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Pharmaceutical Firm Joins Kaluga Tax Base

By Irina Filatova

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British-Swedish pharmaceutical giant AstraZeneca said Monday that it will invest $150 million in building its first plant in Russia, joining other foreign drugmakers that have started local production in line with the government's strategy to reduce dependency on imports.

The plant, to be located in the Kaluga region, will be the first full-cycle manufacturing facility in Russia by a foreign drug maker — formulating drugs for a number of diseases, including cancer, heart and respiratory illnesses, producing and packaging them, the company said.

Nenad Pavletic, president of AstraZeneca Russia, said constructing their own plant, which is expected to become profitable by 2017, was more beneficial than buying and subsequently modernizing an existing facility.

"In terms of the speed of development, efficiency of the process and the size of costs, it's more efficient to build a plant according to good manufacturing practice standards," he said

in an interview.

Construction will begin in April, with 2013 being the target for starting production, the company said. Capacity is planned to be 16 million packs a year.

Pavletic said he was confident in the potential of the domestic pharmaceutical industry, with Russia being one of the strategic markets for the company.

AstraZeneca plans to contribute to implementing the government's plan to raise life expectancy in Russia from less than 60 years old to 75 by 2020, Pavletic said.

"There are high unmet medical needs in Russia. We believe that we can increase access to our medicines for ... patients," he said.

In 2009, the government passed a strategy to develop the drug industry through 2020, which aims to raise the share of domestically produced medicines from the current 23 percent to 50 percent over the next 10 years. A number of international drugmakers are developing local manufacturing facilities.

Last year, Swiss company Nycomed began construction of a 75 million euro ($100 million) plant in the Yaroslavl region, while French drugmaker Sanofi-Aventis took over and modernized an insulin plant in the Oryol region.

Several foreign drugmakers, including Novartis, Ipsen, Teva, Novo Nordisk and Berlin-Chemie, also plan to start manufacturing in Russia.

Pavletic praised the Kaluga region authorities for providing favorable conditions for efficient operating and a "transparent process" of formalizing documents.

Kaluga Governor Anatoly Artamonov told The Moscow Times that more foreign companies would come to the region this year, declining to identify them by name. He said in September last year that the Kaluga region was in cooperation talks with 10 foreign and domestic firms.

According to Artamonov, the Kaluga region attracted a total $1.2 billion of foreign investment last year, which would represent about 10 percent of the national total. Artamonov is counting on a minimum of $1 billion for 2011.

Last year, Kaluga region's manufacturing volume increased by about 45 percent, and this year's growth is expected at 30 percent, Artamonov said.

Kaluga offers tax breaks to investors, making it a magnet for foreigner companies. French cosmetics maker L'Oreal and carmakers PSA Peugeot Citroen and Mitsubishi all have production operations in the region.

The regional government is reaping the rewards, as tax revenues grew by 43.1 percent in 2010 compared with the previous year.

Artamonov has a long-term approach. "We're not greedy in terms of tax revenues," he said, adding that the region's government was focused on getting stable tax revenues over many years.

Volkswagen and Samsung were among the biggest contributors to the regional budget last year, with joint tax revenues from the companies' plants accounting for about 3 billion rubles ($100 million), Artamonov said.

Editor's Note: An earlier version of this article incorrectly referred to AstraZeneca as a British-Swiss company. It is actually a British-Swedish company.

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