Interview with Uğur Özkutlu, Chariman of Healthcare Market Acess Working Group, International Investor Association of Turkey (YASED)

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Could you introduce the organisation and its objectives to our readers?

The International Investors Association of Turkey (YASED) is a non-governmental organization whose members are international companies operating in Turkey. YASED, with its more than 20O members of largest global investors, is the most important representative of the international direct investments in Turkey..

YASED is dedicated to support Turkey by ensuring high value creation. To achieve this vision, it assumes the mission of offering high levels of contribution and support to Turkey in its aspiration “To become the Country with the Best Investment Environment in the World”. YASED also endeavours to ensure the same environment as the one from which the local companies are benefitting.

In addition, YASED is committed to develop better channels of communication and coordination with other organizations in the business community and to generate greater awareness among the general public of FDI issues, improving the image of FDI in Turkey among all the stakeholders. It acts as a platform for new ideas and provides collective support to our members in their interactions with Turkish governmental and regulatory bodies on business issues of common interest.. Also, as far as data and patent protection are concerned, YASED is a strong voice in front of all the necessary bodies for its members.

In every market where Focus Reports has been, the relationship between the industry and the government is never the same. How would you define it in Turkey?

In Turkey, this relationship is very unique. Although I am Turkish, I moved to Turkey from Basel in 2010. I was Medical Director for Novartis Turkey and then went to Basel as the Medical Regional Head for Asia Africa and Eastern Europe, so I can do some comparisons for you.

Here, there is an obvious lack of transparency and predictability. The specificity of this country is that it is absolutely necessary that you establish a relation with someone before you can actually have a communication with that person. This applies to all kinds of communications in Turkey; not only with the government. Whereas in most of the European markets, you can see someone, put your matter on the table, discuss it and find a solution.

Also, according to the Turkish culture, what the government represents is the nation. Consequently, they are a very fatherly figure and cannot be easily criticized.

Nevertheless, the authorities do listen. It is not challenging to communicate with them, but they listen more to the associations rather than to the companies one by one. It is important in Turkey to create associations not only in terms of joining forces, but also because the government pays much more attention to them.

What is the importance of the pharmaceutical and healthcare sectors within the association – and does it reflect the importance of the sector for the country's economy?

The pharma industry is not the most critical sector of Turkey's economy. However, about two thirds of the members of the Association of Research-Based Pharmaceutical Companies (AIFD) are somehow connected with YASED.

AIFD is only dedicated to pharma-related issues, whereas YASED is bigger, looks into different sectors of economy, and therefore is perhaps more influential.

In Turkey, the Government is paying almost everything today. For the last three years, the country has been trying to close the budget gap by reducing the prices of pharmaceutical drugs and increasing governmental compulsory discounts. This year, they realized that the reimbursement schemes have to change as the deficit cannot only be reduced this way. Patients should be paying themselves a considerable part of the price for any medicine.

In order to finance the healthcare system with more out-of-pocket money, the insurance issues come in. We do have insurance companies in Turkey, but the problem is going to be so big, that the insurance system needs to be improved. It will create a big difference in the health environment.

How do you evaluate the environment at the moment? Is it a good time to invest in Turkey?

Different people think differently about this aspect.

The Turkish economy is growing, despite the low Gross Domestic Product (GDP) growths in Europe. The growth rate will also drop in Turkey, like it has in Europe, but estimates are around 4%. The growing population of 75 million has different characteristics: we still have a young population which represents a significant potential, which will help to face an ageing population synonym of many chronic diseases. On the one hand, diseases are a burden, on the other, they represent a business.

From that perspective, Turkey is a good place to invest.

Now, the price regulations, reimbursement issues, the entire regulatory environment is changing rapidly, and considering we are in an unpredictable era, we are in a sort of ‘wait and see’ period. I will explain why.

In 2005, there had been a significant transformation. Before that date, the social security system was divided into three areas: one of governmental workers, one for the private sector, and one for entrepreneurs. All regulations for these three systems were different. While a governmental worker could easily be reimbursed for a certain product, the two other categories of workers could not.

This classified social security system no longer exists. The government has united these systems under one umbrella called Sosyal Güvenlik Kurumu (SGK) – eng. Social Security Institution -, which has generated a great deal of new prescriptions and new patients. Whereas a patient was visiting a physician on average twice a year in 2005, this same patient would consult a doctor eight times a year in 2008.

This has considerably stretched the public health budget, which went up to 14.6 billion Turkish Lira in 2009, from 3 to 4 billion in 2005.

In 2009, the Government and the pharmaceutical industry in Turkey signed an agreement defining the budget for the next three years. The agreement signed in 2009 brought us to where we are today. Those three years have been lost from our side.

To tell you a bit about the context, I need to explain that the experience and expertise about different health systems has to be built up on the government side. Our Government who have been ruling Turkey over the last ten years are dedicated to pilot everything, but did not stay tuned on enough what can be done in healthcare in other countries, and how the industry itself has evolved over the last decade – as needed. The sector is suffering from this setback.

As a result, the Government, which was facing an increasing budget deficit, implemented a reference pricing system in Turkey, aligned with 5 other markets (Portugal, Spain, Italy, France and Greece). They said it is the best way to define the price of the drugs considering we don’t have a system for that in Turkey. In 2009, the exchange rate Euros/Turkish Lira has been fixed in 2009 at 1.9595, and the industry naively thought that the rate would be fixed when necessary.

Under that system, the price of the product is that of the cheapest of those five countries. But the Government kept the exchange rate of 2009 over the last three years to calculate Turkish prices. By looking more closely at the agreement, the industry understood that the government was not promising to fix the exchange rate in the agreement.

In addition, if there is a gap in the budget, the authorities decide to increase the discounts on drugs. We have a social security institution paying 95% of each health related products – Diabetes, hypertension, cancer, etc. Almost everything is paid by the State. They decided they needed to implement discounts that will match the state budget.

Discounts go up to 41% today – they have increased gradually from 23% to 32.5% discount, then to 41%. In that context, the pharma companies in Turkey faced the worst setback ever, and while total market growth was 2.7%, multinational companies' growth was -2.5%last year.

This year, in June, they are officially renegotiating with the Government the conditions and terms of the agreement. In 2011, some companies refused to give extra discounts. The Government accepted the situation for certain drugs only, which was a very strong signal that the Government is ready to try other initatives.

If I sum up, the Turkish industry is getting the cheapest price from Europe, without fixing the exchange rate, and has to give 41% discounts out of that price. Consequently, Novartis for instance is not able to introduce very important treatments to Turkey. All this does is to reduce patient access to medicines.

MrÖzkutlu, what is your assessment of Turkey's potential to be developed as a manufacturing hub or a research hub?

First, investors should be aware that the coming three months are going to be critical for the Turkish pharmaceutical industry. Besides some of the awaiting regulations, everything is positive about Turkey, in terms of economic and demographic growth.

Interesting fundamentals are not really working in Turkey. The country is currently lacking a health assessment technology system, and basic epidemiologic data, such as the rate of specific diseases. It is with this kind of data, together with the political prioritizations, that we should build up a budget.

Regarding manufacturing, another Government policy over the last three years has been very controversial. In June 2009, the Minister of Health declared that all exporters to Turkey should have Good Manufacturing Practices (GMP) certificates. European countries had been requesting GMP certifications from Turkish manufacturers. Whereas Turkey used to accept any product when importing its drugs from abroad, they have decided to request GMP standards for all imported products. This has been criticized by the industry considering the country simply does not have the resources to do GMP inspections.

We are still suffering from this policy. There are only few ‘inspector teams’ who need to work on over 200 sites, waiting for inspection, which will take years. Even though some important inspections for the most needed drugs are prioritized

To sum up, investors should invest because Turkey is full of opportunities, but to be more strong, there are still important actions to be taken to continue the strong improvement of the investment environment.

Do you have a final message to Pharmaceutical Executive’s readers?

YASED acts in harmony and arm to arm with the international investors in Turkey. There are a lot of global companies willing to invest in Turkey. But we should continue our hard work and coordination with the Government agencies, with the Universities, and the public, to make sure we build a fruitful environment for investment.

Turkey does not only need investment in production, but also in research and development. There should be more effort and incentives given by the government to increase the investment on the research side, not only on the development side.
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