Expanded Cargo and Passenger Flexibility at Puerto Rico International Airports
April 29, 2020: The USDOT approved for the first time a new waiver for air cargo and passenger transfer services at international airports in Puerto Rico.

Authorizes international air carriers to transfer cargo and passengers from any of their aircrafts to any of their other aircrafts restricted in many US Airports.

This measure applies to the Commonwealth for two years within Luis Muñoz Marín International Airport in San Juan, Rafael Hernández International Airport in Aguadilla and Mercedita International Airport in Ponce.

Compared with Alaska, the Commonwealth of the Northern Mariana Islands and Guam, Puerto Rico is the only destination that has international air cargo and passenger transfer.

- All other territories only have the air cargo waiver
Provisions of Order 2020-4-10

Activities authorized by the new waiver within Puerto Rico international airports:

- **Transfer cargo and passengers** from any of their aircraft to any of their other aircraft, provided that both aircraft are operating to/from a point in the carrier’s homeland.
Provisions of Order 2020-4-10 (continuation)

- **Make changes in the type or number of aircraft** used to transport cargo and passengers, provided that in the outbound direction, the transportation beyond Puerto Rico is a continuation of the transportation from the carrier’s homeland to Puerto Rico, and in the inbound direction, the transportation to the carrier’s homeland is a continuation of the transportation from behind Puerto Rico.
Provisions of Order 2020-4-10 (continuation)

- **Commingle cargo and passenger traffic** moving in foreign air transportation with cargo and passenger traffic not moving in foreign air transportation
Provisions of Order 2020-4-10 (continuation)

- **Applies to all foreign air carriers** (with the exception of Venezuela) that currently hold, or that may subsequently receive, effective Department authority to engage in scheduled foreign air transportation at US Airports.
Provisions of Order 2020-4-10 (continuation)

- **Transfer passengers and cargo to another foreign carrier** for onward carriage to a final destination in a third country, and to uplift passengers and cargo transferred from another foreign carrier that was transported by that carrier to Puerto Rico from a point of origin in a third country.
Provisions of Order 2020-4-10

• **Applies to all foreign air carriers**, except for Venezuela, allowed by the US Department of Transportation to offer their services in Puerto Rico. Such routine waiver process already exists for all international airlines operating in the United States.

• **Provides flexibilities** already existing to foreign air carriers operating under the provisions of “Open Skies” maintained by the US with other foreign countries. Nonetheless, making new flexibilities available to any foreign air carrier, except for Venezuela, opens the market and offers many more synergies between carriers.
What does the waiver mean for Puerto Rico?

The new flexibilities in air cargo and passenger traffic should result in increased employment and GDP growth.

- Samples from foreign countries studies (2015) suggest that passenger air traffic can grow by as much as 17%.*
- Direct relation between air traffic growth, employment and GDP growth.**

---

* InterVistas-EU Consulting Inc. (2015), pp. 17 – 18. The countries/regions included in the study were ASEAN, Australia, New Zealand, Malaysia, Thailand, U.S., Japan, and India. See chapter 4 of the report.
All studies quoted from The Economy of Puerto Rico and Air Freight Trends, Estudios Técnicos submitted to DEDC, May 8, 2019, page 49
What does the waiver mean for Puerto Rico?

- **European Union:** The liberalization of the aerial industry doubled the growth rate in air traffic and increased competition in many routes.*

- **Chile:** With an open air policy since the 1970’s, the liberalization of access to the market drove a great increase in international air traffic with tourism and related industries bringing additional growth.**

---

* InterVistas-EU Consulting Inc. (2015), pp. 17 – 18. The countries/regions included in the study were ASEAN, Australia, New Zealand, Malaysia, Thailand, U.S., Japan, and India. See chapter 4 of the report.

What does the waiver mean for Puerto Rico?

- The European Union, Chile and Alaska, brought long term results.
- According to the International Air Transport Association, a 1% increase in a country’s air-cargo connectivity is associated with a 6.3% increase in total trade.

https://yaleglobal.yale.edu/content/alaska-airport-big-link-global-supply-chain;
The Alaskan example

• Since 1996, Alaska enjoys a similar waiver as the one just given to Puerto Rico with the exception that it only applies to cargo and not to passenger traffic.

• “Stevens Amendment” (2003): Provides additional flexibilities for air cargo.

• The waiver approved in 1996 was effective for a term of two years, but has successfully applied for extensions ever since.
The results in Alaska

• 2018: The Ted Stevens Anchorage International Airport air cargo volume reached the 5th globally and 2nd in the US. It manages over 2,806,743 tons of air cargo a year.

• Alaska’s growth success in the air cargo industry can be directly attributed to flexibilities awarded in this waiver.

Advantages of Increase Air Traffic for Puerto Rico
Existing advantages for rapid growth

- Perfect geographical location
- Airport infrastructure with growth capabilities
- Well geographical position within existing high growth routes
- Favorable position to take advantage of global tendencies of air cargo
- Existing industries encourage aerial traffic growth
Puerto Rico - The route “Great Circle”

- Geographical location right at the center of the “Great Circle” route between Europe and Latin America.
- High traffic routes and equally distant from important destinations.
- A natural “pit stop” for long and international flights.
Puerto Rico: the center of the “Great Circle” routes

<table>
<thead>
<tr>
<th>European Cities</th>
<th>Miles to San Juan</th>
<th>Central and South American Cities</th>
<th>Miles to San Juan</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>4200</td>
<td>Bogotá</td>
<td>1100</td>
</tr>
<tr>
<td>Paris</td>
<td>4300</td>
<td>Lima</td>
<td>2240</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>4580</td>
<td>Santiago</td>
<td>3600</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>4380</td>
<td>Buenos Aires</td>
<td>3700</td>
</tr>
<tr>
<td>Madrid</td>
<td>3960</td>
<td>Panamá City</td>
<td>1100</td>
</tr>
</tbody>
</table>
Example of our ideal location and the flexibilities of the waiver as a key advantage.

- A Foreign flagged plane has an incentive to interrupt a trip to refuel and pick up extra cargo in Puerto Rico even though it can make the full trip at once. The option to refuel permits capacity for extra cargo.
- The extra stop results in a more profitable trip.
- Our already ideal location now offers an extra incentive to make us an optimal hub.
Puerto Rico is at the center of high growth routes

- Other airports in the region have experienced substantial growth in recent years. The new federal waiver levels the playing field and empower us to compete.
  - Aerial Cargo and Passenger Traffic from Europe to Central and South America has increased in the past few years and is expected to grow by 5% a year for the next 20 years.*
  - Colombia: Since 2008, passenger traffic to El Dorado Airport has increased by 9% a year**
  - Dominican Republic: Has seen a 28% increase in passenger traffic and 17% in air cargo traffic, most notably from Europe.
  - Panamá: Upsurge almost 10% in the last 10 years.****

** See Aeronáutica Civil de Colombia (2019), Estadísticas de las actividades aeronáuticas.
*** Departamento de Estadísticas Dirección General de Migración (DGM); Dirección General de Aduanas (2019),
**** Departamento de Análisis de Transporte Aéreo, Dirección de Transporte Aéreo, Autoridad Aeronáutica Civil (2019).
International Airports in Puerto Rico

- Puerto Rico has three formidable and underused airports that could very easily become *hubs* for aerial transportation:
  - **Luis Muñoz Marín Airport** has the capacity to serve twice the cargo and passengers it currently serves.
  - **Rafael Hernández Airport in Aguadilla** has the longest runway in the Caribbean with 11,000 feet long. Its facilities, that can serve passengers, cargo and maintenance, are highly underused.
    - *FedEx and Lufthansa already have facilities as this airport.*
  - **Mercedita Airport in Ponce** has an 8,000 feet-long runway and facilities that are currently used for a few commercial flights. Ponce is also expanding its docks, which would make intermodal cargo activities feasible.

- The Ports Authority plans to invest $180 million in capital improvements for airports, mainly focused in the Aguadilla airport.
Puerto Rico is well positioned to take advantage of global tendencies in air cargo

- Global tendencies of growth for the air cargo industry is of 4.9% a year. One of the highest growth routes is the North American – Europe route. We are well positioned to capitalize on it.*

- E-commerce and the Pharmaceutical Industry are expected to experience rapid growth.**
  
  Puerto Rico already counts with over 90 pharmaceutical plants and factories and gives us an edge to participate in this growth.***

---


***Application of the Commonwealth of Puerto Rico on Behalf of Its International Airports, June 7, 2019, page 8
Our Economy

Gross Domestic Product Share by Main Economic Sector Fiscal Year 2018

- Manufacturing: 47.3%
- Finance, Insurance and Real Estate: 20.3%
- Services: 14.9%
- Commerce: 7.9%
- Government: 6.4%
- Agriculture: 0.8%
- Construction & Mining: 0.9%
- Other: 0.2%
- Utilities: 2.0%

CONTRIBUTION TO TOTAL MFG GDP FY 2018
- Pharmaceutical Industry (includes Bio-Pharma): 22.0%
- Computer and Electronics: 26.9%
- Basic Chemicals: 5.4%
- Medical Devices: 2.5%
- Beverages & Tobacco: 2.5%
- Food: 1.5%
- Electrical Equipment & Components: 3.0%
- Others: 0.8%

Gross Domestic Product by Sector

- Manufacturing: 47.3%
- Finance, Insurance and Real Estate: 20.3%
- Services: 14.9%
- Commerce: 7.9%
- Government: 6.4%
- Agriculture: 0.8%
- Construction & Mining: 0.9%
- Other: 0.2%
- Utilities: 2.0%

Strategic Objective:
Grow and diversify our economy

Source: P.R. Planning Board

GNP: $68.0 billion
GDP: $101.1 billion
GDP Per Capita: $31,022
Exports Value: $60.6 billion
Imports Value: $46.5 billion

TOURISM: 2.0% of GDP and estimated to 7.4%* in 2018 as a total contribution to the Economy GDP (including wider effects from investment, the supply chain and induced income impacts).

*calculated by the World Travel & Tourism Council (WTTC)
Strategic Sectors

GDP = Personal consumption expenditure + Government consumption expenditure + Gross public* domestic investment + Gross private domestic investment + (Exports - Purchases) / Imports

1. AGRO INDUSTRIES
   - Specialty Crops
   - Basic Basket
   - Food Processing

2. ADVANCED MANUFACTURING
   - Bio Science
   - Medical Devices
   - Material Science

3. AEROSPACE
   - Electro-Mechanical Components
   - MRO
   - Engineering & Testing

4. TECHNOLOGY
   - IoT & Smart Cities
   - Blockchain
   - FinTech
   - Sharing Economy
   - Healthcare IT

5. CREATIVE ECONOMY
   - Film Productions & Streaming
   - Creative & Digital Content
   - Music, Culture, Arts and Entertainment

6. OCEAN ECONOMY
   - Ocean Technologies
   - Ocean-Related Activities
   - Deep Ocean Applications

7. BIO ECONOMY
   - Bio-Based Raw Materials
   - Industrial Hemp
   - Medical Cannabis
   - Bio Fuels
   - Recycling

8. EXPORT SERVICES
   - Insurance & Finance
   - Consulting
   - Technology

9. VISITORS ECONOMY
   - Groups & Conventions
   - Leisure & Cruise Industry
   - Medical Tourism
   - Sports & Nautical Tourism
   - Eco & Agro Tourism
Partnerships between industries encourages aerial traffic growth

• Tourism, Pharmaceuticals and the Service Industry.

• Despite the unprecedented COVID-19 crisis, these industries should be back to normal soon.

• The Pharmaceutical and Service Industry are well positioned for growth in Puerto Rico, creating a need for extra aerial traffic.
Pharmaceutical Industry

Pharmaceutical Economic Impact
Puerto Rico

FAST FACT: Puerto Rico has over 50 years of experience in pharmaceutical manufacturing, more than 20 years of experience in sterile pharmaceutical manufacturing and one of the most important biopharmaceutical manufacturing centers in the world. The impact of this industry on the local economy is evident in such important variables as the sector’s GDP, the value of total pharmaceutical exports (24%), the level of employment and the average hourly earnings of the industry’s workforce.

- **16.3%**
  - FDA Approved
  - Pharmaceutical plants scattered across the island

- **52**
  - 16,214 Direct
  - 101,477 Indirect
  - 30,156 Induced

- **153,997** JOBS

- **$72,000** Avg. Salary

- **$1.0 Billion** Payroll

- **12 of the Top 20 Global Pharma Companies**

Pharmaceutical Industry
In Puerto Rico

- *Boehringer Ingelheim Pharma*
- *AstraZeneca*
- *Amgen*
- *Bristol-Myers Squibb*
- *GSK*
- *Pfizer*
- *Janssen Ortho*
- *Santen*
- *Takeda*
- *Bayer*
- *Novartis*
- *Sanofi*
- *Biogen*
- *AbbVie Biotechnology, LTD*
- *AstraZeneca*
- *Novo Nordisk*
- *Shire*
- *Pfizer*
- *Roche*
- *Merck*
- *Bristol-Myers Squibb*
- *Gilead Sciences*

GDP (in millions): $17,162.10
Exports (in millions): $47,209.5
36.7% Total Mfg.
16.2% Total PR.
74.8% Total Mfg.
74.7% Total PR.

Total Aggregate Economic Impact of $10.66 (0.25) of Total GDP.

#desarrolloPR
Pharmaceuticals in Puerto Rico

• Currently represents 73% of all aerial cargo.
• Recent events have created a new necessity to bring back pharmaceutical production to US soil. Local government in partnership with the private sector is working on efforts to cover that need.
• These two industries work hand in hand. More production means more cargo traffic and could result in an extra incentive for establishing production in the Island.
Tourism industry has been historically strong in Puerto Rico

• Depends on a healthy air traffic system.
• Despite the recent events, the tourism industry has always been a strong pillar of our economy.
• Over 300 beaches and other attractions of great interest for global tourists.
• Flexibilities on the federal waiver provides an incentive for airlines to consider Puerto Rico a mandatory stop. Bringing traffic from other jurisdictions in the region. Cuba, for example, has over a million European tourists a year.
The service industry in Puerto Rico increases demand for aerial traffic

- The Service Industry – Accelerated growth in recent years (24.6% in 1990 to 45% in 2018 of total employment).*
  - Within the Service Industry, the technical and exports area depend on a strong aerial traffic system.
  - We need a strong aerial traffic system to keep boosting our chances of growth in the Service Industry.
Conclusions:
Puerto Rico, as the Aerial Hub of the Future
Alaska vs. Puerto Rico

- Better location
- More qualified airports
- Passengers and Air Cargo Provisions
- Flexibility “Stevens Amendment”
- Same Longevity
- Partner Industries
Results in Puerto Rico should exceed

- $219.3 millions
- 6,045 new jobs
- 289,603 passengers
Next Steps...

Education & Marketing of All Benefits

Continue Investments

Document the Economic Impact

Evaluate Our Options
Thank you!
#desarrolloPR