Guy Villax, Hovione's CEO, speech to the Informal Meeting of Ministers Responsible for Competitiveness (COMPET) - Internal Market and Industry, Lisbon 22nd March 2021

Dear representatives of the Commission, Dear Ministers, Ladies and Gentlemen, Good-Morning
It is a privilege for me to address you.

Dear Pedro thank you for giving me this opportunity.

I have been fortunate to have a front row seat watching the Pharmaceutical Industry since I was born, that was 60 years ago. Hovione was founded by my father, a Hungarian refugee, in the basement of our home in Lisbon. Often as children we could not go into the garden because a bromination was going on a *l'air libre* for safety reasons !

My first job in the family business, aged 24, was selling active ingredients made in Portugal to Indian firms in Bombay, Madras, Delhi and Goa.

I will start by telling you about the successes of our industry and end with our failures as these are the ones we need to collectively tackle.

10 years after the HIV virus was discovered in Paris and Washington, American companies invented the protease inhibitors that would treat this horrible disease. But who made these complex molecules industrially possible then were exclusively European companies.

In the last decade several cures for Hepatitis C were discovered. Over 4 million patients have been cured and ¾ of those with pills made with a Hovione process with product that came out of our plants in Portugal and Ireland.

It is also important to acknowledge the complexity of the manufacturing processes and the extreme specialization that each step requires. Remdesivir, one of 3 approved therapies for Covid-19 needs factories in two continents just to make the active ingredient, but it won't work without an enabling excipient called Captisol® that Hovione makes exclusively. To face the pandemic's tremendous demand we are now making per month what we usually made per year.

Europe has 600+ plants that have the science, the technology, the know-how and the capacity to be the workhorse of innovative medicines for global supply. For most of us it has been some time that we have stopped focusing on serving the generics industry of our home market, Europe. Hovione has not supplied one kilo of a generic API to Germany for 15 years because one cent of difference means the Indian product is preferred. Had we not exported to the USA and served innovators and generics there we would be bankrupt, or weak and unable to invest in R&D and new technology.

The beauty of the pharma ecosystem is that the very high prices of patented products pay for the R&D and the risk, but as soon as the patents expire the best science can be had for a few cents per pill. Innovative drugs, under patent, and the large multinationals are today a minority volume player – over 80% of prescriptions are filled by generics.

Today the EU is not in control of its generic medicines – we face frequent shortages and a geostrategic fundamental dependence for APIs and precursors from India and China – where serious accidents, government policies and market failures make us vulnerable.

We have ended up in this untenable situation due to 1) the unbridled market forces of globalization and 2) 30 years of EU regulations that failed to consider that pharma is an intensely globalized and highly competitive industry.

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Europe was once the cradle of pharmaceuticals. In the 50s any American that wanted to study chemistry had to learn to speak German as all good text books were written in German. We have faced a 30 year decline – today in the top 10 largest generic firms in the world only 1 is European.

As an industry we survived by moving away from intermediates and generic APIs – including the essential ones – and focusing on high value innovative products. The world is competitive and if the climate in Europe in unfavorable to certain segments, factories move – it is that simple.

Nobody saw the unfolding of this radical structural transformation.
Nobody heard Industry's calls for levelling the playing field.

In 2004 the EU API industry founded EFCG, the European Fine Chemicals Group, a member of CEFIC, to level the playing field, this need remains.

In my first trip to Brussels to flag the growing risk to patients and the lack of level playing field, in 2005, I was met with bemusement, *étonnement* and some sarcasm. In 2007 I testified at a hearing of a sub-committee of the US congress in connection with the risks to patient from imported APIs. I went public and frequently said and wrote that EU Regulators inspected on proximity not risk. The contaminated heparin tragedy that killed over 150 patients occurred in 2008. By 2011 our advocacy work resulted in the Falsified Medicines Directive, too little, too late.

Today price pressure has driven the European Generics supply chain to, in 74% of cases, buy from low-cost countries. These production locations have low regulatory oversight therefore present higher risk to patient, often cause environmental damage and antimicrobial resistance because of poor control over wastes, and have a high frequency of deadly accidents – the EU industry cannot compete with such low standard, low cost operations.

In summary in the last 30 years a large part of the EU API and intermediates industry disappeared to the benefit of its competitors. Certain key technologies (eg fermentation, nitration, halogenation) almost disappeared from Europe. This represents a damaging loss of critical mass, as these technologies act as platforms that allow the production of many different APIs. Fermentation is key to making many antibiotics. Without fermentation Europe is now totally vulnerable and dependent on supplies from Asia/China.

To reduce this dependence and to ensure the resilience of the medicines supply chains on the long term, the only solution is to rely on the robust, reliable, competitive and sustainable manufacturing capabilities we still have in Europe.

So what are Industry's proposals in this regard ?

- First, we must support the existing European manufacturers of APIs and intermediates in the on-shoring of technologies that will guarantee the supply of the essential medicines. Dual sourcing of the essential medicines must be a cornerstone of our policies.

- Second, level the playing field with other world regions to ensure that import and purchase requires not only verified compliance with GMPs, but also demands process safety, respect for the environment and an absolutely reliable supply chain. Linking the purchase of critical supplies to the sole criteria of price cannot be a sustainable supply strategy.

- Third, we need a long-term EU industrial policy that can accelerate sustainable Research, Development and industrialization of innovative and green technologies, as well as manufacturing capacities within the EU territory.

- Fourth, regulatory centralization, transparency and flexibility. EMA must be given more clout. We need a central record of EU shortages. EMA must know the complete supply chain mapping of each medicine, so it can act. EMA should turn into a compliance matter the good example of the Swedish regulator that considers environmental aspects when granting permits and approving products and APIs.

We are optimistic that this straightforward strategy will be successful to eliminate not only existing drug shortages but more importantly avoid future risks of shortages.

Europe can rely on its the 600+ existing manufacturing sites, on its strong innovation capacity, its highly-trained workforce to reverse the trend and build back a robust pharmaceutical industry in Europe.

Industry is involved in the Commission's EU Pharma Strategy Structured Dialogue. We are looking forward to working with the Commission to implement, as quickly as possible, the appropriate structural, pragmatic and efficient measures to support our industry.

However as we embark to build the future and drive a Renaissance of the European API and generic industry it is imperative that we first look into the past and understand what got us into this situation of dependence and weakness.

The US and Japan have already launched countermeasures, we must work with our allies and not independently.

An EU patient centric pharmaceutical industry needs a EU centric pharma supply chain with a sustainable EU manufacturing base, this requires deliberate and careful regulation to compensate for market forces and to correct the playing field.

European citizens deserve medicines that are Affordable, Accessible and most importantly Available.

Dear Commission representatives, you can count on me and on our industry associations to fill in the blanks, spend time analyzing the situation and design a solution for the future.

Thank you for your attention.

Guy Villax
CEO, Hovione
Lisbon 22nd March 2021