

Interview with Jose Correia da Silva, President, ABIQUIFI

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In the past four years, Brazil's pharmaceutical market has more than doubled. To what do you attribute this astounding growth?

In Brazil there is a strong income inequality. As the inequality decreases, so have barriers to purchasing medicines. Greater employment has clearly been an important factor, which also contributes via funds in mandatory private insurance provided by employers. Another very important factor is the growth and the development of government health care expenditures. The Brazilian government spends a lot of money on SUS (Sistema Único de Saúde/Unified Health System), which comprises a health care infrastructure and a strong centralization for the purchase and distribution of medicines.

Yet another factor is the strong increase in generics, which have seen a large increase in volume due to the satisfaction of repressed demand. There was some worry about product cannibalism, but this has not been the case, because we have seen a significant increase both in branded and generic drugs. The simple fact is that much of the population could not afford any medicines at all, and now would not have enough money to buy anything other than generics.

The devaluation of the US dollar has helped considerably, and a 25% depreciation over four years should not be underestimated. The introduction of more modern medicines, which are obviously more expensive, as well has increased overall market size.

There is a lot of pressure for the government to introduce new medicines in the coverage network, which means that more expensive, and effective, medicines will be introduced which are mostly financed by the government.

Whereas biotech or other innovative drugs in the US or in Europe are often financed in the majority by private insurers, this is not the case in Brazil, where 98% of these products are financed by the government. The government has introduced a much reduced price for certain classes of medicines such as hypertension and diabetes. This, too, has helped, and millions of diabetics are now being treated who never sought treatment before. In the last six months the government has implemented programs of donating medicines free to patients, and suddenly, many diabetics are being diagnosed and treated who had always existed but had previously been unaware. There is much more attention being paid to health issues, with more hospitals, more clinics, more at-home treatments.

Many companies have an obligation to provide supplementary health insurance. The fact is, there is a market of 200 million of potential consumers that have just arrived to a medium level of medical attention. Part of the reason for the increase is that the population is so far from a level considered normal by the standard of more wealthy countries. To achieve a level of a Spain, or an Italy, Brazil must double again, at minimum. How long it will take I don't know, but we can do it. Overall, government health expenditures in absolute terms are relatively small.

There is a very serious legislative project - whose approval the government is fighting against - but if it is approved, public sector health expenditures will more than double. And though this won't aim for the level of a Switzerland, for example, Brazil can approach the level of a Greece.

Right, but there is the domestic market not only in terms of consumption, but production.

Absolutely. And it's not so much a matter of exports, per se, but rather internationalization. Because pure exportation is difficult, there are companies like Eurofarma, EMS, and Cristalia, which are partnering with or acquiring foreign companies in an effort to internationalize. There are also joint-ventures between Brazilian national companies and international firms. For example, Teuto is a partnership with Pfizer, which owns 40% of the capital. Sanofi-Aventis bought Medley, though in truth this is more of a partnership than an acquisition, because Medley brings expertise in the generics segment that Sanofi-Aventis simply does not have. This type of partnership, where multinational companies seek partnerships to learn about new markets and opportunities, is a new development. In so doing, Brazil can be used as a springboard to other countries in Latin America, and elsewhere.

ABIQUIFi, too, has been abroad, with recent trade shows in Argentina and France. What are you trying to accomplish in these trips?

The strongest proposition we put forward is that Brazil has a regulatory system that is very strong, and is at European standards. It's important for the exportation of our products that this strength is

recognized. Many countries recognize a dossier registered in Brazil as good as the best. This is a factor that we are communicating outside of the country. Our product is of high quality and produced in modern facilities. There is no restriction for our companies to export, in contrast to other markets like Argentina – which is still home to many good companies, but is not uniformly modern.

That is interesting, because you have said in the past, “The fact is that Brazil is not today a friendly country pharmaceutical chemistry for the production of pharmaceuticals. Awareness of this fact is the first decision-making that the government should do.”

What is not friendly in Brazil today is its very high cost. The exchange rate always fluctuates, of course, but besides that, the high costs lie in personnel, services, tax, and energy, which are higher than in Spain or Italy for example. Brazil is not a cheap country compared to India or China, and there is the added cost of a very strong regulatory requirement. Brazil also has a tradition of being closed off to international connections compared to Argentina or Chile, for example. Though we are catching up, it’s very slow, and Brazil should enact regulations to encourage development. It’s much less attractive to produce pharmaceuticals than in India or China, and very exigent for local companies. The time frame required by ANVISA for registering a product and performing the necessary formulations and tests can take many, many years, but for companies who come from outside, there is a much faster process. What happened? It’s much faster, and much cheaper to bring products from outside. This means, therefore, that the country lacks production-friendly policies. Brazil should give incentives for production – taxes are the same but companies that produce locally should have an advantage.

Macroeconomic problems, such as issues with the exchange rate, are not problems to be resolved by the Ministry of Health. These are general problems that deeply affect the whole country. What the Ministry can do, however, is give advantages to induce companies to produce locally in a very attractive market, without discrimination of capital or otherwise; they merely must produce locally. I am not proposing an obligation. What we can say is this: if you want to produce locally, there will be advantages. If not, importing is fine, but you must wait in line. But if a company is willing to produce locally, there should be a special line, so to speak, to fast track market access. Now, there is only one line. So naturally, there is the tendency to search for a ready-made solution to save two to three years. That’s the part that is not friendly. And in pharmaceuticals, it’s even worse.

The government has programs for medicine purchases, which is great. But for whom? Government purchases only. It’s a big program, a fantastic program, but the government is responsible for one third of the total market. What do private insurers get? Nothing. This is a mistake, evidently.

There has been significant M&A activity of late, not only from MNCs like Amgen, Pfizer, and Sanofi-Aventis, but large national companies like Hypermarcas, which made 10 acquisitions in 2010, and acquired Mantecorp, a top 5 domestic player, for \$1.5 billion. What is the sense towards these changes in the competitive landscape?

This trend is a reflection of the fact that the regulatory regime is so tough in Brazil and medium-sized companies don't have the resources – time or money – to spend on regulatory expenses. Therefore, they realize they are far better off being sold to larger entities. Hypermarcas is a club, in a sense. They buy companies, partially with cash of course, but mostly in stock, similar in nature to a private equity deal. They bring in medium-sized companies who are in the situation of earning \$20 million in profits and spending \$10 million in regulatory expenses. These are companies who have asked themselves: where are we going with this result? Each year they effectively waste more and more money. And every year it becomes more complicated. It's better to sell to a different type of company altogether.

Mantecorp, for example, was not too interesting for an international acquisition. They didn't have too strong a portfolio in generics, and they had a higher proportion of mature products. They are big for a national company in Brazil, but small in terms of international – so it was the best decision for them to join in with Hypermarcas.

There is some attractiveness, in some cases, for multinationals with high technology. Take Amgen, for example. What they sought in the acquisition of Bergamo: contacts with the government, experience with selling to the government and certain specific types of products. Amgen doesn't need an extra plant. They don't need Bergamo's technology. What they need is an established sales channel. People ask why they bought at such a high EBITDA multiple, in dollars, but the fact is Bergamo has very interesting dossiers. From that perspective, it is in fact a very logical acquisition. Pfizer, in Teuto was looking for an entry with generics. Teuto has a large plant, and Pfizer can now sell their products under the Teuto brand name.

Do you think it is likely we'll one day see an emergence of a company in Brazil comparable to, say, the pharmaceutical equivalents of a Petrobras in oil and gas, or Embraer in aviation?

I don't think so. What you're speaking about is Big Pharma, There is a fundamental difference in the industries. Petrobras is, at the end of the day, all about the oil. They have a product everyone needs and must buy. In aviation, product models change in the order of decades. The development in the pharmaceutical industry, on the other hand, is so fast and violent that you need large structures. Multinationals have sufficient size to have these in place. And that's why they're acquiring : because they've run out of space to grow organically. A Big Pharma company in Brazil

would be the same thing, very slow. Even if you were to join, say, EMS, Eurofarma, and others, the result would be a company that is on the global scenario, not so great, but would also slow. In Brazil, it is a fact that a company with \$ 50 million in turnover is medium in size. The government can be of a different opinion. But it is unrealistic, on such a small scale, to hold enough patents to compete with the same medium-sized international companies, internationally.

What about clinical trials?

Brazil can provide them cheap, for the diversity offered. Brazil has the best technology of Latin America - it's a fact. Money is spent when the government sees a dossier not supported by clinical trials representative of the Brazilian population. Studies done in Japan are clearly not sufficient. It's possible to achieve an acceptable result from Europe, but only by taking a sample from some 20 different countries. The USA would be fine - but how much does it cost? Here, it's cheap for the diversity. There is volume.

What are the priorities for ABIQUIFI going forward?

Brazil produces a limited number of molecules. We need to augment this number, and to do this, we need people from abroad. To do that, we need to communicate the advantages: that we have a lot of technology, and that it's safe for capital. But there are difficulties.

It's better that we define exactly the benefits they shall receive. There are a number of pilot projects.

Another priority is the internationalization of the pharmaceutical and pharmaceutical sectors. Basically, we think that companies going outside Brazil will be a bridge for other companies to follow. This is our plan, with the government, with international fairs. Not only for exportation, but for internationalization. Brazilian Companies that produce pharmaceuticals, why don't they produce products and finish them in big countries like Mexico, Argentina, Colombia, and have a partner there to finish their products with quality?

What is your final message to readers of Pharmaceutical Executive?

It's not as if the growth in Brazil is something new and unexpected. We have been struggling and working for 50 years, and have had a serious program since 1965. There have been difficulties, and we've fought for this success. The most important element is to improve income distribution and keep going in the direction we have been. There is a lot of income to distribute, and a lot of people to enter the market as more powerful consumers. The pharmaceutical sector is very particular. It's an economic sector in Brazil that has a big negative net trade balance. The deficit is over \$5 billion and growing every year. If the dollar were to suddenly increase to R2.50, many people in many

industries, such as agriculture, would applaud, because Brazil, as a whole, is an exporter country. As a whole, exchange rate fluctuations would not be a catastrophe, though in this sector, it very well could be. The pharmaceutical sector is affected by the fragility of the system. The message here is that the market of pharmaceuticals needs to grow a lot. It cannot go back. Grow - or grow - there is no choice.

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