



Advancing Economic Freedom to Create the “Hong Kong of the Americas”

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Recommendations for the Economic Task Force

Federal Initiatives

1. Grant a Jones Act Exemption to the Port of Ponce
2. Expedite EPA permissions or procure exemptions
3. Allow US companies to Repatriate Profits through Puerto Rico

Commonwealth Initiatives

Recommendations for the Commission to suggest to the Fiscal Control Board

1. Privatize government-owned corporations
2. Lower/Eliminate Corporate Taxes
3. Achieve an Easy, Same-day, Online Permit Process
4. Expedite the Construction Permit Process
5. Protect and expand Acts 20 and 22
6. Sell Idle Government Owned Properties (PRIDCO, etc.)

Harmful Ideas that should be Ruled Out

1. Do NOT create a “new and better” Development Bank
2. Do NOT promote government “investment” (aka “spending”)



Grant a Jones Act Exemption to the Port of Ponce

If a full exemption is an impasse, one just for the port city of Ponce will make a difference to lowering the cost of goods for both businesses and those struggling to make ends meet.

One report in 2003 estimated that the Jones Act costs Puerto Rico \$400 million annually. An exemption to the anachronistic Merchant Marine "Jones Act" would reduce the cost of imported goods as well as positively impacting Puerto Rican exports. The U.S. Virgin Islands and Guam already have exemptions to the Jones Act so there is precedent to support this change. At minimum, a 21st Century Jones Act reform of the "ship build" and "international relay" provisions would have a dramatic impact on Puerto Rican economic growth.

The Merchant Marine "Jones Act" requires that any goods moving between two U.S. ports be shipped on U.S. built, owned, flagged, and crewed vessels, dramatically driving up shipping costs. A U.S. flagged ship costs on average \$20,053 per day to operate versus \$7,454 for comparable foreign vessels. For this reason the Government Accountability Office, Kreuger Report, and many others have long argued for an exemption for Puerto Rico from this protectionist law; and the strong special interest lobby has long prevented it.

Creating a Jones Act Exemption for the Port of Ponce would not threaten the national security interests of the United States, nor would it have significant impact on U.S. shipyards or threaten our merchant marine. Ponce has, in recent years, invested substantially on port infrastructure and is well equipped to handle an influx of shipping. A Jones Act exemption would create a dynamic economic boost to the city, as well as to the rest of Puerto Rico.



Expedite or Procure Exemptions for EPA Permits

...for critical infrastructure and development projects necessary for energy and economic growth.

Puerto Rico needs exemptions, permanent or at least temporary, to the labyrinth of Environmental Protection Agency regulations. A recent [Bloomberg article](#) lamented the two year delay in bringing the Aguirre power plant online, which has been stymied by regulations that place a priority on a sea turtle's' migration path, despite the turtles being innately nomadic. The essential infrastructure is needed not only for helping to reduce sky-high electricity prices on the island, but also to meet onerous EPA mandates to reduce mercury and other emissions, thus revealing the regulation's counterproductive nature.

Puerto Ricans pay more than twice the cost of electricity on the mainland. The added costs to consumers and business owners here make this project and others like it imperative to overcoming the crisis. Instead of helping the people of Puerto Rico escape the crisis by reducing their power bills and creating a competitive business environment, these ill-advised regulations could end up costing the island's taxpayers \$37,500 per violation per day.



Allow U.S. Companies to Repatriate Profits through Puerto Rico

**Repatriating profits is a bipartisan objective, doing so
through Puerto Rico while investing here is a win-win-win.**

The idea is that any U.S. corporation could repatriate profits from foreign subsidiaries by establishing a Puerto Rico-based subsidiary and making a capital investment on the island. A capital investment could include construction, hiring local employees, buying property, locating or relocating manufacturing to the island, etc. Once the capital investment is made, they can repatriate significant sums, say, up to 10 times the amount of the investment to the U.S. parent company at a nominal federal tax rate. A U.S. Corporation participating in this program would receive a preferential Puerto Rican Corporate Tax rate of 12.5%.

Win-win-win

The Puerto Rican economy would benefit from the new investments, the U.S. economy would benefit from an influx of offshore corporate money, corporations would benefit by having a means to responsibly bring home profits, and the U.S. government would get (albeit lower) taxes they currently cannot collect.



Privatize Government Owned Corporations

The simplest way to resolve liquidity shortages is to sell assets and allow the private sector to more efficiently meet public needs.

Puerto Rico has the unfortunate distinction of being the only state or territory in the U.S. with its own Wikipedia page enumerating a "list of government-owned corporations in Puerto Rico," which boasts 52 state-owned entities. That list does not include a reported 19 "city-owned" restaurants and one hotel in just one municipality, as was recently revealed in a New York Times article. These government-owned entities could provide much needed capital or liquidity to pay the island's debt if they were off-loaded to private ownership. PREPA (the Puerto Rico Electric Power Authority) would be a great place to start.



Lower/Eliminate Corporate Taxes

Puerto Rico has the 2nd highest corporate tax rate in the World. It must be lowered to a level that makes Puerto Rico competitive among its Caribbean neighbors.

We operate in a global economy: Puerto Rico's corporate tax rate is 39%. When compared to the Dominican Republic's 27%, it becomes obvious this would be a significant difference to any multinational considering where to relocate.

Ideal Option

Puerto Rico is already not subject to paying Federal income taxes, NOTHING could do more for Puerto Rico's economic growth than implementing a 0% commonwealth corporate tax - we would become a magnet overnight! This is doable: several neighboring islands have a 0% rate, South Dakota and Wyoming do not levy a corporate income tax nor a gross receipts tax.

Moderate Option

Implementing a flat rate of 12.5%, as is the case in Ireland, would put Puerto Rico in the 20 most competitive countries.

Economic activity would soar and "IVU" Sales Tax revenue would more than compensate for the loss of income tax.



Achieve an Easy, Same-Day, Online Permit Process

Politicians weep over high unemployment rates, but every job-creator says the same thing: doing business in Puerto Rico is expensive and difficult. Permits to open a new small business should take one day.

A visit to an online 'one-stop shop' should be all that is required for the necessary government permits to open a business. Inspections should come *after* the start of business and should be conducted in a timely manner. Many businesses in Puerto Rico go bankrupt while waiting for the appropriate permits to be approved. The current process can take several months and many small businesses never open their doors as a result.



Expedite the Construction Permit Process

The World Bank ranks Puerto Rico #135 out of 186 countries in the world for acquiring construction permits. This task should be entrusted to an organization of industry professionals, as recommended by the P.R. Homebuilder's Association.

A professional organization would be much more capable of facilitating a competent, and efficient peer managed permitting process. Outsourcing this process would save time and effort for the builder, and save government resources. There is presently a months long backlog of project proposals waiting to be approved that would immediately boost the economy if put through a more expeditious process.



Protect and Expand Acts 20 and 22

These laws have proven to attract capital and investment, the “fairness” concerns are understandable which is why they should be expanded and be inclusive to Puerto Ricans.

Act 20 and 22 were designed to attract high net worth individuals and high tech businesses to the island by offering them one of the commonwealth's unique competitive advantages - the ability to be a legal tax haven. While some Puerto Rican authorities have made an effort to promote this feature, there has been a simultaneous effort to undermine the program by increasing fees and raising the bureaucratic barriers to enlist in the program. Standing up for Acts 20 and 22 would assure a continued level of interest and investment.

Critics have understable concerns that the laws are unfair since an individual cannot have lived on the island in the last 6 years, therefore excluding Puerto Ricans. We recommend eliminating this rule and incentivizing Puerto Rico's entrepreneurs to stay on the island and invest locally, rather than being punished.



Sell Idle Government Owned Properties (PRIDCO, etc.)

With the government's pressing need for liquidity to maintain essential services it makes no sense to sit on idle assets. Furthermore, liquidation would remove maintenance costs from future budgets.

PRIDCO, the Puerto Rico Industrial Development Company, has 283 idle or unused properties in its portfolio that, if sold, could provide much-needed funds to solve the debt crisis and prevent reductions in necessary government services. These need not be sold at "fire sale" prices, but could be offered with expedited permitting and reduced regulations along with favorable financing and tax incentives to produce immediate revenue to the treasury.



Do NOT create a “New and Better” Development Bank

Some voices have called for a new Government Development Bank to replace the existing insolvent, crony, poorly-managed, financial drain that is the current Development Bank (GDB in Spanish) - this is refusing to learn from our past.

A better solution is to allow more competition in Puerto Rico's banking industry. Currently, there is a law prohibiting banks with their deposits off the island (Bank of America, Chase, etc.) to lend locally. This is ludicrous.

Each agency and political subdivision should apply for loans as needed for capital investment without using a central bank as a proxy.



Do NOT Promote Government “Investment/Spending”

**If out of control government spending is what got us where we are,
more spending cannot possibly be the solution! Real economic
growth from sustainable businesses is what we need.**

Government spending does not create economic growth, rather the appearance of a temporary stimulus. Government can only “invest” what they have taken from the private sector in the first place. Instead, the private sector will create the growth needed if a low tax and regulatory environment is in place.