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With Eyes Wide Open

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The reason why I came to the U.S. Virgin Islands, indeed, the reason why I was invited is because I am one of the searchers.

My job in essence is to search for the truth in regard to a place or places and determine if it may be a good fit for a company. Some folks assign me an inordinate amount of power by calling me a site selector.

But I am far from that. Ultimately, it is the company, not me, that chooses a location from which to operate. And while I may give counsel, it is by no means a given that it will be taken.

Still, I believe my breadth of experience as a location investigator lends itself to saving a company time and money in terms of finding that special place for future operations. Without going into a treatise on how I go about the site selection process, I will say that determining a company's needs and wants, the pre-phase stage, is critical to everything that follows.

Leave it to say that I am engaged in a winnowing process that involves twists and turns and almost invariably some surprises. Indeed, there are few places where I have set foot where I have not been surprised by something.

With the search, comes surprises, some good and some not so good.

Maybe my biggest surprise was simply being invited in the first place. When contacted by Developers Counsellors International about a familiarization tour of St. Thomas and St. Croix, I remember saying to another consultant, who was also invited, “What in the hell are we going to see there besides beaches and T-shirt shops?”

In short, I never expected to see or learn about any business ventures beyond that of tourism.

My eyes were opened on my first night on St. Thomas, and not simply because I was handed a local rum drink that only added to my natural state of being confused. The Cruzan Confusion, made from a mixture of Cruzan rums produced on neighboring St. Croix, was not so much a surprise as a confirmation that I should be very careful around such spirits.

The real surprise, at least the one I can remember, would come later that night when I found myself in a bar in Red Hook on St. Thomas talking to the owner of a software development company. He was absolutely convinced that this was truly the best place for him and his employees. I certainly wasn't about to tell him he was wrong.

The next morning, I heard more testimonials from CEOs who said the Virgin Islands were far more than just sun and fun, but represented a place where a business, unrelated to tourism, could actually prosper.

Shaun Miller, founder of Massachusetts-based United Electronic Industries or UEI, moved his company's ISO 9000-certified manufacturing operations to the Virgin Islands in 2012. UEI products are used primarily for data acquisition and industrial control in industries including the automotive and aerospace testing.

“We make 180 different products here in St. Thomas for the industries we serve worldwide,” Miller said. Companies served include Boeing, Sikorsky, Whirlpool, Raytheon and BAE Systems.

Because many of products made have military applications, Miller said there is a demand that components be made within the U.S., to which the Virgin Islands (not the nearby British Virgin Islands) fills that bill as a U.S. territory.

And now for your history lesson of the day. The U.S. purchased the U.S. Virgin Islands for \$25 million from the Danish government in order to establish a naval base whose purpose was to prevent German expansion in the Western Hemisphere. The year was 1917.

With the U.S. flag flying over the islands, also come advantages of being in the U.S. eastern time zone, no currency exchange and an English-speaking workforce that is “very loyal and hard working,” Miller said.

“Once you’ve got them, you’ve got them for life, and they go the extra mile,” Miller said. “We have a phenomenal group of people here who make a fantastic team.”

But there are idiosyncrasies to doing business on the islands.

“Don’t expect to come in with guns blazing,” Miller said. “Listen, learn and you will be successful.”

Shipping costs can be costly, so Miller recommends that any manufacturer looking at the Virgin Islands as a prospective location should do so only if it is making small-sized, high-value products.

From Miller and a host of other business people, I learned that probably the biggest drawback of doing business in the Virgin Islands pertains to the cost of energy. On St. Thomas, the cost per kilowatt hour is astoundingly high at more than 50 cent. Now that goes into the not-so-pleasant surprise category.

The good news is that the cost of power is about half that at privately-owned St. Croix Renaissance Park, which has retained the right to generate its own power, stemming from its former days as a manufacturing facility operated by Alcoa from 1962 to 2000. And real estate costs are also considerably lower on St. Croix.

But to counter the high energy costs, the U.S. Virgin Islands has come up a series of very attractive tax exemptions that had me thinking “tax haven” or “tax shelter”, although that’s not quite right.

The reason: these tax incentives have been authorized by Congress. This is not Belize or the Cayman Islands. While incentives are not automatic and must be granted through an approval process, if you play nice and meet certain requirements of with the Virgin Islands Economic Development Authority, chances are you will be treated well. Here is a rundown of what you might get:

- 90 percent reduction in corporate income tax
- 90 percent reduction in personal income tax
- Reduction in the customs duty from the standard 6 percent to 1 percent.
- 100 percent exemption on excise tax payments
- 100 percent exemption on business property tax
- 100 percent exemption on gross receipt tax

Add to those tax advantages that you are working with U.S. currency, have American courts and flag protection, duty free exporting of USVI-made goods to the mainland U.S., and can sport the good old “Made in the USA” label, and you might just have yourself a business model by which to work from.

Space in this blog does not allow me to tell you all the good things that are happening at the University of the Virgin Islands, but President David Hall is a visionary leader who understand the school’s role in grooming talent for business and quality of life. A new medical school that will start in 2015 is a testament to that commitment of excellence.

I never made it over to St. John, which is the least developed of the three islands, because two-thirds of it is a national park. After spending a day and half in St. Thomas, I made it over to St. Croix, the largest of the three islands, being 28 by 7 miles.

St. Croix is flatter, less congested and more laid back than St. Thomas, which if it has a straight road, I never found it. And while St. Thomas dominates in terms of commerce, the potential for business growth on St. Croix looms, with its lower utility costs and the availability of more developable land for industrial use.

St. Croix not only lost Alcoa, but another bombshell went off on Jan. 18, 2012 with the announced closing of HOVENSA, one of the world’s largest oil refineries.

HOVENSA was a joint venture owned and operated by U.S.-based Hess Corporation, and Petroleos de Venezuela, SA (PDVSA), the national oil company of Venezuela. The refinery employed the refinery employed 1,200 residents and 950 contractors.

A common refrain once heard from women to would-be suitors may not be heard much these days on St. Croix – “I don’t need you. I got me a Hess man.”

If there is a silver lining to the HOVENSA shutdown, there may be a buyer in the works. Please understand that I have no insider information. But I hear that talks may be taking

place. If I had to guess, I wouldn't doubt if the buyer is Chinese. But again that's just a guess, based on China's buying binge of natural resources and energy assets.

As I earlier mentioned, all places offer surprises, even to someone who has been around. I've seen things in my time, but I am always delighted and somewhat surprised when I come across genuine hospitality and good will.

Having said that, the staff of the Virgin Islands Economic Development Authority are consummate professionals that are willing to go the extra mile. They are fine folks, committed to what they do, and I only wish I could thank them all by name. But if I tried, I would leave somebody out, which would not be fair.

As a former economic developer, I know and can appreciate that they are trying to sell their place as a viable place for business. That's part of the job, and they did that as I left the islands with eyes wide open.

But they are also searchers – trying to determine the truth in ways that could actually transform their home into a better place. This thing called economic development can really touch lives, and I wish them the best.

I'll see you down the road.

Dean Barber is the president/CEO of Barber Business Advisors, LLC, a site selection and economic development consulting firm based in Plano, Texas. If your company needs an optimal location for future operations anywhere in North America, we can help. If your community needs to improve its competitive standing, we can help. All requests for information are considered confidential.

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