

# San Diego Business Journal

## Study: Border Area Could Be Top Biotech Hub

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A UC San Diego study suggests that more collaboration among life science companies and research institutions on both sides of the border could fuel the San Diego-Baja California region into the largest, most appealing biotech hub in the world.

The study encourages conscious efforts to merge border economies among other industries too, including semiconductors, software and aerospace, but the report emphasizes medical devices, pharmaceuticals and marine biotechnology as offering the greatest potential for both economies.

The report, released late last month, is a result of two years of round-table discussions involving 200 community members and research on the part of San Diego Dialogue, a public policy institute at UCSD that aims to foster cross-border innovations.

“It’s an untapped opportunity,” said the study’s co-author, Mary Walshok, associate vice chancellor for public programs at UCSD. “Near sourcing is different than outsourcing. It’s the same time zone, people speak English, and the money that is being spent on the work force and the infrastructure flows back across the border in retail sales. Whereas if you are manufacturing in Taiwan, you don’t have access to the plants, and you can face delays and errors.”

San Diego-area venture capitalists often cite the importance of working and living close to startups they fund. The study, which cost \$200,000 to conduct, says an increased number of clinical trials in the Baja region would attract more investors and funding for research in the area. Biotechs could save money because the time to get approval for clinical studies in Mexico can be shorter, the study found, and the cost to carry them out 30 percent to 40 percent less than in the United States and Europe. Approval can be as short as two months in the United States, UCSD said.

The study, which received funding mostly from economic development groups on both sides of the border, as well as banks, suggests creating a Crossborder Innovation and Competitiveness Center, to be directed by a binational board that would operate with a small staff. The center would operate a program designed to promote private investor networks and more border region clinical trials.

### Major Market

Mexico is the 10th largest pharmaceutical market in the world, according to the study, with sales of more than \$11.3 billion in 2005. No exact comparative number was immediately available for

sales by San Diego pharmaceutical companies, but the life science industry is responsible for \$5.8 billion, or 5.3 percent, of the gross metro product here, according to a 2004 Milken Institute study.

Very little research and development is done in Mexico, Dialogue reported.

Surprisingly, the study says Baja California's medical device industry is about three times larger than San Diego's, with more than 23,700 Baja California workers compared with 6,800 in San Diego, according to employment data from both regions for 2003. Nearly 80 percent of the manufacturing, however, takes place in central Mexico, the study reports.

One recent exception is Vista-based dj Orthopedics, Inc., a manufacturer of medical devices for the orthopedic and spine markets, which just expanded its facilities in Tijuana. The company built a 225,000-square-foot manufacturing plant.

Dialogue's survey says the San Diego Association of Governments cites San Diego's medical device industry as one of the 15 most important in the city, but that it has had little growth in the last eight years partly because of companies choosing locations for manufacturing facilities outside the county.

Of more than 60 medical device companies in Baja California, more than 40 have U.S. parent companies, but only 13 have San Diego-based headquarters or significant business activity here, the study found.

Medical device companies with a San Diego presence that already manufacture in Mexico include Cardinal Health, Inc., Breg, Inc., Coastline International, Continental Lab Products, dj Orthopedics, Avail, Lancer Orthodontics, Inc., Nypro and Sunrise Medical, Inc., according to the study.

### **South-Of-The-Border Booster**

Stath Karras, the president and chief executive officer of Burnham Real Estate, participated in round-table discussions as part of the study and is a proponent of increasing business with Baja California. Karras said Burnham has helped a few San Diego companies find space in Mexico, including Alaris Medical Systems, which makes devices for delivery of intravenous medications.

"They felt good about the quality of labor," Karras said of Alaris' operations in Mexico. "Anyone who sees an opportunity could see some real benefits."

Traditionally, private investment in Baja has been put into real estate and non-technology sectors, so the study recommends creating a program to "create new sources of capital for crossborder entrepreneurs."

Walshok said she has not gotten any feedback from biotechs in San Diego.

“So many of the life science companies are in a survival mode,” she said. “It’s harder for them to think about these big picture issues.”

## **Opportunity Exists**

Joe Panetta, the president and CEO of Biocom, a life sciences trade group that represents 400-plus companies in the region, said low-cost manufacturing in Mexico and the opportunity to research a different patient population could be attractive to biotechs, but that there are obstacles.

“For life science companies to be interested in running clinical trials south of the border, there needs to be clear, strong signs of regulatory compliance, and alignment with U.S. (Food and Drug Administration) requirements,” Panetta said.

Walshok has, however, received e-mails from people such as the secretary of California Trade and Commerce thanking UCSD for conducting the study. Merck Latin America contacted Walshok as a result of the study. Dialogue hosted a two-day visit last summer from Merck where executives were introduced to area business leaders, including UCSD’s Connect, a program that fosters startups. Walshok said Dialogue will attempt to build interest in bringing more clinical trials to the cross-border region through a one-day seminar where Merck Latin America executives will assist.

“There’s a real interest in collaboration — much more among the Mexicans now than in the U. S.,” said Walshok, who worked with two Mexican organizations to conduct the study: CENTRIS, a Tijuana economic development group, and CICESE, or Centro de Investigacion Cientifica y de Educacion Superior de Ensenada, the city’s science and technology research center.

Biotech companies were up in arms recently when Gov. Arnold Schwarzenegger wrote a letter to Congress requesting that lawmakers allow importation of pharmaceuticals, so reaction to the report could be mixed.

In addition, Walshok acknowledged that the recent discovery of a half-mile-long, sophisticated tunnel used to run marijuana across the border created an unfortunate vibe about cross-border business.

The study says officials could boost cross-border industries by making the border easier to cross for legitimate travelers by using “smart technology.”

“We have the technology to tell who is legitimate and who is not in crossing the border,” Walshok said. “But we aren’t taking advantage of it.”