



Palestine Economic Policy Research Institute (MAS)

Background Paper

Roundtable (4)

Pricing the Palestinian Pharmaceutical Market

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1. Introduction

Pharmaceutical drugs are basic necessities everyone might need at some point in their lives, therefore, making them available at affordable prices for all citizens, especially for low-income earners with no health insurance, should be made a priority. According to the Palestinian Central Bureau of Statistics (PCBS), 90% of private sector employees in the West Bank and the Gaza Strip are not provided with free (even if partial) health insurance from their employers. This figure is worrying, particularly in the Gaza Strip (97%, compared with 88% in the West Bank). Figures also show that the purchasing power of this segment is relatively low, with a median daily wage of about NIS 77, which is 43% of the average daily wage for the segments with health insurance. It is, thus, essential that some procedures be put in place to ensure that pharmaceutical drugs are affordable to low income households.

Pricing of prescription drugs in the Palestinian market is governed by the 2009 "Pricing instructions for medicines" by the Ministry of Health¹. This background paper, and the round table discussion that follows, will help identify the role of the Palestinian government in improving drug affordability. For this purpose, we compare the prices in Palestine with the prices in Israel and Jordan, the latter having a comparable standard of living. The paper raises a set of questions for discussions on drug affordability and the pertaining potential policies.

In the second section, we present a brief overview of the Palestinian pharmaceutical sector, its products and its local market share compared to imports from Israel and international markets. The third section identifies the most important pricing methods for imported and locally-manufactured medicines, the related executive procedures, as well as suppliers' and pharmacists' profit margins as determined by the Ministry of Health. Section four draws a price comparison between the local market on one hand and the Jordanian and Israeli markets on the other.

2. The Palestinian pharmaceuticals industry

According to PCBS economic surveys, in 2016 the Palestinian pharmaceuticals sector employed some 1723 workers (about 2% of the total employment in the industrial sector). The value of the output of the 14 manufacturing facilities reached USD161m (about 4% of the total industrial production) and an additional value of USD104 m at current prices for that year. Data show that this sector has expanded significantly over the past years, with production increasing nearly fourfold over 2010, thus raising the share in the local market from 24% to 55%². Recorded foreign trade data show a decline in the share of pharmaceutical products imported from Israel from 34% to 20%, with the difference substituted by Palestinian products.

3. Pricing of medicine in Palestine

As noted earlier, the medicines in Palestine, whether imported or local, are priced in accordance with the "Pricing instructions for medicines" by the Ministry of Health, of which the following are the most important articles:

Article 2: The price of a new (innovative)³ drug shall be fixed at the lowest price resulting from the application of the following mechanisms:

¹ <https://www.pharmacy.moh.ps/index/condition/Language/ar>

² The local market share was calculated, roughly, according to the following equation: $(\text{Domestic production} - \text{exports}) / (\text{imports} + \text{domestic production} - \text{exports})$.

³ A new drug, as per the pricing instructions of the Palestinian medicines, is a drug that results from research and development, and whose factory or owner holds a valid patent certificate.

1. Pricing of a new drug shall be based on one of two incoterms:
 - Within CIF⁴ terms, the price is set according to the ex factory price listed in the invoice issued by the concerned authority, in addition to the following fees: clearance fees, internal transport charges, portage, import margin, bank fees, administrative expenses and profits of the pharmaceutical warehouse, the profits of the pharmacy and its administrative expenses and the value added tax in Palestine as provided for in Annex No. (1).
 - Within FOB⁵, the price is determined according to the ex-factory price listed in the invoice issued by the concerned authority, plus the costs in the first item, the shipping costs and insurance fees as provided for in Annex No. (1).
2. The price of a new medicine shall be set on the basis of the selling price to the public in the country of origin minus the value added tax, if any, and the profits of the wholesalers and retailers there, plus the freight costs, insurance fees, clearance charges, internal transport charges, import margin, bank fees, expenses and profits of the pharmaceutical warehouse, pharmacy profits and administrative expenses and value added tax in Palestine, as provided for in Annex No. (1).
3. The price of a new medicine is the median price resulting from the prices of the sale of the new drug to the public in Britain, Belgium, Italy, Jordan and Saudi Arabia, calculated as per the application of Item II of Article II hereof.
4. The price of a new drug shall be determined in line with the price in the nearest neighboring country.

Article 3: The price of a generic drug⁶ shall be fixed in accordance with the following methods:

1. The price of a generic drug which has an equivalent registered drug in Palestine shall be 30% lower than the current price of the original medicine or the price of the original medicine when re-priced whichever is less. The re-pricing of the original medicine shall be done in less than one month of the price change.
2. The price of a generic drug with no equivalent registered in Palestine shall be at least 30% lower than the average price resulting from the prices of selling the drug to the public in Britain, Belgium, Italy, Jordan and Saudi Arabia, calculated as per the application of Item II of Article II hereof.

Article 6: Method of calculating the price of locally-produced drugs

The price of a generic drug is regulated in line with the price resulting from the application of the following methods:

1. The price of a generic drug which has an equivalent registered drug in Palestine shall be 30% lower than the current price of the original medicine or the price of the original medicine when re-priced whichever is less. The re-pricing of the original medicine shall be done in less than one month of the price change.
 2. The price of a generic drug with no equivalent registered in Palestine shall be at least 30% lower than the average price resulting from the prices of selling the drug to the public in Britain, Belgium, Italy, Jordan and Saudi Arabia, calculated as per the application of Item II of Article II hereof.
9. Drugs produced in the local factories and still in the patent period are given a price at least 30% lower than the average price resulting from selling a new drug to the public in Britain, Belgium, Italy, Jordan and Saudi Arabia) calculated as per the application of Item II of Article II hereof, unless the original medicine is registered in Palestine.

⁴ Cost, Insurance & Freight

⁵ Free on Board.

⁶ A generic medicine, as defined by the drug pricing instructions in Palestine, is produced by several local or international companies and marketed by the scientific name or trade name of those companies. It has the same chemical substance as originally developed and patented innovating drug.

Article 8: Currency Pricing

1. Foreign currency exchange rates shall be valid for one year and in accordance with a table issued annually by the Minister of Health in the first week of July. The estimate is based on the official exchange rates of traded currencies during June of the same year, obtained from the Monetary Authority's foreign currency exchange rate bulletin.
2. Currency exchange rates in the table referred to in the previous paragraph shall be reconsidered should a 5% positive or negative change in the exchange rate of the NIS occur against other traded currencies for a continuous period of three consecutive months. The new exchange rate is determined the day following the end of the three-month period based on the average exchange rate in the last month of that three-month period. The new rate shall be used for the rest of the year unless another similar change occurs.
3. The Ministry of Health shall issue lists of drug sale prices within one week from the date the Minister issues the table for foreign exchange rates.

Article 17: In no case shall the price of any drug, with the same brand name in Palestine, be higher than the price in the nearest neighboring country.

Article 19: From the date they enter into force, these instructions shall be revised annually or at the request of the Chairman of the Pharmaceutical Technical Committee.

4 - Prices of drugs in the Palestinian market

The instructions suggest that the pricing methods lack flexibility. The prices of innovative drugs are set in line with the prices in countries that do not have much in common with Palestine, particularly in terms of income and level of health insurance coverage. The pricing system is also delineated by a specific reduction for generic drugs, a fixed profit margin for local importers / manufacturers (20%) and a loosely controlled profit margin for pharmacies (inversely proportional to the price of the drug, at 10-30%). These instructions mean the prices will remain relatively high compared to the prices of commodities traded within a free market economy, with prices usually determined by competition and supply and demand mechanisms. What's more, the pricing instructions do not accurately explain how prices are revised when prices fall globally or in neighboring countries. The Ministry usually revises the prices of medicines and exchange rates once a year, which slows down the process of price adjustment and harms the purchasing power of consumers.

Table (2) in the Appendix compares the prices of a selected sample of imported drugs in the Palestinian local market to the prices in Israel. The sample comprises the most commonly used drugs. The data indicate a significant price convergence in the two markets. However, the large income gap between the Israelis and the Palestinians (in favor of the former) makes the prices of medicines in the local market prohibitively expensive. And unlike in the Palestinian market, the burden of financing the purchase of medicines in Israel is partially supported by the health insurance services that cover all of the population.

Table (2) compares prices of imported drugs with their locally manufactured alternatives. Naturally, the local products are cheaper than imports. Yet, the choice of the consumer depends basically on the physician's decision, which is sometimes determined by the personal relationship between the physicians and suppliers of drugs.

We also compared the prices of some selected locally-manufactured and imported drugs in Palestine with the prices of their equivalents in Jordan. The figures in Table (3) show that the prices of imported drugs in Jordan are higher than the prices in Palestine, whereas for the locally manufactured medicines, the prices vary by drug type. However, the health insurance system in Jordan covers about 74% of the

population, which is higher than in Palestine. In addition, insurance services in Jordan cover all citizens aged 60 years and higher.⁷

On the other hand, the Palestinian pricing instructions are restricted to medical drugs and do not include food supplements⁸. According to Article (3) of the Ministry of Health's Mandatory Technical Instructions for Food Supplements (45-2014), food supplements may not be supplied to the markets unless they comply with the specifications in these instructions and are registered in accordance with the registration procedures approved by the competent authority. This registration appears to give its owner monopolistic benefits that will ultimately raise the price of food supplements to levels higher than those in the country of origin. The pricing guidelines also exclude other prescription products, such as cosmetics, which are also sold at exorbitant prices. For illustration, Table (4) presents the prices of some products in the local market. The Table also compares their prices with the prices in Israel. Obviously, the prices of many of these products in the Palestinian market are higher; and although the Israeli consumer always receives discounts the percentage of which depends on the insurance program, the Palestinian consumer has to pay the cost in full.

It can be concluded from the price comparison, especially with the Israeli market, that the prices of drugs (as set in the 2009 Pricing Instructions and the procedures related to food supplements and other products) do not take into account the purchasing power of low-income households that are not covered by insurance services, which negatively affects their health and well-being. It is important, therefore, to reconsider the pricing policies in the sector. This background paper raised a number of questions for deliberation in the roundtable attended by stakeholders and representatives from the private, public and civil sectors:

Questions for discussion

1. Should drug pricing and the pertinent operational procedures be reformed to allow for more free market mechanisms in order to achieve fair prices? What are the most important reforms?
2. What are the procedures needed to control the prices of dietary supplements and non-pharmaceutical products?
3. Should the drug pricing system be computerized in order to speed up price adjustment? What are the relevant best practices?
4. Should private sector insurance coverage be expanded to allow for more affordable prices for low-income households?
5. What is the role of consumer protection associations in controlling the Palestinian pharmaceutical market?

⁷ <http://alrai.com/article/10419295/Localities/Shamol-on-the-60-year-insurance-health-raising-proportion-believers-li-74>

⁸ Mandatory technical guidelines for dietary supplements "45-2014" are defined as oral products intended to supplement the normal diet. They are foods which are concentrated sources of one or more nutrients or other dietary substances with known and established nutritional or beneficial physiological effect, and which are presented as such and are offered alone or in combination.

Appendix

Table (1): Ex-factory Price and Additional Charges

	Charges	Method of Shipping	Description	Drug Category	Drug Price Category (NIS)	Ex -- factory price	FOB	CIF
	Price of country of origin							
1	Customs Clearance charges, internal transport, and bank fees	CIF & FOB	From country of origin to the warehouse in Palestine	Imported		3.5%		
	Insurance fees	FOB		Imported		1%		
	Freight costs	FOB		Imported		4%		
	Import margin	CIF & FOB	Covers the fluctuations in foreign currency exchange rates and return of expired, damaged, and non resaleable drugs	Imported		5%		
							113.5%	108.5%
2	Administrative expenses of warehouse	CIF & FOB				6%		
	Profits of the pharmaceutical warehouse	CIF & FOB				20%		
	Pharmacy profits and administrative expenses	CIF & FOB	Wiring, mail and telephone Authentication of official documents (2%), rents, salaries and bad debts (2%).	Imported and locally manufactured drugs		30% 25% 20% 10%		
							169.5% 164.5% 159.5% 149.5%	164.5%
3	Taxes	CIF & FOB	Value added tax	Imported and locally manufactured drugs		Depends on the MoF rates (currently 14.5%)		
							194% 188% 183% 171%	188% 183% 174% 159%

**Table (2): Prices of imported and locally-manufactured drugs
in Palestine and Israel (in NIS)**

Scientific Name	Commercial Name (Manufacturing Company)	Price of Imported Drug in the Israeli Market (01/07/2018)	Price of Imported Drug in the Palestinian Market	Price of Locally- manufactured Drug - Palestine
Clopidogrel	Plavix	53	51	50
Valsartan	Diovan 160	40	42	38
Valsartan +HCT	Co-diovan 160/25	36	37	25
Valsartan+ Amlodipine	Exforge 5/80	103	99	70
Levofloxacin	Tavanic x 5 tabs	44	48	50
Amoxicillin + clavulanic acid	Augementin 875	39	32	30
Azithromycin	Azenil 250x6	29	28	25
Clarithromycin	Klacidsusp	35	34	25
Glimepiride	Amaryl 4 mg	28	27	25
Clindamycin	Dalacin 300 caps	32	31	42
Cefuroxim	Zinnat 500	43	38	40
Ibuprofen	Nurofen 200	48	48	24
Diclofenac potassium	Cataflam x 10	13	13	10
Diclofenac sodium	Voltaren gel	48	47	21
Omeprazole	Losec x 14 caps	19	18	25
Esomeprazole	Nexium 40 *28t	61	72	60
Sildenafil	Viagra 50 x 4	80	77	80
Tadalafil	Cialis 20 x 4	235	277	80
Metronidazole	Flagyl 250	15	14	15
Xylometazoline	Otrivin 1% MD	32	33	20
Fluticazone	Flixonasespary 120	47	42	44
Pregabalin	Lyrica 75 * 56cap	123	118	85
Terbinafine	Lamisil 250	53	53	50
Fluconazole	Trican 150 x 1	22	21	25
Amlodipine	Norvasc 5 x 30	15	14	15
Atorvastatin	Lipitor 20 x 28	33	31	30
Rosuvastatin	Crestor 10 mg	84	107	67
Celecoxib	Celebra 200	25	24	42
Etoricoxib	Arcoxia 90	45	49	40
Metformin	Glucophage	15	15	13
Bisoprolol	Concor 5 mg	15	15	15
Alendronate	Fosalan 70 x 4	72	72	50
Fucidic acid	Fucidin cr x 30 gm	39	38	28
Sitagliptin	Januvia 50	127	109	52
Loratadine	Lorastine	27	27	22
Desloratadine	Aerius 50 mg tab	15	15	15
Losartan	Ocsaar 50	27	27	25
Montelukast	Singulair 10 mg	70	69	60
Fluoxetine	Prozac	17	20	22
Ramipril	Tritace 5 mg	23	23	--
Mebendazole	Vermoxsusp	26	25	15

**Table (3): Prices of Imported and Locally-manufactured Drugs
in Palestine and Jordan (in NIS)**

Trade Name of Original Drug	Price of Imported Drug in the Jordanian Market	Price of Imported Drug in the Palestinian Market	Price of Locally-manufactured Drugs - Jordan	Price of Locally-manufactured Drugs - Palestine
Plavix	88	53	64	50
Co-diovan 160/25	50	53	37	25,35
Augementin 875	57	39	46	30
Zinnat 500	32	38	32	40
Nexium 40 *28t	135	72	89	60
Viagra 50 x 4	135	77	71	80
Cialis 20 x 4	137	277	74	80
Lyrica 75 * 56cap	146	118	126	148
Lipitor 20 x 28	169	31	82	30
Crestor 10 mg	107	107	66	67
Arcoxia 90	53	49	30	40
Glucophage	12	15	11	13
Concor 5 mg	24	15	18	15
Januvia 100	173	168	157	82
Singulair 10 mg	150	70	121	60

**Table (4): Prices of Selected Nutritional Supplements and Cosmetic Products
in Palestine and Israel (in NIS)**

Name of Drug	Description	Price of Imported Drug in the Palestinian Market	Price of Imported Drug in the Israeli Market
Reprovit Capsules	Boosting fertility – for men	440	
New-Biozym Capsules	Digestive disorders Enzymes	117	
Q-Gen Capsules	Energetic drugs	93	
Alpha-B-Dal Capsules	Arthritis of diabetes	135	
PowerMax Capsules	Drugs for Boosting Males Fertility	117	
Zovan Capsules	Pregnancy Nausea	49	185
SperoMax	Drugs for Boosting Males Fertility	266	
Cobra Capsules	Sexual Energy Vitamins	130	
Pharmaton Capsules	Vitamins	270	102
Kiddi Syrup	Vitamins	76	73
Probiotic Anti Age Eye cream	Anti-aging cream for eyes	110	
Isomar Spray	Saline solution for nasal congestion in children	44	43
Physiomer Baby	Saline solution for nasal congestion in children	49	50
DermWHITE Facial cream	Facial whitening cream	169	
BiodermaSebium	Facial Cleansing Soap	65	65
Vichy Normaderm	Facial Cleansing Gel	119	65.4
Bioderma Sunblock	Sunblock cream	125	120
FrezyDerm Sunblock	Sunblock cream	138	
BiodermaSensibio	Anti-redness of the face	90	88.8
Node DS Shampoo	Shampoo for dandruff	71	
BiodermaAtoderm	Body Moisturizer	90	65
New Gel +E	Gel for healing scars and burns	260	216.8
LiposkinSpuma	Facial Cleansing Soap	84	
Liposkin Crema	Body Moisturizer	105	
Floxia Hair Serum	Hair treatment	131	
Pharcos ATOP	Body Moisturizer	105	
Floxia moisturizing milk	Body Moisturizer	190	
ISIS Ruboril	Anti-redness of the face	110	
ISIS neotone	Anti-facial staining	155	
GENGIGEL	Toothache Anti-tingling for children	75	79.6
Vismed- Multi Eye Drops	Moisturizing for dry eyes	79	89.2
La Cure	Moisturizer for dry skin	69	57.4
Restoux Spray	For throat irritation	69	45
RestouxNaC tablets	Anti-phlegm	47	
Freezing spray	Muscle injury and spasm	59	42