

Interview with Charalambos Pattinis, CEO, Remedica

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How do you explain that despite the Bolar exemption, a high number of scientists, a very educated population, and Europe's lowest tax rate, Cyprus has never been able to attract FDI in either manufacturing or R&D?

On the one hand, Cyprus seems an attractive place from a geographical and tax regime point of views. But the reality is that there is an additional taxation for Cypriot-owned companies in the form of a defence levy, which roughly doubles the taxation that Cypriot-owned companies pay as opposed to companies owned by foreign nationals. All companies are charged a 10% corporate tax, and on top, for the remaining 90% (of the profit), Cypriot-owned companies are charged an extra 15% on 70% of that as deemed dividend. This represents an extra 9,45% of tax for companies owned by Cypriots. Then on top of social insurance and other employer contributions, there is a 2% tax on the total payroll, which is not a deductible expense, and which of course does not constitute an incentive for employment.

Also, in Cyprus, like in most European countries, we have had the Bolar exemption since 2006 whereby we are allowed to produce and develop a new product before the patent expires provided we do not sell the product before patent expiry.

In addition to that, we are facing other difficulties like a shortage of staff and especially scientific staff with relevant knowledge. Unfortunately, there isn't a school of pharmacy here in Cyprus yet but it is in the plans.

Foreign investment would be beneficial to Cyprus in the context of the pharmaceutical industry if it is combined with commercial or product development aspects as well. I do not think that the

Cyprus pharmaceutical industry has a problem in finding the necessary funds to grow. There are bigger problems that the pharmaceutical industry is facing now, the lack of scientific people being one of the major ones. And it is not an issue of attracting them with high salaries but it is more of a procedural issue. So, the approach has to be spherical.

One of the answers that we got from the government was that pharmaceuticals and healthcare are not part of the priorities. How do you explain this? Is it creating problems for local manufacturers (lack of supplier base) or on the contrary opportunities (contract manufacturing)?

I would not agree with that view since the government has stated on many occasions that healthcare and education are areas where Cyprus can have a competitive advantage. But as Cyprus is a small island we have always looked overseas for growth opportunities.

Remedica is part of the few companies that have taken an industrial investment decision. Could you please give to our readers a brief history of Remedica, and the reasons why you decided to invest in manufacturing?

We have recently celebrated 50 years of existence. When we started as an organisation producing carbon dioxide, I think nobody expected the success we experience today.

The first years were difficult and we faced many challenges but each challenge made us think about the future and the way ahead. Today, it is a totally different company, having gone through various stages from production of carbon dioxide, aerosols, and cosmetics – until 1976 when pharmaceuticals were added to the operations. It was only in 1990 that we decided to make pharmaceuticals our main focus.

We have always invested the profits back into the company, very carefully selecting where to invest and how to move forward. From the beginning, we focused our attention on quality and we became the first and, as far as I know, the only company that was ever inspected and approved by an E.U. Member state, Germany, and this was back in 1986.

This helped us establish Cyprus as an origin of high quality, safe and efficacious pharmaceutical products. We also invested heavily in new product development and new market development. Today, we are present in more than 100 countries worldwide with a large portfolio of products that is enriched every year by new molecules.

How can a midsize generic company compete with countries such as India or China ? How do you position yourself to resist to this rising competition?

I truly think that in every country, there are people prepared to pay for what they perceive as a quality product and if you can convince them that your product is of high quality then you are in a different segment of the market and you are not obliged to compete on price with low-price items.

This is true for lots of goods and not only for pharmaceutical products.

Today Remedica has four manufacturing facilities. Could you please give to our readers a brief overview of the industrial capacity of the company and its product portfolio?

In terms of tablets, we can make more than 20 millions tablets per day per shift and more than 5 million capsules per day per shift. We work at full capacity on one shift and most of the time we work on two shifts. Obviously Cyprus is a small market compared to most European countries. Hence exports are very important for local players. We have over 450 products and more than 1600 licences worldwide covering a wide range of therapeutic areas including oncology, cardiovascular, central nervous system, gastro-intestinal etc. and our products come in a variety of dosage forms like tablets, capsules, syrups, gels, creams, ointments, topical sprays.

Your first export to the EU was back in 1986 to West Germany and today, Remedica products are marketed in over 100 countries. Exports actually reached 45 million in 2010. How important are exports for the group today compared to the local market, and which share of your revenue do they represent?

Exports have always been very important to Remedica, even in the first years. At the time, local doctors and the local population were not used to the existence of a local pharmaceutical industry in Cyprus. Today, exports are still as important – 90% of our production is exported – simply due to the small size of the domestic market.

What are your main foreign markets and how does a company like Remedica find distributing partners abroad?

In finding the best distributors, I have to say there is a large element of luck! As for the best markets, our strategy is not to focus on any single area or country in particular but rather to spread out the risk and this has paid off many times. If we take the recent examples of the turmoil in the Middle East and North Africa, one can only see how dangerous it could have been to have all eggs in one basket.

Did you have the chance to look at contract manufacturing and what makes Remedica the partner of choice for contract manufacturing activities?

Contract manufacturing, as far as Remedica is concerned, can be placed in two categories. The first one is when Remedica develops a product and out licenses this product to other companies, using Remedica formulae and technology. The second type, which is very selective, is contract manufacturing for companies for their own products. They want to find a reliable contract manufacturer in Europe and they decide to come to us. This is also becoming important because not every manufacturer has dedicated facilities for the various types of products so they are

looking for a reliable manufacturer.

Currently, about 5% of our production is dedicated to the second type of contract manufacturing. We always try to combine contract manufacturing with other benefits so Remedica is not a pure contract manufacturer – it is done only if it serves a higher purpose.

As older patents expire in the European and US market and pave the way for new entrants, how will Remedica grasp this potential and which target markets are you looking for in the future?

We have a ten-year plan looking ahead to leverage the expiry of patents. It helps us determine what products to go for. However, there are areas of specialization of Remedica, such as anti-cancer and cardiovascular drugs, just to mention two, that are obvious choices.

Regarding the controversial government's pricing policy.

What is your perspective on the current pricing policy and how has it impacted the national generic manufacturers like Remedica?

I personally agree that pharmaceutical products are unlike any other products, particularly when it comes to prescription drugs, as the end-user does not have a choice to buy it or not. If it is prescribed by the doctor and if the patient wants to stay healthy, to prevent the illness and any side effects, he/ she has to take the prescribed medication. In this sense, we need to be reasonable in the pricing of pharmaceutical products. Of course this has to be balanced against the expenses that a company has when inventing and developing a new product, especially in the ever-increasing regulatory environment that makes the chances of a product reaching the market fewer and fewer. This can be seen in the number of new products being launched today compared to twenty years ago. The regulations also have an effect on the time it takes for a new product to go to the market and this is understandable since the authorities want to avoid any disasters!

However, in Cyprus, the price of pharmaceutical products has been reduced and stayed at the 2004 level for the low end products (below five Euros) whereas more expensive products have been allowed an increase. By considering the increase only as a percentage, one can arrive at the wrong conclusion. For example, a 10% increase might sound reasonable to everyone but when it is a 10% increase on a 50-Euro product, it is another 5 Euros, which is more expensive than the price of all the cheap products. Contrarily, if a cheap product goes from 50 cents to 1 Euro, it is a 50% increase but with no real difference to the end user, as we are only talking about 50 cents more.

Here, as a company and as the President of the Cyprus Pharmaceutical Manufacturers Association, we do not agree with the freezing of low end products since it affects exports, whereby the price in Cyprus is used as reference in many other countries. Our suggestion is therefore to liberalize the

price of pharmaceutical products below 5 Euros. In that sense, if somebody wants to go from 3 Euros to 3,20 Euros or from 50 cents to 1 euro, it should be allowed, and this will not really affect the local market but it will have a positive impact on exports.

Despite the disagreements on pricing, what would you say are the other challenges that the members of Cyprus Pharmaceutical Manufacturers Association are facing today? And what would be an ideal regulatory and operating framework that would serve positively the patients and the pharma manufacturers?

Other major challenges are the ever increasing regulations being imposed that increase the cost of pharmaceuticals, the attractiveness of the sector to many other countries prompting their governments to set up protectionist measures against imports (in order to support the local industry), increasing competition in general – especially from low-cost countries, and the serious problem of the shortage of scientific staff I mentioned earlier.

As for the second part of your question, in Cyprus, the various governments have been trying to develop a national health system that would change the way pharmaceuticals are being prescribed, procured and dispensed in order to reflect modern thinking. They have been looking at European countries having such a system, as an alternative to the tender- type that we have here today and which could potentially make some companies do very well but leave others worse off. There are many discussions about this new system, which would include some form of tendering to the central organization but there are also many opposing views from interested parties. If you look at it from their point of view, each one might be right but at the end of the day, somebody needs to make a decision, which is not an easy one, because the costs keep increasing. On the other hand, the present system is very doubtful with regards to its consistency in offering the level of services expected by people. And we must not forget that peoples' expectations go up as the standards of living rise. Therefore, a system that is decades old is not very suited to the 21st century so, the private sector should get involved, and one way of doing this is by cooperating with private insurance companies that already offer medical cover to many people on the island either directly or with the employer sharing the cost.

Remedica is without any doubt, a good corporate citizen: employing and training the workforce, ensuring pay rises, infrastructure investments, Social and community responsibility, building a positive image of the "Made in Cyprus" brand... and much more. What are your personal goals to further take forward Remedica and what are your growth perspectives for the coming 5 years?

I am very excited about the future. We are developing a number of products that we believe will do very well and we continue to cultivate the various markets where we have a presence. We have

managed to build a very good name for Remedica in all these countries. With the kind of strategic co-operations that we have entered in the last few years, I am very confident about the future.

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