

Executive Summary

	<p>The pharmaceutical industry is under constant cost-containment pressures in the US, European and Japanese markets, and as it increases its efforts to expand into emerging markets, the Middle Eastern market – worth an estimated \$8bn – could prove a strong growth opportunity for those who appreciate its internal dynamics and unique features.</p>
<i>Perceived regional instability</i>	<p>Although the Middle East is a promising region for the international pharmaceutical industry, the perceived instability of the region and the different way of conducting business can deter interested firms at first. Local agents are of utmost importance in navigating through the stringent registration and marketing requirements.</p>
<i>Liberal economic policies starting to kick in</i>	<p>Middle Eastern countries are increasingly adopting liberal policies that are leading to marked changes in the healthcare sector. For example, having found itself burdened by the escalating needs of a fast-growing population, Saudi Arabia is gradually introducing cooperative health insurance for its large expatriate population. Likewise, the United Arab Emirates (UAE) has introduced a compulsory health insurance mechanism for foreign workers residing in one of the seven emirates, and has made this a necessary prerequisite in order to obtain a work permit. Israel, on the other hand, has recently liberalised its over-the-counter (OTC) sector, following the British model.</p> <p>Saudi Arabia has recently permitted 100% overseas equity investment in local companies, and foreign firms have much to gain from the large number of capital projects that oil-wealthy Gulf States have initiated. Saudi Arabia's King Fahd Medical City in Riyadh represents a \$534m project, while the launch of DuBiotech, a 100% foreign-owned, tax-free biotechnology park allowing full repatriation of profits, is but one of the numerous ventures of the UAE that is designed to appeal to healthcare specialists.</p>
<i>Intellectual property rights still weak but improving</i>	<p>Markets in the Middle East are less sophisticated than their European counterparts and one does not observe the range of supply and demand cost-containment measures used in most European countries. The challenge to pharmaceutical companies is the (mostly inappropriate) level of intellectual property rights protection. Pharmaceutical Research and Manufacturers of America (PhRMA) has estimated that the combined losses to its members in the Middle East amounted to \$555m in 2004 through lack of patent protection.</p> <p>However, the situation has been steadily improving in this respect. As part of its recent accession to the World Trade Organisation (WTO), Saudi Arabia has pledged to apply the Trade-related Aspects of Intellectual Property Rights (TRIPS) agreement. Egypt's 5-year WTO grace period has expired, while Jordan's modern intellectual property laws have been praised as a model for the region.</p>
<i>Free trade agreements signed with the EU and US</i>	<p>Bilateral free trade agreements (FTAs) exist between the EU and Jordan, Lebanon, Israel and Egypt. The US has signed FTAs with Jordan and Israel and has been negotiating with a number of other</p>

	<p>countries. As the region moves towards free trade, pharmaceutical import prices will decrease, offering remarkable opportunities for the well-positioned firm.</p>
<p><i>Imports dominate the local markets</i></p>	<p>Apart from Egypt, they all share the same characteristic of being high importers of branded drugs. More than 70% and 80% of pharmaceuticals consumed in Jordan and Saudi Arabia, respectively, are imported, while Lebanon imports over 94% of its medicine needs. Historical ties have meant that European producers have been more successful over the years than their American counterparts in the region, but there is no valid reason why informed competitive US firms cannot enjoy a solid market share.</p> <p>Multinational pharmaceutical companies have established an especially strong presence in Egypt; AstraZeneca, Eli Lilly, GlaxoSmithKline, Novartis and Pfizer are some of the international companies that maintain manufacturing facilities in what is the largest pharmaceutical market of the region. The marketing efforts of most companies operating in the Arab market have included the development of an Arabic version of their websites in order to target the large native population more effectively.</p>
<p><i>Little R&D in local pharmaceutical industry</i></p>	<p>The local pharmaceutical industry is quite diverse and consists mostly of generics producers. There is no 'native' ethical pharmaceutical firm in the Middle East. Israel, however, is home to Teva, the largest generics manufacturer in the world; Israel exports over 80% of its production to the US and the EU. The Jordanian industry is fairly competitive and export led, mostly to its Arab neighbours. Egypt has the largest number of generics manufacturers and is over 90% self-sufficient.</p> <p>The combination of low employment costs, good technical skills, excellent medical schools and Current Good Manufacturing Practice (cGMP) certified plants means that many international firms choose to find a local partner to produce under licence. To date, joint ventures have been the most popular method of entering the Middle Eastern market.</p>
<p><i>Recently the Middle East has been an impressive growth market</i></p>	<p>The Middle East stands as a high-growth market, and has been estimated to have achieved an impressive 10.6% combined annual growth rate (CAGR) between 1999 and 2003, around 4% more than the estimated world average and second only to Southeast Asia and China.</p> <p>Pharmaceutical companies that invest wisely in this market, and understand its dynamics, will find it is possible to operate in the region without major developments having a profound impact on their activities. With its heavy reliance on imports and its large growth opportunities, the Middle East could prove to be a key area in helping pharmaceutical firms to meet their financial targets.</p>