

Interview with Will Delaat AM, Recently Retired Chairman of Medicines Australia, Medicines Australia



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We last met you in 2008 as Chair of the Pharmaceuticals Industry Council (PIC), which set itself the goal of doubling the levels of exports, R&D investment, manufacturing, value-added activities, and clinical trials from 2002 to 2012. Are you content looking at the achievements today?

Exports still stand at about A\$4billion, which has to do with companies deciding to close their manufacturing plants. My previous company Merck for instance, which used to be the biggest pharmaceutical exporter in Australia, is closing down its facilities. Luckily, AstraZeneca reversed its plans to close down its plant, and GSK has invested in its Australian manufacturing business. Five years ago most MNCs were cutting back because of consolidation and the cost of labour compared to Asian countries. Now they are looking at Australia and realize that it is not as high as they expected, while labour costs in China and India are bound to rise. On top of that we see a range of biotech companies investing in new manufacturing facilities.

Overall pharmaceutical R&D conducted in Australia keeps increasing, although in clinical trials we have seen some serious challenges. When I was chairman of the PIC we put a big effort into establishing the Harmonization of Medical Ethics Approvals. That is well in place now particularly for the Eastern states, which is where the majority of the clinical trials take place.

It has been somewhat frustrating to reach the right government policies and settings, although policy measures such as the introduction of the R&D Tax Credit has been very positive, which undoubtedly will create more activity on the R&D front.

The government expresses seemingly contradictory desires to encourage and reward innovation on one hand, and reduce expenditures on the other. Can you speak to how these interests should be reconciled, given that the revenues that are supporting R&D are the same ones being reduced in order to alleviate the burden on PBS?

Rational thinking will prevail – providing policy makers are prepared to listen to both sides of the argument. The government should be satisfied that it is doing a good job in containing the growth of the PBS through price disclosures in the off-patent sector, which creates headroom for vital new drugs to be reimbursed on the PBS.

At the same time the government realizes that it cannot solely depend on commodities and that Australia needs to nurture other sectors -. Given the important role that the medical and pharmaceutical industry is fulfilling in this regard it would be foolish to unwind stimuli to R&D. Also in the light of international competition and measures that competing countries offer in this regard, Australia cannot lag behind and has to offer incentives to stimulate innovation, exports and R&D. The R&D tax credit was a very hard fought policy that took a lot of lobbying. It will be very hard to unwind.

The question on everybody's mind is: how will Australia capitalize on the potential R&D opportunities of the Asian century? What do you expect these opportunities to look like?

Australia has a major advantage in its proximity. The Asian Century will see middle classes blossom, populations age and increasing demands for greater healthcare provision -by – governments. -, -All of -this offers enormous opportunities for the healthcare industry. Australia has some of the world's top medical scientists, top universities, and strong biotech companies. There is a very good basis to provide product and expertise into the region.

Australia offers high standards of living, a stable government, a great research infrastructure, and the expertise to supply products and services into the Asian markets.

To which extent do you see the increased competition from Asian pharmaceutical industries as a threat for the Australian pharmaceutical industry?

Although there is no denying that competition is increasing, the gap is still significant. India is specializing in generics manufacturing and in research in generic biologicals; China is doing very well in setting up research labs and institutes. Still it -has a long way to go to get the – consistent product quality. China has had many issues with manufactured products that did not meet the TGA and FDA quality standards. -I estimate is that it will take another 15-20 years to build up the expertise to compete with Australia. So, overall it could be a threat, but I'd like to see it as an opportunity.

To which extent do you see opportunities for big pharma to partner with Australian biotech?

We have seen a number of partnering opportunities over the years between local biotechs and big pharma. This is a result of the quality of the science and the people in the Australian biotech companies. Although there has been a problem with funding since the financial crisis – like elsewhere, the venture capital to fuel the biotech industry has become scarcer. A few companies have come close to falling over as a result, but many of them are coming out right now, having survived the so-called Valley of Death, and are attracting the right investments to -continue their research efforts. Australia has great opportunities with its burgeoning biotech sector and many small, promising biotechs that are ready to enter into licensing deals.

In your vision, to which extent do the relatively weak links between the research sector and industry in Australia provide a challenge to the prosperous development of the industry?

Australia is becoming more sophisticated in this regard. Over time we are seeing more movement between academia and commercial industry I have noticed another thing over the past few years: when big pharma companies in Australia started to follow the global trend and were forced by parent organizations to downsize in terms of people and manufacturing, many former big pharma employees -shifted into generics or biotech companies. Many of the MDs of the big generic and biotech companies in Australia are ex-big pharma, which means that the industry did not lose the expertise.

What are your expectations for the development of the Australian biotech industry in the coming years? Where will we find it four years from now?

There will be new companies formed, and we might see some mergers of older players, which has been a trend in recent times; some are listing in the US like Biota to get better access to capital. We will see a strengthening of existing companies, and companies taking products further up the value-chain, even to commercialization. Hopefully we will see more companies following the example of Pharmaxis, which went fully into commercialization; the company is manufacturing, and launched its products in Europe.

I always thought that Australia could participate more in the biologics area, because there is a shift from the small molecule-pharmaceuticals towards biologics and vaccines, and there are not that many sophisticated fermentation plants around the world. The expertise that we have in Australia offers an opportunity to start building such plants.

You quit as CEO of Merck in 2008, but are still very active in the pharma world; What do you see yourself doing in the coming years and what legacy would you like to leave?

I am on the board of Pharmaxis and Chairman of EnGeneIC, two very interesting companies. I am also on the board of the George Institute for Global Health, which is looking to spin out for-profit companies to commercialize IP, and I will probably get involved in some of that.

I'd like to be seen as having played a key role in PBS reform, which was very important policy reform to create the headroom for new medicines to come into the market. We had to find ways to make savings in the generics sector. A research based pharmaceutical company recognizes that, after having had an -effective patent -term of -15 years, it has received a fair return on its investment and the price can come down through multiple companies competing in that space. Headroom has to be created for innovative and life-saving new medicines that come to market. Discovery-based pharma companies understood that, but the generics players were naturally opposed because it negatively impacted on their profitability. The industry had to accept that it needed to take some cuts in these tight fiscal times, but Australia was still propping up generics prices compared with other countries such as the US.

What is your final message on behalf of the Australian pharmaceutical industry?

For global Pharma executives, I would say come and have a look at Australia. I know some of the CEOs of the world's top pharmaceutical companies have visited here in recent times, and they have seen that Australia has some key advantages: a strong, vibrant biotech sector, an impressive medical research community, and great opportunities for high valuated manufacturing. In addition, it is a very good place to do business: a stable government, great infrastructure, and we speak the same language.

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