

# How the 2017 UCI World Championships in Norway Went Bankrupt

## Background:

Countries, regions and cities often compete to host popular sporting competitions. Such events traditionally raise the profile of the host city or country, often creating a long-term increase in visibility and tourism. The Beijing Olympics – estimated to have been viewed by 4.7 billion people – helped spark a major tourism boom in China.

At the same time, major sporting events can also change the international perception or reputation of the host country. China softened its hardline communist international image with its Olympics, and South Africa heralded its post-apartheid arrival when it hosted (and won) the 1995 Rugby World Cup.

In addition, sporting events can spur major investment programs in public infrastructure and transportation systems which can benefit the region long after the event is over. In turn, this can create hundreds or thousands of local jobs, boosting the local economy and often helping revitalize depressed areas.

Subjectively, these major events can also help to galvanize and excite host communities, stoking pride and reinvestment which may create lasting social and economic benefits. And of course, during the event itself there may be a short-term surge in tourism-based economic benefits – as visitors, athletes, members of the media, politicians and others pour into the region. The opportunity to stage global mega-events like the Olympics and the FIFA World Cup has often been a transformative moment which shaped the longer-term history of the host country.

At least until recently, potential hosts have bid aggressively for the right to stage such events, often believing that the event would provide global exposure to billions of television viewers, that millions of spectators would pour in, and that huge quantifiable economic benefits, as well as less quantifiable recognition and visibility benefits, would somehow accrue to the region. Developing countries have also started, for the first time, to bid aggressively for global sporting events, hoping to put themselves “on the map,” to build their international recognition, initiate economic growth, unite the community through the love of sport, and – some would say – distract media attention away from internal problems or injustices. The upcoming Qatar World Cup is a key example.

However, suspicion and controversy has started to emerge about such sporting extravaganzas over the past two decades. As the scale and costs of putting on these events have increased, many potential hosts are starting to think twice. Infrastructural expenses have skyrocketed, and cost overruns in many events have been massive; it has been estimated that the Chinese government spent as much as \$40 billion on the Beijing Olympics. More than forty years ago, the Montreal Olympics ended up costing 13 times more than initially estimated, and it took the city 30 years to pay off the debt. The recent Rio de Janeiro Olympics brought huge cost overruns, and also significant protests by local populations claiming that those huge financial resources should be spent elsewhere.

Moreover, such events are increasingly raising a plethora of thorny political, social and cultural questions – ranging from worker exploitation, charges of “sports-washing” and athlete abuse, to environmental degradation, discrimination against indigenous peoples, increased security risks and the creation of “white elephant” infrastructure. Since the costs of such events are typically, or at least ultimately borne by the taxpayers, popular local revolts have become more common. To top it off, all of this has occurred against the backdrop of deep and systemic corruption inside many of the world’s most revered sports governance institutions like FIFA and the International Olympic Committee.

Many cities (and their governing countries) have backed away from hosting major sporting events as a

result: Boston, Calgary, Hamburg, Innsbruck, Krakow, Munich, Oslo, Rome and Stockholm and Munich have all recently rejected Olympic bids. In fact, it looked for awhile like there might not be any interested hosts for the 2024 and 2028 events, until the recent Paris/LA deal was worked out. Because of these spiraling economic costs and the wide range of social problems, there is growing support for proposals to hold the largest events – like the Olympics – in a fixed location going forward; Los Angeles or Athens have been suggested. There have even been plans for a floating carbon-fiber Olympic stadium that could be towed around to various locales across the world.

### **How cycling fits in**

Cycling once again stands apart from most other sports because of its unusual format and structure. The sport often bemoans the fact that it does not have a sustainable revenue model – that because it is played out on the road, it is difficult to collect ticket revenue as most other sports do. But from the perspective of staging events, this means that cycling actually has a distinct cost advantage over most other sports.

It is nowhere near as expensive to stage a major cycling event as it is to stage most other major sporting events. No new stadiums are needed, no new transportation infrastructure is likely to be required. Some roads might have to be patched, or some limited seating areas constructed and so on, but generally speaking, the costs of hosting even the biggest cycling events – like the annual World Championships – pale in comparison to most other sports.

Nonetheless, cycling events have often experienced the same false expectations and considerable financial losses that plague other sports. All too often, host countries or cities have dramatically underestimated the costs of such events, while overestimating the potential benefits. A third-party actor with little personal risk or accountability – such as the national or international sports federation, local tourism entrepreneurs, or external consultants – often promotes the economic and “feel good” aspects of a major sporting event, and convinces a host area to step up to underwrite it.

As Kent University Professor Kimberly Schimmel points out, it is typically an under-informed public which basically foots the bill for these events. “There is not much to gain, and a whole lot to lose,” she says. “Sport mega-events are inherently controversial and problematic. They require massive infrastructural development, massive ideological support, and massive funding, and all of this is usually pushing against a forced timeline.” While she agrees that some people will benefit from a mega-event, it is rarely the people who need it the most.

### **The 2017 Bergen World Championships**

One of the primary recent examples of this phenomenon in pro cycling was the 2017 UCI Road World Championships. This event took place in the beautiful Norwegian coastal city of Bergen, and was held between September 16 and September 24 of 2017, and the crowds were large. There were 1,257 participants from 77 nations, an estimated 700,000 spectators on the road and 300 million more watching on TV. 2,000 volunteers from 80 nations helped organize and run the event. The weather was generally good. Chantal Blaak of the Netherlands took the women’s elite road race in a breakaway, and in the men’s event, Peter Sagan edged out local favorite Alexander Kristoff with a perfectly timed bike throw. (After the race, Sagan apologized to the largely Norwegian crowd for beating Kristoff at home.) From the casual attendee’s perspective, the event seemed to be a great success.

But what about the economics of the event? The projected income came in about U.S.\$3 million lower than projected in the initial budget and the costs were about \$3.5 million higher than the initial budget. The local organizing group – Bergen 2017 AS, a subsidiary group of the Norwegian Cycling Federation (NCF) – was forced by its creditors into bankruptcy in February of 2018 with a deficit amounting to about U.S.\$7 million.

Norwegian economist Harry Arne Solberg of the Norwegian University of Science and Technology (NTNU)

in Trondheim is one of the world's leading experts on the economic costs and benefits of hosting major sporting events. He says that way too often host cities dramatically underestimate the costs and exaggerate the benefits when bidding for sporting events. "Sporting events are like big parties," says Solberg. "They are a break from the daily routine. But they are also expensive, and the costs are very often higher than the revenues, or other perceived non-monetary rewards."

Solberg's research group at NTNU Centre for Sport and Culture Management Research recently conducted an in-depth analysis of exactly what happened at Bergen – what expectations were sold to the local community, and what the actual result was after all the pennies had been counted. "The World Championships were represented as a great opportunity for the city – one that would bring international visibility, would get more people riding bikes and hence address congestion and pollution problems in the city, would get more children interested and on bikes, would create a great festival atmosphere, and would bring tourists in to spend untold amounts of money," he says.

The economic benefits that may accrue to the host of a sporting event – the increase in tourism, the hotel rooms booked and the money spent by those tourists are all tough enough to predict. But, according to Solberg, the more qualitative potential benefits, those "feel good" benefits that often sway public officials – like the global visibility, the growth of cycling, the improvement of public health, the lasting social value and so on – are notoriously difficult, if not impossible, to accurately estimate and measure. Bergen represents a cautionary tale that other sports, and other cycling organizers and events would do well to pay close attention to.

According to Solberg, the NCF and Bergen 2017 AS generally took for granted all of the standard economic benefits that are typically assumed for mega sporting events – increased tourism, hotel rooms, spending at local shops and restaurants, significant local sponsorships, and so on. Among the major qualitative benefits projected by the local organizing committee were the promotion of cycling in general – that greater exposure would lead to more cycling for commuting and as a form of exercise, that more children would be inspired to take up cycling, that cycling would increase in popularity and so on.

Solberg and his colleague Professor John Martin Denstadli conducted a detailed post-event financial analysis, and interviewed hundreds of local inhabitants to better understand what actually happened. And they generally found that few of the pre-event and projected and advances were borne out:

- The Bergen hotels were no more full during the Worlds than during other periods of the summer and fall tourist season.
- Expected income from local or regional sponsors were much less ambitious than predicted.
- Income from hospitality and VIP functions turned out considerably lower than expected.
- The costs related to managing and staffing the races had been budgeted very low; actual cost increased by almost \$2.5 million.
- The costs related to the central square/arena, exhibition and the start/finish area turned out approximately twice the originally budgeted amount. Especially during the last weeks prior to the event, important purchases had to be made which had not been foreseen in the original budget.
- The UCI fee of seven million Euros became considerably higher than expected due to an unfavorable change in the exchange rate.

Among the results they found with respect to the more qualitative projected benefits were:

- A very small percentage of the Bergen population was actually inspired to use a bicycle more in commuting, or getting around the city. This figure, originally projected to be high, was in reality tiny.
- Few people were inspired to use the bicycle more often as a form of exercise.
- Measurements taken during the 15 months after the championship did not show any increase in cycling activity in Bergen or nearby regions. Indeed, for the first two months after the event, a

reduction in activities was actually registered.

- Few people were even inspired to exercise more at all.
- During the relevant time period, cycling actually grew more rapidly in several other Norwegian cities than it did in Bergen.

In summary, virtually all of the benefits were oversold and most of the costs were underestimated.

And it's not just Bergen. In Ponferrada, Spain, host of the 2014 World Championships, the losses were estimated to be as high as nine million Euros, equal to almost 20 percent of the town's annual budget. In this instance, the town was quite remote; ticket sales fell far short of expectations, and few sponsors signed up. Other recent host locales, including Richmond 2015 and the Yorkshire event of last year, have also been faced with dramatic shortfalls in expected tax revenues from the event, or other financial problems after the fact. Furthermore, it's not just road racing; other UCI cycling events like the cyclocross Worlds have also experienced similar challenges. Little wonder then that there was a [collective groan](#) last week when the UCI indicated it was considering the organization of a sanctioned world gravel championship event as well.

### **The broader lessons**

Solberg points to a number of key factors which contributed, directly or indirectly, to the mismanagement and resulting financial losses at Bergen – and which other potential host cities would do well to carefully consider:

- A long-standing culture of improvisation and lack of structure at the NCF, which rubbed off onto the local organizing committee. Says Solberg, entities like this often just “assume that everything will be ok and focus on best-case scenarios.”
- Organization and structure: The project lacked overall planning and governance capabilities, and financial accountability.
- Unrealistic optimism and an unreserved willingness to take risks.
- A general lack of experienced staff, and little connection with outside parties who may have had more experience. From the outset, the Bergen organization did not have the experience required to handle such a big event, and was generally lacking manpower.
- Communication and cooperation were not effectively handled between key stakeholders. This applied both inside Bergen 2017, as well as between Bergen 2017 and other cooperating stakeholders. This affected the efficiency and decision-making, and also contributed to pushing costs higher.

Most people love the excitement of sports, the exhilaration of competition and its ability to bring people together, to uplift us, or to distract us from our day-to-day responsibilities and challenges. But these subjective inspirational effects of sport are very difficult to define, measure or quantify.

In summary, the picture that results from Bergen – as well as several other recent World Championships and other sporting mega events – is one where outside third parties or “agents” come in and sell a local city on all these illusory benefits, while incurring few risks or liabilities themselves. Enthusiastic event promoters and naive local politicians jump at the opportunity and are willing to take unrealistic gambles, hoping to generate local excitement, regional attention and perhaps international accolades. The third party then essentially stands on the side-lines as the host city stumbles along, gradually discovering the real costs and benefits of the event. Even as the real situation and challenges becomes clear, local organizers and politicians may still plunge recklessly ahead, knowing that it will ultimately be the taxpayers left holding the bag.

In classical economic parlance – as Professor Christopher Gaffney of NYU put it at the recent 2019 Play the Game Conference in Colorado Springs – the real problem here is that an outside or third-party agent,

in this case the UCI, is able to collect a surplus value or “monopoly rent” based on (1) the availability of enthusiastic but unknowledgeable bidders, (2) a supportive and compliant local media, and (3) an enduring belief in the “mythology” of the event itself.

Hosting a major sporting event can be exciting and unforgettable, and it can bring a community together. But as the costs and risks of staging mega sports events continue to spiral upwards, potential host cities should be careful to take a less emotional and more clear-eyed view – and attempt to clarify in as quantitative a manner as possible the benefits and risks of putting on the event.

*By Steve Maxwell, January 29th, 2020.*