

Interview with Reiner Gloor, President and Executive Director, Pharmaceutical & Healthcare Association of the Philippines (PHAP)

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You have been active in the Philippines pharmaceutical sector for more than 30 years. Can you please tell our readers how this sector has evolved, what the current situation of the pharmaceutical industry is? Furthermore, what is its importance for the local economy?

There have been great changes in the last few years, particularly as we have seen in the implementation of the Cheaper Medicines law. There has always been the impression that medicines were more expensive here in the Philippines than in other countries. However, that is a generalization.

As a brief background, Republic Act 9502 or the Universally Accessible Quality and Cheaper Medicines Act of 2008 gives the President the power to impose price controls as a "reserve instrument" only if it is felt that some medicines here are four-five times more expensive than ASEAN counterpart; less than four generic counterparts; the innovator is the top-selling product and is the most expensive; and it is a public concern. RA 9502 also provides for other controls in relation to the Intellectual Property Rights and compulsory licensing.

After the law was passed, there was a clamor coming from the Oversight Committee on Quality Affordable Medicines with respect to the law's implementing rules and regulations. They asked why the law was not implemented, since there were the instruments for the government to reduce prices. There were public hearings almost every month for one year. The basic conclusion was that generics were setting in, that there was competition for newer products, and that competition was only starting because the patent had only expired 1, 2, or 3 years ago. Therefore it took a while until the generics were filtering down, but then they always mentioned specific products, and why they were "expensive".

The DOH basically concluded that price intervention might be necessary on a few products. However, the legislators challenged the DOH to come up with molecules that had to be reduced by 50%. The DOH came up with an initial list of 21 molecules which prices had to go down by 50% and which automatically had an effect on the molecules for the generics producers as well. We then appealed to the President and said that there might be other things we could do. We also discussed several times with the Secretary of Trade and Industry to allow some flexibility. In a meeting with the President and the department of trade, the industry was challenged: if you can come up with a

program which is better than what the Secretary of Health came up, then the price reduction can be on a voluntary basis. The industry had about 10 days and what ended up happening is that companies volunteered for reductions.

In the end, there were 16 compounds that qualified for the voluntary program called Government Mediated Access Program and another 23 compounds in the so-called "add on list". We coordinated even with a non-PHAP member and when it decided against the GMAP, some of its products were officially placed under MDRP (Maximum Drug Retail Price), while all other companies are under the GMAP. Their molecules were all listed in the administrative orders, while the 16 molecules were just mentioned as voluntary reductions, but not by names, (note: later on it was also decided to publish these names). The innovators went down 50% so naturally the generics had to go down too.

That was a sort of the first round, and there was a lot of back and forth, particularly concerning retail and what to do with existing stock. But basically the price reductions were implemented August 15th and September 15th, depending on the size of the stores and I think in general it went smoothly.

Then last December came and there was a call from the Oversight Committee asking what was happening and why we were not reducing prices. The new Secretary of Health came in and decided to look into which areas had pricing problems to see if we could have some sort of a second round of reductions but really on a voluntary basis. This second round of reductions was implemented as of March 31st.

For some products the price decreases have not happened yet; they will happen July and August. In a meeting with the PHAP membership, Department of Health Secretary Esperanza Cabral stated that she will look at the products, and if she finds products that are out of line she will come back to the industry and negotiate them, but not on a mandatory level.

Overall, the general consensus in the business community has been appreciative of this more pragmatic approach.

The measures to cut prices and put cost containment in the healthcare sector are happening all around the world; it is not just the Philippines. How this law is set to benefit the Philippines and expand the market?

The law was intended to benefit the lower C and allow access to medicines for the poor. But so far evidence has shown that the law benefited A, B and maybe the upper C. There has been no real volume increases and particularly the molecules which have been touched have been flat. It is still too early to say if it has really expanded the market, but it has taken, (even by recognition of DOH,) 12 billion PHP out of the pharmaceutical market.

Do you think that these measures are putting the industry at risk, especially for the multinational companies that are research based? What can be a solution?

Actually, it probably hurts the local industry more because the local industry was pricing maybe 20% lower than the multinationals, so what happens to the innovators has an effect on what is below. Essentially, this legislation has forced the local players to reduce prices, but in order to keep market share and keep expanding, they have to go 10-15% below the originators.

What is the importance of the multinational companies in the Philippines?

Before all this happened the multinationals had around 60% of the market in terms of value and very close to that in terms of units. Today I think this has changed, the value is maybe at 40 to 50%. In

terms of units I believe 60% are locals and generics, and probably 40% for the multinationals.

Units of course are difficult to measure. Over the years treatment protocols have changed and also administration of medicines has changed, many products moved from 4 times a day, to 3 times a day, to twice a day, to once a day. In units it is always a little bit difficult to measure because there is no real unit comparison, you have to convert it in kilos, and even there it is not quite comparable because of the dosage.

In terms of manufacturing and investment, do most of the companies manufacture here? Or have they closed down and moved to China and India as a result of the globalization?

Already before this law was implemented, I think the only factory remaining from the multinationals was GSK, but also Abbott has some factories, and Wyeth I think. But there are no more factories from the multinationals; they all have their Centers of Excellence in manufacturing around the world, and the newer products come out from of one factory for worldwide distribution. But all the products, particularly because of labeling requirements in the Philippines and because they are basically small batches, are produced here on toll manufacturing arrangements.

One of the other topics that often come across is counterfeit drugs. If I understand well your association created the "Safe Medicines Network". Could you elaborate more on this program and the impact against counterfeiting?

Nobody is exactly sure how many counterfeits there are and there are some areas where it is more predominant than others; some counterfeits are imports, like in many other countries, while some are locally or regionally produced. The "Safe Medicines Network" has to do with reporting and with what is going on. We are reporting to the FDA monitoring but we are not actively engaged. This active engagement will be done by FDA in conjunction with the NBI, National Bureau of Investigation. I am not aware that anybody was really prosecuted in all the years that I have been here. We have plenty of good laws in place, but the Philippines sometimes struggle with enforcement. However, I remain optimistic.

In this law enforcement, how would you rate the intellectual property protection?

So far I am not aware of any issues related to intellectual property. However, there have been some legal battles between local companies and a multinational company about certain products. These are highly specialized technical issues which relate to what they call evergreening. However, this is really for the technical experts to comment on.

As a head of this association, what would you say are the advantages for multinational companies to be in the Philippines? Of course two are very evident, developing market, large population, but what are the other aspects?

I think historically, and even now that we are going through a bit of a rough time, the market has been a good market and it has been one of the freest markets in the world. It is largely an out of pocket market, which is a problem because we have a large poor population and they do not really have access to medicines. That is why we are in support of the groups who establish themselves for advocacy for universal healthcare. Universal healthcare financing affects the total health care system. The ideal system would be one in which the State is responsible for at least providing the essentials; for covering the bottom. Nobody advocates for the total take over by the State. There is room for the private sector to ensure coverage above a certain level, for A, B and C. We hope that the new Government will take the universal health care as one of the priorities.

The new Aquino Government with the Aquino Health Agenda seems to have taken it very seriously, putting a 5% budget for the health care and with plans to have universal health care in three years. Is it feasible?

In three years, that is what is said in the documents. We believe it is feasible, if we start now, studying what needs to be done about the infrastructure. One of the problems in the country is that we have a devolved health care system. The central government only takes care of 72 government hospitals and of some general policies. But the rest is administered at the local level, be it provincial, be it cities, be it smaller units as the barangay. In some areas it is the mayor that decides, in others it is the governor. There are supposed to be health officials but is yet to be systematized across the country and that is part of the problem.

On the way to universal health care, how can the industry really commit and how can they input more in order to make it happen?

I think that, like in many countries, if you have a proper bidding system and you have bids where you can be assured of certain volumes, then the pharmaceutical companies will reduce their prices for the big volumes for the Government and for the public sector. In the Philippines, there are some bids but they have not really been for big quantities; rather the bids have been for small quantities where you have to make special batches. But all the companies I have talked to gave me the same message: if we have a proper bidding system and we can really know at the beginning of the year how much the Government is going to take, then we have a link to make special prices like they do everywhere else in the world.

What is your outlook for the pharmaceutical industry and of course for the innovators in the next 5 years in the Philippines?

I would say in the next maybe two years, it is going to be pretty flat. I do not think the Government wants to be without innovation or without new products, but it will be difficult to arrive at what is the right price. There will be pressure on price and maybe negotiation on prices. Up to now there was basically no negotiation in introducing new products. I could see that maybe at the beginning there will be some discussions with the local authorities on what is the right price. In the past companies pursued a policy that they will price whatever the market could bare. I think today if I look at a new product's introductory price, it is very similar around the world. So I think that this by itself will help.

We were told that the Philippines had the second most expensive drugs after Japan, which is quite surprising given the situation of the country. What is your comment on this?

This may apply to one or two products, but it is a generalization. What happened is that people started traveling they went to India, they went to Korea and they saw that the same products were cheaper. In comparison, here in the Philippines the same drugs were more expensive. People started wondering why they couldn't get it for the same price in the Philippines, as neighboring countries could. Maybe the industry at that time was yet to be responsive.

What would you like to be your last message for our readers at Pharmaceutical Executive about the Philippines pharmaceutical industry?

I am still optimistic about the Philippines. I think once we have intervention, there will be a major shakeup. It always takes a while, but overall the industry has improved its relation with the Government, and we have also improved relations with other stakeholders. Many people thought this would never happen.

Today, we are talking with NGOs, and we are in the process of identifying areas where we have the same interest. We may never agree with NGOs on pricing but there are several areas that we identified, particularly health care reforms and health care financing, where we may be able to collaborate. I hope we will arrive at a situation like in Mexico where all the different industry groups work together with the Government to tackle tough issues.

On a personal level â?? you are Swiss, but you came to the Philippines long time ago. What is the best lesson that working in the Philippine pharmaceutical industry has given you?

Looking back I think that the industry has been, to a certain extent, insensitive to certain local issues. It was always hiding behind something instead of trying to find solutions. In the last two years we have tried to address this issue and I think it has been positive. We have gone through price reductions, and while it comes up again from time to time, I think in one to two years that will settle down and will not be talked about anymore.

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