

Interview with Anthony Ch. Sunarjo, President, GPFarmasi

21.09.2009

Tags:

[GPFarmasi](#)

Local firms have assumed an increasing role in the Indonesian pharmaceutical market representing today more than 75% of the market share and being able to provide over 90% of the medicines required by the population. What have been the main drivers of this change?

The Indonesian pharmaceutical industry started in 1975 when the government imposed multinational companies to have a local manufacturing facility to obtain the license to distribute their products. In addition to that, multinationals, that at the time were merely importers, had to produce finished products and at least one raw material. Because of the high level of capital investment required, many international companies, mainly among the European ones, decided to create joint ventures licensing local companies to manufacture and sale their proprietary products. The technological spill-over and the necessity to develop a local managerial class able to better understand the local market, created the necessary conditions for local entrepreneurs to start their own activities in the pharmaceutical industry. While the development of local companies has been a gradual process for the first 15 years, for instance in 1991 MNCs still controlled over 70% of the market share, it has increased dramatically in the last decade, reversing the situation and giving local companies 75% of the entire market share. The rapid increase in the last years has been due to two main factors: the learning curve in production and administrative capabilities acquired by local companies and the drying-up of pipelines of multinational companies that have progressively reduced the number of new medicine introduced in the country. In parallel the development of technology and a more transparent regulation, introduced since 2001, has permitted the local companies to accede to more accurate data regarding patent expirations, WTO regulations and market statistics. Even though local companies are dominating the market, most of them are still producing undercapacity, they are not vertically integrated and only few have GMP standards.

What do you think are the main bottle necks limiting the expansion of the industry beyond the country's borders?

The main reason why the success of local companies in the domestic market is not replicated abroad depends on the different regulations adopted by the other countries. For Instance, while only PICs members can register their products in Malaysia there are no such restrictions for Philippines or Thailand. On the other hand, Thailand and Philippines are still very dependent on multinational companies, not only in the manufacturing process but also in the distribution and marketing policies, whereas Indonesia is different. Local companies have already over a thousand proprietary registered drugs, mostly OTC and branded generics, we have a sound distribution system and we were the first country in the region to establish international agreement as we

initiated this process already 35 years ago. The main constraint for the local industry to really take the lead and start a faster developing process is the absence of financial incentives. For example, I believe that even if the 30 Bath is not the best policy, it still guarantees a system which is more advanced than the Indonesian one. GP FARMASI which is the one and only formal association in pharmaceutical industry in Indonesia based on The Ministry of Health decree N. 222/Kab/BVII/69 dated October 3.1969- for many years already has been asking for the release of the sale-tax and the implementation of a social security system. The main issue to face is not to reduce the price of medications but to increase the purchasing power of the citizens which can properly be achieved only by introducing an appropriate insurance system. Presently the government is subsidizing over 70 million people among the lowest income citizens; therefore, the 10% of the \$2billion sales of the pharmaceutical industry are a necessary resource for the government. The policies adopted by this government are oriented to increase the conditions of the population, which is ultimately the main goal of any government in the world and GP FARMASI supports it. However, it does not mean the pharmaceutical industry should always be regarded as the "bad guy" and constantly blamed for everything. As a chairman for the last ten years I realized that the Ministries of Health, always with a medical background, have high concerns about the necessity to increase the current conditions of public health and make it one of the success stories of this administration. In this respect there is still no dialog between the sector and the government. In the pharmaceutical industries companies have been used to these conditions for many years and we have been able to survive and to grow without fiscal incentives and continuous price cuttings. We do not expect a reward for the contribution the pharmaceutical industry has brought to the community, however a fair treatment and good financial schemes, among those insurance, will bring benefits to the entire community and ultimately to the public finances as well.

If the government has such a populist approach how do you explain the expenditure for health care is just 2% of the GDP?

Before becoming a member of the parliament I was asking myself the same question. However, since I joined the Chamber I can say to have a more comprehensive picture, in which it is clear that the government has to protect and to invest in many sectors that are still highly dependent on governmental funding. Among those healthcare is not the number one priority. The current focus is increasing the level of education, an argument that I challenge as people should be healthy first and then having the chance to study. On the other hand, as a private citizen, I have to admit that the price of medicines is high and every time a patient goes to the doctor has to pay a price ranging from Rp 300 to Rp 500 thousands, which in many cases represents a price out of the range of their possibilities. A situation that forces the government to establish subsidies that presently accounts for one third of the total budgetary expenses of the government.

In this respects, what is the role of state owned companies?

The role of state owned companies is not clear anymore. Even though the initial intention was to create a group of companies able to provide medication to supply citizens with lower income they have been growing at high rates and now they are all public companies with a very business oriented strategy. So there is lot of bias in that. Another controversial topic is today represented by the Ministerial decree 10/10.

What do you think will be the impact on local and multinational companies if this decree will come through?

The real intention of the Minister of Health underpinning the issue of the decree 10/10 is that she wants to protect the local companies and further develop the production base, a similar approach taken in 1975. This initiative is not totally aligned with the guideline proposed by the FDA and as the

regulation will require having a manufacturing facility to obtain the license from the FDA, this will not only impact just the multinationals but also the local companies acting as importers or distributors.

With more than 75% of the market occupied by local companies wouldn't it be better to develop a solution to reduce the dependency on APIs and raw material imports?

The shortage of raw material in Indonesia and the rising price of APIs from India and China is one of the major problems GP FARMASI and its member have been facing in the last years. Although as aforementioned the government during the 70s required multinational companies to produce at least one raw material, a lack of a clear regulation and directives toward which materials should be produced has limited the expansion of this business and very few companies are presently acting in this direction. In addition to that, there is a lack of strategic vision from the companies' side. To implement a cost effective API manufacturing plant it is necessary to target the whole world and not just the domestic market otherwise it will be impossible to meet the economies of scale necessary to guarantee the profitability of the business. In the last forty years Indonesia has been seen as a very promising potential market for the pharmaceutical industry.

As Local companies have already proved to have efficient manufacturing capabilities, do you think domestic firms are ready to take a step further, to operate under GMP standards and become a regional reference?

From the manufacturing side, at least among the large corporations, Indonesia is ready to obtain GMP standards and to achieve the necessary scale to produce and serve the region. However, this paradigm cannot yet be applied to the R&D sector because companies are mostly oriented to branded generics production, there is no research center or investments from the public sector and the human resources are still inadequate. Indonesia should learn from India and China, we should start producing raw materials and increase the quality whilst gaining efficiency with time, as the pharmaceutical industry is by definition long term oriented. On the other side, local companies are still focused into the domestic market, which considering the growing and aging population, the increasing income and the fact that the drugs consumption is still one of the lowest in the region, represent still a very promising market.

Similarly, due to international economic condition and the current credit crunch, is difficult for local companies to raise capital without going public ?

as the cost of borrowing is among the highest in the world and I can say that at least for the next five years the focus will remain the domestic market. What will represent a major shift in the sector is the implementation of the social security system approved last year which should come through by the end of 2009, after being shortly being revised. As there is no further space or economic feasibility for a subsidized system, the insurance is the only solution left. Indonesia is the country without social security system and this is has to be changed.

With a life spent in the pharmaceutical industry and recognition from the private and the public sector what keeps you motivated?

Proposing something better for the country and the people. During high school I was already very active in the student associations, a passion that I cultivated during my university studies even though I didn't have the chance to stand out as I have Chinese origins. After Suharto's time, many changes occurred and presently there are many Chinese in the cabinet or have the presidency of public entity, which once again proves Chinese are an asset for the country and not a liability.

[See more interviews](#)
