Interview: Dr Osama Rostom – Deputy Head, Pharmaceutical Chamber, Federation of Egyptian Industries, Egypt

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Dr. Rostom, Deputy Head of the pharmaceutical chamber of the Federation of Egyptian Industries explains Egypt's unique potential for investors and discusses key issues to be addressed in order to further attract investment to the industry, both internally and from abroad.

What are the key growth opportunities for pharmaceutical companies in Egypt?

Currently the spending on healthcare is minimal relative to the size of our population, however, according to the new constitution the government will double its healthcare spending to three percent of GDP; likewise important is the current discussion of the implementation of national social health insurance, which will potentially cover a large proportion of Egyptian patients. With 90 million people—an enormous well educated workforce—Egypt is one of largest countries in the region, and the pharmaceutical market is on the cusp of a major boom given these factors,

changing demographics, and overall economic growth.

Egypt, although part of the Arab region, is foremost an African country. We are at the verge of re-establishing our ties with our African neighbours to the strength it had during the Nasser era, contributing to the ambition to become the centre of trade with our African kin. Our future is promising, and a major task for our country is to communicate this message to the world and rebrand Egypt for what it is—the land of opportunity!

How has the FEI's strategy and mission evolved in recent years?

Back in 2012, we were the only representative body for the pharmaceutical industry in Egypt. Since the revolution many other organizations have emerged, trying to represent the Egyptian pharmaceutical industry; this fragmentation is not healthy for our shared future. In the context of this fragmented representation, our ambition is for Egypt to become the main export hub for Africa. We believe this will be possible through further investment, hence why our current focus is to increase Egypt's attractiveness for foreign direct investment and further investment from domestic players by concentrating on change in the legislations and regulations we feel are not suitable for the Egyptian future.

Currently, we are trying to convince government authorities and media that this change has to happen fast in order to make Egypt an attractive opportunity for potential investors, and facilitate the transformation of Egypt into 'the export hub of Africa'. Our main obstacle in this process is that the relevant authorities can be extremely sensitive towards the public's perception of changes in healthcare related topics, even when said perceptions are largely inaccurate. Specifically, the ministry of health is largely unwilling to increase pharmaceutical prices because of the reaction that it would cause amongst the public and media, even though current pricing levels are unsustainable, causing relative and absolute shortages of many products, and making it unfeasible for manufactures to invest in their own development. It is the responsibility of the public sector to implement a healthcare system that takes care of Egypt's people effectively, and the government needs to be willing to make changes that will be unpopular in the short term to invest in the long-term benefit of the Egyptian people.

What are the key priorities of the FEI Pharmaceutical Chamber at present?

Of course we are interested in decreasing the time needed to get new drugs registered as well as improving the pricing of drugs in Egypt, however these topics are not unique to Egypt. At present, a serious challenge we are working to solve is the lack of foreign currency available for businesses in general, not only in the pharmaceutical sector, which paralyses our economy to a large extend.

The traditional sources of foreign currency have always been the Suez Canal, tourism and Egyptian people working abroad; recent hopes in the Suez Canal of providing the country with foreign currency have proved elusive as revenues have fallen significantly, tourism has not yet recovered from the political unrest of a few years ago, and Egyptian people abroad generally prefer to utilize the black market to get their money into Egypt. We are not facing a simple allocation problem, as there is little foreign currency to allocate. In the past, we have been able to obtain a certain amount of foreign currency from the central bank at the official exchange rate, and make up the difference from other sources, however the government has asked us to discontinue sourcing currency from sources other than the central bank. We agreed to this request the expectation that the government would be able to provide us with enough foreign currency to carry out our business, which unfortunately is not the case at present.

How’s the discussion proceeding so far?

As of now, the president has appointed a new head of the central bank, which has been perceived as a positive change thus far, but it will take significantly more effort to solve this problem. The issue that needs to be tackled is the lacking support of the fiscal policy towards the central banks’ agenda; there is no link between the fiscal policy of the ministries and the central bank, and this is taking a toll on Egyptian industries

What are the next steps to increase export activities of the Egyptian pharmaceutical sector?

The domestic pharmaceutical industry is largely limited to compete in tenders, as the low prices here in Egypt do not allow us to market our products in foreign markets because the Egyptian price will always be referenced. We need an increase in the domestic price, which will allow domestic players to scale up their marketing activities to an international level. Egyptian authorities fear increasing retail pharmaceutical prices due to the reaction in the media and amongst the public, and due to the perceived impact it would have on healthcare spending; both the government and the public fail to realize that if and when a social health insurance system is implemented, this insurer would be able to negotiate wholesale purchase prices through tenders, and thus increasing the retail pharmaceutical prices doesn’t have to directly translate to increased spending on pharmaceuticals.

I am also calling upon the Egyptian pharmaceutical industry to cooperate to utilize synergies upon entering new markets. The establishment of an Egyptian pharmaceutical stronghold in other African countries is easily achievable if five or six domestic players collaborate, share risks, profits

and establish a constant physical presence; this will be far more profitable than pure export activities and selling through distributors. Currently Egyptian pharmaceutical exports account for roughly USD 250 million each year—a farce in light of our potential.

What can the domestic industry do to shape a more investor friendly Egypt?

What we need to work on are the specifics that create an investor friendly environment: the ability to repatriate profits and dividends out of Egypt, a stable fiscal policy, certainty of fixed costs such as utilities, and an active public-private sector dialogue. In the past we have not had these items, however as all Egyptian businessmen want to do their share and contribute to improving Egypt as investment destination, I am convinced that we will be able to effect positive change and realize a prosperous future.

However, it is essential that our government does their part! From personal experience, I can say that in the recent past it has been impossible to plan ahead as tax regulations have changed every six months and energy costs were highly volatile. These uncertainties impose unnecessary risks for established players and potential investors and thus hinder the development of our economy. Equally important is the further improvement of public-private sector collaboration. I am aware of the importance of a well-established regulatory system, however the government has to involve the industry in the discussion when planning changes that will affect our business; if we work together, such changes can be made much more efficiently, and will allow our industry and others to take a more active hand in shaping a new and better Egypt.

The Egyptian pharmaceutical sector is currently growing at thirteen percent, how do you predict this growth to develop in the future?

The thirteen percent growth rate is not a realistic representation of the current developments in the market. Due to the devaluation of the currency, and the unwillingness of the government to adapt the prices, many low price drugs vanished from the market as it was not profitable anymore to produce these. I am also the commercial director at EIPICO, one of Egypt’s largest pharmaceutical manufacturers, and recently we were forced to take 12 products of the market that provided Egyptian patients with quality treatment for a fair price; now only significantly higher priced alternatives remain, which has resulted in the enormous growth of total sales value that we are now witnessing. Due to the fear of bad media, the responsible authorities are avoiding to raise the drug prices in Egypt; however, all the industry is asking for is that the ministry of health enforce its existing decree that states that drugs must be repriced if the value of the Egyptian pound changes by more than ten percent in either direction.

The important figure to measure the current market growth is the growth of units sold which, at four percent, is still very good—but can be higher! Before 2012 the growth by units was at eight percent, but these shortages of lower priced brands are causing increased financial burdens as Egyptians are forced to purchase higher priced alternatives, causing patients to limit the volumes purchased. However, if the pharmaceutical pricing structure is updated to reflect the devaluation of the pound and other factors that have changed, possibly via the implementation of a social health insurance system, then I believe that volume growth will return to the eight percent level seen prior to 2012.

“New Egypt” is a term that is being used in various contexts in Egyptian media; what does it mean to you?

I know Egyptian people, I know our qualities and I know we will do better in the future than we are doing now. We still need some time, but we are certainly capable of advancing as a country and catching up at least partially with the US and Europe; all I ask now is that the Egyptian people invest in themselves by ensuring that Egyptians get a good education and have access to quality healthcare. As a country we need to realize that we are competing with other nations, and hard work will be required if we are to seize the opportunities that are currently apparent in Egypt! Together we can create a democratic environment, in which business can prosper, for a better future for us and our children.

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