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**How the Euro's Woes Could Impact Health of Biotechnology, the  
Pharmaceutical Industry and the Average American**

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**Turmoil in the European Union Could Force Biotech and Pharma Companies to Raise Prices**

By: Stephen G. Brozak and Lawrence F. Jindra, MD

Calvin Coolidge, President of the United States during the Roaring Twenties said, "the chief business of the American people is business." Today, healthcare is the biggest business in the U.S., making the success of the healthcare industry and its component companies crucial to the business of the nation. What is especially important to America's national business is the portion of the healthcare industry that creates goods the U.S. can export.

Today, close to 50 percent of the revenue from the top ten grossing U.S. pharmaceutical companies comes from international sales. International revenue from just these 10 companies totals close to \$120 billion, which is equivalent to almost one-third the Gross Domestic Product of Greece.

Pharmaceutical and biotechnology businesses thrive domestically and internationally because U.S. manufacturers are leaders in discovering new chemical and biological medicines to treat disease and device manufacturers have revolutionized the care of medicine from introduction of small stents used for treating heart blockages to giant magnetic resonance machines that give clear pictures of what is happening inside the human body. It is this leadership, bolstered by international sales, that has made high-quality healthcare widely available to most Americans.

Just as Americans began to feel it was safe to read the business page of their newspapers and turn on the nightly news, we learned that several European Union countries including Greece, Spain, Ireland, Italy and Portugal are facing economic difficulties. The Germans and the French say they are in no mood or position to bail out these weak sister states and economists on both sides of the Atlantic are speculating about what would happen if the European Union breaks up or the Euro currency falls. It took the U.S. several months and a lot of haggling to reach an answer to the immediate currency problems we faced a year ago, imagine how much harder it will be for Europe, with the conflicting interests of several nations to take meaningful action.

If the Euro loses value, the health of the healthcare industry will decline. Normally, companies would compensate for currency devaluation by raising prices, but most European countries have strict limits on what can be charged for drugs, so prices are likely

to stay the same. Though the price may stay the same and the revenue in local currency stays the same, if the value of the Euro declines, the value of U.S. pharmaceutical companies revenue will go down correspondingly.

Large companies compensate for such currency fluctuations by managing their foreign currency holdings with great care and sophistication to assure that they receive the maximum value for their shareowners. They often hedge their holdings by buying "insurance" in the form of a variety of financial instruments to attempt to protect revenue.

During the February 15 Merck quarterly conference call, Ken Frazier, president of Global Human Health said the company "had nice gains from the hedging position..." and added that comparing fourth quarter of 2009 with the previous year, "we had a nice hedging program that made the prior year stand up a little better."

But managing currency can only do so much to cushion the blow of a severe and long-term economic downturn that significantly devalues a regional currency. It would be like trying to stave off a tsunami. Markets would be flooded with cheap currency and corporations would be washed away in the torrent.

The only way a company can compensate for a significant, long-term loss of revenue is to reduce spending and that translates to fewer jobs and lower budgets for research and development. Less research and development delays the introduction of new life-saving drugs and devices and lower profits abroad force drug companies to raise prices domestically, making treatment more difficult to obtain for everyone. Large pharmaceuticals already have a significant shortage of new drugs in their development pipeline and the number of smaller biotechnology companies, where most of the early R&D takes place, shrunk by 25 percent over the last year, from 400 in 2009 to 300 in 2010.

If individual European economies continue to show weakness similar to the difficulties Greece is facing in the bond markets or the real estate bubble Spain, they will have a significant impact on U.S. drug and medical device sales and could have a significant impact on the entire U.S. economy.

Pharmaceutical, biotechnology and medical device companies have become both an asset and a liability for the U.S. economy by becoming the backbone of U.S. export. They are the canary in the coal mine for the financial health of the U.S. economy.

In the days of deep shaft coal mining, miners would carry a canary with them into the mine. The canary's lungs were so delicate that if there were a deadly methane gas leak, the canary would fall off its perch and the miners would know to evacuate the shaft. Today, if the pharmaceutical canary continues to sing, we know the economy is likely to flourish. If the pharmaceutical and medical device canary stops singing, we should all be wary of the impact it will have on our economy and our health.

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