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Three challenges face investment in drug market

Egypt's market for pharmaceutical products is estimated at EGP22bn of which 32% is controlled by the state-run Holdipharma

By AHMED SHAWKY

For almost thirty years, Egypt's state-run Holding Company for Pharmaceuticals was the sole investor in the local drug market. Some of its affiliated companies, however, have been liquidated under the privatization scheme of former president Hosny Mubarak. Their assets were sold off to foreign pharma players, which acquired either the entire shares or governing stakes in some affiliates.

Over time, both foreign and local private sector players have accumulated influence over the local pharmaceuticals market at the expense of state-owned rivals. Some industry officials even assert that certain investors do exercise monopoly over specific genres of pharmaceuticals and dominate pricing and market policies.

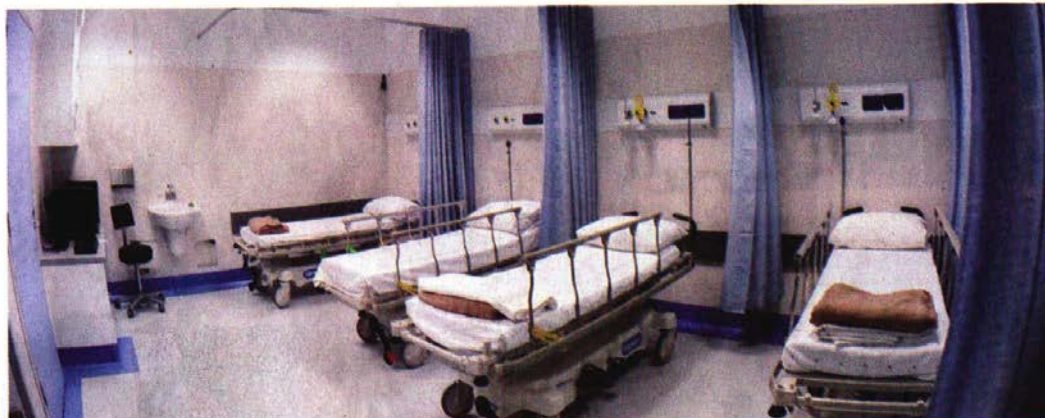
Despite these developments, the Holding Company remains the sole outlet for the state to supply the market with subsidized medicine at prices sometimes lower than the actual cost of production. The company also guarantees supplies of medicine to state-run hospitals and the General Authority for Health Insurance, hence the demands by some healthcare officials for improving the performance of the company's affiliates, especially in pricing policies, to curb losses. Others, however, urge for partnerships with international pharmaceuticals producers for churning out new products for the local market and overcoming the impacts of bad pricing policies.

The holding company has eight subsidiaries for pharmaceuticals production: Chemical Industries Development (CID), Nile Pharmaceuticals, Memphis Pharmaceuticals, Mistr Co. For Pharmaceutical Industries, Kahira Pharmaceuticals & Chemical Industries, Alexandria Pharmaceuticals, Arab Drug Company for Pharmaceuticals and Chemical Industries, and El Nasr Company for Pharmaceutical Chemicals. In addition, the company owns two affiliates for distribution of medicine and another subsidiary for production of chemicals, packets and medical requirements.

The Egyptian market for pharmaceuticals amounts to EGP22bn a year in addition to EGP8bn in stocks and production inputs, according to Mohamed Ahmed Hussein, the managing director of the state-run Egyptian Pharmaceutical Trading Company. As the largest state-run distributor of medicine, his company's turnover is estimated at EGP5.5bn a year, making up 25% of total drugs sales. The company distributes local and foreign-produced drugs as well as products of private sector players.

"The holding company's market share is estimated at 30%, with the majority distributed through Egyptian Pharmaceutical Trading," Hussein said. Private sector players distribute the remaining portion. Holdipharma's share of local drugs production ranges from 12% to 15%, he said, adding that monopolies do exist but are very limited in size.

"Some of the brands monopolized by local or foreign private sector companies find their way to the market as generics under a different



Drugs industry shows hunger for capital, raw material producers

The market grows at 12% a year despite adverse conditions on pricing policies and uptick in foreign exchange value

By AHMED SHAWKY

Egyptian pharmaceuticals business group is promoting the March economic summit, citing recent acquisition of labs as evidence on profitable opportunities for would-be investors. Vice-Chairman of the Chamber of Pharmaceutical Industry Dr. Osama Rostom said that the Chamber has promoted the economic conference so that investors are reassured since the Chamber is a representative of the pharmaceutical industry in Egypt.

He pointed to the negotiations between some investment funds in Egypt and investment companies that actually began to move for acquiring a number of pharmaceutical factories to invest in them, which shows that the investment climate in Egypt is attractive and achieves growth for the investor.

Rostom stressed that the general atmosphere in Egypt is attractive for investment in the field of pharmaceuticals, as the sector achieves a 12% annual growth rate despite the problems it experiences, which is in the form of the compulsory pricing of medicines and the invariability of this pricing

brand name but with similar composition and indications," he remarked. Egyptian imports of medicine range from EGP3bn to EGP4bn a year, Hussein estimates, noting that local producers control the majority stake of the market.

He points out that his company imports some pharmaceutical products and strategic nutrition supplements, such as insulin and dairy products. But subsidiaries of the state-run holding company and some private sector players are generally ill-prepared for competition in overseas markets.

He attributes the weakness of Egyptian drug companies and their inability to qualify for complex quality requirements of foreign markets to the losses they incur from the policy of low-pricing. "Egyptian companies also face difficulties in spending on advertising and promotion due to liquidity shortages," he argues.

Holdipharma is a loss-making company due to low-pricing policies, according to Hussein, who notes that prices are usually lower than the cost of production. "Various factors exacerbate the problem, including increasing worker's

for a long time, as well as the recent rise in the value of foreign currencies, especially the dollar as a result of the depreciation of the Egyptian Pound; which raises the cost of the pharmaceutical industry because raw material is bought from abroad.

He indicated that there are projects that will be presented during March's conference and that constitute a high priority for the pharmaceutical sector in Egypt. These projects are in the form of establishing a factory for manufacturing pharmaceutical raw materials, which are used by the pharmaceutical factories and which are currently being imported. He said that the implementation of this project will make Egypt a center for the export of raw materials to the countries of the world.

He pointed out that this project will be implemented through a partnership between foreign and Egyptian capital, while stressing that the economic conference will not be limited to offering investment projects, but that it should promote Egypt and send a message of reassurance to the investors saying that the situation is stable and suitable for investment.

wages and benefits, rising energy costs, declining exchange rates and growing costs of imported inputs," he remarks.

The problem lies in legislation and regulation of the drug market not in the existence of foreign producers of medicine in Egypt. Hussein says that regulations in Egypt impose low-pricing policies on Egyptian drugmakers, but foreign companies are free to decide their own policies enabling them to spend more on promotion, advertising and on organizing conferences for physicians.

He urged the government to move supervision over the holding company to the Ministry of Health instead of the Ministry of Investment for facilitating state support. "Supervision of MoH at present is restricted to inspection of the company's laboratories and setting forth pricing policies," he said. There is also no coordination between the Minister of Investment and the Minister of Health against market vaccinations from which Holdipharma is suffering. "The Ministry of Investment refuses any intervention for reviewing pricing policies as a jurisdiction of the Ministry of Health," he notes.

Holdipharma's share in the local market for pharmaceuticals is estimated at 32%, or EGP7bn of a total market of EGP22bn. Foreign and Egyptian private sector players control the remaining portion.

The company's chairman and managing director Mohamed Hassanin has urged the government to revise pricing policies, noting that Holdipharma sells about 500 brands cheaper than the cost of production, making annual losses estimated at EGP150m.

He asserts that state support to the company and its affiliates is important, but cooperation and interactions with foreign companies will also help Holdipharma to deploy international expertise and technology improvements. "Partnerships exist between the public sector companies and foreign private operations in production of their brands in local laboratories," he remarks.

One example of such partnerships is the co-operation between CID pharmaceuticals and Roche Pharma on production of anti-cancer medicines in CID's labs, curbing down the cost of medicine for the Egyptian patients, according to Hassanin.