

CHAPTER 3

THE GOVERNMENT PHARMACEUTICAL ORGANIZATION AND THE PROCUREMENT REGULATION

This chapter explains firstly the history of the Government Pharmaceutical Organization and its role to support the country's public health activities and function in compliance with the policies of the government and the Ministry of Public Health in provision of the standard quality products at reasonable prices. Secondly, the production and distribution of GPO's products is provided. Finally, it attempts to describe the background of the Prime Minister Office's Procurement Regulation only in the part of pharmaceutical and medical products.

3.1 History and Role of the Government Pharmaceutical Organization

The Government Pharmaceutical Organization (GPO) is a state enterprise under the Ministry of Public Health (MOPH). It was established on October 5, 1966 by merging the Government Pharmaceutical Laboratories (founded in 1941), a manufacturer, with the Division of Medical Depot (founded in 1901), a distributor.

During the past 50 years, Thailand had to import a large amount of medicinal products from other countries annually. Many kinds of drugs were made from herbal plant available in the country, but there was no factory to produce medicines. Therefore, the Government Pharmaceutical Laboratories was established in 1941 by the suggestion of Dr. Tua Lapanukrom, the former director-general of the Medical Science Department at that time. The aims were to

produce modern drugs, to save government budget and to reserve medicine stock for the population. At first it produced 25 items of drugs into the market.

The Division of Medical Depot was established in 1901 during the reign of King Rama the Fifth. The objective was to be a drugs distributor to the hospitals or any other government agencies at a cheaper price. At first the Division of Medical Depot was governed by the Ministry of Education and later changed to the Department of Medical Sciences, Ministry of Public Health in 1942. Finally, it moved to the same area of the Government Pharmaceutical Laboratories in 1958.

The Ministry of Public Health realized the need to improve distribution of pharmaceutical products, with standard quality at reasonable prices, to provide the public health programs as well as to meet the demand of both the public and private sectors. It was important for consumer protection concerning the quality and price of drugs. GPO was a government instrument that aims to control the price of drugs and medical products, to manufacture essential drugs, to reserve specific demands in emergency such as flood, storm, etc. and to support the government's policy.

The Government Pharmaceutical Organization operated under the Government Pharmaceutical Organization Act 1966 promulgated in the Government Gazette, Vol.3, No.69 special issue on August 11, 1996.

Policies of the GPO under the GPO Act 1996 (GPO, 1996) are:

- 1.To support and provides household remedies in primary health care.
- 2.To provide essential drugs for public health services.
- 3.To reserve medicine stock in case of emergency events.
- 4.To maintain price rigid not vary much from the medium price.
- 5.To support and promote the production standard including quality control.
- 6.To do and promote research and development in this field especially in herbal medicines to substitution of synthetic materials.
- 7.To serve the government and the Ministry of Public Health policies.
- 8.To encourage production of drugs and medical products from local herbal raw materials.

The main functions of the GPO under the GPO Act 1966 are as follows:

- 1.To produce pharmaceutical and medical products.
- 2.To survey the indigenous raw materials and to investigate the feasibility of development bulk drug production utilizing local resources for the country self-reliance.
- 3.To run a business of pharmaceutical and medical products.
- 4.To reserve as stock to prevent shortage in case of emergencies and disasters.
- 5.To study and research on manufacturing of drugs and medicinal products.

The GPO started with the capital investment of 49.15 million Baht and undertook actions to the objectives set by MOPH which were fulfill in production, distribution, transportation of pharmaceutical and medical products to public

health offices with higher efficiency and in low costs. The first annual sale exceeded the target of 34 % and the total sales increased every year. This made GPO be able to conduct its own work without governmental subsidies, and provided the government with return around 40-50 % of net profit. But today it is declined to 35 % of net profit according to the State Enterprises Act. In being a good State Enterprises.

The country's development is shaped under the 7th and the 8th National Plans. The ultimate goals of the plan are : 1) to increase the quality of life, 2) to solve poverty problems and 3) to increase income and employment. The strategies are categorized to reach the above 3 main goals in the following:

1. To increase efficacy in the country's development.
2. To improve the infrastructure of production and marketing system.
3. To increase the quality of basic economic elements.
4. To distribute the income and bring civilization to rural areas.

The Ministry of Public Health is one of the five major ministries in charge of increasing the quality of life of people in the country. The expansion of national health services all over the country and "Health for all by the year 2000", WHO's policy, to all over the world, will lead GPO to play a vital role in the country's development.

The products of GPO can be classified into five major groups (shown in appendix A) :

1. **Biological products** for 19 items of vaccines, toxoids and sera
e.g. cholera vaccines, tetanus toxoids, D.T.P. vaccine, antivenins, etc.

2. **Household remedies** for 37 items. In pharmacologically categorized as antacids, laxatives, purgatives, antihelmintics, analgesic-antipyretic, vitamins etc.
3. **Pharmaceutical products** in both Essential and Non-Essential drugs about 300 items in various dosages form such as injections, tablets, capsules, galenicals, etc.
4. **Herbal medicines.** Plant-derived natural products have served the pharmaceutical industry well over the past 150 years providing myriad of drug candidates. GPO manufactures drugs from plant origins in various dosage forms in 10 items e.g. Infusion, cream, tablets, capsules, gel, etc.
5. **Chemical substances** in 10 items for the pharmaceutical and medical use. Some have been produced from local material such as Sodium Chloride BP., Aluminium Hydroxide Compressed Gel, etc.

The production amount of these products is shown in term of production costs and the percentage of the total production cost as below:

- In 1996 GPO produced medical and pharmaceutical products at the production cost of 1344.83 million Baht, which were divided into 4 groups.

1. **Biological products** for 239.61 million Baht or 17.8% of total production cost.
2. **Household medicines** for 111.08 million Baht or 8.3% of total production cost.
3. **Pharmaceutical and Herbal products** for 977.59 million Baht or 72.7% of total production cost.
4. **Chemicals** for 16.55 million Baht or 1.2% of total production cost.

3.2 Production and Distribution of GPO Products

The production of GPO is dosage formulation with simple technology as described before in the part of Production Process. The raw materials used in production mostly are imported from foreign countries. The value of purchase is indicated in Table 3.1 , the latest year (1997) GPO used raw materials in the total value of 856.24 million Baht separated in locally made of 313.39 million Baht and imported of 542.80 million Bath in the proportion of 37 : 63 respectively. The average proportion of locally made and imported pharmaceutical material is 33 : 67. This shows that GPO has followed to the policy of supporting local made products and the trend of imported raw materials declines. Instead of purchasing the raw materials from Europe and USA as in the past, now they are purchased mostly from India, China, Korea, due to fast development in pharmaceutical industries of each country with the MNCs and locally owned companies under the policy for self-reliance.

Most of GPO's customers are government health services. The annual sale volume, in general, can be divided into 2 parts as shown in Figure 3.1 ; the main is the government health services under MOPH and those who are controlled by other ministries such as Ministry of Defense, Ministry of Finance, Ministry of Interior, etc. Another small portion is private sector which are hospitals, clinics, drugstores, GPO dealers , six of GPO drugstores, companies or factories and doctors. This part is shared only 10% but in the part of public sectors cover around 90% of the total sales. Table 3.2 indicates that from 1987 the sales was 82.49% for public sector both under MOPH and non MOPH and 17.51% for private sector. Whereas in 1997, the sale to public sectors is 91.59% of total GPO's sale , the remainder 8.41% belongs to the private sector. It can be said

Table 3.1 Value of Local and Imported Raw Materials Used by GPO, 1993-1997

Year	Local Raw Material (million Baht)	Imported by		Total Imported Raw Mat. (million Baht)	Total Value (million Baht)	Local : Imported (million Baht)
		Wholesale (million Baht)	Direct (million Baht)			
1993	94.44	319.89	137.32	457.21	551.65	17:83
1994	203.85	233.15	224.74	457.89	661.74	31:69
1995	227.02	290.46	157.51	447.97	674.99	34:66
1996	222.22	266.01	240	506.01	728.23	31:69
1997	313.39	284.49	258.36	542.8	856.24	37:63
					average	33 :67

Source : The Government Pharmaceutical Organization (GPO)

Figure 3.1 Distribution Channel of GPO Products

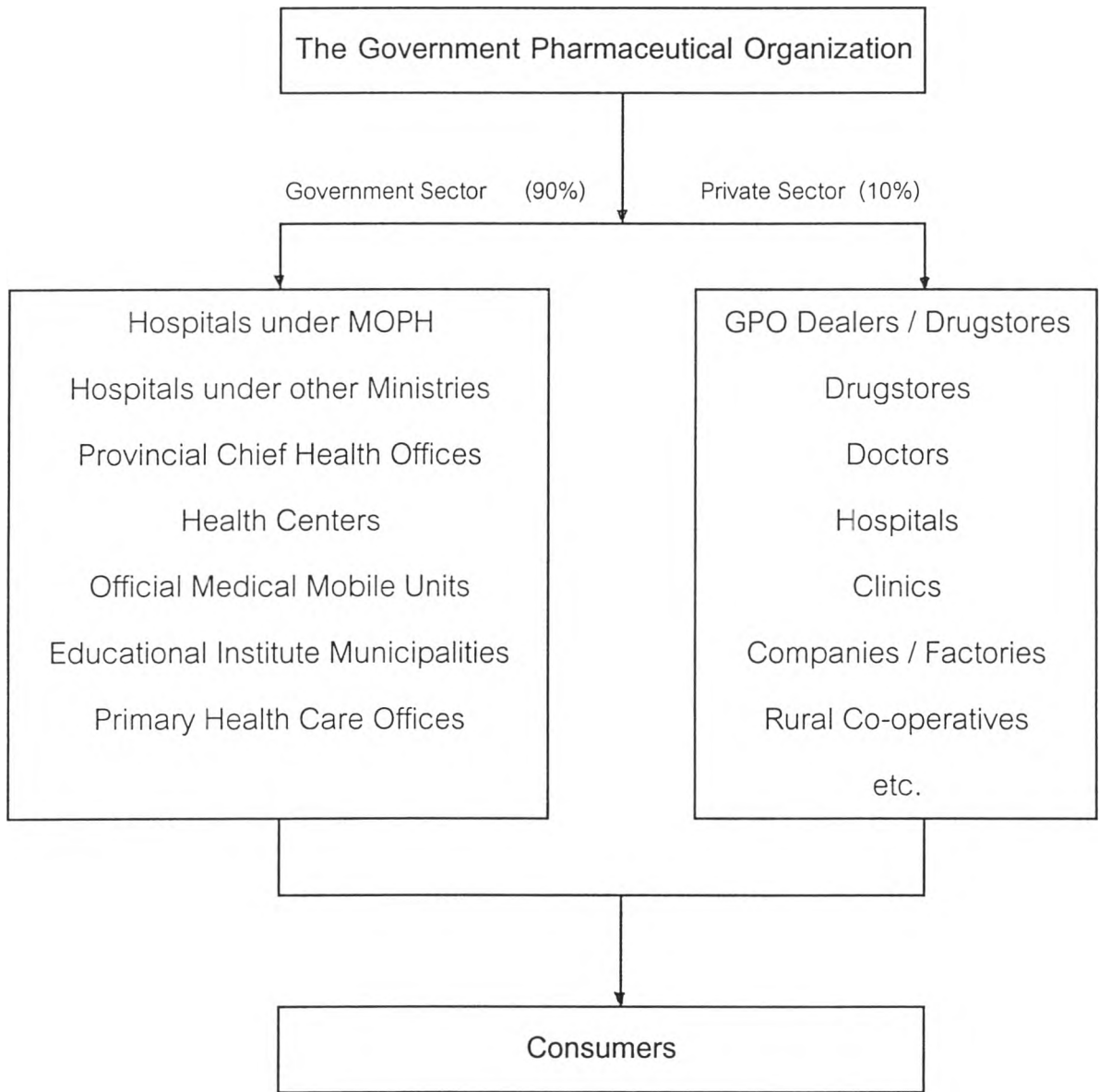


Table 3.2 GPO's Product Sale to Public and Private Sectors, 1987-1997

(Wholesale price)

Fiscal Year	Public Sector						Private Sector	%	Total Sale
	Under MOPH (million Baht)	% Share	Non MOPH (million Baht)	% Share	Total (million Baht)	% Share	(million Baht)	Share	(million Baht)
1987	554.07	70.97	89.97	11.52	644.04	82.49	136.72	17.51	780.76
1988	598.43	72.81	88.14	10.72	686.57	83.53	135.33	16.47	821.90
1989	694.78	73.50	100.93	10.68	795.71	84.17	149.62	15.83	945.33
1990	814.86	75.60	99.49	9.23	914.35	84.84	163.44	15.16	1,077.79
1991	911.99	77.09	95.96	8.11	1007.95	85.21	175.02	14.79	1,182.97
1992	1,066.80	77.54	129.98	9.45	1196.78	86.99	178.96	13.01	1,375.74
1993	1,254.44	81.91	114.90	7.50	1369.34	89.41	162.15	10.59	1,531.49
1994	1,466.50	83.61	109.13	6.22	1575.63	89.83	178.44	10.17	1,754.07
1995	1,918.88	86.32	111.81	5.03	2030.69	91.35	192.23	8.65	2,222.92
1996	1,979.39	82.85	176.84	7.40	2156.23	90.25	232.97	9.75	2,389.20
1997	2,234.18	85.12	169.89	6.47	2404.07	91.59	220.76	8.41	2,624.83
					average	87.24	average	12.76	

Source : The Government Pharmaceutical Organization

that average of 87.24% during 1987-1997, belongs to public health services and the rest 12.76% is of the private sector.

3.3 The Procurement Regulation

The Prime Minister Office's Procurement Regulation 1992 is the latest issue after several revisions up to present to be the eighth edition.

There are five Articles (60-64) in the part of the pharmaceutical and medical products purchasing but the important ones are Articles 60-62 as follows:

Articles 60: The government sector has to purchase drugs under the generic name of National Essential Drugs Lists (NEDL) by using the purchasing budget not less than 60% except those who governed by MOPH have to purchase drugs not less than 80%.

Articles 61: Pharmaceutical and non-pharmaceutical products, such as gauze, syringe, needle, etc, which are manufactured by GPO, the government sector has to purchase from GPO except those governed by the Ministry of Defense have to buy from the Military Pharmaceutical Factory (MPF) and the Royal Thai Police Department can purchase from both of them under the special condition that the price from both GPO and MPF must not exceed 3% of the medium price set by MOPH.

Articles 62: Drugs purchasing under generic name of NEDL and non-pharmaceutical products which are not produced but dispensed by GPO, the government sector can purchase from GPO or another suppliers under the conditions as follows:

(1) The purchase by bidding. The government sector has to inform GPO every bidding time. If the GPO's price is equal or lower than other suppliers are, the government sector has to purchase from GPO.

(2) The purchase by special procedure or price competition can be done in case of the price is not higher than the medium price set by MOPH.

Articles 63: In case that there are laws or cabinet's resolution allow to purchase drugs or medical products from any section, the government sector can purchase drugs or medical products from that section by special procedure.

Articles 64: The Ministry of Public Health has the responsibility in passing the NEDL with the medium price to every government sector and GPO has to inform GPO's drug list according to the NEDL to every government sector as well.

The Prime Minister Office's Procurement Regulation 1992, regarding drugs and medical products purchasing, enforces the government sector to purchase drugs under generic name of NEDL set by National Drug Committee for the purpose of government sector can use drugs and medical products in a qualified treatment with low price by the standard control of drugs and to protect a short in stock and can control prices for saving the budget of the government sector.

The important things dealing with this purchasing regulation can be described as follow:

1. The proportion of pharmaceutical and medical products in NEDL of the government section has been controlled to purchase not less than 60% for those who are out of the MOPH and the government agencies under the MOPH must purchase not less than 80% of their budget.
2. Drugs purchasing by using generic name of NEDL which had totally 358 drug names is the main purpose for solving a high price of drugs.

The National Drug Policy by the National Drug Committee had developed the new NEDL in 1987 for drug purchase cooperating to the procurement regulation and enforce the public sector to purchase drugs in NEDL with the government budget and to buy from GPO only.

According to the drugs that can not be produced, GPO is responsible to purchase from any other supplier and distribute to the hospital later. In case of an emergency time they can use the budget of the low-income patient to purchase drugs of NEDL from another supplier but not exceed 20% of the budget under generic name.

Drugs reserved and purchase handled by GPO are ready to deal with the order of the government sector within 30 days.

Later, the limitation of NEDL was expanding to other government sector and state enterprises that have the health care units and determined definitely policy that they have to use 60% of the budget to purchase drugs under NEDL and 40% for drugs purchasing out of NEDL. By the way the public sector of MOPH must conduct the same as before by using the entire budget to purchase drugs of NEDL and in the new correction of the procurement regulation, the drugs under NEDL which can not be produced by GPO, they can purchase from another suppliers. But drugs produced by GPO, the public sector has to purchase from GPO. Except the price of GPO 's products is more than 3% higher than the others, they can purchase from another supplier.

The group of private pharmaceutical producers do not against with this regulation, on the other hand the objection is expressed by GPO, country medical personnel and student groups, thinking that the new correction of drug purchase regulation can not control the quality and price of drugs, the budget has not been

saved as it was. Besides it is necessary to inform the government sector to purchase drugs in good quality and not expensive.

Then the Prime Minister Office's Procurement Regulation was promulgated again after correction in 1986 as follows:

-The government sector under MOPH has 80% of the budget purchase drugs under NEDL with generic name, for general government sector not less than 60%

-Drugs that produced by GPO or Military Pharmaceutical Factory have to be purchased by government sector under MOPH and Ministry of Defense respectively. Furthermore, if the price of both GPO and MPF is 3% higher than medium price, the government sector can purchase from another supplier.

-Drugs that can not be produced by GPO, the government sector can purchase from another supplier but the price must not exceed the medium price.

After using this regulation for a certain period. Some issues have changed and the attempt to avoid this regulation was appeared, especially the political issued by the group of private pharmaceutical producers. Thus the government had improved the procurement regulation of 1986 to be the new issue in 1992 which is the latest issue up to present.