efpia
European Federation of Pharmaceutical
Industries and Associations

The President

Mr Jean-Claude JUNCKER
Prime Minister
State Ministry
4, rue de la Congrégation
1352 Luxembourg (Luxembourg)

20 June 2012

Dear Mr JUNCKER,

**EU GROWTH SUMMIT**

Innovation is vital to any successful long-term economic strategy. I am writing to ask that during the European Council in Brussels on 28-29 June, you and other EU leaders show your support for pharmaceutical innovation as one of the key platforms of a growth programme for Europe.

Europe is already a world leader in the pharmaceutical sector, built on decades of investment and on the great foundations of European universities and intellectual leadership. However, other locations such as the US and certain Asian countries, present increasingly strong competition. In these extraordinary times for Europe, its economies, and its citizens, business as usual - cost-containment policies that create market distortions - will drive investment elsewhere and consign Europe to a gradual decline, to the second rank of the new global order. A more vigorous industrial and innovation policy is needed.

Pharmaceutical innovation contributes to economic growth in two key ways. First, it delivers a healthy population and therefore a more vibrant, productive workforce. Second, it is a source of huge investment in university research, SME spin-offs, and industry laboratories. EFPIA members spend €27.5 billion per annum on Research and Development in Europe, provide 660,000 jobs directly, and generate an EU trade balance surplus of €48.3 billion. The pharmaceuticals sector is by far EU's most R&D intensive industry. This is an industry where Europe has the foundations, if it chooses, on which to build a great industry for the future.

Europe must avoid complacency – past actions will not guarantee future success. A more vigorous industrial and innovation policy is needed. Member States and the Commission must focus on how they can help encourage individuals, universities, start-up companies and large-scale industrial organisations to focus on innovation, invest for the future, and create products to fulfil unmet medical need.

The best way to support innovation is to use innovation and reward it by paying fair prices for added value. My industry has significant concerns about the implications of pharmaceutical pricing and reimbursement policies that are being implemented across the EU. These policies take a short-term perspective, and fail to strike the right balance between managing budgets and securing current and future patient access to medicines and vaccines. They undermine both patient benefit and the status of Europe as a home for innovation.

It is ironic that many EU Member States use various incentives to attract R&D and manufacturing investment, but then create hurdles and market distortions that prevent innovative medicines from reaching patients. This approach is short-sighted, as industry investment will ultimately migrate to those countries where innovation is welcomed.

EFPIA members fully understand that in the current financial crisis countries need to take steps to control public spending and restore fiscal credibility. They have worked with governments to bridge funding gaps. In just five countries (Greece, Ireland, Italy, Portugal and Spain) the pharmaceutical industry has contributed, through price-cuts and discounts, more than €7 billion for the years 2010 and 2011. This represents more than 8% of the industry's turnover in those markets on a yearly basis.

A key concern is the cross-border impact of measures taken. Most importantly, the practice of referral to other countries when setting prices for medicines, results in inefficiencies and sometimes in limited supplies. Where the industry has agreed to temporary price cuts to bridge funding gaps (e.g. in Greece or Portugal) other countries not subject to the same financial pressure automatically lower their prices. For example, some 26 countries inside and outside Europe reference their medicines prices to Greece in some way. According to 2011 Global Insights calculations, a 10% price cut in Greece cost industry €299 million in Greece, but €799 million in Europe (i.e. almost 3 times more) and €2,154 million worldwide (i.e. more than 7 times more) if we include all countries re-referencing Greek prices through formal and informal links. The impact of a price cut in Greece therefore resonates across the EU and globally – the implications for the R&D-based industry are clear.

The other major impact lies in re-exportation of pharmaceutical products from lower-priced to higher-priced countries. Recent months have seen a significant increase in this arbitrage trade, which is the result of market distortions caused by pricing policies. One immediate impact is a shortage of medicines for patients in countries such as Greece and Romania. There is a genuine risk of supply disruption in several countries.

Europe must ensure that it does not slip into a position where it simply focuses on acquiring at the lowest possible cost and destroys the incentivisation for innovation that leads to breakthrough medicines and delivers high-value jobs.

The pressures on pharmaceutical innovation in Europe are now immense - investors are signalling that investment in innovation is less attractive. This has worrying implications for patients and for European growth.

Europe can take tangible steps quickly to address the short-term challenges:

- Member States can agree to exclude countries that are undergoing fiscal restructuring programmes from the basket of countries to which they refer in setting medicine prices.
- Member States, which have committed to regaining sustainable public finances, can put in place temporary bans on re-export of medicines to higher-priced countries to prevent supply shortages for their citizens. The Commission should accept this temporary response to an emergency situation.
- The Troika should continue to place a high priority on repayment of debts for past supply of medicines and vaccines – there have been encouraging trends in countries such as Spain, but overall levels of debt remain a significant concern.

These measures would deliver tangible relief and give a very important signal about Europe's support for pharmaceutical innovation, while ensuring fair patient access to innovative medicines. They could also provide a platform for further discussions at national level on a more strategic approach to supporting innovation and managing cost-containment. We need to solve difficult questions in a way which is economically viable, maximises the possibility for patients to get access to the medicine from which they could benefit, and balances the need for value for money for the payor with the need for innovation incentive for the supplier.

EFPIA companies have worked very hard in the Member States that have had the biggest challenges to try and ensure continuity of supply. The industry is fully committed to working with stakeholders in Europe to ensure that we deliver new medicines and vaccines for our citizens, underpin much of our academic infrastructure in universities, and create and secure important jobs across Europe.

Yours sincerely

A.P.Witty

Sir Andrew Witty
EFPIA President