



<http://www.xconomy.com/san-francisco/2010/06/16/three-ways-to-create-a-more-sustainable-future-for-biotechnology/>

Three Ways to Create a More Sustainable Future for Biotechnology

Gail Maderis 6/16/10

1. Encourage tax incentives and policies that would create more investment in biotech. We should create a tax holiday to allow repatriation of offshore profits that are used to fund R&D in small companies. There are huge profits that are locked up overseas and will never come back unless we provide a means for them to come back at attractive rates. The tax holiday could be limited to repatriated profits placed in corporate venture funds that are then invested, within 12-18 months, in small R&D based companies in areas of strategic national importance.

For example, if Pfizer brings back its offshore profits into PfizerVenture, which then invests in biotech startups, that would get capital flowing that is currently locked up. You wouldn't be bringing it back completely tax-free, the profits would be taxed at 5-10 percent, so you'd be helping pay down the deficit. And you'd be creating jobs at small companies. This doesn't have to be limited to biotech. It could be Intel investing in IT systems to reduce healthcare costs, or GM investing in the next electric car. It would significantly re-direct R&D from the Fortune 500 companies to the innovators. It would create jobs. And unlike all the tax credits happening now, there would be a quality control mechanism built in, because the large companies already have venture funds, they know how to do due diligence on companies, and presumably they would place wise bets. Once they have made an equity investment in those small companies, they would likely stick with them. They have an incentive of getting a return over the long-term. You can do this as a one-time tax holiday, and create huge leverage in the economy.

2. Encourage FDA reform. We need to support the FDA so it can become more consistent, well funded, and have a better tolerance for risk/benefit tradeoffs. The cost of drug development has skyrocketed, largely due to FDA's requirements. It now costs upwards of \$1 billion to develop a drug, primarily due to the size and length of clinical trials. FDA reform could reduce the cost of drug development very significantly.

3. Big Pharma needs to change its investment model. We need pharma to step up as venture capitalists in funding companies rather than solely in-licensing de-risked products. Pharma has been content picking the ripe fruit while letting private and public equity tend the vines, but as these sources of capital dry up, pharma must start cultivating if they wish to have a crop to harvest. Since pharma is a key beneficiary of biotech's R&D investments, they should have a vested interest in helping companies cross the Valley of Death. However, placing earlier bets means more chance of failure and runs counter to risk-averse business developers. Pharma needs to take a portfolio approach to returns, placing multiple early bets in key areas, to ensure success.

Gail Maderis is President & CEO of BayBio, the industry organization representing and supporting Northern California's life science community.