الكتلة الوطنية

NATIONAL BLOC

Lifting the Subsidies on Medication

17/12/2020

In tandem with the depletion of BDL's foreign currency reserves, the BDL is expected to stop subsidizing medication within 1 to 2 months, which would exacerbate the Lebanese socio-economic situation.

Lifting subsidies on medication without implementing an alternative strategy to provide affordable medication for those in need would lead to social tensions and violence due to the drastic increase in the price of medicines.

The government is expected to allocate 300 to 400 million USD from the remaining foreign currency reserves for medication. Policymakers should use them efficiently by subsidizing crucial medicines (e.g., medicines used to treat chronic and acute diseases, medicines that cannot be produced locally, etc.) and elaborating a new medication policy which would support local producers and incentivize them to produce generic medicines.

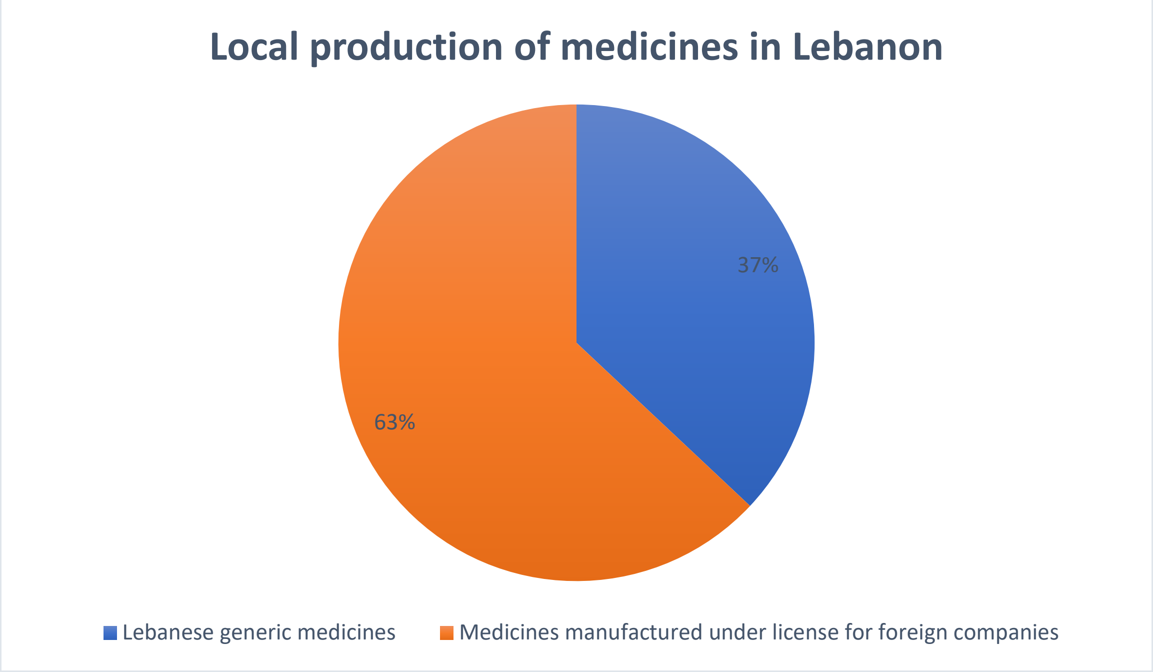
A new medication policy is therefore required to mitigate the effect of the subsidies lifting. The objectives of this medication policy must be the following:

1- **Ensuring affordable medication for those in need**
2- **Reducing the medicines import bill**
3- **Creating competition in the Lebanese pharmaceutical market**
4- **Fighting smuggling of medication across the borders**
5- **Fighting the selling of medication on the black market**
6- **Fighting forgery/fraud of medicines**

The Lebanese pharmaceutical market

Import vs. Local production of medication

According to the president of the Lebanese Pharmaceuticals Importers and Wholesalers Association, Karim Gebara, 81% of medicines in Lebanon are imported (by 112 importers) while only 19% are produced locally (by 11 manufacturers). Among the medicines produced locally, 37% are Lebanese generic medicines and 63% are manufactured under license for foreign companies.



Source: L'Orient Today, 2020

The medicines import bill

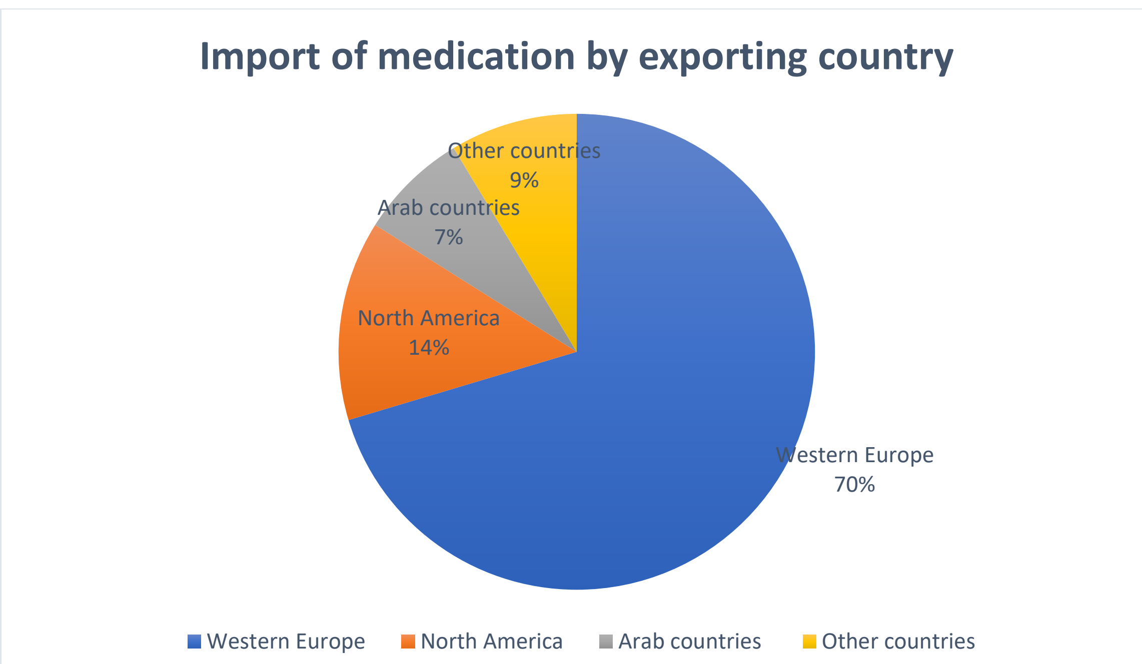
In 2019, Lebanon's medication import bill is estimated at 1.2 Billion USD:

HS	Description	L.L	$
30.01	Glands and other organs for organo-therapeutic use	511,700,939	339,324
30.02	Human blood; animal blood prepared for therapeutic	639,810,089,822	424,277,248
30.03	Medicaments (excluding goods of heading No. 30.02,	5,154,800,000	3,418,302
30.04	Medicaments (excluding goods of heading 30.02, 30.	1,194,907,253,024	792,378,815
30.05	Wadding, gauze, bandages and similar articles (for	11,476,862,693	7,610,652
30.06	Pharmaceutical goods specified in Note 4 to this C	21,754,753,666	14,426,229
	Total	1,873,615,460,144	1,242,450,570

Source: Customs, 2020

Import of medication by exporting country

Most of medicines in Lebanon are imported from Western Europe (70%):



Source: L'Orient Today, 2020

Why do generic medicines constitute a slight proportion of the total bill in Lebanon?

Monopolization of pharmaceuticals in Lebanon

1- Legislative Decree No. 34 (05/08/67) related to exclusive agencies prohibits the import of brand medicines except for the agent which makes 5 pharmaceutical companies out of 120 companies in Lebanon control 50% of the market. Hence, almost 115 pharmaceutical companies struggle to compete with the pharmaceutical cartel.

2- Local companies' struggle to compete with large international corporations that already have a large international market and known brand name. Adding to that, importers of brand medicines benefiting from subsidies as well as from the low production cost of medicines abroad are monopolizing the pharmaceutical market, and some of them smuggling medication abroad.

3- Subsidies of imported medicines leads to quasi-equal prices of generic and brand medicines, which makes it hard for local manufacturers to produce generic medicines and compete with brand medicines.

Lack of trust in Lebanese generic medicines

According to Blominvest Bank, imported drugs continue to dominate the market due to the cheapness of the production costs in export countries.

Moreover, the Central Laboratory of Lebanon shut down in 2007 which makes it difficult for local producers of generic medicines to prove that the latter are as effective as imported brand medicines. Hence, Lebanese tend to be skeptical towards generic medicines.

Pricing of medicines in Lebanon

The main regulator of drug prices in Lebanon is the Health Ministry, which publishes a price list of more than 5,000 registered medicines every month.

The retail prices of drugs are calculated through a comparison of the same medicine in 15 countries, as per Decision 119/1 on drug pricing, published in the Official Gazette in January: seven in Europe, seven in the Arab world and one in the origin country of the medicine.

The cheapest price out of the 15 is then converted into Lebanese lira, at the rate of LL1,507.5.

If the BDL stops subsidizing medication without implementing an alternative strategy:

Currently, the BDL is subsidizing medication at the rate of 1,500 LBP per USD. If the subsidies are lifted, importers of medication will be constrained to buy USD on the black market at the rate of (minimum) 7,500 LBP per USD, which multiplies the medication price by (minimum) 5 (7,500/1,500). For instance, a medication that currently costs 25,000 LBP would cost 125,000 LBP when the BDL stops subsidizing medication.

Hence, not only the consumer is affected, but also the sellers. Indeed, many pharmacists and agencies will quit the market if they cannot afford purchasing USD on the black market.

In tandem with the increase of the medicines price, social tensions may arise due to the inability of a large proportion of the population to afford medication.

According to Assem Araji, head of the Lebanese Parliamentary Health Committee, the NSSF spends 500 Billion LBP per year on medication. When the subsidies will be lifted, NSSF's medication expenses would be multiplied by at least 5 (7,500/1,500) to become 2,500 Billion LBP.

A new medication policy

Local production of medication, specifically that of generic, must be incentivized, especially that Lebanon has a competitive advantage in biotechnology.

Although the production of medicines is local, local manufacturers will need to purchase dollars to be able to import raw materials. If supported, the manufacturers would be able to produce enough medication for the Lebanese market within 6 to 8 months according to Assem Araji.

Currently, brand medication and generic medication prices are very close. The pricing policy of medicines in Lebanon (explained above) must be revised to make generic medicines prices at least 30% less than brand medicines prices.

The government's strategy is not expected to revolve around the brand-generic dichotomy. It will rather be focused on the "essential" – "not essential" dichotomy. A strategy for each of the OTC (over the counter) medication and medication for chronic diseases is expected to be determined for the short-term, the medium-term, and the long-term.

Despite efforts to find an alternative for the medication subsidies, the latter is subject to conflicts of interest. A new national drug policy/medication policy is urgently required to mitigate the drastic effects of stopping the subsidies on medication.

The new national drug policy must be primarily aimed at ensuring affordable medication to those in need by incentivizing the local production of generic medicines and subsidizing some types of medicines.