CHAPTER 1

INTRODUCTION

1.1 Problem and Its Significance

One of four basic essential needs to sustain life is medicine, which means the use of various drugs for curing ailments and malfunctions. Back to the 10th century during the Chiangsan Era, Thai people used medicines made from herbs. In those early times, Thai traditional practice was highly influenced by the Chinese and the Indians.

The Portuguese introduced Western medicine or modern drug for the first time in Thailand in 1518 for the sole use of the royal court. Not until the late 1800s has the general public benefited from modern medicine promoted by an American missionary group.

In that time, almost all modern drugs used in Thailand were imported from abroad. It could not be produced locally. The organization responsible for purchasing and distributing drugs was the Division of Medical Depot (founded in 1901). Following the establishment of the first pharmaceutical factory, modern drugs started to be made locally. But the proportion of imported drugs was higher than the proportion of locally made products. As a consequence, the government had to spend a large budget to purchase drugs. Hence, the government needs to solve many health problems with limited resources. To solve these problems, the government has to provide primary health care services to the people, particularly those belonging to the low income group.

According to a report produced by the Health Systems Research Institute (1993), the overall drugs consumption in Thailand in 1993 was approximately 27,000 million Baht at wholesale price or 50,000 million Baht at

retail price. This represents about 35% of the total health expenditure. The per capita drug expenditure for Thai people is 450 Baht * at wholesale price. During the period 1987-1992, the growth of drug expenditure has been increasing at about 23 % per annum, a much higher growth rate than for health expenditure (14 % per annum) and for Gross National Products (GNP) (8 % per annum). One of the reasons of this increase can be related to irrational drug consumption at community level. Various kind of drugs (about 30,000 items) are sold on the market.

In 1975, at the 28th Conference Assembly of World Health Organization (WHO) including 151 members that each country recommend that all countries, especially the developing countries, use an essential drug list. Within the national policy for rationalization of drug utilization, the National Essential Drugs List (NEDL) was developed, comprising essential drugs which are cost-effective, and tackle major health problems. The Ministry of Public Health (MOPH) regulation enforced the public health sector to purchase drugs under generic names of the NEDL in 1978. However, in 1970, the cabinet had demanded the government sector to purchase drugs from the Government Pharmaceutical Organization (GPO) when using the government budget. If the budget comes from the revenue budget (non-government budget) they can purchase from any other companies.

After the NEDL and the purchase procurement regulation had been promulgated, things became complicated. A polemic developed between the public sector, the MOPH and GPO, and the private sector, the

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* The number of per capita drug expenditure from calculation should be 465 Baht. However, this figure was rounded up because of the estimated data of drug consumption per annum and the number of population in 1993, which was around 58 million.

manufacturers and distributors by the Thai Pharmaceutical Manufacturers Association (TPMA). The conflict surrounded GPO's privilege proposed that GPO would not compete with the private sector but only take care of producing raw material. This would stabilize the country under the state enterprise policy. GPO has refused the proposal being blamed by TPMA for following the policy of MOPH and having only a little market share. In 1977 the gross profit value of GPO was 212 million Baht or only 3-5% of the drug market. This indicated that GPO did not compete with the private sector. Moreover, GPO not only operated on the same mode as the private sector but GPO also sent 50-60% of the net profit to the government every year.

Later the government amended the 1986 Prime Minister Office's Procurement Regulation and launched a new one in 1992. This latter led to a high reaction of private companies. Not only the private sector but some of the public sector under MOPH also disagreed with this new regulation.

The mass media, especially newspapers had diffused a negative image of GPO. They supported the pharmaceutical free competition because of the GPO's privilege and tried to abolish the regulation of 1992.

The Federation of Thailand Industry (FTI) memo to the Ministry of Industry on April, 30 1996 pointed that the current account deficit problem was due to the GPO's privilege on Procurement Regulation from 1992 especially because of Article 61. The wider GPO's product range and the higher GPO's product quantity, the less chance for the private companies to sell their products. Private companies can produce more with lower price than GPO, but cannot sell to the public sector because of the regulation. These companies complained for the unfairness of the policy announced by the Prime Minister Banharn Silapa-archa at the ASEM conference in March 1996.

The Public and Private Joint Committee for solving economic problems held a meeting on June 6, 1996, agreed with the competitiveness of pharmaceuticals in Thailand and arranged the cooperation of the public sector, including MOPH, GPO, Military Pharmaceutical Factory (MPF), Ministry of Finance (MOF), and the private sector. This was based on the Prime Minister Office's Procurement Regulation 1992.

The National Drug Committee held a conference on June 27, 1996 to improve some Articles of the procurement regulation.

1.2 Objectives of the Study

The overall objective of this study is to examine the impact of abolishing the regulation of the pharmaceutical purchase on the GPO's products and structure. Specifically, the study tries to explore the following :

1. Analysis of the Prime Minister Office's Procurement Regulation regarding pharmaceutical purchase.
2. Distribution channel of GPO's products and market share.
3. Impacts of abolishing the procurement regulation on GPO's product range and GPO's structure.
4. Policy measures for GPO to compete successfully with other manufacturers in the pharmaceutical market.

1.3 Literature Review

The Prime Minister Office's Procurement Regulation 1992, addressed the drug purchasing budget, the drug purchase under generic name of NEDL and the drug price control based on the use of medium price. This literature review analyzes these subjects.

A study by Sauwakon Ratanavijitrasin (1987) evaluated the implementation of the NEDL and of the procurement regulation requiring partially centralized purchasing procedures, allowing to save the drug budget of the public sector under MOPH. The researcher of this study used a purposive sampling, choosing hospitals of all levels of the MOPH, records of drug purchasing, in comparison with drug prices, and lead time for drug distribution from GPO and from private sector. In addition, there are interviews of the people involved in the purchasing process.

The study showed that in 1983 and 1984 GPO drug prices were sometimes lower, sometimes higher than those of private companies. This may be due to the GPO purchasing procedure and also because of GPO having no bargaining authority. In 1985 most of the prices of the drug purchased from GPO were lower than the private companies. This was especially true for the drug selected for the study because GPO had improved the purchasing procedure and had absolute bargaining authority. However, this latter top-down policies led to the conflict between the high level groups of public health officers, who attempted to avoid this policy for many years.

The researcher concluded that if the policy was accepted and taken seriously, it would be successful in terms of drug expenses saving. The researcher suggested that there should be communication for the understanding of the objectives of the policy that would lead to better acceptance and serious policy implementation. Moreover, there should be continuous evaluation to resolve ongoing problems and conflicts.

There are many studies on control of drug price and establishment of medium price of pharmaceutical and non-pharmaceutical products.

A study of the team of Faculty of Pharmaceutical Science of Chulalongkorn University was done in 1987. The study was divided into 3 parts. The first part was related to the quantity and the price of pharmaceutical and non-pharmaceutical products. They used questionnaires sent to the public hospitals all over the country. They found that after announcement of the medium price of drug in NEDL by the MOPH in 1986, the average drug price had decreased by about 70% for all products. However, 37% of the drugs still displayed an average price higher than the medium price. The drugs produced by the member of the Pharmaceutical Products Association (PPA) and TPMA had higher average prices than GPO's.

Second is the attitude of the buyers group towards MOPH regulations. The target population for the questionnaires are the doctors and pharmacists in the public hospitals. They found that most of the buyers thought that drug to which medium price apply were still very few. Using the medium price helped make the drug price go down. The purchasing budget from GPO ought to be less than 80%. Furthermore, the buyers disagree with GPO in selling the same kind of drugs in generic name 3 % higher than the medium price . Actually, when GPO's prices are 3% higher than the medium price, the public sector can buy from other suppliers.

Third, there is a survey of the attitude of manufacturers and distributors towards the procurement regulation. The methodology used is an individual interview of the target group of the members of TPMA, PPA and GPO. The result shows that they do understand this regulation. However, the private companies disagree with the medium price. They claimed that the price were too low and that the effect of using the medium price was to lower sales. An other opinion, similar to the opinion of doctors, pharmacists and other

people who have authority to purchase drug, is that the budget for drug purchasing from GPO, should be less than 80%.

Another project by Viroj Tangcharoensathien et al in 1997,examined the impact of abolishing the procurement regulation of 1992 on drug price and quality. The purpose of this study was to evaluate the situation of drug purchasing in the government hospitals. The results of the study showed that the value of drug purchase of the MOPH hospitals was 5,710 million Baht in 1996. The small hospitals purchased drugs using the government budget in a higher proportion (87%). The drug purchasing value decreased to 37% for the larger size hospitals. As for NEDL, the small size hospitals of 10 beds purchase generic drugs for up to 80% of the government budget. On the contrary, large hospitals (the regional hospitals) purchased only about 43% of their budget for drugs of the NEDL. Quality and reliability of drugs, is considered higher, in the original companies first, followed by GPO, then last local firms. The opinion survey on deregulation of purchasing procurement showed that about 70% of the hospitals agreed with deregulation. Further details are described in Chapter 4.

Furthermore, Sathitpong Tanaviriyakul (1996) analyzes the GPO and the purchasing regulation from the economic point of view. The author mentions that drug purchasing regulation is part of a government policy to allocate drug resource efficiently which results in :

1. reducing expenditure of luxury drugs.
2. support GPO activities such as price minimization, essential drugs procurement as well as production of necessary drugs that private sector does not produce to solve the problem of country's public health such as vaccines, serum, etc.

The government has to find an appropriate procedure to solve the problem. One proposal to the government to solve the problem of the purchasing procurement by the private sector would be to give GPO the privilege of government protecttion as the manufacturer and distributor of drugs in the government sector. Following the procurement regulation of the public sector, the actual process of purchasing drugs uses only a small amount of the government budget (39% of drugs). The public sector purchased about 61 % of drugs with the revenue budget (non-government budget) and 39 % with the government budget. It shows clearly that GPO cannot obstruct the entry of the private sector into the drug market. It cannot then be concluded that GPO has a monopolistic power in the drug market.

The author compared the drug price of the Model Pharmacy of the Faculty of Pharmaceutical Science, Chulalongkorn University and of other companies. He found that the price of the GPO drugs was lower except for some items such as paracetamol.

The author concluded that the purchasing procurement regulation of GPO was not the main point of the country's pharmaceutical industry development. The main point was that both the public and private sectors had to realize their role to develop the country's public health by :

i) setting up the regulation to control both quality and price of drugs to the standard,

ii) develop their own technology in order to be able to compete with the international companies in the future.

Another study by Nusaraporn Tatiyapaiboon (1995) examined the price policy of antibiotic drug industry on the market structure as well as the amount of money saved if generic drugs were encouraged to substitute the branded drugs.

The results were that the antibiotic drug market was not purely competitive. Branded drug firms were market leaders and retained large market share. The pricing policy showed price discrimination between generic and brand drugs. The amount of money saved by substitution brand drugs was low. This shows that the policy of NEDL could not cover all kinds of drugs. The reason was that the physician often prescribes the drugs without following the NEDL. The costs of antibiotics purchase was still high . This supports the findings of the study by Sauwakon Rattanavigitrasin (1987).

1.4 Possible Benefits

This thesis aims at providing some policy guidelines and strategies for the Government Pharmaceutical Organization to handle or making itself ready for the deregulation.

However, even if the deregulation does not occurr, this thesis might be useful for the Government Pharmaceutical Organization to improve its strategies to be able to adapt itself to any situation in the future.

1.5 Organization of the Study

There are six chapters in this study. Chapter 1 is the introduction including a literature review. Chapter 2 presents the pharmaceutical industry background emphasizing on the pharmaceutical production and consumption along with the pharmaceutical distribution. Chapter 3 is about GPO and procurement regulation, which describes the role of the Government Pharmaceutical Organization and the details of procurement regulation. Chapter 4 presents research methodology with the conceptual framework and the data collection. Chapter 5 analyses the impact of deregulation on GPO's products and structure. Finally, the last chapter provides conclusion and recommendations.