

CofC President: Government shouldn't be the main economic engine

Head of Chamber of Commerce speaks candidly about work agenda, government fiscal plan and latest tax measures

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In the three months since taking over the role of president of the Puerto Rico Chamber of Commerce (CofC), José Vázquez-Barquet has found himself amid a whirlwind of activity, not only as head of the CofC, but also as part of a newly activated Puerto Rico Private Sector Coalition, which consists of 20 associations representing a portion of the island's business community.

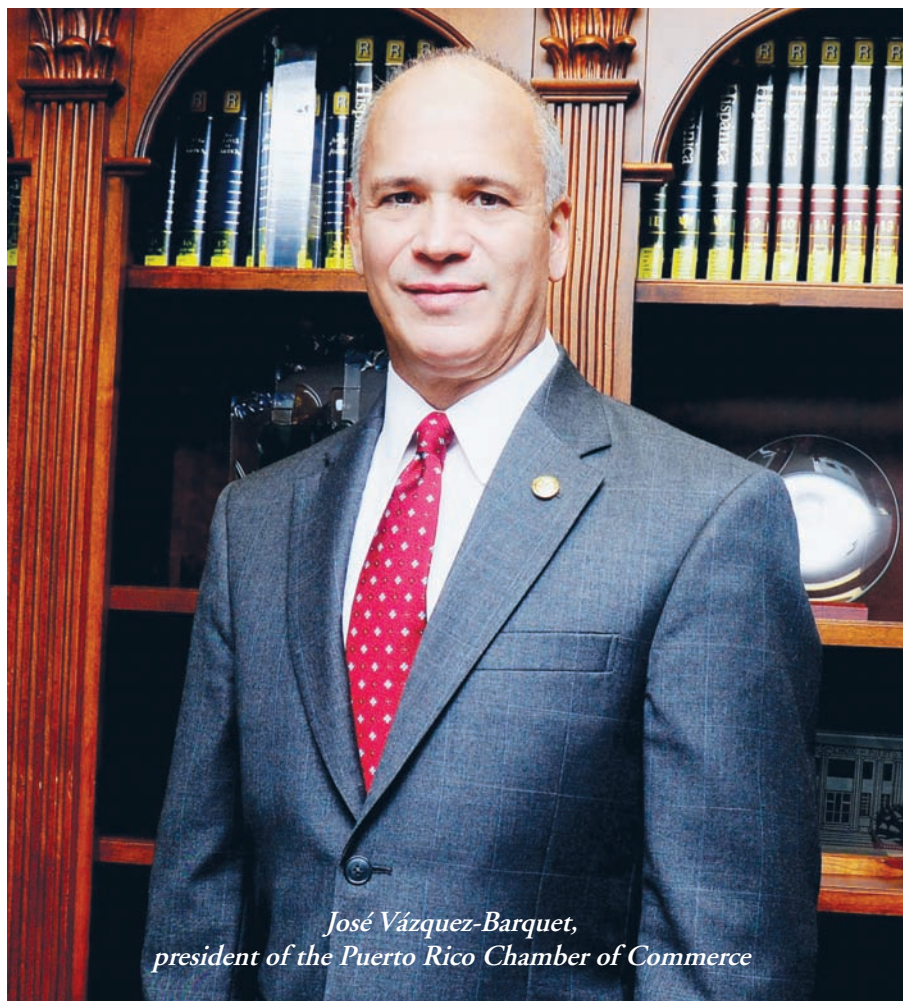
Vázquez-Barquet's tenure at the head of the CofC couldn't have come at a more critical time, not only for the organization, but also for the island's business and economic sectors. With an increasingly cash-strapped government being forced to enact more tax measures to shore up its coffers, the island's business environment has become more challenging than ever.

At the same time, with the implementation (Oct. 1) of a new 4% business-to-business (B2B) tax on many service-related transactions, the situation regarding the cost of doing business in Puerto Rico isn't likely to improve anytime soon.

CARIBBEAN BUSINESS sat down with Vázquez-Barquet to talk about several important issues, including the main strategies for the CofC moving forward, as well as the positive and negative aspects of the Puerto Rico Fiscal & Economic Growth Plan, released in early September.

CARIBBEAN BUSINESS (CB): First, please talk to us a bit about your business background prior to taking over as CofC president.

José Vázquez-Barquet (JVB): I am a developer partner for Subway restaurants in Puerto Rico, where



*José Vázquez-Barquet,
president of the Puerto Rico Chamber of Commerce*

I serve as vice president of operations. I also own 17 Subway restaurants that employ about 200 people in total. In all, I have about 20 years of experience as an entrepreneur.

CB: What is the CofC's plan moving forward?

JVB: Spurring entrepreneurship and innovation is one of the topics we will focus on. We'll tackle this issue in part via several short seminars, starting with a course on how to better manage cash flow, and continue with other topics such as exports, social media marketing, federal funds, franchises and alternate financing opportunities.

CB: Will some of those courses include how to better deal with the B2B tax?

JVB: We've done plenty of work in that regard, letting our members know beforehand about what to expect. Just last week (mid-September), we sent a bulletin with links to the Treasury Department regulations concerning the new tax.

CB: What other areas is the CofC focusing on?

JVB: A key priority is to push for changes that would lower the cost of doing business on the island. This effort is what partly prompted the reactivation of the private coalition

so we can have a single strong voice able to influence changes in public policy.

CB: Which changes would be the most important to carry out at this point?

JVB: We've been most active in lobbying for labor reform, followed by reforms in the permits process and lastly changes in issues related to transportation.

CB: What area of transportation specifically?

JVB: Various issues in that area aren't necessarily under our control, chief among them the Jones Act. However, there are issues that do fall under local control. For example, the B2B tax now applies to terrestrial transportation services, meaning that once the merchandise arrives at the port in Ponce or Mayagüez, transporting the merchandise to other parts of the island will incur the 4% tax, which will further drive prices up.

CB: I understand you are also focusing on increasing competitiveness...

JVB: We've recently visited various regional clusters, including aerospace companies, in our bid to help the island improve in this regard. When you see the latest World Economic Forum reports on global competitiveness, the particular areas in which Puerto Rico ranks lowest all have to do with public policy, be it excessive bureaucracy, outdated labor laws and an overly complicated tax system. It's all in the hands of the government to change.



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In my particular experience, I've dealt with employees for 30 years, and in 99.9% of cases, no dismissal is unjustified. Either the employee isn't meeting the standards required of his or her work, or there's an economic reason behind the dismissal.

CB: Which aspects of the plan did the CofC like, if any?

JVB: A positive part of the plan is that it calls for a reduction in compensations because currently, employees can sue in court for the moon and the stars, and two years can pass after a dismissal for the employee to take the company to court. The plan recommends scaling back the applicable period to six months after dismissal as well as the maximum amount of compensation; however, the recommendations don't eliminate Act 80 [of 1976, which requires employers to cite a "just cause" to dismiss an employee without due compensation].

CB: What's your take on how the current government administration has handled the island's fiscal crisis?

JVB: They started off well. First, they tried to reform the retirement pension system for public employees; then they attempted to do the same for public school teachers, although unfortunately, it was defeated in the Puerto Rico Supreme Court. The passage of Act 66 [of 2014, which established various cost-saving measures across various government agencies] was a step in the right direction as well.

However, in the middle of the current term, it seems the administration's gas tank got depleted. It began with the whole fiasco involving the petroleum-tax hike [commonly known as *la crudita*], then the bigger fiasco regarding tax reform. Along the way, the administration lost its heading, and now we're entering fully into election season, so whatever environment there was to carry out significant changes is mostly gone now.

CB: Going back to the B2B, it must represent quite a blow to the bottom line of many businesses...

JVB: It's definitely a big blow and it comes after we fought very vocally

in the House of Representatives against the 16% value-added tax, which was then lowered to 14%, and we were able to stop the bill. But it was a pyrrhic victory because during the last two weeks of the fiscal year, the legislators inserted all these other tax measures through the backdoor, among them the B2B, and so we have to deal with it because it's now a law.

We overdosed on the tax issue during the first half of this year, so there is no environment to discuss the topic now, but there is no doubt that it will affect economic development. It also continues this extended period of uncertainty in which a new tax has been introduced every six months. The cherry on top of the taxation ice cream was the *patente nacional* [also known as the Gross Receipts Tax]. Every time I had to do a payment related to the *patente nacional*, it wiped out my bank accounts, and it was the same with a lot of other entrepreneurs I know. Thankfully, after a year-and-a-half, it was eliminated, but at the same time, it proved to be a smokescreen for the implementation of a bunch of other taxes, including the B2B.

CB: What do you think is the most important action that the government should undertake at such a critical point in Puerto Rico's history?

JVB: The government must take concrete steps to reduce its size beyond any doubt. It must implement an aggressive, multiyear plan to achieve this. The imposition of all these new taxes to essentially feed this gigantic gubernatorial monster stems from a flawed idea that sees the government as the main driver for Puerto Rico's economy. This view must be discarded once and for all. Instead, government should concentrate on three main things: the health, security and education of the people. As for the rest, government should get out of the way and let the private sector take the reins. ■



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CB: Is there a specific event that prompted the formation of this new private sector coalition?

JVB: It happened when Gov. Alejandro García Padilla called us [CofC] and four other associations to discuss the [Anne] Krueger report in early July. That report gave recommendations that would be partly implemented in the fiscal adjustment plan. When the meeting concluded and we were on the way out, we looked at each other and said, "How do we do this?" We realized it was time to unite during this critical juncture and give forth our own recommendations for the fiscal plan.

CB: Were there any particular recommendations taken into account by the public officials who prepared the fiscal plan?

JVB: Some [recommendations] were taken into account, but others weren't. Several recommendations regarding labor and permits reform made the cut, which was a bit surprising in a good way. We can't pretend for the plan to come out perfect with regard to the changes we want implemented, but at the same time, we find a lot of the recommendations too timid, especially considering that we are behind on so many aspects.

For example, carrying out labor reform could be as easy as just letting federal labor laws be the norm in Puerto Rico. Those laws protect people's jobs from being unfairly dismissed... but removing local labor laws would generate too much opposition because they would entail eliminating Christmas bonuses and other benefits.

CB: It seems like many of the measures that need to be implemented to spur economic development clash with the political side of things...

JVB: Exactly, and the funny thing is that with all the people leaving the island for the mainland U.S., opponents are still saying, "if we took away those workers' rights, we would be fostering more emigration." Despite that, thousands of people are moving to Florida, where there's at-will employment (a contractual agreement in which a worker can be dismissed by an employer for any reason).