

Interview with Vladimir Ignatov, Executive Director, Aipm ukraine



12.08.2012

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What was the market need that spawned the creation of AIPM in 2009 considering that there were already other trade associations in Ukraine that were representing the interests of international pharmaceutical companies? What was the vision for this association?

The idea of establishing AIPM originated much before 2009 and it is something that international pharmaceutical companies in Ukraine had been speaking about for many years prior. Essentially, the element that was lacking back then was a truly professional association that could represent the interests and needs of international pharmaceutical and would lobby government authorities to defend those interests. I am very fortunate to have been involved in a number of associations and groups related to the local pharmaceutical industry, but AIPM has been by far the most effective of this group in establishing itself as an authoritative and respected player in the sector.

What are the main priorities on your agenda today?

There are things that we hope will change yet know that realistically that will not happen, and then there are things that we are certain can change and we can have a direct impact on. In terms of the latter, we are very actively working with the authorities in developing a concept for a reimbursement system and hospital supply. The problem is that any reform must be funded and today such funds have not been allocated by the government. The truth is no one knows how much this reform will cost, but in all of the drafts that we have seen so far, the key source of funding for the new system will be the employer. The idea is that employers will bear the initial burden of health costs, a sort of 7% tax on the employee's salary, with a progressive shift of this burden onto the employee over the

years. While this might be an effective model under normal circumstances, the problem is that in Ukraine it is estimated that between 30-40% of salaries are paid unofficially because businesses cannot afford the level of taxation imposed by the state.

Realistically, our main objective is to ensure that a positive business environment is maintained for the pharmaceutical sector, including in terms of regulation, competition and the protection of the industry's assets. Concretely, this means that we are working to preserve the principles of free trade, protect intellectual property and trademarks, and protecting equal conditions for foreign and local companies. This last point has become most relevant in the past couple of years, as there have been some attempts by the local industry, in collaboration with government authorities, to implement policies that protect the local interests of the local industry by favoring their products. This includes the imposition of greater tariffs for imported products, the preferential bidding of local manufacturers in government tenders and the development of treatments standards based on the products of local producers.

What kind of relationship and cooperation exists between the pharmaceutical industry and the government in order to act upon such reforms?

One thing that you must understand is that there is a grave lack of continuity in the policies and strategies of healthcare authorities. As a clear example, in 2011 alone we have already had three different ministers of health, and it is likely that a fourth will be appointed before the year's end. A new minister means a new healthcare team every time, and each team brings along with it its own ideas as to how reforms should be implemented and therefore the process tends to start from scratch every time there is a change. This is highly unproductive for the country and it creates a stagnant situation in terms of following through with healthcare reforms.

What are the specificities of the Ukrainian pharmaceutical market that are have shaped AIPM's objectives since its creation?

The Ukrainian pharmaceutical market has historically had one key problem, and that is that the government has had a very hands-off approach to the sector. Since the independence of Ukraine in 1991, authorities have always considered the sector to be completely private throughout the entire value chain, including from R&D and manufacturing to the distribution of products. This has created a very powerful local industry that today is estimated to produce 2 out of 3 products sold in the market and is, for the most part, privately-owned. While this is advantageous in a business sense, the Ukrainian government has failed to understand that the pharmaceutical sector is an essential part of the country's healthcare system, which requires the full engagement of the sector in order to create an efficient system. The national healthcare system has not changed much since the days of the Soviet Union, under which the state was expected to pay for all national healthcare expenses. However, the reality of the situation is that today patients are paying for the vast majority

of their treatment out of pocket because the government has ignored their role in regulating and streamlining the system, assuming that the private interests of the pharmaceutical industry would automatically do that. What has happened is that a large gap has been created between the performance of the pharmaceutical industry and the healthcare system, and this has caused some tensions between the two.

Today there are great opportunities for growth in the Ukrainian pharmaceutical sector, particularly under the new discussion of healthcare reform and the introduction of a reimbursement system and improving hospital supply. This would drastically increase the consumption of prescription medicines and the overall value of the Ukrainian pharmaceutical market. At the moment, prescription medicines represent 50% of the total market value, with OTC fulfilling the other 50%, mainly because the patient is main payer. At least 85-90% of the market value today is funded directly by the patient, which consequently means that patients rarely obtain medicaments from a doctor or hospital but rather purchase them directly at pharmacies. Our OTC segment is not big (it is comparable to the Polish market in the number of consumed packs per year) but Rx segment is too small. This also means that patients are not purchasing the highest level of products simply because they prefer the cheapest options for treatment because the economic burden lies entirely with them. Furthermore, this dynamic also represents the fact that hospital consumption of pharmaceutical products is minimal in Ukraine, as patients generally receive only room and board at a hospital, in the best of cases. Even when admitted into a hospital, patients are required to purchase their own medicines and products necessary for treatment directly at a pharmacy. In many hospitals, a patient will usually receive a list of medicines and materials necessary for treatment, which they then have to purchase independently and bring back to the hospital before they can receive the needed care.

The upside to the situation is that prices in Ukraine are generally lower, both for OTC and prescription products, than those of neighboring markets, so treatments are more affordable for the patient. Nonetheless, as you can imagine, patients are unable to fund all necessary products to receive the highest quality and most effective treatments. This has led to a mismatch in the consumption of pharmaceutical products in comparison to the disease profile of the country, which is one of the main reasons why the introduction of reimbursement system is crucial at this point. The question remains as to how such a reimbursement system will function and how it can be implemented. It has been more than 15 years that government authorities are discussing this matter, but finally it seems like they are taking it serious and are ready to make a move on it.

Considering that there is minimal purchasing of medicines on behalf of the government, what are health expenditures allocated for in Ukraine and what is the general cost structure of the sector?

The main health expenses for the Ukrainian government today are by far administrative costs and salaries for public employees. Many of the hospitals and buildings used within the healthcare system are quite old and, therefore, have extremely high maintenance costs that eat away at the country's health budget. This is the legacy of a Soviet system that has remained very much unchanged until today. Sadly, only 10% of national health expenditures is allocated for the treatment of patients and purchasing of essential medicines, such as vaccines and for the treatment of tuberculosis, oncology and HIV. These essential medicines are purchased by the state on the basis of tenders, while the rest of health expenditures are allocated to the regions in the country that then use the funds to fund hospitals and clinics specific to their regional needs. The Ukrainian healthcare market is calculated to stand at around UAH 25 billion in year 2010, with UAH 3.5 billion representing total expenditures by the government, out of which only UAH 1 billion is allocated to the MOH centralized purchasing of medicines and UAH 2.5 billion for the regional administrations. The reality is that even if the national budget for healthcare was doubled, administrative and maintenance costs would still eat up the great majority of those funds, simply because the health infrastructure is so antiquated and outdated.

Furthermore, doctors and healthcare professionals in Ukraine are one of the lowest paid employees in the country and in the world when you consider the country's GDP. It is estimated that the average salary for a doctor is \$200, which is clearly unsustainable when you consider the average cost of living in Ukraine. As a consequence of this, there is a certain percentage of unregulated health expenses that are related to the payment of doctors to obtain preferential treatment, which you might consider as a gray market, or maybe even a black market. Some experts have estimated that this gray market is equivalent to the entire national health budget. Today, state health expenditures represent only 3.7% of GDP and WHO standards require a minimum of 5% for a system to be considered sustainable. If we take into account the contribution of patients, then total health expenditures are about 7% of GDP.

Under such unique conditions, how do pharmaceutical companies operate in Ukraine in terms of their commercial and marketing strategies?

Pharmaceutical companies try to do their best to ensure the highest quality products are available for patients. In many cases, these companies are the only source of new medical information and funding for educational activities, such as publications, conferences, medical training, etc. However, it is not always easy for pharmaceutical companies to reach the necessary doctor or patient populations because competition in the market is extremely high. While some might consider that the Ukrainian market is attractive because there are very little restrictions on pricing of medical products, the high competitive nature of the sector does not allow for indiscriminate pricing, which is why prices are still considerably lower in Ukraine compared to other eastern European markets. This is also on account of the high fragmentation of the market and the large

number of companies present in Ukraine, with the most important player holding less than 5% market share and the most popular product representing less than 1% of market value. Ultimately this dynamic means that companies must market and brand their products and that your sales are directly linked to promotional and marketing activities. Branding is the key to success in Ukraine.

Most generic markets do not require heavy branding and marketing strategies for companies to successfully sell their products, but in Ukraine this is not the case. Overall, 95% of products sold in Ukraine are generic, but most of them are branded generics because companies are forced to brand their products in order to market them successfully to the consumer. This is fully contradictory to the notion of generic sales, but it is the only way that companies can differentiate and sell their products.

Think about the future and the many changes that are taking place at this point in time, what do you expect to see in 2-3 years time in terms of the Ukrainian pharmaceutical market and the achievements made by AIPM?

We expect to have a much better situation with market conditions, beginning with improvements of product registration and quality control. This is particularly true with the recent accession of Ukraine into the PIC/S agreement that will bring about many improvements on these two fronts, particularly for quality control that today can range widely in the country, which can be a threat to patients and also causes unfair competition in the marketplace. We also expect healthcare reforms to push through with decentralization of state purchases and a functional reimbursement system. There already is a pilot project running in four national regions for the introduction of a healthcare reform, and the plan is to roll it out on a national level by 2014, given that the economic situation and a new fiscal regime allow for it. Few "low cost" healthcare models which are being explored as viable options for Ukraine are that of Moldova and Georgia and this is something that is regularly discussed at conferences and seminars. The key is to ensure that the government truly believes in these reforms and to have them allow for full transparency for the market to regulate itself.

What is your final message to the readers of Pharmaceutical Executive?

I believe that we need to be more connected to the global pharmaceutical society. In this regard AIPM is planning to apply to the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) as a means to consult with our international counterparts. This is also in line with our view of harmonizing all of Ukrainian legislation and promotion regulation with international standards, following the examples of Europe and the US. The idea is to prepare the Ukrainian market for the future, particularly with the emergence of biosimilars and high-tech products that are becoming more prominent as the most effective health treatments. Overall we need to maintain the Ukrainian market as an attractive option for foreign companies and investors as they are essential to the provision of new high-quality and effective treatments to improve the outcome of patients.

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