

Why Ireland?

Points of view by Liam Diamond

Partner, FDI
PricewaterhouseCoopers



Liam Diamond

liam.f.diamond@ie.pwc.com

Tel: + 353 (1) 792 6579

Ireland has been very successful as a location for FDI across all sectors. Ireland has 9 of the world's 10 top software companies, 8 of the world's 10 top pharmaceutical companies and half of the world's top 50 banks operating in the country, with many using Ireland as one of their key international business centres.

Many of the larger multinational company (MNC) employers are household names, such as Apple, Intel, Boston Scientific, Pfizer, IBM, State Street, Citi and Google. We are also seeing increasing numbers of smaller enterprises investing at earlier stages in their lifecycle, looking to Ireland as a base to establish their growing operations.

According to the IDA, as at end 2009 there were 140,000 people directly employed in over 600 IDA supported MNCs and indirect employment was estimated at over 240,000. MNCs operating in Ireland had €19bn in direct expenditure in the Irish economy, paid €7bn in payroll taxes and accounted for 50% of Ireland's corporation tax receipts.

Challenging times

The impact of the global recession has resulted in a collapse in FDI flows worldwide. The level of global FDI stood at \$2 trillion in 2007, but deteriorated by 14% in 2008 and a further 30% in 2009.

Ireland was not immune from this downward pressure on FDI flows, with net employment within IDA supported companies falling by 13,400 or 10% in 2009. Ongoing uncertainty in relation to tax proposals in key exporting locations like the US and UK also likely resulted in the deferral of some investment decisions by MNCs.

Despite this challenging economic environment, there has been a strong start to FDI into Ireland in 2010, with significant announcements by new investors as well as existing companies expanding operations in Ireland, including recent announcements from McAfee, Telefónica, AXA, LinkedIn, AOL, Zurich Group and EA Games.

The nature of new investments is increasing comprising Research and Development (R&D) and Intellectual Property (IP) management centres with a number of recent positive tax developments stimulating increased interest in 2009, as almost 50% of new projects related to R&D. Notwithstanding the difficult environment, Ireland was ranked 1st for FDI jobs per capita in 2009 (*IBM Global Locations Trends*).

There has arguably never been more demand for a stable low-tax location as MNCs face significant competitive and cost pressures as well as increasing international tax and regulatory scrutiny. Ireland's low-tax regime, EU membership and extensive double tax treaty network, allied to our skilled labour force and renewed cost competitiveness, have helped Ireland maintain its leading position as a key location for foreign investors.

Why Ireland?

Ireland is a tried and tested global centre for international business, and is the most profitable foreign investment location for US MNCs.

There is no one factor which is responsible for Ireland's success in this area. It is arguably the combination of four key areas which has positioned Ireland as a leading location for FDI, these being: tax; talent; ease of doing business and a free and open economy.

Ireland offers a competitive tax regime for all sectors and investors which is recognised as being pro-active in adapting to the needs of international FDI. This is evident from the range of positive measures and assurances contained in the 2009 report from the Commission on Taxation and enhancements to Ireland's tax regime in the 2010 Finance Act. The recent Innovation Task Force also focused on the importance of maintaining a competitive low-tax regime and advocated certain improvements to the current regime (e.g. better relief for foreign withholding tax on royalties).

Ongoing scrutiny of the tax regime is critical in helping to maintain the international competitiveness of our tax regime. Specific tax measures such as strong improvements to the R&D tax credit and IP tax regimes, combined with possible grant support from IDA Ireland for new projects in the R&D space, underpin this success. Such measures have contributed towards Ireland ranking 1st for FDI and corporate tax regime (2009 *Global Innovation Survey*).

These ongoing positive improvements send a message to the global markets that Ireland remains an attractive and competitive investment location which is continually reinforcing and improving its position as one of the leading locations for international business.

Ireland offers significant workforce advantages and one side effect of the recent downturn is that we have regained some of our lost competitiveness. *The 2010 IMD World Competitiveness Yearbook* shows that Ireland ranks 4th globally for availability of skilled labour and openness to new ideas. We are also second highest in the EU for third level education completion in the 25-34 age group. These statistics are very positive for Ireland as we compete on a global basis for FDI. Many MNCs with existing investments have been vocal in encouraging a renewed focus on education, so it is not surprising that investment in education was one of the top three factors identified in the *PwC 2010 CEO Pulse Survey*, along with cost competitiveness and tax.

Other elements are also critically important in attracting FDI from abroad. Ease of doing business should not be underestimated, as we are English speaking Eurozone Members, bridge the timezone gap between the East and West, and have a common law legal regime. Ireland was ranked as the 1st in Europe for ease of paying taxes for the third year running by the *PwC Paying Taxes 2010 Report*. Our open business economy which facilitates doing business with the rest of world gives MNCs an attractive environment within which they can grow and innovate. This is evident as Ireland was placed 1st for internationalisation and openness out of 29 countries (*Global Benchmark Report 2009*), and the 5th freest economy in the world (*2010 Index of Economic Freedom*).

Why Ireland?

- Tax
- Talent
- Ease of doing business
- Free & open economy

Evolution of MNC Irish operations

The existing operations of many MNCs have needed to continuously make themselves more valuable and relevant to their organisations in order to sustain and grow their Irish footprint. Principles which originated in the more traditional manufacturing sector are now being applied heavily in the international services and other business models. There has generally been a shift from high volume, low value type business to a focus in recent years on operational efficiency and excellence in a leadership role.

Irish MNC management have quickly adapted and sought out opportunities within their global organisations to take a leadership position in particular sectors or on specific product or service offerings. In many instances, Ireland has become an international centre of excellence, propelling the Irish operations up the much vaunted value chain, thereby becoming more relevant for their global group.

We are seeing the evidence of this on the ground, as our *PwC 2010 CEO Pulse Survey* shows that 40% of MNC CEOs with Irish operations are considering making additional investments in Ireland, representing an increase of 25% on last year's result. This sends from within a strong message of confidence in Ireland as a location for foreign investment.

Competition

There is stiff competition in the global FDI marketplace and this requires Ireland to constantly adapt and enhance our FDI offering. Many of Ireland's historic advantages have weakened as, for example, newer EU entrants are increasingly competitive on costs and tax. Some of the larger FDI exporting countries, such as the US and UK themselves, are also keen competitors in certain areas, particularly when financial incentives are factored in.

Remaining competitive on cost and tax is critical to Ireland remaining a key player in the global FDI market. In our recent *PwC 2010 CEO Pulse Survey*, MNC CEOs rated the top three factors to maintain Ireland's attractiveness as a location of choice for FDI to be improving our cost competitiveness (51%), a continued commitment to a stable and low tax regime (43%) and enhancing investment in education and up-skilling (30%).

Of course Ireland is not just competing for first time investors; local management of existing MNC investors face a constant battle as they pitch to be the location of choice for new internationally mobile projects. This has been supported by the willingness of the Irish authorities to enhance the IP and R&D tax credit regimes, in particular by allowing for “above the line” accounting treatment of the R&D tax credit, which reduces the unit cost of R&D activities in Ireland, a key metric when competing for R&D projects.

Current sentiment

One of the interesting statistics coming out of *PwC’s 2010 CEO Pulse Survey* is that 40% of the MNC CEOs surveyed said that they are considering additional investment in Ireland, which is up 25% on last year. Our interactions with US and other MNCs indicate that investor sentiment towards Ireland is increasingly positive, with concern over Ireland’s economic stability easing and being replaced by an awareness of our re-emerging cost competitiveness.

The *PwC 2010 CEO Pulse Survey* also highlighted that of the MNCs who responded, three quarters (75%) said that they are neither considering reducing investment nor closing existing operations in Ireland. It is notable that the number of respondents considering closing operations in Ireland and relocating abroad is down by almost 50% on last year, down to 8% from 15%.

The Irish authorities have been very vocal in reinforcing their commitment to Ireland’s low tax rate and have been receptive to calls for improvements to Ireland’s R&D and IP tax regimes and innovation measures generally. Combined with our status internationally as a key location for talent, openness and ease of doing business, as well as returning cost competitiveness, these represent the critical building blocks that underpin Ireland’s FDI reputation and should enable us retain existing investments and grow our share of new FDI.

Did you know that Ireland is...

1st for FDI jobs per capita

1st for FDI and corporate tax regime

2nd lowest total tax rate in the EU

3rd most globalised nation behind Singapore and Hong Kong

pwc.com/ie/fdi

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