Puerto Rico: What’s Behind the Growth

Marie Robert, director of new business development at Pridco, offers key data points on the robust state of medical device manufacturing in Puerto Rico.

By Sean Fenske, Editor-in-Chief

Reed Expo will launch its first Medical Device Puerto Rico show, sponsored by *Medical Design Technology*, February 7-8 in San Juan. Since the island continues to be a significant area of interest to the medical device manufacturing sector, *Medical Design Technology* asked Marie Robert, director of new business development at Pridco&#151the Puerto Rico Industrial Development Co.&#151to offer an overview of the medical device manufacturing industry in Puerto Rico and to show why it is such an attractive location for leading companies.
Pridco is a government-owned corporation responsible for promoting Puerto Rico to investors seeking to establish or expand their businesses on the island. It is also the largest owner of industrial real estate on the island.

Q: How is the industrial/manufacturing climate in Puerto Rico?
A: The manufacturing climate in Puerto Rico is excellent in as much as it offers a unique combination of manufacturing within a U.S. location&#151U.S. customs area, U.S. legal protections, including intellectual property, U.S. citizens, etc.&#151with the added advantage of being outside the U.S. federal tax jurisdiction. With a GDP of over $74 billion, an increase of over 64 percent since 1996, Puerto Rico is home to the subsidiaries of over 60 Fortune 100 companies and 217 of the Fortune 500. Outbound shipments&#151since most shipments are to the U.S. mainland, they are not considered exports but rather inter-state shipments&#151grew 141 percent since 1996, now totaling over $55 billion.

Q: What are three examples of products manufactured in Puerto Rico?
A: Fifty percent of all pacemakers and defibrillators made in the U.S. are made in Puerto Rico. Sixteen of the top 20 selling pharmaceuticals in the U.S. are made in Puerto Rico. Almost $7 billion in computer, electrical, and electronic products were shipped from the island last year.

Q: What percentage of the manufacturing sector is made up of medical device companies?
A: This industry generates 13 percent of all jobs in manufacturing. Currently, there are 67 companies within this category, totaling over 15,000 jobs. During the past three years, the companies that manufacture medical devices in Puerto Rico have generated an investment commitment for machinery and equipment of approximately $340 million, with an employment commitment of 7,260 jobs and a payroll commitment of $171 million. Companies announcing expansions include Baxter Healthcare Corp. with $68 million, CR Bard with $45 million, Medtronic with $24 million, Cordis with $20 million, Stryker with $19 million, Advanced Medical Optics with $16 million, U.S. Surgical with $10 million, Ethicon with $4 million, and

St. Jude with $3 million.

Q: How has the medical device manufacturing sector changed in Puerto Rico in the last decade?
A: There has been a continuing trend toward products with high value added, sophisticated facilities requirements, i.e. clean rooms, and a significant intellectual property component, and away from the lower end of the product group.

Q: What financial incentives are available to a company moving to or opening up a facility in Puerto Rico?
A: Puerto Rico’s value proposition combines financial, tax, and operational benefits for companies establishing on the island. The financial and tax benefits include:
&#149 Maximum corporate income tax rate of 7 percent that can be reduced based uponinvestment and employment created
&#149 No U.S. federal taxes until profits are repatriated to the parent company
&#149 Investment of profits with a foreign tax treatment
&#149 Accelerated depreciation (one year) of capital investment with unlimited losscarry forward
&#149 200 percent deduction for R&D and job training investments
&#149 90 percent exemption on personal and real property taxes, an effectiverate of under 1 percent
&#149 60 percent exemption on municipal taxes, an effective rate of under 1 percent
&#149 Wage rates average 20 percent to 30 percent lower than on the mainland
&#149 Training grants

Q: What are the primary characteristics of the labor pool?
A: Puerto Rico offers an educated, bilingual labor pool. Over 24,000 higher education degrees are awarded each year, some 9,000 of which are in science, technology, and engineering. In fact, the University of Puerto Rico’s School of Engineering is rated among the Top 15 in the nation. There are also vocational schools on the island. Turnover is low by mainland standards. Local residents hold senior management positions in most of the manufacturing facilities.

Q: What advantages does Puerto Rico offer medical device manufacturers that they may not be able to obtain elsewhere?
A: Puerto Rico offers a unique value proposition not available anywhere else in the world. First and foremost, it’s Puerto Rico’s relationship with the U.S. Puerto Rico has been part of the U.S. since 1898. The island shares the same legal and banking systems with the mainland. Companies and individuals in Puerto Rico enjoy the protections of the U.S. and Puerto Rico constitutions, including intellectual property protection. At the same time, the income from Puerto Rico operations are considered, for tax purposes, foreign source income and exempt from U.S. federal taxation until repatriated. Operationally, there is easy access to U.S. markets since there are no duties or quotas on goods shipped to or from the mainland. The port of San Juan is the seventh busiest container port in the Western Hemisphere, and there are some 1,500 cargo flights per week. Puerto Rico has the largest non-contiguous Foreign Trade Zone in the U.S. Attractive lease rates are available from Pridco.

Q: Are there other advantages?
A: Over 40 years of life sciences manufacturing experience has given rise to an elite group of highly educated, innovative, and dedicated management teams with extensive regulatory experience. Over those 40 years, the necessary support services have developed&#151everything from packaging to validation. Also, a recently completed study has shown that productivity rates per dollar in Puerto Rico are significantly higher than the U.S. mainland average.

Q: Do sites in Puerto Rico fall under FDA jurisdiction as far as facility inspections?
A: Yes. Actually, Puerto Rico is home to the largest FDA office outside Washington, DC.

Q: What sectors of medical device manufacturing are poised for significant growth?
A: The sectors expected to grow include implantables, coated stents, and other high value added products.

Q: Do you see trends developing that might affect the current landscape of medical device manufacturing in Puerto Rico?
A: The impact of nanotechnology and miniaturization will affect Puerto Rico positively as the need for skilled production workers and engineers becomes a main industry driver.

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