

Report

Group purchasing of pharmaceuticals and medical supplies by the Gulf Cooperation Council states

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الشراء الموحد للأدوية والمستلزمات الطبية لدول مجلس التعاون الخليجي
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الخلاصة: تمثل تكلفة المستحضرات الصيدلانية الأساسية والمستلزمات الطبية عنصراً هاماً من عناصر الرعاية الصحية في وقتنا الحاضر. وفي سبيل الحد من زيادة نفقات الرعاية الصحية، بدأت دول مجلس التعاون الخليجي في عام 1976 بدراسة فكرة تأسيس برنامج شراء جماعي للمستحضرات الصيدلانية والمستلزمات الطبية. وتبين هذه الورقة عناصر هذا البرنامج، وكيفية عمله، والعقبات التي واجهته وكيف تستطيع البلدان الأخرى أن تتفجع من هذه التجربة. كما تشرح هذه الورقة أيضاً مستقبل برنامج الشراء الجماعي في ضوء العولمة، وكيف ستؤثر التغيرات الدولية في ظل اتفاقيات منظمة التجارة العالمية على هذا البرنامج في المستقبل.

ABSTRACT An important issue in health care today is the cost of essential pharmaceuticals and medical supplies. To control the increase of health care expenses, in 1976 the Gulf Cooperation Council states began to study the idea of establishing a group purchasing programme for pharmaceuticals and medical supplies. This paper demonstrates the elements of the programme, how it works, what obstacles it faces and how other countries can profit from this experience. It also discusses the future of the group purchasing programme in the light of globalization and how the international changes under the World Trade Organization agreements will affect the programme in future.

Les achats groupés de produits pharmaceutiques et fournitures médicales par les États du Conseil de Coopération du Golfe

RÉSUMÉ Le coût des produits pharmaceutiques et fournitures médicales essentiels représente aujourd'hui un problème important dans les soins de santé. Afin de maîtriser l'augmentation des dépenses des soins de santé, les États du Conseil de Coopération du Golfe ont commencé en 1976 à envisager la mise en place d'un programme d'achats groupés des produits pharmaceutiques et des fournitures médicales. Le présent article montre les éléments de ce programme, son fonctionnement, les obstacles auxquels il est confronté et la manière dont les autres pays peuvent tirer parti de cette expérience. Il examine également l'avenir du programme des achats groupés à la lumière de la mondialisation et l'impact futur sur ce programme des changements internationaux qui s'opèrent dans le cadre des accords de l'Organisation mondiale du Commerce.

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Introduction

An important issue facing those in charge of health care in different parts of the world is how to finance the necessary pharmaceuticals and medical supplies. Anyone following the progress of financial funds assigned by a country to cover the health care expenses of its citizens realizes the increasingly large amounts of money spent. The rising costs are due to a number of causes, the most important of which is progress in standards of health care: modern techniques that require new and expensive equipment and medical supplies, and the increasing range of new drugs and immunizations available against disease.

In 1976 AD (1396 AH), to control the increase of health care expenses, the Gulf Cooperation Council (GCC) states started exploring the idea of establishing a group purchasing programme for pharmaceuticals and medical supplies. The first group medical supplies competition in GCC states was in 1978, hospital equipment in 1982, serum and vaccinations in 1985, chemicals in 1992, medical rehabilitation in 1996, and lastly laboratory equipment and blood banks in 2001.

The group purchasing programme has achieved several advantages for the member states, the most important of which is the decreased cost price and operation price, the acceleration of the purchasing process, the establishment of unified specifications, the promotion of information exchange and the development of pharmaceutical policies among the GCC states.

This paper will demonstrate the elements of the programme, how it works, the obstacles it faces and how other countries can profit from this experience. We will also discuss the future of the group

purchasing programme in the light of globalization and how the international trade agreements will negatively or positively impact on the programme in the future.

The Council of Health Ministers for the GCC

Structure

The GCC countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates—have a common basis of language, religion, geography, history, environment, economy, society and heritage. A common interest in building strong relationships between these countries is therefore obvious. The Council of Health Ministers for the GCC was established to coordinate the cooperation between its member states in all fields of health: prevention, intervention and rehabilitation. In addition, the Council aims to disseminate health knowledge and improve health awareness among the general public of GCC countries.

The Executive Board carries out all secretariat work for the Council and the Executive Director represents the Executive Board in all communications and organizations. The establishment of the Executive Board was a result of frequent meetings before 1975 among some health ministers in the region about the importance of coordination and cooperation among the health ministries of Gulf countries. Consequently, the meetings became annual events under the name Health Ministers' Conference for the Arab Countries in the Gulf. In 1981, the health ministers decided to change "Conference" to "Council". The Health Ministers' Council of the Arab Countries in the Gulf now comprises the health ministers of the 6 states in the GCC, and it is convened twice annually.

Objectives

The objectives of the Council of Health Ministers for the GCC are as follows:

- Achieving coordination and integration by strengthening cooperation in various fields of health among the GCC states and by setting and developing policies and health regulations that aim to develop the health services in the GCC states.
- Unification of common goals in international gatherings, and strengthening relations with all regional and international organizations.
- Setting up a unified drug policy for the region that allows full control of imported drugs and helps establish national drug industries that realize self-sufficiency for the GCC states.
- Encouraging joint studies and research, and presenting recommendations and giving technical advice to the GCC states in the various fields of health in such a way that helps realization of its objectives.
- Achieving coordination and integration in the field of group purchasing of drugs, medical supplies and its expansion to include other medical needs.
- Deciding on plans, programmes and joint work projects in the field of health.
- Endorsing the general plan and the executive programmes related to carrying out studies and research in the fields of health problems, control of endemic diseases, health education, and environmental health sanitation in the GCC states.
- Organizing exchange of experiences in the fields of education and medical training in a way that realizes developing and unifying systems of education in faculties of medicine and health institutes.

History of group purchasing

The escalation of health care costs is one of the major challenges facing health care administration. Several reasons have contributed to such escalations, including the rapid growth and expansion in the health care sector, the increase in the cost of pharmaceuticals and hospital supplies and changes in the pattern of diseases.

These changes are leading to the establishment of group purchasing schemes in the health care industry. As early as 1909, the Hospital Superintendents Club of New York was addressed about the establishment of a purchasing agency for New York hospitals. The first group was formed in 1910. In 1918, the Cleveland Hospital Association began its group purchasing operations. Between 1962 and 1974, more than 40 groups were organized in the United States.

In 1981, 5 countries—Morocco, Mauritania, Algeria, Tunis and the Libyan Arab Jamahiriya—established a bulk purchasing group. The group announced its first tender for 144 drugs in 1982. Unfortunately, the system did not develop well due to many logistical problems.

The Gulf experience*Group purchasing: origins and development*

The idea of group purchasing in the Gulf started in February 1976 when the ministers of health in the GCC states requested the Executive Office to form a technical committee whose function was to:

- Study the setting up a unified system for registration and control of drugs, as well as preparing a directory of drugs in the GCC states.
- Study the possibility of unifying the process of purchasing some drugs for

the ministries and government institutions. The General Secretariat was to compile a detailed programme with regard to requesting and awarding tenders and importing, taking into consideration the local regulations.

- Study the possibility that the member states may make use of the drug control laboratories in both Saudi Arabia and Kuwait.

Between 1980 and 1989, several resolutions were issued that aimed to support the group purchase scheme.

- In 1985, the member states were called upon to secure at least 60% of their needs from all items submitted through group purchasing.
 - In 1987, it was agreed that the member states should obtain at least 60% of their drug needs, and for locally produced drugs at least 20% of their needs, through group purchasing. This was to ensure that prices would not rise for the other member states.
 - In 1991, a consultative committee from the Faculty of Pharmacy, King Saud University was formed to study the means of developing group purchasing. The consultative committee held a number of meetings with representatives of the member states taking part in group purchasing to define the scientific basis for improving group purchase.
- After 1991, a series of resolutions were taken at the conferences of the Council of Health Ministers for the GCC:
1. The 40th Conference in 1996 agreed to collect 0.5% of the amount of the tenders awarded in the group purchasing tenders to establish a fund for supporting joint research among the member states. It also agreed to prohibit drug preparations from companies that do not fulfil the conditions of bioequivalence testing in the group purchasing tenders.
 2. The 44th Conference in 1998 agreed the basics principles of the drug tender awarding and endorsed the project of central registration of drugs in the GCC states.
 3. In the 46th Conference in 1999, the acceptance of analysis certificates issued from the certified reference laboratories for registration was endorsed. It was agreed that drugs manufactured in any Gulf state be treated in terms of pricing according to the same procedures for national drugs in each state.
 4. The 47th Conference in 1999 endorsed that the company (registered in 2 states) whose laboratories were assigned as reference laboratories should participate in group purchasing of drugs. The central registration system for drugs in the GCC states was also agreed upon.
 5. In the 48th Conference in 2000, the tender for laboratory supplies and blood bank supplies was introduced. The Executive Board was also requested to review the basis and the mechanisms for awarding group purchasing tenders. It was reaffirmed that member states should commit themselves to the previously issued ministerial resolutions, i.e. to share in the group purchasing tenders no less than 60% of their annual needs.
 6. In the 49th Conference, the rules of pricing drugs in the GCC states were endorsed.
 7. In the 50th Conference, the principles of awarding drug tenders were endorsed and it was agreed that companies taking part in tenders should have a local agent in each state. The regulations of qualifying companies for medical supplies were endorsed. The directory of specifications of hospital

supplies and the medical rehabilitation directory was prepared and the laboratories and blood banks tender was submitted as a separate tender for the year 2001. It was also agreed to widen participation in the group purchasing programme to other governmental and private sector non-governmental institutions through the relevant ministry in each state.

Objectives of group purchasing

The group purchasing programme was introduced in the GCC states to realize the following objectives:

- Securing financial surplus through purchasing large amounts of supplies for a smaller price.
- Certifying companies that follow good manufacturing practices and that are registered according to the rules and regulations set by the Executive Board, thus ensuring a high quality of purchased items.
- Ensuring use of the same drugs manufactured by the same company by all the GCC states.
- Rapid processing and awarding of presented tenders.
- Ensuring a continuously supply of drugs, hospital supplies and equipment all year round through regular successive deliveries.
- Encouraging other health sectors, e.g. specialized hospitals, to secure their needs through group purchasing.
- Encouraging the policy of purchasing from generic-registered companies to obtain a greater financial surplus.
- Supporting the Gulf drug industry to achieve security of drug supplies in the Gulf countries.

Advantages of group purchasing

These can be summarized as follows:

Cost savings

Group purchasing is an important method of saving money for the ministries of health by reducing the cost of pharmaceutical products. A report on hospital purchasing and inventory management by the United States General Accounting Office advocated participation in group purchasing as a mechanism for controlling pharmaceutical costs. According to a study performed by the GCC Executive Office in 1992, a total of US\$ 33 million was saved by the 5 GCC states. Furthermore, more than US\$ 11 million was saved by 3 GCC states in 2001.

Transparency

Group purchasing leads to transparency in the examination of tender awards.

Standardization

Agreeing on the items for the group purchasing programme leads to standardization of the drugs used in the GCC states and allows quality supplies to be obtained in emergency situations.

Labour reduction

Reductions in labour are attained through minimizing administrative and regulatory burdens on the ministries of health and cutting down the number of samples that have to be checked for quality control.

Enhancement of purchasing operations

The key factors in the group purchasing programme responsible for improved pharmaceutical supply in the GCC states are the reduction in the length of the procurement process, the increased predictability of timing and the simplification of procedures.

Information sharing

Exchange and sharing of information among institutions, hospitals and countries is very valuable. This information may be clinical data, prescribing data, health education programmes, etc.

Uniform types of drugs

If there is uniformity in the drugs allowed for use in all the states, it is easier for people to get the same drug in any other GCC country.

Development of the drug policy in member countries

The group purchasing programme has contributed to establishing the following progress in GCC states:

- Central drug registration
- Bioequivalence programmes
- GCC drug formulary
- Good manufacturing practice
- Accreditation of quality central laboratories
- Support to the local pharmaceutical industry.

Procedures of group purchasing

The mission towards group purchasing of the Executive Board of the Council of Health Ministers for the GCC is as follows:

- Inviting the relevant committees to meet, proposing the agenda and performing the secretarial work.
- Submission of tenders from bidding companies.
- Notification of countries about awards and sending samples of items awarded to each country for delivery.
- Notification of the companies about items awarded and the total sum of delivery.

- Provision of technical support to member states and the group purchasing committees through the consultative committees.
- Responding to any inquiries from the states or the companies.
- Collection of 0.5% of the total awarded items as fees for each state.

Commitments of member states

- Each country should submit its needs at the time specified.
- Participation with no less than 60% of items submitted and 20% of locally produced ones.
- The specifications of items and conditions of the tenders should be adhered to.
- Authorizing representatives of the permanent committees to attend the meetings for preparing and finalizing awarding of tenders.
- Each country has to pay the sum of money indicated according to contracts and purchase orders.
- Notification of the Executive Board of the details of items that fail in the laboratory analysis or which do not comply with the required specifications.
- Member states have to prepare statistical studies indicating why they did not take part in the endorsed items in order to determine the percentage of contribution of each state in group purchasing.

Commitments of companies

- Fulfilment of all conditions and tender documents.
- Submission of the following required bank guarantees: 1% bid bond of the

quotation through a local Saudi Arabian bank, which is returned after submission of the performance bond, and 5% performance bond of the awarded items for each state, which is returned after completing delivery of items.

- Submission of samples for items in the tender.

Obstacles to group purchasing

Several obstacles can be identified that may limit the development of the programmes.

- Rate of participation by each member country. Some countries do not purchase all the quantities they require through the programme which leads to decreasing purchasing power.
- Commitment on tender quantities. Some members may decrease the amount of their original quantities substantially after the tender award.
- Commitment on tender schedules. Some members may delay their notification regarding their final quantities. This results in delays in the tender award.
- Lower prices at local tenders. Many companies offer reduced prices for their products in local tenders of some member countries. This action is aimed to keep these countries out of the programme.
- Lack of participation in some tenders. Some member countries did not participate in all tenders offered by the programme.

Impact of globalization on the programme

Several agreements of the World Trade Organization (WTO) are expected to influence the group purchasing programme. Since 1994, attention has focused on the

WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) as the most far-reaching instruments that may influence pharmaceutical prices. Other agreements such as the General Agreement on Tariffs and Trade (GATT), Agreement on Technical Barriers to Trade (TBT), anti-dumping laws, and government procurement agreements are also expected to affect the programme.

Potential effects on the programme

The main concerns raised by the WTO agreements are the possibilities for increases in the price of patented products, low quality products, unfair competition for the local industry and price dumping.

Higher prices of patented products

The TRIPS agreement requires WTO members to grant patent protection for a minimum of 20 years for any invention in any branch of technology. Because of the high prices of patented drugs, it is expected that the total cost of drugs may gradually increase in the next decade.

Lower quality products

The aim of the WTO agreements is to create a liberal and open trading system in which business enterprises from member countries can trade with one another under the conditions of fair competition. It is expected that competition could force the competitors to lower the quality of their products in order to compete effectively.

Unfair competition for local industry and price dumping

Local producers may face unfair competition from foreign producers who can offer very cheap prices for their products. Usually foreign producers have advantages over local producers that help them lower

their prices. These advantages include cheap labour and raw materials, a large local market, subsidies by the government and strategic planning to supersede the product market.

Potential advantages of the programme

In contrast to the potential disadvantages, the WTO agreements may have several advantages for the programme. The agreements may lower prices, improve the quality of products, encourage growth in the local industry and improve the transparency of the system.

Lower prices

When the GCC countries fully implement the WTO agreements it is expected that more foreign companies will compete in the group-purchasing tenders. This could lead to a lower price for a large number of products and huge saving for the countries.

Improved product quality

It is expected that the price competition will also lead to quality competition. Many companies will invest in good quality products with reasonable prices to compete in the international market. The group purchasing programme must achieve a balance between quality and cost in order to serve the GCC countries effectively.

Growth of local industry

In the short term, the local industry may suffer some losses from foreign competition. However, a strong local industry can only grow in a competitive market with carefully calculated protective measures. This will also lead to improved product quality and encouragements to export.

Improved system transparency

Although impressive results have been reported, the system has required a solid de-

fence against pressures of various kinds. Purchases of this size and level are always liable to interference from commercial and other pressure groups. Several participants in the process have stressed the importance of correct information and transparency. The involvement of many foreign participants requires a high degree of transparency.

Future of the group purchasing programme

For the programme to be successful, the member countries must provide commitment and support to the programme philosophy. The following points must be considered to enhance the programme.

1. Strategic planning. To ensure success, member countries should employ strategic planning processes and shift their focus away from the acquisition cost of pharmaceutical products.
2. Establishment of a common formulary. Without a strong formulary, system members cannot capitalize on the benefits of the programme.
3. Information exchange. The information sharing and exchange is imperative in the process of the group purchasing programme.
4. Purchasing volume. The aim of the programme is to increase the volume of quantities purchased.
5. Coordination. Coordination between pharmacy and therapeutic committees and establishing common educational programmes.
6. Use of bioequivalence data. The policy of generic interchange depends on the availabilities of bioequivalence data that must be incorporated into the contract award decision-making process.
7. Promoting pharmaceutical services and monitoring of drug use in member countries.

8. Vendor relationships. Health care vendors are becoming involved in partnerships with ministries of health and institutions.

grammes established by the Executive Board of the Council of Health Ministers for the GCC states. The programme will continue to develop and new tenders will be introduced in the future. It is expected that more institutions within the member countries will join the programme.

Conclusions

The group purchasing programme represents one of the most successful pro-

The world medicines situation

This second review of the world medicines situation (first published in 1988 as *The world drug situation*) presents the available evidence on global production, research and development, international trade and consumption of pharmaceuticals. In addition, it draws on the most recent surveys and studies in WHO Member States to examine the state of national medicines policy. The aim is to provide an easily accessible source of information on the pharmaceutical situation at global and national levels. This report covers a wide range of different products from multiple and varied sources, prescribed, purchased and consumed in very different domestic contexts. The report does not attempt to deal in a comprehensive way with a number of key policy issues in medicines policy, such as parallel trade, intellectual property rights, counterfeiting, or corporate pricing strategy, around which vigorous debate continues at both the national and international level. Whilst WHO's concerns and policy positions are made clear at relevant points in the text, our primary aim is to provide an up-to-date set of basic information on the global medicines situation and on the current status of national medicines policies. It is hoped that these data will serve as a useful set of reference material for analysts, researchers and others concerned with the global pharmaceutical situation. This document is available on line at: http://whqlibdoc.who.int/hq/2004/WHO_EDM_PAR_2004.5.pdf