

**SOUTH AFRICAN FORMULA ONE GRAND PRIX:
A DREAM OR NIGHTMARE**

by

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EXECUTIVE SUMMARY

In 2004 a group of South African based companies submitted a bid to the Formula One Management to host a South African Formula One Grand Prix, from 2009 in Cape Town. The group approached the government to establish a public-private partnership, due to the:

- escalating hosting and infrastructure development cost, resulting in very few Formula One Grand Prix host countries undertaking hosting without government involvement; and
- believe that the economic benefits of hosting the event would stretch further than the business realm of its members, in particular in the tourism industry.

A literature review of the hallmark sporting events revealed that sport has become a major business industry and a perceived tool for improving the economies of host countries, regions or cities. This has empowered the owners of mega sporting events to generate bidding wars amongst prospective host countries. Paying the price has commonly led local event organisers to motivate the allocation of public funding, emphasising the indirect economic benefits that the event will generate. This motivation is though seldom accompanied by a detailed and independent economic impact assessment, to substantiate the claimed benefits.

The findings of this study based on a literature survey indicate that:

- (i) There is a relationship between hallmark events, such as the FIA Formula One Grand Prix Championship, and tourism. However, the increased tourism post the event may be exaggerated, either with regard to the percentage growth or effective period or a combination thereof. If increased tourism is the basis for the

subsidy it should be noted that the Western Cape, in particular Cape Town, is already SA's premier tourist destination. Whereas cities like Johannesburg and Welkom, that have existing motor racing facilities requiring upgrading, do not have Cape Town's tourism icons. It could further be argued that the tourists visiting SA for the F1 GP event would more likely tour to the Western Cape than vice versa.

(ii) Although the SA F1 Bid Company has provided indicative numbers with regard to job creation and expected tourists as a result of the event, they rely on industry norms and experiences with other current F1 GP event host countries rather than critically assessing the economic and social impact of the event in a South African context. The overall lack of a detailed economic impact assessment and the reluctant feedback from the Government has made it impossible to assess conclusively whether the event will have positively or negatively impact on South Africa. However, literature sources reveal that in the majority of cases and mainly for the government partner, the hosting mega sporting events do not yield a profitable return.

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GLOSSARY OF ABBREVIATION

The following abbreviations shall have the assigned meaning:

General:

SA	South Africa
US	United States of America
UK	United Kingdom
SABC	South African Broadcasting Corporation
DStv	Digital Satellite Television
CTIA	Cape Town International Airport
WTO	World Tourism Organisation
SASC	South African Sport Commission
SRSA	Sport and Recreation South African
IOC	International Olympics Committee
SWC	Soccer World Cup
RWC	Rugby World Cup
CWC	Cricket World Cup
SARS	Serious Acute Respiratory Syndrome

Formula One:

FIA	Fédération Internationale de l'Automobile.
F1	Formula One
GP	Grand Prix
FOM	Formula One Management

FOA	Formula One Administration
EIA	Economic Impact Assessment
FIFA	Internationale de Football Association
FISA	Federation Internationale du Sport Automotive
FOCA	Formula One Constructor's Association
GPWC	Grand Prix World Championship
GPMC	Grand Prix Manufacturers Championship
BRDC	British Racing Drivers Club
AGPC	Australian Grand Prix Corporation

Currencies:

\$	Dollars
£	British Pound
€	European Euro

CHAPTER 1: INTRODUCTION

1.1 Background

In 2004 the Omega Consortium, a South African based group of companies (Omega Investment Research, Parallel Media South Africa, The OrlyFunt Consortium and BKS Consulting Engineers), lobbied the FIA's Mr Bernie Ecclestone to be part of the F1 franchise and host a F1 GP from 2009 to 2015 (F1 Websites, 2004 and 2005).

The Consortium planned to build a brand new racing circuit near CTIA, but had only been able to secure approximately 50% of the anticipated construction and annual hosting cost (released as: R400 million construction and R100 million annual hosting costs) by the end of 2005. They approached the South African Government, and effectively the South African community of taxpayers, to (F1 Websites, 2004 and 2005):

- (i) contribute to the racing circuit construction, by providing some of the outstanding funding;
- (ii) subsidise the annual anticipated hosting fee; and
- (iii) provide a special dispensation with regard to the ban on tobacco advertising.

1.1.1 FIA F1 GP World Championship

Known as the loudest sporting event in the world and the pinnacle of motorsports, the FIA F1 GP World Championship is broadcasted to all continents, over 100 countries, and on average viewed live at the racing circuits by over 60,000 spectators (Hes and Mountain, 1998; Burgess-Wise, 1999; Treayne and Hughes, 2003 and F1 Websites, 2004, 2005 and 2006).

The high speeds, spectacular overtaking moves, horrific crashes, superman drivers, super fast pitstops, team tactics and not forgetting the beautiful women have all become synonyms with this sporting event (F1 Websites, 2005 and 2006).

Annually 16 to 18 events are held in as many countries. Typically every second week from the beginning of the season the complete F1 teams arrive at the next race destination and commence with testing, press conferences and sponsor promotions. On the Saturday afternoon teams have single hour qualifying session, which determines their grid starting positions for the Sunday afternoon race event. On Sunday F1 supporters take their places along side the racing circuits or tune-in for live coverage of the event (Hes and Mountain, 1998; Burgess-Wise, 1999; Treayne and Hughes, 2003 and F1 Websites, 2005 and 2006).

1.1.2 South African F1 GP

The first official SA F1 GP was held in December of 1962 in East London, followed by 23 subsequent events during the period of 1963 to 1993. Twenty of these events were held at the Kyalami Circuit, located approximately 30 kilometres outside Johannesburg. In 1985, SA was excluded from the FIA F1 GP calendar for six consecutive years until 1992, only after some minor revision was implemented at the Circuit (F1 Websites, 2004 and 2005).

The exclusion of the SA GP from the F1 GP calendar post 1993 was mainly attributed to the (F1 Websites, 2004 and 2005):

(i) political instability, at the dawn of the first ever elections in 1994;

(ii) rand exchange rate decline; and

(iii) mover and shakers of the FIA F1 World Championship.

1.1.3 2004 FIA F1 World Championship host countries

In 2004, the FIA F1 season commenced in March and completed in October, with 18 race events on only 4 continents, with only 17 different countries as tabled below (F1 Websites, 2004 and 2005):

Table 1.1: 2004 FIA F1 World Championships Calendar

Dates	Flags	Countries	Event Circuits
07/03/2004		Australia	Melbourne
21/03/2004		Malaysia	Sepang
04/04/2004		Bahrain	Sakhir
25/04/2004		San-Marino	Imola
09/05/2004		Spain	Barcelona
23/05/2004		Monaco	Monaco
30/05/2004		Germany	Nurburgring
13/06/2004		Canada	Montreal
20/06/2004		USA	Indianapolis
04/07/2004		France	Magny-Cours
11/07/2004		Great-Britain	Silverstone
25/07/2004		Germany	Hockenheim
15/08/2004		Hungary	Hungaroring
29/08/2004		Belgium	Spa-Francorchamps
12/09/2004		Italy	Monza
26/09/2004		China	Shanghai
10/10/2004		Japan	Suzuka
24/10/2004		Brazil	Interlagos

Source: F1 Websites (2004)

1.1.4 Stakeholders in FIA F1

Currently (2006) F1 stakeholders can be grouped as follows (F1 Websites, 2004 and 2005):

- (i) Race teams:- Ferrari (Italian), British-American Racing Honda (British), Renault (French), Williams F1 (British), West McLaren Mercedes (British), BMW Sauber BMW (German), Toyota F1 (Japanese), Red Bull Racing (American), Midland (Russian), Toro Rosso (American), and Super Aguri (Japanese).
- (ii) Engine Manufacturers:- Ferrari (Italian), Honda (Japanese), BMW (German), Mercedes Benz (German), Toyota (Japanese), and Cosworth Ford (American).
- (iii) Tyre Manufacturers:- Bridgestone (Japanese) and Michelin (French).
- (iv) Fuel and Oil Suppliers:- British Petroleum, Elf, Esso, Mobil, Petrobras and Shell.

1.1.5 F1 event attraction

Different reasons are speculated for stakeholders attraction to F1, including (Hes and Mountain, 1998; Burgess-Wise, 1999; Treayne and Hughes, 2003 and F1 Websites, 2005 and 2006):

- (i) F1 Teams:- to entertain billions of spectators across the world and for the prestige and the honor of being crowned the best constructor (cars, tyres and fuel) and /or driver in the world.
- (ii) Sponsors:- to be associated with the best motorsport and /or F1 team in the world and to enjoy global exposure.
- (iii) Spectators:- the thrill of the high speed driving and the associated loud sound.

1.1.6 F1 GP hosting cost (2004) and contract expiration dates

Table 1.2 below contain information with regards to the relationship between hosting cost and contract expiration date (F1 Websites, 2004 and 2005).

Table 1.2: FIA F1 World Championships hosting cost and continents

GP	Country	Continent	Contract Expiration Date	Annual Fees	
				Dollars (\$) (Millions)	ZAR (Rands) (at 7 Jan 2005 exchange rate of \$1 = R6.1) (Millions)
Monte Carlo	Monaco	Europe	N/A	0	0
Monza	Italy	Europe	2006	0	0
Albert Park	Australia	Australian	2010	12,5	76,21
Sepang	Malaysia	Europe	2005	15	91,45
Bahrain	Bahrain	Asia	2008	18	109,74
Imola	Germany	Europe	2004	7,5	45,72
Barcelona	Spain	Europe	2011	7	42,68
Nurburbring	Germany	Europe	2004	13	79,25
Montreal	Canada	Europe	2006	13	79,25
Indianapolis	US	America	2006	12,5	76,21
Magny Cours	French	Europe	2004	12	73,16
Silverstone	Silverstone (UK)	Europe	2004	13	79,25
Hockenheim	Germany	Europe	2008	13	79,25
Hungaroring	Hungary	Europe	2006	12	73,16
Spa-Francorchamps	Belgium	Europe	2010	10 (approximately)	60,97
Shanghai	China	Asia	2010	30	182,90
Suzuka	Japan	Asia	2006	9,5	57,92
Interlagos	Brazil	South America	2010	8,5	51,82
Istanbul	Turkey	Asia	2011	13,5	82,32

Source: F1 Websites (2004)

1.1.7 F1 GP event requirements

1.1.7.1 Circuit licences

A racing circuit must obtain a T1-licence to qualify to host a F1 GP testing session. However to host an actual F1 GP the circuit must receive a Grade Circuit Licence and such licence is only obtainable from the FIA (F1 Websites, 2004 and 2005).

1.1.7.2 Financial support

In addition obtaining a licence the event organisers must have sufficient financial resources to not only ensure maintenance and upgrades but more important the payment of the annual hosting fee to FOM (F1 Websites, 2004 and 2005).

1.1.8 FIA F1 World Championship life span

The following are considered some of the key items that may influence the future of the FIA F1 World Championship based on the past observations.

1.1.8.1 F1 movers and shakers (F1 Websites, 2004 and 2005):

- (i) The FOM structure:– Ecclestone is not the majority stakeholder, others shareholders include three banks.
- (ii) Profits:– To increase profits costs have to be reduced and income increased. FOM's income is directly linked to the rate of exchange of the host country to the British pound, television broadcasting rights, advertising and promotions, and the annual hosting fee of the host countries.
- (iii) Rules and Regulations:– FIA F1 has been plagued with rule and regulation changes, all in the pursuit of safety and increase viewer numbers.
- (iv) GPWC treat to the FIA F1 GP World Championship:– Vehicle manufacturers, who own the majority of the F1 participating teams, have threatened to start a rival series to the FIA F1 GP World Championship, unless they enjoy a more equitable share in the profits.

1.1.8.2 Sponsors (F1 Websites, 2004 and 2005):

- (i) Tobacco Laws:- advertising and consumption of tobacco is becoming more restricted. In some F1 host countries, mostly European, tobacco advertising had already been banned in 2004.
- (ii) Fuel suppliers and sponsorship:- supply reserves, civil wars, terrorism, and alternatives fuels are all detrimental aspects to the future of F1.
- (iii) Tyre suppliers:- Bridgestone and Michelin are spending enormous amounts of resources in research and development to compete successfully in F1.

1.1.8.3 Participants (Teams and drivers)

Race teams, manufacturers or independent, like tyre suppliers are spending enormous quantities of resources in research and development to compete successfully (F1 Websites, 2004 and 2005).

1.1.9 Other mega sporting events

FIA F1 GP World Championship is ranked third as the most sort-after sporting event, after the Fifa SWC and the Olympic Games, to host amongst most countries. In comparison (F1 Websites, 2004 and 2005):

- (i) there is a huge difference in the demographics of the spectators in SA with regard to the SWC and the Olympics in comparison to the FIA F1 GP World Championship; and
- (ii) the majority of infrastructure is already existent in SA (as well as in neighbouring countries) to host the Fifa SWC and the Olympic Games effectively and safely in comparison to a F1 GP event.

1.1.10 SABC

At the end of the 2004 F1 GP season the SABC announced that they would not renew their contract with the FOM for live broadcasting of the FIA F1 GP World Championship in SA. However, DStv continued to provide this service to only subscribed viewers in Sub-Saharan Africa from the 2005 season onwards (F1 Websites, 2004 and 2005).

1.1.11 New host countries to FIA F1 Championship

Since 1999 F1 GP has been brought to Malaysia, USA, Bahrain and China. This was however at very high monetary costs, the major cost requirement being circuit construction and annual hosting cost. All these countries had thriving economies at their inception years, in spite of the war in Iraq and Saudi Arabia. Both Malaysia and Bahrain are oil rich countries. In the cases of the USA, China and Malaysia the government not only played a role in the construction costs of the circuit but also contribute to the annual hosting cost (F1 Websites, 2004 and 2005).

1.1.12 Competition to host F1 GP events

SA competed against Malaysia, the USA, China, Bahrain, Mexico, India and Russia since 1998 for the privilege to host a F1 GP event. The (F1 Websites, 2004 and 2005):

- (i) Malaysian GP was included on the FIA F1 GP calendar in 1999, at the expense of the Argentine GP.
- (ii) USA GP was included on the FIA F1 GP calendar in 2000, by increasing the 16 race events per season to 17.
- (iii) Bahrain and Chinese GPs were included on the FIA F1 GP calendar in 2004, at

the expense of Austrian GP and by increasing the previous 17 races to 18 per season.

It is anticipated that the FIA F1 GP calendar will potentially always only consist of 18 race events per season, mainly because (F1 Websites, 2004 and 2005):

- (i) of the season structure, a race every second weekend with some held on consecutive weekends;
- (ii) CART Racing (training grounds of F1 drivers) have 20 race per season; and
- (iii) of the annual winter (Europe season) break being used for resting by all team members, in addition research and development.

Unfortunately this effectively means that for any new entrant there would not only be competition with other new bidders but also with current host countries (F1 Websites, 2004 and 2005). Which also applies additional pressure on current and potential future host countries that:

- (i) host more than F1 GP per year;
- (ii) have outdated race circuits compared to that of the recent entries; and
- (iii) prohibited tobacco advertising.

1.2 Problem statement

Developing countries are increasingly competing for the honours for hosting mega-sporting events, and SA has joined suit. In fact since 1994 SA has mounted bids to host the RWC, CWC, Olympics and the prestigious SWC (F1 Websites, 2004 and 2005).

In 2004 the Omega Consortium lobbied FOM to host a SA F1 GP from 2007 to 2011, but they also lobbied the SA Government to subsidise 50% of the total initial capital and annual hosting fees payable to FOM (F1 Websites, 2004 and 2005). However, at the same time it was claimed that some of the host countries were not profiting by hosting the FIA F1 GP events. Similar to the reports only three years ago that nor Japan or Korea benefited from hosting the even more sort after Fifa SWC.

Late in 2004 the final 2005 FIA F1 GP World Championship season calendar was delayed, as the British F1 GP event organiser was seeking government support in the form of a subsidy, similar to that lobbied for by the Omega Consortium in SA (F1 Websites, 2004 and 2005).

1.3 Purpose of research

1.3.1 Research objectives

1.3.1.1 Primary objectives

The primary objective of this study is to establish whether bringing the FIA F1 GP World Championship back to the African continent will be beneficial to the SA economy and South Africans at large or rather to a selective group of individuals (domestic or international). This especially since there is plea for government to take part in public-private partnership, with the aim to assist with the financial costs.

The study delves into how it is believed that hosting mega-sporting events will assist in increasing their economic growth through promoting countries and thus increasing tourism.

1.3.1.2 Secondary objectives

The secondary objectives of this study are to:

- (i) conduct a broad literature overview of sporting events (mainly focusing on F1), tourism and economic growth in order to establish the opinions of experts in these fields and whether they believe that positive link exists; and
- (ii) identify lessons that can be learnt from previous hallmark sporting event host countries.

1.3.2 Research propositions

The following research propositions have been formulated and will be motivated in the research design:

- (i) **Proposition 1 (P₁)** - There is a minimum link between hosting F1, mega sporting event and economic growth;
- (ii) **Proposition 2 (P₂)** - SA, that is the South African economy and South Africans, can not afford to subsidise the capital cost and annual hosting fee for a F1 GP event whether on an upgraded existing track or a new modern track.

1.4 Demarcation and scope of study

This is an **exploratory study** aimed at investigating the relationship between hosting a F1 GP event and economic benefit in SA. It should be noted that the study:

- (i) comprises the theory of mega sporting events, tourism and economic growth as revealed in the literature review;
- (ii) reviews the reasons why governments fund mega sporting events;
- (iii) reviews the economic impact of mega sporting events, focusing on F1 GP event host countries, in particular UK and Australia, in order to identify some high level

lessons which could be learnt from; and
(iv) reviews the SA F1 Bid Company's business plan and EIA.

This study did however not investigate how SA can use the lessons from other F1 GP host countries but merely suggested some lessons that could be relevant to the SA F1 Bid Company and the SA government.

1.5 Research methodology

An exploratory research approach was adopted for this study and such research was based on secondary data available from various literature sources and interviews.

1.5.1 Exploratory research methods

A combination of descriptive and causal research approach was adopted, thus an exploratory research approach (Zikmund, 2003).

1.5.2 Secondary data research

A broad literature search was conducted, combining elements of economics, tourism and mega sporting events, using the Internet as well as a range of economic, tourism and sports journals and textbooks.

1.5.3 Qualitative Research

No qualitative research was conducted as the information was obtained from literature and other secondary data sources, apart from the unstructured interview with Gant (2005).

1.5.4 Definition of the information needed

Opinions as to how important the hosting a mega sporting events to increase tourism and economic benefits are gained from the literature review as well as specialists and the SA F1 Bid Company.

1.5.5 Questionnaire design

No questionnaires were used in this study.

1.5.6 Sampling, data collection, data analysis, nature and form of results

This study is primarily based on secondary data, thus sampling, data collection, data analysis and a report on the nature and form of the results was not executed.

1.6 Chapter outline

The current chapter described the problem statement, objectives, propositions and background as to why the study was conducted. The rest of this study is divided into the following chapters:

- **Chapter 2: Sports and tourism literature review:**– This chapter provides a broad overview of sporting events, (mainly focusing on FIA F1 GP World Championship, the International Olympic Games and the SWC) tourism, and the sport-tourism inter-relationship in order to establish the opinion of experts in these fields.
- **Chapter 3: Economic impact assessment literature review:**– This chapter provides a broad overview of an EIA, EIA multiplies, real EIA findings, and recommendations to executing successful EIAs in order to establish the opinion

of experts in these fields.

- **Chapter 4: Sports and recreation in South Africa literature review:**– This chapter provides a broad overview of how sports and recreation is dealt with in SA, with particular reference to hosting of major international sporting events.
- **Chapter 5: South African F1 bid literature review:**– This chapter provides a broad overview of the SA F1 Bid Company and their bid.
- **Chapter 6: Lessons learnt and conclusions:**– This chapter explores lessons from the literature review and concludes with a review of the study propositions.

CHAPTER 2: SPORTS AND TOURISM LITERATURE REVIEW

2.1 Introduction

Sports and tourism have established itself as global multi-billion rand industries worldwide. Experts agree that the two industries are linked, but to what degree is were expert opinion divert. The commercialisation of major sporting events has made such event internationally attractive and has placed many organisers and participants amongst the richest men in the world. International attractiveness came about as a result of the global marketing potential for host countries of such events, specifically with regard to tourism and business investment.

2.2 Sports industry

The sports industry includes a variety of sports oriented products and buyers. The product offering includes sports, fitness, recreation, or leisure activities and their related goods and services. The buyers include businesses and consumers from all populations (Pitts and Stotlar, 1996).

2.2.1 Sports commercialisation

In the last two decades, sport has moved from being the past time to a business as a result of the process of commercialisation, which has let sports managers and organisations to become concerned with business principles. This commercialisation of sport has two aspects (Houlihan, 2003):

(i) The first aspect has been an increase in the commercial operations of sport.

Sport organisations have become focus on maximising revenue, using this

principle as the underlying rationale for decision-making and strategic development. As a result expenditure on sponsorship, television rights, players' salaries and sports betting has risen. In the past few decades the sport organisations have sought to optimise the opportunity to generate revenue by adopting a business approach to the management of sports.

- (ii) The second aspect of commercialisation has occurred within not-for-profit or state sport organisations. These organisations have undergone substantial cultural and operational change within the last decade, as managers have moved toward a businesslike approach in the management of the organisations. This led to changes in the basis for decision-making in these organisations that have come to reflect those of commercial organisations. The commercialisation of not-for-profit or state sport organisations has been primarily as a result of a push towards efficiency, effectiveness and quality. This, alongside the increasingly competitive sports markets led these organisations to adopt the same strategies as profit orientated organisations. The most recognised example of this is the IOC.

It is apparent that commercialisation has been the driving force behind the development of sport as a business, resulting in an industry that provides revenue for national and local economies through event revenue, taxes, employment, tourism and sponsorship.

This commercialisation has been brought about primarily by the following four factors (Houlihan, 2003):

2.2.1.1 A trend towards sports spectating

In return for revenue, spectators and sponsors have high expectations and given the large amounts of money involved in sponsorship, gate receipts and television rights, sport needs to be managed as a business venture.

2.2.1.2 Changing technologies

The impact of television on sport has been significant and has forced the commercialisation of sport by requiring sport providers to develop the business practices necessary to deal with the demands placed on their sport by spectators requiring entertainment. Internet technology has also become increasingly important.

2.2.1.3 Increasing competition

Sport organisations are operating in an increasingly competitive market, with competition coming from other sports and leisure providers, both locally and globally.

2.2.1.4 Professionalisation of sports management

The presence of strategic planning, including human resource and marketing plans, have led to improvements in professional practices. This professionalisation has been brought about by two main factors:

- (i) a growing programme of education and training for those who wish to become sport managers; and
- (ii) the academic study of sports managers has initiated research aimed at analysing

and evaluating the management of sport organisation in order to establish best practices.

2.2.2 The International Olympic Games

The International Olympic Games is perhaps the best example of the direction that sport has taken in the last few decades. At the very first modern Olympic Games in 1896, financial pressure led organisers to sell souvenir stamps to raise money. By 1924 corporations were paying to advertise within the Olympic Stadium. As time passed, the number of athletes, countries and events in the Games increased substantially which drastically increase the costs associated with managing the Games. The necessity of private financing of the games became obvious following the 1976 Summer Games in Montréal. Taxpayers financed the Games, at a \$1 billion deficit. The potential of commercial financing of the Games was not seen until the 1984 Summer Games in Los Angeles. Under the direction of Peter Ueberroth, the Los Angeles Games raised \$125 million in corporate sponsorships and realized a \$222 million profit (Pope and Turco, 2001).

A fundamentally different event from its amateur beginnings, the 2000 Sydney Olympics accommodated over 15,000 athletes and support staff from 199 nations; hosted 17,000 media representatives and coordinated a workforce of more than 100,000, including 62,000 volunteers. The total cost for staging the Games was £2.4 billion, however, it has been estimated that the Games would reduce Australia's current account deficit by 1.25% of the GDP. The event had 103 sponsors and providers, including IBM, Coca-Cola and Visa. More than 91% of all tickets were sold for the Games with an average price of £50 and it was estimated that 6-7 million

people watch the Games in person. Worldwide billions of people followed the competition on television, sold for £782 million (Houlihan, 2003).

2.2.3 The business of motorsport racing

Houlihan (2003) suggest that today's F1 car is at the cutting edge of technology. This sport, often compared to a 'miniature space program', consumes a large amount of capital. Sponsors pay teams between £9 million and £35 million per year, for its company insignia to appear on the racing cars. The commercial attraction of the sport is so great that two sponsors, Benetton and British American Tobacco purchased teams. Companies are prepared to pay such large amounts because of the enormous television audience that F1 attracts worldwide. Billions of viewers tune in to watch the FIA F1 GP Championship.

In terms of worldwide audience it is second only to the Summer Olympic Games and SWC. All of those involved in F1 are becoming richer. In the early 1990s Michael Schumacher signed a deal with Ferrari worth a reputed £14 million per year, which was later increased to £18 million. Notably in 2000 Bernie Ecclestone, the man primarily credited with the commercialisation of F1, was named Britain's richest man (Houlihan, 2003).

2.2.4 Financing sport

An increasing number of sport managers face the daunting challenge of coping with a situation in which traditional revenue sources are declining while the costs are rapidly escalating. In recent years, traditional sources of revenue (tax support, media revenues, and in many cases receipts) have all declined. Many sport organisations

are sustaining substantial budget cuts, forcing changes in the traditional patterns of operation. Maintaining programs even at current levels requires that managers learn to do “more with less” or to find alternative sources for funding (Howard and Crompton, 1995).

Very few professional sports companies are publicly held corporations. Ownership in most cases is largely in the hands of private individual, families, or close held corporations, all of which are under no legal obligation to disclose detailed financial information about their operations. Although the precise magnitude of economic problems facing professional sport is difficult to determine, it is apparent that owners in the 1990s faced financial pressure (Howard and Crompton, 1995).

2.2.4.1 Incidence of public subsidisation

The most egregious example of public subsidy of a private organisation sports event is probably the 1976 Montréal Olympic Games. The popular Mayor who sought the Games viewed it as a way for Montréal to become recognised as a world-class city, and he assured its residents it would not require a substantial subsidy. However, the final public subsidy exceeded \$1 billion. A member of the Montréal City Council stated that it was an unqualified disaster and they would pay every day of their lives for a ‘two-week party’ that most of them could not attend. In 1999, 14 years after the Games, Montréal still had \$450 million of the debt still outstanding (Howard and Crompton, 1995).

2.2.4.2 Forms of public subsidy

The forms in which a public subsidy can be packaged vary widely, but the following examples are illustrative of some of the more common components included in these packages (Howard and Crompton, 1995):

- (i) Using municipal bonds that can be issued at interest rates below those paid by private organisations to pay for sports facilities.
- (ii) Charging a lease fee below what would be paid to a private organisation for the facilities.
- (iii) Foregoing property taxes that should be paid on the facility if it was privately owned.
- (iv) Investing in infrastructure associated with the facility.
- (v) Using in-kind public services, for example, police services, without charging the market rate for them.

2.2.5 Benefits of subsidies

2.2.5.1 Increased community visibility

Professional sports franchise guarantees a significant amount of media coverage for the city in which it is hosted (Howard and Crompton, 1995).

The instrumental purpose and value of high exposure can be found in Adelaide's investment GP event. This was considered the first step in marketing Adelaide to international markets. City management felt that any promotion to create market knowledge of what Adelaide had to offer as an international visitor destination could only be effective after potential visitors knew it existed and where it was located. Achieving this prerequisite awareness was a considerable hurdle to be overcome, as

the cost and effort in doing so for a long-haul destination can be quite high. Therefore the F1 GP influence was quite valuable in that it would be difficult to achieve by alternative means (Howard and Crompton, 1995).

2.2.5.2 Enhanced community image

Increased exposure offers opportunities for more sharply defining or changing a city's image (Howard and Crompton, 1995).

Promotion of the Adelaide GP by both organisers and sponsors focused on the action and glamour aspects that dominate the image of the event. The event became recognised as part of the Adelaide tourism product and hence became strongly associated with the city's image. The F1 GP was used to spearhead the "Adelaide Alive" image which was intended to replace Adelaide's traditional unexciting image (Howard and Crompton, 1995).

2.2.5.3 Stimulation of other development

The notion that a sports event or facility will stimulate additional development and thus contributed to expansion of a city's tax base is at least in part a consequent of the increased visibility and enhanced image cities believe will accrue from their investment. The types of development envisaged by proponents of this notion can be classified under either complementary development, approximate development or general development (Howard and Crompton, 1995).

Complementary Development refers to the upgrading or initiation of businesses as a result of the demands of services that is indirectly created by the sport facility or

event. For example, it was reported that the Adelaide GP played a catalytic role in motivating some existing tourism operators to upgrade their business in terms of facilities and/or services (Howard and Crompton, 1995).

Complementary and proximate development does not accompany many new sports facilities because they are not physically interwoven with other components of the urban fabric. Sports facilities are designed with the entry and exit of suburban fans with automobiles. Even though they are technically in city parks, their urban integration is limited to supplying parking facilities close to the business district (Howard and Crompton, 1995).

2.2.5.4 Psychic income

Frequently benefits accrue to the collective morale of residence from a sports event, especially if it is successful, these benefits may be termed "psychic income". Those involved in successfully organising a major sports event are likely to grow in confidence and feel a sense of pride in the accomplishment. More generally, however, psychic income refers to the benefit received by many community residents who are not involved in organising and who do not physically attend the event, but, nevertheless, strongly identified with it (Howard and Crompton, 1995).

2.2.6 Tourism industry

The WTO sets international standards for tourism measurement and reporting and also provides the world's most comprehensive tourism statistics (World Tourism Organisation, 2005).

According to the WTO the tourists are visitors for at least one night but not more than 6 months and whose main purpose of visit is other than the exercise of an activity remunerated from within the place visited. Their attitudes about a destination, both positive and negative, may be based upon past visitation, promotions, word of mouth referral or a combination of these (Pope and Turco, 2001).

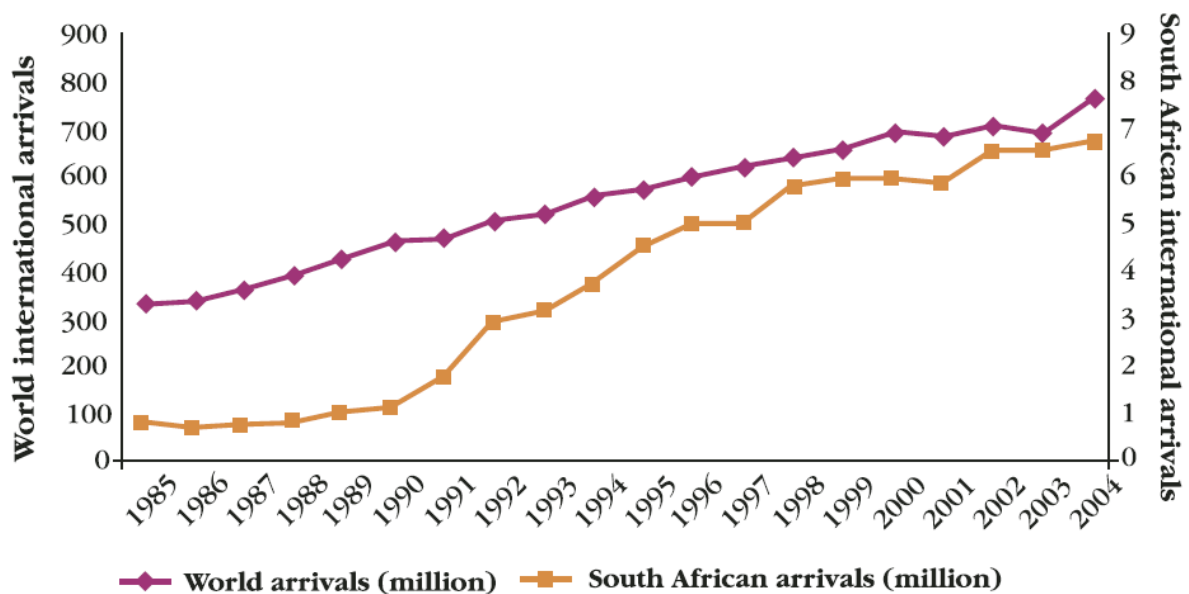
Pope and Turco (2001), highlight that the tourism system has six main components; tourists, transportation, local services, communications, infrastructure and government institutions. However, the tourism industry consists of the businesses that service tourists, including transportation, accommodation (i.e. lodging, drinking and retail shopping), attractions (i.e. people, places and events) and information (i.e. promotions and communications).

Tourism is one of the largest industries in the world and event tourism is an important segment of this growing business (Pope and Turco, 2001). Travel and Tourism continues to be the world's fastest growing industry. The WTTC works with governments and academic researchers to determine the impact of Travel & Tourism on the economy globally and by region. According to a WTTC study, one in every 12 jobs worldwide in 2001 was related to the travel and tourism industry. The industry accounted for US\$4.5 trillion in economic activity in 2001, which the Council estimates will grow to US\$9.3 trillion in 2011. In many countries today, travel and tourism is already the single largest economic activity. WTTC research released in 2003 found that the industry's direct employment currently represents 2.6% of total global employment (Global Travel & Tourism Partnership, 2005).

2.2.7 International tourism trend

Grant Thornton (2005) highlights that worldwide international tourism arrivals have shown a continuing positive long-term growth trend, with interim fluctuations. The Asian crisis, the 1st Gulf war, 9/11 terrorist attack in America, SARS and the Iraq war have contributed to the major ructions in tourism flows.

Figure 2.1: 20 Years of international arrivals.



Source: World Tourism Organisation (2005) and StatsSA (2005)

Clearly apartheid contributed to the pre 1990 sluggish tourism trend in SA and the post 1990 growth trend may be attributed to the eventual first democratic election in 1994. In 2002 and 2003 SA experienced a far better growth trend than the world, but this was not the case for 2004 (Grant Thornton, 2005).

In July 2005, in Madrid the WTO reported that the international tourism receipts in 2004 reached a new record value of US\$622 billion. Europe earned over half of the worldwide tourism receipts (52%), the Americas 21%, Asia and the Pacific 20% and

Africa and the Middle East 3% each. In 2004 there were no major changes in the positions of the main tourism earners compared to 2003 (World Tourism Organisation, 2005).

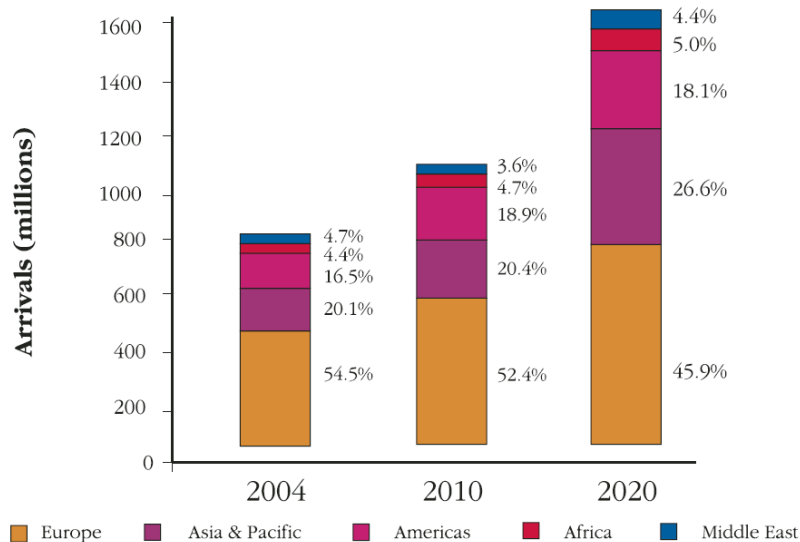
Table 2.1: Top nine world tourism earners

No.	Country	Tourism receipts (US\$ Billions)
1	United States of America	74.5
2	Spain	45.2
3	France	40.8
4	Italy	35.7
5	Germany	27.7
6	United Kingdom	27.3
7	China	25.7
8	Turkey	15.9
9	Australia	13.0

Source: World Tourism Organisation (2005)

The WTO anticipates an ongoing international growth in tourism and predict international arrivals reaching 1 billion in 2010, and more than 1,5 billion by 2020 (Grant Thornton, 2005).

Figure 2.2: World international tourist arrivals - 2004 and projected



Source: World Tourism Organisation (2005)

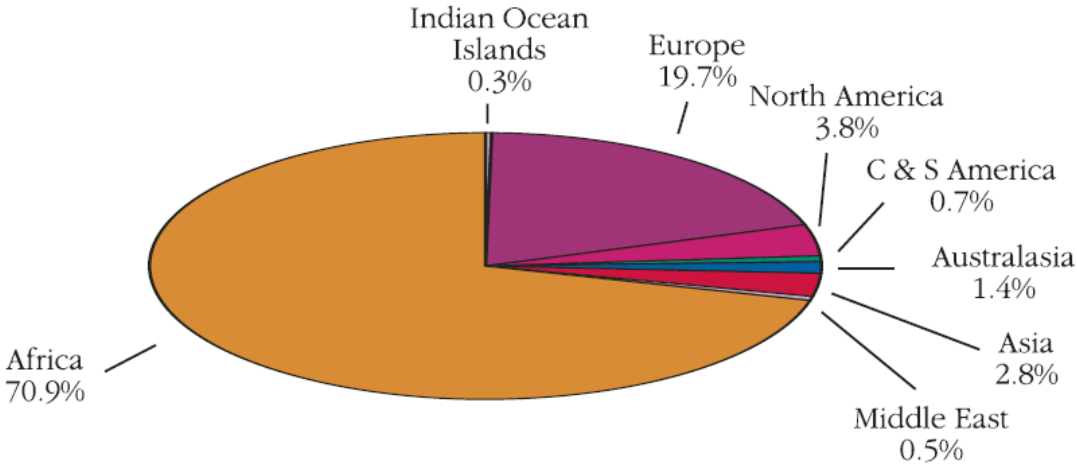
2.2.8 SA tourism trend

Official statistics indicate that overseas tourist arrivals in South Africa increased at an average annual rate of 5.8% between 1996 and 2003, which is virtually double the real growth rate for the economy as a whole. In 2002 the rate of growth of overseas holiday visitors was 12.8%, the year in which world tourism activity declined marginally (World Tourism Organisation, 2005).

Events such as September 11, 2001, the war on Iraq, the deepening of the Middle East crisis, a continuation of anti-American terrorism, and the outbreak of the SARS disease had a slowdown effect on global tourism (World Tourism Organisation, 2005). The UK remains SA's foremost source of overseas tourist arrivals, accounting for almost one quarter of total arrivals.

According to Grant Thornton (2005), SA has the highest tourist arrivals of any African country and represents 20% of the continent's international arrivals, with a composition as depicted below.

Figure 2.3: International Arrivals to SA, 2004



Source: Grant Thornton (2005)

2.2.8.1 Spending and length of stay

Although the common length of stay for foreign tourists is two nights it tends to vary with regard to the purpose of visit and mode of transport, where (Grant Thornton, 2005):

- (i) air arrivals commonly stay for 14 nights, followed by 7 nights;
- (ii) land arrivals stay for two nights; and
- (iii) holiday and VFR visitors the most common length of stay is 4 nights, but for air holiday visitors it is 14 nights.

Table 2.2: Foreign tourist spends in SA (excluding airfare, pre-paid expenses and capital expenditure)*

Purpose of Visit	Spending per Day (Rands)	Spending per Trip (Rands)	Length of Stay (nights)
Holiday	698	8,371	12
Business	900	8,591	10
VFR	620	5,576	9
Other	1,342	7,489	6

*2004 is 1st year capital expenditure has been identified.

Source: Grant Thornton (2005)

Comparatively the spending per day for domestic tourists is far lower, with the average domestic tourist spending R953 per trip or R190 per day. The spending levels vary significantly by destination province, being highest in the Northern and Western Cape and lowest in Limpopo Province (Grant Thornton, 2005).

2.2.8.2 SA Travel and Tourism GDP contribution

According to Grant Thornton (2005), in total, tourism demand in 2004 accounted for R169 billion of spending, with 32.2% generated by personal travel and tourism expenditure (Grant Thornton, 2005).

2.2.8.3 SA travel and tourism employment contribution

Employment growth in 2004 in the travel and tourism industry has averaging 4% - 4,5% over the last 16 years and is projected to grow at a 5,4% - 5,6% for the next 5 years (Grant Thornton, 2005).

2.2.8.4 Key tourism and travel constraints

A number of factors limit the effectiveness of the tourism industry in SA to play a more meaningful role in the national economy. According to the Department of Environmental Affairs and Tourism and South African Tourism (2003) some of these key constraints are:

- (i) tourism has been inadequately resourced and funded;
- (ii) myopic private sector;
- (iii) limited integration of local communities and previously neglected groups into tourism;
- (iv) inadequate tourism education, training and awareness;
- (v) inadequate protection of the environment;
- (vi) poor service;
- (vii) lack of infrastructure, particularly in rural areas;
- (viii) a ground transportation sector not geared to service tourists; and
- (ix) lack of inclusive, effective national, provincial and local structures for the development, management and promotion of the tourism sector.

In addition to these constraints, a more critical problem facing the industry is the growing levels of crime and violence on visitors.

2.3 Sports-tourism interrelationship

The potential of a link between sport and tourism clearly has economic, social and environmental impacts, both negative and positive. Recently these have become increasingly recognised, particularly by commercial leisure industry, which quickly saw the market potential and economic benefits of utilising sports within the development of tourism, and subsequently in its diversification and niche marketing

strategies (Houlihan, 2003).

Initially slow to develop, but increasingly evident, has been a recognition of the importance of a collaborative approach to sport and tourism amongst the government agencies charged with the development planning, policy administration and resource allocation in these fields. In Europe, conscious integration between the bodies responsible for the two separate sectors is still rare, except maybe where major events are concerned. Thus, there remains scope for integration of sport policy and tourism policy in many places in order to produce joint investment strategies, more effective facility development and greater economic and social benefit (Houlihan, 2003).

Only the commercial tourism sector has really embraced and benefited economically from the recognition of the contribution of sport to tourism product development, whether this is in widening the appeal of product, when inflating the tariff of tourism facilities, or in producing new and broader types of holiday packages to include sports participation and/or spectating tourism (Houlihan, 2003).

2.3.1 Sports tourism demand

Houlihan (2003) indicates that sports tourism is more commonly undertaken during short holidays or weekend breaks/trips than much tourism, but is also increasingly significant within longer holidays. Sports tourism tends to be more evenly spread throughout the year, is less focused on coastal destinations, and is more likely to be taken by childless (often young adults), age groups and those with above-average incomes.

Major 'hallmark' events provide opportunity for tourist to take a holiday based solely on high-class sports spectating, or to incorporate sports spectating into a holiday. Travel to a vast array of sports events is now possible, enabled by traditional or specialist tour and travel companies, and sports events have become a major tourism generators. For example, the 1992 Barcelona Olympics attracted nearly 0.5million visitors to the region whilst the 1996 European Football Championship attracted 280,000 visiting spectators in the UK, spending £120 million in the eight host cities and surrounding regions (Houlihan, 2003).

2.3.2 Sports tourism impacts

There is economic benefit locally from sales of accommodation, food, beverages, gifts, admission fees, other spending at facilities, higher fees, and the use of transportation. Thus, there are definite benefits from attracting visitors by using sports facilities as a key part of a tourism product offer. Sports may further generate sponsorship income, inward investment, media exposure, ongoing tourist appeal and secondary multiplier effects. Additionally there are further potentially significant economic benefits to be accrued from additional revenue, employment and infrastructure. The obvious direct benefits of major sporting events are supplemented in most cases by post-event tourism boost. Resulting publicity and the positive influence on the local tourism are clear advantages of staging such events (Houlihan, 2003).

Houlihan (2003) states that although earlier Olympics Games made losses for the host cities, since the commercial success of the 1984 Los Angeles Games, there has

been considerable competition to be the host city for the Games. There is now far greater understanding of the board and indirect benefits to cities, regions and governments of hosting major events, even where there is an initial cost to a city.

The act of winning the Games is a catalyst for bringing forward general infrastructure investment that may have been on the drawing board for a number of years. As a result of the 1992 Games in the Barcelona gained a ring road, a new airport and redevelopment of an area of derelict waterfront for the Olympic Village, as well as the associated spending in the wider region of 422,000 visitors and other event related income (Houlihan, 2003).

The level of public investment is usually justified along these lines, with many cities attaching importance to establishing an entity as a world-class city on the circuits of international business, culture and tourism. At a city level, a major motivator for attracting sports tourism events may be the significant level of central government funding that is often attached to such projects. In fact, the group responsible for initiating the Victoria's successful bid for the 1994 Commonwealth Games cited the infusion of federal funds as one of the most important reasons for putting in a bid. Rarely are major events viable without significant public sector investment. Invariably there is a cost to the host authority, but significant benefits to the wider economy (Houlihan, 2003).

Houlihan (2003) believes that having staged a major event, it is important that cities seek to attract a string of future events. Subsequent events can be staged at a fraction of the cost of the original event as the infrastructure is already in place.

However, the promotional, image and economic effects still persist. Additionally for major events facilities to be sustainable, they further need to be adequate or adaptable for local community use.

2.4 Hallmark events

Sporting events such as the SWC, Commonwealth Games, FIA F1 GP World Championship and the Olympic Games, facilitate tourist participation (non-resident athletes) and spectatorship. These attractions are the main draw card for tourist destinations, and events are enticing to visitors. Event tourism can further serve as supplemental or secondary attraction within host communities. In such cases, the primary reason for visiting a community is another attraction. While visiting a destination, tourist visits events to supplement their activities or to fill in time between other planned activities. Events, as a supplemental or secondary attraction, can be used to further satisfy tourist's needs, extend their length of stay in the host community, and to stimulate economic activity (Pope and Turco, 2001).

Events such as the World Cup of Soccer, Commonwealth Games, FIA F1 automobile racing and the Olympic Games are commonly referred to as '*hallmark events*', because they are able to attract many tourists who have little knowledge or interest in the sport. These events are of worldwide, regional, or national importance in terms of their visibility, and often spawn other attractions that attempt to capitalize on increase tourist volume due to focal attraction (Pope and Turco, 2001).

2.5 Conclusion

The Sports and Tourism industries are big business and there is a definite inter-relationship, defined by a growing sports-tourism. The existence of this inter-relationship has led to governments becoming a prime target to subsidise any financial shortfalls experienced by private sporting event organisers in their efforts to attract hallmark-sporting events. The main selling points for these events are the huge anticipated spending and job-creation expected by the large contingent of sports tourists followed by the subsequent aftermath of tourism increase as a result of the event's international exposure of the host city and the country.

SA has greatly benefited from the tourism industry, particularly after the apartheid era and is currently the leader as the preferred destination of tourists in Africa. However, Africa as a continent has only captured 3% of the worldwide tourism industry, leaving a potential for significant growth potential in this industry. The hosting of hallmark events may be a way to attract more tourists and retaining local tourist during off-peak periods.

CHAPETER 3: ECONOMIC IMPACT ASSESSMENT OF SPORT FUNDING LITERATURE REVIEW

3.1 Introduction

One of the main reasons a business plan is compiled is to obtain funding, making it a vital sales tool for approaching and capturing financial sources such as lenders or investors (Nieman, Hough and Nieuwenhuizen, 2003). Similarly a well founded EIA study will more easily motivate Government Officials to invest public funding in a private undertaking that will be beneficial not only to the private partner but also to the community affected by it (Howard and Crompton, 1995; Sullivan 2005).

3.2 Economic impact analysis

In 1990 the Commonwealth Games' organisers contracted with consultants to conduct an EIA, for the 1994 Games hosted in the City of Victoria in the Canadian province of British Columbia. Prior to this study no Commonwealth Games had conducted a proper EIA study. However, the 1990 study is considered a good example of how not to perform an EIA study. In particular, Howard and Crompton (1995) considered the study to be lacking in the following instances:

- (i) Formal definition of the region on whose economy the impact was supposed to occur.
- (ii) Identifying which expenditures are costs to the region hosting the event and which are benefits, in the sense of being new expenditures within the region due to the event.
- (iii) Estimation of the average expenditure per day per visitor for the defined region.

- (iv) Expenditure switching, typically where expenditure on other products in the region is now diverted to expenditure relating to the Games.
- (v) Estimation of the future tourism as a result of the event, not being based on results of previous events.

Where independent evaluation, free from political pressures or commissioning sponsor, has been conducted with regard to public subsidies for large sporting events, results have not been encouraging. Tracing the evolution of public funding for three stadiums in Houston, Los Angeles and St Louis found that the anticipated benefits never materialised (Howard and Crompton, 1995).

3.2.1 EIA defined

Howard and Crompton (1995) believe that government or local community officials, when experiencing increasing pressures to demonstrate efficient use of public funds, typically commission an EIA. Officials endeavor to assure the public that the government is making a return for any subsidisation given to a private owned sport business, thus convincing citizens of the wisdom of such subsidy. This process is similar to that of a business manager or director substantiating business decisions to the company shareholders. However, the political reality of an EIA is that these studies effectively become nothing more than position papers for proponents or opponents of that particular project. The study is typically undertaken to substantiate a particular position or view that are either proposed or have been adapted by a sport organisation or community-elected official (Howard and Crompton, 1995).

An economic impact can be defined as the net change in the economy as a result of

spending attributed to a specific event. A positive economic impact on a host community will occur where non-residents are a high percentage of the spectators, who further stay overnight in local hotels (Howard and Crompton, 1995). Residents spending at a festival and event sites should be excluded from economic impact calculations since their expenditures do not provide a net stimulus to the local economy. Residents of the local area, even though they may spend money at or near the service sites, presumably would have spent that money in the local area anyway on other non-event related goods and services. Expenditures by residents represent a switching of expenditure from one category to another (Howard and Crompton, 1995).

Economic impact technology has been extended to include measurement of tax revenues accruing to the host government units as a result of the event (Howard and Crompton, 1995).

Non-monetary benefits, such as increased awareness and enhanced image of the host community are more difficult to measure, but are also rather considered secondary impacts of an event (Howard and Crompton, 1995).

3.2.2 Types of economic impacts

Economic impacts as a result of the new expenditure associated with the event are typically composed of direct, indirect, and induced effects. Direct effects are the purchases needed to meet the increased demand of visitors for goods and services. Indirect effects are the ripple effect of additional rounds of re-circulating the initial spectators' money. Induced effects are the increase in employment and household

income that result from the economic activity fueled by the direct and indirect effects (Howard and Crompton, 1995; Sullivan 2005).

3.2.3 Prevalent abuses in economic impact studies of sporting events

Howard and Crompton (1995) believe that, if implemented knowledgeably and with integrity, EIA is a powerful and valuable tool despite its weakness and limitations. Stating that the only way to address misuse of this tool is to reject misleading and mischievous applications such as:

- (i) Inclusion of local spectators:- expenditure that originates from the local community offers no net economic stimulus and should not be considered as economic impact.
- (ii) Failure to exclude 'times-switchers' and casuals:- expenditure that originates from out-of-town event spectators that originally intended to visit the community but now rescheduled their visit to coincide with the event. Similarly others may attend the event, having already been in the community, attracted by other features. Ultimately expenditures by these time-switchers and casualties would most likely have occurred in the community anyway without the existence of the event, and cannot be considered as true new money.
- (iii) Use of a 'fudged' multiplier coefficients:- a 'conservatively estimated multiplier' is established stemming from budget inadequacies and lack of expertise to derive a multiplier coefficients, which inevitably translates into an overestimated economic impact.
- (iv) Claiming total instead of marginal economic benefits:- where benefits generated by a public-private partnership of an event are attributed only to the government contribution, which translates in an unrealistically favorable benefit-cost ratio to

the government.

(v) Omission of opportunity costs:- for any investor, even that by government on behalf of the community, an investment choice should meet the criterion of highest or best possible return. The consideration of the opportunity cost, the value of the best alternative not taken, of this decision is consistently ignored in EIAs. Analysts typically consider all factors of production as having a zero opportunity cost to the community, thus the investment could not have been better employment elsewhere.

(vi) Measure only benefits, omitting costs:- following on opportunity costs considerations, analysts seldom perform a cost-benefit analysis aimed at identifying the most suitable investment opportunity. Although EIAs is focused at establishing the economic effect of the additional expenditure attributable to an event, negative or cost impacts are seldom considered as translating it into economic values is difficult. Howard and Crompton (1995) highlight these neglected negative or cost impacts as follows; traffic congestion, road accidents, vandalism, police and fire protection, environmental degradation, garbage collection, increased prices to local residents in retail and restaurants, and disruption of residents' lifestyles.

3.3 Multipliers

3.3.1 Principles of the multiplier concept

Howard and Crompton (1995) compare the economy to a lake, suggesting any incoming water to represent new expenditure by event spectators and visitors. Thus, the rippling effect of the incoming water would be representative of how the initial expenditure by event spectators and or visitors has an effect further than that at the

initial point of entry. Howard and Crompton (1995) term this rippling effect, a multiplier.

3.3.2 Types of multipliers

Howard and Crompton (1995) state that economists commonly distinguish between the:

- (i) Sales or transactions multiplier:- a measurement of the direct, indirect and induced effect of an extra unit of visitor spending on economic activity within the host community.
- (ii) Income multiplier:- a measurement of the direct, indirect and induced effect of an extra unit of visitor spending on the changes that result in level of households incomes in the host community.
- (iii) Employment multiplier:- a measurement of the direct, indirect and induced effect of an extra unit of visitor spending on employment in the host community. It shows how many full-time equivalent job opportunities are supported in the community as a result of the visitor expenditure. This is however the least reliable of the multipliers, because it assumes that all existing jobs are fully utilised and an increase in external visitor spending will inevitably lead to an increased level of employment. This was exactly the case with regard to the Adelaide F1 GP, where interviews with managers in the transportation and restaurant business indicated that they had increased the working hours of their existing employees and/or employed casual staff in lieu of full-time staff. Thus, the employment effects of the F1 GP were mostly marginal and short-lived and resulted in increased productivity rather than a growth in the employment.

3.3.3 Deriving multipliers

Multipliers are derived from input-output tables that disaggregate the economy into industries and examine the flow of goods and services. In essence, an input-output model can be likened to a car security-tracking device. Thus, it keeps track of the transactions and flows of new money throughout an economy. The process allows a separate multiplier to be applied to each of the major industry groups or sectors affected by the initial direct expenditure (Howard and Crompton, 1995).

3.4 Real EIA Findings

3.4.1 Analyses of Economic Impact Statements

Matheson (2002) states that nearly every national or international sporting event is accompanied by claims of enormous benefits will accrue to the host cities. Typically even larger figures are produced for multi-day events such as the Olympics Games or SWC. Pre-Olympics estimates for the 1996 Atlanta Games estimated that the event would generate \$5.1 billion in economic activity (direct and indirect), in addition to the generation of 77,000 new jobs (Matheson, 2002).

According to Grant Thornton (2003), the consulting firm that compiled the financial impact report for SA's World Cup bid committee, the 2010 World Cup will (2010 Soccer World Cup, 2004):

- (i) contribute R21.3 billion to SA's GDP;
- (ii) attract an estimated 235,000 visitors, expected for the tournament;
- (iii) generate an estimated R12.7 billion in direct spending;
- (iv) create an estimated 159,000 new jobs;
- (v) generate an extra R7.2 billion for the SA Revenue Service.

(vi) result in an estimated R2.3 billion to be spent on infrastructure building and upgrades in the lead-up to the event.

The above numbers were quoted in local SA newspapers during the beginning of 2006 as part of a survey conducted by the Human Science Research Council in SA with regard to South Africans' views on the job creation and economic impact of the 2010 SWC. The survey found that over 40% of the respondents did not believe the benefits of hosting the event would be long-term. Government refused to provide detail to the EIA or survey during the compilation of this study.

3.4.2 F1 specific case studies

3.4.2.1 European GPs

In 1997 the FIA (1999), conducted an EIA on the European GPs. The results of the summary with regard to spectator spending as a result of the respective GP events are tabled below.

Table 3.1: Economic Impact of the European Grand Prix, 1997 (US\$)

GP	Race Week Attendance	Sunday Attendance	Estimated (\$million)	Spending
Austria	234,500	110,000	37.00	
Belgium	203,000	81,000	33.20	
UK	182,000	90,000	50.20	
Europe	276,500	115,000	66.30	
France	184,500	75,000	53.70	
Germany	258,500	91,000	47.70	
Italy	188,000	90,000	43.90	
Monaco	222,432	66,505	71.50	
Portugal	55,600	37,300	10.70	
San Marino	176,975	81,353	42.20	
Spain	134,700	65,000	33.60	
Total	2,116,707	902,158	490.00	

Source: F1 Websites (2005)

3.4.2.2 2004 British F1 GP

The Motorsport Industry Association (2003) through GHK Consulting Ltd completed an economic impact assessment of the 2002 FIA Foster's British F1 GP at Silverstone. The exercise was completed on behalf of Brands Hatch Circuits Limited, East Midlands Development Agency, Advantage West Midlands and South East England Development Agency. Brands Hatch Circuits Limited holds the rights to promote the British GP and this is by commercial arrangement with FOM. The BRDC is the landowner of the Silverstone Circuit, which is leased to Brands Hatch Circuits Limited on a long-term basis.

The objectives of the assessment were to estimate the economic impact of the event, examining effects on income and employment in the area around Silverstone Circuit and the UK economy as a whole (Motorsport Industry Association, 2003).

The Motorsport Industry Association (2003) study concluded that the event did in fact have a positive economic impact on the hosting community with regard to income and employment. Interesting facts that were revealed included:

- (i) that spectator composition is 95% local and 5% international;
- (ii) 44% of the international spectators indicated the F1 GP was the main reason for their visit. On average the visitors stayed 13 nights in the UK;
- (iii) that spectator composition could further be divided into 85% independent spectators, 7% corporate guests and 8% working on-site;
- (iv) 1,150 jobs (400 within the host region) in the UK are attributed to the event;
- (v) the estimated income attributable to the event was £17.2 million within the UK, of which £5.6 million benefited the study region of the event;
- (vi) the estimated total expenditure attributable to the event was £34.7 million in 2003, from the following sources in decreasing contribution percentage: spectator spending (33%), tickets sales (29%), team spending (15%), media spending (1%), corporate hospitality (13%) and helicopter travel (10%).

The Motorsport Industry Association (2003) considered the results of the study with regard to expenditure attributable to the event compares to that estimated in the 1997 Economic Impact of the European GP study conducted by the FIA, taking into account the drop in spectator numbers since 1997.

3.4.2.3 Australian F1 GP

In the 2002 annual report of the AGPC claimed that the economic benefits of hosting the FIA F1 GP in Albert Park Reserve outweighed the cost accrued to host community of Victorian. This report initiated an independent cost-benefit analysis by

the Save Albert Park Inc (2003) and some of the key focal areas of the analysis included:

- (i) Economic reports on the event carried out in 1996 and 2000 using Input
- (ii) Output/multiplier methodology, (NIEIR reports) did not establish that the F1 GP produced a net economic benefit.
- (iii) The limitations and inherent flaws associated with Input Output analysis have been identified in two prior publications: *the performance audit by the ACT Auditor General of the Canberra V8 car race series, and a 2003 conference paper by economics academics Dwyer, Forsyth and Spurr.*
- (iv) An indicative cost-benefit analysis conducted by Save Albert Park Inc. using the ACT Auditor General's methodology showed the event produced a loss or only a relatively small profit.
- (v) The event incurs a substantial annual operating loss which up to and including 2002 amounted to a total of over \$40 million.
- (vi) Capital investment costs in 1995, plus subsequent race related costs total over \$73 million, which represents an annualised cost of approximately \$4.75 million.
- (vii) There is no evidence that the media exposure generated by the event has any significant effect in promoting Melbourne as a tourist destination.
- (viii) The AGPC uses patron attendance numbers to claim a high level of public acceptance of the event, and as a basis for economic impact studies. Attendance counts carried out by Save Albert Park Inc. over the past six years indicate that the 'official' attendance figures published by the AGPC have exaggerated actual attendance by 40% or more.
- (ix) The reconstruction of the park roads into a car race circuit has led to a marked increase in traffic accidents, at an increased cost estimated to be close to \$20

million.

In their submission to the Victorian Auditor-General, the Save Albert Park Inc. concluded that the above statements were accurate. Their analysis found that the costs of hosting the Australian F1 GP at Albert Park Reserve were very significant and would continue to increase rapidly. Save Albert Park believed that taxpayers funds could be better employed (Save Albert Park Incorporated, 2003).

3.5 Hallmark motorsport events in SA

3.5.1 MotoGP at Welkom - Phakisa Free Way

Phakisa Major Sport Events and Development Corporation, as an economic growth initiative in Welkom by the Free State Government, developed Phakisa Freeway in 1999 at a cost of R93 million (over 65% were funded by local businesses). Phakisa Freeway is an international standard, multi-purpose motorsport facility in the Free State. In April 2004 the MotoGP at Phakisa was financed by Dorna Promoción del Deporte SA (Dorna), commercial rights holder of the MotoGP, after it was rumored that 2003 would be the last year of MotoGP racing in SA unless the local government provided assistance. The Free State Government initially indicated that it would assist in the staging of the event in 2004, but reconsidered, reasoning that the locals need houses and not a motorcycle sport (Phakisa Freeway, 2005).

The literature survey yielded no EIA study report for Phakisa Freeway, but Phakisa Major Sport Events and Development Corporation states that the event (Phakisa Freeway, 2005):

(i) attracts 5,000 foreign tourists, that brings an economic injection of R117 million

into the Free State economy;

(ii) revenue totaled approximately R350 million after only three GP events, of which R49 million was paid to the South African Treasury Department in the form of VAT; and

(iii) directly benefit the Free State and South Africa through immensely valuable market exposure through the international television broadcasts of the GP events.

The broadcasting reaches more than 350 million people in 200 countries and has amounted to a total of 183 hours airtime per GP.

3.5.2 A1 Grand Prix Series motorsport

In 2005, during the winter break of the F1 GP season, the A1 GP series were launched. The series were aimed to not only challenge F1 but also take advantage of the believed F1 shortcomings, which included (F1 Websites, 2005);

(i) participation of 24 teams, each from different countries;

(ii) teams compete with the same equipment, thus making the drivers ability and team tactics the deciding factor; and

(iii) each participating country is allowed to hosts a GP event in their country.

Sheikh Maktoum, a member of Dubai's Royal Family, and two South Africans Brian Menell and Tony Teixeira, founded the series. Menell is the chairman of South African natural resources company Energem Resources Incorporated (formerly Diamondworks Ltd). The firm's vice-chairman is Sheikh Maktoum, while Teixeira is the CEO. Menell is also director of AngloVaal Mining (F1 Websites, 2005).

Mr Tokyo Sexwale leads the South African A1 GP entry. In January 2006 the South

African leg of the series was held in Durban, on a street circuit, as the city does not have a permanent GP track. Major infrastructural changes were required to accommodate the race, which contributed the major portion of the estimated R91.6 million cost for staging the event.

Funding was shared as follows (F1 Websites, 2006):

Partner	Amount (R million)
A1 Holdings:	30.7
A1 Team SA:	36.0
eThekweni Municipality and the KwaZulu-Natal government:	24.9
Total:	91.6

The literature survey yielded no EIA study (pre and/or post) report for hosting the A1 GP in Durban the event hosting, but the:

(i) Durban city officials stated (F1 Websites, 2006);

- that the event was expected to attract 110,000 spectators to Durban with more than 50% from outside KwaZulu-Natal and the country;
- it expects the influx of visitors to inject more than R100million into local economy; and benefits that would accrue from worldwide television publicity is incalculable.

(ii) Singh and Associates Strategic Solutions (2005) estimated the direct economic impact of the event would be in the region of R280 million, with R56 million being generated from ticket sales, R140 million in tourism spend and R90 million in construction costs.

3.6 EIA recommendations

Lee (2001), a doctoral candidate in a Sport Management Program at United States Sports Academy, states that conducting an EIA study is important because it becomes a useful tool to evaluate a community's development both economically and socially. He highlights that professionals who have the responsibility of conducting an EIA study should consider the following suggestions:

- (i) Limiting and defining the purpose of study can save study time and make the outcomes more useful and specific.
- (ii) A number of alternatives that should be considered depend upon the number of realistic options available and on other constraints, such as time, information, funding, and political realities. It is a very useful activity for the leadership to reduce the number of alternatives to the realistic three or four to include in the analysis.
- (iii) Prepare enough information to conduct a meaningful economic impact study. In order to produce exact and non-arguable results, appropriate and diverse information for the study like a demographic profile on potential visitors and/or study respondents, the degree of economic development for the potential hosting community, tax impact, and other social guidelines. This information will be effective to make research questionnaire and other necessary research tools.
- (iv) Conduct a study based not on assumption, but on evidence and information. One of the arguable issues in economic impact studies is that the researcher and/or proponents of the event rely on their assumptions. These assumptions lead to incorrect results and apply to community's decision on hosting a sport event.
- (v) Consider all possible impacts for the community not just on economic impact.

Economic impact studies should contain economic as well as social impacts. Frequently, the negative impacts on community life such as vandalism, increasing traffic congesting, environmental degradation are not considered and reported. Sometimes, however, these social impacts can be more important to a community than the economic impact.

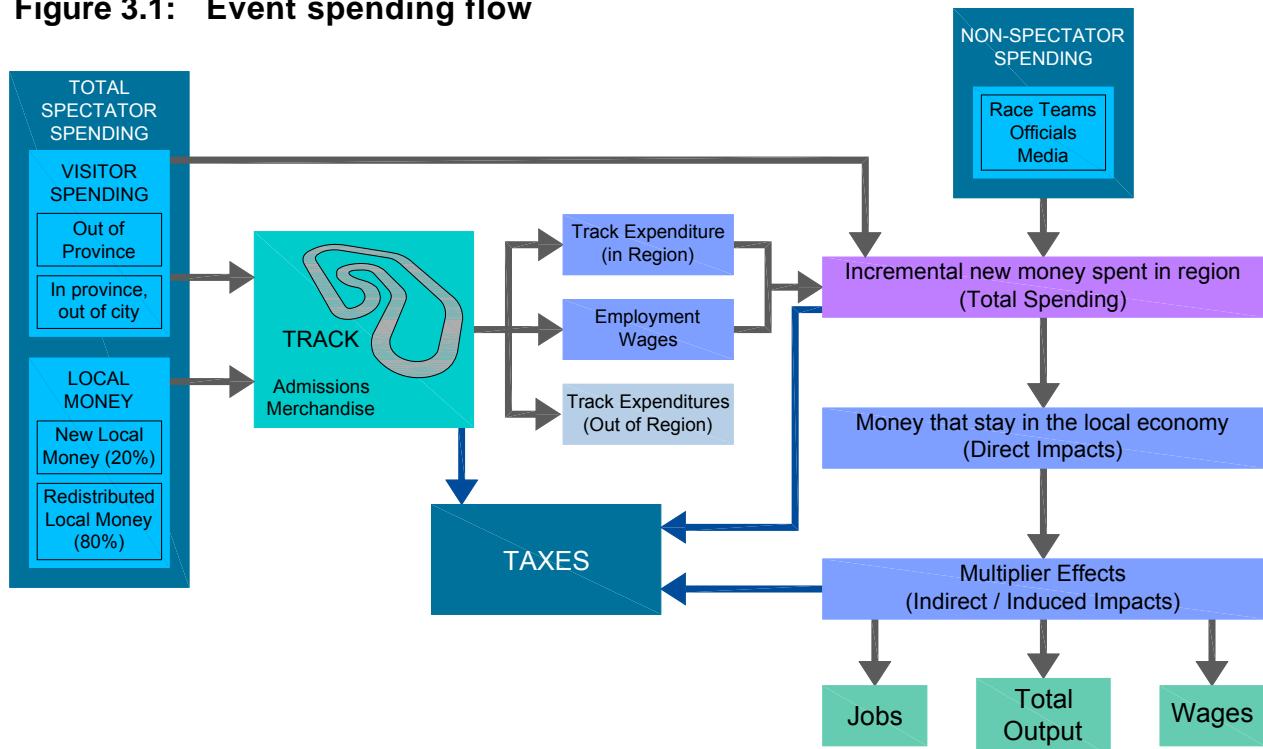
(vi) Do not exaggerate the results of study. Because the results of an economic impact study can make a decision to use public tax supports, the political sponsor may tend to exaggerate or misinterpret the results of the study.

(vii) On the side of estimating economic benefits, under estimation is better than over estimation. The proponent of a sport event frequently over estimates on their projects to attract public approval and political support. This is related to moral and ethical issues. Even if no one can produce an exact estimation on sport events, the researchers should keep the study based on the result data. Also, based on the results, other alternatives for the sport event can be considered.

3.7 Conclusion

Taking into account the key aspects of conducting an EIA study as discussed in this section a summary of the fundamentals of an EIA is depicted in Figure 3.1 below.

Figure 3.1: Event spending flow



Source: Motorsport Industry Association (2003) and Checkered Flag Task Force, (2004)

Matheson (2002) states that EIA studies are used by sporting organisers as irrefutable proof to justify the use of public funding on sports infrastructure. Ultimately, the real question faced by any receipt of an EIA study is whether the study was conducted by agents with a vested interest in the outcome of the study and whether the study can ever be considered an objective examination of the true economic impact of an event. To this end economists widely believe that event-sponsored studies exaggerate the economic impact of large sporting events on local communities (Matheson, 2002). This stance is substantiated by the lack of EIA study reports available for review, the reluctance of Government Officials or their agents to

release such reports to the public and the lack of post-event EIAs. However, this should not necessarily mean that an EIA is a waste of scarce human and financial resources but merely that critical steps should be introduced to ensure the credibility of the study. These may include:

- (i) Lee's (2001) EIA study recommendations.
- (ii) obtaining experienced and reputable consultants with specific knowledge of the economic impact of events. Considering the publicity and scrutiny surrounding EIA studies, it is imperative to select a consultant that not only has substantial experience, but also has a reputation for consistently providing an accurate assessment of economic impact.
- (iii) conducting of during and post-event EIA studies to determine the accuracy of the pre-event EIA study, as was conducted by the Department of Industry, Tourism and Resources in Australia with regard to the 2003 RWC.

CHAPETER 4: SPORTS AND RECREATION IN SOUTH AFRICA LITERATURE REVIEW

4.1 Introduction

The South African Government Information (2006) states that since 1994, sport has been making a substantial contribution to nation building and reconciliation in SA. In addition a survey conducted by Standard Bank has found that tourism outstripped gold earnings as a revenue generator for SA. Considering that tourism is recognised as a major growth sector internationally, with an estimated 30% of all tourism comprising sports tourism, SA clearly need to develop and manage this sector to ensure it maintains and increase its share of the market. However its approach should be strategically coordinated to ensure maximum potential success with minimal investment.

4.2 Event hosting authorisation

A city and/or national federation that intends to bid for and host international sports events is compelled to obtain written authorisation from the Minister of Sport and Recreation beforehand (South African Government Information, 2006).

4.3 South African Sports and Creation

SRSA and the SASC are responsible for policy, provision and facilitation of sport and recreation delivery in the country (South African Government Information, 2006).

4.3.1 Sport and Recreation South Africa

The South African Government Information (2006), indicate some of the key responsibilities of the SRSA to include:

- (i) supporting the Minister of Sport and Recreation;
- (ii) co-ordinating and contributing to the drafting of legislation on sport and recreation;
- (iii) subsidising clients of the SRSA in accordance with the Public Finance Management Act, 1999 (Act 1 of 1999), its concomitant regulations, as well as the SRSA funding policy; monitoring the application of such funds; and advising clients on the management of their finances; and
- (iv) managing inter- and intra-governmental relations.

4.3.2 South African Sports Commission

Under the guidance of the Minister of Sport and Recreation the SASC Act, 1998 (Act 109 of 1998), provides for a commission to administer sport and recreation. In terms of the Act, the Commission must respect the autonomy of sport and recreational organisations while acting in an advisory capacity to the Minister (South African Government Information, 2006).

According to South African Government Information (2006) the SASC commenced operations in April 2000 and some of its key responsibilities include:

- (i) improvement of the quality of international events hosted by SA;
- (ii) enhancement of the bidding for and hosting of international events;
- (iii) assistance to federations and organisations that have been granted permission to host international events;
- (iv) provision of information, and financial and logistical resources; and

(v) identification of priority sports on which the country's resources will be focused.

4.4 South African Sports Commission bidding manual

The SRSA and SASC have drafted regulations and administer and control the hosting of and bidding for major international sports events. According to SASC (2003), to ensure compliance to these regulations they have prepared a guide for Sport and Recreation Organisations to assist with bidding to host an international sport and recreation events. The main reason for the creation of this Guide is a clear recognition by the SASC and Sport and Recreation South Africa that:

- (i) SA has become an attractive destination for staging international sports events.
- (ii) any national sports federations and other organisations are keen to bid for and host events so that their sport code receives exposure nationally and internationally. They believe that bidding for and hosting events will provide a vital injection for sport development in general.
- (iii) the sports industry and the hosting of events have also become integral to the tourism and marketing strategies of various cities.

SASC (2003) highlight that the Guide is based on experience gained while bidding to host the 2004 International Olympic Games and the 2006 SWC, in addition to experiences gained by hosting the RWC and African Cup of Nations. The Guide profiles the complete process starting with the decision to submit a bid to finally submitting the bid. Key initial steps in the Guide highlight the need to:

- (i) ensure that the event fit the fabric of the community; ultimately that there will be adequate support for the event and that the majority of infrastructure is existent within the local host community or there will be no negativity to the provision of a

government subsidy.

- (ii) conduct a feasibility study; including an investigation of financial, economic, social, sport and strategic aspects.
- (iii) obtain endorsements within the government and private sector; including the SASC (nationally, provincially and locally), local municipality (who is responsible for support infrastructure in the area), local businesses that may be involved in the sponsorship, etc.
- (iv) meet the criteria of the event owner/s; technical, communication, safety and security requirements that the event owner may specifically require before approving the submitted bid.

It is widely believed that this Guide was very instrumental in securing the 2010 SWC (SASC, 2003).

4.5 Sports tourism project

South African Government Information (2006) provides inside to the Government strategy with regard to Sports and Tourism in SA. SRSAs have initiated the Sports Tourism Project, with the primary motivation of exploiting the substantial benefits that the tourism industry presents for job creation in SA. It hopes to enhance the sustainability of the Project through:

- (i) promoting 'home-grown' events such as the Comrades Marathon, Dusi Canoe Marathon, Argus Cycle Tour, Midmar Mile (swimming), Berg and Breede River Canoe Marathons and the Two Oceans Marathon, which attract large numbers of international participants and spectators;
- (ii) working closely with South African Tourism and the Department of Environmental

Affairs and Tourism to promote more attractive tourist packages for spectators who want to accompany touring sports teams to South Africa;

(iii) assisting agencies, in line with a major events strategy and the hosting and bidding regulations, to attract major international sports events to South Africa; and

(iv) marketing SA's sport and recreation facilities, such as golf courses and beaches, abroad.

4.6 Conclusion

The SA Government closely 'regulates' the sporting industry, from an international event hosting perspective, through the SASC. Organisers of such events are provided with a guideline to not only assist them in submitting comprehensive and responsive bids, but more importantly that they gain endorsements and sufficiently address risk aspects. Organisers are also required to obtain formal approval from the Minister of Sport and Recreation prior to submitting a bid for an international events, this may be to ensure that the proposed event complies with the objectives Sports Tourism Project (South African Government Information, 2006).

CHAPETER 5: SOUTH AFRICAN F1 BID LITERATURE REVIEW

5.1 Introduction

As world entered the new millennium with optimism and fear for lost of electronic data, for SA it started with huge promise with regard to the hosting of hallmark events and tourism opportunities. SA submitted bids for the SWC, RWC, Olympics and the motorsports news was ripe with speculation of the return of F1 GP. Rumours suggested that F1 would return to Kyalami and that a new race circuit would be constructed in Cape Town with Table Mountain in the background. Only in 2004 was the bid details confirmed by the Bid Consortium. David Gant, the CEO of the Bid Company, confirmed that they were indeed in discussions with FOM's Mr Ecclestone lobbying to participate in the hosting a F1 GP event during 2009-2015 on new racing circuit in Cape Town adjacent to CTIA.

Gant (2005) believes that F1 GP has proven itself within the countries on its seasonal calendar to be a phenomenal value generator for the economies.

Figure 5.1: Countries which have had F1 circuits



Source: F1 Websites (2005)

Gant further believes that the benefits of global exposure, increased foreign exchange, job creation and tourism, more than justify a government subsidy required to stage the event in SA (F1 Websites, 2005 and 2006).

5.2 Public-private partnership

Gant (2005) highlighted that for the SA F1 GP public-private partnership the following shareholding is anticipated:

Partner	Shareholding percentage	Business focus
<i>Private sector</i>	64%	
African Renaissance Holdings	28,0%	A black economic empowerment company, with investments in the gaming, mining, telecommunications and food processing industries.
One Vision Pty Ltd	25,0%	Part of the Iranian group Pars Oil.
Murray & Roberts Holdings	2,5%	Well-established publicly owned South African construction and manufacturing company. Partner in the successful Gautrain Consortium.
Wesbank	2,5%	WesBank, a division of First Rand Bank Ltd. has had a long, close and associated with the Motor Industry of SA.
BKS Engineers	2,0%	A black economic empowerment company, with considerable experience in the design of sports facilities including Phakisa Freeway in Welkom.
Omega Investment Research	2,0%	Omega Investment Research, an international corporate advisory firm, has offices in Cape Town.
Davgil Sport	2,0%	The new company of David Gant. Gant was previously with Parallel Media Group (PMG). PMG is one of the biggest names globally in professional golf with equity in the commercial operations of several leading golf Tours. The Gant family is a well-known name in the can food industry in SA in the 70s and 80s. Gant is also involved in golfing estates.

Public sector	36%
National Government	18,0%
Western Cape Government	9,0%
City of Cape Town	9,0%

5.2.1 Financial business model review

Gant (2005) indicated that in June 2005a review of the financial considerations in the business plan of the Bid Company by their financial auditor, found that in general the assumptions adopted in the financial model were not considered inappropriate under the circumstances.

Specifically the auditor reviewed and commented on the following procedures (Gant, 2005):

- (i) the reasonability of macro-economic assumptions adopted in the model;
- (ii) the benchmark exercise on ticket prices and attendances at other F1 GP venues in recent years;
- (iii) the number of expected international tourists via a review of economic impact assessments carried out by other F1 GP host countries as well as other available information;
- (iv) the reasonability of local sponsorship revenue based on discussions with various industry experts;
- (v) the benchmark exercise on the annual licence fee payable to FOM compared to

- other F1 GP venues;
- (vi) the capital expenditure budgets and where possible benchmark against the cost of recent venues constructed; and
- (vii) the logic, arithmetic and accuracy of the model.

The assumptions of this business model have been incorporated in the following sections of this report.

5.3 Place: South Africa-Cape Town

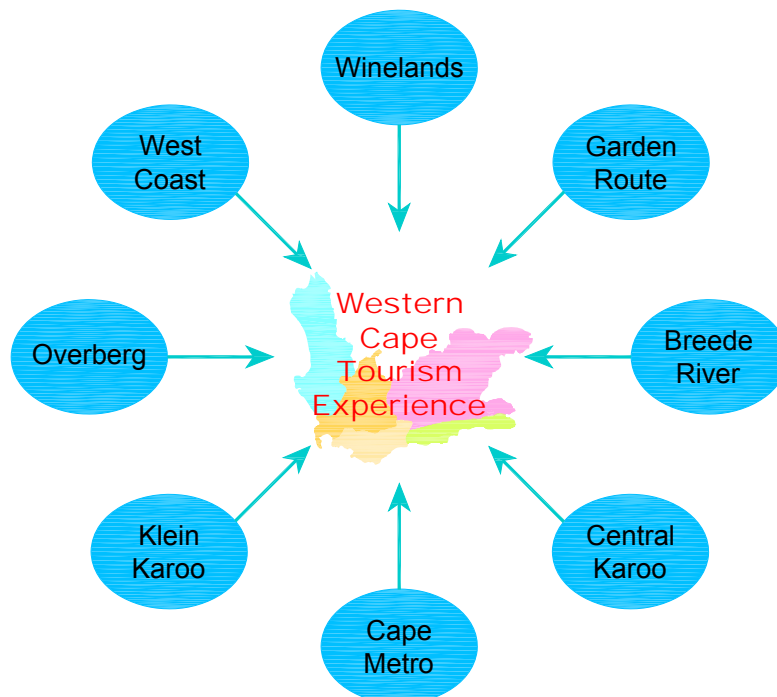
Gant (2005) stressed that Ecclestone was adamant with regard to Cape Town being the chosen city, and that the venue had to be close to an international airport (F1 Websites 2005). He indicated that the limited time difference between SA and the main F1 European markets was a prime consideration in the selection of SA as a potential F1 host.

5.3.1 South Africa-Cape Town

Cape Town, the place where European settlers established the first trading station for the profitable sea routes to the East in the mid-17th-century, is situated between Table Bay and the kilometer-high Table Mountain. Principal industries in the area are agricultural (fruit, wine and wheat) in addition to numerous headquarters of service, retail and oil companies (Pitt, Bromfield and Nel, 1995).

Apart from Table Mountain, other tourism attractions in the region are highlighted below (SA Tourism, 2005).

Figure 5.2: Western Cape Tourism Experience



Source: SA Tourism (2005)

Cape Town has a liberal tradition, a world-class orchestra, and ballet and opera company. Popular sports include rugby, cricket, cycling, athletics and road running, golf, swimming, surfing, yachting and horseracing (Pitt, Bromfield and Nel, 1995).

5.3.2 Challenges facing the city

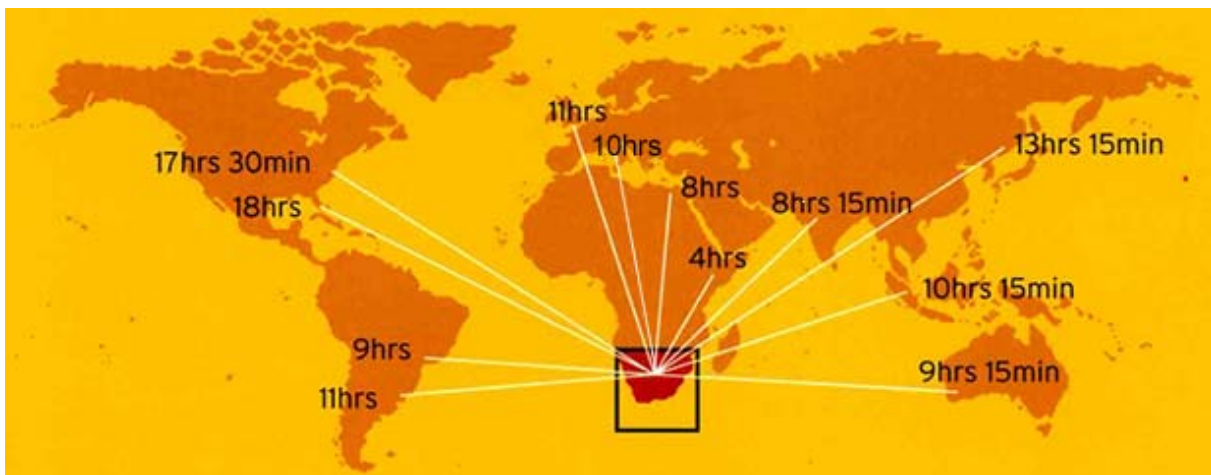
Pitt, Bromfield and Nel (1995), highlight the following problems that face the city:

- (i) political and other uncertainties in South Africa;
- (ii) laid-back attitude of Capetonians, who while intensely proud of their city, are somewhat against the influx of tourists;
- (iii) city have the basic infrastructure of roads, railways and an international airport,

but all of these are in dire need of upgrading; and

(iv) Johannesburg and Cape Town International Airports are considered a longer flight haul for prime F1 GP tourist.

Figure 5.3: Travel time from SA Johannesburg to other major world cities



Source: SA Tourism (2005)

5.4 Product: FIA F1 GP World Championship

Prior to 1904, every country and automobile club arranged races, each with its own set of regulations, which made it difficult to arrange international races. The most influential automobile clubs ended this, as they believed the situation prevented the growth of motorsport. The FIA, an international organisation was created, which compiled rules and regulations applicable to motor racing globally. (Hes and Mountain, 1998; Burgess-Wise, 1999; Treayne and Hughes, 2003 and F1 Websites, 2005 and 2006).

F1 GP did not appear on the motorsport scene until after the 2nd World War. The FIA F1 GP World Championship was created in 1950, and the first official FIA F1 GP World Championship race was the Silverstone British GP. At this stage F1 was not as popular as it is today, and the championship included only seven GP events. (Hes

and Mountain, 1998; Burgess-Wise, 1999; Treayne and Hughes, 2003 and F1 Websites, 2005 and 2006).

Today the FIA and FOM have transformed a spectator interest into a huge revenue business by selling the television broadcasting rights and attracting major sponsors. F1 Websites (2005) estimates that F1's average annual television revenue amounts to US\$510 million. This is supported by the FIA, stating that the 1999 season managed to attract over 57 billion television viewers in 206 different countries. At four-year intervals the more prestigious SWC Championship and the Olympic Games reaches similar television ratings, suggesting that the FIA F1 GP World Championship is the world's most followed sporting event (Hes and Mountain, 1998; Burgess-Wise, 1999; Treayne and Hughes, 2003 and F1 Websites, 2005 and 2006).

5.4.1 Rules and regulations

A remarkable feature of the F1 series is the frequent rule and regulation changes. In the past 15 years F1 experienced, on average, nine changes per season. The FIA, the F1 regulator, often justify changes as required for driver safety, stating that today only one in every 300 accidents is serious or fatal, compared with one in every 10 accidents in the 1950s and 1960s (Hes and Mountain, 1998; Burgess-Wise, 1999; Treayne and Hughes, 2003 and F1 Websites, 2005 and 2006). In 2003 F1 GP had changes that can hardly be justified by safety arguments. The season marked 5-years of:

- (i) complete domination of the driver and construction championships by Michael Schumacher and Scuderia Ferrari; and
- (ii) steadily dropping television ratings.

Schumacher and Ferrari's stronghold was only stopped in 2005 following a systematic sequence of changes from 2003 to impede their performance.

Ultimately, the FIA decides whether or not to implement these particular rule and regulation changes. In doing so, it increases broadcasting revenue, which is positively correlated with the spectator interest. The spectator interest, in turn, is increased with the increasing competitive balance in the performance between racing teams (Treayne and Hughes, 2003 and F1 Websites, 2005 and 2006).

5.4.2 Future of F1

The first Concorde Agreement, between FOM and F1 racing teams, was signed in 1981. In addition to guaranteeing the participating racing teams a share of the event profits from the sale of television rights, the agreement bounded them to compete until its expiration. Although the agreement brought an end to the FISA-FOCA war and it ultimately contributed to Ecclestone's complete financial control of F1 GP. The second Concorde Agreement was signed in 1992, followed by a third in 1997, which is due to expire on the last day of 2007 (F1 Websites, 2005).

5.4.2.1 GPMC

Daimler-Chrysler, Renault, Honda, Toyota, BMW and Fiat (owner of Ferrari), the six car manufactures that constituted the GPMC were united in a desire for greater share the profits and a contribution on technical issues. The GPMC have since the beginning of the new millennium threatened to launch a rival GP series (F1 Websites, 2005).

In January 2005 Ferrari, arguably the most famous and prestigious team in F1 GP, discontinued their membership in GPMC by committing to stay in F1 GP until 2012. Ecclestone allegedly offered Ferrari an extra US\$500 million over the next three years to remain loyal to the series (F1 Websites, 2005).

April 2006 the remaining members of the GPMC had still not concluded an agreement with Ecclestone, to continue participation in the F1 from 2008 until 2012. Although the five manufacturers have entered the 2008 FIA F1 GP World Championship, they have categorically stated that it is not a binding commitment to continue racing in F1 (F1 Websites, 2006).

5.4.2.2 Ownership

At the start of 2006 the European regulators conditionally cleared a bid by the CVC Capital Partners Group Sarl (CVC), to buy out Group SLEC the owners of the F1 GP World Championship. However, through its Spanish unit, Dorna, CVC promotes and owns the commercial rights to the MotoGP the world motorcycling championship. The European Commission, which regulates competition in the European Union, approved the proposed acquisition on condition that CVC sold Dorna. The Commission was concerned that the two most popular motorsport events in the European Union may become vested with a single owner, increasing the risk of price increases for the TV broadcasting rights and a reduction in consumer choice. CVC complied with the condition of the Commission and confirmed the completion of the acquisition in March 2006 (F1 Websites, 2006).

5.4.3 Tobacco advertising

In 2004 the SA F1 Bid Consortium were seeking a special dispensation on the South African tobacco advertising ban, but in 2006 tobacco advertising were to leave F1 as a result of the complete European Union ban on tobacco advertising. This ban also adversely affected advertising broadcasting of events in Europe from other countries where no ban on advertising exists currently (F1 Websites, 2005 and 2006).

First most recent causality of tobacco advertising bans was the 2006 Australian F1 GP in Melbourne at the Albert Park Circuit. The state government of Victoria had to fund the \$20 million deficit from tobacco advertising, as Melbourne was contractually bounded to Ecclestone to host the event until 2010 (F1 Websites, 2006).

5.4.4 Proclaimed economic impact

In 1999, an analysis of the local economic impact of the 1997 F1 GP events held in the European Union was submitted to the FIA.

The main results of the analysis are tabled below.

Table 5.1: 1997 European Union Grand Prix: Economic Impact Statistics

Race	Race Week Attendance	Sunday Attendance	Non-Local Attendance	Spending (US\$)	Non-Local Spending	Businesses	Jobs	Temporary Jobs
Austria	234,500	110,000	96.50%	36,988,250	98%	1,464	9,513	1,450
Belgium	203,000	81,000	93.00%	33,225,000	93%	1,626	5,626	2,500
UK	182,000	90,000	80.00%	50,151,000	90%	5,420	44,690	3,000
Europe	276,500	115,000	83.00%	66,344,300	90%	3,037	14,887	800
France	184,500	75,000	92.00%	53,660,800	98%	8,881	37,267	8,000
Germany	258,500	91,000	70.00%	47,702,100	70%	3,632	17,271	0
Italy	188,000	90,000	65.00%	43,860,800	70%	43,257	251,222	2,000
Monaco	222,432	66,505	60.00%	71,493,200	80%	6,364	26,568	800
Portugal	55,600	37,300	50.00%	10,704,000	60%	8,186	47,104	1,300
San Marino	176,975	81,353	78.00%	42,195,200	85%	15,124	142,000	1,250
Spain	134,700	65,000	50.00%	33,571,200	60%	30,078	142,207	0
TOTALS	2,116,707	902,158	77.00%	489,895,850	83%	127,069	738,355	21,100

Source: F1 Websites (2005)

According to Table 5.1, the European Union F1 GP events contributed US\$490 million to local economies, 83% coming from outside their local host communities. This figure was based on the estimate that the average spectator spend approximately US\$229 per day on tickets, parking, petrol, lodging, food, drink, entertainment, transportation and tourist retail (F1 Websites, 2005).

5.4.5 2005 FIA customer survey

In 2005, amidst dropping viewer and spectators numbers, the FIA conducted an online (internet based) spectator survey, the FIA/AMD F1 Survey 2005. The key findings suggested that the majority of F1 fans want (F1 Websites, 2005):

- (i) more 'drama' on the track, where 'drama' refers to more overtaking and emphasis on driver ability;
- (ii) the correct balance between technology and driver ability;
- (iii) advanced technology, as this sets F1 GP apart from other motor sports; and
- (iv) more races and teams per season on the grid.

5.5 Promotion: SA Bid competitors

According to F1 Websites (2005 and 2006) Ecclestone is keen for F1 to move into new markets, to enhance its worldwide appeal. This has been positive for developing countries with very high economic growth, as is indicative from the inclusion of Bahrain, China and Turkey on the list of the current F1 GP host countries. It is also negative for existing F1 GP host countries as it is very unlikely the number of races per season will exceed 18, in addition to the ban on tobacco advertising in Europe and the increasing need comply with the FIA safety requirements. Possible venues

for future F1 GPs include: Russia, India, Mexico, Kazakhstan, Morocco, South Africa, Greece, and Japan (F1 Websites, 2005).

5.5.1 Indian F1 GP

Ecclestone has confirmed that India would definitely have a race, and that only the issue of the Indian host city had to be resolved. Bombay is the most likely venue, although Hyderabad and Calcutta have been mooted as possible venue locations (F1 Websites, 2005).

5.5.2 Greece F1 GP

F1 Websites (2005 and 2006) reported that Ecclestone and the Greek government were in discussions for a Greek F1 GP as early as next year. Hosting the 2004 Olympic Games may have placed the country in an ideal position to benefit from such new infrastructure provisions. Hosting a F1 GP could be achieved because the city has a ready-made venue at the Helliniko Olympic Complex. Helliniko is also within easy reach of the new international airport.

5.5.3 Moroccan F1 GP

Ecclestone's interest to re-introduce F1 to Morocco dates back to 1997, at which time it was felt that the city of Marrakesh could benefit from a tourism boost while the entire country's image would benefit. However, at that time tourism was on the increase and did not substantiate the need for an expensive hallmark event such as F1 GP (F1 Websites, 2004).

However, since then much has changed in Morocco (F1 websites, 2004):

- (i) King Hassan II died in 1999 and was replaced by King Mohammed VI, a known supporter of F1 GP.
- (ii) Tourism has stagnated because of international tension and the fear that Muslim extremists might be able to operate in the country, supported by the 2003 series of terrorist attacks that caused considerable damage in Casablanca.
- (iii) In 2004 Morocco signed a free-trade agreement with the USA and began a series of economic reforms designed to make the country more attractive to foreign investors.

F1 Websites (2004) report that Morocco is an ideal African location as:

- (i) it was the first African country to host a F1 GP;
- (ii) FOM has long been investigating a re-enter into Africa; and
- (iii) the country is close to the southern tip of Europe and is on the same basic time zone as mainland Europe.

5.5.4 Mexican F1 GP

F1 Websites (2005 and 2006) reported that Hermann Tilke, the preferred FOM race circuit designer, had been commissioned to design the Mexican F1 GP Circuit located close to the Cancun's International Airport. The Circuit promoters have signed a five-year deal with Ecclestone with the first race planned for October 2006. The project undertaking has been designed to increase interest in Cancun in the low tourist season. Although the local state government has reported not to be involved in the funding of the project, it has donated a site for the construction. The project is funded from businessmen who estimate that the race will produce \$200 million in revenue over the five-year agreement period. It is worth noting that the SA Bid

Company have estimated an approximately 58% higher revenue over a similar period (Gant, 2005).

5.6 Price

Gant (2005) confirmed that the SA Bid Company had already secured 50% of the capital funding required for the infrastructure development from the private sector and were awaiting the Government's commitment which would assist to secure the balance of the funding. The anticipated capital formation proposal is tabled below.

Table 5.2: Capital formation

Private Sector Equity		Government Equity	
Shareholder	Amount (million Rands)	Shareholder	Amount (million Rands)
One Vision (Pty) Ltd	75,0	National Government	50,0
African Renaissance Holdings (Pty) Ltd	75,0	Provincial Government	25,0
Sub-total	150,0	Sub-total	75,0
Loan Funding			
Financial Institution	286,0		
Total (R) (millions)			511,0

Source: Gant (2005)

5.6.1 Infrastructure Cost

The SA F1 Bid Company estimated the establishment cost for a F1 technically compliant racing circuit at R511 million in 2005 based on a Tilke design. Compared to other recently constructed circuits, all designed by Tilke, the anticipated SA GP Circuit cost is considerably lower with the exception of Mexico (Gant, 2005 and F1 Website, 2006).

Table 5.3: Infrastructure development cost for recent F1 GP hosts countries

Grand Prix	Establishment Year	US\$ millions	ZAR millions (@ R6.5/US\$)	Compared to SA
Malaysia	1999	120	780	52.6%
Bahrain	2004	150	975	90.8%
China	2004	250	1,625	218.0%
Turkey	2005	80	520	1.8%
Mexico	2006	70	455	-11.0%
South Africa	2009	79	511	0.0%

Sources: Gant (2005) and F1 Websites (2006)

It should be noted that racing facilities include at least the racing circuit, pit buildings, administration offices, team buildings, medical centre, restaurant, spectator grandstands, media centre, and hospitality areas.

5.6.2 Annual Host Fee

The annual hosting fee payable to FOM is estimated at \$20 million (R153 million) with an expected 10% annual increase. This amount is comparable with the recently signed Mexican host fee, but considerably lower than that of China. Noticeable in the fees of recent host countries compared to the older agreements is the more than double fee increase (Gant, 2005 and F1 Website, 2005).

5.6.3 Admission attendance and prices

5.6.3.1 Attendance

Gant (2005) indicated that based on spectator attendances at 2004 F1 GPs the Bid Company is expecting event attendance over the race weekend of 120,000, similar to that of USA in 2004. Gant (2005) anticipates the following composition of event

attendance, which was substantiated by Mr Dave MacGregor, the former Managing Director of Kyalami Race Track.

Weekend:	35%
Sunday:	65%
Adults:	83%
Children:	17%
International attendance	21%

5.6.3.2 Admittance prices

Gant (2005) indicated that the admittance prices for spectators at the track would be the second lowest compared to that at all the 2004 GPs, with the USA's ticket prices being the lowest in the world. On average South African adults can expect to pay R1,700 for the three-day event compared to the USA's R1,100.

5.6.4 Government subsidy

Gant (2005) anticipates the subsidy will be obtained from National, Provincial and Local Government as not only the Western Cape Province or City of Cape Town will benefit from the hosting of the event more but also other SA cities.

During 2005 the Bid Company approached National, Provisional and Local Government to subsidise the event. From their financial model the Company is seeking obtain (Gant, 2005):

- (i) a subsidy to the value of approximately 66% of the annual hosting fee for the initial hosting year, but anticipate the reduction of this to 9% in the final hosting year; and

(ii) 75% of the total subsidy will be from National Government and the 25% from the Local Government.

5.6.5 Economic impact

Gant (2005) and his partners believe that hosting a F1 GP event will contribute between R1 – R1.3 billion (\$160 million) to the SA gross domestic product. Whether this is per annum or for the total 7-year event-hosting period is not clear from provided information. Gant presented no detailed EIA, however the following was obtained with regard to anticipated impact of event tourists and job creation because of the event.

5.6.5.1 Tourism

The anticipated daily spending per tourist \$140 based on research concluded in the tourism industry by US based Horwath Tourism & Leisure Consulting in or before 2001. It is though not clear if this rate is inclusion of adults and children. However, at an exchange rate of \$1= R6.5 this amounts to R910 per tourist per day, this amounts to R382.2 million for the 7-year event-hosting period for the anticipated 20,000 international tourist over the 3-day event (Gant, 2005).

5.6.5.2 Job creation

In the business model the auditor references various industry norms with regard to job creation, the following is highlighted:

(i) Tourism: 1 job for every 8 tourist, thus 3,125 jobs based on the anticipated 20,000 tourists.

(ii) Industrial: 6 jobs per industrial site, thus 6,000 jobs based on the anticipated

1,000 new industrial sites.

(iii) Civil Engineering: 6.7 jobs per R1 million spending, thus 4,362 jobs based on the anticipated R511 million infrastructure development investments.

(iv) Construction: 27.6 jobs per R1 million construction spending construction sector (based on BIFSA), thus 14,104 jobs based on the anticipated R511million infrastructure investment. This is far higher than the DBSA norms of 12-16 person years for every R1 million construction spending, thus 8,176 jobs based on the anticipated R511 million infrastructure investment.

This suggests that between 21,000 and 28,000 jobs would be created by preparing to host the event and eventually hosting the event.

5.7 Conclusion

Although the SA Bid Company have completed a business plan and referred to some economic impacts key concerns include:

(i) The potential under estimation of the infrastructure development costs, in that the infrastructure development estimation does not reflect the surrounding upgrading required, such as roads and traffic requirements. Additionally no comment has been made about any upgrading required at the Cape Town International Airport.

(ii) No proper EIA in accordance with the requirements of SASC, including conducting a risk assessment and social impact assessment. Additionally, it must be noted that current stated economic impacts are provided with very little support and detail information.

(iii) No information is provided on the management and administration strategy of the event. Although the private parties in the Consortium have event organising skills, none have been involved in the motorsport industry.

Compared to the other current bid cities Cape Town and the Western Cape already enjoys the highest portion of SA's tourism. Cape Town unlike other SA cities and its F1 GP host competitor cities has an abundance of natural attraction, effectively diminishing the strategic need for a hallmark event.

CHAPTER 6: LESSONS LEARNT AND COCLUSION

6.1 Introduction

A literature review of the hallmark sporting events revealed that sports has become a major business industry and have become a perceived tool for improving the economies of hosts countries, regions or cities. This has empowered the owners of such events to play prospective hosts off against one another, enabling them to generate a bidding war between such prospective hosts that is likely to lead to higher payments to the owner than would otherwise be the case.

Based on the information available it is difficult to assess conclusively whether the SA F1 Bid Company's endeavor will be beneficial to not only the private constituent in the proposed public-private partnership but also to the SA taxpayers represented by the national, provincial and local government.

6.2 Lessons learnt

6.2.1 Hallmark events views

A literature review of the hallmark sporting events reveals that there are two distinctive view points with regard to whether hallmark events such as the Olympics, SWC, and the FIA F1 GP World Championship are real economic stimulating catalysts to host countries.

Typically proponents to hosting major events are those that will benefit the most from the presence of such events and opponents those that will not benefit or are

competing for the same funding. With regard to the SA F1 GP bid the proponents would typically be the members of the SA F1 Bid Company and the travel and tourism industry. No clear opponents have been identified.

6.2.2 Public-private partnership

Mules (1998:26) state that government involvement in sporting events is likely to be motivated by political, social, and economic considerations. To this end governments have to justify the expenditure of taxpayers' monies on such events in terms of the gain in economic activity that the event brings to the host country or city. Presently these perceived gains are so actively sought that governments have established special units or agencies that seek out, bid for, and assist with the staging of events, as is the case with the SASC.

It should however, be considered that the benefits for the proposed the government funding may be less than anticipated, in particular as insufficient details on the calculation of these benefits are provided.

A question that beckons asking is that if, apart from the SA F1 Bid Company, the SA tourism industry (e.g. accommodation, transport, restaurants, shops, entertainment and related sectors) will be a major beneficiary of the proposed event, then why is the no emphasis on finding ways in which the costs or portion thereof can borne by this particular industry.

6.2.3 Exposure

The general perception is that hallmark sporting events, like the FIA F1 World Championship, attract attention from millions of fans around the world, and that this attention raises their awareness of the region which is hosting the event (Mules, 1998).

The Western Cape, in particular Cape Town, is already one of SA's premier tourism destinations and it could be argued that the region has such a high profile that the F1 GP event would simply only reinforce what is already present. On the other hand, cities like Johannesburg and Welkom that have existing race facilities that could be upgraded do not have Cape Town's tourism icons. Clearly for these locations the tourism benefits flowing from raised awareness will be greater than in the case of Cape Town. Additionally it could be argued that the tourists visiting SA for the F1 GP event would more likely tour to the Western Cape than vice versa.

In total there may comparatively be more to gain promotionally from hosting the F1 GP event in a city other than in the Western Cape region, thus validating government's contribution. Clearly the objective for government should be to create a higher tourism image where one did not previously exist.

6.2.4 EIA requirement

General consensus is that EIAs may be overstated but are also incomplete with regard to risk assessments, social impact and opportunity costs. Interestingly in SA the SASC requires any bidder for hallmark events in SA to conduct an EIA that includes a risk and social impact assessment. However concerns are:

- (i) with regard to the vested interest of the party entrusted to execute such assessment; and
- (ii) the restrictive access to detailed EIA information to the public, irrespective of whether they are proponents and opponents of the undertaking.

Clearly it is worthwhile remembering '*Enron*', where the New York stock exchange, the big banks, the financial manager, Merrill Lynch, the auditors Arthur Anderson, the media financial analysts, all helped to create an illusion of a profitable business.

Traditionally, and by virtue of its misleading naming, EIAs seldom includes social aspects such as the impact of the event on; the fabric of the community, traffic congestion, crime and vandalism. It is interesting to note that in the case of an environmental impact assessment a public participation process forms an integral part of the assessment but this is not the case for an economic impact assessment.

Bidding and eventually host hallmark events is seldom included in the Integrated Development Plans of a city or region and thus result in the diversion of scarce resources from carefully planned future developments. Applicants for public funds must be required to indicate how the event will impact on the Integrated Development Plans of the city or region and how and when any diversions from these plans will be re-aligned.

Although the SA F1 Bid Company has provided indicative numbers with regard to job creation and expected tourists one is left feeling that the company is falling back on industry norms and experiences with current other F1 event host countries rather

than critically assessing the impact of the event on SA economically and socially. For example it is very unlikely that:

- (i) any engineering consulting work will generate the anticipated 6.7 jobs per R1 million total construction value spending. The value on which the number of jobs created is calculated should be limited to the total engineering consultant fee, thus 350 jobs instead of the predicted 4,362 jobs. However, it is anticipated that the Consortium member consulting firm, BKS, will be the main if not the only beneficiary of this spending which will most likely not result in 350 new jobs.
- (ii) all the jobs created in the tourism and travel industry will be new jobs, in fact the literature review suggests most companies merely increase the working times or shifts of already employed staff, mainly because of restrictive labour legislation.

The Bid Company has further failed to provide any indications of risks and social impacts associated with the F1 GP event. The recent experiences of Australia with regard to the short-fall of funding resulting from the tobacco advertising ban required the state government to increase their commitment.

6.2.5 Wrong event/s

Mules (1998) believe that there has been a tendency for governments to become involved in funding of “big ticket” events, particularly in motor sport, which are essentially spectator events. Similarly they are expensive to bid for, and to operate and maintain, but they are likely to be popular politically because of the image boost they provide for politicians. He suggests that it may be more rational to target participatory events, which in the case of SA would be events related to athletics, soccer, rugby and cricket, rather than spectator events like motor sport. Clearly these

participatory events would utilise existing facilities and thus require little or no funding for facility upgrading.

The benefit of this approach is a higher number of visitors who attend to participate rather than to watch, but also they bring a larger tourist or event attendance contingent who is attracted to the event from a personal and/or country (patriotic) perspective.

Mules (1998) states that the general characteristics of participatory events with potential to achieve a high *national* economic gain are that they should:

- (i) appeal to and involve middle aged, middle class people as participants;
- (ii) be popular in affluent countries, such as the United States and Scandinavia;
- (iii) be popular in countries where the population has a propensity to travel,
- (iv) not lend themselves to mass television exposure; and
- (v) not require expensive new infrastructure.

6.2.6 Reporting

It is interesting to note that where public subsidies have been implemented that formal reporting has seldom been requested from the subsidy recipients. Regular reporting should be a prerequisite, and thus part of the funding application submission, to allow the government to ensure aspects such as economic viability, economic impact, broad-based black economic participation, social and risk reviews. Even more crucial, at maximum, audited annual reports should be published in the media to allow the public (taxpayers) to review the afore-mentioned aspects.

6.3 Conclusion

Lessons are to be learnt from other host countries of mega sporting events, in particular hosts to the FIA F1 GP World Championship, including:

- (i) that the tourism industry should be a contributor to the funding of mega sporting events;
- (ii) whether SA is bidding on the correct events, events that fit the fabric of the host city or of SA; and
- (iii) proper and public reporting should become part of the conditions of any government granting of subsidies.

The findings of this study based on a literature survey indicate that:

- (i) **P₁**: There is a relationship between hallmark events, such as the FIA Formula One Grand Prix Championship, and tourism. However, the increased tourism post the event may be exaggerated, either with regard to the percentage growth or effective period or a combination thereof. If increased tourism is the basis for the subsidy it should be noted that the Western Cape, in particular Cape Town, is already SA's premier tourist destination. Whereas cities like Johannesburg and Welkom, that have existing motor racing facilities requiring upgrading, do not have Cape Town's tourism icons. It could further be argued that the tourists visiting SA for the F1 GP event would more likely tour to the Western Cape than vice versa.
- (ii) **P₂**: Although the SA F1 Bid Company has provided indicative numbers with regard to job creation and expected tourists as a result of the event, they rely on industry norms and experiences with other current F1 GP event host countries rather than critically assessing the economic and social impact of the event in a South African

context. The overall lack of a detailed economic impact assessment and the reluctant feedback from the Government has made it impossible to assess conclusively whether the event will have positively or negatively impact on South Africa. However, literature sources reveal that in the majority of cases and mainly for the government partner, the hosting mega sporting events do not yield a profitable return.

In conclusion it is worth noting that in its current situation, the provision and maintenance of housing and social infrastructure is a major priority for SA, and similarly the creation of jobs. However, direct investment into these industry may not necessary be sustainable in the long-run, thus requiring government to investigate sustainable sources of income over a longer period. Investments in the hosting of large international sporting events may be such an investment alternative, but more detailed investigations in this field should be undertaken either by government or proponents of such events. Such investigations should be geared at improving the EIA process so that more reliable results are produced that can triumph the scrutiny of any independent review.

It may be in the interest of the SA F1 Bid Company to conduct a more detailed investigation as to how and when the diverted public funds will be recouped by the government and the full extent of the benefits that will be accrued by the wider economy as a result of the temporary diverted funds.

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