

Sascha Herzig – President & CEO, ETH Cargo, Puerto Rico



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Since 2001, ETH Cargo has been operating in Puerto Rico, providing international air and ocean freight services, domestic deliveries, US Customs and tax clearance, project cargo and turnkey operations, as well as full charter service for air and ocean transportation. President and CEO Sascha Herzig shares his passion for logistics and how the company goes above and beyond to service the needs of life science companies on the island, come hell or high water. He also gives his vision of Puerto Rico as a pharma logistics hub embracing the newest technologies.

Please start by introducing the history of ETH Cargo and giving an overview of your footprint in Puerto Rico?

ETH Cargo was founded in 2001 by my father who has been in the logistics business since his early 20s. He started freight forwarding in Germany, before his company sent him to New York to open a new office.

He founded ETH. Cargo with the European sense of freight forwarding, being knowledgeable in every single aspect: Incoterms, geography, customer service, etc. When he first created his company in Puerto Rico, he trained every employee in this European-style freight forwarding, which is a different way of operating freight-forwarding companies because you must know everything you are doing. He taught employees and operated the company offering a bespoke service to each customer. Knowing that no two customers were alike in their expectations or requirements, what was offered had to be precisely moulded to what the customer was looking for. This, from an early stage, set ETH Cargo apart.

From a young age, I was exposed to the world of logistics, asking my father about the best way to transport a shipment and what the airlines and steamship lines are. Surprisingly, I took a liking to the world of logistics and everything it encompasses. It is a highly interesting and dynamic industry where you have different problems to solve every day, a different shipment to handle, be it pharmaceuticals, medical devices, or project cargo. For instance, we can handle a small box carrying a spare part for manufacturing equipment on the island, but if this part is not delivered within 24 hours, the manufacturer loses millions of dollars every single hour. It is that sense of freight forwarding that my father instilled in me, knowing that no matter how small or how big the shipment, it is highly important for the customer.

What is your service offering?

We do not limit ourselves to air freight or ocean freight as non-asset based, but we branch out into everything. We do air freight, ocean freight, regular cargo and project cargo as well as pick-ups and deliveries for all these shipments. In project cargo for instance, after a pharmaceutical company purchased its competitor, they shut down and decided to sell off all machinery and equipment. We dismantled everything, the dryers, the manufacturing equipment, the entire production line and stored it at a warehouse at the port for about four months before it was shipped to a company in India. Since the site was highly contaminated, we had to go in there with breathing apparatus. Compliance with stringent regulations and security measures expected when picking up or delivering cargo is key.

Aside from life sciences, we also handled the entire logistics for the construction of a wind farm on the east coast, transporting the wind turbines, the blades, the nacelles, the hubs, etc. We have

diversified ourselves into doing everything. In this diversification process, our team has grown and learned about new regulations, new industries and new projects.

As the life sciences represent about 30 percent of Puerto Rico's GDP, what is the importance of the sector in your operations?

It is extremely important to our operations as every pharmaceutical and medical device manufacturer on the island brings in raw materials, APIs, spare parts and new machinery and exports final products via air and ocean. After Hurricane Maria, most pharma plants closed down for days or weeks. Some suffered production issues and were bringing in spare parts and raw materials in amounts never seen before. After resuming operations, they were exporting final products in quantities never seen before.

The first thing we provide is availability and flexibility. All our employees are available 24/7 by phone or email. All of them have an office key and most of them live close by should there be an urgent need. Every one of them is knowledgeable in handling temperature-controlled shipments, either active or passive, and dangerous goods.

In the life sciences industry, you must give a personalized and flexible service. We handle shipments of 30 pallets of life-saving pharmaceuticals worth 30 million dollars. We cannot refuse a job because it is past 5pm and the office is closed, or because it is Labor Day. If the customer calls with a change in the shipment or the documentation, we need to be available. They are paying for the service. We have had shipments collected on a Saturday at 9pm and delivered at the airport to make sure it departs on the next flight out. We know every customer by name, understand their requirements, their concerns, and how we can solve their problems. If you talk to an executive from a pharma company, you want to show that their industry interests you. It is not only about moving a product from A to B, but also about how the product fits in the macroenvironment.

What technologies have you implemented to service the needs your customers?

Medicines are highly valuable and sensitive products containing proprietary information. We have implemented tracking systems and are looking into having in-house temperature tracers to track temperature in real-time and protect the integrity of the product. I am also researching how to implement blockchain technology in pharma logistics. Recently, in China, the first letter of credit was issued through blockchain. I recently attended a pharma conference in South Africa during which one of companies presented a unique barcode inserted into medicinal packaging to tackle drug counterfeiting. The barcode, when read, even by the end consumer by an app, could display a varied list of information regarding that manufactured product ensuring its quality and authenticity. We should investigate and potentially adopt these technologies in Puerto Rico, either on the manufacturers end or as a value-added service by logistics providers. The Pharma Industry is constantly evolving and innovating and as logistics providers we must do the same in tandem with this industry. Their expectations and requirements are constantly more complex in part due to regulations, so if we can aid this industry it benefits both sides.

Even though Puerto Rico remains critical for the global supply of medical products, the industry has been consolidating, and the island has not seen major greenfield investments for more than a decade. How has this situation affected your operations?

It has not affected us that much because even though there has been consolidation, overall the volumes have been more or less steady as plants closed by some companies are bought by others. For instance, Neolpharma, a Mexican pharma company, acquired the former Pfizer plant and invested USD 35 million to modernize and expand the site. More recently, Romark bought the former Schering-Plough facility in Manat  and is rebuilding the plant with an investment of USD 80 million.

I think the consolidation trend has to stop at some point as pharma companies cannot get that big anymore. I think large consolidations will become rarer and smaller consolidations are going to be driving the industry with Big Pharma companies acquiring small biotechnology ventures to prop up their development pipeline in the hope of coming up with the next blockbuster.

The Puerto Rico Manufacturing Association (PRMA) and the Pharmaceutical Industry Association (PIA) have endorsed the ‘Pharma Hub’ initiative to make Puerto Rico a cargo transfer hub for air freight which would create many new direct routes in and out of Puerto Rico. How involved are you in pushing this initiative?

I support this initiative, but I have not been involved in pushing it. We are a central node between Europe and the Americas, so it only makes sense to be an air freight hub with international traffic offloading and loading in and out of Puerto Rico. Although airline options have grown in the past 10 years, there are still not where they should be. If there were more options to transport the product from A to B, it would only benefit the supply chain providers and the pharma manufacturers as well as the airlines themselves. B could be China, Japan, India. Moreover, cargo from Europe and route to Chile, Peru, Brazil or Mexico should stop here, rather than going to Miami. Right now, most cargo that leaves Puerto Rico goes first to Miami. If Puerto Rico had more options, the island would be more attractive and could sell a whole package to the life science industry: knowledge and skills, tax incentives and access to international air and ocean transportation. However, being a US territory, Puerto Rico is dependent on the federal government. If Washington does not want us to have this, it will not happen.

Due to Puerto Rico being an island located in the hurricane valley, business continuity plans play a particularly important role for companies operating on the island. What contingencies have you put in place in order to ensure business continuity to your clients?

Fortunately, during Hurricane Maria, we did not suffer any damage. The hurricane hit on Wednesday September 20th, 2017 and we were up and running the following Monday. We have a generator and a water tank in our office, so we had no issues on these two fronts.

Moreover, all our suppliers met our needs and we had access to truckers, containers, warehouses, etc. The only issue was the lack of telephone and internet service. In places where there was full cell phone service, our employees would go there to check their emails and download them, come back to the office, draft the reply, go back there and answer them. We have since implemented satellite communication. When hurricanes are approaching, we send our satellite phone numbers to all our contacts. Moreover, we have implemented redundancy in communication. We used to only have one internet service provider, now we have three, so we have two as backup.

During this trying time, our people gave everything to us, working 12 hours a day to meet the needs of our clients. And we made sure they could provide for their own needs. We had water so people could fill their water bottles. We had electricity so people could charge their cell phones. Whatever they needed, we gave it to them. If they needed an advance of their salary, we gave it to them. If

they needed money for a generator, we gave it to them. Your employees are what makes or breaks your company. If you take care of them, they will go to the end of the world for you. And I must say that they did go to the end of the world for us. They did everything for us. Their dedication showed me that we have an amazing team here. The companies that were working with us after the hurricane knew that whatever shipment they had would be handled.

This being said, nobody is ever prepared for such a catastrophic event. If it comes, it comes. Hurricane Dorian, a category 5 hurricane with winds reaching as much as 185 miles per hour, swallowed the Bahamas for 36 hours and left a catastrophic scene. What can you do? You just have to pray for the best and hope that your house and anything else you possess will survive. When Dorian was first gunning towards us, everyone on the island said "no, not again". Even though it was still only considered a tropical storm, Hurricane Maria has traumatized Puerto Ricans. Is the island ready for it? How long will we lose water and power for? It has been more than two years now and we have not recovered yet. Our infrastructure has not recovered, and I do not think our current government is ready to handle another crisis like this. Despite the issues regarding federal funding, I do not think the recovery funds that were received have been spent correctly in preparing ourselves. For instance, there is no backup power capacity on this island as more than half of the power company's generators are out of service. If one fails, you have even less capacity. And these generators are not maintained properly. Moreover, Hurricane Maria has further degraded Puerto Rico's water infrastructure, which is riddled with leaks that make the system vulnerable to contamination.

Despite many issues still needing to be fixed, Hurricane Maria has shown the resilience of Puerto Ricans. What are your plans to continue growing the business and contribute to the economy?

The next plan is always to expand, branch out into new business, attract more customers, and hire more employees. Competition is fierce for logistics companies on a small island, and you must differentiate yourself and strive to become more competitive.

I would like to implement online bookings which is now a major factor in the global logistics industry. In Puerto Rico, I believe it would be challenging to set up because rates on both air and ocean fluctuate as capacity is so constrained and options are not as diverse. In Europe or even the United States, you can simply go to a website and find multiple airlines and frequencies going from Amsterdam to Hong Kong, or from JFK to London, and book one by the click of a button. It would be a great tool for pharma companies on the island if they could do the same with logistic service providers in Puerto Rico. If we want to be a manufacturing powerhouse, we need to widen our horizon as an island so that small and medium companies like ETH Cargo can expand and contribute to the economy.

What is your final message?

During a pharma logistics conference I attended in South Africa, I was surprised how little people knew about Puerto Rico in general and more specifically the Pharma, Medical Device and Life Science Industries. I was invited as a guest speaker to the conference to talk about our knowledge of the industry and the logistics aspect. My final message is "look into Puerto Rico".

We are not just a tourist destination, an island with beautiful beaches, rainforests and warm-hearted people. We have well-educated people, technology, know-how and expertise in what we do, and we are open for business. If you can contribute to our economy, the island will find ways to support you.

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