Jean-François Dehecq – Chairman, Sanofi-Aventis



29.10.2009

Tags: France, Sanofi-Aventis

What was the idea behind the creation of the « Etats Generaux de l'industrie » (General States of Industries)? What can we expect from them?

The main idea is that we can no longer live during this crisis without letting people express themselves genuinely. And I don't mean expression of the so-called traditional elites. Worse, with an essentially financial vision of capitalism –which is very different from capitalism itself-, they contributed to this crises and are now striving to fix it! Hence the importance to let people express themselves and contribute, I mean all the social partners involved, president of small companies, local politicians, those who are involved in the « real » economy, the « real » life, not only counting on the voice of some Parisian headquarters.

There are currently some 2000 people among the full resources of the country that are expressing themselves and proposing solutions on education, management, relations between blue chips and their suppliers, industry financing. My objective is to set the basis of new social and economic pacts. These will hopefully open up bright ways for the future.

What about the pharmaceutical sector within that frame?

The pharmaceutical industry is a big epiphenomenon within the much larger healthcare sector. This is why we have to go far beyond pharmaceutical industry in order to cope with issues such as an ageing of population, a genuine reflexion on the prevention of the disease, vaccination, nutrition or stress at work. Healthcare is an ecosystem in which all these topics are included, but the real issue

is that our States cannot pay for it anymore. Our social protection systems are operating under such deficits that they are condemned to bankruptcy in the longer run. Therefore we can no longer use « patches » to heal those issues, no longer apply conservative solutions. Our societies are extremely conservative, and our industry even more so.

What will be your future role with Sanofi-Aventis ?

I no longer comment on Sanofi-Aventis, and it has been that way for a while now as it cannot be my major preoccupation anymore. I spent 35 years with Sanofi. I feel that in the beginning of 2007, I left the house in a very good state, whatever angle you might consider, whether in terms of growth, sales or stock quotation. In those 35 years I experienced many issues, crises, problems, difficulties, and have always worked hard to find solutions and generate this extraordinary growth that we have experimented. There are issues now, but they are no bigger than those we have faced in the past. What has really changed is the visibility that people have. In 1980, we launched a slogan « We take you to year 2000 ». Nowadays everyone looks 3 months ahead… It's not really hard to make people adhere to it! The possibility to have a long-term vision and speech, did grant us advantages.

First I wanted to build a blue chip company for my country, then for Europe! Then we started to consider the world, and especially the Southern countries! The world's future is in the south, there is no questioning that! This is why we invested very early there.

I also defended « small products », because low-cost products are the future of the industry in those countries. I still believe in our slogan before we took over Aventis: There are no small countries and no small products!

Today it's clear that every time a blockbuster goes off patent, it's all these small products that constitute the base of our company's results.

You are heading the Strategic Orientation Committee of the FSI; can you tell us more about this fund?

The FSI is a traditional sovereign fund. The idea is that some things are essential to get out of the crises and that we need to help those companies that boast great progress for the future but are currently in mayhem. We also need to stimulate innovation and generate the conditions of a new industrial boost for the future.

In times of crisis, we naturally think national and everyone seems to protect their strategic industries. Whether people like it or not, one cannot deny that companies are national entities. Corporate nationality exists in the USA, but also in Brazil. It's even more obvious with Chinese companies.

Some sectors are strategic for France and Europe's survival so we need to consider our strategic industries and important existing companies. Automotive might not be strategic in the sense of defence of our nations, but the collapse of this industry could lead to major social problems. Obviously, the fund should consider investing in what makes sense for the future such as hybrid or electric cars. But we know automotive is a strategic sector.

Emerging sectors should be helped as well as these sectors face major issues today as no one is taking risks anymore. We should indeed catch up in the biotechnology and nanotechnologies fields by helping the start-ups of the sector until they mature their innovations. This is the purpose of the Biotech Fund. Many people are knocking at the door already, and we have started to make investments. Our goal is to help companies grow until they can start valorizing their discoveries. It's true that France was lagging in that regards, and that such a fund is welcome.

Nevertheless, industrials also have a role to play aside from this fund which is why we decided to transform our Vitry-sur-Seine plant into a biotech production unit. It will be open to smaller companies and will function just like a cooperative since at this stage no company is large enough to be able to use the full capacity of this production unit.

How do you explain that France, a country with such a long tradition in the pharmaceutical industry, has accumulated such a delay in developing its biotech sector?

We will see within five or ten years if we were really late. People should always beware of trends and fashions. I think that when you are 70 years old you have seen so many things – and heard even more – that you tend to be more sceptical about those new trends! You've seen them live and die, people making mistake, genetic therapies becoming the industry next big things with billions invested that actually led nowhere. Having said that we should all make efforts, and that's actually why four years ago I decided the transformation of the Vitry factory into a biotech production centre.

But is France late, or are others country advancing? When China launches those huge projects, can France really compete? When India started invested in the 1970s or when Brazil starts to look into it seriously; how can France resist? The importance of the Western

world is simply declining. But are we losing positions in the world of research or is it rather others that are gaining them?

It’s an illusion to believe that a 60 million inhabitant country will keep its leadership positions in every domain. There are more than 6 billion people on the planet, and many countries are developing, investing and growing! How can a country of 60 million people reasonably compete with a giant like China!

For many years, we have made some mistakes in terms of pricing and made huge efforts to correct them. The « Credit Impôt Recherche » is now extremely helpful in giving oxygen to small and medium size innovative companies. And I do believe that there is still room for new players to appear. New players are important because the market needs their vivacity to push the giants which tend quickly to become institutions.

Another aspect is that this sector will become more and more political and mostly rely on negotiations between big companies and States. And the further South you look the truer this will be. The idea of having 100% owned subsidiaries in China, Brazil or Algeria, is definitively one of the past. I think I know what I am talking about because I greatly contributed to this model when we developed subsidiaries in those locations. At the time we were too small for the USA and we chose to enter these markets in order to develop. In 1983, for example, we were nearly the first to enter the Chinese market alongside Jansen.

Which will be the most complex countries to deal with in the future?

Obviously the most populated ones, such as China, Algeria, Nigeria South Africa or Iraq etc. But the model we developed for the past 20 years, where we would sell our products and states had little or nothing to say is coming to an end. It’s our responsibility to admit it and change our ways not prolong this one.

This does not mean that we need to stop takeovers, buying products or start-ups, continuing internal research programs. Maybe one day you are lucky, and it’s also part of our industry. But the reality is that in the long run it’s bound to stop simply because states can no longer pay for it. If you look into biotech, the only real success at this stage is with anti-cancer treatments. But the pricing of these new treatments are simply outrageously high, and we cannot continue in that direction. When I say outrageous, I don’t make a moral statement, but I just pinpoint the fact that some states or patients simply won’t pay for them. Look for example in the UK, where authorities decided not to offer them, simply because they can’t pay. It’s impossible to cater for senior people and prolong life with such costs.

But isn’t it a humanist point of view? In an increasingly individualistic world, those who can pay will pay, regardless to what happens to others!

I believe this is a short-term vision, as there is a risk of social unrest whenever only a few people actually benefit from development. Of course, if you take China, some people are doing extremely well for themselves, but at the same time, a very large portion of the population is also benefiting for the development of the past decades.

In our western society, the problem is that for the past 10 to 15 years only a handful of individuals are getting richer, while at the same time a large amount of the population is simply stagnating. The only progress is the capacity to access credit and get more debt. I am not sure it can be called real progress!

If only elites get richer and the living standard of mass population does not improve, it won’t last for long.

So if extremely rich people want to have access to these treatments so be it, but I think that very soon, social protection programs won’t reimburse them, simply because they can’t and your average factory worker does not pay an insurance to allow this.

What will happen is that social insurances will have to tell the industry to divide their product four or fivefold in order to obtain accreditation.

But then the industry will say they cannot conduct R&D in those conditions.

It’s just not true!

When you see pharmaceutical giants, who have long fought against the development of generics, now actually integrating generic companies, what does it say to you?

It was quite a fierce battle, and it still is. Now some are simply queuing up! Eight years ago when I was saying that mass market at low cost is the future of our industry, when I fought to keep our production units in Bangladesh, Pakistan and India, people were smiling. Today we all know that low-cost products for mass markets are a large part of the industry’s future. Moreover, it will largely be imposed on us by southern countries!

So there is a good chance that tomorrow’s giants are Harbin Pharmaceutical group or Beijing Pharmaceutical group rather than Sanofi-Aventis?

There is a good chance that besides low-cost mass consumption products they will also do high technology treatments which is why we need to think in terms of partnerships and cooperation. I feel the time when we could go south, impose our products at prices often higher than in our own markets, are over.

Another thing that could change – because it's become all too ridiculous – is the manufacturing of products in Bangladesh for European people, while Bengalese need those products, and Europeans can well afford products made here. I would not be against a system where generics consumed in Europe would have to be manufactured here. At Sanofi, our Bengali or Pakastani factories manufacture products for the local market not for Europe! People thought I was crazy, but I think this is right and the future! This way we can also offer jobs for workers here. It's one of the big challenges that globalization poses to us and that needs to be addressed.

Before starting with Sanofi-Aventis in 1972, I was asked to do an audit in order to identify a few sectors offering the potential for which I identified beauty, health and nutrition. I have to say, that nutrition is prevention, and would not be surprised if tomorrow's giants of the healthcare industry are Nestle and Danone rather than Pfizer or Sanofi-Aventis. But saying so 30 years ago was rather surprising and problematic. This was especially true during the 90s when the trend was to focus on core business, and companies under the pressure of financial markets had to get rid off of all their non-core assets.

The ironic thing is that those same guys who received commissions from these sell offs are now probably going to get commissions from the diversification process which is bound to happen!

You say that the model is doomed to fail. Why be so alarmist?

What I say is that the old way and the old practices are doomed to fail. But I am not worried, because people and companies adapt very well. If some big are not capable of it, medium size companies will take their place.

What have been good decisions taken in the past years?

Definitely, those who have chosen to go south but of course everyone is doing so now. Another set of good decisions is the questioning of our research practices because nobody knows anymore how to manage our huge structures, and we all admit that all we believed in did not turn out quite as performing as we hoped. For the moment everyone is moving, but maybe in ten years, we will find out if it was really useful or if we that we made more mistakes. This is the very nature of research; you need ten years to find out if you were right.

The one thing we have not yet decided, but that we will have to decide, is to earn less money!

Can publicly listed companies actually decide to earn less money?

It's all relative. Look at the price-earnings of the pharmaceutical industry! I think they are just stupid if you compare them to some companies involved in steel or other sectors. At a point pharmaceutical companies were quoted at 40 times their net income. Nowadays we are down at seven or eight.

At the time when I was looking or investing into activities that had this type of quotation, mainly in nutrition products, but also in cement, flowers, shrimp, ducks or pizza, people were telling me these activities are not profitable enough. Now they are quoted at 18 times their net income while the pharmaceutical industry is quoted at an average 10 times its net income.

The true battle I feel will not be profitability, but rather volumes. Once again, high volume and low prices is the future of this industry in the south. In those countries, only a few can have access to luxury treatments, but the goal is to heal populations, not only a happy few. Even in the USA, I am not sure that we can keep the model if you add in 50 million patients!

On the other hand, when I say volumes, I don't mean gigantism, and I believe there are limits to mergers and acquisitions, and that we will probably never experience again the wave of M&A we have had in the past. The limits are simply human and once humans are overwhelmed by size and complexity it's better to stop.

If you were a young man again, would you invest today in the pharmaceutical industry?

In 1971, I was working for Pétrole d'Aquitaine, we knew it was coming to an end, so we looked into creating an industry which would generate employment in France.

I looked into the INSEE (Institut National Statistic Economique), and I identified those that could be long-term and generate employment and those in which restructurings were possible.

Very fast I identified health, beauty and nutrition. I have to say that it has been a real pleasure for me to have worked in this industry. I always thought that working for men was far more interesting than working for « safe vaults »! It's the beauty of this job.

Our industry is bound to last. Ageing populations mean that people will fortunately or unfortunately consume more drugs. So the real challenge is to find how to finance this, how can our societies find financing solution.

It won’t be a global solution, but rather country-specific involving real local solutions. This will be especially true in southern countries, where their system will be much more political. Part of the difficulty of this job is that each country has its own rules and regulations, political culture and medical culture. It’s probably one of the most complex jobs in the world.

I would probably do the same, get involved in this industry, but I would fight much harder than I did about my initial concept: that heath is not only a matter of drugs. I think that the link between the food industry and the pharmaceutical industry will reappear in the future. Several huge food players had understood this concept 20 years ago and started investing in the pharmaceutical industry with the biggest today being Nestle.

I have believed in this for the past 35 years. We should collaborate more because our jobs are very closely linked.

See more interviews