



12<sup>th</sup> April 2013

## **R&D Tax Credit Review - Submission to Department of Finance From MSD in Ireland**

### **Background:**

MSD in Ireland employs 2,200 people across five manufacturing sites, EMEA Shared Business Services Centre and Animal and Human Health commercial businesses. Locations are in Dublin, Carlow, Cork, Wicklow and Tipperary.

The company, known as Merck in the US and Canada and as MSD elsewhere, is the world's second largest pharmaceutical company and one of Ireland's leading exporters. In 2012 the company spent over €400million on goods and services in Ireland.

In recent years MSD has invested significantly across Ireland and today, of our 2,200 employees across 8 businesses, approximately 620 of these jobs are specifically linked to R&D projects which qualify for the Government's R&D Tax Credit. In addition, many of the other jobs at these sites have been earned or retained as a result of the R&D investment which has gone into the sites to underpin and enhance the core manufacturing mandate.

### **Impact of the R&D Tax Credit for MSD**

#### **1. Supporting and retaining Irish jobs**

MSD's most recent investments in Ireland include:

- |                           |  |
|---------------------------|--|
| Carlow:                   | a new vaccines and biologics formulation facility (€220)   |
| Ballydine, Co. Tipperary: | a formulation and commercialisation facility (€100M) and a commercialisation API infrastructure (€30M)   |
| Brinny, Co. Cork:         | a Pneumococcal Vaccine conjugation facility and Biotech Bioassay Centre of Excellence laboratory (€20M). |

Approximately 1,000 people are employed across these three sites. The retention of all these jobs, those directly involved in R&D projects and those supporting the site in other roles, are just as important as the creation of new jobs at the sites and the R&D Tax Credit has been a key enabler in this regard.

### **1. Supporting the increased strategic importance of MSD sites in Ireland compared to others within the company's Global network**

Innovation is the lifeblood of the pharmaceutical industry and it is even more important now with so many leading products coming off patent. The strategy of a number of our Irish sites has been to establish themselves at the forefront of the technical development of MSD's pipeline products. The addition of Process Development and R&D capability helps to underpin and enhance the core manufacturing mandate by which many of the sites were established and enables local management to leverage the technical capability that exists in Ireland to support a more strategic mandate within the global network. As a result we have invested in extensive technological advances at our Irish sites and subsequently the majority of our sites in Ireland have continued to expand and become more strategically important within the MSD/Merck global manufacturing network. For example, of the 20 candidate products in the company's late stage pipeline 10 are currently in development across our Ballydine, Brinny and Carlow sites. This includes four of the top five investigative products from the MSD research pipeline.

The R&D Tax Credit supported the investments which created the infrastructure needed for the Irish sites to undertake this new mission and move significantly up the value chain.

### **2. Supporting skills development of Irish employees**

As a result of the mission of many of the sites evolving into a more R&D focused role the skills of our employees have been developed to ensure that they too are trained to the highest level within their area of expertise. The company has invested heavily in skills development for example through collaboration with the National Institute for Bioprocessing Research and Training (NIBRT) which has delivered a world class workforce which will be an asset to both the industry and the Irish Government into the future.

### **3. Supporting technological infrastructure**

The R&D Tax Credit has supported investments in MSD which have now delivered highly technical facilities which are viewed as world class and include the most advanced equipment and technology available:

- A vaccines and biologics plant on a green field site in Carlow town where 191 highly skilled people are now employed.
- A Bio-assay laboratory and centre of excellence which not only conducts assays to support the products made at the Irish sites, but also completes analyses to support the development of Merck's expanding pipeline of new Biopharmaceutical medicines.
- The building of a new commercialisation and formulation facility in Tipperary which is MSD's key site for the formulation of pipeline products

## **5. International competitiveness of R&D offering**

International competition to Ireland comes externally but also within companies. MSD/Merck sites in Ireland compete continuously for projects and investment with sites based in other countries. Following a merger with Schering Plough in 2009 we have already identified excess capacity within our Global manufacturing network which has led to rationalization across a number of regions, including our recent decision to close our older API facility at Rathdrum due to overcapacity in the group.

Internal competition generally comes from more competitive or lower tax jurisdictions such as Singapore, Switzerland and Puerto Rico – all of which offer other incentives for R&D related investment.

In addition the increased focus on the emerging markets could lead to competition expanding into China and other markets in the future therefore making it vital that Ireland not only retains the R&D Tax Credit but also seeks to enhance the current regimen.

In order to stay competitive management at the Irish sites have had to continuously demonstrate the long term competitiveness, viability and relevance of our sites through delivering high quality R&D activities. R&D is expensive to deliver in Ireland and therefore the R&D Tax Credit is now presented at the siting/tender stage for projects. This credit is also highlighted to various groups up the leadership chain within the Corporation.

### **Design and structure of R&D credit**

Whilst the current R&D credit is beneficial to companies some issues have presented which should be examined further by the Department of Finance:

1. The length of the audit process impacts on the certainty of the credit within an organisation. For example, 1 year to claim and sometimes more than 4 years for the Revenue to audit. It would be beneficial if the audit process could be completed in a

more timely manner as this delay creates uncertainty to companies at a corporate finance level.

2. The restrictions on the use of subcontractors to 10% of the claim should be re-examined. This is an issue as R&D work by its nature can be project based and requires a fluctuation in resourcing as required. Flexible resourcing and outsourcing is critical for companies to remain cost competitive.
3. Further direction on 'Capital' would be welcomed i.e. monitoring the % usages of a piece of equipment over its useful life is onerous.

The following elements of the R&D Credit supports the industry and in our view should not be altered:

1. Ability to record above the line.
2. The 25% credit is becoming increasingly important in attracting more technically complex investments to Ireland.
3. Strategic investments in the Pharma industry are made with a long term view in mind. It is therefore critical that the Government moves quickly to reinforce its long term commitment to the R&D credit and remove any uncertainty in this regard, so that companies can commit with certainty to the investments that will underpin this important strategy for its Irish sites.

## **Summary**

Competition internally for development activities is extremely competitive. R&D is expensive to do in Ireland and the R&D Tax Credit is now presented as a key component of any submission to the Global organisation at the tender stage and is therefore as important as the availability of skilled talent and location in making long term, strategic decisions in this area.

Finally, it is vital that this credit is retained and enhanced not only for the large multi-national employers but also for the additional employment it creates for contractors, SMEs and the wider science and technology community.

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