French loan arranger seeks biotech posse

Loans backed by French government guarantees could allow French companies to take advantage of current distressed valuations in biotechnology by embarking on acquisitive sprees in Germany, the United Kingdom, or the United States. The proposal for Plan Biotech 2002, which is to go before the French Parliament around the beginning of December, aims to mobilize over €700 million of private and public investment bank capital to haul France into a leadership position in European biotechnology. Its proponents argue that the scheme will accelerate the necessary process of corporate consolidation and rationalization that Europe requires, albeit in a way that ensures French ownership of the combined entities. Critics have suggested that the scheme may contravene European Union rules on state aid for industry. Others have said that Plan Biotech 2002 may be ineffective in bolstering the French biotechnology sector, especially in view of the French government's vehement opposition to "green" biotechnology.

Plan Biotech 2002 has been adopted by the French Ministry of Finance in its draft finance bill for the year 2002. The measures were developed in close collaboration with the industry organization, France Biotech, and an association of entrepreneurs, Objectif 2010. France Biotech is pushing the ministry to extend the plan to 2003 and beyond in order to stimulate several billion Euros' worth of investment by 2006 and to make France the leader within European biotechnology, up from its current third position. The plan has the backing not only of the Finance Minister, Laurent Fabius, but also of the minister of Industry, Christian Pierret, and minister of Education, Jacques Lang. Michel Kaczorek, president and CEO of Synt:em (Nîmes, France) and a member of France Biotech's Board of Directors, says that one of the most significant aspects of Plan Biotech 2002 is that the French government has finally appreciated both the length of a biotechnology company life cycle and the multiple funding requirements. "The three ministers have all understood the position and agreed on it," he says, "it's a kind of miracle." The Finance Ministry should decide the final details by the end of December, after the French Parliament has approved the funding.

That final version should not differ significantly from the two-pronged approach that is currently on the table, according to Philippe Pouletty, president of France Biotech (Paris), CEO of Drug Abuse Sciences (Paris, France), and the principal moving force behind Plan Biotech 2002. In essence, the plan consists of a €60 million seed financing venture fund promoting new startups, and €90 million in bank loan guarantees. Thus the €90 million in loan guarantees could release around €450 million for biotechnology from French banks. "Banks do not loan money to biotechs at the moment," he says. "However, banks will take the risk if they can see that governments are also backing the investment." France Biotech and the French government have also asked the European Investment Bank (Brussels) to provide funds that may boost both the seed fund and the loan guarantee scheme by 50%.

Philippe Pouletty says his vision of government-backed French companies snapping up US, German, and UK companies does not contravene the EU's internal market competition rules.

While there is little dispute about the seed fund, the loan guarantee scheme is attracting considerable controversy because its express purpose is "to finance acquisitions of foreign biotech companies and R&D investments." Pouletty envisages that the currently depressed markets mean that French companies, each backed by a loan of around €50 million, could acquire "a number of US, German, and UK companies with low valuations" in order to produce "bigger, higher quality companies that are more likely to be able to complete a successful IPO" when public finance markets reopen. Companies in other nations could also be targets but the highest concentrations are in the US, UK, and Germany. Pouletty insists that Plan Biotech 2002 would not be disallowed by the European Union's internal market competition rules. "These rules are probably not relevant. This is a plan for innovation in general. If it was only for biotech, then the European Union might have something to say about it." Ostensibly, the plan does covers various high-tech arenas, even though Pouletty indicates that "70–100% of the money is destined for biotechnology."

Officials at the European Commission (Brussels) seem less certain. They say that whether the plan can proceed will depend on the interpretation of the EU's communication on "State Aid and Risk Capital" (2001/C 235/03). Plan Biotech 2002 almost certainly falls within the scope of Article 87(1) of the Treaty of Europe, which limits the provision of state aid, because it uses state resources, distorts competition, confers an advantage selectively on the biotech sector, and affects trade between European member states. The question is whether the measures are excused because governments are given some flexibility to support innovation and to encourage small- and medium-sized enterprises.

Crispin Kirkman, CEO of the UK Bioindustry Association, raised both principled and practical obstacles to the French government scheme. In principle, he says that the Plan Biotech 2002 "sounds too much like direct intervention" in corporate development. "Industry desperately needs to keep to strict economic and business principles, and money that is too 'soft' will not really help. …The "law of the jungle' needs to operate to a certain degree. Consolidation is occurring naturally in the sector at the moment anyway." His practical objection is that Plan Biotech 2002 (or similar schemes) may be too small to make any real difference. "I can't see that any government can guarantee loans on a scale that would make a difference. …The loans might underpin a few joint ventures but they would not fund worthwhile purchases, at least not from the UK." Kirkman says that the acquisitions, if they occurred, would necessarily be of small companies struggling for finance. "This is not an obvious strategy for the promotion of national growth in biotechnology," he adds.

Jens Katzek, the secretary-general of the Deutsche Industrievereinigung Biotechnologie (Frankfurt), the German bioindustry association, believes that the French government's position reveals a familiar schizophrenia. Pointing out that France's environment minister, Dominique Voynet, led the member states' opposition to the approval of GM plants, he says that "On the one hand, France seems to want to be number one in biotechnology company formation and growth, but on the other she is already the leader in blocking biotechnology in Europe." As elsewhere in Europe, including Germany, Katzek says that French government departments "are not working hard enough to form a consistent policy."

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