



IRFU

Private & Confidential

IRFU Briefing Notes on Proposal to list as 'free to air' Ireland's television rights for Heineken Cup and Six Nations Championship.

SUMMARY

Minister Eamon Ryan has proposed that all Irish teams' matches (home and away) in the RBS Six Nations Championship and in the Heineken Cup should be on a 'free to air' television basis(* see explanation of term at end of Summary). He has subsequently stated that any revenues lost through this change to the legislation here in Ireland could be made up from other sources.

The Irish Rugby Football Union has responded, with verifiable calculations, that such a proposal would cost Irish Rugby between €10 Million and €12 Million per annum (in the order of up to 20% of its annual income) and would, as a start, pose the question to Minister Ryan 'How does he see this money being replaced?'. Of course the IRFU knows the answer to this question: 'It won't be replaced'.

The Impact of such a loss of revenue to Irish Rugby will be:

- The loss of Irish Rugby's finest players to foreign teams
- A probable reduction in the number of Irish professional rugby teams
- An inability of Ireland's international and provincial teams to compete at the highest levels in the World Cup, The RBS Six Nations Championship, The Heineken Cup, The Magners League and The Amlin Cup
- A significant reduction in the levels of financial support for club and schools rugby

In effect this penalisation of Irish Rugby will result in less people wanting to watch and participate in the game, the rapid decline of Irish Rugby and ultimately the end of the game's mass appeal, which has been painstakingly built up by players, administrators and fans, particularly since the game went professional . This scenario is precisely the opposite to that which the Minister has stated is his intention in pushing through his 'free to air' proposal.

Furthermore, Irish Rugby's position at the negotiating tables of both The Six Nations and The Heineken Cup will be severely weakened, as each partner is expected to deliver a series of assets to the table, including unencumbered television rights, if it wishes to be treated as an equal by the other partners in the tournaments.

Irish Rugby, under the current structure, which is based on a mix of 'free to air' and 'pay per view' television, has thrived in the past number of years, delivering 4 Heineken Cups and a Grand Slam for the first time in 61 years.

The IRFU is not against 'free to air' and supports rugby on 'free to air' channels as apart of a balanced approach. In fact the Six Nations Championship is currently 'free to air' and the Heineken Cup is available 'free to air' on a deferred basis. What the IRFU wants is the current structure, involving balance and competition, to continue to apply in the television market. This will achieve a fair market price and allow a hugely successful structure to continue as opposed to dismantling it with resultant carnage.

The IRFU is petitioning that The Minister abandons this 'free to air' proposal, for if his view of how rugby should be financed in this country is wrong, he will do irreparable damage to Irish Rugby for generations.

* 'free to air' is the term used to describe the process whereby television is transmitted over the airwaves without charge for delivery of the signal to the viewer. The system is paid for through licence fees , advertising or a combination of the two.

BACKGROUND INFORMATION

1) IRFU - A NON PROFIT ORGANISATION

- The IRFU's operation is a non profit one, any surpluses generated are reinvested in the game at every level including:
 - support of the professional provincial team structures
 - support of the Irish International teams' structures at all levels.
 - the development of 'under age' players
 - support of clubs and the club game

Thus, if it loses a large source of income, the IRFU must cut its expenditure.

The proposed free-to-air initiative by Minister Ryan would result in a loss of income of €10-€12 million annually (or 15-18% of annual income)

2) THE STRUCTURE OF SIX NATIONS/ERC

- Ireland is one of Six Partners at the table.
- All commercial negotiations, whether sponsorship or TV Rights, are conducted centrally. This approach is core to the partnership's success.
- Each Partner is expected to bring a series of assets to the table
E.G. Quality teams, Quality Stadia, Non clashing local core sponsors with the main event sponsors, Unencumbered Television Rights.
- An inability to deliver, long term, on any of the above will result in a dilution of the individual partner's revenue from the central pot.
- By virtue of its involvement as a founding partner, and its success in the modern era in the tournaments, Ireland has consistently 'punched above its weight' at the negotiating tables. Any alteration to its basket of assets, in particular something as definitive as TV rights, will undoubtedly provoke a negative reaction from other parties at the table.
- It is crucial to understand that these partnerships are an alliance of serious competitors, each with the agenda of ensuring their own interests are protected and promoted.

3) TV RIGHTS

- The Six Nations already grants RTE the right to broadcast all Championship matches live in Ireland. ERC already grants RTE the right to broadcast all of the Irish Provinces' Heineken Cup matches, in full, within 2 hours of the final whistle of the match, and further highlights thereafter. On this basis the IRFU would query the need for intervention at this juncture.
- The two Primary Sources of revenue for the partners in each tournament come from the **CENTRAL** sale of Six Nations and European Cup television rights.
- Each country is expected to deliver its television rights to the central selling process on an unencumbered basis.
- Any regulatory intervention, which places Ireland in a disadvantaged position vis a vis its partners at the table will lead to a situation whereby the other partners will:
 - In the Six Nations seek to renegotiate Ireland's rights of participation in the distribution of income from the central Six Nations pool.
 - In the Heineken Cup seek, as a start point, to reduce the number of Irish Clubs participating (given that the English and French Unions are under pressure from their respective clubs to increase the number of their clubs participating in the competition) and in addition seek to renegotiate Ireland's rights of participation in the distribution of income from the central ERC pool.
- The IRFU has been advised by the television rights consultant to ERC and Six Nations Limited that he has serious concerns that listing the matches in Ireland would significantly impact on the revenues generated centrally, by limiting/removing Sky's incentive to bid for the UK rights. This would inevitably reduce the monies available for distribution to the stakeholders for investment in the game in their respective countries. Inevitably, this would threaten the current arrangements for equitable distribution of those revenues, whereby currently the IRFU receives greater revenues from TV rights, through its membership of ERC and Six Nations, than it can put into the central pot. The result of such a change would see opinion turning in favour of each Union keeping specifically what its local broadcast market generates. In this scenario the IRFU would be a heavy loser, and it would have to severely cut its current investment in the Club, Provincial and International games, leading to a spiral of decline with Irish rugby becoming a second class citizen on the world stage.

4) FINANCE - THE MATHEMATICAL COMPOSITION OF A €10 to €12 MILLION LOSS.

The IRFU has been conservative in its approach to calculating the losses which will accrue to Irish Rugby, should this 'free to air' proposal go through. Currently, Ireland receives an equal share of the TV revenues as each of the other partners in the Six Nations Championship and the Heineken Cup. Should the 'free to air' proposal go through it will impact on Ireland's ability to bring unencumbered television rights to the table and result in a proposal from the other partners that they each be entitled to retain the TV revenues for their own territory (In Ireland's case whatever the local TV broadcasters would be willing to pay for the rights)

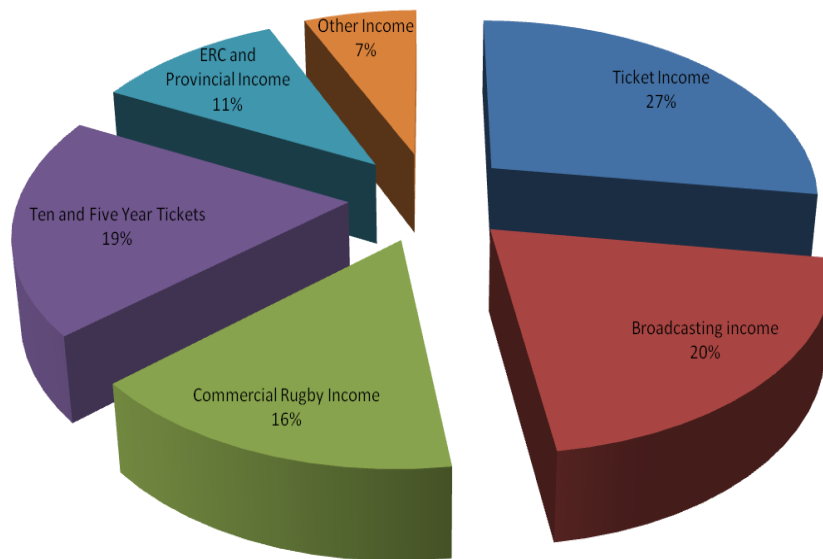
In this section it outlines the loss based on its revenues from a centrally negotiated contract as opposed to the revenues it would receive based solely on the values for television rights for Ireland alone.

It is certain that should a satellite channel, be it Sky or ESPN, be removed from the equation the terrestrial channels would not bid at the current levels and so it is realistic to anticipate that this difference would be between €10-12m per annum based on the Irish market alone. TV 'Rights' experts have stated that in addition to impacting on the value of the Irish market there is precedent to suggest that it would also impact negatively on the value of the entire TV package for these Islands, resulting in a loss far greater to the respective tournaments than that predicted by the IRFU.

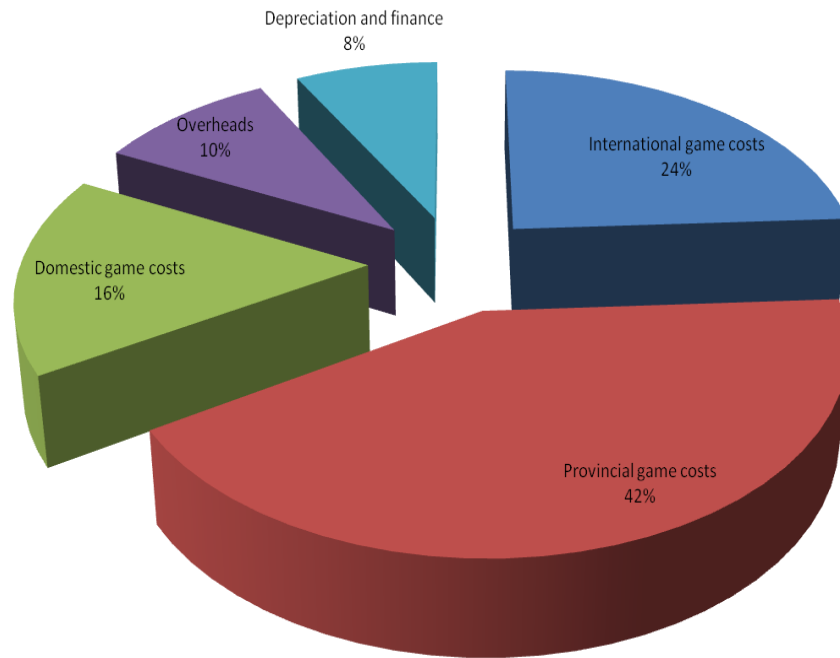
Calculation:

Ireland's 2010/11 share of TV Income from Six Nations Championship: (Ireland as an equal partner is entitled to an equal share of the total TV revenues for the entire tournament and negotiated centrally by Six Nations Championship).	€11M
RTE's payment for Irish territorial Rights for 2010/11 season (This is the payment RTE currently makes for the rights to show the Six Nations Championship on a live basis in the territory of Ireland)	€3M
Difference 'A'	<u>€8 M</u>
Ireland's 2010/11 share of TV Income from ERC (This is the TV income the IRFU receives from the Centrally negotiated ERC contract)	€4M
Value of Ireland TV rights alone based on approx 10% of Sky's current payment for UK and Ireland TV rights of €17 M) (10% is accepted as a general value of Irish TV rights when bundled together as part of a UK and Ireland package)	€2M
Difference 'B'	<u>€2 M</u>
Total Negative Difference (A + B)	<u>€10 M</u>

IRFU BUDGET INCOME ANALYSIS



IRFU BUDGET EXPENDITURE ANALYSIS



5) CONSEQUENCES FOR IRISH RUGBY OF 'FREE TO AIR' PROPOSAL

- Probable closure of provincial franchise(s)
- Immediate reduction in grant aid for remaining provinces
- Immediate reduction in level of grants into club grass roots structure (Domestic Rugby budget of approx. €10m per annum is a surplus generated from professional game and is in danger)
- Immediate loss of best Irish Players to Overseas clubs.
- Loss of revenue would not be recouped through other revenue streams as these are currently at maximum and under pressure in a depressed and shrinking commercial market.

6) CONSEQUENCES FOR IRISH ECONOMY

- The loss of successful teams will have a knock on affect to the supporting services in the Irish economy
- Economic studies estimate that Irish Rugby contributes over €375million to the Irish economy each season.
- Irish National Team generates €250m pa made up of:
 - 3 November matches at €30m each: €90m
 - 3 x 6 Nations matches at €50m each (or England/France at €75m each): €150m
- Provincial Team Games contribute to their own local economies €125m pa made up of:
 - 20 home Magners League games (Munster and Leinster) at €3m each: €60m
 - 6 home ERC pool games (Munster and Leinster) at €10m each: €60m
 - Connacht games contributes c€5m pa across all games

7) INTERNATIONAL ISSUES

- The Minister's proposal, if enacted, would send highly negative signals to local and international sporting bodies and communities with regard to the Irish Government's policy towards sport and it's development in this country.
- The Minister's treatment, through this proposal, of both Irish rugby and it's international partners, has serious potential to damage the Country's reputation and position in the wider international rugby community. This could affect Ireland's position as a base for the governing bodies of European and International rugby as well as the Country's ability to secure major sporting and economic events in the future such as the European Rugby Cup final and a joint-hosting role in future Rugby World Cups.

8) NORTH-SOUTH ISSUES

Rugby is one of a small group of sporting organisations in Ireland that operate on an all island basis. Irish Rugby is unique on the international rugby stage in that it represents people from two separate jurisdictions. This unique situation has been, and continues to be, a major strength of Irish rugby and a beacon of hope for Irish people through the darkest days of our recent history. Upsetting in any way the all embracing nature of that structure is unwelcome, but is yet another unwitting consequence of Minister Ryan's proposal; as the IRFU's ability to finance the Ulster team will be significantly hampered by a decision taken in another jurisdiction from that of Ulster and with the bizarre situation developing of ERC matches involving Ulster being available free-to-air South of the border but on a paid-for basis North of the border.

9) THE ULTIMATE CONSEQUENCES

- Loss of Irish Rugby's key income generators – it's best players
- A probable reduction in the number of professional provincial franchises/teams
- Inability of Irish provincial teams' to compete to highest levels
- Inability of the Irish International team to be a serious and consistent force at International/World Cup level.
- The rapid decline of Irish Rugby into a second tier contender and the end of the game's mass appeal in this country.
- Consequential reduction in the effect and value of a strong and vibrant rugby sector to the national and regional economies.
- Weakening of international sporting relations and patronage for Ireland Inc.

ENDS