

Offshore E-Commerce: Why the Isle of Man?

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The technology of the Internet promises to transform the way companies trade with their business customers and consumers. The Internet provides a shop front open 24 hours a day 365 days of the year within easy reach of anyone in the world. Importantly the system providing the shop front can be located anywhere in the world where there is the required telecommunications infrastructure. This has far-reaching implications for the role of Offshore Financial Centres.

The Opportunity

There is a strong consensus amongst commentators that electronic commerce will take off exponentially across the world in 1999. Research by the International Data Corporation (IDC) shows out of an estimated current 97 million web users world-wide, 27 million (28%) have bought something at least once over the web. The study indicates by the year 2002, there will be approximately 320 million web users of which over 128 million (40%) will use the Internet for buying products and services. As a result of this massive increase in web buyers plus an overall increase in the average transaction size, it is predicted that the value of electronic commerce will top \$400 billion by 2002. In addition, a recent study by Deloitte & Touche revealed within 2 years half of all European companies will be conducting at least half of their business over the Internet with e-commerce growing annually by a factor of 300%.

The Incentive

So why consider basing your electronic commerce business offshore? There are two parts to the answer; firstly, because you can provide as good a shop front from an offshore location as you can from anywhere else and secondly, trading companies can take advantage of tax efficient offshore company structures. Even delivery management can be automated with instructions automatically transmitted to the location where the stock is held once payment clearance is confirmed. With e-commerce, as much or as little of your operations can be based offshore as suits the requirements of your business.

The Internet is intrinsically distance insensitive. Companies who sell products that are, or can be, stored in digital format can store, send, manipulate and sell it anywhere. Any such company should be selling and delivering their products electronically. These companies include those that sell products and services such as software, music, films, newspapers & magazines, and financial transactions & services. For these businesses the Internet offers a win win win scenario; infrastructure costs such as office space can be dramatically reduced, distribution

costs disappear and new and innovative services can be offered to customers world-wide 24 hours a day. In addition, the location independence of the Internet removes any geographical barriers to basing your business offshore.

Practical Considerations

It is essential to plan strategically and carefully when setting up an offshore electronic commerce business regardless of which components of the business will be based offshore. Whilst the accommodating tax regime enjoyed by offshore companies also applies to e-commerce businesses, it is essential to obtain proper tax advice before a wholesale move.

When selecting an offshore location, it is essential to ensure the chosen jurisdiction can provide the whole spectrum of required business services and infrastructure. Particularly important is the communications infrastructure and the availability of high quality, relevant technical services. The Isle of Man, with its relatively diverse economy, is particularly strong in this regard.

The Location

The Isle of Man is an internally self governing territory of the British Crown. It is not part of the United Kingdom but the United Kingdom is responsible for its external relations. It has a stable government and is well known for having the world's oldest parliament. The Isle of Man is world renowned for the strength of its offshore finance sector and the detailed level of government regulation.

The Isle of Man has a very well developed support service infrastructure. Telecommunications are operated by a subsidiary of British Telecom PLC, Manx Telecom Ltd., and the island currently has two separate substantial connections to the Internet backbone offering a resilient, high speed service.

The Island has a Crown Post Office with well established relationships with the Royal Mail and many other distribution companies. The Isle of Man also has a tax free holding zone (Freeport) which offers companies trading in goods imported from outside Europe the opportunity to hold stocks without incurring any duties. These two factors make the Isle of Man an ideal location for a mail order business looking to trade electronically in Europe and indeed world-wide.

If you're considering trading on the Internet, you should consider the offshore advantage.

Isle of Man Financial & Commercial Handbook article