



# Puerto Rico Healthcare Manufacturing Strategy

Board Presentation

AUGUST 4, 2020



# Project Disclaimer

BCG is supporting the Puerto Rico Financial Oversight and Management Board (“Board”) in a short, focused effort to assess how Puerto Rico can best position itself to create mutual value for biopharmaceutical and medical device manufacturing companies, the US, and Puerto Rico. As part of the project, BCG was asked to consider:

- Companies and/or product segments most likely to in-shore to the US in the face of COVID-19 impacts and potential federal action;
- Puerto Rico’s competitive position and value proposition for biopharmaceutical and medical device manufacturers, particularly those identified as most likely to in-shore;
- Related potential impacts of federal tax incentives currently under consideration in Congress

Operating on a rapid four-week timeline, BCG developed recommendations set forth herein based on critical assumptions provided by and scope aligned with the Board and estimated impacts from policy and economic analysis, relying on best-faith efforts and stakeholder interviews, and to the extent possible, utilizing data that currently existed. Note that where location-specific data was unavailable, BCG leveraged similar data from other locations as an illustrative proxy to inform decision making. The results of the analysis reflect current context and are subject to change based on evolving federal and local action, insights from outreach efforts to companies, and information on global manufacturing shifts in the coming months. This report is intended to provide directional guidance based on the current state of in-shoring discussions, scenario planning, and federal action. It is also based on a critical assumption provided by the Board that federal legislation is significant enough that it brings back material manufacturing to the US and is applicable to companies in Puerto Rico.

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# Context & Introduction

# Recent events and trends may drive federal action to in-shore healthcare manufacturing

## Disruptive global events



- Current COVID crisis has highlighted **multiple failure modes** of healthcare supply chains globally
- **Multiple uncertainties** about future shocks and geopolitical conflicts persist
- **Changes in trade laws** and tariffs, esp. with China, and decline in global trade favoring local models

## Healthcare manufacturing trends



- Increased **globalization** of healthcare supply chains
- **Shifts in network strategy**, including increased outsourcing and use of CDMOs<sup>2</sup>

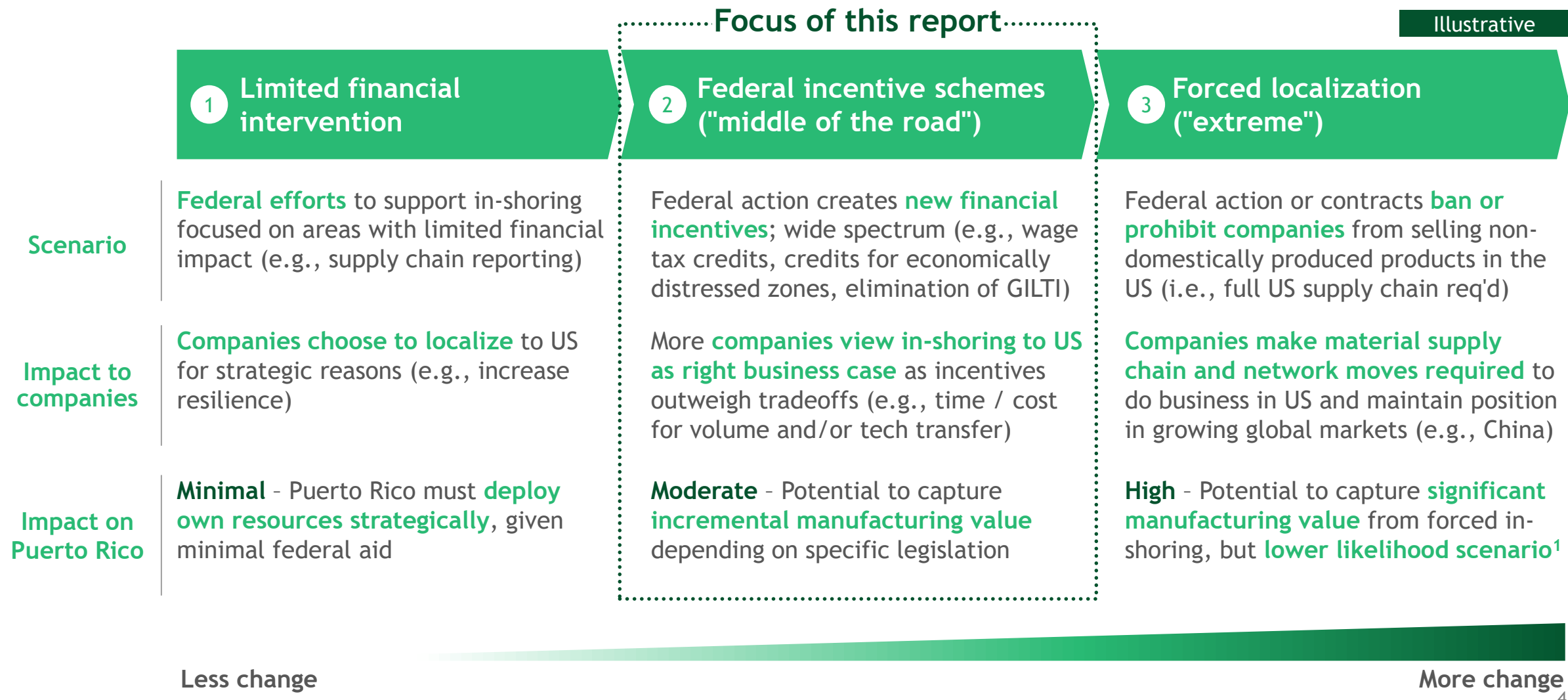
1. Examples include H.R. 6443 "Securing the National Supply Chain Act of 2020" (Rep. Gonzalez-Colon, R-PR-At Large), H.R. 6648 "Territorial Economic Recovery Act" (Rep. Plaskett, D-VI-At Large), H.R. 6903 (Rep. Green, R-TN), H.R. 6930 "MADE in America Act of 2020" (Rep. Carter, R-GA) 2. Contract Development and Manufacturing Organizations; inclusive of CMOs (Contract Manufacturing Organizations)  
Source: Congress.Gov, expert interviews, industry publications, BCG analysis

## Federal action



- Over 15 localization bills<sup>1</sup> to **incentivize or require** in-shoring of healthcare manufacturing introduced in US Congress in 2020

# For this report, assume federal action leads to significant in-shoring of Biopharma and Medtech manufacturing to the US based on incentive schemes



1. Based on synthesized interviews with industry stakeholders

Four-week rapid assessment to determine Puerto Rico's best path forward in face of federal legislation & impacts on ability to attract any in-shoring activity





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# Value Proposition & Positioning for Priority Companies and Product Segments



# Three questions to determine priorities for Puerto Rico in current context

In the current context, which products are most likely to move?



## Medically necessary

Global guidelines for essential medicines and med tech



## Impetus to change

Magnitude of supply chain at risk, indicating need to adapt or build resilience



## Ease to adjust

Effort to update supply chain, indicating willingness and timeline for changes

Of those products, which are PR well positioned to manufacture?



## Current landscape in Puerto Rico

Product types where Puerto Rico has track record, ecosystem, and available skilled labor force, and companies currently on the island



## Puerto Rico value proposition

Specific advantages and disadvantages that position Puerto Rico to win a subset of key products

How can PR attract these high potential products / companies?



## Companies and messages

Proactive outreach strategies for companies with economic benefit and higher likelihood of in-shoring in Puerto Rico



## Federal action

Potential impacts of federal legislation and tax incentives on attractiveness of Puerto Rico for priority products / companies

*Discussed in next section*



# First step: Consider high and medium potential product and segments that appear most likely to be impacted

*Note: many of these products / segments already have some US component to their supply chains*



## Biopharma

Near-term priorities expected to be essential medicines without full US supply chains and/or with supply chain risk

### High potential, e.g.,

- Asthma/allergy (EpiPen, Zyrtec)
- Pain relievers (ibuprofen, acetaminophen)
- Anti-infection (Neulasta & generic)
- Hormone tx (testosterone, estradiol)

#### US Sales 2026E

**~\$50B**

US sales (2026E)

#### # Products

**~130**

products

#### # Owner co's in PR<sup>1</sup>

**12+**

companies in PR own products

### Medium potential, e.g.,

- Asthma/allergy (epinephrine)
- Antibiotics (amoxicillin, combo tx)
- Blood clotting (thrombin)
- Anticoagulants (heparin, combo tx)

**~\$500B**

US sales (2026E)

**~1,200**

products

**14+**

companies in PR own products<sup>2</sup>



## Med tech

Near-term priorities expected to be COVID-essential equipment and consumables without full US supply chains and/or with supply chain risk

### High potential, e.g.,

- PPE (gloves, gowns, masks, etc.)
- Other key consumables (e.g. syringes)

**~\$5-15B<sup>3</sup>**

US sales (2026E)

**~2+**

product groups

**4+**

companies in PR own products<sup>4</sup>

### Medium potential, e.g.,

- Wound care (e.g., bandages)
- Fluid collection & processing (e.g., vials)
- Diagnostic imaging accessories
- Electrodiagnostics (e.g., ultrasound)
- Cardiac equipment (e.g., stethoscope)
- General surgical instruments
- *In vitro* diagnostics

**~\$130B+**

US sales (2026E)

**~6+**

product groups

**13+**

companies in PR own products<sup>2,5</sup>

1. Excludes CDMOs 2. Inclusive of companies with high potential products 3. Varies depending on categories included (gloves and ostomy ~\$2B, protective clothing, eyewear, hearing and respiratory protection ~\$16B) 4. Count of companies in PR with final assembly in "General Hospital" category 5. Count of companies in PR with final assembly in "Cardiovascular," "Hematology," or "General & Plastic Surgery," or "Radiology"  
Source: Fitch Solutions/BMI, Evaluate Pharma, PharmNets, GlobalData, WHO, WTO, DEDC PR, USFDA, BCG analysis

# Given the nature of expected moves, stakeholders believe CDMOs will be an important piece of the puzzle along with select Biopharmas and OEMs



## What we've heard from companies on strategy



Create redundancy in supply chain to reduce risk of disruption

vs.



Fully exit vulnerable current mfg locations (e.g., China, India)



"Companies can mitigate risk for most products by having a US component of supply chain" - VP at large medtech OEM



"It would be 'expensive, time-consuming and short sighted' to move all manufacturing capacity out of China to the US" - VP at large biopharma MNC



"Most of our APIs are made in India; if we had to shift to completely 'made in the USA' that would be cost prohibitive" - VP at large generic biopharma



Expand, or leverage underutilized capacity, in existing facilities

vs.



Build new facilities to support manufacturing shifts



"I believe we will largely leverage our existing capacity for favorable cost structure" - VP at leading biopharma CDMO



"If I had to decide where to invest in the US, I would look at our existing facilities first to maximize their capacity" - Former SVP Manufacturing at leading generics co



## What it means for Puerto Rico

### Prioritize Branded Cos. and OEMs that ...

- Own / make essential products for the US market
- Have an existing footprint in Puerto Rico
- Lack full value-chain manufacturing footprints or redundancy within the rest of the US; *though many have at least some existing presence elsewhere in the US*
  - E.g., Not all US product made in US, or ex-US raw materials or API that could be required to move

### Early outreach & collaboration with CDMOs that ...

- Are likely already getting requests from customers on this topic - may end up playing "matchmaker"
- Will be able to pool demand (products/segments) across smaller companies, or those without US or PR footprint
- Focus on return-on-capital and margins - brownfield and cost-competitive labor more influential
- Can cover broad set of capabilities from final products through upstream steps - in some cases may provide API or raw materials that could be at risk

# As expected, Puerto Rico has best chance to attract volumes in current areas of strength, which informs recommended company prioritization



## Biopharma



## Medtech



### Existing footprint

#### Small Molecules, and some Biologics

- ~80% of pharma products identified as made in PR are small molecules, compared with ~50% of US sales<sup>1</sup>

“ PR has a **history of a high level of competency small molecules; some I believe in biologics too**

- VP of Manufacturing, large generics co

“ We are seeing a move in PR towards biopharma products and processes in the **oral solid dosage area finishing and packaging** and less in APIs

- CRB Caribe, HC&LS Review

“ Products that require **highly technical, or manual technology-enabled** manufacturing are a good fit to Puerto Rico's value proposition

- VP of Operations, large medtech

“ PR is an **extremely attractive option from a med tech standpoint**, especially because quality and reliability are on par with other US locations

- Former Global Head of Procurement, large medtech

### No / limited footprint

“ **Vaccines** will need capacity, but also high risk and would want to **go where the skill set exists**

- VP of Global Supply Business Dev., large pharma

“ **New modalities** are very complex so they require very skilled operators, high speed, high quality, and extensive experience

- Director of Mfg for Gene Therapy, large pharma

“ Approximately 60% of **consumables** are already made in the US today; PR does have some mid-volume products like tubing sets but most high-volume consumables, like needles, are made in the South of the US

- Director of Global Strategic Sourcing, large medtech

“ **High end instrumentation** used to be the sweet spot for the US, but no longer...much of this is moving to Asia

- VP Former Global Head of Procurement, large medtech

1. Based on analysis of 125 identified pharma products with at least one manufacturing step in Puerto Rico; US sales in terms of dollar value  
Source: PharmNets, Evaluate Pharma, Health and Life Sciences Review Puerto Rico 2016, Expert interviews, BCG analysis

Across companies, must consider Puerto Rico's holistic value proposition ...

## Puerto Rico Strengths



Strong existing **manufacturing ecosystem and capacity** that minimize time and capital requirements for product transfer



**Specialized, cost-competitive labor** with strong pipeline of universities and labs



**Lower cost of manufacturing** compared to US states with established manufacturing

## Puerto Rico Challenges



Perception of **higher operational risks** than most US states



Perception of **reliability & infrastructure concerns** compared to other US states

... compared to other US options (for the purposes of this report)



**Other US alternatives**  
*(influence Puerto Rico's "fair share")*

- **Established manufacturing locations**
  - e.g., MA, CA, NJ, NC, PA, IN, IL
- **Economically distressed zones**
  - e.g., Southeast, Mid-Atlantic, Border States



**Non-US alternatives**  
*(influence overall in-shoring to US)*



Ireland



Germany



Singapore



China



China

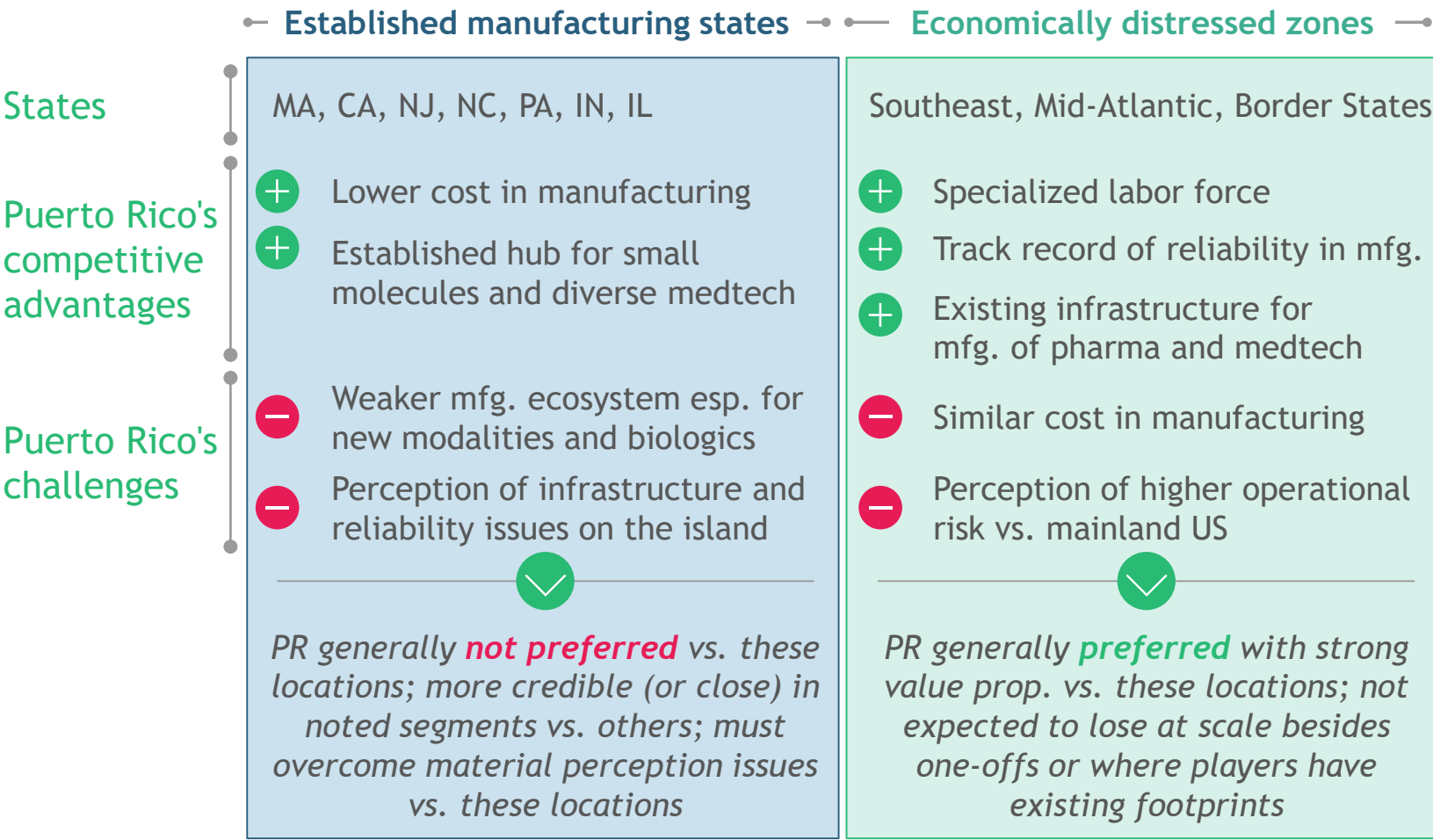
*Assumption is federal action will materially result in in-shoring to US, so focus is on Puerto Rico value proposition vs. US alternatives*

# Comparison of Puerto Rico's value proposition relative to US states

## Considered value proposition across eight dimensions

1. Labor and workforce
2. Quality and reliability
3. Infrastructure
4. Operations risk
5. Manufacturing ecosystem
6. Manufacturing cost
7. Tax climate
8. Ability to serve US market

Comparison, along with prioritized products/companies, informs impact analysis of federal legislation



Source: Fitch Solutions / BMI Research, PharmNets, Euromonitor, Healthcare and Life Sciences Review Puerto Rico 2020, EIU, World Bank, Notre Dame Climate Risk Index, SEDA, Transparency International, CNBC State Business index, EIA, BLS, USTR, Cushman & Wakefield, BCG analysis

# Companies fall into archetypes for analysis and prioritization



## Biopharma

*Prioritize outreach to companies who own or could manufacture medically essential products*



## Medtech

*Target OEMs and CDMOs with footprint in PR in key product segments for incremental expansion, esp. by bringing more supply chain steps to PR*

## Multinational companies (MNCs)

- Consolidation of key products in few top companies (branded and generics)
- Prioritize companies with existing footprint in PR given easier route to expansion
- Cost sensitivity in many segments, likely to find PR expansion attractive
- Open the door to upstream conversations (e.g., API, raw materials)

## CDMOs (Contract Development and Manufacturing Organizations)<sup>1</sup>

- Well positioned to pool demand across smaller companies looking for reliable coverage of US market
- Some have presence in PR already they can leverage for expansion, and turnkey sites improve ROIC

## Small to mid-sized companies

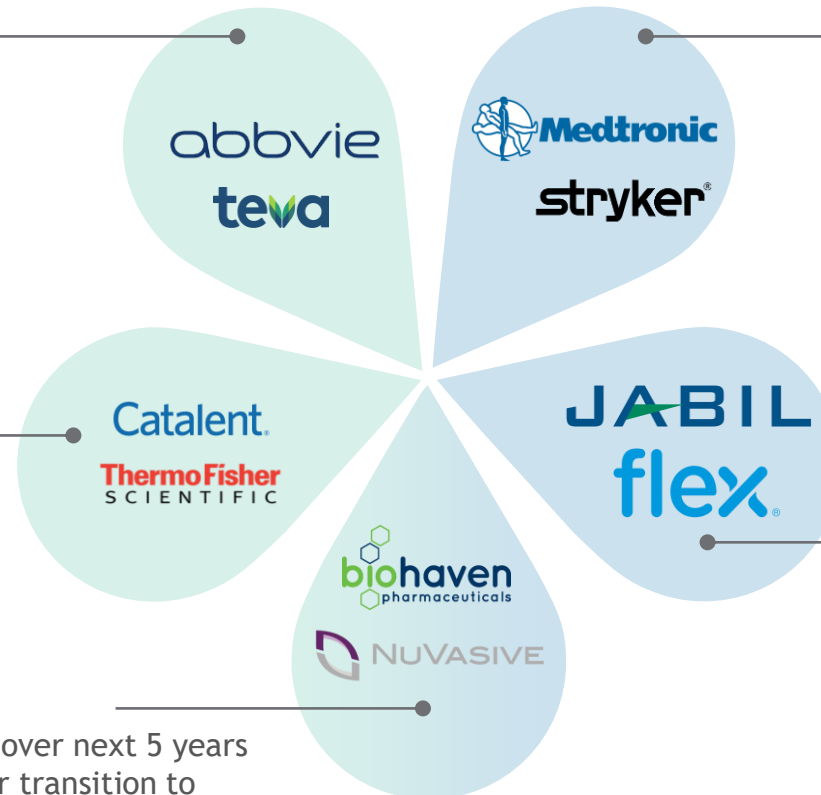
- Expected sig. growth in US sales over next 5 years
- Opportunity to capture growth or transition to commercial manufacturing for new products
- *Initially, address through small company advocates and trade associations for scale*

## Large OEMs

- Top few companies have very broad portfolios covering many key segments
- Prioritize OEMs with existing footprint; likely to have underutilized capacity that can be leveraged for additional production, or ability to build out on a campus / nearby for new capabilities
- Existing manufacturing ecosystem across the value chain

## Leading CDMOs or suppliers with coverage of US Medtech ecosystem

- Potential to pool demand across smaller companies or without US mfg footprint - can help companies establish US component of supply chains
- Availability of mfg ecosystem, labor, and brownfield sites which improve ROIC make PR appealing to these companies
- Increasingly active in PPE / consumables



1. Inclusive of CMOs (Contract Manufacturing Organizations)





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# Potential Federal Legislation & Tax Incentive Impacts



# US government is considering a range of actions as lever to drive significant in-shoring of biopharma and medtech manufacturing to the US



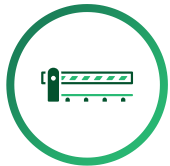
## Financial incentives

Tax credits, reductions in taxable income, reductions in import duties, sourcing penalties



## Procurement bans

Restrictive government purchasing, penalties for sourcing from target jurisdictions



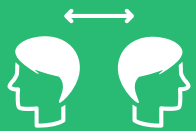
## Trade restrictions

Import bans, Export restrictions, punitive tariffs, local content/manufacturing requirements



## Access incentives

Expedited approvals, exclusive reimbursement, preferential pricing



## Current situation

Over **15 localization bills**<sup>1</sup> to strengthen healthcare manufacturing and supply chain introduced in Congress post COVID-19 ...

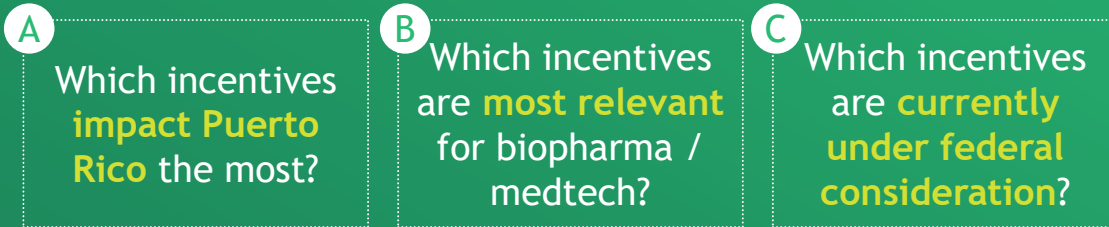
... however, provisions vary by bill, so companies are considering **several alternative scenarios** for how federal action could play out

1. There are more than 20 bills that look at US biopharma and medtech supply chain resilience more broadly (e.g., focusing on reporting requirements, empowering the SecHHS to conduct studies on current supply chain, etc.)

Source: USTR, USPTO, US Dept. of Treasury, IRS, PharmNets, Congress.Gov, synthesized expert interviews, industry publications, BCG analysis

# Identified most relevant incentives for in current federal landscape

Starting from a **long list** of tax incentives, applied **3 filters** ...



... and **prioritized 2 types of incentives** for impact analyses<sup>1</sup>



## Economically distressed zones

Credits for **~20-40% of wage expenses & depreciation / amortization allowances** in mfg. in specialized zones in US<sup>2</sup>



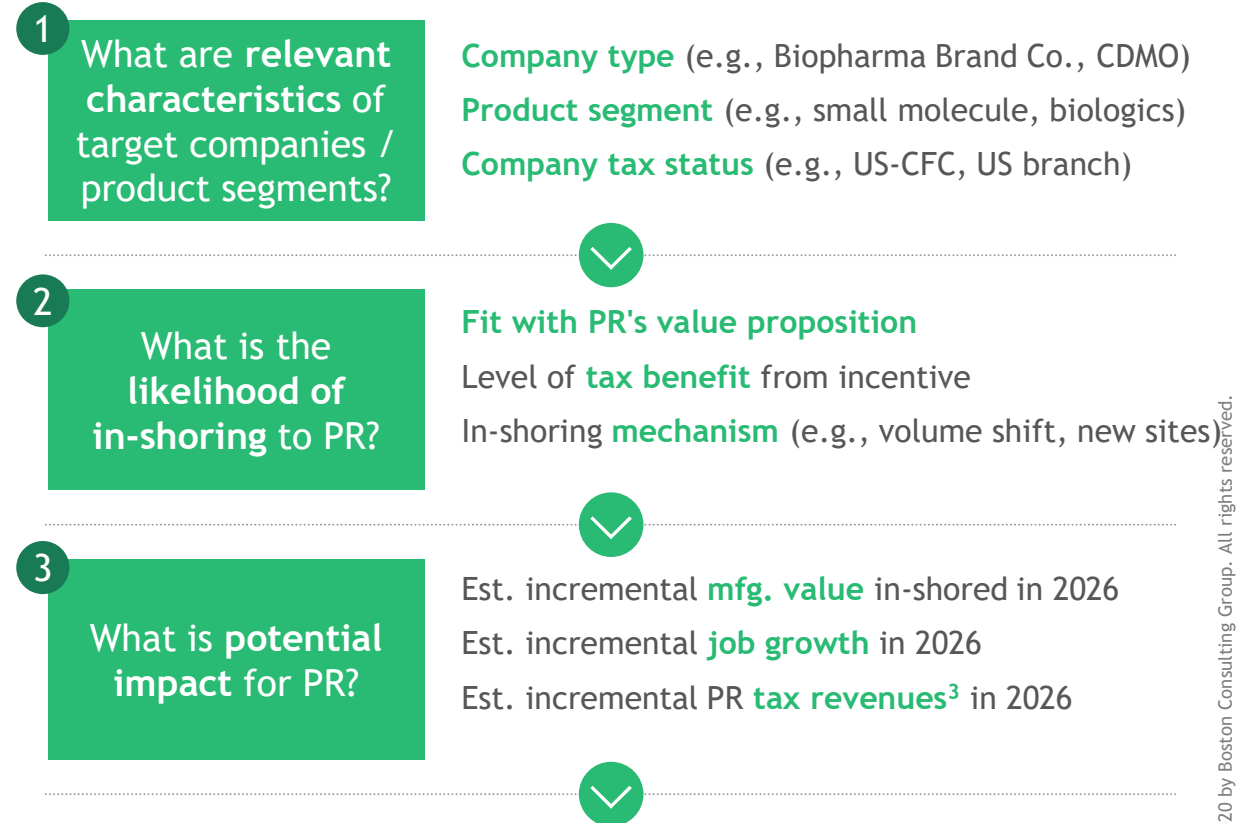
## GILTI elimination + standalone incentives

**Income generated by PR CFCs** not considered toward GILTI<sup>3</sup> plus credits for **~3-10% wage expenses & depreciation / amortization allowances**

1. Also reviewed and deprioritized standalone incentives without GILTI elimination 2. Assumed activities of PR branches and PR CFCs of US-domiciled parent companies are eligible for credits  
3. Global Intangible Low-Taxed Income 4. Focused only on PR excise and local tax revenues

# Compared potential attractiveness of incentives for in-shoring mfg. to PR

Addressed **three key questions** for both types of incentives ...

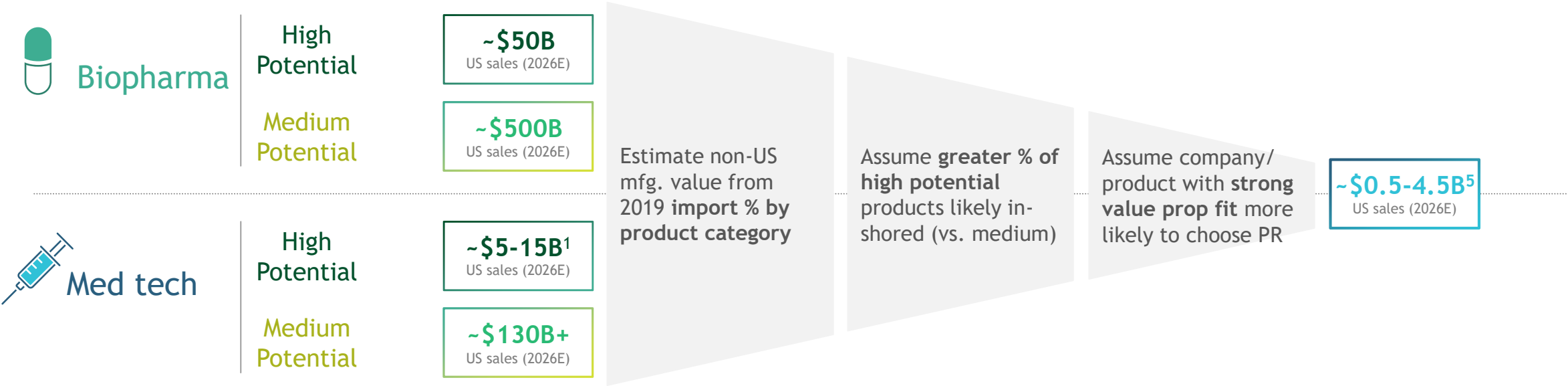
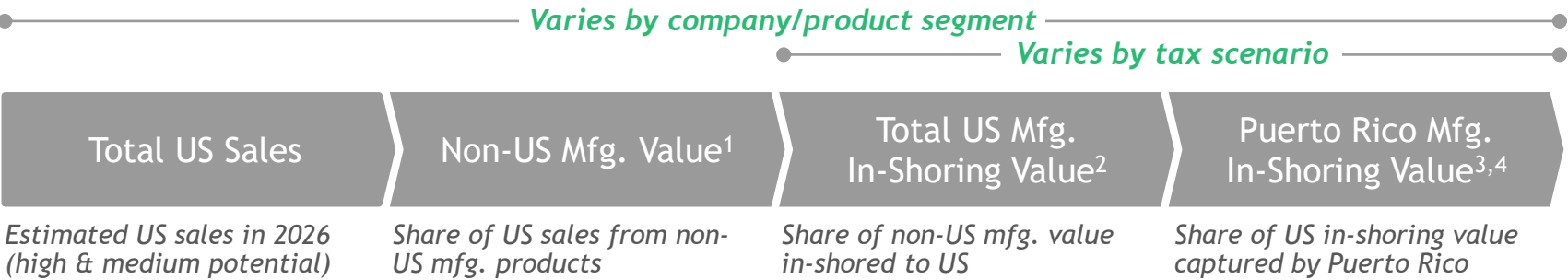


... and **assessed potential attractiveness** of EDZ & GILTI elimination proposals for each company/product segment

# If PR captures ~5-30% of mfg. in-shored to US, up to ~\$5B est. value in 2026

US in-shoring value will depend on federal actions; PR share of US value will depend on company/product segment fit

Illustrative



1. Based on size of US imports compared to US sales (value of final assembly for products) 2. Varies depending on federal tax incentive scenario and by product/company segments based on likelihood to in-shore mfg. 3. Assume PR captures share of US pharma/medtech in-shored sales approx. equal to PR share of US exports (proxy for mfg. footprint), adjusted for product/company segments with strong value proposition 4. Jobs and tax revenues vary depending on estimated in-shoring value 5. Potential direct value; estimated range varies by tax scenario  
Source: Fitch Solutions/BMI, Evaluate Pharma, PharmNets, GlobalData, PIIIE, Research and Markets, USTR, WHO, WTO, DEDC PR, USFDA, synthesized expert interviews, BCG analysis

# Legislation for economically distressed zones is more likely to spur in-shoring of mfg. and produce more impact for Puerto Rico (vs. eliminating GILTI)

## Economically Distressed Zones (EDZ)



## GILTI Elimination + Standalone Incentives



### Estimated Impact

- Potential to in-shore up to approx. \$1.5-4.5B in mfg. value to PR (2026E); rep. ~1,000-3,000 FTEs & ~\$70M-\$220M in tax dollars<sup>1,2</sup>

- Potential to in-shore up to approx. \$0.5-2.5B in mfg. value to PR (2026E); rep. ~500-1,400 FTEs & ~\$35M-\$105M in tax dollars<sup>1,2</sup>

### Companies & Products

#### Lower margin companies

- Tax benefit **most attractive for cost-sensitive generics** in small molecules, biologics, and medical devices
  - Good fit with Puerto Rico value prop** (talent availability, quality, existing mfg. ecosystem, especially small molecules)
  - Growth via **volume shifts** w/ some opportunistic site expansion
- Tax benefit & value prop also **attractive for lower margin OEM med devices**, given existing brownfield sites & underutilized capacity

#### Lower margin companies

- Tax benefit **similar but slightly less attractive vs. EDZ for generics** (smaller impact from eliminating GILTI; other incentives weaker)
  - Small molecules, biologics, med devices still priority** given value prop fit (current mfg. footprint and talent)
- Also attractive for lower margin OEM value prop, esp. in med devices, although **upside is much smaller compared to EDZ**

#### Higher margin companies

- Unlikely to drive change for branded cos. and some higher margin OEMs**, since level of incentive not enough to change siting (prioritized by existing footprint, labor available)

#### Higher margin companies

- Unlikely to drive change for branded cos. and some higher margin OEMs**, despite preferring GILTI elimination over EDZ, given costs/tax benefits are less important than overall value prop for future growth<sup>3</sup>

#### CMOs/CDMOs

- Tax benefit and fit with PR value prop also **attractive**, given cost sensitive margin structure and ability to **leverage turnkey sites w/ good ROIC<sup>4</sup>** + production pooling to grow via volume shifts

#### CMOs/CDMOs

- Tax benefit **slightly less attractive vs. EDZ**, given reduced benefit of limited GILTI impact and weaker benefits from standalone incentives for cost-sensitive margin structure

### Value Proposition

- PR is **competitively positioned vs. other economically distressed zones** due to talent and mfg. ecosystem
- Incentives help strengthen **labor cost advantage** vs. established mfg. locations in the US (e.g., CA, MA, IN)

- Limited change for PR competitive positioning** vs. states, given brand cos unlikely to change, and lower value for Gx and CDMOs
- Standalone incentives provide **smaller labor cost advantage** vs. established mfg. locations in the US (e.g., CA, MA, IN)
- Likely requires additional language in federal legislation** to ensure realization of mfg. investment and job creation in PR

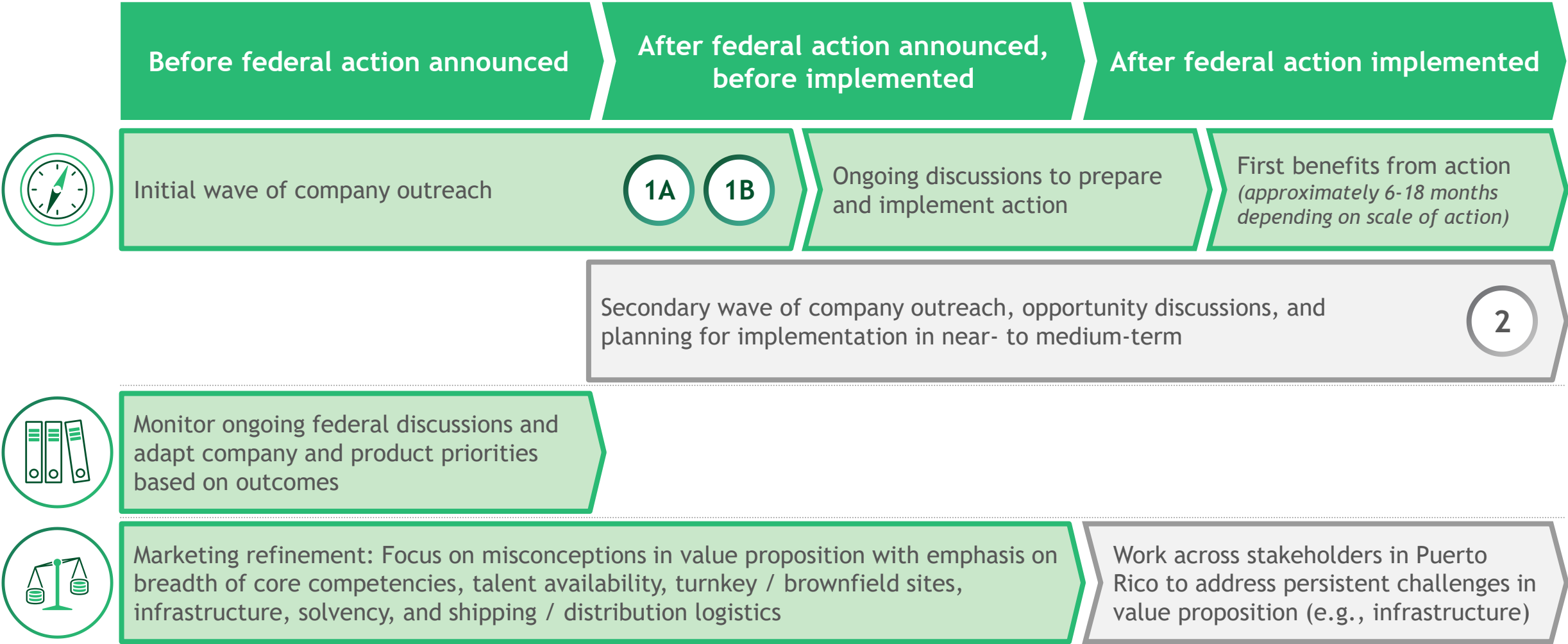
1. Incremental FTEs, tax revenues in 2026e over current FTEs, tax revenues; FTEs rounded to nearest 100 and tax revenue rounded to nearest \$5M 2. Only looking at PR excise and local income tax revenues, and assumes US-domiciled parent companies can claim credits for PR branch and CFC activities 3. Increasing foreign tax credit cap vs. GILTI obligations likely also has limited impact today; could shift if excise tax is eliminated as tax on PR source income tax increases to cover shortfall. Companies would be enabled to use more of these incremental tax dollars as foreign income tax credits against higher cap 4. Return on invested capital



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# Action Plan for Puerto Rico

# Recommend Puerto Rico begin proactive outreach while continuing to monitor federal actions and address value proposition misconceptions in near-term





# Proactive outreach will be critical in near-term, and companies - especially CDMOs - are open to dialogue

1A

## MNCs & OEMs with existing footprint

- Existing relationships and largely open to discussions on product/line moves
- Important to ensure appropriate actions to retain Puerto Rico volumes in any case
- Ensure Puerto Rico is in the scenario discussion now as federal actions play out

1B

## CDMOs with/without footprint

- Many already engaging with customers about potential US supply chain needs
- Able to create scale by pooling incremental moves by companies on/off island
- Driven by ROIC<sup>1</sup> and economics, so incentives are material to site decisions
- Understand what they are hearing from their customers (e.g., increased US demand, likelihood and stringency of potential legislative changes)
- Understand ability to serve customers such as current CDMO US footprint and capacity
- Reinforce Puerto Rico value proposition
- Discuss scenarios, continue engagement, align on action plan when there is more clarity on federal legislation

2

## Companies without footprint

- Potential to interest companies with concentration of high potential products
- Overall level of interest likely dependent on if there is extreme federal action
- Potential for coverage of companies without footprint via CDMOs in near-term
- Initiate discussions with key stakeholders to better understand company context and introduce PR value proposition
- Assess likelihood of major internal moves
- Potentially raise opportunity and value of outsourcing and connect with actively engaged CDMOs in parallel (even potentially approach with CDMO)
- Selectively continue discussions based on company interest and further clarity on legislation

Rationale

Topics for discussion







# Track and continue to assess key elements of federal legislation

## Important terms that determine scope



- **Qualified employee**  
(e.g., full-time vs. part-time, local talent)
- Scope of **wages and benefits** to include  
(e.g., salary, healthcare)
- **Allowed depreciating property**  
(e.g., real property, personal property, short/medium/long-life property)
- **Qualified manufacturing** line/facility  
(e.g., line/facility moved to the US)
- **Geographic scope** of applicability  
(e.g., including US territories)
- **Qualifying companies**  
(e.g., CFCs, domestic branches, CDMOs)

## Related impacts to track for outreach strategy



- **Defined list of essential products**
  - Could include non-finished products (e.g. sub-assembly, excipients)
- **Biannual review of pharma and medtech supply chain** resilience by Dept HHS
- Degree to which **SecHHS empowered to redefine** list  
(e.g., item must be at least 5x required level for shortage designation before considered for removal)
- **Carry forward/back** allowances for credits  
(e.g., %/\$ of allowable credits, furthest period for carry forward / back)
- **Effective date** of Dec. 2019  
(e.g., bill goes into effect immediately)

## Additional considerations to monitor closely



- Amend BEAT<sup>1</sup> to **reduce BEAT liability** for US companies with PR CFCs<sup>2</sup>
  - Changes could stimulate high-margin US companies (e.g., Brand Cos., OEMs) to invest more in PR via CFCs
- Increase **foreign tax credit cap vs. GILTI** (e.g., from 80% to 100%)<sup>3</sup>
  - Magnitude of impact potentially tied to changes in excise tax<sup>4</sup>

1. Base Erosion and Anti-Abuse Tax (BEAT) 2. Currently not in any proposed legislation 3. Currently proposed in HR 6930 4. Elimination of excise tax could increase in PR source income tax to cover shortfall. Unlike excise tax, source income tax payments can be used for foreign tax credit purposes; increasing credit cap would enable companies, to use more of these incremental tax dollars as foreign tax credits against GILTI

Source: Congress.Gov, synthesized expert interviews, BCG analysis



# Given our conversations, we believe additional strategic marketing separating fact from fiction/perception would be beneficial

Illustrative

Effective marketing messages could clarify existing perceptions (not exhaustive), e.g., ...



Availability of Talent

“ There's **been loss of talent** on the island after 936, with little new talent coming in

- VP of Governmental Affairs, large brand pharma

“ There is **skill but in small numbers**. It's limited to what's on the island, other people won't move there

- Director of Global Strategic Sourcing, large med-tech



Productivity

“ Sometimes there is "a **mañana culture**" - in other words, worry about it tomorrow. That could lead to quality & reliability issues

-Head of External Supply, large brand pharma

“ The quality issues we had in PR with CDMOs was **technical incompetence**

-Former VP of Mfg, large generic pharma

Characterize the true extent of structural issues (not exhaustive), e.g., ...



Natural Hazards

“ Issues with infrastructure and natural disaster push **Puerto Rico further down the list**

-CEO, small med-tech

“ We have spent a lot of **time and money building redundancies** in Puerto Rico to shore up resilience in case of disasters

- Former Exec. Director of US Advocacy, large brand pharma



Business env.

“ I would be surprised if there is major investment [in PR] unless there is a **significant negotiation with the government** for a tax break

-Head of External Supply, large brand pharma

“ If there is no financial incentive to be there, I would **pick anywhere else** in the contiguous US

-SVP global supply chain, large pharma

To further strengthen PR's competitiveness, continue evaluating additional federal and local legislation, and improvements to broader value proposition

*Ideas captured from stakeholder discussions and additional research*



## Federal and local incentives for further exploration

### Federal

- Increase cap on **foreign tax credit** vs. GILTI
- **Amend BEAT<sup>1</sup>** to reduce liability for payments to PR CFCs
- Seek **permanent exemption** of rules for foreign air transport of cargo<sup>2</sup>
- Increase **Free Trade Zone coverage** with Commerce Dept. approval
- Loosen **Jones Act** restrictions on shipping (e.g., exemption for mfg products)

### Local

- Phase-out or reduce **excise tax burden**, with clarity around timetable for tax revenue replacement options (e.g., source income tax)
- Provide additional **innovation credits** for businesses, **grants** for universities to increase research conducted on island
- Provide tax credits for **hiring/retaining local talent**



## Fundamental changes to strengthen PR value proposition

- Increase **economic certainty** by improving
  - **Transparency** around process (e.g., mfg permits, consent agreements)
  - Clarity on **leg. prerogatives** (e.g., excise tax, vision for biopharma/medtech)
- Strengthen **industrial infrastructure** (e.g., electrical grid, water supply)
- Improve **surface transport** (e.g., quality, reach of roads)
- Shift narrative about island to **strength of resilience of operations** when faced with natural hazards (e.g., hurricane, earthquake)
- Increase incentives for **talent to stay local** (e.g., credits for hiring PR talent)

1. Base Erosion and Anti-Abuse Tax (BEAT) 2. Building on the temporary waiver granted to PR by the Dept. of Transportation on April 29, 2020 (Order 2020-4-10)

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