



## **EconoMag**

### **The Show that demystifies Economics**

#### **Sport Industry – part 1**

**FIFA ©**

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The sports industry is massive, regrouping the production, promotion, and organization of any activity or event focused on sports. In these markets many products are on offer, for example, goods, services, players, tournaments, and ideas. It is difficult to calculate the value of this global industry, as there are no official figures and it encompasses so many different sports, events, and products, and for France alone the industry was valued at 42 billion euro in 2014. But that is really just a drop in an ocean-sized industry. Today, to begin this week's Economag focusing on the sports industry, we will look at FIFA and the so-called "Sepp Blatter System".

Sepp Blatter has held power as the president of FIFA since 1998, and has now been forced to resign because of the recent corruption scandals linked to the organization, but even his resignation is in doubt as he still remains in office. Last month, fourteen people, including nine of FIFA's top executives were accused by the FBI of racketeering, fiscal fraud, and money laundering during a period of 25 years. The corruption is mainly concerned with payoffs to officials in order to influence the bidding process so that a candidate host would be awarded the World Cup, such as the current accusations surrounding both Russia and Qatar's successful bids for the 2018 and 2022 tournaments. Also, it has been alleged that bribery was a major reason why South Africa was awarded the 2010 World Cup.

So, what is the "Blatter system"? Sepp Blatter has been working at FIFA for over 40 years, with seventeen of those as President. It was under his governance that FIFA became the important and influential institution it is today. FIFA, based in Zurich, is the international governing body of association football, and the organizer of the sport's major tournaments. Its goal is to "improve and spread football around the world", and to do this it creates programmes for young people to help develop talent and also football infrastructure in poor countries. To finance these development programs there are numerous marketing activities, sponsorships, and, of course, the World Cup which is the main source of income for FIFA. Indeed, marketing, along with sponsorship and television rights are a virtual gold mine for the organization.

Since Blatter has been in power, television rights alone have amassed a fortune for FIFA and its programs. In 1998, France's World Cup generated 100 million dollars in income. In 2002, this increased to 900 million for the co-hosted Cup in Japan and South Korea. In 2006, in Germany, this figure crossed the 1 billion-dollar threshold, and the 2014 World Cup in Brazil brought in 2.42 billion dollars in television rights. This is why FIFA's revenue has skyrocketed over the past 20 years from 260 million dollars in 1998 to 5.7 billion in 2014. Of course, however, as FIFA is supposedly a non-profit organization, they are legally obliged to re-allocate all or most of the funds they receive. In 2014, 42% of the revenue was re-directed towards the next World Cup, 20% to development programs, and 17% to the internal functioning of FIFA, such as administrative and operational costs as well as salaries. The remainder of the money apparently goes into a reserve fund, but for the organization's lack of

transparency we don't actually know where this money ends up or even what are the salaries of the President and members of the Executive Board.

As of 2015, there are 209 member states in FIFA, more than in the International Olympic Committee or even in the United Nations. Since Blatter came to power, around 60 new federations have joined the football institution. Each federation has one vote to elect the new President, regardless of the size or population of the country. This means that the Football Federation of San Marino's vote is worth just as much as a vote from Brazil or France. Out of the 209 seats, more than 70% of them are smaller Federations, which allows the President and FIFA to essentially bribe Federations for their votes by promising any number of development programs. This structure has also recently been contested by UEFA, the European Association, as its weight and influence within FIFA is actually less than that of the CAF, the African Association, and just a little bit bigger than the Asian Association. Michel Platini, the President of UEFA, opposes this system, arguing that the European Association is the heart of the football market, as the Champions League is worth 1.6 billion dollars in television rights alone, much more than the other associations and their tournaments.

Staying on the subject of football, tomorrow, we'll have a look at the famous transfer season, or transfer window, also called "Mercato" in French.