

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM**  
**JUNE 16–18, 2011**

**Industry Breakfast**  
**HEALTHCARE IN RUSSIA: ON THE VERGE OF AN INVESTMENT RACE?**  
**Building Russia's Creative Capital**

**JUNE 18, 2011 — 09:00–11:00, Restaurant, Breakfast Area No. 2**

**St. Petersburg, Russia**

**2011**

The Russian Government has allocated nearly RUB 660 billion for investment in the healthcare industry over the next two years. The transition to a new healthcare system will include a number of fundamental changes, including the move from gross estimate financing to payment for services actually supplied; state procurement of medical services open to private enterprises; concessionary projects in healthcare models already in place; improved business management approaches for running medical institutions; and the introduction of a compulsory medical insurance system among other initiatives.

**Moderator:**

**Yuri Krestinsky**, Director of the Institute for the Development of Public Health

**Panelists:**

**Oleg Atkov**, Vice-President, Russian Railways

**Hakan Bjorklund**, Chief Executive Officer, Nycomed

**Rita Bobro**, Managing Director, Merck KGaA

**John Conroy**, Head of Global Strategic Initiatives, Baker & McKenzie

**Jostein Davidsen**, President, Nycomed Russia/CIS

**Joseph Jimenez**, Chief Executive Officer, Novartis AG

**Robert Rudolf Karl**, Managing Director, MSD Pharmaceuticals Russia

**Mark Kurtser**, Chief Obstetrician and Gynaecologist, Moscow Healthcare Department

**Valentina Matviyenko**, Governor of St. Petersburg

**Vikram Singh Punia**, Chairman of the Board of Directors, Pharmasintez JSC

**Alexei Repik**, Chairman of the Board, R-Pharm CJSC

**Steve Rusckowski**, Executive Vice-President, Royal Philips Electronics; Chief Executive Officer, Philips Healthcare

**Vladimir Shipkov**, Executive Director, AIPM

**Veronika Skvortsova**, Deputy Minister of Health and Social Development of the Russian Federation

**Paul Stoffels**, Company Group Chairman, Johnson & Johnson Pharmaceutical Research & Development, L.L.C.

**Lev Yakobson**, First Vice Rector, State University – Higher School of Economics

**Andrei Yurin**, Chairman, Federal Compulsory Medical Insurance Foundation

**D. Melik-Guseinov:**

Good morning ladies and gentlemen. Today's topic is devoted to our discussion of national healthcare in its various aspects. We want to talk about the new opportunities that are opening up before national healthcare in the light of reform and the adoption of new regulations, as well as about the stage that the healthcare industry is going through today; about the investments made in our country, and about the prospects for large Russian and foreign investors.

**Y. Krestinsky:**

We are conducting this event, and I would like to introduce my colleague, the head of the pharmaceutical and biotechnology industry committee for OPORA Russia, David Melik-Guseinov.

**D. Melik-Guseinov:**

And Yuri Krestinsky, Director of the Institute for Public Health. And so, Russian healthcare. In fact, just 10 years ago, there were very few people speaking on the subject of the attractiveness of investment in Russian healthcare. Healthcare had always been perceived solely as a social sector, as a kind of black hole into which money was invested and which was no more than a societal obligation. However, we now understand fully that healthcare is not only a social obligation of the state, and a tool for implementation of a demographic policy, but is also a serious economic tool.

Some statistics. The total volume of expenditure on healthcare in 2010 amounted to about 6% of Russia's gross domestic product (GDP). Of this, 4.2% of the expenditures were paid by the state, with approximately 2% comprising direct expenditures by members of the public. Note that this is a significant proportion. Of course, we can talk about comparisons, about 8% or even 10% in Europe and more than 16% in the US, where the volume of healthcare expenditure in 2010

was 30% higher than the total GDP of the Russian Federation. So much the bigger and better prospects for us.

We must also say, in fact, that there were no legal instruments to examine healthcare as an attractive investment sector. The country has a relatively low proportion of private enterprises and organizations operating healthcare facilities. However, this segment is developing dynamically, and the laws that have been adopted in recent years are providing new opportunities. The country faces a task, enormous in its complexity. And a great deal is being done. A new law was adopted, enabling the transformation of the legal forms of healthcare institutions' activities. A new law on mandatory health insurance was adopted, providing, in effect, the first legal opportunity for non-state enterprises to bid for state contracts for the provision of medical services. A basic law on healthcare for citizens is under consideration and we hope for its quick adoption. Certainly, there is a tremendous amount of work, on the levels of adopting both secondary legislation and regional legislation. Nevertheless, the ice has been broken. And during the first part of our breakfast today, we will talk just about healthcare, about the problems that stand in the way of its development, and about the opportunities that we have.

First, however, I would like to give the floor to the hosts of this event, the representatives of the city of St. Petersburg. I ask that Vice-Governor of the city, Mikhail Oseevski, make some welcoming remarks, and provide a brief overview of what is happening in healthcare in St. Petersburg.

**M. Oseevski:**

Good morning, esteemed colleagues. Since we are, after all, in the Northern Capital, our weather can vary: yesterday it was sunny, but today it is raining. However, I think that we are all in a good mood. I am pleased to welcome you to our meeting today. Yesterday was filled with many events, the centrepiece of which was, of course, the presentation by our president Dmitry Medvedev.

The main keynote of his speech was the policy of modernization, which covers all aspects of our lives: economics, politics and, of course, healthcare. We started the modernization of healthcare in St. Petersburg seven years ago, by creating a special program. We saw that there are a lot of elderly people in need of high-quality medical care in St. Petersburg. We knew the structure of diseases characteristic for our city, so we adopted special programs to combat cardiovascular diseases, primarily, myocardial infarction and strokes. St. Petersburg, unfortunately, like other major metropolitan areas, has a fairly high rate of neoplastic diseases. We have a lot of people suffering from diabetes, so all of these areas are priorities for us. We allocate a lot of money to buying drugs in four major areas. These are heart attacks, strokes, cancer, and diabetes. And today, anyone in need of such assistance receives these drugs free of charge. We believe this is very, very important.

Along with this, we have built many new health facilities and repaired old ones. Today, going into almost any hospital or clinic in our city, we see a modern high-quality medical facility, equipped with high-quality and effective medical equipment. We are big fans of implementing projects using public-private partnerships, therefore our investors are carrying out a great variety of healthcare projects. We actively use the services of the dialysis centre built exclusively using private investor funds and which is today the recipient of a government contract. Just yesterday, we signed an investment agreement to build a proton therapy centre. I hope that Mr Stolpner, who is sitting here, will invite us, in a few years, to the opening of this medical centre – unique in Russia – in which USD 150 million have been invested. We will, without doubt, treat our patients there at the expense of the city budget.

We have the unique experience of creating a children's hospice. This, of course, is a terrible phrase, but it is a problem that we must not forget. This institution was built using city funds, but its director is Archpriest Aleksandr Tkachenko, and this unique combination enables children to receive not only medical, but also

spiritual support. We are ready to share our experiences and talk about how it was implemented with those who are interested in this serious and important issue. We believe that this experience deserves great attention.

A few words about the pharmaceutical industry. After the appearance of Pharma 2020, the Russian Federation's strategy of pharmaceutical industry development, we formulated the concept of the St. Petersburg cluster, and I dare say that this idea has been explosive. No single direction, no new industry, not even our beloved automobile industry has developed at such a rate as the pharmaceutical industry in our city. Under the program, we have laid the foundation stone for a new Novartis factory, and I would like to welcome our colleagues. Yesterday, our workday was filled with new agreements. We signed agreements with Pfizer, AstraZeneca and Merck to create and develop their scientific and research centres in our city. This is a priority for us. We have a large number of universities, educational institutions, research centres, which allow us to create a full-fledged cluster and go all the way from the creation of a molecule to the production of finished drugs. So today, the pharmaceutical cluster has acquired if not its final, then its main outlines. Nevertheless, we continue to make contacts, and I hope that we will soon announce the new members of this project. I would like once again to thank all of our partners, working with us in the pharmaceutical cluster, for their attention to our city. I am confident that together we will achieve results. The main goal that we all see is to increase the longevity of our citizens, to obtain high quality and highly effective medical care. We all want there to be more Russians and St. Petersburgers and that they be happy, positive people. I wish you all good health.

**D. Melik-Guseinov:**

Thank you very much. Probably, such a coincidence did not happen by accident. The fact is that the entire country will be celebrating Medical Worker Day tomorrow. We wish you all, esteemed colleagues, a happy holiday. The vast

majority of those present here have another professional education. However, healthcare system pay is growing year by year, and this is certainly something to be happy about. Contributions to insurance plans have increased significantly, but healthcare itself was the hardest-hit by this. In particular, if we are talking about the pharmaceutical market, the weakest link here at this moment is the retail pharmacy. The increase in insurance payments along with the simultaneous abolition of the UTII regime has led today to big problems for many participants in the healthcare system. Perhaps, it is time to give the floor to the representatives of the major organizations that are, as we say, the holders of the healthcare system budget. Yuri, the floor is yours.

**Y. Krestinsky:**

A few more figures. The total cost of healthcare in the Russian Federation in 2010 amounted to 2 trillion 300 million roubles. This figure, in fact, is colossal. We are now talking about both public expenditures and the citizens' expenditures on healthcare and drugs. In this case, as I said in the beginning, today the healthcare management sector is almost completely uncapitalized. So where can investors find a place? And is there one, when it comes to such a delicate, socially sensitive sector as healthcare?

As the experience of foreign countries shows, there is, of course, such a place. If we are talking about what the new legislation gives us, then it is possible concessions; the possible use of the tools of management companies; the construction of new health facilities, which are what is called 'open field' projects. Another question is how long it will take to ensure that the regulatory framework has come into compliance, and that these possibilities could be realized. However, David talked about the increase in insurance premiums, which, on one hand, provided new opportunities for funding healthcare, in the first place, in order to level the conditions in Russia's various regions. We need to understand that the socio-economic development of the countries different regions varies

greatly, sometimes a great deal, and because we are after all a federal state, there is a big difference in the volume of healthcare system funding. So, the innovation of the introduction of insurance premiums, in fact, was assumed to be one of their objectives in aligning the conditions for financing under the system of mandatory medical insurance. As to how this takes place, and I must say that from 2010-2011, as a result of these innovations, 460 billion roubles were expected in additional receipts for the system of mandatory medical insurance, which in turn, should be directed to the modernization and technical upgrading of health facilities – I would like to ask Andrei Yurin, head of the Federal Mandatory Medical Insurance Fund, to speak. Please go ahead.

**A. Yurin:**

Good morning. There are no two like systems of organising healthcare in the world. In Russia in recent years, financial support for healthcare has essentially come from two sources. About half comes from public funds, especially in the regions of the federation. The second half is mandatory health insurance funds, which were provided to medical institutions through the system of compulsory medical insurance. Last year at the state level, a decision was taken to do this in such a way, that funds from the system of mandatory medical insurance still hold greater weight in the funding, based on the fact that it we need to observe the principle ‘money follows the patient, the consumer of budget services’, and of course, in this case, the conditions are created to enable the patient to choose the medical institution and insurance companies. Of course, this creates precisely that competitive environment in the medical services market, which is one of the conditions for improving the quality of medical services. So, the new law provides for the possibility, first of all, of single-channel financing in healthcare, and this means that medical facilities will receive payment for treating a patient at the full rate. And this full rate, pursuant to another, 83rd, law on the status of state-funder institutions, upon receipt by medical facilities, will not be

spent on the same budget items as before, but rather the fate of these funds will be determined by the management of the medical facility. This, clearly, allows for a greater degree of freedom in decision-making and a greater ability to respond to those needs that exist at the treatment facility. So, the liberalization of the health services market, on the one hand is single-channel financing and, on the other hand is another important measure, which was fixed in this law: the free entry of medical facilities into this market. Until last year, the question of which medical institution worked and which did not in the medical services market in the system of CHI (Compulsory Health Insurance), was decided by administrative means. Now any medical institution, which has the right to provide medical services, is entitled to free entry into the system of compulsory medical insurance. This, of course, also increases competition in this market, but on the other hand, imposes liability for market regulators to ensure that high quality healthcare is provided, as it should be. Of course, this approach creates the conditions for a greater inflow of investments into the industry. Naturally, the funding of healthcare itself has significantly increased: if the present CHI system provides about three thousand roubles per year per capita, we believe that in three or four years it will be 10 thousand, meaning that we expect it to increase significantly, due to changes in the plan and an increase in the volume of funding. Whereas last year, all of the budget expenses of the federal regions on investment in healthcare, equipment and construction of new buildings accounted to about 100 billion roubles for the year, then with the transition to new the tariff rates and the implementation of the modernization program, this volume has almost doubled. That is, the healthcare modernization program, which is now beginning to be realized in Russia, will allow the investment in healthcare to be almost doubled and, of course, the re-equipment of buildings with new high-quality equipment and bringing them up to the condition required. Levelling financial security for the regions of Russia is also an integral part of the new law, and we believe that it is very important for the implementation of the

constitutional principal that every Russian citizen should have equal rights to healthcare.

What should be worked on in the future to increase the attractiveness of investment in the industry? Perhaps, after some time we can talk about the fact that, to a large extent, expenditures of an investment nature might be included in the CHI tariff. Today, these expenditures remain largely outside the scope of the tariff – they remain with the owner – and through the CHI system, equipment worth up to 100 thousand roubles may be purchased. It is clear that as the system's funding and readiness allow, it may be possible to discuss the issue of a portion of the investment expenditures will be included in the tariff.

I would like to point out that a number of Russia's federal regions have already actively begun modernization programs. Of course, here we can point to our hosts, the city of St. Petersburg. We can point to Yaroslavl Region, Kaluga Region, whose leaders are present and where, after the increase in the inflow of investment and changes in the organization of healthcare, the most important thing – public health figures – have significantly changed. This is the goal towards which we are all striving for in all of the aforementioned. Thank you.

**Y. Krestinsky:**

Thank you very much. There is another aspect that I would like to talk about. We are talking about how new legislation is being adopted. Quite a lot is being done and, indeed, the processes are moving extremely fast. But we still do not have a single system of bearings. The country, unfortunately, does not have an approved strategy for the development of healthcare, as such. We have an approved demographic policy. We have a number of other sectoral policies; in particular, the development of the medical and pharmaceutical industries. What exactly is the problem?

To discuss this and to make conjectures at this point would take a long time, however it is clear that the 2008-2009 crisis brought about changes in one of the

basic documents. This is the concept of socio-economic development of our country for the period up to 2020. As many of you here know, this concept is being re-worked now, including, in particular the strategy for healthcare development. It is our sincere hope that, in adopting this document, the concept of healthcare development will be adopted as its continuation. And while we are working on the socio-economic concept as it relates to healthcare and quality of life, I would like to invite the First Vice-Rector of the State University Higher School of Economics, the head of the working group, Lev Yakobson, to speak.

**L. Yakobson:**

Thank you. It was not very easy for me to choose what makes sense to talk about today. Why? Because there is work going on in many different directions. I will talk about this very briefly a little later.

We are examining a set of very specific problems with the participation of dozens of experts. For example, those who stand here beside me, and many other experts in the field of practical healthcare, with regards to ecology, in the field of physical education, with regards to the market. But I want to start here with something else. I am, after all, an economist. Many of you probably know that President Truman never realized his dream: he dreamed of finding a one-handed economist. If we recall in English the phrases 'on the one hand' and 'on the other hand', we immediately understand why he dreamed about this, and why this dream was absolutely hopeless. We economists always look at any subject from different sides.

Yesterday, one of the sessions at the Forum, dedicated to prospects for economic growth in the world, was set up very well, in my opinion. Sergei Guriev, moderator of this debate, divided the speakers into optimists and pessimists. They were allowed to choose on which side they spoke. The result was a rather three-dimensional picture. I am not a pessimist, but still, there will certainly be a lot to talk about, and they have already talked before this about the huge

prospects for investment in Russian healthcare. I share this point of view, according to which prospects are great, but I would still have tried to focus on problems and on barriers. Again, here in Russia, at an investment forum, discussing various issues, you inevitably recall the so-called 'resource curse': there are a lot of natural resources, and no interest in investing in change. The theme is heard constantly, not for the first time, and not only here. It would seem that healthcare does not have such a problem. The organizers of this debate have prepared a very interesting and useful, in my view, handout, which shows that healthcare in Russia is experiencing an acute shortage of resources. If we compare the way that healthcare is funded by our G8 competitors, we see that we have tremendous opportunities for increasing expenditure – a useful increase. Moreover, Russia's population is accustomed to assuming, as polls clearly demonstrate, that a Russian citizen has the right to the best healthcare in the world. This is a real fact. Such are the people's expectations. I will not now discuss how they are formed or the extent to which they are justified. But a Russian citizen says, I repeat, that he is entitled to the best healthcare in the world. The level of spending is low, hence the amazing mirror reflection of the situation, which is usually associated with the term 'resource curse'. It is possible to justify, and this would be correct, the endless race in healthcare spending by freezing its existing structure. Since there is a total lack of everything, then why introduce some structural institutional changes? We just need to, so that there will be more of everything. More doctors, more beds, more drugs. It was difficult to make this choice for my speech, but I think it is important to talk about this. Arguments will ensue, and they will be correct, in support of the view that there is a total lack of everything, so let us invest in one, in another, in a fifth. This is right, but it is not enough. Here, in Russian healthcare, what is most needed now, as in the Russian economy as a whole, are investments in change. Structural and institutional changes, changes in the attitudes of people towards their health. It is very difficult to make this choice, because change is always difficult, because it is

less predictable. If we talk about results, then a simple increase in spending is also difficult, because changes in an industry such as healthcare require an extended time. And when it comes to such long-term processes, a business, of course, considers how my strategy and my company's strategy will be adequate for the changes that will occur in a broadly defined economic environment and in the healthcare environment itself. I will act rationally in terms of some examples, certain ideals, but development will be along another line, and I do not fit in that development.

Here I come to the work that we are doing. Of course, we are not carrying it out on behalf of business interests. First and foremost, our own, if I may say so, political leadership of the country is stepping up as the customer. The order to prepare a proposal came directly from the Prime Minister. We report to him on the steps that we have already taken. In particular, we have had to report to the Prime Minister twice on our ideas on the subject of healthcare. But, of course, we do keep business interests in mind, as we understand perfectly well that the state alone can do little in such a complex industry. Incidentally, I have a few copies of the report of the Higher School of Economics in Russian. That is its title: 'Can the State Cope Alone?' The report concerns not only healthcare, but also relates to social policy. Its conclusion is unambiguous, and, I dare say, it is proven. The state cannot cope alone with any of the difficult social problems it now faces.

Now, very briefly about the context of our work. I hope, from what I have said, that it is clear why we construct our work as a system of long-term projects. These are not reforms, or just another plan to change the rules of the game, despite the fact that we really need to change the rules in healthcare and in business, in general. We support, overall, those legislative changes that were mentioned, though I must say, we have criticized much in them. Some things were taken into consideration, while other things were not. We feel that it is necessary to improve further relevant laws. But again, I want to emphasize that it is not just the laws, not just the rules of the game: the crux lies in long-term

projects. We are talking about a holistic approach to healthcare in the broadest sense. It seems absolutely hopeless to attempt to catch up, in terms of expenditures, with not only American, but also Western European medicine. We added it up and, in order to reach today's Western European levels, the expenditures for medicine must increase three and a half to four times faster than the projected GDP, and then in 2020 – that being the finish line marked out for us by the head of our government for our work – then in 2020 we will have something like that which Western Europe had in 2010. It is necessary to increase spending on healthcare, but it will not grow four times faster than GDP. We analyzed all the options. Meaning, we need an asymmetrical response. A comprehensive approach. Therefore, we are engaged not only in medicine, but in ecology, and we work very closely with specialists in this area. The subject of mass physical education and people's responsibility for their own state of health. The theme of prevention, subjects of healthcare service as such and, unusually for our country, we are focusing more on specific social groups. Somewhat simplifying it, I would say that our healthcare system today is aimed at the old and the young, at children and the elderly, because it is medical. But meanwhile, as many of you know well, Russia's lag in healthcare is more often associated with the peculiarities of diseases and mortality in people of working age, especially men. This is not a question of medical care, but of entirely different living circumstances. We, I repeat, are very seriously engaged in medicine for adults.

And another thing: when we lined up a strategy to develop healthcare, we had in mind that which in Russia is known as the 'average hospital temperature'. Meaning for the average person. The average person in Russia is quite poor, and we, therefore, do not routinely see the opportunities that are generated by the demand of more solvent groups of the population with respect to healthcare. We are not by any means calling for healthcare to be commercialised, neither completely, nor in part. But we are in favour of removing barriers, and they are

very high today; the barriers that divide the demand for high-quality medical care and the availability of such assistance. For people, who want to pay for their health and treatment, it is easier for them today to be treated in Germany, Israel and other countries, but not in Russia, despite the fact that there are good hospitals and good doctors in Russia. It would take me too much time, if I began to analyze out loud why this is happening. There could be many reasons. This is not a simple issue.

But I would direct your attention to one thing. This is a very difficult issue for business and government, though, I repeat, this is not the only problem, there are many other barriers. We are dealing with them and are preparing a concrete proposal. But one of the reasons is the lack of reliable quality control. Allow me to say, without mentioning the last names of someone present here at the Forum, though not in this room – a member of the government. Moreover, he is a very wealthy man, because he came to the government from a successful business. He once said at a meeting, “I am a member of the government. I am a wealthy man. I can pay, but still I cannot guarantee good treatment for my relatives in this country.” This is a real problem. Why? Because there is no quality control. Neither the state, nor business, nor the insurers are invested in this – nobody looks to this today. And while it is not a requirement, healthcare in Russia will remain an unattractive investment. And I think that if we talk about healthcare, leaving aside other issues, those issues of physical education or the pharmaceutical industry, business today must be most persistent, getting the state to invest – not itself – in real quality control. Then we will see who treats well, who is reliable, and who is not reliable. And then the patient will go to whoever offers really high-quality services. There is an enormous reserve of growth in demand, corresponding to the growth of business. I have been speaking for too long and, probably, will finish on this. If there are some remarks and questions, I will answer them later.

**Y. Krestinsky:**

Thank you for this speech and for the informative message. A small remark: you said that the country could not increase healthcare costs at a rate of three and a half to four times faster than the growth of the GDP. However, when we talk about the consumer segment of medical services, when we talk about that part of the market, about that part of the industry, where the individual acts as the payer, it must be said that this segment is growing at a rate, not even three and a half, but five times faster than GDP. When we talk about providing drugs, even when the GDP in the country is falling, costs for the population are growing and are also growing at a significant pace. This is likely a problem, because today for healthcare overall, about 26% of costs are borne by the patient, so if we are talking about the pharmaceutical market, then, excuse me, two-thirds of costs are borne by the users, which significantly alters the very structure of drug consumption, which, in our country, unfortunately, is different from the structure of the incidence of disease. However, we will continue.

**D. Melik-Guseinov:**

Let us return to our subject. 'Russian Healthcare on the Verge of an Investment Boom'. Today, private organizations and private businesses are ready to join the compulsory health insurance (CHI) system. The question is whether or not the CHI system is ready for this turn of events. And do not forget that there are also alternate systems, which successfully exist and provide a specific example of how to build a system. And now we should probably give the floor to the representative of the largest departmental medical network in Russia. With pleasure, I would like to call on pilot and cosmonaut, Hero of the Soviet Union, Dr. Oleg Atkov, the representative of Russian Railways. Please go ahead.

**O. Atkov:**

Thank you very much. That is a little paradoxical and strange sounding: cosmonaut, doctor, railroad man. In fact, I have practiced medicine all my life and done so with pleasure. I introduced and still bring in the knowledge, the experience and the technology, from the industrial environment or from production, where there are high risks, and where people work under heavy workloads and in stressful situations. So, I will continue the thought suggested by Mr Jacobson, who said that we need to invest in change. It is difficult to disagree with this. We have long made our own investments in change and have obtained results. We are talking about the more than one million people that work for Russian Railways, about an equal number of pensioners and the same number of family members of railway workers, because if we do not take care of our people, who will come to work for us? Therefore, we have accomplished significant achievements in the level of incidence of disease, resulting in temporary disability. We have managed to reduce it by 9% in five years. This is a very significant figure. However, I would say that the federal budget, of course, provides significant funds, as already mentioned, so to speak, for recovery. This is not the best in our industry (I mean healthcare), and the RUB 660 billion will be far from redundant. The only thing left is to decide on priorities: in what and how to invest. We really have a lot focused on small children, childhood, and pensioners. Indeed, we have left somehow out of the equation the same people, who create this very gross domestic product. We need to invest in those who 'lay the golden eggs', because otherwise, we will not have this gross domestic product. Our company, for example, came to the conclusion that it is necessary to create special positions in enterprises – the so-called engineering-medical teams. It may sound paradoxical to you, if you are not sure what these are, but how a person's workplace looks, the extent to which it meets safety criteria, including environmental safety, is a major factor influencing his health and professional longevity. We have established these engineering-medical teams across our entire system and they have achieved great successes. We would like

to have a public-private partnership. So, for example, five mobile advisory and diagnostic centres were created in our industry. They are sometimes called the 'health trains'. They do not operate in metropolitan areas: metropolitan areas have their own medicine, and it is quite well developed. No, we go to distant stations, where there is no specialized and competent assistance or sometimes no medical assistance at all – even first-aid stations. We would like to count on the fact that we, together with the Fund for Compulsory Medical Insurance and the Ministry of Health, could provide medical care to the people of the provinces, not only for our own railway workers and for their families, and that the costs that we are prepared to bear would be compensated. And, I assure you, these trains, each of which is worth about RUB 169 million, are equipped with the latest technology, in order to be of use to all Russians. Sometimes, visiting new territories, we identify new diseases, which, alas, are already in an 'advanced' form, because there are already tumours in the third, even fourth stage. So, in approximately 25% of cases, we re-discover previously identified pathologies. And this, of course, is not pleasing, but at the same time, we were prepared to work with our colleagues in public healthcare.

I would like to say more about this: why do we need to build in those places, where we already work? And we are working in all the territories of Russia, we have 255 of these clinics, where there are actually 23,000 beds, employing staff, consisting of 12,000 doctors. Those who work in healthcare are only about 65,000 people. So, maybe it makes no sense to build castles in the sky, which has happened and is happening in situations about which you know well. As it was for many years, for example, in the Novosibirsk region, where for the excellent neurosurgical services that we have, a huge pit was dug, which for many years reminded local residents with its fence that a neurological federal centre would be built here some day. Deadlines, however, are occasionally shifted. Why invest where there is already a live, real tree, which simply needs to be cultivated together in order to reap the rewards later together? So I think that

if we approach this issue pragmatically, then we will not have any further distortions – including funding by the CHI, because, depending on the area, we are not financed in the same way. And we will finally be included in the program of healthcare modernization because our medical institutions, unfortunately, have been excluded, in this case, from federal programs and the provision of high-quality medical care, and here we have the most tremendous prospects for us to work within the framework of public-private ownership, not civil-private. Although, of course, people are coming to us with money, which has already been mentioned here, and we have earned approximately 25% of our budget in the market of paid services. I would like us to work more closely here and invest in sectors that have good prospects for quick returns. Thank you.

**Y. Krestinsky:**

Thank you very much. 255 institutions! In fact, we are talking about the largest corporate network of integrated medical care in Russia. And yes, these networks are still there. There is the Gazprom network. There are also private networks, when we talk about the Ministry of Defence, Ministry of the Interior, even the Ministry of Justice. If cooperation does not even fit within the state, because the Russian Railways – it is all the same corporation – then how is it with private clinics? It is not the best way, even though there are positive examples. And one such example is the experience of LDTS MIBS, which specializes in a very narrow field of services in magnetic resonance imaging. The Chairman of the Board of Directors of the company, Arkady Stolpner, just recently signed an agreement to open the next centre in St. Petersburg, and I would like to give him the floor.

**A. Stolpner:**

Thank you. Greetings, esteemed colleagues. First of all, I want to wish the doctors here a happy upcoming Medical Workers' Day. Frankly, I did not expect

that you would give me the floor, so I guess this will be impromptu. The most important thing that I wanted to say was that there are a lot of economists, and they have talked about investments in healthcare and the economic aspects of it all. I want to note, that the medical business is a special business, and economic laws do not always work in it. This is a very delicate thing, because we are faced with virtually defenceless people. Our end user, in fact, is a sick person. I guess there are only two areas where services are provided to people who are sick: children's education, and healthcare. So here, I think, we should behave very politely to business, to the government, and to economists.

The second thing that I would like to say: Yuri quite rightly said, that in the areas where the patient pays, this is really, really good business, very good economics, if the patient can pay, and the demand for health quality services in the country is, indeed, huge. I stress – for quality services. This is deferred demand, which it would be good to satisfy. The main problem with this demand, perhaps, is that it is insolvent. And insolvent demand is waning demand, and we need to concentrate on in some way increasing the workforce capacity.

This is certainly a complex issue. I would like to cite some figures. Do we need to invest in healthcare or not, is it advantageous or not? Just a few numbers. Imports of medical equipment: tax rate, import duty – zero; value added tax – zero. Provision of health services: value added tax – zero; profit tax, as of next year – zero. In St. Petersburg, by the way, there is zero tax on property. So, of course, it is profitable. And most importantly, I would like to say, synergy is needed and a necessary resonance between the actions of private institutions and the state. If there is a synergy, if the state will support private business, I think that we need to get resonance, and then, perhaps, everything will succeed.

**Y. Krestinsky:**

Thank you. And a few more remarks. In this case, we would like to give the floor to the regions. Please, Sergei Vakhrukov, governor of the Yaroslavl Region.

**S. Vakhrukov:**

Thank you. The stated topic for today is very ambitious: 'Russian Healthcare on the Verge of an Investment Boom'. However, judging from the debate we are having, I get the impression that we can either stay at this threshold and not get investments, or we can trip over this threshold, so that our healthcare will require long-term treatment. That is why I still want to say a few more words concerning the aspects of regional healthcare, because no matter what large systems we may have with Russian Railways or Gazprom, no matter what major private healthcare systems we have, as long as they are only in an embryonic state, the most basic healthcare is concentrated now in the territories of the Russian Federation, and we have a huge number of problems there, which we shall have to tackle. Indeed, we do not have a concept of healthcare development, but we have no time to wait. We need to get moving, and we are well aware that the funds allocated today to the healthcare system should be, first and foremost, used effectively. This is a fundamental question, and here I am in full agreement with Mr Jacobson. We need to invest in change. Do we understand how we need to change our healthcare? You know, I can say pretty firmly that we do not fully understand. And, in this, the experience of those present here today is crucially important, the experience of those companies that we invited to attend today's breakfast, and with whom we have been starting to cooperate very actively of late. We can invest this money, and these are, in fact, funds that will go to the municipal level. They may be squandered, and we just get another chapter in inefficient healthcare in Russia, where we once again invest very large financial resources. That is why we, for example, have solved a very important issue that has recently begun to be implemented. We have transformed the pharmaceutical industry cluster into a cluster of a modern pharmaceutical industry and innovative medicine practice, and have begun to implement it. And today, for us, the fundamentally important thing is the basic methodology for treating the

healthcare system, the introduction of new methods and new approaches to treatment. Yes, we have learned how to allocate sites for the construction of new factories. Yes, we learned very quickly to accompany these investments, and I am sure that the construction of new pharmaceutical companies will be very active in this country. But, unfortunately, we have not learned yet how to attract the experience of large international companies in practical medicine. And we are gradually starting to do so. I am grateful, for example, to the company Novartis, because lately we are moving very rapidly in the organization of care for cardiovascular diseases. We are already on a very good path, and indeed, the experience of these companies is very important. But what did we do first? We began an analysis of how to get the most effective results from large financial means. Namely, the company prompted a model that would allow us, without increasing the investments by three or four times, to use the resources that we have, to move, achieving good practical results.

The second is a thing that is very important to us. Here, I think many people would be prepared to join and invest in our healthcare system practice, and not just in the construction of enterprises. But we should very precisely formulate the question: what do we want from these companies and what can they get from our cooperation? Because the declaration that the money today is going to the patient is, unfortunately, only a declaration, and we need to move towards this. The declaration that the patient can choose a treatment facility is still also a declaration, because in Moscow, St. Petersburg, in Yaroslavl, there is a choice, but dig down a little lower and where is the choice? There is nothing to choose. We need to create this choice in order for there to be a possibility. And here we are able to offer a very clear, understandable system of interaction with private business. We are ready to invest in creating new conditions for Russian citizens to have a choice in medical services. And I'm sure it's a lucrative business, which as a result – maybe not in a day or not in a year – will bear results in terms of

benefits for the company, and from the point of view (most importantly) of the benefits for the protection of the health of our citizens.

I would very much like it if today we continued talking about what the companies which are present here – major, serious companies with extensive experience – need from us to move forward together and to invest money, and what we need to accompany their public investments with, to get the effect which we expect: to improve the health of our population and create a new system. And this, I think, is a fundamentally important question. If we decide it in the near future, then by quickly going over the threshold of this investment boom, we will actually create the conditions for a good investment boom in the Russian market of healthcare and pharmacology. Thank you.

**Y. Krestinsky:**

Thank you, Sergei. It is nice to hear such words. And we have another leader of a prominent and, I need to say, innovative region. Anatoly Artamonov, Governor of Kaluga Region.

**D. Artamonov:**

Good day, esteemed colleagues. After my friend Sergei, who has trained his rhetoric well in the State Duma, I cannot say anything to get from you the same applause, but, nevertheless, I will try to speculate about a few practical issues of today's topic.

First, the obvious must be admitted: none can deny that Russian healthcare in recent years, starting with the national project, has taken meaningful, concrete steps towards the strengthening of this large and complex system, and its different components. Actually, it is an integral part of healthcare and pharmacies. Here today, probably, most of those assembled work in pharmacies, are interested in selling pharmaceuticals on the Russian market and in their production. These two things, of course, are much interconnected. If we take the

example of any region, including ours, we see that it is improving and helping those people who suffered on the roads as a result of automobile accidents, cancer, and cardiovascular diseases. But the main thing is that a system is being built from top to bottom, and its four main stages are already clearly looming. This primary care, which is dispensed in rural health centres and healthcare centres in enterprises; this assistance is at district municipal hospitals, inter-municipal and regional medical centres. And further, there is already high-tech help. What does this allow us to do? This allows a more competent and qualified use of the most complex medical equipment that we buy today in the framework of implementing various programs – including from companies which are present here. The same thing happened a few years ago, including during the implementation of the National Healthcare Project. The expert class equipment turned up often there where it was only used two-three times during a shift. But regional medical centres, in which these programs did not end up, they worked on equipment of several orders lower than its class. This is now corrected.

Today it is about departmental healthcare and, in particular, as it was addressed by the esteemed gentleman who chairs the departmental healthcare in Russian Railways. I, generally, am a categorical opponent of departmental healthcare. The health of the population is the direct responsibility of the state in partnership with business, but with this business that only deals with this subject. That is, public-private partnership. And if a company produces coal, gas, transports passengers, it should take up precisely this topic. As a result, we now get money that we could concentrate on the most important areas of medical care, we disperse it, and in some places, it is quite thick, and in others very empty. Even within a single system, for example, Russian Railways, there are probably huge achievements and they are building high-tech centres, and we know about this. And yet, in Kaluga, where healthcare has been developing in recent years, in general, I would say, it is wonderful, and we have good results – the medical facilities of Russian Railways fell into disrepair, and today two-thirds of their area

is simply under lock and key, and that which remains it impossible to look at without crying. And the content of these facilities sits in tariffs for railway transportation, and then we wonder why tickets are expensive or transporting one ton of goods is expensive.

With regards to pharmacies. Today many companies come, in this case, to our region, we are creating for them, as they themselves say, excellent conditions, no different from European ones. Yesterday we met with the President of AstraZeneca, and will continue to do so, but it is very important that these companies in our country work competently and professionally. This in turn depends on what personnel we can provide them. And today we are working to create a good learning centre, where staff will train personnel on the model of how we train staff for the automobile industry. We have invested more than EUR 20 million into this centre, and this centre of ours will also be costly, but necessary, and we will prepare specialists not only for our businesses, which we will have, but we will offer this service for many companies in Russia. We ourselves in the region have adopted a special program, and it is very promising. The only thing that I would like to suggest to our colleagues and investors, who are present here, is to take advantage of opportunities created in the industrial park of Obninsk in the field of high technology, which will focus primarily on biotechnology. Today the city has over twenty-six companies that conduct research in the pharmaceutical field and, in this case, have achieved success in radio pharmacology and in other directions. I invite you to cooperate, and for those companies that wish to conduct their research in Russia, in our region, we are prepared to provide production facilities at this industrial park on highly concessional terms.

And a small note on advertising various medications in the media. This is a very acute question today. The population says a lot about this and the population talks about this and is rightly indignant, because many have tried and damaged their health. I think that this is incorrect in relation to the population because

thanks to the profit of companies, which buy advertising time, not only is the population misled, but also the drug market is somehow hypertrophied. And I think that we should go within the framework of those standards that are used today in all developed countries, limiting the freedom of these ads in some way.

**Y. Krestinsky:**

Thank you, Anatoly. I would like to say a few words about experience. Now I want to give the floor to the person on whom literally the birth of new people depends. This is the main obstetrician of the Department of Health of the Government of Moscow, Mark Kurtser, who, in addition to heading the maternity service in our capital city, stands at the source for attracting investments to the birthing service. And, to my knowledge, the experience, which started several years ago, developed quite successfully. Mark, please, a few words.

**M. Kurtser:**

Thank you very much, Yuri. I also wish everyone a happy Medical Workers' Day. I want to emphasize that in Russia it is called Medical Workers' Day. With this, we not only mean doctors, but also all those who are involved with medicine – technical staff, managers – and it can also be applied to investors who go into medicine. So I wish you all a happy day.

I do not quite understand, Yuri, which questions you wanted to discuss. I can tell you about the successes of the Moscow Medicine Obstetrics and Gynaecology, or, conversely, dwell on why investors are slow in getting into healthcare. Which questions are more interesting to you? The second?

You must understand that I am an obstetrician-gynaecologist, and that my viewpoint is 'from the pelvis'. I am not an economist by profession, so I hasten to say that here there will be an element of great subjectivity. I liked many of the speeches that I heard here. I liked the performance of a colleague, who correctly described all the tax benefits. I have hope, that nevertheless finally the zero tax

rate on profits for the second half of the year will be able to be introduced in Russia.

I would like to begin my speech by asking the Ministry of Health, which is not here: to approve the list, a list of medical services, and then the law will take effect in Russia. However, I'm sure that without our reminders, they will do it anyway.

For me, as a doctor, it is very clear why investors came to us in the pharmaceutical industry. A very simple answer: here there is no need to be cunning, because in Moscow there is actually a very brilliant, good indicator: life expectancy is rising. What does this mean? There are an increasing number of consumers who will take drugs. And the more that we can extend life expectancy – and this is not just the medical field, but also social security, payments, nutrition, ecology – the greater confidence the pharmaceutical companies will have that their investments will be returned. And again, as a physician, I understand that the investor gives money to the state, or regional authorities when he clearly understands how this money is to be returned. That is, how it is spent, everything is understood. But how to return this money? And here is a list of pitfalls.

I absolutely agree with colleagues who have said that we have a low population solvency, and rely on the fact that patients, and the elderly – namely, at their age, serious illnesses, which are expensive to treat, tend to arise – they would come and leave cash in the till, which is not possible. In fact, the state is doing quite a lot: single-channel financing is accepted; they changed rates and the compulsory health insurance fund, which I hope will approach normal rates, reflecting a normal salary for physicians, and all other costs. But I want to say that this mechanism is very clumsy, very complicated. And what, for example, do I deal with as a healthcare organizer? Suddenly, without warning, rates for utilities are raised. But will I be able to raise the medical-economic standard? Why is the Compulsory Health Insurance Fund not aware that our energy prices have been

raised? And then suddenly the Ministry of Emergency Situations released a new law, in other words, that it is necessary to ensure fire safety. And the Compulsory Health Insurance Fund has not received this order? And if they did receive it, why did I not receive the same information that rates changed right away? And gas, which has increased in price? And for us each medication, each catheter here all increased in cost. And so on. There is a unified social tax of 32%, which was immediately reflected in the cost of a bed. And the question arises: am I the only one who knows this, or do the investors here know this, as well? Maybe the investors also know this. And until a clear interrelationship is created in which the investor understands that he has invested money, included inflation risks in the cost of his service and sees the mechanism for delivery of this money in the form of payment for treatment, we have formed a queue. Until we do this, we can only wait. But this is a little preamble.

What would I like to say of interest? We must understand that we have a very large country. And we are faced with such problems in Moscow – where there are quotas, that is, when the state pays a certain amount for services, for example, for IVF, which costs about RUB 100,000 for one attempt. But for the patients to come to Moscow, they have to pay for transportation, accommodation, etc. and they have to spend even more than just the cost of this attempt. So today, I want to stress, that it is very correct when ideology goes into regional development of healthcare. It is more correct because otherwise logistics companies take away all of the savings that the state wishes to give to our patients.

And the last thing that I wanted to say: we, for example, are currently developing techniques for the diagnosis of monogenic diseases, chromosomal pathology, we work with most regions that have clinics, but they have no genetic laboratories. They take a blastomere biopsy, they take one cell, send it by DHL to us, we conduct an examination, make a diagnosis, send it to the region, address the clinical situation, and our patient carries a healthy embryo. We can cite dozens of

examples of interaction between the centre and the regions, which largely will save money for the regions, and then patients spend their savings more efficiently. Thank you for your attention.

**Y. Krestinsky:**

Thank you, Mark. I would like to give the floor to the regulators. Today we have no representative from the Ministry of Health and Social Development, but there is another person to whom I am very pleased to give the floor, especially since she has leadership experience in a relevant department of the Ministry of Health. She led the Department of Medical Treatment, and is now the Director of the Department of Economics, Social Development and the priority programs of the Ministry of Economic Development. Galina Makhakova.

**G. Makhakova:**

Thank you very much, esteemed colleagues. I would like to begin by wishing all of those who are associated with the healthcare system a happy Medical Workers' Day. Of course, this is a popular holiday in Russia. I wish all of you working in the healthcare system only the best.

Today in Russia there is a unique situation, when indeed there is an investment boom, and the funds that will enter the healthcare system over the next two years are vast resources of, in total, about RUB 800 billion, and it is necessary to consider this all in total, because of this, RUB 460 billion is 2% of the insurance premium. RUB 150 billion will come from the subjects of the Russian Federation, plus the investment costs of the federal budget, departmental and other expenses. Thus, if it is looked at closely then the total probably approaches a trillion roubles. But the most interesting is that part of this trillion in 2013 may indirectly appear on the market. This will be about 300 billion roubles, with which medical services will be purchased. Today, foreign and Russian investors have a

lag of two years, when they can prepare and compete for these funds, and the funds are really good.

What has happened so far in healthcare, and what is happening that will be supportive of these investments? First of all – Andrei talked about this – this is a reform of mandatory health insurance. This is the right to choose a government medical organization and a medical insurance company. Here is the market, which is open today, in which you can go out, get ready and fight for these funds. The second point is the modernization of healthcare and the implementation of regional programs of this modernization. All regions have built their own programs. These regions are very different, they set quite different priorities, but I must say that the regions today are eager to optimize the costs of healthcare. And, of course, it would be nice if by this time they had managed to adopt the main bill on the basics of public health in the Russian Federation and consolidated key positions that would give clear guidelines to those who come to this market in 2013.

The next point is the reform of budgetary institutions. This is a key process and, above all, because the institutions work on a government job. And this government job may be placed in a budget as well as an autonomous institution, and private medical organizations may participate in the competition for this government job. In this matter, much today has still not been defined with respect to how this will be lined up in the future, but, of course, private medical organizations with high quality medical services may be accepted in this market and may compete for state and municipal jobs.

The next issue is the liberalization of immigration law. Today, the Ministry of Economic Development is very actively working with the Federal Immigration Service and you, probably, are aware that to a significant degree the procedure is simplified for highly skilled foreign professionals. They may be specialists, direct care providers, and they certainly could improve the quality of these services and help organizations compete for these investments. And, of course,

they may be competent managers, including senior managers, who should be invited, first of all, by regions and major institutions, departmental agencies, and managers who are able to construct a proper model of medical care at the regional level, municipal entity, a specific institution, or medical organization. And this will really be a serious message to become competitive.

And the next point is, of course, tax preferences, which are consciously introduced by the state for medical organizations. Organizations working in this market are exempt from taxation, and this is a great benefit, when doing business in this area today, you can invest all of the money solely in its development. And, of course, tax breaks have received a new meaning for citizens, which allow citizens to get back tax deductions if they got voluntary health insurance and paid for medical services or drugs. Thus, everything in toto, plus the funds that appear of course, create a favourable climate for investment in Russian healthcare.

### **I. Krestinsky:**

Thank you very much, Galina. In 2004, when implementation of the priority federal project 'Health' began, medical device manufacturers were the first to receive a signal about their interest in entering the Russian market. Then growth in governmental procurement of medical equipment and medical products broke all records. I must say that this has led to problems. First of all, prices were raised, by several times. And there were problems with service. There is an inability to use equipment because servicing was supposed to be undertaken hundreds or even thousands of miles away from the place where this equipment is used. However, times goes by, a new wave of modernization is beginning, and new opportunities are again available – including for manufacturers of medical equipment. I would like to ask the Executive Vice-President and CEO of the company Phillips Healthcare, Steven Henry Rusckowski, how they see the

situation and what they are planning to do on the Russian market. Steven, please, you have the floor.

**S. Rusckowski:**

Thank you very much. It is an honour to be with you here in St. Petersburg. I would like to thank you for this opportunity to talk to you about all the developments we are hearing about today, specifically the opportunities of the developing healthcare system in Russia. It is an exciting time for this country, and an exciting time for us professionals to set out on this development. It is an interesting place to be. More than a century ago, our founder, one of the founding brothers of Philips, Anton Philips, made one of the most incredible deals of his life. He actually came to this city and sold over 50,000 lighting lamps to the Winter Palace. It was just a real, important turning point for our company that was only about 10 people strong. You can only imagine if we had not done that deal back then over 100 years ago, where we would be today? So today, over a century ago, a century later, Russia is still a key region for Philips. We have heard today that Russia and its healthcare system is undergoing tremendous change. Fundamental restructuring is happening in the industry, and it has been a debate for over two decades. And there is ongoing debate about the healthcare model which best suits the needs and expectations of the Russian nation.

So as Philips, we are the leader in global solutions, and we bring our global expertise and we want to share it with our Russian colleagues. But we also understand, as we saw in many countries around the world, that there are differences between countries, and we need to recognize each country's individual needs.

We will establish a strategic partnership with Rosatom. We will announce that today, and it is a demonstration of what we call a knowledge bridge; a knowledge bridge where a global experienced company like Phillips pairs up with a knowledgeable leader to better meet the needs of the local economy.

The challenges we face around the world in healthcare are vast, we all know them well. The number of people living over the age of 60 will double in the next five years. One in two people on this planet will have a chronic disease. There is no way for Russia or any other country will overcome these challenges of tomorrow, without making changes to their healthcare systems.

The global healthcare changes in trends are not just in Russia. We are all seeing an aging population, which is putting an increased burden on the healthcare system. We are seeing a shortage of healthcare professionals around the world. And we are seeing increasing rates of diabetes, cancer, cardiovascular disease, and pulmonary diseases.

Let me give you some statistics. Cardiovascular and oncology diseases are the largest contributors of Russian mortality rates. More than 2 million people died last year from cardiovascular disease, nearly half of them under the age of 60.

Approximately 300,000 people died from cancer. About 60% of all these cancer cases are diagnosed too late, in stages three and four. At that stage, the effectiveness of treatment is very, very limited.

And then finally, women's health is becoming a more important issue. The Russian government understands better healthcare does also mean a better economy. The goal is to radically improve the quality of medical services and early diagnoses on a country-wide scale. The government wants Russia to take a leading position in developing medical equipment for the treatment and diagnosis of cardiovascular disease, neurological diseases, and cancer.

And to achieve this goal, it is essential for Russia to move from innovation imports to domestic production. And I am pleased to say that Philips will sign an agreement with Rosatom to develop nuclear medicine here in Russia. Also about a year ago, we established a strategic relationship with Electron, Russia's largest medical device producer. Both of these partnerships are intended to accelerate Russia's potential in the medical industry.

So, technology does play an important role and changes the way medical data is collected, transferred and interpreted. The availability of wireless networks, broadband, has allowed us to create quick access to information. Today, for example, a pregnant woman in Uganda can look at an ultrasound anywhere in the world.

Villagers in India see initial screening for cancer remotely. But make no mistake about it: technology by itself is not the panacea. The challenge is how and when we apply it. And we are working on this in our company.

We are also working out what we can do remotely. And with technology, patients can be treated effectively, without increasing costs or resources. And we can do this with remote monitoring, and this is one of the biggest areas that we think could help with the need. For example, we can monitor a patient dealing with a chronic issue at home automatically. We can therefore cleverly cut the procedure time, both for the patient and the medical staff. So, in a sense, the hospital starts in the home.

And also information systems are important part of healthcare. Terabytes of data have to be stored, processed, and shared in one of the largest countries in the world. This is a must.

So these are just small examples, what is called the tip of the iceberg, of how healthcare is changing. And my hope is that in this dialogue, this will be the beginning of the knowledge bridge, the start of a productive dialogue, and the beginning of an improvement of the system for years to come. Thank you very much.

**Y. Krestinsky:**

Thank you, sir. Thank you.

**D. Melik-Guseinov:**

Thank you. Colleagues, we continue, and if the healthcare system is on the brink of a boom (which we have already mentioned), the pharmaceutical market is already experiencing the boom. Two words about the statistics: USD 20 billion US is the volume of the pharmaceutical market today. The Russian market is among the ten largest markets on the planet. The average annual growth rate is 15%, and this is significantly higher than the growth of pharmaceutical entities in America, Europe, and Japan. This means that each dollar invested in the Russian pharmaceutical industry is returned at a faster rate. Nevertheless, in the development of the market, in the development of investment potential, too, there are certain problems and inhibiting factors. In particular, the so-called mass drug supply program is still not running. We have talked about this for a long time. More than five years have gone by on calculations and discussions on this topic. But, nevertheless, so far the population in 70% of cases pays for drugs at its own expense. And, according to regulators, it is precisely this dependence on imported goods today that prevents the launch of a full compensation program for pharmaceutical supply to the general public. And now I would like to ask the director of the Department of the Chemical-Pharmaceutical Complex of the Ministry of Industry and Trade, Sergei Tsyb, to take the floor with the question: is it really the introduction of this comprehensive program for drug reimbursement that is inhibiting the dependence of the pharmaceutical market on imported products? Please, Sergei.

**S. Tsyb:**

Thank you. Good afternoon, esteemed colleagues.

First, let me congratulate you all for holding this quite active and intense St. Petersburg International Economic Forum filled with various events. I want to congratulate all the participants for agreements signed over these few days, including in the area of the development of the pharmaceutical industry and the

medical industry in Russia. A significant number of them were signed. I want to thank the organizers of this event and the administration of St. Petersburg.

Now a few words about the Russian pharmaceutical industry. You know that recently in Russia a lot of initiatives for the pharmaceutical industry have been adopted. I am not going to list these initiatives. Probably, the last of them would like to be reflected in my short speech. This, of course, is the adoption of a targeted federal program for the development of the pharmaceutical and medical industry until 2020. I take this opportunity to appeal to all the representatives of foreign companies and all of the investors who are present here today. Please carefully review this document, bring it to the relevant entities, taking into account that the document is, in my opinion, perfectly structured, and identifies the basic building blocks, including in part the development of drugs already known through import substitution, especially when it is taken into account that many of us sitting here localize our own production in Russia. I think you will find this topic very interesting. Plus of course, there are innovative plans, and in this program, specific new tools and mechanisms have been laid out, which will allow the state to begin actively co-financing and risk sharing in the field of drug development. One of the events of this program, which, in my opinion, you need to pay more serious attention to, is an event that deals with the transfer of technology and the transfer of developments where the state, Russian, and foreign businesses can create really good public-private partnerships in drug development, which at a certain point are now outside Russia, and which could be implemented here in Russia. In my opinion, this document reflects the attention that the President and the Russian Federation government recently paid to the development of this sector, and this priority is maintained. This is what we heard in the report of the President in his inaugural speech. I think this trend will only intensify.

And a few words now regarding standards requirements and how the situation with this is now. The task posed this year is to adopt in full the government's resolution on good manufacturing practice in Russia. You know that this

document contains practical rules, harmonized with European directives. The goal is to create an inspectorate integrated into the international PICES inspectorate in Russia. At the last meeting of PICES, in connection with the fortieth anniversary of the organization, which I participated in, we stated this position and I believe that now this is one of the priority goals in the RF. Harmonization of all the requirements so that Russian companies have the opportunity to enter foreign markets, I think that this is also a very important challenge that we will soon have to resolve.

And finally. I would like to talk about Russian science, academics and universities. The Targeted Federal Programme through 2015 provides for the establishment of seven centres for innovation at Russian universities. All these centres are listed here and one of them is the State Chemical Pharmaceutical Academy in St. Petersburg. I think that it is necessary to pay attention to all of the investors, producers and companies working in the market. Why? Because public resources were invested there for the creation of centres of excellence, the creation of centres for drug development with an emphasis, including for new systems for training staff and recruiting new pharmaceutical personnel in Russia. Given that these centres are incorporated into the federal government program, I think that the main link will be based around them, including broader and smaller businesses, and this new start-up movement in the area of drug development. Once again, I want to thank the organizers, I want to wish them a good day today, good weather and a good mood. Thank you, good luck to all.

**D. Melik-Guseinov:**

Colleagues, we continue. Yesterday, there was a very important event: here in St. Petersburg, Novartis laid the stone for construction of a new pharmaceutical complex, and I would gladly like to give the floor to the CEO of the company Novartis International, Joseph Jimenez. Please.

**I. Krestinsky:**

David, time goes by so quickly, that was yesterday. It is just so busy.

**J. Jimenez:**

Good morning, one of the questions that I have received is “Why is Novartis investing heavily here in Russia?” We are investing USD 500 million over the next five years in three areas. One of these is local manufacturing. So, as you have heard, just this week we began construction on a state-of-the-art facility that will produce low-cost generics, but also innovative pharmaceuticals that could change the practice of medicine. And we will do that in St. Petersburg. I would like to publicly thank the Vice-Governor of St. Petersburg for his help in making this become a reality.

The second area of collaboration is in research and development. At Novartis we have many scientists in drug discovery and development, but science does not move forward without collaboration, so we are entering into collaborations with many universities throughout Russia, to advance medicine on both sides.

The third area of investment is public health improvement. It is true that cardiovascular disease accounts for a majority of deaths here in Russia. Many conditions that lead to cardiovascular disease are treatable, and we must come together—pharmaceutical companies, medical device companies, governments—to solve this problem and improve overall healthcare in line with the goals that the government has set for Pharma 2020, for Healthcare 2020. Our program in Yaroslavl is a big step in that direction.

We are not just talking about pharmaceuticals; it is how we increase awareness, diagnosis, treatment and compliance, a multi-factional approach to improving overall healthcare. And I would like to thank the Governor for his vision and foresight to make this a reality. So, why are we investing? The first reason is that there is a high level of unmet medical need, and so there is an opportunity here. Secondly, though, the investment climate is good in Russia. I have heard a

number of companies this week say they believe it is not as good, but if you think about the welcome that Novartis has received, partly because of the goals of improving healthcare here in Russia, we see Russia as a good place to invest and to earn a return.

So it is the combination of high unmet medical need, plus the opportunity to get a significant return. So we are very optimistic about the future in Russia. The goals that have been laid out are very aggressive, but it is going to take all the stakeholders, including the pharmaceutical industry, to come together to improve healthcare in Russia.

Thank you very much.

**D. Melik-Guseinov:**

Investments in innovation, in fact, are today the most extensive of those that are declared by participants in the pharmaceutical markets and there are also examples of cooperation between domestic and foreign companies, which are initiated by domestic companies. I would now like to give the floor to Dmitri Morozov of BioCad. I would like to report that the other day an agreement was signed by you on cooperation with Pfizer. Please, just a few words about this example.

**D. Morozov:**

Hello. Thank you very much for the opportunity to speak.

Dear friends, I would like to talk about several aspects of contemporary reality. First of all, what is going on here, probably, is like the very interesting television program MythBusters. I enjoy watching it with my son. Perhaps you also watch it. There was this legend in Russian that it is possible to conduct business like in a traditional banana republic. You can import without thinking about it. And then everything will be good and happy. But after a few years, when initiatives were launched related to the development of the pharmaceutical industry in Russia,

everything changed. The people who are present here already speak quite differently. The heads of the world's largest companies are gathered at this forum, but not as it was before, when it was attended by those responsible for sales. The situation is changing. That is, one of the typical legends that nothing can be done in Russia to earn money successfully is destroyed. That is the first point.

Second: on cooperation. Of course, there are still many things connected with the remnants of what we have, that is the system that we built. But I see now that there comes a time in which a new type of relationship arises. My colleague from Novartis talked about how they invest in the country and promote their products. It is very interesting. They build, develop. But I would like to talk about another level of cooperation, which aims to create a new domain of knowledge, new technologies. What is most valuable is the exchange between people who have the appropriate education, have relevant thoughts in their head, and so on. Just yesterday, we signed with our partners, the company Pfizer, a very interesting project. We want to concentrate our efforts in the area of creating intellectual potential in Russia. To build a factory or a centre – this is not the question. The main thing is the education of the people, who will continue to build a new economy in Russia. It is a matter of educational projects and these issues, related to the exchange of knowledge and technologies. This is another level of cooperation that I hope will allow us to conduct a dialogue for mutual enrichment. Thank you very much.

**D. Melik-Guseinov:**

Thank you for the information. In fact, continuing the theme of cooperation in intellectual potential, it must be said that yesterday one of the world's leading pharmaceutical companies, Johnson & Johnson Pharmaceutical Research and Development, also signed another cooperation agreement with Skolkovo in terms

of intellectual potential. I am pleased to offer the floor to the Chairman of Johnson & Johnson Pharmaceutical Research and Development, Paul Stoffels.

**P. Stoffels:**

Good morning, and thank you for organizing this meeting, it is fascinating.

First of all, I want to say a few words about our industry. It is all about generating years of life and generating quality of life. And the better we can work with the government and with the hospitals and with the institutions, the more effect we can have on the health of the population, and that is our first objective.

So, with new drugs today, which we have generated or discovered and developed in the rest of the world, our objective is to bring this to the country with partners here and some of them produced here. But to bring new drugs, which are really making a difference in the rest of the world to the patients and to people in the Russian Federation. At the same time, we want to invest and work with the intellectual capital here.

So, we signed an agreement with Skolkovo, first as an objective to work together and invest in academic scientists, with a seed fund where we will bring technology out of the academic environment into new biotechnology companies.

Then further on, we are investing in bringing know-how, to bringing drugs from discovery to the market. That means investing in preclinical sciences, in pharmaceutical, pharmacology sciences and in the know-how on development.

We will work with partners, we will bring our people, we will bring capital, we will bring drugs to the country, but will also take the drugs which are discovered here to the international scene, and develop them as global opportunities.

So, we have the intention over the coming years to build a very strong, long-lasting relationship from discovering and developing drugs, bringing drugs from this country to the rest of the world and vice versa.

So, thank you.

**D. Melik-Guseinov:**

Thank you very much. We see that some of the investments of the largest pharmaceutical companies are going to Russia. And how does the Russian manufacturer feel now? Does he fear increased competition from the large pharmaceutical industry? I would now like to offer the floor to a representative of the domestic pharmaceutical industry, Alexei Repik, Chairman of the Board of Directors of R-Pharm, as well as a member of the General Council of OPORA Russia. Alexei, please.

**A. Repik:**

Thank you very much, David. You know, first of all, if you are afraid of wolves, do not go into the forest. And for me competition is always a factor that motivates and drives the company to be better in order to be on the same level as the one that is a recognized industry leader. We are very happy for the companies Novartis, AstraZeneca and Nycomed, who came here with high-grade construction projects for enterprises, and I hope that this will have an effect on the entire industry, not just those companies. This should have an impact, and it will surely affect the quality of the environment where we work together with these companies, that is, the level of professional education, the quality of personnel training and the creation of the rules of the game. However, for me as a representative of a Russian company the approach of such companies as Roche, Merck, and Pfizer, is closer, as mentioned by Dmitri Morozov: there is a greater focus on fine tuning, flexible partnerships with those specialists in each specific area and in each specific, which may give more appropriate, effective and quick results. And this will certainly lead to improving overall healthcare and will benefit our patients.

Russia is a new market. But let us remember that the Russian pharmaceutical industry is a market and nobody would come here under duress, nobody will work who is not interested, who does not hope for a return on the investments

and efforts made. In order to obtain a really competitive situation in our country, and so that the projects in our country are implemented more actively and directly now we, of course, should do our utmost to create an environment for the rapid implementation and harmonization of practices, which exist today in Europe, the U.S. and Russia. The position of the regulator plays an enormous role and we very much hope that these competencies, which were created in Russia, will soon become truly competitive. We sincerely believe that not just healthcare in Russia will be able to take advantage of the present moment and current interest, which is often caused by the available potential that exists in the current demand for medical services that remains unmet, but also the fact that healthcare and the pharmaceutical industry will be the leading non-oil sectors of business, which is so important for Russia now. The pharmaceutical industry will be one of the main driving forces in the creation of the most innovative new jobs that will raise the level of life and the level of social security – both in the regions and in the department of healthcare, and the general quality of life for Russian citizens. Let us do everything in our power to make it happen. Thank you.

**D. Melik-Guseinov:**

Thank you, Alexei. Colleagues, we have already touched upon the theme of clusters in the pharmaceutical industry, and this topic, let's admit, has become somewhat fashionable today, and only a few regions – in particular, today representatives of the Yaroslavl and Kaluga regions spoke, and governors of these regions of the federation are the only ones where such projects have moved from paper-based business plans to concrete realization. It is important now to give the floor to the representative of the company whose example was the first in this chain of high-profile projects on localization and on clustering. I would like to give the floor now to the CEO of Nycomed, Hakan Bjorklund. Please, you have the floor.

**H. Bjorklund:**

Thank you very much, and thank you very much for your invitation to this beautiful city. As a native of Stockholm, I have no problem with this weather, it feels very much like home.

I think it has been a very interesting discussion. This is a huge country and I think we have to have a lot of respect for what that means. A huge country means new challenges and, of course, to some extent, huge problems, but also huge opportunities.

This country is going through fundamental changes. We talked about it as an emerging market, but it is a very different emerging market from many other emerging markets in the sense that you have a history of a highly educated workforce, of high science. And that is not true in many other emerging markets, and that is a fantastic starting point.

But, as I said, the size is immense. Hearing about the railway system and that there were 12,000 doctors employed there, that is half of all the doctors working in Sweden, and that tells you a little bit about the size.

I think we need to understand that there will be a transition, and that during these years, import of not only pharmaceuticals, but also medical equipment, has been inevitable, and it will continue to be inevitable for a number of years.

A lot of us, and we are clearly one of the companies, are very much committed to start production in Russia. We are in the process of making a major investment in Yaroslavl. We are very grateful for all the support we have had there, but we also have to admit that it will take a number of years before we are actually starting to produce. It is not that you start building and the day after, you are actually producing. Until we are ready, it will take between three to four years. And what is very important for the industry now is that we have a regulatory system that helps us to get our production plants inspected, approved and our products approved, as rapidly as possible.

Because it is only then that we can actually start supplying the market with locally-produced products, and it is only then that we can start exporting products out of Russia.

And I was very happy to hear someone talk about the importance of having high-quality inspection, because without that, there will be no export. That is very, very important. So that collaboration between industry and government is very important.

What the industry needs, primarily, is predictability. It is great with financial incentives, low taxes and so on and so forth, but it is more important with predictability. We need to have a legal system which is predictable. We have a need to have a government system which is predictable and I see a lot of improvements there. There is room for more improvement, but it is clearly going in the right direction.

Now, why are we investing? Well, we are investing, of course, for the same reasons that we have heard Novartis describe. At the end of the day, it makes good business sense. Good medicine is good business.

We start with production; I think that is very logical. But like many other companies, we are also in the process of setting up research and development in this country, and taking advantage of the fact that you have a highly educated university system.

But we also need to realize that it will take a number of years before we see innovative products coming out of Russia. We all know that developing a new drug today takes at least 10 years. We will not see that over the next five years; that is not realistic.

But it will happen and I am convinced that—if I could come back here 20 years from now—we would see a thriving pharmaceutical sector in Russia, consisting of both local companies, but also international companies having huge facilities here. There is no issue or problem with having both local and international companies and, like one of my colleagues here said, "Competition is good". We

benefit from competition, and we would like to see a lot of local, strong Russian companies. That would be good for the international companies too.

So, I would like to finish by thanking the organizers for inviting me. It has been very interesting. To me, this is a fascinating country. I have been coming here regularly over the last 12 years and it has been very rewarding, extremely rewarding. I look forward to another ten years.

Thank you.

**D. Melik-Guseinov:**

Thank you very much. The floor to the President of Nycomed Russia-CIS, Jostein Davidsen. For you a direct question: for the pharmaceutical industry is localization more politically or economically expedient?

**Y. Krestinsky:**

Thank you.

**J. Davidsen:**

Thank you. Well, good morning, everybody.

Speaking about the weather, I come from a city called Bergen in the west part of Norway, where it rains 365 days a year, so this is just perfect for me.

I just want to say a few things and that is that, being here for almost 20 years, and I have actually known of Professor Atkov for 20 years. I have to say that the landscape, only the last couple of years, has changed dramatically for our industry. Why has it changed dramatically?

Well, there is one simple reason for that: there will soon be a couple of companies, or actually a cluster of companies, having revenues in Russia of between EUR 500 million to EUR 1 billion. That is a big change.

We have about 10 international pharmaceutical companies today who have started or fully committed to local investment in Russia, in either local production or R&D collaboration, innovation collaboration. Why is it so?

Well, I said volume is one thing; the size of the business is the key reason here. But, I think, as well, that if you look at confidence, as was said in many speeches here today, there is a new confidence from foreign investors investing in Russia. And I especially would like to highlight the regional confidence, and here we have today the region of Kaluga, St. Petersburg, and Yaroslavl that are excellent examples of boosting confidence in international investors. And most of us international pharma companies are setting up our investments in among those three regions.

And I think it is not just automatically, why we do that. I mean, here, we are talking about excellent collaboration and here we are talking about regions that offer a concrete infrastructure for us investors to set up facilities and local manufacturing.

I also would like to say that, maybe, international pharma does not need to set up local manufacturing in Russia. We are closing facilities in Europe. We are moving to low-cost countries like India, etc. etc., so, why are we actually then setting up facilities here?

There is no state in the world that will give you state guarantees for state procurements, so that is not the reason why we do it. It is because the volume of business, it is because of the growth of the business in this country, and it is the outlook of also reimbursement in this country. But also, we are leveraging on logistics, on service, on cost and also on image and reputation.

And I think us setting up investments in Russia now is, as I said, not because of state guarantees for state procurement. We do this because we can defend it from a business plan, from a business concept, because it gives a return for each company.

And as was said here as well this morning, I think this would lead to an increased focus on GMP, on quality. This will drive excellence in GMP expertise in this country, and I am quite sure this is the most important; we are talking about quality of medicine.

The final comment I have after being here for such a long time is that there is still too much talk, still too many memorandums often left unsigned, and still too little action.

Thank you.

**D. Melik-Guseinov:**

Thank you, Jostein. If we are talking about investments, then the investments must not only work within the boundaries of any one state, and there is a very interesting experience of a company that today is not only developing in Russia, but its products are now available overseas and in foreign countries. I am now happy to offer the floor to the General Director of the Scientific-Technical Pharmaceutical Firm Polisan, Aleksandr Borisov. Your case, please.

**A. Borisov:**

Good afternoon, esteemed colleagues. Nineteen years ago, when the small St. Petersburg company Polisan was created, we decided to deal only with original drugs, and for all nineteen years we have not moved an inch away from the decision that we made then. Today in our portfolio, there are five original drugs, manufactured in twelve dosage forms. And most importantly, we did not stop there: today in our product pipeline, there are six original drugs, which Russia will see in the next three-four years. I believe that original drugs are the future of Russia, and the Russian government should set a rate and provide support to those firms that are able to generate new ideas and create original drugs. I will explain why.

To date, we export 35% of our drugs. Not only in the countries of the former Soviet Union, we went to South East Asia, we went to Latin America, and we are continuing to develop our relationships. But I want to appeal to the distinguished Sergei with a concrete proposal: the inventors and developers of new original drugs need help. We do not need to give them money; we do not need to hold their hands. When the development of our company, for example, goes on for seven-eight years, about 15-20% of our turnover is invested in research development and when we enter the market after seven-eight years, then we hardly receive any preference. Well, we don't need preferences. I have a concrete proposal. And what, if we examine the issue, should we give companies – there are now four companies behind this table, which are engaged namely in the development of original drugs – certain privileges. For example, these companies could be exempt from paying taxes for five years. This would be a great help. This stimulates the interest of every developer in investing his own funds in innovative drugs. Thank you.

**D. Melik-Guseinov:**

Thank you. The floor to outside experts. John Conroy, Head of Global Strategic Initiatives at Baker & McKenzie.

**J. Conroy:**

Ladies and gentlemen, we at Baker & McKenzie have been in dialogue with Russian governmental officials and leaders of the pharmaceutical and medical device industries that are represented here today, about the topic of modernization of the Russian healthcare sector and, in particular, the cultivation of more favourable conditions, and that includes more favourable legal conditions for the growth of this sector.

In our dialogue, we have three topics that have been on our agenda here in St. Petersburg, and those are the same topics that are taking place in various others

for a... where we are having these discussions. The first has to do with data exclusivity protection, and we were delighted to see Russia adapt protection for data exclusivity this past year, and it will be enacted when Russia enters the WTO.

Note that I do not say 'if', it is a question of 'when'. In addition, we think, however, this legislation falls somewhat short of providing the kinds of protection that need to be in place so that the six-year prohibition on the usage of the data that is included with a pharmaceutical with its registration of an original drug needs to also prohibit the registration of a generic medicine under circumstances where it does not need to produce its own exclusive data, clinical test results, etc.

The law as adopted enables generics, during that six-year period, to register their own products without their own data, simply by taking the publicly published results of other manufacturers' data and submitting an equivalent bio-equivalent study.

So, there is some work to be done, but we have made progress on that.

The next has to do with the sensitive topic of pricing drugs and medicines, and this is one thing that we appreciate is foremost in the regulators' minds, because they want healthcare to be affordable. However, we are trying to impress upon the Ministry of Healthcare and Social Development the importance of taking into account the very different cost bases for the drugs that are manufactured by pharmaceuticals that are GMP-compliant, that is to say compliant with good manufacturing practices, and those who are not, which is to say the analogues, who register their drugs using the same non-proprietary trade name and form and volume. The cost bases for these are very different and without differentiation in pricing reflecting that, it may serve the unintended consequence of disincentivizing pharmaceuticals from further investing in the product and distribution of these GMP-compliant drugs and the investment in the production facilities to produce drugs indigenously here in Russia.

And lastly, there is a piece of legislation at the Duma that is going to prohibit visits by pharmaceutical representatives and medical device representatives of healthcare professionals here in Russia during business hours. We understand the reason for that legislation is to give patients unfettered access to healthcare providers, but we do think that providing limited access could achieve that objective, as well as enabling the important role of pharmas and medical device manufacturers to educate healthcare professionals about new drugs, medical advances and innovation in the pharmaceutical industry.

So, thank you very much.

**D. Melik-Guseinov:**

Thank you very much. And finally, a few words from a representative of the Association of International Manufacturers. Executive director Vladimir Shipkov.

**V. Shipkov:**

Good morning, esteemed colleagues. Apparently, the time has come to admit that one and a half years ago we initiated the process of integrating our agenda into the agenda of the St. Petersburg Forum. And today I have no doubts that we have registered in this agenda, I think, on a permanent basis. I would like to congratulate you on this, especially considering the fact that yesterday an event occurred which somehow went unnoticed. For the first time in Russian history, the head of the Russian government, the President of Russia, named the pharmaceutical industry the first in a series of strategic investors on a par with traditional industries. And this imposes very high responsibilities on all those present here. I would like to ask: isn't it time for us, along with you, with members of the federal government bodies and with regional leaders present here, to take on higher responsibilities and to discuss the issues that we discussed here today, including with representatives of the government, the President, the President's Administration? I think that this is our task.

**D. Melik-Guseinov:**

Dear colleagues, ladies and gentlemen, we conclude our present business breakfast. I must say that these investments that are opening up in the healthcare and pharmaceutical industry areas in Russia are truly boundless. But the path that stands before us both is not easy; it is indeed very difficult. And we need to negotiate this path, aware of all the prospects and being mindful of our responsibility. Thank you all very much. Until next time and happy holiday.