

Low level of spending on R&D is being addressed

INTERVIEW

Bernat Soria, the health minister and a leading scientist, talks to Cristina Jimenez and Mark Mulligan

After a decade of outperforming the rest of Europe, the weak points in Spain's economy are starting to show. From 4 per cent last year, gross domestic growth this year is forecast at 3.7 per cent before decelerating further in 2008, to just over 3 per cent.

As activity tapers off in the construction sector, which accounts for 18 per cent of gross domestic product, and in consumer spending, the centre-left government of Prime Minister José Luis Rodríguez Zapatero acknowledges deficiencies in the economic model.

Foremost of these is investment in research and development, where Spain lags most of its European peers. According to Euro-

stat, Spain invested 1.03 per cent of GDP in research and development in 2005, about half the European average.

Bernat Soria, a respected biomedical scientist, and health minister since a cabinet reshuffle in July, blames a combination of cultural and economic factors.

"We have good universities, we produce excellent scientists and we are also attracting researchers from other countries," he says.

"However, Spanish investors have become hooked on the fast profits offered by real estate development."

This, he says, is changing as the property sector cools. He points to Spain's lead in the development and use of alternative energy sources as proof that investors are diversifying their portfolios.

The government is also trying to encourage greater private sector investment in biotechnology, funding new research facilities and improving the flow of ideas out of universities and hospitals into the marketplace.

It is also studying the creation of a special tax regime for young companies committed to dedicating at least

15 per cent of spending on research and development.

Modelled on a scheme introduced in France in 2004, it would allow a full exemption of corporate tax and social security payments to companies that qualify, and could include state funding assistance in the form of loan guarantees.

For now, however, non-public investment in the biotech sector continues to lag the EU average. According to Spain's Genome Foundation, the average initial investment in a Spanish biotech start-up is €1.44m, compared with €13m for the EU.

Zeltia, one of the few listed life sciences companies in the country, had to tap foreign investors for research funds. Pharmamar, a Zeltia subsidiary, has several drugs in final-phases clinical trials and is awaiting EU approval to market Yondelis, used in the treatment of soft tissue sarcoma.

However, Spain needs more stories like this to arouse interest from investors, according to a recent study by Asebio, an industry lobby group.

The problems are partly structural: unlike in the UK and France, the Spanish equity exchange has no lightly regulated, small-cap marketplace to help science-based start-ups find capital.

Even if it did, finding investors willing to commit money to businesses unable to promise short-term return would be difficult, says Carlos Hernandez, head of Uninvest, Spain's first university-based risk capital firm.

"There is a real shortage of risk capital and seed capital in Spain, which makes it hard to set up companies," he says. Spain also needs to create funds dedicated to "pre-seed" financing, he says, to help push ideas to the pre-development phase.

"This type of capital is high risk, so really should be part of the government's remit, in particular the Education and Science Ministry," he says.

Symbolically at least, Mr Soria himself is seen by many as part of the solution. A career scientist specialis-

ing in regenerative medicine, he was a pioneer in Europe of stem cell research, and influential in framing Spanish legislation permitting the use of embryonic tissue.

This has made him a target of the conservative opposition, and the Catholic Church, who called his appointment to the government in July "provocative". Spain's biotechnology and pharmaceutical companies, however, were encouraged by the surprise nomination.

"Having a scientist of the calibre of Bernat Soria in the

'Having a scientist of this calibre in the health ministry means we have a sympathetic ear in government'

health ministry means we have a sympathetic ear in government," says the head of one life sciences group.

"Not only is he familiar with the industry but he understands how difficult it is to get a drug to the market in terms of time and money."

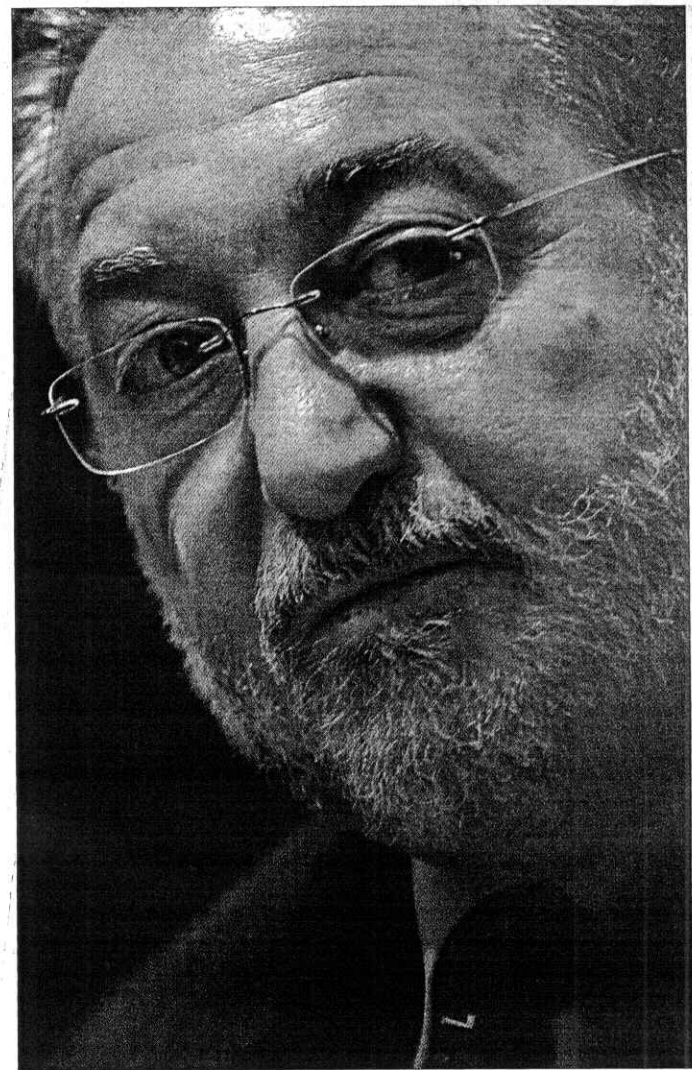
Cristina Garmendia, president of Asebio, says Mr Soria's appointment was a step in the right direction.

"Although we can't compare the situation of the Spanish biotech sector to that of countries such as Germany, Britain or France, the good news is that there is a political intention to create tools to help the sector to take off," she says.

"It is up to us to seize the opportunity."

Spanish pharmaceutical groups are looking to Mr Soria to influence policy on industrial patents, a flashpoint with successive health ministers. As the industry's largest client by far, the state has always sought to keep the cost of medicines as low as possible.

One of the concessions granted the country when it joined the EU in 1986 was permission to allow it to use



Bernat Soria was a pioneer in Europe of stem cell research

Pedro Armestre

generic versions of patented drugs an average three years before other member states.

This, according to Farmaindustria, the main industry association, was acceptable when Spain was essentially an emerging economy.

However, as the country has grown richer, so, too, the disadvantages of the system have begun to outweigh the benefits of offering consumers cheap drugs.

The main drawback, according to Farmaindustria, is that local drug com-

panies are less inclined to dedicate capital to developing products if their domestic shelf life is so short.

Instead, Spain has become renowned as exporter of cheap generic drugs. Farmaindustria wants the country to step into line with the rest of the EU.

Mr Soria's predecessor rejected the idea, and the health ministry, officially at least, remains reluctant to change the regime.

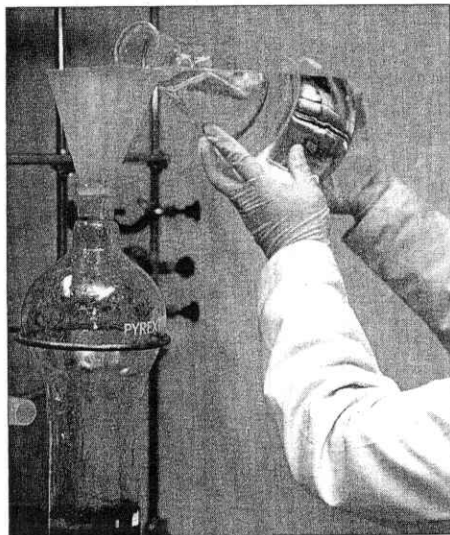
However, industry representatives say that they have found a more sym-

thetic ear in Mr Soria, and there is hope changes will come in the next few years.

At the same time, Mr Soria is asking more from the drug manufacturers, who account for 18 per cent of national spending on R&D. This could be much higher, he says.

The pharmaceutical industry at the moment is investing between 7 per cent and 8 per cent of spending on R&D," he says.

"I would like to see this rise to about 15 per cent in the next few years."



The government is keen to find the right formula

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