# Interview: Ümit Dereli – General Secretary, AIFD – Turkey

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*The secretary general of the innovators' association gives an overview of the current structural challenges facing the pharmaceutical industry in Turkey, and discusses the changes that need to be introduced for the vast potential of the Turkish pharmaceutical industry to be unlocked.*

**Could you give our readers a brief overview of the Turkish market?**

Until a few years ago, this market could be considered a major global market, and was quite promising at the time. It is still a top 20 pharma market, and represents a significant potential for the pharmaceutical industry, and at present there is a significant funding issue. Like in many countries around the world, several in Europe, spending austerity in healthcare has become a way of life. Turkey however, has taken an even more cautious route by developing a global budget approach to keep pharmaceutical spending within manageable limits. The government hasn’t complied with the initial principles of this approach, as they originally committed to increase the pharmaceutical budget annually based on a coefficient of inflation, but have failed to do so in practice. At present, due to an inflation level of about eight percent per annum, any volume drive growth in local currency terms is insignificant, and the market may actually be contracting slightly in USD terms.

95 percent of the pharmaceutical market is reimbursed by social security, so the government is the only real payer in Turkey and has enormous bargaining power. They can dictate terms to the industry, and have thus changed the pricing system repeatedly to force larger mandatory discounts over the past several years; at present, pharma prices are at 40 percent of the lowest European price in real terms, which means the price in Greece for most products. This price gap is a composite of the 41 percent discount from the reference price imposed by the social security institution, SGK, and the devaluation of the Turkish Lira from 1.9595 TL per EUR in 2009, which is the fixed exchanged rate used to calculate reference prices, to a market rate of nearly 2.8 TL per EUR today.

**Is the status quo sustainable?**

Given the current budgetary pressures, and the wider issue of the allocation of public funds, the current situation is not infinitely sustainable for the pharmaceutical industry. The global pharma industry is and has supported the Turkish healthcare system for many years, but will be unable to for much longer if inflation persists and the current pricing system is left unchanged.

The other sustainability issue is one of the major causes of the budgetary situation, which is that Turkey has one of the worlds most extensive public health coverage systems in the world at present, and like many countries, and aging population. Two years ago, an American health consultancy delivered a presentation on complementary health insurance to the Health Economics and Policy Association in Ankara, and the conclusion was that there is very little need for complementary insurance in Turkey because everything is covered, save cosmetic surgery and alternative medicine. At present, the country is still young demographically speaking, and tax contributions from working aged Turks can cover the healthcare expenses of the older generation without an issue. However, the demographic structure is about to change over the next decade, and sustaining such a comprehensive medical system will put major pressure on the government’s budget in the future.

**How would you assess the current capabilities of the Turkish pharmaceutical industry?**

In the global sense, the pharmaceutical industry develops molecules, and then conducts testing, clinical studies and massive quantities of research, before developing an industrial process for manufacturing the molecule, and then producing a final product to bring to market. In Turkey, it is only the last step that actually takes place in general, the production of the final dosage form, as APIs are nearly all imported, and the only form of research that takes place are clinical trials, where we could be far more active. Most of these few clinical trials are conducted by multinationals, leaving very little research activity that is conducted by Turkish companies, all of which is based on existing molecules.

The above is just facts, a fair assessment of the Turkish pharmaceutical industry at present, and we need to be fair and realistic to develop reasonable strategies for growth. On this point, we are actually very optimistic, as we believe there is substantial potential for export growth, and for more sophisticated manufacturing activities.

The government agrees, as the pharmaceutical industry has been identified as a target industry for economic development in the coming years, and is highlighted as one of several industries in the Presidents Vision 2023 plan. Turkey is already an attractive investment destination for multinational pharma companies for a variety of reasons including geographic location, market size and composition, the aging population of 75 million people and likely healthcare spending escalation in the future, and more importantly, the timing is right as Turkey is still in a phase of fast economic growth relative to developed economies. The timing will not remain this favorable for long, and there are a number of factors that are discouraging investment in the industry, from Turkey or abroad, at present. Also, while many ambitious objectives have been set and the potential is there to be unlocked, the question of who and how these “Vision 2023” goals will be realized remains unanswered.

**How can Turkey make itself a more attractive investment destination for the global pharma industry?**

To attract significant investment from the global pharma industry, the government needs to meet three basic requirements; value based pricing, strong patent and intellectual property protection, and free economic competition.

At present, Turkish companies face a dilemma with regards to pricing in many circumstances because the price in the country of manufacture is usually used as a reference price of sorts. With such low prices in Turkey, it is very difficult to charge more in foreign markets, and as a result many companies are exporting but have no domestic sales. Surprisingly, the situation has also forced some of the largest Turkish generics players to dedicate themselves to streamlining their production process enough to survive selling product at Turkish prices, at the cost of investing in export development. Furthermore, given that 95 percent of the market is reimbursed, having a complex reference pricing regulations for the nonexistent free market is unnecessary, as the SGK is fully capable of managing their own pricing strategy.

Regardless of these dilemmas, the AIFD believes that there is a clear need for a value based pricing approach in Turkey, particularly for innovative products. By ‘value based’ we mean that the price paid for a particular pharmaceutical product should reflect the value of its incremental clinical benefit to both the patient and society. There are countries with quite sophisticated pricing mechanisms that recognize value, and many models for Turkey to emulate, and the AIFD suggests that the Turkish government look to these examples. Such a reform would go a long way to convincing our members to make a decision to invest in Turkey.

The second element that will attract investment is a world-class intellectual property protection system. Currently, there is a draft for new patent protection legislation on the floor of the Grand National Assembly, which will likely fail to pass before the upcoming elections, which would force legislators to effectively start from scratch in the new session. However, this situation would actually be preferable; the draft bill was not nearly rigorous enough. Before pharmaceutical companies will be willing to invest their more advanced technical knowledge in the Turkish economy, our country will need to put in place an IP protection framework that includes data exclusivity and top quality patent protection.

With regard to free competition, the third requirement for pharma-industry investors, the government has put a lot of effort into developing the local industry, and while AIFD supports this in principle, we oppose some of the coercive methods that have been employed in the past. The use of incentives can shape market outcomes while allowing for competition, however coercive methods have restricted competition at points in the past, where the government has directly interfered with markets and effectively reallocated market share from one company to another, and this makes investors wary of investing more in Turkey.

Furthermore, while Turkey has a community of experienced and talented medical researchers and clinicians to carry out clinical studies, Turkey remains underrepresented in terms of clinical trials. The primary reason is that the current regulatory framework and administration is outdated to some extent. We are currently cooperating with some government stakeholders to improve these regulations, but will need support from both the industry and government alike to make significant progress.

**What would you like to accomplish as the secretary general of AIFD over the coming two or three years?**

My only goal is to work towards one thing; a favorable ecosystem for the global pharma industry in Turkey, and patient access to innovative medicines that is on par with the US and Western Europe.

If we can accomplish this, then we will have achieved success. This is not an easy task, or one that we have the power to complete alone, but I am confident in our abilities and excited to take on this challenge.

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