

The dedication of our new plant in Aquadilla is a significant step in the progress of our company in Puerto Rico. We started 6 years ago with 15 employees and we now have 1600. We have progressed technically, in the manufacture of circuit boards through the production of three different generations of minicomputers.

The course we have chartered since 1968 to 1974, in no way, has been easy. It has been sufficiently difficult and it would not have been successful without the help and cooperation on the part of the Department of Economics, Department of Industry, and our employees.

The departments of Economics, and Industry have always been ready to help, listen to new ideas, and offer any assistance we requested.

the Economic Development Authority,

the Puerto Rico Industrial Development Company

Dick:

RE: Our conversation about film on Puerto Rico entitled "Profit Island - U.S.A." I have viewed the film and it appears to be worth purchasing. cost is \$106.88. There is some film footage which is useable (tim whalen's opinion and mine) for future film projects. Pls advise. john/

OK if we get "all rights".

D

Pls. file Puerto Rico

Cleared for use for sustaining TV time - non commercial
(non theatrical use)

- schools, clubs - no admission charge -

"all rights" excepts footage w/ permission from Com. of PR

TELEPHONE C EMO

FOR John

DATE 3/20 TIME _____

While you were out, you were called

by Jim Dalton

Please return call	<input type="checkbox"/>	Will call again	<input type="checkbox"/>
Wants to see you	<input type="checkbox"/>	Please rush	<input type="checkbox"/>

Film Consultants Inc.

500 Fifth Ave.

NY

212-736-7220

TAKEN BY S



FROM THE DESK OF

Sharon Pelton

Dear John -

Don
~~*Carol*~~ *Nina*
(386) - 21 - 6120 -

Norma Barnes said the Puerto Rican brochures
will be in Northborough on Wednesday at 3:30. You'll
have to get in-touch with Normo and have him make the

The city of Mayaguez, Puerto Rico received damage by
hurricane ^{Eloise} ~~Galia~~; traffic was disrupted in the area. Our
plant at San ⁶ ~~German~~ ⁱⁿ lost power temporarily, but resumed
operation with the aid of generators. The plant ^{is} ~~was~~ now
~~restarted~~ back at full production.

Aguadilla was undamaged

TELEX

To: Narmo Ortiz - Puerto Rico

From: John McDonald

Brochures are being shipped via Profit by air carrier from Boston on either Friday night or Saturday morning this week. An official of the carrier will be in-touch with you when a definite time is determined. They are being sent to your attention in San German.

Reason for the change in shipping arrangements is weather. DEC charter plane is leaving with the Digital sign for Puerto Rico on Wednesday this week instead of the regular trip on Thursday, because a storm is anticipated.

end of message

RAMON M. GUZMAN & ASSOCIATES

Consulting Sanitary Engineers

MONSERRATE 560 • SANTURCE, PUERTO RICO 00919 • P. O. BOX 1401 • HATO REY, PUERTO RICO 00919

April 18, 1973

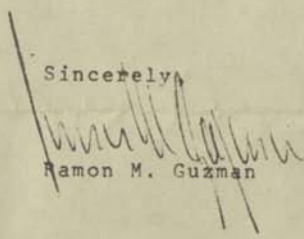
Mr. W. D. Krasnow
Digital Equipment Corporation
Maynard, Mass. 01754

Dear Bill:

Digital's Aguadilla plant has been all over in the news today. With the announcement of the Department of Defense that Ramey AFB will be closed, the Government is saying what is proposed to do to reduce the economical impact. Yesterday the Governor said over the radio that Digital will establish at Aguadilla, providing 400 jobs with a possible 2,000.

I am including some of the news on today's paper. Please give a copy to your PR man for his files.

Sincerely,


Ramon M. Guzman

cc: Esten
Hanson
Wood
Public Relations

J.S. Ston *Cop 18/73*
Pg. 3

Governor Acts To Offset Effect Of Ramey Closing On Aguadilla

By BETSY LOPEZ
ABRAMS

Of The STAR Staff

Gov. Hernandez Colon Tuesday set wheels in motion to intensify the industrialization of Aguadilla, following the Pentagon's announced shutdown of Ramey Air Force Base by the end of this year.

He announced establishment of a factory, creation

of a municipal-executive committee to plan for the area's development and hinted, for the first time in his administration, that

Related Story — Page 22

Ramey may be developed into Puerto Rico's second international airport.

At the same time the Governor said he is "considering" the transfer

of the Air National Guard to Ramey.

Actually the Governor will be "reconsidering" the move because several weeks ago he told newsmen that he had decided against moving the guard to Aguadilla.

Although he went through pains to note that the U.S. Air Force decision to close (See AGUADILLA, Page 25)

AGUADILLA INDUSTRIALIZATION PLAN

(Continued From Page 3)
federal education money for Puerto Rico. By fiscal 1978, Puerto Rico would be eligible for \$84 million.

Once reaching the state the base "is not even remotely related to the decision the Governor may take" on the move, the fact remains that the Governor had already announced his decision against the move.

The transfer was not favorably recommended by the adjutant general, Gen. Fernando Chardon, who was faced with numerous resignations when word of the possible move got around.

The possibility of moving the guard to Ramey, Hernandez Colon said Tuesday, is being considered "to keep the airport open once the Air Force terminates its operations."

The Governor was optimistic in the face of the

shutdown. Closing of the base, he said, "offers great possibilities for the development of Aguadilla and the northeast region of Puerto Rico."

He said a digital company factory providing 600 immediate jobs, with a potential for an eventual 2,000, is being established. This factory is expected to be operating by the beginning of next year. The plant produces computers and related components.

Establishment of two pharmaceutical plants is also under consideration. Esteban Davila Diaz, president of the Industrial Development Co., said the company has purchased 186 acres near the base for industrial development.

The Governor said that other measures will be taken to facilitate relocation of affected civilian

employees.

In addition, Hernandez Colon said, the Defense Department "has made available to us a team of officials" who will advise on the civilian development of the base's facilities.

The Governor said he has designated Rafael Ignacio, a Planning Board engineer, to represent the executive branch and plan for the area's development in coordination with a civic committee that will be designated by the mayors of Aguadilla, Gonchita, and Iguaz de Suarez.

The committee, the Governor said, will begin operations immediately and will develop facilities such as the airport, "which we expect will be international," educational facilities, housing facilities, recreation, tourism and industry.

Evitaría Pérdida Empleos

El gobernador Rafael Hernández Colón reveló en la mañana de hoy martes estar considerando el traslado de la Guardia Nacional Aérea a la Base Ramey en Aguadilla, como alternativa al cierre de esta última anunciado para junio de este año.

En conferencia de Prensa celebrada esta mañana, Hernández Colón aseguró que la acción de trasladar a Ramey la Guardia Nacional Aérea surge como propósito de mantener en funciones aquellas facilidades evitando la cesantía de los empleados civiles que laboran allí.

En adición el gobernador Hernández Colón afirmó que se establecerá una fábrica de la compañía "Digital" en Aguadilla, para "aliviar el impacto que causará el cierre de la Base en el área de Aguadilla".

Hernández Colón dijo que la fábrica empleará inicialmente a 600 personas y tiene un potencial de 2,000 empleos.

Los detalles sobre la fábrica serían anunciados más tarde por la Administración de Fomento Económico, según Hernández Colón.

El Gobernador anunció además que ha encomendado al ingeniero Rafael Ignacio encabezará un comité de ciudadanos para que "lleve a cabo los trabajos para proyectar el desarrollo del área".

El anuncio fue hecho por el Primer Ejecutivo tras una reunión con la alcaldesa de Aguadilla, Conchita Igarúa de Suárez, y el presidente de la Junta de Planificación, Rafael Alonso.

La información sobre el hecho de que la Fuerza Aérea cerrará este año la Base Ramey y la entregará al Gobierno de Puerto Rico fue dada a conocer ayer lunes en Washington por el comisionado residente Jaime Benítez.

Una información de United (Continúa en la Pág. 6-B)

En sus 8 páginas principales de su edición de marzo el que en marzo furgón "le hace solamente segundo a Operación Mañana a la Obra en hacer posible el desarrollo socio-económico de Puerto Rico".

El artículo que alaba el programa del desarrollo económico del Estado Libre Asociado de Puerto Rico, fue escrito por John T. McCullough, editor y publicista del periódico Chilton de Philadelphia, después de una visita a la Isla.

Comentando sobre la contribución de los transportadores marítimos al desarrollo de Puerto Rico, McCullough escribe:

"Cada vez que un furgón llega a San Juan, 'bombea' \$300 a la economía puertorriqueña, así que no es difícil ver cómo el desarrollo del servicio de furgones ha espoleado el crecimiento de la Isla".

"Y el costo de este servicio se considera como una de las grandes gangas de la transportación en el mundo para el embarcador y el consignatario, con un promedio de menos de \$600 por cada caja de 40 pies. El único problema es que los transportadores marítimos, mientras hacen negocio están operando bajo condiciones de tráfico y los embarcadores derivaron beneficios de un servicio alternado y competitivo. Y en el 1968, la Transamerican Trailer Transport ofreció a los embarcadores la alternativa de una rápida operación de barcos-furgones 'roll-on' y 'roll-off', dice el Editor.

Sobre el crecimiento económico de Puerto Rico, McCullough expone:

"Pocos de los que vienen de vacaciones se dan cuenta de que detrás del brillo del sol, está un gigante industrial cuyo fenomenal crecimiento económico está tercero en rango, detrás, solamente, de Japón y de Israel, con un producto bruto aumentando de \$700 millones en el 1948 a un record de \$5.8 billones en el 1972."

Ayuntando brevemente que además de sobre 2,000 afiliados americanos ahora en operación, hay como 25 compañías extranjeras operando 39 plantas diferentes en Puerto Rico. McCullough cita a un oficial de la Sea-Land:

"Ha sido por años nuestro debate el que Puerto Rico tiene muchas ventajas naturales de ser, no solo el centro del tráfico del Caribe, sino probablemente del tráfico de

Oriente a todas esas áreas cubriendo a Puerto Rico y desde esas áreas que cubren a Puerto Rico de regreso a Europa y al Lejano Oriente. Todavía este tráfico no es muy grande, pero hay un patrón definitivo de crecimiento".

Se cita a Neuhauser en la historia de haber dicho que el valor de este concepto es "que desde Puerto Rico estamos proporcionando ahora un eslabón directo con 40 países alrededor del mundo, significando que los socios de Puerto Rico en los mercados de comercio, están en esta forma establecidos por un sistema viable de transportación.

Comentando sobre el problema de los cargos por estadía de los transportadores marítimos y que ahora se estiman en \$3 millones lo que deben los consignatarios en Puerto Rico, dijo Hiram D. Cabassa, presidente de la Asociación de Servicio Marítimo de Puerto Rico en una cita en dicho artículo:

"Con todos los transportadores envueltos en un tráfico desbalanceado, el que los consignatarios retengan los furgones significa que el transportador no puede llevar los furgones vacíos de regreso al Norte y así proveer un flujo ordenado de equipo".

"De este modo, los gastos de los transportadores aumentan, y últimamente, todos los embarcadores terminarán siendo penalizados por el egoísmo de algunos", dijo Cabassa.

El Mundo
Front Pg
Apr 18/73

Gene Smith

April 27, 1973

John McDonald

Public Relations

Puerto Rico Expansion

The attached is a letter I received this week together with news clips on our intended expansion in Puerto Rico. The item marked, that we will hire 600 persons initially is incorrect. The party line on this is only to say that we will construct the facility "later this year." If pressed on the matter, we will hire "about 200 persons" initially.

The reasoning for this position is that the Governor there has said publicly that we will hire 600 persons immediately. It could become a politically sticky situation and apparently we don't want to cause the government there any embarrassment.

JM:slp

To: Gene Smith
From: John McDonald
Subj: Puerto Rican Expansion

The attached is a letter I received this week together with news clip on our intended ~~szapz~~ expansion in Puerto Rico. The item marked, that ~~wizt~~ we will hire 600 persons initially is incorrect. The party line on this is only to say that we will construct the facility "later this year." If ~~z~~ pressed on the matter, we will hire ~~abzsk~~ "about 200 persons" initially.

The reasoning for this ~~maxzkimz~~ position is that the Governor there has said ~~maxkixix~~ publicly that we will hire 600 persons immediately. It could become a politically sticky situation and apparently we don't want to cause the government there any embarrassment.

John - This is like a
"Literal Translation" -- and
vague, because, I'm told,
the original was vague.

MAC

ECONOMIC DEVELOPMENT ADMINISTRATION
San Juan, Puerto Rico

Office of Information and Public Relations

Press Release
July 20, 1973

A new method for the construction of industrial buildings is being used in Puerto Rico on "Aguacate" a village in Aguadilla, by Relbec Enterprises. Promoted by Fomento, the 160,000/sq. ft./building being constructed, is for Digital Equipment Corporation of Puerto Rico, subsidiary of one of the largest manufacturers of computers in the world. The plant will employ 600 persons by the time it will be functioning at full capacity. In the construction phase there are 70 or more construction workers employed.

This method of construction includes all the basic requirements, of speed, better quality at a moderate cost. The components of the buildings, mass produced, are assembled by using cranes and other tools, and the work is done in two stages: (a) manufacturing the components in a factory, and (b) by erecting the components at the same place of construction.

All the units are made of cement, except for some of the connecting units that are mechanically made by way of welding in steel.

The building, being constructed in Aguadilla for Digital Equipment, will be ready to start operations in 12 months, when the factory will start producing computers and components.

The building is being constructed on a property of 56 "cuerdas"* which Digital bought from PRIDCO.

The factory in Aguadilla will be the second operation of Digital Equipment in Puerto Rico, it is presently operating in two Pridco owned buildings, on Retiro, a village in San German, in which they produce electronic computers and components.

* One cuerda is approx. 9/10 of an acre.

DATE: October 15, 1974 (CR-274)

CLIENT: COMMONWEALTH OF PUERTO RICO -- EDA

USE: Calculator Market Mailing

mdg DEPARTMENT CHECKS: 1. 2. 3. 4.

Please return this copy promptly with your OK here:

(EDA letterhead, date)

Dear Mr. Doe:

Did you know there's a land that offers calculator manufacturers highly favorable profit opportunities, 100% tax exemption, and all the operational conveniences of the United States?

I'm talking about Puerto Rico -- a Commonwealth of the U.S. -- where more than 3,000 manufacturers from around the world have discovered that "Paradise" can mean beauty at the bottom line as well as in the surrounding countryside.

What's more, because you're a calculator manufacturer, I think you'll be especially interested to know that the electronics industry has found our industrial climate to be just as benevolent as the trade winds that fan our island -- which accounts for the industry's dramatic growth in the past 15 years: from 17 plants to 165, and now generating \$300 million in annual sales! Eighty per cent of these plants are affiliates of such U.S. Mainland companies as GTE Sylvania, Westinghouse, RCA, National Semi-Conductor, and Digital Equipment Corporation.

Can your company operate successfully in Puerto Rico? Of course I cannot tell you flatly -- "yes." But I can tell you in all truthfulness that there are just about as many success stories coming out of Puerto Rico these days as there are companies who have established operations in this manufacturers' haven. And I can tell you the story of one company -- a leader in its industry -- whose operations share many common denominators with those of your company. It's the story of Digital Equipment Corporation's phenomenally successful operations in San German, Puerto Rico:

Five years ago, Digital began producing logic modules in an 11,500-square-foot plant on the outskirts of this 400-year-old city in the western end of the Island. Its payroll: 25 people. Today, with more than 300,000 square feet of space and nearly 2,000 employees at three different plant locations, Digital de Puerto Rico possesses the largest module and computer assembly lines in the industry.

Each month, they produce more than 500 PDP-8E and 400 PDP-11/05 computers, in addition to manufacturing nearly 150,000 print and

*Some of the
in the
industry.*

DATE: October 15, 1974

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USE: Calculator Market Mailing

etch boards and assembling 160,000 modules, 40,000 cables, and 1,000 memories -- ~~products shipped to all parts of the corporation.~~ *people*

"More minicomputers are made here than anywhere else," Plant Manager Dick Esten proudly states. Equally proud of his employees, Esten continues: "We have an international flavor here, with individuals from Argentina, Colombia, Dominican Republic, Canada, Ireland, Scotland and Spain, and some technical support from the U.S. But the vast majority of our members are Puerto Ricans. We're a Puerto Rican operation all the way and the performances and abilities of our employees certainly rank among the best in the corporation."

On the lawn in front of Digital's main plant in San German, a discrete sign asks employees and visitors alike: "No pise la grama." -- Don't walk on the grass. Clearly, though, the ambitious people at Digital de Puerto Rico never intended to let it grow under their feet in the first place!

What specific advantages are ~~Digital and other precision electronics companies~~ like yours enjoying by operating in Puerto Rico? -- Here are a few:

- . Tax-exemption legislation -- granting qualifying industries local Puerto Rico tax freedom for up to 25 years, as well as complete U.S. federal tax exemption.
- . Financial assistance -- including assistance in site location, the leasing of government-owned facilities, and the reimbursement of certain employee training costs and financing aid.
- . A large, highly-productive, mostly bilingual and relatively inexpensive (compared to U.S. wages) labor force of nearly one million workers.
- . A highly stable political environment firmly committed to the democratic system.
- . A local consumer market of some three million residents with enormous purchasing power.
- . An ideal site from which to develop or expand markets in Latin America.

Why does Puerto Rico offer manufacturers such a liberal incentive program? -- Simply because it generates jobs and increases the income levels and general well-being of Puerto Rican workers.

DATE: October 15, 1974

CLIENT: COMMONWEALTH OF PUERTO RICO --- EDA

USE: Calculator Market Mailing

As a result of this program, which we call "Operation Bootstrap," we have transformed our economy from one of light labor-intensive industry to one that includes such high technology industries as petrochemicals, pharmaceuticals and, of course, electronics. We have also developed one of the world's highest growth rates (under the program, our GNP has grown from \$755 million in 1959 to almost \$6.5 billion in 1973), and become the fifth largest customer for U.S. products, ranking only behind Canada, Japan, West Germany and the United Kingdom.

To meet our growing industrial needs, we're expanding our vocational training programs, and implementing a new pre-employment training program -- government-funded and designed to provide qualifying manufacturers with a work force trained to their specifications and ready to go to work on opening day.

If you're thinking of expanding your company's manufacturing operations -- or relocating some of its current operations -- I urge you to consider Puerto Rico. We can accommodate you. And I'm certain our liberal incentive program, our resources, our people -- and their "can-do" spirit -- can help you write your company's success story just as quickly as Digital's and all the rest were written.

If you'd like more detailed information about the Electrical and Electronics Industry in Puerto Rico, I'll gladly send you some. Just complete and mail the enclosed postage-paid reply card. After you've had a chance to look it over, drop me a line on your letterhead -- or better yet, give me a call -- so we can discuss manufacturing opportunities in Puerto Rico in terms of your company's specific requirements. I look forward to hearing from you.

Sincerely,

(signature)

AIDF/DR
Encl.Amadeo I.D. Francis
Deputy Administrator



INTEROFFICE MEMORANDUM

TO: Rudy Plaue
Bill Hanson

DATE: October 17, 1974

FROM: John McDonald *JAM*

DEPT: Corporate Public Relations

EXT: 2844 LOC: PK3-2/M18

SUBJ: Request for Endorsement

Attached is some commentary put together by The DR Group, Inc., Boston based advertising agency for one of its clients, the Puerto Rican Economic Development Commission. It includes some sensitive items regarding the corporation and its production capabilities and offers a blanket endorsement of doing business in Puerto Rico. We in effect, are being used as a tool to attract other electronic companies to Puerto Rico. There are definite public relations (and possibly sales advantages) and certainly community relations value which could be reaped from this endeavor. With limited editing I feel it could be a benefit.

Realizing the sensitivity of the issue, I am asking your comments from a legal (Rudy Plaue) and manufacturing (Bill Hanson) point of view.

Please respond in writing by 10/21/74. Thanks.

Attachment

JMc:slp

DATE: October 15, 1974 (CR-274)
CLIENT: COMMONWEALTH OF PUERTO RICO -- EDA
USE: Calculator Market Mailing

m&g DEPARTMENT CHECKS: 1. 2. 3. 4.

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Sincerely,

(signature)

AIDF/DR
Encl.Amadeo I.D. Francis
Deputy Administrator

digital

DE PUERTO RICO

INTEROFFICE MEMORANDUM

TO: John McDonald

(2)

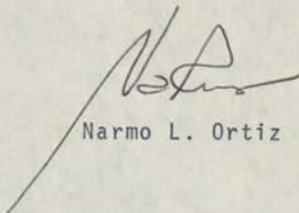
DATE: 11-25-74

FROM: Corporate Controller's Office

SUBJECT: PRESS RELEASE

I am pleased to attach self explanatory press release that we will send out for publication next December 9, 1974.

Regards!



Narmo L. Ortiz

nld
enclosure

PRESS RELEASE

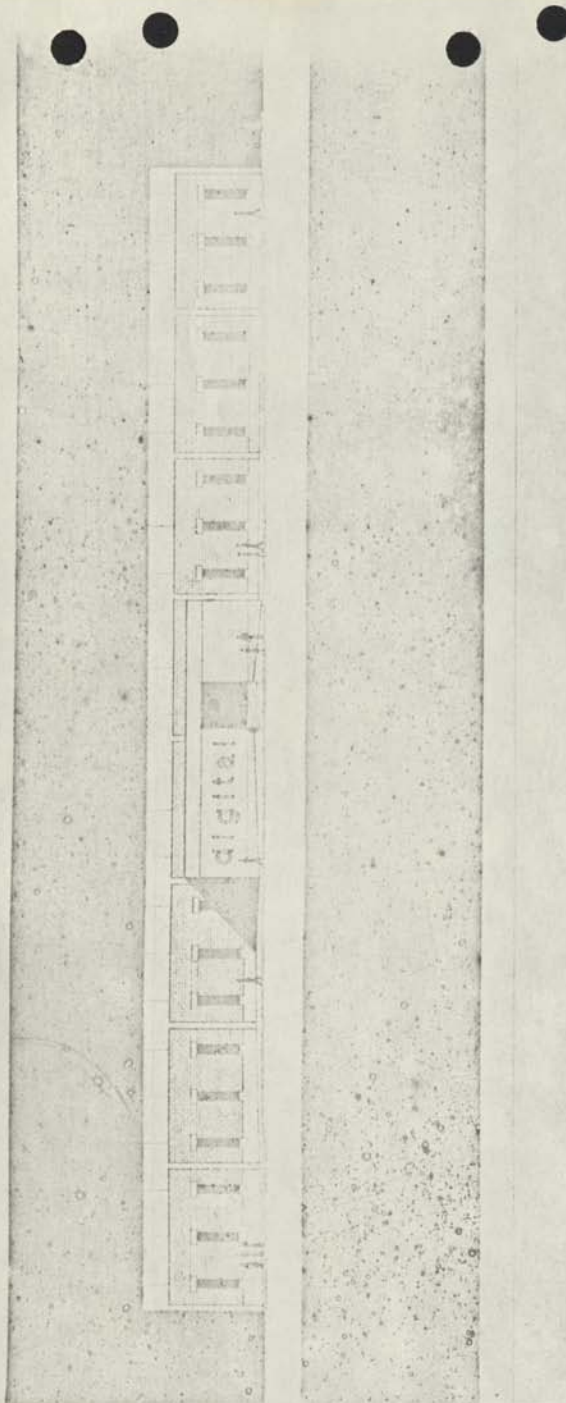
DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO, WITH MANUFACTURING PLANTS IN BOTH SAN GERMAN AND AGUADILLA, ANNOUNCES THE ABOVE PICTURED NEW BUILDING EXPANSION OF ITS SAN GERMAN FACILITIES. CONSTRUCTION OF THIS NEW MODERN 68,000 SQ. FT. BUILDING WILL COMMENCE DURING EARLY JANUARY, 1975 AND WILL CONSOLIDATE SOME OF DIGITAL'S SAN GERMAN OPERATIONS SUCH AS CABLE MANUFACTURING AND TRAINING, PLUS IT WILL PROVIDE SPACE FOR AN EMPLOYEES CAFETERIA, AND CORPORATE ADMINISTRATIVE OFFICES.

THE PARENT COMPANY, DIGITAL EQUIPMENT CORPORATION, MAYNARD, MASSACHUSETTS HAS OVER 17,600 EMPLOYEES WORLDWIDE, AND IS THE INDUSTRY'S LEADER IN INSTALLATIONS OF TIME SHARING COMPUTERS. FOR THE FISCAL YEAR ENDED JUNE, 1974 DIGITAL REPORTED SALES OF \$421. MILLIONS.

*Leader in
computer
time sharing*

- how much consolidation involved?
- Total sq footage when completed
- Additional employees
- Timing of announcement

*Week long -
all glances -
and in -
they up
48,000 -
Consolidate
cafeteria*



TWX

December 2, 1974

To: Narmo Ortiz - Puerto Rico

From: John McDonald, Public Relations

Re: Arrangements on Aquadilla and San German Openings

1. Advertisements on openings to run in San Juan Star, El Mundo and El Día on Thursday, December 12, 1974. Copy has been submitted to Corporate Legal Department for approval. When approvals have been received, it will be sent to you via special courier. Phil Despo is awaiting your copy for the Puerto Rican Industrial Directory, a full-page, two-color advertisement.
2. I will arrive on Eastern Airlines flight number 945 at 3:09 PM on Monday, December 9th. Reservations (made by you) will be in my name at the Mayaguez Hilton. I plan to leave Saturday, December 14th.
3. John Day of Electronic News will arrive on Wednesday, December 11th, via Eastern Airlines at 3:09 PM. Reservations (made by you) will be in his name. He will depart the same day as myself.

He has expressed interest in two areas: quality control and incoming testing. Please consult with Dick Estin regarding this aspect and we can discuss it upon my arrival. This could be done either on Thursday (after the opening) or on Friday.
4. OPENING BROCHURES 0- Per our conversation, the brochures will be in Northborough, Ma. warehouse after 3:30 PM on Wednesday, this week. Arrangements have been made with Northborough. They will be shipped on Thursday on the 7 AM flight to Ramey. Delivery to Aquadilla.

December 2, 1964

5. Release on San German is being cleared with Corporate Legal Department. I will notify you when approval is received. Please do not release until legal has given its approval.

Thanks. *Walter on Aguadilla and San German Opening*

I will call you on Friday this week to review status of the above. *and El Dia on Thursday*

December 12, 1964. They will need approval to Corporate Legal Department for approval. When approvals have been received, it will be sent to you via special mail.

end of message *awaiting your copy for the Puerto Rican Industrial Directory, a full-color*

two-color advertisement.

2. I will arrive on Eastern Airlines (flight number 945 at 3:00 PM on Monday, December 14. Reservations made by you will be okay since the two people listed. I also require a check-in, December 14th.

3. The Day of Christmas Eve will arrive on Wednesday, December 16th, via Eastern at 10:00 PM. Reservations made by you will be in his name. He will depart for home on Thursday.

His last mission involved in long-range quality control and increasing selling. Please coordinate with Dick Etkin regarding this aspect and we can discuss it upon my arrival. This should be done either on Thursday (after the opening) or on Friday.

4. OPENING BROCHURES 2- Per our conversation, the brochures will be in Northborough, Massachusetts after 5:00 PM on Wednesday this week. Brochures have been sent with Northborough. They will be shipped at Thursday on the 7 AM flight to San Juan. Delivery to Aguadilla.

0030 1043 03-DEC 01868 1039 03-DEC

MP30 PR11 LPTR

ZCZC

DEC PK ST MAYNRD

MSG NO. 12 DEC 3, 1974

TO NARMO ORTIZ PUERTO RICO
FROM JOHN MCONALD

PLEASE LOOK THE ATTACHED OVER. WE HAVE LEGAL APPROVAL ON THIS
AND WOULD LIKE YOU APPROVAL TODAY.

SAMPLE FORMAT

LA FAMILIA DIGITAL CRECE CON PUERTO RICO ...

SAN GERMAN PLANT/PEOPLE/CITY

SAN GERMAN. ...

DONDE TODO COMENZO EN EL 1968 CON 15 EMPLEADOS HOY NOS
ENORGULLECEMOS EN HABER MULTIPLICADO NUESTRA FAMILIA A

MAS DE 1,400 PUERTORRIQUENOS *modules*
DECIDADOS A LA MANUFACTURA DE COMPUTADORAS, MODULOS SISTEMAS
MODULOS, INCLUYENDO MEMORIAS, OPCIONES CIRCUITOS IMPRESOS...

Handwritten signature
y computadores

AGUADILLA PLANT/PEOPLE/CITY

HOY, 12 DE DICIEMBRE DE 1974, ES LA INAUGURACION OFICIAL DE
NUESTRA MODERNA EXPANSION EN LA CIUDAD DE AGUADILLA
EN DONDE MANFUACTURAMOS LAS MINI COMPUTADORAS DE MAS VENTA EN EL
MUNDO...

REGARDS

CA

NNNN

0036 1037 03-DEC 01840 1028 03-DEC
MP30 FR11 LPTR
ZCZC
DEC PK ST MAYNARD

MSG NO. 11 DEC. 3, 1974

TO NARMO ORTIZ PUERTO RICO
FROM JOHN McDONALD, PUBLIC RELATIONS

RE: ARRANGEMENTS ON AQUADILLA AND SAN GERMAN OPENINGS

1. ADVERTISEMENTS ON OPENINGS TO RUN IN SAN JUAN STAR, EL MUNDO AND EL DIA ON THURSDAY, DECEMBER 12, 1974. COPY HAS BEEN SUBMITTED TO CORPORATE LEGAL DEPARTMENT FOR APPROVAL. WHEN APPROVALS HAVE BEEN RECEIVED, IT WILL BE SENT TO YOU VIA SPECIAL COURIER. PHIL DESPO IS AWAITING YOUR COPY FOR THE PUERTO RICAN INDUSTRIAL DIRECTORY, A FULL-PAGE, TWO-COLOR ADVERTISEMENT.
2. I WILL ARRIVE ON EASTERN AIRLINES FLIGHT NUMBER 945 AT 3:09 PM ON MONDAY, DECEMBER 9TH. RESERVATIONS (MADE BY YOU) WILL BE IN MY NAME AT THE MAYAQUEZ HILTON. I PLAN TO LEAVE SATURDAY, DECEMBER 14TH.
3. JOHN DAY OF ELECTRONIC NEWS WILL ARRIVE ON WEDNESDAY, DECEMBER 11TH, VIA EASTERN AIRLINES AT 3:09 PM. RESERVATIONS (MADE BY YOU) WILL BE IN HIS NAME. HE WILL DEPART THE SAME DAY AS MYSELF.

HE HAS EXPRESSED INTEREST IN TWO AREAS: QUALITY CONTROL AND INCOMING TESTING. PLEASE CONSULT WITH DICK ESTIN REGARDING THIS ASPECT AND WE CAN DISCUSS IT UPON MY ARRIVAL. THIS COULD BE DONE EITHER ON THURSDAY (AFTER THE OPENING) OR ON FRIDAY.

4. OPENING BROCHURES -- PER OUR CONVERSATION, THE BROCHURES WILL BE IN NORTHBOROUGH, MA. WAREHOUSE AFTER 3:30 PM ON WEDNESDAY, THIS WEEK. ARRANGEMENTS HAVE BEEN MADE WITH NORTHBOROUGH. THEY WILL BE SHIPPED ON THURSDAY ON THE 7 AM FLIGHT TO RAMEY. DELIVERY TO AQUADILLA.

5. RELEASE ON SAN GERMAN IS BEING CLEARED WITH CORPORATE LEGAL DEPARTMENT. I WILL NOTIFY YOU WHEN APPROVAL IS RECEIVED. PLEASE DO NOT RELEASE UNTIL LEGAL HAS GIVEN ITS APPROVAL.

THANKS.

I WILL CALL YOU ON FRIDAY THIS WEEK TO REVIEW STATUS OF THE ABOVE.

END OF MESSAGES.

CA
NNNN

*Brochures
for Aguadilla
your telephone
833-4361*

*Nar
Morgan*

*12 all news
to my car
Thursday*

*Personalized
Printed*

*8x10
all news -
Picture album*

Contacts: John A. McDonald or Richard Berube

Release Dec. 9, 1974

Digital Equipment Announces
Puerto Rican Expansion

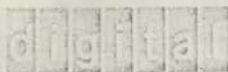
MAYNARD, MASS. - Digital Equipment Corp. (NYSE-DEC), the world's largest manufacturer of minicomputers, today announced an ~~exp~~ expansion of its San German, Puerto Rican facilities. Construction is scheduled to begin in January, 1975.

The new, modern 68,000 square foot building will consolidate some of Digital's San German operations such as cable manufacturing and employee training and provide space for an employee cafeteria and corporate administrative offices.

began six years ago
~~At the~~ Digital's Puerto Rican operation ~~has been~~ ~~operating~~ ~~for~~ ~~about~~ ~~six~~ ~~years~~
with ~~about~~ ~~15~~ ~~persons~~.
~~age with 15 persons~~ ~~operating~~ ~~for~~ ~~about~~ ~~six~~ ~~years~~ ~~with~~ ~~15~~ ~~persons~~.
Digital employs
~~Now~~ ~~the~~ ~~re~~ Today, ~~there~~ ~~are~~ more than 1,600 persons ~~employed~~ ~~at~~ ~~the~~ ~~facilities~~
~~at~~ ~~the~~ ~~two~~ ~~modern~~ ~~facilities~~ ~~at~~ ~~San~~ ~~German~~
and Aguadilla

Wetherhood

*Digital Equipment Corp
is also leader in computer
technology*



EQUIPMENT
CORPORATION
MAYNARD, MASS. 01754

For Further Information:
John A. McDonald
(617) 897-5111 Ext. 2844

FOR APPROVAL

December 9, 1974

Sharon: (1) Pls ReType & put Release date on it

(2) Give me 6 copies -

(3) Send copy to NORMAN w/ note - The following will be released in U.S. on Monday. It has been approved by Bill Hanson & Ed Schwartz - Regards

(4) - ReType - Puerto Rican Release & Telex to NORMAN w/ corrections - Include note - The following ~~has~~ has been approved by Ed Schwartz & Bill Hanson as corrected

DIGITAL EQUIPMENT ANNOUNCES

PUERTO RICAN EXPANSION

Regards

MAYNARD, Mass.---Digital Equipment Corporation (NYSE-DEC), the world's largest manufacturer of minicomputers, today announced an expansion of its San German, Puerto Rican facilities. Construction is scheduled to begin in January, 1975.

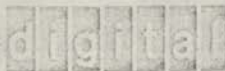
The new, modern 68,000 square foot ^{leased} building will consolidate some of Digital's ~~San German operations such as cable~~ ^{operations in San German} manufacturing and employee training and provide space for an employee cafeteria, ~~and corporate administrative offices.~~

Digital's Puerto Rican operation began six years ago with 15 persons. Today, Digital employs more than 1,600 persons at two modern facilities at San German and Aquadilla.

Digital Equipment Corporation is a major producer of small, medium, and large-scale computer systems, peripheral equipment, interfacing devices, software packages, support services, and is a leader in computer timesharing. Headquartered in Maynard, Mass., Digital employs more than 19,000 persons worldwide and reported sales of \$421.8 million for the fiscal year ended June 29, 1974.

MODULES · COMPUTERS · SYSTEMS

#####



EQUIPMENT
CORPORATION
MAYNARD, MASS. 01754

For Further Information:

John A. McDonald

(617) 897-5111 Ext. 2844

FOR APPROVAL

DIGITAL EQUIPMENT ANNOUNCES PUERTO RICAN EXPANSION

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MODULES · COMPUTERS · SYSTEMS

#####

PROGRAM OF ACTIVITIES

December 11, 1974

5:00 - 7:30 P.M.	Free time at Mayaguez Hilton Hotel
7:30 P.M.	Dinner at Mayaguez Hilton-Salon de Hostos Hosted by Dick Esten, President and General Manager with his Staff and their wives.

December 12, 1974

7:00 - 8:00 A.M.	Breakfast at Mayaguez Hilton also check out for those leaving for San Juan, Dorado...luggage can be left in the care of our Office Services personnel handling your land transportation. Messrs. Carlos Vargas, George Peterson are the Supervisors in charge.
8:05 - 8:30	Depart for San Germán...automobiles will be at front door of Hotel.
8:30 - 9:45	Tour of San Germán Plant and our new Board Shop addition.
9:50 - 10:15	Dedication of New Board Shop.
10:15 A.M.	Depart for Aguadilla.....automobiles will be at front of Personnel Office.
11:30	Arrival Aguadilla Plant
11:35 - 12:00 PM	Tour of Aguadilla Plant Refreshments will be available
12:15	Dedication Ceremony
1:15	Depart for Ramey Air Force Base Automobiles will be in front Lobby's area.
1:30	Lunch, Ramey Air Officer's Club
3:00	Board of Directors Meeting, Ramey Air Force Base Officer's Club. Others can continue enjoying the surroundings of the Club while this meeting takes place.
4:00	Departure for San Juan, Dorado.... automobiles will be at Officer's Club parking lot for trip to Ramey's air strip.

For Further Information:
John A. McDonald
(617) 897-5111 Ext. 2844
or
Richard O. Berube
(617) 897-5111 Ext. 3046

FOR RELEASE: December 9, 1974

DIGITAL EQUIPMENT ANNOUNCES
PUERTO RICAN EXPANSION

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1

OK - Ed Schwartz

THE DIGITAL FAMILY GROWS WITH PUERTO RICO

SAN GERMAN PLANT/PEOPLE/CITY

SAN GERMAN.....

Where everything started in 1968 with 15 employees today we are proud to have multiplied our family to more than 1,400 Puerto Ricans dedicated to the manufacture of ^{Computers,} modules and modular systems including memories, options and printed circuits

AGUADILLA PLANT/PEOPLE/CITY

Today, the 12th of December, 1974, is the official inauguration of our modern extension in the city of Aguadilla where we manufacture minicomputers with the most sales in the world.

SAMPLE FORMAT

LA FAMILIA



CRECE CON PUERTO RICO.....

San Germán Plant/People/City

SAN GERMÁN.....

DONDE TODO COMENZÓ EN EL 1968 CON 15 EMPLEADOS.....HOY NOS ENORGULLECIMOS
EN HABER MULTIPLICADO NUESTRA FAMILIA A MÁS DE 1,400 PUERTORRIQUEÑOS
DEDICADOS A LA MANUFACTURA DE MÓDULOS, MEMORIAS, OPCIONES Y CIRCUITOS
IMPRESOS.....

Aguadilla Plant/People/City

HOY, 12 DE DICIEMBRE DE 1974, ES LA INAUGURACIÓN OFICIAL DE
NUESTRA MODERNA EXPANSIÓN EN LA CIUDAD DE AGUADILLA EN DONDE
MANUFACTURAMOS LAS MINI COMPUTADORAS DE MÁS VENTA EN EL MUNDO....

TO APPEAR IN

SAN JUAN STAR

JOHN
X-2844

& A TRADE

PUBLICATION

(MODULAR
SYSTEMS)

FOR YOUR APPROVAL.

THE DIGITAL FAMILY GROWS WITH PUERTO RICO

SAN GERMAN PLANT/PEOPLE/CITY

SAN GERMAN.....

Where everything started in 1968 with 15 employees today we
are proud to have multiplied our family to more than 1,400 Puerto
Ricans dedicated to the manufacture of ^{computing} ~~modules~~ and modular systems
including memories, options and printed circuits

AGUADILLA PLANT/PEOPLE/CITY

Today, the 12th of December, 1974, is the official inauguration of
our modern extension in the city of Aguadilla where we manufacture
minicomputers with the most sales in the world.

^{donas}
~~Computers~~

COMPUTERS

July 3, 1976

LOCATION: Aguadilla, Puerto Rico

- ☒ Owned
☐ Leased
☐ Combination
Own/Lease

Address: Digital Equipment Corporation
 P.O. Box K
 Road 110
 San Antonio, Puerto Rico 00751

 (809) 891-2850

Contact: Pablo Resado, Plant Manager
 Carlos Muniz, Personnel Manager

Background: Operations began in 1973 with computer
 manufacturing.

Current Operation: High volume manufacturing of PDP-8
 and PDP-11 minicomputers and modules.

Employee Population: 510 —

Total Acreage: 55

Plant Gross Square Footage: 132,000

July 3, 1976

LOCATION: San German, Puerto Rico

- ☐ Owned
☒ Leased
☐ Combination
Own/Lease

Address: Digital Equipment Corporation De Puerto Rico
Urban Industrial El Retiro
San German, Puerto Rico 00753

(802) 892-2600

Contact: Carlos Zambrana, Personnel Manager

Background: Operations began in 1969 with 29 people
producing PDP-8 and PDP-11 computers, modules and
subassemblies.

Current Operation: High volume manufacturing for
modules, power supplies, cables and computer sub-
assemblies.

Employee Population: 1,753

Total Acreage: 12

Plant Gross Square Footage: 228,800

digital

INTEROFFICE MEMORANDUM

TO: Al Mullin

LOC/MAIL STOP

DATE: 4-30-76
FROM: Narmo L. Ortiz
DEPT: Controller's
EXT: 258 & 345
LOC/MAIL STOP: SG/1

SUBJ: THIRD QUARTER NINE MONTHS SALES AND EARNINGS RELEASE

Dear Al,

To-day, via an envelope marked S. G., I received the
Third Quarter Nine Months Sales and Earnings release.

Believe that documents of this nature should be fully
addressed to the different locations Financial Managers
...such as to me in Puerto Rico.

What do you think?

Best personal regards!

nld

cc: Peter D. Connell

Peter -

Can we be more specific
in addressing these
communications?

Al M.

*Pete - I think the
problem is a poor address
not "S.G."; can we check the address & title
of recipient in the distribution list? Al 21/5/76*

*San Juan has no
Plant 149. listed. We have
made only the recipient
for scanning reports - All
other Plants have a named Contact*

P.



COMMONWEALTH OF PUERTO RICO
ECONOMIC DEVELOPMENT ADMINISTRATION
545 BOYLSTON STREET
BOSTON, MASSACHUSETTS 02116

February 6, 1976

Mr. Richard Berube
Digital Equipment Corporation
Maynard, MA 01754

Dear Mr. Berube:

As per our conversation, I am enclosing two copies of the ad that we discussed.

In addition to running in this form, we are planning similar insertions with just one picture and quotation. These insertions will be initially in the Wall Street Journal, scattered throughout the newspaper substituting a "Wall Street Journal style" pen and ink sketch for the photograph.

If you feel that Digital Equipment would like to participate in this program through one or more of its employees, please contact me at your convenience.

Cordially,


Anthony J. Saras

AJS:kmc

Enclosure



COMMONWEALTH OF PUERTO RICO

(212) 245-1200

ECONOMIC DEVELOPMENT ADMINISTRATION
CONTINENTAL OPERATIONS BRANCH
1290 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10019

Dick:
Worth another try?
John
February 25, 1975

Mr. John A. McDonald
Corporate Public Relations
Digital Equipment Corp.
146 Main Street - PK 3-2
Maynard, Mass. 01754

Dear John:

I've been hearing about DEC on radio lately - point of sale campaign, which is new to me, at least. It comes across well.

The enclosed proof on Omark, which is along the lines we discussed with you, just came in yesterday and I thought you might be interested in showing it, along with a couple which you may not have.

As you will note, each informs what the principal wishes publicized.

Regards.

Sincerely,

Mac

Mac Phillips
Public Relations

→ John
MP/ism

Since this would buy us nothing (except, maybe trouble) I vote to leave it buried.

Dick

digital

INTEROFFICE MEMORANDUM

TO: Rich Berube
PK3-2/M18

DATE: 9/26/77
FROM: Darlene Batchelder
DEPT: Facility Supervisor
EXT: 386
LOC/MAIL STOP: El Segundo

SUBJ: EL SEGUNDO FILMING

Attached are copies of the letter from Media Humanae and DEC's letter to Media Humanae regarding the filming of the demonstration system in the El Segundo facility.

September 19, 1977

Media Humanae
1429 N. 1 Street
Phoenix, AZ 85002
Attn: Mr. Dana Young

Dear Mr. Young:

Digital Equipment Corporation hereby grants conditional permission to Media Humanae for filming sequence four of "Better Say No".


Digital understands that Media Humanae will shoot only medium and close up shots of computer storage and terminal equipment. Media Humanae will not film Digital personnel or signs identifying this Digital office.

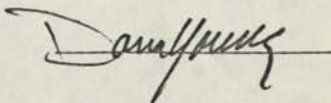
Said footage will be used exclusively for "Better Say No".

Media Humanae grants to Digital Equipment Corp. the right to screen any or all footage. Digital Equipment Corporation reserves the right to withdraw any or all scenes if the context in which Digital Equipment is shown is found to be unacceptable.

Digital Equipment Corporation

Media Humanae


Facility Administrator





MEDIA HUMANAÆ

1429 N.1 STREET P.O.BOX 25636 PHOENIX, AZ 85002 • TEL:(602) 257-0836

128 N Hamilton Dr., Beverly Hills, Ca 90211

213 655-5329

Ms Judi Suderman
Senior Software Specialist
Digital Equipment Corporation
871 S Nash Street
El Segundo, Ca 90245

September 18, 1977

Dear Ms Suderman,

Re : "Better Say No ! "

Digital Equipment Corporation hereby grants conditional permission to
Media Humanae for filming sequence four of "Better Say No !"

DEC UNDERSTANDS THAT Media Humanae will shoot ONLY medium and close up
shots of computer storage and terminal equipment.

Said footage will be used EXCLUSIVELY FOR ABOVE.

MEDIA HUMANAÆ grants to DEC the right to screen above mentioned footage
with the right to withdraw any or all said scenes if found to be detrimental
DEC Corporate image.

Sincerely,
Dana Young
Dana Young, President.

AN ARIZONA NON-PROFIT CORP.



TELEVISION

Job No.:

Program:

Client: COMMONWEALTH OF PUERTO RICO

Product: INDUSTRIAL DEVELOPMENT

Date: 10/26/77

Time: :60

Network:

VOICE (OVER):

Motorola...U.S. Steel... Eli Lilly... Coca Cola...

Gulf & Western...Baxter Laboratories...Pepsico...

RCA...Firestone...Revlon...Union Carbide...

Del Monte...Bristol-Myers...General Electric...

Heinz...Johnson and Johnson...Bell and Howell...

Upjohn...Seagram...Du Pont...Ford Motor Company...

Gillette... Digital Equipment...

Puerto Rico - where American business is
finding an ideal second home.

EXECUTIVES:

And not just because of the tax incentives.

What also makes Puerto Rico great
are the skills and ambition of its people.

The average worker has over 12 years of schooling.

And they're among the most productive workers
under the American flag.

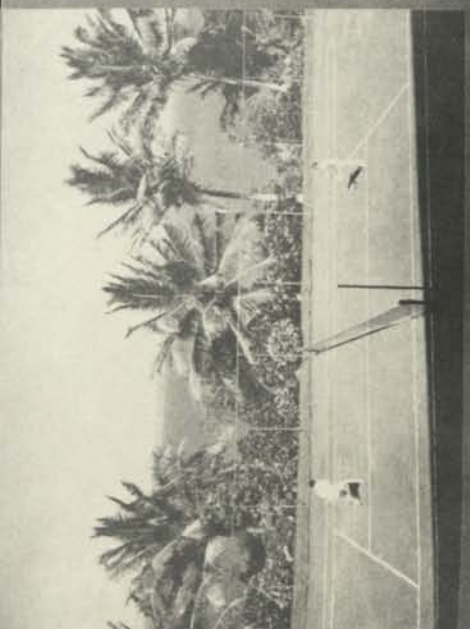
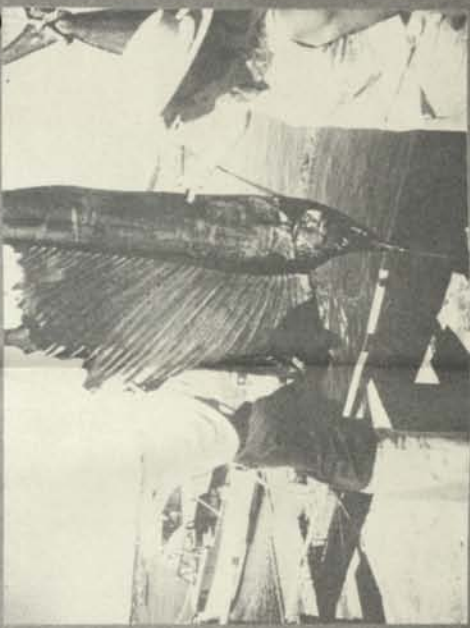
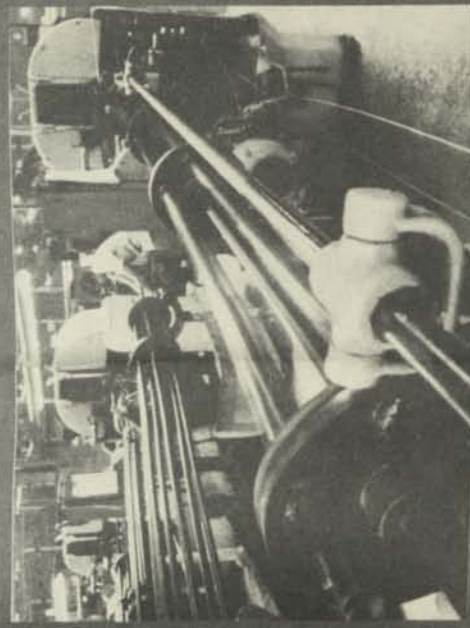
So come on, American businessmen.

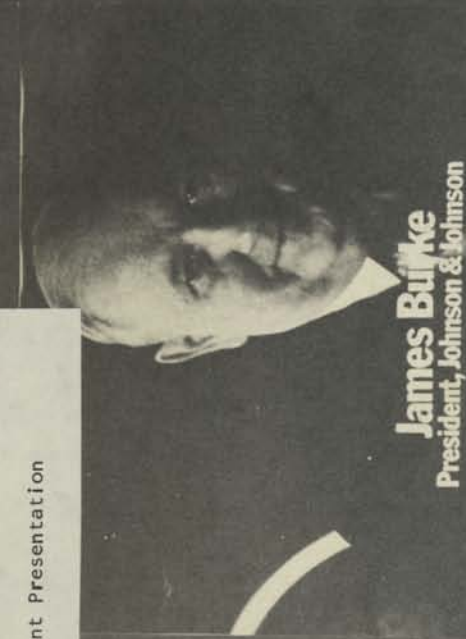
Join us in Puerto Rico, U.S.A.

SUPER: PUERTO
RICO, USA
The ideal
second home for
American business.

ANNCR (VO):

For information, call toll free 800-000-0000.





Simulated for client Presentation

James Bulke
President, Johnson & Johnson



TELEVISION

Job No.:

Program:

Client: COMMONWEALTH OF PUERTO RICO

Product: INDUSTRIAL DEVELOPMENT

Date: 9/30/77

Time: :30

Network:

VOICE (OVER):

Baxter Laboratories...General Electric...Union Carbide...

RCA...Bristol-Myers...Revlon...Gulf & Western...

Digital Equipment ...

Puerto Rico - where American business is
finding an ideal second home.

And not just because of the tax incentives.

What also makes Puerto Rico great is people -
people who get things done.

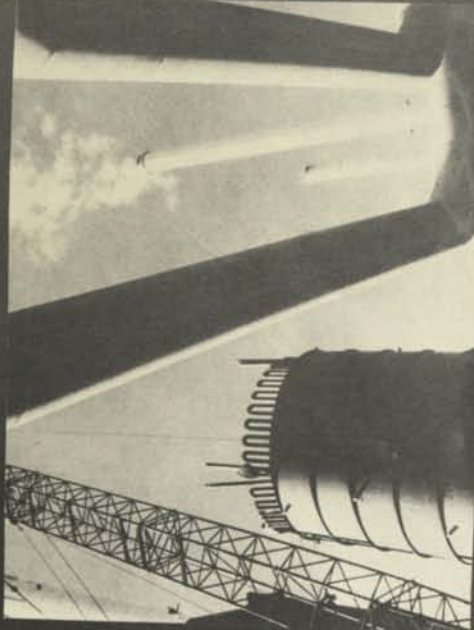
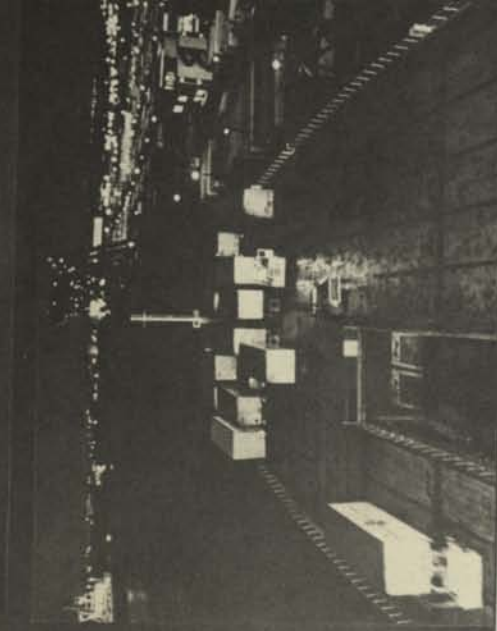
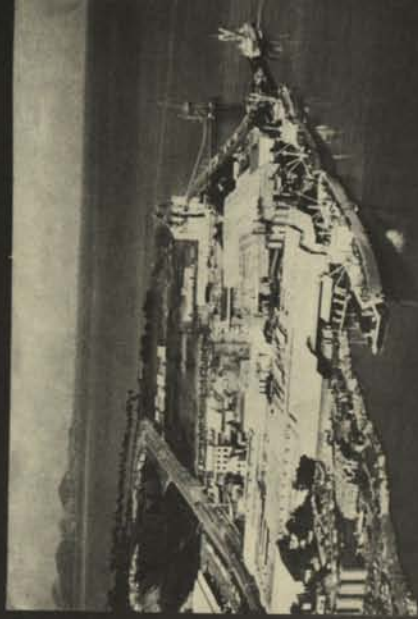
So come on, American businessmen.

Join us in Puerto Rico, U.S.A.

ANNCR: PUERTO RICO, For American business - it's the ideal second home.
U.S.A.
The ideal second
home for American
business.

ANNCR: For information, call toll free 800-000-0000.





Simulated for client Presentation



Reginald H. Jones
Chairman of the Board, General Electric Co.

Puerto Rico
File

digital

November 22, 1977

Mr. Leo-Arthur Kelmenson
President/Chief Executive Officer
Kenyon & Eckhardt, Inc.
200 Park Avenue
New York, New York 10017

Dear Mr. Kelmenson:

Ken Olsen has asked me to thank you for your kind invitation to participate in the television campaign being produced by Kenyon & Eckhardt to support the Puerto Rican Industrial Development effort.

Owing to a heavy schedule which includes a protracted absence from the office over the next several weeks, Mr. Olsen regrets that he is unable to take part in your program.

Please know, nonetheless, that your interest in Digital is most appreciated, Mr. Kelmenson.

Cordially,



Richard O. Berube
Manager,
Corporate Public Relations

ROB:slp

bcc: Ed Schwartz

Mike Bender
NOV 10 1977

K.P.R.
Kenyon & Eckhardt, Inc. 200 Park Ave. New York, N.Y. 10017 Tel: 973-2000

Leo-Arthur Kelmenson
President/Chief Executive Officer

November 7, 1977

Mr. Kenneth Olson
Chief Executive Officer
Digital Equipment Corporation
146 Main Street
Maynard, Massachusetts 01754

Dear Mr. Olson:

The Governor of Puerto Rico, and we as his representative, would like to enlist your personal participation in a public-service effort that is extremely important to the future of Puerto Rico, and its people. Simply stated, we would like you to appear in a television commercial now in preparation.

What we are embarking on is a totally positive new program, with no disparagement of the development needs of any other section of this country. The Governor hopes to attract more industries like yours that have found an additional home in the Commonwealth.

As you may know, we were recently awarded the advertising account for the Commonwealth of Puerto Rico's Industrial Development program.

/ We found a real challenge. With an unemployment rate hovering about 20%, Puerto Rico desperately needs an inflow of new industry if it is to turn its economy around.

In our travels around the Island, we have been struck by one almost universal finding. Just about every plant manager we talked to praised the work force to the skies. Low absenteeism. Low turnover. Loyal to the company. Productive.

We decided to talk about the people as one of the important reasons why American business should take a "second look at Puerto Rico".

Plus all other attractions offered, such as tax incentives, availability of required skills, lower average wages than on the mainland, training programs, low plant rates, infrastructure, etc.

The enclosed two opening print ads tell the story. They will appear in the Wall Street Journal, Business Week, Forbes and Fortune.

But we decided something more dramatic should be added to provide impact. The enclosed television storyboards marry music and filmed images of Puerto Rico's people, lifestyle, culture and work skills, counterpointed with quick glimpses of existing industrial installations, all accompanied by a verbal commentary, first naming well-known companies already in Puerto Rico, (144 of the Fortune 1000 companies have plants in Puerto Rico), then leading into reasons why decision-makers of American industry should consider Puerto Rico as a "second home" for their companies.

The end of the commercial reveals a Chief Executive, or Operating Officer, of a "blue-chip" company already in Puerto Rico, providing the "testimonial" of his presence.

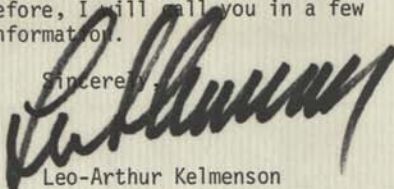
And this is where I hope you will come in. Your participation in one of these commercials would add immeasurably to the impact and, therefore, the hopes for success of this message to your peers in industry.

This new television campaign has Governor Romero Barcelo's enthusiastic backing, and will start in mid-February. To make this air-date, provided you agree to work with us, we would hope to work within your time and schedule commitments in order to film you prior to December 19.

I hope that you will find it possible to do so. There is a strong element of public service, as well as the personal satisfaction to be derived in helping to bring jobs to an economy and a people who want to help themselves by working productively.

Most probably, if you are interested you will want some further explanation of the storyboards before you arrive at a final decision. Therefore, I will call you in a few days to provide any such information.

Sincerely,



Leo-Arthur Kelmenson

LAK:rb
Encs.

*Puerto Rico
file*

Jhm

0127 1238 25-MAY 20578 1236 25-MAY

1 PR33 MP30

R G E N T

U R G E N T

U R G E N T ✓

MSG #1180/78

25-MAY 1978

2846

TO: DICK BERUBE - PK3-2/M18

FM: ED WARGO - SAN JUAN, P.R. (CMS CODE PR33)

IN APRIL WE HAD A PHONE CONVERSATION REGARDING YOUR COMMITMENT TO WRITE AN ARTICLE ABOUT DIGITAL IN PUERTO RICO. AT THE TIME THE COMMITMENT WAS TO BE ABLE TO HAVE AN ARTICLE COMPLETED IN TIME TO BE USED AT THE ADSEI EXHIBIT. DURING OUR CONVERSATION YOU APOLOGIZED FOR DROPPING THE BALL AND INDICATED THAT THE ARTICLE WOULD BE COMPLETED.

WE HAVE ANOTHER EXHIBIT WHICH WILL TAKE PLACE JUN 9, 10 AND 11, AND IF POSSIBLE I WOULD LIKE TO BE ABLE TO UTILIZE YOUR ARTICLE. WHAT IS ITS STATUS?

PLS ADVISE.
REGARDS,
ED

digital

f - Puerto Rico
INTEROFFICE MEMORANDUM

TO: Dick Finn
Lon Beaupre
Guido Ciannavei
Bob DiFazio
CC: Dick Berube *PK3-2/ M18*
Bill Hanson
SUBJECT: Sales Penetration - PR Government

DATE: 26 January 1979
FROM: Dave Thorpe *Dave*
DEPT: CPU Mfg. Gp.
EXT: 3222
LOC/MAIL STOP: ML1-4/P11

Dick Berube and I had a conversation recently about Dick Finn's desire to use Amadeo Francis as a consultant to assist in penetrating the Puerto Rican Government. I believe Amadeo can be a significant help and I confirmed this with Dick. I also mentioned that these discussions were not new as Ed Wargo and Amadeo had talked about doing this last summer when we met with FOMENTO people during the 10th Anniversary celebration.

The controversial part of the conversation was around the possibility of enhancing the sales effort by promoting our Puerto Rican manufacturing competence. I am very much in favor of capitalizing on our manufacturing position but in a relatively low visibility manner. My preference is that we avoid newspaper articles, radio and TV but rather go with more direct (less public) mailings and personal visits.

Anyone who wants to know where and how big we are can find out, but let's not flaunt it to the general public. Certainly promoting our presence and competence to potential island customers is appropriate and a strong selling point.

:bd

DIGITAL

INTEROFFICE MEMORANDUM

TO: Dick Berube
CC: Larry Ricci

DATE: 22 January 1980
FROM: Dave Thorpe
DEPT: CPU Mfg. Gp.
EXT: 3222
LOC/MAIL STOP: ML1-4/P11

SUBJECT: Recent Governor Romero Address

I thought you should see the attached article which reviews a recent address given by Puerto Rico's Governor Romero and Jose Madera, who is the Administrator for Economic Development (FOMENTO).

A specific question was asked about DEC and I am not at all pleased with the answer but will leave it up to you whether you would like to do anything about it.

/bd

Attachment

1Y

CORE is on line
Type "H" for HELP
Please Login > EMSC

Terminal #83

BADGE NUMBER PLEASE > 22156
PASSWORD >

FRI 25 JAN 1980 11:04 AM

You have:
[2] Unread Memos [0] Unsent Memos

Enter a Command or type "H" for HELP

Command > R UNREAD

FROM: LARRY RICCI
DEPT: TAX DEPT
EXT: 223-5325
TO: DICK BERUBE
DAVE THORPE @CLEM

DATE: WED 23 JAN 1980 3:18 PM EST

SUBJECT: DEVES MEMO OF 1/22/80 ROMERO

I HAVE A MEETING WITH JOSE MADERA ON FEB. 6TH AND I WILL BE SURE TO TALK TO HIM ABOUT THIS. I WILL LET YOU KNOW WHAT HIS EXCUSE IS!

Puerto Rico woos electronics industry

By Peter Bochner
Minicomputer News

BOSTON — Digital Equipment Corp., Prime Computer, Inc., Centronics, Inc., Qume, Quantel, Beckman Instruments, Storage Technology, Panasonic, Data-products, Microdata, Wang Laboratories and now Intel Corp. and Hewlett-Packard Co. — these are just some of the luminaries in the electronics field with facilities in Puerto Rico.

According to the Economic Development Administration for the Commonwealth of Puerto Rico, over 30 electronics firms have made the move to this island in the Caribbean in the past 2-1/2 years. Part

of the reason is the island's tax advantages and its pro-business climate.

Puerto Rico styles itself as "the ideal second-home for American business." According to its basic selling philosophy, if investors are going to expand outside the United States, the island would rather see them locate there than overseas. This would help the nation's balance of payments, on the one hand, and bring needed employment to Puerto Rico, which may soon become the 51st state of the Union.

Recently, the editors of Benwill Publishing and Alberto Socolovsky, publisher of Electronics Business Magazine, met with Puerto Rico's Governor Carlos

Romero-Barcelo and Jose R. Madera, administrator for the Economic Development Assn., to discuss the electronics industry and its role in the island's economic development.

According to the governor, Puerto Rico's economic climate features an inflation rate several percentage points below the mainland's, and a GNP that has grown over 5% in the last two fiscal years. In addition, according to the Economic Development Administration, the average wage for the electrical/electronics sector is \$3.89 in Puerto Rico, as opposed to \$6.31 in the U.S. Average wage for the computer industry is \$4.04 and \$6.02, respectively.

How do you look at the electronics industry as a source of jobs in Puerto Rico?
Romero-Barcelo: We look at the electronics industry as a great opportunity for future industrial development. In the past, we brought in industries such as the tobacco and leather industries, which were highly labor intensive but low in wages. These industries reacted very fast to changes in economic conditions. Nor did they provide us with the capital investment, the wage levels and technical know-how needed for present development.

We targeted the electronics industry for many reasons. Industry growth is a certainty. In terms of jobs, demand for trained human resources, both in manufacturing and services, is tremendous. The industry pays well and requires skills that the Puerto Rican worker has.

How many people are employed by the electronics industry in Puerto Rico?

Madera: In the last two years we've brought in about 32 electronics firms. We have now about 20,000 jobs in the electrical and electronics and measurement, analyzing and controlling instruments sector.

Why should a manufacturing company set up an operation in Puerto Rico, versus Malaysia or one of the Asian countries?

Romero-Barcelo: The thing that must be considered first is where will your market be. If your market is on the mainland, you already have one advantage being in Puerto Rico. If your market is in another country, you must look at the tariffs there.

Secondly, Puerto Rico could provide much more easily the required trained manpower at all levels than an Asian country such as Malaysia. The average Puerto Rican worker has over 11 years of schooling. On a per capita basis, we now have more students in institutions of higher learning than the national per capita average on the mainland. In the past 2-1/2 years, we have encouraged interaction between the educational system and corporations. We are ready to make training programs to order at all levels.

Thirdly, we have a geographical advantage, in the sense that any expansion of the electronics industry into South America

will be much better from Puerto Rico than the mainland because we will be able to provide bilingual accountants, lawyers, technicians, scientists.

Lastly, of course, is our industrial incentive program.

Many Sunbelt states — particularly North Carolina — also offer incentive programs and are attempting to attract high technology industries. How does Puerto Rico compete with these states, in view of the fact that transportation costs are greater to and from Puerto Rico?

Romero-Barcelo: But transport from Puerto Rico to, for example, St. Louis would be cheaper than transport from North Carolina. From Puerto Rico, the route is only ocean and river; from North Carolina, you have to transport it by land with trailers. Shipping rates are lower than land rates.

There is also a productivity incentive. We have incorporated a minimum wage in our country, but the average wage is still lower than that in the Southern states.

Also, we have Pridco (Puerto Rico Industrial Development Co.), who buys the land, develops it, builds on it and then leases or sells to private companies at preferential rates, so start-up costs are reduced. A third incentive program grants assistance to corporations depending upon where they locate, assistance in the form of training or X dollars per job created.

How do production costs in Puerto Rico compare to those of the mainland and in other places, such as Japan and Mexico?

Romero-Barcelo: With Japan we compare very favorably. We do not compare with Mexico, but Mexico doesn't have the infrastructure, the technical capability nor the managerial capability we have in Puerto Rico. Also, Puerto Rico has market access; there are no tariff barriers to the rest of the nation.

As an example of the sophistication of our training corps, let me tell you this story. When a Qume plant that was supplying the Chicago market suddenly could not do so, Qume supplied the market from its Puerto Rican plant. The people from Chicago decided that the Puerto Rican

products offered greater efficiency, fewer problems and better quality control. Now they want all their products from Puerto Rico. Not only productivity but quality is better.

DEC is now well established in Puerto Rico. If it costs them a dollar to make a printed circuit board in Massachusetts, what would the same board cost them in Puerto Rico?

Madera: I can't give you exact unit costs, but I'll tell you, over 50 percent of their total corporate earnings are generated in Puerto Rico, with less than 10 percent of their manufacturing space.

What problems has Puerto Rico had with its program? Did runaway plants pick up and move down there for the tax advantage?

Romero-Barcelo: Yes, that was one of the traditional problems. Now we require that they tell us how many jobs they will create; we don't just hand out tax exemptions and benefits to anyone.

In the early 70s, the firms offering the highest number of jobs came in, and when the tax exemption was over, they packed and left. In the past two years, we have substantially reduced the amount of plant closings, and discovered a sense of permanence in the industrial sector that did not exist before.

How does the Puerto Rican population feel towards these American companies?

Romero-Barcelo: The vast majority feels very good about these companies, because they provide good-paying jobs. When we first eliminated the 100 percent tax exemption for new industries, the opposition thought that new industries would not be able to get started. However, I was able to convince the majority of Puerto Ricans that we should tax industry to reduce personal income taxes. When I started office, our highest brackets paid 87 percent; now they are down to 71 percent, and we plan to continue the reduction.

Industry is looked upon as an opportunity for development; for the people, as an opportunity for a job.

THE ECONOMIC DEVELOPMENT ADMINIS
1290 AVE OF THE AMERICAS
NEW YORK NY 10019

 Mailgram
western union



4-0395888093 04/02/80 ICS IPMTZZ CSP R8NB
2122451200 MGM TDMT NEW YORK NY 334 04-02 0222P EST

MR RICHARD BERUBE
DIGITAL EQUIPMENT CORP
129 PARKER ST
MAYNARD MA 01754

THORPE 3-3222

DEAR MR BERUBE

ON APRIL 23, PUERTO RICO'S ECONOMIC DEVELOPMENT ADMINISTRATION WILL SPONSOR A LUNCHEON AND SEMINAR FOR BUSINESS EDITORS. AT THIS TIME WE HOPE TO GIVE THE BUSINESS AND TRADE PRESS A CLEAR AND UP TO DATE PRESENTATION OF THE LATEST INCENTIVE, AND WHAT WE BELIEVE TO BE OUR FINANCIAL AND OPERATIONAL ADVANTAGES AS A SITE FOR BUSINESSES SUCH AS YOUR OWN

AS YOU KNOW, PUERTO RICO HAS BEEN ATTRACTING HIGH TECHNOLOGY FIRMS TO ITS SHORES IN GREAT NUMBERS OVER THE PAST FEW YEARS, WE FEEL OUR ADVANTAGES AND PARTICULARLY THE QUALITY OF OUR TRAINED WORK FORCE HAS BEEN LARGELY IGNORED BY THE PRESS

IT WOULD HELP US-AND I BELIEVE THE ESTEEM OF YOUR OWN WORKERS ON THE ISLAND IF YOU WOULD TAKE TIME OUT THAT DAY TO BE PRESENT AND MAKE A BRIEF 5 MINUTE PRESENTATION ON HOW YOUR COMPANY IS FARING AND WHAT YOUR EXPERIENCES HAVE BEEN THERE. I AM SURE THE BUSINESS AND TRADE PRESS WILL BE CURIOUS TO HEAR WHY YOU MOVED TO PUERTO RICO AND ABOUT SOME OF THE BENEFITS AND PROBLEMS YOU HAVE ENCOUNTERED. YOU, OF COURSE, MAKE YOUR OWN DECISION AS TO WHAT YOUR COMPANY FEELS WOULD BE SUITABLE MATERIAL TO PRESENT.

AS MEMBERS OF OUR BUSINESS COMMUNITY, I NEED NOT TELL YOU HOW MUCH YOUR PRESENCE WOULD BE APPRECIATED. AS YOU ARE AWARE, WE HAVE A VERY BAD IMAGE PROBLEM WITH THE PRESS, ONE THAT STEMS FROM THE VIEW MANY HAVE DEVELOPED OF PUERTO RICANS HERE IN THE STATES.

PLEASE LET ME KNOW IF YOU OR A REPRESENTATIVE FROM YOUR COMPANY CAN BE PRESENT.

THE GATHERING IS WEDNESDAY APR 23, THE HEMISPHERE CLUB-TOWER SUITE, 47TH FL, RM A & B, TIME AND LIFE BLDG, 1271 AVENUE OF THE AMERICAS.

FORMAT: 1145AM RECEPTION

LUNCHEON: 1230PM

TALKS: 115PM TO 2 OCLOCK PM

I LOOK FORWARD TO SEEING YOU,

MANUEL CABRANES
THE ECONOMIC DEVELOPMENT ADMINISTRATION
1290 AVE OF THE AMERICAS
PHONE 212-245-1200
NEW YORK NY 10019

NEWS RELEASE CHECKOUT FORM

TITLE 10th Anniversary - Puerto Rico

WRITER Peter Connell

INITIAL P.R. APPROVAL (Rough Draft) 6/9/78

SUBMITTED TO MARKET/PRODUCT GROUP 6/9 - ^{Dick} Berube - 6/12 - Dave Thorpe

APPROVED BY MARKET/PRODUCT GROUP 6/14 - minor comments

SUBMITTED TO LEGAL 6/12 - Ed Schwartz

APPROVED BY LEGAL 6/13 - w/minor changes

SUBMITTED TO CUSTOMER _____

APPROVED BY CUSTOMER _____

SUBMITTED TO FINANCIAL _____

APPROVED BY FINANCIAL _____

FINAL P.R. CHECKOUT

_____ Final Type Numbers Assigned _____

_____ P.R. Aids Forms Filled Out _____
(writer) A/E (secretary)

_____ Final Approval

_____ Date Released

FACSIMILE TO: Maggie Tores, San German x205

From: Peter Connell, Pk3-2/M18 c.c.297 ²⁷⁷⁵

Sent 4:31
June 14-78

Please have Steve Garcia call me as soon as he sees the attached copy.

Regards.

809-892-1946- 308



EQUIPMENT
CORPORATION
MAYNARD, MASS. 01754

FOR APPROVAL

DIGITAL IN PUERTO RICO:
A TENTH ANNIVERSARY

SAN GERMAN, Puerto Rico -- June 18, 1978 -- Digital Equipment Corporation, the world's leading producer of interactive computers, begins a week-long celebration to mark its tenth anniversary of business in Puerto Rico. Ceremonies, parades and plant activities highlight the festive celebration that runs from June 18 to 25.

Digital came to Puerto Rico in June, 1968 to establish a high volume manufacturing operation for computer subassemblies, and in the ten years that followed has grown its "Digital Familia de Puerto Rico" to more than 2700 employees and two plant locations totaling almost 400,000 square feet. In addition to the company's plants in San German and Aguadilla, Digital services customer through a sales and service office in the Miramar section of San Juan.

"Without the high quality and high volume products coming from our plants in Puerto Rico," said Digital president Kenneth H. Olsen recently, "we most likely could not have kept pace with the tremendous growth of the minicomputer industry in recent years. We take great pride in our relationship with the people of Puerto Rico and we plan to remain a positive influence on the island for many years to come."

-more-

Continued - DIGITAL AND PUERTO RICO - THE FIRST TEN YEARS

(Part II. Digital in Puerto Rico)

programs that helped in the fields of education, worthy health projects, care for senior citizens, even equipment for the local Fire Department and Civil Defense.

Gradually, and with even more assurance, DEC of Puerto Rico is becoming known for what it has proven that it is - a committed partner for the mutual progress of Puerto Rico and the corporation. The first ten years are supposedly the hardest. Judging by DEC's and Puerto Rico's standards, they were just great. For what DEC and Puerto Rico hope to achieve in the coming years, the future is even more promising than the present, even more fruitful than the past.

For this reason, we invite you to celebrate with us and Puerto Rico, the first ten years. And we also extend a second invitation - ten years from now. We'll be here looking for you, on both occasions.

Continued - DIGITAL AND PUERTO RICO - THE FIRST TEN YEARS

(Part II. Digital in Puerto Rico)

aspects of Puerto Rican life has only just begun.

The first graduates of the Technological Institute have progressed from assembly line to higher fields within DEC - advanced product assembly, testing, training, even graduate engineering. Many of the first technicians have served as resource people and visiting teachers, often in the very schools they attended.

Workers who have had little or no previous technical training have also fared well. The comprehensive, flexible training programs carried out by DEC have opened up vast areas for personal progress and professional upgrading. People are not restricted to just one operation for the rest of their lives in DEC, and the people of Puerto Rico responded with pride, enthusiasm, and ability that characterizes them. Production, research, personnel, management both here and there in the central operations in Maynard and other parts of the corporation have all felt the impact of DEC's presence in Puerto Rico.

DEC has also, bit by bit, gone about integrating itself into the Puerto Rican community, and not just in times of emergency, such as in 1975, with the flood of Hurricane Eloise. DEC knows that in such situations it has always responded, as it did with supplying water, foodstuffs, blankets, equipment, and capable manpower. In other areas, less tragic but just as important, coordinating training programs with various government agencies; its participation in professional and industrial organizations; its involvement in community civil, social, and educational projects; its donations

Continued - DIGITAL AND PUERTO RICO - THE FIRST TEN YEARS

(Part II. Digital in Puerto Rico)

their responsibilities, raise their families, educate their children, thanks to the presence of this "new" company.

He probably wouldn't have believed it if someone had predicted that the company whose decision he had sealed would, in ten years, occupy not only one building, but three. As work progressed, a second building of Fomento would be included in addition to the magnificent facility that was being built at the entrance of town. In time, the original building would be training center and the new plant would be expanded twice its original size. And, if this was not enough, San Germán's workers served as the nucleus for expanding into a separate facility in Aguadilla, on the outskirts of Ramey Field in 1974.

Both José and Digital had much to be proud about. A stable, prosperous company that has 1,900 employees in San Germán, nearly 800 in Aguadilla, and an international sales/service office in the Miramar section in San Juan. Literally, thousands of jobs for Puerto Rico. Jobs that circulate millions of dollars in payrolls each year; operations that provide income for water, electric, and telephone authorities each month. Indirect employment in other areas, financial and banking transactions, etc. ... the list could go on and on.

Puerto Rico and DEC have been good for each other; perhaps even better than both imagined ten years back. Ten years have seen, for instance, a revitalization of the area of San Germán. The latest population studies have shown a movement of population back to San Germán. Nearly 8,000 people have once again chosen the beautiful town as their residence. The involvement of Puerto Rico and DEC in all

66

DIGITAL AND PUERTO RICO - THE FIRST TEN YEARS

Part II. Digital in Puerto Rico

Little did José González realize in June, 1968, what would result from all his promotion work with the people from Digital Equipment Corporation. As Job Promoter in Fomento, he knew that DEC, as it called itself, was a fast growing company in the States and in several foreign countries, looking to establish itself in Puerto Rico.

San Germán was chosen for their initial operation for many reasons; but mainly for one - the availability of human resources. José was aware of the statistics that he had carefully poured over preparing his work. The quiet, beautiful University town, unobtrusively hidden away from the low hills between Sabana Grande and Mayaguez offered good features: access to the main highway, pleasant climate; proximity to the larger centers of population, Mayaguez and Ponce; a reasonable tax incentive plan. But most important of all, a chronic unemployment rate due to lack of job opportunities. He had even heard, through his contact with other government agencies, that San Germán's population had dropped by an exodus of nearly 10,000 people! All these people going to where the jobs were available.

José knew all this and, so, was happy when the decision was made. When the first operations began in the standard Fomento factory on the far side of San Germán, he could take pride in the fact that Puerto Rico was much better off for his work and DEC's decision. Now, many of his people would be able to meet

The minicomputers, modules, cables, power supplies and modular systems manufactured in Puerto Rico are shipped to Digital's final assembly and test locations in the United States, Canada and Europe where they are integrated into systems and shipped to customer locations.

The diversity of Digital's hardware and its ability to link computers together into networks has helped place the company at the forefront of interactive computing. Ongoing expenditures for hardware and software development will help assure its technological position in the industry for years to come.

The week-long Celebration:

Theme of the celebration is Digital and Puerto Rico -- the first ten years. The activities will center around the San German and Aguadilla plants and local community, and will be highlighted by a speech by the Governor of Puerto Rico -- the Honorable Carlos Romero Barcelo. Government officials and Digital executives will tour the two plants and take part in a number of employee activities.

The schedule of events is:

SUNDAY, June 18

MONDAY, June 19

TUESDAY, June 20

(Fill in with brief highlights
of events and locations)

WEDNESDAY, June 21

THURSDAY, June 22

FRIDAY, June 23

SATURDAY, June 24

SUNDAY, June 25

Corporate Background Information:

Digital Equipment Corporation began in a woolen mill in 1957 with three men and \$70,000 of funding from a venture capital company. Today, the Maynard, Mass. company has grown to more than 38,000 people worldwide, more than eight million square feet of manufacturing and administrative space and more than \$1 billion in total revenues. It ranks number 231 on the FORTUNE 500 listing, and has installed more than 100,000 computers.

Digital President, Ken Olsen came from Massachusetts Institute of Technology (MIT) and later Lincoln Laboratories to start the young company. His business philosophy of openness, personal initiative and letting growth come as it may, has supported the company's profitability from the outset and has helped sustain a compound growth rate of approximately 40 percent.

The company not only makes computers that begin with the LSI-11 microcomputer and extend upwards to million dollar mainframes, but it also produces a wide range of computer-related equipment and software products that are sold into virtually every major market. Customers around the world are supported by a sales, service and software organization of more than 6,000 professionals and by products manufactured in the United States, Europe, Canada, and the Far East.

Puerto Rican Release

PRESS RELEASE

DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO, WITH
MANUFACTURING PLANTS IN BOTH SAN GERMAN AND AGUADILLA,
ANNOUNCES THE ABOVE PICTURED NEW BUILDING EXPANSION
OF ITS SAN GERMAN FACILITIES. CONSTRUCTION OF THIS
NEW MODERN 68,000 SQ. FT. ^{leased} BUILDING WILL COMMENCE
DURING EARLY JANUARY, 1975 AND WILL CONSOLIDATE SOME
OF DIGITAL'S SAN GERMAN OPERATIONS SUCH AS CABLE
~~MANUFACTURING AND TRAINING, PLUS IT WILL PROVIDE SPACE~~
~~FOR AN EMPLOYEES CAFETERIA, AND CORPORATE ADMINIS-~~
~~TRATIVE OFFICES.~~

THE PARENT COMPANY, DIGITAL EQUIPMENT CORPORATION,
MAYNARD, MASSACHUSETTS ^{is the largest} HAS OVER 17,600 EMPLOYEES
WORLDWIDE, AND IS THE INDUSTRY'S LEADER IN INSTALLA-
TIONS OF TIME SHARING COMPUTERS. ^{for the fiscal}
YEAR ENDED JUNE, 1974 DIGITAL REPORTED SALES OF
\$421. MILLIONS.

The Company is also a major

de
Digital Equipment Corporation De Puerto Rico, with manufacturing plants in both San German and Aquadilla, announces the above pictured new building expansion of its San German facilities. Construction of this new modern 68,000 square foot leased building will commence during early January, 1975 and will consolidate some of Digital's San German manufacturing and training operations and provide space for an employee cafeteria.

The parent company, Digital Equipment Corporation, is the world's largest manufacturer of minicomputers and a leader in computer timesharing. The company is also a major producer of small, medium, and large-scale computer systems, peripheral equipment, interfacing devices, software packages, and support services. Headquartered in Maynard, Mass., Digital employs more than 19,000 persons worldwide and reported sales of \$421.8 million for the fiscal year ended June 29, 1974.

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**Quarterly Report
to Investors in
Puerto Rican
Securities**



COMMONWEALTH OF PUERTO RICO
Government Development Bank for Puerto Rico
SAN JUAN, PUERTO RICO

Volume 21 • Number 3

September 1974

COMMONWEALTH OF PUERTO RICO

Government Development Bank for Puerto Rico

Statement of Condition

As of June 30, 1974

Assets

Cash	\$ 17,788,341
Certificates of Deposit	243,316,904
U. S. Government Securities	66,974,196
Obligations of the Commonwealth and its Municipalities	596,354
Loans and Advances to Puerto Rico Government and Municipalities	182,764,444
Industrial and Commercial Loans	126,605,250
Other Assets	11,911,606

Fund Accountability:

Deposit on behalf of the Secretary of the Treasury for payment of current bond maturities and interest of the Commonwealth of Puerto Rico and its Municipalities—See Contra	280,294
Deposit held for the account of certain San Juan Banks, deposited in the Federal Reserve Bank of New York—See Contra	2,789,723
	<u>\$653,027,112</u>

Liabilities and Capital

Deposits:	
Time	\$ 11,000,000
Demand	11,083,415
Certificates of Deposit	401,426,372
	<u>\$423,509,787</u>
Other Liabilities	81,426,027
Notes Payable to Banks	1,000,000
Capital Notes	70,000,000
Reserve for Losses—Obligations of Private Enterprises	8,813,418

Capital:

Capital	\$ 57,000,000
Retained Earnings and Appropriations for Contingencies	8,207,863
	<u>65,207,863</u>

Fund Accountability:

Deposit held on behalf of the Secretary of the Treasury, for payment of current bond maturities and interest of the Commonwealth of Puerto Rico and its Municipalities—See Contra	280,294
Due certain San Juan Banks, under agreement relating to collection of checks—See Contra	2,789,723
	<u>\$653,027,112</u>

The Economic Outlook: Problems, Policies and Prospects

An Address by JUAN A. ALBORS, President

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

to THE SAN JUAN ROTARY CLUB, August 27, 1974

At the outset, there is certainly no need to caution or alert you to the fact that we are living in troubled times. And we are not alone, for this is an uneasy period for people in most countries. In one way or another, our daily pursuits have been touched by the extraordinary economic developments emerging on the worldwide scene. Moreover, indications point to a continuation of these disrupting conditions for some time ahead.

First of all, let us examine what the President of the United States has labeled "Public Enemy No. 1"—the current high, intolerable rate of inflation. It is recognized, without question, that this No. 1 problem poses a serious threat to the well-being of every individual.

Although we had become accustomed to some upward movement in price levels since World War II—and many people accepted the fact that gradual price increases might be necessary in a healthy, growing economy—the nature of price changes we have witnessed during the past year was totally different. It has been alarming, and disturbing—and the repercussions and dislocations have been felt around the world. We have suddenly been subjected to double digit inflation, a phenomenon unknown to most countries in the last quarter of a century. I do not need to belabor the deep-rooted pernicious effects of this type of inflation; all of us are aware of how oppressive this menace can be.

During the past year, the fires of inflation were fanned to new heights by shortages of certain basic necessities. The resulting escalation of costs worked maliciously against economic aspirations around the world, particularly in developing countries. Most notable of these basic necessities was petroleum. Although general price inflation was on the increase before the oil crisis began, the overall problem was greatly accentuated by the sudden, steep increases in the price of this commodity. While the initial threat of acute oil shortages has now faded, the higher prices put into effect during the past year have intensified the rate of inflation and they have disrupted normal consumption and production patterns worldwide. Looking ahead, we can foresee the high cost of oil imports continuing to present difficult financing problems for many countries, well beyond this year.

Puerto Rico has been affected profoundly by this situation. The Commonwealth must rely almost entirely

on oil to meet its energy requirements, and, as we are all aware, the result of such reliance has been to add substantially to the forces of cost inflation. Just to illustrate briefly the impact on the individual: during the fiscal year ending June 30, 1974, the increased price of gasoline cost the Puerto Rican consumer some \$56 million. Furthermore, the increase in electric power rates as a result of rising fuel prices cost Puerto Rican families an additional \$40 million.

Other pressures during the year included a sharp upward movement in prices of imported foodstuffs, and the increased shipping rates which went into effect in December, 1973. The prices of foodstuffs imported from the United States rose by 36 per cent during the past fiscal year, representing an additional outlay of some \$104 million by the Puerto Rican consumer. The increased shipping costs added another \$32 million to personal consumption expenditures.

Looking at overall statistics, we find that the Planning Board's index, covering goods and services purchased by all families in Puerto Rico, reflected an increase of 12.6 per cent during fiscal year 1974 compared to 3.9 per cent in the previous fiscal year. This is the index used as a deflator to arrive at real income. The Labor Department index, covering worker's families, and which is heavily weighted by foodstuffs, rose by a still higher rate.

Unfortunately, Puerto Rico cannot isolate itself from these vexing problems of external origin. The great bulk of what is consumed in the Commonwealth must be imported, thus subjecting our consumers and producers to the same pattern of sharply rising prices enveloping the United States and the rest of the world.

Another related problem, with serious implications for Puerto Rico as a developing area, has been the high cost of money. This problem affects all prospective borrowers, in the private sector as well as in government. As the monetary policies of the Federal Reserve became more restrictive in an effort to curb the inflationary spiral in the United States, this additional element of uncertainty and restraint has added to the burdens affecting Puerto Rico's economy. High money costs have had a noticeable impact on certain sectors such as private home construction. Public works have also become more costly and more difficult to finance. High money costs have unquestionably hampered expansion of business and of the economy in general.

ON THE COVER:

A worker in a Digital Equipment Corp. plant in San German, repairs a module. In five years the company has expanded more than tenfold in operating space in Puerto Rico. (See story, page 7).

It is understandable that all of these adverse pressures would become magnified in an area such as Puerto Rico, where incomes are still low as compared to the United States mainland.

A brief review of Puerto Rico's economy for the fiscal year ending June 30, 1974 will further reveal the effects of the underlying factors I have mentioned. In monetary terms, net income increased by 9.6 per cent. However, the inflation rate experienced during the year eliminated the possibility of real growth in consumption and investments. As I already mentioned, the index used as a deflator rose by 12.6 per cent, and as a result real net purchasing power in the economy was reduced by about 2.6 per cent.

In spite of this reduction in real net income, there was a healthy expansion in the primary economic sectors, including agriculture, manufacturing and tourism, all of which experienced a good year. In monetary terms, these three sectors together registered an increase of 18.6 per cent compared to 14.9 per cent in the previous fiscal year. Manufacturing income increased by 15.7 per cent compared to 14.1 per cent in the previous year, with growth attributed largely to firms promoted under Puerto Rico's development program. It is noteworthy that the new industrial plants opened during the fiscal year created over 6,000 new jobs, representing the second largest number of new employment opportunities created in any one year. Moreover, the value of the output from Puerto Rico's manufacturing industries grew sharply during the year, with total exports reflecting an extraordinary increase of 34.2 per cent. Of course, increased prices of petroleum and petrochemical products contributed greatly to this overall increase in value of exports.

During fiscal year 1974 the agricultural sector produced its most significant gain in many years. The growth in agricultural net income reached 24.4 per cent, or some \$55 million over the previous year. Sugar price increases helped significantly, with the value of sugar production reaching \$74.4 million, doubling the income from sugar during the previous year. However, the increases in value of agricultural output extended to practically all products. Furthermore, the program to substitute agricultural imports is progressing, and offers great hope for the future.

Construction activity had about the same growth in terms of income as in the previous fiscal year, although the private sector reflected significant weakness, particularly in terms of private home construction. Government construction activity, more significantly during the second half of the fiscal year and notably in the public housing area, had the effect of bolstering the overall construction picture.

Tourism contributed to the expansion in economic activity during fiscal year 1974. The number of hotel visitors for the year rose by 6.2 per cent, and the increase during the later months of the year, from December through April, reached almost 15 per cent. It is too early to determine whether this improvement in tourism will carry over into the summer and fall months, as it appears that the economic situation is beginning to disrupt the flow of tourism worldwide.

For the current fiscal year, uncertainty continues to cloud the overall economic picture. One thing that seems apparent is that prices will continue to rise at levels close to what we have been experiencing in recent months. Food prices on imports are expected to jump again sharply in the next few months due to drought conditions and a poor harvest on the mainland. Further increases in price levels will, of course, continue to undermine real growth prospects in the standards of living both in the continental United States and in Puerto Rico.

On the brighter side, our local economic situation will be buoyed by certain factors. Many government construction projects which were stimulated as compensatory measures during the last fiscal year will carry over to the present year. Furthermore, agriculture and industry are expected to continue to advance at rates comparable to the past year, and the Federal Food Stamp Program will undoubtedly have a major favorable impact on the commercial sector. As this latter program moves into high gear, it will leave the consumer with additional money to spend on other items.

In a move to strengthen the private sector, Puerto Rico's incentive program was liberalized recently to encourage further investment. The Industrial Tax Exemption Law now allows for tax exemptions up to 10, 15, 25, and 30 years, depending upon the region of the Island in which a firm locates. Previously, the period had run from 10 to a 25 year maximum. Furthermore, textile industries will be granted an additional five years of tax exemption in an effort to keep such firms active in Puerto Rico. As you know, this type of industry is very labor intensive.

Some months ago legislative steps were also taken to encourage tax exempt enterprises to reinvest accumulated profits in a series of desirable economic activities, including mortgage loans on homes, certain mortgages on exempt business operations, maritime operations, hospitals and also on loans initially made by the Government Development Bank and the Agricultural Credit Company. To help in further easing mortgage financing, Puerto Rico's Usury Law was revised last year to provide a more flexible mechanism which would facilitate the flow of funds. In addition,

government pension funds were empowered to invest without limitation in home financing.

It is anticipated that we will gradually see more and more reinvestment of tax exempt earnings in Puerto Rico. Many of the firms operating here under section 931 of the United States Internal Revenue Code, have been accumulating very large profits which have been reinvested outside of Puerto Rico. I am confident that in the years ahead we will find new ways to effectively retain more of these funds here in the Commonwealth.

I would like to turn now to two matters of great concern, where—unfortunately—there seems to be considerable misunderstanding and controversy. I refer to the acquisition by the Commonwealth government of the Puerto Rico Telephone Company, and to the efforts to establish a local merchant marine. Adequate communications and a modern transportation network are recognized as indispensable to development efforts anywhere. But the importance of these facilities cannot be overemphasized in an area such as Puerto Rico—an island far out to sea—where communications and transportation constitute lifelines to the outside world. We all know that the quality and cost of shipping services are of basic concern when any sizeable investment is contemplated in the Commonwealth. A modern, highly developed system of telephone communication is also indispensable in a rapidly growing economy.

In both of these areas—communications and shipping—it was decided, after long and comprehensive study, that the government would have to become more deeply involved. Efforts had been made to improve the level of telephone service under private ownership over the years, but it became apparent that the magnitude of required financing would make it impossible to provide the kind of service needed. The cost of private financing for expansion to meet essential goals would have been excessive, if not impossible to arrange. It just would not have been good business for private enterprise. On the other hand, with the possibility of financing this expansion and improvement of service through tax exempt obligations, the government will be in a position to develop the type of facilities required. The solution was to purchase the Telephone Company from ITT and to establish a Telephone Authority to be responsible for Puerto Rico's telephone communications. Through the issuance of bonds, the necessary investment funds are being provided to expand and improve facilities.

... Government purchase of the Telephone Company will permit undertaking of an extensive program to expand and improve the service, which over a five year period will result in new investment in excess of \$600 million. To assure the expertise needed to de-

velop a sound system, the new Telephone Authority has contracted for technical assistance from the American Telephone and Telegraph Company, the largest and most important telephone company in the world, operating 80 per cent of all telephones in the United States.

In the vital transportation area, it was recognized that increases in ocean cargo rates have long presented a serious hardship to our industrial community, and they represent a heavy burden to the Puerto Rican consumer. Given our lower per capita income and greater dependence on external trade, it has been estimated that the impact of increased shipping rates is twenty-one times greater in Puerto Rico than in the United States.

The obvious way to offset these high and rising transportation costs is to increase productivity. After intensive and careful study, it was concluded that productivity could only be increased under the consolidated operation of a merchant fleet. By consolidating the maritime services under a single management system, important savings can be derived, needless duplication will be eliminated, and modernization to bring operations to peak efficiency can be attained. The establishment of a more flexible rate structure—one that will take time to develop and be different from the tariff schedules recently filed with the Federal Maritime Commission—with incentive rates forming an inherent part of the system, will help to attract, maintain, and expand industrial operations in Puerto Rico. Both the producer and the consumer will be far better protected than has been possible up to now. . . .

Puerto Rico's future economic growth will be based on continued development of the private sector, based on the free enterprise system. It is precisely this sector that we are trying to protect by providing the essential underpinning—a viable infrastructure which will stimulate private initiative to press forward to new higher levels of attainment for the business sector.

Let me turn now to another area in which Puerto Rico is moving to strengthen its economy, financial development, an area crucial to the process of economic expansion. In finance, several major developments are in progress and further innovations are under study. The institution which I direct, the Government Development Bank, has great responsibility in this area. One of its chief functions is to extend development loans to the private sector. In its other principal role, the Bank serves as fiscal agent, or official borrowing agent, for all public bodies in Puerto Rico. In a third general function, it is the principal financial advisor to the Government of Puerto Rico.

In order to service more adequately the financial

(Continued on page 6)

Dr. Miguel Echenique Joins Development Bank

Dr. Miguel Echenique, who served for two decades with the Puerto Rico Planning Board, has moved to the Government Development Bank as Vice President and Advisor to the President for Economic and Financial Affairs.

At the Planning Board, Dr. Echenique had similar duties, and broad experience. His transfer was accom-

plished by mutual agreement between the Planning Board chief, Rafael Alonso, and Development Bank President Juan A. Albors. Within his new responsibilities he will continue to work in collaboration with the Planning Board.

Dr. Echenique is a native of Spain and earned his Doctorate at the University of Madrid.



Esteban Dávila Díaz Appointed Maritime Authority Head

Esteban Dávila Díaz has been named Executive Director of the new Puerto Rico Maritime Shipping Authority. Mr. Dávila, an eleven-year veteran of public service, is the former President and General Manager of the Puerto Rico Industrial Development Company.



Salazar Named New PRIDCO President

Within a week after his appointment as ninth President and General Manager of the Puerto Rico Industrial Development Company, Alfredo Salazar, Jr. (left) presided at briefing sessions for visiting Sierra Leone dignitaries. Sharing the head of the table with him is Amadeo I. D. Francis, Deputy Administrator of the Commonwealth Economic Development Administra-



tion with headquarters in New York.

After serving with PRIDCO for three years as Vice President in charge of Finance, Mr. Salazar was named to his present post on July 19. Prior to entering public service he was with Banco Popular in San Juan and New York.

Signing the Highway Authority issue is Executive Director Miguel Velez. Standing are Charles F. Zimmermann, Vice President of the Development Bank, Rafael L. Javier, Secretary of the Authority, Vicente Guzmán, Director of Finance of the Authority, John Daley of the Corporate Trust Department of The Chase Manhattan Bank, N.A., and Richard Petty of Mitchell, Petty & Shetterly, attorneys.



Highway Authority Markets \$70 Million Revenue Bonds

The Government Development Bank, as fiscal agent for the Puerto Rico Highway Authority, announced on August 28 that financing in the amount of \$70,000,000 had been arranged through the sale of 1974 Series H Bonds of the Agency. The underwriting group was headed by The First Boston Corp.; Blyth Eastman Dillon & Co. Inc.; Merrill Lynch,

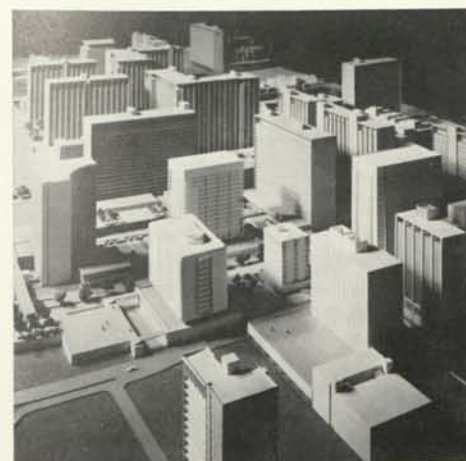
Pierce, Fenner & Smith Inc.; Kidder, Peabody & Co., Inc.; and Smith, Barney & Co., Inc. The net interest cost was 8.1358 per cent.

The bonds are secured by a pledge of the receipts of the gasoline tax imposed by the Commonwealth of Puerto Rico together with other taxes and toll revenues.

Bond Issue for University of Puerto Rico Marketed

On August 13, the Government Development Bank sold an issue of \$15,000,000 Revenue Bonds, Series A, of the University of Puerto Rico. The underwriting group was jointly managed by First National City

Bank; Banco Popular; Lehman Brothers Inc.; United California Bank; Donaldson, Lufkin & Jenrette Securities Corp.; Weeden & Co. Inc.; and Bear, Stearns & Co. The net interest cost was 7.9127 per cent.



Construction Start Set For New San Juan Center

Emilio Cerra, Executive Director of the New San Juan Center Corporation, announced in late September in a speech to the San Juan Exchange Club that construction of the Center is now expected to get underway in from twelve to eighteen months. When the 366-acre project is completed, it will have cost more than \$500 million. Included in the project are housing, schools, entertainment facilities, commercial space, and a full range of support facilities. Pedestrian malls and walks will be elevated. The first pedestrian bridge, linking Banco Popular and Banco Economias, was recently completed and dedicated.

Apparel Industry Continues to Show Growth; Expansion is Expected to Accelerate With New Tax Incentives

With the tax-free package offered to industry now expanded to periods of up to thirty years, there is expected to be a new vigor and broader growth evident in the Commonwealth's apparel industry.

The Economic Development Administration reports that, even before the new tax measures were enacted, shipments of apparel and related goods were showing a steady, healthy growth. In 1973, these shipments totalled \$365 million, a rise of \$62 million over the previous year. Moreover, says EDA, if textile and textile mill products are included, total shipments in 1973 passed the \$500 million mark, an all-time high as well as an increase of 36 per cent over the previous year.

Approximately 90 per cent of the shipments are from U.S. firms, which include some of the most prominent names in the industry. Among these are Blue Bell, Bestform, Bobbie Brooks, BVD, Character Foundations, Cluett Peabody, Kayser-Roth, Jantzen, Inter-

national Playtex, Maidenform, Levi Strauss, Koracorp, Phillips Van-Heusen and Warnaco.

Among the announced new manufacturing plants are the Health-Tex division of Chesebrough-Ponds, Superba Cravats, New York Imperial Foundations and Steinberg Bros.

The mix of island labor, strategic site location, increasing availability of supplies and services locally, and 100 per cent tax exemption have led to the establishment on the island of some 2,000 plants under Puerto Rico's "Operation Bootstrap" program and, in all industries, over 140 of the Fortune 1,000 "blue chip" list.

In the apparel industry, 14 of the Fortune list have subsidiaries in Puerto Rico and 10 of the companies have multiplant operations on the island. More than 50 non-"blue chip" companies also have multiplant operations in Puerto Rico.

Profit ratios in the apparel industry are higher than anywhere else under the U.S. flag. Profit-to-equity ratio for wholly exempt plants reporting in 1972, the last year for which figures are available, was, for apparel, 28 per cent; profit-to-sales ratio for apparel was 21.3 per cent.

(Continued from page 3)

needs of private industry and government, the Bank has been reorienting and expanding its operations to contribute even more fully to the process of change and development. For example, last year the Bank carried out a total revision of its loan policies in respect to private enterprise. The standards are now much more flexible and liberal, and loan processing is administered with a greater sense of urgency.

The results attained following adoption of these new policies have been extraordinary, as shown by recent statistics covering loan activity. Loans approved for the private sector totalled \$64.4 million during the 1974 fiscal year, compared to \$18.6 million approved during the previous fiscal year. A new step was taken recently by the Bank which will help implement the Federal Food Stamp Program in Puerto Rico. Financial assistance will be provided to small merchants to help them stock up on inventories. This will enable them to meet increased demands that will be placed through the Food Stamp Program.

Furthermore, to complement loan activity of the Bank, we created a new investment company which will operate as a subsidiary facility—it will constitute a true venture capital type of operation. A program of investment in private enterprises will be carried out in order to stimulate the development of desirable activities, and to favor lagging but productive sectors.

Aside from anticipated favorable effects on income and employment, the investment company is expected to help achieve other important objectives of public policy, such as the strengthening of the Puerto Rican entrepreneurial class and industrial decentralization.

We are also participating actively in a structural transformation of certain public corporations. The Bank has been cooperating with the Puerto Rico Housing Bank, a public entity, in devising a suitable structure and improved mechanisms for the financing of home construction. The new setup will permit greater collaboration between private institutions in the mortgage banking field and the Housing Bank. It is expected that the reorganization will yield cheaper construction financing, a readier local market for mortgages, and a more extensive mortgage insurance program. While the original concept of the Housing Bank was oriented toward facilities for low income families, the processes of inflation have pushed more families of higher income levels into a position where the Housing Bank must expand its services to include these families...

As to the future, I can say that all financial operations and services of the Government Development Bank, for both the private and public sectors, will continue to move ahead without interruption, adapting and adjusting to new conditions as may be required.



Technicon Electronics Corp., of Tarrytown, N. Y. has three plants in Puerto Rico producing electronic modules, dry chemicals and scientific glass laboratory apparatus which in a highly complex interlocking operation produces intricate blood analyzers. Shown here are blood testing machines being assembled.

Electronics Industry Growth Reaches a New High*

Puerto Rico has once again expanded the tax benefit package to the electronics industry. Now, the 100 percent exemption from taxes—all taxes—is for periods up to 30 years; three times as much as the fledgling "Operation Bootstrap" was offering barely two decades ago.

Since then, U.S. industry has built an investment stake in the island of over \$3.2 billion in manufacturing plants of all kinds.

And the electrical-electronics industry, from a late start, has come to rank among the fastest growing industries on the island.

Consisting only of 17 plants with a production value of \$19 million in 1960, the industry has grown to nearly 190 plants while shipments to the United States since 1967 have increased from \$85 million that year to over \$200 million in 1973, a rise of more than 135 percent.

Island production is geared mainly to the U.S. market, which accounts for approximately 90 percent of off-island shipments. About 84 percent of the plants in the industry are affiliates of U.S. companies, including such firms as GE, GTE Sylvania, ITT, Bell & Howell, Digital Equipment, Beckman Instruments, Instruments Systems, Motorola, Perkin-Elmer and Westinghouse.

Fifteen of the firms are in the Fortune top 1,000 list and 21 companies in the industry have multiplant operations. Among the latter, with the number of plants listed in parentheses, are: Applied Magnetics (4), Bourns, Inc. (6), Digital Equipment (3), GE (16), GTE Sylvania (12), Motorola (3), RCA (2), and Westinghouse, with more than 10 separate divisions having operations in Puerto Rico, is adding several new plants, bringing the company's total on the island to 19.

Among the announced new manufacturing plants

* Source: Economic Development Administration

that will operate in Puerto Rico in the electrical-electronics industry are Bowmar, Quantum Time, Microdata, Orion Research, and Centronics.

Digital Equipment, which has expanded dramatically in San German from 11,500 square feet in 1968 to 165,000 square feet, will have its new 130,000 square foot facility in Aguadilla, also on the west coast of the island, fully operational this fall. Digital started in Puerto Rico producing logic modules, now manufactures entire minicomputers, and, in addition to possessing the largest module and computer assembly lines in the industry, the San German operation produces print and etch boards, cables and memories which it ships to all parts of the corporation, located now in several countries.

With more diverse operations starting up on the island, the sophistication as well as variety of product lines has increased. Among the products manufactured in Puerto Rico are calibrators, capacitors, digital circuit modules, electronic components and instruments, electron guns for color TV, computers, exposure meters, electronic tubes, condensers, cartridges and needles, television sets, shadow mask assemblies, stereo components, potentiometers, photo-electric cells, solenoids, transducers, magnetic tape heads and core memories and disc packs.

Profit ratios in the industry in Puerto Rico are substantially higher than on the mainland. For wholly exempt plants reporting in 1972, the last year for which figures are available, the profit-to-sales ratio was 31.6 percent.

The highest concentration of plants is in the San Juan Metropolitan area, but, under the impact of the island's decentralization program, whereby longer periods of tax exemption, larger labor pool and other benefits are offered industry, firms are being attracted to other areas. Digital Equipment, for example, is, in both its locations, at the opposite end of the island from San Juan. Because the island, moreover, is only 100 by 35 miles, no plant is more than a few hours distant from a port or airport.

Upjohn Inaugurates New Multi-Million Dollar Plant in Arecibo

A new multi-million dollar pharmaceutical plant of the Upjohn Manufacturing Company was inaugurated in Arecibo with Acting Governor Victor Pons and Dr. William N. Hubbard, Jr., President of the Upjohn Company addressing several hundred guests. The inauguration ceremony was attended by a large number of legislators, mayors, high governmental officials, and leaders of business and industry.

The pharmaceutical complex is comprised of three separate production units and several auxiliary buildings. One unit is devoted to fermentation of the antibiotic Lincocin, another is utilized for the chemical conversion of Lincocin into another important anti-

biotic, Cleocin; the third unit is used for final production and packaging of the two products before shipment to world markets.

The Upjohn Manufacturing Company, a subsidiary of the Upjohn Company, a worldwide pharmaceutical corporation, is headquartered in Kalamazoo, Michigan. Currently 310 people are employed in Puerto Rico and 98% of these employees are drawn from the local labor pool. At present 3 expansion projects are underway. When these are completed total employment is expected to reach 500.

In 1973 the Upjohn Company worldwide sales were more than \$647 million and already this year company officials have reported significant sales gains. The company's products are marketed in 136 countries around the world.

In Brief . . .

- Banco Popular has begun construction of a \$6 million operations facility adjoining Cupey Road, which will be known as Banco Popular-Cupey Center. This 136,000 square foot facility will employ 800 people upon completion in mid-1975. Designed to harmonize with the site's unique tropical topography, the building will have three levels housing recreation facilities, a computer center, consumer services, and administrative offices.
- Abbott Laboratories, Inc. has announced plans for a new \$7.5 million hospital equipment plant at its Barceloneta site. Upon completion in September of 1975, this 94,000 square foot facility will more than double Abbott's present employment in Puerto Rico. Employees will number 450-500 at a total payroll in excess of \$3 million.
- The Department of Transportation and Public Works announced that comprehensive plans for a Puerto Rico rapid-transit system will be submitted within a few months by a French combine. Officials of this group will visit Puerto Rico in order to continue their study of a mass transit system for the island.
- Puerto Rico Cement Company has signed a consent order on pollution control with the U. S. Environmental Protection Agency. This \$15 million plan will control particulate emissions at the company's cement factories in Ponce and Guaynabo.
- The Public Finance Conference of the Securities Industry Association is holding its annual meeting at the Cerromar Beach Hotel from October 2 through October 5. Governor Rafael Hernández Colón, Treasury Secretary Salvador Casellas, EDA Administrator Teodoro Moscoso, and Development Bank President Juan A. Albors are on the program, presenting the story of industrial development and financing for the Commonwealth.
- The Economic Development Administration of the Commonwealth of Puerto Rico has a new 24½ minute promotional film entitled "Profit Island, U.S.A." The film describes the many advantages in Puerto Rico for manufacturers who are interested in expansion. To arrange a complimentary showing in your office call Ms. Jan Paladino (212) CI 5-1200.

Puerto Rico Water Resources Authority

	Twelve months ended June 30	
	1974	1973
Number of Customers	802,025	773,488
Total Revenues	\$348,221,111	\$235,525,294
Current Expenses	\$248,930,585	\$147,479,309
Net Revenues	\$ 99,290,526	\$ 88,045,985
Plus Amort. of Debt Discount and Expenses	\$ 861,806	\$ 739,792
Balance Available for Debt Service	\$100,152,332	\$ 88,785,777
Maximum Debt Service	\$ 63,525,541	\$ 55,158,025
Coverage (Times)	1.58	1.61

Puerto Rico Aqueduct and Sewer Authority

	1974	1973
Number of Customers	662,591	637,399
Total Revenues	\$48,526,723	\$45,331,995
Current Expenses	\$34,211,625	\$32,524,004
Balance Available for Debt Service	\$14,315,098	\$12,807,991
Maximum Debt Service	\$ 8,926,454	\$ 6,749,637
Coverage (Times)	1.60	1.90

Puerto Rico Highway Authority

	1974	1973
Gasoline Tax, Tolls and Allocated Oil Taxes	\$66,346,500	\$65,921,420
Maximum Debt Service	\$27,113,500	\$27,113,500
Coverage (Times)	2.46	2.43



Minillas Government Center, San Juan, Puerto Rico / 45 Wall Street, New York, N. Y. 10005

MAY 3 1976

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BACONS

Operations Revamped By Fomento

Far-Reaching Goals
Targeted to Further
Stability of Economy
By TEODORO MOSCOSO

Administrator
Puerto Rico
Economic Development
Administration (Fomento)

SAN JUAN — Puerto Rico is on the road to recovery after weathering its worst economic recession since the 1930s. For the last 10 months we have made slow but steady gains in the number of persons with jobs and the value of our industrial production, and we expect this upward trend to continue.

A wag once said that when the United States sneezes economically, Puerto Rico catches cold. It would be more accurate if less metaphorical to state simply that this U. S. Island Commonwealth, although 1,000 miles from the mainland, is a regional economy of the United States, with business cycles that reflect and accentuate the ones up north.

Thus, when the Arab oil boycott of October 1973 led to an energy shortage and industrial slowdown, across the U. S. and indeed worldwide, Puerto Rico felt the squeeze later, deeper, and longer than other areas of the U. S.

Aggressive and Innovative

Our employment in manufacturing registered an all-time high of 155,500 in May 1974, months after the recession had begun, and we didn't hit bottom in the cycle until July 1975, three to four months later than the U. S. did. At the lowest point we had 104,410 jobs in our Fomento-promoted industrial plants.

I can't describe the grudging helplessness with which we saw those hard-won jobs melt away.

In 25 years, "Operation Bootstrap" had transformed Puerto Rico from an agrarian poorhouse into a modern industrial community. I personally had directed Fomento and its predecessor agency, PRIDCO, for a total of 22 years, 1942-61 and 1973-76. Despite all the hard work, we were going into a reverse slide.

Even in the best of times, Fomento has had to run hard to stay in the same place. That is, because of our rapid population growth, which now is being curbed by a successful volunteer family planning program, we have had to be aggressive and innovative in the task of attracting industry and creating new factory jobs here just to keep our unemployment rate down to 10 to 15 per cent.

This deep recession forced us to make an unsparing reappraisal of Fomento operations, our promotional methods and goals, our financial incentives, our training and assistance programs. We had been the first economic development agency, but were we still the best? How could we redirect our efforts to deal best with the harsh realities of tight investment capital, rising costs, and keener competition from around the world?

We went through our own crucible and emerged the better for it.

New Spread of Incentives

The result is a stronger, streamlined, more sophisticated agency with a new spread of incentives, new methods of targeting the industries we want and assisting those we have.

Let the accomplishments speak for themselves. From that low point last July, employment in manufacturing plants has increased steadily to a total of 134,800 as of the end of March.

We promoted 167 industrial projects in that same nine-month period, with a potential employment of 12,036 workers — 24 per cent more jobs than were generated in the same period of the previous fiscal year. (Potential jobs, by the way, are projected on the basis of full production within 18 months after factory start-up.)

During the same nine months, 109 new factories and 42 expansions started operations, with 1,920 initial jobs and 7,803 potential jobs — an increase of 15 per cent over last year.

Fully 30 per cent of our off-island promotions last year were in the pharmaceutical-chemicals field, and most of the big-name drug houses have established plants here in recent years.

The latest is Hoffman-La Roche of Switzerland, which is building a \$55 million facility here in Manati to produce tranquilizers. Annual exports from our 60-plus pharmaceutical factories now total \$280 million, more than seven times the value of shipments 10 years ago.

Electronics Industry

Ten per cent of our new promotions were in the fast-growing electronics industry, which operates more than 175 plants in Puerto Rico and has an enviable profit-to-sales record of about 25 per cent in recent years. General Electric and Westinghouse now have more than 20 operations apiece here.

Among the many Blue Chip companies located in Puerto Rico, Digital Corp.



TEODORO MOSCOSO

of Boston deserves a special word. It began a modest printed-circuit assembly here a few years ago, and was so impressed by Puerto Rican productivity and our favorable financial conditions that it now employs some 2,000 workers at three sleek new plants. The product is now the complete output of Digital's mini-computers, some of the world's finest.

We filled in two more key links in our more than \$2 billion petrochemical industry — an isoprene plant owned by Nippon Zeon, Mitsubishi and Commonwealth Oil Refining Company (CORCO), and a polyvinyl chloride facility jointly owned by a local plastic-pipe manufacturer and a Taiwan company.

Despite the increase in costs of imported crude oil and feedstocks, private investment in new facilities amounted to \$233 million last year. We now manufacture more than 50 intermediate and end-product petrochemical materials. Moreover, we now are in a position to promote additional consumer-product industries using plastics, synthetic rubber and man-made fibers.

Another piece of good news was Chevron's purchase and reopening of the Phillips Petroleum synthetic fiber plant on the south coast, in Guayama.

Logical Vantage Point

Presenting Puerto Rico as the logical vantage point from which a foreign corporation can enter the lucrative U. S. market, we have striven to promote more investment from Europe, Japan and Latin America.

In addition to the plants already mentioned, we promoted costume jewelry from Japan, Acunaciones-Hispanoamericanas from Spain, and Rodenstock Optical of Germany.

We are working hard also to promote two "core" projects, a steel rerolling mill with a Venezuelan group, and a major shipyard project.

Also, we are redeveloping the former Ramey SAC Air Force Base at Aguadilla as an industrial park and research center, a tourism complex and an aeronautical center.

Among the new incentives now in effect are:

The liberalized tax exemption law, which changes the zones to 10, 15, 25 and 30 years, depending on location, and eliminates the 12 and 17-year zones. Several interior and other depressed areas now enjoy longer exemptions to encourage development, and time-length between zones is better defined, to expedite corporate decisions.

Federal taxes, of course, do not apply in Puerto Rico, and the Commonwealth law offers the investor 100 per cent exemption on earnings, property taxes and license fees.

The Pre-Employment Training (P-E-T) program. Echlin Auto Parts and Avon Products (costume jewelry) were awarded the first contracts, under which the government pays all training costs for supervisors and assembly-line workers.

The 25 Per Cent Wage Subsidy, a temporary stimulus to help Puerto Rico recover from the recession. Five companies have qualified so far: Echlin, Chevron, Travenol Labs, Borinquen Fiber Drums and TMSI Corp. Up to 25 per cent of production-line payrolls will be reimbursed to the companies. Payments are made in the third and fourth years. To be considered, a company must meet one of four requirements — by establishing a plant in a depressed area; reopening a closed plant; manufacturing a product new to Puerto Rico; or agreeing to create 100 jobs in the first year in the case of a local firm or 500 jobs if a non-local firm.

Furthermore, direct and indirect assistance to manufacturers was stepped up in fiscal 1975, and cash grants were more than doubled under our Special Incentives Program, reaching \$11.6 million for the year. These grants may be used by certain qualified industrialists to offset costs of start-up, training, machinery, transportation and installation.

So much for new incentives already achieved.

A quarter century ago our GNP was \$755 million, while last year it had risen to \$7.1 billion. "Bootstrap" has attracted more than \$4.2 billion in manufacturing alone. Per capita income has gone during this time from \$298 to almost \$2,000 a year, higher than any country in Latin America, and, incidentally, higher than all but two states in the Communist orbit, East Germany and Czechoslovakia.

We would be foolhardy to rest on our laurels, however. It is projected that our population will increase from 3.1 million at present to 3.5 million in 1980. We must create many more thousands of new industrial jobs to reduce our intolerable jobless rate to the pre-recession levels of 10 to 15 per cent.

Indeed, our job is cut out for us over the years immediately ahead.

JUN 21 1976



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**Election boom
in Puerto Rico**

United Press-International

NEW YORK — Puerto Rico's electrical-electronic and scientific instrument industries made good sales again in the first quarter of 1976, the commonwealth's economic development administration said Friday.

Complete figures for the quarter are not in yet but production for the U.S. market alone was \$61.92 million: \$36.36 million for electrical-electronic products and \$25.56 million instruments. This was well above the quarterly average of \$58.11 million for calendar 1975.

To these figures ultimately will have to be added production for export to other countries and for the Puerto Rican home market. In the fiscal year ended June 30, 1975, production for the home market was \$98 million or about \$24.5 million a quarter and exports to markets other than the United States was almost \$3 million a quarter.

The industries employ about 10,000 each of 20,000, a great help where normal unemployment rates exceed 15 per cent and have been as high as 19 per cent in some recent years.

The industries are largely exempt from income and some other taxes in Puerto Rico so profit on sales in them has been running in recent years at an average of around 28 per cent.

The export sales gain in fiscal 1975 was 10.9 per cent; it has been running above 6 per cent so far this year.

More than 190 of the 230 plants in the two industries on the island are owned by U.S. Mainland Companies, including Bourns, Inc., Bell & Howell, Emerson Electric, General Electric, Gould, Perkin-Elmer, Medtronic, Motorola, Beckman Instrument, I-T-E Imperial, Digital Equipment, RCA, Talley, Technicon, Westinghouse, GTE Sylvania and lesser known companies.

The tax exemption for such plants runs up to 30 years. Many of the companies have several plants in Puerto Rico. Westinghouse has 22 there, scattered so the workers do not have far to travel. GE has 26. Japan's Matsushita Electric, which owns Panasonic in the United States, started in Puerto Rico with only 11 workers and now has more than 400.

The industry was given a big new leg up in the last two years by the boom in the citizens' band two-way radio market. The Allen Group of New York and Hy-Gain Electronics of Nebraska have set up plants on the island specifically to make CB equipment. Other firms in Puerto Rico also are making CB's.

JUN 7 1975

OFF THE SHELF



Cramer's Puerto Rico branch has reportedly fallen victim to a change in procurement policies by its major customer there — Digital Equipment Corp. — which is now buying its parts direct. As a result, the branch in San German has been closed, and all accounts on the island are being serviced out of Newton. The operation in P.R. at one time also involved a mini-branch within the DEC facility which was discontinued a while back.

Mike Gentile, general manager of Jaco's Rampart division, has taken on the added duties of heading the distributor's International division. He replaces Joe Auer, vice-president of sales for the international unit, who will start his own export business in the fall. No other changes are expected.

Semiconductor Specialists is holding talks with Harris Semiconductor to fill the franchise vacancy created by the distributor's split with Intersil effective next month (O-T-S, May 31). Semi Specs once carried the Florida-based supplier before joining forces with Intersil.

Meanwhile, Gary Karakas, formerly branch manager at Semi Specs' St. Louis facility, has joined B.C. Electronics, a rep firm. He has been replaced by Dave Habisohn, formerly a salesman at the distributor's Chicago location.

Bernie Kenner, field sales manager for Pioneer in Dayton, has joined Hamilton/Avnet as Dayton GM, replacing Ed Farrell who moved to Hamilton's Hq. in Los Angeles. Mr. Kenner will join the staff of Vance Juday, vice-president and director of sales. Also joining Mr. Juday's staff in a marketing and statistical post is Carl Helber who had been a territorial manager for Hamilton's LA branch. Mr. Helber has not been replaced.

Components Plus has picked up the Siliconix franchise for its three eastern branches. The franchise will not necessarily extend to the distributor's projected LA area operation. Components Plus already carries Intel and Fairchild.

Loren Abbey, formerly sales manager for Ratel Electronics, was named to the new post of marketing vice-president for the Sunnyvale, Calif.-based distributor. He also assumes that post for Ratel's Terminal Electronics subsidiary acquired last fall (O-T-S, Oct. 13, 1975). Succeeding Mr. Abbey as Ratel's sales manager is Larry Anderson, moving from an outside sales post.

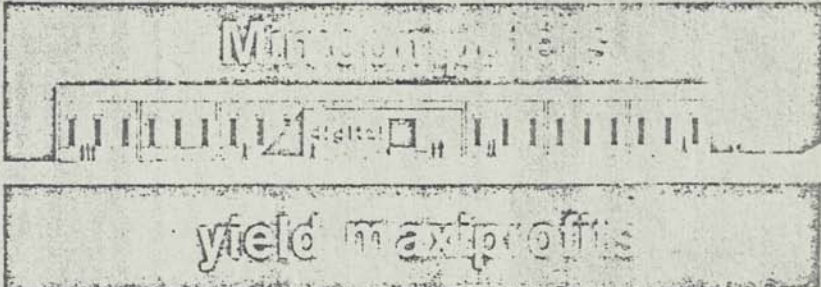
Two of Almac/Stroum's three outside salesmen in Portland, Ore. — Rick Love and Joel Kookan — have formed a new sales rep with offices in Seattle and Portland. The new partnership, which opened its doors last week as R.J. Sales Co., plans to specialize in passive component lines for which it is currently negotiating.

Arrow Electronics has expanded its General Electric capacitor and semiconductor franchises by adding the two lines at its Baltimore and Moorestown, N.J. locations.

People

Puerto Rico file

X 3637



Digital offices will soon move to this new 68,000-square-foot building—the firm's fourth in Puerto Rico.

2,200 workers make up Digital's island 'family'

by Harry L. Fridman

SAN GERMAN—By accumulating a family concept and a sense of belonging in its people, the Digital Equipment Co.'s own computer plant in San German and Aguadilla have become a positive force in Puerto Rico's new manufacturing age.

Family, without question, is Digital's instant definition for its 2,200 employees. They agree and act like a unified family in a cooperative effort that has pushed the two plants to record production levels among the company's 10 currently operating factories.

There is no bell, no whistle, no doors in office and no "mistress" from the corporate manager down. There are no quotas. There are no pointed incentives.

There is no noise, no hurry, almost no turnover. Working wives and mothers with unenviable domestic problems represent most of the minimal absenteeism.

"They are nearly all hourly workers," Nanno Ortiz, company controller, said in explaining the phenomenon of his employees' dedication. "They receive wages an average of \$1.60 an hour—considerable higher than the average for Puerto Rico's manufacturing sector."

But the real incentive is the knowledge that they are working in probably the most sophisticated industry on the island; they are working with a winner, and they want to stay on top. The spirit is infectious.

"Also, we have had no layoffs," Ortiz said. "They are doing something important."

That they are doing something important was brought out in a recent feature article on Digital in *Business Week* magazine, which said Digital president Kenneth H. Olsen "takes great pride in his big manufacturing plant in Puerto Rico, which has been upgraded from assembling components to building whole computers."

It was not necessary to confirm Ortiz's statements about his workers. Coffee break time is a moment of panache in most plants when everything stops dead and workers pile onto the tables and push for the dough when some gator, buzzer or whistle splits the air.

At Digital, coffee break was almost unnoticeable. Small groups quietly slipped work in each section and with rapid larks of urgency moved toward their favorite gathering areas. There was no audible signal. At the end of their break, others left their

benches. There was no interruption in the flow of work.

Lunchtime was equally placid, though this time everything stopped.

Another important incentive is unlimited upward mobility for any worker in any job with the addition to improve himself and advance.

An example is Pablo Rosado, now manager of the Aguadilla plant and a veteran of seven years with Digital. A high school diploma in electrical engineering, he is now a plant manager.

In addition, if an employee has had A or B grades in high school and wishes to continue college studies, Digital will refund his tuition up through a doctoral degree, Ortiz said.

The firm also has a college recruitment program.

"We provide Spanish instruction in incoming executives and technicians and English to those in the plant who want to learn, and we do it during working hours," he added.

Ortiz said opportunities are numerous and transfers can be sought to Digital's operations in Massachusetts, New Hampshire, Ireland, and, shortly, Arizona.

Starting in 1968 in San German with 15 employees in an 11,500-square-foot building, the company has grown to 22,000 square feet plus 120,000 square feet in a new plant in Aguadilla near the former Ramon Air Force Base.

The San German area includes the company's training center in El Estero Industrial Park, and its new 60,000-square-foot building attached to the main plant. It will house corporate and plant offices, the company's operating computer, a cafeteria and warehouse receiving facilities.

The reason for all this growth is Digital's dominance of the world's small-computer market. Digital's sales rose last year to \$200 million and promise to pass \$300 million by the end of this year.

Present there is a small, modern, rapid growth of the company, which he started in a small office when he was a Massachusetts Institute of Technology graduate in 1960 and was promoted to president of the firm in 1964.

He told *Business Week* he worries more today about growth that is too fast for his company than he does about any restriction on growth.

"I'll grow 10 per cent this year, and I worry about that—I worry a lot."

Digital's sales are only compared to IBM's \$6.5 billion last year, but it's a skyrocketing increase with minicomputers, said at a fraction of the cost of the big machines, has forced IBM to revise its thinking and to consider "little" Digital as a challenger.

Digital's sales last year represented 20 per cent of the entire minicomputer market. A distant second among 16 manufacturers in the field was Hewlett-Packard, with \$23 million, and the balance were far behind.

"In the 828 in-line computer industry, which is emerging rapidly from last year's recession, technology is shaping a new tool that is helping to speed progress," *Business Week* said.

It is a scaled distributed data processing, and it means tying low-cost minicomputers and terminals together into communications networks instead of putting everything on a single giant computer.

The development will not only boost sales and dramatically change and expand the way that computers are used, but it is setting up another giant confrontation in this embryonic industry.

The magazine said the confrontation will pit IBM, with two-thirds of the traditional electronic data-processing market, "mainly against the minicomputer makers."

The confrontation comes from the belief of Olsen and his top management team that his company should be oriented toward making, not computers, that computers should be brought down to interactive terminals rather than "batch-processing" in big machines, and that prices should reach the widest possible market.

The company's "computer thinking" has involved the electronic brain in areas never dreamed of before, such as federal affairs, reservations, scientific and industrial process control, interactive immediate consultation whereby several people can use computer terminals simultaneously without interruption, and dozens of others. Digital's computers and terminals are compatible with the main frame computers.

Puerto Rico probably unknowingly, are increasingly involved with Digital computers. A major customer in Northern Tulum, which is including the Puerto Rico Telephone Co.'s new centers selecting gear for the new exchanges.

Cyril Gaydon, sales manager for the company's offices in San Juan, said the University of Puerto Rico has the largest Digital installation in the island of 170 systems—colleges in Carolina, Humacao, Arroyo, Aguadilla, Ponce and Bayamon. The two local colleges have five minicomputers tied in with a DEC-10 system.

"The recent studies could not afford a 2.1 million computer, but with our system they now can have it," Gaydon said. "We will solve problems in the large computer and the administration and academic areas simultaneously," Gaydon said.

The Commonwealth Health Department has an islandwide system and the UPR Mayaguez campus has two systems. Gaydon said in addition to units held in various agencies for other manufacturing projects, Gaydon's Chemistry of Mayaguez purchases the PDP-8 computers annually for its food analysis.

United Credit Bureau has a system connected with banks and large department stores via terminals and smaller stores have telephone connections for check-out, parking, credit. There are dozens of other users.

The sales manager estimated Digital's annual sales volume in Puerto Rico at \$1 million, with a sales and office force at present of 27 employees.

Nanno Ortiz said the company maintains the local plants through hourly field three times weekly with the most offices at Mayaguez, Mass., carrying payrolls of 75,000 people.

The first public view of a Digital computer made in Puerto Rico will be the DEC-10 system, Gaydon said. The Commonwealth Department Court has purchased a system which will be one instantaneous report system night.

An interesting footnote on Digital is the story of its original capitalization.

American Research and Development Corp., a Boston venture-capital firm, put in \$100,000 to start Digital. Olsen, his brother Stanley and their "gang" ran the business.

"That investment," said *Business Week*, "even after substantial setbacks, was worth \$22 million when Allen's work, representing 61 per cent of Digital ownership, was first listed in 1972."

Olsen himself holds 60.34 shares worth nearly \$300 million, but he will divest a third of them and then is away from the spotlight. He prefers stability at the plant as well as at home.

BOSTON HERALD
AMERICAN
BOSTON, MA
(m) 309,000

NOV 14 1976

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BACONS

Tax exemptions luring firms to Puerto Rico

By LAURENCE DWYER

The siren call emanating from the island of Puerto Rico to stateside corporations has nothing to do with sandy beaches or skimpily clad nymphets although neither detracts from the island's charm, but it does have a lot to do with tax incentives, high labor productivity and other bland figures that dance only in the dreams of aspiring Andrew Carnegies and J.P. Morgans.

Only in Puerto Rico is a corporation offered exemptions from both commonwealth (island) and federal taxes while it struggles to get itself or its newly formed subsidiary off the ground. And a large group of mainland companies are taking advantage of the island's offer including a number of Massachusetts businesses.

In 1973, Gillette founded a subsidiary, Coqui Lighter, in Guanica to manufacture its Cricket lighter line and has, since then, expanded its work force, mostly semi-skilled natives, from 140 to more than a 1000.

Digital Equipment Corp. opened a high-volume module manufacturing plant in San German in 1969, added another in Aquadilla in 1973 to produce pdp-8 and pdp-11 computers and now employs more than 2000 people on the island.

Other area firms operating in Puerto Rico include Sigma Instruments, Orion Research, Tek Corp. and Nashua Corp.

Much of the success Puerto Rico has had in attracting industry to the island

can be attributed to the Economic Development Administration (EDA) which was formed in the 1940s to help bring the industrial revolution to Puerto Rico's agricultural society. EDA has opened offices in Boston, New York, Atlanta, Los Angeles and other cities in an effort to attract industry to the island.

The chief bait used by the EDA is the tax exemption status that is granted firms or their subsidiaries operating on the island. The status can last anywhere from 10 to 30 years before the firm is subject to federal or island taxes. However, 80 percent of a firm's or its subsidiaries' income and 50 percent of the active conduct of its business must come from within Puerto Rico.

"As long as corporations meet these conditions, their profits are not taxed by the federal government or the island," Amandeo I.D. Francis, deputy administrator for EDA, points out. "This is the only place in the U.S. that happens."

Until recently, however, profits earned in Puerto Rico could not be repatriated back to the 50 states without being subject to corporate taxes (48 percent) and therefore had to be invested on the island or in a foreign country. Otherwise a firm would have to wait until their tax exemption ran out before they could repatriate the money free from the burden of tax. To stop the drain of money (estimated at \$3 billion) into foreign investments Congress now allows companies to return their money,

exempt from tax, to the 50 states. However, the island now charges a 10 percent withholding tax on the returning profits in an attempt to insure that not all profits will be invested off the island.

"By allowing companies to bring their profits back on a current basis free of any federal taxes, their whole tax burden is 10 percent rather than 48 percent," Francis adds.

Edward Schwartz, vice president and counsel for Digital Equipment Corp., has a slightly different view: "Puerto Rico was afraid this would draw out all the money, so they passed a toll gate tax. They say 10 percent is better than 48 percent but no percent is better than 10 percent." Speaking about the tax exemption in general, he added: "The Governor-elect has gone on record against the tax exemptions but since he was elected he's changed and said he wants to look into it, so we'll have to wait and see."

Francis points out that the new Governor, Carlos Romero Barcelo, has said he will continue the tax exemptions while looking into alternative methods for attracting business. Any previously made commitments will be honored even if Puerto Rico were to end the policy of tax exemption.

Francis also points out that the island has many other strong points including a large amount of inexpensive labor, a semi-tropical climate, low factory rents, and cash grants for new plants. The island's drawbacks, which

Francis readily admits, are high energy costs (but minimal heating expenses) and ocean travel for items shipped via the sea.

Businessmen active in Puerto Rico operations agree with most of Francis's assessment of the island. Schwartz says that Digital's experience in Puerto Rico "has been excellent" and whenever the firm considers expanding outside of the U.S., Puerto Rico always comes under consideration. He also adds that the "quality and availability of labor is excellent."

Donald Bowersock, executive vice president of commercial operations at Itek Corp. which took over the Univis operation in 1970 and employs 570 people on the island, also spoke well of his company's experience. "There are good incentives. The experience of the company since 1951 (Univis' operations opened in 1951) has been good, although you have your moments, your ups and downs. The economy of Puerto Rico has had its ups and downs and that affects you. There is a new governor and that should have an effect on what goes on."

Bowersock uses the nationalization of the telephone and shipping industry as examples of how changes in government attitudes can affect your business. "Their object was to give better service but the facts are they haven't given better service . . . You're on an island and if the shipping deteriorates it affects you."

41-22 INDUSTRIAL DEVELOPMENT
G. TI. YRL 2,000

APR 1977

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SACONS

635 PUERTO RICO

Roche Products de Puerto Rico: The local subs. of Hoffman-La Roche opened its \$70 million pharmaceuticals plant during Jan. 1977. The 300,000-sq. ft. facility will eventually employ 500 to mfr. tranquilizer products. All eight major buildings on the 115-acre complex will be completed by June of this year . . .

AGUADILLA — Avon Products: Will hire 300 persons at its new plant to mfr. custom jewelry (SIC 39) . . . Digital

Equipment Co.: Will raise its employment to 200 when its expansion is complete (SIC 36) . . . **ARECIBO** — Sun Elec-

tric Co.: Will hire 100 when its new automotive equipment mfg. plant is finished (SIC 36) . . . **BAYAMON** — Union Carbide: Is allotting \$2 million for equipment at its new latex products factory (SIC 2851) . //

f

MANUFACTURING SAN GERMAN/AGUADILLA

DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO INC.

Digital Equipment Corporation de Puerto Rico, Inc. is located in the western region of the island of Puerto Rico, fourteen-hundred miles southeast of Miami, Florida. San German is situated on the southwest hill area of the island, and Aguadilla on the northwest tip of the island shore.

The San German plant, a 235,000 square foot facility which specializes in the manufacture of modules, is known as the "Module House." This plant also houses a printed circuit facility which produces over half of the corporation's yearly demand for printed circuit boards.

The Aguadilla plant is primarily a final assembly and test facility for different families of computers, and is contained in 138,000 square feet.

All of the production manufactured on the island is sold to other Digital subsidiaries or plants.

Digital Equipment Corporation de Puerto Rico Inc. began in 1969 with twenty-five employees. As of December 1978, it had 2,583 employees.

Saludos from La Familia Digital.



AGUADILLA PLANT

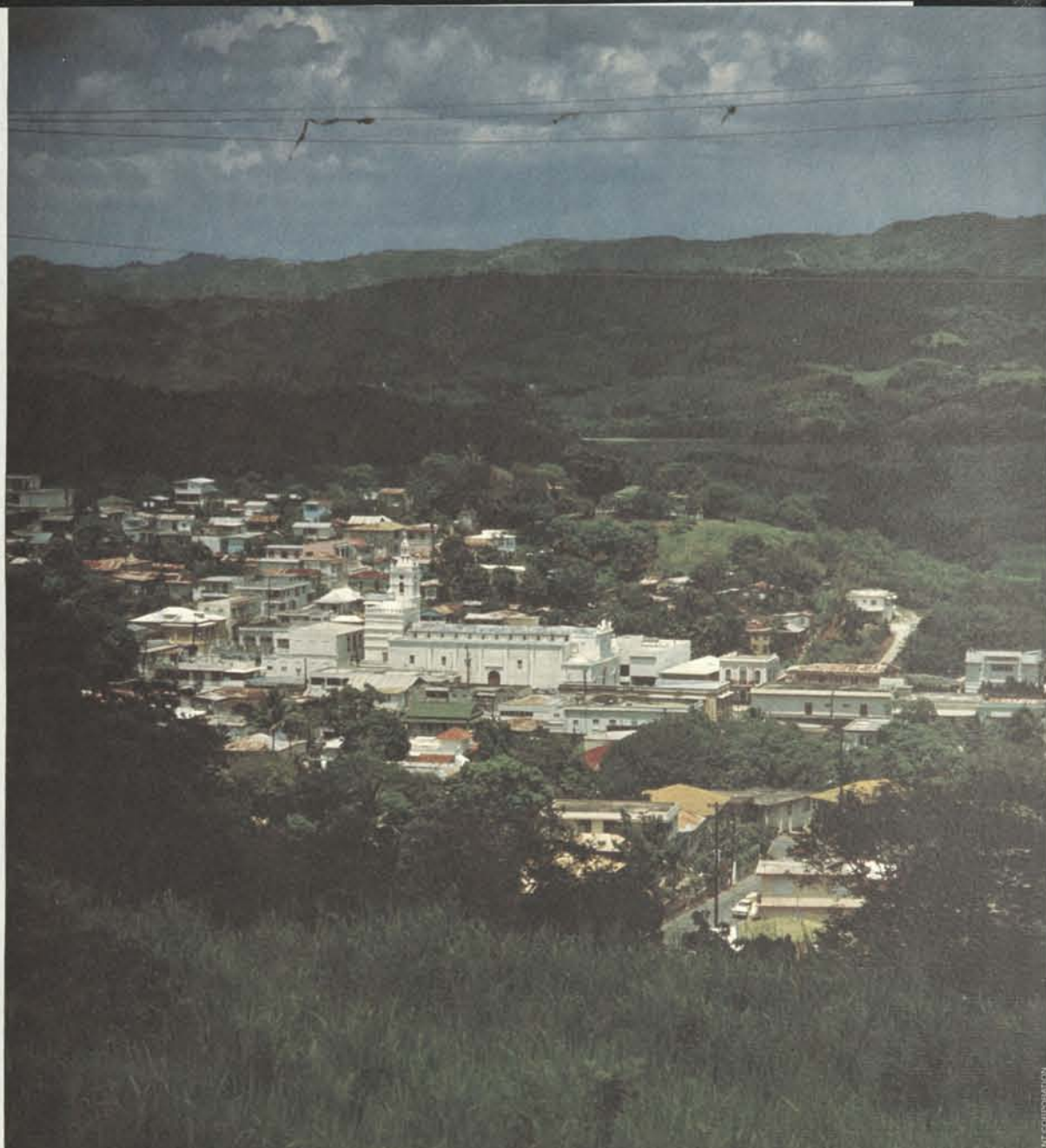
COMPANY CONFIDENTIAL



digital

LA FAMILIA DIGITAL EN LA ISLA DEL ENCANTO





Donde todo comenzó... en la Ciudad de las Lomas. En el año 1968 se estableció DIGITAL con 15 empleados... desde entonces... nuestra Familia ha crecido aceleradamente aquí... en la histórica ciudad de San Germán... la cual remonta su fundación sobre cuatrocientos años atrás... siendo ella la segunda ciudad mas antigua de Puerto Rico... entre los monumentos de su glorioso pasado cuenta con Porta Coeli... uno de los mas antiguos y renombrados de todas las Américas.



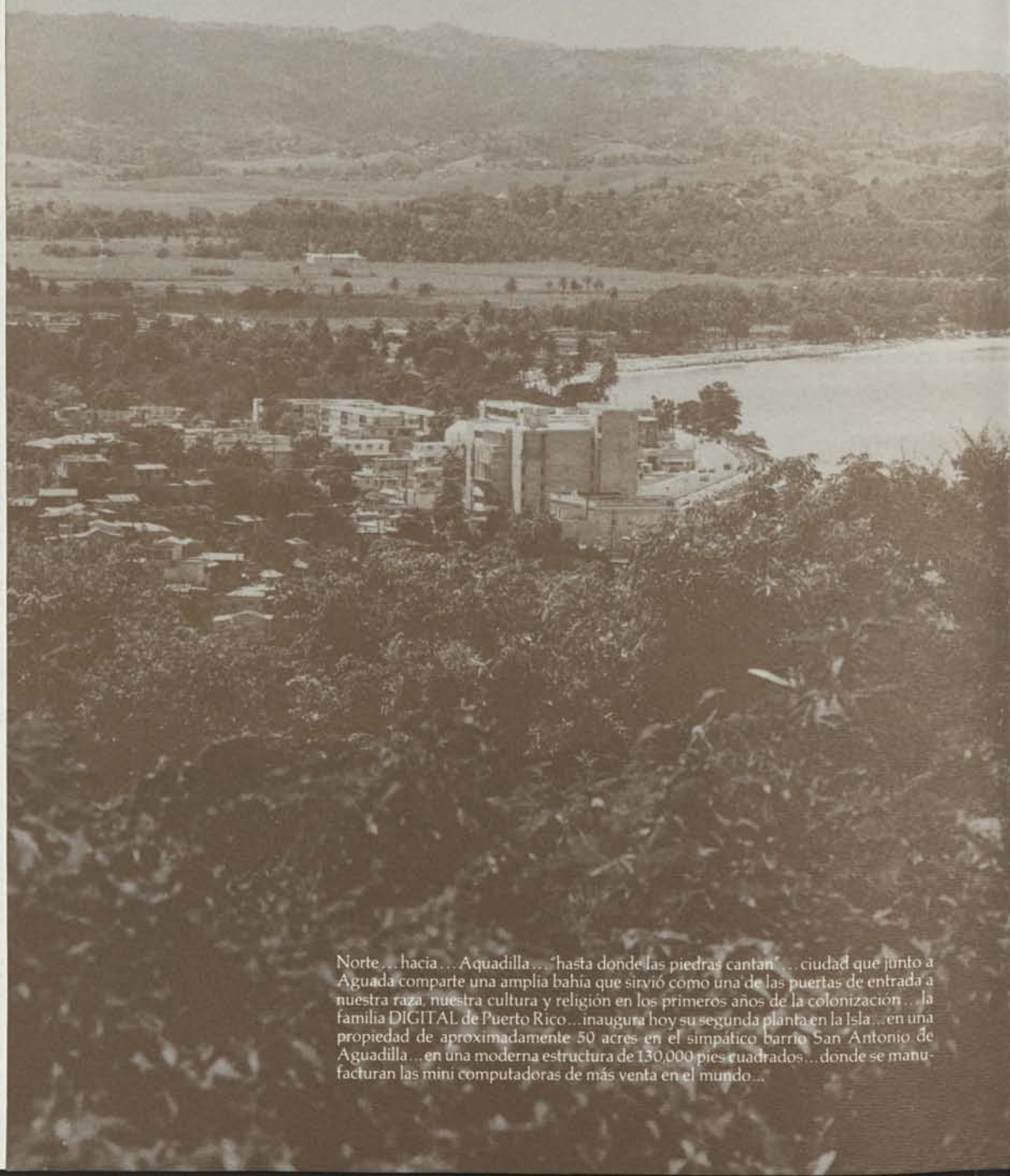
Ron Cajolet... Gerente de Planta... San Germán



Hoy, 12 de diciembre de 1974 nos enorgullecemos en oficialmente inaugurar nuestra nueva facilidad de placas enchapadas (PTH Board Shop) la cual es la mas moderna del complejo internacional de DIGITAL, y de las Américas. Esta adición incrementará nuestra producción de laminados... y dará mas flexibilidad a los productos manufacturados en San Germán tales como módulos y sistemas módulos, incluyendo memorias, cablería, opciones y laminados... todos... parte integral de nuestros sistemas de computadoras...



El esmero, interés, y orgullo en su trabajo de todos los integrantes de la familia DIGITAL se refleja en la calidad de nuestros productos... y consecuentemente en el continuo crecimiento de la Compañía... uno de los mas vertiginosos en todo el mundo...



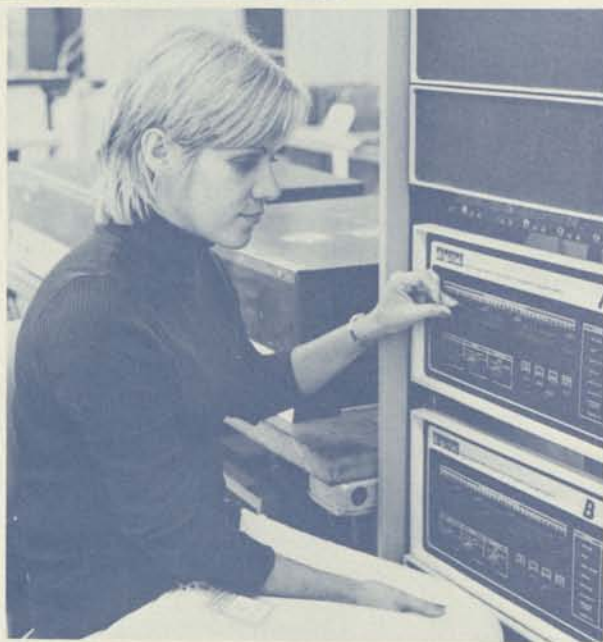
Norte... hacia... Aguadilla... "hasta donde las piedras cantan"... ciudad que junto a Aguadilla comparte una amplia bahía que sirvió como una de las puertas de entrada a nuestra raza, nuestra cultura y religión en los primeros años de la colonización... la familia DIGITAL de Puerto Rico... inaugura hoy su segunda planta en la Isla... en una propiedad de aproximadamente 50 acres en el simpático barrio San Antonio de Aguadilla... en una moderna estructura de 130,000 pies cuadrados... donde se manufacturan las mini computadoras de más venta en el mundo...



Pablo Rosado... Gerente de Planta... Aguadilla



En la DIGITAL los empleados son el recurso más importante, estamos muy orgullosos en haber continuado atrayendo aquí en Puerto Rico la clase de personas que se necesitan para mantener nuestro progreso.



Estamos muy satisfechos con las oportunidades de progreso que podemos ofrecerle a nuestros empleados en todos los niveles. También, estamos muy complacidos con el respaldo que ellos nos han brindado en el logro de todos nuestros propósitos, y dependemos de su lealtad y cooperación en el futuro para que Digital Equipment Corporation de Puerto Rico continúe creciendo...



Nuestros productos en uso
en Puerto Rico...

En el Periodismo...

Periódico El Mundo...Manny Sánchez



En la Educación
Universitaria...

Universidad de Puerto Rico...
Administración Colegios
Regionales...Dr. Hernán Sulsona...
y Profesor José Bravo

En la Industria...

Lord Electric Company...Contratistas Electricistas



Lock Joint Pipe Co...Edward P. Walters

En el Comercio...

Barrios y Carrión...Corredores de Seguros



Grupo Corporativo de la Digital Equipment Corporation de Puerto Rico



La dedicación de nuestra nueva planta en Aguadilla es una etapa significativa en el progreso de nuestra compañía en Puerto Rico. Comenzamos hace 6 años con 15 empleados y en la actualidad contamos con 1,600. Hemos progresado técnicamente en la manufactura de circuitos impresos hasta producir tres generaciones diferentes de mini-computadoras.

El camino que hemos recorrido de 1968 al 1974, en forma alguna, ha sido uno fácil. Ha sido uno bastante difícil y no hubiera sido exitoso de no ser por la ayuda y cooperación de parte de Fomento Económico, Fomento Industrial de Puerto Rico, y nuestros empleados.

El Fomento Económico e Fomento Industrial de Puerto Rico han estado siempre dispuestos a ayudar, escuchar nuevas ideas, y ofrecer cualquier asistencia que le solicitáramos.

La dedicación y lealtad de nuestros empleados han hecho de la familia Digital lo que es hoy día. Tenemos en nuestros empleados la mejor calidad y productividad en Puerto Rico. Ellos han contribuido al progreso de la compañía y de ellos mismos, y son ellos los que harán posible que alcancemos las metas del futuro.

Richard W. Esten...
Presidente y Gerente General



Narmo L. Ortiz... Contralor



Hiram Quiñones... Gerente de Ingeniería

Carl Wolfe... Gerente Departamento Centro de Cómputos

Thomas A. Brown... Gerente Departamento de Compras



Tod Rodger... Gerente de Planificación Central



Carlos Muñoz y Carlos Zambrana... Gerentes de Personal...
Aguadilla y San Germán respectivamente



Nuestro Comienzo

Digital Equipment Corporation comenzó sus operaciones en Maynard, Massachusetts hace alrededor de 17 años, en el año 1957 en un antiguo molino convertido en un área de producción de 8,500 pies cuadrados. Comenzó con solamente 3 empleados y ha crecido para convertirse en una Corporación internacional que emplea actualmente más de 19,000 personas con un área de producción alrededor del mundo de sobre 8 millones de pies cuadrados dividido casi en partes iguales entre producción y administración.

Mantiene 110 oficinas de venta y 220 de servicio alrededor del mundo, con 13 facilidades de manufactura en Estados Unidos, Puerto Rico, Canada, Irlanda, Taiwan y Hong Kong.

Desde el comienzo como manufacturero de módulos digitales, la compañía ha crecido hasta situarse como la mayor suplidora de módulos de lógica mundialmente y la segunda manufacturera de computadoras en números de instalaciones.

Digital es el líder en el campo de mini-computadoras en el mundo.



Maynard (Mill)



Marlborough

Hay más de 35,000 computadoras pequeñas instaladas mundialmente. La primera, la PDP-1 fué introducida en 1960. Un total de 53 fueron hechas para un costo de \$125,000 cada una.

La PDP-5 fué la primera minicomputadora introducida en 1963, a un costo de \$27,000.

La PDP-8 introducida en 1965 fué la primera minicomputadora producida en masa para la venta por sólo \$17,000...y se puede decir que abrió el mercado para el uso de periferales de bajo costo...en 1974 DIGITAL introdujo su primer microprocesor el MPS...



Maynard (Parker St.)



Westminster



Westfield



Springfield



Kanata, Canada



Ireland



Natick



Taiwan

Datos sobre nuestro Presidente...



Kenneth H. Olsen nació en febrero 20, 1926 en Bridgeport, Connecticut. Recibió grados de bachillerato y maestría en ingeniería eléctrica del Massachusetts Institute of Technology, Cambridge, Massachusetts, en 1950 y 1952.

Durante la segunda guerra mundial sirvió como Técnico Electrónico en la Marina de Estados Unidos. En 1950 se unió al cuerpo directivo de la M.I.T. Digital Computer Laboratory y más tarde fué asignado líder de la sección de M.I.T. Lincoln Laboratory que diseñaron y fabricaron la computadora MTC que fué usada en el programa diseñado para SAGE Air Defense Computer. Luego dirigió el grupo que fabricó computadoras de dígitos transistorizada de más alta programación, la TX-0 y TX-2 que estableció una comparación en el funcionamiento de circuitos transistorizados.

Abandonó Lincoln Laboratory en 1957 para fundar y encabezar Digital Equipment Corporation en Maynard, Massachusetts. En poco más de dos décadas la compañía ha crecido a ser una corporación internacional con plantas empleando sobre 17,000 personas con un área de producción de más de 8 millones pies cuadrados y una organización de ventas y servicio alrededor del mundo.

Programa

San Germán

9:00-10:00 AM

Visita a nueva adición manufacturera de placas enchapadas (PTH)

Ron Cajolet, Gerente de Planta
Dave Demoranville, Gerente de Producción, PTH
Freddie Madera, Gerente de Producción, Módulos

Aguadilla

12:15 PM

Bienvenida - *Welcome*

Narmo L. Ortiz

12:20

Himno Nacional de Puerto Rico

12:25

Himno Nacional de Estados Unidos

12:30

Invocación

Reverendo Adán Samuel Toro

12:35

Breves Palabras

Kenneth H. Olsen, Presidente
Digital Equipment Corporation

Teodoro Moscoso
Administrador Fomento Económico

Honorable Rafael Hernández Colón,
Gobernador de Puerto Rico

Narmo L. Ortiz
Reconocimientos Especiales—Mención

1:10

Dedicación

Pablo Rosado, Gerente de Planta
Honorable Conchita Igarúa de Suárez,
Alcaldesa de Aguadilla

1:20

Bendición

Padre Miguel Rodríguez

Editor Narmo L. Ortiz, DIGITAL P.R.
Photos Pancho McFerran, P.R. Fabian Bachrach,
Art Work Philip Despo, DIGITAL U.S.A.
Printer Daniels Printing, Boston



San Germán



Aguadilla

Tom Downey Sr.

Margie Solis



! ! ! ! !
! d ! i ! g ! i ! t ! a ! l !
! ! ! ! !

I n t e r o f f i c e M e m o

TO: *MARY ANN BUREK

DATE: FRI 18 NOV 1983 10:33 AM EST
FROM: MARY ANN BUREK
DEPT: CORP.PUBLIC RELATIONS
EXT: 251-1549
LOC/MAIL STOP: CF01-1 M18/M18

MESSAGE ID: 5218698735

SUBJECT: GLOBE ARTICLE

The following is Bill Hanson's statement for the article.
If you have any questions, please give me a call...Kathie.

11/18/83 Fri 9:13:51

PUERTO RICO ARTICLE

Beyond the obvious incentive programs that Puerto Rico has used to attract industry to the Island, we have found the workforce to be extremely productive. Our employees have always been eager to learn, easy to train, flexible to change and very dedicated. We consistently work with and actively support the educational system and have noticed a continual upgrade in the technical and managerial skills available on the Island. Our annual turn-over rate in Puerto Rico is minimal...by far the lowest of all our operations. Our policy has been to staff our plants with local personnel which is witnessed by our senior management being virtually all Puerto Rican.

Given that we are now one of the largest industrial employers on the Island, employing 2600 people in two major facilities, we presently have no plans to expand at this time.

1500
3000
1500

11/17/83

Boston Globe Story by Steve Curwood on companies with manufacturing facilities in Puerto Rico.

Scope of article: pros and cons of doing business on the Island
quality of workers and worklife
cost, performance
hiring situation
IRS - hassles?
general operating atmosphere

Met with Sam Landall, manager of our Aquadilla plant on October 25th. Sam suggested he contact Gail McDermott of Tax for questions on IRS and Bill Hanson for questions on the benefits of doing business.

Specific questions:

- Why have we changed our tax status, rolling all our tax grants (credits) to the 9% rate?

Ans: The PR tax structure is quite complicated. In 1978 the government enacted a new law to impose a conversion that would extend tax grants (for the 10% toll-gate tax) from 1992 to 1995. However, a 9% tax was levied. So while we were paying no taxes before, we are now paying 9%, but will not have to pay 10% until 1985, unless we do not want to take money out, in which case we will pay nothing. (Basically, its all a trade off - one big negotiation)

- Are we paying some taxes earlier? If so, why?

Ans: outlined above.

- How is 936 (the IRS exemption code that promotes doing business on the Island).

Ans: we do not want to comment specifically on 936 except to say that everything is alright.

- Digital was one of the first to locate a major manufacturing facility on the Island. Many have followed and are expanding, such as Wang, HP, Orion. Computer manufacturing has risen 20% in the past year there. Have we plans for expansion as well?

"We have long recognized the benefits of doing business in Puerto Rico. Digital began manufacturing operations in San German in 1969. In 1973 we opened a second plant in Aquadilla. We now employ over 2600 people at the two facilities. It has long been Digital policy to recruit and employ local personnel to staff and

manage our operations and we are pleased with the quality and commitment of the workforce we employ on the Island. To that end we have actively supported the local educational system to assist local residents in pursuing career opportunities within the high tech industry. We have no plans for expansion at this time."

- Digital's commitment toward hiring locally for management. How do we attract talented, quality people? Will we continue to do so? Are we pleased with the results?

Ans: above

d i g i t a l

I N T E R O F F I C E M E M O R A N D U M

To: CMS

Date: 2/28/84

cc: Ken Gontarz

From: James Mahoney

Dept: Corp. Marketing Services

Ext: 251-1685

Loc/Mail Stop: CF01-2/M93

Subj: Data General Competitive Presentation

Ken Gontarz from Office Information Systems competitive group will be presenting a view of Data General for us Tuesday, March 13, at 9:30 in the State House Conference Room. Please note that this is not the date that was announced at the Wang presentation.

This is the third presentation in the series. As with the others, please call me if you plan to attend.

A handwritten signature in dark ink, consisting of a stylized, cursive script that appears to be the name 'James Mahoney'.

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Trouble in Tax Paradise?

The IRS Probes Corporate Operations in Puerto Rico

By JOHN S. BUTTLES II

THE LOCALES' names are exotic: Barceloneta, Manati and Carolina, evoking old Spain. But what's afoot in these sunny Puerto Rican climes is an intensifying, gritty battle between U.S. companies attracted by the island's status as a tax haven and agents of the Internal Revenue Service, bent on shaking loose millions of dollars that the government suspects have been improperly sheltered under the Caribbean subsidiaries' tax-exemptions.

In the past five years, dozens of U.S. concerns, particularly pharmaceutical manufacturers, have been logging extraordinarily high earnings and rates of return on their Puerto Rican branches. In part, alleges the IRS, that's because they've been shifting an inordinate amount of expenses to the parent firm, as well as to highly taxed subsidiaries in other parts of the world. Result: profits are reduced where they would be most heavily assessed, boosted where they're safe from the levy. In some cases, the IRS also is ready to challenge the value corporations have attached to patents sold to island subsidiaries, seemingly at bargain rates.

What's at Stake

At stake, besides liability to hefty claims for back taxes, which would be charged against reserves or current income, are possible changes in corporations' internal accounting and pricing methods that could cut deeply into future Puerto Rican profits—and into many of the parent companies'



Offspring of many U.S. concerns have grown fat in the tropics.

—Hank Blaustein

sumptuous earnings growth. Tax savings rung up by these firms, which operate on the island under the exemption granted in Section 936 of the Internal Revenue Code, totaled \$2.37 billion in 1973-77, according to the IRS. Biggest single part of that skim—\$1.09 billion—has been taken by 65 subsidiaries in the pharmaceutical industry, whose estimated tax savings in those years boomed 236%. Other industries that size up as prime beneficiaries (and their tax-saving gains) are: scientific instruments (100%); electrical and electronic equipment (91%); chemicals, excluding pharmaceuticals (500%), and communications (1,200%).

The effect on earnings has been dramatic. Schering-

Plough and Abbott Laboratories, respectively, booked approximately 66% and 71% of their 1977 worldwide preconsolidated after-tax net in Puerto Rico. Eli Lilly and Merck rang up more than 20% there. In 1976, Pfizer and Baxter Travenol each gained about 40% of worldwide totals from the island, G.D. Searle 150%. Likewise, entries from other industries have grown fat in the tropics: Digital Equipment, the minicomputer maker, recorded 57% of '77 net in the haven; PepsiCo, Union Carbide, Motorola, and Perkin-Elmer each gained at least 20% of '76 worldwide preconsolidated earnings from PR.

While the tax break has been on the books in one form or another for decades, the boom in Puerto Rican profits has come largely in the 'Seventies, as a result of stepped-up promotion by the island. These days, products range from sophisticated communications equipment (Motorola) to sausage casings (Union Carbide), as well as bottle caps (Crown Cork & Seal), beverage concentrates (PepsiCo), confectionary products (Warner-Lambert), artificial kidneys, plastic blood collection units, plastic enemas and drainage bags (Baxter Travenol) and a wide assortment of patented drugs, including Aldomet (Merck), Garamycin (Schering-Plough) and Tagamet (SmithKline). The pharmaceutical industry, as noted, has found the tax climate particularly healthy: its average 1975 federal tax saving per Puerto Rican employee was \$34,873, vs. an average of \$4,100 for all other industries.

Underwriting these snappy figures are dazzling rates of return. Some pharmaceutical companies have been chalking up after-tax margins as high as 75%, while rates of return on

Rican operation. Net result: the corporation depresses pre-tax earnings of its branches operating in higher-taxed countries around the world—including the U.S.

A SmithKline Puerto Rican subsidiary, for example, receives a "sales commission" of 57½% of net U.S. sales of Dyrenium and Dyazide capsules and 72½% of Stelazine sales. Eli Lilly sold all rights in certain undisclosed patents, with about 10 years to run, to an island subsidiary for \$13 million—no small sum, except that the expected revenues from the patents' remaining life may be many times that figure. Assets in this subsidiary have grown by 784 times in only three years, from \$59,000 in 1974 to \$46.3 million at the end of '77, possibly presaging a major earnings surge there. (Hewlett-Packard, for example, boosted assets in its Singapore subsidiary from \$687,000 in 1971 to \$71.8 million in '76, leading to a jump in earnings from \$212,000 to \$15.5 million. The latter figure accounted for 17% of worldwide net. The

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Money Grows Faster in Puerto Rico

	Reported After-Tax Earnings Selected Puerto Rico Subsidiaries (in millions of U.S. Dollars)		Compound Annual % Increase 1972-1977	% of 1977 Worldwide Earnings
	1972	1977		
Beverages				
PepsiCo	\$18	\$29	13%	21%
Chemicals				
Union Carbide	19	108	54	25
Computers				
Digital Equipment	7	62	55	57
Drugs				
Abbott Laboratories	4	85	66	71
Bristol-Myers	7	23	27	13
Eli Lilly	14	48	28	22
Merck	2	65	101	22
Pfizer	2	65	139	41
Schering-Plough	3	110	106	67
G. D. Searle	6	92	58	150
SmithKline	24	46	18	64
Warner-Lambert	1	29	96	15
Electronics				
Motorola	2	19	76	23
Perkin-Elmer	1	4	41	20
Hospital Supplies				
Baxter Travenol	10	22	22	37
Totals	\$120	\$807	50% Av.*	43% Av.

*Average period covered is 4½ years.

Note: Net after-tax earnings are for 1972-77, with these exceptions: PepsiCo, Pfizer, SmithKline, Motorola, Perkin-Elmer, Union Carbide and Baxter Travenol are for 1972-76; Abbott is 1971-77; Searle 1970-76.

TROUBLE IN TAX PARADISE?

Continued from Page 9

IRS, however, proposed a reallocation of 100% of '72-'73 Singapore-Malaysia earnings to the parent corporation—and attached a 50% tax bill.)

In like vein, financial statements from Digital Equipment Corp. de Puerto Rico indicate asset growth from \$12.9 million in 1971 to \$176 million in '77; after-tax earnings growth from \$4.1 million in '71 to \$62.1 million last year (or 57% of the firm's \$108 million worldwide consolidated net). After-tax return on hard assets may have reached 95%. What's ironic is

that an estimated 86% of revenues come from "sales" to the U.S. parent corporation, the rest from sales to an Ireland subsidiary. Yet a management spokesman indicated that: (a) only \$13.4 million of tax savings come from the Puerto Rican subsidiary; (b) the main product line manufactured on the island is a 12-year-old computer (the PDP-8); and (c) DEC believes its intracorporate transfer pricing policies "closely follow the letter and spirit of Sections 482 and 681 of the Internal Revenue

Code." A spokesman refused to explain how the \$62.1 million in tax-haven earnings got whittled down to \$13.4 million in tax savings.

The IRS, as noted, has decided the Puerto Rican bounty may be too much of a good thing. Section 936 of the Internal Revenue Code, like its predecessor, 931, which established the haven, was designed to spur investment in Puerto Rico and other U.S. possessions. The Treasury, however, estimates that the Puerto Rican exemption alone (which draws most of the 936 investment) cost it \$698 million in lost revenue last year. By no means is all of that sum targeted for re-

covery. But one pharmaceutical industry source reckons that for all industries using the island, current and back taxes at stake could easily total \$1 billion.

The IRS poking and probing is being done under Section 482 of the Tax Code, governing transfer pricing between corporate affiliates, and Section 681, covering allocation of corporate overhead (especially research and development) to subsidiaries. While the agency refuses to discuss tax affairs of specific corporations, it confirms that it looks closely at all Section 936 claims. And while corporations contacted — Ab-

Continued on Next Page

Cont. from Preceding Page

bott, Digital Equipment, Lilly, Pfizer, Schering — were also unforthcoming, annual reports, 10-Ks, and the subsidiaries' financial statements testify to the breadth of the investigations.

Happy Returns

Abbott Labs, one of whose three island subsidiaries (Abbott Pharmaceuticals Inc.) may have enjoyed a whopping 285% return on hard assets in 1977, is among the corporations being taken to the mat by revenue agents. Reports Abbott, in footnote 8 of its 1977 annual:

"Federal income tax returns for the years 1970 through 1975 are currently under examination by the Internal Revenue Service. ... For the years 1970 through 1973, the examining agents have indicated they may propose a reallocation to the U.S. parent company of a portion of the income of its domestic subsidiaries operating in Puerto Rico. ... That's another way of saying the IRS wants some of those profits shifted back to the mainland firm's books, where they can be taxed at U.S. corporate rates. Although Abbott declines to discuss details, the '77 annual assures shareholders that the outcome shouldn't "have a material adverse effect on [Abbott's] consolidated financial position."

A study of Abbott subsidiaries' financial statements suggests the company may have booked upwards of \$84.2 mil-

lion of its preconsolidated after-tax earnings via three Puerto Rican subsidiaries last year. Indeed, the firm itself admits in its 10-K report to \$27.4 million in '77 tax savings courtesy of the island, contributing handsomely to worldwide after-tax net of \$117.8 million. The growth of its operations in the tax-exempt territory is typical of these of companies in the pharmaceutical and other industries.

One of the subsidiaries, Abbott Hospitals Inc., began building facilities in 1974 in Barceloneta, a location favored also by Pfizer and Merck. By January 1976, the company started to manufacture hospital products for sale to the parent. In the three years through Dec. 31, 1977, total assets surged to more than \$27.7 million, from \$1.6 million. Profits shot up to \$14.8 million last year from \$1.7 million in '76. Even if a generous 10% after-tax rate of return is assumed for liquid assets (e.g., cash, CDs, government bonds, accounts receivable from the corporate parent), that earnings figure would still work out to a 116% return on hard assets. On the same basis, chief breadwinner among the subsidiaries, Abbott Pharmaceuticals Inc., may have chalked up a 285% return. In any case, it delivered 31% of worldwide preconsolidated net for the entire corporation.

Abbott, to be sure, isn't alone on the carpet. One Schering-Plough subsidiary ratcheted up after-tax earnings from \$1.6 million in 1972 to

Big reserves set aside for Puerto Rican tax claims could encourage the IRS men that they're on the right track.

\$70.6 million in '77. Another Schering subsidiary's after-tax earnings exploded from a loss of \$34,000 in '71 to a profit of \$39.5 million in '77. The IRS has reviewed Schering's 1971-73 returns and may propose some changes; reviews of '74 and '75 are pending. Also getting second looks are returns for Pfizer (1972-75), Smith-Kline (1973-75), Lilly and, presumably, a host of others. Comments one executive on the pharmaceutical audits: "The IRS is trying to get an industrywide pattern and come up with an industrywide resolution."

Eli Lilly, in a subsidiary's financial statement, declares: "The [IRS] is presently examining certain of the parent company's prior years' income tax returns. Similar examinations in the past have resulted in material reductions in the company's net income." Cautions a Carbide subsidiary: "All sales are to the parent corporation at negotiated prices. Profits derived from such sales are subject to review and possible reallocation by the Internal Revenue Service. . . ."

Painful Bite

When the IRS decides to claim additional taxes, the bite can hurt. Eli Lilly, for example, was assessed an extra \$22 million on 1971-73 Puerto Rican operations. National Semiconductor, like Hewlett-Packard attracted by Singapore's tax incentives, was socked last July with a \$24 million "tax deficiency" notice for 1972-75, after the IRS decided upwards of 90% of its Singapore-Malaysia earnings should be reallocated to the U.S. parent's books. Increased taxes on back years can, depending on the size of reserves set aside for such contingencies, cut deeply into current earnings. The Financial Accounting Standards Board, rule-maker for the accounting profession, declares in Statement 16 that as of Jan. 1, 1978, such liabilities must be charged against current year earnings, not worked off by restating prior periods'.

While there's no certainty of how any single IRS investigation will be resolved, the agency's historical policy is clear: it has raised expenses for raw materials charged to the subsidiaries by U.S. parent corporations, reduced prices for which subsidiaries' products are sold both to affiliates and back to the U.S. parent (putting both more in line with what it considers arms-length deals with third parties), and slapped subsidiaries with a greater share of corporate overhead expenses. Net result: large chunks of subsidiary pre-tax earnings are "reallocated" to the parent—and then taxed

at the 48% U.S. corporate rate.

When the stakes are high, the IRS decisions, to be sure, won't prevail without a day or two in court. Eli Lilly has appealed the revenue's \$22 million claim in Tax Court, but the case has yet to come to trial. An official at another pharmaceutical giant, alleging the IRS grants too little latitude for corporate and product differences in seeking its industrywide norms, declares: "We think we're right, and we're prepared to go all the way to the Supreme Court."

Nonetheless, the potential exposure of some of these companies that have made hay in the Caribbean sunshine is daunting. Both Schering and Abbott reported Puerto Rican preconsolidated after-tax earnings over the last six years (\$380 million and \$321 million, respectively) more than double their 1977 worldwide after-tax net. How much of that island bounty the IRS might decide should be reallocated to the headquarters' books is conjectural, of course. Although both firms note that auditors declare that deferred tax reserves are adequate on a worldwide basis, neither would disclose the size of the cushions. They call that information "privileged and sensitive" and note that the investigations are ongoing.

Big reserves set aside for Puerto Rican tax claims, of course, could encourage the IRS that it is on the right track. In like vein, one company said it would continue to show lofty Puerto Rican earnings because a reduction could be taken as an admission that the previous levels were too high.

As for future years under heavier taxes, making up the lost profits elsewhere may be impossible. On this score, it's not only the IRS on the warpath but also the tax agencies of other high-levy countries where U.S. subsidiaries' earnings allegedly have been depressed artificially by the Puerto Rican loophole.

Meantime, caution about tipping their hands notwithstanding, some corporations have begun girding for the worst. Subsidiaries have been remitting a growing share of those fat profits back to the States, in the form of "dividends" paid to the parent, presumably for use elsewhere in the event the Puerto Rican game is tamed by new rules. Through early June this year, those transfers topped \$1.4 billion, on which the subsidiaries and the headquarters paid no income tax, only about a 5% "tollgate" tax imposed by the Puerto Rican government on earnings leaving the country. G. D. Searle, SmithKline, Merck, Schering-Plough and Syntex all either made hefty

transfers home or plan to do so by next year.

Puerto Rico also has gotten into the taxing spirit, albeit with restraint. The tollgate tax, which begins at 7%, carries capital, manpower and other incentives through which it can be cut to the effective 5% rate. Beyond that, Gov. Carlos Romero's government imposed its own graduated income tax rate (unrelated to the federal tax exemption) on newly organized subsidiaries, generally reaching 10% after five years. Here, too, there are options on converting existing subsidiaries, whose local tax exemptions under Puerto Rican law might be running out or which plan to manufacture additional products, to "new" status. And neither levy poses a threat to earnings growth comparable to the rising tide of IRS investigations.

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John S. Buttles II, CFA, is president of the Buttles Corp., New York, publisher of Source of Earnings Reports.

JAN 31 1977

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Capital Investments Front:

Puerto Rico Expecting Gains

By SIDNEY FISH
Journal of Commerce Staff
(Sixth in a Series)

SAN JUAN —The Commonwealth of Puerto Rico, looking back on the success of its industrial development program over the last 25 years, is expecting signs of improvement in capital investments.

Its famed "operation Bootstrap" has used tax incentives successfully to attract industries that are currently employing over 140,000 factory workers.

But many more jobs will be needed in industry, to reduce the current rate of unemployment of about 20 percent. The population of the island is scheduled to rise to an estimated 3.5 million by 1980, from the present total of around 3.1 million.

Upturn Seen

Bankers see signs of a gradual upturn in new capital investments. Robert T. Botjer, vice president and senior officer here of the Citibank, said in an interview that more factory projects are beginning to come off the drawing boards, and manufacturers are asking for bids on several projects. Sectors that are showing improved activity, he said, include pharmaceuticals, clothing, candy, etc.

"We look for gains this year of 10 to 15 per cent in loan demand," Mr. Botjer said. "My optimism stems

from the new administration's plan to clarify Section 936 of the Revenue Act of 1976, with regard to new investments."

As a result of the enactment of this section, banks have received over \$1 billion in new deposits. The act permits investors to repatriate tax exempt profits to the mainland, without paying the 48 per cent corporation income tax.

Luis Collazo, first vice president of the Chase Manhattan Bank here, said that while not too much plant construction had been announced as yet, some work is under consideration.

Mr. Collazo said the Carter Administration's stimulative program will help Puerto Rico. Housing construction is expected to improve in the second quarter. This should improve employment in the construc-

tion industry, in which only 40,000 workers are employed, of a total work force of 70,000.

Favorable Sign

The reopening of Fibers International, a textile plant, is also a favorable sign, Mr. Collazo said.

Labor intensive companies will continue to be established in Puerto Rico, Mr. Collazo believes. Puerto Rico, he points out, still enjoys a differential in labor costs, since textile and labor-intensive industries are exempt from U. S. minimums.

Financing of new industries will be aided by the liquidity of banks here, since Section 936 will provide millions of dollars of new funds brought back to Puerto Rico by the terms of the legislation, Mr. Collazo

(Continued on Page 21)

P.R. Capital Investment Gains Seen

(Continued from Page 3)

said. He estimated that earnings generated by the tax-exempt companies will total hundreds of millions of dollars annually.

Mr. Collazo is optimistic about Puerto Rico's recovery. He believes the upturn will accelerate next year.

Mr. Botjer said that while there has been some substantial payments of Section 936 funds to the U. S. mainland, the bulk of the money is staying in Puerto Rico, for investment.

"We firmly believe," Mr. Botjer said, "that the fiscal situation of the government has been vastly improved during the last two years."

New investment incentives have been offered to complement the 10 to 30-year tax exemptions for manufacturers. The pre-employment training program of the government pays the training costs for supervisors and assembly line workers.

As an example of recent growth the electronics industry has grown to a total investment here of \$300 million. Employment in this industry exceeds 10,000 workers in approximately 150 plants. Among the companies here are General Electric with 26 electronic or electric plants; Matsushita, which makes its line of Panasonic equipment; Digital Equipment, with 1,700 workers; and the Puerto Rican subsidiary of Centronics, Inc. which is doubling the size of its Dorado plant.

Centronics President Robert Howard said the expansion move is being made because the company is so satisfied with the productivity of its workers. //

63 Puerto Rican 'Toll Gate Tax' Could Cost Industry \$15M

By STUART ZIPPER

SAN JUAN, P.R. — The electronics industry could lose as much as \$15 million in profits if the companies now doing business in Puerto Rico attempt to take advantage of tax-free foreign profits repatriation provisions in the tax reform law signed by President Ford last week.

A 7-to-10 per cent Puerto Rican "toll gate tax" went into effect simultaneously and the Puerto Rican tax will be applied as soon as a firm takes advantage of the new U.S. tax law.

Under section 936 of the new U.S. tax law, American companies doing business outside the country are allowed to repatriate their profits on a U.S. corporate tax-free basis. Previously, such repatriation was subject either to corporate income tax or allowed back into the country only under a complex set of rules. An estimated \$150 million in electronics industry-retained profits are currently in Puerto Rico.

Electronics industry sources have predicted that much of this money will, in fact, be brought back to the U.S.

But at least one corporate executive also has predicted that the change in tax laws will attract new electronics' investment to Puerto Rico, primarily smaller firms that are not there now because they cannot afford to have their profits tied up off shore for 10 or more years.

At Westinghouse, sources at corporate headquarters said no decision had been reached and reported "mixed emotions" among management about exactly what direction to take.

No Directives

At Westinghouse's Computer & Instrumentation division, Orlando, Fla., division manager Chris Turner confirmed that he had not received any directives from the corporate level. The division operates two of Westinghouse's plants in Puerto Rico.

But, Mr. Turner predicted "I'm sure it (the tax changes) will bring some cash flow" back to the U.S. mainland, even if that flow doesn't come from Westinghouse.

He said he was aware of some smaller companies which had kept their profits in Puerto Rico only because "you would lose the whole tax credit" (the corporate tax exemption) if the money was repatriated.

He also predicted that some smaller firms in the industry will now move to Puerto Rico because, even though they will have to pay the 10 per cent toll tax, they will avoid the heavier 48 per cent levy on repatriated profits they formerly would have faced.

In the past, "They couldn't afford to go there because they couldn't wait 10 years to bring their profits back," he added.

Ed Bell, a corporate director at Beckman Instruments, said his company, too, had not reached a final decision, and added "I haven't seen any rush to make the decisions."

"I don't think anybody wants to pay that 10 per cent toll without seeing what investment opportunities there are" in Puerto Rico, he said.

Mr. Bell also pointed out that the tax law changes are having no effect on general business plans, with Beckman moving on schedule with plans to expand its operation in Puerto Rico.

Incentive Factor

Industry financial observers agreed with Mr. Bell's assessment, and said the key to just how much electronics money is moved off the island will probably be how much investment incentive is provided in Puerto Rico. If those opportunities match ones in the U.S., the financial observers foresaw little move-



Small computers rolling off production lines at plant of Digital Equipment Corp. in Aguadilla, Puerto Rico. Profits from the machines can now be repatriated to the U.S. as a result of the new tax reform bill signed by President Ford last week; however, the earnings will be subject to a local tax which went into effect simultaneously.

ment of funds past the toll tax barrier, except in cases where individual companies were short on cash for immediate operations.

The industry spokesmen agreed the impact on industries other than electronics that are on the island is likely to be greater, with the textile/fashion and pharmaceutical industries singled out as most likely to begin repatriating their profits.

Goal of the new U.S. tax law is to bring the capital, represented by the huge overseas profits, back into the U.S. for reinvestment in the domestic economy.

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for reinvestment in the domestic economy.

Lengthy Exemptions

In Puerto Rico, American firms have been doing business on a corporate tax-free basis, with tax exemptions lasting 10 to 30 years, depending on actual location of the plant on the island. The electronics industry has moved more than 200 plants onto the island to escape the corporate taxes at home. Section 936 would not change that tax exemption.

But the Puerto Rican government, in a retaliatory law attempting to do the same as the U.S. tax reform act — keeps profits here for investment on the island — quietly passed a "toll tax" law last spring (EN, June 28), with the proviso that the law not go into effect until, and

if, Sect. 936 of the U.S. tax law was passed.

The result is that Puerto Rico will get between 7 and 10 per cent in taxes whenever a firm attempts to take advantage of the new Section 936 provisions.

Official Puerto Rican estimates are that about \$1.5 billion in profits from all industries could potentially be repatriated, with more than \$150 million of that representing profits retained by electronics operations here.

Among companies left in a quandry whether or not to repatriate their profits are representatives of virtually every facet of the electronics industry. Some 140 companies have electronic plants of varying sizes on the island, with many operating more than one plant.

Leading the list is Digital Equipment Corp., with more than 320,000 square feet of manufacturing space for several versions of the PDP 8 and PDP 11 small computers.

Not far behind DEC are both Westinghouse and General Electric. Westinghouse has 17 electronics operations here, as well as five other non-electronics plants. General Electric has 23 plants in the industry, and three in other manufacturing fields.

Others Listed

Other major manufacturers include Weston Instruments with four plants, RCA with three plants, Motorola with several plants including a new Citizens Band radio facility. GTE Sylvania with 16 plants, Bourns with six plants, Centronics, which has just expanded, and Beckman, which also has announced expansion plans.

The Puerto Rican government, in anticipation of the industry unhappiness about imposition of the 10 per cent toll tax, has already started publicizing its arguments that the new tax is actually a decrease because, according to the government's logic, firms attempting to repatriate their profits in the past have faced a 48 per cent U.S. corporate profits tax, 15 per cent of which was rebated to Puerto Rico.

But, at the same time, the government's industrial development operation, called "Fomento", said it was backing legislation to give new incentives to business on the island.

These incentives, designed to sweeten the 10 per cent toll tax pill were said to include a 4-year phase-in period for the one following the end of the 10-to-30-year total tax exemption.

Other new plans were said to include additional tax relief to labor intensive plants; a broadening of tax exemptions for plant expansions, and reduction of the toll tax on repatriated earnings for each year the money is kept in Puerto Rico before being returned to the U.S. These measures must still be passed by the 1977 session of the Puerto Rican legislature.

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Puerto Rico governor seeks island investors in Boston

By Anne Kirchheimer
Globe Staff

Since the 1940s Puerto Rico has been a tax paradise for business, with its 100 percent tax exemption for periods up to 30 years and its large supply of cheap labor.

But what worked in the past for Puerto Rico — an underdeveloped island where life expectancy averaged 42 years in the 1940s — is no longer economically, politically or socially feasible today for this tiny US protectorate with the highest standard of living in the Caribbean and Latin America.

So Puerto Rico's pro-statehood Gov. Carlos Romero Barcelo was in Boston yesterday to convince the business and financial community that his newly proposed partial-tax exemption package, now before the Legislature, does not mean the end of a good thing for investors in Puerto Rico. It was the third stop on a six-city, six-day US tour.

The partial tax exemption plan has touched off a stampede of companies wanting to invest in Puerto Rico before it terminates the 100 percent exemption. In December, a record 289 companies applied for the exemption.

Faced with an eroding tax base (last year 52 percent of the island's tax base was exempt, compared with 24 percent in 1973 and a projected 75 percent by 1989), a 20 percent official unemployment rate, a cost of living 15 percent higher than any city on the US mainland and an average per capita income which is half that of Mississippi, the poorest state in the nation, Puerto Rico can no longer afford to give investors a free ride, the governor said.

"Our bottom line and the bottom line of our investors is the same. We don't think that profit is a dirty word, but any relationship that is one way is not durable," Romero Barcelo told approximately 200 members of Boston's business community yesterday during meetings sponsored by Chase Manhattan Bank at a "Johnny's Place."

The governor said the 100 percent tax exemption program, where companies go from paying nothing to paying full taxes after a certain time, was "almost an open invitation to companies to pack up and leave Puerto Rico."

Most companies that have left Puerto Rico have been apparel manufacturers. Other more technological industries like electronics, pharmaceuticals have opted to stay, according to Administration officials.

Under the proposed partial tax exemption bill, scheduled for public hearing next week and expected to be law by June, a company would get 50 percent tax exemption for the first five years and gradually move to 30 percent exemption in four steps over a 20-year period.

Manuel Dubon, Puerto Rico's economic development administrator, said: "What we are trying to achieve is balanced economic growth. We are trying to strengthen Puerto Rico's economic posture."

The Puerto Rican economic output, \$7.9 billion, increased by 3.8 percent last year. The US Gross National Product rose 4.5 percent.

At present, several local companies have business investments in Puerto Rico. The Gillette Co. in 1973 founded a subsidiary, Cogut Lighter, in Guanica to manufacture its Cricket lighter, and Digital Equipment Corp. opened a high-volume manufacturing plant in San German in 1969 and added another in Aguadilla in 1973. Other firms include Boise and Data Terminal Systems, ITEX, pulled out of Puerto Rico because of union and technological problems, according to Tony Sarata, Puerto Rico's Economic Development representative in Boston.

"The most important incentive for investing in Puerto Rico is security of investment," Romero Barcelo said. "Our administration is committed to strengthening and closing

ties with the rest of the US mainland. Our party, the New Progressive Party, advocates statehood as a final solution." He also said that the Puerto Rican labor force, which now receives US minimum wage rates in most industries, is high quality, trainable and dedicated. Puerto Rican government-sponsored training programs are being developed for businesses' use.

The governor added that Puerto Rico is moving toward bilingualism (English, Spanish). "That will be another positive factor, particularly for those (investors) who care to expand in the Caribbean or Latin America (where Spanish is spoken)."

Barcelo yesterday told members of the press that he favored statehood because it would "bring about a fairer redistribution of wealth in Puerto Rico."

"Puerto Ricans don't receive full benefits under federal programs. We get \$30 million in Medicaid but that's not what we would get if we were a state. Under Title I education funds we aren't getting the same proportionate share because we aren't a state. The poorer people in Puerto Rico are the ones missing out," he said.

"You may be wondering what will happen to the tax exemption program if Puerto Rico political status changes," the governor told businessmen and investors.

"New states have always been granted special concessions. We would qualify for a transitional tax period and all grants would be honored by the American government."

With offices in Frankfurt and Madrid and a representative in Japan, Puerto Rico is not only courting US business,

"We are the only sophisticated, developed, progressive jurisdiction in the Caribbean under the American flag and there is a growing interest in capital investment from Spain and Germany," he said.



Puerto Rico's Gov. Carlos Romero Barcelo addresses luncheon meeting of Hub businessmen. (Globe photo by Joe Runch)

JUN 1 9 1978

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BACONS

Lighter, Reusable Cargo Boxes Get Good Reviews From US Shippers and Forwarders

By CHRIS BARNETT

Journal of Commerce Staff
Lightweight, disposable and reusable cargo containers, which debuted a decade ago, are gathering favorable reviews from shippers and forwarders around the U.S., a *Journal of Commerce* nationwide spotcheck has found.

The cardboard or fiberboard boxes, either shipped or carrier owned, have trimmed freight rates in moving everything from junior sportswear to electronic machinery. The containers move aboard planes or trucks and along domestic or international routes.

But some shippers still question their sturdiness. One New York City apparel manufacturer, however, is turning up production plants in New York, Lord & Taylor, New York, a division of Associated Dry Goods Inc., claims the boxes have remedied countless headaches that plague apparel distributors.

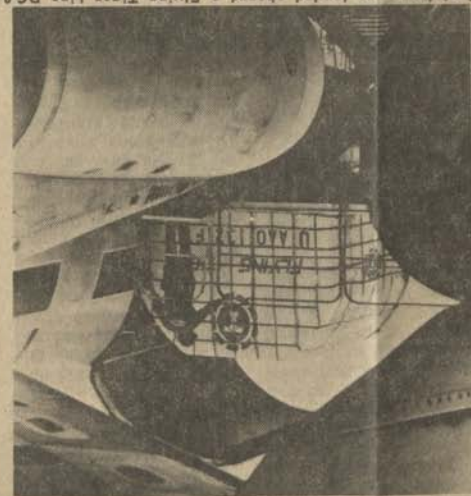
In the past, we received ready-to-wear merchandise in New York where it is opened, checked and marked," explains manager. "Then we would put 300 to 400 hanging garments on a trolley (a 30 to 36 inch bar mounted on ball-bearing wheels) and roll it into a different bar mounted on ball-bearing wheels. The box to hold more garments. Corner mounts were widened and reinforced with plastic and special steel base was fabricated so the entire unit could be picked up with a forklift.

"I can't think of anything we haven't done," he said. "We're good for 30 or 40 round trips. Some were used up to 10 months. Now says Mr. Tourneau, the company hopes to come up with a fiberboard container that will be lighter, stronger and more usable than cardboard.

Although it hasn't been designed, he estimates the cost will be \$135 but claims it will take twice the beating and will hold up for 60 to 65 over-the-road trips.

Mostly you can imagine," says Goldberg contraptions than they would have held together better than paper, but they say the company invested in plastic and fiberglass containers before settling on the containers. "I would have thought the plastic boxes the containers," says the company.

Before Lord and Taylor switched to containers, they had "ferry rigged a few of our own," Mr. Tourneau recalls. "We had more damn Rube Goldberg contraptions than



Boxing a Tiger

Containers are loaded aboard a Flying Tiger Line DC-8 freighter.

The reusable containers allow Lord and Taylor to curb capital spending in equipment. The operations manager says a trolley costs \$15 each and would hold 70 garments at most. "So when you move 20,000 garments a day," he notes, "that takes a lot of trolley equipment." However, a container holds 200 to 350 garments.

No Easy Answers

But while reusable containers have saved the company vast sums in dry cleaning expenses, the department store chain has had to modify loading docks and build ramps to lift the truck's rear wheels high enough to unload the merchandise. "There are no easy answers," he says.

Meanwhile, Jules Kuperman, president of Container Systems Corp., will not zero in on specific customers and then rush to the drawing board to design a container to meet their needs. "We look at the marketplace rather than the individual customer needs," he told *The Journal of Commerce*.

A shipper doesn't have to come to New York to get a container-designed box. The firm has licensees in other countries such as International Paper in Puerto Rico. "That way," Mr. Kuperman explains, "if Digital Equipment, which has plants in Puerto Rico, doesn't want to ship the units down from Massachusetts, they (the mini-computer maker) can order it in Puerto Rico and get exact container standardization."

Flying Tiger line's 150-cubic-foot disposable container, introduced to international air shippers and forwarders in August, 1976, is gaining greater acceptance, forwarders report.

The unit, an 800 lb. test corrugated container, has a 105 pound tare weight vs. the 375 pound tare weight of the fiberglass units previously in use. Developed by engineering officials in Chicago and Tiger officials in Chicago and

Produced by Pallett Devices Inc., of Des Plaines, Ill., the container, which originally cost \$34 and now fetches \$40 to produce can be scrapped or recycled at the end of the flight.

Known as the FFC, the unit is comparable to an L.D-3 in volume, says Stan Ratz, territorial manager for Kintetsu World Express, an international air freight forwarder in Chicago. But density is the

catchword, here, he adds. "If you've got the right freight mix it's great," he says, "but it has to be dense traffic like machinery or electronic parts. You can't deal in

He notes that it has a broader base than an L.D-3 and permits a more cost effective build-up of freight. Kazuno Matsuyoshi, manager of the Chicago office of Yusen Air & Sea Services, international air freighter, says that the gross capacity resting on its board container — 62' x 4' x 62', which has a 4500 pound capacity — is easier to load than an L.D-3.

It claims Yousen often uses it for machines and electrical

PUERTO RICO

A high-technology haven

Labor force desirable, tax climate favorable; but how long can it last?

By Stephen Curwood
Globe Staff

SAN GERMAN, Puerto Rico — Fifteen years ago Digital Equipment Corp. of Maynard, Mass. came here into a high-technology void and hired 25 assemblers of printed circuit boards at a small pilot plant.

Today, during the first year that it has to pay taxes on its operations here, Digital has more than 3000 employees in two locations in this rural town at the western end of the island, and plenty of competition.

"Digital showed how it could be done here," said Sam Landol, who manages both of the firm's plants on the island. "Now other high-tech firms have begun to realize [Puerto Rico] is a good deal."

With a plan akin to Reaganomics, this lush American territory has parlayed major tax breaks and willing workers into spectacular business growth in high tech-

nology, despite an overall economy that remains weak, with persistent high unemployment and poverty.

Digital is still the island's largest high-tech employer, but now others, including Intel, Westinghouse, Honeywell, Atari, Storage Technology, Orion Research, Allegheny, Mohawk, Paradyne, Gume, Prime Computer and General Electric, have come and boosted high-tech manufacturing jobs from near zero in 1968 to more than 60,000 today, more than a third of the industrial employment on the island.

In this year alone high-technology manufacturing is expected to swell by 20 percent, with the opening of a major new plant in Juncos by Wang and a substantial scale-up by Hewlett-Packard in Aguadilla. During the past decade, all types of manufacturing have grown at 15 percent and that's triple the mainland rate.

"It's a combination of an available, well-educated and easily trainable work force, combined with an intelligent tax incentive system, that makes a creative en-

vironment to attract industry," says Anthony Saras of the Puerto Rican government's Economic Development Administration. "We hope it will continue."

Harder economic times, though, have put Puerto Rico's special federal tax laws under pressure from mainland politicians who don't like to see the island receive breaks that woo high-technology jobs away from their own communities.

Also, the locally high unemployment rate that creates such an eager labor pool also strains Puerto Rico's modest social services. Some local economists have questioned the value of subsidizing continental American business at the expense of local incomes.

How do the tax breaks work? The linchpin for economic development here has been Section 936 in the US Internal Revenue Service Code, a provision that exempts stateside companies from federal taxes on their operations in this territory. With no voting representation in CON-

PUERTO RICO, Page A4

**Fortune 1000
Companies
manufacturing
computer
equipment
in Puerto Rico**

Digital Equipment
Hewlett-Packard
AGUADILLA

Storage Technology
MAYAGUEZ

Digital Equipment
SAN GERMAN

Dataproducts
Prime Computer
Paradyne
Storage Technology
PONCE

Westinghouse
VILLALBA

Honeywell
VEGABAJA

Intel
SAN JUAN

Allegheny
LUQUILLO

Mohawk
JUNCOS

Wang
JUNCOS,
CAGUAS

ITT
NUMACAO,
LAS PIEDRAS

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Puerto Rico: A high-tech employment haven

■ PUERTO RICO

Continued from Page A1

gress, Puerto Rico has continually had to lobby hard to keep this exemption.

Only last year, for example, Gov. Carlos Romero Barcelo was in Washington for several weeks in a successful effort to keep Senate Finance Committee Chairman Robert Dole (R-Kan.) from effectively gutting Section 936.

On the other hand, Puerto Rican developers lost their struggle in Congress in the early 1970s to keep the island exempt from the federal minimum wage.

Thus companies which locate plants here risk having some of the financial advantages disappear with a shift of the wind in Washington.

Low tax on profits

As this US territory controls its own local taxes it exempts new plants for at least 15 years, and charges only a low tax on profits sent back to the mainland.

The combined effect of federal and local tax exemptions means that "profit-sales margins for high-tech goods are in the range of over 30 percent," says a Puerto Rican economic development official, "where on the mainland they're about 9 percent."

A company like Atari, for example, which makes tapes and game software in a plant in Fajardo, can realize an additional cash profit of \$4 or \$5 on each of its units that wholesale for about \$20.

Despite strong growth in high-tech manufacturing, Puerto Rico unemployment has remained high, and this year has stayed at a disconcerting 22 percent. Per capita annual income is \$3,700, less than half that of the poorest state, Arkansas. Yet educational levels are high, as most islanders spend more than 10 years in school and become at least rudimentally bilingual.

The combination of the scarce jobs and the high level of education makes for a fiercely loyal employment force for high-tech firms, and has led to higher productivity, compared with many mainland plants.

William C. Hanson, Digital's vice president of systems manufacturing in Maynard, puts the benefits of his firm's Puerto Rican operations this way:

"Beyond the obvious incentive



Digital's plant in San German.

programs that Puerto Rico has used to attract industry to the island, we have found the work force extremely productive. Our employees have always been eager to learn, easy to train, flexible to change and very dedicated.

"We... have noticed a continual upgrading in the technical and managerial skills available on the island," continued Hanson, who also noted that virtually all of his employees here are Puerto Rican, including senior management.

Low annual turnover

One factor capsules the employee attitudes that boost productivity. Noted Hanson: "Our annual turnover rate in Puerto Rico is minimal, by far the lowest of all our operations."

Strolling through the Digital plant and talking with workers, morale appeared to be high. During a lunch break, for example, a young man and his older colleague cheerfully said they were skipping their sandwiches to solve a company problem displayed on the screen of their 16-bit PDP 11 computer.

At a component insertion machine, Justo Vega, 37, said not only does he receive "good pay" but he has also found during his eight years on the job that it is "completely easy to make more than the production quotas."

Women on the module production line also responded positively

to questions about working conditions.

"I love this job," said Judith Ortiz, who at 55 has been on the job as a module assembler at the Digital Equipment plant for almost 13 years. "I'm not thinking about leaving."

Ortiz and Vega are like many employees who start with Digital.

"Once they come, they just don't want to leave," explained Sam Landol, manager of both the 1900-module manufacturing facility here as well as the 1100-person module and computer assembly plant an hour's drive to the north in Aguadilla.

"It's a two-way street"

"[Digital chief executive officer] Ken Olsen's philosophy was to locate somewhere where there isn't a city, where at the same time we can do something for society [and]... high unemployment," Landol said in a recent interview. "[Olsen's] experience has been that you get a good labor pool from those areas. It's a two-way street."

Wage rates here are only slightly less than on the mainland, an average of \$4.75 an hour as compared with \$5.50 an hour at the Roxbury, Mass. plant. For the company the most savings come through lower training costs because of the lower rates of turnover.

"People stay with us because they know we stay with them.

Once we hire we don't lay off," explained Landol. "Short-term" expansions are contracted outside."

Landol, who was born in Puerto Rico and educated at the Pratt Institute in Brooklyn and at Harvard's business school, says productivity is also enhanced by local managers. "Our employees know English. But Spanish managers know nuance."

Orion Research of Cambridge, Mass. has also found that Spanish management has enhanced production at their 55-person factory that makes ion-sensitive electrodes in Rio Piedras.

A recent visit found about 40 women armed with soldering guns and other small tools at work at benches in a large room decorated with children's drawings. Some listened on headphones while they worked, others seemed engaged in friendly talk.

"We have practically no turnover," said plant manager Osvaldo Alfert, a mechanical engineer who was born in Cuba and moved to Puerto Rico from Cambridge to open the Rio Piedras facility in 1974.

"The last time we had an opening came when a girl got married and moved to the States. Once they start here, they don't want to leave," Alfert said.

Asked how his mainland headquarters views his production, Alfert said simply, "We're very efficient."

Puerto Rico's workers, tax benefits spell success for American industry

By **TERRENCE WILLIAMS**
Sun Staff

JUNCOS, Puerto Rico — Their products, processes and markets couldn't be more different, but Wang Laboratories and White Cap Footwear had the same reasons to open plants in Puerto Rico in the late 1970s — eager workers and attractive tax benefits.

Hundreds of U.S. companies have opened more than 2,000 plants on the 3,400-square-mile island in the past 20 years. Almost 400 of the facilities are owned and operated by Fortune-1000 companies.

Wang's new 140,000-square-foot plant in Juncos, about 30 miles south of San Juan, manufactures components for printed circuit boards and a mid-sized computer line. A 174,000-square-foot expansion is already planned for the plant, which was just completed last year.

"One of the big factors (for opening a plant in Puerto Rico) is that there is a highly skilled labor force," said Joan Mittelman, who's in charge of Wang's international public relations. "We're impressed with the quality of the technicians that the

schools there are turning out." The same held true for White Cap, a subsidiary of Lowell Shoe of Hudson, N.H., which has a plant in Comerio, near the middle of the island. The leather shoe company has two other subsidiaries in Isabella and Morabella.

"There's a wealth of shoe workers in this place. Back in New England, you have to dig under rocks to get workers," said Milton Boches, White Cap's general manager. "You put out the word here and you get 20 people."

The same attractions have helped draw firms like Digital Equipment Corp., Bell and Howell, Exxon, ITT, Honeywell, Prime Computer and Johnson & Johnson, among many others.

Digital, one of the first high-tech firms to settle in Puerto Rico, now has two facilities — in Aguadilla and San German — employing about 2,600 workers. Modular computer components are made in the two plants.

"We feel the people there are one of the primary reasons drawing business," said Mary Ann Burek of Digital's corporate public relations staff. "We have one of the lowest turnover rates of any of our plants."

Tax incentives on the island attract some companies. They include:

- total exemption from federal corporate and personal taxes, up to 25 years; Puerto Rico tax exemption, starting at 90 percent during the first five years of operation.
- total exemption from municipal and gross receipts taxes.
- five percent deduction on production wages totaling up to 50 percent of earnings.
- and total tax exemptions on the first \$100,000 profits if the company earns less than \$500,000 annually.

"The island has presented a good business atmosphere," said Mittelman. "That's (tax breaks) certainly a benefit," added Burek. "It's just a really good place to do business."

But both stressed that the workers in Puerto Rico have made the plants successful. "The employees are very enthusiastic about furthering their education," said Burek. "Our employees tend to be very loyal."

Unemployment runs high — 30 percent and above in some areas — on the island. But it may be too much to expect for U.S. subsidiaries to greatly lower the

level of joblessness. While a fierce lobbying effort last year in Washington by Puerto Rican officials — the island has no congressional representation — saved the tax incentive, Puerto Rico has been required to comply with federal minimum wage standards.

For some companies, particularly labor-intensive corporations, the wage increases canceled out the tax incentives. "I know of three plants that were all set to come down here," said White Cap's Boches. "They decided not to when the federal minimum wage was put in place."

He said his industry can't be automated because of the various sizes and countless shapes and styles of footwear. Such businesses depend heavily on inexpensive labor. With Puerto Rico enforcing wage standards, the shoe industry is now looking to the Dominican Republic and Haiti for potential business sites.

"Many people up there (in the States) have to have more than a tax advantage," he said.

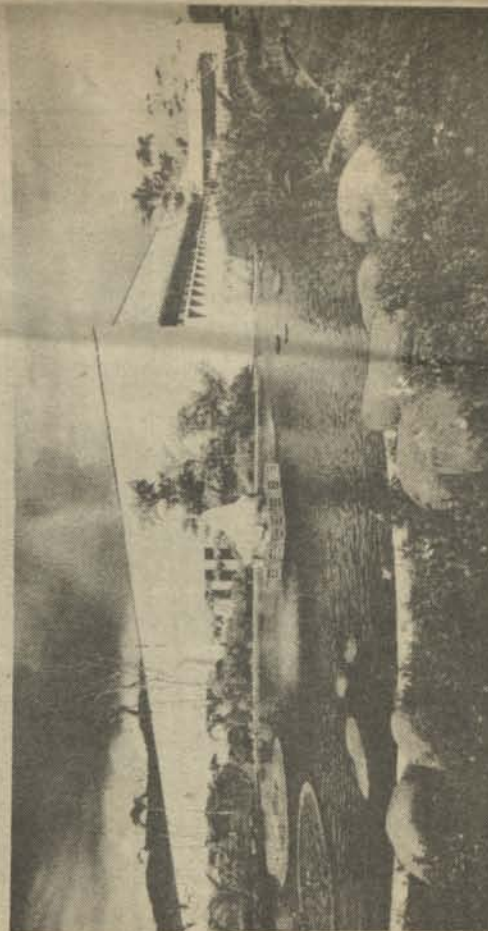
Minimum wage issue

The wage requirements have upset many municipal officials in towns of high unemployment. Mayor Pablo Centeno of Comerio said it's more important to have jobs at \$2.50 an hour than to have no jobs at the minimum wage.

"I'd work in industry for \$2.50 or \$2.30 an hour," he said. "But the government says, 'No, it's \$3.35 or nothing.'"

Raul Melendez, general manager of the Wang facility, pointed out that Puerto Rico's government is sponsoring projects to boost the island's agricultural base, boosting its economy and lowering the unemployment. "I believe there should be some of these operations," he said. "I believe we're on the verge of getting more industrial expansion. You need additional investment to keep up."

He added: "I don't believe the whole problem can be solved by (tax) exempt companies. It's just too large."



The Wang Laboratories Puerto Rico plant in Juncos. (Sun photos by David Brow)

THE SUNDAY SUN
Lowell, Mass.

BUSINESS

March 4, 1984

A11

The skilled workers of Puerto Rico speak out

"We'll work hard to make a company succeed, so everyone can benefit."

Rosendo Gonzales, production manager,
Gould-Statham Instruments,
Hato Rey, Puerto Rico.

"I started with Gould-Statham in 1957 as a driver. I had a machinist's background but that was the only job open, so I took it. I would have swept floors if I had to because all I wanted was a chance to prove myself.

"I saw Puerto Ricans here in skilled jobs and I figured I could make it too. Also I liked the idea of working for a company that made something constructive. Surgeons use our products during heart operations to save lives. After Korea I was ready for that.

"I spent two years over there in the Army—Second Division, 23rd Regiment. Mainland Americans are sometimes surprised to hear that so many Puerto Ricans were in the service. Some people don't even realize we're

here. Then, who gets hurt? The ordinary worker of Puerto Rico.

"All the ambition in the world won't do a guy any good if the job isn't there. I was willing to start at the bottom. But *there had to be a bottom*. There had to be that first job.

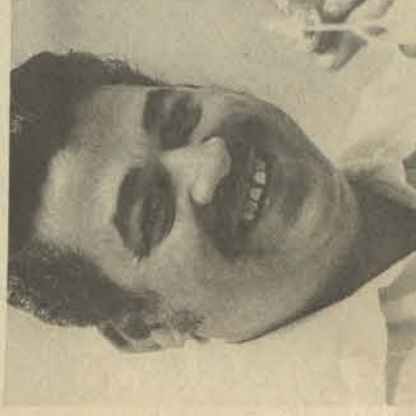
"That's why I'm glad for this chance to speak up. We want those jobs. We'll work hard to make a company succeed, so *everyone* can benefit. Tell them that."

"I grew up on a little farm in the mountain town of Ciales. My father only got as far as the fifth grade, but he managed to send four of us through high school. There just wasn't enough money for college, so I knew I'd have to learn a skill if I was going to get ahead.

"I started at the bottom as a handler in the stock room. Then I moved into inventory and later into production.

"Today, as a manager, I'm out to encourage the ambitious person. And not just for his own sake. I figure I owe it to this company to insure continuity, to see that standards are maintained. When GTE Sylvaania makes money and expands, that creates more jobs.

"It's almost like a really good marriage. Manufacturers want profits. We want to get



Rosendo Gonzales, 41, is production manager at Gould-Statham Instruments' medical transducer plant in Hato Rey.

"I've invested 18 years of hard work in this company and it's paid off."

U.S. citizens. But we've fought in every U.S. war in this century.

"Getting back to Gould-Statham, when I wasn't behind the wheel of a car, I would hang around the machine shop and help engrave serial numbers. Then I moved into the stock room and from there into assembly and shipping.

"By 1959 I was an assistant supervisor. I made production supervisor in 1963 and production manager five years later.

"I'm here at 6 a.m. and usually put in 11 hours a day. I have over 30 people to supervise and I try to be accessible. I always have my lunch with the workers out on the line and usually we'll play cards or shoot the breeze during lunchtime.

"I've invested 18 years of hard work in this company and it's paid off. I even met my

"I'm here at 6 a.m. and usually put in 11 hours a day."

wife here. We have three children and this job will provide them with a better education than I had.

"Every day I'm in contact with working people of all kinds from janitors to supervisors. All of us are working for the same goal—a better life for our families. That's why we resent those bombers and other crackpots who pretend to speak for us.

"What worries me is that manufacturers may be discouraged from opening plants down

production line. When an opening came up on the inserter machine, I was ready.

"I don't want any cathode I work on to flunk inspection. Personal pride, I guess. But



Maria Rento Santiago, 25, operates a cathode inserter machine at RCA's Juncos plant which produces electron gun mounts for color TV sets.

"I know how my skill contributes to a really quality product."

also I know how my skill contributes to a really quality product."

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