

Begging bowls

The biotech sector needs government support, not blank checks.

The list of sectors seeking government help to see them through the credit crunch continues to lengthen. The banks, the construction industry and vehicle manufacturers—authors of their own downfall all—have each returned from their begging missions to governments with varying degrees of success, the very same governments whose interference in the free market they roundly rejected not so long ago. When the cargo of the bandwagon is cash or cheap credit, it is a pretty sure bet that many will jump on it. And now the biotech sector is right there too, collapsing market cap in hand.

There's no doubt that the inability to raise finance is rapidly becoming life threatening (see p. 3). For the firms in better financial health, the wintry funding environment is forcing the restructuring or shelving of key programs.

In the US, this has prompted the Biotechnology Industry Organization (BIO) to ask Congress to pass emergency measures that would stimulate investment in biotech. It wants temporary cuts or suspension of capital gains tax on invested funds. And it wants to instigate a form of financial time travel that enables US companies to receive tax credits set against research. The word is that BioCanada is planning a similar approach to the Canadian government. What these lobbyists are not looking for, however, is a handout of cash as such.

In contrast, the Norwegian government has proposed providing extra funding to local companies seeking to run trials in the country. And last month in India, it was announced the Biotechnology Industry Partnership Program will put \$70 million towards companies—the only string attached is a small royalty back to public coffers.

But it is the UK biotech sector—at least those who are part of investor/entrepreneur Sir Chris Evans' inner circle—that has made the most desperate appeal for government help. A 20-page document entitled *The UK Biotechnology Sector—Recommendations for the Survival and Transformation of the Industry* declares that the UK sector faces a stark choice: “an indefinite downward spiral until the very real prospect of short-term extinction” or “swift and decisive action to effect fundamental change.”

Specifically, the dossier calls for the creation of a £500 (\$750) million National BioMedical Consolidation Fund and a £500 million National Super Growth Biomedical Fund. The Consolidation Fund would “encourage” hundreds of cash-poor firms to link up with other sub-optimal businesses in order to apply for money with the aim of creating 20–30 enlarged medical science ventures. The Super Growth Fund would provide access to equity capital tranches of £50–100 million per company and might enable additional leverage of debt funding, the proposal claims. The UK government would put in 50% of the capital for both funds and would be a fully fledged co-investor, taking profits alongside the private participants.

Fundamentally, these are good ideas. The downturn will, without any government assistance, provide a rather efficacious bottleneck in

the development of biotech. And the existence of a fund might be an effective way to manage the process.

It is also a good idea to get the government to engage the biotech sector. If it had a stake as an investor, it might take more seriously some of the regulatory and infrastructural barriers within Europe and at home. In the proposal, UK industry is, in effect, acknowledging that some circumstances are beyond its control, and that is often where government action or retraction is required.

There are three key deficiencies in the UK industry proposals, however.

First, it is a deflective act, a clumsy attempt to blame the failings of the sector on recent economic circumstances. Yet, in many ways, the current financial crisis is a convenient carpet under which the underlying weaknesses of many parts of the sector can be conveniently swept. The recession isn't kryptonite; it's only a 2.5% shift in GDP growth. It doesn't neuter the powers of the stellar and experienced management teams in whom investors put so much faith before. And the credit crunch doesn't suddenly make invention and innovation worthless.

The second deficiency is the suspicion of self-interest. A consolidation fund is a good idea only if the potential for promoting self-interest among those managing the fund can be constrained. It will be important that the Super Growth Fund does not become a slush fund to rescue the flagging late-stage portfolios of participating venture investors, many of which are responsible for the insufficiently capitalized UK companies in the first place.

The last problem is that the proposal includes naked jingoism dressed in the wispy cloak of international competition. It invokes “catastrophe” if the UK government surrenders Britain's position of being second in biotech to “Canada, China, or even Germany and France.” Britain apparently “badly craves” the ability to build multi-billion pound international successes. A UK solution is put forward, even though the markets in biotech are international and the origins and nature of the current financial crisis reach across the globe.

So how should the UK government respond to the proposal? It should respond positively. But it should also insist that taxpayer money be spent not only on UK companies but on companies elsewhere. This will ensure that UK taxpayers get the best return on their investment. The Consolidation Fund should not just be creating “The Best of British”; it should be creating global leaders. Similarly, if the Growth Fund is targeted at late-stage biotechs, then it should select the best companies not just from the UK but also from Europe, North America or Asia.

Most important, the government needs a wider group of advisers than the old club of 20 or so biotech whitebeards who put forward the current proposal. And it should welcome co-investment from European and US investors, and not just from the UK finance sector. Any substantial ‘foreign’ involvement of this nature would surely silence accusations of self-interest.