

Notes for Remarks by

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INTRODUCTION

Thank you, Mr. Chairman.

I would like to extend a warm "hello" to you and to all of the members of the Committee, and thank you for having given us the opportunity to address you today on behalf of Rx&D, the association representing *Canada's Research-Based Pharmaceutical Companies* (Rx&D).

Allow me to introduce myself. My name is Gilles Gagnon, and I am President and Chief Executive Officer of Æterna Zentaris, a global biopharmaceutical company whose office headquarters are located in Quebec City—Quebec, being, according to the September 2006 issue of *Canadian Business Magazine*, the “best Canadian city for doing business.” Of course, we’ve known that from the start, but it’s always nice to hear praise from someone else! I also sit on the Board of Directors of *Canada's Research-Based Pharmaceutical Companies* (Rx&D).

With me today is Brigitte Nolet, Vice-President of Federal Affairs at Rx&D—an association that boasts more than 50 innovative member companies across Canada. Ms. Nolet will be speaking to you a little later on.

WHO WE ARE

Rx&D’s mission is to improve the quality of life of all Canadians and enhance our health-care system by fostering the discovery, development and availability of new medicines and vaccines.

Rx&D member companies represent a significant economic lever for Canada, generating more than 100,000 direct and indirect jobs country-wide and contributing significantly to industrial R&D growth. Every year, we inject no less than \$4.5 billion into the Canadian economy, and invest \$1 billion in research and development. One billion dollars, by the way, is the average cost of developing just one new, innovative medicine for patients.

Rx&D members account for 50% of all research and development in the life sciences in Canada, or one-third of all jobs in the field. Moreover, we have the highest percentage of post-graduate professionals of all the sectors of the economy.

Innovative patented medicines, although one of the most cost-effective aspects of our health care system, represent only 8% of the total budget. In the public’s view, pharmaceuticals and spending often seem to go hand in hand. In my opinion, this is a misconception; the connection instead should be in terms of investments and pharmaceuticals. For instance, since 1985, despite the aging population, pharmaceuticals have succeeded in reducing hospitalizations by 35%, not to mention the radical drop in mortality for those stricken with terminal illnesses such as cancer or AIDS. This is absolutely incredible! ...Incredible, yes, but not magic.

We wholeheartedly share the view of the Standing Committee on Finance, which maintains that the world of tomorrow will be greatly influenced by the decisions of today. I would add that, the sounder those decisions, the more striking the outcome.

A NEW GLOBAL REALITY

The world is changing at dizzying speed. Canada has not escaped that fact, nor has our industry—one of the most highly regulated in the world. With the entry of giants like India and China on the scene, a new order has been established—one in which the word “competition” takes on a whole new meaning.

India and China aren't the only new players; Japan and the United States are also doing everything possible to attract greater investment to the life sciences.

Recently, member countries of the European Union reviewed their strategy in order to repatriate the R&D investments made in North America in the '90s. While not qualifying this as a catastrophe, we must nevertheless react quickly, as it is clear that the governments of these industrialized countries recognize the importance of quality R&D in the enhancement of the competitiveness of their own economies.

Since Rx&D's members operate in a global context, our ability to increase investments in human capital, physical capital and innovation, obviously depends on our commercial environment.

In the past, Canada has displayed vision and succeeded—by taking tax measures and establishing attractive programs—in creating a business environment conducive to investment in the pharmaceutical industry. In fact, this is what has helped position Canada as a true leader in the field of innovation, and what has made our industry what it is today. However, the landscape has changed radically, and we now find ourselves at a crossroads. Can Canada afford to trail behind and risk losing everything it has gained?

Despite Canada's relatively small, but open economy, Rx&D's members believe in the country's ability to tailor its public policies to the new global reality. By taking concerted action and focusing its efforts on developing advantageous, attractive initiatives in life-sciences research and development, Canada will be able to heighten its competitiveness to a level comparable or superior to that of other countries.

Rx&D's RECOMMENDATIONS

We are very pleased about the federal government's recent decision to amend the regulatory system in order to protect innovative-research data for eight years. As indicated in our pre-budget submission of September 5th, we have been eagerly awaiting such an initiative, for it will help make Canada more internationally competitive. It was detrimental for Canada to be the only G-7 country not to offer real data protection, and paramount for the country to provide our industry with the tools it needs to compete in the developed world.

Similarly, we feel it is also important to encourage and stimulate experimental scientific research and development. Tax incentives such as the investment tax credit refund and rate are excellent means of doing so. In Canada, unfortunately, the portion of the gross domestic product dedicated to corporate spending on research and development remains low in comparison with international standards. Efforts must be made to rectify this situation.

For example, one of the new realities faced by the pharmaceutical industry, which the government should recognize in its eligibility criteria, consists of the fragmentation of research involved in international projects within a given company. Presently, in terms of tax treatment, R&D expenses incurred in Canada that can also be allocated to other parts of the company elsewhere in the world are currently disqualified. However, the more the pharmaceutical industry consolidates, the more the development of medicines becomes a truly global affair. The tax credit should be extended to cover collaborative international R&D work conducted in Canada.

Rx&D's members also believe that Canada should acknowledge the importance of research in all areas, from science to technological competitiveness. This country's restrictive definition of research, which differs from the OECD baseline reference accepted by the rest of the world, excludes many sectoral fields of research. For example, in the field of social sciences health research, pharmacoeconomics conducted in Canada, are excluded, despite the fact that their eligibility could help make Canadian pharmaceutical companies more competitive by enlarging their knowledge base and facilitating product development. Such recognition might also encourage the pharmaceutical industry to work even more closely with Canada's universities—something it does already, of course, but could be doing on an even greater scale, to the advantage of all concerned.

I'd now like to talk about a major tax disincentive to new biopharmaceutical companies.

As we saw earlier, developing and marketing new medicines takes time---a lot of time. It's difficult for a new biopharma company to produce enough taxable income to take full advantage of all the R&D tax credits available, even though it is now possible to carry them forward over ten years. Efforts should be made to enable such companies to benefit from the maximum value of the tax incentive when they are at a critical point in their development, and grant them the same refundable tax credits as those available to all Canadian-controlled private companies.

We also feel that it is vital to stimulate research and development alliances, as biopharma R&D is both high-risk and costly, given the fact that many products never reach the marketing stage. A fledgling biopharmaceutical business has neither the necessary internal resources nor a broad enough range of potential products to offset the effects of such a high-risk environment.

Unfortunately, time does not permit me to discuss all the recommendations made by Rx&D members to the Standing Committee, but it would be remiss of me not to emphasize the importance of the recommendation on the National Pharmaceuticals Strategy (NPS), published in September 2004—a strategy that perplexes us, to say the least, as its intent seems to be to limit access to new therapies. Not only has it created regulatory hurdles, but its implementation is bound to have serious economic impacts.

This strategy—which is based on costs without taking into account innovation—and the larger than intended interpretation of the mandate of the Patented Medicine Prices Review Board constitute prime examples of regulatory contradictions that, unfortunately, discourage the introduction of new, innovative products in Canada. If we want our country, as well as its citizens and businesses, to be healthy and to prosper, it is paramount that regulatory harmonization and consistency be ensured.

CONCLUSION

On that note, like the other Rx&D members, I will leave the examination of our recommendations to the good judgment of the members of the Standing Committee.

We believe the conditions that have made health, science and technology research all areas of strength for Canada will remain advantageous as long as our political and regulatory framework provides a certain degree of fiscal, scientific and regulatory versatility.

Adapting to the changes resulting from the new world reality is no longer an option. We must now think globally if we are to succeed locally.

In a speech entitled Fiscal Federalism and the Future of Canada given to the Institute of Intergovernmental Relations at Queen's University on September 26, the Minister of Finance, Jim Flaherty, stressed the importance of enhancing Canada's ability to remain competitive at a time when our economic base is increasingly technologically driven and outward looking.

Rx&D's member companies are determined to work with him and the government today in order to succeed tomorrow.