Deloitte.

2015 life sciences outlook
Russia

Russia has the largest pharmaceutical market in Central and Eastern Europe, although consumption per head remains far below that of Western European countries.[1]

Russia's pharma market has undergone major expansion since 2011, stoked by increasing consumer affluence, government health programs, and strong investment by foreign firms. 2014 saw a slowdown in the Russian market's growth rate; even so, when compared to European countries, it is developing quite dynamically.[2] While the unstable political situation may put long-term growth forecasts into question, the Russian market still provides significant opportunities for drug makers.[3] Revenues are forecast to continue grow at rates similar to other emerging markets and could potentially total around $25.7 billion by 2018.[4] The government's plans to implement universal pharmaceutical coverage will likely be a major contribute to sales growth.[5]

Russia's pharmaceutical market = $17 billion in 2013

Growth rate = 10 percent annually in 2014-2018

Pharmaceutical manufacturing is also one of the most profitable industries in Russia. However, government control on drug prices could affect margins going forward and drive industry consolidation, according to analysts.[6]

Russia's pharmaceutical market is dominated by generic products and foreign imports. The country has around 400 pharmaceutical companies but most local manufacturers are small and uneconomical, relying on outdated equipment to produce mainly older drugs.[7] Under a program titled "Development of the Pharmaceutical and Medical Industry for 2013-2020,"[8] the government aims to raise the share of domestically produced pharmaceuticals in the market from around 20 percent to 50 percent by 2020, while the share of domestically produced medical equipment is intended to rise to 40 percent.[9] State procurement is one of the main instruments of government support for domestic pharmaceutical manufacturers, and the new Law on State Procurement is expected to provide a more accurate and transparent approach to its drug purchases, although the law currently serves only as a basis for the development of bylaws. The list of medicines that may be purchased by brand names has yet to be drawn up, and the criteria used for including or excluding medicines from this list are open to interpretation.[10] Government restrictions on the access of imported drugs for state purchases are also being discussed in cases where there are at least two drugs locally produced with the same INN. Currently the government provides a 15% benefit in state purchasing of locally produced drugs (those produced in Russia, Belarus and Kazakhstan).

1 *Industry Report, Healthcare: Russia,* The Economist Intelligence Unit, June 2014
2 *Development trends and practical aspects of the Russian pharmaceutical industry,* Deloitte, 2014
3 Ibid
4 *IMS Health*, Market Prognosis March 2014
5 Ibid
6 The Economist Intelligence Unit; Espicom 3Q13 Pharmaceutical Sector Russia, March 2013; www.usrussiatrade.org; DSM Group; http://healthcare.blogs.ihs.com/2013/01/21/russias-improved-pharmaceuticals-market-access-and-price-control/
7 *Industry Report, Healthcare: Russia*, The Economist Intelligence Unit, June 2014
8 *Development trends and practical aspects of the Russian pharmaceutical industry*, Deloitte, 2014
9 *Industry Report, Healthcare: Russia*, The Economist Intelligence Unit, June 2014
10 Ibid

Even as the government boosts its efforts to support local drug production, foreign companies continue to invest in Russia's life sciences industry by entering into alliances, making acquisitions, expanding sales efforts, and launching new drugs. Global companies are also building manufacturing plants to leverage favorable domestic production policies—and they do not appear to be changing their strategies based on the current political climate; indeed, having positively assessed the potential of the market, they are working to increase their presence in the country.[11]

In addition to an unstable political situation, life sciences companies face other challenges when operating in Russia. Government drug price controls are expected to remain strong and could put pressure on margins. A sharp rise in pharmaceutical prices in 2009 led the Russian authorities to introduce price regulations on medicines on the essential drugs list, which account for around one-third of the market. Also, official monitoring of prices through the Federal Anti-Monopoly Service has been stepped up.[12]

Weak patent protection poses threats to branded drug makers. Russia's IP rights remain weak and improvements will be slow, despite the country's accession to the World Trade Organization (WTO) on the August 2012. Product quality also remains a concern. More than 10 percent of products on the market, including prescription medicines, over-the-counter drugs, and vitamins, are believed to be counterfeit.[13] As of January 1, 2014 Russian medicine manufacturers must comply with GMP international quality standards. The Ministry of Industry and Trade must monitor compliance with these standards.

Oleg Berezin
LSHC Industry Leader
Deloitte CIS (Russia)
+74 957 870 600 x2188
oberezin@deloitte.ru

To learn more about the global trends and issues impacting the life sciences sector, please visit our 2015 global life sciences sector outlook at www.deloitte.com/2015lifesciencesoutlook.

---

11 *Development trends and practical aspects of the Russian pharmaceutical industry*, Deloitte, 2014
12 *Industry Report, Healthcare: Russia*, The Economist Intelligence Unit, June 2014
13 Ibid