HOUSE OF COMMONS

Business, Innovation and Skills Committee

Oral evidence: The Future of AstraZeneca, HC 1286-i

Tuesday 13 May 2014

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Watch the meeting:

Part 1: 9.30am-12.30pm

Part 2: 1.00pm-2pm

Members present: Members present: Mr Adrian Bailey (Chair); Mr William Bain; Mr Brian Binley; Paul Blomfield; Katy Clark; Mike Crockart; Rebecca Harris; Ann McKechin; Mr Robin Walker; Nadhim Zahawi

Questions 1-219

Witnesses: **Tony Burke**, Assistant General Secretary, Unite, **Linda McCulloch**, National Officer, Unite, **Ian Waddell**, National Co-ordinating Officer, Unite, **Allan Black**, National Officer, GMB, and **Catherine Speight**, National Political Officer, GMB, gave evidence.

Q1 Chair: Good morning. Thank you for agreeing to help the Committee with our inquiry. We were only advised that Mr Burke and Mr Black would be addressing the meeting. I see you have brought in some—I do not know—substitutes. I am happy enough for them to attend, but it would be very helpful if they could just explain who they are and what their role is. Indeed, I would like you all to introduce yourselves just for voice-transcription purposes, if I start with you on the left.

Linda McCulloch: Good morning, everyone. My name is Linda McCulloch, the Unite National Officer with responsibility for the Chemical and Pharmaceuticals Sector, with responsibility for AstraZeneca.

Ian Waddell: I am Ian Waddell. I am National Co-ordinating Officer for Unite. I have strategic responsibility for our members in chemicals and the pharmaceutical industry.

Tony Burke: I am Tony Burke and I am Assistant General Secretary of Unite, with overall responsibility for manufacturing.

Allan Black: I am Allan Black. I am National Officer with the GMB trade union and we have the membership at the Macclesfield site.

Catherine Speight: I am Catherine Speight. I am the National Political Officer with the GMB.

Chair: Before we start the questioning, I have a declaration of interest and I believe that at least one other member has. I will make it: in 2011, I had a constituency plan agreement between the GMB and my constituency, which donated money to my constituency. The constituency has not received any money since. I perhaps should also mention that I have a close family relative who is an unpaid shop steward with Unite.

Mr Walker: In the interests of full disclosure, I refer the Committee to the Register of Members' Interests and the fact that I used to work for RLM Finsbury Limited, which currently represents AstraZeneca in its financial communications. I did not work for that particular company or any others in the pharmaceutical sector, and I no longer have any professional relationship with Finsbury, though I do meet former colleagues from time to time.

Katy Clark: I refer to my entry in the Register of Members' Interests. The Labour Party in part of the area I represent received a financial donation from Unite recently.

Q2 Chair: Are there any other members who wish to declare an interest? In that case, I will crack on with the first question but, before I do so, can I make it quite clear that you should not all feel obliged to answer every question, because otherwise we are going to be here for a very long time and we only have half an hour allocated for this particular session? I suppose my first question is to both unions: what level of representation do you have at AstraZeneca and what range of jobs are held by your members? I will start with you, Tony Burke.

Tony Burke: Union membership in AstraZeneca is over a third of the workforce. We cover production workers, workers involved in research and development, scientists, and administration, clerical and other trades.

Allan Black: Our interest in the company is largely confined to the Macclesfield site and it is on the production worker side. The craft employees in the plant are represented largely by Unite. We have handfuls of members elsewhere in AstraZeneca, but nothing of any great significance. Our focus is on Macclesfield.

Q3 Ann McKechin: Good morning. I wonder if we could ask both trade unions what canvass you have made of your members since Pfizer initially expressed interest in taking over AstraZeneca, and what key concerns they have expressed to you.

Tony Burke: It is fair to say that we have met with our members and we met with our shop stewards recently in London. We had a very detailed, long meeting with them to discuss the implications of the Pfizer proposals. I have to say, Chair, that our shop stewards, both from Unite and at GMB, are opposed to this deal. They are very concerned about the impact of it. They are very concerned about Pfizer's record in terms of job losses: 65,000 since 2005 globally. They are also very concerned about their own localities, particularly Macclesfield, Alderley and also in Bristol and elsewhere. They are very concerned about the impact on the supply chain as well.

The reality is that these are dedicated workers. These are people who have been with this company for many years and are dedicated to AstraZeneca. They believe the products they produce are world-class, and they are very concerned that any takeover would mean

not only would they face possible job losses but obviously the skills and scientific knowledge they have could be somewhat dissipated.

Allan Black: Tony has covered it. There is another point that did emerge in last week's meeting with our shop stewards that is worth mentioning. Although the public domain figure for AZ employment in the UK is about 6,700, there are in fact many more thousand people employed on these sites, working for subcontractors. The example I used earlier on this morning was that, if you look at the sites in the North West—at Alderley Park and at Macclesfield—there is a huge Sodexo catering contract, there is a Securitas security contract and there is an ISS cleaning contract. There are numerous information technology contracts. We believe that the real AstraZeneca employment figure, allowing for those kinds of jobs, is probably nearer 12,000 or 14,000 in fact, rather than the 6,700 figure that represents direct employment with AstraZeneca.

Q4 Paul Blomfield: I wonder if I could ask a question of the GMB. Allan, in a recent press release, you described Pfizer's track record as "dubious". What in particular has Pfizer done to lead you to that conclusion?

Allan Black: I treat employers based on what they do rather than what they say. The commitments that I have seen, or the alleged commitments I have seen, Pfizer give as to their future intentions should they acquire AstraZeneca rather fly in the face of what they have done when they have acquired companies in the past. For example, I am sure that Committee members are well aware of the comments from who I believe is the equivalent of the Swedish Chancellor of the Exchequer. I think he was polite enough to say that Pfizer's focus seemed to change pre- and post-acquisition of the Pharmacia company in Sweden that they bought, which led to a reduction in R and D commitment.

The same thing, as I understand it from colleagues in the North American trade union movement, happened when they acquired Warner–Lambert, and to an extent the same thing happened when they acquired the Wyeth company. Their track record is the thing that gives me most concern, rather than frankly, by our accounts, the fairly flimsy commitments in the Ian Read letter to the Prime Minister dated 2 May.

Q5 Paul Blomfield: Tony, you are nodding. I wonder if you could just share with us your experience of your relationship with Pfizer.

Tony Burke: Unite has members working in Pfizer. The difficulty we had in the past was, as you will be aware, they closed down a major site in Sandwich. The closed down manufacturing and there were redundancies. The situation was that our national officers who were dealing with that situation found it very difficult to try to reach agreements with the company. In fact, the company would only go through the basic minimal consultation as far as we were concerned, and that proved to be somewhat difficult.

Q6 Mr Walker: You both highlighted the need to protect jobs, and the Prime Minister has said in his statement he is looking at this deal in terms of what it means for British jobs. What would you like to see the Secretary of State actually do to ensure that there are no job losses as a result of takeover?

Allan Black: We would like two things. One of the things we are deeply concerned about is the loopholes in the Pfizer letter. As events unfold, if Pfizer do in fact go ahead with a

bid—after all, there is currently not a bid on the table, as I understand it—we would expect the Government to intervene and try to secure much more worthwhile guarantees as to Pfizer's future intentions in the UK than those contained in that letter.

However, I have to say that ideally we would like the Secretary of State to contemplate intervening using the powers that we believe he has, or powers that he could very quickly acquire, to stop the thing going ahead altogether. That is really what we would be looking for. As a second-best, we would like something copper-bottomed. I am not sure what I mean by that, because I am not sure how that in fact can be delivered, because guarantees, particularly guarantees as there were in the original letter—the 2 May letter—are time-limited. You do not really buy a second-hand car if the car dealer says, "I'm giving you a guarantee but, if things change, hey, the guarantee may be null and void." It seems to me to be an extraordinary proposition.

That is what we would like: we would like a much firmer set of undertakings from Pfizer should the deal go ahead but, ideally, we would like the Secretary of State to use powers that we believe he has to stop the deal in the first place.

Q7 Mr Walker: Could I just follow up on that? You say "should the deal go ahead". Clearly, this is an industry that has seen a degree of consolidation anyway and will have been dealing with consolidation in a number of jobs at AstraZeneca. What guarantees, if the deal were to go ahead, would you be trying to seek?

Allan Black: That is exactly the point. I think I said I am not sure exactly what kinds of legally binding commitments, for example, could be extracted from Pfizer that would be meaningful and enforceable. You are quite right: there has been a huge amount of consolidation in the pharmaceutical industry worldwide. The concerns that arise from this arise largely from Pfizer's track record. It seems to me to be absolutely crucial that we continue to play the prominent role that the UK does in this particular area of pharmaceutical research. That must be one of the bases for the science-based economy that people are very fond of talking about. Given Pfizer's track record, there must be a real danger that is going to be removed from the UK economy.

Tony Burke: If you look at what Pfizer is saying, they are basically saying that they will make a commitment for five years, recognising their ability consistent with fiduciary duties to adjust obligations should circumstances significantly change. That is of major concern to us. That is very much paper-thin. Our discussions with AstraZeneca, in terms of their letter to us, make it absolutely clear that they are making a commitment to the UK not just for five years, but for 10, 20 or 30 years. Of course, our members who work for the company believe that is certainly helpful and gives them a real commitment.

The other problem is research and development. There has been a lot of discussion about that over the past few days and, when you actually come to look at the detail of it, the history of Pfizer in takeovers has meant that research and development budgets have continued to be cut back for a very long time: from, in the first instance, 16.5% to 15.6%, when others stayed at 20%; from 15.6% to 13.8%, when everybody else stayed the same. Of course, there have been further reductions from 13.8% to 12.7%. We have there a consistent reduction in R and D and yet the company is saying they are prepared to continue to invest in that particular aspect of the business. The reality is, in the pipeline, AstraZeneca is very strong at the moment. They have a situation where they clearly have

got blockbuster drugs coming through that will hopefully ensure that the company is successful for the future. At the moment, we just believe that Pfizer is not offering the assurances that our members, our workforce and the workforce in Macclesfield, Bristol and the UK, are seeking.

Q8 Nadhim Zahawi: I just want to pick up with both Allan and Tony the point about legally binding agreements. Setting aside a total rejection of the deal, Paul Nurse said this morning that, if there could be a legally binding agreement and if it could be made much longer—i.e. not five years but 10 or more—this could be an interesting deal. Have either of you taken legal advice as to what a legally binding agreement could look like?

Allan Black: Chair, it will be obvious from my qualifying my answer that yes, I have. Frankly, the lawyers at the GMB I consulted are rather scratching their heads as to how something could be drawn up that would be sufficiently watertight to satisfy presumably the UK Government, which would be party to it, and that Pfizer would sign off. Therein lies the difficulty.

I also wanted, if I may, just to tackle the 10-year thing. Frankly, in my limited experience of pharmaceutical research, which is as near nil as makes no difference, a 10-year timeframe is remarkably short term. AstraZeneca has repeated to me and colleagues from Unite over the years that their timeframe horizon is 25 years, because they reckon that, generally speaking—I am sure the general rule is there is no general rule—you have to allow for up to a 25-year research and development phase to bring a new drug to the marketplace. Frankly, a commitment of even 10 years is very thin indeed. That is just not the kind of timeframe that these companies think in. Tony has pointed out the letter we have had from AZ, which spells out their frankly much more realistic timeframe for pharmaceutical research and development.

Another aspect of it that we would be concerned about is that, while the focus has very much been on the potential R and D development in Cambridge, which is being undertaken as we speak, there is also a commitment, which has rather slipped off the radar, to build a new facility at £150 million out at Macclesfield. That is very important to my members at Macclesfield, because it is one of the very few positive signs there has been in recent years that the future of the Macclesfield site is brighter than they might otherwise have thought. I understand it is small beer compared with Cambridge, but a £150 million investment in manufacturing capacity in the North West of England is not to be treated lightly. We would like to hear something from Pfizer as to their intentions in that direction. We are particularly concerned, because the drug that is going to be made in this new facility is, as I understand it, not widely marketed in the US. Therefore, we are not sure that Pfizer is remotely committed to it.

Tony Burke: The situation is that we would be very interested to hear what the company Pfizer is saying in terms of their proposals. All we know is what we read about in the press. They have not bothered to contact the union. They have certainly not bothered to make contact with our members in that area of the UK and, quite frankly, it is not satisfactory. We have, as we said earlier on, a massive mega-deal going through here. The workforce appears to have been forgotten about. The company has not made any contact with us and, if they have proposals, as always as unions, we will always meet with employers and listen to what they have to say.

Q9 Nadhim Zahawi: Can I just stop you? Really my question is: have you taken any legal advice as to whether any agreement can be made binding? That is really the focus.

Tony Burke: At the moment, we have not seen any proposals. Quite frankly, we want to see what the company is saying.

Q10 Nadhim Zahawi: On AstraZeneca, on the micro level, I know that Tony mentioned the letter they have written to you and their commitments to, for example, the 2,000 jobs in Macclesfield, the further investment there, the migration to Cambridge and so on. Are those commitments binding in any way or are they just part of the overall long-term strategy of the business?

Allan Black: At the risk of sounding like the AstraZeneca fan club, which I am certainly not a member of, the way they have handled the migration thus far from Alderley Park to Cambridge is, frankly, exemplary. For months, I have been saying to the local officer who is involved with colleagues from Unite, "What would you like me to complain about?" and his answer, frankly, is, "Nothing." I am being slightly frivolous, so forgive me, but it has been handled in a really professional, considerate, compassionate fashion.

It is a big deal for people to uproot their families, kids from schools, and so on, from the North West of England and contemplate moving to an expensive housing area like Cambridge. The company has made relocation packages available to people who want to relocate. Unite is the main union that represents these colleagues, but we have some and, as I understand it, the take-up of relocation has been really quite surprising, given the dislocation involved. That is a reflection of the generosity and the kind of consideration the company is showing to its workforce, which I think is to be commended.

Q11 Mr Bain: You have called for the takeover to be referred to the Competition Commission. What would the grounds be for the Commission to conduct such an inquiry, Mr Black?

Allan Black: I am now given to believe that I have actually got that wrong. It is a difficult thing for a trade union officer to say, but there you go. I understand that the intervention of the competition authority, certainly from European level, will be almost automatic and therefore I do not need to call for it. They do not need any help from Allan Black on this occasion. I believe they will probably intervene anyway. I have been given assurances in that direction. They are keeping a watchful eye on the matter from Brussels, or wherever these good people are based, as the discussions proceed, so the intervention will happen, whether I want it, whether Pfizer wants it, whether AZ wants it or whether the UK Government wants it, so me calling for it is a bit futile, isn't it? I still think it is a jolly good idea though.

Q12 Mr Bain: These competition aspects are very important, aren't they, because you not only have the EU Commission but, for example, China as well, whose competition authority might require the break up of any new group that is established? It rather puts at variance these so-called commitments that Pfizer has made about not restructuring the group or having job losses, doesn't it?

Allan Black: Tony is right to make the point that Pfizer has had no official communication with the GMB, certainly, or Unite, from what Tony is saying. It would be nice if they had responded to the request to have a dialogue, but they have not. That is obviously their choice. If I can be quite candid, I am a little bit perplexed about Pfizer's motivations in this matter.

I have been reading in the press, as I am sure everyone else has, about their desire to have a tax advantage in the UK, as opposed to North America. Indeed, the Secretary of State made some reference to that in his parliamentary statement last week. I am not sure I see that as the main or sole driver for Pfizer's potential move. My belief—which may be wrong, of course, because Pfizer has not deigned to talk to me—is that there may be what might be loosely described as Chinese implications in this. As I understand it, the regime in North America for doing joint ventures in China is more rigorous than it is in the UK. It may well be that Pfizer possibly sees an advantage in that, in enabling them to expand in China, which would of course be no comfort at all to my members in Macclesfield, because the implications are obvious. I am sorry about the length of that answer, but that is how I see it. I am not sure that I do understand Pfizer's motivation. If it is a tax break, then that is pretty poor, frankly. However, I am not really comfortable with buying into that as their sole reason for being interested in acquiring AstraZeneca.

One of the things I do buy into absolutely—and Tony made the point, and quite rightly—is that they are very interested in acquiring AstraZeneca's drug development pipeline, because it is very much stronger now than it has been for the last five, six or seven years that I have been dealing with them.

Q13 Mr Bain: This interaction between the competition aspects and the takeover rule aspects is quite critical here, isn't it? Pfizer has made great play this morning of this five-year commitment, but my understanding is that the Takeover Panel rules would commit Pfizer to only one year. Effectively, any additional years that they are claiming to give a guarantee for are only voluntary. They are not binding.

Allan Black: That is exactly the legal advice that we have had. More worryingly, the lawyers who I have consulted do not see any obvious mechanism to make even a five-year commitment binding. I am sure it can be done. I am not sure it can be done, as there is no obvious way of tying Pfizer in to something that the UK Government would be comfortable with, in terms of a future commitment.

Chair: William, we are running out of time and you have a further question. I think we have explored it, but by all means we will put it in a further written supplementary to you.

Q14 Mr Binley: Tony Burke, I was shocked to hear that you had had no official communications with Pfizer whatsoever. Have you had any unofficial communications of any kind?

Tony Burke: No, none at all. We wrote to both AstraZeneca and Pfizer earlier this month. We had a response from AstraZeneca very quickly setting out their position, and we wrote to the Chief Executive of Pfizer at the same time. We have had no response.

Q15 Mr Binley: I must say, as a businessman myself, I find that really rather shocking, quite frankly. It is almost as though the workforce is a very poor third. Is that your view?

Tony Burke: I would certainly agree with that. I think any company that is looking to acquire a UK business of such importance—a company that contributes 2.3% to our exports and a strategic business—would have made contact with the unions without us having to write to them. You would have thought they would have sought out the unions and the workforce, and had open consultations very quickly—at least some discussion to give us an idea of where they are going.

Our members working across the UK are finding out what is going on through the pages of the press and the media, and you can understand the difficulty that they have. They were very patient for the past two weeks. They have sat tight. They have not jumped up and down. They have listened to what is being said and now they feel angry, and that is why they have said they prefer to stay with AstraZeneca. They do not want the Pfizer bid, because they believe it is bad for their own job skills and science.

Q16 Mr Binley: It might be of interest to you to know that we have had a communication from Pfizer. They have submitted their views. Have you seen a copy of that?

Tony Burke: No.

Q17 Mr Binley: I am deeply concerned about the language, and I want to get your view of it. They talk about 20% of the combined company total being located in the UK, "going forward". It seems surprisingly loose language for a company of this size to use. It then says it will retain "substantial commercial manufacturing facilities in Macclesfield". The word "substantial" is not that helpful to you, is it? Finally, they say they will hold board meetings—very kind of them—"to be held in the UK as appropriate". I find that language, in this important situation, to be loose. Can I ask if you think it is just the way the Americans are or are they being evasive?

Allan Black: I am not quite sure whether you are directing that at Tony or me, but I think it is very difficult to generalise about Americans, Frenchmen or Germans, and indeed very dangerous.

Mr Binley: You have specific words here. What is your view?

Allan Black: I really am trying to press upon your question; I know and deal with some very decent American employers and I deal with some very bad American employers. I deal with some very bad British UK employers.

Mr Binley: Forget the generalisation. I am asking about your views on these words.

Allan Black: That text you have just read out is remarkably similar to the text in the 2 May letter, and it was exactly those words that caused Tony and me concern. A lot of those words are frankly as near devoid of meaning as makes no difference. That would not be a warranty, to go back to my previous analogy, for a second-hand car, leave alone a £63 billion business.

Q18 Mr Binley: Can I just ask about your relationships—and I have a minute, Mr Chairman—with the Government? Is there any difference there? Have you been talking with the Government?

Allan Black: We had a meeting yesterday with Vince Cable. Am I supposed to say that?

Mr Binley: I am delighted. That reassures me. Thank you very much.

Tony Burke: He responded to a request. The point that was being made by Mr Binley about the words in the letter to you, about the assurances to you from Pfizer, is that they are very generalised. At the end of the day, we have been here before. These are worthless. This is not what we want. This is not what the workforce wants.

Chair: On that note, can I thank you for your contribution and say what I always say in these circumstances? If we feel there are further questions that we should have asked you and would like to, we will write to you and would be grateful for a reply. If indeed, on consideration, you feel you could give further information or a fuller answer to those that we have asked you, please feel free to contact us. Thank you very much.

Examination of Witnesses

Witnesses: **Ian Read**, Chairman and Chief Executive, Pfizer Inc., **Frank D'Amelio**, Executive Vice-President, Business Operations and Chief Financial Officer, Pfizer Inc., and **Jonathan Emms**, UK Managing Director, Pfizer Inc., gave evidence.

Q19 Chair: Good morning and can I thank you for agreeing to assist with our inquiry? I would like to put on record the Committee's appreciation of your willingness to engage, with both the Government and the Committee, on these issues in contrast with a previous American corporation that we have had to deal with. First, could you just introduce yourselves for voice-transcription purposes?

Frank D'Amelio: I am Frank D'Amelio. I am the Chief Financial Officer of Pfizer.

Ian Read: My name is Ian Read. I am CEO of Pfizer.

Jonathan Emms: Good morning. Jonathan Emms, Managing Director of Pfizer UK Limited.

Q20 Chair: Thanks very much. I would just like to start. Mr Read, your company has been described by the former Chief Executive of AstraZeneca as a "praying mantis". A former employee of Pfizer, I think the Chief Scientific Officer, has described your company as "a shark that needs feeding". If I can extend the zoological analogies, what can you say that can assure this Committee that this particular leopard is about to change its spots?

Ian Read: I would like to start by thanking you for the opportunity to talk to you today. Secondly, I am very proud of Pfizer. I have worked for Pfizer for 35 years in total. There are 80,000 employees in Pfizer. If the Committee had a chance to talk to those colleagues,

they would see a company of high integrity and a company that is focussed on patients and delivering drugs to patients. We have produced, in the last three or four years post the Wyeth acquisition, 13 approved products that have come to market, 13 products in phase III and 13 products in what we call our proof of concept. The majority of those have come from our own science; they have not been bought in or licensed in. I am very proud of Pfizer's record of focusing on research.

In fact, on becoming CEO, I laid out four principles under which the company would operate. The first is what I call a fixed innovative core. I am acutely aware that the future of the company depends on science and innovation, so the first priority was to get our science productive. That is what counts; that is our future. That gets products to patients. The second was to treat the company's money as our own. Let us make sure we get good capital allocation. Let us make sure we are good stewards of the resources we have. The third priority was to re-establish our reputation with the general public or gain trust, as we call it. The fourth priority was to build a culture of ownership. We call it ownership and we say, "Own the business. Win in the business." This next one may surprise. "N" stands for "no jerks". Let us discuss behaviours. "I" is for "impact" and "T" is for "trust". I feel very proud of our company and very proud of our colleagues.

Q21 Chair: Warm words, and all very good, but over the last few years you have acquired a number of companies and, during that time, I think you have spent something like $240 billion on acquisitions. Your company now is valued at $185 billion, so you have lost a lot of value from those takeovers. You have slashed the workforce by over 60,000 and you have nearly halved the amount spent on research and development. I understand the joint budget for research and development of Pfizer and AstraZeneca would be, if sustained, somewhere in the region of $12 billion. Are you prepared, amongst all your other assurances, to say that you will sustain research and development to at least that level?

Ian Read: If I may address some of the comments you have made, the company is extremely focussed on making science productive. This industry, as the previous gentleman commented from the labour unions, has gone through a series of consolidations. I do not think Pfizer is alone in having reduced employment in the industry. AstraZeneca itself has reduced its UK employment by 40% over the last several years, so we are focussed on trying to make the company more productive. Society is asking for more medicines and better value medicines. There are several ways of doing that. One is making R and D work better, making the science work better, which we are trying to do. We are working both inside our laboratories and outside, with extensive partnerships. The other is to reduce the costs of bringing a product to market.

Q22 Chair: Mr Read, I understand all this, but I asked a simple question. Could you give a yes or a no answer?

Ian Read: I will get there, I assure you, sir.

Chair: Could you get there quickly?

Ian Read: I will do. Frank, would you like to discuss the issue of the $240 billion/$190 billion please?

Frank D'Amelio: You mentioned that we used to be valued at $240 billion and you mentioned the number now of $185 billion to $190 billion. It does not include a few things. First, during that same period, we have returned $165 billion of cash to our shareholders.

Chair: I know they have done very well, when others have not.

Frank D'Amelio: We have done that through a combination of dividends and share repurchases. We have also sold some businesses that were valued for over $50 billion. The $240 billion to $190 billion is a partial story.

Q23 Chair: My question was: are you prepared to sustain the level of research and development budget at the level at which it is jointly, between Pfizer and AstraZeneca, at this moment? You sketched around it.

Ian Read: We believe the most important thing on that is not the percentage of sales we spend on research; it is how productive it is. I do not expect that the combined total will remain the same. I expect it will be lower. As to how much lower, at this stage I cannot give a figure on that.

Q24 Chair: You expect it to be lower. Okay, thank you for that. That is very straightforward. Can I just conclude by saying that you do not appear to have had any consultations with the trade unions? We know that you have had consultations with the City institutional investors. We know that you have communicated with the Government. Have you had any communication with, if you like, the scientific community in this country?

Ian Read: We have a dialogue with the scientific community. We have approximately 300 partnerships in the UK with the scientific community and we are beginning to discuss our proposal to them.

Q25 Chair: Is that with organisations like the Royal Society, the Wellcome Trust and so on?

Ian Read: I think it is more individual scientists, not those types of organisations. I would like to make a point on the labour unions. We are in an extraordinary situation here. We have a proposal to AstraZeneca. We do not have an offer; we do not have a deal. We are here talking to you in front of a deal; it is just a proposal. We have had limited conversations with AstraZeneca, although we have tried to approach them. I thought it was inappropriate for me to go behind AstraZeneca's management and talk to their labour unions when we do not have a deal. In time, we will talk if this deal progresses. We will talk to the labour unions and we will be talking extensively to the scientific community. That is why we are here this week and that is why we will remain here this week: to do so.

Q26 Chair: It would appear that you have had extensive consultations with your investors. You have had consultation with the Government. You have highlighted the tax advantages for Pfizer of this. Are those your priorities, as opposed to science and the scientific community?

Ian Read: We have made it clear that there are three reasons for wanting to do this acquisition. One is to merge the pipelines. Research is very risky. We have a good

pipeline. We believe AstraZeneca's pipeline is substantial, but we believe it will be far better if combined with our pipeline. Part of the industrial logic is that they are successful and strong in inflammation and the CV/metabolic. So are we. We have oncology products and they have some earlier oncology products that could combine very well with our oncology products. Overall, we feel there is a very strong industrial rationale on the products.

The second part of the value creation is this push to become more efficient—to be able to produce more medicines faster. We have an expression at Pfizer, "The patients are waiting." The quicker we can get medicines to patients, the more productive we can be and the more successful the industry will be. Then the third part of the value equation is a lower tax rate and a more flexible use of our financial assets.

Q27 Chair: Would you not agree that your strategy so far seems to have been concentrated on those areas that you have traditionally been known for? That is, value to the investor, rather than underpinning and developing the scientific base.

Ian Read: No, I would not. Since we did the Wyeth acquisition, which is really what I can talk to as I was in senior management, we have brought 13 products to market. We have advanced 13 products into phase III. We have been very productive in our science. We have enlarged our commitment to vaccines. It is now our second or third largest segment; we have increased our spending in vaccines. Frankly, investors are pension funds. Investors are insurance companies.

Chair: I think we are well aware of the market there. We do not need a lecture on that. The point is that you have halved your research and development, and one of the acquisitions that has been levelled at you is that you concentrate more on development and marketing than research. Can I bring in Brian Binley now?

Mr Binley: I am sorry; I thought Rob had a supplementary that he wanted to make, Chairman.

Q28 Mr Walker: You have talked a lot about the importance of synergies from this deal, the potential for research and growth going forward, but a lot of well-informed commentators are looking at this and they are seeing it not so much as about research and growth in the development of products but as the last hurrah of a business model that is fundamentally breaking down, based on big blockbuster drugs, as the industry is becoming more tailored and smaller nimbler companies will do better in the future. What do you say to the argument that this drive to consolidation amongst big pharma is just a reaction to the fact that the big pharma business model is no longer sustainable?

Ian Read: I see it in totally different terms. I do believe there is consolidation going on in the industry, and these are pressures that have been brought by society demanding more productivity. The way Pfizer is organised is with a focus on science. We have five or six therapeutic areas that we have great expertise in. We have chief scientific officers for those areas, and the portfolio of AstraZeneca fits with those areas. In fact, the way we run Pfizer is one of accountability and having groups of people who have responsibility for certain areas. It is like small companies within a large company, but with a lot of accountability.

The way we are going is the way modern pharmaceuticals are going: small units accountable, lots of work outside, lots of contacts with universities. In fact, in the US, I believe we have about 23 substantial agreements with universities in the US to do early research. We asked for proposals from these universities. They had to have both a clinician and a scientist. We got 300 proposals. We funded 16 of them. We have very a vibrant science outside of our walls, as well as inside.

Frank D'Amelio: Mr Walker, if I may, we will spend almost $7 billion this year in R and D. Small start-up companies cannot spend $7 billion on R and D. I should also mention that is an increase over how much we spent on R and D last year.

Ian Read: I am proud that a lot of our development is internal. We have not taken the option of going out and continually buying products from early-stage companies, bringing it in and only being a development company. Over 50% of our late-stage is developed in-house and, in our earlier stage, it is more like 70%, so I am very proud of the science and the commitment to science of our company, as distinct from just going out and buying up products from all around the world.

Q29 Mr Walker: You are talking about here potentially buying a company partly because of its science base and partly because of the products.

Ian Read: Absolutely, and integrating that into our scientific commitment.

Q30 Chair: Before I bring Brian in, could I just ask for a comment? You commented about the $7 billion that you are spending on research and development. Actually, before you took over Wyeth in the USA, I believe the combined research was in the region of $12 billion. They are very similar figures to those of Pfizer and AstraZeneca. Would you anticipate it being reduced to $7 billion in the future?

Frank D'Amelio: When we purchased Wyeth, the combined spend of the two companies' R and D was $11 billion. Pfizer's was approximately $7 billion at the time.

Chair: The figure I have been given is $12 billion, but alright. What is $1 billion?

Frank D'Amelio: $1 billion is a significant amount of money. Of the $11 billion to $7 billion, I have a couple of comments: first, the $11 billion goes to about $10 billion because of some of the divestments we have recently made. If you take in the separation of our animal health business and the sale of the nutrition business, that reduces the $11 billion to about $10 billion, so think of it as $10 billion to $7 billion.

Quite frankly, we looked at those therapeutic areas where we believed we could bring the most value to patients. We exited certain therapeutic areas where we did not believe we would be able to bring value to patients and we focussed on those areas where we could. To Ian's point, the $7 billion of R and D that we are investing today is much more productive and will bring much more in terms of new medicines to patients than how we were spending that $10 billion, or $11 billion to your number. To Ian's point before, we have produced 13 new drugs since the Wyeth acquisition.

Chair: Okay, if it has been said before, we do not need to say it again. Can I bring in Brian Binley now?

Q31 Mr Binley: You have said, Mr Read, that you have been with the company 35 years—a very proud record. Were you a salesman?

Ian Read: No, I started in the accounting area.

Q32 Mr Binley: You would have made an excellent salesman, because your talk so far has been a lot of sales talk, but very short on fact, and it is that that I want to get to. Can I quote the Swedish experience to you? You told us how you invest in other companies that you purchase and merge with. The Swedish experience is rather concerning, and you can understand why people feel concerned, I am sure, Mr Read, when the Prime Minister of Sweden said that, following the purchase of Pharmacia, they have had a negative experience: "There were promises that it would mean jobs and operations in Sweden that we don't think were honoured. It makes us feel great concern for jobs and resources for research." Does that bother you?

Ian Read: Let me try to put that into context.

Mr Binley: No, you answer my question, sir, not answer yours. "Does that bother you?" was my question.

Ian Read: I am worried the facts are incorrect and the Prime Minister does not have the right facts.

Mr Binley: The Prime Minister is wrong.

Ian Read: The Prime Minister does not have the right facts. There were only 45 researchers actually in Pharmacia in Sweden when we bought the company. They had already spun off their research into Biovitrum, so that is number one.

Q33 Mr Binley: Should I repeat what he said? Stop, sir. Should I repeat the promises from the statement that he made? "There were promises that it would mean jobs and operations in Sweden that we don't think were honoured."

Ian Read: May I address that, sir?

Mr Binley: Yes, now address that, because you were not addressing that before, sir.

Ian Read: There was a factory we were going to build that was conditional on a product being approved. It was a syringe factory. The product never got market approval; we did not build the factory. The other half of manufacturing we spun off to a separate company. Another 30% of the reduction in Pharmacia was already decided by Pharmacia management before we bought them. I feel, having set the facts right, that we can be proud of what happened in Sweden.

Q34 Mr Binley: I am sure there are reasons why you broke your promise. I am just concerned about whether you are concerned that you broke your promise.

Ian Read: I do not believe that we broke our promises. When we did not have the product, we could not build the factory. That is just force majeure. I am very sorry about that.

Q35 Mr Binley: Your offer statement included as a precondition, and I quote, "the unanimous recommendations by the board of directors of AstraZeneca to vote in favour of the combination". Does it mean that, if you do not get that unanimous recommendation, you will walk away from this deal?

Ian Read: We have not decided our final strategy yet.

Mr Binley: Come on. You do not talk about spending this much money and not know what your options are, Mr Read. You are a businessman, 35 years in the business. Now tell me the truth.

Ian Read: It would be very remiss of me, when I am trying to buy a company, to lay out my negotiating strategy.

Mr Binley: That is a different answer, so you do know.

Ian Read: I have options. I do not know. I have not made any decision, as yet.

Mr Binley: The question was: if you did not get your precondition, your stated precondition, will you walk away from the deal, if that is not met?

Ian Read: My answer is I have not yet made that decision, nor has our board of directors.

Mr Binley: You have already made the precondition. It was stated.

Ian Read: We have made a precondition and we would like it to be honoured. If it is not honoured, we have not made a decision about what we will do.

Mr Binley: Okay, thank you very much. I will come back to you later.

Q36 Mike Crockart: It has been reported that you would not pursue a takeover of AstraZeneca without the approval of the UK Government. Is that correct?

Ian Read: I do not think that is correct. We had discussions with the UK Government when we first decided to approach AstraZeneca and, during those discussions, the Government made clear its concerns. Because of those concerns, we made commitments that are unprecedented—that I do not think any company has ever made prior to an acquisition.

Q37 Mike Crockart: We are going to come to the detail of those undertakings in a minute but, just to clarify what you have just said, basically the UK Government's view of the potential takeover does not matter; you would go ahead with it anyway if you managed to get the shareholders to agree to it.

Ian Read: It matters to me. We want to come where we are welcome, but we are going to operate within the appropriate laws of the United Kingdom.

Q38 Mike Crockart: I struggle to see, from what you have outlined so far today, why the UK Government should look favourably upon it. Aberdeen Asset Management's Martin Gilbert has said, "Pfizer unfortunately has this reputation of being ruthless cost-cutters," which seems to be borne out by what you have said already. We would

effectively be potentially looking at a 30% reduction in research and development, a major component of the science base in the UK. Why would the UK Government look favourably upon this?

Ian Read: It is an opportunity to domicile the largest pharmaceutical company in the world, to bring the strength of combined portfolios and to bring our financial strength into the UK and globally. It would strengthen and will strengthen the scientific base in the UK to have a company of our size making those types of commitments.

Mike Crockart: You are saying it would strengthen it by reducing its research and development spend.

Ian Read: I said globally we would probably reduce the combined budget. I have not said in which countries and where we would reduce that, because a lot of programmes are duplicated. What I have said is that 20% of our global R and D headcount will be in the UK. Has any other company of our size made that promise?

Q39 Chair: Can I just intervene at that point? My earlier question, whether I made it explicit but it was certainly implicit, was whether the combined budgets of AstraZeneca and Pfizer would be reduced as a result of this takeover. I of course meant in this country. Can you just clarify that?

Ian Read: Yes. Our commitment is that 20% of our global R and D numbers worldwide will be in the UK.

Chair: You are not making that commitment in this country.

Ian Read: I am making a commitment putting 20% of the headcount of Pfizer R and D in the UK.

Chair: We will explore that more in a minute. What I wanted was figures of investment in R and D in this country, but you are not making that commitment.

Ian Read: I cannot make any commitment about spending country by country right now. I am not even really aware of what the forward-going plans of AstraZeneca are to spend on R and D in the UK. I do not have a baseline; we have had no conversations with them. Once the deal is completed, we will then look at the total spend and decide where it is best placed for science. The UK has a great science infrastructure.

Q40 Mike Crockart: You paint a picture of a very cuddly company that is absolutely focussed on making science more productive and concentrating on the areas in which you can do the greatest good for humanity. This is all about tax really, isn't it? It is all about limiting the tax that you have to give to any Government and making the business model of your company work.

Ian Read: This is about a great company of 80,000 people that has produced an innumerable number of great products. Our purpose is to bring life-changing products to patients.

Mike Crockart: That was not my question.

Ian Read: Please let me finish.

Mike Crockart: Make it relevant to the question.

Ian Read: Our purpose is to bring life-changing products to patients. The way we will do that is by putting together the pipelines and the scientists of both companies, being more efficient and gaining tax advantages.

Q41 Mike Crockart: I can understand why you want to put the pipelines of both companies together, because that is the way you will get the value and be able to then meet the earnings expectations of your shareholders, but that was not actually my question.

Ian Read: Sorry, will you repeat your question again then?

Mike Crockart: I think I am finished.

Q42 Ann McKechin: Mr Read, I wonder if you could just clarify something. When you said that you have a commitment to employ a minimum of 20% of your R and D workforce in the United Kingdom, I take it that is not equivalent to 20% of the spend globally on R and D. They are two different figures.

Ian Read: No, because a lot of the R and D spend is done globally.

Q43 Ann McKechin: Can I just ask globally how much of your total $7 billion in R and D is currently spent in the United States of America?

Ian Read: I do not have that number. We would have to get back to you on that.

Q44 Ann McKechin: Is it over 80% or over 90%?

Ian Read: I do not have the number, but I would doubt it approaches that. The vast majority of spend in research is in phase III trials.

Q45 Ann McKechin: Is that in America?

Ian Read: They are done globally. They are done in the UK. How many patients in the UK are in clinical trials?

Q46 Ann McKechin: I just find it odd that you do not know where your global spend of R and D is. I wonder if you could perhaps come back to us today with that figure. Would that be possible?

Ian Read: We will submit it in writing to you. I have no problem with that. It is just that the vast majority of spend is in phase III trials, which are done in China, Europe, England, the United States and South America. I just do not have that number.

Frank D'Amelio: These are clinical trials of multiple patients.

Ann McKechin: I am looking for the value—what the value is and where it is located—because that is a key issue that we would want to consider.

Ian Read: Thank you. We will come back to you with that.

Q47 Chair: Just before I bring in Robin, this 20% commitment is part of the global workforce, I believe. Given your record of basically slashing the workforce, obviously if you slash your workforce worldwide, then 20% of that in this country would be a lower figure than is currently employed. Is that potentially going to happen?

Ian Read: I really cannot give you final numbers. We have not sat down with AstraZeneca yet or even discussed their total research effort and our total research effort. The commitment of 20% of a global company's R and D in the UK is an unprecedented commitment.

Chair: Yes, but in terms of numbers, that is no hard commitment to either sustain or increase the numbers employed in this country.

Ian Read: It is a hard commitment of how many employees a successful growing company is prepared to put in the UK. We are doing this so the company can be stronger, can bring more medicines to patients and can be a growing company. As it grows, we have a commitment to keep 20% of our R and D headcount in the UK. That is a substantial commitment, sir.

Chair: It may not be an increase in numbers.

Ian Read: I cannot talk to that, because I do not know the numbers right now in the UK.

Q48 Mr Walker: I just want to ask about the consistency of this. You have said that the UK is an attractive place in which to carry out research and development. Clearly, you are looking to make this long-term commitment, but you have reduced Pfizer's footprint in UK R and D through the reductions in Sandwich in Kent. That was something that was announced as a complete exit and then it became a reduction. I think you have a number of hundreds of employees still in that location at the moment. What is the impact from whether this deal happens or not on the employment prospects of those people in Sandwich in Kent?

Ian Read: We have made a commitment to the country as a whole. We have not gone down and actually got an offer yet. We have a proposal. We have not looked at asset-specific allocations, as yet, whether in the UK or anywhere in the world. We are looking at a global deal. Once we go further down the deal, we will be able to make those decisions. I would like Mr Emms to talk about the situation in Sandwich. The reason we reduced the science in Sandwich was that those areas were no longer strategic research areas for Pfizer, but would you like to talk about Sandwich?

Jonathan Emms: Thank you for the opportunity just to update the Committee, really briefly, on where we are at with the situation with Sandwich. We have 700 Pfizer colleagues employed at Sandwich in pharma sciences, and we have also worked very closely with Government and the local council. We established an Enterprise Zone and we sold the sites for a nominal fee. We subsidised that to try to kick start the enterprise park. There are an additional 600 people now employed at the enterprise park, so 1,300 in total, and the vision is that there will be 3,000 there by 2017, so it is on a good track.

Pfizer supported four spin-out companies, so these were colleagues who were previously employed by Pfizer. You have to remember we employ really skilled, highly knowledgeable, dedicated people and we enabled those spin-outs. We also sold some of our legacy assets, and what I mean by that is equipment and plant, to a company called

Mylan. 30 Pfizer employees transferred to that company and that has now grown to 150 employees on the same site. As good citizens and as part of the ongoing commitment, Pfizer funded the flood defence scheme in Sandwich, which obviously was instrumental in protecting that area during the recent floods as well. Thanks for the opportunity just to provide that update.

Q49 Mr Walker: I am grateful for that, but there was a strategic decision taken by Pfizer to reduce its focus on that site, for all that you are saying about the attractions of pursuing R and D in the UK.

Ian Read: We do not make decisions lightly on jobs. We understand the importance of jobs and families. As a CEO, my responsibility is to the totality of the company and to make sure the company remains sound and the 80,000, 90,000 or 70,000 employees have a future. We took that decision after really careful consideration. We talked to the Government before we did it. We made commitments that we honoured. Basically, we reduced the size here, because it was in areas of men's health, viral research and respiratory that we were no longer going to continue in Pfizer.

Q50 Mr Walker: Just to return to my original question, does the outcome of this offer, if it becomes an offer, have a bearing on the continued presence of Pfizer in that site? Initially it was announced that you are exiting it completely. Clearly, that has changed and clearly you have a substantial number of employees still in that site. Would the offer happening make it more or less likely that those employees would continue there?

Ian Read: All I can say is that we are very pleased with the productivity of the site. The pharm sci work that has been done there has been instrumental in us being able to accelerate the launch of Xalkori and other products that we have. We are extremely pleased with the performance of the site but, at this stage, when I do not even have an offer and I do not have any conversations with AstraZeneca, I cannot make commitments on a site-by-site basis.

Q51 Nadhim Zahawi: Just before I tackle the tax issue, both Frank and Ian have mentioned patients, quite rightly. Over here we care about the National Health Service. What do you think the impact of this deal would be to the National Health Service? Would you become just too big to negotiate with?

Ian Read: Our market share may be around 4% or less in the UK and AstraZeneca's is 4%. I do not think 8% is in any way too big to negotiate with. The UK Government is a very strong government and drives a hard bargain.

Jonathan Emms: Under UK law, the PPRS is what governs the pricing of pharmaceuticals. That is negotiated by the ABPI, the Association of the British Pharmaceutical Industry, on behalf of the whole industry. It is a deal that is done between the ABPI and the Department of Health, so it is not one-company-dependent. That is a deal that lasts for five years. It was signed in January this year and lasts for five years. In effect, this deal or this proposal does not have any substantive impact on the PPRS.

Q52 Nadhim Zahawi: You have mentioned again today, Mr Read, that you would commit to establishing the new company's corporate and tax residence in England. What does that mean in terms of headquarter function and staff?

Ian Read: We have committed to putting in substantial management talent, both in science and in European regulatory. We have committed to having a substantial presence in Cambridge. We are going to complete the proposed construction by AZ. We are going to put 20% of our research headcount in the UK.

Nadhim Zahawi: And headquarters?

Ian Read: We have said that our headquarters will stay in New York. We have a big commitment in the US as well. It is 40% of our total sales. I felt that was an important commitment to make to our New-York-headquartered staff, as we were re-domiciling to the UK, for balance and labour considerations.

Q53 Nadhim Zahawi: When you are tax-domiciled in the UK, what is the tax saving on that?

Ian Read: Frank, would you like to talk to that?

Frank D'Amelio: If I may, there are several aspects of the UK environment that are attractive to us from a tax perspective. Clearly, the statutory rate this year is 21%. Next year it goes down to 20%. The territorial tax system, the permanent R and D tax credit and finally the Patent Box, which I know started being phased in in 2013 and I think is completed in 2017, are all important to us.

Q54 Nadhim Zahawi: In your modelling, what is the total tax saving?

Frank D'Amelio: Given we are early in the process with AstraZeneca—

Nadhim Zahawi: I get that.

Frank D'Amelio: —that information is very sensitive. In a sense, disclosing our synergies would be working against us, relative to the process. I have obviously made lots of assumptions on strategic benefits, operational benefits and financial benefits. I have run numbers but, clearly, that is sensitive information and it is premature to disclose anything like that while we are this early in the process.

Q55 Nadhim Zahawi: You cannot just give us an estimate. We know the caveats; you are not yet into the detail. There must be in your mind a band of what you think you can save.

Frank D'Amelio: Maybe I can answer the question this way: over the last several years, our consolidated tax rate has been about 27% to 30%. This year, we have provided annual guidance that says our tax rate will be around 27%. Clearly, in the event of a combined company, that tax rate would be less. We would clearly have a lower tax rate.

Q56 Nadhim Zahawi: You would see that coming down to 21%.

Frank D'Amelio: I did not say that. I said it would be less. The only reason I do not want to give a specific number is I have not had a chance to talk with AstraZeneca. We have

not had a chance to look at their financials. It is just premature, but I think I can safely say it would be less.

Q57 Nadhim Zahawi: Senator Carl Levin is reported as wanting to bring in legislation to stop companies like Pfizer from moving its tax domicile out of the US. If that does happen, how will that impact your future decision-making for the combined group?

Ian Read: It is difficult to deal with a hypothetical of that nature. Mr Levin is one senator.

Nadhim Zahawi: A very powerful senator.

Ian Read: The US Congress needs to decide on its tax strategy. The US Congress has a lot of work to do and has been considering changes in tax strategy for many years now. It is a very remote possibility, in the timeline of this deal, that the US would change its tax laws.

Frank D'Amelio: We have not made an offer, but everything that we have proposed so far is fully compliant with existing US tax laws. Any kind of a change relative to re-domiciling would require legislative change by Congress.

Q58 Nadhim Zahawi: Finally, Chairman, we touched upon the issue of China. What would happen if the Chinese Government decides that this combined group makes it very difficult for them?

Ian Read: On anti-trust, in Australia, Canada and the US, before the deal can be closed, you need to have remedies put in place. China is post-close remedy, so we do not see any substantial anti-trust issues on this deal, anywhere in the world.

Q59 Rebecca Harris: Just on the tax, given how attractive you say that the British tax regime is to you as a company, would you not be considering re-domiciling here even if you were not to go forward with the bid for a combination with AstraZeneca? Would the logic not be that that would make sense for you?

Frank D'Amelio: Given US tax laws, if you try to exit a country without a re-domicile, based on some sort of business development combination, the exit costs become punitive.

Rebecca Harris: It would require the deal.

Frank D'Amelio: It would be punitive, yes.

Q60 Mr Bain: Mr Read, the fundamental problem this Committee has is trusting what you are saying here. You are telling us you are engaging on a proposed deal of this sort, and yet you are seriously telling this Committee you have no idea how much you are proposing to save in tax. Is not the big problem with this whole process the lack of trust that your former Chief Scientist, Dr LaMattina, has when he says that this deal would be devastating to R and D? The workers in Wyeth trusted you when you said that the takeover of that company would be different? It was not. You slashed investment in R and D and you substantially cut jobs. Why on earth should we believe you?

Ian Read: We have made a commitment to the UK. We have stated those commitments; we have published them. Before we made those commitments, we took legal counsel.

Those commitments are legally binding, not just for one year but for five. I understand that the Takeover Panel has stated that those are legally binding commitments. Let us put aside the legally binding; I am here today to make those commitments. I intend to honour those commitments. The Pfizer board voted on those commitments. We will honour those commitments.

Q61 Katy Clark: If it was not for the ability to take advantage of tax inversion, would you be trying to take over this company, yes or no?

Ian Read: As I have said, it is three parts. I do not think it is one part.

Katy Clark: Could I have a yes or no answer?

Ian Read: There is no yes or no.

Katy Clark: If you took that part out, would it be yes or no?

Ian Read: If you took that part out, it would change the price we are willing pay.

Katy Clark: Would you go ahead?

Ian Read: It depends on the price.

Katy Clark: Is that a yes or a no?

Ian Read: We would change the price we would be offering if we did not have the advantage of the tax.

Frank D'Amelio: At the right price, yes; at the wrong price, no.

Q62 Mr Binley: Mr Read, I am really trying to get under your skin. You have had some pretty good coaching before coming before us and I have noticed that. I do not blame you. Let me ask you a very straight question. You say you will make the merged company more efficient. In order to make that statement, you need to know how you will make it more efficient, other than your blind belief in yourself. Where would you cut costs?

Ian Read: It is not a blind belief.

Mr Binley: Okay, let us not talk about you. Let us talk about where you would cut costs.

Ian Read: You would take costs out where there are duplicated activities. For instance, it may be in our research portfolio we have two or three programmes that are in the same area with the same types of molecules. The scientists would make an assessment of which of the two projects has the best probability of success, and you would probably stop the development of one of the products. You would look at other areas of overlap. Do you need more for your force or do you need less for your force? Do you need more development scientists? Where are your administrative costs?

Q63 Mr Binley: I run a company too, and I do this every year when some finance director presents his budget to me. I want to know what you have actually thought you would

cut to support that view of greater efficiency. Of course, you know and I know, because we are both businessmen, that it normally means jobs going somewhere. Is there any way that you can tell us, in overall terms, what that means, because your two previous sizeable increases in company size have meant a sizeable reduction each time in the number of jobs. That is the major area of cut, is it?

Ian Read: I am not sitting here saying that we can become more efficient without some reduction in jobs. We will be efficient by some reduction in jobs. What I cannot tell you is how much, how many or where. We have looked at this as a global enterprise; we will look at it as our global combined footprint and then we will make decisions regarding how to get those efficiencies. From experience, I have some idea of the percentage of efficiencies we would look for, but those really are very premature to talk about when we are negotiating with AstraZeneca and we do not have a price or an offer agreed upon.

Mr Binley: It would in general terms mean jobs being cut somewhere.

Ian Read: There will be some jobs cut somewhere. That is part of being more efficient. Whereabouts in the world, I cannot say.

Mr Binley: You can become more productive as well, but never mind.

Ian Read: We can and we would attempt to do so.

Mr Binley: Good. I am glad you have mentioned productivity.

Ian Read: I think I have mentioned it a couple of times.

Q64 Chair: Can I just pursue one or two points? You have been unwilling to give detailed figures of tax savings that you will make. The figure that I have seen reported, and I would not pretend to know whether it is accurate or not, is that you will make £1.4 billion. Is that in the right sort of area?

Frank D'Amelio: I do not want to comment on someone else's amount and, quite frankly, I tried to answer the question as best I could before, which is, when we look at the transaction, there are three areas of value. One is clearly strategic; one is operational; and one is financial. In the financial piece, there is clearly a significant tax element to that. That is all part of our thought process on how we get to a price that we think is a fair value—that works for our shareholders and that will work for AstraZeneca's shareholders.

Q65 Chair: I would have assumed that, given the significance of this takeover, you would have done detailed analysis of the potential tax benefits from it. You are unwilling to divulge them to us today, but would you agree that there are substantial tax benefits to your company and their shareholders, if this merger goes ahead?

Frank D'Amelio: Yes, there are.

Q66 Chair: Thank you. In terms of your taxation for the existing British operations of Pfizer, I have seen reports that you did not pay any tax whatsoever in 2012. Another report I have seen indicates that you made more out of research and development tax credits than you paid in tax. Is this correct?

Frank D'Amelio: I believe the correct numbers are, over the last three years, we have paid over £400 million in UK taxes, although that includes employee withholding taxes. We have paid taxes in 2013, 2012 and 2011.

Q67 Chair: I have seen other reports, but you have given that and no doubt this will be tested. Is that a net contribution to the Government after the receipt of research and development tax credit?

Frank D'Amelio: I believe that that is what we have paid in terms of cash. That is a cash payment.

Chair: Overall, you may have benefited more from R and D tax credits.

Frank D'Amelio: By the way, we spend a lot in R and D in the UK. That will clearly result in a reduction in the overall tax bill, because of just the sheer amount of R and D we spend. I believe the numbers I gave are actually cash payments to the UK Government.

Chair: Are those net?

Frank D'Amelio: When you say "net", just to make sure—

Chair: Just adding up the R and D that you have received and taxation that you have paid.

Frank D'Amelio: Yes, it is net of R and D expenses, if that is what you are asking.

Q68 Chair: We may do further analysis on that. Could you just outline, and I do accept that it is probably difficult to give the exact figures here, where the tax benefits to the British economy would come from this merger?

Ian Read: The tax benefits are in two parts. Firstly, combining the companies will be more successful. We will have more products that we will sell to the UK Government. That will generate tax revenue in the UK. Of course, you will have all the employee tax of the combined tax base of the 20% of our research scientists in the UK. Then, as we utilise the Patent Box, which is very attractive from the point of view of wanting to manufacture in the UK, the revenue through the Patent Box would accrue to the Treasury as well.

Q69 Chair: If I can interpret that, you expect profits to rise as a result and presumably the corporation tax to go up. I do not want to put words into your mouth.

Ian Read: That is correct. I would also expect that we would take advantage of what I see as a very clever strategy on the part of the UK Government to say that, if you invent in the UK—as I understand the rules—or have intellectual property in the UK and you manufacture in the UK, the profitability on that is subject to a Patent Box tax of 10%, which of course is attractive to a global company.

Q70 Chair: Albeit there should be an expansion in profitability and therefore corporation tax, but that would be, at least in part, mitigated by the fact that through the Patent Box procedure you would pay a reduced level of corporation tax.

Ian Read: It is chicken and egg. We are manufacturing there because of the Patent Box so, from my point of view, that is all incremental tax to the UK Exchequer, because it is bringing in manufacturing that would not have come here without the Patent Box.

Chair: Yes, except of course it might be done under AstraZeneca independently.

Ian Read: They would also be using the Patent Box.

Chair: It might happen. It is not incremental to the merger.

Ian Read: It is incremental in the sense that there will be far more products in the Patent Box. There will be two companies' pipelines going through the Patent Box.

Chair: We are back to the level of expenditure on research and development.

Ian Read: We are back to productivity in research and development—13 products in the last four years.

Chair: The number of products is likely to depend, at least in part, on the level of research and development.

Ian Read: There is very little evidence of that. There is very little evidence that the amount of money spent correlates to productivity. What correlates to productivity is having your research in really good scientific centres, like we actually have in La Jolla and in Cambridge, Massachusetts, and would want to have in the UK in those areas as well. Not all science is done in Cambridge and London.

Q71 Chair: To a certain extent, I am straying into the area that the Science and Technology Committee will no doubt want to address tomorrow, but my understanding is that you have research, your R and D, and you have had a reduction in the number of new products coming into the pipeline.

Ian Read: No, we have had incredible expansion. We have got 300 products in our pipeline. I do not want to bore the Committee by repeating it again, but we have been very productive post the acquisition of Wyeth. We have increased research in areas like vaccines. For instance in vaccines, we have a vaccine for meningitis B. We have a potential vaccine for Staph aureus, meticillin-resistant. This is a scourge that kills 19,000 people.

Chair: I do not want to go into the scientific boundaries of everything that you are doing. Nadhim, you wanted to come in.

Q72 Nadhim Zahawi: Mr Read, you talked about the acquisition of Wyeth. Since your tenure, which acquisition do you think you have done well and has worked, and which ones have not worked so well?

Ian Read: Since I have been in senior management, the only acquisition has been the Wyeth acquisition and I think that has been very successful. We brought in a lot of Wyeth talent. As Pfizer before the acquisition, we were basically a small-molecule company. Now 50% of our research is in large molecules and a lot more in oncology. It has also

given us the ability to get into biosimilars. That combination, and that enrichment of the two companies and the two scientific bases, has been incredibly successful.

Frank D'Amelio: That is the very large acquisition that we have done. We have done some smaller acquisitions too.

Nadhim Zahawi: That is my point. It is not a 100% track record, right?

Ian Read: I would like to have a 100% track record.

Nadhim Zahawi: It would not be credible, right? Let us hear about where you think they have gone wrong.

Ian Read: Which ones have gone wrong? I do not think there has been any material acquisition. We have bought some assets in consumer goods that have gone well. We tried to do a joint venture with an Indian company that did not go very well. They could not in the end meet their technical promises. We are trying to do a deal in Brazil, and we have done a very good deal in China—a joint venture with a local Chinese company.

Nadhim Zahawi: No acquisitions have gone badly. There was a joint venture in India; that is not an acquisition.

Ian Read: The joint venture in India went very badly and the one in Brazil we are still to see. There have been no really material acquisitions since Wyeth.

Frank D'Amelio: On the whole, the Wyeth acquisition went extremely well, as did some of the other acquisitions we have done, like the King acquisition, Alacer, which sells consumer products for emergencies, and our Ferrosan acquisition. We bought the global over-the-counter rights to Nexium from AstraZeneca. That has been approved and we will launch that at the end of this month. Our track record over the last several years on business development, on M&A, has been very good.

Q73 Nadhim Zahawi: Which ones have gone wrong in your opinion?

Frank D'Amelio: The ones I just mentioned are all the ones that I think went right.

Nadhim Zahawi: Which ones went wrong? That is what I am asking you.

Q74 Chair: Can we just re-focus on the issue of taxation here? I am conscious that we are short of time. Could I just ask you, in taxation terms, who will gain more from a merger, the British taxpayer or the Pfizer shareholder?

Ian Read: The benefit long term from this will be the ability to invest in research and grow the company. As we are domiciled in the UK, it will be both; it will be the taxpayer and the shareholders.

Q75 Chair: You think that the contribution in tax to the British Exchequer will exceed that of the benefit that the Pfizer shareholder will have.

Ian Read: I do not have relative sizes, but I would put it this way. Over the long term as the Patent Box begins to become important, the investment and the multiplier effect that

our labour leaders talked about, of having 22% of research in the UK, heads and all that investment, will make a substantial contribution to the UK Exchequer.

Q76 Paul Blomfield: I wonder if I could explore those commitments in a little more detail and a bit more specifically. You have said that you are committed, Mr Read, to the completion of AstraZeneca's Cambridge campus. What are the projections for AstraZeneca's staffing levels at that campus? Let me finish my question. What are the projections for your staffing levels post any possible takeover?

Ian Read: Because we have not had a lot of conversations with AstraZeneca, I am not sure of their total commitment to staffing there in Cambridge. I think they have committed to spending £330 billion on constructing the site. We will spend a similar amount of money and then we will fully utilise the site. We are not going to build a site, put assets into it and make it a world-class facility and not fully utilise it.

Q77 Paul Blomfield: You are making very specific commitments in terms of your percentage of workforce in the UK. You are making a very careful calculation about the benefits of a prospective takeover. It seems difficult to believe that you do not know what AstraZeneca's plans for the workforce in Cambridge are or indeed what your own plans would be.

Ian Read: I take commitments on workforce seriously. We do not make them lightly. We do not put out numbers and then retract from them. This affects families. It affects people's lives very deeply. I am very careful about making specific site commitments because, when we make the commitments, we keep them. You need to understand that we are at a very early stage on this and the commitments we have made on a macro level are substantial and we will honour them.

Q78 Paul Blomfield: Obviously, you will appreciate that we understand the impact of commitments on staffing levels, which is why we are asking those questions. Let me approach it from a different point of view in relation to your 20% commitment. You described a moment ago the Wyeth takeover as a success but, post Wyeth, you cut your R and D spend by around 40% as a global operation. If that was reflected in staffing numbers, that might mean a very significant staffing cut in R and D activity in the UK, from the combined AstraZeneca/Pfizer operation. Is that right?

Ian Read: I do not think you can use Wyeth as a cookie cutter for AstraZeneca. It depends on the assets, the quality of the assets, where they are in their development, and what level of duplication exists or not. You cannot project from one acquisition to the other.

Q79 Paul Blomfield: You described it to Mr Zahawi a moment ago as a great success, but it did involve a very substantial cut subsequently in your R and D commitment.

Ian Read: I believe it represented, on R and D headcount, roughly an 18% reduction on the global headcount of the two companies.

Q80 Paul Blomfield: If a success involves a 20% cut, I am not sure what a less successful story might look like. You will understand that we are concerned to get some

sense of what your R and D commitment to the UK might be in absolute terms, either in terms of R and D spend or in terms of R and D workforce. Can you give us an absolute commitment? Otherwise, all the talk about legally binding and having your word does not mean very much.

Ian Read: The legally binding commitment is we will have a global workforce in R and D that we report, and we will put 20% of that workforce in the UK. You are looking at a highly successful company—a company that is committed to research and has really good productivity in research. You are looking at having the largest pharmaceutical company in the world and that company making a commitment of 20%. I believe that is a firmer commitment and a better deal than anything else that is on offer.

Q81 Paul Blomfield: In your forward plans that have led you to put this proposed takeover together, you have no sense of what those numbers might be, or you are just not willing to share them with us.

Ian Read: We have made projections, as we have said, in dollar terms across global spending. We have not done it country by country. Certainly, you must understand it would not be responsible of me to lay out specific numbers that could then be used by AstraZeneca to say, "Well, this should be the price," or "This should be the price." It would be really irresponsible on my part to do that.

Frank D'Amelio: We have clearly done lots of analytics, but we have not done it on a country-by-country basis. We do business in 150 countries, so we have done enterprise-wide analytics on this. We have obviously made assumptions about potential areas of savings, but we have not done it on a country-by-country basis.

Q82 Paul Blomfield: If you have done a corporate assessment of what those total numbers are, which you say you have, and you have given a commitment that 20% of that will be in the UK, I would have thought it would be quite easy to do the arithmetic and tell us what that 20% meant.

Frank D'Amelio: On the 20%, we have used precedent transactions. We obviously looked at Wyeth, which was something you mentioned before. We looked at other precedent transactions that we have done. We looked at industry transactions. We have done all kinds of analytics on that. That does not necessarily mean it will be a perfect proxy for AstraZeneca. We have tried to make assumptions on where that will be, once again, enterprise-wide at a high level. How much would be selling, general and administrative expenses? How much would be in manufacturing? We have done the best we could on that.

To try to get into the level of commitment that you are asking for, the problem is we do not make commitments we cannot keep. It is early in the process and we do not want to be in the position that we cannot keep our commitments. We honour our commitments.

Paul Blomfield: We are simply trying to understand what that commitment means.

Ian Read: Let me try to put it another way. The commitment is to have the most successful pharmaceutical company domiciled in the UK and that company committing to putting 20% of its R and D headcount in the UK. If you are running a business, you want to have successful companies—companies that will be here for the future. We think our

business model is right for the future. We believe we are going to be successful in the future, and that is a very strong commitment.

Q83 Mr Bain: The real difficulty this Committee and people outside will have, Mr Read, is that there are no commitments of any substance being made whatsoever. You are telling us you do not know how many R and D staff you are employing. You cannot tell us next year how many R and D staff you are employing. Is this really credible? We are going to look in terms of what this is going to mean in Macclesfield, but you must have some indication and forward planning about the number of such staff you are going to employ. How many?

Ian Read: What I said to you is I am trying to run this business to be a successful business, which gives confidence to our employers that their jobs are going to be there.

Mr Bain: How many?

Ian Read: I will get to that. I cannot tell you today how many people are going to be in research and development in the combined company. I have not even seen the books of AstraZeneca. I do not know how many people they have today in the UK. I do not know how many people they have globally. I do not know how many of them are working on projects that are duplicate to our projects.

Once I get in, once the acquisition is complete, we will know how many people we need in R and D and we will put in the right amount for this company to be successful, in the same way as we have done with Pfizer post Wyeth. I just want to repeat it: 13 products approved; 13 in phase III. We will staff the R and D post the acquisition to the level that will make it a successful company.

Q84 Mr Bain: But you cannot tell us how many.

Ian Read: No, I cannot.

Mr Bain: Why not?

Ian Read: Because I do not have the books of AZ.

Q85 Mr Bain: Why in your written evidence did you purport to make a commitment to retaining substantial commercial manufacturing facilities at Macclesfield? Define "substantial" then.

Ian Read: "Substantial" means that, as the word defines, if somebody looks at it, they will see that we have maintained—

Mr Bain: How many?

Ian Read: I do not know how many people are there today. It will be a substantial commitment. Furthermore, if I may point out, we have also promised to look to source further manufacturing in the UK, as the Patent Box takes over. From my point of view, do you not think it is reasonable? I have had no access to the books of AstraZeneca. I have had no access to their employment. I do not even know what products go through that plant. Blind, because I am aware of how important it is to Macclesfield, I have committed

that we will maintain a substantial presence. I am a man of my word; Pfizer is a company of its word. If we say substantial, it will be substantial.

Q86 Mr Bain: The 51,000 people who lost their jobs after Wyeth was taken over might have a different view about that. There are 2,000 people who earn their livelihoods at Macclesfield. How many of them will still be employed there five years from now?

Ian Read: I will come back once we complete the acquisition and I will tell you.

Mr Bain: Two years from now, how many?

Ian Read: Once we have completed the acquisition, I can tell you.

Mr Bain: One year from now, how many?

Ian Read: A substantial number will be employed. We do not take these decisions lightly.

Q87 Mr Bain: These are not guarantees then, are they?

Ian Read: They are guaranteed to have a substantial number in employment.

Q88 Mr Bain: This is the whole problem with the evidence that you have been giving today. You have purported to offer assurances but, when we probe into what those assurances actually mean, there is very little sitting behind them, and that is the problem that people in this country have with the potential harm this could cause to our science base.

Ian Read: I do not understand that.

Mr Bain: Really?

Ian Read: No, I do not. We are talking about having the largest pharmaceutical company in the world that will staff its scientific R and D to a level where it can be successful and robust. I am not putting a company together to fail, so I will put together a company with the scientists we need, and then that successful company will have 20% of its global numbers in the UK. That is an unprecedented commitment by any company and, on top of that, sight-unseen, not knowing what is being produced in Macclesfield, I am willing to say "substantial". I am not going to put a percentage on it. When I say "substantial", you know what substantial means. We all know what substantial means.

Mr Bain: No, I do not.

Ian Read: I cannot give you a number, but you will know what substantial is when you see it.

Chair: I do not think we are going to get any further on that.

Q89 Ann McKechin: I wonder, for the benefit of the Committee, Mr Read, if you could assist us with the clause in the offer that you make about your undertaking that is saying, consistent with your fiduciary duty, you will adjust these obligations should circumstances significantly change. Can you explain to us what a significant change would amount to?

Ian Read: I see this as a very high bar. That significant change would be a dramatic change to which the famous person on the Clapham bus would say, "This is a significant change in the industry," i.e. the UK has radically changed its incentives or tax regime, or there has been a disaster in the productivity of the research area. This would be clearly evident and you would be able to call me back and say, "Are these significant changes, Mr Read?"

Q90 Ann McKechin: I think we would probably like to do that before you make the takeover bid, rather than after. Would you provide on a risk register what the actual criteria would be that would amount to a significant change? I am sure you would be able to describe it in somewhat a greater degree of specification than you have indicated already.

Ian Read: I believe that what is more important is that you understand that we are a highly ethical company. We keep our promises. To try to detail envelopes, which afterwards will not be worth—

Q91 Ann McKechin: Mr Read, you will have a whole team of lawyers who will be defining that envelope for you. As with regard to any contract or any undertaking, it is the ability to enforce it that is utterly key. For that we require specification, which a court, tribunal or takeover panel can actually define. You are saying that there will be a very high bar. Presumably it can be defined in advance, based on for example your risk register, at what point the bar would be reached.

Ian Read: We are coming to invest here and our intention is to honour those commitments. These wordings of substantial change are actually in the Takeover Panel's code—that they expect these commitments to be kept unless there is substantial change. We actually took that wording from the Takeover Panel.

Q92 Ann McKechin: That would be following precedents of other definitions.

Ian Read: No, I think the Takeover Panel has had its power substantially increased over the last three years. These are promises made by a serious pharmaceutical company, which has a reputation that it needs to conserve. People take our medicines and they buy our medicines because they believe we do what we say.

Q93 Ann McKechin: I want to make sure that the Takeover Panel's definition and your definition are aligned.

Ian Read: The Takeover Panel actually would be the panel that would be the final arbiter. They would come in and say, "There has not been a substantial change and hence we are taking legal action." I do not conceive of that happening, but they would be the final arbiter.

Q94 Ann McKechin: You reported that you are intending to split Pfizer into three distinct units—two on innovative drugs and one on your value business. To what extent and where would AstraZeneca's current holdings be split? Would that be split amongst those three groups or would they be contained in one group alone?

Ian Read: I am glad you asked that question, because "split" means we are going to manage them separately. "Split" means I believe the way we are going to be successful as a company is to have business units with accountable leadership. We have taken our business and divided it to have what we would call an innovative general practitioner area, innovative oncology, innovative vaccines, innovative consumer and then established products. Each one of those units has a dedicated management focus. This is the way you achieve and succeed in business, I believe: by having accountability.

Q95 Ann McKechin: It also makes it easier to sell them off, I presume.

Ian Read: It will be easier for us to give our shareholders transparency on the performance of those business units, which is why we are doing it. Our shareholders will look at that, and our intention is to run those businesses as efficiently and as profitably as we can. AstraZeneca would fit into those businesses.

Q96 Ann McKechin: It would be split amongst those units then, so it would not be contained in one unit.

Ian Read: It would be split amongst those units.

Q97 Ann McKechin: Would it be amongst all three units?

Ian Read: It would be amongst the innovative and established.

Q98 Ann McKechin: We have mentioned the Macclesfield site today and the Cambridge site, but there are other sites that AstraZeneca has control of in the United Kingdom, as mentioned today by the trade unions. To what extent are there any undertakings about those other sites?

Ian Read: It is too early to make asset-specific or site-specific commitments. I have been able to make global commitments—unprecedented commitments—to the UK Government. As we go through the process, we will look at those assets. Let us be very firm on this issue: we do not make decisions lightly about changing assets, closing assets or asking people to leave the company. We understand the impact, both on the company and the people leaving. We try to create a company that can be successful, succeed and get products to patients.

Q99 Ann McKechin: I have one other question, if I could just ask you to clarify: presumably the Cambridge site would be in an innovation part of the company; where would the Macclesfield site be?

Ian Read: Macclesfield would sit inside global manufacturing, which sits outside all of those. We manage manufacturing as a global division, which is not part of the commercial businesses.

Q100 Ann McKechin: This would not be impacted by the proposed split into the units that you have just described.

Ian Read: No, it would be managed by global manufacturing.

Frank D'Amelio: We have made no decision regarding the split, just to be crystal clear. No decision has been made in terms of splitting up the company. We have organised the company within the way Ian described it, but there has been no decision on any kind of external split.

Q101 Ann McKechin: Obviously the concern would be that, once you start to do this, it becomes much easier for you to sell off chunks of it, if your profit level dips for example. That would be one advantage for you.

Ian Read: We see it as good governance. We see it as giving our shareholders transparency into what management doing, and the ability to ask us questions and hold us responsible at shareholder meetings. We see it as very good governance.

Frank D'Amelio: We have actually started reporting the company in this way in this past quarter—the first quarter.

Q102 Chair: Mr D'Amelio, earlier when I talked about the reduction in value of the company, you said that was in part because of divestments, effectively. Can you give a categorical assurance that, if the company is divided into three units, no one of those units will be sold off?

Frank D'Amelio: No, I cannot give that kind of an assurance. Quite frankly, we have organised into these three different segments. Ian talked about them: there is the global innovative pharmaceutical segment; the vaccines, oncology and consumer segment; and the global established products segment. We are running each of those internally as a separate segment with focus specific to each of those businesses. In terms of what we may or may not do with those businesses in the future, I cannot commit to that. What we want to do is maximise the effectiveness of how those businesses run today.

Ian Read: What we will commit to is that these legally binding commitments we have made will follow, if that ever happened, the companies that were split up.

Chair: I am grateful for your honesty on that. Brian, I think you wanted to come in.

Q103 Mr Binley: I was slightly disturbed by your remark that you are a very honourable company, when so many people have argued that that was not the case—people who have been at the receiving end of your business machinations in the past. I understand you have a coin in your pocket, Mr Read, which you spin. On the one side it says "straight talk" and on the other side it is embossed with the words "own it". I assume that "own it" is different from "straight talk". With which did you come here today, having looked at your coin this morning?

Ian Read: Both. Thank you for the opportunity to discuss this. This is part of our cultural change. I believe strongly that everybody in the company needs to have a sense of ownership, hence "own it". To own it, you need to have the ability to do straight talk. In our company, if somebody is in a team meeting or confronted with his supervisor and wants to have a conversation that is hierarchically very difficult to have, this empowers that individual to take the coin out, put it on the table and say, "I want to have a straight talk with you."

Q104 Mr Binley: Can I tell you that I believe you spun it this morning and got "own it" and we have not had the level of straight talk that we needed?

Ian Read: I am looking at straight talk right now, right in front of me.

Chair: We are running slightly over time, but we need to explore one very important area, and I want Katy Clark to lead on that.

Q105 Katy Clark: We heard evidence earlier on that, in the pharmaceutical industry, timescales are more like 25 years. There has been a lot of talk about what commitments you might or might not be willing to make. In terms of any commitments that you would make, would you be willing to consider a longer time period, whether that is 15 years, 20 years or 25 years?

Ian Read: Let me address that. Part of the reason that the pharmaceutical industry has got itself into trouble has been these long periods where research is not measured or held accountable. Mr Dolsten is our Chief Scientific Officer. He has an accountability period of five years to show progress. His compensation is tied to him showing progress in those five years. I feel this is good business. It strengthens the company that people are held to account over a five-year period.

Q106 Katy Clark: The commitments we are asking for are overall commitments. They are not focusing necessarily on specific drugs but the overall commitment to the UK. Would you not accept that, in terms of the UK, it would represent a far deeper commitment to UK science if you were willing to make more long-term commitments?

Ian Read: No, actually I think it is negative. In an organisation, if you want to be productive, if you want to get medicines to patients quickly, you have to have a sense of urgency. Part of the reason that we measure at five years is that sense of urgency, and we do that across Pfizer. I fully expect that, at the end of five years, given the quality of science, we will have substantial evidence of quality work being done, but having those five years there is an important management tool.

Q107 Katy Clark: Are you saying that you are not willing to make commitments for a longer period than five years?

Ian Read: I think the five-year commitment is unprecedented.

Q108 Katy Clark: You will not make a longer commitment. You have said to us in your written submission that you are willing to make any commitments, such as they are, legally binding. One of the witnesses earlier on was talking about the difficulties in doing that and saying that there was no obvious mechanism by which you could make any commitments legally binding. Can you talk through the detail of how you would propose to make those commitments legally binding, so that we can actually rely on them, how that would be enforced and what remedies would be available?

Ian Read: My understanding of this is the following. At the end, we can have our counsel submit to the Committee their understanding of how it is legally binding. My understanding when we looked at this was the following. The Takeover Panel has powers that were reinforced after 2006 so that, if we make a five-year commitment, it is legally

binding for five years. If we do not meet those commitments, the Takeover Panel can refer us to the High Court, and the High Court has unlimited powers to enforce those commitments. That is my understanding. We will submit our legal counsel's opinion on that to you, or their confirmation of that understanding.

Katy Clark: If you could provide us with that in writing, that would be appreciated.

Ian Read: By the way, if I may say so, the strongest commitment is the one I am making here and the one our board of directors has made. I would really like you to listen to that and believe that we do what we say.

Q109 Katy Clark: The company has made verbal assurances before that have not been adhered to and other companies have made other assurances that, frankly, have either been verbal or written but have not been worth the paper they have been written on. This Committee has heard evidence in relation to these matters previously.

Ian Read: With due respect, we are not other companies.

Katy Clark: We want a legally binding commitment.

Ian Read: You have a legally binding commitment. You do.

Q110 Mr Walker: On this hugely important point, with your counsel's advice that this is legally binding, which seems to be somewhat contradictory to what we have seen in other cases, can you provide examples of where the Takeover Panel has actually taken action against a company on the basis of those types of commitments?

Ian Read: No, I cannot.

Q111 Mike Crockart: You say it is legally binding, but there are so many caveats attached to it. Your exact statement was, "We make these commitments for a minimum of five years, recognising our ability, consistent with our fiduciary duties, to adjust these obligations should circumstances significantly change." Now, we have covered the significant change. Can I just ask you what you mean by "consistent with our fiduciary duties"? As a Committee, we have spent a great deal of time discussing that and discussing whether that is short-termism versus long-termism.

Ian Read: I believe it is a way of expressing that I, as an employee of the company, have a fiduciary relationship to the stakeholders of the company to ensure the company is managed for its future success. If there were material changes that were affecting the future success of the company, I would be obliged to take steps to try to remedy those issues.

Q112 Mike Crockart: Equally, the future success of the company is likely to be measured in the long term and not in the short term. Paul Nurse, President of the Royal Society, wrote to us, saying, "Science is a quick-win sector. It requires long-term investment." How does that match up with fiduciary duty and short-termist responsibilities to shareholders?

Ian Read: A fiduciary relationship, I believe, is one that balances short, medium and long term. It is not one time period. It is a total balance of what you believe is in the best long-term interests of the company. I have been with this company 35 years. I expect it to be here in another 100 years. This is a great company. We honour our commitments and we are going to be successful, and we are going to take the actions necessary to be successful.

Q113 Mike Crockart: You are quite clear that putting in the phrase "consistent with our fiduciary duties" is not a nod towards short-termism. It is very much for the long term.

Ian Read: It is not a nod to short-termism. It is a nod to how to have a sustained successful company over the long term.

Q114 Chair: Can I just clarify what legal advice you have had? Do the caveats that you have included on these commitments have the same weight legally as the commitments that you have made?

Ian Read: We will give you the opinion. My understanding is—and it is mine, but we will give you the legal opinion when we submit it—that the Takeover Panel will judge the caveats. They will say, "Were these extraordinary circumstances?" If they were not, they will refer us to the High Court, and then the High Court will opine on it. It is not an arbitrary definition on our part of what extraordinary circumstances are.

Q115 Chair: You have made it clear that, when you have talked about "legally binding", you have done so in the context of the Takeover Code. You have not looked at either any international regulation or British regulation to which these commitments can be attached to make them legally binding.

Ian Read: No, I am sorry; I feel that the Takeover Panel has enough powers. Plus, I have not focussed on the legalities, because I have given my word; Pfizer's directors have given their word. We are going to honour these commitments. To me, the legality part of it is not essential, because we have made these commitments and we are going to keep them.

Q116 Chair: That more or less concludes the questioning. To conclude—and I am sorry if this is a bit personal, but it is obviously a factor that has to be taken into consideration—I think it is fair to say that your approach as Chief Executive of Pfizer is rather different from that of your predecessor. What assurances can you give that, given your age—and, as I say, I do not want to get too personal, but we all have to look at potential retirement—the culture that you have outlined as justifying this merger will be sustained in the event of you moving on and somebody else coming in?

Ian Read: One of the legacies that most CEOs want to have is the culture they leave. While the CEO may be temporary, the board normally has long persistence, and this culture of accountability and this culture that I am creating has been done in sync with my board, with the approval of my board and after discussions with my board. I am confident they would ensure that the next CEO would share that type of culture and that type of focus on culture and commitments.

Chair: I am sure that the world will have heard your assurances. Can I just conclude by thanking you? Your engagement has been in marked contrast to Ms Rosenfeld of Kraft during that takeover. While we may have issues with you, we do appreciate your co-operation.

Ian Read: Thank you and thank you for the questions. It has been a pleasure to be here. Thank you very much.

Examination of Witnesses

Witnesses: **Pascal Soriot,** Chief Executive Officer, AstraZeneca plc, **Dr Mene Pangalos**, Executive Vice-President, Innovative Medicines and Early Development, AstraZeneca plc, and **Dr Jane Osbourn**, Vice-President, R and D, MedImmune Cambridge, gave evidence.

Q117 Chair: Good morning and thank you again for being prepared to help us with our inquiry. If you could just introduce yourselves and your role for voice-transcription purposes, I would be grateful, starting with you, Dr Osbourn.

Dr Osbourn: Thank you. I am Dr Jane Osbourn. I am Vice-President of Research and Development for MedImmune in Cambridge.

Chair: Could you speak up a little more? Some of us are of an age where we do need a loud and articulate presentation.

Pascal Soriot: I am Pascal Soriot. I am the Chief Executive Officer of AstraZeneca.

Dr Pangalos: I am Dr Mene Pangalos, Executive Vice-President of Innovative Medicines and Early Development.

Q118 Chair: Thank you very much. First of all, what do you see as the benefits of a takeover by Pfizer?

Pascal Soriot: Mr Chairman, first of all, let me thank you and the Committee for inviting us to address you today. Maybe before I directly answer your question, it is important to understand who we are and what we are trying to do.

Chair: If you can do so very quickly.

Pascal Soriot: Yes, I will do it quickly. AstraZeneca is a science-led organisation. Over the last 15 to 18 months, our focus has been to rebuild our pipeline and build a very strong research and development organisation. Our investment in Cambridge is very substantial, £700 million, and it fits into that strategy of building a strong research and development organisation focussed on cancer, respiratory disease, autoimmune disease and cardiology.

We have been very successful in rebuilding our pipeline, and our entire organisation right now is completely focussed on progressing the products we have in our pipeline. Our

pipeline we believe is extremely exciting. We have products like olaparib, which was invented here in the UK, for the treatment of specific types of ovarian and breast cancer. We have a new product invented in the UK that is the first in class for the treatment of specific forms of lung cancer. We have products in immuno-oncology for cancer again and a variety of other products.

I have to say that we think we are successful. We think we can continue implementing our strategy and go it alone. This potential merger would create a certain worry for me. You can imagine that our people are very focussed right now and a merger of this magnitude would create a distraction that potentially would delay some of our projects.

Q119 Chair: We can take it as read that Pfizer would not have wanted to merge with you unless you have something that was worth merging for. I asked you what you see as the benefits. I will invite you to go into the drawbacks as well, but could you just outline if there are any positive sides, from your point of view, from this merger?

Pascal Soriot: Pfizer is certainly a company with a lot of great people. It is a very strong, very effective commercial organisation. It is a very good financial organisation, and certainly very successful financially. Beyond this, I have to say that the problem with a merger of this magnitude is the distraction that it brings. I can see certainly the commercial strengths and the financial strengths, but our focus is on science and on progressing our pipeline.

Q120 Chair: What do you think are the drawbacks?

Pascal Soriot: The drawbacks are exactly what I was getting at a minute ago: the disruption. What will we tell the person whose father died from lung cancer because one of our medicines was delayed because, essentially, in the meantime, our two companies were involved in saving taxes or saving costs? We want to focus on bringing those products to our patients as quickly as possible. We believe that, if we can do this successfully, we will create value for our shareholders. Any distraction from what we are doing now would certainly run the risk of delaying our pipeline. I would ask Mene to share with you some of his experience and concerns.

Dr Pangalos: I have been through a number of mergers and acquisitions in my career: the SmithKline Beecham/Glaxo Wellcome merger; the integration of Janssen and Johnson & Johnson; as well as the acquisition of Wyeth by Pfizer. The challenge with mergers of that scale is that you become very inwardly focussed, because you are worrying about what is going to happen to you. You are worrying about whether your projects are going to be picked, whether they are going to survive or whether they are going to get stopped. You are worrying about who the leaders are going to be, what sites you are going to be on and, ultimately, the focus becomes very inward rather than focusing on our projects and on being externally visible and present, and focusing on your collaborations and things that will move pipelines and medicines forward. Any merger of that sort of size is a huge distraction and a very challenging period to go through.

Q121 Chair: What would you say to the observation that, given Pfizer's track record of, shall we say, downsizing and getting a level of profitability per employee, so-called

synergies, efficiencies and productivity, you are really just trying to protect your own, rather than looking at the most efficient and effective way of producing new products in future?

Pascal Soriot: Efficiency means getting more out of the dollar you spend. If you add $100 and $100 to $200 and you reduce it, it is called cost reduction. It does not mean efficiency improvement. We have the scale to succeed on our own. As you know, we are a large company. We are one of the largest pharmaceutical companies in the world, and our people, on a daily basis, are focussed on improving our efficiency through getting more products out of our R and D budget. We have been very successful in this in the last 18 months.

Q122 Chair: Given the obvious application—and again I quote—synergies and so on, would you anticipate your workforce to increase, stay the same or be reduced if you were merged with Pfizer?

Pascal Soriot: It is very hard to comment on this, because of course we do not know what the plans that Pfizer has in mind will look like, but certainly it is logical to assume that a merger of this magnitude would be associated with substantial cost savings, and cost savings do not come without job losses.

Q123 Chair: You have rejected two Pfizer bids so far. There are two schools of thought here. Is it a position effectively to drive up the share price to ensure that there is a better return for your shareholders or is it a result of a considered appraisal and assessment of your business strategy and the products that you are producing?

Pascal Soriot: The board of AstraZeneca has been very clear as to the reasons for this rejection. Believe me, this decision has been the result of many discussions and very detailed considerations. Those reasons are threefold. First of all, we do believe that the offer does not reflect the value of the company. Secondly, we think there is a substantial aspect that is important for our shareholders, which is the fact that this consideration would come in cash but also in shares. Importantly, we have considered and we are worried about the risk that is attached to this proposed merger.

The execution risk is twofold. First of all, there is the execution risk that relates to a merger of this magnitude and the distraction that it brings to our employees, and in particular the distraction that it brings to our R and D organisation. There is also the execution risk that relates to the proposed tax inversion structure, which we are afraid could generate a substantial controversy, potentially delay this merger and potentially impact the reputation of our company as well. All these considerations have led us to conclude that the proposal, because there is no further proposal, was not appropriate for us to consider.

Chair: We will explore these. Can I bring in Ann McKechin now?

Q124 Ann McKechin: Mr Soriot, you referred to the instability from this current proposed bid for your company and its employees, but how concerned are you about new shareholders, such as hedge funds, who may, as soon as they hear of a takeover, rush in and start acquiring shares in your company, and ultimately may decide the decision above your head?

Pascal Soriot: Ultimately, this company is owned by our shareholders, so ultimately the shareholders will have to make a decision, either because we recommend a transaction or because, alternatively, a so-called hostile offer is launched. Ultimately, the shareholders will have to decide. Indeed those shareholders will be a mixture of long-term shareholders and short-term shareholders. At this point in time, we have quite a large proportion of long-term shareholders, but I cannot speculate as to what is going to happen over the next few weeks.

Q125 Ann McKechin: I presume that you have had some conversations with your long-term shareholders. Are you confident at the current time that you hold their trust in the way in which you have approached this bid so far?

Pascal Soriot: I am confident the board of AstraZeneca is confident in our strategy, and we are confident in our ability to implement our strategy. As I said, we have the scale; we have the people; we have the talent; we have the products. We can succeed. I am confident we can convince our shareholders that we will create long-term value through this strategy.

Q126 Rebecca Harris: In your criticism and concerns about the bid, you did not mention any of Pfizer's commitments. You did talk about the importance of stability and your commitment to your science base. Would your attitude to Pfizer's bid change if it was giving a longer timeframe for its undertakings—for example, if it was giving a 15- to 20-year timeframe commitment?

Pascal Soriot: Ours is not five or 10 years; we have a 20-year, 30-year or 50-year commitment to this country. We are deeply rooted in this country. Our commitment to Cambridge is a very serious commitment. It is a long-term commitment. The concern we have with this proposed transaction is actually the distraction, as I said before. Long-term commitments would certainly be welcome, but they would not change the nature of the short-term impact that this merger would potentially create. It is impossible to implement a transaction or merger of that scale, of that size, without substantially disrupting the progress of our projects.

Q127 Rebecca Harris: We have also heard today about the commitment for 20% of the global workforce in R and D to be here. We had some discussion about whether that was the spend or whatever. I just want to invite you to make any other comments on Pfizer's commitments and undertakings.

Pascal Soriot: It is very hard for me to comment on this, because I would of course be speculating. I do not know what the plan is for the total headcount. The 20% of the headcount of the new company could be more, could be the same or could be much less than today. It is really hard to speculate on what 20% would mean for the UK. What I can tell you today is that 30% of our global headcount in research and development is in this country. We have a long-term commitment to this country. Our R and D budget increased last year, so we have the resources to develop our projects, but it is really hard to speculate how many people 20% would mean for the United Kingdom.

Q128 Mike Crockart: I get the impression you are going to struggle to answer this question, but I will ask it anyway. My question is: how do Pfizer's undertakings match your long-term strategy for the future of AstraZeneca?

Pascal Soriot: Our long-term strategy, as I said, is really driven by a focus on science and innovation. We have an R and D budget that represents about 18% of our sales, so it is certainly a very substantial investment. We want to do science in the best possible locations in the world. We believe Cambridge is one of those places; it is probably the place in Europe that can compete with the likes of Boston or San Francisco. We believe we can be part of building a strong biosciences ecosystem in the so-called Golden Triangle, so our commitment is to science and a long-term commitment to this country. Any commitment that Pfizer could give to science in this country is welcome and certainly in line with what we would like to do, but it is really hard to speculate, again, without knowing precisely what that would mean.

Dr Pangalos: One of the things that we have done very well is the culture that we have created in the company, which is very much science-led and science-focussed, which starts with Pascal and the leadership team but permeates all the way through our organisation. The other very important piece is how we engage with the academic community, biotechs and the ecosystem in the UK. We have over 200 collaborations just in the UK. If you look at the types of interactions we have, there is the Medical Research Council, Cancer Research UK, biotech institutions like Heptares and Horizon, and there was the unsolicited letter that the scientists wrote supporting our culture.

Q129 Mike Crockart: Can I butt in there and say that Pfizer, sitting here today, have been saying pretty much exactly the same things as you have just outlined? Where is the difficulty that you see in what Pfizer is proposing and how does it differ massively from your long-term plans for AstraZeneca?

Pascal Soriot: As I said, the commitments that we have presented are very much long-term commitments to this country. The issue we see is not so much the commitments, even though we do not understand exactly what 20% means; the issue we see is the disruption. You bring two very large organisations together, you realign them and then people spend a fair amount of time wondering, "Do I have a job? If I have a job, who is going to be my next boss? I know my next boss, but what is my salary going to be? Am I going to be located here or somewhere else?" This is very disruptive. We are in a race to bring those products as quickly as possible to patients, and of course we have competition as well. Any delay would potentially hurt patients and certainly hurt our shareholders.

In our industry, you create value because you come up with new medicines that help patients. If you do that well, you have a good business and you create value for your shareholders. That is what we are focussed on.

Q130 Mike Crockart: Dr Pangalos, given what you said earlier about the effects of mergers on research, do you agree with what the former Pfizer top scientist said when he described mega-mergers as devastating for research? That is quite strong language.

Dr Pangalos: I think they are very challenging to get through and they ultimately result in job losses, changes in projects, changes in strategy, changes in direction, changes in

location. Ultimately, it takes a long time to get through the process before you come out the other end with an idea of exactly where you are going. That results in delays and a lot of challenges. It can be devastating, yes.

Q131 Mike Crockart: I do not know whether you listened to Radio 4 this morning, because there was somebody making the counterargument that the benefits of mergers are that good people leave good companies. I know that would not be great for you but, in a way, it invigorates. It might make new innovative start-ups. You can see that would be a potential benefit to the UK. Is that the hopeful long-term view, which would help to get through the devastating part of it?

Dr Pangalos: I think we have a great company. I am incredibly proud of what we have achieved over the past few years and the commitment we have to science, to our people and to the ecosystems that we work in across the globe. We have fantastic people working on our projects, and we are at a turning point in our organisation, with an amazing pipeline.

Q132 Mike Crockart: Can I turn to the pipeline then? My next question is to do with the pipeline and lead-in times for research. Obviously, Pfizer has given a commitment, such that it is, and they have made the point in the evidence they have given this morning that that would be a sufficient time and commitment to deliver on the pipeline of drugs and interventions, and show that there is some progress. What do you think about that view?

Dr Pangalos: Can you repeat that question? I am not sure what you mean.

Mike Crockart: It is to do with the five-year commitment. The commitment, such that it is, has a timescale of five years. In evidence this morning, Pfizer has said that a five-year window is a reasonable one because, internally in Pfizer, they expect research to be able to show progress within that five-year window, so that is a reasonable timescale.

Dr Pangalos: I could repeat what Pascal said. We have been in the UK and have had a deep-rooted UK legacy for decades. Our commitment to the future is for decades. We are building a new site in Cambridge, where our corporate headquarters will be. We are going to have over 2,000 people there. We have over 2,000 people in the North West, and our commitment is way beyond five years in the UK. We are talking about 10-, 20- or 30-year commitments.

Dr Osbourn: Maybe I could comment, having become part of AstraZeneca as an acquisition myself. I was a UK biotech start-up, called Cambridge Antibody Technology. We were acquired in 2006. It is only now, eight years later, that some of the products that we initially started developing in 2004, in collaboration with AstraZeneca, are reaching successful clinical outcomes. Five years is not necessarily a sufficiently lengthy time to truly demonstrate the value of any kind of merger or acquisition.

Q133 Chair: Could we take it that the answer is no?

Pascal Soriot: Five years is short in our industry, because cycles are extremely long. From the lab to the patient, it takes many years, for sure. Beyond this, maybe the point we would like to make is that it is not only a question of commitment; it is a question of focus. It is a question of avoiding distraction. Maybe Mene could share with you some of

the experiences we have had recently with some of our products in cancer. We are trying to develop them extremely quickly, and the work we are doing is unique. In fact, we have a product called AZD9291 that probably will be the fastest ever product to go from the lab to the patient. You can only achieve this if your people are totally engaged and focussed, and not wondering about what their next job is or who their next boss will be.

Q134 Chair: Can I just summarise? You are saying that, in effect, this merger attempt and potential merger activity could delay the ability to have potentially life-saving drugs on the market.

Pascal Soriot: Absolutely.

Dr Pangalos: Yes, I agree completely.

Q135 Mr Binley: The Wellcome Trust, which is one of the UK's biggest medical research funders, as you know, has voiced major concerns over this approach from Pfizer. Sir William Castell, who wrote to George Osborne, said that "Pfizer's past acquisitions of major pharmaceutical companies have led to a substantial reduction in R and D activity," which we are concerned could be replicated in this instance. I assume you share that view. I am not putting words into your mouth. I do not want you to frighten your workforce either, but I assume you would share that view, no?

Pascal Soriot: It is hard to speculate on what would happen in this case because, as you know, there are no specifics that have been shared with us in terms of the potential cost reduction. What we can do is look at the historical precedents and, typically, mergers have been associated with cost reductions and substantial R and D cost reductions—all cost reductions.

Q136 Mr Binley: You must be fearful of the attack on R and D, which has played such an important part in your pipeline activities recently. I do not want you to speculate, but where do you think they are going to get the efficiency savings from if they are not going to cut jobs?

Pascal Soriot: You will have to ask them of course.

Mr Binley: I asked them; I did not get much of an answer. I am asking you now.

Pascal Soriot: It is really hard. I really cannot comment on what their plans are.

Dr Pangalos: Again, I think there is a track record, not just for Pfizer but for the scale of the merger we are talking about, of an impact on scientists, doctors, people in operations, and people in pharmaceutical development. There are facts and figures that you can look up that are relatively consistent in terms of the impact on people and sites.

Pascal Soriot: There are two dimensions. One is jobs and investment in science. The second is the point I was raising a minute ago, which is disruption—people getting a new structure and new bosses.

Chair: I want to bring William in. Can I just explain that, if members leave, it will be because they are down for a question? There is business going on in the Chamber. It is not a

reflection of either your answers or their commitment to this particular issue. It is likely they will return before the conclusion of proceedings.

Q137 Mr Bain: It is interesting that you issued a new statement this morning about Pfizer's announcement. You have said that what they are offering has "no new proposal nor contains any substantive new information". You have described this bid as an "opportunistic attempt to acquire a transformed AstraZeneca". Can you explain a little more what you meant by that statement this morning?

Pascal Soriot: I guess what we meant was that, over the last 18 months, we have gone through a very substantial transformation. We believe we are nearing the end of that transformation. Our focus has been to rebuild our scientific leadership and to try to return the company to growth as quickly as possible. To do this, we have rebuilt our pipeline. We now have 13 projects in late-stage development. We have 19 candidates that will potentially move into late-stage development over the next two years. The value of the company, we believe, has increased tremendously, and this is starting to be reflected in our share price. We think the company is at a turning point in terms of rebuilding itself and growing in value. What we meant by it is that this is an offer that does not reflect the new AstraZeneca; this is an offer that reflects the old AstraZeneca, and the proposal certainly does not value the company where it should be.

Q138 Chair: Can I just move on? What discussions have you had with ministers on the takeover?

Pascal Soriot: Over the last few weeks and months, we have briefed the Government. We briefed them and we reconfirmed our commitment to science. We reconfirmed our commitment to Cambridge, which is a fundamental decision for us. We reconfirmed our commitment to science in this country but, essentially, those were not detailed discussions. We have had discussions with a number of members of the Government, but not very detailed discussions.

Q139 Chair: Would you welcome a clear view from the Government about the takeover?

Pascal Soriot: It is a good question. You know, I am a biologist. My passion is to develop new medicines and bring them to patients, and hopefully do this well enough that our shareholders can benefit from it. I am not a policymaker. I am not a politician. I am here to do a certain job.

Having said this, I also believe the Government has a role to play. The Government should be here to ensure that we have a skilled workforce and we have a good educational system. The Government should be here to provide infrastructure, and certainly I welcome the proposed £1 billion investment in Cambridge and infrastructure. The Government should provide us with an environment that incentivises companies to work with academia and biotech companies, but it is hard for me to comment beyond that. I am certainly not a policymaker.

Q140 Chair: Are you satisfied with the position that Government has taken so far?

Pascal Soriot: I would say, at this point in time, the Government has been implementing a series of policies that we want to partner with in the life sciences industry. The agenda is a good agenda, we believe. There are a certain number of policies that are in place that we welcome, and I will leave it at that.

Q141 Chair: Okay, I will rephrase it: do you think that the proposals by Pfizer will complement that particular strategy?

Pascal Soriot: I am sorry; I am not trying to avoid your question, but it is hard to comment not knowing exactly what the plan is. We have talked about 20% of investment going into the UK. I do not exactly know what that means in dollars or in headcount. I do not know what their strategy would be so, really, I am afraid I cannot comment.

Chair: Okay, we will leave that. I think we understand what you are saying. Can I now bring in Robin Walker?

Q142 Mr Walker: Thank you very much. Mr Soriot, you have made great play of the disruption caused by this offer, and of course the disruption is there because the offer is on the table. We have heard from unions that employees are already concerned, and that therefore is going to be affecting people already. It is open to you and the board of AstraZeneca to bring that disruption to an end by very clearly stating that you would not accept any offer. Clearly you have not done that. You have rejected specific offers to date. Were this situation to develop into a hostile situation, how quickly would you be going to a Takeover Panel and asking for a "put up or shut up" arrangement? How quickly would you be trying to bring this to a decision?

Pascal Soriot: The first point is that, as a board, we have a duty to a variety of stakeholders. We have a duty to our employees. We have a duty to the broad community, but we certainly have a duty to our shareholders. It is impossible to say that we would never accept any offer. We are very well aware of our fiduciary duty, and an offer that correctly valued the company would basically be an offer and a proposal that we would find implementable without execution risk or with execution risk that we could manage. Such an offer we would have to consider of course, so it is impossible for us to say we would never accept any offer.

As far as the "put up or shut up" rule, we are in that period. Pfizer has until 26 May to make a decision to either withdraw or launch a hostile takeover, unless an agreement has been reached before then.

Q143 Mr Walker: Talking of execution risk, you made a point earlier about the tax elements of this and you specifically brought up execution risk in that sense. Can you expand on that, first of all, and secondarily can you talk to us about what AstraZeneca's current tax arrangements are? What proportion of tax do you pay in the UK?

Pascal Soriot: Those are two separate questions. The first one relates to tax inversion, and as you will have already noticed, this is a topic that could create enormous controversy. It is a legal setup, but it is a very controversial proposal that could potentially delay a transaction if we were to reach agreement. We see this as a risk that would create an impact on our own company, as the transaction might be delayed by this inversion and it would also potentially create a reputational impact for us as a company.

As to your second question regarding our specific tax position here in the UK, in the last five years we have paid £1.5 billion in taxes and that does not include employment taxes, which are a further £1 billion on top of this, so the £1.5 billion is a corporate tax.

Q144 Chair: That is over five years.

Pascal Soriot: That is over five years. Historically we were paying in excess of £500 million a year. In the last couple of years, our tax bill has reduced, and last year we did not pay any tax. The reason is relatively simple and easy to understand. Our income comes from what we sell in the UK but very much from our exports. We are an export-driven company; our exports represent about 1.8% to 2% of total UK exports. Unfortunately, some of our products have lost patent protection, in particular a big product called Seroquel, which we were exporting out of the UK, so our export revenue has declined. We are making a very substantial investment in research and development. We spend about £1.5 billion in the UK in R and D, which has led us to making a loss in 2013.

The good news is this R and D investment is paying off. Our pipeline is growing because we are building rapidly. Some of our most exciting products—olaparib for ovarian cancer and breast cancer; AZD9291 for lung cancer; selumetinib for lung cancer; and many other products—actually come from the UK and out of UK science. The cancer products come out of our labs in the UK. As a result, they will generate future income in the way of exports, and we will return to a profitable position, but certainly in 2013 we did not pay any tax.

Q145 Mr Walker: Would the role of UK tax incentives like the Patent Box and so on encourage you to develop more products in the UK?

Pascal Soriot: The good news for us is that a lot of our new products in our pipeline have either been discovered or developed in the UK. About 70% of our new product pipeline have been discovered and have been influenced in the UK, so most of our pipeline products would be in the Patent Box. Therefore, we would be able to benefit from the variable tax benefits there. The problem is it takes a little time. As we said earlier, the cycles in our industry are quite long. Several of our most exciting products are very close to the market. We are very proud of AZD9291, which was discovered in our labs here in the UK. It was granted breakthrough designation in the US very recently, so we hope to bring it to patients quickly. Olaparib, which was also discovered in the UK, was granted fast-track designation for ovarian cancer in the United States, and we hope to bring it quickly to the market. As soon as that happens, we will be able to generate income and profits in the UK.

Q146 Chair: Could I just clarify? I am not sure I understood. Is the figure you gave of £1.5 billion in corporation tax over the last five years net of R and D tax credits or would it be after the incorporated R and D credits?

Pascal Soriot: If you will allow me, I would like to ask. Yes, it is.

Q147 Chair: It is net of that tax rate; thanks very much. The previous panel said, and I think I am paraphrasing what they said fairly, that in effect the level of R and D

expenditure did not necessarily indicate the innovation and number of products that could be produced. Would you agree with that position?

Pascal Soriot: Let me just ask Mene and Jane to comment in a few minutes, but clearly our goal in the industry and as AstraZeneca is to improve productivity. To improve productivity does not mean reducing spend; it means getting more out of every dollar we spend. We do this by making sure we recruit the best possible scientists and making the best possible collaborations with the best academic centres in the world, which explains why we want to move to Cambridge. We have a variety of strategies in place to improve our productivity. I agree that certainly we need to get the best out of our investment but, fundamentally, if you reduce investment, you reduce output unless you dramatically increase productivity overnight, and we all know it is not easy to do that.

Dr Osbourn: One point that I would like to make is that the R and D investment in jobs in the corporate entity are the tip of the iceberg in terms of the investment we are making. As Pascal says, we have got over 200 collaborations and partnerships in the UK, which are all science-led. They are all around basically expanding our capabilities and our ability to deliver different innovative drugs to our pipeline. That is the way that you increase productivity: by driving science, being science-led and developing strong relationships within the ecosystem in the UK to ensure that you are getting the most synergistically out of what we offer as a corporate entity, and what our potential collaborators and partners offer in the external environment. We have got plenty of examples of how we have done that.

Dr Pangalos: I will not use the question to ask Pascal for more R and D budget today but, ultimately, as your pipeline becomes more successful, as it matures and you grow programmes in phase II and the next stage of development, phase III, your R and D budget concomitantly increases. We have seen an increase in our R and D spend over the past few years exactly for that reason, because our molecules are working; they are moving to late-stage development, and as a consequence we are having to invest more in R and D.

Pascal Soriot: The ecosystem is critical because we need to build strong collaborations with academic centres and also biotech companies. In research, big is not necessarily beautiful. In fact, very small biotech companies can be extremely creative, as we all know. We try to be very well integrated in that ecosystem. Again, that is why we believe Cambridge is such an attractive place, where you have some of the best academic institutions in the world but also a large number of biotech companies with very smart, entrepreneurial people.

Q148 Chair: Would it be fair to say that there is a difference of approach between you and Pfizer, insofar as, on the basis of the evidence today, you believe that you can increase productivity and the number of products, if you like, by more research and development, but that Pfizer believes they could do it with less?

Pascal Soriot: I would not want to comment on their strategy. Pfizer has their strategy, but I can only comment on what we do. We try to get more out of our R and D budget. In fact, our R and D budget increased slightly last year despite the challenges we are going through. Essentially, out of this investment we have a lot more output. Our pipeline has increased tremendously. Our goal is to get more out of what we spend, not reduce what we spend.

Chair: I suspect the Science Committee may want to investigate that further.

Q149 Mr Binley: I heard your comment about not paying tax in the UK last year. We are politicians and we do like you paying some tax. When might you return to becoming an honourable taxpayer? You are saying you are going to have a great time, you have got a lot of good products, and you are going to sell a lot of your products; so when?

Pascal Soriot: That is a good question. Let me just say that, in comparison, we still pay a lot of tax in Sweden.

Mr Binley: I am a UK politician.

Pascal Soriot: Just to give you a sense of what drives our tax payments, the products we export out of Sweden are still patent-protected, so they still generate revenue. Here we have to return to this position.

Q150 Mr Binley: You are beginning to sound a little like Mr Read. Will you please be kind and tell me when your forward planning expects you to become a contributor to Britain through your tax payments?

Pascal Soriot: My answer would be as soon as possible. I cannot be specific for the simple reason that we are under the Takeover Panel rules. Any sort of financial prediction I give you would be a forecast, and I am not allowed to make any forecast.

Q151 Mr Binley: I understand. Let me say to you that I hope it is sooner rather than later. Is that fair? Do you agree with that particular point?

Pascal Soriot: I hope it is soon, because it will reflect the fact that we are doing very well and we have a pipeline that should actually help us deliver that.

Q152 Nadhim Zahawi: Mene, you mentioned that you had experience of the Wyeth takeover. We heard earlier from the Pfizer management that the areas where they would look at cost-cutting would be the overlap areas. Can you shed some light on where you think there would be overlap between AstraZeneca and Pfizer in the UK?

Dr Pangalos: It is difficult to know without having to make projections and forecasts.

Nadhim Zahawi: Try.

Dr Pangalos: I can tell you what we have in the UK. Obviously, we have our pharmaceutical development and operations group in Macclesfield. We have a lot of late-stage development people in Alderley Park as well as IS/IT. At the Cambridge site, we will be moving our colleagues from MedImmune to the new site. In our oncology research centre, our high throughput screening is unique. There is no other group that does high throughput screening in the UK. We have our chemists, our drug safety metabolism, our personalised healthcare group and our discovery sciences group. I do not know how much of that overlaps with what is in the UK for Pfizer, but I know it is a critical part of our success now and in the future in the UK scientifically. I am sure there will be some overlaps.

Q153 Nadhim Zahawi: Is it a 5% to 10% overlap?
Dr Pangalos: I would not be able to predict.

Q154 Nadhim Zahawi: We talked a lot about the move to Cambridge.
Dr Pangalos: Yes.

Nadhim Zahawi: The answer was given earlier that there were 2,000 people in Cambridge and the corporate headquarters would be in Cambridge as well. Pfizer has promised substantial investment in the Macclesfield site. Do you also commit to keeping that site and further investing in it?

Pascal Soriot: Absolutely. We very recently invested £120 million in Macclesfield in a new manufacturing facility for one of our cancer products that we export out of the UK. We are certainly very committed to this site.

Q155 Nadhim Zahawi: Will you commit to 2,000 jobs in Macclesfield?
Pascal Soriot: Yes, absolutely.

Dr Pangalos: To comment on what we have been doing with the BioPark, over 60 biotech companies have just joined, and we have a significant amount of people in Alderley Park as well. We are working very hard to make sure that the BioPark is very successful in Alderley as well. We just committed another £5 million to help stimulate inward investment for spinouts.

Q156 Ann McKechin: Obviously, today we are talking about mergers and acquisitions, and your own company is a result of a merger. I am just interested to see where you think your philosophy in terms of mergers and takeovers, which you have been involved with in the past, is different from that which has been displayed today in Pfizer's intentions.

Pascal Soriot: Many of our people know what a merger means, if you go back to AstraZeneca. That is why we certainly are very aware of the risks of disruptions. In the recent past, what we have been focusing on is making science-led acquisitions that are of a small or mid-sized dimension. Those are acquisitions that complement areas of science where we need to become stronger. Maybe Jane can share with you some of the activities we have done lately.

Dr Osbourn: As I said earlier, I became part of AstraZeneca as an acquisition of a Cambridge-based biotechnology company nearly eight years ago now. That was hugely driven and led by science. I am still part of the AstraZeneca and MedImmune organisation eight years down the line because the senior management within AstraZeneca recognises the value of the science that we brought and the value of the science that enables us to deliver. I think there is a very strong historic element of focusing on science-led acquisition.

We ourselves in turn have taken over biotech companies within the Golden Triangle. We acquired a company called Spirogen in October last year. Again, that was completely science-led. Spirogen have a platform that we feel we can synergise with the drugs to treat cancer that we already have in the pipeline. We have maintained them as a separate operating biotech unit and have provided capital investment, so, again, it is very science

led. Our philosophy is that small and mid-scale acquisitions that are science-driven definitely add value to the pipeline. That is an important element of our strategy, but they have to be science-led and the people have to stay. I have stayed with the organisation for eight years, as have many other colleagues.

Q157 Ann McKechin: There have been redundancies.

Dr Osbourn: There have been, but we have maintained the scientific experts that were involved in a lot of early inventions from that capability.

Q158 Mr Walker: We had a lively debate, I think it is fair to say, earlier, on the value of some of Pfizer's assurances that they set out. What guarantees are you making as to the future of AstraZeneca in the UK, its commitment to R and D and the numbers of people and the amount of investment involved?

Pascal Soriot: As I said, our focus and strategy is innovation in science. We have made this investment in Cambridge because I believe in the quality of the science in the UK. We are very committed to this investment in Cambridge, and I am personally very committed to it. In many ways this will be my legacy, I hope. I can give you the greatest confidence that we will maintain our investment in R and D in this country, and possibly increase it as well.

Q159 Mr Walker: In terms of your shareholders, they will be looking at this transaction and determining whether they think it is in their long-term interest. I asked the question at the beginning of Pfizer's evidence about whether the business model of big pharma is sustainable. You have been a consolidator, as has Pfizer. With the changes taking place in the pharmaceutical market and the growth of gene-based medicine, which is more targeted and perhaps more suited to smaller, nimbler companies, is this business model of large listed companies the future of the industry, or is it the past?

Pascal Soriot: As I said earlier, in research, big does not necessarily mean beautiful. In fact, small units tend to be very creative and new technologies emerge out of small companies or big companies, so there is no clear relationship between the size and productivity of a research organisation. In the future there certainly will be companies focusing on very specific and targeted medical needs, with small patient populations and what we call in our industry speciality care—specialised medicine, if you will—where certainly smaller companies can flourish. There will also be a need for smaller companies to develop medicines that benefit the broad patient population. In our industry, we call this primary care: medicines that are prescribed by primary care physicians. There will certainly be a place for both and, when it comes to primary care, larger organisations are needed.

The point is we have the critical mass. We are one of the biggest pharmaceutical companies in the world, number two in China and strong in Japan. We are of course very strong in Europe and the US, so we have the scale. We do not need incremental scale. When it comes to what we call speciality care, we are very focussed and try to address those needs with targeted approaches.

Q160 Mike Crockart: Pascal, you stated numerous times earlier that you are not a politician and did not want to comment on some of the questions. However, as Chief Executive, you do have the responsibility to represent the interests of your company and shareholders. If, as seems to be the case, you do not welcome the potentially hostile interest of Pfizer, would you welcome emergency legislation changes to protect your company's position in the United Kingdom?

Pascal Soriot: Sorry, I can only repeat: I am not a policy maker. I am here to lead this company and develop new medicines. Any such policy is a matter of national strategy that has to be decided by the Government, certainly not by me.

Q161 Nadhim Zahawi: One final question, Pascal: you talked about having a long-term strategy of investment and maintaining it. Is that maintaining investment at the same level and the same number of people in the UK? I see Mene is nodding away, so is that a yes?

Pascal Soriot: Yes, absolutely. If we do very well, I would hope we can increase our investment. Our Cambridge investment in particular is a very substantial investment in science and is constructed in a way that can be expanded. We were incredibly lucky to find a piece of land in Cambridge in the bioscience campus that has really put us at the heart of science. We are surrounded by the Laboratory of Molecular Biology, the Cancer Research Centre, the Addenbrooke's Hospital, the Papworth Hospital that is moving there, the University and a variety of other institutions. They are surrounding us, so we are at the heart of science. We have a piece of land that enables us to expand. Over the next 10 to 20 years we certainly can expand because we have the land to do that.

Dr Pangalos: And we have the pipeline.

Pascal Soriot: We have the pipeline.

Q162 Nadhim Zahawi: So the same level of investment and people, and maybe even more.

Pascal Soriot: Yes, absolutely. As always, it will depend on our level of success. We think we can do very well. Our pipeline is strong and getting stronger every day. Recently we have been releasing very strong clinical news, so we think we are gaining momentum and doing well, but how well we do will affect how much we can invest in R and D of course.

Dr Pangalos: And not having distractions.

Nadhim Zahawi: "And not having distractions," did I hear Mene whisper to you? Yes, thank you.

Q163 Chair: We are coming to the end, but I would just like to ask, on the basis of the commitments that Pfizer have made, if we could take those as read and agree they are binding, is there anything that they are offering the company, or a merged company, that you cannot deliver, or are not prepared to deliver?

Pascal Soriot: Do you mean in terms of the commitments?

Chair: Yes, the commitments—the 20% and so forth.

Pascal Soriot: Again, the question is: 20% of what total? I do not know whether 20% is more people or more jobs than we have today, or is it the same or is it less? I really cannot comment. I can tell you we have a firm commitment to science here. We have what it takes to succeed, we can implement our strategy, but I cannot compare what we have today versus what we will have tomorrow without knowing what the 20% relates to.

Q164 Chair: Sorry, I am not trying to put words into your mouth; are you implying that you cannot answer that question because the commitments are unquantifiable?

Pascal Soriot: Yes, absolutely. I know it is 20%, but the question is: 20% of what? I cannot quantify the commitments so I cannot answer the question.

Q165 Chair: Thanks very much. That concludes our questioning. Can I thank you? Just one final question: would you say that the entente cordiale should trump the special relationship?

Pascal Soriot: I would just like to tell you something. Despite my accent, I feel Australian. My kids live in Australia; my grandson is a five-year-old purebred Australian. I will retire to Australia. My accent does not tell you this but I am Australian.

Chair: That is where you were when this was first launched, I believe.

Pascal Soriot: Yes, absolutely.

Chair: Okay. Thank you very much, that was very helpful indeed. We will await the outcome with incredible interest.

Examination of Witness

Witness: **Rt Hon Dr Vince Cable MP**, Secretary of State for Business, Innovation and Skills, gave evidence.

Q166 Chair: Welcome, Minister. Can I thank you for agreeing to help us with our inquiry, particularly as, through circumstances beyond our control, you had very short notice for it. Can I just ask you to introduce yourself for voice-transcription purposes?

Vince Cable: I am Vince Cable, Secretary of State for Business, Innovation and Skills.

Q167 Chair: Thank you very much. There seems to be some confusion about the Government's position on this. In Tuesday's urgent question, you said you would "consider using our public interest test powers to intervene". What powers have you got to intervene?

Vince Cable: Can I just preface my answer in several ways? You asked what the British Government's view was about this. My starting point, as I made clear to Parliament last week, is that the R and D-based, science-based manufacturing of life sciences is immensely important to the UK. I want to see it strengthened; that is why it is at the heart

of our industrial strategy. It is also clear that there is a national interest here. Indeed, the Government is a stakeholder here, because we invest a £1 billion a year through research and medical research councils. We spend another billion through the National Institute for Health Research into health infrastructure. We have used the Regional Growth Fund to support firms in this industry, not these two companies directly, but we support this industry. The Government is a massive consumer of their products through the health service, so we are major stakeholders. There is a major national interest involved here, which is why I am at the heart of it.

In terms of your specific question about the legal test that might be applied, I am going to have to be a bit opaque. I normally try to be helpful to the Committee, but I am going to—to use your favourite word, Chairman—obfuscate a little on these issues, for two reasons. First of all, assuming the bid goes ahead, and it has not happened yet, there will be conversations with the companies in order to obtain assurances in all probability. You would not expect me to disclose how we would want to negotiate that. In respect of the legislation, the key point I want to make is that there would be legal consequences if the Government intervened. I have to have an open mind on that for reasons that you well understand.

Q168 Chair: What are the legal consequences? Could you just amplify?

Vince Cable: We know from past interventions in competition cases that matters frequently go to court. My role in this is as a decision-maker, not as a commentator, so I have to have an open mind on the issues. I want to make that clear.

Chair: I am not altogether any clearer.

Vince Cable: I am trying to explain why I may have to be a bit opaque on some of these questions.

Q169 Chair: You are certainly being very transparent in your opaqueness, Minister. Can you reconcile what you said earlier on the public interest test powers with your statement that, "It is ultimately a matter for the shareholders of both companies"?

Vince Cable: I have just stated that the bid itself is a matter for the two companies. They will have to consider it according to the rules, the legislation and the procedures of the Takeover Panel. In that sense it is a matter for the companies, but we are major stakeholders in the way that I have described. There is a wider national interest here, but that has to take place within the framework of the legislation that I have inherited.

Chair: I may wish to pursue some of those further, but I would like to bring in Katy Clark at this stage.

Q170 Katy Clark: Thank you very much. An expansion of the public interest test to include research and development in science would probably require amending the 2003 Act. Have you taken advice about that and how that would be done? Would it be by statutory instrument or would primary legislation be required?

Vince Cable: Yes, of course I have taken advice on that, and indeed on all of the complex legal legislative issues around this. The framework that we have under the Act, as you know, confines the public interest test quite narrowly. All of that takes place within the

framework of European merger law. I have a completely open mind on any additional measures, and I just want to stress that. It is an option; we are not saying whether or not we will proceed with it, but any additional measures would have to be located within that framework.

Q171 Katy Clark: If you took the view that it was in the public interest to intervene and you did not have the legislative base at present to do that, would you look to get legislation through to give you that legislative base?

Vince Cable: As I said, or implied, a few minutes ago, one of the options we have and are looking at, should the need arise, would be to extend the definition of the public interest test to cover research and development science in some way that would have to be formulated. This is all quite tricky stuff, and there is a wider European framework within which we have to operate. This is not just a matter of the UK Parliament.

Q172 Katy Clark: We appreciate you would have to go to Europe to get any change ratified, but you will be aware that the House is likely to prorogue probably later this week, so what is the likelihood of any change being in place for the deadline for the formal bid, and what discussions have you been involved in about that?

Vince Cable: Last week the Chief Executive was here. I think he has given evidence to you this morning. I am not completely up to speed with what he said because I was in the Cabinet at the time, but I had two conversations with him, and other Members of the Government had conversations with him. We preceded our discussions with Pfizer with conversations with AstraZeneca, so we have engaged with the companies. The Government is thinking about all the available options in terms of how we provide the necessary safeguards for the absolutely vital interests I have described. There are different ways of doing that. We will obviously want assurances, and I am sure a question you will go on to is how we make those binding. Then there is the possibility of legislative intervention, constrained in the way that I have described to you.

Q173 Katy Clark: My point was that if we prorogue, Parliament cannot meet again until 4 June. Is that going to be a problem?

Vince Cable: Sorry, I had not picked up on that. There are all kinds of different views on all these things, but I do not think time is a constraint here. This is potentially quite a prolonged process, because quite apart from the issues you are raising with me, the European Commission is likely to be involved on competition issues, which will obviously take some time. I believe they have to clear this with various jurisdictions outside of Europe, let alone inside it. This is a complex and possibly long process, so I do not think the fact there is a recess in the next couple of weeks is material.

Q174 Katy Clark: In terms of any changes that needed to be made, would primary legislation be required? Is that one of the options?

Vince Cable: That certainly is one of the options, yes.

Q175 Katy Clark: In the Kraft takeover of Cadbury, short-term investors bought up shares and forced the move. Is there anything in place that would stop similar investors doing the same to AstraZeneca, and is that something you are concerned about?

Vince Cable: When I appeared before you in the context of the Kay Report, we discussed this. There is an argument around short-term or long-term shareholders in this situation. We have looked at this very carefully in the context of the reforms that the Takeover Panel introduced, and indeed I encouraged them to do that when I came into office. That was one of the issues we looked at, but there are real problems with it. However sympathetic we may be to the principle of trying to ensure that long-term shareholders dominate over people who come in at a late stage, there are two major problems we have identified. One is that if you brought up a series of rules of the kind you describe, you would also block any white knight that came along wanting to make an acquisition, and it may be a more attractive proposition. In practice, however much one might like to do so, it is difficult to distinguish between the short- and long-term investors because ownership is often removed at several points down the ownership chain. As you know, we are trying to make ownership more transparent through companies, but the advice we had was that this would be difficult to achieve.

Q176 Katy Clark: You gave evidence on a similar issue in relation to Royal Mail recently. Have you really come to a view that you are not going to be able to come forward with legislative proposals?

Vince Cable: The issue is about the short-term/long-term investors in takeovers. We are where we are with the rules that exist, and they would not be changed for this purpose. We genuinely feel there are real difficulties in doing that.

Q177 Katy Clark: So, on takeovers, your view is that you do not think there are proposals that should come forward that would address this concern.

Vince Cable: I said I would share the concern. I shared it with you when we discussed this hypothetically before this bid arose. Yes, there are genuine issues in that area, but nobody has yet explained to us how you overcome the practicalities. I think I challenged you at the time: "Can we look at this carefully and maybe people will have ideas about how to overcome them?" but we have not seen any good answers.

Q178 Mr Binley: Good afternoon, Secretary of State. It is nice to see you again. Can I pay tribute to the work you did in response to our questioning, in many respects, with regard to the Cadbury situation, which we both remember well? Can I say, secondly, there is a very important balance to be struck between being an open country that welcomes investment and dealing with special interest as a nation? The world seems to be becoming more protectionist now. Except for the United Kingdom and the Netherlands, rules exist across most European countries that discriminate against foreign investors. With that background, what more might you do as a result of this situation to create a more level playing field? Or do you say that a level playing field is not in British interests and you would rather err on the side of openness to attract foreign investment?

Vince Cable: You quite rightly specify the dilemma. We are an open economy; we benefit from it. Foreign investors play a major and often very positive role in the UK economy. We do not want to do anything to disrupt that, but there are clearly wider

national interests of the kind we discussed—our science-based employment and manufacturing—and we want to do our best to protect them. That is exactly the dilemma.

I do not think it is correct to say that other European countries operate according to different rules where takeovers are concerned. They operate under the same framework of European law. If you followed the debate recently in France on Alstom and GE, although people were unhappy about it, they had to accept they were operating within constraints, so to that extent, there is a level playing field.

Q179 Chair: Can I just tease out this issue of timing? You implied that there was plenty of time to make any potential Government intervention if that is necessary. Is that a fair summary?

Vince Cable: I do not want to give the impression we are being leisurely about it.

Chair: I was not implying that.

Vince Cable: Our judgment is that the existence of the Parliamentary Recess does not impede our freedom to make whatever action we need to make. I am sure if there were a national emergency of some kind, the Speaker would respond to it.

Q180 Chair: I understand Pfizer has to lodge a bid by 26 May. If they do lodge a bid by that time and you and the Government are not satisfied with the commitments that are made, is there any way that you could change the Takeover Code or introduce any sort of Government intervention after that point?

Vince Cable: Let me just explain the role of the Takeover Code. When I came into office, there was a lot of discussion around Kraft and Cadbury. I encouraged the Takeover Code to reforms, and there were some really quite major reforms that we are now seeing played out, not least of which is the 28-day rule, "put up and shut up", and the fact that the directors of the company will have an obligation to look at this from a long-term perspective, and to look at the whole bid, not simply at the price. That was never explicit before. There is greater transparency over the fees involved and there is a greater commitment to employee consultation. There are a whole lot of new provisions in the code that have not been tested before in this way.

However, the Takeover Code is as it is, and I do not think there is any suggestion that we should be trying to change that. If a bid is made, of course, because of the national interests involved, we will want to talk to the two parties and make it very clear what we would like to see coming out of that. I am keeping all the options open about how we would secure assurances, and we would obviously seek them. You have had some public discussion of their letter to the Government, which provides a reasonable framework. Should those assurances not be satisfactory, there are the other options as well that we have discussed.

Q181 Chair: First of all, I would like to put on record our recognition of the contribution you have made in changing the Takeover Code. It is understood and appreciated, but you have not really addressed the issue: after 26 May, if the Government is not satisfied with the level of assurances and commitments made by Pfizer, is there any

statutory way that you could intervene to toughen up the Takeover Code in order to basically block it on the terms that they are putting forward?

Vince Cable: If the assurances are not satisfactory, and we are reasonably confident that we have the capacity to negotiate competently on this, then there is the option of legislative remedies, but they would take the form of the issues that Katy Clark raised rather than changing the Takeover Code.

Q182 Chair: You say there are alternative legislative remedies. Could they be implemented after the actual bid is put forward? This is what we want to understand. We will not be back until 4 June. Would they be applicable after 4 June if Pfizer put in the bid on the 26th?

Vince Cable: I am certain they would. I think I have explained already there is a whole series of hurdles that have to be passed before the takeover would become binding. They include European competition. The Commission would have to look at it, which would take some time. Various other jurisdictions would have to clear this, so this bid would be live for quite a long time. As I say, we are talking about options here, but the option of an intervention, should we choose to make it, would remain open to us. Of all the many things we are worried about, I do not think the short time of the recess is one of them.

Q183 Chair: I understand from that that you have been given assurances—and I accept there are many discussions to be had and maybe many hurdles to overcome—that, if at the end of that process you are not satisfied, even though the bid has been made on 26 May, we would be able to make some sort of statutory intervention on return, following the Queen's Speech?

Vince Cable: That is my understanding. Can I correct one point where I may have not given you an accurate response? I think it would be in the form of secondary rather than primary legislation.

Chair: I think we accept that. Can I bring in Rebecca Harris now?

Rebecca Harris: My question has largely been answered; it was in relation to limiting shareholders' voting rights. I think that was addressed quite well in the Secretary of State's answer to Katy.

Chair: There is nothing you want to add to that. That is fine. I think, Paul, your question may have been answered, but I am giving you the opportunity to add to it, if you wish to.

Q184 Paul Blomfield: I would like to press just a little, because we had an interesting session this morning with Pfizer, trying to clarify what their assurances meant. As a result of that, I do not think we were any clearer. It would be helpful to know what assurances—you talked about your confidence in the negotiation process—you will be looking for. I appreciate your caveated introductory statement, and I understand the context, but I wondered if you could share with us your thinking on this.

Vince Cable: Within the caveats that I have already set out, when the Chief Executive met Government Ministers last week, we conveyed to him what would be the areas about which we were concerned. It is around the importance of the long-term commitment to R and D, employment, manufacturing and decision-making in the UK. That was the broad area. The company responded with that open letter, and although we would not

necessarily accept those assurances or believe they are adequate, it at least covered the broad area that matters. I think that is the answer to your question. That letter covers broadly—broadly—the issues that we are concerned about. Of course, if these conversations progress, we would want to make them more specific. Of course the key issue is that they would have to be meaningful and binding. Then there is a whole set of questions about how you make such a commitment meaningful and binding, which I know you went into this morning.

Q185 Paul Blomfield: I am sure some of my colleagues will come in on the "binding" side of that. Can I just probe a bit more on the "meaningful"? The commitment Pfizer gave, which we were exploring with them this morning, was about having 20% of their R and D workforce based in the UK. We were trying to explore what that meant in real terms given, for example, their previous track record after previous mergers of substantially cutting their overall workforce. Will you be satisfied with the commitment as it stands at the moment of 20% of their R and D workforce being based in the UK?

Vince Cable: That is a basis for negotiation. That is not an offer document that we have accepted. It is a basis for discussion and we will proceed from it. Certainly having a substantial R and D presence in the UK, over the long term, bearing in mind the history, is a major part of any assurances we would want to have, of course.

Q186 Paul Blomfield: That is a starting point for negotiation. You would not consider that commitment in itself to be satisfactory.

Vince Cable: No. As I say, it is a starting point for discussion.

Q187 Paul Blomfield: On the second aspect of your answer, which is the long term, we pressed Pfizer on the long-term commitment, and Mr Read was very clear that they would not go beyond a commitment of five years. Would that be satisfactory?

Vince Cable: Our view is that the commitment should be as long as possible. Discussions would no doubt expose how long that was. I did not hear the discussion, but I thought he said he wanted to be here for 50 years. Maybe I misunderstood the report back.

Q188 Paul Blomfield: That may be a difference between aspiration and commitment.

Vince Cable: It did not get through to you. Okay.

Q189 Nadhim Zahawi: Just picking up on Paul's point, this is obviously what they have proposed. On the Macclesfield site, for example, they are talking about substantial investment, whereas we heard from AstraZeneca's Chief Executive that Macclesfield will be maintained at 2,000 employees and there will be further investment. I would really like to hear your view, Secretary of State, as to whether you think substantial is enough, and what does it really mean? The other one is on the timing issue. Paul Nurse is now on the record as saying five years is nowhere near long enough. Because of the lifecycle, the industry takes much longer than five years to go from initial laboratory to patient, and they are talking about 10 years. What is your view as to whether the Government, if it found itself in a position to negotiate that next stage, would be saying, "Five years is nowhere near long enough"?

Vince Cable: The phrase I used was "as long as possible". Obviously, Sir Paul Nurse is one of the top biological scientists in the country, and his judgments would weigh very heavily, and should.

Q190 Nadhim Zahawi: On the Macclesfield issue with "substantial", is that something we—

Vince Cable: I was very careful in the statement I made last week to talk about manufacturing as well as research and development, because it is an essential part of the pharmaceutical industry. This is advanced manufacturing as opposed to routine mass production; this is a very important part of our industry, and we would certainly want assurances about the future. Macclesfield is not the only one. There are other manufacturing plants as well: one at Speke and others in the South of England.

Q191 Rebecca Harris: How will you go about ensuring the commitments that Pfizer give are actually legally binding, and what are the mechanisms one would use? We also heard quite a lot of probably quite expensive weasel lawyer words about things like "substantial investment" and "if their circumstances change" and that kind of thing. There is also the vagueness of "20% of our global workforce", and we do not what that is going to look like in five years' time. It could be 20% of we do not know what. How would you ensure the commitments given by Pfizer are legally binding and they are not able to wriggle out of them with these slightly strange and vague ways of putting their commitments?

Vince Cable: When we talk about how you make this binding, we are getting into areas that I would rather not expose in too much detail. There are the legal issues and, from the feedback I had, Pfizer acknowledge the fact that the Takeover Panel itself creates legal obligations that could be pursued in the High Court. I believe that is what the Chief Executive said to you, which I think was interesting. It has never been tested, I stress, but it does suggest one legal source of remedies. There are others; there are legal and financial mechanisms that I would rather not describe in detail, but we are certainly considering a range of ways in which any commitment could be made binding.

Q192 Rebecca Harris: How important is it for you to make this binding? Is it a red line for you that you are able to tie them in?

Vince Cable: It would absolutely have to be the case that any commitment was, as I used in my phrase, meaningful and binding—absolutely, yes.

Q193 Rebecca Harris: Pfizer's Chairman was very keen to say that his word was his bond. We would want something more concrete than that.

Vince Cable: I think so, yes. Well, I know so.

Q194 Mr Bain: The Prime Minister said last week that the bid would be judged by you and your Department "on whether they expand British jobs, British investment and British science". How will you go about making that assessment?

Vince Cable: We are constantly making that assessment. Within the industrial strategy, we have a major life sciences component in which we work with the firms in the industry to develop long-term thinking. That is how we form a view about the strengths of the

British industry and how we work to improve them. In terms of how it would be affected by this takeover were it to happen—were the bid to materialise—I have already explained that we would be looking, in the first instances, for assurances that were compatible with those objectives in our industrial strategy.

Q195 Mr Bain: Therein lies the nub of the problem, doesn't it? We heard this morning no assurances on the number of jobs that will be here in Britain five years, two years or one year after any takeover. We heard no assurances of what the investment in cash terms will be of any merged company five years, two years or one year after any merger takes effect. The problem is that the assurances that we were given this morning as a Committee lacked credibility and substance. What further work is your Department doing to look at what effect the intimation of an offer would have on the science base and manufacturing jobs in Britain?

Vince Cable: A lot of work is going on internally. My Department leads on this because of the industrial strategy and because we have responsibility for competition policy, but this is a cross-Government activity. The Treasury has a great deal of interest in it for obvious reasons, and the Prime Minister and his staff, and of course the Department of Health too. There is cross-Government working and a great deal of deep work is going on, both on the industrial aspects of this and the legal and financial.

Q196 Mr Bain: If there was a reduction in the degree of private-sector research and development spending in this country derived from any takeover, would that constitute the circumstances in which you would be more inclined to use the powers, or any new powers you might take, to intervene?

Vince Cable: As I said right at the beginning, what we are aiming to achieve is an increase in private-sector research and development activity in the UK. Any discussions we have with these two companies are geared to that objective.

Q197 Mr Bain: This appears, to many people, to be a company that is looking to reduce its tax liabilities. They would not admit to us today what reduction in their tax liabilities they expect, of course. Potentially, if we examine the record that Pfizer has had in previous takeovers, this is going to be paid for by massive reductions in jobs. Potentially jobs in this country, and perhaps also jobs in the United States. As Business Secretary, is that something you feel comfortable with?

Vince Cable: Of course not. That is why we are taking this extremely seriously and engaging with both companies to make sure that the immense value of our pharmaceutical sector and the research base is not just protected but strengthened. That is my starting point. It is not just the UK and the United States; there are other countries involved. Sweden is a country that is directly affected, and I have had conversations with my opposite number in Sweden, given their history and their current interest in this problem. It is a wider issue than just the UK, of course.

Q198 Mr Bain: Will you be seeking further written assurances, a more profound written case, than the Prime Minister has been given in his letter from Pfizer about what the impact on jobs, specifically high-level manufacturing jobs here in Britain, would be?

Vince Cable: I have already said that the letter they sent to the Prime Minister, which is an open letter, is a prelude to serious discussion and negotiation, assuming the bid happens. That is the starting point. Obviously, from the Government's side, we would want specificity, and binding and meaningful commitments.

Q199 Mr Walker: Secretary of State, I do not want to get bogged down in this issue of legally binding obligations, but you said in your statement the specific words: "The issue of binding obligations remains to be addressed." That would appear to conflict slightly with what Pfizer were saying to us. They felt that what they put in their letter and what they were saying to us would be legally binding because the Takeover Panel can enforce it. You have pointed out that, although the rules have changed, there is no case law yet to show that is the case. What needs to be done in order to address that issue?

Vince Cable: That is one way in which the thing could be legally binding but, as I say, it is untested and we would certainly be looking for something stronger than that, and exploring different ways of making it stronger.

Mr Walker: You are exploring those.

Vince Cable: We are certainly exploring them, yes.

Q200 Mr Walker: It was interesting to hear from AstraZeneca how little tax they paid in the UK in the last year and the fact they were paying substantially more of their tax in Sweden. What conversations have you had with them about that? If the deal were not to happen and this were to go away, what assurances would you be seeking from AstraZeneca about employment and investment in the science base?

Vince Cable: That is a totally fair question. A point I have been making in many of my answers is that we are talking to two companies, not one. We can form a view about AstraZeneca's commitment to the UK, but we would want to pursue the question of how committed this is.

I am not sure about the link with tax. I only heard this this morning, when it emerged from your questioning. This is something that HMRC will probably want to have a look at. I am sure there are good reasons for it, but that is not something I can give an off-the-cuff judgment on.

Q201 Chair: Could I just seek further clarification? Regarding legally binding obligations, if there is any breach—and I presume a significant breach would justify it—what would the result be? Would it be a fine or could it render the merger invalid?

Vince Cable: Pfizer themselves surfaced this this morning, I think—as I say, I was not here—with the possibility of a High Court action subject to a breach of any obligations they entered into under the Takeover Panel. I guess if it is a civil matter, you are potentially talking about penalties. One of the things we have to do in my Department is talk to the Takeover Panel about what the significance of any legal action would be. As I say, it has not been tested; what the law is and what the penalties might be is new territory, and we do need to explore that.

Q202 Chair: Would it be fair to say that you do not know, at this point, what the range of penalties would be?

Vince Cable: That is one question I do not know the answer to; it has just surfaced this morning as an issue. We were aware of it in terms of the potential intervention, but we would have to investigate the detail of sanctions.

Q203 Ann McKechin: On this issue of the sanctions of the Takeover Panel, if any legally binding contract was via the Takeover Panel's jurisdiction, presumably the sanctions available to them are defined by legislation.

Vince Cable: Yes, the Takeover Panel is underpinned by statute. In 2006, it was put on a statutory footing.

Q204 Ann McKechin: Right, okay. You mentioned earlier in your evidence that the European Competition Authorities were very likely to take an interest in this potential acquisition presumably because, as I understand it, the percentage of the statin and anti-cholesterol drug market between the two companies would become very significant and that has an impact on competition. I am just wondering if it would also be an issue for the new Competition and Markets Authority, and would it be reviewed by either authority or both?

Vince Cable: In the first instance, because it is a very large takeover involving more than one European country, this is an issue that the European Commission would almost certainly want to look at from a competition point of view. The CMA could become involved. The CMA would also potentially become involved if we got into the territory of a new public interest test. Once that happened they would have an investigatory role—an advisory role.

Q205 Ann McKechin: So it is possible that both these authorities could actually be holding an investigation into a proposed merger.

Vince Cable: I think that is correct, yes. Bearing in mind this is a large takeover, the initial focus will be on the European Commission.

Q206 Ann McKechin: Just today Mr Read spoke about dividing the Pfizer group into different units internally in different group companies, some engaged in innovation and others in the value products, presumably the manufacturing side. I just wondered what additional complexity this would put on a potential deal and how you would seek to enforce it if AstraZeneca potentially could be split amongst a number of different units.

Vince Cable: It does potentially introduce a new complexity because we would have to be sure that the meaningful and binding obligations applied to the new structure, if such a structure was envisaged.

Q207 Chair: I do want to bring in Mike Crockart on the previous issue of legally binding. I unfortunately jumped the gun there, but just before I do so, could you just tell me if you have had any discussions with the European Commission on in effect where they may intervene if indeed they want to?

Vince Cable: This is an area I am afraid I am going to have to draw a veil over, if you do not mind. I do not want to be unco-operative, but the mere fact that the Government would enter into a conversation with the Commission is potentially highly significant in terms of the bid and its effect on the shareholders, so I am afraid I cannot answer that.

Chair: Okay, I think we can make our own judgment.

Q208 Mike Crockart: Sorry to labour the legally binding point, but it is core to the whole debate. I am just wonder whether you are as uneasy as I am that the UK's interests should depend on what is an untested legal route in which lawyers would effectively argue over what was meant by a phrase included in the letter to the Prime Minister: "recognising our ability consistent with our fiduciary duties to adjust these obligations should circumstances significantly change". That is a recipe for disaster. Lawyers would agonise over that for years.

Vince Cable: That is right, and that is why I said to the Chair earlier that relying on this new legal test, which has not been explored in the courts before and would no doubt be argued over strenuously, is not a satisfactory basis in itself for having a meaningful binding set of obligations. We would need something in addition to that.

Q209 Mr Binley: Secretary of State, you implied that Pfizer should not be allowed to acquire AstraZeneca for tax reasons. Does that not go against the ambition to promote the UK as the most attractive country to headquarter international companies? It is that balance again, isn't it?

Vince Cable: Yes, it is a balance. I do not think I used the phrase "should not be allowed to acquire AstraZeneca for tax reasons". I do not think I said that.

Mr Binley: I shall reprimand my researcher.

Vince Cable: However, I did question in Parliament why this was put up front as a major reason for the acquisition. The way I would clarify it is by saying there are two distinct tax issues here. Were Pfizer to establish themselves on a larger basis in the UK—or indeed any other drug company—and do R and D work here, then the intellectual property arising from that would benefit from the Patent Box in the same way that GSK have already benefited from it. I think that is a big advance in terms of British tax policies, and the Chancellor has done something I would not apologise for in the slightest.

The separate tax issue is that Pfizer made it clear that what they were interested in was something called inversion, which is a different issue. As I understand it, this is a situation relating to current United States tax rules that means that, if they hold substantial cash outside the United States' jurisdiction and were to make an acquisition, the income stream from that acquisition would not be taxed as heavily as if the cash were simply repatriated straight to the United States. I could say this is an anomaly in the United States—I do not know if it is deliberate—that they have made it very clear they wish to take advantage of. That is a push factor, rather than a pull factor, in terms of tax. I think we need to keep those two issues distinct.

Q210 Rebecca Harris: I asked Pfizer earlier why, if the tax was attractive, they would not want to relocate here anyway. They said it would be prohibitively expensive; it is this inversion question. However, it does make me wonder how attractive we have made ourselves in terms of our tax regime. It might actually make us more vulnerable to people wanting to make foreign takeover bids for that very reason. Is that a possibility?

Vince Cable: I thought I had answered that in the previous response. The Patent Box and the lower corporation tax, which is what the Chancellor has done, are attractive to foreign companies that wish to come and produce here, which we do want to see. The tax inversion question is somewhat different; it is a different motivation. If we can get greater clarity on those, it would be helpful.

Q211 Mr Binley: Can I ask you about the timeframe that this is likely to take? You intimated that our not being in this place would not be a major factor in any considerations, but the timeframe can be very destabilising. For employees, it can create a very uncertain situation and be very disturbing. I wonder what you can do to ensure that the exercise does not go on too long. Some have gone on for quite a long time, and I wondered whether there are things that you can do to ensure that does not happen in this case. There is a feeling that, if it became a hostile bid—and we do not know that—it could well go on for a sizeable amount of time.

Vince Cable: You are right to emphasise the problems of uncertainty. I certainly would not want thousands of British workers to be living under a cloud. As you know, AstraZeneca is in the process of moving at the moment from one location to another, and there must be uncertainty hanging over the lives of the people involved. Obviously, we do not want that. The sooner we have clarity the better, but the brutal truth of the matter is that there are legal processes here, not all of them under British control, and those may well take considerable time.

Q212 Mr Binley: Can I just press you a little further? Part of that process might be—we do not want to prejudge anything—the European authorities becoming involved. Is there any way we could make sure that, if that were to happen, it does not take up too much time?

Vince Cable: Yes. We can certainly encourage the Commission to expedite decisions. We do this all the time on state aid matters, for example. It is fair to say they do turn around these decisions reasonably quickly. Obviously, I cannot prejudge what the competition inquiry would involve, and Ann McKechin has just surfaced quite an important technical issue that they would probably want to look at carefully. Obviously, I cannot predict how long they would take.

Q213 Mr Binley: As long as you are at least able to explain the situation, and hopefully they will understand better because of that.

Vince Cable: Yes.

Q214 Chair: There are a number of questions to finish up with but, first of all, AstraZeneca said this morning that they did not welcome the bid from Pfizer. You have declared that you need to be neutral, but you are having conversations with both companies.

Can you give assurances that you are giving equal weight to AstraZeneca's opposition to the bid and Pfizer's assurances?

Vince Cable: Of course, absolutely. We are determined to be even-handed; I have to be, and will be.

Q215 Chair: Can I just go on to something else? In your opening remarks, you quite rightly pointed out the huge amount of public investment that, by one route or another, has gone into AstraZeneca.

Vince Cable: Into the industry.

Chair: Yes, into the industry, but by definition, as AstraZeneca is a major player within that industry.

Vince Cable: The way it works, as you know, with the Research Council is it is one step removed.

Chair: Okay, but by one means or another there is a huge public investment.

Vince Cable: Correct.

Q216 Chair: That is the point I want to get to you. A private company investing the sorts of sums of money you are talking about would only do so on the basis of a high degree of certainty on return to them. Given the fact that we have public investment and now the intervention of Pfizer has resulted in a degree of uncertainty, do you think there is a case for strengthening Government regulation to deal with situations like this?

Vince Cable: Regulation in what sense?

Chair: In terms of the Takeover Code; I am talking about strengthening it. Where the country has invested an enormous amount of money, could intervention from a foreign company—but it could be another company maybe—that would potentially put that investment at risk be a basis for further intervention?

Vince Cable: That is why there is a live discussion around whether research and development in itself constitutes a good public interest ground for intervention. I am keeping that issue open. The case against intervention was made very strongly by the last Government, and it is important to say this. It may be worthwhile looking back at the evidence that was given to you in 2009 and 2010, when Lord Mandelson and Ian Lucas explained why they did not wish to proceed with additional powers. I have an open mind on that actually, but you are quite right that it is the scale of Government investment and the importance of R and D to the economy, which is why a wide range of people are now talking about the possibility of treating research and development as an additional public interest ground. We are just looking at that as an option; we are not deciding one way or the other, but it is easy to understand how people have got there.

Q217 Chair: You have talked as if this is an academic debate taking place. What is your personal view?

Vince Cable: I will not give you my personal view. In future, when I am free of these responsibilities, you can hear my personal views.

Mr Binley: We will buy the book, Minister.

Q218 Chair: Okay, Minister, can I move on to my final question? Early on, you made it clear that it would be possible to have some degree of statutory intervention post the merger bid taking place after Parliament is prorogued. Is there a Government consensus on your assessment on that, and is there the political will to implement it, if it is felt necessary?

Vince Cable: We work as a team and my colleagues have made it very clear that, just like me, they want options kept open. You probably saw the comments of the Chancellor over the weekend, which were very much in the same spirit. Yes, indeed, we recognise that we have to keep the options open, both in terms of securing assurances and potentially—potentially—of an intervention.

Q219 Chair: If, arising from the discussions you are having with the companies, there is a feeling or consensus that the assurances are not adequate, there is the appropriate consensus to introduce legislation after 4 June.

Vince Cable: That is putting it a little stronger than I did, but we do understand across Government that there has to be that option. When we are talking to the companies about assurances, they have to understand that as a Government we would, under certain circumstances, consider intervention.

Chair: Thank you, Minister. Can I thank you for your contribution? That is very helpful indeed. Thank you very much.