Interview: Nolan Townsend – Country Manager, Pfizer Romania

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One of the new cohort of country managers speaks out about Romania's blossoming potential as a manufacturing hub and explains in detail how his firm is diverting product lines form elsewhere in Europe and relocating them in Cluj so as to exploit what he sees as a real competitive advantage.

You've been at the helm of Pfizer Romania for just about a year now. What were your first impressions of the market? And how do you describe your main priorities to date?

I consider Romania's demographic and investment context as attractive with spending on healthcare around 4 percent of GDP which constitutes one of the lowest spending ratios in the EU. The absolute spending per person is also very low which adds to the theoretical potential of the healthcare market, so it's entirely natural that this should be considered an important market for Pfizer.

Meanwhile there has not been a real update to the reimbursement list for a number of years. For a company like Pfizer, with a large and established presence in the market, that means we can still expand our presence with our existing products, but introducing new medicines and delivering latest generation treatment options becomes evermore a priority. This is, after all, the core business of Pfizer so the main task at hand is to identify new methods to bring these treatments to market.

At the same time, I am looking at possibilities to improve our footprint within the country. The opportunities that we have grasped with Ferrosan are emblematic of this. We realized that the educational profile of the workforce, low labor costs and flexible labor code all combine to make a compelling case for ramping up investment in local manufacturing and service support centers. My third priority area relates to our internal development and fostering the right team to drive success over both the short and long term.

Prior to Romania you headed up the Ukrainian subsidiary of Pfizer. How do the two markets compare?

In Ukraine there is virtually no reimbursement at all with 90 percent of treatments purchased directly by the patient. Romania, in contrast, represents a rather different model where a high volume of medicines is reimbursed by the state, but where that list of medicines has remained frozen for quite a few years. This is not the sort of issue that can be addressed by a single actor or individual, but needs collaboration at the industry level which throws up a whole new range of challenges.

Pfizer, for its part, has been active through its roles on the boards of ARPIM and the American Chamber of Commerce in endeavoring to shape the contextual environment and engage the authorities, patients and population in overarching discussions related to financing Romanian healthcare and funding the introduction of new products to the reimbursement list. Being attentive to advocacy is crucial to this process.

We, at Pfizer, think it important that all stakeholders understand the true economic potential the pharmaceutical industry can deliver in Romania. On the one hand, we can obviously contribute a lot in terms of bringing about positive health outcomes and associated economic co-benefits such as enhanced GDP. Here I’m thinking about improving life expectancy, lowering infant mortality, prolonging the active lives of the population at large through better health and so on.

Alongside that, there is an entire secondary way in which the pharmaceutical industry can potentially generate quality growth. We mustn’t forget that Pharma can offer the same sort of knowledge-based jobs and pathways to scale the value chain as innovation industries such as IT currently being promoted by the Romanian state. By way of illustration, pharmaceutical companies are globally spending some 200 billion dollars in R&D which is more or less on a par with what IT companies also invest in innovation. We fit into exactly the same logical schema and country economic model that the government is seeking. Pharma can be the same sort of catalyst to quality job creation that will enable the country to make technological gains and leapfrog its way to

prosperity. The industry has to do more to project this message!

What headway, if any, is being made with respect to opening the reimbursement list?

There was a major success in the rare disease products segment during the middle of last year with some new medicines in that category making the list. This was most definitely a step in the right direction and demonstrates that real strides can be made in enhancing patient access to critical medicines.

Behind the scenes, there's also been quite a lot of work going on relating to the rest of the reimbursement list. Dossiers have been submitted and in many cases reviewed and there is a set of products now at the stage where they are awaiting the therapeutic protocols. These are all positive indications. The main issue is the length of time this is all taking to be processed and I think the real factor holding this all up is the identification of a new financing mechanism to fund these new molecules.

So who do you ultimately see as paying for this?

That is the big question that no one yet has a real answer to. The current proposal on the table is that this will mostly be funded through a cost-volume model that runs separate from and parallel to the existing financing apparatus.

Right now there is a reference drugs budget in force that funds products presently on the list. According to the proposal under consideration, financing new additions to the reimbursement list would by governed by an alternative mechanism in which companies are assigned different volume-price deals that would be negotiated on a bilateral basis between each company and the government.

There would also be scope for leveraging other financing channels such as EU funds which is something already under discussion by the troika. The delisting of some other products that have been on the list for a long time, but where reimbursement is no longer considered so essential would also free up additional funds that could instead be diverted towards bringing in innovative molecules. We are still waiting for the entire financing structure to coalesce and for the legislation to achieve ratification, but a clear picture is starting to emerge.

What's positive is we've witness quite a bit of progress in the near past: I think it's fair to say that the industry has changed more in the past 6 months than it has in the previous five years so that pace of change can yield some nice results. The fact we have a defined financing mechanism today is also a significant step. Things may not be moving as quickly as the big pharma companies might

like, but movement is nevertheless detectable.

Usually the costs of R&D are recouped over lifespan of the patent so surely any delay to getting the products on the list is eating into that cost- recovery window. How damaging is this?

This is a massive problem. We are subjected to the lowest prices on a list-price basis across Europe and additionally obliged to pay a claw-back tax of an unclear amount. So, in a nutshell, we have products being introduced far into the patent life at the lowest price across Europe minus whatever claw-back is set for a particular quarter. That results in a return on investment profile that, in the short term, is frankly not very attractive for many pharmaceutical companies.

The reason pharma companies continue to flock to Romania is because they are confident that the 4 percent of GDP spent on healthcare must increase over the long run. Therefore there is a positive investment horizon to be benefited from in spite of the short-term irregularities concerning not enjoying the patent life you would expect. When hedging on a positive investment trajectory in the years to come we mustn't forget that GDP itself is growing steadily so absolute values per person spent on healthcare are bound to increase. There is therefore a strong case for putting down roots, marking time and positioning yourself for a bright future.

The fact that state spending on medicines is partly financed through the claw-back guarantees a level of budget predictability. To what extend do you see these cost-volume agreements you earlier referred to as potentially replacing the claw-back over time?

That has to be a possibility. The existence of a claw-back is not necessarily a bad thing in itself. More important is the gap between the reference drugs budget and the actual consumption in the market. Cost volumes actually represent individualized claw-back. Right now we all pay same fee regardless of our contribution to an increase of consumption. What cost-volume agreements would do is define a certain amount of budget for each particular product so theoretically this could be a decent model to migrate towards.

What's for sure is that the legislation as it is written today cannot accommodate all exiting products moving into cost-volume agreements. Under the legislation as it stands it will even be challenging to accommodate some of the new products given the extent of some discount percentages already in force. Nevertheless, if you analyze how cost volumes have been deployed on some other markets, it could well represent the solution to financing that the Romanian pharma industry has been long waiting for.

Pfizer is today one of the major contributors to investigator-initiated Research. What opportunities does Pfizer see in the Romanian market for clinical research?

From a clinical trials perspective for not yet marketed products we maintain a significant presence in Romania and that footprint is expanding with Romania increasingly considered as a market for investing in R&D.

Typically in most markets you would go for investigator initiated research or marketing surveillance around new products, but Romania is perhaps an exception here because the pathways to getting those products reimbursed are not always that clear in this particular market. Expect this to change though the more we witness a clear opening up of the reimbursement list. Obviously we are keen to understand the benefits and impact of our products on the Romanian population so we can consider fully what new possibilities and options there are in terms of extensions and product optimization.

Beforehand, you alluded to many multinationals as marking time and positioning for the future, but Pfizer has been spotting real time opportunities such as the potential for Romania as a manufacturing hub…

Precisely. We are actually diverting product lines from elsewhere and placing them in Romania to make full use of what we see as a real competitive advantage. Products we were previously manufactured in Denmark and Italy are now being produced here in Cluj.

Romania’s workforce competitiveness is immensely compelling, not only compared to Western Europe but also relative to Central Europe as well. Basically you have a highly educated and skilled workforce, flexible labor legislation, low labor costs and all of this makes Romania an obvious place to invest in manufacturing and other spheres. Many companies are already relocating their service centers to hubs like Cluj.

Pfizer sees Romania as a great country to be investing in for conditioning, packaging and the more manual steps in our production process. Given the educational and scientific level of the workforce there is scope for investing in a whole lot more as well. The human capital is already advanced to the level where it would make sense to invest in full-line manufacturing on the generics side. The innovators have yet to really come and start investing significantly in production facilities, but this will only be a matter of time. Soon you will see Romania scaling the value chain and producing more and more advanced forms of pharmaceuticals.

What is the strategic importance of Pfizer's Romanian office to the company's regional and worldwide operations? And how do your activities interlock with the company's global supply chain networks?

Romania is, without a shred of doubt, one of the most attractive countries in the EU. The labor laws and cost will attract manufacturing in the first instance and crucially what will keep it here is the superior education level of the Romanians and their work ethic. The corporate profit tax scenario is additionally appealing.

Then you also have Romania's role as an export platform. Having acquired and invested in the Ferrosan facility, Pfizer exports products to some 30 odd countries spanning Europe, the Nordics, Russia and Asia.

From a product perspective our profile in Romania is pretty similar to what you would find at the global level with strength in the rheumatology and cardiovascular therapeutic areas and a fast growing oncology business that over next 12 months should realize some real gains.

Ideally we would like to see more progress on the vaccines side because preventative medicine is not as well established as in many neighboring markets. We have heard some positive noises in lawmaking circles that hint at a newfound appreciation of the cost-benefits preventative medicine can bring, but have yet to see this materialize into action. We understand, for example, that there are attempts afoot to introduce new legislation that would make certain vaccinations for children mandatory. We will have to watch how this progresses.

Pfizer, meanwhile, is confident that it can make a big contribution to this domain and by that I mean not only producing the vaccines themselves, but also in promoting prevention programs and raising awareness across the public and medical community as to the importance of vaccinating against infectious disease. We have communicated to the authorities our willingness to contribute to such endeavors and to play a broader role in promoting medical innovation and education.

How do you see Pfizer developing in Romania over the next four to five years?

We are currently ranked number 5 on the Romanian market. Our goal is to ensure a clear understanding of the value of our products both among physicians and patients. If both constituent groups truly understand this, then we will surely witness a corresponding growth spurt in both revenues and market share. It is therefore a priority of mine to invest in engendering greater understanding of our product portfolio and the material benefits that our therapies deliver.

The evolution of Pfizer within the local market will additionally depend upon the maturity of new up and coming areas such as vaccines and oncology where there remains a great deal of latent potential to be realized. Pfizer strongly aspires to have new products in each of these categories on the local market and the role of the state in investing in these therapeutic areas will be a critical characteristic in expanding our share. I am quietly optimistic this will ultimately happen.

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