

PIA-PR DEPOSITION FOR THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD (FOMB) MEETING OF MARCH 31st 2017

PANEL TITLE: Reinvigorating Puerto Rico's Manufacturing Base

PANELISTS: Felipe Palacios, PIA President (AbbVie) & Kerry Ingalls, PIA Board Member (Amgen)

- Thank you for inviting the Puerto Rico Pharmaceutical Industry Association (PIA-PR) to participate in the meeting today. We certainly welcome the opportunity of being part of the solution to the challenges we currently face in our island. At PIA-PR, we are committed to collaborate with the government and the Financial Oversight and Management Board (Board) in the development of solutions pursuing a sustainable and healthy future for our island and our communities.
- PIA-PR represents 14 Bio-Pharmaceutical companies operating in the island; 9 of which have manufacturing operations besides our ongoing Commercial operations. The footprint of our industry is very relevant to the economic landscape of the Island – the industry has been operating in PR now for over 50 years. Our impact includes (i) the generation of around 80,000 jobs of which nearly 20,000 are direct averaging approximately three times the average salary in PR, (ii) a tax revenue contribution of more than \$3 Billion a year representing a third of the total PR Government revenue, and (iii) a capital investment on the island of around \$10 Billion with additional investments of over \$500 Million per year to keep our infrastructure running. Undoubtedly, the Bio-Pharmaceutical manufacturing sector, represented by the companies conforming PIA-PR, is the back bone of Puerto Rico's economy and it will take years to develop any other sector to the level we are today. To put it in perspective, the closest industry to ours in terms of economic impact to PR is Tourism representing only 7% of the island's GDP vs our 30% GDP footprint. Furthermore, this industry is committed to the island community throughout partnerships with the Academia including the University of Puerto Rico, participation in advisory boards, scholarships, internships, post doc programs, contributions to United Ways, Boys and Girls Club, Alianza para un Puerto Rico sin Drogas, among other non-profit organizations.

- We are taking the time to highlight to the Board members of our current footprint because we often find a great deal of misunderstanding of our Industry in the general public regarding our vision, mission and impact to our island and our Communities. Our Industry, represented by the companies conforming PIA-PR, are research-based Bio-Pharmaceutical companies with the Mission to discover, develop and manufacture high-quality medicines to treat diseases of great unmet medical need. We are in the business of transforming patient's lives by improving the quality of life of millions of Puerto Ricans and patients around the world. PR supplies medicines to over 80 countries around the World with FDA approved manufacturing sites, which positions PR in a privilege place as compared to other countries. In doing so, our Industry incurs tremendous financial and operational risk. Bringing an innovative medicine to market costs approximately \$2.6 Billion and takes around 10 years of development. In addition, the failure and attrition risk in our Industry is about 5,000:1 from discovery to FDA approval. By nature, our Industry is high-risk and to be sustainable in the long-term, it requires a sound long-term strategy tied to stability and predictability of external business factors.
- Since our entry to Puerto Rico back in the 1960's, fostering the Bio-Pharmaceutical industry investment has proven to be the most effective initiative that this island has done to encourage economic growth. There should be no doubt that economic reactivation and stability could not be reached without the presence of this Industry. Collaboration between the Board and the PR Government is key to the retention and attraction of Biopharmaceutical manufacturing activity and its investment. We came to PR in the 60's because of a promise of an excellent long-term pro-business environment based on certainty, stability and predictability of a U.S. jurisdiction and on a business partnership relationship. What has kept us here is a substantial manufacturing presence with highly skilled human capital built over 5 decades and this, along with a system that provides the stability and predictability of a U.S. jurisdiction offering intellectual property protection, a strong regulatory framework and a competitive tax environment has contributed to keeping the Bio-Pharmaceutical Industry in Puerto Rico. .
- Today, many of these benefits are at risk with other Global jurisdictions gaining competitiveness and tempting our Industry to consider relocation out of Puerto Rico looking for a better Business Environment. It is of critical importance to acknowledge that Manufacturing is a Global Capability and

as such, is and always will be subject to change. Global changes and jurisdictional pressures including the OECD's BEPS project, Brexit and the potential US international tax reform are introducing deep changes that may, if not mitigated appropriately, adversely impact Puerto Rico's relevance and competitiveness vis a vis other jurisdictions. As an Industry, from the standpoint of the almost 20,000 people that locally and directly depend on it for their livelihoods, we are here to help produce measures that guarantee Puerto Rico's relevance and global competitiveness, and with it, our jobs and the success of the fiscal plan. In short, members of the Board, we, like Puerto Rico and all of us in our Industry, are wearing the Puerto Rico shirt proudly and eager to continue contributing to PR's economic growth.

- In order to re-invigorate the manufacturing sector in Puerto Rico, our Industry position is that it is imperative that, working together, we achieve the following:
 1. **The Proper Business Environment**: One that fosters long-term stability, certainty and predictability where trust between the private-public alliances are held to the highest standards of integrity and honorability. An environment where business rules are respected and protected above economic uncertainties with a common view of long-term partnership. An environment that promotes transparency and communication between Government and Industry. An environment with adequate infrastructure supporting the Industry operations (e.g. ports, roads) reliable utility sources (power and water) and an efficient permitting process to speed up growth and expansions. An environment that is globally competitive on taxation and economic incentives, thus promoting long-term presence and incremental investment. An agile and dynamic business environment. Finally and above all, an environment that creates and provides the highest skilled Human Capital to serve the needs of our Bio-Pharmaceutical Industry sector. It goes without say that our PEOPLE are the strongest pillar of our Industry and it is of critical importance that Puerto Rico continuous to provide and boost a robust talent pipeline to fill today's and future business needs.

2. **A Partner of Choice Mindset:** A tolerable and appropriate level of Certainty within the Global and United States context to create long term partnerships. The Bio-Pharmaceutical sector is a GLOBAL industry and cannot be seen in isolation; that is, decisions made in the rest of the world, and most specifically in the United States, have a direct impact on our capacity to partner with Puerto Rico. The United States is the biggest market for most of the PIA-PR member Companies and is also the headquarter of most of our member Companies. Because of this, the concept of certainty when it comes to Puerto Rico must consider the impact of United States policies. With this in mind, it should be clear to this Board and to all of us, that the long-term certainty needed to make significant investments, similar to those that were made in the past, requires everyone to have an understanding of the United States policies that foster manufacturing in the US territories such as the U.S. Federal/International tax reform.

3. **Restoring Trust and Credibility:** In the past, the relationship of our Industry and the Government was an example of effective partnerships for the world. It is clear that the capacity of the Government to engage with our Companies is critical to maintaining our efforts aligned with global trends; we must protect this and foster a culture of trust and credibility between all parties. All PIA-PR member Companies interact with Puerto Rico's Government in multiple areas and it is critical to be able to negotiate, obtain, and maintain agreements to ensure a longstanding partnership. To do so, Puerto Rico needs to become a more efficient, coordinated and strategic long term partner for the Bio-Pharmaceutical manufacturing sector, avoiding improvisation in legislation and compliance requirements, together with an environment of low, predictable tax burden that honors existing agreements is critical. Changes in our industry are costly and take time to implement not only in our production services but in our administrative and managerial processes as well. PIA-PR, as any other business, must be able to model the impact of decisions. Again, due to the highly regulated and capital intensive nature of this industry, it is paramount to maintain a stable decision making process without creating disruptions that affect the business and the credibility in Puerto Rico as a business partner in a global landscape. The Puerto Rico government must become a facilitator of core business activities; this will maximize the industry's resources in maintaining and/or increasing

its business in the Island. Constant communication with Global Bio-Pharmaceutical stakeholders as well as local leaders is key to develop a long-term business partnership.

- PIA-PR members would like to take this opportunity to invite the Board Members to visit and witness our world class facilities in the island; our nearly 20,000 employees look forward to welcoming you. This is a time of significant changes for Puerto Rico and the Bio-pharmaceutical manufacturing sector is aware of the challenges. We believe that by working together as described in our presentation we will be able to continue our successful partnership that for more than half of a century has made Puerto Rico the Bio-pharmaceutical powerhouses of the world .