

## Christoph Heider - President, ECCK, South Korea

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*Christoph Heider, president of the European Chamber of Commerce in Korea (ECCK), discusses the organization, the need for the modernization of the Europe-South Korea Free Trade Agreement, and the future trading relationship between the two economic powerhouses.*

**Mr Heider, when we interviewed you previously in 2014, the Chamber was only two years' old. At that time your main goal was the creation of a fully functional organization by increasing the number of committees and members. How has the situation progressed since then?**

Over the last four years, the chamber has developed well, following a step-by-step approach, as a solid financial structure needed to be established before enacting any operational change and defining new projects. At end of 2013, we had 220 members and seven committees, while now we are close to 350 members and 20 committees. We are planning to set up even more industry groups to increase our coverage. For example, the healthcare committee was launched at the end of 2013 and now has about 12 multinational members, a number that will increase to 15 by next year. Probably the most important achievement was the launch of the first White Paper in 2015: the recent edition became even more substantial thanks to the contribution of 110 experts and to the wider stakeholder reach. Indeed, this time around, we will meet with the Korean government to physically hand over the white paper and we will reach the European Commission, the European Parliament, the European Federation of Pharmaceutical Industries and Associations (EFPIA), the

European Free Trade Association (EFTA) and other various business interest groups. On November 27<sup>th</sup> we will host a press conference to publicize the results of these meetings and the response we received from the authorities.

### **What are the issues presented in the white paper?**

The white paper presents long-standing issues for European Pharma companies and, more generally, European companies in Korea. Firstly, multinational pharmaceutical corporations demand more patient access and the abolition of the discriminatory policies implemented by the Korean government which strongly favour local players. Secondly, European pharmaceutical companies expect adequate financial compensation for innovative drugs. This has remained a contentious issue since 2012 when a 20% price cut on off patented products was implemented. This not only damaged the main pharma actors but also caused a major headcount reduction. Due to the reference system, pharma companies cannot launch the product in another OECD member country at a better price if that country has chosen Korea as a reference. The result is that some companies decide not to launch certain products in Korea, leading to a situation where innovative drugs are available on the global market but not here, to the disadvantage of local patients.

Another critical point is the modernization of the Korea-EU FTA from 2011. The situation has changed in the past seven years: at that time artificial intelligence (AI) and big data were not hot topics, but our society has dramatically changed. This means that while the text of the FTA was indeed 'state-of-the-art' at the time it was agreed upon, this is not necessarily the case anymore.

### **Do you think that the government is taking the right steps toward the modernization of these trade agreements?**

Sometimes, they are too focused on the trade balance. It was positive for Korea before the signing of the Korea -EU FTA, after which a deficit was recorded until the end of 2017 when Korea again ran a very small surplus. For years public opinion considered the Korea-EU Free Trade Agreement as the main cause of the accumulated trade deficit; However, the trade balance should not be the sole indicator, especially considering the implementation of international supply chains. For example, Switzerland has a dramatic trade deficit with Korea, as a Swiss company contracted out manufacturing to Samsung Biologics. In the tech sector, Samsung moved all the smartphone production from Korea to Vietnam. Hence, the smartphone exports from Korea to Europe, that once

accounted for several billion dollars are now zero. The public discussion is so focused on trade balances, while it cannot be considered the only indicator on the trade situation between two countries. Governments should be open to international competition.

**While European players have always been one of the main pharma R&D powerhouses, Korean companies have been historically competitive in the manufacturing of generics. How has this situation changed?**

Korea is performing well in this sector and the generics market will continue to grow, offering products at an affordable price. Regarding innovative pharmaceuticals, I am less optimistic, as it is unlikely that new players will disrupt the market. Finally, the development of small-medium enterprises is uncertain. The government is pushing SMEs with a view toward higher market diversification and the development of a healthy start-up environment. It is certainly a challenging and lengthy process, but in the future, we may observe more Korean small-medium enterprises, which, in contrast with the European definition, can also have 2000 to 3000 employees,

**The Ministry of Health and Welfare has the intention to promote R&D in Korea, by granting preferential treatment to the products developed here. How do you comment on this? Will these provisions incentivize MNCs to increase local investments?**

Until the 1990s, companies were decentralizing R&D facilities: it turned out to be inefficient and far too expensive. Consequently, in the early 2000s, we witnessed a consolidation process, with the creation of major R&D centres of expertise and the establishment of partnerships for the discovery of new active ingredients. Nowadays, it is impossible to handle research alone in the market. It is necessary to act strategically. The situation is different for clinical trials where Korea is particularly strong due to its infrastructure and the abundance of talents. The great majority of international companies are still conducting trials here, also because the law stipulates this as a prerequisite for product registration.

It is unlikely that there will be any multinational corporations launching products in Korea before other markets since the reimbursement is around 50% of the average OECD level and the market is too small to enable the recovery of drug development costs in the first years after launch. The choice of market is a function of demand, market size, and profitability. The strategy of the Korean government to boost innovative products impedes fair competition, as realistically no multinational

player will be able to fulfil these criteria.

**How does conducting business in Korea differ from conducting business in Europe?**

**What are the main challenges encountered by your members?**

Giving back to the society has a central importance in the Korean culture and companies need to implement CSR practices, not only as empty words in the annual report but as practical, implemented, measures

It is a difficult question, as it depends on the industry and on the sector. The main barrier remains the language. While foreign brands are highly appreciated, this necessitates a trade-off. Indeed, foreign companies need to deliver and satisfy high expectations. Moreover, in the case of a negative event, the public backlash is stronger with given the strength of the activity of NGOs and consumer associations who are highly involved in the government's decisions.

In addition, Koreans expect companies to pay back to society. This aspect of giving back to the society has a central importance in the Korean culture and companies need to implement corporate social responsibility practices, not only as empty words in the annual report but as practical, implemented, measures. The importance of CSR to tackle the Korean market needs to be clear to the headquarters, as too often is one of the sectors subjected to cost-cutting measures.

**How do you see the future of trade between Korea and Europe?**

I would like to see steps towards the harmonization of international rules and regulations so that it is necessary to perform just once the administrative tasks and the same documentation for product registration and launch can be applied in Europe and elsewhere. Only after this will more innovative drugs become available in Korea.

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