Overview of investment activities of pharmaceutical companies in Russia

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In April 2013, the Foreign Investment Advisory Council (FIAC) in Russia conducted a survey of international pharmaceutical companies operating in Russia concerning their participation in the development of the Russian pharmaceutical industry including the expansion of research and development activities for the health care system in Russia.

The survey touched upon the investment climate in Russia, which is much discussed recently.

The results of the survey are summarized below. Contribution from the pharmaceutical companies which made the basis for this report will be considered in the subsequent work of FIAC.

Investment activities of international pharmaceutical companies in Russia

The results of the survey demonstrate that the vast majority of the international pharmaceutical companies are involved in investment activity in several areas, including clinical/preclinical research and the construction of production sites.

The companies are also actively involved in projects to support and develop the Russian health care system including:

- Sponsorship of scientific conferences, forums and staff training programs. In this area pharmaceutical companies are involved in such projects as:
  - All-Russia project Your Health: the Future of Russia
  - National School for Young Psychiatrists
- Joint projects with the scientific and research centers, including:
  - The project of staff development within Pharma 2020 – raising the professional level of Russian experts in clinical research
  - Cooperation with The Academician V.A. Almazov Federal Center for Heart, Blood & Endocrinology, Biofund RVC, The Academician I.P. Pavlov St. Petersburg State Medical University, The Prof. N.N.Petrov St. Petersburg Federal Research Institute of Oncology, and other medical research institutions
  - Establishment of the center of clinical research involving Russian medical institutions and other projects.
- Joint projects with the Russian Presidential Academy of National Economy and Public Administration (RPANEPA):
  - Interactive discussion platform Effective Health Care: An innovative Way of Development.

FIAC currently includes four international pharmaceutical companies: Novartis, AstraZeneca, Sanofi and Abbott Laboratories.
Investment areas

The main area of pharmaceutical companies’ investments is the construction of own manufacturing facilities in Russia: about 86% of respondents have already invested in local production, and the remaining 14% are planning to invest in the development of their own production sites. An average investment is about USD 70 million.

It should be noted that approximately 35% of companies, that have already invested in their own production, intend to continue investing in this area.

Regions to invest

The most attractive regions for investments in the pharmaceutical sector, according to the majority of respondents, are the Kaluga and the Yaroslavl regions. In addition, investors are interested in the Moscow and the Nizhny Novgorod regions as well as the cities of Yekaterinburg and St. Petersburg.

It is not by chance that pharmaceutical companies selected those regions: most of them have set up the so-called clusters - special zones for developing high-tech manufacturing. The companies registered in such clusters have a wide range of regional tax benefits - from lower income tax rates to complete exemption from certain taxes and customs duties for a specified period of time. Major international pharmaceutical manufacturers have already signed investment agreements with the governments of the Kaluga and the Yaroslavl regions.

Creation of workplaces

Investments in own production contribute to the creation of new workplaces in the regions where pharmaceutical manufacturers operate. Generally, the start-up of production sites and business development creates 100-200 new workplaces in Russia, although a number of companies employ over 200 people.

It should be noted that in case of creation of a specified number of workplaces, in some regions, companies can also enjoy tax benefits offered by local legislation.
Other areas

All respondents noted that in addition to investing in production assets, they also invest in clinical and preclinical research. 50% of the surveyed companies are also involved in supporting health system and research activities.

Figure 3: Other areas of investment

- Preclinical / Clinical research: 100%
- Health care system support: 50%
- Scientific research: 50%

Average investment in each of the areas listed on the diagram reaches USD 50 million.

The main areas of development of the Russian pharmaceutical market

When studying development opportunities on the Russian market, international pharmaceutical companies consider various forms of business structure. In addition to developing their own production facilities as mentioned above, the most popular form of cooperation with Russian producers is the contract manufacturing.

A number of companies do not rule possible acquisition of Russian producers (29%).

Figure 4: Production localization in Russia

- Construction of own production facilities in Russia: 57%
- Manufacturing under a contract with a Russian producer: 57%
- Acquisition of Russian producer: 29%
- Joint ventures with Russian producers: 14%
- Assigning the patent for end product and/or production technology on the territory of the Russian Federation to a Russian organization: 14%

Manufacturing localization in Russia allows pharmaceutical companies to gain an advantage when bidding for the state (municipal) orders. For example, when bidding for a public procurement contract the price of locally produced drugs will not be adjusted upward (by 15% magnification factor) for the purposes of comparing bid prices provided that the drug meets the criteria of sufficient processing, and Russia or Belarus is recognized a country of origin.
Factors preventing investment inflow in Russia

According to the vast majority of survey respondents (76%), ambiguity, inaccuracy and variability of legislation, as well as lack of guarantees in case of adverse changes are the most essential factors that prevent the inflow of investments in Russia. In addition, respondents see the lack of GMP standards and administrative barriers as considerable obstacles for foreign investments.

Figure 5: Main barriers for foreign investments in Russia
View of foreign pharmaceutical companies on the investment climate in Russia
The Foreign Investment Advisory Council (FIAC)
The Foreign Investment Advisory Council (FIAC) was established in 1994 as a result of the combined efforts of the Russian government and foreign businesses to improve the investment climate in Russia. The key task of the council is to assist Russia in forging and promoting a favorable investment climate based on global expertise and the experience of international companies operating in Russia.
Throughout the year FIAC focuses its efforts on major Russian economic and industry sectors covered by relevant working groups, which focus on priority areas hold regular meetings, the main goal of which is to develop suggestions and recommendations on the key issues of the Russian economy.
During the year, FIAC’s activities are coordinated by its Executive Committee chaired by the Minister of Economic Development of the Russian Federation. FIAC holds annual sessions with the members of the government to discuss priorities in investment policy, as well as analyze possible amendments for the resolution of current issues and identify measures for improvement of the investment environment, considering the interests of all parties.
Twenty-six sessions have been held since the establishment of FIAC. At the latest session held on October 15, 2012, investors discussed economic challenges and measures to foster healthy investment climate in Russia.

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