



# Puerto Rico: A new direction

The dynamic island is bursting with potential as it moves toward a knowledge-based economy.

**A**s an unincorporated territory of the United States, the Commonwealth of Puerto Rico offers many advantages to investors. The small Caribbean island nation, roughly the size of Connecticut, is a U.S. foreign trade zone, it affords U.S. legal and intellectual property protection, and it operates a U.S. banking system, using the dollar. The island is also the region's most technologically advanced, with broadband widely available and an excellent communications infrastructure.

With a sound and diverse industrial sector, principally in capital intensive pharmaceuticals, chemicals, machinery and electronics, Puerto Rico can also boast having one of the most dynamic economies in the Caribbean. Drawn by the duty-free access to the U.S. and attractive tax incentives, U.S. firms have been investing there since the 1950s, and continue to do so, making it the U.S.'s eighth largest trading partner. One of its most lucrative additions has been Microsoft, which recently invested U.S.\$66 million to produce Windows Vista in Puerto Rico.

As Governor Aníbal Acevedo Vilá observes: "Our workforce is well-educated and most are bilingual and bicultural. We speak English and Spanish. We are part of the U.S., yet we are Hispanics, Latinos. That is a huge advantage."

Since coming to power in 2004, Acevedo Vilá's time until now has been spent tackling a huge government overspend, and he has pulled

pharmaceuticals—17 of the top 20 best-selling pharmaceutical drugs are produced here—and 25% of global exports come from here. We have the highest labor productivity rate of any country

Aníbal Acevedo Vilá, Governor



in the world. Companies come here for the tax incentives but stay for the people."

Although Puerto Rico is the world leader in terms of concentration of pharmaceutical companies, the focus is shifting toward biotechnology and life sciences. Biotech giant Amgen, for example, plans to invest around U.S.\$1.5 billion in a plant on the island. Silva-Puras says: "If you have a company that has heavy capital investment and high profit margins, you want a location that is tax advantageous—and we have it, along with U.S. federal protection on intellectual property."

The government is also encouraging home grown entrepreneurs by offering start up loans of up to U.S.\$1.5 million through the Puerto Rican Economic Development Bank (EDB). New business approvals have more than doubled already, and the EDB closed its 2006 fiscal accounts with a loan portfolio of U.S.\$195.4 million, 9% up on the previous year. Annette Montoto Terrassa, president, says: "The

**"Now I can concentrate on real government business, like promoting economic development."**

no punches in getting this down to acceptable levels. He says: "This year's budget was cut by U.S.\$200 million compared to last year. We are ready to move into new bond issues, which will give us more money to invest in our economy." The government issued more than U.S.\$1 billion in general obligation bonds (GOs) and has received more than U.S.\$1.5 billion from the banking sector for its short-term financing needs, showing the confidence from both investors and banks.

As Acevedo Vilá notes: "Now I can move forward and concentrate on real government business, such as promoting economic development, safety and education. We are also still in the process of modernizing and reorganizing our government."

Jorge Silva-Puras, the Governor's Chief of Staff, has been a key instrumentalist in the country's modernization, with his pro-business approach winning points throughout the business community. His "100-day Plan" became the blueprint for increasing government efficiency, which included an overhaul of the business permit process and an emphasis on accountability within government agencies.

Keen to promote the country's human assets, he says: "Our manufacturing expertise is why Puerto Rico is the global leader in

government's "Key to Your Business Scheme" has seen high increases in loans within the service and commerce sectors, and we foresee a move into high technologies, export industries and venture capital in the future."

As Ricardo Rivera Cardona, Secretary of Economic Development and Commerce points out: "The terms of the loan are extremely attractive. You don't need to have collateral to apply, the interest rate is the prime rate, plus 0.5%, and you have up to ten years to repay it."

The scheme is a strategic part of the government's vision to cut the hidden costs of doing business in Puerto Rico. One vital part of this is to reengineer the permit process, which has hampered economic development until now. Six multi-agency permit centers have been set up around the country and, working with the latest technology, have reduced the time for issuing permits to small businesses from 70 to 30 days. Rivera Cardona says: "We are now assembling working groups from the private sector to target other affected business areas."

Puerto Rico as a knowledge-based economy is the objective, and Puerto Rico Industrial Development Company (PRIDCO) is the organization tasked with bringing it to fruition. Boris Jaskille, chief

promotions officer, is the front-runner of the recent shift in focus to biosciences. He says: "We have been a major center for pharmaceutical manufacturing for 40 years, so this is the logical next step."

PRIDCO and the University of Puerto Rico recently collaborated to establish the Centennial Fund, a U.S.\$40 million endowment to support the development of research facilities in biotechnology, pharmaceutical and medical device companies. Jaskille says: "We are looking to give R&D continuity, independent from government changes, and would like to target top projects, particularly in life sciences. It is an initiative that will help us strengthen and develop our R&D activities even more. For example, the University is building a 152,000 sq. ft. molecular sciences complex to house existing faculty and incubator space across a range of bioscience-related disciplines."

PRIDCO already has an excellent track record in promoting Puerto Rico as a key business destination; the buoyant manufacturing industry is testament to that. As Jaskille says: "We are seen as a center of excellence worldwide, particularly in the life sciences. We have strong competitors like Ireland and Singapore, and our similar jurisdictions mean we are all competing for potential projects. Our advantage is that we are close to the U.S. and Latin American markets."

Being effectively offshore, the tax incentives are also significant, with PRIDCO securing preferential rates with the treasury to cut local taxes and encourage economic development in their own industries. New firms can opt to register under Section 30A, which allows companies to claim 60% of wages and capital investment as allowances against tax, or incorporate themselves in Puerto Rico as controlled foreign bodies, thus receiving tax benefits provided by Section 901 of the U.S. Internal



Revenue Code. Jaskille says: "We effectively have our own tax system. There are no U.S. federal taxes imposed, there is a 0-2% effective Corporate Income Tax for "Pioneer Products",

Ricardo Rivera Cardona, Secretary of Economic Development and Commerce

defined as "operations that are deemed to have a novel or innovative technology not utilized in Puerto Rico before January 1, 2000, and that will have a significant impact on the economic and industrial development of Puerto Rico" and 2-7% effective Corporate Income Tax for other products. There is also a 200% deduction for R&D."

Speculation has been made that revenue from the new 7% sales tax, introduced in November, will reach around U.S.\$1.3 billion a year.

PRIDCO's large remit also includes acting as adviser and facilitator for new entities interested in making their fortune in Puerto Rico. Jaskille says: "We assist with business plans, financial



Boris Jaskille, Chief Promotions Officer, PRIDCO

statements, market research, infrastructure, permits and regulations. We can also help with marketing and design. We have specialist departments staffed with savvy professionals who will support, counsel and assist in every aspect. Some entities use us to establish an operation, while others help with referrals in the initial stage."

As Jaskille points out, 18% of the 3.9 million population over 25 has a college degree, a higher proportion than in the U.K., Germany and France. Around 45% of islanders have lived in the United States at some stage. He says: "The University of Puerto Rico at Mayagüez has a very strong reputation. Recruiters from the U.S.'s top companies come here every year to interview potential candidates. Some of our strongest talents are now working for NASA, for example."

This strong, pro-business message has also filtered down to municipal level. In Caguas, located in the Turabo Valley, in the central/east region, Mayor William Miranda Marín has made it his mission to lead by example, branding "Caguas: The City" to attract more business. Miranda Marín's vision is ambitious—the city is billed as "a vibrant city, technologically advanced, united and economically dynamic. Competitive and proud of being the best!"—yet his optimism is contagious and his work already recognized.

This year, the Miranda Marín administration was awarded the Zenit Award by the Puerto Rico Chamber of Commerce, in recognition of its innovative approach to economic development. One of its key accomplishments was to set up an Express Procedure Center, in collaboration with the central government, to speed up and facilitate the process of establishing a new business there. The Mayor says: "In ten years, we have been able to increase our income by U.S.\$43 million to U.S.\$111 million. Also, while the country's per capita income has increased by 3% in the last seven years, ours has increased by 10%."

Miranda Marín's growth strategy, which includes an expansion of the population from 100,000 to 250,000, and an overhaul of the present transport and infrastructure systems by 2020, has been embraced by both the public and the private sectors. Meanwhile, Juan León Soto, the city's Secretary of Economic Development, is looking at

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its technological advantages, saying: “We are creating an Interactive Center of Science and Technology (in alliance with the Liberty Science Center of New Jersey) here that will create an education system that produces true entrepreneurs and leaders in their field.”

The city recently unveiled plans for the Caguas to San Juan light train line, slated to cost U.S.\$500 million, one of many national schemes currently under way. Despite already having the Caribbean’s most sophisticated transport network, the government now plans to move U.S.\$3 billion in infrastructural projects to maximize the effects of its growing economy. Secretary of Transport and Public Works, Gabriel Alcaraz Emmanuelli, says: “With 4,300 vehicles per square mile, we have one of the highest densities in the world, so I plan to invest at least a third of this in the highway network over the next five

years. We are also improving local access to sea and airports. We see the island as a possible transportation hub to the U.S.” The Ministry has also developed a new mass-transportation system, the ATI, which will integrate the Urban Train, the Metropolitan Bus Authority and the minibus network to connect major areas of activity within San Juan. According to the Puerto Rico Tourism Company, the Urban Train will be one of the most effective transportation systems ever built in the Americas and will transport up to 115,000 passengers a day within a 20-hour period.

Alcaraz Emmanuelli says: “The Urban Train was launched last year and is the most secure place on the island. We spend more than 10% of our budget every year on security. We hope the transit system will eventually change the car culture in Puerto Rico.”

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Energy is also a strategic pillar of the country's growth and the Puerto Rico Electric Power Authority (PREPA) is committed to bringing a quality service to its client base. PREPA is the country's only electricity producer, transmitter, distributor and bill collector. A commitment to reducing the price of electricity is its top priority.

Eng. Edwin Rivera Serrano is at the helm and says: "We operate like a private company, always looking for the highest level of efficiency. We have to respond to certain goals, we have the best quality of service that we can guarantee to our customers and comply fully with the market."

Rivera Serrano sees fuel diversification as the solution to the global hikes in oil prices, and aims to lower PREPA's dependency on oil by 10% until 2008. By then, natural gas will represent 22.8%, coal 16.6% and hydro and renewable industry 1% of the organization's total energy consumption. He says: "We are already building a gas pipeline around the island and there is a gas terminal in the south. There are many pharmaceutical companies here that can use natural gas, as it is cleaner and better for the environment. Only by reducing the island's fuel oil dependency will we be able to attain the energy and economic stability we aim at."

Rivera Serrano plans to bring fuel dependency down even further, to 33% in the long term. He also foresees a 22.5% increase in generation to serve the country's growing demand. He says: "As part of our contingency plan, we are seeking to purchase direct current (DC) power from South America and the Caribbean by submarine cables. We are also close to completing the Eastern Transmission Loop, which will improve potency transmission and increase the reliability and flexibility of the transmission network."

A law passed in 2003 allowed PREPA to create subsidiary corporations to develop new financing options within these non-profit public corporations. PREPA Net was the first subsidiary corporation established to commercialize the existing optical fiber bandwidth. Rivera Serrano says: "At the same time, we have also taken steps to attend to operational costs by implementing automation and cost reduction processes and maximizing our resources. All our savings are passed onto the customers, which shows our determination to reduce the cost of electricity on the island."

### Tourism means business

Tourism has long been an economic staple for Puerto Rico. Arrivals in the last ten years are up by one third, while visitor expenditure has grown by 99%. Most are U.S. visitors, and there are now more than



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500 non-stop flights to the island a week. A lack of hotel accommodation has resulted in a stagnation of visitor numbers compared to some of Puerto Rico's neighbors, prompting the government, and the Puerto Rico Tourism Company (PRTC), to pledge the construction of at least 5,000 rooms in the coming years.

In fact, more hotel rooms is just one factor in a four-part plan that aims to increase even further the country's fourth largest sector, which already attracts around U.S.\$3 billion. According to PRTC's executive director Terestella González Denton, visitors enjoy the unique blend of "Stateside convenience and exotic international allure." She points to Puerto Rico's juxtaposition of state-of-the-art technology against a backdrop of European history that spans 500 years, and its vibrant Afro-Antillean heritage, as being particularly appealing.

With product diversification another factor, González Denton and her team are looking at agro-tourism, golf, nautical tourism, gastronomy and of course salsa, as offerings they can play up to tap into new markets. "The tourist is not a tourist now, but a traveler," she notes. Along with this, objective number four is to increase the marketing and promotion of the island. The "Explore beyond the shore" initiative, which highlights Puerto Rico's other assets, was recently launched.

González Denton says: "We are also educating the service sector. Our "Superhost" program, for example, communicates to the business community the long-term economic importance of customer services and tourism itself, showing the contribution it can make to the overall economy of Puerto Rico."

Objective number one, however, is to improve access to the island. PRTC has already negotiated aggressively with airline companies and carriers to fly not only to Luis Muñoz Marín International Airport, but also to the alternatives, including Aguadilla and Ponce. González Denton says: "We are also looking at strengthening marine and land

transportation. When you invest a lot of money in marketing, you have to open doors and direct access to different points around the world. We have opened 11 new routes since I was appointed, with an impact of almost U.S.\$69.5 million, but we need more direct access to Europe and Latin America. We are currently negotiating with Iberia."

As far as current projects go, however, few can beat the growth potential of the island's new world-class convention center, which will be completed with U.S.\$415 million of public funds and private investment of U.S.\$900 million from the private sector. The center will accommodate up to 10,000 visitors at a time, and serve as a gathering place for shopping, education, recreation and entertainment. The scope for private investments here is vast. González Denton says: "I am also

**"The tourist is not a tourist now, but a traveler."**

president of our subsidiary Hotel Development Corporation, which is going to build the convention center hotel with Sheraton. We are supporting this with almost U.S.\$14.5 million."

The Sheraton's new 500-room development will complement its other base on the island, the Sheraton Old San Juan. As a member of the Starwood Preferred Guest Program, Sheraton Old San Juan offers 240 newly restored guestrooms and suites that feature the new Sheraton Sweet SleeperSM Bed. General manager Samuel Hügli adds: "The suites have private balconies with beautiful views of San Juan Bay and the Old City, and all rooms have high-speed Internet access and all other amenities present in a hotel of our standard. We have 12,634 sq. ft. of newly renovated, flexible meeting space, two ballrooms and 10 meeting and breakout rooms. We are only six miles from the airport."



## *Moving at the speed of the 21st century*

ATI, Puerto Rico's new public transportation system, connects the busiest business districts to residential areas in San Juan and nearby communities. It is the largest infrastructure project in the island's history, and it will grow accordingly to the demands of the 21st century.





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Those wanting more immediate airport accommodation, however, can check in to the Best Western San Juan Airport Hotel, where registration takes less than a minute. Jack Katz, president, says: "We purchased the hotel because we knew there was a niche and have been very successful, with 85% occupancy over the last two years, mostly from one-nighters. We therefore have to



Terestella González Denton,  
Executive Director  
Puerto Rico Tourism Company

impress our customers in a very short space of time!" Nonetheless, the company is expecting growth of 6% this year.

Meanwhile, on the west coast at Rincón, Villa Cofresi—recently branded Porta del Sol—offers outstanding sea views and is a surfer's paradise. General manager Sandra Caro says: "It was the first hotel in Rincón. That's how the tourism industry started here. We are still growing and rebuilding the hotel to meet demand. Rincón may offer beautiful beaches, mountains, deep sea fishing, sunsets, horse back riding and surfing, but Puerto Rico is beautiful wherever you are."

Not surprisingly then, real estate has also taken off along with new tourism developments. The Marbella Club in the prestigious Palmas del Mar community, for example, is an award-winning waterfront that combines old world charm with the luxury and elegance of today's amenities. Thirty per cent of owners are from the U.S.

James Harvie III, president, says: "Our clients want more than concrete and square footage. They want to be taken care of. That's why we have a concierge service taking care of our clients' most exquisite needs. We have the beach club and the golf course right next door."

At the other end of the spectrum, Christiansen & Portela (C&P) specializes in

prime office, industrial and commercial real estate. Offering a full range of services, from property acquisitions and dispositions, to tenant representations, site selections and advisory services, C&P meets the needs of local and multinational corporations alike. Managing partner Rafael Portela says: "Our success is directly attributable to our knowledge of key real estate players locally and the relationships with our clients." And, as Gerald Christiansen Santaella, managing partner, points out: "High population density means retailers enjoy very competitive volume-per-sq.ft. figures."

C&P's current projects include Humacao Industrial Park, a manufacturing and distribution facility with six single-story buildings, and one two-story building, totaling approximately 190,000 sq. ft., and City View Plaza, a corporate concept that combines the traditional office environment with the added advantage of retail establishments, restaurants, banking and other services.

There has been tremendous growth in the retail sector over the past 15 years. Christiansen Santaella adds: "The market was larger than we had anticipated. When Wal-Mart opened a store in Puerto Rico, they were doing more than twice the volume they

had projected. Wal-Mart served as a guiding force for retailers here. Most of the multinational companies that do business here will eventually work with us." The company also has a mortgage banking business, although Portela points out: "We don't compete with the banks; they refer clients to us."

Meanwhile, at Property Concepts Commercial (PCC), president Fernando Toro is keen to expand the island's retail space to encourage competition. He says: "We have about 13 million sq. ft. of retail space (excluding down-town areas) and about four million people. If you do the math, that is about 8 sq. ft. per capita. When you compare that to the mainland, we are far behind."

In December 2004, PCC was selected to become an Alliance Member of Cushman & Wakefield, the world's largest private real estate company. Toro says: "We provide the same level of service and professionalism their offices do. We specialize in the transactional side of the business."

Toro sums up Puerto Rico's competitive edge perfectly. He says: "We are the closest you can get to the U.S. without being there."

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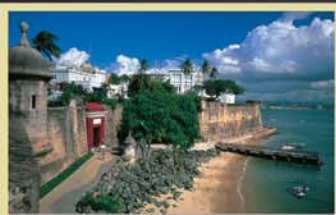
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