

The America's Cup  
Build-Up to the 2003  
Defence

Economic Impact  
Assessment

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Build-up to the 2003 Defence  
Economic Impact Assessment



Prepared for  
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## **Executive Summary**

### **Scope**

This study examines the economic impact of the build-up to the 2003 America's Cup Defence.

The 2000 event provided a significant boost to the Auckland and New Zealand economies, from expenditure by syndicates, organisers, sponsors, super-yachts, tourists, and government, and the 2003 America's Cup Defence is also expected to have a considerable economic impact. The build-up to the Louis Vuitton Cup challenger series and Defence began in 2000, with syndicate activity centred on Auckland's Viaduct Harbour, generating substantial demand for goods and services from Auckland businesses in the marine, accommodation, construction, hospitality, and transport sectors.

The economic impacts for the 2001-02 year, and total 2000-02 period, have been measured in terms of value added (\$m) and employment sustained (FTE years). These impacts are based on net additional expenditure in the Auckland and New Zealand economies, which has been analysed through an input-output economic model, to identify the direct and total effects.

### **Impacts 2001-02**

This syndicate and related activity brought an estimated \$62m of additional expenditure to the New Zealand economy, with the major share (\$60m) being spent in Auckland. This expenditure generated \$22m of direct value added, and \$46m of total value added in the Auckland economy, and sustained 1,110 FTEs of employment in the 2001-02 period. Total impacts over the 2000-02 period are estimated at \$55m in total value added for the Auckland economy, and 1,320 FTE years of employment.

While most of the expenditure was directed to Auckland, at the national level the \$62m direct expenditure generated \$55m of total value added, and sustained 1,240 FTE years in 2001-02. Total national impacts over the 2000-02 period, from \$73m of additional expenditure, are estimated at \$65m in total value added, and 1,470 FTE years of employment.

### **Sectors**

The main sectors to benefit from the syndicate and related activity have been the construction sector (expenditure on expanding syndicate bases), the commercial accommodation and hospitality sector (housing and catering for syndicate crews), marine services (maintenance, repairs of yacht equipment and sails), retail and entertainment (from expenditure by crews and families), and transport (especially international air travel).

# **1 Introduction**

## **1.1 Objective**

This study examines the economic impact of the build-up to the 2003 America's Cup Defence.

The 2000 America's Cup provided a significant boost to the Auckland and New Zealand economies, from the additional expenditure by syndicates, organisers, sponsors, super-yachts, tourists, and local and central government.

The 2003 Defence is also expected to have a considerable economic impact. The build-up began shortly after the successful Defence in March 2000, activity has been growing over the last two summers. This activity, and consequent impacts on the economy, will build to a new peak during the 2003 Defence. Challenger syndicates and defender Team NZ have been involved in intensive preparation for the Defence, and the preceding Louis Vuitton series to find the challenger. This activity, centred on Auckland's Viaduct Harbour, has meant substantial demand for goods and services from Auckland businesses in the marine, accommodation, construction, hospitality, and transport sectors, to meet the needs of syndicates and crews.

The Ministry of Tourism has commissioned Market Economics Ltd to estimate the economic impacts of this build-up period, over the year to June 2002.

## **1.2 Approach**

Economic impact arises mainly from the additional direct expenditure into the economy, generated by America's Cup related activity. It is calculated in terms of the amount and the distribution of total value added (broadly comparable with GDP) and employment sustained by this additional spending.

The key initial task was to identify the structure of the Cup-related activity during the build-up, because this determines the flows of expenditure through the economy. The nature of the impact in the build-up period is different from that in the Defence period, because the patterns of expenditure and activity are different. Most of the activity during the build-up is by syndicates and associates, in preparation for the main event, with some associated activity by organisers, visiting super-yachts and sponsors. In this period, there is limited tourism activity generated by the event, from supporters groups and interested travellers, and there is limited media activity, virtually no commercial spectator services on the Hauraki Gulf practice areas, few super-yachts visiting, and a generally low level of spectator and visitor activity in the Viaduct Basin area.

Similarly, the major direct impact on the Auckland marine sector also occurs in the Defence period. This is because the challenger syndicates' main expenditure on design, construction and equipping of new generation yachts goes to overseas businesses. The sailing action in the build up period is mostly done in yachts purchased after the 1995 and 2000 series, and the main revenue for the marine sector is from maintenance and servicing these older yachts, together with expenditure on spars, support boats and the like.

The approach adopted here to estimating the impact is consistent with that applied for the 2000 study. The first stage has been collection of information from syndicates, suppliers and others to identify total and additional activity and expenditure in the economy. However, experience from the 2000 study meant that greater effort has been made to develop a comprehensive record of America's Cup-related activity in Auckland, particularly during the build-up period, with a clear focus on the syndicates and associated activity, rather than the super-yacht, spectator and visitor effects. This is because most of the additional expenditure in the Auckland economy during 2001 and 2002 has been from syndicates establishing and maintaining bases, then maintaining the sailing and shore crews in Auckland, with accommodation, catering, and transport, and operating the practice yachts. The expenditure on design, development and construction of the new generation yachts has occurred mainly in overseas economies (apart from Team NZ). The additional expenditure by syndicate associates (family and friends) has been driven mainly by their length of stay in Auckland.

Information was not available from all syndicates, to provide a count of their direct expenditure, so that total levels of expenditure for the build-up period have been estimated from the reported expenditure (collected in interviews) and syndicate activity (especially the numbers of crew and associates, and the length of their presence in Auckland in the 2001-02 year), and comparable information from the 2000 study. This provided estimates for syndicates which did not provide expenditure information, based on person nights in Auckland and average daily rates for accommodation, catering, personal expenditure, transport and so on. Net expenditure on international air travel was estimated according to crew numbers and proportions of air costs incurred in the Auckland economy. Detailed resource consent data was used to identify construction investment in the syndicate bases.

The second stage is analysis of this expenditure information. The preliminary step has been to exclude transfers of expenditure within the economy (see below) so as to estimate the net additional expenditure in each sector. From this, the direct impacts in terms of value added and employment in the economy have been calculated, then the total impacts (direct, indirect and induced) have been estimated using input-output models of the Auckland and New Zealand economies for 2001.

### **1.3 Transfers and Exclusions**

For economic impact analysis, it is important to exclude transfer effects – that expenditure which would have occurred in the economy in any case – and also to distinguish between expenditure arising directly from the event, and that associated with the event.

Broadly, the net additional expenditure in the economy is total expenditure less any transfers. Most of the expenditure during the build-up period does represent net addition to the economy, because that money would not have been spent in New Zealand otherwise. In particular, the spending by challenging syndicates and event organisers on accommodation, catering, transport, base expansion and so on would not have occurred if the 2000 Defence had not been successful. It would still have occurred, but instead have been directed to another (overseas) location.

In regard to transfer effects, two important assumptions for the analysis are:

- the presence of Team NZ in Auckland represents **additional** activity in the economy, directly attributable to the 2003 Defence. This is on the basis that if Team NZ was instead mounting a challenge overseas, then the syndicate crew (and some families/supporters) would be established overseas in the build-up period; or that if there was no New Zealand challenge, then the crew would be dispersed internationally. Therefore, the fact that the 2003 Defence will be in Auckland means that most Team NZ expenditure is a net addition to the economy. The capital expenditure on new yachts for the Defence (which falls mainly after the 2001-02 year) represents additional activity because it would not have occurred if a New Zealand syndicate was not involved in the America's Cup (for either defence or challenge). Therefore, that too will represent additional expenditure which is attributable to the event.
- marine sector activity constructing and re-fitting super-yachts is excluded from this analysis. Servicing demand from the super-yacht sector is a major effect for marine businesses associated with the America's Cup, and there have been significant flow-on gains for the New Zealand marine sector following the 2000 Defence. The exposure in 1999-2000 of super-yacht owners and operators to the New Zealand boat-building sector, and the corresponding awareness by the sector to the opportunities from the super-yacht industry, has helped sustain sector growth in the past three years. The 2003 Defence will be a considerable further impetus to the New Zealand marine sector's profile, and the additional demand from this will flow directly through the economy. However, for this analysis, it is considered that the current activity building super-yachts is associated with the presence of the

America's Cup in Auckland, but not directly accountable as part of the impact of the build-up (though the expenditure from servicing syndicate owners' yachts in the last few months is included).

#### **1.4 The Nature of Economic Impacts**

Economic impacts have been measured as \$m of **value added** in the economy (broadly equivalent to GDP) and employment sustained (FTE or full-time equivalent years). Value added measures the net additional contribution of activity, covering wages and salaries (including income tax), consumption of fixed capital, GST and indirect taxes (on production), and operating surplus, less subsidies. It excludes the value of goods and services directly purchased from other sectors, including imports and duties. Value added is thus a share of total output, typically in range of 30% to 60% depending on the sector.

The total impacts are the aggregate effect of direct, indirect and induced effects, as Cup-related expenditure flows through the economy. **Direct** impacts arise from increased activity in sectors which directly service the event – particularly the accommodation, construction, marine services, transport and retail sectors. To meet the additional demand, businesses in these sectors in turn require more goods and services from their own suppliers, whose level of activity consequently increases. This is the **indirect** impact, which can flow through several layers in the economy. In addition, the additional activity from direct and indirect impacts generates more wages and salaries for workers in those businesses, and returns to shareholders. The economy is further stimulated when these additional earnings are spent on (consumer) goods and services. This is the **induced** effect. The **total** economic impact is the sum of the direct, indirect and induced impacts.

Not all the additional expenditure represents extra activity in the Auckland and New Zealand economy. There are "leakage" effects, especially where some of the expenditure is to purchase goods or services which have been imported to the Auckland economy – from overseas, or from other parts of New Zealand. These leakage effects are taken into account in the economic models, so that only the flow on effects within the Auckland region are included in the regional multiplier analysis, and flow on effects within New Zealand are included in the national level analysis.

## **2 America's Cup Activity in Auckland**

### **2.1 Overview**

The build-up to the 2003 Defence has been more intensive than the 2000 series. The strength of the Team NZ defence in 2000 meant that challengers had to accept that one-boat campaigns, or single-season build-ups, were unlikely to be successful. More substantial challenge campaigns have been developed, with larger budgets than in 2000, more expenditure on securing key personnel as well as yacht design and technology, and wider commitment to two-boat campaigns.

The result was an initial significant challenger presence in Auckland over the 2000-01 season, and several syndicates establishing as substantial entities in Auckland for the duration of the build-up, challenger series and 2003 Defence. The Viaduct Harbour and Hauraki Gulf have seen continuous syndicate presence for the 2001-02 season. Moreover, the 'summer season' has been extended, with yachts practising on the Hauraki Gulf into the winter of 2002.

The major syndicates established in Auckland in the 2001-02 year have been:

- **Team New Zealand** – 2-yacht campaign, 80+ shore and sailing crew, head-quartered throughout 2000-01 and 2001-02.
- **Prada Luna Rossa** - Punta Ala Yacht Club (Italy) - 2-yacht campaign, 100-strong crew, established base in Auckland for 2000-01 season, and October 2001 through April 2002.
- **One World Challenge** – Seattle Yacht Club (USA) - 2-yacht campaign, 85-strong crew, established base in Auckland September 2001 through June 2002.
- **Oracle-BMW Racing** – Golden Gate Yacht Club (USA) - 2-yacht campaign, 110-strong crew, established base in Auckland November 2001 through June 2002.
- **Alinghi Swiss Challenge** – Societe Nautique de Geneve 2-yacht campaign, 97-strong crew, established base in Auckland November 2001 through June 2002.
- **Victory Challenge** - 2-yacht campaign, 75-strong crew, established base in Auckland September 2001 (first yacht) and expanded November 2001 (second yacht) through June 2002.

- **GBR Challenge** - 2-yacht campaign, 60-strong crew, established base in Auckland October 2001 through March 2002.
- **Mascalzone Latino** - 1-yacht campaign, 75-strong crew, shorter presence in Auckland March-April 2002.

In total, six of the nine challenger syndicates have had major presence in Auckland in 2001-02, in addition to Team NZ, and one syndicate (Mascalzone Latino) was here for a short time (6-7 weeks). Of the other two challenger syndicates, Le Defi Areva (France) is based in France, and due in Auckland in August 2002, while Team Dennis Conner (USA) has been based in the US, and is also due in Auckland in August. The Illbruck Challenge (Germany) has withdrawn.

In addition, during the 2000-01 season, the Prada, Oracle and One World syndicates were in Auckland, mainly in the December-February period, with yachts on the Gulf.

The substantial presence of defender and challenger syndicates in Auckland has meant a significant impact for the economy. This has been apparent not just in activity levels in the Viaduct Harbour syndicate bases, but in demand, especially for accommodation and services for the shore and sailing crews, as well as for marine services for syndicate activity. During the summer peak, there have been 430-500 challenger sailing and shore crew based in Auckland (not all members of the syndicate crews are in Auckland, with some specialist support personnel remaining in home countries).

In addition, the longer build-up period is believed to have resulted in more of the syndicate crews bringing family and friends to live in Auckland while they work on the yachts, effectively adding to the resident population, and spending on goods and services.

## **2.2 Economic Impacts**

This activity has brought an estimated \$62m of additional expenditure to the New Zealand economy, with the major share (\$60m) spent in Auckland. This expenditure in the Auckland economy equates to \$21m of direct value added, and \$46m of total value added, and sustained 1,110 FTEs of employment in the 2001-02 period (Table 1).

**Table 1 Economic Impact for Auckland and New Zealand 2000-02**

SECTOR	Direct Expenditure (\$m)	Direct Value Added (\$m)	Total Value Added (\$m)	Direct Employment (FTE yrs)	Total Employment (FTE yrs)
<b>Auckland</b>					
2001-02	60	21	46	700	1,110
2000-02	71	26	55	830	1,320
<b>New Zealand</b>					
2001-02	62	22	55	710	1,240
2000-02	73	27	65	840	1,470

The main features of the activity and expenditure have been:

### 2.2.1 Direct Expenditure

- Construction activity in the Viaduct Harbour as syndicate bases have been upgraded and expanded. Total expenditure is estimated at \$6.3m for 2001-02, and \$8.1m in total (2000-02).
- Syndicate expenditure on sailing and shore crews to provide for their accommodation and general living needs in Auckland, and travel to and from their homelands. Total additional expenditure in Auckland is estimated at \$20.4m for 2001-02, with the largest share going to the commercial accommodation sector. Expenditure for the total 2000-02 period is estimated at \$24.1m.
- Syndicates' other expenditure on sailing activity and preparations, including some capital purchases (such as support vessels), operating shore bases, operating and maintaining their practice yachts, and the expenditure associated with a limited presence of the super-yachts of syndicate heads. This expenditure is estimated at \$23m for 2001-02, and \$27.0m for the total 2000-02 period.
- Syndicate crews living and working in Auckland have also undertaken considerable personal expenditure, over and above the costs met for them from the syndicate budgets. This includes some meals, entertainment, travel, and shopping expenditure, and also the living costs of family members and friends associated with the syndicate presence. Total private expenditure by crew and families is estimated at \$11.6m for 2001-02, and \$13.7m overall.
- The total additional expenditure in the New Zealand economy for 2001-02 from all these activities is estimated at \$62m, with the major share to the Auckland economy, and some \$2m to other parts of New Zealand.

- The total additional expenditure over the 2000-02 period is estimated at \$73m, again with the major share accruing to the Auckland economy.

### 2.2.2 Value Added and Employment

- The direct value added effect of this expenditure in 2001-02 is an estimated \$21m. for Auckland. The total value added (direct, indirect and induced) effect is estimated at \$46m.
- The direct employment effect of this expenditure is an estimated 700 full-time equivalent jobs sustained. The total employment effect (direct, indirect and induced) is an estimated 1,110 FTEs sustained.
- The total value added over the 2000-02 period is estimated at \$55m for Auckland. The total employment effect is estimated at 1,330 FTEs sustained.
- The direct value added effect of this expenditure in 2001-02 is an estimated \$22m. for New Zealand, and total value added estimated at \$55m.

**Table 2 Economic Impact for Auckland 2001-02**

SECTOR	Direct Expenditure (\$m)	Direct Value Added (\$m)	Total Value Added (\$m)	Direct Employment (FTE yrs)	Total Employment (FTE yrs)
Marine	14	3	8	59	150
Construction	6	2	5	52	109
Retail & Wholesale Trade	5	2	4	67	101
Accommodation & Hospitality	23	8	18	450	605
Other Services	3	1	2	14	28
Transport	3	2	3	23	44
Other Sectors	6	3	5	35	75
<b>Total</b>	<b>60</b>	<b>21</b>	<b>46</b>	<b>700</b>	<b>1,110</b>

- The direct employment effect is estimated at 710 full-time equivalent jobs, the total employment effect is estimated at 1,240 FTEs sustained (Table 3).
- The total value added over the 2000-02 period is estimated at \$65m for New Zealand, while the total employment effect is estimated at 1,470 FTEs sustained.

**Table 3 Economic Impact for New Zealand 2001-02**

<b>SECTOR</b>	<b>Direct Expenditure (\$m)</b>	<b>Direct Value Added (\$m)</b>	<b>Total Value Added (\$m)</b>	<b>Direct Employment (FTE yrs)</b>	<b>Total Employment (FTE yrs)</b>
Marine	14	3	9	51	154
Construction	9	2	8	62	156
Retail & Wholesale Trade	5	2	5	70	112
Accommodation & Hospitality	24	9	22	461	681
Other Services	3	2	3	18	37
Transport	3	2	3	23	48
Other Sectors	4	2	4	26	55
<b>Total</b>	<b>62</b>	<b>22</b>	<b>55</b>	<b>710</b>	<b>1,240</b>

### 2.2.3 Major Sectors

The main sectors which have benefited from the build-up activity have been:

- the commercial accommodation sector, with hotels and apartment complexes providing long-term accommodation and catering for the crews of major syndicates here over the summer, and short term accommodation for other visitors associated with the build-up. The calendar of syndicate presence in Auckland, together with data on shore and sailing crew sizes, suggests there were 100-105,000 person nights in 2001-02 in commercial accommodation.
- the private accommodation sector has also had significant demand, from both syndicate crews choosing to rent houses and apartments privately, and the families and friends of crew members establishing in Auckland. The calendar suggests there were some 10-12,000 person nights in rented accommodation for 2001-02.
- the construction sector, from the development and refurbishment of base facilities along 'Syndicate Row' and in the Viaduct Harbour area.
- the marine sector, providing major items such as support vessels and spars to syndicates, as well as services to maintain the yachts, sails, spars and other equipment following breakages and general wear and tear from the intensive sailing programmes, and other facilities. As previously, much of the work on the yachts is undertaken by the syndicates' shore crews, with most of the expenditure on external suppliers for significant items requiring work or replacement. Also, at this stage the Team NZ yachts are under construction, and their impact on the economy is not measured in this 2001-02 analysis.

- the retail and restaurant/hospitality sector, with revenue from the syndicates spending to maintain their crews, and also from the crews' private spending, especially those living in private rented or other non-commercial accommodation
- the transport sector, with revenue from crews travelling internationally to and from New Zealand, and within New Zealand (on holiday and sight-seeing breaks).

### **2.3 Comparison with 2000 Defence Impacts**

The study of the 2000 Defence identified net additional spending impact of \$92m in the build-up period before the 1999-2000 year, considerably more than the current estimate for 2001-02. However, the major part of that net additional spending impact (\$59m) was from construction expenditure in the Viaduct Harbour, with major public works undertaken in preparation for the event. The net impact from syndicate and other activity during the build up was estimated at \$33m.

The current expenditure impact of \$71m includes \$8m of construction spending, which suggests the non-construction effect in the build-up has been around \$63m. This is nearly double that estimated for 2000, and is broadly consistent with the higher level of syndicate preparation for this challenge.

### **2.4 Next Season**

The 2000 study also showed that around 80% of the total impact of the event occurs in the year of the defence. While a broadly similar outcome is anticipated for 2003, the higher intensity of preparation and syndicate presence in the build up may mean that a higher share of the total economic impact of the event is generated by the build-up period.

### **2.5 Other Impacts**

The 2000 study identified a range of less tangible effects on the economy, additional to the impacts measured by value added and employment. The America's Cup build-up has also contributed to these less tangible effects.

In particular, it has contributed a positive effect on the reputation of the marine sector, maintaining the focus on Auckland as a centre of marine sector and sailing excellence, and enhancing the credibility of the sector. While marine industry activity to build and service boats and super-yachts derives primarily from the sector's own reputation, the Cup build up does enhance this profile and reputation – just as Auckland's role as a key stopover in the Volvo Ocean Race in January 2002.

The ongoing international publicity around the event continues to increase awareness of Auckland and New Zealand as a visitor destination, with the nature of sailing as an “environmentally friendly” activity supporting New Zealand’s desired image as an attractive and clean tourism destination.

The America’s Cup, together with the Volvo Ocean Race Stopover and other events, has helped maintain the momentum for redevelopment of the Viaduct Harbour area, and the western reclamation. The Viaduct Harbour area is well established as a hospitality and activity precinct, an office precinct, and an area of residential apartments. While each of these activities has to be sustainable independently of the yachting activity, the interest and focus brought by the Cup build-up has certainly contributed to the development momentum.

Similarly, there is a sense of anticipation among the Auckland community about the forthcoming challenger series and Defence, with the opportunities to ‘participate’ in the event as in 2000 by going out on the Hauraki Gulf, watching from the shore, or visiting the Viaduct Harbour. Generally, such anticipation may be simply a ‘feel good’ factor, but does contribute positively.

Overall, the America’s Cup build up to the 2003 Defence has generated a significant impact for Auckland. A substantially greater impact on the economy is anticipated for the 2003 year.

## APPENDIX

### Estimating Economic Impacts

The economic impact of this additional spending (increase in demand) is measured as the **value added** (equivalent to GDP) and **employment** sustained. The **direct** impacts occur in sectors which directly service the event – marine suppliers and providers, accommodation and hospitality, construction, entertainment, service providers, berthage and compound facilities, and so on.

However, the direct effects then flow on through other parts of the economy. The businesses that directly serviced (i.e., sold goods and services to) the America's Cup syndicates in turn increased their own demand for materials, components, goods and services from other businesses not directly involved in the event. Demand thus flows through the economy, and generates further sales for other businesses. This is the **indirect** effect. Finally, individuals and households earn additional wages and salaries as a result of the increased business activity, and they further stimulate the economy when they spend these earnings on (consumer) goods and services. This is the **induced** effect. Both the indirect and the induced effects are estimated in terms of "multipliers" of the direct effect.

The **total** economic effect of additional demand for goods and services is the sum of the direct, indirect and induced effects. The way in which demand flows through the economy from business to business and to employees is determined by where the direct expenditure occurs, and by the structure of the economy (the inter-relationships among sectors). For the study, inter-industry models were developed to reflect the structure and operation of the Auckland and national economies, and which identify the multiplier effects (direct and total) of the additional spending arising from the ongoing America's Cup activity.

This methodology is widely applied as the most appropriate method for estimating the contribution of an event to an economy. However, the impact results do not tell the whole story of effects on the economy, and do not deal with:

- **externalities** – transactions that take place outside the formal market, including the impetus such an event gives to New Zealand maintaining a competitive advantage in areas of sailing and marine technology. Also, the substantial improvements to the local environment and Auckland's urban amenity could be considered to fall into this category.
- possible **future impacts** where demand for New Zealand goods and services – especially marine sector and tourism – is stimulated by media coverage in overseas markets, generally termed the "equivalent value of advertising".
- the **efficiency** of spending decisions made by organisers, syndicates and individuals that generate the flow of money through the economy.

These matters fall outside the terms of reference of the current study, although it is useful to acknowledge them and, in some instances, to consider whether or not they may have contributed positively to outcomes sought by individual parties to the regatta. Nor does the current analysis seek to evaluate the many expenditure decisions, including capital spending decisions, underlying the regatta in terms of economic efficiency or the returns they provided to the organisations making them.