

RUSSIA SCALES ITS EFFORTS TO REDUCE DEPENDENCE ON FOREIGN DRUGS

The “Working Group on Preferences for Domestic Producers”, chaired by Vice-Premier Olga Golodets, will soon approve the official position of the Russian government on the admission of foreign manufacturers and their preferences for domestic companies in government procurement programs. The working group is proposing several standardized plans designed to assist and bolster Russian pharmaceutical companies.

The idea to reduce Russian reliance on foreign pharmaceutical companies and increase Russian domestic pharmaceutical research and production is not new. The concept is part of the “Improvement in Public Health Policy” decree that was signed in 2012 by the then newly re-elected president Vladimir Putin, who set an ambitious goal of locally producing 90% of “vital and essential” medications by 2018. His mandate also called for transitioning to GMP standards by 2013. The latter task has yet to be implemented - to date less than 10% of local Russian manufacturers adhere to international standards.

It is quite apparent that the recent political standoff with the West has intensified the calls for aggressive policies that would support and stimulate the Russian pharmaceutical industry to become internationally competitive and increase its R&D efforts. However implausible, a few sources within the Russian government have gone as far as to suggest that the West may decide to curtail the supply of vital medicines as part of forthcoming new sanctions.

By mid-2015 the practice of foreign pharmaceutical companies locally packaging medications will lose its protected status of being considered domestic products. Furthermore, locally manufactured pharmaceutical products, formulations, substances will experience an increase in preferential treatment and consideration by the Russian government. Foreign manufacturers of branded and patent protected drugs are likely to experience increasing governmental and popular pressure to transfer manufacturing to Russia. There are even talks of “compulsory licensing” for foreign drugs whose manufacturers decide against local production.

Furthermore, January 1st, 2015 will mark the beginning of a national campaign to curb “import reliance” via exclusion of foreign drugs from state tenders if these products are provided to the registry by two “domestic manufacturers” with the same or similar products. In this setting “domestic” means any manufacturer from one of the national members of the Customs Union that includes Belarus, Kazakhstan and Armenia, countries with essentially non-existent pharmaceutical manufacturing and R&D capabilities.

Our analysis

The aforementioned initiatives and potential policies have led to a significant rise in anxiety among Russian patients and the public in general. Since nearly 80% of pharmaceutical products are currently being produced abroad, the justifiable concern about the quality of domestic products, current efforts appear to be politically motivated. These political strategies and posturing may result in the sudden unavailability of high quality essential and vital medications. As the Russian pharmaceutical industry is mostly producing knock-off generics of foreign medications, which are frequently outdated and

obsolete, there is also a valid serious concern about the availability of novel treatment options in the near future.

Nevertheless, we expect a sizable decline in sales of foreign medicines in the short term moving forward. While at the same time, foreign pharmaceutical companies that have taken the time and invested to establish local Russian manufacturing and packaging facilities should see a very substantial increase in domestic Russian sales.

Although foreign investments into Russia are dwindling overall, the strategic investors who are not risk averse and decide to maintain or establish market presence in Russia either through establishment of local manufacturing or through mergers and acquisitions with Russian companies may end up with significant mid- and long-term returns.