



editorial



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The Ukrainian pharmaceutical market

Although growth of the pharmaceutical markets of developed countries continues to slow, emerging pharmaceutical markets are forecasted to grow steadily and, therefore, represent an attractive investment for Big Pharma and other investors operating in the industry. The pharmaceutical markets of Central and Eastern European countries are considered to be among the most promising for investments in the coming years and the Ukrainian market, in particular, would appear to have one of the strongest growth potentials.

Demand for pharmaceuticals and dependence on import

The size of the population in Ukraine is such that there are approximately 46 million potential consumers, making it an attractive proposition for foreign investors.

Studies have indicated a comparatively low life expectancy in Ukraine (around 65 years) compared with most European nations. Because of the Chernobyl Nuclear Power Plant disaster, the number of people ill with cancer, diabetes and other serious diseases continues to increase annually. Unlike many other countries of the world, there is no state system of disease prevention in Ukraine. As a result, the health status of the Ukrainian population leaves a lot to be desired and, therefore, spends a disproportionate part of its health budget on remedial measures.

Notwithstanding that the gross domestic product of the Ukrainian is comparatively low, the proportional spend on medicines remains very high and is likely to increase. Moreover, economic recovery after crisis, a concomitant decrease of unemployment rate and further growth of personal earnings are expected to represent significant drivers for the substantial increase in demand and consumption of medical interventions in general and in pharmaceuticals particularly.

The overall output of the pharmaceutical industry of Ukraine production is insufficient to meet the growing demand in drugs and the gap in supply and demand in pharmaceuticals can only be met through import.

Dependence on import is a distinctive feature of the pharmaceutical market of Ukraine. Foreign pharmaceuticals are considerably more abundant than those locally produced. In addition, Ukrainian pharmaceutical production is highly dependant on imported raw materials, which reduces the ability of national manufacturing companies to undercut prices of foreign pharmaceutical companies significantly. The sluggishness of the innovative sector results in a lack of modern, original drugs and a reduced variety of home-produced medicine, leading to a dependence on generic production.

To sum up, the existing demand for medicine cannot be satisfied by Ukrainian drug manufactures, leaving a gap that can be exploited by foreign manufactures and investors.

Current legal regulation and legislative initiatives

Ukraine has already announced plans to adjust its legal regulation of the pharmaceutical industry to the level of European standards

and to implement public health care reform. It means that pharmaceutical rules and requirements are expected to become clearer and more predictable, both for Ukrainian companies and for foreign investors.

By contrast, however, such reforms will undoubtedly result in several new restrictions for market players. Certain steps forward have already been or are currently being taken. Generally, as for now, the process of legislative approximation and health care reform go ahead rather quickly and are accompanied by frequent legislative initiatives and amendments.

The State Inspectorate for Drugs Quality Control of the Ministry of Healthcare of Ukraine has become the first among similar authorities of the CIS countries, which have joined the PIC/S system. This confirms the high level of state control for drug quality in Ukraine. GMP-standards have been introduced to Ukrainian license requirements for drug manufacturing and are now obligatory. Joining PIC/S is expected to facilitate import/export procedures and cooperation between Ukrainian companies and companies from other PIC/S countries.

Regardless of the legislative requirement to comply with GMP-standards, manufacturing facilities of many Ukrainian companies have not been adjusted to such standards yet, because this procedure requires huge investment. It is anticipated that not all the national companies will be able to introduce GMP-standards because of financial and other issues, which might result in a merger and acquisition wave in the Ukrainian pharmaceutical market. It offers a unique opportunity for new and existing international players to expand, considerably, a market share in a promising Ukrainian pharmaceutical market.

Preferential tax treatment is a good sign for investments in the industry and indicates that the pharmaceutical market is of the highest priority in Ukraine. In accordance with the Tax Code of Ukraine, effective as of 1 January 2011, distribution of all pharmaceuticals, production and use of which is permitted in Ukraine, is value added tax free. Even though the initiative regarding the introduction of value added tax for the distribution of medicines was discussed in Ukraine, it has not been implemented into the recently adopted Tax Code. Such preferential tax treatment helps to keep the prices of drugs cheaper for customers without profit loss at the same time.

Compulsory state medical insurance system and systems of reimbursement are not currently implemented in Ukraine. The necessity to introduce a compulsory medical insurance system in Ukraine is a much-discussed topic. Needless to say, medical insurance is already obligatory in many developed states. With respect to Ukraine, on the one hand, it will strengthen the protection of the rights of the disadvantaged population and, on the other hand, will result in an increase in demand for pharmaceuticals because many more people will be able to afford medicine and medical treatment. The only obstacle for this significant reform in the

sector is the absence of the necessary funds for medical insurance payments in the state budget of Ukraine and a reluctance of both employees and employers to allocate money to pump up the state budget for health insurance payments. Notwithstanding this, even if the medical insurance covers expenses not on all the drugs required by a patient, introduction of a health insurance system expected in the measurable future will positively affect the growth dynamics of the pharmaceutical market of Ukraine.

Maximum markups are set for only a limited list of drugs in Ukraine that are referred to as vital. Price setting for other drugs is left at the sole discretion of the market players in view of the current economic competition in the industry.

Comparing with other countries, the pharmaceutical market of Ukraine is not regulated too strictly, which can offer big opportunities for foreign pharmaceutical companies. Some recent legislative initiatives and draft laws, however, suggest amendments to the current legislation of Ukraine aimed at tightening of the state control over the pharmaceutical industry in general. For example, up to now, over-the-counter (OTC) drugs make up around 25 percent of the pharmaceutical market of Ukraine, which is much more than in the majority of the developed countries of the world. Nevertheless, in accordance with some legislative initiatives, it is suggested that the list of OTC drugs in Ukraine is to be decreased in the near future. Increasing the list of Rx groups might affect not only manufacturers and distributors of medicines, but also the media market, because the advertising of Rx medicines in Ukraine is prohibited.

As yet, there is no obligatory price registration in the industry, despite the presence of such restrictions on neighboring markets. Declaration of prices is, however, a precondition for participation in public procurement procedures, *i.e.* without declaration of prices (price changes) drugs cannot be offered at public auctions.

Conclusion

Unfavorable environmental conditions after the Chernobyl Nuclear Power Plant disaster and the effect of many other factors on human health make further development of the pharmaceutical industry of Ukraine essential. This is why, unlike many other industries, the Ukrainian pharmaceutical market remained stable, despite the recent and current extreme economic conditions during a financial crisis.

To sum up, because of many factors described above, the pharmaceutical market is one of the most dynamic and promising in Ukraine. It is also very investment-attractive and will remain so, even if state control over the pharmaceutical industry is tightened.

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