

Interview: Antonio Medina Comas - Executive Director, PRIDCO - Puerto Rico



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The Puerto Rico Industrial Development Company (PRIDCO) is a government agency underneath the Puerto Rican Department of Economic Development and Commerce designed to facilitate industrial investments in the country from abroad. Antonio Medina Comas, PRIDCO's executive director, discusses the agency's critical job in stimulating the economy while highlighting recent successes.

Puerto Rico has been in the news a great deal lately due to its debt crisis; does this attention provide new opportunities for the country?

Governor García Padilla recently announced that there is an intention to restructure Puerto Rico's debt with its debtholders. Similar to other countries, we have had a recession and over many years debt was being used to finance the budget. Our administration stopped this practice but there is still significant debt looming. The Governor is proposing to restructure that debt such that we can refocus capital on economic development and investments.

The life sciences industry is the workhorse of Puerto Rico economy, representing 25 percent of GDP. Some of the largest life sciences companies operate in Puerto Rico in both commercial and manufacturing functions and to some extent R&D as well. We have significant breadth among fields like small and large molecules, medical devices and agricultural biotechnology, which has shown tremendous growth over the last few years. Puerto Rico continues to be a leader worldwide

in life science manufacturing. PRIDCO's focus is first and foremost to protect the industrial base and ensure that companies here continue to thrive and achieve expansion either through new products or facilities, and to bring new companies and segments to Puerto Rico.

In that sense, we are very proud that over the last two and a half years, we have had five new pharmaceutical companies come to Puerto Rico: Neolpharma, Sanofi (Merial), the American Industrial Acquisition Company, Romark and Allergan (known before as Actavis). This demonstrates a restart of growth in life sciences. In spite of global consolidation, by having a very targeted strategy to preserve our industrial base and ensure that facilities come to the market, PRIDCO's life sciences team works hard with companies that might be divesting but ensures that new tenants come into old facilities. The medical device industry has grown as well; CooperVision has invested over \$250 million in expanding their facility for contact lenses. Medtronic, St. Jude, and a number of other medical device companies have increased their production in Puerto Rico.

Why do you believe all these companies come to Puerto Rico?

These companies come here because we provide tremendous human capital. Puerto Rico has over 60 years of experience in the life sciences business, employing approximately 50,000 individuals in total. Our total employment in the island is about one million, which means five percent are employed in the life sciences.

Is the talent here so outstanding that it trumps other characteristics of Puerto Rico?

Typically there is a combination of reasons for companies to choose one manufacturing location over another. In terms of taxation, we have seen an evolution. Between the 1970s and 1990s, Section 936 of the IRS Code allowed companies to have significant tax benefits in their US sales. Many companies consequently came to Puerto Rico to create facilities that exported products to the US mainland in order to receive these benefits. Congress repealed that section of the IRS code in 1996 with a ten-year grandfathering clause. In the process, the Puerto Rican government enacted different laws such as Act 73 of 2008, providing companies the opportunity to work as controlled foreign corporations and obtain long-term tax deferral. These companies can receive a four percent tax rate. Research done in Puerto Rico or bringing pioneering technology to Puerto Rico can signify an income tax rate lower than four percent. We offer a very competitive royalty withholding rate between eight and twelve percent. Another relevant rule is Act 154, which is an excise tax on inter-company sales. However, those companies operating in Puerto Rico with the right tax position, can credit that excise tax at the US level.

In general terms, people come here because Puerto Rico is a US jurisdiction, has a bilingual workforce, runs an excellent education system particularly in science and technology, and has over 60 years of industrialization and a focus on life sciences. Because of this long history there are many very well-developed assets in Puerto Rico. Sanofi-Merial came to Puerto Rico because they were able to acquire some very strong assets from the former agricultural-veterinary division of Merck. Once Sanofi purchased that brand, it made sense for them to buy Merck's old facility. Neolpharma is a growing Mexican company that wants to expand its business into the US. Given that the company is Mexican and its employees speak Spanish, they find the Puerto Rican environment favorable because they can still work in Spanish but all the employees they hire here are already trained in US regulatory processes and requirements. Companies that come here can hire employees that are knowledgeable not only in the US regulatory system, but facilities here tend to supply the global market. This means that employees have experience with EMEA, ANVISA or PMDA. This provides great value; in Mexico you have to pay a premium for a professional that understands US regulations, but in Puerto Rico everybody has that plus global experience.

How is PRIDCO promoting itself worldwide to attract investments?

PRIDCO engages in many business trips overseas, from emerging markets like Brazil to mature European countries like Germany or the UK. We must also be present in conventions like BIO, where the most important leaders in the field are present, and we must also have a presence. We also work with the US Commerce Department at the federal level in efforts like SelectUSA to ensure that we can attract jobs to the US, since Puerto Rican jobs are American jobs.

To what extent do you need to work with Congress to ensure that those American jobs are maintained?

I spend a fair amount of my time in D.C., working with members of Congress and developing a relationship to ensure that as new legislation is enacted (as many are currently discussing territorial taxation in the US), that there is an adequate positioning for Puerto Rico and the other US territories. In that general discussion it is very important to recognize that these territories are home to US citizens. Therefore, Congress has a responsibility to ensure that any changes to the taxation system do not work against citizens in this part of the US. We have played a significant effort in ensuring that as these new thoughts come into play in terms of changes to the IRS code that Puerto Rico and other territories are appropriately included in those changes.

What is your assessment in terms of how that is progressing?

I think there is a lot of education that has to take place because of changes in Congress since the last major taxation reform, which happened in the 1980s. The Section 936 changes happened in the 1990s; most of the people involved with that at both the staffer and congressional level have changed. It is important to share with members of Congress the relationship between Puerto Rico and the US, and to ensure they understand the economic base of Puerto Rico and how changes to the federal level could affect corporations operating in Puerto Rico.

What are some of the successes of the last two and a half years?

We are very proud of the different projects that PRIDCO has accomplished. It starts with a strategy that focuses on traditional segments like rum and textiles. Of course, we still want to protect and grow established segments like life sciences, but emerging segments like aerospace, electronics, information technology or knowledge service outsourcing are also vital. Our projection is that between 2013 and 2017 we will be able to double the number of jobs in the aerospace segment. In July 2015, we will have the first plane from Lufthansa in the new MRO in Aguadilla and we will also complete a new electromagnetic interface lab for Honeywell, which PRIDCO is building and leasing to them. Leaving aside Abbvie's \$30 million expansion and Lilly's \$200 million expansion, companies like the Indian aerospace consulting firm Infosys have come to Puerto Rico. Seaborne Airlines, the main airline for the Caribbean, moved its headquarters to Puerto Rico. Their entire operation is here. Atento from Spain has increased its presence here as has Aon Hewitt for knowledge service outsourcing.

The recently enacted Act 20 is geared to export of knowledge, while Act 22 is geared towards investors and owners of companies. This provides an attractive legal framework and we see an evolution from traditional manufacturing. For example we increased rum production by 30 percent through new contracts for new volume. In textiles we have had some significant increases in jobs as well. But traditional manufacturing after so many years has evolved into knowledge services. Manufacturing is a great gateway because it is technically advanced and allows your human capital to evolve into the knowledge base and innovation. You can sell your thoughts, not just produce, in terms of finished products. Companies like Essig Research, Florida Turbine and Infotech design engines here and sell that design. While we are building Honeywell's new R&D facility for them, they have significant export service operations with over 1000 people already in Puerto Rico, doing everything from procurement supply chain management to cost accounting to satellite testing. The concept is that the work is performed here with Puerto Rican minds but the benefit of that work is exported and used somewhere else.

What is your prediction for Puerto Rico's future as a knowledge economy?

I see an evolution from a hands-on manufacturing economy into a knowledge services economy and export of that knowledge. There is a clear evolution in that direction but I also believe it is important to diversify the economy. Not only are we working on advanced manufacturing or advanced technological areas, but areas like agriculture must also be developed. For example, in conjunction with the agriculture department, PRIDCO has a project to restart sugarcane production in Puerto Rico. We expect to produce molasses for our Rums of Puerto Rico business. While it sounds like going back into time (sugar was Puerto Rico's main export for many years) as production ended at the turn of the 20th century, we believe it makes sense to go back because it creates jobs and it provides a stronger supply chain for one of our traditional industries.

Ultimately, what do investors truly need to know about Puerto Rico?

I welcome everybody to explore Puerto Rico as an alternative. We believe Puerto Rico is in the middle of resurgence in terms of different manufacturing segments while growing its industrial base. We have demonstrated that Puerto Rico is a high quality, high technology and high regulatory market where you can work under the US flag and under US intellectual property protection, while simultaneously receiving the benefits of working in a low tax rate jurisdiction and achieving long-term deferral.

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