



34th America's Cup:

Evaluation of Emirates Team New Zealand Strategic Partnership

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Report authors: Greg Akehurst, Natalie Hampson

Contributors: Jugdis Parbhu, Amy Bland (PKF Ross Melville)

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Executive Summary

This evaluation by Market Economics Limited (M.E) has identified, and where possible quantified, the net economic effects that have accrued to New Zealand as a result of Emirates Team New Zealand's (ETNZ) participation in the America's Cup. The evaluation covers the period immediately following the close of the 32nd regatta in Valencia in July 2007 to the close of the 34th regatta in San Francisco in September 2013.

The research has focussed primarily on the impacts that arose from the Government's Strategic Partnership Agreement (SPA) with ETNZ. This agreement resulted in a contribution of \$36m of Government money to the syndicate so long as they mounted a competitive challenge. The relationship that existed between ETNZ and Luna Rossa meant that Luna Rossa's economic activity in New Zealand is also included in the scope of SPA effects. The wider benefits of the America's Cup event on New Zealand, over and above the effects attributable to the SPA, have also been addressed. This includes the economic impact of Oracle's boat building activity in New Zealand as well as the wider benefits for New Zealand's recreational marine sector in particular.

The evaluation reports 'monetary' economic effects arising from the SPA and the America's Cup overall from two perspectives:

- Direct and flow-on economic impacts (using an Economic Impact Assessment (EIA) approach); and
- Net tax revenue (using syndicate data and outputs from the EIA).

Aspects of the methodology applied in this evaluation differ from those in M.E's 2008 report on the economic and tax impacts of ETNZ's 2007 America's Cup campaign. Those changes are described in this report and the re-modelling of the 2007 ETNZ campaign data has been carried out to allow comparisons to be made.

Key Findings

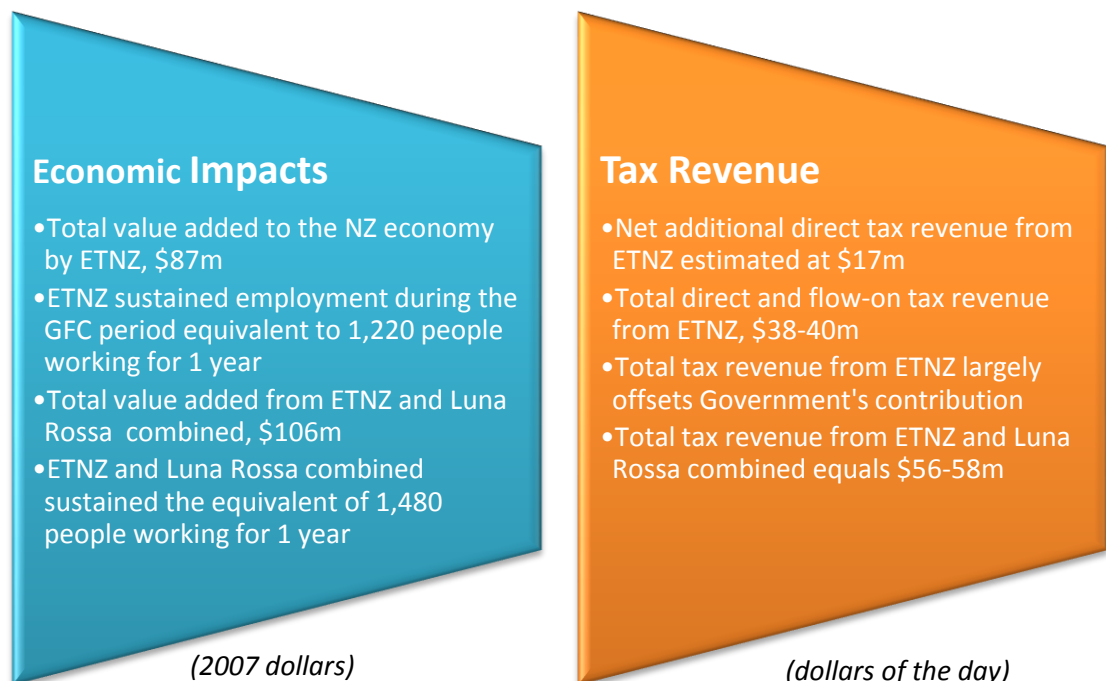
Economic impacts arise from ETNZ's direct operational expenditure in New Zealand to design, build, race and maintain their boats as well as carry out general business functions. This expenditure, which also generates GST revenue, relates to the purchase of goods and services from (in the main) Auckland businesses, including contractors who form a significant share of the syndicate's crew. These suppliers in turn purchase from other businesses to fulfil the demand driven by ETNZ and so on. Company tax is generated on all profit margins in the value chain as is PAYE and ACC for all paid employees. In EIA terms, these transactions are known as the indirect flow-on effect of ETNZ's direct expenditure.

ETNZ's operational expenditure in New Zealand also includes wages and salaries paid to non-contractor crew. This expenditure, which also generates PAYE and ACC tax revenue directly from ETNZ, goes to crew households, which in turn purchase goods and services, stimulating

further rounds of demand and tax revenue. This, combined with the spending enabled by the wages and salaries paid to indirect suppliers to ETNZ, is known as the induced flow-on effect of ETNZ's direct expenditure. The same process of generating economic and tax impacts applies to Luna Rossa and Oracle Team USA (via their subsidiary Core Builders Composites Limited), albeit with a slightly different mix of final demands.

ETNZ's expenditure in Auckland accounts for 85% of their total campaign costs from July 2007 to September 2013, with the balance spent offshore. The Auckland expenditure is funded by a mix of central Government contributions (\$36m from the SPA), non-Government private and business income, international sponsorship and revenue, and a small amount of local Government funding. For the purpose of this evaluation, all of the New Zealand sourced funding, including the \$36m from central Government, is considered a transfer of money from other potential uses in New Zealand to ETNZ. The estimated 'counterfactual spending' by those New Zealand funders is included in the EIA model to offset the increase in final demand directly generated by ETNZ. Only the portion of spending (and direct tax revenue) funded from international sources is considered net additional to the New Zealand economy.

The key economic outcomes directly attributable to the Government's SPA with ETNZ are summarised below. Economic impact results are expressed in 2007 dollar and employment terms. Tax results are expressed in dollars of the day. This research confirms the positive economic impact that ETNZ had on the New Zealand economy, even though they competed in a major sporting event overseas. Without the SPA funding, ETNZ would not have been in a position to mount a challenge for the 34th America's Cup and these outcomes would not have been achieved.



Oracle's wholly owned subsidiary Core Builders Composites Limited also had a significant impact on the New Zealand economy, though is not directly attributable to the SPA. Combined with ETNZ and Luna Rossa, the economic 'footprint' of all three syndicates represents the

wider impact of the America's Cup event on New Zealand. During the period 2007 to 2013 total value added to the economy is estimated at \$₂₀₀₇159m, sustaining the equivalent of 2,220 workers for one year.

In addition to the economic impacts above, ETNZ's competitiveness at the pinnacle of high performance yacht racing on the world stage generates wider benefits for New Zealand. These benefits include promotion of the New Zealand 'brand' (with media coverage estimated by NZTE to have an equivalent editorial value of \$13m) and potential future tourism benefits arising from that exposure. The most significant benefits are on the New Zealand marine sector including marketing leverage, exposure to new markets, retention of skilled labour and the spin-off potential for other manufacturing sectors from the technology developed through high performance boat building, particularly for composite materials.

1 Introduction

The America's Cup is held approximately every 3-4 years. Traditionally a competition between nations, it has now developed into a competition between syndicates usually sponsored by a single wealthy individual or by a consortium of businesses. In May 2008, Emirates Team New Zealand (ETNZ) and the New Zealand Government (through New Zealand Way Limited) formed a Strategic Partnership Agreement (SPA) that saw the government contribute \$1 for every \$2 raised by ETNZ (capped at \$36m), provided ETNZ lodged a competitive challenge for the America's Cup.

The Government recognised that having a competitive team challenge for the America's Cup had the potential to provide New Zealand with a wide range of benefits, including;

- Show-casing New Zealand industry and tourism on the world stage;
- Promoting New Zealand products and services overseas; and
- Other spill-over effects such as a boost to New Zealand's recreational marine industry.

The Government (and ETNZ) also realised that ETNZ would probably have not been in a position to mount a challenge without the SPA. After the Government funding was approved, ETNZ secured a total of \$3.68¹ for every \$1 of central Government funding from both domestic and international sources for their campaign which, in the end, spanned 6 years and 3 months (including the 'interim period'² and the 'holding period'³ associated with the 33rd America's Cup from which ETNZ was excluded).

During this time, ETNZ participated in a number of regattas on the world stage. They then won the Challenger Series for the 34th Americas Cup (Louis Vuitton Cup) and went on to challenge Oracle Team USA for the America's Cup. They were defeated 9-8 in what was arguably the most exciting America's Cup regatta yet.

With the 2013 campaign now over (as at the end of September 2013), and in order to ensure the New Zealand people (tax payers) received value for money for the investment of public money, The Ministry for Business, Innovation and Employment (MBIE) require an evaluation of the SPA that focusses on assessing what has been achieved by the Government's commitment to support ETNZ in challenging for the America's Cup. Market Economics Limited (M.E) has been commissioned by MBIE to carry out that evaluation.

¹ Calculation based on total ETNZ revenue and funding less the amount paid by Luna Rossa to ETNZ, i.e. \$168.53

² For the purpose of this study the 'interim period' is considered as July 2007 to September 2007.

³ For the purpose of this study the 'holding period' is considered as October 2007 to September 2010. The 34th America's Cup campaign proper is the period from October 2010 to September 2013. For simplicity, this report refers to the total period from July 2007 to September 2013 as the '2013 campaign' or the '34th America's Cup campaign'.

1.1 Aim and objectives

The overall aim of this evaluation is to identify, and where possible quantify, the net economic impacts that have accrued to New Zealand as a result of ETNZ's participation in the 34th America's Cup. M.E has been tasked with delivering a report that achieves the following key objectives:

- To identify the impacts upon local economies and key sectors (e.g. such as the marine industry);
- To understand the time periods over which economic impacts have accrued;
- To define the structure and nature of ETNZ's economic footprint on the New Zealand economy;
- To estimate direct and flow-on economic impacts of ETNZ expenditure;
- To describe the flow-on and spill-over effects of the investment;
- To quantify the taxation effects (revenue) received by Government as a result of ETNZ activity in New Zealand;
- To compare the economic impacts arising from ETNZ's participation in this recent America's Cup campaign (34th or '2013 campaign') with the impacts arising from participation in their previous America's Cup campaign (32nd or '2007 campaign' in Valencia).

1.2 Key Issues

The investment of public funds in ETNZ to challenge for the America's Cup raises a number of issues including value for money and country's return on investment that can be informed through assessing the scale and nature of impacts on the national economy. Assessing the impacts of an event that occurs in another country present a range of challenges for this report, especially in terms of the scope of the impact assessment, and how potential consequent effects are analysed.

Part of the issue arises because public funding is only one source of funds for ETNZ, but it is a critical key to ensuring the syndicate remains afloat and able to attract other funding for the challenge. Therefore, the economic and tax effects that arise from total ETNZ expenditure, are the combined effect of both public and sponsor funding. It is important to note that this report assumes that without the SPA, the economic effects arising from ETNZs activity in New Zealand, would not have occurred. This means that all of the effects can be attributed (to a certain extent) to the SPA funding, even though the effects of ETNZ are not all funded by the Government contribution.

It is also important to recognise that expenditure by ETNZ has two types of effect on the marine industry and the wider economy. As has been the case in the previous challenge held in Valencia, there are direct and tangible impacts, arising from the expenditure, which would

not have occurred had there been no challenge. In addition, there are 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 have benefits for the industry overall (i.e. outside America's Cup activity), and also encourage other challenging syndicates to source goods and services from New Zealand suppliers.

Equally, it is important to identify what was net additional spending in the New Zealand economy, and what was not (i.e. was simply a transfer of spending from one sector to another). There are three main sources of funding – the Government input, which is treated as not additional; funding from overseas sources, which is treated as additional, and funding from within New Zealand, which may be additional (i.e. in a situation where ETNZ attracts this funding, diverting it from expenditure that might have otherwise occurred off-shore), 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 do not just arise from the syndicate spending on goods and services. A large component of a challenge budget is the crew salaries needed to retain the key expertise required. The crew 'community' (crew members, partners and dependents), during their time in New Zealand, has an impact through their consumption spending in the economy – this is spending that would not have occurred if ETNZ had not existed. This means that salaries not only accounted for a significant share of expenditure, they also generated high direct tax recovery through PAYE on wage and salary earnings in New Zealand, indirect Company Tax on contractor earnings paid in New Zealand, and induced GST on consumption expenditure.

It is also important that the wider and less tangible effects on the economy are recognised, even if they cannot be reliably quantified and lie outside the scope of this study. It is likely that there were trade and tourism benefits arising from the continued involvement of New Zealand in the Cup, as well as contribution to potential brand values, from the "New Zealand" component of the syndicate name and the strong association with New Zealand.

1.3 Scope

This study is based on actual revenue and expenditure data from ETNZ for the period of July 2007 to September 2013. Data from ETNZ for the 2007 campaign is also used to enable a comparative assessment⁴. The focus is on net additional expenditure that occurred in New Zealand – that is, spending that would not have occurred if not for the presence of ETNZ. Note that this takes account and occurs within the context of the overall funding and the origin of that funding.

The main scope of this study is the net economic impacts of the Government Investment in ETNZ, which allowed them to compete in the 34th America's Cup. This requires identifying and

⁴ Income and expenditure comparisons are contained in Section 2. EIA and tax revenue comparisons are contained in Appendix A and B respectively.

quantifying all the economic impacts arising from ETNZ's participation. Therefore, it is necessary to identify the proportion of monies spent in New Zealand that are sourced from international funds or sponsorship and the portion sourced from New Zealand based funding that would not otherwise have been spent in New Zealand. Combined, only this share is net additional to the New Zealand economy. The balance of monies spent from funds sourced from within New Zealand represent a transfer and are not considered.

The involvement of ETNZ in the America's Cup regattas and the Government's involvement with ETNZ as a core funder, generates a wide range of impacts and benefits for New Zealand that are outside the scope of this study. They include, but are not limited to;

- International recognition of New Zealand as a high technology economy;
- Enhanced feeling of wellbeing for New Zealanders who tuned in to watch the racing or attended public viewings of the race action;
- The lost economic productivity from workplaces as people tuned in to watch the racing or attended public viewings during work hours;
- Retention of skilled workers, including designers and those skilled in working with composite materials in the New Zealand economy; and
- Non-marine related international business deals brokered through connections with the Louis Vuitton and America's Cup regattas in San Francisco.

In addition, there are a range of expenditures that ETNZ made to off-shore organisations that have no direct bearing on the New Zealand economy. These are not reported on in this study.

Further to the direct expenditure information used in the assessment of economic impacts, this report summarises a series of interviews conducted with large suppliers to ETNZ and the other syndicates that spent time in New Zealand. These interviews provide a qualitative view of the wider impacts and benefits arising from New Zealand's participation in the America's Cup.

1.3.1 Other Syndicates

The presence of both Oracle Team USA and Luna Rossa syndicates in New Zealand had everything to do with ETNZ's existence and competitiveness and not to other factors. A key aspect of the overall impact of the America's Cup on the New Zealand economy is the impact of these other syndicates either basing themselves in New Zealand for a portion of the lead up to the event, and/or building boats or sourcing components from the New Zealand marine industry.

Both Oracle and Luna Rossa based themselves in Auckland for periods of time. Oracle's presence covers their challenge of the 33rd America's Cup and their defence of the 34th America's Cup, while Luna Rossa's presence covers their challenge for the 34th America's Cup. Both syndicates have New Zealand registered business entities through which their New Zealand activities are conducted – further evidence of their significant association with New Zealand. In Luna Rossa's build-up phase, they purchased and shared design and development

information from and with ETNZ, launching their AC72 at Westhaven and frequently training at the same time as ETNZ on the Hauraki Gulf during 2012.

The expenditure in New Zealand by both of these syndicates was significant and should be recognised. As such, M.E have provided estimates of both syndicate's economic footprint (for the equivalent study period of 2007 to 2013) via publicly available annual accounts, interviews with some key marine industry stakeholders (to gain insight into marine related purchases) and tourism sector informants (to understand the daily living arrangements and associated expenditures).

Having established their timings and high level financial activity, estimates of their expenditure profile and economic impacts while in New Zealand have been calculated, drawing on ratios from the ETNZ information where necessary. Tax revenue arising from both syndicates has been qualified, and where possible quantified.

These estimates have been reported in addition to the ETNZ impacts and are very important in quantifying New Zealand's overall role in the America's Cup and the total impact of the America's Cup event on the New Zealand economy over and above ETNZ. Furthermore, the impacts arising from Luna Rossa's presence is directly attributable to the SPA with ETNZ⁵. Detail on the approach used to estimate Oracle's and Luna Rossa's economic and tax impacts are provided in the appendices.

1.3.2 Media Exposure

The economic value of international media exposure has been assessed as part of the New Zealand Trade and Enterprise (NZTE) evaluation of their business and leverage programme. NZTE's report estimates that media exposure related to ETNZ's America's Cup campaign reached over 80 million people and had an equivalent editorial value of over \$13m.

1.3.3 Excluded From Scope

There are a number of other factors related to the 34th America's Cup that have economic implications for New Zealand that have been excluded from the scope of this report. These either fall outside the study objectives or cannot be addressed due to data or other constraints. Where possible, 'exclusions' are noted within the relevant sections of the report. Other key exclusions include (but are not limited to):

- Government (NZTE) expenditure on leverage activities in San Francisco.
- Benefits associated with media exposure.
- Significant personal investments made in New Zealand by ETNZ crew members.
- Personal expenditure and investment in New Zealand from New Zealand personnel working for other syndicates.

⁵ The rationale for what 'other' syndicate impacts are attributable to the SPA and what are not is discussed further in Section 4.11.

1.4 Analytical Framework

The analysis underlying this report is based on an Economic Impact Assessment (EIA) methodology. EIA enables a consistent output and approach to previous studies⁶ notwithstanding changes in best practice over time. The way that this method has been applied is described further below. In addition to the modelling of economic outcomes, a qualitative data gathering programme has been conducted.

1.4.1 Economic Impact Assessment

The EIA method measures the net additional contribution to New Zealand's value added and employment which arose from the extra expenditure in this country by ETNZ. It is measured in terms of net additional expenditure, the value added component of that expenditure and the employment implications. Because any spending in the economy had some flow-on or consequent effects, the methodology examines both the direct value added and employment effects, and the total effects, allowing for those flow-on (indirect and induced) effects through the economy.

Further detail on the EIA methodology, including key data and modelling assumptions is contained in **Appendix A**.

National Impacts versus Regional Impacts

A key objective of the study is to understand the impact of Government's funding of ETNZ on the New Zealand economy. M.E has therefore set up a national level EIA model to estimate national level impacts. However, ETNZ expenditure in New Zealand was almost exclusively concentrated within Auckland. The economic impacts on Auckland's economy in each year were not the same as for New Zealand as a whole: what may have been a transfer effect within New Zealand may have been net additional to Auckland. In order to identify the impact ETNZ had on the Auckland region, M.E has also set up a multi-regional EIA model which distinguished Auckland from the rest of New Zealand. The results from both EIA models are reported.

Comparing Results with the Funding for the 32nd America's Cup

An EIA approach allows the impacts arising from this 34th America's Cup campaign to be compared with the impacts arising from ETNZ's previous challenge (32nd America's Cup)

⁶ M.E has been involved in all six previous reviews conducted on New Zealand's involvement in the America's Cup, namely;

- a. The Economic Impact of the America's Cup Regatta: Auckland 1999-2000.
- b. The America's Cup Build-Up to the 2003 Defence: Economic Impact Assessment.
- c. The Economic Impact of the 2003 America's Cup Defence.
- d. Comparison of America's Cup Economic Impacts 2000-2003.
- e. Economic benefits to New Zealand associated with investment in Team New Zealand 2007 America's Cup Challenge.
- f. Revised economic impacts to New Zealand associated with investment in an Emirates Team New Zealand 2007 America's Cup Challenge.

reported in 2008. To achieve this objective, M.E has taken the data supplied by ETNZ for the 2008 study alongside the data supplied for the recently completed campaign and run them through the current EIA model(s).

Re-running the 2008 data, as opposed to simply referencing the 2008 results, was necessary as there have been a range of changes to M.E's EIA methodology (associated with changes in best practice and changes to the base models, some data and modelling assumptions) that meant that results would not be directly comparable. The key changes to the methodology are discussed further in **Appendix A**. Comparisons between the two campaigns are provided for ETNZ income and gross direct expenditure in Section 2 and direct and flow-on economic impacts on New Zealand at the end of **Appendix A**.

1.4.2 Taxation Impacts

Tax revenue received by central Government can offset Government's expenditure and it is important to identify this process as it relates to the SPA with ETNZ to determine the net contribution made by tax payers.

The taxation impact of ETNZ measures the total and net additional contribution to New Zealand's tax revenue from the extra expenditure by ETNZ, including GST on goods and services consumed by ETNZ, GST on goods and services consumed by the crew community, the PAYE on syndicate wages and salaries, the ACC contribution by ETNZ, and the company tax generated from the additional turnover of businesses selling goods and services to ETNZ and from those ETNZ contractors earning income in New Zealand. In addition, as the ETNZ expenditure effects flowed on through the economy, more tax of each type was generated.

Total additional taxation revenue (primarily PAYE, GST and company tax) generated in New Zealand over the funding period (2007 – 2013) by ETNZ has been assessed. Direct tax impacts are based on data provided by ETNZ. The economic modelling of expenditure activity shows the annual expenditure flows through the economy and their distribution across sectors. This provides core information to trace through indirect and induced tax implications (PAYE on salaries, GST on goods and services and company tax).

For this part of the study, M.E has drawn upon the taxation expertise of PKF Ross Melville to ensure the technical aspects were accurately dealt with. **Appendix B** provides further detail on the methodology and assumptions used to estimate tax revenue.

Commentary on the tax revenue comparisons with the 2008 study results is included but detailed tax impacts are reported for the latest campaign only.

1.4.3 Qualitative Data Gathering

M.E conducted in-depth interviews with the top ten New Zealand marine sector suppliers to the America's Cup syndicates, identified for us by NZ Marine. For the most part, these were suppliers to ETNZ, with the balance suppliers to Oracle and Luna Rossa. The purpose of these interviews was to build up a sample of qualitative evidence of the wider benefits to the marine industry by maintaining an Americas Cup presence in New Zealand.

This consultation with key stakeholders helped identify the extent to which the continued presence of an America's Cup syndicate in New Zealand has benefited the industry through:

- The direct business and employment consequences of a challenge based in New Zealand vs no challenge (i.e., from ETNZ's presence);
- The indirect business and employment effects, including retention of an Americas Cup-related core of expertise, and how this may impact on other parts of the marine sector;
- Maintenance/retention of any competitive advantage which New Zealand has in America's Cup and other high technology yacht racing.
- The business generated as a result of the New Zealand marine industry leveraging off Cup related activities (i.e., exposure to potential international customers).

The results of the in-depth interviews are written up in Section 4 of this report.

2 ETNZ Income and Expenditure

This section provides an overview of ETNZ's income and expenditure activity in terms of timing, type and location over the period of July 2007 to September 2013 which included their 34th America's Cup campaign. The analysis in this section draws directly from data supplied by ETNZ for the purpose of this study, which in turn drives the modelling carried out to understand economic impacts and tax revenue.

2.1 ETNZ 2013 Campaign Summary

The ETNZ campaign for the 34th America's Cup can be broadly summarised by the following key events and dates:

- Loss of America's Cup in Valencia, Spain – beginning of July 2007.
- The period to September 2007 was regarded as an 'interim period' when ETNZ was between campaigns.
- The period from October 2007 to September 2010 was regarded as the 'holding period' when ETNZ was waiting for details of the 33rd America's Cup to be confirmed, take place and for the subsequent details and protocols of the 34th America's Cup to be confirmed.
- The SPA was signed between ETNZ, The New Zealand Way Limited, and the Crown on 1 May 2008, and lasted until the end of the 34th America's Cup.
- ETNZ participated in TP52 regattas, the Louis Vuitton Pacific Series Regatta and Louis Vuitton Trophy between 2009 and 2011.
- ETNZ commenced, in earnest, its preparations for the 34th America's Cup in October 2010.
- ETNZ won the Louis Vuitton Challenger Series for the 34th America's Cup in San Francisco in August 2013.
- ETNZ was defeated in the America's Cup in San Francisco in September 2013.
- Sign-off of 2013 campaign – end of September 2013.

This assessment of ETNZ activity therefore includes the interim period, holding period and the campaign proper period. This equates to a time frame spanning July 2007 to September 2013. ETNZ has provided both income and expenditure data for this period.

ETNZ income comprised cash funding, sponsorship, donations and goods in kind received from New Zealand and international sources. The financial year (year ending (YE) 31st March) in

which it was received was identified⁷. Expenditure data comprised detail on spend in each year by location (Auckland, elsewhere in New Zealand or overseas). A breakdown of contractor costs and goods and services costs according to economic sector⁸ was provided for the New Zealand based spend. In order to express expenditure in \$NZ, ETNZ used foreign exchange rates that applied at the time the expense or income occurred.

ETNZ already had an existing syndicate base in Halsey Street, Auckland. A small portion of expenditure went on modifications of that existing facility. This spend was treated as operational expenditure and not capital expenditure for the purpose of the EIA.

During the total campaign period the syndicate was based in New Zealand for all but the final 5 months of the 75 month campaign. While the sailing crew (mainly) travelled overseas to participate in international regattas, the major share of syndicate crew stayed behind until the syndicate as a whole relocated to their San Francisco base in May 2013.

This was a key difference from the previous campaign (32nd America's Cup) where the syndicate based itself in Valencia, Spain for a total of 10 months. A benefit of the primarily New Zealand based campaign this time around has been a greater portion of the total campaign budget and syndicate crew household spend occurred in New Zealand. For the latest campaign, 79% of total expenditure excluding wages and salaries occurred in Auckland compared to 64% for the 2007 campaign.

ETNZ's crew count during the 2013 campaign ranged from a low of approximately 40-50 personnel in Years 3 and 4 year to a maximum of approximately 130 in Year 6, dropping slightly to around 110 for the period in San Francisco. The crew comprised a mix of New Zealand based contractors and salary earners and a small number of international contractors. By comparison, for the previous campaign, ETNZ maintained an average of 101 personnel over the 4 years.

2.2 ETNZ Income

ETNZ income came from cash sponsorship funding, cash exclusive supplier funding, donations, interest on savings, payments from the America's Cup Management organisation, royalties, goods and services in-kind, and revenue from the sale of various assets. In total, they received income of approximately \$_{NZ}180m excluding GST (dollars of the day).

The Government's contribution of \$36m (excluding GST) was the single largest individual source of funding, accounting for 20% of the total. This support provided ETNZ with the financial security that allowed them to mount a challenge and the nature of the agreement⁹ provided them with the impetus to raise additional funds from around New Zealand and overseas. Once sufficient funding was secured, ETNZ were able to lodge an official challenge

⁷ In total, income and expenditure has been summarised according to 7 financial years. Year 1 comprises the interim period and the remainder of that financial year. Year 7 is a partial year covering the period April 2013 to September 2013.

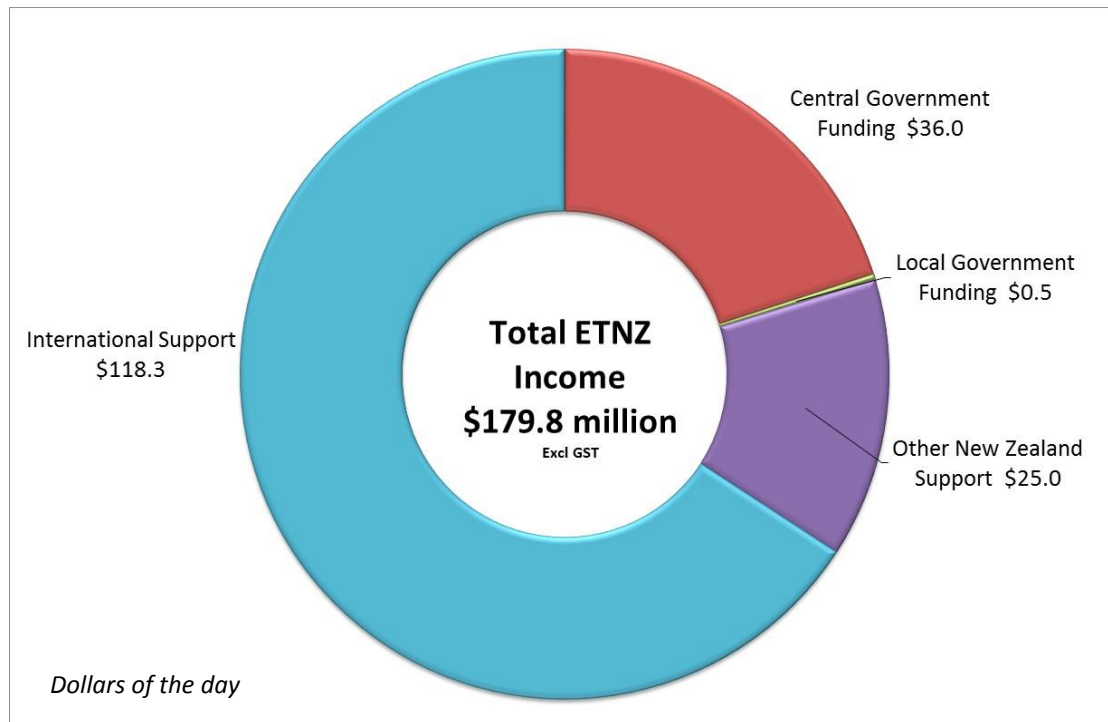
⁸ Expenditure was matched by ETNZ to the 48 economic sectors used in the EIA model framework.

⁹ The SPA was based on a contribution of \$1 for every \$2 raised, to a maximum of \$36m.

for the 34th America's Cup. They received a further \$25m from New Zealand businesses¹⁰ and private benefactors and a contribution from local Government in Auckland (Figure 2.1).

By far the greatest total source of funding came directly from overseas (\$118m or 66% of total income). The majority of this was from cash sponsorship. ETNZ's main international sponsors included Emirates Airlines, Nespresso, Camper, Omega, Skyy Vodka and Tomasoni.

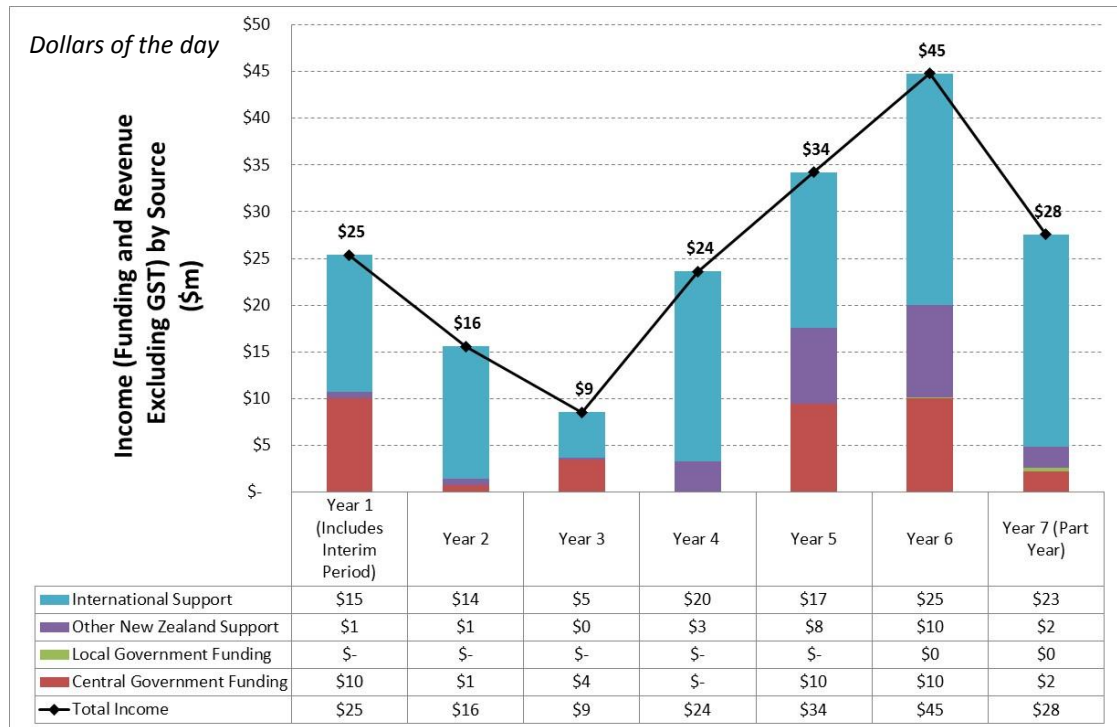
Figure 2.1: Total ETNZ Income by Source – 34th America's Cup Campaign



To help cover costs over a prolonged campaign period (6 years and 3 months), most cash sponsorship was paid in instalments by the key funders. The SPA agreement from Government for example included instalments in all but Year 4 (YE March 2011) (Figure 2.2).

¹⁰ A significant portion of this is via Luna Rossa's New Zealand registered business. While effectively offshore funding, it is recognised as funding from an Auckland business (that is not a transfer effect) for the purpose of the EIA model.

Figure 2.2: ETNZ Income Summary by Year – 34th America’s Cup Campaign

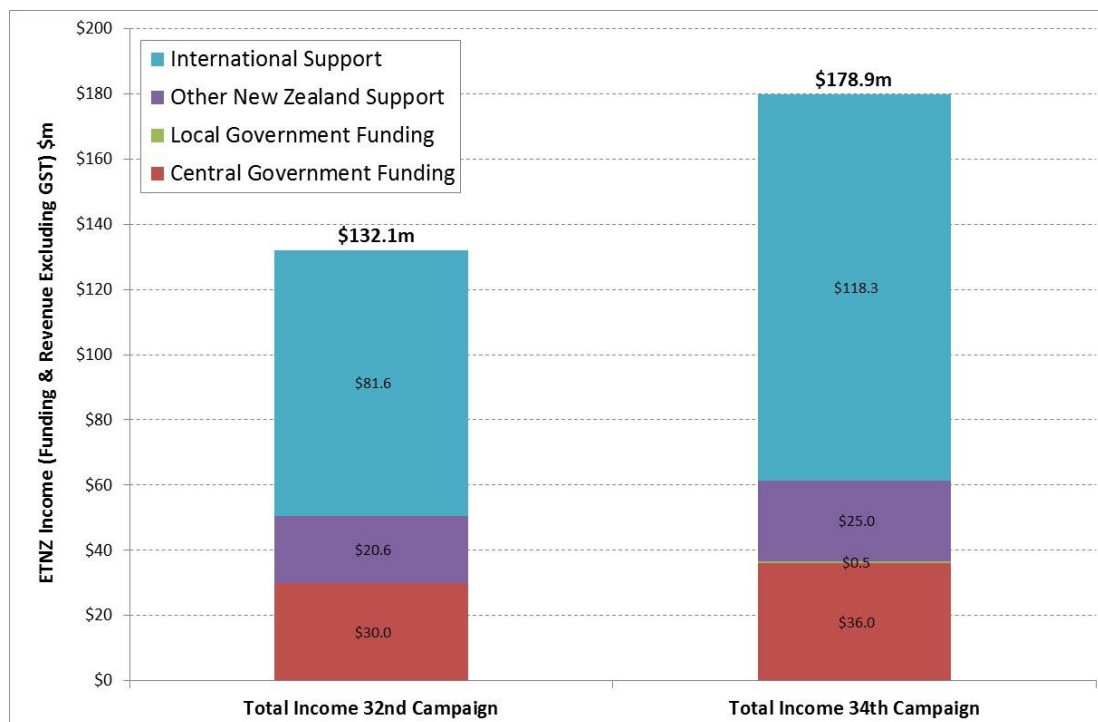


ETNZ’s income increased steadily from Year 3 (YE March 2010) as activity ramped up and the 34th America’s Cup campaign proper began in earnest. While income in Year 7 appears to drop off from the previous year it relates to only a 6 month period (mostly spent in San Francisco). With the exception of Year 5, overseas funding was the dominant share of income year on year.

2.2.1 2013 versus 2007 Campaign Income Comparison

The contribution by Government increased from \$30m excluding GST for the 32nd America’s Cup campaign to \$36m excluding GST for the latest campaign period. Correspondingly ETNZ gained more income from other New Zealand sources this time around (an increase from nearly \$21m to \$25m). The biggest change in total campaign income was in overseas funding. This increased by a significant 45% from nearly \$82m to just over \$118m (Figure 2.3).

Figure 2.3: Comparison of Income by Campaign (dollars of the day)



In saying that, the challenge for the 34th America’s Cup was a much longer campaign (75 months in total compared to 52 months) meaning that more funding would be needed to sustain the operation of the syndicate, particularly to cover crew costs and international regatta costs during the holding period. Excluding the holding period, income for the 32nd and 34th campaigns were similar (in dollars of the day terms).

2.3 ETNZ Expenditure

The challenge by ETNZ for the 34th America’s Cup (including the holding period) cost a total of approximately \$_{NZ}180m excluding GST (dollars of the day). ETNZ has previously been quoted as stating that their expenditure over the campaign period (excluding the holding and interim periods) was between \$_{US}100m and \$_{US}125m. This aligns with the findings of this study. The timing of the spending very closely aligned with the income available in each financial year. With no operating surplus overall, it demonstrates that ETNZ spent every cent that they earned.

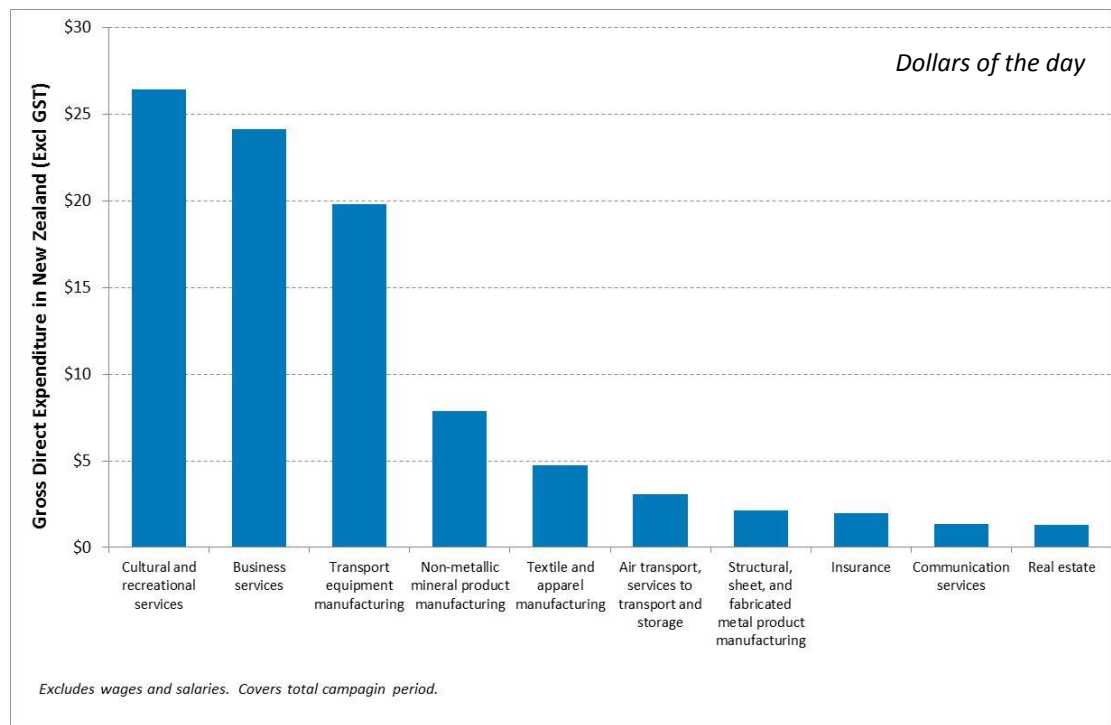
Of the total campaign period expenditure, ETNZ injected (spent) approximately \$153m (85%) directly into the New Zealand economy, inclusive of salary and wage and contractor costs, but excluding GST and taxes. They spent approximately \$27m (15%) overseas. Of the total amount spent in New Zealand¹¹, some \$36m was based on Government funding, \$25.5m was

¹¹ The New Zealand expenses generally equalled income available for spending in New Zealand.

based on other NZ-sourced funding¹², plus approximately \$91.4m from overseas-sourced funding (being the balance of total directly sourced overseas funding less that paid to cover overseas expenses)¹³.

Excluding wages and salaries, ETNZ’s direct operational expenditure in New Zealand totalled approximately \$100m. This was spent on goods and services, including contractor costs (primarily crew hired on a contract basis). It was distributed across 23 out of 48 economic sectors - the top ten sectors accounting for 93% of spending (Figure 2.4).

Figure 2.4: ETNZ’s gross direct operational expenditure in New Zealand – Top 10 sectors



The sector receiving the greatest share of ETNZ’s domestic operational spend was ‘cultural and recreational services’ (27%). This sector includes sport related businesses and will have been largely sailing crew on contract. The second biggest spend sector at 24% was ‘business services’. This sector comprises a diverse range of services, including scientific and technical services (this will include design services), computer services, and management services like legal, accounting, advertising and marketing. Security costs and equipment hire also fall within this sector. Boat building (‘transport equipment manufacturing’) made up 20% of operational spend, followed by ‘non-metallic mineral product manufacturing’ (composite and carbon fibre products) at 8%.

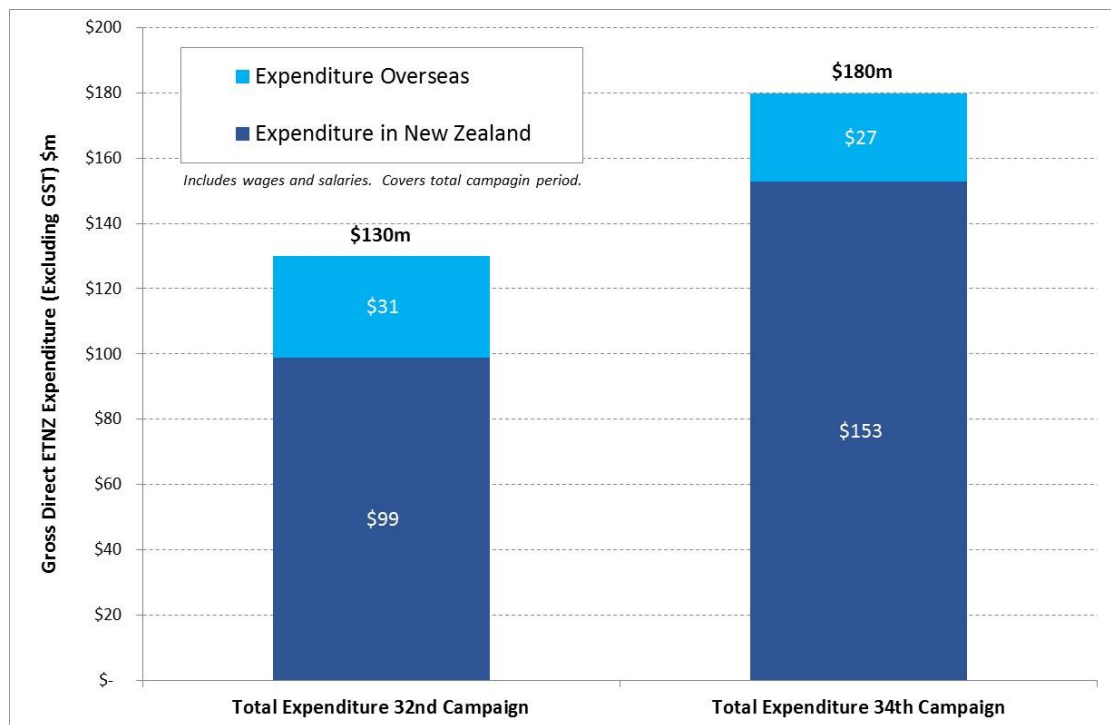
¹² Refer footnote 9.

¹³ Refer Appendix A – Assumptions.

2.3.1 2013 versus 2007 Campaign Expenditure Comparison

Comparing the recent campaign with expenditure for the 32nd campaign, as shown by the comparison of income, ETNZ spent more money this time around (Figure 2.5). It was however a much longer campaign (due to the holding period) and expressed on a per month basis, costs were very similar (in dollar of the day terms).

Figure 2.5: Comparison of Gross Direct Expenditure by Campaign (dollars of the day)



The international component of spend was approximately \$4m more for the previous 32nd America's Cup. Two key drivers of this were the longer period spent by the syndicate in Valencia (10 months in total compared to 5 months in San Francisco) and the cost of living in Europe versus the United States. The flip side is that significantly more time and money was spent in New Zealand for the recent campaign period. This increased from \$99m (excluding GST) to \$153m.

2.3.2 Net Additional Direct Expenditure

The estimated \$153m gross injection (including wages and salaries) was not all additional to the economy. While some sectors of the economy had an increase in final demand as a result of ETNZ's direct expenditure (including wages and salaries), other sectors had a decrease in final demand because of the spending that was transferred to ETNZ (and away from normal

business activities¹⁴). For the 34th America's Cup campaign, this applied to ETNZ income¹⁵ originating from central Government, local Government, households and a portion of business income. On that basis, net additional direct expenditure by ETNZ (including wages and salaries) totalled \$103m for the campaign period (67%).

¹⁴ Including from business sourced funding, diverted from operating surplus and gross fixed capital formation.

¹⁵ Including cash funding, sponsorship, donations, the purchase of assets and the value of goods and kind.

3 Economic Results

ETNZ's income and expenditure profile described in the previous section forms the basis of the modelling of economic and taxation impacts for the 34th America's Cup campaign. Detailed assumptions underlying the modelling results summarised below are contained in appendices.

3.1 Economic Impacts

Economic 'impacts' identify the implications for the wider economy arising from ETNZ's challenge for the 34th America's Cup – impacts that would not have occurred if not for the funding provided by the New Zealand Government. The monies spent by ETNZ in the New Zealand economy are funded by a mix of international and local sources.

For the purposes of this assessment, and to err on the side of conservatism, M.E has assumed that all locally sourced funding was simply transferred from other forms of domestic expenditure. This means that, in the absence of ETNZ, businesses and households would have spent that money in the economy, and it would have generated a similar set of impacts. It is likely that a portion of funds diverted to ETNZ from local businesses were drawn from funds aimed at generating exposure overseas – in the form of international marketing budgets. However, this is not known so a more prudent approach was to exclude them completely.

Detail on the EIA methodology and assumptions are contained in **Appendix A**.

The focus in this section is solely on monies from international sources as they flowed through the New Zealand economy. The only way to do this was to factor down (in total) expenditure in the New Zealand economy to match the volume of international sourced funds available for spend in New Zealand once overseas costs were met.

This portion of money is termed the **Net Direct Additional Expenditure**. Note that all values contained in the tables that follow are in \$2007 terms. This is because the supply-use based input-output model used is sourced from Statistics New Zealand information on the 2006/07 economy (the most recent information available). However, for ease of interpretation, value added results have been converted into \$2013 terms. It is important to note that this conversion is based on the re-inflation of the total figure only (using the total [economy PPI index](#))¹⁶.

3.1.1 2013 ETNZ Campaign Results

ETNZ spent a total of \$153m (gross) in the New Zealand economy over the seven financial years of this study (dollars of the day). This is made up from \$103m of internationally sourced

¹⁶ The re-inflated figure (to \$2013) does not represent the equivalent value added outcome had the 'shock' been assessed using a 2013 based model, in 2013 dollar terms. A 2013 based model is not currently available.

revenue¹⁷ in dollars of the day terms (\$88.6m in 2007 dollar terms (Figure 3.1)) and approximately \$50m of locally sourced revenue. This money was spread reasonably evenly across the seven years, with the exception of YE March 2010, when the syndicate had a low income/expenditure year.

Figure 3.1 captures the direct as well as the flow-on effects of the net direct additional spend. At each step in the chain value added is generated (broadly synonymous with GDP¹⁸) and employment is sustained. For example, the net direct additional expenditure contained approximately \$₂₀₀₇35m of value added (\$₂₀₁₃43m) and sustained the employment equivalent of just over 640 employees (MECs)¹⁹ working for a year.

Figure 3.1: Summary of Total ETNZ Economic Impacts on the New Zealand Economy

Category	YE March 2008	YE March 2009	YE March 2010	YE March 2011	YE March 2012	YE March 2013	YE March 2014*	Total Impact
Direct Impacts								
Expenditure (\$ ₂₀₀₇ m)	\$ 13.7	\$ 11.8	\$ 3.1	\$ 14.5	\$ 13.4	\$ 19.5	\$ 12.6	\$ 88.6
Value Added (\$ ₂₀₀₇ m)	\$ 5.2	\$ 5	\$ 1	\$ 6	\$ 5	\$ 8	\$ 5	\$ 35
Employment (MECs ₂₀₀₇)	83	80	24	118	100	143	95	643
Indirect & Induced Impacts								
Value Added (\$ ₂₀₀₇ m)	-\$ 5	\$ 11	\$ 8	\$ 9	\$ 9	\$ 15	\$ 6	\$ 52
Employment (MECs ₂₀₀₇)	- 106	135	98	121	103	171	59	581
Total Impacts								
Value Added (\$ ₂₀₀₇ m)	-\$ 0	\$ 15	\$ 9	\$ 15	\$ 14	\$ 23	\$ 11	\$ 87
Employment (MECs ₂₀₀₇)	- 23	215	121	239	203	314	154	1,223

* Part year: April 2013 to September 2013

ETNZ 34th America's Cup Campaign

The indirect rounds of transactions take into account the value chain transactions required to meet the 'shock' of additional demand generated by ETNZ requiring boats to be built and financing this from international monies. The induced rounds capture the effect of households earning wages and salaries from these direct and indirect transactions. Households spend a portion of their wages and salaries on goods and services that again require manufacturers to increase their production to meet that demand.

The indirect and induced impact on the national economy as a result of the net additional expenditure totalled \$₂₀₀₇52m of value added (\$₂₀₁₃62m) and sustained the employment equivalent of approximately 580 workers for one year.

¹⁷ Includes funding from Luna Rossa's New Zealand registered business.

¹⁸ Value added refers to the amount added to goods and services by the contributions of capital and labour (i.e., the value of output after the cost of bought-in materials and services has been deducted). Value added is a similar measure to GDP but less the value of taxes on products (including GST).

¹⁹ Modified Employee Count is derived from Statistics New Zealand's Employee Count to take account of the working proprietors who are not listed as employees of any company. Employees can be either full or part time.

Therefore the total national impact of ETNZ over the study period was \$₂₀₀₇87m in contribution to value added (\$₂₀₁₃105m). This activity sustained the equivalent of approximately 1,220 workers employed for a year (Figure 3.1). This impact would not have occurred if not for the critical funding provided through the SPA²⁰.

While central Government is focused on the impacts at the national level, regional decision makers are interested in the regional economic impacts of supporting an entity like ETNZ. By narrowing the geographic scope of the study it is possible to isolate the Auckland impacts from the total. This must be carried out with caution, as estimating net additional direct expenditure incorporates monies that are provided by central Government (given that this is sourced mainly from tax payers in the rest of New Zealand) and money from businesses and households located in the rest of New Zealand alongside the international revenues.

Figure 3.2: Summary of Total ETNZ Economic Impacts on the Auckland Economy

Category	YE March 2008	YE March 2009	YE March 2010	YE March 2011	YE March 2012	YE March 2013	YE March 2014*	Total Impact
Direct Impacts								
Expenditure (\$ ₂₀₀₇ m)	\$ 20.4	\$ 12.5	\$ 5.3	\$ 15.5	\$ 21.0	\$ 27.9	\$ 14.7	\$ 117.2
Total Impacts								
Value Added (\$ ₂₀₀₇ m)	\$ 6	\$ 12	\$ 8	\$ 12	\$ 17	\$ 23	\$ 10	\$ 87
Employment (MECs ₂₀₀₇)	82	163	121	176	236	320	136	1,234

* Part year: April 2013 to September 2013

ETNZ 34th America's Cup Campaign

At the Auckland level a total of \$₂₀₀₇117m of additional money was spent over the seven financial years of the campaign. Once the flow-on effects of this spend are accounted for the Auckland economy was better off by \$₂₀₀₇87m in value added terms (\$₂₀₁₃105m) sustaining an employment equivalent of approximately 1,230 workers for one year (Figure 3.2).

3.1.2 Accounting for Other Syndicates

The activities of **Luna Rossa** in New Zealand for their 34th America's Cup campaign (discussed in more detail in Section 4 of this report) is directly associated with ETNZ's participation in the event. As such, the economic impacts generated by Luna Rossa²¹ in the New Zealand economy can be wholly attributed to the funding provided by the Government in the SPA with ETNZ.

The combined activity of ETNZ and Luna Rossa resulted in net additional direct expenditure in New Zealand of \$₂₀₀₇106.5m (an addition of \$₂₀₀₇18m over and above ETNZ's \$₂₀₀₇88.6m). This generated direct value added in the national economy of \$₂₀₀₇39m (\$₂₀₁₃47m) and direct employment equivalent to nearly 710 workers employed for one year. Once the flow-on effects of that spending are included, the combined total impact of ETNZ and Luna Rossa was

²⁰ It is important to note that the results above are not a measure of "economic benefit" rather they are a measure of economic impact.

²¹ Refer Appendix A for assumptions made for the EIA modelling regarding Luna Rossa's expenditure.

\$₂₀₀₇106m of total value added (\$₂₀₁₃127m) and employment of 1,480 sustained for one year. This is the total impact that the SPA had on the national economy between 2007 and 2013.

The activities of **Oracle Team USA** in New Zealand²², manifest through Core Builders Composite Limited in Warkworth is also discussed in more detail in Section 4. In brief, their activity is not considered to be specifically dependent on ETNZ's presence in the 34th America's Cup and therefore cannot be attributed to the funding provided under the SPA. However, the fact that Core Builders Composite Limited was established in New Zealand (as opposed to the United States or elsewhere) is related to ETNZ continued participation in the America's Cup over the past 13 years which has helped develop and sustain a skilled workforce in the New Zealand boat building industry.

The economic impacts generated by Oracle's activities in New Zealand are therefore relevant from the wider perspective of the impact that the America's Cup (as an event) has on New Zealand. In *this* context, the addition of Oracle's economic impacts to those generated by ETNZ and Luna Rossa indicates total net additional direct expenditure of \$₂₀₀₇153.7m which contributed \$₂₀₀₇51m of direct value added (\$₂₀₁₃62m) and sustained employment equivalent to nearly 930 jobs for one year over the study period.

Including the flow-on effects of **all three syndicates'** net additional spending in New Zealand resulted in total value added in the New Zealand economy of \$₂₀₀₇159m (\$₂₀₁₃191m) and total equivalent employment of approximately 2,220 sustained for one year. This is the impact that the America's Cup had on our economy between 2007 and 2013.

3.2 Taxation Impacts

The taxation assessment provides an estimate of the direct and total "return" to Government resulting from their investment in ETNZ (\$36m excl. GST), and the additional activity and expenditure that ensued. The tax revenue assessment has been carried out in parallel to the EIA modelling. A detailed description of the approach and assumptions used for the taxation assessment is contained in **Appendix B**.

The taxation impacts have two components;

- The direct taxes paid to government as a result of the direct activity of ETNZ over the campaign period, comprising GST on income²³, PAYE and ACC. Company tax and FBT were not applicable.
- The tax effect that arose from the economic activity generated from the flow-on effects of ETNZ's (and crew household) direct spending in the economy over the

²² Refer Appendix A for assumptions made for the EIA modelling regarding Oracle's expenditure.

²³ Net GST paid by ETNZ (which subtracts GST on purchases from GST on income) is not used to avoid double counting of GST associated with indirect and induced economic activity. I.e. GST on purchases is captured as GST on income in the indirect tax calculations.

campaign period (indirect and induced impacts). This is also made up of GST, PAYE, and Company Tax²⁴.

There are three key aspects of the approach used to estimate direct and total tax revenue that are relevant in the interpretation of the following tax results;

- ETNZ is the focus of this study, but they exist on a value chain of sales and purchases. The flow-on (indirect and induced) economic impacts capture the up-stream transactions in the value chain (suppliers to ETNZ and so forth – shown to the right of ETNZ in Figure B.1 in **Appendix B**). Down-stream from ETNZ are the funders of ETNZ, who essentially purchase marketing and advertising services from ETNZ in the form of sponsorship. They sit to the left of ETNZ in Figure B.1. First round down-stream transactions are considered in the scope of the EIA approach, but only in so far as their relationship with ETNZ (the value of their funding) and their counterfactual activities in the New Zealand economy. The perspective of the study, which places ETNZ in the foreground and up-stream suppliers out in front (and down-stream funding organisations out of the picture behind us), has a bearing on direct GST estimates in particular. The direct GST revenue assigned to ETNZ reflects simply the GST at that point in the value chain (while also avoiding double counting of GST associated with up-stream suppliers). This is the reason why GST on ETNZ’s revenue has only been recognised, whereas GST on their expenditure is not recognised in the tax approach. In reality, ETNZ’s position in the ‘middle’ of the value chain means that this GST revenue would be netted out further down the value chain given a wider scope. Direct GST is therefore a function of the study perspective only.
- Indirect and induced tax revenue is estimated from indirect and induced impact outputs calculated by the EIA model. These impacts reflect the flow-on effects of net direct additional expenditure by ETNZ. To be consistent, total tax revenues below are the sum of net additional direct tax revenue (as opposed to total direct tax and notwithstanding the above) and the indirect and induced tax revenue.
- Lastly, all tax impact results are expressed in dollars of the day.

3.2.1 Direct Tax Revenue

Based on expenditure and sponsorship information provided by ETNZ, the direct tax revenue to Government is estimated at \$24.9m (Figure 3.3). This comprised of \$7.98m (32%) of GST revenue²⁵, \$16.4m (66%) of PAYE revenue and \$0.48m (2%) of ACC revenue. Tax revenue received in the YE March 2012 and YE March 2013 accounted for over half (53%) of total campaign direct tax revenue from ETNZ.

²⁴ It is beyond the scope of this study to calculate the flow-on FBT and ACC tax revenue.

²⁵ The GST on income identified as ‘direct GST’ revenue arising from ETNZ is not equivalent to the GST calculated by ETNZ in their GST returns. Use of the latter would result in double counting in the EIA framework approach applied to calculate tax impacts in this study. Further, inclusion of direct GST on income is a consequence of the position we have taken in viewing ETNZ in the value chain. Both of these aspects are discussed further above and in Appendix B.

Figure 3.3: Estimated Direct Tax Revenue from ETNZ's 34th America's Cup Campaign

Summary of Estimated Direct Tax Revenue to NZ Government \$000									
Taxation Category	YE March 2008*	YE March 2009	YE March 2010	YE March 2011	YE March 2012	YE March 2013	YTD Sept 2013	Total Campaign	
GST on ETNZ Income	\$ 1,271	\$ 113	\$ 443	\$ 307	\$ 2,518	\$ 2,751	\$ 572	\$ 7,975	
PAYE	\$ 1,483	\$ 2,152	\$ 1,353	\$ 1,339	\$ 3,417	\$ 4,405	\$ 2,261	\$ 16,410	
ACC	\$ 72	\$ 116	\$ 42	\$ 28	\$ 68	\$ 81	\$ 77	\$ 484	
Total Estimated Direct Tax Revenue	\$ 2,826	\$ 2,381	\$ 1,838	\$ 1,674	\$ 6,003	\$ 7,237	\$ 2,910	\$ 24,869	
Net Additional Direct Tax Revenue	\$ 1,898	\$ 1,599	\$ 1,234	\$ 1,124	\$ 4,030	\$ 4,859	\$ 1,954	\$ 16,698	

* Includes interim period.

Dollars of the day.

Figure 3.3 also identifies the amount of total direct tax revenue that was net additional to the New Zealand economy. It is estimated that \$16.7m or 67% of the direct revenue is tax that the Government would not otherwise have received had it utilised the money elsewhere in New Zealand instead of funding ETNZ²⁶. This is largely driven by overseas funding that was spent by ETNZ in New Zealand – funding that would not have come to New Zealand if not for Government's support.

3.2.2 Total Tax Revenue

The consequent indirect and induced tax flows calculated from the economic modelling show the additional impacts as the net additional ETNZ (and crew household) expenditure flowed through the economy. This is additive to the direct tax revenue from GST, PAYE and ACC identified above as the direct expenditure inputs to the EIA model exclude taxes.

As ETNZ purchased goods and services from their suppliers it set in train a number of rounds of economic transactions as direct suppliers requested additional inputs from their suppliers and so on up the chain. There was a similar effect from the consumption spending by the ETNZ crew and their households (sustained by the ETNZ salaries and wages). This resulted 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.

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

Figure 3.4 shows estimated indirect and induced tax revenue in dollars of the day. A high and low range of company tax has been included. Indirect and induced GST revenue equates to \$7.3m for the total campaign period. The flow-on company tax revenue is estimated at between \$6.4-\$7.9m and flow-on PAYE revenue totals just over \$8.0m for the 34th America's Cup campaign.

²⁶ Refer Appendix A for further assumptions around the estimation of net additional direct tax revenue.

Figure 3.4: Total Tax Revenue sustained by ETNZ's 34th America's Cup Campaign

Summary of Estimated Total Net Additional Tax Revenue to NZ Government \$000									
Taxation Category	YE March 2008*	YE March 2009	YE March 2010	YE March 2011	YE March 2012	YE March 2013	YTD Sept 2013	Total Campaign	
Total Estimated Net Additional Direct Tax Revenue	\$ 1,898	\$ 1,599	\$ 1,234	\$ 1,124	\$ 4,030	\$ 4,859	\$ 1,954	\$ 16,698	
Indirect and Induced GST Revenue	\$ -666	\$ 1,335	\$ 940	\$ 1,271	\$ 1,372	\$ 2,257	\$ 835	\$ 7,343	
Indirect and Induced Company Tax Revenue (High)	\$ 67	\$ 1,311	\$ 774	\$ 1,417	\$ 1,346	\$ 2,040	\$ 946	\$ 7,901	
Indirect and Induced Company Tax Revenue (Low)	\$ 57	\$ 656	\$ 387	\$ 1,063	\$ 1,212	\$ 2,040	\$ 946	\$ 6,359	
Indirect and Induced PAYE Revenue	\$ 28	\$ 1,301	\$ 761	\$ 1,413	\$ 1,405	\$ 2,139	\$ 989	\$ 8,038	
Total Tax Revenue (High)	\$ 1,326	\$ 5,546	\$ 3,710	\$ 5,225	\$ 8,154	\$ 11,295	\$ 4,724	\$ 39,980	
Total Tax Revenue (Low)	\$ 1,316	\$ 4,891	\$ 3,323	\$ 4,871	\$ 8,019	\$ 11,295	\$ 4,724	\$ 38,438	

* Includes interim period.

Dollars of the day.

3.2.3 Total Net Additional Tax Revenue Compared to Government Funding

The presence of the ETNZ challenge for the 34th America's Cup is estimated to have generated \$38m-\$40m of net additional tax revenue for the New Zealand Government (dollars of the day), over the total campaign period (Figure 3.4). Slightly less than half arose from initial and direct tax recovery through GST, PAYE and ACC. The balance arose from the additional activity sustained in the economy by ETNZ and crew household expenditure, driven by the net additional expenditure of the syndicate.

This is the tax revenue that the Government would not otherwise have received had it utilised the money elsewhere in New Zealand instead of funding ETNZ. As above, this is largely driven by overseas funding that was spent by ETNZ in New Zealand as a consequence of Government's support. This compares with the \$36m of Government funding for the SPA, which is \$41m when GST is included.

In broad terms, between 94% and 97% of the Government funding was recouped in tax revenue over the course of the campaign, from activity sustained by the ETNZ challenge. This does not allow for any additional activity in the economy which may have been subsequently enhanced by the syndicate's presence – for example, additional tourism or demand for marine sector services outside the America's Cup activity.

3.2.4 Accounting for Other Syndicates

Luna Rossa's activities in New Zealand generated direct and flow-on tax revenue for the Government. Based on information contained in their annual accounts and a number of assumptions (**Appendix B**), it is estimated that direct tax revenue received from Luna Rossa was \$12.39m in dollars of the day. This comprised of \$7.3m of stated company tax, \$4.94m of estimated PAYE contributions and \$0.15m of estimated ACC contributions. In keeping with the approach used to identify direct GST for the purpose of this study, no direct GST applies

to Luna Rossa given their offshore sourced income. All of this direct tax revenue is net additional to the tax system.

Indirect and induced tax revenue sustained by Luna Rossa's direct expenditure has also been modelled using outputs from the EIA model and the approach applied for ETNZ.

As with total economic impacts, Luna Rossa's total direct and flow-on tax impacts are considered to be wholly attributable to the SPA. Combining Luna Rossa's total tax impacts with that of ETNZ (Figure 3.4 above) equates to total net additional tax revenue for the New Zealand Government of \$56-58m (dollars of the day) over the study period.

There is insufficient data to identify direct tax revenue from Oracle's CBCL business entity. However, indirect and induced tax impacts have been estimated through the EIA modelling of their estimated net additional operating expenditure in New Zealand. The combined total tax impact of **all three syndicates** increases to \$70-73m (dollars of the day) over the study period. The Oracle contribution to this total is not attributable to the SPA but is part of the economic impact that the America's Cup event has on New Zealand.

4 Wider Benefits

The past defences and challenges of the America's Cup by New Zealand have resulted in significant additional activity in the marine sector and flow-on benefits to the New Zealand economy. The syndicates themselves and the visiting yachting fraternity – super yachts and other visiting yachts have spent significant money in refitting, repairing and restocking their vessels. In addition, the presence of a New Zealand syndicate at the very highest levels of the competition (either competing for the America's Cup itself, defending it or the Louis Vuitton Cup) has had a real flow-on effect to a large portion of the marine industry.

This means that any assessment of the impact and implications of the Government's investment in ETNZ must also look at the wider potential benefits that flow through the economy, whether they flow through the marine sector, or other sectors. Those effects are covered in this section.

To maximise the benefits from the Government's investment in ETNZ, New Zealand Trade and Enterprise (as host agency) designed a three-month programme that highlighted New Zealand businesses and products in San Francisco including food, wine, technology and tourism. The outcomes from this programme have been assessed separately by New Zealand Trade and Enterprise and are outside the scope of this report.

4.1 Approach for Marine Sector Benefits

To understand the scale and reach of potential benefits to the Marine Sector, qualitative in-depth interviews with the top ten suppliers to ETNZ, Oracle and Luna Rossa were conducted. These businesses were North Sails, Southern Spars, Halls Spars and Rigging, Cookson Boats, Salthouse Boatbuilders, Rayglass Marine, Naiad, Total Marine Services, Manson Marine and Core Builders Composites.

The qualitative survey was based around a set of questions that acted as a discussion guide. The questions covered the nature of each business (key types of clients, ownership, staffing levels, etc.); approximate annual turnover; nature, scale (\$) and timing of involvement with ETNZ/other syndicates for the 34th America's Cup campaign period; what share of turnover those sales represented and how their involvement with an America's Cup syndicate(s) impacted on investment, business processes, marketing/leveraging and other opportunities.

Information has been drawn together from all of these interviews. Each of the key themes discussed below represent M.E's interpretation of the thoughts of interviewees.

4.2 Skills and Workforce

A very common benefit emerging from the interviews was the ability of many New Zealand recreational marine industry businesses to retain highly skilled workers as a result of ETNZ's continued involvement in the America's Cup. This point has been raised by nearly all interviewees.

Key skilled staff bring technology from their involvement in the America's Cup and attract like-minded individuals. The ability to attract and retain these individuals (highly skilled and creative workers) is key to the success of New Zealand's recreational marine industry as a whole and for the individual businesses specifically. Some interviewees indicated that the money on offer internationally was often higher than available in New Zealand, but the ability to be involved with the America's Cup was a draw card.

In the current economic climate, the value of the New Zealand dollar is high relative to the US dollar. The majority of large recreational marine orders are denominated in US dollars this makes purchasing New Zealand marine products expensive. Since the early 2000's the New Zealand dollar has appreciated against the US dollar by over 40 cents, in other words, it has doubled in value against the US dollar. This effectively makes New Zealand made boats twice as expensive as they were 10 years ago (all other factors being equal).

One of the key ways to offset that is to be the best in the world at what you do. New Zealand's marine industry has sought to achieve that by training, employing and retaining the highest skilled, most flexible workers. A key way to do that is to stay involved in projects such as the America's Cup to keep these people engaged at the peak of their profession.

The converse of that is that without involvement in the America's Cup, it becomes hard to retain the most skilled labour – especially as they are in high demand globally by organisations that can potentially pay far more. This is the case with the boat builders (in particular).

4.3 Marketing / Leverage

All the official suppliers to ETNZ (or Oracle/Luna Rossa) had the ability to use the association with the syndicate in their marketing and advertising. This extends from marketing material, a syndicate presence on company's websites, advertisements in international boating magazines, international boat show stands and advertorials. All respondents spoke of the significant word of mouth generated by having a successful team (ETNZ) competing for the America's Cup. All respondents mentioned that this was probably the most important contribution to New Zealand's marine industry.

Globally, those that demand the highest standards in recreational marine hardware – either in the racing sphere or for more recreational uses look to New Zealand's industry to deliver this. This is primarily due to the reputation built through competing successfully for the America's Cup. New Zealand businesses recognise this and utilise the association where they possibly can.

Leverage extends through to events in San Francisco held or facilitated by NZTE that three or four of the respondents attended and sourced new leads for work.

4.4 Investment in Technology / Capacity

A couple of the larger suppliers have invested in business processes and specific machinery in order to supply ETNZ, Oracle or Luna Rossa (e.g. 5 axis CNC cutting machines, pressure vessels, pre-preg carbon fibre sheet cutters etc.) and some additional technology, but overall the capacity investments have been low. Much of the specialist componentry required by ETNZ is made within the syndicate itself, however the larger scale components are more cost effectively made by the larger boat yards (Cooksons, Salthouse, etc.).

The exception to this is Oracle's investment in Core Builders Composites in Warkworth. This is a wholly-owned subsidiary of Oracle Racing Incorporated, a Californian registered corporation. This company was formed to assist Oracle to challenge for the Americas Cup in 2000. In 2008 the company purchased a large commercial property in Warkworth and set up a very large CMS Poseidon 5 axis CNC high speed gantry machining centre – one of the largest in Australasia. This equipment has a far wider application than the marine industry, and the specialist composite technology skills and services are offered to the civil infrastructure, aviation, energy and entertainment sectors as well as the marine industry.

This is an important development in the evolution of New Zealand's marine industry. Given the high cost to manufacture in New Zealand, the marine industry has suffered. In order to remain viable companies need to diversify, to make the most of the highly skilled workers and systems developed to deliver high technology race boats, made out of composite materials to the world.

Composites are a huge growth area globally with 12% - 15% year on year expansion in their use. However, this is primarily in non-marine sectors such as civil construction, aviation, energy and anywhere light weight and high performance materials are required. Emerging areas include orthopaedic surgery, military uses, automotive industry and technology sector (computer, tablet and phone production).

In New Zealand, much of the investment has come about to capitalise on technological learnings drawn from involvement with Team New Zealand over the years, in order to translate those learnings into production. For example, Rayglass boats have developed the Protector Rigid Hull Inflatable boats to the point where every syndicate now uses them as the chase boats of choice, most of the major international grand prix racing events use these for course marshalling and crowd control duties. This is primarily due to their ability to travel at high speeds in rough water, smoothly. These abilities have been developed through their association with Team New Zealand and have seen their RHIBS purchased as high speed tenders for numerous super yachts, as coast guard boats for fast response situations and by yacht clubs for race management.

In term of wing and rigging technology, advances have come through the computer aided design software specifically developed to build the (relatively) low airspeed wings that power

the AC72's. The construction techniques have been fine-tuned but the ability to build the wing sails has been around for a period of time. The leap in technology through the 34th America's Cup will potentially lead to the adaption and application of wing technology to cargo ships and other ocean going craft – as well as for high end, grand prix type racing boats.

The one-off nature of the AC72 class and the uncertainty about future use of the design has meant that much of the production techniques were one off. It is unlikely that any key builder will stay set up to build these boats again. In fact the moulds (the plug and male and female moulds for the AC72) that were used by ETNZ have already been destroyed and it is possible that the boat itself will be destroyed.

4.5 Professional Service Provision

Informants have identified that a key benefit from involvement with ETNZ has been the improvements in professionalism in their businesses. With extremely high demands in terms of quality and delivery, suppliers have had to implement business practices, management systems and recordkeeping standards that have moved the business as a whole forward. Informants have identified that these types of changes have improved their ability to understand their business and have assisted in winning sales elsewhere.

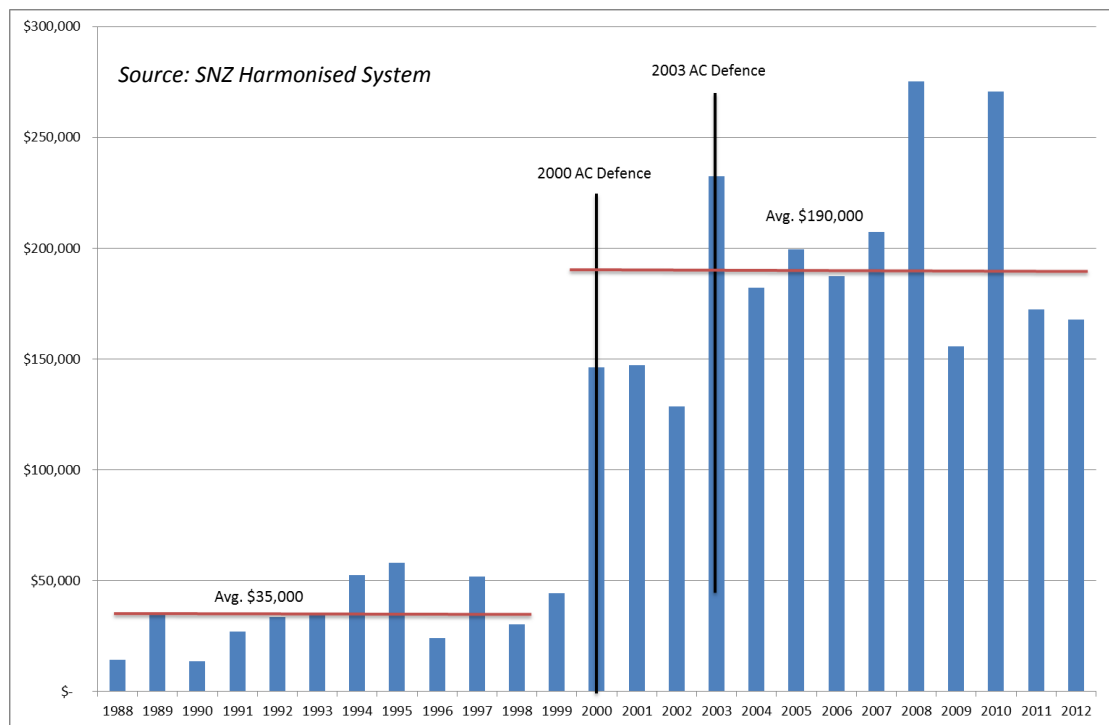
4.6 Awareness / Reputation

Probably the key benefit that has emerged from the interviews with the key suppliers to ETNZ has been the influence of having a team competing at the very top level of international yacht racing, and being successful, has on the world's awareness of New Zealand's recreational marine industry and the high esteem in which it is held. This manifests itself in a number of ways;

- The competitors from the New Zealand syndicate and others sail in numerous regatta's around the world, on a range of Grand Prix boats (TP52's, Volvo Open 70's etc) and one design classes. In pursuit of wins in these events they specify either New Zealand built boats and/or other New Zealand marine technology (spars and sails for example). This is due to Team New Zealand's success in the America's Cup.
- Others, not associated with the team who want to compete at the top level in sailing grand prix type events look to New Zealand builders and designers when they are seeking to win.
- In terms of super yachts, New Zealand has a reputation of building and refitting sailing super yachts that is at the very top of the world market. This has developed as a direct result of Team New Zealand's involvement in the America's Cup and particularly the hosting of a defence of the America's Cup in Auckland (both in 2000 and 2003). This is substantiated by the Yachts and Boats export figures drawn from Statistics New Zealand's Harmonised System (Figure 4.1). This shows the average annual exports from the recreational marine sector to be \$35m prior to 2000 (when New Zealand first defended the America's Cup) and averaging \$190m annually since. This step change

is driven by New Zealand's involvement in the America's Cup, and more importantly defending it from Auckland.

Figure 4.1: Value of Yacht and Recreational Vessel Exports (\$'000 1999 – 2012)



- Note that the first step change occurred between 2000 and 2003 with the second jump from an average of \$140m (2000 to 2003) to over \$200m (2004 – 2012) occurring post the 2003 defence (average \$190m from 2000 – 2013).
- The quality of outputs as well as awareness and reputation of New Zealand's marine industry has maintained the average for the past 13 years, although in recent times the strength of the New Zealand dollar (now over US\$0.80) and the reduction in demand following the GFC have seen the past 2 years export performance fall to \$172m (2011) and \$168m (2012).

4.7 Collaborative / Integrated Industry

A further key theme that has emerged through the interviews has been the collective and integrated nature of the New Zealand marine industry, with respect to the products, services and technology made available to ETNZ. A number of companies – especially those with autoclave²⁷, or carbon curing technology, have worked in a collaborative manner to build

²⁷ An autoclave is effectively a pressure oven that is used to cure resin impregnated carbon fibre into strong light components used by America's Cup boats (and others).

many of the carbon components required by the syndicates. This was far more evident in the past than today, but remains a key defining feature of the industry.

In the 1970's and 1980's the economy was dominated by import licences and extremely high tariffs and barriers. To provide boats for a sailing and water focused nation required the development of a highly integrated and flexible industry capable of building and repairing all marine components. In the newly industrialised Wairau Valley on Auckland's North Shore there were some 30 boat builders, along with over 40 supplier businesses. This was a pattern repeated in a number of locations across Auckland (in particular). The first major change came with the imposition of the Boat Tax by the Government in the late 1970's. This 20% tax aimed at raising revenue for the government had the opposite effect, in that it decimated the marine sector and put a lot of builders out of work (increasing unemployment).

The lifting of import duties and removal of licences under the 4th Labour Government (along with the repeal of the Boat Tax) saw the rise in the numbers of imported boats and the reduction in the cost of imported componentry. These forces saw a further decline in the integrated nature of the marine industry as bringing in products and components for boats was often cheaper than sourcing them locally.

However the basis of New Zealand marine industry workers and business had been established and the manner in which boat builders sought components from highly integrated suppliers co-located with them has remained.

Today there are fewer boat builders than the time of the last defence of the America's Cup and the volume of imported boats is high. The industry that does remain is highly skilled, focused on the highest level of production (super yachts, high-end grand prix race boats) as well as trailer power boats for domestic and international consumption. There are no production or semi-production manufacturers of moored yachts or launches remaining in New Zealand.

With respect to the most recent America's Cup campaign, the very large scale of the components required to build the AC72 class catamarans, meant there are very few facilities that can manufacture them. In the New Zealand context, the facilities were split between those either controlled by Oracle or key suppliers to Oracle (Core Builders Composites and Halls Spars and Rigging) and those utilised by ETNZ/Luna Rossa (mainly Southern Spars and Cookson Boats). Also, mention was made of the Air New Zealand facility which was available to Cookson and Salthouse Boatbuilders who built the foils for the SL33's (ETNZ's training boats on which they learned to foil and developed much of their wing technology).

Core Builders Composites are essentially a 100% owned offshoot of Oracle. They have been established in New Zealand by Larry Ellison to tap into the highly skilled relatively low cost New Zealand marine workforce. Over the period covered by their 2007-2012 financial years, Oracle has spent in excess of \$48m at Core Builders Composites, primarily to supply the needs of the Oracle Team USA syndicate²⁸. This manufacturing was carried out mainly in-house with little input from the rest of the marine industry. However, they built 15 AC45s for the AC45

²⁸ Other data suggests that since 2000, Oracle have spent in excess of \$100m with CBCL.

World Series in conjunction with a range of other New Zealand marine companies including Cookson Boats (who built 5 of them) and Halls Spars and Rigging. Often the collaboration occurs between rivals, even between companies that are likely to be rivals within the same regatta.

4.8 Long Term Relationship

The marine businesses that are involved with ETNZ have mostly established the relationship over a number of campaigns. The larger ones have supply relationships and understandings that date back to the 1990's and earlier (in some instances). For many this translates into significant sales to the syndicate while for others the association is important to provide a technological boost, helping to keep the companies at the leading edge globally and to be able to leverage off that in marketing and to retain and recruit the best staff/designers.

For example, it is difficult for Rayglass to identify the boats sold to ETNZ for this campaign, as a number of boats exist from the last campaign and when they are past their usefulness for the team they are donated to Coastguard and a new replacement boat purchased.

Other suppliers such as Cookson have a less certain relationship with ETNZ (in its various guises). Having built the 1995 winning boat and the NZL60, that defended the cup in 2000, they were not used as the boat builder for the 2003 defence, and the current involvement appears a little more 'supplier/client' based than a 'partnership' – even though they built Camper for the Volvo Ocean Race for Team NZ, the AC33's (the test beds for ETNZ), 5 sets of hulls for the AC45s on contract to Core Builders Composites, two sets of hulls for the ETNZ AC72 plus beams, daggerboards and steering assemblages, in addition to hulls etc for Luna Rossa.

Their feeling is that in spite of this long history, they are competing with other yards for the ETNZ business and future ETNZ business.

On the other hand, the engineering firm Total Marine Services has had a strong relationship with the Team in its various guises since the days of Sir Peter Blake heading the syndicate. They have built all the bases (on water pontoons, bridges and other wharf structures) both overseas and in Auckland for the team and often only at cost which they feel is their contribution to the Team.

4.9 Sustaining Businesses

In recent years (post GFC) New Zealand's recreational marine industry has struggled. The reduction in demand globally was and is being felt in New Zealand as a result of the GFC. Unfortunately this is coupled with a rapidly strengthening New Zealand dollar relative to the US dollar (as the US Federal Reserve 'quantitatively eased', or printed money). This has priced New Zealand out of the reach of many looking to build new boats or refit existing boats. In addition, global supply increased with many new production locations in lower priced economies coming on-line (e.g. Turkey, China), and existing more traditional locations improving skills and becoming more competitive.

For some of the key ETNZ suppliers the business associated with the America's Cup challenge has been enough to sustain their business through this difficult period. One large supplier indicated that their involvement with ETNZ represented some 40% of their sales during the past few years and off the back of their involvement, they were hoping to acquire some of the technological learnings to further their business in existing areas and potentially new avenues.

This is a theme that has emerged from a number of informers, that the technology gains and insights from involvement with ETNZ have significant flow-on effects that help sustain their businesses into the future.

Many businesses in the marine industry have had to adapt to reductions in global demand and the high value of the New Zealand dollar. This has manifest itself in a number of ways. A large grand prix race boat builder has very flexible staffing arrangements, such that when the demand is high they expand operations up to around 70-80 staff, yet reduce in size to around 10 or less in periods of little demand. The ability to do this has seen the company remain in business for over 30 years through a number of significant changes that have led to the demise of many.

This flexibility comes at a cost to them and also to the industry as a whole. In periods of little demand, often highly skilled boat builders are forced to seek employment elsewhere. They often end up in the construction sector, as they have highly transferable skills and the work is more stable (and the wages often higher). This makes it very difficult to attract them back when demand returns. In addition, the industry has struggled to produce sufficient trainee boat builders to fill the vacancies.

In some respects New Zealand's success in winning and defending the America's Cup in 1995 came at a cost to the New Zealand marine industry. In very short order New Zealand boat builders were in high demand from overseas syndicates competing for the Cup and by other boatyards building high-end race boats. They followed skippers and sailors to other syndicates in much the same way as often the money offered was significantly higher (up to 3 times) than paid in New Zealand. This tends to make them unemployable back in New Zealand at the end of America's Cup campaigns as the money they now demand is not sustainable in the normal course of business.

Following the last America's Cup defence in New Zealand, and during the period between the Cup defences, boat builders involved with Team New Zealand had 3 to 5 times the normal level of enquiries for high end race boats (in particular). Due to skill constraints (that is the number of skilled workers), it proved difficult, if not impossible to capitalise on all these leads. However, the excellence of the high technology boats and their winning track record meant that the entire industry benefitted over a number of years.

This quality reputation has offset the effects of the high New Zealand dollar to a significant degree. When those with the money want to win an event, they will find a way to fund the best, and that often means building a boat in New Zealand and crewing it with New Zealand sailors.

For the key boat builder, ETNZ's involvement in the America's Cup has sustained their business during a period of little demand from other sources (driven primarily by the global downturn following the GFC). Working on boats for two of the syndicates took up 100% of their time (more than 100,000 hours of labour spread between the production of boats for ETNZ and Luna Rossa). Due to the delivery constraints, most of the work was sandwiched into a 7 month delivery schedule for the first boat.

4.10 NZ Marine

NZ Marine is the umbrella industry organisation committed to developing the marine industry in New Zealand through promotion, training, export initiatives and boat shows as well as member advice (according to their website). NZ Marine are the voice of the New Zealand marine industry and have leveraged their activities extensively off Team New Zealand over the past 25 years.

NZ Marine state in their projections of economic activity, that their figures are predicated on winning (or at least competing strongly) for the America's Cup when it falls due. This is because of the flow-on effects of being involved in that regatta has for the top end of the New Zealand industry. The effects filter down through the entire industry, and the association with the America's Cup is important for many categories. For example, association with the America's Cup and ETNZ is helping improve market share in Australia for Aluminium Powerboats built in New Zealand (according to NZ Marine).

Many benefits flow back to the New Zealand marine industry through associations with and good experiences with New Zealanders working around the world. Many of these international marine industry workers have done so from an involvement with Team New Zealand (in some form). This category of marketing is important enough for NZ Marine to launch a Friends of NZ Marine initiative. This is effectively a referral system that funnels contacts back to New Zealand marine businesses. NZ Marine strongly believe that NZ's involvement with the Americas Cup is a key plank to ensuring those referrals happen in the first place as well as providing the industry with a source of 'ambassadors' working in marine related environments globally.

4.11 Oracle and Luna Rossa

The impacts and effects of Oracle Team USA and Luna Rossa can also be assessed and are included in this study. While neither of these teams received funding from the Government to develop boats and technology in New Zealand, their presence can be directly attributed to the presence of ETNZ in the 34th America's Cup. The reason for that finding is different for both teams.

For Oracle, the presence of highly skilled workers and capacity was the prime reason for the syndicate investing in New Zealand. While not tied to the current investment through the SPA, this body of skills has been built up over time and is directly attributable to ETNZ's presence in this round of the America's Cup and its presence in previous rounds. We have

therefore concluded that the effects of Oracle's expenditure can be considered to be part of the economic impact of the America's Cup on New Zealand, though not directly attributed to the SPA.

Luna Rossa is different. They only competed in the 34th Americas Cup because of the relationship that had with ETNZ. In the absence of the SPA, ETNZ most likely would not have competed and Luna Rossa would not have located in New Zealand as they would not have had ETNZ to collaborate with. Ironically, had ETNZ not lodged a challenge, Luna Rossa might have had an easier time, as more highly skilled designers and sailors would have come onto the market (given that a shortage of sufficiently skilled composite, foiling, catamaran designers exists).

4.11.1 Oracle

The majority of Oracle's impacts on the New Zealand economy are via Core Builders Composites Limited (CBCL), their wholly-owned subsidiary. They began boat building for the syndicate in 2010 and their audited accounts show a total turnover for 2010, 2011 and 2012 of \$36.5m. CBCL employed around 80 workers during the construction period – currently they are employing 4 apprentices who are undertaking NZ Marine Industry Training.

CBCL built 15 wing sail catamarans for the AC45 World Series (pre the America's Cup Regattas), in addition they built every component other than the hulls for both Oracle's AC72s (wings, foils, rudders, cross beams and other components). The Deed of Gift regulations state that the hulls must be constructed in the country the challenging syndicate represents.

Prior to the 34th America's Cup (between 2000 and 2009) Oracle invested capital of \$26m in CBCL. CBCL generated export revenue during this time of approximately \$63m (primarily carbon composite boats for Oracle Racing to challenge for the 33rd America's Cup)²⁹. While they have been engaged in other projects, the value is insignificant compared to the Cup related work – therefore all investment can be attributed to involvement in the America's Cup over the past 13 years.

4.11.2 Luna Rossa

Luna Rossa spent considerable time racing against, training with, and exchanging learnings with ETNZ, and have therefore formed a close relationship. In the lead up to the 34th America's Cup regatta, Luna Rossa was based in Auckland for a considerable period of time. They incorporated a New Zealand company for tax purposes. The audited accounts of this company [Luna Rossa Challenge 2013 New Zealand Ltd] indicate that over a 13 month period it had revenue of \$50.7m. This was primarily sponsorship from the main sponsor (all bar \$1,320). The money was used for sailing and boat expenses (\$13.5m) and personnel costs (\$15.7m), in the main.

At the end of the 13 month period covered by the accounts (to December 2012) the company had made a profit of \$19m (before tax), paid a tax bill of \$7.3m, leaving an after tax profit of

²⁹ Source: CBCL interview 2013.

\$11.7m. This 'profit' was in reality money they most likely took forward to fund activities in San Francisco.

However, during their time in Auckland the Italian syndicate contributed significantly to the local economy, engaging with the marine sector for marine supplies and boat building; the construction sector for their base build; the local authorities, paying rentals and rates; and the wider property and hospitality markets, hosting and housing staff. Their staff, acted as any other households, spending a portion of their wages on goods and services over the time they resided in Auckland. These monies flowed through the economy sustaining businesses and jobs.

4.12 Non Marine Direct Impacts

The effect of ETNZ being involved in the America's Cup stretches wider than the marine industry. The presence of ETNZ, Luna Rossa and Oracle in New Zealand over the study period has led to expenditures in construction, hospitality, air transport, marine services, house rental, business development and a range of other direct expenditure categories.

The development of the Luna Rossa facility required concreters, electricians, marine infrastructure services, container hire, temporary shelter hire, and telecommunications installation. These trades are non-marine sector, but paid directly as a result of the America's Cup.

In terms of scale of impact, the direct non marine effects are large. Oracle via CBCL hired six homes in the Matakana/Warkworth area to house their design team as their boat was being developed at CBCL in Warkworth. The designers and their families lived there for a significant time paying rent but also spending as families do in the wider community. In addition, more than 200 tickets were purchased for flights between Auckland and San Francisco during the lead up to the event.

Non marine benefits are likely to occur via the evolution of composite material technology and skills honed through the America's Cup and marine sector, to other industrial applications. CBCL consider that New Zealand has a unique opportunity to translate the learnings from carbon fibre composite technology to wider industrial applications.

New Zealand's involvement through ETNZ in the America's Cup had other spin-offs for non marine businesses. In addition to the events in San Francisco sponsored by NZTE and others, firms used the presence of the event to wine and dine clients. For example, a software firm based in Takapuna with a global client base in fast moving consumer goods (FMCG), took advantage of the Louis Vuitton races to draw together its US client base (including representatives from McDonalds, Coca Cola, BAT and others) to view races and meet. It is expected that this will lead to additional work and a strengthening of business relationships.

4.13 Potential Tourism Benefits

Historically, a significant portion of the economic impacts that arise from New Zealand's involvement in the America's Cup have come from tourism. Tourism in terms of the numbers of visitors arriving in New Zealand specifically, or mainly to view the America's Cup regattas have not been high, but the nature of the tourists that do travel here means their impacts are great.

Superyacht visitation peaked at the 2003 defence of the Cup. Superyacht crews and owners plus guests are large spenders in tourism activities whilst in New Zealand. More importantly the refits and superyacht maintenance associated with the visits helped fuel the most successful period for New Zealand's recreational marine industry.

In addition, the branding of New Zealand as a tourism destination benefited from association with Team New Zealand (historically) and ETNZ (currently). In this round, with the actual event held in San Francisco, the direct tourism benefits are likely to be zero – or minimal.

There is some evidence that both ATEED and Tourism New Zealand sought to leverage off the Government's involvement ETNZ, but at this stage – so soon post the event, it is impossible to identify any tourism effects.

5 Conclusions

The SPA between Government and ETNZ generated wide reaching effects on New Zealand's economy. The continuation of ETNZ as a financially viable, technically capable and competitive syndicate in the America's Cup event has once again enabled the injection of international funds into New Zealand that sustained businesses and employment in what was otherwise a lean fiscal period for many sectors. Such economic impacts would not have taken place without the security that the SPA provided to ETNZ from a timing perspective (ensuring the critical crew expertise was retained early on) and from a contribution perspective (given that the SPA (\$36m excluding GST) accounted for a significant 20% of ETNZ's overall revenue).

The effects of ETNZ's participation in the America's Cup between July 2007 and September 2013, which included their challenge for the 34th America's Cup, can be expressed from a number of perspectives including a total economic impacts and tax revenue perspective. In economic terms, the total direct and flow-on effect of syndicate and crew spending contributed \$₂₀₀₇87m of value added (\$₂₀₁₃105m) to the national economy and sustained the employment equivalent of 1,220 workers for one year. Most sectors in the economy captured a share of these impacts – the top 6 including business services, cultural and recreational services, ownership of owner-occupied dwellings, transport equipment manufacturing (mainly boat building), retail trade, and the finance sector.

These results confirm the positive economic effect that ETNZ had on the New Zealand economy, even though they competed in a major sporting event overseas. None of the identified economic impacts would have occurred in New Zealand if not for the SPA between the Government and ETNZ. Nor, for that matter, would the impacts arising from Luna Rossa's presence in New Zealand for the 34th America's Cup. Their presence was attributable to ETNZ's existence and in turn the SPA. Including Luna Rossa, the total value added to the economy was \$₂₀₀₇106m (\$₂₀₁₃127m), sustaining the equivalent of 1,480 workers for one year.

The impact of the America's Cup event on New Zealand is larger than just ETNZ and Luna Rossa. While Oracle's impact on the economy cannot be directly attributed to the SPA, it occurred because of New Zealand's past involvement in the America's Cup and other international yacht racing regattas which has helped develop a highly skilled and respected marine industry, marine technology and workforce. Inclusion of Oracle's economic impact alongside that from ETNZ and Luna Rossa for the period of 2007-2013 reflects the total impact of the America's Cup event on New Zealand and equates to a total contribution to value added of \$₂₀₀₇159m (\$₂₀₁₃191m), sustaining the equivalent of 2,220 workers for one year.

In terms of tax revenue, ETNZ syndicate and crew spending generated direct and flow-on tax revenue for the Government. Total tax revenue is estimated at \$38-40m in dollars of the day. This means an effectively neutral outcome relative to the Government injection of \$36m (excluding GST) via the SPA based on ETNZ alone. Including Luna Rossa's tax revenue, the Government had a net gain in tax revenue.

In a wider sense, the effect of the America's Cup activity occurring in New Zealand and on the world stage is not limited to the mostly direct effects identified above. The long term sustainability of high technology manufacturing in New Zealand relies on the world's perception of New Zealand being an innovative and high technology environment and the America's Cup regattas, with ETNZ's involvement, showcase that. The event is significant for promoting the New Zealand "brand".

These wider benefits – which are difficult to quantify and are longer term in nature may, in fact, play a more important role than the more direct monetary outcomes described above. The wider benefits are not limited to New Zealand's recreational marine industry, with other branding benefits flowing into tourism, education and construction (via technology spill-overs) but for them are particularly significant.

Based on the levels of interest all over New Zealand, ETNZ's participation in the event also allowed New Zealanders to enjoy and be connected to sport at the highest level. It allowed New Zealanders to showcase their skills on the world stage so will have had significant social benefits (not addressed in this study).

ETNZ's participation in the pinnacle of world yacht racing has helped retain technical expertise locally, ensuring that capacity exists for future development and growth of this industry and related industries. As a result of the research carried out in this report, it is clear that New Zealand has benefitted significantly from ETNZ's involvement in the Americas' Cup – to a far greater extent than the cost to the country and taxpayer via the Government's contribution to the SPA.

Appendix A – EIA Methodology

This section provides detail on the modelling approach for the assessment of economic impacts, the modelling and data assumptions applied and the key changes in the EIA approach from the 2008 study which examined the economic impacts of ETNZ's challenge in the 32nd America's Cup.

Approach

The EIA approach is driven by detailed 34th America's Cup campaign income and expenditure data provided by ETNZ³⁰, covering the period from July 2007 to September 2013 and the detailed 32nd America's Cup campaign income and expenditure data provided by ETNZ, covering the period from April 2003 to July 2007.

Key steps (replicated for both campaigns) have been:

- Assembly of the relevant income, expenditure, contractor, and salary information by ETNZ into an evaluation framework compatible with the EIA models;
- Reconciliation of the total funding structure, to identify Government, New Zealand sourced and overseas sourced funding, including goods in kind;
- Reconciliation of the total amount of expenditure by ETNZ, covering capital and operating expenditure, the items of spending and the sectors receiving the expenditure, and the shares in each case directed to New Zealand and overseas;
- Reconciliation of the salary and wages and contractor components of the expenditure and where that was paid (i.e., which taxation regime);
- Reconciliation of the expenditure and funding flows, to identify the net direct tax flows within the overall structure;
- Reconciliation of net additional expenditure in each sector of the economy, accounting for transfer effects/the counterfactual;
- Deflation of net additional expenditure in each campaign year to \$₂₀₀₇ based on sector level PPI deflators.
- Analysis of the gross output implications of the ETNZ spending, calculated through the EIA models, as the basis for assessing the flow-on and total tax implications;
- Analysis of the direct and total (direct, indirect and induced) impacts (in terms of value added and employment), calculated through the EIA models.

The outputs of the EIA modelling are derived from a multi-regional input output model focused on Auckland Region as the core study area, and a national input-output model. The

³⁰ It has also been applied to high-level figures estimated for Oracle and Luna Rossa for the study period.

basic operation of these models is described below. The outputs of the EIA modelling are direct, indirect and induced impacts reported as net value added (\$m) to the Auckland region economy (Auckland Model) and New Zealand economy (National Model) over the total campaign period, and the estimated equivalent employment sustained. Impact results are expressed in \$₂₀₀₇ and employment terms.

Input Output (IO) Basics

At the core of any IO analysis is a set of data that measures, for a given year, the flows of money or goods among various sectors or industrial groups within an economy. These flows are recorded in a matrix or 'IO table' by arrays that summarize the purchases made by each industry (its inputs) and the sales of each industry (its outputs) from and to all other industries. By using the information contained within such a matrix, IO practitioners are able to calculate mathematical relationships for the economy in question. These relationships describe the interactions between industries, specifically, the way in which each industry's production requirements depend on the supply of goods and services from other industries.

With this information it is then possible to calculate, given a proposed change to a selected industry, all of the necessary changes in production that are likely to occur throughout supporting industries within the wider economy. For example, if one of the changes anticipated for the Auckland region were to be an increase in the amount of marine industry, the IO model would calculate all of the increase in outputs required from industries supporting the marine industry (e.g. metal product manufacturing, construction sector, business services, textile product manufacturing), as well as the industries that support these industries).

Typically the variables that drive an IO model, in other words the variables that are used as inputs and which determine outcomes of all other variables, are the variables that are referred to as 'final demands'. Final demands constitute the value of each industry's output sold to final markets for consumption. These final markets are comprised primarily of consumption purchases by households, sales to government, private domestic investment and exports. The value of milk solids sold by dairy farmers to the dairy processing industry, for example, does not constitute a sale to final demands, whereas the value of cheese that is produced from these milk solids by the dairy processing industry and sold as exports is recorded under final demands.

As with all modelling approaches, IO analysis relies on certain assumptions in its operation. Among the most important is the assumption that the input structures of industries (i.e. technical relationships) are fixed. In the real world, however, technical relationships will of course change over time as a result of new technologies, relative price shifts causing substitutions, and the introduction of new industries. For this reason IO analysis is generally regarded as most suitable for short-run analysis, where economic systems are unlikely to change greatly from that which generated the initial data.

Auckland Region Input Output Table Creation

As already stated, at the core of an IO modelling framework is a matrix recording transactions between different actors within an economy. Each column of the matrix reports the monetary value of an industry's inputs, while each row represents the value of an industry's outputs. Sales by each industry to final demand categories (i.e. households, local and central Government, gross fixed capital formation, etc) are also recorded, along with each industry's expenditure on primary inputs (wages and salaries, consumption of fixed capital, gross operating surplus etc). Clearly the data requirements for constructing these IO matrices are enormous, and it is partly for this reason that IO tables are only produced in NZ on an infrequent basis. The latest available IO table for the New Zealand economy is based on data for the 1995-96 financial year (Statistics New Zealand, 2001). A subsequent supply-use table, which contains much of the information required to generate an IO table, is however also available for the 2002/03 financial year (Statistics New Zealand, 2007).

The first major step required for the assessment of economy-wide effects is to generate an appropriate IO table for use in the study. Essentially two major tasks were involved:

1. production of an updated IO table for New Zealand; and
2. regionalisation of the national table so as to produce an IO table for the Auckland region.

In terms of the first task, M.E has produced an IO table for NZ for the year ending March 2007. This is the latest year for which all economic data required to produce an updated table is available. The New Zealand IO is essentially derived by converting the 2002/03 national supply-use table to an IO table, and then updating this table to 2006/07 using data contained within the National Accounts (i.e. gross output, value added and taxes by industry), as well as international merchandise (imports and exports of products classified according to the harmonized system) and Balance of Payments (imports and exports of services) data. Relationships between industries, or technical coefficients, are assumed to remain consistent with those in the 2002/03 table.

In terms of the second task, the Generating Regional Input-Output Tables (GRIT) procedure (Jansen et al., 1979; West et al., 1980) was relied on to produce a regional table from the 2006/07 national table. This method consists of a series of mechanical steps that reduce national input-output coefficients to sub-national (regional) equivalents with reference to available regional data. In this case reference was made particularly to employment by industry, population and household income data for the Auckland region.

A final important point to note about the IO framework utilised in this study is that it is multi-regional. This means that the model considers not only the relationships between economic actors within the Auckland region, but also the relationships between economic actors within Auckland and those in the rest of NZ. This multi-regional approach provides a means to evaluate the nation-wide implications of ETNZ's America's Cup campaigns. The IO model utilised contains 48 different economic industries by three different regions (Auckland region, rest of the North Island and rest of New Zealand).

EIA Methodology Changes since 2008 Study

Inter-industry tables underlying EIA model

In the 5 years since the 2008 evaluation study was completed there has been evolution both in the base MRIO models that drive the impact assessment and the manner in which they are applied. The base models used in the 2008 study draw from a 2003-2004 IO table. The models in use today draw from a 2006-07 IO table as described above and all economic impact results are therefore expressed in \$₂₀₀₇ and employment terms.

The difference is that the supply-use based tables focus on the commodities produced and consumed in the economy rather than the value (in total) of an industrial sectors output. This allows for greater degree of accuracy and more regular updating as commodity outputs are generated on a much more regular basis than inter industry tables.

A key implication of the update of IO table is that, overall, the 2006-07 sector interactions within the local economy have declined as a result of the further opening-up of New Zealand to the global economy (i.e., a greater reliance on imports and therefore a smaller share of manufacturing carried out domestically). All else being equal, the flow-on impacts from an increase in final demand would be smaller under the latest table (and would be smaller again in the current economy).

Although the 2006/07 IO table is the most recent available, a relevant issue is that the economic modelling will not enable the impact of the GFC – which took effect during the 34th America's Cup campaign period – to be recognised. All IO based EIA models are however impacted by the absence of a more recent IO table so this issue is not unique to this study.

Determining Net Additional Direct Expenditure

The second major change to the EIA model is the way it deals with transfer effects associated with funding/income that originates from New Zealand households, businesses or Government and how this contributes to net additional expenditure calculations.

In the modelling for the 2008 study, transfer effects within the New Zealand economy were determined under three scenarios. These scenarios varied the amount of New Zealand based funding from non-government sources that would not otherwise have occurred, if not for ETNZ (100%, 20% and 67%). For all scenarios, the funding from Government and overseas was considered 100% net additional (this is discussed further below). Total direct expenditure in each sector by ETNZ was then scaled to match the total amount of funding available for spending in New Zealand once overseas expenses and operating surplus were paid by overseas funding. The outcome was the same original sector breakdown of ETNZ expenditure but in varying amounts (pro-rata) to give net additional as opposed to gross direct spend.

In the current EIA model, the opportunity cost of funding is more robustly recognised. The inter-industry tables provide a distribution of each sector's final demands across all sectors of the economy. ETNZ income (funding) can be sourced to its supplying sector (primarily Central and Local Government as well as businesses and households). The amount considered a

transfer effect by each of those funding sectors (discussed below) is then deducted from the final demands each sector places on the economy. This means that the sectors that supply central Government's final demands (for example) face a reduction in demand according to central Government's average spending behaviour.

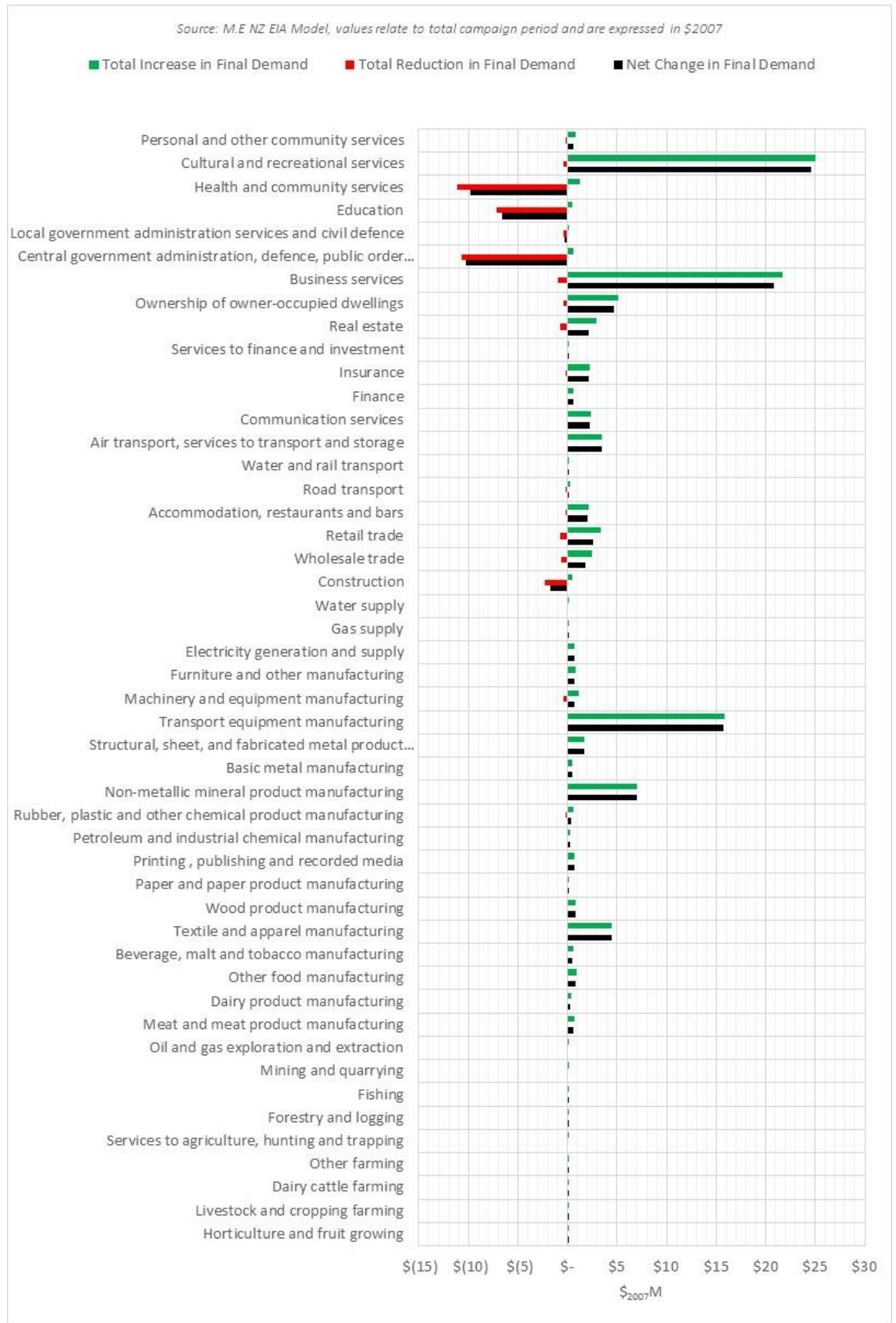
These reductions represent a decrease in final demand across relevant sectors which offset the increases in final demand in sectors associated with ETNZ's direct expenditure (including wages and salaries). Combining the negatives and positives for each sector gives the net final demand outcomes which then run through the EIA model to generate flow-on impacts.

Note that the reductions in demand in any one sector may not be offset by increases in response to ETNZ additional activity as ETNZ has a very different economic footprint than central Government. For example, the majority of impact felt as a result of ETNZ activity occurs in the marine industry. The majority of central Government final demand is focused on the Health, Education, Administration, Defence and Public Order sectors.

In reality though, a considerable portion of the funding is not a transfer (overseas funding that is available for spending in New Zealand). These amounts do not get used to offset ETNZ final demand.

To illustrate this aspect of the EIA methodology, Figure A.1 shows the effect of combined funding which is considered a transfer (i.e. the sum of Government funding, local Government funding, household donations, and local business funding) versus the increase in final demand (expenditure) by ETNZ (including wages and salaries) by 48 economic sectors.

Figure A.1: Net changes in final demand for ETNZ's 34th America's Cup campaign



Multipliers No Longer Used

The 2008 study (along with earlier studies of the economic impact of the America's Cup), made use of multipliers to drive the process and translate the direct injection of funds at a sector level into a full effect on the regional and national economies. While this approach is suitable to assess the effects of an injection of activity in a single sector, it does not adequately or accurately model the actual effects of complex events such as the America's Cup.

The use of multipliers has come under increasing scrutiny in the literature in terms of the effects of double counting, especially for complex events or complex policy decisions that affect a large section of the economy. The use of multipliers is no longer appropriate to model complex events. In this study, the flow-on effects are estimated through a different approach. Changes in the net final demand profile of the economy (graphed above), in response to additional demands arising from the syndicates building boats, paying wages and the associated other business related expenses incurred, are summarised at the 48 sector level. The model then allows the output of supplying sectors to adjust to meet these increased demands. The economy further adjusts as the sectors supplying the supplier sectors adjust their outputs to meet the indirect changes in demand.

The economy further adjusts as wages and salaries flow through. These adjustments result in the total output of all sectors growing (or the majority of them anyway). Summing these changes in output is akin to earlier estimates of Gross Output (as estimated using multipliers). In fact, once the outputs have been calculated, it is possible to estimate what the multiplier would be by dividing the output from each sector by the initial sector shock. The difference being that multipliers are descriptive of the output in the current approach, whereas multipliers drove the process in previous studies.

The result of these changes is that the models are far more accurate and theoretically robust.

Other Changes

There are a few other minor changes to the EIA methodology compared to the 2008 report:

- The 2008 EIA model was based on a 123 sector inter-industry table while the 2013 EIA model is based on a more condensed 48 sector framework.
- The 2008 report estimated economic impacts and tax impacts according to three scenarios of net additional expenditure. The current study does not include scenarios, rather a single outcome considered to be representative of the likely actual outcome (see below).
- Economic impacts are reported differently in the new EIA model. The model generates total value added and employment impacts. Direct value added and employment can be inferred using Value Added:Gross Output ratios. Indirect and induced value added and employment are the difference between total impacts and direct impacts.

- Employment impacts are expressed now as a modified employee count (MEC) which captures the employee count (EC) and includes estimates of non-employee working proprietors. In contrast the 2008 study reported employment impacts in FTES (full time equivalent employees).

Key Assumptions

There are necessarily a number of core assumptions which underpin the analysis. Many of these assumptions have been held constant from the 2008 assessment unless otherwise stated.

1. If there was no Government funding, then it is assumed that the ETNZ challenge would not have proceeded. 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.
2. For the SPA, the Government funding is assumed to be diverted from alternative expenditure in New Zealand, and is not net additional funding. This was not the case for the funding provided for the 2007 campaign, as reported in 2008. For the last campaign the Government funding came from an overseas marketing budget and would have been spent offshore if not on ETNZ and so was net additional. The modelling of both campaigns in this study reflects these different funding arrangements.
3. It is assumed that the Government did not borrow in order to fund ETNZ in each instalment of the SAP or earlier funding. As such, there is no debt servicing factored into the EIA model.
4. Overseas-sourced funding is allocated first to overseas ETNZ expenditure (and ETNZ operating surplus in the case of the 32nd Cup campaign), and the balance then allocated to expenditure in New Zealand.
5. If funding was paid in foreign currency it was assumed to be from overseas based entities/individuals. As such, 'NZ donations' paid in \$NZ was considered domestic funding while 'NZ donations' paid in \$US or Euros was not considered domestic funding.
6. For 'NZ donations' paid in \$NZ, M.E have assumed an origin breakdown of 60% business/organisation based funding (split evenly between Auckland the rest of New Zealand for the purpose of the Auckland EIA model) and 40% household based funding (split evenly between Auckland and the rest of New Zealand).
7. A key assumption relates to whether the non-Government, New Zealand-sourced funding for ETNZ was net additional sponsorship, or a transfer from other sponsorship/promotional activity/donations. This has an effect on both the economic impact and the tax outcomes. For the purpose of determining the transfer portion of New Zealand based non-Government funding in the EIA the following was assumed

for the National EIA Model. We have taken a conservative stance, assuming that locally sourced funding is all a transfer. The portion of 'Auckland business' income that is net additional relates purely to Luna Rossa's purchases from ETNZ which is effectively offshore funding.

Figure A.2: Summary of Income – net additional assumptions

	34th America's Cup Campaign			32nd America's Cup Campaign		
	Share Transfer	Share Net Additional	Total	Share Transfer	Share Net Additional	Total
Central Government	100%	0%	100%	0%	100%	100%
Akl Local Govt	100%	0%	100%	na	na	na
Akl Businesses	45%	55%	100%	100%	0%	100%
RONZ Businesses	100%	0%	100%	100%	0%	100%
Auckland Households	100%	0%	100%	100%	0%	100%
RONZ Households	100%	0%	100%	100%	0%	100%
Overseas (Applied to NZ)	0%	100%	100%	0%	100%	100%

Applies to National level assessment only

8. For the purpose of offsetting non-government business funding, we have assumed that 50% would otherwise have gone to operating surplus and the remaining 50% would have gone on gross fixed capital formation (applying national average distributions across sectors).
9. For the Auckland EIA Model, estimation of the portions that are considered a transfer are based on where the funding bodies normally spend across the New Zealand economy (i.e. in Auckland and in the rest of New Zealand). These are derived from the 2007 multi-regional IO table. It is assumed these distributions are constant across the campaign period.
10. It is assumed that the ETNZ syndicate crew and their households 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. As such, their consumption while in NZ is considered net additional to the NZ economy.
11. In the 2008 study, we assumed that there was no spending in New Zealand by crew and their families when the team was overseas (10 months spent in Valencia). For the most recent campaign, the syndicate as a whole spent just 5 months overseas in San Francisco. The assumption is the same as for the 2008 study.
12. Dividing annual wage and salary costs by ETNZ by average number of employees indicates higher than average earnings. In the modelling we have made adjustments for higher income earners (above average Auckland households contained in the IO table underlying the EIA model). Specifically we have assumed that 30% of wages and

salaries are invested and 70% is distributed according to average combined consumption of households and private institutions serving households.

13. We assume that all ETNZ expenditure in New Zealand was operational in nature and not capital expenditure.
14. Data provided for the 2008 study did not include a breakdown by campaign year. Totals were provided in 2007. Rather than estimate the distribution of spend in each sector over time, we have assumed a single 'shock' to the economy. This differs from the recent campaign data which was provided by year and expenditure has been deflated to 2007 accordingly.
15. Data provided for the 2008 study on contractors was in aggregate only. As this is included as part of operational goods and services expenditure in the current EIA approach, distributions of contractor costs across major operational areas and then within those areas, across economic sectors, is based on 2013 campaign ratios. For this component of operational expenditure, a limitation of this assumption is that spend by sector will not entirely reflect the nature of the 32nd campaign in terms of the syndicate's crew profile and boat building requirements. The impact of this assumption on final results is considered minor.
16. Luna Rossa: Data on Luna Rossa expenditure (through their New Zealand registered business) is based on their audited annual accounts. These accounts cover a 13 month period from December 2011 to YE December 2012. To be compatible with the EIA model framework, M.E has split the expenditure data to suit a YE March financial year, assuming an even distribution across that time frame. For the purpose of this study, M.E has assumed that the syndicate remained in New Zealand until the end of March 2013 – departing for San Francisco (or Italy). M.E have made estimates of Luna Rossa's expenditure during these months based on monthly expenditure trends in the period covered by the annual accounts, allowing for a 'ramping down' of costs closer to departure.
17. It is assumed for the purpose of EIA modelling that 20% of known and estimated 'personnel costs' by Luna Rossa relate to crew contractors (assumed to be set up in New Zealand). This expenditure is distributed across economic sectors in Auckland according to the ETNZ expenditure averages for 'sailing operations'. 'Other' and 'Sailing and Boat Expenses' by Luna Rossa are distributed using ETNZ averages for 'Base/Shore Operations' and 'Yacht R&D, Build etc' respectively.
18. It is assumed that personnel costs less the estimated portion of contractors are wage and salary earners. It is assumed that 50% of these earnings flow back to the crew members' country of origin. The remaining 50% is distributed across the economy in the manner of Auckland households.
19. To avoid double counting, the payments made by Luna Rossa to ETNZ for design services is excluded from Luna Rossa's direct gross expenditure. All funding for Luna Rossa is assumed to be from overseas, meaning that all of their expenditure in New Zealand is net additional to the economy.

20. Oracle: Data on Oracle Team USA expenditure (through their New Zealand registered business CBCL) is based on their audited annual accounts. These accounts cover a period from YE December 2007 to YE December 2012. To be compatible with the EIA model framework, M.E has split the expenditure data to suit a YE March financial year, assuming an even distribution across that time frame. M.E have made estimates of CBCL expenditure after the reporting period to the end of the study period (September 2013) based on monthly expenditure trends in the period covered by the annual accounts, allowing for a 'ramping down' of costs closer to the 34th regatta.
21. The accounts do not provide a breakdown of personnel costs. All operating expenditure has been distributed across economic sectors in accordance with ETNZ's average 'Yacht R&D, build, develop, maintain' expenditure profile. All revenue is assumed to be from offshore.

Comparison of National EIA Results 2007 and 2013

In accordance to the modelling changes and assumptions above, Figure A.3 summarises the direct, indirect and induced and total impacts of both the 32nd and 34th America's Cup campaigns using a consistent approach. The results are broadly similar.

In the 2007 campaign, a net additional expenditure of \$₂₀₀₇71m generated a total contribution to value added of \$₂₀₀₇82m, sustaining employment equivalent to nearly 1,290 workers for a year in New Zealand.

As described in more detail in Section 3, this compares with the 2013 campaign where \$₂₀₀₇88.6m of net additional expenditure generated \$₂₀₀₇87m in total contribution to value added sustaining employment equivalent to just over 1,220 workers for a year.

Figure A.3: Comparison of Total National Economic Impacts by Campaign

Category	32nd America's Cup Campaign	34th America's Cup Campaign
Direct Impacts		
Expenditure (\$ ₂₀₀₇ m)	\$ 70.7	\$ 88.6
Value Added (\$ ₂₀₀₇ m)	\$ 17	\$ 35
Employment (MECs ₂₀₀₇)	292	643
Indirect & Induced Impacts		
Value Added (\$ ₂₀₀₇ m)	\$ 65	\$ 52
Employment (MECs ₂₀₀₇)	995	581
Total Impacts		
Value Added (\$ ₂₀₀₇ m)	\$ 82	\$ 87
Employment (MECs ₂₀₀₇)	1,287	1,223

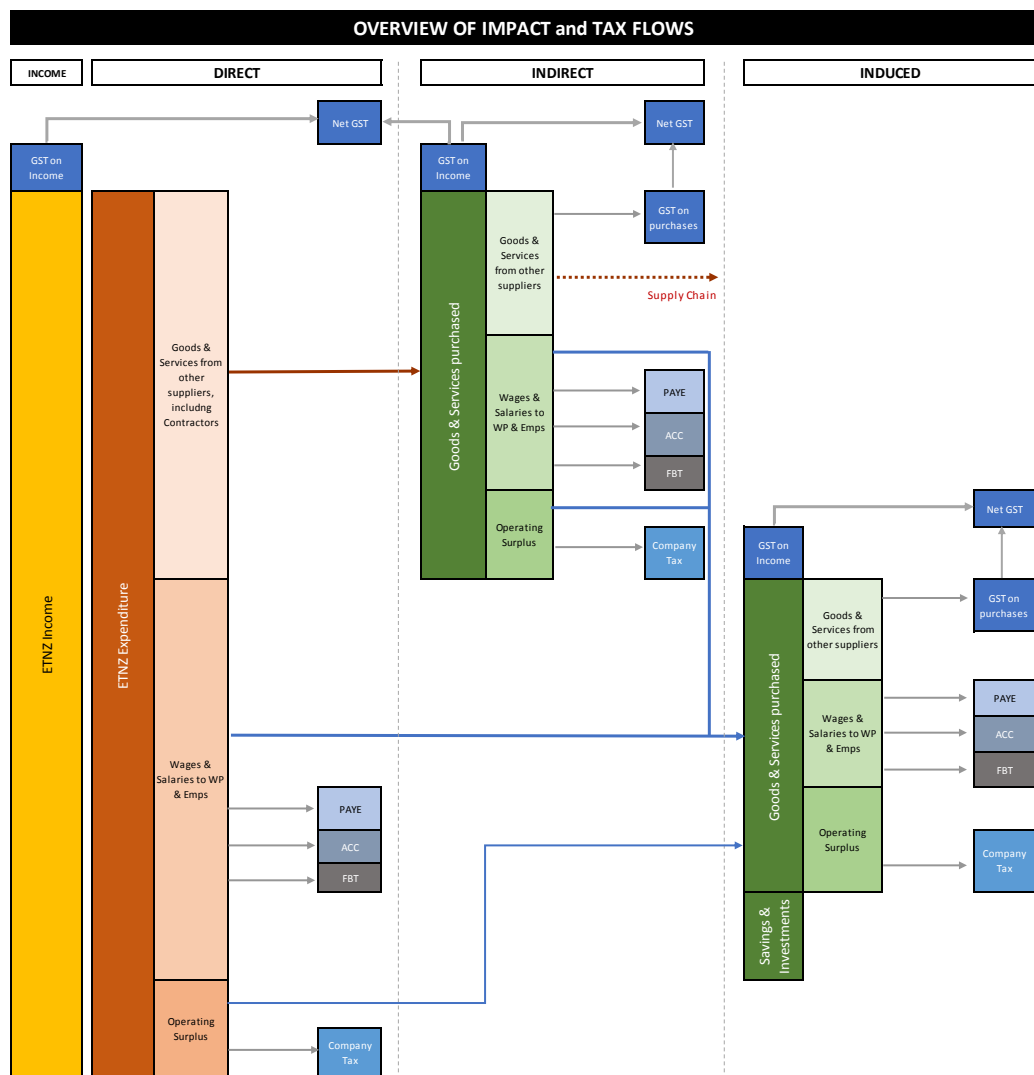
Appendix B – Taxation methodology

This section describes the approach applied to identify tax revenue associated with ETNZ's America's Cup campaign. Tax revenue arises primarily from GST, company tax, ACC and PAYE and is generated from ETNZ's direct expenditure in New Zealand and also from the flow-on transactions of that expenditure through the economy. As such, the tax impact approach is integrated with the EIA framework of direct, indirect and induced economic activity.

Approach

The following diagram provides an overview of tax revenue streams associated with ETNZ's direct and flow-on expenditure. In the modelling framework, goods and services providers are broken down according to 48 economic sectors and the framework is applied separately for each year of the campaign to provide annual and total campaign tax revenue summaries.

Figure B.1: Overview of Tax Impacts



Direct Tax Revenue

Gross direct tax revenue equates to GST paid by ETNZ on income, PAYE paid for those crew members on wages and salaries and ACC payments. ETNZ supplied totals for each of these taxes for each financial year of the campaign. Fringe Benefit Tax (FBT) was not applicable and has been excluded. As ETNZ operated as a Charitable Trust until February 2011, they did not pay company tax on any operating surplus over this period of the campaign. In the period since the charitable status was lost, no operating surpluses were generated and as such no company tax was paid.

As noted in the Key Assumptions further below, there was no tax effect on net direct tax revenue arising from the sponsorship deductions to NZ sponsors (which would otherwise have been subtracted from gross tax revenues to give net direct tax revenue). Direct tax revenue paid by ETNZ is summarised in Figure 3.3 in Section 3.

Net Direct Tax Revenue

Not all of the direct tax revenue paid by ETNZ was net additional to the New Zealand economy. Much of the expenditure that generated tax was enabled by income that would have been spent elsewhere in the New Zealand economy if not given to ETNZ (a transfer effect). The alternative distribution of this funding would similarly have generated tax income for the Government.

For the purpose of this study it was assumed that all of overseas funding less the amount used to pay for offshore expenditure was net additional and a small portion of non-government New Zealand funding was net additional (payments by Luna Rossa's New Zealand entity). These combined portions equate to a share of total funding available for expenditure in New Zealand of 67%. Applying this to direct tax revenue suggested that \$16.7m of combined GST, PAYE and ACC was net additional to the tax regime³¹. That is, \$16.7m was the amount of tax revenue that Government received over and above what they would have received if Government had spent the \$36m elsewhere in New Zealand³² (Figure 3.3).

Indirect and Induced Tax Revenue

Indirect and induced tax revenue covers the same tax categories but relates to the taxes generated by New Zealand suppliers to ETNZ and its salary and wage earning crew (who spent their earnings on goods and services to run their households).

These suppliers, which included New Zealand based contractors (which made up a significant portion of the syndicate crew) reflect the *first round* of indirect and induced economic (and

³¹ This assumes that the same proportions of tax to spending by ETNZ would have been generated by alternative uses of the NZ funding. While this may not hold true in reality it is the best estimate given the uncertainty of what would otherwise have happened.

³² To be consistent with the EIA modelling approach, we have assumed that the alternative (counterfactual) spending by Government is in accordance with the average distribution of Central Government's final demand expenditure in the input-output table. This aligns with MBIE's view that the Government funding is not net additional (i.e., would not have been spent on alternative offshore marketing).

tax) impacts arising from the increase in final demand stimulated by ETNZ and crew expenditure. The first round suppliers were themselves supplied by other businesses to fulfil the portion of demand associated with ETNZ and crew expenditure, who were in turn supplied by other businesses etc. These *subsequent round* suppliers (who generated tax and paid wages and salaries) are captured in the total indirect and induced economic impacts calculated in the EIA model (i.e. indirect and induced economic impacts are an aggregation of the value added component of first round and all subsequent round supply and purchase transactions).

Indirect and induced GST revenue can be separately calculated for each year (allowing for the change in GST rate from 12.5% to 15%) as a component of total indirect and induced value added calculated by the EIA model. This is because GST is a value added tax. 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. The results are as follows:

Figure B.1: Calculation of total indirect and induced GST revenue

	YE March 2008	YE March 2009	YE March 2010	YE March 2011 (April- September)	YE March 2011 (October- March) *	YE March 2012	YE March 2013	YE March 2014	Total Campaign
Total Indirect and Induced Value Added (\$ ₂₀₀₇ m)	-\$ 5	\$ 11	\$ 8	\$ 5	\$ 5	\$ 9	\$ 15	\$ 6	\$ 52
Total Indirect and Induced Value Added (\$m) **	-\$ 6	\$ 12	\$ 8	\$ 5	\$ 5	\$ 11	\$ 18	\$ 7	\$ 61
GST Rate	12.5%	12.5%	12.5%	12.5%	15.0%	15.0%	15.0%	15.0%	
Implied Indirect and Induced GST (\$m)**	-\$ 0.67	\$ 1.34	\$ 0.94	\$ 0.58	\$ 0.69	\$ 1.37	\$ 2.26	\$ 0.83	\$ 7.3

* GST rate change October 2010 - assume 50/50 split of valued added.

ETNZ 34th America's Cup Campaign

** Dollars of the day.

Company tax revenue is calculated based on company tax rates (in each year) applied to the portion of indirect and induced gross output (expressed in dollars of the day) that is estimated to be operating surplus. We based operating surplus proportions on the 2007 IO model by sector. The change in company tax rate from 33% to 30% to 28% was captured.

A limitation of the Base Case scenario is that it assumes that the operating surplus proportion of gross output remains the same each year over the study period. To account for the effect of the GFC (based on anecdotal evidence) we have also developed an alternative scenario that allows for a reduction in operation surplus proportions during the peak of the GFC (relative to the 2007 average) and a recovery back to the original proportions, as well as the adjustment for tax rate.

The analysis highlighted the variability in the results which suggested that applying a range around the modelled results was prudent. As such, we adopted the results as the upper and lower estimate of total indirect and induced company tax. The final indirect and induced company tax estimates are as follows:

Figure B.2: Final indirect and induced company tax revenue outcomes

	YE March 2008	YE March 2009	YE March 2010	YE March 2011	YE March 2012	YE March 2013	YE March 2014	Total Campaign
SCENARIO 1 - ASSUMES 2007 OPERATING SURPLUS APPLIES EACH YEAR, USES ACTUAL MAX TAX RATES	\$ 0.1	\$ 1.3	\$ 0.8	\$ 1.4	\$ 1.3	\$ 2.0	\$ 0.9	\$ 7.9
SCENARIO 2 - ASSUMES GFC IMPACT ON 2007 OPERATING SURPLUS, USES ACTUAL MAX TAX RATES	\$ 0.1	\$ 0.7	\$ 0.4	\$ 1.1	\$ 1.2	\$ 2.0	\$ 0.9	\$ 6.4

Dollars of the day.

Similar to the approach applied to calculate indirect and induced GST and company tax – indirect and induced PAYE tax revenue was estimated using outputs from the EIA model. Average salaries by sector (derived from ‘compensation of employees’ in the Input-output tables divided by total employee count in those sectors from Statistics New Zealand’s Business Frame) were applied to indirect and induced employment, then taxed at an average rate of 27.8%. This average was based on an analysis of 2006 census data for the 2008 study³³.

Figure B.3: Summary of indirect and induced PAYE revenue

	YE March 2008	YE March 2009	YE March 2010	YE March 2011	YE March 2012	YE March 2013	YE March 2014	Total Campaign
Indirect and Induced PAYE Estimates (\$m) **	\$ 0.0	\$ 1.3	\$ 0.8	\$ 1.4	\$ 1.4	\$ 2.1	\$ 1.0	\$ 8.0

*** Dollars of the day.*

While ACC and FBT revenues are likely from indirect and induced supply and purchase transactions, there is insufficient data available to calculate this robustly. Both of these taxes are therefore excluded from the assessment of tax impacts.

A summary of indirect and induced tax revenue is provided in Figure 3.4 in Section 3.

Key Assumptions

In addition to assumptions underlying the EIA analysis that have a bearing on tax impacts, the estimation of tax revenue has relied on the following assumptions:

- A key assumption relates to whether the non-Government, New Zealand sourced funding for ETNZ was net additional sponsorship, or a transfer from other sponsorship/promotional activity/donations. For tax outcomes the rationale is 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 (or private)

³³ This is based on national level personal income statistics from Statistics New Zealand 2006 Census applied to personal tax rates applicable during 2003-2007. Direct PAYE revenue is based on actual figures provided by ETNZ.

sponsors involved had a sponsorship budget, and would have spent that amount in any case on other New Zealand based sponsorship or mainstream marketing activity if it did not go to ETNZ. 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 ETNZ, 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. In this situation, the sponsorship amount would be tax deductible whether going to ETNZ or some other activity, then the ‘transfer’ means there would be no *net additional* tax offset³⁴.

- b) If the sponsorship expenditure only occurred because of ETNZ, then we assume the alternative for that money would have been corporate profit, or distribution to shareholders, either of which would be taxable. Therefore, around 30% of the amount would have gone as company tax, and around 70% 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. In this situation, there would be a corresponding reduction in tax revenue from company tax or income tax on dividends of around 30% of the value of the sponsorship³⁵.

A review of the key New Zealand sponsor income suggests that a significant share was received from a company that continually spends significant funds into New Zealand based marketing events and advertising campaigns. Therefore, sponsorship from this company was considered to be a transfer from other sponsorship (as per (a) above).

The majority of the remaining balance of the New Zealand sponsorship income was from a company who received goods and services from ETNZ, most of which would have been regarded as a capital asset to the purchasing company. Therefore there would not be any direct reduction in tax revenue from that company’s income tax. Accordingly, we have assumed that the flow-on reduction in tax paid by the New Zealand sponsors to be negligible to the tax outcome of estimated direct tax revenue.

- For tax purposes, we have assumed no tax generating expenditure in New Zealand by crew contractors who were not paid in New Zealand.
- Luna Rossa: Company tax paid by Luna Rossa’s New Zealand entity is taken directly from their audited annual accounts. This covers the period from December 2011 to December 2012. To be conservative, no estimates have been made on any company tax paid after that period. To estimate PAYE paid on wages and salaries in New Zealand, we have applied an average rate of 30% (slightly lower than the ETNZ average of 33%). To estimate ACC payments, we have applied an average rate of 0.91% (consistent with the ETNZ data). Further to our approach discussed in the section below on estimating direct GST linked to Luna Rossa – that is, identifying just GST on

³⁴For the purpose of this analysis, any tax deductions on sponsorship contributions are held at 33%.

³⁵ Company tax of 30% is considered a maximum as not all operating surplus is taxed directly (allowing for extraordinary items, credits and so on).

income – this is not applicable on the basis that all funding for Luna Rossa is sourced from offshore so direct GST is nil. Given the funding origin, it is assumed that all other direct tax revenue generated by Luna Rossa is net additional to the New Zealand economy. Indirect and induced tax impacts are calculated in a manner consistent with ETNZ; using outputs from the EIA model.

- Oracle: No direct tax revenue is able to be estimated for CBCL. As with Luna Rossa, we assume no GST on income given the offshore origin of these funds. As no detail is provided of personnel costs (separate from operating expenditure), it is not possible to estimate PAYE or ACC payments. The annual accounts also show no operating surplus in most financial years – meaning no company tax paid – and no company tax reported in the years with an operating surplus. The exclusion of direct tax revenue arising from CBCL means that total direct tax impacts for all three syndicates combined is conservative. Indirect and induced tax impacts are accounted for and are calculated in a manner consistent with ETNZ; using outputs from the EIA model.

Changes from 2008 Tax Approach

M.E, with input from PKF Ross Melville, has made a number of changes to the way that tax revenue was calculated and reported for the 2008 study. Some changes were required because of a change in the nature of ETNZ income and expenditure for this campaign or changes to ETNZ's financial arrangements. Other changes were required to more appropriately match the tax approach with the EIA framework. Careful consideration was given to the robustness of the original approach versus our current thinking. We consider that these changes were necessary and that tax revenue reported in this study is more accurate as a result of those changes. The key changes can be summarised as follows:

- a) Better recognition of what tax payments fall within direct, indirect and induced transaction categories. We have made changes to the tax summary diagram contained in the 2008 report to make it more accurate and less ambiguous. The new version is included above (Figure B.1). Direct tax revenue paid by ETNZ now includes only GST, PAYE, ACC, FBT (not applicable) and company tax (also not applicable due to no operating surplus).
- b) In the 2008 report (Figure 3.3), GST on crew expenditure was reported as a direct tax revenue. This is now more accurately included as part of induced tax revenue. 'Company tax from New Zealand contractors' and 'company tax of suppliers resulting from ETNZ direct spend' were also reported as direct tax revenue. These are now more accurately included as part of indirect tax revenue.
- c) In the past study, GST paid by ETNZ (direct GST) was applied in net form as it was reported by ETNZ in their GST returns. That is, GST on income was offset by GST on purchases. This resulted in a 'GST refund' or a negative value in terms of tax revenue for Government. We now feel that accounting for GST on purchases in that net direct GST calculation would result in double counting in our current taxation approach for indirect GST (see approach section above). This is because the GST claimed by ETNZ is offset by the corresponding GST output tax paid by the

suppliers to ETNZ. As such, we count only GST on income to ETNZ as direct GST in this study.

- d) Inclusion of direct GST on income is a consequence of the position we have taken in viewing ETNZ in the wider value chain. Further discussion is included in Section 3.2. In brief, the perspective of the study, which places ETNZ in the foreground and up-stream suppliers out in front (and down-stream funding organisations out of the picture behind us), has a bearing on direct GST estimates. The direct GST revenue assigned to ETNZ reflects simply the GST at that point in the value chain (while also avoiding double counting of GST associated with up-stream suppliers as above). In reality, ETNZ's position in the 'middle' of the value chain means that this GST revenue would be netted out further down the value chain given a wider scope. Direct GST is therefore a function of the study perspective only.
- e) In the 2008 report (Figure 3.3) gross direct tax revenue was offset by the 'tax effect of sponsorship deductions to New Zealand sponsors'. Based on a review of who the New Zealand sponsors were (of those that were identified by ETNZ as major sponsors/funders) it was determined this time that any such tax deductions would be immaterial or would not be net additional to the New Zealand economy. That is, it is anticipated that those deductions would have been received through other sponsorship if ETNZ did not exist.
- f) In the 2008 study, a high, medium and low scenario of the company tax rate for calculating indirect and induced company tax was adopted to recognise that not all operating surplus for companies is taxed directly (allowing for extraordinary items, credits and so on). In this study the approach is slightly different (described above). A high and low scenario have been applied.
- g) In the 2008 study, expenditure by crew was calculated outside of the EIA model (as it was included as a direct tax revenue). This was based on an analysis of Statistics New Zealand 2006 data including (but not limited to) data on average expenditure by household type (composition and income) by commodity type from the Household Economic Survey and assumptions around how the ETNZ crew families matched those household types. This approach is not replicated for this study primarily because expenditure by crew (particularly wage and salary earners) is treated as an induced impact on the economy and is therefore calculated (in a more straightforward way) as a component of total indirect and induced value added. The EIA models distribute expenditure by households according to the distributions identified in the IO table (which itself draws on household data collected by Statistics New Zealand).
- h) The 2008 study reported economic impacts and tax revenues according to three scenarios to account for variation in the amount of spending by ETNZ that was net additional to the New Zealand economy. For this study, we have produced a single set of results based on a thorough analysis of the available information and our best estimate of actual economic effects.

Implications for Tax Revenue Estimated for 2007 Campaign

Drawing comparisons of tax revenue associated with ETNZ's challenge for the 34th America's Cup with the challenge for the 32nd America's Cup (2008 report) was outside of the scope of this study. However, given the changes made to the taxation approach and the fact that we have re-run the data from the last campaign through the new EIA models (to provide comparable EIA results), M.E decided that it would be beneficial to include a revised tax revenue estimate using the 2007 campaign data.

We have not analysed the 2007 data with the same rigour as the data provided in 2013 nor would that have been possible given the more aggregate nature of the data provided by ETNZ at that time. Where necessary, we have applied the same assumptions as for the recent campaign.

Figure B.4 provides the revised results for the 2007 campaign in dollars of the day. Direct tax revenue is now estimated at \$21m of which \$15m is considered net additional. Total net additional indirect and induced tax revenue is estimated at \$23m, giving total net additional tax revenue of \$38m.

Figure B.4: Summary of ETNZ Tax Revenue for the 32nd Campaign

Summary of Estimated Net Additional Tax Revenue to NZ Government \$'000	
Taxation Category	Total Campaign *
GST on ETNZ Income	\$ 5,800
PAYE	\$ 14,600
FBT	\$ -
ACC	\$ 300
Company Tax (Direct ETNZ)	\$ -
Total Estimated Direct Tax Revenue **	\$ 20,700
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Net Additional Direct Tax Revenue	\$ 14,900
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Estimated Indirect and Induced GST Revenue	\$ 8,200
Estimated Indirect and Induced Company Tax Revenue	\$ 7,700
Estimated Indirect and Induced PAYE Revenue	\$ 6,900
Total Estimated Indirect and Induced Tax Revenue	\$ 22,800
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Total Net Additional Direct and Flow-on Tax Revenue	\$ 37,700

* Includes interim period. Dollars of the day.

2013 and 2007 ETNZ Campaign Tax Comparison

Figure B.5 compares the total net additional tax revenue for the last two campaigns in dollars of the day. They are broadly similar relative to the scale of overall expenditure. Changes in the GST rate and company tax rate between the two campaigns have contributed to the differences as has ETNZ's change in charitable trust status. For the 32nd campaign, the

Government recouped 112% of ETNZ funding (including GST) through direct and flow-on tax revenue compared to recovery of 94-97% for the recent campaign.

Figure B.5: Total Tax Revenue Comparison by Campaign

Summary of Estimated Direct Tax Revenue to NZ Government \$000			
Taxation Category		32nd America's Cup Campaign	34th America's Cup Campaign
Net Additional Direct Tax Revenue	\$	14,900	\$ 16,700
Indirect and Induced GST Revenue	\$	8,200	\$ 7,300
Indirect and Induced Company Tax Revenue (High)	\$	7,700	\$ 7,900
Indirect and Induced Company Tax Revenue (Low)		na	\$ 6,400
Indirect and Induced PAYE Revenue	\$	6,900	\$ 8,000
Total Net Additional Tax Revenue (High)	\$	37,700	\$ 39,900
Total Net Additional Tax Revenue (Low)			\$ 38,400

Figures have been rounded.

Dollars of the day.