Interview with Barry O' Leary, CEO, Industrial Development Agency – Ireland

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article in The Guardian last year profiled you and your work, it was titled “Resurrecting the Celtic Tiger.” More recently, Time Magazine put Taoiseach Enda Kenny on its cover, and foretold of a “Celtic Revival.” Is this a time for optimism in the Irish economy?

There are two sides to the Irish coin: there is the export-led economy, which is dominated by multinationals and is performing very well; on the other hand, there is the domestic economy, which is quite flat.

Our challenge is to continue to win foreign direct investment (FDI), and we are doing so. Recently, we have enjoyed the strongest flow of FDI since 2002. And yet, we must also ensure that the domestic market is stimulated more than it is at present.
We are looking at a work in progress. We need both the domestic market and foreign investment. Currently, only the latter is performing well, by international standards.

When foreign businesses come to Ireland, to what extent are they concerned with domestic consumption?

Any foreign enterprise that comes to Ireland, whilst it would likely service the Irish market, will be concerned primarily with a broader pie. Ireland represents only one percent of the population of the European Union; hence, these companies come to Ireland with an eye toward European or global activities.

If we look at the majority of investments by the pharmaceutical industry, for instance—say, the establishment of a major biologics facility in Ireland, a facility that may be one of only two or three such facilities globally for a particular company—the Irish market is, frankly, incidental.

Focus Reports discussed the Celtic Tiger period with Matt Moran of Pharmachemical Ireland, who called it a period of "excess." Do you agree?

I do. During that time, prices became over-inflated, particularly in the construction industry. The population grew strongly. A lot of migrant labor came into the market. This was unsustainable, and it came crashing down in 2007.

Since 2007, Ireland became significantly more competitive from a cost perspective. This has fed into why we have continued to win foreign direct investment. Particularly in the pharmaceutical industry, there has been a major wave of recent investment in the country.

Indeed, the Irish Times called last year "the best year in more than a decade" for foreign direct investment (FDI) into Ireland, with 148 individual investments from many of the world's leading multinational, second-tier and emerging organizations. Why do you believe companies are so actively investing in Ireland today—is it more than a matter of decreasing costs?

The elements that have made Ireland attractive for decades are still here: the talent pool, the strong track record, the low corporation tax, the technological capabilities, and the regulatory environment.

The big difference since 2007, as we have noted, is in the cost base. If you are building a pharma plant in Ireland today, it will cost 35 to 40 percent less than it did six years ago. The construction bubble has burst; the costs of labor, and the general costs of doing business, have too become more competitive.

Are we seeing a short-term trend? Or has Ireland repositioned itself as a more economical location for business?

I do not believe this is a short-term development. What happened in Ireland in terms of the hyped-up property market, for instance, was unique—there have been real estate crashes around the world, but few have been on the magnitude, per-capita, of Ireland. The adjustment is long term, and we are never going back.

To return, once again, to construction: revenues from the sector used to account for over 20 percent of the Irish economy; in a typical developed country, we see levels of between 10 and 12 percent. Today Irish levels are between five and six percent. We will never go back.

At the end of the day, how important is FDI to the Irish economy?

Benchmarked against all other European Union countries, it is incredibly important. For instance, Ireland has approximately two and a half the rate of FDI per capita as the UK.

This is partly because the domestic market is very small, and small markets do not tend to produce very many homegrown world players. It is instead the multinationals that enter the country and carry out the major investments.

Is Ireland disproportionately dependent on FDI? For instance, Marek Radomski, head of the Pharmacy School at Trinity College Dublin, remarked that Ireland is attracting a great deal of knowledge-based investment, but not supporting knowledge creation at home—he cited a lack of support for basic research in pharmaceuticals as one example. As Ireland's principal FDI agency, what is your response to such criticism?

I believe that to say this country does not foster research is inaccurate—we have only to look at an operation such as GSK's in Cork, where about 80 P.H.D.s work to develop better manufacturing processes. In the pharmaceutical and biopharmaceutical industries, the manufacture of the products is an incredibly challenging question from a scientific point of view, and a more than worthwhile research endeavor.

On the other hand, looking at basic research and drug discovery: drug discovery is incredibly expensive. Will Ireland be a center of excellence in this sphere? Perhaps in particular niches—but overall, the process is too costly, as drug companies have themselves come to realize. I think it is important that scientific research receives proper backing, but we also have to discern where we can affect a real economic impact.

This is where the idea of 'Manufacturing Plus'—the notion that Ireland can be a hub for manufacturing and for drug development techniques—comes in.

Precisely. We call this the 'D & M' model—development and manufacturing. From 'R&D', we position ourselves as an epicenter for the 'D'. Pre-clinical research is not our area of expertise; Stage I and beyond is. Drug development in biopharma, in particular, is incredibly complicated. This is where we place our bets.

Let us backtrack a bit and take a historical point of view. The pharmaceutical industry has invested in Ireland for the better part of the last half-century—starting with bulk API production, and thereafter bringing increasingly complex stages of manufacturing and research to the market, until Ireland became what is today the largest net exporter of medicines in the world. Why is Ireland attractive for the pharma industry, and why is the pharma industry attractive for Ireland?

Firstly, I would like to point out that it is not only the pharmaceutical industry that is strong in Ireland—it is also the medical device sector, the technology sector, and the international financial

services sector. We do not go after every industry: we do not chase the automotive industry; we do not chase the steel industry. However, if one walks a mile from IDA headquarters, they would find two and a half thousand people working for Google speaking over 65 different languages. We have a strong record of identifying niche areas, like Big Data, analytics, cloud computing, and etc. Part of our strategy is, first of all, to look for emerging areas.

The pharmaceutical industry is a sector with high margins, but also high regulatory demands. Ireland's regulatory track record is impeccable. The last time that we received a warning letter from the FDA was in 1998. This is a key selling point. When we speak about drugs that are ingested by human beings, safety is paramount.

As you mentioned, Ireland initially concentrated on API manufacturing. The subsequent strategy, over the years, has been to 'start earlier' and 'finish later' in the cycle. The first step in this drive was attracting development activity at the Phase III level, and working our way back to Phase I. We then sought to position Ireland as a commercial launch site for certain new drugs. Today, the pharmaceutical industry engages not only in development and manufacturing, but also IP management, supply chain management, centralized regulatory affairs, financial shared services, IT technical support, and etc. We have taken a development and manufacturing core and added services around it, in line with our consistent strategies.

I believe the fact that we have a cluster on the island of Ireland allows us to compete with countries like Singapore and regions like the Eastern United States. We are certainly right at the top of the ladder from a cluster development point of view.

Another statement that Mr. Moran of Pharmachemical Ireland made to Focus Reports is that, without the pharmaceutical industry, the Irish economy would look quite "grim." Do you agree?

I am not sure that I agree: if we had not chosen the pharmaceutical industry years ago, we may have chosen the automotive sector or some other economic driver.

The pharmaceutical industry is certainly a key contributor to the economy, but it is important to say that it is one key contributor. While nine of the top 10—and 25 of the top 50—pharma companies have operations here, we also have 17 of the top 25 medical device companies present. We can also look to IT: without the IT industry—without companies like Apple and Intel—things would certainly look worse for us as well.

The pharmaceutical industry is facing major global challenges as the 'Patent Cliff' looms large for many. The loss of patent on these drugs has had a direct impact on the Irish economy, as many of the products are manufactured here. Do you see that the industry's next major revenue drivers will be manufactured in Ireland? Will the industry continue to re-

invest here?

Many people discuss the impact of patent loss on the blockbusters. However, recent Irish export figures have shown that pharmaceutical exports have actually increased once again.
If we look at the small molecule, traditional pharma products, of course we will see them losing patent. But there is nothing new about that, except that the intensity is far greater than it once was.

First of all, it would be wrong to say that there is no future in traditional small molecule pharma. With that said, however, biopharmaceuticals—which are of much higher value—have been penetrating the market for the last eight years or so. Ireland now has a significant portfolio of biopharma companies that are either here already or are in the process of building facilities on the island.

In the first six months of this fiscal year alone, Eli Lilly announced a 420Mn USD investment in their second Irish biopharma facility. Allergan announced a quarter-billion dollar investment in biologics in the West of Ireland. Amgen, here in Dublin, announced a 200Mn USD investment.
Besides the recent biopharma wave, Mylan—the third largest generics company in the world—announced a half-billion dollar investment between their generics facilities in Dublin and Galway. Abbott is making an 110Mn USD investment in small molecule, high potency production.

We may add that a brand-new company—a startup from San Diego called Sangart—is building a new facility in Cork. Biomarin, another Californian company and a Genzyme look-alike, is investing as well.
In the last year, Eli Lilly, Merck, and Gilead established financial shared services centers in Ireland. My point is that there are major investments taking place today in what is supposedly a depressed industry.

You have been called the man that was primarily responsible for the successful establishment of Ireland as the leading global location outside the US for biopharmaceuticals. As an illustration of how the IDA functions in real terms, can you tell our readers how you did it?

Firstly, after assessing the growth and potential of the sector—past, present, and future—we decided that it would be interesting for Ireland. In every sector where we operate, we have teams that produce forecasts, coming up with new areas for us to approach; every year, we shed certain areas, and add certain areas.

After recognizing the potential of biopharma, we had to evaluate what the sector needed, and what could make Ireland attractive for the industry. Some of the selling points are those that apply in broad cases: the talent pool, and the track record—the latter, in particular, is hugely important. We also have, as we discussed, the tax rate and the technological capability.

How can we further improve things? Well, we can introduce elements like R&D tax credits. If companies are involved in R&D in Ireland—and this includes process R&D, which is tied into the D&M model—they receive a 25% tax credit. This is one way we can enhance Ireland's offering. Bearing in mind that biopharma products are incredibly complicated in terms of scaling up and production, we funded the National Institute for Bioprocessing Research and Training (NIBRT). This was an investment of 60Mn EUR. Again, this is a way to enhance our offer.

We also worked very closely with the Irish Medicines Board—the equivalent of the FDA—on our regulatory environment and our regulatory standards.
Ultimately, we built up a list of 10 to 15 items that composed Ireland's value proposition, and ensured that they were competitive against other global contenders. Our approach is very much a proactive assessment of what we need to do to make Ireland attractive for whatever sector we go after.

A big biopharma facility typically requires a million or two million gallons of water per day, 10 to 20 megawatts of power per day, and 50 to 100 acres of land. Another aspect of our work is to prepare the ground for companies, and as such, we have acquired six sites around Ireland, and put in all the utilities. This means that when someone is interested in investing, and needs to get to market quickly, they will already have much of what they need in place.

The IDA constantly sends teams to locations around the world, and these teams market the country directly to the C-level executives of the world's leading companies. We have contacts at practically every major organization, right up to the very top. We are interested in large, strategic decisions of a global nature. Companies will not spend a quarter-billion or a billion dollars lightly, and those decisions are taken by their chief executives—whom we are plugged into around the world.

Horizon 2020, IDA's development plan for the next decade, aims to help Ireland capitalize on global opportunities. Can you give our readers an overview of the principal aims of this strategy?

We have a fairly high market share in the businesses we go after—as we discussed, one example is nine out of 10 top players present from Big Pharma. However, it is important that they constantly transform their activities. This is the biggest challenge for our agency, and this is where we emphasize the D&M model: transforming a site from 'M' to D&M, for instance, and laterally adding services.

A very good example is that recently, a company called Steifel—acquired by GSK in 2009—reversed its decision to close an aging plant in Sligo. Instead, GSK will be investing an additional 10Mn EUR in the site.

This is an illustration of our drive to encourage: technology uplift, with more equipment and more automation; skills uplift—retraining the workforce; and R&D support—tax credits for new product development or help in process development that can increase yields and efficiency. We are speaking of a toolkit for transformation. In the case of GSK in Sligo, productivity has improved by 40% by using a series of these tools.

We understand that although Ireland cannot compete with emerging economies in cost, it can compete in creating greater efficiencies in the production process, and reducing production risk. Is that correct?

Yes. And yet, we are not the only ones in the game: Singapore, Switzerland, and other regions are strong as well. However, there have been a number of recent breaches in manufacturing practices that have cost pharma players a lot of money. Hence, there is a renewed emphasis on the regulatory environment, and on the track record in compliance. This is an area where we score very highly.

As we near the end of the Horizon 2020's second year, would you say the nation is on track to meet targets, such as the creation of 105,000 new jobs by 2014?

We are a little over halfway through, and we are essentially on target. Some indices are up, some are slightly down; however, we use three 'headline' metrics: number of investments, number of jobs arising from investment, and the number of jobs in place. We are where we should be in each category.

It seems quite rare for a national inward investment agency to have the weight and presence that the IDA has in Ireland. What do you believe makes this organization so successful?

By and large, public bodies do not go out with public targets. The IDA approaches its mission in much the same way that a company might target 10 percent topline growth and communicate this goal to their shareholders. In Horizon 2020, for instance, we set very specific annual targets throughout the five-year run of the program, and publicized them.
An important aspect of publicizing our goals is also to educate people about the potential of the country. We feel confident today, because we are able to say that we have delivered what we promised.

Another reason for our success is the fact that most of the people that work for us have been drawn from within industry. They have a business background, and therefore have a prominent culture of business generation—and a culture of winning! At the end of the day, winning is what it's all about. Whether you win market share in software products, or in foreign direct investment, winning is winning.

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