

Interview: Jaime García - Executive Director, PRMA - Puerto Rico



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Jaime García, executive director of the Puerto Rico Manufacturers Association, provides an overview of the current state of the industry in Puerto Rico today.

You were named executive director of PRMA in January 2013, following an illustrious career in many government positions and associations. What was your initial mandate?

My initial mandate was to provide direct attention to our members. PRMA has about 1200 members, a significant part of which come from the pharmaceutical and medical device sectors. Manufacturing represents 48 percent of Puerto Rico's GDP; about 80,000 employees come directly from the two sectors I mentioned. In terms of pharmaceuticals, Puerto Rico has about 12 of the top 20 biggest pharmaceutical companies worldwide and thus is a major hub for development. There is a considerable amount of research is done here too; for example, many medicines for diabetes and heart disease are developed in Puerto Rico. In general, this island is a very important place for pharmaceutical R&D as well as manufacturing.

The pharmaceutical sector received a bit of a heart attack in 1996, when Section 936 of the Federal Tax Code was repealed, and many of the incentives given to the pharmaceutical industry were no longer available. That provoked many pharmaceutical companies doing business in Puerto Rico to move abroad, especially to Ireland and Singapore, two of our most important competitors. In 1996, 150,000 employees worked in the Puerto Rican pharmaceutical industry, and after the repeal and

phase-out, only 80,000 remained.

What steps has PRMA taken to promote Puerto Rico as a place that is still great for business?

PRMA has worked very closely with the government in terms of developing legislation for introducing incentives, especially tax incentives to those companies doing business in Puerto Rico. Multinationals doing business here, especially pharmaceuticals, have a different tax treatment than those in the mainland. They do not have a tax responsibility for the dividends they produce in Puerto Rico. Besides that, the capacity and professional distinctions that Puerto Rican employees have are much better and more recognized than those in other countries abroad. Puerto Rico has highly qualified and well-educated employees that are really needed in those industries that you cannot find in other countries, which attracts companies. Our highly qualified engineers and scientists allows for significant R&D to be done in Puerto Rico, as well as the benefit of having two languages, which is also important.

What efforts need to be made to bring the workforce number back to what it once was?

Indeed, bringing people back will open new companies in Puerto Rico as well as improving companies already here. Governor García Padilla is doing a good job to attract companies to Puerto Rico. Other companies abroad, especially in Europe and Mexico, are being brought here to establish a presence. A Mexican generics company, Neolpharma, recently established itself in Puerto Rico, as did Fresenius Kabi.

How have measures such as Acts 20 and 22 helped to recover the industry?

The industry has not fully recovered. Acts 20 and 22 tried to help with that, but it does not have the full benefits that Section 936 had. Today, and due to possible tax reform mingling in Congress, we must keep a close eye on that movement. PRMA has lobbyists in Congress that watch out for Puerto Rican jobs, which are US jobs, so that they are not harmed by future legislation and amendments to the CFCs.

How many of your members are health-related?

73 percent of our membership belongs to the service industry, and 20 to 25 percent are pharmaceuticals and medical devices.

What is your forecast for how that will grow compared to other industries?

If Congress does not touch current legislation, we could keep on bringing new pharmaceutical organizations here. If that changes, then we will have a problem. That is our most short-term forecast.

To what extent do your members share the same interests? Do you have difficulty in representing all members?

Pharmaceutical companies have been one of the key components of our members for many years. In more recent years, the aerospace industry in Puerto Rico has been very well developed and we are giving closer attention to that as well. But pharmaceuticals and medical devices are still important.

What examples of R&D successes are there?

Besides making medicines, many pharmaceutical companies have very developed R&D programs. Amgen has a very specific R&D facility in one of its Puerto Rican plants that is highly technical in terms of molecule development and is often used for the company's R&D projects. Many of these companies have different operations abroad and they frequently use Puerto Rico in their R&D developments. Many medicines are developed and produced in Puerto Rico having received components of the molecules from abroad. Compared to Singapore, India, Ireland or Spain, they do not compare. Puerto Rico is a forgotten island to some extent, but it is still a big player. Seven of the 12 of the top 20 manufacturing companies represent 25 percent of Puerto Rico's USD 9.3 billion budget in terms of tax revenues.

How much more capacity does Puerto Rico have to expand with more companies?

Puerto Rico is open for business; we have five engineering schools. Puerto Rico graduates about 800 engineers per year. We have plenty of facilities owned by PRIDCO that are available for these engineers. This island also has very good infrastructure, so everything is available here. The only real problem in Puerto Rico is the high energy cost of about 23 cents per kilowatt hour, compared to seven cents in the United States. We highly depend on oil; if we depended on natural gas, our energy costs would be lower. Puerto Rico is an island, so transportation is naturally more difficult. We must transform our energy and electricity components into a more affordable environment in terms of natural gas and other means of renewable energy to lower that cost.

Are there specific measures put in place to bring more affordable energy to the island?

The government has a gas port project in the southern part of the island that will start in 2016; while there have been some measures, it is not sufficient. Money talks when a company comes to

establish itself anywhere in the world such companies look at every scenario, including energy. Although the energy issue is an important consideration, they prefer the incentives and high quality employees. But some have gone to Mexico and Costa Rica which have lower energy costs than here.

What is next for PRMA?

We have a big agenda in terms of working with the government to propose measures to lower energy costs. We have a big panel in Congress that is closely watching amendments made to the Federal Tax Code.

What is Congress' reaction?

Congress is receptive to this. They look at Puerto Rico differently from other states. Congressmen from the US ask why Puerto Rico has a different tax treatment than their own constituents, which is a fair consideration.

How do you compare Puerto Rico in terms of track record, tax rate and talent compared to other manufacturing hubs?

We have the best talent in the world, with bilingualism and high qualifications. Puerto Rico has demonstrated a good track record throughout the decades in terms of R&D, especially the pharmaceutical industry. Our tax incentives are second to none.

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