

Not Relevant

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**Le Mans - Race Staging Deed Negotiations
REFERRED BACK TO MINISTER**

Premier and Minister.

Not Relevant

CABINET COVER SHEET

- 1. TITLE:** Le Mans Race Staging Deed Negotiations
- 2. MINISTER:** Hon John Olsen MP
Premier
Minister for State Development

Hon Joan Hall
Minister for Tourism
- 3. PROPOSAL:** The Premier to undertake negotiations with Panoz Motorsport Australia Pty Ltd (PMA) within the parameters set forth in the Attachment to this submission regarding the amendments sought by Panoz to the Race Staging Deed between the Premier and PMA and the staging of a further race in Adelaide in 2001.

Extend the Race Staging Deed for a term of eight (8) years in lieu of a term of four (4) years.
- 4. RESOURCES REQUIRED FOR IMPLEMENTATION:** Nil resources required
- 5. RELATIONSHIP TO GOVERNMENT POLICY:** Consistent with Government policy of attracting new investment to South Australia, and maximising the long term tourism, promotional and economic benefits flowing from such investment and the staging of major international events.
- 6. CONSULTATION:** The Crown Solicitor and the Department of Treasury and Finance.

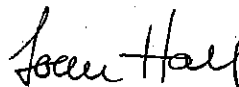
7. URGENCY:

Extremely urgent – approval required to comply with existing **Race Staging Deed**.

8. RECOMMENDATION:

That Cabinet authorises the Premier to:

- Undertake negotiations with **PMA** within the parameters set forth in the Attachment to this submission regarding the amendments sought by **PMA** to the **Race Staging Deed** between the Premier and **PMA** and the staging of a further race in Adelaide in 2001.
- Extend the **Race Staging Deed** for a term of eight (8) years in lieu of a term of four (4) years.



John Olsen
PREMIER
MINISTER FOR STATE DEVELOPMENT

Joan Hall
MINISTER FOR TOURISM

January 2001

25 January 2001

TO: CABINET

RE: LE MANS RACE STAGING DEED NEGOTIATIONS

1. PROPOSAL

That Cabinet authorises the Premier to:

- 1.1 Undertake negotiations with Panoz Motorsport Australia Pty Ltd (PMA) within the parameters set forth in the Attachment to this submission regarding the amendments sought by PMA to the Race Staging Deed between the Premier and PMA and the staging of a further race in Adelaide in 2001.
- 1.2 Extend the Race Staging Deed for a term of eight (8) years in lieu of a term of four (4) years.

2. BACKGROUND

- 2.1 The Le Mans Race of a Thousand Years held between December 29 – 31, 2000 attracted a reported 135,000 people (ticketed, competitors, employees etc), including some 6,000 plus visitors from overseas and interstate. The latter alone contributing a conservative \$10M in economic impact to South Australia.
- 2.2 Television coverage of the event was extensive:
 - 2 hours **NBC** network in USA December 31, 2000
 - 2 hours on Eurosport – 8.00pm January 7, 2001
 - 2 hours to be shown on Star Television throughout Asia
 - 1 hour shown on Channel 10, Australia on Saturday, January 6, 2001

An initial assessment of this and additional radio, television and print media nationally and internationally reveals that this coverage is worth an estimated \$75M.

- 2.3 However, PMA claims that after the completion of the December 2000 Le Mans race, its financial outcome was substantially below its expectations. The South Australian Tourism Commission (SATC), in conjunction with Department of Treasury and Finance (DTF) has examined PMA's preliminary profit and loss statement and can confirm, on the evidence provided by PMA, that PMA did suffer a loss in the first race of approximately \$2.6M.

2.4 The poor financial result for the December 2000 race was mainly due to lower than budgeted ticket sales and corporate revenue. PMA's initial estimate of ticket sales was based on 131,000 tickets. However, only 105,000 ticket sales eventuated. PMA claims that budget forecasts of ticket sales were based on public announcements made by the Government of the ticket sales achieved for the Clipsal 500 Adelaide race. PMA now suggests that these figures were overstated. It also claims that subsequent experience revealed that it had underestimated the number of "credentialed tickets" (ie free tickets) and had significant numbers of people viewing the event for free. In addition, there were a number of start up costs, which were unique to the first race and should not carry through over to subsequent races.

2.5 Consequently, PMA has sought a number of amendments to the Race Staging Deed, which it believes will substantially improve its current financial position and restore profitability for subsequent races. PMA is seeking:

- A waiver of its remaining financial contribution towards track construction for the first race (\$1.7M) and any subsequent financial contribution required (currently \$2.2M).
- An amendment to the exclusivity clause in the Deed to enable it to stage a leg of the Asia Pacific Le Mans Series in Perth. In exchange it is willing to host a Global Championship Le Mans race in Adelaide, which would involve the top four teams from each of the American, European and Asia Pacific Series.
- The Government to pay for credentialed tickets for the next event as well as shift various responsibilities such as community relations back to the Government. The total estimated costs of other amendments is around \$0.6M.

3. DISCUSSION

3.1 The SATC in conjunction with the DTF and Crown Law, have considered these proposed amendments and has provided a suggested negotiating response.

3.2 The Government negotiating strategy would be centered around enabling PMA to make at least a breakeven to modest profit in the 2001 race. This is based on the assumption that PMA can increase its revenue marginally in 2001, while at the same time reducing its costs. This, in conjunction with assistance of no more than \$1.6M

from the Government, should help PMA return a modest profit for the 2001 race.

- 3.3 It is proposed to negotiate with PMA on the basis that the Government will agree to a number of amendments, principally in relation to the issue of the Government paying for credentialed tickets and the resumption of other minor functions such as community relations. The estimated cost of this negotiating position would be approximately \$600,000.
- 3.4 In relation to the waiver of a track contribution from PMA, it is proposed that a track contribution of \$1.2M be required for the 2001 race (a waiver of \$1M). In relation to the \$1.7M, it is proposed that this amount be repaid over a four-year period.
- 3.5 In relation to the issue of exclusivity, it is proposed that the Government enters into further discussion with PMA on the basis of the following:

- (i) Adelaide becomes in 2002 (or 2003) and beyond, the Le Mans Series Championship to be held after the completion of each of the Asian, American and European Le Mans Series towards the end of each motor racing calendar year.

Adelaide in effect becomes the championship race – a non points race with the top four champion teams from each of the American, European and Asia Pacific Series and from each of the three classes of cars in each event.

- (ii) PMA be allowed to commence discussions with the Western Australian Government to allow Perth to be included as part of the Asian Pacific Series in March of each year beginning on a non-street circuit same distance from Perth.

3.6 Cost Impact of Negotiations

The net cost to Government of the December 2000 Le Mans race was \$8.4M. The estimated net cost to Government of a race in 2001 with the Race Staging Deed unaltered from its current form would be \$6.4M.

If all of PMA's proposed amendments to the Deed were agreed to, the cost to Government of the first race would increase to \$10.1M as the remaining PMA contribution of \$1.7M would have to be waived. In addition, the cost to Government for the 2001 race would increase from \$6.4M to \$9.6M.

It is proposed to cap the Government costs of changes to amendments at \$1.6M. This would lead to a net cost to Government for the next race of \$8M.

The cost breakdown of this amount is as follows:

Circuit Build	\$5.9M
Additional Costs (as per amendments)	\$0.6M
Licence Fee	\$2.7M

TOTAL:	\$9.2M
Less amount payable by PMA to SA Government:	\$1.2M

NET COST to Government:	\$8.0M



3.7 Consultation

The DTF has been consulted in the development of this submission. It is DTF's view that the cost of the Le Mans race far exceeds that of the Adelaide Clipsal 500. The DTF has indicated that if PMA's demands to have the outstanding contribution to Government for the December 2000 race (\$1.7M) and future contributions (up to \$2.2M per race) waived and other amendments (\$1M) were agreed to, then this would increase the net cost to Government of staging the race in December 2000 to \$10.1M and to approximately \$9.6M in 2001. The DTF questions the benefit-cost ratio of such expenditure compared to the benefit-cost ratio of the Clipsal 500 race which requires a much lower Government contribution.

4. RECOMMENDATIONS

That Cabinet authorises the Premier to:

- 4.1 Undertake negotiations with PMA within the parameters set forth in Attachment to this submission regarding the amendments sought by PMA to the Race Staging Deed between the Premier and PMA and the staging of a further race in Adelaide 2001.
- 4.2 Extend the Race Staging Deed for a term of eight (8) years in lieu of a term of four (4) years.

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Returns to Minister