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DAALTYN

(HANSARD)

**STANDING COMMITTEE OF TYNWALD
ON ECONOMIC INITIATIVES**

**BING VEAYN TINVAAL MYCHIONE
KEIMYN DY CHUR Y FARRYSTHIE
ER-Y-HOSHIAGHT**

Douglas, Wednesday, 9th December 2009

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Members Present:

Chairman: The Speaker of the House of Keys (Hon. S C Rodan)
Mr C G Corkish, MHK
Mr G D Cregeen, MHK
Mr T M Crookall, MHK
Mr J P Watterson, MHK

Clerk:

Mr R I S Phillips, Clerk of Tynwald

BUSINESS TRANSACTED

	Page
Procedural	3
Evidence of Dr K Jones	3
<i>Mr Corlett was called at 4.02 p.m.</i>	
Procedural	12
Evidence of Mr C Corlett, Chief Executive, Department of Trade and Industry	12

The Committee sat in private at 4.50 p.m.

Standing Committee of Tynwald on Economic Initiatives

*The Committee sat in public at 3.20 p.m.
in the Millennium Room,
Legislative Buildings, Douglas*

[MR SPEAKER *in the Chair*]

Procedural

The Chairman (The Speaker of the House of Keys, the Hon. S C Rodan): Good afternoon, and can I welcome everyone to this meeting of the Standing Committee of Tynwald on Economic Initiatives, which is investigating the potential for the Isle of Man of promoting the manufacturing of medical devices. We are taking evidence this afternoon firstly from Dr Ken Jones – good
5 afternoon to you – who has assisted the Committee before by submitting written evidence; and then at four o'clock from Mr Chris Corlett, Chief Executive of the Department of Trade and Industry.

Just for the record, I am Steve Rodan, Chairman of the Committee; Geoff Corkish, Tim Crookall, Graham Cregeen and Juan Watterson are members of the Committee; and Roger Phillips is our Clerk; Clive Alford is our *Hansard* editor. If I could ask everyone to ensure mobile phones are turned off, please, to ensure there is no interference.

Dr Jones, thank you very much for coming to give evidence in public. This will be recorded as part of the Committee's evidence and made public, published eventually.

EVIDENCE OF DR K JONES

Q1. The Chairman: Could I ask you to start by telling us about the experience of your
15 company in doing business in the Isle of Man, specifically the benefits and drawbacks of operating in the Isle of Man and what attracted you to do business here in the first place?

Dr Jones: Around 22 years ago, I attended a 'Come to the Isle of Man' meeting, advertised in the northwest of England by the DTI of the time. I went along to the meeting with a very open
20 mind. I left convinced that, if you were going to do business, this was the place to do it.

I then, first of all, checked around the world to see what other alternatives there were, and there were better packages but they were all linked to tax breaks. Not a single one offered 40 per cent grant towards the investment that you were making, and of course it was much more widespread than just on the equipment. It covered marketing and travelling costs and what have you. This, to
25 me, was perfectly attractive and it was unquestionably the best there was available.

The next stage was to enquire about the reality of the situation. So one comes to the Island here, the DTI confirmed what I had understood, they provide the necessary forms and at that point, I then produced a business plan. I intended to start a new business at that time anyway and the position was quite clear. I had to sell a current business that I had, which was not directly in the
30 medical type of field. It was in the chromatography field, which covered oil and gas and pharmaceuticals, a whole variety of materials.

I had been talking to some people at Cambridge University and they had a very novel approach to doing separations in the pharmaceuticals area. Basically, this was a totally new design concept. I knew always it would be a very research-based operation, and in looking at the Island, I elected
35 at that time to realise that the Island did not have enough research background. Cambridge was a far better place to do research because you were surrounded by eminent scientists and the facilities that would do it. From a manufacturing point of view, a totally different story.

40 As I developed it over the years, it became clear that development was better here. Pure research in Cambridge, the manufacturing and development was on the Island. I then put my company on the market and I sold it to raise the funds. I raised enough money to support the cost that would be involved in developing the operation. I presented this to the DTI and I got a positive reply. Away we went.

45 I invested initially around £100,000 and – obviously you have to live – I bought a house on the Island here and knowing that this was a long uphill fight, I did not anticipate even producing a profit for at least five years. As it turned out, it was something like seven years. So you have to fund that period.

50 The one drawback on the Island I discovered was there was no finance available on a venture-capital basis. I had to go to London for that. I do not know how many are familiar with venture capital, but it is very demanding. They demand a 40 per cent per annum compounded return and they want to exit in five years. You keep well away from that sort of funding, because they tie you down to a point that they will dismiss you from the company if you do not hit the targets, leaving you with all the bills and them with somebody else in place of it.

55 The best people are business angels. I had one or two business angels in mind and I called on one business angel after six years when I needed more funding. He invested, if I remember, about £¼ million. I would pay him that back in something like two years because by then we were getting our first large orders.

60 When we set out to do the company, it was not in medical devices; it was effectively in pretty well pure chemistry. But then we discovered that what we were actually developing was moving into medical device areas, something which I had not a lot of experience of, but you have to learn pretty quickly how it goes.

65 The one big problem with any pharmaceutical manufacture, you have to have FDA approval. That is the Food and Drugs Administration in the USA. Without that approval you have nothing. That is a very expensive business to be in. Even today, something like 30 per cent of staff in any pharmaceutical company are quality assurance and quality standards. You have to have an extremely rigorous system and you want clean rooms. Clean rooms I did know about, but not how expensive they were. I had underestimated the cost of the clean rooms. They are quite catastrophic. It is something like about £1,000 per square metre and you need several hundred square metres to do the job.

70 From my recollection, Government has contributed something like about £2 million of grants to the company on the Island. I have sold out of that company now and I resigned my directorship about 18 months or two years ago, because I have other things that I am interested in.

I would like to raise that, if I may, now. I have a proposal, but I do want it kept very confidential initially to a select group of people, if I may.

75 **The Chairman:** If I could, at that point, in that case, Dr Jones, make absolutely clear that this hearing is in public.

Dr Jones: Oh yes, I appreciate that.

80 **The Chairman:** There do not happen to be any press here, but when there is a *Hansard* published of our conversation that will be made public –

Dr Jones: Of course, I understand that.

85 **The Chairman:** Okay, as long as you understand that.

90 *Dr Jones:* Yes, I do understand. I would not disclose the proposal in any form. What I am asking for is, how do I access a level of Government? Do I do it through this Committee or do it through someone else, because this really is big time and it is fundamental to the Island's economy.

95 **The Chairman:** Your first port of call should be the Department of Trade and Industry and fortuitously, after you give evidence, its Chief Executive is present this afternoon to give evidence. You may want to take the opportunity of speaking to him immediately after this hearing. But the Department of Trade and Industry is the part of Government specifically charged with holding discussions of the sort you wish of a business type in confidence.

100 *Dr Jones:* But I should actually say that this does not require any funding and it is much, much larger than the DTI per se. It really is a Government operation; it would need Government knowledge and approval. (**The Chairman:** Yes.) That is why I was reluctant to go to the DTI because it is not very relevant to their approaches. I will talk to anyone off the record and see what the reaction is.

105 **The Chairman:** Yes.

The Clerk: Chairman, sorry, through you, if Dr Jones wanted to write to you privately, that would be a way of handling it.

110 *Dr Jones:* Okay, I will do that. May I? (**The Chairman:** Yes.) I will do that.

The Chairman: That might be the best way forward, and then, depending on what it is, I will direct you appropriately.

115 *Dr Jones:* When I did the operation in medical devices, naturally enough you look at the whole market. The whole market is immense and it is growing at a remarkable rate. It is still something like, even today, 17 to 18 per cent per annum, worth several tens of billions of pounds. My faith in the Island doing it is important, simply because you need a cluster. You actually have all the necessary facets on the Island here to create the cluster. You have a core company that is being successful. It will soon – as you have seen from this medical device going through – it will be in the public domain even more than it is right now, and it is a lost opportunity.

120 I was quite disappointed to find that it had not been progressed, even though I suggested it now 14 years ago. We still do not have a medical device operation on the Island, apart from one that I know of. There may be others since, but you have not got this core. The Freeport is screaming out for having 20 or 30 companies with clean rooms.

125 Another thing I found was the amount of subcontracting available. There may or may not be spare capacity in the clean rooms. There certainly used to be when I was there. It was subcontracted out to other companies. There is a huge need worldwide for incubator units. Again, the Island is tailor made. All small companies, all start-up companies, all innovative companies are short of money and a 40 per cent grant is a very significant amount to contribute. If that still stands today, then it is very attractive.

130 Having said that, you have to be exceedingly careful on who you select. The statistics are very simple: for every 1,000 ideas in the research lab, 100 get through to development, a 90-per-cent failure rate. Of the hundred companies' ideas in development that get through to commerce, there are only 10 actually left. Of those, only four make any money. The statistics are, quite frankly, dreadful: 0.4 per cent success rate.

135 So you want to start as late as you can in the cycle. Do not accept the front-end ideas, which is what most people, I regret to say, do, just that. So you really want, here on the Island, a body of people who have the understanding and knowledge of the area – and I believe there are enough people here, enough talent on the Island to do that, to actually bring the objective down to minimise the risk. If you can get down to post-development studies, then you are reducing that risk significantly, but you do have to expect a very high failure rate. There is no point in exaggerating. It is well known in the industry that the medical... the pharmaceutical field, is very difficult to get into.

140 However, medical devices are something like 10 times better than that. The risk is roughly 10 times less because you are not directly speculating on a particular chemical structure. A medical device normally is part of a concept and the chemistry plays only part of it, in the same way that ours developed into medical devices and that is why I have suggested that medical devices is one that you would look at. It hits all the right targets: it is high value, low volume, low shipping cost.

145 You may be surprised to hear that it costs us less to ship off the Island internationally than it does off the mainland. It is a quirk. I do not quite know why, but it is something like 75 per cent of the cost of shipping here. Compared to one unit over there, it is only 0.75 per cent over here. It seems to work quite well.

150 Pool of people... We were at that time the only science company on the Island and when I put ads out we were swamped from people from the Island and from across, especially the ones across who had done science degrees. They could not get back on the Island to do science. We were getting 20 applications for each post. We got four applications for the quality assurance manager and they were like gold at the time. They were like gold dust: you could not find them anywhere.

We had four top-quality people. Surely that is important to the Island, that there are outlets for people who are doing science.

160 Our primary leader in fact did physics but he became a very brilliant manager of the plant, and you would not think physics was relevant to the area of chemistry but he did an absolutely wonderful job. So people are important. Education is important. The education standard is very high on the Island: let's promote it. You will need it anyway, if you get a cluster of people. You are only going to employ maybe initially 5 or 10 people in each company, but if you get 10 people, 165 that is still a significant number of science graduates.

So the whole concept, for me at least, is tailor made on the Island. Does that reply to your question?

170 **Q2. The Chairman:** Yes, thank you very much. Following on from that, we will put some specific questions.

Just coming back to the very start of your presentation, you said that one of the things that attracted you 22 years ago was the 40 per cent grant from the DTI. Of course, today, by contrast with... you said tax advantages elsewhere, that was seen as more important, but today of course we have zero corporation tax. Would that equally be a significant –

175

Dr Jones: Unquestionably, but you have to make profits first, and you do not expect to make profits in almost any of these business for five to seven years, so it is not immediately important.

180 I have also got a proposal, which you may or may not have seen, of how to create specialised money from business angels on the Island for specific projects. I believe that to be equally important. I talk to many people on the Island, many wealthy people. They have their money invested in all sorts of – many of them crackpot – schemes across.

There is nothing on the Island that is the same. If you were offering special tax breaks to wealthy people and involved them in the company – put them on the board of that company. The first thing that happens is, you have to go through due diligence. The venture capital people look at nothing under £5 million, simply because £1 million of that goes in due diligence. It is accountants' fees, lawyers' fees. It is *very* expensive. 185

The other proposal I have in here is to create a fund where all that is standardised, where you bring all those costs down to tens of thousands and not millions. Most people only want £1 million. I only wanted £½ million. I did not want £1 million, £2 million, £5 million. I could not have used it. 190

195 **Q3. The Chairman:** The description of your experience focuses very much on the manufacture of medical devices on the Island, the availability of physical premises and the use of the Freeport for exporting these goods. What about what is a growth area in healthcare – health IT in particular and global markets – where the manufacture could be better done in cheaper labour areas and instead if the Isle of Man, in attracting clusters of biomedical companies, were to concentrate on marketing skills, research and development and management expertise and building up a cluster of that specialism, rather than in purely technical people involved on the manufacturing side? Would that be a better approach, do you think, for the Isle of Man, in the light of your own experience? 200

205 **Dr Jones:** Probably not, no. You would sell very little on the Island per se, only to the local hospital here, maybe nominal amounts. You would probably... almost certainly, even the UK is not the most desirable market. The big market is the USA. There is no question whatsoever about that.

Q4. The Chairman: Not the Far East? China maybe?

210 **Dr Jones:** Not yet, no.

Q5. The Chairman: Not yet?

215 **Dr Jones:** I spend a bit of time out in China, and the quality standards are, quite frankly, way, way below par. Keep in mind that I went through pretty well every research group in China and they are... Basically what they have done is they have stolen every clone out of the USA and they are going to take the whole market, but it will be Chinese. It will not be anything that we will do and that again... Those are on the actual pharmaceutical products that often finish up in medical devices but they are very big scale.

220 You are talking of, for example, insulin. There are only two companies in the world make
insulin right now. Both India and China are actually manufacturing insulin now to their own
recipes. They asked us to produce purification techniques for them but we were disbarred because
we work with Novo Nordisk in Denmark who are the biggest manufacturer in the world, and part
of our contract with them was excluding us from doing any work for any other body but
themselves.

225 To answer your question more directly, many of these devices are relatively small, in terms of
actual value and volume. If you were doing say 50 million a year on a particular device, that is
about the limit of where I think I would be pitching my position. I would not be pitching for the
100 million, 200 million, 300 million. They will do it themselves. The actual costs of assembly of
230 the idea is quite small. The key is the plastic injection, getting the systems together, putting the
materials inside it. The assembly part of it is not 1 per cent or 2 per cent. So the actual labour cost
is not very important. Marketing is, but you would not do it here. You probably would not do it in
the UK. You would probably choose somewhere like Germany or the USA for doing the
marketing side.

235 **Q6. The Chairman:** We are not talking about pharmaceutical products; we are –

Dr Jones: Medical devices, yes, but pharmaceutical products are meshed with them. They are
usually based upon that degree of chemistry.

240 **Q7. The Chairman:** But where you need aseptic facilities and so on, that you referred to. But
if, for example, diagnostic equipment particularly... High-tech electronic diagnostic equipment for
which a lot of these huge growing markets offer terrific potential, would the Isle of Man not be
well placed, particularly with its Freeport, to be a place for managing that global market?

245 *Dr Jones:* Yes, it would indeed. You have chosen a good example. Keep in mind that the gross
margin is 95 per cent. In other words, the actual manufacturing bits are 5 per cent of the selling
price. You have to have huge margins to cover the cost of the manufacture. So the front-end bit is
of hardly any importance whatsoever; it is the know-how that you are selling and it is that know-
250 how that you have to create. That is why the start-up companies are the ones you have got to get to
because that is where all the profit accumulates, through the gross margin. Anyone who is coming
over to simply manufacture on a manufacturing margin of 25 per cent, is just not going to work. It
is the know-how that you are selling.

255 **The Chairman:** Thank you, Dr Jones. I want to give my colleagues an opportunity.
Mr Corkish.

Q8. Mr Corkish: Good to see you again, Doctor. You mentioned the clean rooms. We have
not got any on the Isle of Man?

260 *Dr Jones:* Yes, we have.

Q9. Mr Corkish: We have?

265 *Dr Jones:* And there is... the old Swagelock company have clean rooms, but they are
engineering. They do not have the same standards.

Q10. Mr Corkish: Available to you? We have clean rooms available to you?

270 *Dr Jones:* Oh yes.

Q11. Mr Corkish: And is that a big factor in production of...?

275 *Dr Jones:* Very much so, especially if you want to subcontract. If you want client companies
to come to you to help to develop their operations, they are absolutely 100 per cent essential and
they are big prices. It is £1,000 per cubic metre.

Q12. Mr Corkish: It is an expensive start, isn't it?

Dr Jones: Very expensive, and involving QA/QC staff to go with it.

280 **Q13. The Chairman:** Quality assurance, quality control.

Dr Jones: Yes.

285 **The Chairman:** Thank you.
Mr Crookall.

Q14. Mr Crookall: A couple of things, thank you, Chairman.
You mentioned the incubator units. Was that along the same lines as for medical devices or just...?

290 *Dr Jones:* I am concentrating on medical devices. It generally applies, actually, but just looking at medical devices, it would be very attractive to bring people in who are at the earlier stages. It depends which way you want to go. My personal approach would be to go – as I have already said in the documentation – to somewhere like the Birmingham NEC exhibition – which I think you have been to, Graham, so you can talk from a positive nature there – and you trawl the market to see what you can find.

295 If you went to one of those exhibitions, I estimate it would be under £10,000 to spend. If you have not got 10 interested people, then it has been a failure. By 10 interested people, I mean that they are the ones that you go back to talk to in their own place, over to the UK. You cannot be reactive; you have to be proactive, constantly proactive. Being reactive: don't waste your money. You have got to be in the driving seat, you have got to be driving this thing. You will get your names. If you get 10 or 20 or 30, you follow it through.

300 **Q15. Mr Crookall:** Can I just stop you there? Sorry to interrupt. You said in the UK, but would they be likely to be from Europe as well there?

305 *Dr Jones:* Totally, yes, and Stuttgart is the really big one. At Stuttgart they get 48,000 people through, or thereabouts. It depends how ambitious you want to be. It is entirely down to you, the Committee. If you want to go down that route, a good starting point, because it is inexpensive, it will give you a foot in the water, it will give you an idea of where to come from.

310 When you have got those ideas collated, maybe you could cherry pick and obviously you would go for the ones much further down the line than the early starters. You get loads of start-ups, there is no question whatsoever. If you had substantial financing available, direct financing by business angels, the stampede to the door you would not believe, because every man and his dog needs money and they have rarely got enough money on their own to get it started. I was fortunate.

315 I deliberately sold my company. I deliberately sold it so I had enough money so I would not be dependent on other people. I found after six years I needed more money. It is common. It is the commonest thing. But out of these will come these creations. So if you get a front-end company, you get a massive amount of potential know-how. If you go to the back end of that, with less risk factor, you could well find that you get less risk but you need more money. It is a trade-off all the way through, but you can only judge by trying it.

320 **Q16. Mr Crookall:** Another thing, Chairman: you mentioned 17 per cent, 18 per cent growth per annum?

325 *Dr Jones:* Yes, easily in medical devices.

Q17. Mr Crookall: And that has been for how long? That cannot keep going.

330 *Dr Jones:* It has been going now, to my knowledge, for something like eight years. I can go and check out the latest numbers. It is about 18 months ago I did this. I checked out – and I think I put you in contact with them as well, didn't I, Graham? – the primary journal in the UK and they monitor all of these things. The last time I enquired it was running at 17 per cent. It is almost exponential. If I remember correctly, it was something like... It was under £1 billion worldwide. It is now something like £20 to 25 billion. It is hugely successful.

335 **Q18. The Chairman:** Even with the worldwide recession?

340 *Dr Jones:* I have not checked in this last year, but it does not matter. Even if it is 5 per cent growth, it is growth. These phenomenal growth figures, as you say, cannot continue.

Q19. The Chairman: Would you say the biomedical industry is recession proof?

Dr Jones: Pretty well. People get older, they get more ill; it applies everywhere.

345 **The Chairman:** Graham.

Q20. Mr Cregeen: What recommendations would you make to the DTI to try and promote the Isle of Man and the medical device industry?

350 *Dr Jones:* Very straightforward: go to the exhibition, set up a stall at the exhibition.

If I may just mention to you, you may have noticed that Liverpool is going to the Shanghai conference with its own pavilion. Has anyone from here approached Liverpool and said, 'Could we have a little bit of your space, for which we will pay, and promote the Isle of Man?'

355 **Q21. The Chairman:** Liverpool University, is it?

Dr Jones: No, Liverpool City.

360 **Q22. The Chairman:** Liverpool City?

Dr Jones: Have you not seen the Elephant? (**The Chairman:** No.) About two weeks ago... a terrific initiative, and I am enormously impressed. The Shanghai Expo will be the world's largest ever, and it is *the* growth market in the long term. Liverpool has said, 'We want to present our city to attract Chinese industry to our city,' and they have a whole pavilion. We have got a good relationship; the Island has a good relationship with Liverpool. Why aren't we saying to them, 'Can we have a small corner?' Promote food, whatever takes your fancy, but pay for a small booth, or something similar, and get out there and promote it – almost anything that gets the Isle of Man in the public eye.

370 As you travel outside, even in the UK, hardly anybody knows the Isle of Man, at least all the business connections I make in the USA and China. I have been all over the world promoting the Isle of Man: 'Who?' 'What?'

Q23. The Chairman: We understand at least one Isle of Man company may have been represented at that recently.

375 *Dr Jones:* Oh, it has? Oh, good. (**The Chairman:** Yes.) Well, the DTI might want to think about representing the Island per se. (**The Chairman:** Yes.)

I can tell you the Isle of Man whiskey in Japan goes down an absolute bomb. I always give Manx whiskey to the Japanese, because it is unique.

380 **Q24. The Chairman:** Because you can mix it with Coca-Cola and orange juice, or – ?

Dr Jones: No. First of all, because it is a very good whiskey. I do not drink whiskey myself, but I am always told by the connoisseurs it is a very good whiskey. Secondly, the Japanese, all they care about is prestige, being different, and when I provided it, you would go into their office and there was always a bottle – empty – of Manx whiskey that I had given them the time before. Do not ever give them, as a gift, just plain ordinary Grant's or Teacher's. That is rubbish whisky. They know their whiskey better than a Scotsman (*Laughter*) and –

390 **The Chairman:** If that is a challenge, we shall not get into that!

Dr Jones: I can assure you they do. (**The Chairman:** Good.) They will know every malt, every price, but the Manx whiskey was always there, pride of place, after it was drunk.

395 **The Chairman:** The spirit of Man.

Dr Jones: Yes. So those are the things that, if you observe them and use them, promote the Island wonderfully well.

400 **The Chairman:** Yes. Thank you very much.
Mr Watterson, no?

Can I ask our Clerk if he would wish to put any questions.

405 **The Clerk:** I think you have probably covered most of the –

Mr Corkish: Very comprehensive, isn't it?

410 **Q25. The Clerk:** The academic and the skills base: I was wondering if you might develop that. You have asserted there are quite enough people here to support quite a lot of innovations. What research have you done to back that up, or is it an anecdotal impression?

415 **Dr Jones:** Largely anecdotal, but just following on my experience, to my great surprise, I actually only recruited one person from the mainland when I came over here, and that was the lady who became the general manager, whom I had worked with before and I knew she was extremely reliable. I brought her over; I did not bring anyone else over at all. Since then, we have had one or two. Three chemical engineers have been recruited from across, but all the people I wanted over my 15 to 18 years of working in the company, I never needed to recruit from across, and there were always more than adequate responses when I wanted to refill a position, if anyone left or when we were expanding. Rarely did I get less than 10 to 15 applications.

420

Q26. The Clerk: Were these people who were already based on the Island, or were they people from across who had originally been from the Island and had gone across?

425 **Dr Jones:** Yes. They all wanted to bring their children up here. They wanted to come over here and bring their kids up in the environment that they had enjoyed.

Q27. The Clerk: Going back to this very interesting thing that brought you here, what were the messages that came across 20 years ago to you that were so important to bring you here?

430 **Dr Jones:** You are looking at a person who paid 98 per cent tax one year. In 1975, I got taxed at 98 per cent.

Q28. Mr Watterson: That was only the marginal rate though.

435 **Dr Jones:** That was the marginal rate, yes. The rate was 83 per cent on taxed income, and it became 98 per cent on untaxed income. I said in 1975, 'I will leave the UK at the first possible opportunity when something gives,' but it was not possible for all those years. That rankled in my mind forever, and it still does, as you can see.

440 When I started looking into setting up a new business, I knew it would not be in the UK. There was no way I was going to do it in the UK. That is when I saw this advert in the local press. I followed it through, went to the hotel in Manchester, and it went on from there. I had no idea, by the way, when I read the advert, what the DTI were going to tell me, and when they said a 40-per-cent grant and so on... Well, if I say my jaw was on the floor, I would not be exaggerating one iota. I thought, 'That sounds like the place for me.'

445 As always, you go and check it out; you always go and look at the alternatives. Canada gives you something like 70 to 80-per-cent grant, but it is all geared to tax breaks, and tax breaks are no use until you start making money. You need it early on. You do not need it, necessarily, later.

450 **Q29. The Clerk:** So it was primarily, for you... I am just interested in teasing out what the motivation was. It was not that you wanted to bring your children up here, particularly? (**Dr Jones:** No.) It was all about paying less in tax?

455 **Dr Jones:** I dragged my wife here, screaming. No, she did not want to come here at all, and it was a great deal of persuasion... In fact, I promised her I would only stay for three years, and she reminds me constantly of that. (*Laughter*) Like all these things, once you get settled, it is quite pleasant, really.

The Clerk: Thank you very much.

460 **Dr Jones:** I do not want to go back, that is for sure.

Mr Corkish: Good.

465 **Q30. The Chairman:** Just turning to the advantages of manufacturing operations in the Isle of Man, and going back to the question of sterile facilities, are you saying that it would be a disadvantage – you talked about Swagelok – that it would be essential to have sterilisation facilities on the Island?

470 **Dr Jones:** At some stage. I am pretty confident that I am correct in saying this: there will be spare capacity in the clean rooms down at ProMetic. For a start-up company, that is quite advantageous, and of course it is good for ProMetic because they would get their money as well. I would think, at the time I left, two or three years ago, we must have done 50 to 80 contracts for some of the largest companies in the world; easily 50 to 80 contracts or sub-contracts that went in there, and we created this with them. That expertise is there. Most people would not want to build the clean rooms very quickly until they actually got into a full manufacturing system. For example, 475 on that unit you have seen there, we could do about 1,000 per week of those.

Q31. The Chairman: Is the sterilisation the end part of the process?

480 **Dr Jones:** Yes.

Q32. The Chairman: So without a facility on Island, would goods need to be shipped to the UK and then brought back; or could we ship to the UK, sterilise there – ?

485 **Dr Jones:** It does not work like that. All dry products are what is called ‘gamma radiated’, and there are two companies in the UK that do that. They are stand-alone, independent companies and you ship the pallet into the gamma-radiation chamber, they are sterilised and out they go again. For wet products, you cannot. They are therefore sterilised *in situ*. That is why the clean rooms have to be to the full FDA standard, because they go through the various processes and then, at the end of that process, they are absolutely guaranteed to be totally sterile. 490

Q33. The Chairman: So in the case of liquid products, it would not be feasible to transport off Island for sterilisation and onward carriage to the customer?

495 **Dr Jones:** Correct. It has to be built into the process. (**The Chairman:** I see, yes.) Mainly because you are looking for viral bacterial contamination and fungal contamination, and the clean room standards, there are various levels of them. The best standard is the class 100. That is pretty well the ultimate standard, and we have those down at the Freeport. When you have got to a viable manufacturing level is when you would begin to build your clean room operations.

500 **Q34. The Chairman:** In terms of the Isle of Man as a location for science-based industries, how important is it to have academic links with universities across? We do not have them on Island, certainly not in science. Other institutions and the ability to access academic expertise quickly: how important is that?

505 **Dr Jones:** I think you would find that well over 50 per cent are academically based from initiation. Nowadays, universities have got very smart and they actually take equity portions in new companies that use their technology. This is common practice now and it is getting heavier and heavier. When we first did ours with Cambridge, we had a gentleman’s agreement. They were not interested in contracts; it was pure academia. That now has gone up to some universities demanding up to 30 per cent of the equity in the companies. The head of department very often is keeping his position and remaining a director of that company, so the links are automatically there in many cases. 510

I think you will find it rare when there are not links there. They are important, if only because things are never static. There are always improvements coming through that can go on, but never ever let a university into a manufacturing environment or process, or economics or anything. They are hopeless. They seem to think that you can manufacture something for a couple of pounds and sell it for five quid, and they have no concept whatsoever of the relationship between commerce and academia. You have really got to keep them right back down here. 515

Chris Lowe at Cambridge, the one I dealt with, was pretty unique. There were very few. He understood beautifully that a 95-per-cent gross margin is what you need. A common academic will think that something like a 20-per-cent gross margin... ‘I can make that for £20, so why should it not be sold for £20?’ – that style of operation. 520

I think the link is automatic actually, so there is no detriment here. In any event, it is not the place to do research here, and it is too expensive as well.

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The Chairman: Yes. Thank you very much, Dr Jones, unless my colleagues have any final questions?

Mr Corkish: No further questions, very comprehensive.

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The Chairman: Thank you very much, Dr Jones, for assisting the Committee. (*Interjection from the public gallery*) No, I am sorry, questions from the floor are not possible at sessions like this.

Thank you very much, Dr Jones.

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Dr Jones: You can ask me whatever you want when I come out.

Can I return the document that was provided by Malachy, which I have held on to? It says on it that it is the complete set, so I assume they are all there. Thank you.

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The Chairman: That brings us to the end of the session.

Dr Jones, you are quite free to stay, and you may wish to have discussions with other people who are with us, if you wish.

Dr Jones: I do have to dash, but I have got a quarter of an hour.

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The Chairman: Thank you very much indeed.

Mr Corlett was called at 4.02 p.m.

Procedural

The Chairman: If I could call forward now Mr Chris Corlett, Chief Executive of the Department of Trade and Industry.

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Before we start, could I just ask everyone to make sure mobile phones are switched off. We have experienced some interference with the recording.

Mr Corlett, can I welcome you to the Committee. Thank you very much indeed for your written evidence previously. As you are aware, we are taking evidence on the question of medical device manufacture in the Isle of Man, but we are looking also, as we go along, into the potential for the Isle of Man generally... biomedical companies to be attracted here, possibly on a cluster basis, and we have had some evidence about the growth potential of health IT in global markets in particular.

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EVIDENCE OF MR C CORLETT

Q35. The Chairman: Unless you have an opening statement, Mr Corlett, we will just go into questions. Can I begin by asking you what work is currently being done by the DTI in exploring the potential for medical device manufacture?

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Mr Corlett: Medical devices was a sector we devoted substantial resources to investigating over a period from about 1996 to 2003 – that was a particular growth phase in that particular industry – not least looking at the US. The US, as Mr Jones referred, is the dominant market in this place, both in terms of consumption of products but also in terms of manufacture and manufacturing companies. At that time, we took advice from a range of experts that many American companies were seeking to invest in Europe to diversify their production base, not least to guarantee access to European markets, but also as part of their general growth.

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The DTI had a specific initiative aimed at medical devices over a seven-year period. We utilised specialist consultants in the US. A company called Alpha International Management Ltd was engaged by the Department. That particular company was involved in a broader strategy to try and attract American investors into the Isle of Man, but principally focusing on medical devices,

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not least in and around the Minnesota region, which was a particular centre of excellence for medical devices. The Department engaged Ernst & Young – a well known professional-services firm who were advisers to the Department – to devise a strategy, working with the organisation, Alpha International, specifically aimed at medical device companies. We did research involving talking to 200 US-based medical devices companies as to what would make us attractive to that sector; consciously developed materials to target that sector; produced marketing materials such as this, which I have dug out from the files; attended trade fairs; attended all sorts of events all over North America; generated a range of leads, a substantial number of leads, and followed those up over a period. Unfortunately, those leads did not translate into investment. Many of the companies concerned chose ultimately not to invest in Europe, or in some instances chose to invest elsewhere. Unfortunately, the nature of pursuing foreign direct investment – FDI – is a difficult and expensive business with no guarantee that they will choose you in the end.

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585 **Q36. Mr Corkish:** How long ago was that?

Mr Corlett: That was a period from 1996 to 2003 when resource was dedicated specifically to that issue.

590 **Q37. Mr Corkish:** So since 2003 we have put that away on the backburner?

Mr Corlett: Since 2003. It was a question of having committed seven years and substantial resources to that particular sector. We felt we had given it ample time to deliver benefit. The Department has, as you can understand, very limited resources in relation to economic development, and we have to commit those where we feel the Government, frankly, is going to get the biggest bang for its buck. We had to make a conscious decision: do we continue to follow a sector which, at that stage, had not delivered a material benefit for that substantial investment of hundreds of thousands of pounds; or do we use our limited resources on other sectors? The Department chose to use its resources on other sectors, and to some good advantage. We have had very significant successes elsewhere.

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600 **Q38. The Chairman:** As far as medical devices are concerned, it was and still very much is a growth area, (*Mr Corlett:* Absolutely.) and health, and the emerging markets of China and so on substantiate that. So currently the DTI is not in the medical device business, promotion-wise. In retrospect, was the strategy wrong, inasmuch as you were targeting possibly too narrowly? You were focusing on Minnesota, which had been identified rather than the European markets; or were these American companies using the Isle of Man to penetrate European markets?

610 *Mr Corlett:* Certainly we were taking advice from the private sector, as we do in many sectors that we are developing. Inevitably, it is experts in specific sectors who have the greatest knowledge about those sectors, and the advice was that the American market was, and is, the dominant market in that sector, and that companies there were seeking to invest overseas, and indeed have done so. Ireland, for example, was very successful, through the Irish Development Agency, in attracting substantial investment in relation to medical devices, often of a scale that we could not entertain – organisations requiring hundreds of staff, in some cases over a thousand staff, which would obviously be very difficult for any one employer to secure in the Isle of Man. There are only something like 30 business on the Island who employ over 100 employees, to put that into perspective. So we did feel, based on the information and advice from the private sector at the time, that that was an appropriate strategy – investing substantial resources into attending conferences, meeting prospective businesses, following up with them directly afterwards. Unfortunately, that did not translate into investment locally.

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625 **Q39. The Chairman:** I appreciate you were not necessarily in post at the time personally, but did the Department conduct a review and analyse why all this investment into a growth area with terrific potential had not paid off?

Mr Corlett: Yes. Any jurisdiction, similar to a business itself, needs to have some specific reason to attract investment – what is referred to as a unique selling proposition, a USP – and then you need to market your USP very effectively to potential investors. Especially when trying to establish a new sector from scratch, that is particularly difficult, because of course there is nothing like a case study, a proven example, to help prove your words. Marketing brochures are relatively

easy to produce; a successful case study is far harder to do. So it can be a little bit chicken-and-egg when trying to get a new sector off the ground.

635 In this sector, if we look at the USPs that the industry is interested in, skills is a huge one. Skills are crucial. At the front end, they require substantial R and D skills, and those are typically located in or near major universities and research hospitals, and the Isle of Man has neither of those. In relation to manufacturing, skills are important, but so is the price of labour, and of course with the opening up of Eastern Europe we have seen a plentiful supply in Europe of skilled and relatively cheap labour come into the market.

640 In terms of the capital investment required to assist such major manufacturing, absolutely, the DTI has capital grants available and has used those to good effect over the years, bringing in business and helping them to grow. Where other regions of course have similar financial assistance, that is not really a differentiating factor, so it is a definite attraction and definitely part of the mix, but in and of itself it is not enough.

645 In terms of skills for HQ staff, those are relatively small units, but yes, we have had significant success in attracting headquarters here for procurement, sales, marketing, finance, support functions of that nature, which bring in diverse and often quite senior employment, and where, as they would have corporate mind and management in the Isle of Man, they would then be in a position to take advantage of the corporate tax position here, depending on who their parent is, where it is based and what their tax distribution strategy is. So there are some attractions to the Isle of Man in that regard.

650 In terms of existing capabilities to prove the case, very limited when we did that initiative, and so it can be quite chicken-and-egg. In aerospace engineering, for example, where we have a proven cluster of about 1,000 employees over a dozen companies producing parts for BAE, Airbus, Rolls-Royce, we have an established capability. It is a far easier to build on proven capabilities than starting new.

655 In terms of tax, we worked with Treasury to see if we could create tax advantages, and of course at that time we had corporation tax. It is interesting to look at the brochures relating to the period: we had a business tax rate of 20 per cent, which worldwide at that time was very attractive. Many places will not now deem 20 per cent an attractive business rate, say compared to Ireland at 12½ per cent and Hong Kong at a similar rate. We tried to give further incentives with capital allowances agreed with Treasury, because of course it is a capital-intensive industry. That was not fully possible. Also, businesses holding their intellectual property here and recognising royalty revenues from relations of that intellectual property... Of course, whilst we have zero corporate tax here, other jurisdictions where that royalty is raised will have withholding tax regimes such that the corporate tax advantages of the Isle of Man are eliminated, and so that limits the IP value through withholding tax barriers.

660 So whilst we do have a vibrant and diverse economy, whilst we do have a highly skilled workforce, while we do have capital grants available, and while we do have a beautiful environment in which to live, those are all broad advantages for the Isle of Man. In terms of really distinct and compelling USPs specific to medical devices, we were struggling, frankly, to be able to come up with those, and as a result we were struggling to attract the investment.

675 **The Chairman:** Thank you very much. That is very comprehensive.
Mr Corkish, any questions?

Q40. Mr Corkish: Is it because the incentives that we are offering are right? Could we better them? Do we do a bit of dealing?

680 **Mr Corlett:** I think we have an excellent and highly skilled workforce. The investment in our education system is very worthwhile; employers value that. It is interesting to note that one of our engineers locally has facilities in the north west of England and in Northern Ireland. They have recently reduced their apprentice programmes in England and Northern Ireland whilst trebling it in the Isle of Man because they are so pleased with the calibre of young people entering into the business, so that is illustrative of the power of labour.

685 The capital grants do make a very substantial difference, particularly now. If we go back two or three years, the world was awash with cheap finance, and for businesses to raise finance from a range of sources was relatively straightforward. Now capital raising is much tougher, banking conditions are much more onerous and interest rates are much higher, so capital assistance from the Department is a crucial part of our mix, and we continue to offer that.

690 As I say, it is difficult to create unique value. One of the proposals – I think it was Dr Jones who suggested it some years ago – was the potential for the sterilisation facility: if Isle of Man

695 Government invested in a substantial sterilisation facility which could be shared by businesses,
that would help attract business. Inevitably though, that is again a bit chicken-and-egg. You would
need to invest a substantial capital sum, and of course if we did that and it did not successfully
attract business, I am sure I would be before the Public Accounts Committee explaining why we
had invested in that.

700 **The Chairman:** Thank you.
Mr Crookall.

Q41. Mr Crookall: From 1996 to 2003 you obviously looked at it, you were saying. Since
then, can you just clarify: basically, the DTI have not touched it?

705 **Mr Corlett:** Basically, what we have is a range of websites which promote the Isle of Man as a
business centre, and we have a range of specific targeted initiatives by sector where we go and try
and get inward investment and trade. Of course, we also help local business to grow, not just find
new investors – two related but separate activities – and we do attend trade shows all over the
world and do attend events.

710 Something we have invested in relatively recently, over the last two years, is a much more
enhanced website called investiniom.co.im that basically gives all of the information a potential
investor would need about the Isle of Man. To illustrate the value of that, last month I got 8,000
visits, virtually all from outside the British Isles, hence hitting potential investors' companies,
lawyers, accountants and advisers, and helping to generate interest; and we have had a number of
715 leads directly as a result of that website.

Of course, it is far easier to set up and operate a website than it is to travel the world, attending
trade shows and spending on marketing and advertising etc.

720 **Q42. Mr Cregeen:** Hindsight is a wonderful thing, but with 17 and 18 per cent growth every
year, it would have been nice even to have got one or two businesses out of that period –

Mr Corlett: Can we offer them something uniquely different here that others cannot? As we
heard in the case of Prometic, the R and D is in Cambridge. Why? Because Cambridge is
725 recognised as one of the world's leading, if not the world's leading centre, and so that was crucial
to attracting development there and we have been able to attract a certain amount of manufacturing
activity which has provided diverse jobs from graduate level, scientific jobs down to lower level
jobs, which is great and the Department has heavily supported that since its inception and we are
delighted that is now securing substantial orders and moving into the more profitable phase, so it
has shown that our faith and our investment to that is paying off.

730 **Q43. The Chairman:** You heard Dr Jones, probably, he related about work going on at
Cambridge when asked about the importance of academic links from the Island to places,
universities and elsewhere. You heard what he had to say about that, that there was no
disadvantage not to have an academic presence of that sort on the Island and you in your letter to
735 the Committee of 22nd May pointed out that there were no direct links with appropriate UK
universities and research centres.

Mr Corlett: Yes. As I said we had invested a substantial amount of time and energy over a
740 period and then decided to move our focus onto other areas and hence we had not followed up that
particular avenue.

Q44. The Chairman: I mean the Department itself is directly linked with the University of
Salford.

745 **Mr Corlett:** Yes. Coventry University Enterprises as well. Coventry University is a large
university with a lot of manufacturing links and Coventry University Enterprises is the business
wing of the university. In effect it supports incubator facilities, in fact it is one of the leaders in
incubation in the world and they have ties with incubator facilities in Shanghai, Beijing, Hong
Kong, Singapore, in the US and we have a relationship with Coventry which has proven very
750 fruitful; we have established an incubator facility at Ronaldsway; Coventry has generated many
leads for us –

Q45. The Chairman: So these connections do exist.

755 **Mr Corlett:** Yes, generally so. It is not uniquely medical devices, but good academic links.

Q46. The Chairman: But presumably those links could be built on and if a manufacturer said, 'Look where can I get the academic research done?' you could say, 'Well we have established links with these institutions and here is a route' so –

760 **Mr Corlett:** Yes. Again it is back to... if we feel that there is a USP, a distinct advantage whereby we can go out and compete for that FDI in that market space and win it here, then absolutely, the Department can then commit resources to that. As I say our resources are very limited.

765 In terms of development managers, I have one development manager for manufacturing. He also covers the retail sector, his time is principally focused as you would imagine on the aerospace cluster which the Department established working with the Chamber of Commerce which has proven very successful and it is very much part of why the sector is now growing so substantially. Ronaldsway Aircraft Company, for example, is now far more profitable than it has been for years and the Department has worked with it much more closely in recent years and –

770 **Q47. The Chairman:** So if you have the resources to devote afresh to bio-medical technology – well, not so much bio-medical, but health-related diagnostic equipment type of technology – would you do so if, in an ideal world, you could keep your eye on the ball with your existing staff on the aerospace cluster? Would the Department be minded to devote resources to exploiting this growing health market?

775 **Mr Corlett:** I think for me as accounting officer to be able to justify that, I would need to be able to point to new information that shows that we could establish that USP and be confident that we can say that the Isle of Man has something unique to offer. We are always promoting ourselves broadly for manufacturing and have had some successes in that regard – Bladon Jets is a nice recent example for business attracted to the Island which we have assisted.

780 **Q48. The Chairman:** Just coming back to why the original concept failed. You advised us that the Isle of Man had no specialist plastics manufacturers to offer the potential investors and that the centre of excellence is based in Holland.

785 **Mr Corlett:** I think there is no one single factor. It is, can you create a range of factors that make you attractive. It is the cluster model, Prof. Porter's cluster model is a very powerful one: can you bring together different elements of the supply chain, different organisations, bring different values that collectively in aggregate create a lot of value? In aerospace, we have an aerospace engineering cluster, in e-gaming we have a very successful e-gaming cluster, in yachting and aircraft management we have got –

790 **Q49. The Chairman:** What I am asking is: is the absence of a specialist plastics manufacturer in the Island, one of the key components to that package?

795 **Mr Corlett:** I think that was in the mix, so if we had greater local expertise in that sector, if we had more relevant supportive manufacturing and related facilities, if we had the sterilisation facilities, if we had more technical expertise, all of that would then help to add up to a more compelling picture.

800 What we found in the past when setting up sectors and promoting sectors, the best and most successful sector is where we can find mutual vested interest with local businesses because where the Department is working alone to promote the Isle of Man to try and attract inward investment, if there is no vested interest from local businesses to come, it is very, very hard to get a sector off the ground.

805 Where we find that mutual vested interest with local businesses to promote it, we are far more successful. E-gaming is a good example. DTI took on responsibility for promoting that sector about five years ago, just as the last of the first five licence-holders was leaving, we sat down and re-evaluated what that sector could bring to the Isle of Man, we realised the telecoms potential, working with a telecoms company, we recognised the hosting potential, we worked with the hosting companies, we saw the legal and accounting potential and worked with CSPs, lawyers and accountants and attended events worldwide with them so they invested thousands if not tens of thousands to promote the Isle of Man as well as us.

815 That substantially increased our ability to promote the Isle of Man effectively. Where the
Department is doing that alone, in other words we are the only one doing it, we are the only one
funding it, your chances of success are so much more remote.

820 **Q50. The Chairman:** We understand that, in that particular case, the key components were
already there and in place and it made it relatively straightforward, the case of medical device
manufacturing. One of the key components would be, we were advised by yourself, the necessity
for a specialist plastics manufacturer.

825 **Mr Corlett:** I understand that that would help. As I say, I am not sure there is any one single
thing –

830 **Q51. The Chairman:** No, but we have been advised that most companies subcontract their
plastic manufacturers and ship in the basic components and produce the product on site, it is a
fairly simple process, so you would agree that the absence of a manufacturer of plastics in the
Island would not be a fatal drawback?

835 **Mr Corlett:** It would help. As to whether it would be the definitive factor, that would be down
to the individual investor having one such, because of course for the nature of the industry, the
tolerances of many of these devices are far higher than many other sectors, so it is not merely
plastics; it is plastics with precision plastics. Whilst the products often can be relatively small, the
packaging can be substantial and of course in terms of goods on and off the Island, transport is a
material component and that is what high value density products, that is where it is a small product
in relation to its value, are the best ones for the Isle of Man.

840 A pallet of Strix heating element controls, for example, could be worth £¼ million, so that the
transportation costs are not material, whereas a large quantity of cheap plastic parts requiring lots
of packaging could be quite bulky and therefore the transportation costs on top could be material.

Q52. The Chairman: Even though Dr Jones gave us in his evidence he thought they were 25
per cent less than the UK – the cost of shipping?

845 **Mr Corlett:** Where are you shipping from and where are you shipping to and what you are
shipping? For a manufacturing company, I would hope that the statement is self-evident that
business in a major centre like, say, the west midlands, a major manufacturing centre, it is logistics
costs for distributing products around the UK for bringing in raw material and sending out finished
products will always be lower than the manufacturing business in the Isle of Man, given the
850 additional link across the sea and hence that is why we need to find businesses where our other
advantages outweigh that, so say, we would be highly unlikely to attract a mass car manufacturer
for example requiring large vessels to load and unload cars –

855 **Q53. The Chairman:** We accept the point about small size, high added value. One further
point just in relation again to why the medical device promotion did not take off. In your written
evidence to us you referred to the absence of a sterilisation facility on the Isle of Man and that
products would have to be transported to the UK and back.

860 We heard from Dr Jones that in the case of dry goods, the product could be shipped to the UK
and then back again. We have also heard that there are currently sterilisation facilities and aseptic
facilities on-Island, which perhaps there was not in that time, it was just in the case of liquid
product that that would not work, you would have to have the sterilisation facility here. Would that
difference in emphasis have made a change ten years ago when you were looking at this?

865 **Mr Corlett:** Possibly. I think it is important to bear in mind that the facility is of course
Prometics' own facility; it is not a generic facility open for others. We would need to see what
capacity Prometic had and whether it would be willing to take on board subcontract works. Of
course, now it is in a substantial growth phase, it has got substantial commitments in terms of
production etc, so I do not know how much capacity it would have and how much that would be
seen as a distraction for its core purpose.

870 So in terms of the supply chain, yes, we could do part of the manufacturing process, that could
then be shipped off-Island, sterilised elsewhere and packaged elsewhere. I think again it was Dr
Jones, I understand, who suggested having a sterilisation facility here simply helped because it
meant more of the whole process could be done here so again there is no one absolute definitive

875 thing that has prevented business coming here. The more factors that you have aligned the most capabilities you have locally, the easier a sell it is to bring those businesses here.

The Chairman: Thank you.
Graham.

880 **Q54. Mr Cregeen:** You mentioned earlier that you had consulted with the private sector. Can you let us know who in the private sector you consulted with and also did you ever review whether you were taking the right approach to the industry or not?

885 **Mr Corlett:** Yes absolutely. I think Affinity Chromatography was one of the businesses we worked closely with and as this was before my time, I cannot tell you all, but I am assured that there were others involved as well. The records of course, we are going back some time now so I do not have detailed records from 1996, most records going back to then have been destroyed. I have summary notes, so I cannot give you many details, but I do know that businesses were consulted and the Department did have a review process over the years seeking advice from the consultants we were using. Both Ernst & Young and Alpha International were saying 'how can we amend our approach, how can we achieve greater success?', and just unfortunately it proved not successful.

890 **Q55. Mr Cregeen:** If we look back at one of the projects that the Department of Transport did, the IRIS, what they actually did was they changed who they asked to review. Did the Department ever consider asking somebody apart from Alpha to review their initial decision?

895 **Mr Corlett:** We involved individuals such as Hubert Humphrey, who was a former Attorney General of Minnesota, Medtronic a US medical device manufacturer with a major presence in Europe, we had a relationship with the University of Minnesota, who had specialist facilities in this field so we did try to consult quite widely, we were not dependent on any one individual for our advice.

900 **Q56. Mr Cregeen:** And also later on, you mentioned about your other industries that you have consulted with on the Island, e-gaming or whatever, so if you thought about medical devices again, would you be looking for a company already based on the Isle of Man to approach you to say well, how can we bring this forward, would that be of assistance you?

905 **Mr Corlett:** Absolutely. Help from the private sector, as I say, is invaluable. If we can build mutual vested interest with local businesses, it is so much easier to make a sector work because at the end of the day our budgets in Government are finite and the private sector likes to be reassured by Government that we are providing the right environment in which they can be successful, but they need other local businesses to work with. Moving jurisdiction and establishing new business from scratch is a difficult enterprise. If there are others who can assist them in that, that greatly aids the process.

910 One of the things we have been particularly good at, say in e-gaming, is taking completely new investors who know nothing about the Isle of Man and connecting them with local businesses from law firms to banks to corporate service providers to IT companies to help them get up and running very, very quickly so that very much is valued. In this sector, given there really is only Prometic which is a relevant partner that would be comparatively difficult and the more we can build up a local capability, yes absolutely, the easier that would be to win further investment.

915 **Q57. Mr Cregeen:** Would you have... like I said, you have a got a difficulty in staffing, so if you were approached you would be –

920 **Mr Corlett:** As accounting officer, I am bound to make sure resources are put to best effect, so I would need to analyse based on the strength of the business case, do I believe that that would be the best use of the Department's resources and then put that forward to the Minister for approval. I would be delighted to talk to anybody. We talk constantly and confidentially to many different businesses and many different sectors. Some ideas go nowhere, some ideas are analysed and then do not proceed any further and some, such as the aircraft sector or the yachting sector turn into very beneficial sectors for the Isle of Man; it is the nature of the beast.

930 Dr Jones talked about a 0.4 per cent success rate for pharmaceutical sector, I am delighted we have got a higher hit rate than that. I would hate to think that was our hit rate, but still any hit rate

935 over about 10 per cent you are doing very well, so you have to run very fast to get any progress at
all. Also particularly I should say the international climate for FDI is much tougher now, globally
940 FDI has decreased by over 30 per cent in 2009, it is not forecast to pick up too much in 2010 and it
is being attracted to a number of global centres. China and Asia are still attracting a large slice of
the pie in foreign investment, which means we are having to work ever harder to win what we do
win.

The Chairman: Juan.

945 **Q58. Mr Watterson:** Yes. I suppose it is slightly wider than medical devices. When you have
made the overtures you have had the interest and then you find that the business has since
widened, it is quite a wide sphere this. Would the business go elsewhere to Dublin or Luxembourg
or any other competitor, what trends have you spotted in recent years? What is making the Island
lose out?

950 **Mr Corlett:** I am struggling to think of many that I could think of recently where we have lost
out because of losing a good business that we wanted to win because the other one is against us. I
can think of a number of businesses that were seeking our support, but ultimately, given the
955 strength of their business case we could not put public funds into them. As you can imagine, it is a
difficult balance for the Department, we do not want to be seen to be speculating with taxpayers'
money, we are just trying to help the good businesses to get up and running quickly and use it as
an incentive and we have had quite a number of proposals where we have to say sorry, we do not
think it is appropriate for public funds to be put into that.

We are possibly too cautious, but as I say, I am conscious we are using public funds and so we
960 have to be cautious. We are often judged on the success or failure of every individual project,
rather than the aggregate success. As I say, foreign investment is much tougher at the moment,
historically the likes of Ireland was very successful for large foreign investments, especially with
American investments given the cultural and other links there. It was deemed as a convenient
starting point for Europe, it has had substantial EU capital assistance and could provide workers in
965 the hundreds, and I think there was a recent announcement, HP was taking about setting up
another facility in Ireland with 500 jobs.

We are not competing at that end of the market; we are competing typically with small
970 businesses at the five to ten to start with and seeking to grow thereafter, so those can be hard to
track down and hard to bring.

As I say, the internet is a good use of our resources to try and track them down. Word of mouth
975 is very powerful, so local businesses who understand the attraction of the Isle of Man and see
connections so I can think of a number of businesses we have been introduced to through
established entrepreneurs locally as a very powerful source of business for us and we do the key
trade shows when we feel that there is a specific sector we have something to tell.

980 **Q59. Mr Watterson:** Given how powerful the Manx offering is, though, do you not think
there have been lessons learnt in recent years, as to this is what is not attractive about the Isle of
Man and perhaps things like – there are for example lower VAT rates in Europe, there are
advantages and disadvantages with being outside the euro zone? Do you think that we would be
985 better placed if we had a different approach to either of those things, for example? What is the
major inhibitor to us with investors, other than people who want to come in with a 1,000-plus
industry or 100-plus industry to the Island?

Mr Corlett: Every sector is different. If we look at manufacturing, in terms of producing and
990 manufacturing facilities, much of the investment today is going towards Asia and related areas
because of labour costs. Labour rate arbitrage is a big game that many companies are playing and
it is a challenge for all of Europe to win business.

We have been able to win some business in areas where it is highly capital-intensive
995 businesses and therefore the capital grants are valuable, where it is high added value, where a
corporate tax is valuable, where it is highly-skilled labour required where the quality of our
school-leavers and workforce are valuable, so we can compete with that but you have to find the
specialist niches that fit your profile.

Aerospace has been one for example. A nice example was Kenmac, a local business, was
1000 acquired by Swagelok – it must be four years ago now – and I remember at the time being deeply
concerned that they would close that business and take it elsewhere, because they were buying the
995 business principally for its intellectual property in relation to certain products and we were able to

1000 persuade them that we were entirely committed to supporting that business, we would give them financial assistance and a capital investment to grow that business. We have supported the training and apprenticeship programme there and I am delighted to say that company has invested millions in the Isle of Man. We have an excellent relationship with the leaders in the US and the workforce has grown to 180 and are hoping to grow to 200.

1005 **Q60. Mr Watterson:** One of the experiments that Government had with regards to attracting investment was the Freeport – what went well, what went not so well. It has not been an outstanding success, has it? What was good about it, what was bad about it, what is the potential for it?

1010 **Mr Corlett:** I would say that with the Freeport we came late to the party. Freeports were an innovation, principally to allow businesses to manage cash flow. It was all about timing of payment of VAT and Customs and Excise duty and Freeports were very much in vogue.

1015 By the time we had established a Freeport, frankly Freeports were of limited interest, because there were many established ones and also the technology had advanced. One of the reasons that Freeports were successful was, you could declare the Freeport Zone and allow free movement of goods inside that and only deal with the paperwork on exit, but now, given modern computer systems you can have a bonded warehouse in any building pretty much anywhere and achieve exactly the same tax processing advantages, and therefore exactly the same cash-flow advantages.

1020 We have buildings scattered round the Isle of Man that are deemed bonded warehouse by the Isle of Man Customs and Excise, who can attract all the advantages of a Freeport without having to be in the Freeport. Hence, really, we arrived late to the party, others had got there first and attracted the investment. The advantages of Freeports per se had diminished markedly.

1025 We leased the Freeport itself to what was essentially a locally-based property company with no expertise in marketing or promotion of a Freeport and with limited budgets to do so internationally, therefore they were not successful in attracting businesses to the Island, so that in essence is why the Freeport has not been a glorious success.

1030 **Q61. Mr Watterson:** Essentially, the Freeport is little more than a high-end industrial zone?

1035 **Mr Corlett:** Effectively, yes. The advantages of the Freeport, the cash-flow advantages, we can still achieve today through bonded warehouses with Customs and Excise, but essentially it is a business park and has attracted a range of diverse investors. Prometic is, of course, one of those on that list. Element Six, industrial diamonds manufacturer would be another one the Department has invested in heavily and it is providing valuable employment locally.

1040 **Q62. The Chairman:** Are they UK or foreign based, most of the companies that use the Freeport?

1045 **Mr Corlett:** There are an awful lot of UK links and a few South African links because that bore fruit in that Element Six is owned by De Beers, the world's largest diamond company. As I said earlier, word of mouth has been one of our biggest and most effective source of leads in manufacturing in particular and so an awful lot of it has been UK related – people knowing each other.

1050 **Q63. The Chairman:** Do you think the existence of a Freeport might be of interest to a company primarily attracted here for zero corporation tax reasons, a company for example working in a global environment, commercial environment, once here seeing the Freeport, seeing the potential for enabling goods to be delivered into European markets via here?

1055 Would you think that that would be something that you would highlight to such companies that would offer potential so its function purely as a Freeport was better utilised, rather than as a good industrial park?

1060 **Mr Corlett:** There is some potential though it has proved limited, we have had a couple of attempts to revisit this; to revisit our whole approach to the Freeport to see how we can achieve greater success. As I say, it is the fact that interest in Freeports has waned, the advantage of them has largely disappeared. Therefore our particular facility has not been particularly attractive and of course any facility is only as attractive as the customer understands it to be. You have to do an awful lot of remote promotion to make them aware of your facility to attract them here.

So all in all, we see the land there as a vital and valuable resource, but we have managed to develop business units for a number of good investors and we are keen to continue to use that land to attract and assist businesses. Personally, I would be surprised if we saw the Freeport suddenly becoming a major Freeport as anticipated 15 or 20 years ago when we first got into that.

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Q64. Mr Cregeen: You said about HP and 500 employees. Is it a concern that if you have one manufacturer who employs 500, similar to the Ronaldsway Aircraft in its heyday that, if there is a downturn in that market you could end up with a large number of people unemployed at one time? Is that your concern regarding the size of a major employer?

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Mr Corlett: I think certainly the Department is concerned about diversification. We are very keen to secure a diverse economic base with a range of employers and a range of different sectors exposed to different markets worldwide, because that minimises the economic exposure to the Island. In that regard we have been very successful in the last decade. Financial services as a share of GDP has declined materially and that is not because it has not grown, it is because other things have grown faster. Manufacturing, shipping, e-gaming, aircraft management, these sectors have grown faster and we now have a more diverse, economic base than ever before, with a wider range of employers within those, than ever before, that is helping to protect the Island's security.

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If we look at GDP growth rates in recent years, there have been years where, say, financial services did extremely well and other sectors did badly. Conversely, there have been sectors where it has been the reverse, such that we have delivered smooth growth, which has been so important for delivering effective exercise.

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Q65. The Chairman: I just want to ask you, Mr Corlett, you made reference several times to close working with the private sector and particularly when you are identifying new markets and attracting investment into the Island within that sector, how do you identify companies that may be setting up in the Isle of Man, completely without reference to the DTI? They are not after grants, they are attracted here for other reasons and they may be the very sectors you could be working with. Do you keep a register of these companies, or how do you know about them?

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Mr Corlett: Word of mouth, largely –

Q66. The Chairman: Word of mouth?

Mr Corlett: – and the Isle of Man is a relatively small place and we are relatively well networked, for example, in e-gaming. Microgaming is a software company that came here, I think about six years ago now, with something like two employees to start – although it had hundreds worldwide, it only had two in the Isle of Man. The Department was made aware of Microgaming. I approached the organisation and said, 'Would it assist us in helping to promote the Isle of Man in that sector and I am delighted to say that Roger Raatgever and his team were very helpful in introducing us to some investors. They provided us with assistance in an introduction to Neteller and PokerStars, for example, which have been two crucial investors in the Island in recent years.

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Q67. The Chairman: I am just surprised, it is a bit hit and miss, that word of mouth, isn't it, it depends who you talk to? Do you not have a system within the Department – I do not know – just going through the telephone directory and identifying people who are doing business here, that you possibly did not know about? There could be some very interesting global players here, who have just set up.

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Mr Corlett: We have good networks both within Government and without. Denis Maxwell and his team, for example, at Customs: we are well aware of businesses coming in and can see information on their books, and they have made us aware of businesses that they thought we ought to talk to. The local banks know us well, the lawyers know us well and again they have introduced us to organisations, so we have established a network and in that manner, we can pick up a lot.

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Q68. The Chairman: So if there were health IT companies in the Island that you did not know about, who had not approached you, you would be interested in having discussions with them.

Mr Corlett: If they think there is potential to attract others and they can bring me evidence to that effect, then I would be delighted to talk to them. Absolutely.

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Q69. The Chairman: We will assist if we can. Any further questions? Thank you very much.

1120 **Mr Corlett:** If I may, Do you want me to mention about the Shanghai Expo, which is the major
business event next year in the world. It will be an enormous event. The North West Development
Agency is organising and funding a stand for the City of Liverpool, the only city to take a stand at
Expo. Every other... principally governments rather than individual cities. The UK will have one,
the US etc. We have relations with the North West Development Agency, we have already spoken
1125 to them. They are happy for us to use their good offices and use their facilities there. The
Department has already spoken to a range of leading local businesses to ask them if they wish to
participate in a marketing trip to the Expo and we are currently investigating that, so that is all in
hand.

1130 It is interesting to note that one of the principal sponsors of the Liverpool venture is Peel
Holdings, which of course is principally owned by John Whittaker, Isle of Man resident. There is
an interesting connection there and the marketing company involved is Bight Communications,
which also, the Department is working with on a separate initiative in China. So we are very well
connected and very well aware of that particular initiative.

1135 **The Chairman:** Right. Thank you very much indeed, Mr Corlett and thank you for your
attendance this afternoon.

Before you leave, Mr Corlett, there is a gentleman you might want to meet in the corner!

The Committee sat in private at 4.50 p.m.