

**Economic Benefits to New Zealand Associated
with Investment in a Team New Zealand
2007 America's Cup Challenge**

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● market economics

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1. INTRODUCTION

1.1 Background

Team New Zealand is seeking to mount a challenge for the 2007 America's Cup, to be held in Europe, and wishes to secure funding for part of the costs of the challenge from central Government. Conditions set by Government include Team New Zealand securing at least \$2 of funding from other sources for every \$1 of public funding, a maximum Government contribution of \$33.75m, and assessment of the economic impacts and the tax implications. This study identifies the economic impacts and consequent benefits likely to accrue to New Zealand's domestic economy from such public investment.

1.2 Objective

The project aim is to identify the economic impacts and consequent benefits likely to accrue to New Zealand's domestic economy from public investment of \$33.75 million to a Team New Zealand challenge for the America's Cup. These impacts would arise from:

- I. impacts for the New Zealand economy, and the Auckland regional economy, over the 2004-2007 period, in terms of value added and employment;
- II. generation of tax revenue.

The project has been undertaken by Market Economics Ltd and Horwath Porter Wigglesworth.

1.3 Key Issues

The investment of public funds in a Team New Zealand challenge raises a number of issues, especially the scope of the impact assessment, and how potential consequent effects are analysed.

This is because the public funding would not be the only source of funds for Team NZ, but it would be a critical key or trigger to attract other funding for the challenge. Therefore, the economic and tax effects will arise from the total Team New Zealand expenditure, and be the combined effect of both public and sponsor funding.

It is also important to recognise that expenditure by Team NZ will have two types of effect on the marine industry and the economy. There will be direct and tangible impacts, arising from the expenditure, which would not occur if there was no challenge. In addition, there may be less tangible but very important benefits for the New Zealand marine industry, especially in terms of sustaining the impetus of America's Cup activity within the sector, and maintaining critical mass and expertise in New Zealand, rather than having it simply dissipate to offshore syndicates. Such effects would have benefits for the industry overall (ie outside America's Cup activity), and may also encourage other challenging syndicates to source goods and services from New Zealand suppliers.

Equally, it is important to identify what is **net additional** spending in the New Zealand economy, and what is not. There are three main sources of funding – the Government input, which is treated as additional; funding from overseas sources, which is also treated as additional, and funding from within New Zealand, which may be additional (ie in a situation where Team NZ is the only body which would attract this funding, and it is not diverted from some other area of sponsorship or expenditure), or may be partly or wholly a transfer effect within the economy. Therefore, the distinction between net additional and gross expenditure is critical.

The impacts will not just arise from syndicate spending. A large component of a challenge budget is in crew salaries, to retain the key expertise required. The crew ‘community’ (crew members and dependents) has an impact through their consequent (consumption) spending in the economy. This means that while salaries account for a significant share of expenditure, they also generate high direct tax recovery through PAYE on earnings in New Zealand, and GST on consumption expenditure.

Further, there is some prospect that other syndicates may base in New Zealand in the early stages at least, to take advantage of relatively low cost of services, the accumulated expertise, and possible benefits from having a ‘critical mass’ of challengers. If they do locate in New Zealand, then they will also generate considerable economic impact, through similar processes to Team NZ. More importantly, if the presence of other syndicates in New Zealand were influenced by the presence of Team NZ, then some of their impact may be attributable to the Team NZ presence.

It is also important that the wider and less tangible effects for the economy are recognised, even if they cannot be reliably quantified and lie outside the scope of this study. There are likely to be trade and tourism benefits arising from the continued involvement of New Zealand in the Cup, as well as potential brand values, especially from the “New Zealand” component of the syndicate name.

1.4 Scope

There are two distinct but related components of the impact assessment – the implications for the economy, and the tax implications for Government. They do not measure the same things, and it is critical to understand the difference between the two, and the key assumptions underlying this study.

The economic impact measures the net additional contribution to New Zealand’s GDP which would arise from the extra expenditure in this country by Team NZ. It is measured in terms of additional expenditure, the value added component of that expenditure and the employment implications. Because any spending in the economy has some flow on or consequent effects, then the methodology examines both the direct value added and employment effects, and the total effects, allowing for the flow-on effects through the economy.

The taxation impact measures the net additional contribution to New Zealand's tax revenue from the extra expenditure by Team NZ, including GST on goods and services consumed by Team NZ, GST on goods and services consumed by the crew community, the PAYE on syndicate wages and salaries, the FBT contribution, and the company tax generated from the additional turnover of businesses selling goods and services to Team NZ. In addition, as the Team NZ expenditure effects flow on through the economy, more tax of each type is generated.

1.5 Assumptions and Scenarios

There are necessarily a number of core assumptions which underpin the analysis.

- i. If there were no Government funding, then it is assumed that the Team NZ challenge would not proceed. Therefore, all net additional impacts which are consequent on the Government funding are attributable to that funding. This recognises the role of Government funding as the trigger or catalyst for the challenge, and its consequent impact on the economy.
- ii. The Government funding would not be diverted from an alternative expenditure, but would be net additional funding of activity.
- iii. Overseas-sourced funding is allocated first to overseas Team NZ expenditure, and the balance then allocated to expenditure in New Zealand. This means that overseas expenditure is held constant across the scenarios (see below) as is the net balance of overseas funding then attributed to spending in New Zealand.
- iv. The Team NZ syndicate crew would not be part of the national economy if the challenge did not eventuate. This is because with the quality and nature of the skill sets offered, they would instead be employed by other America's Cup syndicates, or be employed in professional yachting activity (including marine support activity) in overseas economies.
- v. The fifth key assumption relates to whether the non-Government, New Zealand-sourced funding for Team NZ is net additional sponsorship, or a transfer from other sponsorship and promotional activity. This has an effect on both the economic impact and the tax outcomes, as follows:
 - a) If the funding would have occurred in any case, then the net effect is a transfer within the New Zealand economy. This would occur if the corporate sponsors involved have a sponsorship budget, and would have spent that amount in any case on other sponsorship or mainstream marketing activity if it did not go to Team NZ. If that was the case, then the net additional *economic impact* of that spending would be small – assuming the same amount of sponsorship went to Team NZ, or some other sponsorship, then the only differences would arise from a different mix of sectors where that money was spent, and the proportion spent overseas.

If the sponsorship expenditure only occurred because of Team NZ, then the alternative for that money would have been corporate profit, or distribution to shareholders, either of which would be taxable. Therefore, around one-third of the amount would have gone as tax, and around two-thirds would have been either kept as retained earnings, or been distributed to shareholders. If shareholders are New Zealand residents, then much of this distribution would have gone to private consumption and savings, also with flow on effects for the economy.

Therefore, the difference in economic impact would arise from the net addition of between two-thirds and all of the sponsorship amount now being spent in the economy, rather than going as a mixture of tax, retained earnings and distribution to resident and overseas shareholders, together with any variations in the mix of spending across sectors.

Since the structure of New Zealand sponsors is not yet known, then it is not possible to state whether that sponsorship money should be counted as a transfer effect, or a net additional effect. Accordingly, both of these alternatives have been examined, as different scenarios.

- b) The different outcomes would also impact differently in terms of the tax implications. If the money would not have otherwise gone to sponsorship (ie the sponsorship amount is a net addition), then there is an approximately equivalent amount by which the profit of the corporate sponsors would reduce. This would mean a corresponding reduction in company tax or income tax on dividends of between one fifth and one third of the sponsorship (assuming an average tax rate of between 21% and 33%). This is represented by Option 1.

However, if the sponsorship for the Team NZ challenge was a *transfer* from alternative sponsorship or marketing, then an equivalent amount of sponsorship would have occurred anyway. Assuming that the sponsorship amount would be tax deductible whether going to Team NZ or some other activity, then the 'transfer' means there would be no *net additional* tax offset. This is represented by Option 2. Option 3 represents a mid point to demonstrate the rate at which these assumptions impact on the outcomes.

- vi. Finally, we have assumed a range of average tax rates for companies operating in New Zealand as alternative scenarios – 21%, 27% and 33%. This allows a more realistic range of outcomes than the maximum taxation rate of 33%. We have also assumed an average PAYE rate of 27.5%. This relatively high average rate is associated with incomes of around \$70,000 which is considered reasonable for Team NZ and suppliers overall.

These various assumptions and options have been combined into three scenarios, which reflect the range of outcomes from Team NZ activity in the economy. The scenarios are:

- i. **Scenario 1 – All** non-Government, NZ-sourced funding is additional. All Government funding and overseas funding is net additional. This scenario would

arise if a New Zealand sponsor has a choice to make between two alternatives – funding Team New Zealand or funding a totally offshore based marketing campaign to achieve the same levels of brand exposure and marketing effect. This scenario would show a high level of net additional expenditure, and therefore impact.

- ii. **Scenario 2** – A *small amount* of the non-Government, NZ-sourced funding is additional. All Government funding and overseas funding is net additional. This scenario would arise where a New Zealand sponsor chooses to fund Team NZ rather than the alternative of a marketing campaign primarily in New Zealand (80%) but with an overseas component (20%). This scenario would show a low level of net additional expenditure.
- iii. **Scenario 3** – This scenario would reflect the middle ground in terms of net additional expenditure, with *approximately half* of the non-Government, NZ-sourced funding is additional. All Government funding and overseas funding is additional. This scenario demonstrates the approximate mid point between the high and low scenarios. It would arise from a different share of spending going off shore for marketing or where the New Zealand sponsor decides to use the money to pay out a dividend, retain some earnings and pay tax with the remainder, compared with funding Team NZ.

2. METHODOLOGY

2.1 Overview

The methodology is based on understanding of how a Team NZ challenge would affect the economy, drawn from analysis of the economic impacts of the America's Cup in 2000 and 2003, and studies of the marine and tourism sectors.

Key steps have been:

- i. Assembly of the relevant expenditure and salary information by Team NZ into an evaluation framework;
- ii. Reconciliation of the total funding structure, to identify Government, New Zealand sourced and overseas sourced funding;
- iii. Reconciliation of the total expenditure structure, to identify spending of each type likely to occur within New Zealand, and overseas;
- iv. Assessment of the key sectors into which the New Zealand spending will be directed;
- v. Analysis of the direct and total impacts (in terms of value added and employment), applying relevant economic models;
- vi. Reconciliation of the expenditure and funding flows, to identify the consequent **direct** tax flows within the overall structure;
- vii. Analysis of the gross output implications of the Team NZ spending, also calculated through the economic models, as the basis for assessing the flow on and total tax implications.

2.2 Data Sources

Detailed information on planned expenditure was provided by Team New Zealand, to identify the likely flow of direct expenditure to each sector, over each year of the campaign. This covered:

- i. The total amount of planned funding for Team NZ, including potential funding by Government, the amount to be funded from other sources in New Zealand (potentially a transfer), and funding from offshore (a potential direct addition to the NZ economy);
- ii. The total amount of planned expenditure by Team NZ, covering capital and operating expenditure, the items of spending and the sectors likely to receive the expenditure, and the shares in each case directed to Auckland, other parts of New Zealand, and overseas;

- iii. The salary and wages and contractor components of the budget and where that will be paid (ie which taxation regime).

2.3 Net Expenditure Analysis.

The expenditure information has been cross checked against the Team NZ budget for the 2003 Defence, and against average expenditure data for syndicates from the economic impact study of the 2003 event. The net additional expenditure has been attributed to each sector and year, as well as by region, according to the scenarios.

An important aspect of potential is the consumption expenditure sustained by the crew salaries, for crew and families living in New Zealand rather than being based overseas. This has been assessed according to MEL models of household expenditure and consumption, across retail, service, transport and other sectors of the economy, drawing from the *Household Economic Survey* (StatisticsNZ, 2001).

2.4 Additional Syndicates

One of the issues raised at the start of the study was that other America's Cup syndicates may decide to establish in New Zealand, and train in the Hauraki Gulf because of the Team NZ presence.

However, consultation with the other syndicate most likely to establish in New Zealand advised that any decision to locate here was not influenced by whether or not Team NZ mounted a challenge. In any case, there were pros and cons - pros in terms of potential for competition, and maintaining the marine industry critical mass and expertise, cons in terms of competition for sponsorship funding, crew and access to marine industry services.

2.5 Marine Sector Impact

It was also believed that there are potential benefits to the marine industry of maintaining an Americas Cup presence. Although the effects may not be directly quantifiable in terms of additional business activity, it is important to understand the potential flow on effects of this core of marine service (as distinct from sailing) expertise moving offshore.

Consultation with the marine industry helped identify the extent to which the continued presence of an America's Cup syndicate in New Zealand is likely to benefit the industry, through: ,

- i. The direct business and employment consequences of a challenge based in New Zealand vs no challenge (ie from Team NZ presence);
- ii. The indirect business and employment effects, including retention of an Americas Cup-related core of expertise, and how this may impact on other parts so the marine sector;
- iii. Prospects for other challenger syndicates establishing in New Zealand;

- iv. Maintenance/retention of any competitive advantage which New Zealand has in Cup and other high technology yacht racing.

2.6 Economic Models

Economic models for New Zealand and Auckland region have been applied to identify economic impacts, and to estimate consequent benefits. This generic model capability was developed for the year ending June 2002, and has been updated to prepare estimates of regional and national economies for the years ending June 2003-7. These provide the basis for assessing the impacts in each year.

2.7 Economic Impact Assessment

The expenditure estimates for Team NZ have been applied to the appropriate regional and national models, for each year, to identify the direct expenditure effect, estimated gross output, direct value added and employment. The total impacts have been identified by applying appropriate multipliers.

This shows the direct, indirect and induced impacts as net value added (\$m) to the New Zealand domestic economy over the next four years, and the estimated FTE employment sustained.

2.8 Benefits

The estimates of benefits to both Auckland and New Zealand, and to key sectors, have been estimated quantitatively, according to the tax and economic impact results, as well as qualitatively, based on marine industry consultation and assessment.

2.9 Taxation Revenue

The total direct and additional taxation revenue (PAYE, GST, FBT and company tax) generated to 2007 has been estimated according to the annual expenditure flows and their distribution within syndicate budgets and across sectors. This is summarised in Figure 1.

This provided core information to trace through direct tax implications, as follows:

- i. PAYE has been calculated for Team NZ salaries and contractor payments, with regard to the salary structure and based on an average PAYE rate of 27.5%;
- ii. GST has been calculated in gross and net terms, to cover the GST component of Government funding (\$3.75m) and other NZ-sourced funding, less the implied GST to be paid by Team NZ on goods and services in this country;
- iii. GST has also been calculated to cover the GST component of consumption expenditure by syndicate crew in New Zealand;

- iv. FBT amounts have been calculated according to Team NZ records of actual payments for the 2003 Defence, and applied *pro rata* to the budgeted expenditure for the 2007 challenge.
- v. Company tax has been estimated according to the gross revenue which expenditure by Team NZ implies for the businesses from whom they will purchase goods and services, allowing for relevant operating surplus % shares (based on the economic models) and applying company tax rates. This allows for a high rate of 33%, a medium rate of 27% and a low rate of 21%, recognising that not all the operating surplus for companies is taxed directly (allowing for extraordinary items, credits and so on).
- vi. There are also company tax implications of the flow on effects through the economy, where indirect and induced expenditure generates gross revenue to businesses for which some tax on their operating surplus will be payable. The increases in company tax as a result of total increased activity have been estimated by applying a national average operating surplus ratio to total estimated gross output then applying the high, medium and low average tax levels to this amount.
- vii. In addition, there are salary and therefore PAYE implications from the flow effects on wages and salaries. The total PAYE has been estimated based on total employment effects. Average salaries by sector have been applied to total generated FTEs, then taxed at an average rate of 26.4%.
- viii. Total GST has also been calculated by applying 12.5% to total value added as a result of the Team New Zealand and syndicate crew expenditure. This excludes the initial GST effect (the GST on funding, less the GST on goods and services directly purchased).

3. KEY FINDINGS

3.1 Scope

The findings are presented for each key component of the impact assessment – the implications for the economy, and the tax implications for Government. As noted, they do not measure the same things, and cannot be simply added to identify a total impact. The results have been calculated for each of the three scenarios (Section 1.5 above).

3.2 Net Additional Expenditure

A challenge by Team New Zealand would inject an estimated \$85m into the New Zealand economy over the 2003-07 period, inclusive of salary and wage and contractor costs, but excluding GST. Of this amount, some \$30m would be based on Government funding, and for this study it is estimated that there would be \$35m from other NZ-sourced funding (allowing for an amount in the \$30-\$40m range), plus \$20.5m from overseas-sourced funding (being the balance of total overseas sourced funding less that paid to cover overseas expenses, and allowing for an amount in the \$16-\$25m range).

This would sustain two main types of spending - direct spending by the syndicate on goods and services in order to mount a challenge for the America's Cup, and spending by syndicate crew and contractors directly employed by Team NZ over the next 3-4 years. The first component covers the effect of operational spending by Team NZ excluding salaries and wages, the second covers the spending sustained by those salaries and wages.

The estimated \$85m injection would not all be additional, however. The *net additional* amount varies between the scenarios. In each case, the amount sustained by Government funding (\$30m excl GST) and overseas funding (\$20.5m) is considered net additional. The additional effect of NZ-sourced funding varies between \$23.4m and \$7m. In Scenario 1, where the sponsorship is all additional, then the *gross* additional amount would be \$35m. In Scenario 2 the assumed alternative is that the \$35m would have mainly been spent in New Zealand regardless of Team New Zealands presence. In total 20% of the \$35m is considered net additional (\$7m). In Scenario 3 approximately half of the \$35m is considered net additional from an expenditure point of view (either through distribution as dividend or through repatriation of an offshore marketing campaign).

Table 3.1: Net Additional Injection and Expenditure 2004-2007 (\$m)

Source	Scenario 1	Scenario 2	Scenario 3
Government Funding	\$ 30.0	\$ 30.0	\$ 30.0
Other NZ-sourced Funding	\$ 35.0	\$ 7.0	\$ 23.3
Overseas Funding	\$ 20.5	\$ 20.5	\$ 20.5
TOTAL FUNDING	\$ 85.5	\$ 57.5	\$ 73.8
Direct Expenditure	\$ 52.0	\$ 34.0	\$ 44.0

3.3 Taxation Impacts

The taxation assessment provides an estimate of the direct and total “return” to Government from their investment in Team NZ (up to \$30m), and the additional activity and expenditure which would ensue.

The taxation impacts have two components;

- The direct and indirect taxes paid to government as a result of the direct activity of Team NZ over the next 4 years, comprising GST, PAYE, Company Tax, and FBT.
- The total tax effect that arises from the total economic activity generated from the flow on effects of Team NZ’s direct spending in the economy over the next 4 years. This is also made up of GST, PAYE, and Company Tax. (It is beyond the scope of this study to calculate the flow on FBT.)

Direct Tax Flows

Based on expenditure and sponsorship information provided by Team NZ, the estimated direct tax revenues to Government range between \$11.4m and \$12.3m (Table 3.2).

While the gross tax amounts and the tax deductibility offsets vary between scenarios, the net outcome is fairly consistent. The differences in gross amounts arise from the assumption of whether NZ-sourced sponsorship is additional or a transfer.

Under Scenario 1 the gross tax revenue would be \$22.9m, but there would be a net offset of \$11.6m (the assumed \$35m of sponsorship is deductible at 33%), for a balance of \$11.4m net tax revenue to Government (Table 3.2). Because the tax deductibility offset cannot be equated against any single component of other types of tax, then the specific amounts of tax by type cannot be calculated. Accordingly, these have been allocated *pro rata* – to identify that of the \$11.4m, then PAYE *pro rata* makes up the largest proportion (73%), with GST at 22.5%, and FBT and Company Tax at 0.1% and 4.4% respectively.

Table 3.2: Team New Zealand Direct Tax Revenue, 2004-2007

Taxation Category	Scenario 1	Scenario 2	Scenario 3
	\$000	\$000	\$000
GST on Team NZ Activity	\$ 2,688	\$ 968	\$ 1,970
GST on Crew Consumption	\$ 2,486	\$ 1,672	\$ 2,147
PAYE	\$ 16,770	\$ 11,294	\$ 14,488
FBT	\$ 28	\$ 19	\$ 24
Other			
Company Tax	\$ 957	\$ 644	\$ 827
Total Estimated Direct Tax Revenue	\$ 22,929	\$ 14,596	\$ 19,457
Tax Effect of Sponsorship Deductions to NZ Sponsors	\$ -11,550	\$ -2,310	\$ -7,700
Total Estimated Direct Tax Revenue	\$ 11,379	\$ 12,286	\$ 11,757
Difference from Base Case	\$ -	\$ 907	\$ 378
Difference from Base Case %	\$ -	8.0%	3.3%

In Scenario 2, it is assumed the NZ-sourced sponsorship is a transfer, so the net additional expenditure would arise from just the Government funding, and the net injection of overseas-sourced funding. The gross amounts have been adjusted accordingly. In this Scenario, the total net tax revenue to Government is \$12.3m (reflecting the lower net additional expenditure in New Zealand), a difference of \$0.9m (8%). This difference is small, in the context of the reliability margins of the estimates, and reflects the similarity of tax rates across different mechanisms.

Scenario 3 shows the outcome if half the NZ-sourced funding was net additional, and the other half a transfer. The net additional tax generated is \$11.8m, close to the other two scenarios (Table 3.2).

Indirect and Induced Tax Revenue

The consequent tax flows calculated from the economic modelling show the additional effects, as the Team NZ expenditure flows through the economy. This is additional to the direct tax revenue from PAYE, GST and so on identified above. The tax revenues have been calculated according to expected volume of additional economic activity required to support Team NZ's demands in the New Zealand economy. As Team NZ purchase goods and services from their suppliers it sets in train a number of rounds of economic transactions as direct suppliers request additional inputs from their suppliers and so on up the chain. There is a similar effect from the consumption spending by the Team NZ crew (sustained by the Team NZ salaries and wages). This results in increases in gross output within the economy, with consequent increases in operating surpluses and company taxes, as well as salaries and wages and PAYE.

The total GST amount has been calculated from the total net additional value added generated by these transactions (at a rate of 12.5%). Since GST is a value added tax, then it can be estimated from the additional value added in the economy. As long as the value added calculations in the economic models exclude GST (in terms of the inputs of additional expenditure) and the value added coefficients for each sector also exclude any GST effect, then the model estimates of net value added can be used directly to estimate the implied GST.

In addition, the additional expenditure sustains wages and salaries for people working in the sectors providing the additional goods and services. Their consequent expenditure sustains the induced increases in output and value added, and also generates tax revenue, mainly through PAYE.

It is important to note that the process of calculating the total flow on effects incorporates the Company Tax, additional GST and FBT calculated in the direct tax flows above. It does not, however, incorporate the PAYE which would be paid directly by Team New Zealand crew members and contractors, nor the initial direct GST recovery (from the difference between the GST components of the Government and NZ-sourced funding, and the GST on goods and services purchased directly by Team NZ). Neither of these amounts is included in the economic modelling, so they need to be added in, to identify the total tax revenue amount.

Table 3.3: Total Tax Flows from Direct, Indirect and Induced Activity, 2004 - 2007

Taxation Category	Scenario 1	Scenario 2	Scenario 3
Total GST Revenue	\$ 5.1	\$ 2.6	\$ 3.9
Company Tax Revenue			
Option 1 (33% avg company tax)	\$ 4.0	\$ 2.6	\$ 3.4
Option 2 (27% avg company tax)	\$ 3.3	\$ 2.1	\$ 2.7
Option 3 (21% avg company tax)	\$ 2.5	\$ 1.7	\$ 2.1
PAYE Revenue	\$ 6.7	\$ 4.3	\$ 5.5
Direct, Indirect and Induced Tax Revenue - HIGH	\$ 15.8	\$ 9.5	\$ 12.8
Direct, Indirect and Induced Tax Revenue - LOW	\$ 14.3	\$ 8.6	\$ 11.5
<i>Net Direct 1st Round Tax</i>	\$ 9.7	\$ 10.3	\$ 10.0
Total Revenue - HIGH	\$ 25.5	\$ 19.8	\$ 22.8
Total Revenue - LOW	\$ 24.0	\$ 18.9	\$ 21.5

Table 3.3 shows the total taxation revenue to Government, under the three scenarios. Scenario 1, with net additional direct injection of \$73.9m into the economy, would generate tax on indirect and induced activity of some \$14.3-15.8m. This is in addition to the initial \$9.7m from PAYE, GST, FBT and company tax. In total, the activity associated with a Team NZ challenge would generate between \$24.0 and \$25.5m of tax revenue. This compares with the net \$30m of government funding. In broad terms, the total tax revenue from the consequent indirect and flow on effects would be slightly more than double the direct net tax effect.

In Scenario 2, where the NZ-sourced funding is a transfer but not net additional, would generate between \$18.9 and \$19.8m in total tax revenue - \$8.6-9.5m tax from indirect and flow on effects, on top of the \$10.3m in net direct tax from Team NZ.

In Scenario 3, where half the NZ-sourced funding is additional, the total tax revenue would be \$21.5m to \$22.8m – with \$11.5-12.8m tax from the indirect and flow on effects, and \$10.0m in net direct tax from Team NZ.

Total Tax

The presence of a Team New Zealand challenge for the 2007 America's Cup is expected to generate between \$18.9m and \$25.5m of tax revenue for the New Zealand Government, over the 2004-2007 period. Approximately half would arise from initial and direct tax recovery through PAYE on salaries and wages of crew, and the net GST amount. The balance would arise from the additional activity sustained in the economy by the Team NZ expenditure, driven by the total funding for the syndicate. This compares with the \$33.75m of Government funding, including GST.

In broad terms, between 56% and 75% of the Government funding would be re-couped over the course of the challenge campaign, from activity sustained by the challenge. This does not allow for any additional activity in the economy which may be indirectly enhanced by the syndicate's presence – for example, additional tourism or demand for marine sector services outside the America's Cup activity.

3.4 Economic Impact Assessment

Having established the taxation position in relation to Team New Zealand's presence it is important to assess the wider economic impacts that arise from the spending that occurs. Direct spend is expected to be concentrated in the marine, retail, transport, property and business service sectors (legal, accounting, insurance, finance, technical services etc). A detailed breakdown of expenditure under the three scenarios is appended to this report.

Under each scenario impacts have been assessed against the Auckland regional economy and at the national level.

Scenario 1

Under Scenario 1 it is expected that the presence of Team New Zealand will inject \$44m in direct spend into the Auckland and national economies over the next 4 years (Table 3.4).

**Table 3.4: Team New Zealand Economic Impacts, Auckland Region and NZ (2004-2007),
Scenario 1**

Category	Auckland Regional Impacts	New Zealand Total Impacts
Impacts: 2004 - 2007		
Direct Impacts		
Expenditure (\$m)	\$ 52	\$ 52
Value Added (\$m)	\$ 22	\$ 22
Employment (FTE years)	410	400
Direct and Indirect Impacts		
Gross Output (\$m)	\$ 86	\$ 93
Value Added (\$m)	\$ 37	\$ 40
Employment (FTE years)	630	660
TOTAL Impacts		
Gross Output (\$m)	\$ 107	\$ 121
Value Added (\$m)	\$ 48	\$ 53
Employment (FTE years)	770	830

This expenditure is expected to generate \$22m in direct value added and 410 FTE years of direct employment in Auckland. Including the indirect and induced effects, the total value added impact would be \$48m, supporting 770 FTE years of employment in the Auckland economy. In the context of the national economy, the \$52m of direct additional spend generates \$22m of direct value added and supports 400 FTEs. Once the flow on effects are incorporated this increases to a value added impact of \$53m sustaining almost 830 FTEs (equivalent FTE years).

Scenario 2

Under Scenario 2 it is expected that the presence of Team New Zealand will inject \$34m in direct spend into the Auckland and national economies over the next 4 years (Table 3.5).

This expenditure is expected to generate \$14m in direct value added and 270 FTE years of direct employment in Auckland (Table 3.5). Including the indirect and induced effects, the total value added impact would be \$31m, supporting 500 FTE years of employment in the Auckland economy. In the context of the national economy, the \$34m of direct net additional spend generates \$14m of direct value added and support 260 FTEs. Once the flow on effects are incorporated, the total value added impact of is \$35m sustaining some 540 FTEs.

Table 3.5: Team New Zealand Economic Impacts, Auckland Region and NZ (2004-2007), Scenario 2

Category	Auckland Regional Impacts	New Zealand Total Impacts
Impacts: 2004 - 2007		
Direct Impacts		
Expenditure (\$m)	\$ 34	\$ 34
Value Added (\$m)	\$ 14	\$ 14
Employment (FTE years)	270	260
Direct and Indirect Impacts		
Gross Output (\$m)	\$ 57	\$ 61
Value Added (\$m)	\$ 24	\$ 26
Employment (FTE years)	420	430
TOTAL Impacts		
Gross Output (\$m)	\$ 71	\$ 79
Value Added (\$m)	\$ 31	\$ 35
Employment (FTE years)	500	540

Scenario 3

Under Scenario 3 it is expected that the presence of Team New Zealand will result in \$44m in net additional direct spend into the Auckland and national economies over the next 4 years (Table 3.6).

This expenditure is expected to generate \$19m in direct value added and 350 FTE years of direct employment in Auckland (Table 3.6). Including the indirect and induced effects, the total value added impact would be \$40m, supporting 650 FTE years of employment in the Auckland economy. For the national economy, the \$44m of direct net additional spend would generate \$18m of direct value added and support 340 FTEs. The total impact, including flow on effects, would take value added to \$44m, and sustain 700 FTEs.

Table 3.6 Team New Zealand Economic Impacts, Auckland Region and NZ (2004-2007), Scenario 3

Category	Auckland Regional Impacts	New Zealand Total Impacts
Impacts: 2004 - 2007		
Direct Impacts		
Expenditure (\$m)	\$ 44	\$ 44
Value Added (\$m)	\$ 19	\$ 18
Employment (FTE years)	350	340
Direct and Indirect Impacts		
Gross Output (\$m)	\$ 73	\$ 79
Value Added (\$m)	\$ 31	\$ 33
Employment (FTE years)	530	550
TOTAL Impacts		
Gross Output (\$m)	\$ 90	\$ 102
Value Added (\$m)	\$ 40	\$ 44
Employment (FTE years)	650	700

Implications for the Marine Industry

As well as the direct impacts from additional economic activity, there would be wider effects for the marine industry from the presence of an America's Cup challenging syndicate. These would arise in part from the level of additional demand – which will mean the sector is larger than it would otherwise be – but especially from the nature of the additional demand.

This is because an America's Cup challenge requires specialised, leading edge services and products from the marine industry, and the presence of such activity has flow on effects throughout the industry. Four key effects – over and above the additional demand for the industry - can be identified.

First, the syndicate will retain key skills in New Zealand. Specialist skills and experience gained from involvement in America's Cup activity are in demand internationally, and readily transferable. America's Cup campaigns are generally well-resourced, and syndicates seek to recruit the best qualified people – not just skippers and sailing crews, but those in support areas including design, sail-making, hull and spar construction, software, and so on. Other sectors of the marine industry (in most instances) cannot match the remuneration available from Cup campaigns, so the top people tend to congregate around those campaigns.

This means there is a high likelihood that highly-skilled people currently in the New Zealand industry would be attracted to campaigns and support businesses based overseas, and therefore lost (at least in the medium term) to the New Zealand industry. This process is not unique to the marine industry, and many such skilled New Zealanders have been involved in other syndicates over the past decade.

Nevertheless, if there is a Team New Zealand syndicate based in New Zealand, then its presence would mean a core group of 20-40 highly-skilled people would be retained in the

New Zealand industry. Not all would be part of the syndicate campaign, but would be employed by the key suppliers to the syndicate, especially in hull and spar construction, and sail-making. Typically, these people will not work solely on America's Cup requirements, and will be able to work on other projects at the same time. The retention of a core of highly-skilled individuals would mean a stronger industry, and also enhance New Zealand's competitive advantage – since they will not be available to the marine industries overseas.

Second, it will retain demand for leading-edge services and products from New Zealand suppliers. America's Cup represents the leading edge of yachting design, materials and technology, as well as sailing activity. The syndicates demand this leading edge to be competitive, and can meet the associated costs. This also has a double benefit. New Zealand businesses maintain their ability to provide leading edge services and products, enhancing the overall competitiveness of the marine industry. Moreover, the New Zealand industry retains intellectual property, either for the businesses themselves, or the challenging syndicate. This means that development in New Zealand is more likely to be retained to support the advance of this country's sectors, and not transferred overseas – again enhancing New Zealand's competitive advantage in the industry.

Third, the America's Cup-based demand for leading edge services means that New Zealand businesses have knowledge and experience to apply this learning to other sectors of the industry, as Cup-led innovations and development then flow through to other less specialised areas. In the past, the most rapid flow on has been to the super-yacht sector, whose owners have the ability to pay for leading edge technology, and frequently demand it to be competitive – in terms of both performance and appearance.

The presence of America's Cup based skills in the New Zealand marine industry was a critical foundation for the development of the super-yacht industry here during the 1990s.

Fourth, the presence of an America's Cup challenge by New Zealand will have an important effect on New Zealand's marine industry "brand". The New Zealand brand has been very high profile in the America's Cup over two decades, and has a unique position as a successful challenger in 1995 and defender in 2000, following very strong campaigns in 1987, 1989 and 1992. These campaigns are widely perceived as national efforts by "New Zealand", as distinct from campaigns by syndicates from New Zealand.

There is considerable value to the New Zealand industry's brand from continuation of this recent high-profile involvement. Equally, there would be considerable downside for the New Zealand brand from a perceived withdrawal from the America's Cup – particularly after the high-profile technology failures around the 2003 Defence.

A challenge would portray on-going confidence in the New Zealand marine industry and the brand that a successful campaign can be sustained. A withdrawal may portray dented confidence in the industry – and emphasise the technology failures as fatal blows rather than shorter term stumbles.

These benefits for the New Zealand marine industry are significant, and have proven to be in the past decade. While they are not quantifiable in the same way as the economic impacts,

they are nevertheless important and additional to the economic and taxation impacts identified in the preceding sections.

4. CONCLUSIONS

4.1 Summary

The analysis shows that a Team New Zealand challenge based in New Zealand would have a significant impact on the regional and local economies.

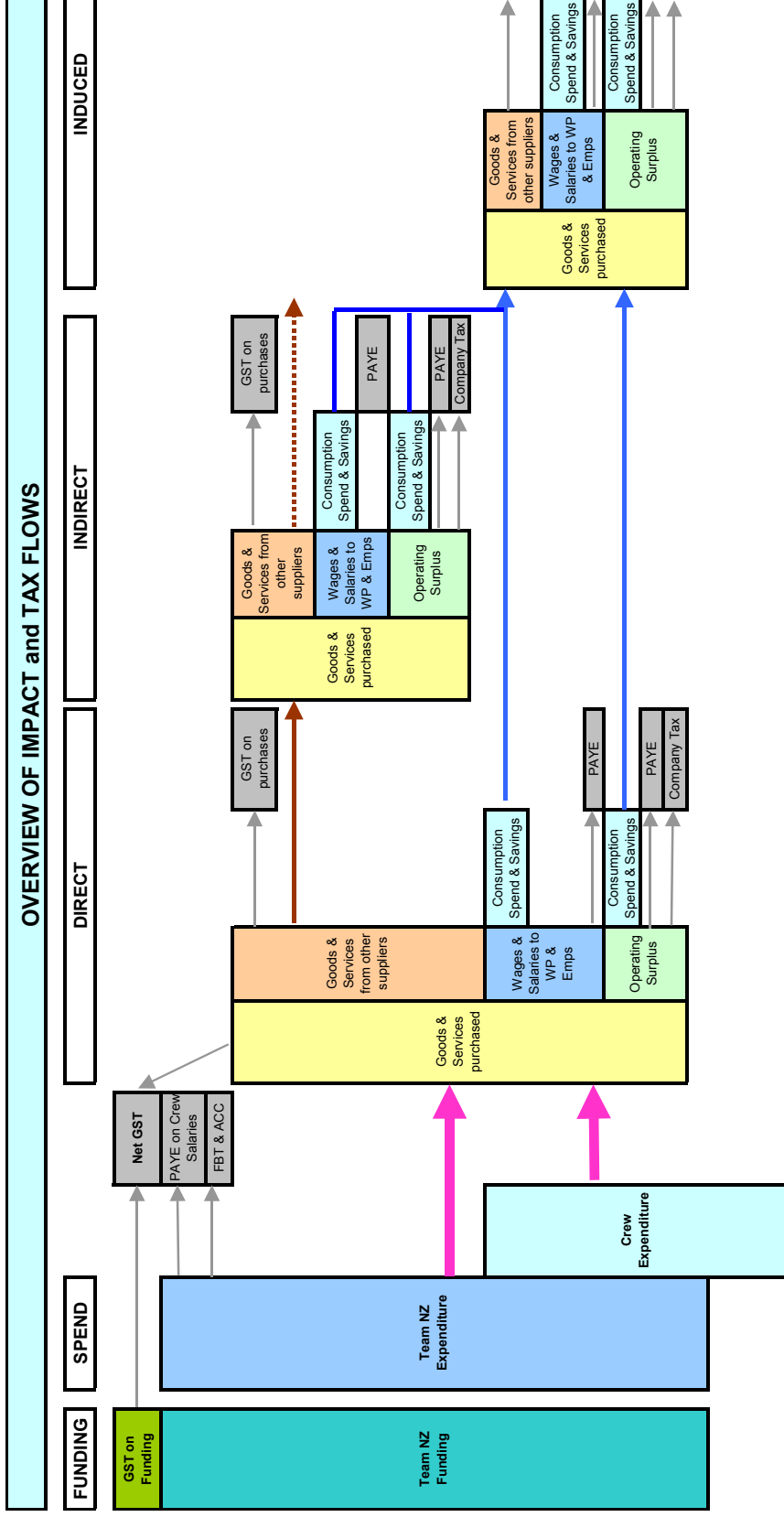
The impact would arise from net additional expenditure, arising in part the Government-sourced funding, and in part from other NZ-sourced and overseas-sourced funding. The Government funding is considered to be a catalyst for securing other funding, such that the total impacts would be attributable to the Government funding decision.

There would be significant additional tax revenue generated as a result of the Team New Zealand activity, both from direct recovery of PAYE, GST and other tax revenues, and from the tax on the additional economic activity stimulated by the syndicate's presence. This would amount to between \$18.9m and \$25.5m, in comparison with the Government potential contribution of \$33.75m (including GST).

There would also be substantial positive impacts for regional and national economies, with total value added ranging between \$35m and \$53m over the period. The total employment sustained would range between 540 and 830 FTEs, at the national level.

The majority of the impact would accrue to the Auckland economy.

FIGURE 1: OVERVIEW OF IMPACTS



Appendix 1

IO 48 Description	Option 1	Option 2	Option 3
Horticulture and fruit growing	\$ -	\$ -	\$ -
Livestock and cropping farming	\$ -	\$ -	\$ -
Dairy cattle farming	\$ -	\$ -	\$ -
Other farming	\$ -	\$ -	\$ -
Services to agriculture, hunting and trapping	\$ -	\$ -	\$ -
Forestry and logging	\$ -	\$ -	\$ -
Fishing	\$ -	\$ -	\$ -
Mining and quarrying	\$ -	\$ -	\$ -
Oil and gas exploration and extraction	\$ -	\$ -	\$ -
Meat and meat product manufacturing	\$ -	\$ -	\$ -
Dairy product manufacturing	\$ -	\$ -	\$ -
Other food manufacturing	\$ -	\$ -	\$ -
Beverage, malt and tobacco manufacturing	\$ -	\$ -	\$ -
Textile and apparel manufacturing	\$ 5,050	\$ 3,400	\$ 4,360
Wood product manufacturing	\$ -	\$ -	\$ -
Paper and paper product manufacturing	\$ -	\$ -	\$ -
Printing, publishing and recorded media	\$ -	\$ -	\$ -
Petroleum and industrial chemical manufacturing	\$ -	\$ -	\$ -
Rubber, plastic and other chemical product manufacturing	\$ -	\$ -	\$ -
Non-metallic mineral product manufacturing	\$ -	\$ -	\$ -
Basic metal manufacturing	\$ -	\$ -	\$ -
Structural, sheet, and fabricated metal product manufacturing	\$ -	\$ -	\$ -
Transport equipment manufacturing	\$ 13,750	\$ 9,240	\$ 11,870
Machinery and equipment manufacturing	\$ 1,200	\$ 810	\$ 1,040
Furniture and other manufacturing	\$ -	\$ -	\$ -
Electricity generation and supply	\$ 90	\$ 60	\$ 80
Gas supply	\$ -	\$ -	\$ -
Water supply	\$ -	\$ -	\$ -
Construction	\$ 1,150	\$ 770	\$ 990
Wholesale trade	\$ -	\$ -	\$ -
Retail trade	\$ 10,490	\$ 7,060	\$ 9,060
Accommodation, restaurants and bars	\$ 1,950	\$ 1,310	\$ 1,680
Road transport	\$ 4,790	\$ 3,220	\$ 4,140
Water and rail transport	\$ 2,000	\$ 1,350	\$ 1,730
Air transport, services to transport and storage	\$ 1,950	\$ 1,320	\$ 1,690
Communication services	\$ 470	\$ 320	\$ 410
Finance	\$ 530	\$ 350	\$ 400
Insurance	\$ 450	\$ 300	\$ 340
Services to finance and investment	\$ -	\$ -	\$ -
Real estate	\$ 2,250	\$ 1,510	\$ 1,940
Ownership of owner-occupied dwellings	\$ -	\$ -	\$ -
Business services	\$ 3,290	\$ 1,540	\$ 1,930
Central government administration, defence, public order and safety services	\$ -	\$ -	\$ -
Local government administration services and civil defence	\$ 620	\$ 420	\$ 530
Education	\$ 440	\$ 300	\$ 380
Health and community services	\$ 640	\$ 430	\$ 550
Cultural and recreational services	\$ 570	\$ 380	\$ 490
Personal and other community services	\$ 330	\$ 220	\$ 290
TOTAL	\$ 52,010	\$ 34,310	\$ 43,900
