

Interview with Nelson Mussolini, Executive Director, SINDUSFARMA – Sindicato da Indústria de Produtos Farmacêuticos no Estado de São Paulo

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Many readers may find it counterintuitive that SINDUSFARMA, which represents syndicates, is organized by a team of management executives. Historically, these two groups tend to be in opposition. Can you explain this relationship?

Until 2004, relations between unions and industry were undertaken by FIESP. At that time, they also took care of other industries, such as plastics, chemical products, and animal health. Our business is completely different from those. In short, it's more complex, with price controls, highly specialized blue-collar workers, and a different cultural vision. There are also more multinational companies, accounting for 55% of the market. There are different standards and different benefits as well. In 2004, we needed to change negotiations, and began to have a direct dialogue with unions and their workers. In negotiations, now, SINDUSFARMA has a very good position. In Brazil, there are different segments of the union, and different federations of syndicates, organized by city. For negotiations, we need to discuss with the union in all cities. Three or four unions represent one federation, and SINDUSFARMA comprises four federations.

In a past interview, you spoke about the industry and said the following: "The focus of the question is not arithmetic, addition and subtraction. The primary goal of sectoral policies should be to develop skills and advantages, to create a strategic and innovative comparative advantage to leverage, at once, the technological, economic and social development of the country." • What are some of these levers to which you refer?

Sao Paulo is by far the most important pharmaceutical centre in Brazil, and accounts for some 80% of the industry and very important universities. Sao Paulo is a traditional centre of industry, and 70% of Brazilian GDP originates here. The position of SINDUSFARMA is a legal association, by law. We have a very strict link with the government, different than, for instance, ALANAC or Interfarma, because we have to represent the Sao Paulo industry in front of the government. All pharmaceutical companies in Sao Paulo are represented by SINDUSFARMA. We have associates and non-associate collaborators, we negotiate with ANVISA, unions, tax authorities, and have a broad spectrum of influence.

You mention tax authorities. Brazil has a 33.9% tax burden on medicines. Why does a country which is growing so quickly maintain such a high tax burden?

We don't understand why. It's completely crazy. Looking at the rest of the world, the average rate is 6.3%. In many countries, like the US, Canada, and the UK, the number is 0%.

Is there a hidden or embedded tax in some of these other countries? What's the rationale of such a disproportionate figure?

I think it's easier to collect taxes from the pharmaceutical industry. We have a very specific market, not a lot of companies, and a system to collect taxes more easily than others. Pharmaceuticals are sold only in pharmacies. Compare this to, for example, salt - ubiquitous, and taxed at less than half the rate of pharmaceuticals.

Starting January 1st, Brazil is led by a new President, Dilma Rousseff. What has been the reception to the change in leadership, and what is this new government doing to help, for instance, with tax reform?

In the campaign, SINDUSFARMA talked with Dilma Rousseff about tax reform, because medicines are a first necessity for a healthy population. Of course, the government promised that this would be the first act of government, to change this tax. But, when they enter power, there are many bills to pay. The fact remains that pharmaceutical tax is a very important source of revenue. There is a further problem in the way taxes are levied. Brazil is a federation, but taxes the equivalent of VAT are partially collected at a state level. For example, of that 33.9%, states receive 18%.

What recommendations would you make - not only in changing the number, but in the way it is administered?

The argument by government in Brazil is that we need to have a big tax because people don't comply in payment. 10 years ago, I might have agreed with this position. But now, there are many more information systems, such as those in the Treasury for instance. Now, Brazilians pay much more tax than 10 years ago. Why? Because more people pay tax. It's our idea and our position that now the government can safely reduce taxes simply because more people pay them. Direct taxes, on the other hand, need to be stopped entirely.

We pay taxes on investments. When you buy a machine to increase production, we again pay taxes. When we get a loan from the government to invest in production, we pay tax. This is a big issue. When you look at the total tax paid in Brazil compared to, say, Europe, it's more or less the same. But in Europe, taxes are paid on profit, whereas in Brazil, taxes are paid on both profit and production.

The "salami tributaria", as we call it - the pie chart - is very complicated. The bureaucracy to pay taxes is very complicated. You need many people to manage the payments. At the end of the day, it comes down to whether a society would rather train its people to produce, or how to pay tax. It's the system, more than the tax itself, which needs to be reformed in Brazil. The problem is that it's a very heavy machine.

In Brazil, there is a good situation with regard to regulation. For example, with ANVISA. Pharmaceutical companies have good plants, products, bioequivalence, and biopharmaceuticals. Our industry is competitive compared to other countries because the rules, in general, are the same. It's comparable to soccer. It's possible to be competitive internationally, to play for the World Cup, because we have the same rules as every other country.

Another situation that's good is stability, both political and economic, and that in Brazil problems in one do not contaminate the other, unlike China, Russia, Africa, or India. Looking at the BRIC countries - and I'm not saying this just because I'm Brazilian. It's much more comfortable for capital. There are no problems with government bureaucracy like Russia or China, or the religious problems of India.

It's interesting to look at one of the countries you mention, China, because in the first half of 2010, they exported over \$10 billion in API, compared to Brazil, for the whole year, all pharmaceutical-related exports totaled \$1.6 billion. Where's the disconnect?

The factor is price. Brazil has very high prices compared to China. Why? Because of social systems. In Brazil, the government supports the older man. In China, the son pays for his father. It's completely different. The Brazilian government injects more or less \$200 billion per year into the retirement system. China doesn't put a dollar into comparable social issues. Instead, they put it into infrastructure like airports, roads, ports, and rail. We don't have these same resources to allocate, and it's a big issue.

When our executives in FIESP in CNI (Confederation of National Industry) look at, and make comparisons with China, the first thing I say is "stop" because it's completely different. In China, the government is partner of all business. The government has money because they put money in infrastructure instead of people. We have a very stable situation compared to China. In 10 years, it's very clear that China has to create systems to guarantee retirement, health, and other human welfare issues. In contrasting GDP growth as well, Brazil's advances at 4-6% annually may be lower than a 10-12% in India, but you need to compare the same base.

We spoke with Jose Correia da Silva at ABIQUIFi who stressed the focus on internationalization as opposed to merely imports vs. exports. What's your opinion on the matter?

I agree completely with him. Looking at other countries in the world - US, Canada, most of Europe, etc. - it's normal for a negative pharmaceutical trade balance. It's different in China, India, and Ireland. It's natural to import more pharmaceutical products than export, because you need capacity and economies of scale. It's crazy to say that in order to compete we need to create a pharmaceutical industry in Brazil. We don't have markets for it in Brazil. We need to produce and export products here for Latin America, Asia, and Africa. These are our markets and it's foolish to believe otherwise. Africa is an easier and more comfortable market for Brazil, where among other advantages, in countries like Angola and Mozambique, we speak the same language.

And why would those countries, on their end, choose Brazil?

Quality and bioequivalence - China and India simply do not have bioequivalence in their final products. Other South American countries produce similar, but not bioequivalent, products. Brazil's are chemically identical. That's the difference. We need to exploit more of these situations, in our GMP.

What would the development model look like going forward? One model is that undertaken by companies like GSK, who entered into a \$2.2 billion contract in 2009 to produce the Synflorix vaccine. In that carrot and stick model, the former is controlled access to a captive market of 200 million people, and the latter is the technology transfer. Is this type of development model replicable?

I think it's replicable, but it's only one leg of the body. We receive this technology, and it's very important for the future. But it's not the only solution to the problem. Because normally, in this context of technology transfer, the end result is technology that will only be used inside Brazil. In our business, we need to export products, we need to sell our products to other countries. It's important for the government to receive the transference of technology. My position is against making agreements with official laboratories, because I think it's necessary to remain competitive. It's important for the country to have transfer of technology to private companies, not only for the government. But, it's a way - and for the government, perhaps the only way.

What is your final message to Pharmaceutical Executive readers?

The pharmaceutical industry is now much more important than it was 10 years ago. You have a market that is developing fast, and for SINDUSFARMA this is very important because when our associates grow, we grow with them. Our association has 78 years of history representing a good

industry, whose companies now happen to be worth 20X EBIT. Because of this, it's normal we receive international interest in the Brazilian pharmaceutical business. But 10 years ago, this kind of international exposure was unheard of.

Starting in the 1940s the industry began in earnest. The US and Europe were already ahead by 100 years. Until 20 years ago, the quality of Brazilian companies was poor, and so was the market. Now, we have the quality, a very important market, and very important rules for pharmaceuticals.

When you look at Brazil over the last four years, the changes are enormous, even in small percentage changes. If you have 4% of the poor people in Brazil change from what we call class E to class D, it has a significant change in the market, with only 10% of the population. On a global scale, international pharmaceutical companies are increasingly interested in Brazil. Why was Teuto bought by Pfizer? Market access. Market share. They are buying access to a poorer class.

Look at the success of Eurofarma. They advertise only for doctors who treat C and D class patients. They don't advertise for doctors on Avenida Paulista or in Hospital Das Clinicas. They target the periphery and the suburbs. Because now, there is a new class of consumers. Higher employment brings not only social security but private security, too. With private security, when you have a headache you go to the doctor. When you're an employee and you have a headache, you go to the company medical centre.

In the past, Brazil experienced inflation of 2000% per year, or 80% per month. In those days, when I received my salary, I needed to go very fast and spend it, or put it overnight in the bank, where I would be paid 3-5% daily interest. In one week, prices changed completely. That was 25 years ago. My son, now, doesn't understand inflation. For me, inflation is a big, big issue. When you look at inflation numbers now, if they increase from 4% to 5%, I say, my goodness, that's a 25% increase! It's quite high. For my son, it's 1%! What we have here in Brazil, now, is a very good, stable position, both political and economical. Just look at how we weathered the crisis.

The final message to the international community is to look for Brazil. We are not the country of the future - we are the country of now. We have the market, we have the policies. We have a stable government and financial situation, and our regulation is the same as the best countries. When the market grows 20%, as it has in the last year and will do again this year, it's a good sign for the future.

If you had asked me these questions 10 years ago, my answer would be completely different, to put your money in another country. But if you look now, it's a very good place to put your money. Capital likes stable countries. And now Brazil is a stable country.

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