# Doing Business in ISLE OF MAN

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#### So lovely to come home to

Businessman Eddie Davies gives an insight into what makes life on the island so good



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# Challenge is to win global trade

The territory has managed to avoid recession and hopes are now pinned on the pace of recovery quickening, writes **Andrew Bounds** 

t is a typical Manx scene: a quiet country churchyard with a Celtic cross in the foreground; then there is a roar and a blur as several motorbikes scream past at almost 200mph.

This is the trailer for the Isle of Man's latest hit film, TT3D: Closer to the Edge, but it could equally be a metaphor for the white-knuckle ride the small island has taken through during the global financial crisis.

The film, financed partly by the government, tells the story of Guy Martin, an ordinary man, who is striving against the odds to win the TT, the world's most dangerous race.

The island of just 80,000 people has also taken on a big challenge: that of prospering in a globalised world. Its progress has slowed but not stalled unlike most of Europe, it avoided recession.

Tony Brown, chief minister, says: "As for most of the west, the past 25 years have been good for everyone. For the Isle of Man it has been very good. We have gone from 50 per cent of the UK's gross domestic prod-

uct to par or a little above."

He adds: "The Isle of Man is going through a difficult time. People have less money in their pockets. But they are still in jobs and there are still a lot of business people looking to invest in the Isle of Man."

The island has an ancient parliament, the Tynwald, and its tight-knit, consensual political system has been able to react quickly to economic changes. When the UK government froze the assets of Kaupthing, the Icelandic bank, including deposits held through its Isle of Man branch, in 2008, the island used its reserves to guarantee those held there and restore confi-

A year later Westminster rewrote the "common purse" agreement that dictates how revenues from value added tax are shared. That cut government revenues by about £140m a

However, the UK's decision to increase VAT from 17.5 per cent to 20 per cent from January has added about £26m to revenues, says Anne Craine, the treasury

Taxes have risen but remain low, with a top income tax rate of 20 per cent. There is no tax on earnings above £115,000. But many perks, such as mortgage interest tax relief and government-paid tuition fees for Manx students at UK universities, are being squeezed.

The government is constitutionally obliged to run a surplus and is using £114m of its £300m reserves to slow the speed of cuts over the next five years. It retains a triple AAA credit rating from Moody's and Standard & Poor's.

Nevertheless, Mr Brown has set a goal of 10 per cent cuts across government. Some £26m of the £30m annual saving targeted has been made, and the 8,000 state employees have been reduced by 485.

He says: "I have been in government since 1981 and in all my time until last year we were only ever expanding the public sector. This is the first time we have reduced it. It is quite an achievement."

What resources the govern-



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ment does have are being focused on its marketing and business promotion efforts via a new superministry of economic development.

Allan Bell, the previous treasury minister, has taken the reins and promises a "sharper focus". Not before time, say

"People still confuse the Isle of Man and the Isle of Wight," says Seamus Nugent, chief executive of Dandara, one of the biggest building companies on the island. "We don't market ourselves well enough. It is one of the best offshore financial jurisdictions in the world.'

The island must continue to adapt to a world where wealth is shifting to Asia, says John Coyle, president of the Bankers' Association, who is helping draw up a new banking strategy. "The patient is stable," he says. Now, "the international financial centre needs to move to the next stage of evolution."

Attacks on tax havens in Europe and the US have diminished of late, but the island remains committed to reforms to ensure it remains on white lists operated by the European Union, the International Monetary Fund and the Organisation for Economic Co-operation and Development.

In July 2011, it will begin an automatic exchange of tax information, ahead of other centres. Along with Jersey, it is withdrawing up anti-avoidance rules intended to ensure that business owners are regularly paid taxable dividends instead of letting the income accumulate tax-free within the company. The EU has said the rule breached its "code of conduct", as it applied a space station is based on the only to shareholders who live on the islands.

"We want to be seen as good neighbours and reputable practitioners when it comes to international standards," says Ms Craine.

She remains committed to a zero tax rate on all companies except the banks, which pay 10 per cent. The so-called "zero/10 regime" ensures overseas governments do not tax Manxregistered companies.

Andrew Corlett, a senior partner at Cains, an island law firm, says it is important to keep on side with London. "We are not a hub ourselves, but a spoke of the UK," says Mr Corlett. If the island needs to compromise to maintain its link with the City, then it should, he says.

As a Crown dependency, the island governs itself but is represented in many international forums by the UK, with the Queen as sovereign.

Mr Brown says the two have had some "spats" but the relationship is healthy.

Craine believes that growth can return to the 6-8 per cent levels that preceded the financial crisis, though she admits the territory is not exempt from the pressures of the outside world. She expects 4-5 per cent growth for 2010-11.

Few would bet against the Manx ability to adapt yet again. Mr Bell says: "We have come through worse. As we have proved in the past, we can move quite quickly into new niches as they present themselves.'

Recent such nooks include space travel - a company aiming to offer customers a week in island - aircraft and ship registries, and online gaming.

"The Isle of Man was recently ranked the fifth most likely country to land on the moon after the US, Russia, China and India," says Tim Craine, head of space at the business development department (and no relation of the treasury minister). The island's high position in the list of lunar hopefuls is thanks to the Odyssey Moon team, which is competing for the £30m Google X Lunar prize, aiming to devise a lander capable of sending back pictures from the surface of the moon.

But gaming offers something

'The patient is stable. the international financial centre needs to move to the next stage of its evolution'

more down to earth: money and jobs in the short term.

Garth Kimber, the head of e-gaming development, says the industry employs 650 people and its taxes and licensing revenues contribute about £15m annually to government coffers.

Licensees pay £35,000 plus 1.5 per cent on the first £20m of gross gaming yield annually. The government has granted 25 licences, with another five in the pipeline. The decision by the US in

April to charge two senior executives of PokerStars, which runs online poker rooms, with

money laundering, illegal gambling and bank fraud was a jolt, but the business retains its licence. Mr Bell, who is also responsible for the sector, says he has no evidence the company has broken any laws, and says it is a "reputable business". He

does not believe the island will

suffer reputational damage as a

result of this decision. Under Isle of Man law, gaming companies must keep custommoney in ringfenced accounts so it can be returned Mr Bell says the US accounted for only about 20 per cent of PokerStars' revenues and customers are getting their money back. The US Congress banned electronic gambling transac-PokerStars tions in 2006.

declined to comment. Mr Kimber says the gaming sector is in good health. He points to Paddy Power, the Irish bookmaker, which is building up its presence on the island, and says the aim is to bring in support companies as well as straight gaming companies.

One such is Microgaming, a provider of casino and online gaming software. It established its base on the island in 2001 and employs 80 people.

Roger Raatgever, chief executive of Microgaming, believes the industry has a bright future on the island. He says the government is always eager to help companies, and adds there is a trump card.

He says: "Aside from the obvious tax benefits, the Isle of Man also offers employees a fantastic quality of life. We always say our business attracts employees and the island helps us retain

### Diverse industries are key to the future

**Economy** 

**Andrew Bounds** gives an overview of the island's prospects

With growth of 4 to 5 per cent and unemployment below 2 per cent, the Manx economy is the envy of many in Europe. But a small, internationally open island learns to prepare for instability.

"We have always had a diverse economy, more so than our competitors. The fact that the Isle of Man has not gone into recession is down to that,' says Allan Bell, minister for economic development.

But he says that process of diversification must get ever quicker, as the financial sector, which still accounts for almost half of gross domestic product, struggles to recover from the

The offshore haven has long had an advanced manufacturing sector, accounting for 4.6 per cent of its £3.2bn GDP. This has also diversified: into filmmaking, space, registering aircraft and ships, and other niches.

Mr Bell's new "superministry" has brought all the businessfacing and revenue earning arms of government under one roof. It has pooled the various sectoral support measures for business into a single scheme, making it easier for companies to apply and for the government to administer.

Mr Bell says financial services will remain important, but the old role of banks taking deposits mainly for expats and tax exiles and recycling them into the City of London needs to change as wealth moves eastward.

"We recognise that in many ways the old banking model that the Isle of Man has developed over the past 25 years is near the peak of its cycle," he says. "Some time ago we embarked on a new strategy with the banking industry to find out what the future of banking might be in the next five to 10 years." The report is expected in the autumn.

One challenge is that banks pay 10 per cent tax on profits, making up a significant chunk of the island's revenue.

GDP grew 4.7 per cent in 2008-09, the latest figures available. The economic growth rate is expected to be 4 or 5 per cent in 2010-11, having slipped to about half that the year before, according to treasury estimates.

Banking still accounted for 15.6 per cent of the economy, with insurance and other financial services accounting for a further 22.4 per cent.

The fastest-growing was information technology, which grew 66.9 per cent in 2008-09 to hit 10 per cent of GDP. It reflects the growth of the online gaming industry.

Tourism also remains a key source of income and jobs, accounting for 5 per cent of GDP. The offer is improving all the time, with considerable public and private investment.

The number of visits to the island by non-residents rose from 275,203 to 287,124, an increase of 4.3 per cent, in 2010. A quarter of visitors went on business. The government is also proposing to try to attract five-star hotel

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## A lack of grand homes keeps millionaires away

**Property** 

Strict planning controls have led to a housing shortage, says **Andrew Bounds** 

Take the little mountain biggest construction comparailway up Snaefell – the Isle of Man's highest peak at 620m above sea level and on a clear day you have a sweeping view from the hills of Ulster and Scotland to the Lake District of England with little but sea and

grass between. The island may be small but it is not crowded. Just 2 per cent of its land mass is developed, mostly around

the coast. "It is one of the least densely populated countries in Europe," says Seamus

nies, which boasts 400 employees. But Mr Nugent says strict

planning controls and lengthy delays – all developments must be approved by central government - have led to a shortage of houses.

'We have had high population growth and not much building...little has been done to relieve that situation. No land has been zoned for development since 1976.'

Mr Nugent says a recent drive to attract wealthy Nugent, chief executive of expatriates to the island (by Dandara, one of the island's scrapping tax on income been hampered by lack of grand houses. He says: "Planning is con-

servative. It is a beautiful island and people are sensitive to what goes up."

Tony Brown, chief minister, says it is a price worth paying to preserve the island's heritage.

"Our responsibility is to the island as a whole. There are places where you can have a reasonably sized development in certain areas of the countryside. But we need restrictions on the countryside.

"It is true that we have

over £115,000 annually) has lost some high net worth individuals because they have not been able to see a building and move in."

However, the government has launched a review of planning to see if regulations can be eased. Its development plan allows for an expansion of the population from 80,000 to 100,000.

David Kay, of Kay Associrooms are standard. a Douglas architectural practice, says things are changing slowly and the challenge is to work with communities. The company has finished

a development of four £1mplus homes on the cliffs

above Douglas Bay, built on a brownfield site. The developers

Manx stone but also plenty of wood and glass and a green roof, a rare design on an island still wedded to brick terraces and farm cottages. The usual millionrequirements aires' swimming pools and games

Mr Nugent says a property shortage, combined with low unemployment and strong growth, has pushed prices up by 375 per cent since 1997. They have now hit a plateau, but prices have not fallen as in



Four £1m-plus homes on the cliffs above Douglas Bay

the UK and Ireland.

He says people will continue to move to the island, "The quality of life is great here with low crime . . . I do not employ a single security

guard." And hopes for house sales are buoyant. "In the past eight weeks, we sold two houses for a combined £6m.

### Doing Business in Isle of Man

# Expanding range of expertise wins clients

**Financial services** 

The sector continues to focus on attracting business from abroad, writes **Brian Groom** 

aving come through shape than financial centres, the Isle of Man has its sights on the next challenge: winning its share of the increasing wealth and corporate business in emerging markets, particularly in Asia and the Middle East.

Financial services make up 38 per cent of gross domestic product and employ a quarter of the working population. The sector's share of GDP is down from 45 per cent a few years ago, but that is because other industries have expanded. There are still healthy growth prospects, as long as it continues to innovate.

"It's not just economically important to the Isle of Man, it creates great job opportunities for people who perhaps would have had to leave the island 30 or 40 years ago," says Anne Craine, treasury minister. "There is a spin-off, as skills that the sector develops can go across into other parts of the economy as well."

The main pillars are banking, insurance, the fiduciary sector (trust and corporate service providers) and investment fund management and administration, plus a growing niche in pensions administration.

immune from the financial crisis, but it is turning the corner.

Bank deposits, down from £57bn in 2008, have stabilised at £50bn. The life assurance sector's prelast year to £8.5bn, not far below but that's probably for 2012." the 2006 peak of £9.4bn. At \$38bn, Some banks are growing.

their 2008 peak of \$57bn, but on an upward trend.

Now the government, along with the industry, is devising a three- to five-year marketing strategy, made easier by the fact finance is now grouped with other industries in a single Department of Economic Development.

"In the past, we have gone in and out of markets and perhaps the global crisis in not had a clear long-term plan for development of them," says Steven Beevers, head of financial services at the department.

One strand is a country-bycountry analysis, recognising that markets such as China, India and the Middle East have differing needs. Another is an emphasis on "solutions rather than products" an effort to harness the island's diversity by offering a wider range of services.

For individuals, this can include advising on succession planning and managing aircraft and yachts; for companies, it can be anything from setting up an international holding company to collecting royalties or running pension

The island's banking sector has come through the collapse of Kaupthing Singer & Friedlander (Isle of Man), the local branch of the failed Icelandic bank, in 2008, we are well positioned without any wider loss of confidence. It has been painful for depositors, but the Manx government acted quickly by paying out up to £50,000 per customer, later levied from banks under the depositors' compensation scheme.

Bank earnings have been held back by low interest rates. But, says John Coyle, chief executive The island has been far from of Standard Bank on the island and president of the Isle of Man Bankers' Association: "My sense is that we are well positioned for the expected upswing in interest rates over time. I think we will mium income leapt by nearly half start to see earnings recovering,



Anne Craine: believes the skills the financial sector develops spill into other parts of the economy

saw deposits rise 10 per cent last year. "Revenues and profits are growing," says Simon Scott, managing director on the island, who attributes the rise to a flight to strong brands coupled with offering the right investment products. Barclays, which employs 800 on the island – a quadrupling over 15 years – has created nearly 50 jobs in the past year.

'My sense is that for the expected upswing in interest rates over time'

The life assurance sector, which includes names such as Zurich, Axa and Friends Provident, has been a big strength in recent years and is ahead of the game in terms of expanding into emerging markets. Companies already have a big market selling products to as Dubai, Abu Dhabi, Singapore and Hong Kong.

The island also has a stable capinvestment sector's funds clays Wealth, which runs a global tive insurance sector, with £6bn at all. I think there was a reduc-

£1.2bn premium income, which insures risks for parents such as National Grid, Centrica and Cathay Pacific.

It has been squeezed by an eight-year soft market for commercial insurance, but, says Gaynor Brough, managing director of Aon (Isle of Man) and chairperson of the Isle of Man Captive Association, the number of new captives is up by 4 per cent last year. Captives are branching out from property-related business into areas such as trade credit, employee benefits and, potentially, pensions.

Banking employs about 3,000 and insurance 2,200, while the fiduciary sector appears bigger than previously thought: a survey by the Association of Corporate Service Providers puts employment at about 1,900. The island's 200 licensed trust and corporate service providers handle business from family trusts to vehicles for owning yachts and aircraft.

There was a lean period, but Phillip Dearden, managing direcexpatriate workers in places such tor of PKF and chairman of the Association of Corporate Service Providers, says: "I don't think there was a reduction in activity under management are below operations hub from the territory, of funds under management and tion in the pace of increase."

The fund management and administration industry, which employs up to 1,000, expanded rapidly before the crisis and is still seen as a growth prospect. The industry and the government recently completed a strategic review.

"We will continue to attract early-stage and midsized fund managers and start-ups and will continue to attract hedge fund administrator groups into the island," says Brian Donegan of the Department of Economic Development. The strategy involves promotions in the City of London, stressing the island's relatively low costs and skills base.

Another bright prospect is pensions, boosted not only by the UK's cap on tax-free contributions but more widely by the island's expertise in international pensions for individuals and multinational companies. "It is a sector that has the ability to grow significantly," says Stuart Clifford of Baker Tilly and chairman of the newly formed Association of Pension Scheme Providers.

"three Cs": capability, capacity | financial services. and cost. It has space for growth, Space is the most lower costs than some competitors and ever-expanding expertise.

# Healthy dose of pragmatism helped weather the downturn

#### Comment

BRIAN GROOM

The assertion that the Isle of Man is the fifth most likely nation to plant its flag on the moon denotes a place that is not lacking in ambition.

Characteristically, it was a space industry analyst that made that calculation last year, rather than anyone on the island. Boastfulness does not come naturally to Manx people.

You can expect the island to shout louder about its attractions in future, however.

After 25 years of unbroken growth, the Isle of Man has come through the financial crisis and global recession in better shape than many offshore centres – not to mention bigger countries – but it knows it faces stiffening global competition.

"It's had a fantastic record of unbroken growth. But, like any microeconomy, it wouldn't take a lot to knock it off its perch," says John Coyle, president of the Bankers' Association

The island needs to continue to widen its base of expertise, market itself coherently and claim its share of the market for managing the growing wealth in Asia, the Middle East and Latin America.

It is the economy's diversity, for an island of 80,000 people, that has helped it come though the downturn with a slowdown rather than a recession.

That did not come about by accident. The Isle of Man has painstakingly built niches in such areas as e-commerce, e-gaming, web hosting, filmmaking, and registering aircraft and ships to broaden its base The island will be promoting its and avoid over-reliance on

> catching. The island hosts a dozen aerospace businesses in areas such as space tourism and satellite communications. That moonshot may come thanks to the Odyssey Moon team, competing for a global prize to devise a landing craft capable of transmitting pictures. It is a 50 to 1 shot, behind the US, Russia, China and India.

Underlying it all are the island's attractions, not just its low taxes, but also proximity to the City of London - through which it wins much business and to which it contributes capital flows – along with its pragmatic regulation and widening spread of

It is bigger than some competitor jurisdictions, giving room for growth and keeping costs down. The other side of the Manx people's lack of boastfulness is a quiet determination that has helped them through the storms. "The industry here and the people are quite

resilient," says Greg

Ellison, chief executive of

office and corporate service

provider. "They are used to

Boston Group, a family

dealing with challenges.

professional knowhow.

They don't overreact. They are quite pragmatic. They size up the challenge, figure out what needs to happen and then crack on without much drama.' That certainly

characterised its response to the biggest challenge thrown up by the financial crisis, when the UK government in 2008 froze the assets of Kaupthing, the Icelandic bank, including deposits held through its Isle of Man subsidiary. The island's government moved quickly to raise compensation limits, committing £193m of its reserves to ensure three-quarters of depositors were rapidly paid back.

The same calmness was in evidence in 2009, when the UK Treasury rewrote the "common purse" agreement that determines how revenues from value added tax are shared, cutting government income by about £140m a year.

The Manx government has cut spending, squeezed items such as mortgage interest relief and raised taxes, although the top income tax rate still remains low at 20 per cent.

The island continues to respond co-operatively to pressures on tax havens from the European Union, the International Monetary Fund and the Organisation for Economic Co-operation and Development.



July, ahead of other

economy off its perch' Its latest moves are to begin automatic exchange of tax information from

EU feared amounted to harmful tax competition Now it is setting out to market itself more effectively round the world, helped by the creation of an economic development "superministry" that for the first time groups 19

centres, and withdraw anti-

avoidance rules that the

Delegations and conferences are planned, with the potential for creating overseas offices in future.

of financial services.

sectors, including all parts

Some think the island could have been quicker off the mark to seize the opportunity created by the eastward shift in global wealth, but it believes getting the strategy right is more important than

first-mover advantage. The government is creating a plan that treats each country individually, recognising that products and services that work in one market, such as India, might not suit others such as China, Singapore and Abu Dhabi.

Its competitors are targeting these areas too. But, as Andrew Corlett. managing director of law firm Cains, puts it: "We are a relatively small place and it's a big world out there, so we only need to assist a small element of that to secure our future.

## Enjoy private life with community spirit

#### **Personal View**

**EDDIE DAVIES** 

I came to live on the Isle of Man in 1984 for purely commercial reasons. I soon found it to be an ideal place to live and do business.

I came to the island to join my partner's business. I met my wife Sue here and both my children by a previous marriage live and work here.

I arrived from corporate life in a UK midsized multinational, where I held positions in engineering, production, finance and overseas projects, notably in Brazil.

We built a business called Strix (see story below) to £100m a year turnover. It makes controls for water heating appliances, notably kettles, and has a world market share of 70 per cent, with

95 per cent exported to the UK. There are also facilities in Chester, Brussels, Moscow, Hong Kong and Guangzhou, a total of 1,000 employees and some 300 patents.

My partner retired, and in 2000 and we made a partial exit with HSBC and a full exit in 2005 with ABN Amro. I now oversee the family

business, focusing on

philanthropy and private equity investments. Our best-known investment is in Bolton Wanderers, but my wife's achievements in sport far outclass mine. Her horses have won gold medals at the World Equestrian Games and the European Equestrian Games, and a bronze medal at the Beijing Olympics, all with the British Eventing Team, ridden by Mary

The Isle of Man is still renowned for its TT

motorbike races. They helped our business as they attract engineering people who were a source of recruitment for us both locally and internationally.

The government is supportive of business. Strix helped reduce unemployment, with plants in both the north and the south of the island, and the government helped with finance. Strix was ideal for the island: high volume, small components with high added value and low energy consumption with little effluent.

Being a private company, our results were not available to our competitors, which assisted with our penetration and growth of the world market. There is zero corporation tax for manufacturers.

The government also supports individuals. The island is an offshore centre with low income taxes, no capital gains tax nor inheritance tax. This aids recruitment. As a rule, you gain about 20 per cent more disposable income moving to the island on

the same salary. As big a selling point, it is a wonderful place to bring up children, with



'The island is bathed by the Gulf Stream; we have palm trees in our garden'

little in the way of crime or drugs, lack of congested roads, superb public and private education and health services, and abundant sporting opportunities such as golf and sailing. This year, the island is host to the Commonwealth Youth

There is fabulous scenery mountains, glens and beaches. There is wholesome local produce such as the renowned Loaghtan lamb and small scallops known as queenies, as well as the famed Manx kippers.

All of this has contributed to a friendly environment in which to live, do business and attract the kind of staff required to operate a world-leading business.

You can live privately yet enjoy a place with a huge community spirit.

You do need to leave the island periodically to recharge your batteries and enjoy better weather, shopping, sports and other pleasures not available on an island (such as attending Premier League football games).

And, of course, a population of 80,000 simply cannot support the finest restaurants. The cost of living is higher than the mainland,

with travel off the island by boat or aeroplane readily available but expensive, though this is mitigated by the taxation advantages. The weather is similar to the UK but better than

north-west England, where I grew up, because the island is bathed by the Gulf Stream; we have palm trees in our garden. They say you should

move when coming back no longer excites you. Sue and I travel overseas considerably but always look forward to coming back.

Eddie Davies is a businessman, with a background in engineering, originally from the UK mainland, who has been based on the island for many years

## Heating controls group is boiling over with clever ideas

#### **Company profile**

Strix

A commitment to research has made the thermostat expert a world leader, says **Andrew Bounds** 

You don't often find a business executive hunched over the ironing board on a Thursday afternoon, but Mark Finnie is not catching up on domestic

chores: he is doing his job. Mr Finnie, marketing director of Strix, a thermostat specialist and the world's leading maker of kettle controls, is demonstrating the group's latest product.

He pushes a lever, tugs the iron from its holder and, through plumes of steam, reveals an iron freed from its electrical cord. "This is a world first," he says. "No one has managed to do this before: a

cordless iron that still steams. The iron contains a tiny boiler unit devised by Strix, and will steam for 30 seconds before needing to be replaced on its pad.

Paul Hussey, chief executive. said the privately held business had to move beyond kettles, where it has about two-thirds

of a market of some 70m units annually. "Strix has prospered with one

product centre – kettle controls. You cannot grow beyond a certain share [of the market]: it gets disproportionately expensive.

"The culture of the company has been research and development. We unleashed that and the results were extraordinary. Strix, founded on the island

stick with small domestic

in the mid-1980s, has decided to

appliances, where it has expertise. There are three rules for new ideas, Mr Hussey says: the product category must be big enough; it must offer good margins; and the innovation must be capable of being protected by intellectual property law. With 120m steam

irons sold annually, the first criterion is certainly met. "In the past two years, 120 ideas have entered the pipeline and eight have got through," he says. They all rely on Strix's expertise in boiling



'In the past two years, 120 ideas have entered the pipeline and eight have got through

> Paul Hussey, **Chief executive**

water and the control of steam. Its product range includes controllers for a traditionallooking kettle that will heat

water to different temperatures: Japanese green tea, for example, should be infused at 85 degrees, coffee at about 90. There are devices that can dispense a single cup of boiling water or a latte, or that can heat the amount of water put in them and dispense it.

The "most disruptive", says Mr Hussey, is a unit that will boil water in just a few seconds. It could be used by airlines so they no longer need to keep hot water in aircraft galleys for long periods.

The cost of the new devices will not be prohibitive to consumers, he says. "You can get a kettle for anything from £5-£150 and this fits in the upper end of the quadrant but not beyond it."

The one-cup dispenser is already available from Breville, and Strix is working with other brands to get more products into the shops this year.

"Strix is becoming an

outsourced technology company. Brands have stepped back from an R&D function because of the costs. They rely on Strix to provide the technology," says Mr Hussey.

In 2009, 3 per cent of revenue came from products developed in the past five years; by 2010, it was 8.1 per cent. The target for 2013 is 26 per cent. Turnover, which has grown almost 20 per cent over the past two years, should have hit £100m by then.

About 200 staff are on the Isle of Man, including about 85 in R&D, and another 800-900 around the world, with the bulk in China, where the controls are made.

Mr Hussey says the company's "brains" remain on the island because its intellectual property is protected there, it is easy to bring in staff and the government "understands how to do business"

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## Doing Business in Isle of Man

# Zero event helps island to clean up

Green technology

Electric and low-carbon bike races are helping stimulate progress, says Andrew Bounds

he petrol-fuelled fiesta of the TT remains the Isle of Man's biggest international brand. Colin Kniveton, chief executive of the Department of Economic Development, says the week-long June event still has untapped potential.

A recent survey showed it came top when people were asked what the island was associated with. "We are still not fully appreciative of the value we get from the TT," he says. "Even after a century, it is going from strength to strength. People have board meetings over here during the TT."

There is television coverage of the race in more than 60 countries and TT3D: Closer to the Edge, which takes a camera on a bike round the 38-mile course on the island's mountainous roads, could win over more devotees

The government, which runs the "Tourist Trophy" race, is now boosting corporate hospitality at the event and for the Manx Grand Prix later in the year.

Yet another race could be as important to the island's future. That is the TT Zero, during which bikes powered by engines producing zero carbon emissions take on the same circuit. There is less noise but the speeds remain impressive.

MotoCzysz, winner of the 2010 contest, is an electrical drive train specialist from the US and set a lap record of 96.8mph and a top speed of 135mph. "We are convinced we will see the first 100mph lap by an electric or zerocarbon bike this year," says Mr

Many companies and universities use the race as a testing

ground for technology.

Ecolve, a start-up electric-bike manufacturer, is raising finance to build a plant on the island that could produce 500 units a year.

Another company with TT heritage is Bladon Jets, which last year saw its gas-powered turbine engine debut in Jaguar's C-X75. The company, founded by brothers and TT competitors Paul and Chris Bladon, started working on engines for conventional bikes. Tata, the Indian conglomerate that owns Jaguar, was impressed enough by the technology to take a minority stake in the business.

The turbine, based on an aircraft design but about the size of a shoebox, would not power a car, as bigger turbines did in experimental models in 1960s, but can top up its batteries so it can go further between recharges.

Courtenay Heading, development director at Bladon Jets, said its advantage is its small size and light weight. Bladon's breakthrough was to find a way to machine the fine parts at such a small scale. "We see it as a range extender," he said.

He said the island has been very supportive. "We have raised almost £1m on the island. People hear about you and ask you to come and see them, and if they trust you and believe in the product, they'll invest."

The company is also working on a boiler that would create heat and power for the Indian market. Links with the island are strong. Paul Bladon died of cancer in 2008 and a trophy in his honour

is presented at the Manx Grand The island's transport department is exploring a different technology. It has teamed up with ITM Power, a UK company, to test hydrogen-powered vehicles. It will take delivery of two converted

The island is also

companies and more

than 50 in the clean-

tech sector overall

home to several

carbon-trading

island of 572 sq km, such technologies should be easily adopted. The island is also home to sev-

vans and a mobile liquid hydro-

gen filling station. On a small



Green machine: the winning bike in the 2010 TTZero contest, designed by US company MotoCzysz

eral carbon-trading companies and more than 50 in the cleantech sector overall, with eight listed on London's Alternative Investment Market.

It is also seeking ways to use renewable energy, with a target of 15 per cent of electricity by 2015. The territory is heavily dependent on imported oil and gas and has been hit by rising prices. It is served by a two-way subsea electricity cable to the UK and an interconnector on the Scotland-Ireland gas pipeline.

Ken Milne, head of energy policy at the Department of Economic Development, says one 20megawatt-capacity wind farm, for which expressions of interest are being invited, will be enough to hit the target.

The island's gas-fired power station has 87MW capacity and its energy-from-waste plant 5MW. But the big prize is offshore

wind, where the island hopes it can help meet the UK's targets for

renewable energy.

"For us to develop offshore wind we need to have export demand," he says, since the island cannot risk building too much capacity for itself, as there are days when the wind does not blow.

It is negotiating with both Britain and Ireland about some of generated energy being counted towards their reduction targets.

The UK is developing two large fields just outside the island's territorial waters. The waters are shallow, so offer stable siting for turbines. "It reduces the length of cables you require. Two gigawatts would be possible," says Mr

The Manx Electricity Authority is state-owned and vertically integrated so it can also test technology such as tidal power, says Mr Milne. "We have been a test bed before; 3G mobile was trialled here before its use in the UK.

## Diverse industries are key to future

Continued from Page 1

its second casino licence.

1960s, is used by the four- cost of both mobile ownerstar Palace hotel on Douglas's seafront. The second would aim to bring in an international brand to lure "junket" gamblers. However, Tynwald, the parliament, has yet to authorise the move.

There are challenges. Inflation, which generally tracks the UK at a slightly higher rate, hit 6.7 per cent in March on the retail price index measure and fuel cost rises are causing pressure.

The construction industry is in the doldrums, while consumer-facing businesses have fared badly. High streets, many of which are stuck in a 1980s timewarp, are studded with empty shops as traders struggle.

Anne Craine, treasury minister, says the government has put aside £8m to regenerate retail areas.

On the plus side, a survey of business leaders shows confidence is high, with eight out of 10 companies polled expecting to make a profit in 2011 and more than three-quarters expecting to grow, with half forecasting more staff recruitment.

One is Cable & Wireless, the UK telecommunications

company that provides competition to the privateto the island by auctioning equity owned Manx Telecom under the Sure brand. The first, issued in the Since it arrived in 2007, the ship and broadband has fallen 70 per cent.

The company says that financial services, e-gaming and e-commerce are driving data volumes up "exponen-

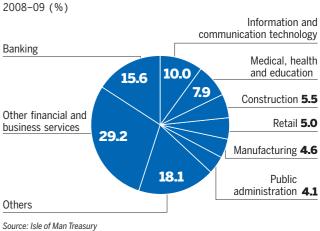
tially" The shipping and aircraft registers continue to grow, bringing in work for corporate service providers in buying craft, insuring and managing them.

Dick Welsh, director of the ship registry, says the introduction of an annual £730 fee has not deterred trade. Tonnage registered has grown to 12.4m, against 11m a year ago, just behind older registers such as Germany and the

The island is on the white list of Paris and Tokyo, the main international standards, and its quality is recognised by US customs.

Brian Johnson, director of civil aviation, says the recession has not dented the commercial jet business. In its fourth full year the register has grown by 120, one more than the year before. "We have done 365 aircraft in four years. I think it's amazing," says Mr

Isle of Man national income by economic activity







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## Doing Business in Isle of Man



Grate success: the Isle of Man Creamery sells about 650 tonnes of premium cheese globally, with strong markets in the UK, Ireland and Spain

## High costs present a challenge

**Island products** 

Quality goods are made here, but state aid and foreign markets are essential, writes **Andrew Bounds** 

rom award-winning beers and cheeses to watches and lenses to take pictures of Mars, the Isle of Man has a wide variety of products. What they all have in common is support from the government and a need to export to survive.

Roger Smith, a British watchmaker, arrived on the island in 1998 to train with George Davies, a famed horologist. Mr Davies invented the coaxial escapement, which improves watches' timekeeping, and was adopted by Omega, the Swiss manufacturer.

Mr Smith decided to go it alone and created his own watches, which show off the mechanism. He sold them for £12,000 a piece. "It only just covered my salary," he recalls. His new series two costs £72,000 apiece and already has an 18month waiting list.

His four-strong team makes just 10 a year at a small workshop extension to his seaside cottage near Ballaugh on the western coast of the island.

Everything is assembled by hand once the pieces are machined on site, and buyers can customise the face. "The last English watchmaker closed in the 1970s," says Mr Smith. "England used to have the best watches in the world and I wanted to revive that tradition.'

He had government grants for the workshop and benefits from the zero corporation tax. He also has four customers

CVI Melles Griot, a maker of optics and lasers for the aerospace industry, is another business responding to increased demand. The company, now US-owned, is staying in its building on a housing estate in Onchan and investing £500,000 in a new coating facility. Helmut Kessler, managing director, says: "It is in response to demand. Orders are growing by 5-15 per cent a year.'

CVI supplies components for Nasa and other space agencies, including camera parts that enabled the Mars lander to send back pictures of snow. Demand is growing, as ever more powerful lasers are being used, for example, in cutting the digits on BlackBerry keypads

Power bills, wages and transport costs are higher on the island, but are more than offset by low staff turnover and government support, savs Mr Kessler.

Higher bills are a bigger challenge for two other local businesses, Okells Brewery, established in 1850, and the Isle of Man Creamery. Both are both looking abroad for growth.

Mike Cowbourne, head brewer of Okells, says demand for its flagship bitter and mild has fallen from 18,000 36-gallon barrels in 1980 to about 6,000 in 2010. Its brewery, built in the 1990s, installed a lager production line built to brew Labatt's under licence but the product did not take off.

Steve Mitchell, wholesale manager, says costs are a fifth higher on the island, wiping out much of the profit margin. "It costs £63 a [9 gallon] tub minimum and I struggle to sell it for more than £61 or £62.'

The company is buying volume at cost to keep the mash tuns full. Some 40 per cent of production is sold to the UK and it has opened four pubs there to stimulate demand. However, it does have competitive advantages. The island has a

Isle of Man Bank granted a loan of about £1m secured against the stocks of cheese, showing innovative finance is not confined to the offshore sector

German-style beer purity law dating from 1874, saying only water, yeast, malt, hops and sugar can be used to make it, ruling out rice or other sources of carbohydrate some brewers use to save

"That provenance and quality is a unique selling point," says Mr Mitchell. When Okells developed a wheat beer, parliament had to amend the law to

Domestically, it also has to compete with Bushy's, a recent start-up. Mr Cowbourne has responded by creating a series of award-winning special brews.

The creamery has pursued a similar approach. A co-operative founded in 1934 and still owned by the island's dairy farmers, it was transformed when Findlay Macleod, an Irishman, was brought in as chief executive a decade ago.

The island produces 25m litres of milk a year. That supplies the 7.5m of liquid milk needed to make 2,000 tonnes of cheese a year, with just 300 tonnes of it eaten on the island.

Faced with this cheese mountain, Mr Macleod chose to invest in production facilities to mature and package cheese on site. Isle of Man Bank granted a loan of about £1m secured against the stocks of cheese, and was repaid partly from sales, showing that innovative finance is

"Our job is to move as much of that cheese as possible from the commodity market to the premium market, and we have been successful in the past few years," says Mr Macleod.

not confined to the offshore sector.

Some 650 tonnes of annual sales are now premium, which can fetch four times the commodity price. UK supermarkets Wm Morrison and Tesco have stocked the brand. It sells in Ireland and 80 tonnes of premium cheese annually goes to Spain. Half the company's £14m turnover comes from outside the island. Again, provenance is important, with

all the milk coming from the island's 6.000 head of cattle. The creamery employs 90 people as

well as helping the island's balance of payments. "Not only are we earning abroad, but we are keeping out imports,' savs Mr Macleod.

# A viewpoint that goes far beyond the island's shores

**Professional services** 

**Brian Groom** explains why companies are looking at global markets and the skills needed to target them

The Isle of Man's professional services community is playing a pivotal role in its economic diversification. Having grown to assist financial services, its expertise helps build such industries as manufacturing, web-hosting, e-commerce and satellites

As with other sectors, it has seen a slowdown during the global recession, but Anne Craine, treasury minister, hopes and expects it will continue to grow. "I am married to a chartered accountant and my son is a lawyer," she adds.

Legal and accountancy firms have plenty to do servicing the financial community and other parts of the economy, but many are looking globally. The same is true of the regulated professions working for corporate service providers and trust companies: historically UK-focused but increasingly international.

They sell the island's advantages, including relative proximity to the City of London, a legal system similar to the UK's and tax neutrality within a stable, well-regulated jurisdiction.

"It's got much more sophisticated," says Phillip Dearden, managing director of PKF, an accountancy and fiduciary business, and chairman of the Association of Corporate Service Providers. "The increasing burden of regulation, an increasingly litigious world and increasingly aggressive tax enforcement agencies mean everybody has to be better at what they do.'

The trend is towards larger firms, able to absorb overheads and more complicated arrangements for clients.

Cains, one of the island's largest law firms, which has been in business for more than 100 years, won a Queen's Award for export two years ago for corporate work in emerging markets in eastern Europe and Asia, which account for more than 40 per cent of its business, using London as a gateway.

"To a certain extent, I see what we are doing as the future of places such as the Isle of Man," says Andrew Corlett, Cains' managing director. "I think the island's best macro model would be to be seen as a moon around a larger celestial body like the City [of London]. Cains built a reputation as

legal adviser to companies from Russia, India and China coming to list in London: the Isle of Man became a bigger host of non-UK Aim 100 companies than have a vital role to play.

any other jurisdiction, with about three-quarters of Indian companies listed on Aim incorporated on the island.

That work has dried up since 2008, but shows signs of revival. Cains managed about £1.5bn of listings business globally in the final quarter of last year, including Singapore and Frankfurt. Restructuring and corporate work kept coming in.

Mr Corlett says Cains experienced a bit of a dip, but revenues for the first nine months of this financial year were up by 14 per cent on the previous year. Its staff has doubled to 100 in the past 10 years and it expects to hire another 10 this year. The biggest recent event in

the legal world was the arrival of Appleby, the world's largest offshore law firm in terms of partners, via a merger with Dickinson Cruickshank, an Isle of Man firm. The addition of a global name is seen by many as enhancing the island's profile.

Sean Dowling, Appleby's managing partner on the island says he and former Dickinson Cruickshank colleagues opted for a link because there were limits to the ability of a standalone jurisdiction to service an international client base. Since then, as part of a larger group,



**Andrew Corlett:** The island's best model would be as a moon around a larger body such as the City'

they have quoted for business that, previously, they would not have been able to compete for.

All the big four accountancy firms are represented on the island, along with others such as Moore Stephens, which also has fiduciary, yachting services and international pensions businesses. Clive Dixon, managing partner, underlines the co-operation not only between the public and private sector but also between firms.

"No one company can do it all," he says. "We are all quite small companies here. Often, we will go into a presentation to a client along with the other service providers involved."

Greg Ellison, former head of Barclays Wealth on the island, moved recently to be chief executive of Boston Group, a family office and corporate service provider aiming at Asia and the Middle East, as well as nondomiciled UK residents.

"To date, many of the professional services firms have been fishing in the UK for opportunities. I think we have to break that dependence and focus on opportunities further afield," Mr Ellison says. As the Isle of Man shifts its focus to emerging markets, professional services will

## Specialist offers chance of a jackpot

#### **Profile**

**188Bet** 

Online gambling is one of the most promising sectors, says Brian Groom

Andy Scott, chief executive of 188Bet, says his company aims to be the "world's best-loved sports book"

The in-play betting specialist is one of a clutch of businesses that have turned online gambling into one of the Isle of Man's most promising

economic activities. Created in 2006, the company was set up by a half a dozen Asian investors who saw their future in fully licensed, well-regulated betting. They were attracted by the regulatory standards as well as its zero corporate tax. Mr Scott, a former Royal Signals captain, joined two years later from Neteller, an online payment company on the island, where he was chief risk officer.

"The investors had taken a look round various jurisdictions and determined that the Isle of

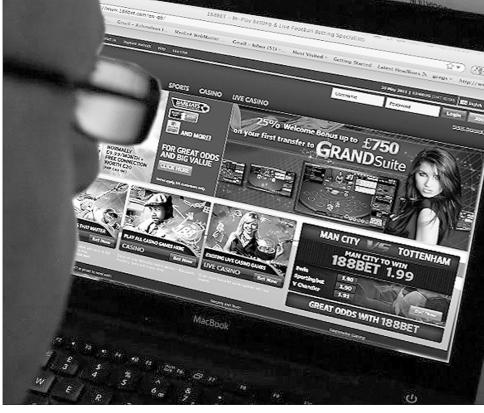
Man represented the most forward-looking and one of the more robust regulatory regimes," he savs.

188Bet is predominantly a sports bookmaker, handling mainly football betting though it also offers basketball, tennis, golf and some casino products. It employs 34 staff on the island, six in the UK, and is supported by a further 700 in partner companies in Manila and Taiwan that handle trading support, customer services

compliance and IT support. Mr Scott says turnover has doubled every year and is forecast to grow by 70 per cent this year. Its core markets are in Asia, but Europe now accounts for 40 per cent, including 5 per cent in the UK, where it sponsors leading football and rugby teams.

He explains the attraction of in-play betting with reference to a Wigan Athletic match against Arsenal last season, Odds on Wigan were 9-1 to win at the start of the game, but then they went two goals down with nine minutes to go, at which point the odds became 150-1. They went on to win

the game 3-2. "For our kind of customers, who tend to be



E-gambling: one of 188Bet's challenges is to develop products that respond to market changes

'For our kind of customers, who tend to be real sports fans, it offers a great opportunity'

real sports fans - wannabe managers who feel they know the game and can predict what's going to happen - it offers a great opportunity," Mr Scott

The company says margins are low because it offers better odds than its main competitors, achieved through low operating costs and by carrying a lot of liquidity.

It has had to move out of some markets, including Italy and France, either because of restrictive regulations or because tax is levied on turnover rather than profit, which disadvantages a low-margin operator.

Eventually Mr Scott would like to expand in the US if the market opened

up. Because 188Bet does not operate there, it has been unaffected by the US authorities' crackdown on PokerStars, another Isle of Man company, Mr Scott says.

One of 188Bet's challenges is to develop products that respond to market changes

The new generation of 25- to 30-year-old gamblers enjoys a social element, including "contextual betting".

For example, Mr Scott says, if Chelsea, one of its betting partners, runs an article on its website saying the goalkeeper has had a great week in training, there would be an opportunity to bet on him maintaining a clean

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