

Pedro Ferraz da Costa - President, Iberfar



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A doyen of Portuguese pharma, Pedro Ferraz da Costa is the long-serving president of the company started by his parents, Iberfar. In conversation with PharmaBoardroom, he discusses how Iberfar's business has evolved in recent years, the direction of travel his country should take to safeguard its homegrown industry and the health of its citizens, and the rationale behind the recent decision to venture into the medical cannabis space.



Can you provide an overview of Iberfar's main business and its evolution?

Iberfar's roots as a pharmaceutical company date back almost a century. Our parent company's founders, my parents, were both pharmacists and focused on partnering with European companies that had robust research capacities. This strategy led us to forge significant partnerships with the likes of Janssen and Boehringer Mannheim (now part of the Roche group), as the pharmaceutical landscape underwent transformations. When foreign companies were granted the rights of establishment in the European community, we became representatives for many of these entities.

For 50 years, our alliances flourished, contributing to the growth of our company. However, changes in the industry, like the rise of independent ventures and the sale of our partners, brought new challenges. Notably, the partnership with Boehringer Mannheim faced challenges, and despite a successful diagnostic business, it eventually faded away.

Portugal's historical context also influenced our trajectory. The revolution in 1974 ushered in a period of significant change, impacting the stock market and various sectors. While the aftermath brought challenges, we dedicated the following decade to enhancing our production capabilities, aligning with the increasing demand for pharmaceuticals in the Portuguese market.

We played a pivotal role in supporting companies like Merck & Co. (MSD globally), aiding in their expansion into the Portuguese market. Our collaboration was so impactful that when they decided to leave, we acquired their factory. This move not only strengthened our production capabilities but also highlighted our adaptability and resilience.

In essence, Iberfar's journey reflects a commitment to navigating industry changes, establishing fruitful partnerships, and adapting to evolving market dynamics, all while maintaining a strong foundation in pharmaceutical excellence.

Reflecting on your involvement in the Confederation of Industries and considering the challenges faced by industries in Portugal, do you believe there was sufficient strategic planning to identify and enhance competitiveness in specific sectors? How did the government's approach to product costs impact industrial growth?

In my experience, there seemed to be a gap in strategic planning when it came to identifying and fostering competitiveness in specific industries within Portugal. While I was engaged in the Confederation of Industries, the focus often appeared to be more on the cost of products rather than creating attractive conditions for industries to thrive. Governments, it seemed, were more preoccupied with cost considerations than creating an environment conducive to industry growth.

One critical aspect that emerged was the need for a thoughtful approach to attract investment, especially in sectors like vaccine manufacturing. Creating a sense of stability and assurance, such as not subjecting companies to immediate regulatory changes in the initial years, was essential for attracting and retaining such industries. This was a sentiment shared across Europe, where, unfortunately, some decisions at the continental level had unintended consequences.

For instance, in the realm of biotechnology, there were missed opportunities due to insufficient protection of intellectual property rights. The refusal to protect IP in this field led many innovators to relocate to the United States, impacting Europe's standing in the biotechnology sector. The consequences of such decisions were apparent, and concerns raised at the time have proven valid.

I recall a specific instance during discussions on the Reach directive, where even with a German Commissioner, there was an inability to adequately defend an industry crucial to Germany. This episode underscored a broader issue within the European Commission, where decisions were made without fully considering the repercussions on the industrial landscape.

Now, as there are calls for reindustrialization in Europe, various sectors face challenges stemming from decisions made without due consideration of their impact. In this context, Iberfar has managed to endure, adapting to the changing landscape. The survival of our production, in part, reflects the ability to navigate turbulent moments, and the second generation's involvement marked a continuation of this adaptive approach. As with any industry, it's about understanding the currents of change and, to a certain extent, going with the flow while strategically positioning oneself for long-term viability.

Could you provide insights into Iberfar's current Contract Manufacturing Organization (CMO) activities? Who are your clients, and what is the focus of your CMO business, particularly in terms of product types and market reach?

Our CMO clientele encompasses both Portuguese and international companies, with approximately 80 percent of our output designated for export markets. The international clients include companies with affiliated entities in Portugal, for whom we undertake manufacturing activities.

Our product focus primarily revolves around solid forms, with some involvement in liquid forms as well. Initially, upon acquiring our facility, we were also engaged in the production of injectables. However, over time, our business focus has expanded.

In the pharmaceutical manufacturing landscape, the solid form business is indeed competitive. Contrary to the perception that manufacturing facilities are of minimal concern for pharmaceutical companies, we recognize the importance of efficiency and reliability. This sentiment aligns with our approach – we operate with German-like efficiency, emphasizing predictability, long-term cooperation, and reliability. We believe in doing what we say and saying what we do, fostering a trust-based relationship with our clients.

We adhere to the highest international quality standards, holding certifications from the European Medicines Agency (EMA) and the FDA. While regulatory visits are infrequent, our commitment to maintaining these standards is unwavering.

Looking ahead, there is potential for the expansion of our CMO business. Despite our current production capacity being relatively modest, with an annual output of 15 million packs, we envisage growth in the coming years. This expansion aligns with our commitment to delivering quality, predictability, and competitiveness in the pharmaceutical manufacturing sector.

How feasible is this expansion of Iberfar's manufacturing footprint, given the current economic environment and high interest rates?

Our plans to amplify manufacturing are well-founded, and we are actively investing in this expansion. Fortunately, we maintain healthy financials, which positions us well for this growth trajectory. While we are open to borrowing money to facilitate swift investments, it's reassuring that we are not heavily indebted, allowing for a flexible approach.

In terms of the economic environment and prevailing interest rates, we carefully assess the feasibility of our expansion plans. The current conditions, including interest rates and economic factors, are taken into consideration in our strategic decision-making. We are mindful of the need to balance prudent financial management with our expansion goals.

Importantly, our expansion strategy is not solely contingent on securing orders post-expansion. We adopt a proactive approach by already having existing client commitments and working orders. This allows us to align our expansion with the needs of our clients, ensuring that we are well-positioned to meet increased demand.

Our vision extends beyond meeting immediate client needs – we aim to take a substantial share of pharmaceutical manufacturing that Europe is reluctant to conduct abroad. Portugal, in our view, offers excellent conditions for this Europeanization of production, comparable to the favourable

conditions present in Spain. The expansion is not just a response to existing demand but a strategic move to tap into the broader European market, leveraging our well-situated facilities to contribute significantly to pharmaceutical manufacturing.

Are there specific areas where you believe the Portuguese government could enhance conditions for manufacturers? Are there improvements that could make Portugal even more attractive to foreign investments?

There are areas where improvements could enhance Portugal's appeal to foreign pharmaceutical manufacturers. One critical aspect is the perception versus the reality of conducting business in Portugal. The regulatory environment, while generally effective, could benefit from improvements in terms of predictability and efficiency. Complaints about lengthier processes have been noted, and addressing these concerns would contribute positively to the business landscape.

On the taxation front, there is a notable challenge. The corporate tax rate in Portugal currently stands at 21 percent plus a surtax that varies from 4,5 to 10,5 percent, which is relatively high compared to European standards. The complexity and detail involved in the tax system further compound the issue. Reducing the corporate tax rate and simplifying the tax system could significantly enhance Portugal's competitiveness.

However, there is optimism, as recent changes in Portugal's financial position, marked by a conservative approach and a budget surplus, have created conditions for lower interest rates. As interest rates decrease, it becomes more attractive for foreign investments. Spain, with its corporate tax advantages, serves as a notable example. The Portuguese government should consider a reevaluation of the corporate tax rate to align with international standards and encourage foreign investment.

Comparisons with other countries, such as the United States, highlight the importance of a system that incentivizes and supports innovation. In the US, the tax system is structured to encourage companies and capitalists to invest, fostering a cycle of healthy growth. Implementing such measures in Portugal could contribute to a more vibrant and competitive business environment.

In summary, addressing regulatory efficiency, reducing the corporate tax rate, and adopting measures that encourage investment and innovation could position Portugal as a more attractive destination for foreign pharmaceutical manufacturers.

In the context of your expansion plans, you mentioned a focus on manufacturing. How integral is the logistics service in your operations, particularly in supporting exports and serving the local market?

Logistics is indeed a crucial component of our operations, primarily geared towards supporting exports and facilitating local market distribution. Currently, we operate as a pre-wholesaler, handling the logistics aspect efficiently. While logistics is an essential part of our service offering, we don't currently envision a significant expansion in this area.

Our strategic focus lies in being at the forefront of innovation within the manufacturing domain. Investments in robotics, automation, and AI have been key components of our approach. By integrating cutting-edge technologies into our manufacturing processes, we aim to increase the added value per worker. This not only enhances operational efficiency but also allows for more competitive salaries, contributing to talent retention.

There's a transformative shift in the nature of work, where workers are provided with high-end tools and technologies. This evolution enhances their skill sets and job satisfaction, fostering a positive environment. Our commitment to staying ahead in terms of innovation ensures that our workforce is equipped with the tools needed to excel in a rapidly changing technological landscape.

In essence, while logistics remains an integral part of our current operations, our strategic vision centers around advancing manufacturing capabilities and adopting innovative solutions to maintain a competitive edge in the industry.

You have personally decided to venture into the medical cannabis business. Could you elaborate on what drove your interest in this industry?

The regulation surrounding cannabis in Portugal has become notably favourable, creating a conducive environment for exploration in this sector. Historically, strict controls on controlled substances, imposed mainly by international entities post-World War II, limited research possibilities. The discovery of the human cannabinoid system in the 1990s opened up new avenues, revealing the potential benefits of cannabinoids.

The decision to venture into the cannabis industry stems from a combination of factors. Firstly, the availability of a small agricultural company within the group provided a foundation for the cultivation aspects of cannabis. Additionally, having a pre-existing factory with extraction methods and analytic capabilities allowed for a seamless integration of cannabis processing into the existing

infrastructure.

The aim was not to make a substantial standalone investment but rather adopt a “bolt-on” strategy, leveraging existing resources efficiently. As a company with a solid reputation in the pharmaceutical industry, there was a calculated willingness to take on the risks associated with this new venture.

The plan involves launching a range of cannabis-based products, including those containing CBD and THC, as well as combinations tailored to meet the preferences of healthcare professionals. Engaging with a panel of doctors has been crucial in understanding their needs and preferences, considering their lack of extensive experience with cannabis due to historical prohibition.

Clinical trials are a key focus, especially in areas such as pain management and neurological disorders. The challenge lies in establishing reliable endpoints for conditions like pain, and the company is actively exploring ways to measure and quantify the efficacy of cannabis-based treatments. Collaborations with healthcare professionals and a commitment to clinical trials demonstrate a dedication to providing validated and valuable therapeutic tools.

The interest extends to areas like pediatrics, with a recognition of the potential benefits in conditions like epilepsy. Although conducting clinical trials for certain conditions involves ethical considerations, the goal is to contribute valuable insights to the scientific community and explore therapeutic possibilities.

The Portuguese market serves as a test market, providing an opportunity to gather real-world data and experiences that could potentially influence the broader international landscape. This innovative approach reflects a commitment to not only exploring the commercial potential of cannabis-based products but also contributing to the scientific understanding and clinical applications of cannabinoids.

Considering the evolving legislation on cannabis across various European countries, is there a possibility for collaboration with other nations to create a more pan-European approach?

Collaboration with other European countries is indeed a consideration, given the evolving legislative landscape surrounding cannabis. The company acknowledges that a significant portion of cannabis use may be for recreational purposes, with users seeking a legitimate and medically supervised means of access. France, for example, has introduced specific regulations, excluding

the acceptance of cannabis through vaping.

While recreational use is a notable aspect, the focus remains on contributing to the medical understanding of cannabis. France's approach, though restrictive, may still open opportunities for collaboration and shared insights. The company has advanced its project by submitting all required dossiers for authorization, awaiting approval from the Portuguese government.

The Portuguese government, having accepted cannabis as part of legislation, now aims to demonstrate the constructive and beneficial use of cannabis products. While the political landscape may influence decisions, the company sees potential for collaboration and aims to position itself as a positive contributor to the European cannabis landscape. The vision includes being able to communicate to European colleagues that they have developed a high-quality cannabis product for the European market.

The project's advancement, regulatory approvals, and collaboration efforts are crucial factors that will shape the company's role in the emerging European cannabis industry.

Do you have a final message to share?

Portugal has proven to be an advantageous location for manufacturing, particularly in the pharmaceutical sector. Our country's regulatory environment is conducive to business, providing stability and predictability. As we navigate through the complexities of the global situation, such as disruptions in the supply chain from countries like India and China, Portugal stands out as a reliable and strategic option for manufacturing.

The recent challenges, like the impact on the car industry, emphasize the need for Europe to reconsider its dependence on international markets. In my opinion, the future will see Europe compelled to recover a significant portion of its production across various industries, not just pharmaceuticals. This shift aligns with the changing dynamics in the global landscape, making Portugal an attractive hub for manufacturing.

So, our final goal involves contributing to this reshoring effort, positioning Portugal as a key player in the recovery and growth of European production capabilities. This aligns with the broader narrative of reinforcing local industries, reducing reliance on external sources, and ensuring greater resilience in the face of global uncertainties.

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