24 September 2019

REPRESENTATIVE WESLIE T. GATCHALIAN
Chairperson
Committee on Trade and Industry
House of Representatives
Batasan Pambansa Complex, Constitution Hills
Quezon City, Philippines

Dear **Representative Gatchalian:**

We are pleased to submit the Department's position on House Bill No. 2578, entitled:

"An Act Establishing the Drug Price Regulatory Board to Regulate the Prices of Drugs and Medicines in the Philippines Amending for the Purpose Republic Act No. 9502, Otherwise Known as the 'Universally Accessible Cheaper and Quality Medicines Act of 2008' and for Other Purposes"

With my best regards.

Very truly yours,

RAMON M. LOPEZ
Secretary

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DTI Position on

House Bill No. 2578

"An Act Establishing the Drug Price Regulatory Board to Regulate the Prices of Drugs and Medicines in the Philippines Amending for the Purpose Republic Act No. 9502, Otherwise Known as the 'Universally Accessible Cheaper and Quality Medicines Act of 2008' and for Other Purposes"

The Department recognizes the objective of the proposed legislation to provide the population in general and consumers in particular with sustained access to quality and affordable medicine.

Research by GlobalData projecting the Philippine pharmaceutical market's expansion to US$4.1 billion by 2020 from its 2015 value of US$3.4 billion, the increasing budget allotted to the Department of Health (DOH) especially in recent years *(See Figure 1),* and the passage of Republic Act (RA) No. 11223 or the Universal Health Care Act, give evidence to the importance of the health sector in the country.[1]

An integral part of drug development in the health sector is the conduct of clinical trials to determine the benefits and risks of new medicines to patients and society in general. Data from 2010, which ranks the Philippines as third among Southeast Asian countries with the most number of clinical trials, implies the significance that pharmaceutical companies in the Philippines place on research and development (R&D).[2]

However, the DTI views that establishing the Drug Price Regulatory Board to regulate the prices of drugs and medicines in the Philippines, such as setting of maximum retail prices, could have an adverse effect on investments in R&D and may hamper innovation programs of pharmaceutical firms. Research from the National Bureau of Economic Research (NBER), a private nonprofit research organization in the US, supports this claim as its model predicts a proportionate decrease in new product investments relative to drug and medicine price cuts.[3] In addition, the Cato Institute, a libertarian think tank in the US, cites the rigidity of price adjustments under government interventions to be another factor, as the political process may interfere with the efficiency in reflecting the true prices of medicine.[4]

As an alternative to price regulation, the DTI opines that continuing to encourage competitive drug and medicine prices through generic medicine substitution is more beneficial, in the long term, for patients in particular and consumers in

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[1] Global Data, *CountryFocus: Healthcare, Regulatory and Reimbursement Landscape – Philippines*, accessed at https://www.globaldata.com/store/report/gdhc0060chr--countryfocus-healthcare-regulatory-and-reimbursement-landscape-philippines/ on 10 September 2019 and
Department of Health, *DOH Budget* accessed at http://www.doh.gov.ph/doh-budget on 10 September 2019

[2] Department of Health, *The value of clinical trials,* http://www.pchrd.dost.gov.ph/index.php/news/library-health-news/2416-the-value-of-clinical-trials (accessed 08 August 2018)

[3] Abbot, T. A., & Vernon, J. A.. *The Cost of US Pharmaceutical Price Reductions: A Financial Simulation Model of R&D Decisions.* NBER Working Paper Series, 11114. (2005)

[4] Scott Morton, F. M. *The Problems of Price Controls. Cato Review of Business and Government*, 24(1)

general. The recently formed Health Promotion Bureau,[5] which is tasked to formulate a framework strategy for health promotion, may be instrumental in making consumers more aware of the comparability of generics with branded medicine in terms of efficacy. This may provide greater access to quality and affordable medicine while simultaneously sustaining R&D in the health sector.[6]

Supply-side options including shortened licensing and/or registration review for generic products, incentives to encourage generic manufacturers to develop and submit applications for licensing, and transparent pricing information or demand-side options including preferential procurement of generic products by the national supply systems, encouraging prescription and dispensing of generic products, and education programs to encourage consumer uptake may also be explored.[7]

RA No. 11223 or the Universal Healthcare Act has also required drug outlets to carry the generic equivalent of all drugs in the Primary Care Formulary and to provide customers with a list of therapeutic equivalents and their corresponding prices when fulfilling prescriptions or in any transactions.

Further, the Universal Healthcare Act mandates DOH-owned health care providers to procure drugs and devices guided by price reference indices and following the prescribed mark-ups. An independent price negotiation board was also established to negotiate prices in behalf of the DOH and the Philippine Health Insurance Corporation (PhilHealth), guided by certain price parameters and sourced from a single supplier. The consolidation of government purchasing of drugs and devices is seen to contribute to their affordability.

Additionally, streamlining the approval of medicines by the Food and Drug Authority (FDA) and the promulgation of mutual recognition agreements (MRA) to recognize drug inspections conducted by foreign regulatory authorities may also aid in stabilizing drug prices and securing the same prices across products of the same formulation.

While we acquiesce that competitively priced drugs and medicines remains a priority, the Department reiterates its view that price regulation may result in undesirable effects on investments of pharmaceutical firms for their continuing R&D and innovation initiatives and could compromise the discovery and access to new treatments and medicines for a range of diseases, which will be detrimental to the overall well-being and health of the populace in general.

Bureau of Trade and Industrial Policy Research
24 September 2019

Ref: BTIPR-092019-61

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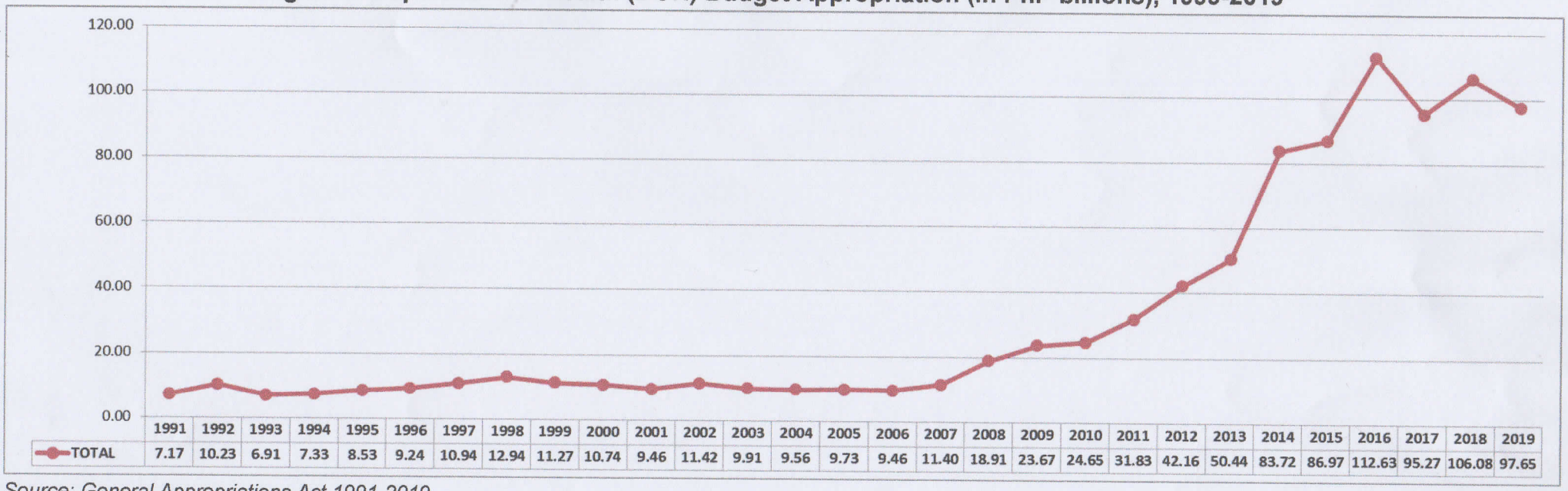
[5] Previously the Health, Promotion, and Communication Service of the Department of Health
[6] Reyes, C. *Improving Access to Affordable Medicines: Looking at Prevailing Prices and Distribution of Village Drugstores in the Philippines*. PIDS Discussion Paper Series No. 2011-10
[7] World Health Organization Guideline on Country Pharmaceutical Pricing Policies accessed at https://apps.who.int/medicinedocs/documents/s21016en/s21016en.pdf

ANNEX

Figure 1. Department of Health (DOH) Budget Appropriation (in PhP billions), 1999-2019



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL	7.17	10.23	6.91	7.33	8.53	9.24	10.94	12.94	11.27	10.74	9.46	11.42	9.91	9.56	9.73	9.46	11.40	18.91	23.67	24.65	31.83	42.16	50.44	83.72	86.97	112.63	95.27	106.08	97.65

Source: General Appropriations Act 1991-2019