

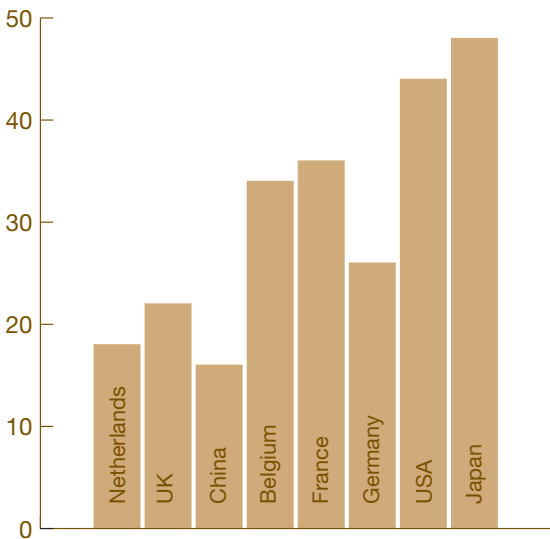
Chapter 2

The environment for inward investment to Ireland

Ireland is a long-standing and committed member of the EU and offers investors ready access to a market of over 495 million people, one of the largest markets in the world. Notwithstanding Ireland's geographical location on the western edge of Europe, the well-developed infrastructure combined with competitive operating costs, low corporate taxes and financial incentives make Ireland one of the most profitable locations in Europe for overseas investors.

Ireland's success as a profitable location is illustrated in the table below:

Table 2.1 Percentage increase in profit required to achieve the same distributable income available in Ireland from overseas companies



Source: IDA Ireland December 2008

Ireland's business climate today has its roots in decisions taken in the mid 1950s to achieve economic expansion by stimulating export based industries. Successive governments have fostered these policies and have placed significant emphasis on encouraging inward investment. The World Competitiveness Yearbook, 2008 published by the International Institute for Management Development (IMD) Switzerland ranks Ireland the twelfth most competitive economy of the 55 states surveyed.

Successful sectors

Ireland is home to a wide range of manufacturing and service operations (both indigenous and foreign-owned). However in promoting investment, government promotional agencies have selectively targeted certain areas of industry; in particular, those which produce sophisticated and high value added products and services. These also offer the best growth potential and the best prospects of generating long term sustainable employment in Ireland. The targeted sectors are:

- Life sciences – pharmaceuticals, chemical, biopharma, medical devices and diagnostics
- Information and communications technology (ICT)
- Digital media
- International services
- Financial services.

Life sciences

Since the 1960s, Ireland has grown a globally significant life sciences industry. Today, Ireland has over 170 companies employing 35,000 people in the pharmaceutical/chemical, biopharmaceuticals, medical devices and diagnostics sectors (*source IDA Ireland*). The sector is very integrated with a good working relationship between foreign owned companies, indigenous companies, university research departments plus increasing involvement by the hospitals in clinical research and on-going proactive government support. Many foreign owned life science companies have prospered in Ireland and are growing in terms of scale and diversity, encompassing more business functions and integrating core activities such as R&D.

Pharmaceuticals

- 13 out of the world's top 15 ranked companies manufacture in Ireland
- 12 out of 25 of the world's most popular drugs are manufactured in Ireland
- many pharmaceutical companies have multiple operations in Ireland, including R&D and treasury functions
- 17,000 people employed directly in the industry
- pharmaceutical products account for 40% of Ireland's exports.

Biotechnology

- significant investment by government and universities
 - National Institute for Bio-processing Research & Training (NIBRT)
 - Alimentary Pharmabiotic Centre, Cork
 - Biomedical Diagnostics Institute, Dublin
 - Regenerative Medicine Institute, Galway
 - University research centres and projects
- significant corporate investment eg \$1.8 billion in one single project.

Medical devices/diagnostics

- 15 of the world's top 25 companies have invested in Ireland many with multiple operations eg R&D, global support functions including shared financial services, IT support, global supply chain management
- highly skilled workforce available
- 26,000 employed directly in the industry.

Information and Communications Technology

The information and communications technology (ICT) sector has shown remarkable growth in recent years. ICT companies in Ireland are engaged in a range of activities:

- wafer design and fabrication
- components and peripherals to communications
- networks
- software development
- ebusiness & internet
- search engine groups.

Information and communications technology

- 5 of the top 10 global companies have significant Irish operations
- \$50 billion exports
- over 220 companies employ over 40,000 people directly in the industry
- approximately 300 software companies in Ireland (foreign owned and indigenous)
- 8 out of 10 of the top software companies in the world have a presence in Ireland
- Ireland is the largest exporter of software in the world
- in addition to core activities, many ICT companies in Ireland have established functions such as R&D, shared services, supply chain management, software development, technical support and IP management.

Digital media

Building on a strong IT base coupled with massive investment in Ireland's global connectivity and technical infrastructure, Ireland has attracted significant investment from large internet companies and other companies in the digital media sector. Digital media activities undertaken in Ireland include:

- content production
- web design
- digital video
- data management
- industrial design
- telecommunications
- e-learning
- internet service providers.

Ireland has a dedicated facility, known as "The Digital Hub" which was set up to support the development of the digital media sector.

Internationally traded services in Ireland

Ireland is a significant player in the internationally traded services sector and has attracted companies because of Ireland's knowledgeable and innovative workforce, low risk environment, excellent infrastructure and favourable corporate tax rate. The range of internationally traded services operating from Ireland includes:

- professional consulting services
- internet based business
- telecommunications
- travel and leisure
- retail and distribution
- media and entertainment
- business process outsourcing.

The range of functions carried on by these service companies includes:

- telemarketing and teleservices
- back-office processing
- customer contact centres
- supply chain management
- pan-European/EMEA/global shared service centres.

Financial services

Most of the world's premier financial institutions have a presence in Dublin, many of which are located in Dublin's dedicated International Financial Services Centre (IFSC). Since its inception in 1987, the IFSC has grown to become a world-class centre for a wide range of internationally traded financial services. These include:

- banking
- corporate treasury
- insurance and reinsurance
- securitisation
- debt issuance
- leasing and asset management
- funds administration and custody
- futures and options trading.

The primary reasons Ireland was able to attract such a large number of international financial services companies are:

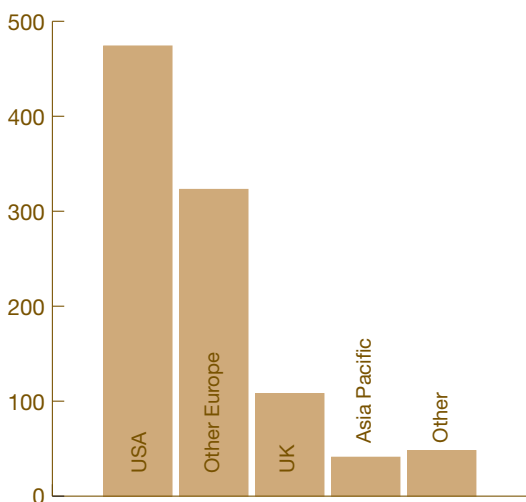
- availability of labour with the appropriate skills and competencies
- a competitive taxation environment for investment funds
- an effective and responsive regulatory and legal framework
- a supportive infrastructure
- it is English speaking and has a common-law base.

As the sector in Ireland has developed and matured, Ireland has been able to supply companies with a pool of well educated people who have demonstrated the ability to grow with the industry and learn the necessary skills to move up the value chain.

Source of inward investment to Ireland

The success of the government's inward investment policies is evidenced by the fact that approximately 1,000 overseas companies have chosen to establish bases in Ireland. The breakdown, by nationality, of IDA Ireland assisted companies in 2008 is shown in the following table:

Table 2.2 Source of inward investment



Source: IDA Ireland

State financial support for inward investment

Incentives available to inward investors in Ireland consist of tax incentives and financial assistance. The major tax incentives are described in Chapter 5.

State financial assistance, usually in the form of grants, is administered by a number of different government agencies each with its own area of particular interest. The availability and level of grant assistance is largely dictated by the geographical location of the project within Ireland and is bound by both Irish and EU legislative limits that vary for different types of assistance.

The highest levels of grant are available in the border, midlands and western regions of Ireland. Other key determinants of the availability and level of grant assistance are the activities to be carried out in Ireland and, in particular, the skills levels of the people to be employed.

Grant aid is available only for projects that are involved in manufacturing or internationally traded services (the services must be provided to customers outside Ireland).

IDA Ireland

IDA Ireland is the primary government agency with responsibility for the promotion of foreign direct investment into Ireland and the development of the existing base of overseas companies. IDA Ireland's portfolio encompasses approximately 1,000 overseas companies employing over 136,000 people directly in Ireland. IDA Ireland has its headquarters in Dublin and has overseas offices in many locations throughout the world. Information on the offices of IDA Ireland and also on other government promotional agencies is contained in Appendix 3.

Grants are available from IDA Ireland for both manufacturing and internationally traded services. In general, IDA Ireland can provide a range of grant aid for new industry, including capital grants and employment grants. Grants are also available towards investment in R&D facilities and new R&D projects. Grant assistance is in addition to generous R&D tax credits (see chapter 5 "Corporation tax and tax incentives in Ireland"). Full details on R&D grants and R&D tax credits are provided in our publication "R&D Incentives in Ireland".

Training grants are also available for companies that are undertaking major training initiatives. A maximum grant rate of 25% of costs is available for specific training; a maximum grant rate of 60% is available towards the costs of training that is considered "general" in nature.

IDA Ireland also offers non-financial assistance to help overseas companies assess Ireland's suitability as a location for a new investment or expansion project. IDA Ireland can arrange site visits tailored to a particular company's requirements. These can include introductions to companies already operating in Ireland

and introductions to relevant university departments, training colleges or third party service providers such as tax specialists, estate agents, banks and recruitment firms.

IDA Ireland can also provide a range of information relevant to doing business in Ireland generally or within specific regions of Ireland.

Shannon Development

Shannon Development is the government development agency responsible for the Shannon region, which is located in the south west of Ireland. Shannon Development was originally set up to oversee the development of Shannon airport but its remit has been expanded to include the economic growth and development of the overall Shannon region. Among its aims are the development of the region as an international manufacturing and service industry location, supporting indigenous industry and promoting tourism and rural development.

Údarás na Gaeltachta

Údarás na Gaeltachta is the government agency responsible for the promotion of investment in the Gaeltacht. The Gaeltacht is an Irish speaking region which covers extensive parts of counties Donegal, Mayo, Galway and Kerry (all on the western seaboard) and also parts of counties Cork, Meath and Waterford - all regions that are largely rural and relatively sparsely populated. The agency, which seeks to increase employment and stimulate economic activity in the region, gives priority to export oriented projects and industries that use natural resources.

The grant rate available to companies in this area is typically one of the highest offered in Ireland.

Enterprise Ireland

Enterprise Ireland is the government agency whose primary responsibility is the development of indigenous industry, although it also looks after overseas companies involved in the food and natural resources sectors. Occasionally Enterprise Ireland administers grant programmes which are open to both indigenous and overseas companies in Ireland.

European grants

Companies operating in Ireland are also eligible to apply for European grants administered by the EU. One of the main such schemes relevant for business is the “Framework Programme for Research and Development” (FP). FP7 is running from 2007 - 2013. Significant levels of grant-aid of up to 50% of project costs are available. Eligible projects must involve collaboration between companies, universities or research institutes in at least two Member States. Companies must not be “related” companies.

Infrastructure

The success of Ireland as an investment location has been founded on the consistently positive approach of Irish governments to the development of businesses. This approach has ensured a well-developed infrastructure with world class support services - from banking and trade finance to efficient transport logistics and sophisticated telecommunications.

Currency

The euro is the currency of Ireland and of the 15 other eurozone countries. The countries participating in Economic and Monetary Union (EMU) are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain. Together, the 16 participating countries create what is effectively the world’s second largest economy.

Ireland is the only English speaking member of the euro-zone and offers a unique gateway to trading with the euro-zone without exchange rate risk whilst at the same time allowing companies to take advantage of all the benefits Ireland has to offer as a business location.

Irish monetary policy is the responsibility of the European Central Bank (ECB) as part of its role in defining and implementing monetary policy for the entire euro-zone. One of the objectives of the ECB is to control inflation within the euro-zone. National fiscal policy is subject to limits as defined in the Economic and Monetary Union Stability Pact.

Currency convertibility and exchange controls

There are no restrictions on the repatriation of earnings, capital, royalties or interest and repatriation payments can be made in any currency. Similarly there are no restrictions on the import of capital to Ireland. Residents and non-residents can operate bank accounts in any currency and Irish businesses are free to open bank accounts in any location outside Ireland. Inward investors must, of course, have regard to exchange control regulations in their home countries.

Banking

Ireland has a well-developed and highly sophisticated banking infrastructure that has experience in handling the requirements of overseas companies. The banking sector is licensed and regulated by the Irish Financial Services Regulatory Authority (IFSRA). Irish licensed banks can be classified into three main categories:

- clearing banks
- merchant and commercial banks, and
- industrial banks.

The main clearing banks are AIB, Bank of Ireland, National Irish Bank and Ulster Bank and these provide a full range of banking services, including foreign exchange dealing and hedging activities. Many international banks are represented in Ireland for commercial lending and foreign exchange facilities.

Transportation

Ireland's transport infrastructure is geared towards offering fast, efficient and cost effective access to international markets.

With exports accounting for three quarters of national output, Ireland has had to develop a highly efficient distribution network which makes the rest of Europe accessible within hours. Key features of the transport infrastructure are:

Air

- Ireland has three international airports located at Dublin, Shannon and Cork, and regional airports at Donegal, Galway, Kerry, Knock, Sligo and Waterford
- frequent air services from Dublin and regional airports located throughout the country make most European cities accessible within 1 to 3 hours' flying time.

Road and rail

- a motorway system which is being upgraded and enhanced by an ongoing programme of investment financed through government and EU assistance
- a railway system connecting the major cities and ports of Ireland.

The Irish government is continuing its investment in public transport through the roll out of "Transport 21" a "21st century transport plan for 21st century Ireland". The aim of this transport plan is the development of an integrated transport system for Dublin. The total investment under the strategy will be approximately €34.4 billion.

Sea ports

- numerous ports are located throughout Ireland with most having roll-on/roll-off facilities; the major ports are Dublin, Cork, Rosslare and Waterford
- shipping times to Europe are cut by travelling via the UK landbridge
- flexible work practices in the transport industry and frequent night sailings maximise time efficiency.

Communications

The telecommunications market in Ireland is fully deregulated and currently over 20 communications companies provide services in the market. The recently awarded National Broadband Scheme license will ensure that areas which currently have no broadband

provision will have access to fast broadband. The State has also invested in a Metropolitan Area Network (MAN) infrastructure around 94 large and small towns in Ireland. The MAN infrastructure allows alternative operators to back haul from remote centres and offer higher speeds and resilience to companies across the country.

Ireland also increasingly provides for wireless and mobile broadband access and continues to issue spectrum for the delivery of value-added services. Increased competition in the mobile market has led to a further drop in prices and all 4 mobile operators have launched 3G and mobile broadband services. Broadband penetration continues to explode, with Ireland showing the highest growth rates in Europe over the past two years. This has been driven by the drop in the cost of broadband access and by the choice of broadband providers which are mobile, fixed and cable operators. Speeds of broadband continue to improve. The cable operator is now offering 20mbps product and, with the success of unbundling the local loop, telecommunications operators are offering up to 24mbps.

e-commerce

Under Irish law, there is equivalence of treatment between electronic documents (eg contracts, writing signatures, seals) and their paper-based counterparts. Ireland has put in place clear, flexible and user-friendly e-commerce legislation, which allows for the introduction and maintenance of a voluntary accreditation scheme and a supervision scheme for the issuers of electronic signatures.

Science and technology - education and development

Information technology education is part of the primary school curriculum. Investment continues to be made to ensure that there are multimedia PCs in every school and that internet access is available to every child and

teacher. At university level, there is an extensive range of both undergraduate and post-graduate courses in e-commerce.

Over the past number of years, the government has substantially increased the level of investment in science and technology, and through initiatives such as Science Foundation Ireland, and the Programme for Research in Third Level Institutions (PRTL), Ireland has been successfully building a world-class research environment. The on-going implementation of the government's "Strategy for Science, Technology and Innovation" clearly demonstrates the government's commitment to the creation of a knowledge-based economy, and to a coordinated approach to science and research. The vision of this strategy is to position Ireland as a key player in this area on the world stage.

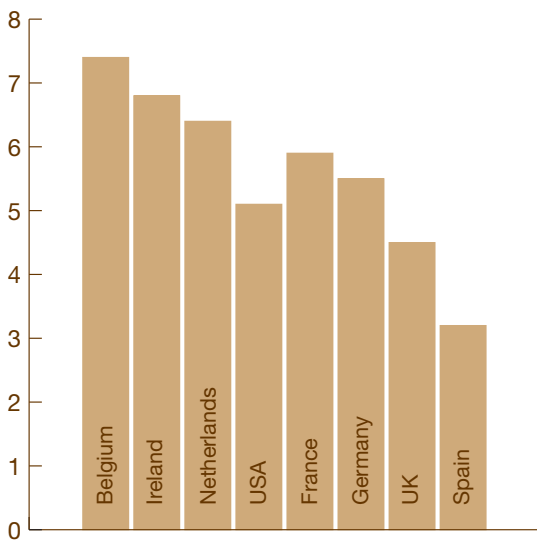
"Ireland by 2013 will be internationally renowned for the excellence of its research, and will be to the forefront in generating and using new knowledge for economic and social progress, within an innovation driven culture."
Strategy for Science, Technology and Innovation

Some of the key objectives of the strategy are:

- to double the number of PhD graduates in Ireland
- to develop a targeted and focused programme of research activity across a range of key sectors of the economy, building on Ireland's proven expertise in ICT, pharmaceuticals and biotechnology
- to enhance arrangements for the capture, protection and exploitation of intellectual property
- to further develop the opportunities for collaboration between industry and academia and
- to create a dynamic environment in which to attract, produce and retain world-class researchers and research projects.

Ireland's approach to education has contributed to Ireland's high ranking for the "educational system meeting the needs of a competitive economy" by IMD Switzerland.

Table 2.3: Education system meeting the needs of a competitive economy



Source: World Competitiveness Yearbook 2008, by IMD Switzerland

Availability of industrial facilities and offices

Various options are available in the selection of factory and office sites for companies wishing to invest in Ireland. IDA Ireland, the primary government agency for the promotion of inward investment, owns a number of business parks with purpose built factories which are ideal for new projects where the promoters do not wish to construct their own premises. IDA Ireland also offers greenfield sites where promoters can erect custom-built factories. It is usual for these sites to come fully serviced with outline planning permission for industrial usage.

There are also privately owned business parks, run by commercial developers, which offer both factory and office sites. These premises are pre-built and tend to be ideal rental options for inward investors. Office space

is available in the major cities and towns throughout Ireland to cater for both large and small-scale operations. Serviced office accommodation is a popular and widely available option for companies establishing an initial small operation in Ireland.

Planning approval

In general, any form of building development requires the approval of the relevant local authority (unit of local government). The approval process requires the submission of maps and plans of the proposed development, a description of the intended activity and details of expected use of public utilities. In addition, where the development is on a large scale or is likely to have a significant effect on the environment, the planning application must be supported by an Environmental Impact Statement (EIS). An EIS is a statement by the promoter providing an analysis of the likely effects of the project on the environment and detailing the measures to be taken to avoid or moderate any adverse effects. In assessing the suitability of the proposed project, the planning authority will be concerned to ensure that the project complies with the authority's development objectives for the particular area and that safeguards are in place to minimise damage to the environment.

Environmental issues

The protection of the environment is a major objective of the Irish government. In addition to its intrinsic value and its contribution to the quality of life, a clean environment is recognised as a crucial economic factor. It is of particular importance in the development of natural resource-based industries and tourism and in the marketing abroad of quality products and services.

Legislation to protect and maintain the environment is closely modelled on EU Directives and covers matters such as planning and building regulations, public safety and the issue of pollution control licences. In addition, controls, with related charges, are imposed on the disposal of electrical and electronic waste and batteries. A levy is chargeable on the supply of plastic

bags to encourage a reduction in their use and potential for pollution of the environment. This legislation is implemented primarily by local authorities and by the Environmental Protection Agency (EPA).

The EPA is the government body responsible for monitoring and licensing those industrial activities that are considered to carry a significant risk of environmental pollution. Its mission is to protect the natural environment while maintaining economic and social principles of development.

Pollution control licences

Where a proposed development carries a high risk of environmental pollution, an integrated pollution control licence must be obtained from the Environmental Protection Agency (EPA). Activities that are likely to require such a licence are those involving the generation of toxic waste, emissions of toxic material to the air or water and operations likely to cause noise pollution. On an ongoing basis, the EPA closely monitors the development and may amend the licence to impose stricter environmental controls. The planning authorities and the EPA work closely with promoters to ensure that a reasonable balance is achieved between protection of the environment and the promoter's commercial requirements.

