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The consequences of Brexit in Spain: a life sciences perspective



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With the decision in the referendum on 23rd June 2016 for the United Kingdom (UK) to leave the European Union (EU), the consequences for the life sciences industry need special consideration (UK Government, 2016a). MAP BioPharma Limited (MAP) political and industry experts have

developed this article to help the Spanish life sciences industry assess the consequences, threats and opportunities that may arise following the vote.

1. Overview of the life sciences industry in Spain

The life sciences industry, led by the pharmaceutical industry, is one of the pillars of the Spanish economy.

The number of pharmaceutical companies with a presence in Spain has increased from 300 in 2010 to 345 in 2014 (INE, 2016), directly employing 38,677 people and indirectly employing 95,000 people in 2014, demonstrating a strong commitment to the Spanish life sciences industry (Farmaindustria, 2014a).

Further, 20% of the Research and Development (R&D) activity in 2012 in Spain was undertaken by the pharmaceutical industry, often in collaboration with public research centres (Farmaindustria, 2014a). This translated into 4,330 researchers employed, and to an expenditure of around €972 million that year, proving the unquestionable added value of the pharmaceutical industry to the Spanish economy and to the growth of the Spanish life sciences sector (Farmaindustria, 2014b).

The pharmaceutical industry in Spain exported medicines worth €11,084 million in 2015, surpassing for the first time in history the value of €11,000 million, and representing 4.4% of total Spanish exports that year (Farmaindustria, 2016).

These encouraging figures demonstrate that the Spanish pharmaceutical industry, which is the fifth largest in Europe preceded by that in Germany, the UK, France and Italy, is vital to the Spanish economy and to the Spanish life sciences industry (Farmaindustria, 2015). For this reason, it is fundamental that the likely impact of Brexit on the Spanish life sciences industry is assessed, and potential opportunities seized, while threats should be mitigated.

2. General overview of the impact of Brexit in the UK

The first consequence of the results of the UK referendum was that Mrs Theresa May became the new Prime Minister following Mr David Cameron's resignation announcement on 24th June 2016 (UK Government, 2016a). A new Government Cabinet, including a new Chancellor, was appointed following Mrs Theresa May becoming Prime Minister on 13th July 2016 (UK Government, 2016b). This included the creation of a Secretary of State for Exiting the European Union led by Mr David Davis (UK Government, 2016b). A number of resignations have also taken place among the members of the Labour Shadow Cabinet, with many party members unhappy about the direction of the Labour Party, particularly during the referendum campaign. This has led to increasing pressure on the Labour party leader, Mr Jeremy Corbyn, to resign too.

Following the establishment of a pro-leave Government Cabinet, it is expected that the UK Government will initiate Article 50 of the Treaty of Lisbon in 2017 to begin the negotiations as an EU departing country (Lisbon Treaty, 2008). Once Article 50 is triggered, a two-year stopwatch will be initiated. If negotiations are not concluded within this period, the

remaining EU members can vote unanimously to extend the deadline. If this does not happen, the UK will exit the EU at the end of the two-year period and World Trade Organisation rules on tariffs will come into force. Previous negotiations for Greenland to leave the EU took three years, and the main issue delaying the negotiation was around reaching a deal for the fishing industry. For the UK, the issues are much more complex and a timescale of five to seven years seems a reasonable estimate. The main change, once Article 50 is triggered, will be that the UK would no longer be able to participate in discussions of the European Council of Ministers or in the decisions concerning it, despite remaining part of the EU for this period and subject to EU rules.

The decision to leave the EU has created a level of financial uncertainty in the UK comparable to that achieved during the 2008 financial crisis. This uncertainty is likely to have an impact on the British economy and business, and will likely reduce state revenue, add to the level of unemployment in the medium-term and put pressure on the annual public sector borrowing requirement (the excess of expenditure over income), with the previous Government targets to sharply reduce this figure very unlikely to be met. A small number of companies are already pausing investment and trading decisions in the UK until a clearer outlook on negotiations with the EU is achieved.

A highly unlikely scenario for the potential future relationship between the UK and the EU is that the UK joins the European Economic Area (EEA). Similar to the EU, the EEA operates under rules aiming to enable goods, services, capital, and persons to move freely within the EEA in an open and competitive environment (EFTA, 2016). The EEA includes all the EU member states and also Iceland, Liechtenstein and Norway, allowing these three countries access to the EU's single market. As EEA membership requires free movement of people, and control of immigration from the EU has been a critical factor in the vote to leave campaign, it is highly unlikely that any UK Government would agree to this.

The future arrangements for healthcare between the UK and the remaining EU members will be part of the negotiations. Some form of mutual agreements between the UK and EU member states, as existed before the UK joined the EU, seems possible. Social security benefits for EU citizens living in the UK will almost certainly be reduced, and vice-versa.

Finally, a general election is unlikely to take place in the UK before May 2020 since it would require a vote of no-confidence in the House of Commons against the current government; given that the Conservative Party won the 2015 election with an overall majority, an earlier election would be unnecessary.

In this context, it will be important for the UK Government to implement changes to policies that encourage life sciences companies to stay and expand in the UK, a sector which currently employs around 167,000 people, with turnover of over £50 billion a year, and represents the mainstay of high-tech future for the country (UKTI, 2013).

3. Consequences, opportunities and threats from Brexit to the life sciences industry in Spain

The life sciences industry has been a major contributor to the success of the strong British R&D industry and general economy. The changes that are likely to be imposed in the UK after exiting the EU will have serious consequences for the life sciences industry, creating a range of opportunities for other EU countries. Spain, with a recovering economy and a large pool of talent, should create a favourable environment to take advantage of these opportunities.

3.1. The UK as entry into the EU market

The UK has attracted more foreign investment than any other EU country in recent years, with many life sciences companies choosing to establish their European headquarters in England (UKTI, 2013). The reasons for this were that the UK was seen as a politically and economically stable country, business friendly and with a strong labour market, partially fuelled by EU talent. A major reason for global companies to choose to establish in the UK was that it provided entry to the EU single market.

A question asked by many is whether the UK can remain attractive for those life sciences companies that chose to be based in the UK as an entry into the EU single market. Losing full access to the EU market, the world's largest single market with over 500 million consumers, and creating barriers to the free movement of people from the EU, would make the UK considerably less attractive to global life sciences companies (UKTI, 2013).

Spain may choose to compete with other countries, such as Germany, France, Belgium and Italy, in creating a favourable environment for global life sciences companies wishing to establish their EU headquarters and in being perceived as the choice of country for entering the EU's single market. Among the aspects to consider are: a pro-business regulation, a competitive corporation tax, investor confidence, and a politically and economically stable country.

3.2. Research

The UK has traditionally excelled at R&D and innovation, creating a thriving research environment for the life sciences industry. This success has been partly due to the EU R&D funding received by the UK and to the EU talent that relocated to the UK. It has been estimated that the UK is one of the largest recipients of research funding in the EU, receiving €8.8 billion from the EU R&D budget between 2007 and 2013 (The Royal Society, 2015). The UK has also encouraged private sector research by providing a range of incentives, such as R&D tax credits or reduced corporation tax on patented inventions, supporting investment in R&D and innovation (UKTI, 2013).

Despite having an R&D and innovation culture already established in the UK, it is anticipated that the pressure on public finances after leaving the EU will make it very difficult for the UK Government to match the current EU financial support. The UK Government is taking steps to help protect the sciences budget, however, and further details should be released later this year.

Spain may take advantage of the EU research grants traditionally received by the UK that may become available to other EU countries, although these research grants might be reduced without the UK contribution to the EU budget. France and Germany, countries with a stronger R&D legacy than Spain, are likely to be among the countries competing for such EU R&D funding.

Spain should therefore enforce all necessary policy changes, similar to those that have proven to be successful in the UK, to develop an appealing environment for life sciences R&D and innovative companies to establish in Spain. This would be a much needed, important contributor to economic growth in Spain. Movement of the life sciences industry to Spain would also be accompanied by an influx of talent and international research collaborations.

3.3. European Medicines Agency (EMA)

The EMA is a decentralised agency responsible for the scientific evaluation, supervision and safety monitoring of medicinal products used in the EU. The EMA is currently located in London (EMA, 2016). The decision of the UK to leave the EU means that the EMA will have to move to an alternative EU country member. In addition, the UK will no longer be able to provide rapporteurs to the EMA once the UK leaves the EU.

Spain may choose to compete with other countries such as Germany, France, Belgium and Italy to host the EMA. There has been talk of six potential cities (Alcalá de Henares, Alicante, Barcelona, Granada, Málaga and Santa Cruz de Tenerife) and an autonomous region (Galicia) in Spain to which the EMA could relocate. Further, Spain may become a stronger contributor to the work of the EMA by providing a higher number of rapporteurs.

3.4. Manufacturing sites and currency exchanges

The manufacturing of pharmaceuticals is fundamental to the UK economy. In 2013, the manufacture of pharmaceuticals accounted for 0.8% of the total UK economy and 9% of the UK manufacturing economy. This contributed £13.34 billion of current price gross value added (the value added to the inputs by a process) (ONS, 2014). The implementation of export tariffs would have a significant adverse impact on the UK manufacturing industry. Additionally, it is anticipated that there will be a lower growth of the UK economy in the short-medium term, adding to unemployment (IMF, 2016). These aspects would lead to less biotech inward investment, potentially making the UK life sciences industry a less attractive labour market for professionals outside the UK.

The most likely scenario in the medium-long term, relating to currency exchange, is that of a devalued pound with respect to the euro. A lower pound to euro rate would make importing from the UK less costly for buyers overseas and may increase overall exports from the UK to the EU, assuming that export tariffs from the UK to the EU are reasonably favourable. It would be questionable, however, whether pharmaceutical manufacturers choose to stay in the UK with an unstable currency and the likely introduction of tariffs on exports to the EU.

Another possible scenario is the pound and the euro reaching equivalent 1:1 values. In this case, barriers to business from leaving the EU on pharmaceutical products will play a key role. For instance, the size of the export tariffs negotiated between the UK and the EU could be critical when deciding where to locate manufacturing sites.

A third scenario involves a pound stronger than the euro, but this is difficult to forecast in the medium-long-term given the current circumstances. This scenario may encourage manufacturing sites to relocate from the UK to the EU. This would be largely due to an increase in the cost of goods manufactured in the UK relative to equivalent goods

manufactured in the EU. Again, the size of the export tariffs agreed between the UK and the EU could further encourage an increase in the number of manufacturing sites in the EU.

Spain could be a strong candidate for establishing manufacturing sites given the export trends in 2016, which have shown that Spanish export of goods rose 2.3% in the first half of 2016, to €128 billion, representing a historic maximum for this period since the series has been documented. This contrasts with EU export data which shrunk 0.2% overall. Among the countries experiencing a reduction in export of goods were the UK at 5.3% and France at 1.2% (ICEX, 2016). Spain will have to compete with other EU nations with potent manufacturing industries such as Germany and Poland, in addition to other countries outside the EU, including China and India.

3.5. Movement of people

Restrictions on EU nationals moving to the UK will be inevitable once the UK leaves the EU, but it is widely assumed that the UK will introduce a visa scheme to enable a limited number of professionals with the right qualifications to come from the EU to work in the UK. Similarly, the EU may introduce a visa scheme to allow a certain number of professionals from the UK to work in the EU. Barriers to the free movement of talent from the EU to the UK after leaving the EU would also lead to fewer collaborations between UK and EU researchers, making UK research less impactful due to the lack of an international European perspective on the research undertaken. In addition, a likely devalued currency can make the UK less attractive for EU talent to relocate to the UK.

Spain could choose to strengthen its relationship with the life sciences industry and utilise the large pool of talent available in the EU with the objective of materialising potential R&D and manufacturing opportunities that will arise within the life sciences industry once the UK leaves the EU.

4. Conclusion

The UK and the life sciences industry have enjoyed a thriving relationship for decades, which has developed around an environment in which life sciences companies can succeed. The decision in the UK referendum to leave the EU has created a high level of uncertainty comparable to that observed during the 2008 financial crisis. In the future, free trade and movement of people are very unlikely between the UK and the EU. The uncertainty facing the UK-EU relations for the next five to seven years may be a real disadvantage and creates a real challenge for the relationship between the UK and the life sciences industry.

Spain could consider capitalising on this opportunity to create a favourable environment for the life sciences industry to establish within and to take advantage of the number of opportunities that may arise once the UK leaves the EU. A number of measures have been discussed here which may be implemented in order to make Spain even more appealing to the life sciences industry and in order to be considered as a possible location for establishing European headquarters. This would contribute favourably to the future of the Spanish economy. However, a weaker EU post-Brexit could pose a threat to the Spanish and EU stability, encouraging life sciences companies to remain in the UK or move outside of the EU.

Both the UK and the EU are encountering a high level of uncertainty and nobody knows to date what Brexit really means. The life sciences industry is more likely to prosper in a stable and supportive environment.

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