

# Pharmas need to do more drugs

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It generates billions and keeps us alive. So why does the local pharmaceutical industry struggle for attention?

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The Australian pharmaceutical industry has a low profile.

Every year the Australian pharmaceutical industry generates about \$4 billion in export revenue and spends about \$1 billion on R&D. It employs about 15,000 Australians directly, 40,000 indirectly, and is one of the largest employers of the nation's science graduates.

Surprised? You wouldn't be the only one. Despite having long done more for Australia's balance of trade figures than the endlessly mourned automotive industry, pharma remains the manufacturing sector's quiet achiever. Which is unfortunate, because it has the potential to be an even larger contributor to our national prosperity in years to come. Asian consumers are getting richer and older, which is throwing up some spectacular opportunities.

"We've been experiencing exponential growth in demand from Asia over the last five years for our respiratory products," says Mark Fladrich, managing director of the Australia and New Zealand arm of AstraZeneca. "Over the last 18 months alone we've made a \$100 million capital investment in installing more lines just to keep up with demand. Those lines are being made by a Melbourne company and once they are complete we will be hiring more operators to man them."

Dr Brendan Shaw, chief executive of Medicines Australia, says: "All the growth in demand for pharmaceuticals, and that will likely be 12 to 15 per cent increases year on year from now until 2020, is coming from emerging markets, mainly in Asia. There are around four billion people in Asia, an increasing number of them are middle class and most of them trust the 'kangaroo brand'."

So can we all sit back and wait for the burgeoning medicine boom to take over the heavy lifting from the fading mining boom? Not necessarily. The grunt work of pharmaceutical manufacturing is increasingly heading offshore. What's more, other nations are moving aggressively to capture a bigger slice of the global pharmaceutical market, typically by offering favourable tax treatment and strong intellectual property protections. A 2012 World Trade Organisation report into leading pharmaceutical exporters had Australia in 11th place, behind Israel, Singapore and even Panama.

Given there's not a lot of love for Big Pharma, just how likely is it that Australians are going to make financial sacrifices to help the local industry increase its slice of the global drug pie? Especially given many of the big players, such as AstraZeneca, are foreign-owned?

"I'd draw a parallel with other industries which are foreign-owned but have manufacturing facilities and are spending R&D dollars and employing people locally," Shaw says. "Also, alongside the local divisions of multinationals such as GlaxoSmithKline and Pfizer there are



Australian-owned companies such as CSL. And remember, those global companies invest in small local biotech start-ups, which then have the potential to grow into major companies themselves.”

So should the pharmaceutical industry be made a special case as the age of entitlement is apparently drawing to a close?

“The industry isn't arguing for special treatment, we'd just like to see a stable, predictable environment in terms of getting new medicines listed on the Pharmaceutical Benefits Scheme and the maintenance of a strong intellectual property and patents system,” Shaw says. “As to tax cuts, we're not saying that they should just apply to our industry; we're arguing they should be provided as an incentive to all innovative industries.”



Mark Fladrich has seen strong demand for Australian respiratory products.

Brendan Shaw: emerging market driving growth.

Fladrich echoes Shaw's position, noting that the reason AstraZeneca can manufacture drugs requiring ultra-sterile production facilities is because the Hawke government incentivised pharmaceutical companies to invest in sophisticated manufacturing facilities in the 1980s.

“It would be good if governments focused on more than just the cost of the PBS and developed a strategy for helping the pharmaceutical industry add value,” Fladrich says. “Where do we want to be in the value chain? We're not going to be able to compete with China and India at manufacturing cheap, generic pharmaceuticals, but when you look at the world-class academic institutions, impressive medical standards, great researchers and well-trained staff we've got here, we're perfectly positioned to make those high-value-added products.”

For all their concern about current challenges and potential threats, both Fladrich and Shaw remain upbeat.

“The Australian pharmaceutical industry is a manufacturing good news story that doesn't get the coverage it should,” Fladrich says. “For those looking to get into it, I'd predict the growth areas will be in the niches rather than high-volume areas; things such as biotech, sterile products and medical devices.”

Shaw adds: “If we can get the public and private sectors working better together, there's no reason what are currently small research labs couldn't grow into big exporters. It's a tough road but there are some real opportunities.”

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