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SPECIAL REPORT



Pérez-Riera's blueprint for growth

Economic Development & Commerce chief says global trade, a knowledge-based economy are the keys to regaining prosperity

Economic Development & Commerce Secretary
José R. Pérez-Riera

By John Marino pages 16-23



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Pérez-Riera's blueprint for growth touches all the bases

Puerto Rico's Economic Development chief working on all fronts as Puerto Rico approaches positive growth

Global Trade

reight

Knowledge



BY JOHN MARINO
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For Economic Development & Commerce Secretary José R. Pérez-Riera, Puerto Rico's Strategic Model for a New Economy (MENE by its Spanish acronym) isn't just a theoretical document, but also a powerful economic-development tool.

It is his blueprint for reigniting the island economy and setting it on a path to long-term, sustainable growth. It is also a catalog of this administration's efforts to date across the economic spectrum to both create jobs and change the investment landscape to make the island more competitive.

The MENE is the most "wide-ranging, complete and well-thought-out" economic-development plan Puerto Rico has had in decades, says the administration of Gov.

Luis Fortuño's point man on the economy. It is a coherent plan that not only aims to outline the principles that guide government action in the area, but also details specific measures taken by the government regarding economic development over the short and long terms, while factoring in the implementation of strategies and initiatives, and their resulting achievements.

That explains the ever-increasing size of the "living document," which has grown from a couple hundred pages to some 850 at last count.

"Someone has to be watching out for the overall economy and what the next wave of economic activity in Puerto Rico should be," Pérez-Riera said, adding that the plan is particularly useful in tracking the impact of the synergies created between different government actions. "We have been able to do a lot of the things we set out to do from the

beginning. We have laid the platform for growth.

"You need to tend to all areas of economic development, and the MENE is the roadmap of how our plan is supposed to work."

The goal is for the private sector to assume "ownership" of the plan to ensure it continues to be a strategic force long after Pérez-Riera leaves the Economic Development & Commerce Department (DDEC by its Spanish acronym). While it should be updated and modified as the times require, it should never be completely tossed out the window, Pérez-Riera said. Likewise, he said that in creating the MENE, the current administration modified previous efforts in this area over the past 20 years.

Because of its clarity and completeness, the MENE is also a powerful tool for effecting changes to improve economic conditions or for

building a consensus for new initiatives, he said.

"It establishes a structure to let everyone know what it is we are trying to do. It helps get everyone on the same page, and it can resolve differences," Pérez-Riera said. "One of the things we have found is that many times we are kind of saying the same things in different ways."

At the end of the day, however, the MENE is all about how Puerto Rico can insert itself into the global economy and how the island economy can be transformed into a knowledge-based economy—a years-long goal for successive governing administrations in Puerto Rico.

"Everything we are doing is directed at those two strategies," Pérez-Riera said.

THE ENGINE REVS UP
When the Fortuño administration

Continued on next page

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took power in January 2009, it inherited a \$3.3 billion deficit and an economy in free fall.

Things aren't yet peachy, Pérez-Riera acknowledges, but the economic contraction has halted and Puerto Rico, after more than five years of recession, is moving toward positive economic terrain.

"The economic motor is not turning on all cylinders yet. However, the private sector is saying it is time to invest, it is time to start moving, the economy is returning to growth," he said.

ECONOMIC INDICATORS

Nothing is telling the DDEC secretary this more than the most recent jobs numbers from the Labor Department, he said.

In September, 29,000 jobs were created and the official unemployment rate hit 15.4%, a full percentage point drop from the rate registered in August. The year-to-year comparison to September 2010 also shows strong improvement of a 0.9% decline from the 16.3% registered the prior year.

There were some 3,200 more jobs in September than in the same month last year, and some 8,500 jobs were added between August and September. Meanwhile, private sector employment has grown in three of the last four months, which is the first time that has happened in more than four years.

In all, the private sector added 14,000 jobs between September and

the year-ago period, and 31,000 from August to September.

Even the dismal labor-force participation numbers improved in September to 40.3% from 39.7%.

"It is a substantial, significant event in terms of job creation and where the economy is headed," Pérez-Riera said. "This is the first time we have seen growth since the government shutdown of 2006 that started the recession that we found ourselves in."

"It doesn't mean things are peachy," he said. "However, we have been able to put a stop on job losses. In this past fiscal year, basically we haven't lost any jobs at all. That is a substantial, significant event."

Pérez-Riera said the latest jobs numbers show the economy is more buoyant than most people think.

"Job creation is a lagging indicator, and we are creating the jobs now," he said.

The DDEC chief also points to an "astronomical" drop in bankruptcy filings, an 85% increase in new home sales and a 25% rise in existing home sales (versus declines of 12% and 13% in these categories, respectively, on the U.S. mainland). Exports surged 5.2% in fiscal year 2011 to reach \$64.87 billion, the highest level in history.

"These things aren't happening by coincidence," Pérez-Riera said. "Puerto Rico is, in fact, moving in the right direction."

PILLARS OF GROWTH

Under the MENE, the drive for growth is based on three pillars: restoring growth through incentives,

infrastructure investment and increasing the island's economic competitiveness.

During the first years of the administration, the short-term measures for restoring growth were directed at a fiscal rescue plan for government finances and pumping as much money into the economy as possible, with \$7 billion coming from the administration of President Obama's American Recovery & Reinvestment Act (ARRA) and another \$500 million from the commonwealth's Criollo Stimulus Fund. More than \$1 billion more in ARRA funding will be injected into the economy over the next few months.

A key part of the strategy for restoring growth is the incentives for specific ends, such as the housing incentives that spurred the home sales cited by Pérez-Riera. Other incentives have been targeted to spur film production, professional service exports and the tourism industry. More specialized incentives include those for international insurers and renewable-energy developers.

The housing incentives, which have been extended until December 2012, grant a 100% exemption on capital gains taxes related to home sales as well as exemption from government stamp and cancellation fees, property taxes and related fees.

FILM INDUSTRY

The new Film Industry Economic Incentives Law, approved in March, expands on current law to include documentaries, short films, music videos, video games and the filming of live shows, as well as feature films, in the definition of eligible projects. There is a 25% tax credit for industry infrastructure projects, and a reduced tax rate of 4% to 10% on film studio profits. Through the concept of "Film Development Zones," the law also provides incentives for the establishment of world-class film-production studios.

Additional incentives, including a 4% fixed tax rate on profits, were enacted this year to attract international insurance companies to set up shop on the island, while tourism industry incentives have also been revamped and updated, including special concessions on casino earnings for megaprojects and efforts to attract more airlines and cruiseships (CB March 17).

RENEWABLE ENERGY

The administration has also enacted incentives for renewable-energy projects, including matching grants of up to 60% of a project's cost from a Green Energy Fund, which will be funded by \$290 million over the next 10 years. Large projects can benefit from a 30% federal government tax credit, as well as local incentives for producers, and the government has committed to pushing the projects forward on a fast track.

There are seven large-scale renewable-energy projects, for a total \$1.3 billion investment, under development this year, including the 75-megawatt (MW) Santa Isabel Pattern wind farm for an estimated \$350 million investment and a 20 MW AES solar project for an estimated \$90 million. An 80 MW, \$500 million waste-to-energy plant in Arecibo is being reviewed by federal agencies after winning local permits.

MANUFACTURERS

INCENTIVES PACKAGE

Puerto Rico also has one of the world's best incentives packages for island manufacturers, Law 73 of 2008, which was implemented under the current administration. It offers a fixed 4% tax rate, even lower rates for "pioneering projects" and a 50% tax credit for local and recycled projects, among other benefits.

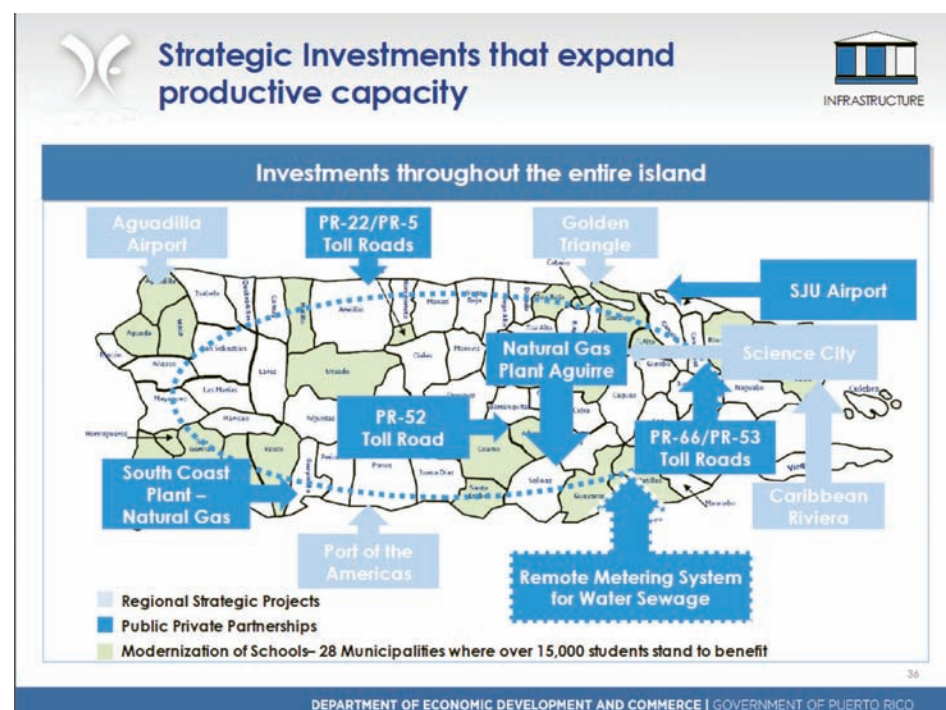
The administration is also trying to reinvigorate traditional industries in novel ways, such as legislation that promotes the growth of agricultural biotech projects, and aggressive new rum industry incentives designed to promote the sale of Puerto Rican rum throughout the U.S.

RESULTS AND SYNERGY

Many of these incentives have now taken root and are beginning to show results.

Despite generally tough times for manufacturing, both here and across the globe, the Puerto Rico Industrial Development Co. has promoted 217 projects with 183 firms, which have committed to making a \$522 million investment and creating 12,467 jobs.

Pérez-Riera, meanwhile, credits the new incentives for rum makers with the birth of the Caribe Club



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brand, the first new rum maker to set up shop here in 100 years.

The government has also invested some \$38 million to support some 800 agricultural projects, including the \$15 million Puerto Rico Coffee Roasters project, which created 150 jobs, and the \$6 million Pioneer Hi Bred project in Salinas, which created 100 jobs.

TOURISM

In tourism, Pérez-Riera said that 37 hotels have opened or been upgraded during this term, accounting for an \$835 million investment and 1,981 hotel rooms. The opening of the Sheraton Puerto Rico Convention Center Hotel, the W Retreat & Spa Vieques and the St. Regis Bahía Beach Resort alone accounted for an investment of \$523 million and the creation of 1,000 jobs.

In 2009, the film industry generated \$118 million in economic activity in Puerto Rico. In 2010, 12 projects were filmed on the island, creating 17,528 jobs and 22,671 hotel nights. A dozen movies, TV series and documentaries shot in Puerto Rico last year pumped another \$70 million into the island economy.

Many of the government's efforts in the economic-development area produce synergies that spur more benefit, the DDEC chief said.

For example, while film industry incentives are paying returns in the form of local investment and job creation, they carry an added punch because movies and other productions

made in Puerto Rico have great promotional value in tourism and other areas.

"The Rum Diary' gives a sense of all that Puerto Rico has to offer. It could do for Puerto Rico what the 'Lord of the Rings' movies did for New Zealand," Pérez-Riera said. "In other jurisdictions, film industry incentives are being scaled back. In Puerto Rico, we are increasing them precisely for this reason."

The DDEC chief said future film incentive deals would require the promotion of Puerto Rico in film credits or closing shots.

Pérez-Riera has also brought synergy to the government's promotional efforts by using the new Puerto Rico brand slogan—"Puerto Rico does it better"—in all government promotional efforts, not just those associated with tourism.

"What we have done is use all of the government's resources to leverage the brand of Puerto Rico," he said.

NEW ECONOMIC DIRECTIONS

Over the longer term, the DDEC is trying to increase exports of manufactured products, professional services and other island goods and know-how through a series of initiatives, as well as to drive the island toward a more knowledge-based economy (see related stories).

Indeed, the whole point of the MENE is to insert Puerto Rico into the global economy and increase the research and development of new products and services locally.

"We want Puerto Rico to do much

more than just the end product," Pérez-Riera said. "We want to be a part of the research, commercialization and development of new products."

While manufacturing products creates jobs, most of the profits stem from the research and development of those products. A case in point is Apple's wildly popular iPhone. While there has been much hand wringing in the U.S. regarding China's rise as a manufacturing power, most of the profits from each iPhone are actually earned by Apple in the U.S. because of its patents on the product.

At the iPhone's retail price of \$560, the Chinese manufacturer earned just \$7 compared to \$368 for Apple, according to The Economist magazine. The remaining \$178 is earned by separate component manufacturers spread across the globe that ship their parts to China for assembly.

LAW 150, TO ATTRACT RESEARCHERS AND PROFESSORS

One big step in this regard was the enactment of Law 150, which amends the Government Ethics Law (Law 12 of July 24, 1985) to lift the prohibition against University of Puerto Rico (UPR) professors and researchers working as consultants for private firms the university licenses to develop patented technologies, or starting up their own commercial ventures. It allows UPR to draw up contracts with professors and researchers to facilitate the transfer of technology and commercialization of intellectual property approved by the university president, who must submit an annual report to the Government Ethics Office on such transactions approved during the year.

SCIENCE DISTRICT

Another significant step was the passage of the Science District legislation, which increased incentives for researchers to locate in Puerto Rico and increased funding to the Puerto Rico Science, Technology & Research Trust to invest in promising start-ups commercializing new technology and for the creation of a Science, Technology & Research District (see related story).

INCREASING EXPORTS

Equally important is the push to increase exports of goods and services to fuel future economic development. A series of initiatives have

been directed at spurring exports, including professional services (see related story).

The administration has identified about 500 small and midsize companies that are prime candidates for growth through exports of the goods they produce or services they provide.

Pérez-Riera acknowledges part of the challenge is to encourage companies to look beyond Puerto Rico, where many of them have grown comfortable with the benefits of staying within the local market.

He said that as more businesses export, the benefits on the island will become clearer, and other businesses will follow suit.

"This is about changing our course and identifying our competitive strengths and facilitating those opportunities that today, and looking to the future, present the best potential for economic activity for our people," Pérez-Riera said.

STRATEGIC PROJECTS & THE PPP INITIATIVE

A key part of the MENE is an infrastructure investment program, consisting mainly of the Public-Private Partnership (PPP) Program and a series of strategic projects.

The PPP effort, which included the establishment of the Puerto Rico Public-Private Partnerships Authority and clear ground rules, is being hailed by international private investors as a blueprint for other jurisdictions to follow.

The PR-22/PR-5 contract, awarded to a concession comprising Abertis Infraestructuras and Goldman Sachs Investment Fund, netted \$1.136 billion for the local government, the biggest public infrastructure deal in the U.S. this year, and the ongoing deal to get a private operator for the Luis Muñoz Marín International Airport (LMMIA) has attracted the best airport operators in the world (CB Oct. 20, Sept. 29).

Also under the PPP program is a \$756 million school modernization program that will substantially renovate 100 schools across the island.

The development of six strategic projects, meanwhile, will boost other efforts, such as industry incentives, aimed at particular economic sectors and specific geographic areas.

The projects include the Port of the

Continued on next page



Reforms to address challenges regarding costs, efficiency and functionality, which currently reduce competitiveness in the economy



Reducing the costs of doing business and facilitating private sector growth	
PPPs Reform	<ul style="list-style-type: none"> Objective: Law 29 of 2009: Creates new public policy related to infrastructure investment and public services Approved
Permits Reform	<ul style="list-style-type: none"> Objective: Law 161 of 2009: Creates a new permits system that is <u>transparent, agile, efficient and accurate</u> Approved
Executive Branch Re-organization and Modernization	<ul style="list-style-type: none"> Objective: Law 182 of 2009: Promotes a government structure that responds to current needs and fosters a better quality of life Approved
Energy Reform	<ul style="list-style-type: none"> Objective: Laws 82 and 83 of 2010: To establish a new energy policy and programs to diversify the sources of energy through RPS* and the GEF** Approved
Tax Reform	<ul style="list-style-type: none"> Objective: Law 154 of 2010 and Law 1 of 2011: To reform the tax system and bring relief to the Puerto Rican taxpayer through reduced and fair tax rates Approved
Labor Reform	<ul style="list-style-type: none"> Objective: To incentivize work by increasing the participation rate and demand for labor in the private sector Approved

* RPS is a regulatory policy that requires production increments from renewable energy sources, including wind, solar, biomass, and geothermal.
** GEF = Green Energy Fund

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Americas (POA) in Ponce; redevelopment of the former U.S. Naval Base at Roosevelt Roads; the Science, Research & Technology District; the Golden Triangle project to develop the San Juan waterfront; and Aguadilla Airport (see related stories).

PONCE SUPERPORT

While the government has yet to find an operator for the Ponce superport, Gov. Fortuño last week issued an executive order supporting the so-called "Ponce Solution" to manage the POA, which intends to place all port assets under control of a new single entity. Currently, the municipality controls the actual ports, while the POA Authority controls assets such as the giant cranes at the port. In all, the government has invested \$250 million in the project.

The Ponce Solution would consolidate all of the POA's docks under a third entity, the Ponce Port Authority, which would receive POA's assets under a concession contract from the POA Authority, the current administrator of the port facility.

"You need to consolidate all these assets under the same umbrella," Pérez-Riera said, adding that the port's big promise lies in its value-added manufacturing area, rather than in transshipment activities.

The government is looking to attract foreign investors to the area who might choose to complete product assembly here in Puerto Rico in

order to use the "Made in the USA" label, he added.

ROOSEVELT ROADS

Meanwhile, the Puerto Rico government took title on 1,300 acres at Roosevelt Roads in Ceiba, which put the base airport, hospital and "radar hill" under the control of the local Ports Authority.

The administration also amended the original redevelopment plan for the former base to make room for a "Caribbean Riviera" complex, which envisions a \$2.46 billion investment over the course of 20 to 25 years, including a 2,500-room hotel, a large casino and entertainment complex, and an adjacent airport and passenger-ferry terminal, which would link the resort to Vieques and Culebra. There are also ecotourism lodges, environmental camps, nature reserves, corporate retreats and luxury communities planned to spread out over a dozen different areas within the former base.

Pérez-Riera said another big step included the passage of the Municipal Economic Development & Tourism Incentives Act, which provides a new array of incentives to finance megatourism projects of at least \$500 million.

The legislation proposes a unique "sliding scale" flat tax rate on revenue generated from casino income within new tourism projects that varies according to the amount of the investment, from 8% to 25%. Revenue from existing casinos is taxed at a 70% rate, with the government

taking most of the income from casino profits. The ventures would retain the 90% tax exemption that currently applies to hotel and tourism facility revenue under the law, which will also liberalize casino rules to allow for the newest gaming and entertainment offerings.

The sliding tax scale on casino revenue would start at 25% for ventures with investments above \$500 million, 15% for a \$750 million investment, 10% for a \$1 billion investment and 8% for an investment of at least \$1.25 billion. Tax decrees would be for a period of 30 years, and developers would have a 10-year period to fulfill their investment and job-creation commitments. Violations of the decree by the developer would result in steep tax increases to a 75% rate on net casino earnings and other penalties.

A portion of the revenue earned by the government would have to be re-invested back into infrastructure in the area as well as in renewable-energy facilities, according to the law.

The Planning Board also recently approved zoning plans for the area, and investor interest should be tested in December, as the Navy plans to try to sell off some remaining parcels of land it owns at the former base.

"The people of Ceiba and the east coast have many great things and job opportunities to look forward to," Pérez-Riera said.

REFORMING THE

INVESTMENT LANDSCAPE

Pérez-Riera and his team at the DDEC have also instituted a series of sweeping reforms, involving taxes, permits, government services and energy. These measures, implemented to increase the island's competitiveness over the long haul, are also starting to bear fruit.

TAX REFORM

Tax reform is a "game changer" that will "fundamentally" alter the investment climate for all businesses operating on the island, administration officials say. The average 30% tax cut for businesses took full effect this year, while an average 50% cut for individual taxpayers is being phased in starting this year and continuing over the next six years.

The largest and most sweeping tax reform implemented in recent memory, it delivers three times the tax

relief given to taxpayers in the 1994 reform. The tax reform will deliver about \$1.2 billion in annual relief for individual taxpayers over the next six years—an average \$1,500 per taxpayer. It will also provide an annual average of \$260 million in corporate tax relief over that period.

PERMITTING SYSTEM

Meanwhile, the permitting system has been completely overhauled into a digital system, with more than 80% of government permits now available via the Internet.

While there were initial grumblings from users over the new system, which was initially operating unexpectedly slow, recent statistics appear to show it is a vast improvement over the previous system.

Of 44,752 permit requests, 76% have been granted, and a new class of authorized professionals is now granting permits, Pérez-Riera said. While more than 20 agencies used to be involved in the permitting process, now only three are involved now.

POSITIVE

COMPETITIVENESS

Although the reforms are meant to spur economic development over the long term, they are already showing an impact in Puerto Rico's competitiveness. This year the island jumped six spots on a global ranking of the world's most competitive economies, landing at 35th out of 142 countries.

It was the third-straight year of positive movement on the Geneva-based World Economic Forum's (WEF) Global Competitiveness Index report, which pegged Puerto Rico at 41 in 2011 and 42 in 2010.

Puerto Rico's ranking on the newly released 2012 index is higher than any other Caribbean jurisdiction and trails only Chile (31) in all of Latin America.

"Our improved competitiveness, which is a fact, along with the measures to restore growth and infrastructure, have put Puerto Rico on the path to sustainable development and job creation," Pérez-Riera said. "The new ranking positions Puerto Rico among the group that the WEF characterizes as innovative economies, including the most developed nations in the world, such as the U.S., Australia, Switzerland and Singapore." ■

Incentives to stimulate economic activity in strategic sectors

Promote Puerto Rico's incentives to attract investment to the island

Sector	Objective	Legislation
Housing Incentives	• Objective: Approved	Act No. 132 of 2010: Create an incentives program for purchasing residential and commercial properties
Tourism Development	• Objective: Approved	Act No. 74 of 2010: Viability for the development of world-class tourism projects through an aggressive incentives program
Tourism Incentives to the Economic Development of Municipalities	• Objective: Approved	Act No. 118 of 2010: Lay the groundwork to expand our tourism in strategic locations to ensure job creation and improve our position as a premier tourist destination
Development of the Film Industry	• Objective: Approved	Act No. 27 of 2011: Provide a framework for continued development of film industry infrastructure and tax incentives to attract foreign capital
Renewable Energy	• Objective: Approved	Act No. 83 of 2010: Create measures to stimulate the development of sustainable energy systems by establishing the Green Energy Fund
International Insurance	• Objective: Approved	H.B. 3034: Amend the Insurance Code of Puerto Rico to secure a tax regime that will apply to international insurers

DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE | GOVERNMENT OF PUERTO RICO

Exporting services provides a huge opportunity for business

New legislation seeks to stimulate exports by professionals, attract foreign talent

BY ALEXANDER LÓPEZ
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Economic difficulty necessitates that governments seek creative solutions.

With this in mind, the administration of Gov. Luis Fortuño is promoting an innovative legislative initiative to stimulate the exportation of services from Puerto Rico. The goals of the initiative are to convert Puerto Rico into an international service center, retain local talent, attract foreign capital and talent, and establish a special fund to promote the establishment of new service-export activities.

Currently, services comprise \$13.67 billion of economic activity on the island, accounting for 14% of the gross domestic product (GDP). However, exportable services also include financial, insurance and real estate, which account for \$18.86 billion in economic activity, or 20% of GDP. This represents a combined total of 34% of Puerto Rico's GDP. According to The World Bank, in developing nations 51.4% of GDP is dedicated to service, while in developed nations that percentage rises to 72.4%.

The Economic Incentives for the Development of Puerto Rico (EIDPR) Act provides attractive tax and other incentives to foster investment in key sectors of Puerto Rico's economy. The EIDPR Act is a result of the efforts of the Strategic Model for a New Economy (MENE by its acronym in Spanish) developed by the Department of Economic Development & Commerce (DDEC).

"I don't know of any jurisdiction that has this type of incentive," said DDEC Secretary José Pérez-Riera, adding that Puerto Rico is a natural fit because of its geographical location and its cultural affinities with both the U.S. and Latin America.

"Because we have the laws of the U.S. mainland and the requirements for doing business apply to Puerto Rico, and because there is no



The Economic Incentive for the Development of Puerto Rico Act provides attractive tax and other incentives to foster investment in key sectors of Puerto Rico's economy.

passport required, and because we use the same currency, and because we have the federal court and the FBI and the other regulatory agencies doing business in Puerto Rico, that gives a certain level of comfort that you can't find outside of the U.S. flag," he added.

Export services such as financial services, insurance and consulting are eligible for some of the incentives provided under the law. These include investment banking, portfolio management, trust administration and hedge fund management.

Research and development; marketing and public relations; graphic arts, legal and accounting services; and architecture and engineering consulting services are included as well. The establishment of corporate headquarters, software development firms, and telecommunications hubs and call centers for clients outside of Puerto Rico also qualify for these incentives.

Exported services include services provided to individuals or organizations that have no link to Puerto Rico as defined by the law. The legislation provides for a fixed tax of 4% on income generated for eligible exported services. This rate could be reduced to 3% if 90% of

all gross income is generated by the provision of services and these services can be considered strategic services. There is a 0% tax rate on the payment of dividends and a 90% exemption on the payment of property taxes on call centers, corporate headquarters and warehouse & distribution centers.

The decree is valid for 20 years from the establishment of the business and can be extended for 10 more years if the business can demonstrate that the extension would be in the best social and economic interests of Puerto Rico.

An example of exported services is the collaboration between U.S. mainland law firms and local law firms. Because many lawyers in Puerto Rico are members of the federal bar association, a law firm on the mainland could contract a lawyer on the island to perform legal work for its mainland clients and would be eligible to benefit from

"I don't know of any jurisdiction that has this type of incentive."

—Economic Development & Commerce Secretary José Pérez-Riera

lower taxes. Another example involves foreign architectural firms contracting local firms to design and engineer buildings that are to be constructed abroad.

Another benefit of this initiative is the attraction to the island of professionals with an international client base. They would benefit from tax breaks in the performance of their work and could also take advantage of the island's real estate incentives, and low property taxes and real estate prices, not to mention its favorable climate.

"If you have been a non-Puerto Rico resident for 15 years and move here, you won't have any income on your passive investments until 2035," noted Pérez-Riera. "The idea there is that if you are looking to retire or are a professional, you can combine benefits from the passive income incentive, the housing incentives and the 4% tax decree to keep doing what you were doing wherever you come from. We have created a compelling package to attract foreigners to come here."

Puerto Rico produces thousands of talented service professionals every year. Unfortunately, many have difficulty finding work on the island and are forced to move to the mainland. With the passage of this act, Pérez-Riera said, they would have a strong incentive to develop their professions locally and serve an international client base.

"The Puerto Rico service providers must understand that their universe of options isn't 100 miles by 35 miles, it's the entire world," he said.

Advancements in communications and technology make this more possible every day. Email, broadband Internet and teleconferencing allow professionals to serve individuals anywhere in the world from anywhere in the world.

"The benefit that we have in this day and age is that a lot of the things that in the past you would need to be physically present to do, now you can do on the island and tax it at a 4% rate," Pérez-Riera said.

The Economic Development Bank, meanwhile, has the Development for the People program, which allows individuals to borrow up to \$20,000 to start their own business. Talented professionals who wish to remain in Puerto Rico have the opportunity to start their own business with this seed capital and market their talents worldwide while enjoying extremely favorable tax treatment for the next 20 to 30 years. ■

New law lays foundation for knowledge-based economy

Science, Technology & Research Trust gets funding boost, increased powers to develop the Science District

BY JOHN MARINO
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Legislation enacted last month will boost government efforts to develop a knowledge-based economy here by providing a framework and incentives for the development of the Puerto Rico Science, Technology and Research District and by increasing funding to the Science, Technology & Research Trust, said Economic Development & Commerce Secretary José R. Pérez-Riera.

The law grants the District, run by the Trust, the ability to issue bonds, and grants a tax exemption to the interest paid on those bonds, which facilitates preferential rates on financing. The law also provides tax exemptions to any donations made to the Trust.

The legislation also grants a tax exemption on the first \$250,000 earned by individual researchers operating within the District or its satellites, and exempts entities operating within the region from paying the Sales & Use Tax on materials and services purchased to undertake research.

The District is on the grounds of the former Río Piedras Penitentiary and seeks to take advantage of the synergies provided by the University of Puerto Rico Medical sciences Campus, Río Piedras Medical Center and other nearby assets.

While the government develops the District, however, the plan is to create satellites where real research can be done starting immediately. Possibilities include research facilities at the University of Puerto Rico's (UPR) Mayagüez campus and the Molecular Sciences Building, which is adjacent to the planned District.

The legislation also increases the Puerto Rico Industrial Development



“We have created the Puerto Rico Science, Technology and Research District and the necessary incentives and mechanisms so that the Trust can develop the land within the Science District so it is on par with other technological parks in the United States and other advanced jurisdictions throughout the world.”

— Economic Development & Commerce Secretary José R. Pérez-Riera

Co.'s (Pridco) contribution to the Trust to more than \$5 million annually, or 25% of Pridco's Special Economic Development Fund. Afterward, the contribution will increase steadily over the next 10 years until it reaches \$7 million, or 35% of the fund in 2020-2021.

“Through this law we have refined the powers and internal powers of the Science, Technology & Research Trust to increase the type of activity it can undertake,” Pérez-Riera said. “In addition, we have created the Science District and the necessary incentives and mechanisms so that the Trust can develop the land within the Science District so it is on par with other technological parks in the United States and other advanced jurisdictions throughout the world.”

The law also provides a “stable funding source so the Trust has the capacity to issue debt and finance the necessary infrastructure to foment the knowledge economy in Puerto Rico,” Pérez-Riera said.

The legislation amended Law 154 of 2008, which banned all animal testing on the island, so live animal testing is allowable for purposes of “scientific or medical research” that takes place at university research centers or other “eligible research and testing centers,” including the District.

The new law creates a Licensing Committee, which will administer and supervise everything related to the oversight of live animal testing, including writing up the regulations and requirements for winning certification as an eligible center.

The requirements must include the minimum basic criteria established by industry and government groups, including the Public Health Service, the Interagency Coordinating Committee on the Validation of Alternative Methods, the Office of Laboratory Animal Welfare and the Association for Assessment & Accreditation of Laboratory Animal Care.

The committee is headed by the Economic Development & Commerce secretary and also includes the Science, Technology & Research Trust executive director, UPR Medical Sciences Campus chancellor and Department of Natural & Environmental Resources secretary. While university research centers won't need a license from the new entity, they are required to report the research they undertake and the protocols used.

Yet, the law also requires the research centers look for alternatives to live animal testing and adopt the “doctrine of the 3Rs,” which calls for reducing the number of animals in testing, refining research methods to eliminate the pain and discomfort of the research specimen and replacing animals, via computer simulations and other methods, whenever possible.

The prohibition against animal testing, except for scientific and medical research, will remain in effect, including for testing for cosmetic products and educational purposes.

“It is necessary to refine the express prohibitions of Law 154 to our real economic-development needs, to be in the vanguard of providing an environment for scientific development, while at the same time keeping our jurisdiction in the vanguard of the protection of animals,” the legislation states. ■

Megacargo air hub at former Ramey base appears queued for takeoff

DDEC fast-tracking request to give site federal free trade zone designation key to attracting business interest in Aguadilla transshipment project

BY JAIME SANTIAGO
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The development of the Rafael Hernández Airport at the former Ramey Air Force Base in Aguadilla into a megacargo hub, a project that has been discussed on and off for years and recently proposed again by the Puerto Rico District Export Council (PRDEC), is moving ahead and might become a reality sooner than expected.

“A few months ago, we met with personnel from the government’s Economic Development & Commerce Department [DDEC by its Spanish acronym] and they understood the merits of the project and started working with us to make the concept a reality,” Edmundo Rodríguez, a member of PRDEC, told CARIBBEAN BUSINESS. “The first step to make this initiative attractive to private business is to get the ‘free trade zone’ designation for the site from the federal government; this will offer many economic benefits to any company that decides to start operations at the airport.”

Members of PRDEC—the local chapter of the National Export District Council (NEDC), a private-sector organization that complements the U.S. Commercial Service’s export-promotion program—say the free trade zone (also known as “free zone” and “foreign trade zone”) designation could be obtained in just a few months.

“The DDEC has fast-tracked the free zone petition, and it should be a matter of months before it is awarded by the federal government,” Rodríguez said.

Free zones are considered outside local and U.S. territory for customs purposes. Goods admitted and services provided in a designated free zone aren’t subject to formal local or U.S. Customs entry protocols or payment of duties while in the zone.

Some of the financial advantages provided by use of an FTZ are:

- Improved cash flow: Duty payments can be deferred.
- Reduction of duties: Minor assembly of merchandise is allowable.
- Lower inventory costs: Reduced duty rates on imported goods during the time they are warehoused within the FTZ.



The development of the Rafael Hernández Airport at the former Ramey Air Force Base in Aguadilla into a megacargo transshipment hub is moving ahead and might soon become a reality.

- Improved logistics: Goods may be stored for unlimited periods of time.

Operations that are well suited to maximizing the benefits of an FTZ are:

- Assembly
- Warehousing
- Testing
- Repair
- Manufacturing
- Repackaging
- Salvage
- Labeling.

“The Aguadilla facility could become a

superhub for incoming and outgoing air cargo from and to many destinations, including Europe, the Far East, and North and South America,” said Jerónimo Lectora, a member of PRDEC. “Aguadilla is a world-class airport with the necessary space for growth. Not only does the facility have the potential to handle traditional air-freight cargo, it could also become a small-package handling and sorting center for companies such as United Parcel Service Inc. (UPS), FedEx, DHL and others.”

Many close to the air-cargo transportation

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industry agree on the installation's great potential for development. Industry sources say one of the main attractions of the Aguadilla airfield, which is under the control of the commonwealth Ports Authority, is its geographical location in relation to many other important cargo-handling airports worldwide.

"Most big cargo airplanes have a range of approximately 7,000 to 7,500 miles," Lectora told CARIBBEAN BUSINESS. "That makes non-stop flights possible to and from most European airports to Aguadilla. That is a great advantage for this industry."

According to a recent market study by Boeing, air-cargo traffic has been growing at a faster pace than passenger traffic since the 1970s. The study's least optimistic projection is a 5.3% annual growth, with a more optimistic assessment of 6.9% growth. Another market study by Global Industry Analysis Inc., a globally recognized market-research publisher, shows that approximately 20% of the manufactured goods traded internationally use air-cargo transport, and this percentage is expected to reach 77% by the year 2020. The study notes that the ever-increasing need for just-in-time delivery will fuel this growth.

This expansion pattern in the worldwide air-cargo industry has created the need for additional airport hub facilities. Since 2005, UPS has constructed at least five regional freight hubs at airports across the U.S. and, just last year, FedEx filed a \$28 million building permit to build a two-story sorting facility next to its existing megahub on the north side of Memphis International Airport. The company also recently invested more than \$200 million to expand its Indianapolis hub and has beefed up other facilities around the nation.

Joselin Ramos, PRDEC member & senior vice president of CaribEx, an air-cargo company, said the former U.S. Air Force base's assets go beyond location.

"The Aguadilla airport has one of the best and longest airstrips in the world," Ramos said. "The basics needed to start this important project already exist. There is a fine airport facility, all the needed space for the start-up of satellite and support industries, excellent geographical location and good climate conditions. Airplanes coming from Europe to Central and South America could stop in Aguadilla to refuel. If the airport attains the free-zone designation, fuel would be cheaper than at other locations, allowing the airlines to buy less fuel at origin, thereby increasing their payload capacity [meaning they could carry more cargo with the weight saved from using less fuel] and saving money at the same time. This is just an example of the many benefits Aguadilla could represent."

Lectora noted that aerospace-industry



The Puerto Rico District Export Council is following the model set by former Kelly Air Force base in San Antonio, which was also turned into an air-cargo hub and today boasts 19,000 jobs and an economic impact of \$4.2 billion. PRDEC members (from left): Mariano Parlato, Edmundo Rodríguez, Joselin Ramos and Arturo Gallardo.

companies already established in the area could benefit from having an air hub nearby.

"Other companies in the field could be attracted to establish their operations in the area, thereby creating new jobs," he said. "An aircraft-maintenance industry also would be a possibility. Puerto Rico has the resources and human capital for this kind of business, which has enormous job-generating potential."

"Aguadilla is a world-class airport with the necessary space for growth."

—Jerónimo Lectora, a member of the Puerto Rico District Export Council

PRDEC officials have discussed the project with companies already doing business at the Aguadilla facility, and most have expressed willingness to expand their operations at the site if the initiative materializes.

"We have spoken to companies such as Air France, Lufthansa and Cargo Lux, which already

have operations in Aguadilla, and all have expressed interest in the project," said Mariano Parlato of the PRDEC.

The concept of military airfields turned into commercial logistics hubs is not new, and has proven successful in other jurisdictions. An example would be Kelly U.S.A. in San Antonio, Texas. As an air logistics center known as Kelly Field Annex (formerly Kelly Air Force Base) that was part of Joint Base San Antonio, it provided global air logistics support to the U.S. Air Force and oversaw 6,000 aircraft. In 1995, after being decommissioned, the city of San Antonio created a redevelopment authority to work on the transition and transfer of base facilities to civilian operations, and the airfield became Kelly U.S.A., an aerospace industrial park. The redevelopment strategy was anchored by three business sectors: aircraft engine maintenance, aircraft maintenance and modification, and distribution.

The results of the initiative have been exceptional, with an economic impact for the region of \$4.2 billion that includes some 9,000 aerospace jobs, 17,000 direct and indirect jobs, and \$500 million in payroll.

The former Ramey base could represent a similar economic boon for Puerto Rico.

"The best part of the Aguadilla project is that there is almost no cost to the government," said Arturo Gallardo of PRDEC. "The facilities already exist and some fine-tuning is what is needed to make it happen." ■