.

For example, David Kalb, who runs the New Holland Sales Stables, one of the major sources in the East of horses destined for slaughter, has been a long and active proponent of anti-double-decker legislation. In June 11, 2001, Kalb was quoted by Pennsylvania State Senator Noah Wenger, one of the authors of the Pennsylvania bill as saying, "Transporting animals appropriately is important and makes good business sense. I am pleased that Senator Wenger worked with us to make the bill even better." This statement came less than two months after Arlow Kiehl, a buyer long known to purchase animals for shipment to slaughterhouses, was arrested in Pennsylvania for cruelty to animals after his double-deck trailer was stopped by Pennsylvania State Police on Route 30 out of Lancaster, after it had left the New Holland sales ring. Kiehl is a regular purchaser of horses at New Holland and other horse auctions, and he makes no bones about the fact that he ships the horses north to Canada for slaughter. He has also gone on record as saying that he will continue to use a double-deck trailer, even though it is illegal. To date, there is no record of Kalb having banned Kiehl from participating in further sales at New Holland.

While it is perhaps unfair to single out New Holland—although it does seem to receive a disproportionate share of attention from animal rights groups and journalists—the fact remains that enforcement of the provisions of either the state or Federal acts is a chancy thing. There are no Dept. of Agriculture inspectors at any of the auctions held regularly around the nation, and in most states, police coverage is very thin. Most police officers will not stop a truck engaged in normal commerce except upon a specific complaint, which must go through channels. This therefore requires that humane society officials be constantly in attendance at auctions and other sales, which is impossible to do given the generally volunteer nature of most humane organizations. This leaves the laws on the books honored in the breach, and allows those who would flout the law, such as Kiehl, plenty of leeway in their ability to do so. Kiehl, for example, has been arrested in Pennsylvania and New York nine times since 1998, and has paid thousands of dollars in fines for using a double-decker trailer and other cruelty violations, yet he continues to operate with seeming impunity.

Copyright © 2002 The Fourth Wall Inc.

Why? The economics of the double-decker trailer impel him to defy the law. The price for horses at the slaughterhouse gate has continued to drop over the past decade. A double-decker can transport up to 40 horses, while a single decked trailer, laid out and equipped according to Federal law, can haul no more than about 16 horses comfortably. A 40-horse load at the gate of the slaughterhouse is worth about $12,000 at current market prices. Subtract the cost of acquisition, and a killer buyer's profit is dependent upon his transportation costs. If he has to make two or more trips for every trip he previously made, his costs rise considerably, and his profits shrivel. It is thus well worth it for Mr. Kiehl and others who purchase horses for transport to slaughter to attempt to skirt the law. And, as the economic circumstances of the horse slaughter business continue to deteriorate, as they almost certainly will, the incentives for killer buyers to do so will grow stronger and stronger. Until there is a level of enforcement for animal cruelty that matches human law enforcement, it is unlikely that any legislation on the books will totally alleviate the transportation-related cruelty to horses. The total elimination of horse slaughter in the U.S. and Canada will.

Copyright © 2002 The Fourth Wall Inc.

Appendix - V
Equine Tax Implications

According to the IRS, whether an activity is a business depends upon whether the facts and circumstances indicate that the taxpayer entered into or continued activity with the objective of making a profit. The IRS has listed nine factors that are normally taken into consideration in determining whether a profit objective exists.

These factors and there relationship to horse ownership are:

1. **The manner in which the taxpayer carries out the activity**. Simply put, if you want to prove that you are a business, you have to develop and keep records like a business, and operate your business—including a willingness to change business methods—in order to increase your chances of earning a profit. This can be interpreted to mean having a business plan before you begin your business, including a pro forma P&L, and an operating plan once your business is a going concern. It involves keeping records of business operation, including purchases and sales, and maintaining adequate tax records. It also includes a regular review of your business practices if you are not profitable, and changes in those practices, such as boarding horses if you are a breeder to increase your chances of earning a profit.

2**. The expertise of the taxpayer or his advisors.** Research and study into the economics of the activity by the horseman or his advisors and the use of that information in the conduct of the activity are indications of a profit motive (IRS Regs. Sec. 1.832-2(b)(2)). On the other hand, failure to seek such information or failing to follow expert advice can be interpreted by the IRS as a lack of profit motive.

3. **The time and effort expended by the taxpayer in carrying on the activity.** By devoting a considerable amount time to a horse-related activity, particularly if the activity does not have substantial personal or recreational aspects, a horse owner can indicate his or her intent to make a profit. Partial or total withdrawal from another occupation in order to devote time to the horse operation may also be evidence that it is engaged in for profit. However, the absence of a substantial personal time commitment does not necessarily indicate a lack of a profit motive, if a person employs competent and qualified persons to

Copyright © 2002 The Fourth Wall Inc.

carry on the activity. Net: an owner or the people an owner hires have to spend a substantial amount of time pushing the enterprise forward. Merely caring for horses or having someone do so is no indication of a profit motive.

4. **Expectation that the assets used in the activity will appreciate in value.** The IRS regulations specifically state that the term "profit" includes appreciation in the value of assets, including land, used in the activity. Thus, even if no profit is derived from the current operation, an overall profit may result if the appreciation in the value of the land, horses and other assets used in the activity is taken into account along with the current income from the activity. Appreciation of assets can be a very important factor for showing a profit motive for those engaged in the horse business. It is often difficult to derive a profit from current breeding, training, showing or racing operations. However, the value of those horses which have proved to be successful at breeding, racing, training or showing can increase to the point that, if sold, the gain on the sale would more than offset prior losses, or at least greatly reduce the net loss over the period losses have occurred.

5. **The success of the taxpayer in other similar or dissimilar ventures.** The IRS regulations state that the fact that you have engaged in similar activities in the past and converted them from unprofitable to profitable enterprises may indicate that you are engaged in your present activity for profit, even though the present activity is unprofitable. (IRS Regs. Sec. 1.183-2(b)(5)).

6. **The taxpayer's history of income or losses with respect to the activity.** The IRS knows that it often takes time to establish a business and so provides a reasonable amount of time for an individual or S corporation to show that it is running a going, for profit concern. Even though the IRS regards a series of losses as a strong factor against being treated as a business, the tax courts have frequently noted that continued losses over a series of years is not, in and of itself, a controlling factor indicating a lack of intent to make a profit. But if other factors are not present in sufficient quantity, you will have a much more difficult time making a case of intent to profit.

7. **The amount of occasional profit, if any, which are earned.** The regulations state that the amount of profits in relation to the amount of losses incurred over a period of

Copyright © 2002 The Fourth Wall Inc.

operation, and in relation to the amount of the taxpayer's investment and the value of the assets used in the activity, can provide useful criteria in determining the taxpayer's intent. An occasional small profit from an activity which generates large losses, or from an activity in which a taxpayer made a large investment, would not generally be determinative that the activity is a business, according to the regulations (IRS Regs. Sec. 1.183-2(b)(7)). It is quite easy to lose money and quite difficult to make money in the horse business. In a 1995 study commissioned by the Jockey Club, it was found that, in the thoroughbred industry, more money is invested overall by owners and breeders than is returned back to the owners by such things as purses and the sale of horses ("The Future of the Thoroughbred Industry," a 1995 study by Pugh Roberts, Cambridge, MA). In other words, the thoroughbred industry is a "loss" industry as it relates to owners and breeders. A 1996 study by the American Horse Council, "The Economic Impact of the Horse Industry in the U.S.," came to the conclusion that this was true of all breeds. But because the horse industry does occasionally produce big winners from small investments—Seattle Slew is a good example—the courts over the years have been willing to look upon horse businesses that seek such "wildcat" profits as legitimate businesses and not as a hobby. The willingness to enter a horse in Grade I stakes or higher races is considered one significant indicator of the true intent of the owner.

8. **The financial status of the taxpayer.** Whether you do have substantial income or capital from sources other than the horse operation can be a factor according to the regulations. On the other hand, substantial income from sources other than the horse activity, particularly if the activities generate substantial tax benefits, may indicate that the activity is not engaged in for profit, especially if personal or recreational activities are involved. In other words, unless you are clearly working towards a profitable operation, the IRS looks askance on using a horse operation to shelter other income from taxation.

9. **Elements of personal pleasure or recreation.** IRS regulations state that personal motives in carrying on an activity may indicate that the activity is not engaged in for profit, especially where there are recreational or personal elements involved. (IRS Regs. Sec. 1.183 (b)(9)). Conversely, if an activity lacks any appeal other than profit, this may indicate a profit motive. If you ride your own horses or permit others to ride them for recreational purposes, you may place the business status of your enterprise in danger.

Copyright © 2002 The Fourth Wall Inc.

Appendix - VI
Stolen Horses and Criminal Misrepresentation

It is strange to think about horse theft in the 21st Century, because it seems like such an archaic crime. Nevertheless, horse theft exists in the U.S. There are no National Crime Information Center statistics (NCIC) on horse rustling, but there is anecdotal evidence and periodic reports that the number of horses stolen is increasing. A number of years ago, a sufficient number of horses were being stolen in Texas that the Texas and Southwestern Cattle Raisers Association asked for and received permission to examine horses coming in the gate at the Dallas Crown and Bel-Tex slaughterhouses in Texas. Initially, the group monitored only for its own horses, but according to Larry Gray, who does the monitoring work at the plants, his organization now handles formal rustling requests from 21 states and will look into any informal complaint it receives. Most states do not have laws requiring proof of ownership for horses. All that is necessary for a horse to change hands are proper veterinary certificates, which can be acquired either by giving the horse its shots, or by paying a vet to supply bogus paperwork. According to Darryl Peterson, brand inspector for the Nevada Department of Agriculture, such shenanigans are not uncommon.

There are two ways to help resolve the stolen horse issue. The first is branding. Horses have been branded for identification since ancient times. Today, many Thoroughbred horses are tattooed on the inner upper lip, and other registered breeds, such as Quarterhorses and Warmbloods, also use some form of branding, but the practice is not universal. Also, the problem with branding or tattooing, as with horse transport, is enforcement. With horses that are raced, enforcement is done at the tracks, mainly to ensure the integrity of the sport. But barring that, the monitoring of brands and tattoos to identify lost or stolen horses is haphazard at best, even in the West where local state agencies are given the job of tracking ranch brands for horses and cattle.

There are several companies and organizations that have proposed technological improvements to conventional branding and tattooing. Two of these, cold branding and chip implantation, deserve some discussion. Cold branding involves the use of extreme cold, usually a liquid nitrogen probe, to freeze the hairs of an area on the horse, often the

Copyright © 2002 The Fourth Wall Inc.

front shoulder. When the treated hair grows back, it will be white. If the horse is already white or gray, the hair will generally not grow back at all, leaving a colored skin patch. The implanted chip system is similar to a Lojack car theft detection system, in that the chip, which contains identification information on the horse, also acts as a passive transceiver, responding to an external radio signal to indicate its presence. Unlike Lojack, however, the chip has no electrical source, and so does not respond with a broadcast signal of its own. In practice, a horse that is suspected of being stolen must be tested with a wand that will detect the presence of the chip, and read its information. Unfortunately, the chip system has not worked as well in practice as in theory, because the chips tend to migrate over time to other parts of the horse's body where they may not be detected.

Cold branding, on the other hand, is growing in popularity. In England, the British Horse Society has been using a cold brand known as Farmkey since 1978, with a fair degree of success. Besides branding, Farmkey maintains a national computerized register of branded horses and will assume responsibility for shipping a recovered stolen horse back to its owner within 24 hours of recovery. Unfortunately, not enough owners are willing to bear the expense of Farmkey to make it a truly national system.

This brings us to the question of whether some form of horse registration system can be used to keep horses out of the slaughter system. Many owners who send their horses to auction have no idea that their horses may be purchased by buyers whose sole purpose is to sell the animals for slaughter. Other owners are victimized by unscrupulous buyers or individuals posing as potential adopters who disguise their true intentions for the animal. Owners are told that the horse is going to a "good home," perhaps to be retrained for use as an event or pleasure horse, or kept as a companion animal. Instead, the horse is destined for slaughter. The misrepresentation is deliberate and despicable. And there is no one or no agency to tell the owner. (Again, enforcement is lax, and in the absence of a complaint there is no one to stop the process.) Undoubtedly, what is needed is a true national horse registration system. We register other property such as cars and guns. Why not the horses? National horse registration, and with it a common national branding or tattooing system, would have the effect of allowing the final buyer to know who the previous owner was. With only two slaughterhouses left in the U.S. and five in Canada, it is a small problem to require every slaughterhouse to notify each "last" owner before

Copyright © 2002 The Fourth Wall Inc.

slaughter. This gives the last owner the option of removing their horse from the system, or to notify a local humane society who might take possession of the horse, even if for euthanasia. Though it is unrealistic to assume that every owner will stop his or her horse from going off to slaughter, even if notified, a national registration system would likely take enough of these unintended victims out of the system to make slaughter even more uneconomical in the U.S.

Copyright © 2002 The Fourth Wall Inc.