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# Madeira: more than a holiday hub



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Power of attraction: Madeira was named Europe's leading island destination in the World Travel Awards for the sixth year running in 2019

## MADEIRA

# Sun, sea and techs

**FOREIGN EXPLORERS CLAIMED MADEIRA 600 YEARS AGO. TODAY, FOREIGN INVESTORS ARE TAKING ADVANTAGE OF ABUNDANT OPPORTUNITIES IN UPMARKET TOURISM, AS WELL AS A BURGEONING TECH SECTOR ON THE ISLAND. SEBASTIAN SHEHADI REPORTS**

**M**adeira, the main island of the eponymous archipelago, is just 56 kilometres long and 21 kilometres wide, but enjoys substantial international appeal. In 2018, it attracted 4 million visitors, a significant number for an island of 254,000 inhabitants, and for the sixth time since 2013 Madeira was named Europe's leading island destination in the World Travel Awards.

Renowned for its staple exports of bananas, passion fruit, wine and fish, Madeira is located in the Atlantic Ocean, off Africa's north-west coast, yet less than four hours from London by plane. Its diverse landscape includes mountains and ocean, tropical greens and volcanic browns, cloudy mists and blue skies. While the main island's beaches are made of black sand or pebbles, neighbouring Porto Santo has 9 kilometres of sandy coastline, and is set to become one of the world's first fossil fuel-free islands.

### Growth story

Impressively, Madeira has enjoyed uninterrupted GDP growth since mid-2013, while

unemployment has dropped from a high of 15.9% in 2015, to 7% in 2019, according to Patricia Dantas, Madeira's regional assistant director of the economy.

"There's a huge growth in confidence in Madeira's market. Our debt-to-GDP ratio is under 100% for the first time in a long time. The regional government took an average of 1080 days for local payments in 2012; now it's only 61 days," she adds.

Tourism is a key sector in Madeira, accounting for about 25% of GDP in 2018, and employing about 17% of the working population, according to Pedro Calado, vice-president of Madeira's regional government. Last year saw 3.3 million tourists arrive by plane (a 45% increase since 2007), and 540,000 arrive by boat (a 13% increase since 2013), while hotels have had an impressive 85% occupancy rate over the past three years, says Mr Calado.

### High-end target

Although revenue increased in the tourist accommodation sector in Madeira in 2018, there was a slight drop in overnight stays according to the Regional Directorate of Statistics of Madeira. Nearly 80% of hotel rooms in Madeira are booked online, and

Booking.com registered a 15% decrease in sales in 2018, according to Manuel Saldanha, sales director at Madeira TIP Investments.

"We expect tourist numbers to go down by 25% over the next few years. Countries that had security problems during the past 10 years – Tunisia, Turkey, Algeria, Egypt – are now coming up strong and are dumping prices," he adds.

However, since these resurgent countries attract mainly low-budget tourists – which is more likely to hit Madeira's cheaper Airbnb accommodation – there has been less impact on the hotel industry, which is composed almost entirely of four- and five-star establishments, according to Mr Saldanha.

"Our hotels may lose some numbers over the next three years, but will not drop lower than a 60% occupancy rate. The opportunity for [upmarket] hotel investment is still very ripe. We're very popular for Brits, Germans and Scandinavians. This demographic also buy houses in Madeira. We're selling close to 200 a year, valued at €500,000 to €1m, and that number has grown over the past three years," he adds.

Madeira prefers quality tourism over mass tourism, but with 30,000 tourist beds on the island, there is room for more tourists, according to Mr Calado. With this in mind, the new five-star Royal Savoy Hotel recently opened with 172 rooms, following €40m of investment. The complex boasts substantial events space, an area of tourism that Madeira is keen to expand as it hosts events in the areas of culture, business, academia, botany and sports, such as the 2020 European Bridge Championship.

#### Tech bridge

Following the Portuguese tech boom, Madeira's young but fast-growing tech sector is exporting its services beyond its small domestic market. The University of Madeira, which offers courses in engineering, mathematics, nanochemistry, health tech and interactive tech, is fuelling this talent pool, and boasts the world-class Madeira Interactive Technologies Institute, founded by US-based Carnegie Mellon University.

Startup Madeira, a government-led incubator for SMEs, attracted 53 registrations from 19 countries in 2019's Madeira Startup Retreat, which saw tourism start-ups use the island as a living lab for product testing. In recent years, the incubator has operated at full capacity and facilitated the success of numerous companies, such as WalkMe Mobile Solutions, a phone-games developer with 30 million users.

Portugal's largest telecommunications service provider, Altice Portugal (owned by multi-national Altice Group), recently established an innovation lab in the municipality of Ribeira Brava. Alcino Lavrador, general manager of Altice Labs, says: "We are energising the local tech ecosystem and positioning [Madeira] as a key driver in terms of talent attraction, knowledge and innovation exports. The young and dynamic population, complemented by a floating tourist population, provides the right con-

**THE REGIONAL GOVERNMENT TOOK AN AVERAGE OF 1080 DAYS FOR LOCAL PAYMENTS IN 2012; NOW IT'S ONLY 61 DAYS**



ditions to become the future hub for projects [within tourism tech and smart cities]."

ACIN iCloud Solutions is also based in Ribeira Brava, where it employs about 200 people working on cloud computing solutions. Madeira's tax regime allows tech companies that export their services to receive a reduced corporate tax rate of 5%, an initiative that has attracted the likes of tech veteran WinZip. ■



#### Sweets & Sugar

Sweets and Sugar was one of the first industrial companies to settle in the Madeira Free Zone, and is currently the largest exporter in the Free Trade Zone of Madeira.

It is dedicated to the packaging of sugar and confectionery production, with an annual turnover up to €7M.

The business of sugar is exclusively for the Madeira market, and represents 80% of consume of sugar in Madeira.

The confectionery has the Villa and Heller brands and is 95% exported outside of Madeira, 70% in the national market of Portugal and the remaining 30% outside Portugal (Spain, France, Russia, Jordan, Angola, etc).

The confectionery business is the company's cor-business and represents 75% of the turnover.

Sweets and Sugar is certified in one of the most demanding food safety quality standards, the British Retail Consortium (BRC).

It is currently the largest producer of hard and soft candies in Portugal.



[www.sweetsandsugar.com](http://www.sweetsandsugar.com) • [geral@sweetsandsugar.com](mailto:geral@sweetsandsugar.com)

## **Q&A: PEDRO CALADO**

# An independence streak

**THE VICE-PRESIDENT OF MADEIRA'S REGIONAL GOVERNMENT TELLS SEBASTIAN SHEHADI ABOUT THE ISLAND'S CAPACITY FOR MORE UPMARKET TOURISM AND ITS ONGOING STRUGGLE TO GAIN FINANCIAL INDEPENDENCE FROM PORTUGAL**



### **CURRICULUM VITAE**

PEDRO CALADO

2017

Madeira

Regional government,  
vice-president

Previously

Funchal municipality,  
vice-president

**Q** What kind of foreign investment are you looking for in the key sector of tourism in Madeira?

**A** We have sea, mountains and so many outdoor activities. Our tourism industry is increasing in revenues, tourist numbers and available rooms. The sector creates about 25% of our GDP, and employs about 17% [of the workers] in Madeira.

We have 30,000 beds, which is not enough. We want quality tourism, not mass tourism, which is why we have lots of four- and five-star hotels. Our revenue per available room is about €56 per night, but four years ago it was about €48. We had about 3.3 million tourists arriving in 2018 by plane, which represents a 45% increase since 2007. By boat, we had 540,000 in 2018, up from 473,000 in 2013. Altogether, that's 4 million tourists coming to our island of 254,000 civilians.

We also have great conditions for business tourism. We want more of that. The next European Bridge Championship will come to Madeira in 2020. We want more upmarket tourism such as this [as well as health tourism and ecotourism].

Our emerging sectors are in technology and software engineering. We need more investment in these sectors that can attract more young specialists here. We have good fiscal conditions for these companies, and [we offer a good] quality of life. Through tech, we can export our services around the world, [beyond our small borders]. We have an excellent telecommunications network, and we are preparing for 5G.

**Q** Are you attempting to reform Madeira's fiscal regime?

**A** The International Business Centre of Madeira [IBCM], which contributes 15% to our GDP, gives its companies a 5% corporate tax rate, but we want to provide that tax rate across the whole of Madeira. For this, we need [Lisbon's] approval, and we are trying very

hard to implement that. I think all Madeirans want this change; we want to be financially independent from mainland Portugal. It's necessary for [Lisbon] to compromise, and for the European Commission to change its view of the IBCM.

**Q** What is wrong with the EU's view of the IBCM?

**A** There are lots of lobbies that operate in EU. You have Gibraltar, Cyprus, Malta and other international business centres that are competing with us. So if the lobbies put pressure on Madeira, companies leave Madeira to go to other countries. The image that the lobbies are constructing of Madeira, in the EU and elsewhere, is not a good one. We are not an offshore tax haven: the companies that come here are audited and inspected.

To benefit from the 5% tax rate in Madeira, the EU conditioned that investors must create a certain number of jobs on the island. [But this is misguided.] It is an international business centre... The European Commission doesn't accept that some companies based here may have many workers outside of Madeira; therefore, those companies are not gaining the full fiscal benefits they deserve. We have explained this to the EU, and are trying to resolve this.

**Q** What else distinguishes Madeira from similar places?

**A** We have safety, a very good public infrastructure, a great quality of life, stable politics and fiscal stability. You can walk at night on the streets, at any time. Our second island, Porto Santo, has 5000 people and a 9-kilometre sandy beach. We want to make it the world's first carbon emission-free island: 35% of all energy in Madeira is produced by renewable energy, and by 2020 it will be 50%. The renewable energy project we have in Porto Santo includes electric cars and eco-friendly homes. ■



Desirable location: Madeira has the only industrial free zone in Portugal

# Madeira's taxing issue

**ON TOP OF EU ACCESS, AN IMPRESSIVE QUALITY OF LIFE, TALENTED LABOUR AND A THRIVING TOURISM SECTOR, MADEIRA OFFERS A WHITE-LISTED PREFERENTIAL TAX REGIME THAT IS CONDUCIVE TO LONG-TERM, PRODUCTIVE INVESTMENTS.**

**SEBASTIAN SHEHADI REPORTS**

The International Business Centre of Madeira (IBCM) boasts one of the EU's lowest corporate income tax regimes through three entities: an industrial free zone (the only one in Portugal), an international services centre, and an international shipping register with 600 vessels, making it the third largest in the EU.

Opened in 1987 with the purpose of diversifying Madeira's economy through FDI, the IBCM encompasses a wide scope of sectors ranging from manufacturing, trading, shipping, technology and other

commercial activities.

With steady growth in recent years, it is home to just over 2000 companies and was responsible for between 13% to 20% of Madeira's total tax revenue over the past seven years, according to Roy Spode Garibaldi, executive director of SDM, the semi-public company that runs and promotes IBCM. Today, it generates 3000 qualified jobs, equivalent to 2.3% of Madeira's working population, he adds.

## EU conditions

As an extra-peripheral location in the EU, and a small island facing structural constraints, Madeira's IBCM was granted favourable treatment under the EU's state aid rules, meaning it was allowed to offer 0% corporate income tax between 1987 and 2003, according to Frederico Gouveia e Silva, managing partner at Newco, an independent corporate services provider in Madeira.

However, from 2003 onwards, the EU began increasing the mini-

mum corporate tax rate allowed as well as raising its substance requirements, leading to the departure of hundreds of investors. "The investments that remained on the island, and those that have been created since, are much more sustainable and productive. [They also appreciate the advantages of having access to a high-quality and multilingual] workforce, a professional business environment, and comparatively low operational costs," adds Mr Silva.

Madeira's current tax regime, initiated by the EU in 2015, allows incorporated and licensed entities until December 31, 2020 to benefit from a reduced corporate income tax rate of 5% until the end of 2027 – among other advantages – subject to certain substance requirements, namely the number of jobs created and a minimum investment of €75,000.

## A level playing field?

However, many Madeirans are discontent with the substance requirements that the EU enforces on the IBCM. ►

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28 EU MEMBER STATES  
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"Ultra-peripheral regions such as Madeira suffer from permanent handicaps which [warrant some level of compensation]. For us to compete internationally, we need a level playing field. Other EU jurisdictions similar to Madeira, such as Malta, Luxembourg, Cyprus and Ireland, have complete tax sovereignty and can offer whatever rates they want without any limitations imposed by the EU," says Mr Garibaldi.

The Madeiran parliament is united in its efforts to negotiate better terms for the IBCM with the EU, and recently hired a leading consultancy to review its strategy

over intended tax reforms.

In terms of the political backdrop to this issue, Lidia D'Ambini, legal consultant at Madeira TIP Investments, says that competing low-tax destinations have successfully lobbied against Madeira at the European Commission and, following the Portuguese financial crisis, it was bailed out by EU institutions under condition that the IBCM was restricted.

However, Ms D'Ambini ultimately views the situation positively. "[As a result of EU limitations on the IBCM], Madeira lost 'paper companies' [seeking tax evasion] and gained legitimate companies. [Unlike other low-tax locations in the EU, many of whom have less restricted fiscal regimes], Madeira is more clean and white-listed, and is not about short-term tax evasion, but long-term investments and tax planning," she adds.

#### Financial credibility

Indeed, companies located in Madeira operate under a credible

regime, supported by the 28 EU member states, and Madeira is not considered to be a tax haven or included in any international blacklists. The IBCM has some significant investors and members, such as Paris-based Eutelsat, a leading satellite operator; renowned US software developer WinZip; and the world's largest shipping container operators, such as Maersk.

Foreign employees at companies such as these also benefit from Portugal's 'golden visa' scheme and attractive non-habitual tax resident regime, effectively a tax holiday for a worker's first 10 years of living in Portugal.

Some of the most active Portuguese exporters operate from Madeira, such as Empresa de Cervejas, the producer of Coral beer and other beverages, and one of Portugal's top 10 exporters to China. Meanwhile, Sweets & Sugar, one of the first companies to enter the Madeira Free Trade Zone, has been exporting its confectionary around the world for decades. ■

## THINK GLOBAL. DRINK CORAL. The Madeira Islands beer.

