

## 2005's shared-government philosophy affects manufacturing industry

**CARIBBEAN BUSINESS** December 29, 2005, p.32

By MARIALBA MARTINEZ

As 2005 began, Puerto Rico should have seen what was in store for the manufacturing industry when Gov. Aníbal Acevedo Vilá's confirmation to his post had barely been certified days before the official inauguration. With a Popular Democratic Party governor and a New Progressive Party-controlled Legislature, the phrase "shared government" became a sort of mantra for those wishing to believe it could work.

A highly successful 51 years of tax incentives ends Dec. 31, 2005 with the elimination of Internal Revenue Code Sections 936 and 30A. Still, the manufacturing industry, particularly the pharmaceutical sector, feels confident that if Puerto Rico reorganizes its economic-development master plan for the next 20 years, the island will remain competitive versus not only our principal rivals, Ireland and Singapore, but also U.S. mainland jurisdictions and foreign adversaries such as India.

"This year has presented important challenges to Puerto Rico," said Reynaldo Encarnación, president of the Puerto Rico Manufacturers Association. "We faced the end of Sections 936 and 30A, the opening of markets with new trade agreements, the budget impasse between Puerto Rico's legislative and executive branches, the approval of laws that result in operational-cost increases, and hikes in basic services, among many other issues that affect our capacity to conduct business on the island.

"We can't allow this to continue happening. Puerto Rico's economic development must be considered above all. The creation of jobs in the private sector must be the order of the day, not the creation of government posts that improve statistics and advance political partisanship. We must all march with a common mission and objectives to achieve the Puerto Rico we all dream about for future generations. As long as we don't achieve this, we will continue seeing actions and reactions and a country immersed in a static void," said Encarnación.

In May, manufacturing-industry experts also expressed their concern about the island's future. The Pharmacy Industry Association of Puerto Rico (PIAPR) brought Reinhard Angelmar, a professor of marketing at Insead, a business school with full-fledged campuses in Singapore and Europe and an alliance with the Wharton School of Business on the mainland, to the island to meet with Puerto Rico Industrial Development Co. (Pridco) Executive Director Jorge Silva and other industry members.

"Puerto Rico must understand the challenges and frustration of the pharmaceutical-manufacturing companies," said Angelmar. "If it can help the industry cope with their challenges better than their global competitors, Puerto Rico has a good chance to survive the industry's globalization. If [it doesn't], just like the island's strong industrialization era of the 1950s, the pharmaceutical sector could just disappear."

And just in November, Abbott Chairman & CEO Miles D. White said at PIAPR's annual conference: "I speak for all the companies here when I say we have enjoyed a great relationship with Puerto Rico. This has been a great place to do business. And it got that way because of a very successful partnership between the government and our industry. Today, that partnership is more important than ever because Puerto Rico is at a crossroads.

"Its ongoing status as the world's pharmaceutical maker is, frankly, less than certain...based on three major factors. First, Section 936, the catalyst for a great amount of investment and development on the island, is expiring. Second, the business environment on the island is becoming more challenging. And third, the world is increasingly global and interconnected, and Puerto Rico faces competition for manufacturing operations in ways it hasn't seen before," said White.

Unfortunately, Puerto Rico's Legislature has given little importance to industry experts' advice about the island's fragile competitive status. Not only electricity and water rates have doubled and tripled in cost to cover overly high government employment, but laws have been proposed and approved that will increase the cost of operations on the island. This includes a scaled increase in minimum pay, increased severance pay, and employee benefits that although sympathetic to the 2008 voters may discourage all kinds of companies—small, mid-, and large-size—from doing business in Puerto Rico.

In a last-ditch effort to shake the private sector from its complacency and make it part of the island's future economic development, former PRMA President Manolo Cidre founded the Alliance for the Development of Puerto Rico. The Alliance, comprised of leaders from the private and public sectors, free of political partisanship, is working to advance fundamental initiatives required to assure long-term life to Puerto Rico's economy, society, culture, and environment.

"During 2005, the Alliance raised \$200,000 in private funds and is working from offices in Hato Rey," said Cidre. "But the point is we must rescue the information that has been available for dozens of years about Puerto Rico's capabilities and what the island must do to compete in the global economy or face an economic and social upheaval as never before has been seen, and from which it will be difficult, if even possible, to recover."

The Alliance promotes a new economic model based on entrepreneurship vs. dependency; a new social model based on empowerment and responsibility, and a new resources model based on sustainable development. The plan incorporates 169 strategic initiatives that will be developed over the next five years. The initiatives are divided into short-, mid-, and long-term goals and 10 areas including competitiveness / connectivity, income / opportunities, innovation / business, education, health, culture, transportation, land use / environment, public security, and basic services.

### **Pridco's reorganization**

A positive action by the Acevedo Vilá administration was October's announcement that Pridco's 665-employee workforce would be reduced to around 200 employees through an early-retirement window and voluntary-separation programs. Puerto Rico Industrial Development Co.'s (Pridco) Executive Director Jorge Silva not only managed to convince employees that had been at the agency for dozens of years to take one of the offers, but also persuaded the Independent Union of Pridco Employees to agree to the plan. Approximately 300 employees are expected to take up the offer and leave Pridco.

"The new Pridco will operate more efficiently, particularly in those regulatory areas and internal procedures that make difficult the agency's cost effectiveness," said Silva. "Just by reducing the workforce we expect a \$41 million payback in 18 to 24 months and sales should increase by \$200 million in six to 24 months."

Pridco's new organizational flowchart reduces the number of directors, offices, and divisions from 14 directors to five. With 24-year Pridco veteran José Luis Ramírez as deputy director, the new chief officers who already have been appointed are Boris Jasquille for business development, Aníbal Espinosa for finance, and Luis Colón for administrative services. Two more candidates will

be appointed to manage marketing and real Estate. In addition, Oscar Pérez Sosa will remain as head of Pridco's tax incentives & legislative affairs.

### **Job creation still weak**

During fiscal 2005, Pridco's Economic Analysis & Strategic Planning Area reported 106 company startups with 3,596 job commitments, a decrease of 4,674 jobs when compared with fiscal 2004. Of this total, 78 startups and 1,397 job commitments came from local companies, while 28 startups and 2,199 job commitments were nonlocal. Job commitments during fiscal 2005 came mostly in the electronic / electrical-equipment sector (387 jobs), apparel / textiles (357 jobs), and chemical sector (222 jobs).

During the first quarter of fiscal 2006 (July 1 to Sept. 20), Pridco reported a 55% increase in the number of jobs created compared with the same period during fiscal 2005, although the number of startups remained flat at 33. There were 1,386 job commitments compared with 895 new jobs in 1Q 2005. Twelve startups were new local businesses vs. three nonlocal. One company opened a subsidiary while seven companies underwent expansions. Two companies were reactivated through Pridco's purchase of at least 50% of the companies' assets to avoid their closure. The remaining eight companies were established as either nonmanufacturing companies or services companies.

During 1Q 2006, the sectors with the largest new-job creation were the electrical / electronic sector (387 jobs), apparel / textile sector (357 jobs), and chemical sector (222 jobs). There was a 41% decrease in new-job creation within the chemical sector compared with 1Q 2005, when 376 jobs were created.

### **Fewer company closings**

Company closings in fiscal 2005 reached 43 with 1,489 jobs lost, compared with 61 in fiscal 2004 and 1,888 jobs lost. Job losses increased 78% during 1Q 2006, with Pridco reporting 185 jobs lost due to eight company closings compared to 104 jobs lost during 1Q 2005, although the number of company closings was 79. Job losses occurred in the chemical sector (65), nonmetallic mineral-products sector (53 jobs), food sector (38 jobs), and apparel / textile sector (19 jobs).

According to the agency's monthly economic analysis of its promotional efforts, there are 90 projects pending establishment, with a possibility of 5,181 new jobs, and an investment commitment of \$6.5 million. The sectors with the highest number of job commitments are the apparel / textile (1,195 jobs) and the chemicals sectors (1,017 jobs).

Pridco considers a promotion as a firm commitment by a private company for a future investment and associated job creation in exchange for economic incentives provided by law and administered by the agency. Benefits rendered by the company may not be only for manufacturing products but also to provide services.

### **Pharmaceutical sector highlights**

- Puerto Rico's first bioprocess research & workforce-development pilot plant in Mayagüez Guanajibo Industrial Park began construction this year with a \$12.5 million investment from the University of Puerto Rico, the Puerto Rico Economic Development & Commerce Department (EDCD), and Puerto Rico Industrial Development Co. (Pridco). Once finished, it will provide training and workforce development for employees in the manufacturing industry.
- With counterfeiting, fraud, and theft within the pharmaceutical industry's supply chain ranging from \$30 billion to more than \$50 billion in annual losses to pharmaceutical corporations, the industry has been developing electronic track-and-trace systems such

- as Radio Frequency Identification (known as RFID) and different security printing authentication technologies. One of such company is Hewlett-Packard's Center of Excellence in Aguadilla, which is specializing in providing anticounterfeiting programs to pharmaceutical-manufacturing companies and their packaging divisions.
- GlaxoSmithKline will invest \$80 million in its Cidra pharmaceutical plant for infrastructure improvements and expansions, as well as human-resources program, and upgrading and expanding its solid-dose manufacturing and packaging capability.
  - Aguadilla's HP announced it was transferring half of its Ink Jet Solution Business Unit to Malaysia and letting go approximately 600 employees. As a result, the contract manufacturing plant, Nypro Inc., that produced ink-jet cartridge parts for HP closed, leaving 180 workers jobless.
  - Since Medtronic Puerto Rico Operations Co. (MPROC) inaugurated its first medical-devices manufacturing operation in Villalba in 1974, it has increased its local businesses to four (Neurological, Diabetes, Cardiac Rhythm Management, and Spinal) and 2,090 employees. This year, the company inaugurated a new expansion at its Juncos plant.
  - Pfizer Corp. announced it would phase out its injectable-pharmaceuticals production plant in Barceloneta's Cruce Dávila by the end of the year, leaving 350 employees without jobs; eliminate 250 jobs in Barceloneta and 100 jobs in Arecibo, and phase out operations at its Arecibo plant by 2008. A possible sale of the Cruce Dávila plant to Amgen fell through.
  - Twelve-month sales of pharmaceutical products in Puerto Rico through August 2005 reached \$1.7 billion, with 79% sales for branded products, 13% for generics, and 8% for branded generics (generics sold under a proprietary brand name). Global sales reached a milestone, surpassing \$550 billion, though the growth rate declined to 7% driven by a 4% U.S. decrease.
  - The PRMA inaugurated its new \$5 million, 10,000-square-foot headquarters at the International Marketing Center in Guaynabo with the latest technology and infrastructure to follow through on the organizations new vision—improving the island's economy.
  - Locally owned Regulatory Compliance Services Corp. (ReComS) recently acquired for an undisclosed amount Humacao-based Accupharma Research & Scientific Consulting Inc., a company that develops and tests cleaning methods for analytical and microbiological products in the pharmaceutical industry. ReComS also was certified as a minority business enterprise (MBE) supplier by the Puerto Rico Supplier Development Council.
  - Cardinal Health inaugurated the company's \$6 million service and manufacturing clinical-technology plant in Las Piedras, which added 200 new jobs to the island's workforce. The company has five additional operations in Manatí, Añasco, Guaynabo, and two plants in Humacao, with a total workforce of 1,000 employees.
  - U.S. Food & Drug Administration approval of Wyeth's antibacterial treatment Tygacil, which will be manufactured in Wyeth's production plant in Carolina, could add up to \$1 billion in annual sales.

### **Puerto Rico's Top-10 Pharmaceutical Companies**

*August 2004-2005*

***In millions of \$U.S.***

Pfizer \$174  
 GlaxoSmithKline 110  
 Merck & Co. 93  
 Bristol-Myers Squibb 88  
 Abbott Laboratories 78  
 Johnson & Johnson 70  
 Wyeth 68  
 Novartis 66  
 Sanofi Aventis 65  
 AstraZeneca 64

Eli Lilly & Co. 55  
Amgen 52  
Schering-Plough 46  
Hoffmann-La Roche 27  
Teva 23  
Boehringer Ingelheim 23

*Source: IMS Health / Puerto Rico Sales Audit*

### **Manufacturing Company Closures in 2005**

Alcan Packaging Inc.  
Cardinal Health BSLs Humacao\*  
Checkpoint System of P.R.  
Corpak Inc.  
Erie Scientific Co.  
Hershey Co.\*\*  
Hewlett-Packard Corp.\*\*\*  
MTS Inc.  
Nypro P.R. Inc.-Aguadilla  
Pfizer Inc.-Barceloneta Cruce Dávila  
Rexnord de P.R.  
Timberland Co.  
Tonka Footwear Co.  
Vassallo Industries\*\*\*\*  
Watson Pharmaceuticals Inc.

\*Consolidating operations locally.

\*\*Purchased by McNeil Healthcare LLC

\*\*\*Transferring partial manufacturing operations to Malaysia.

\*\*\*\*Transferring partial operations to U.S. mainland.