

## Death and Taxes

### *The impact of taxes and other government barriers to access*

Benedict Irvine<sup>1</sup>

#### Summary

- The price of medicines is not solely determined by manufacturers; in many countries there are significant local price inflators (LPIs).
- Tariffs and VAT can be especially important factors in determining the end-user price in poor countries.
- Other LPIs include: port charges; clearance and freight; importer's margins; central, regional and local government taxes; wholesaler margins; and pharmacy margins.
- According to one study, total duties and taxes (customs duty + VAT + other duties) vary from a low of 0.01% in Malaysia to a high of 55% in India, with a global average of 18%.<sup>2</sup>
- Tariffs on pharmaceuticals are regressive in their effect on consumers, harming especially the poorest and weakest.
- The governments of poor countries have a moral duty to eliminate taxes and tariffs on medicines.

This briefing note evaluates the findings of several studies that have been published in the last three years.<sup>3</sup> It is the first working paper in a project on fiscal barriers to access, which International Policy Network will be running in coming months as part of the Campaign for Fighting Diseases ([www.fightingdiseases.org](http://www.fightingdiseases.org)).

#### Tariffs

Tariffs can be an important factor in determining the end-user price of pharmaceuticals. A 57 country study conducted on behalf of the European Commission in 2003, which examined pharmaceutical products used in the treatment of communicable diseases<sup>4</sup>, found that the countries which apply the highest rates include Nigeria, Pakistan, India and China. As a result, large sections of the populations of these countries are being priced-out of treatment by their own governments.<sup>5</sup>

#### Local Price Inflators

In addition to tariffs, there are various other measures that drive prices up once a medicine has entered a country. These local price inflators (LPIs) include: port charges; clearance and freight charges; pre-shipment inspection; importer's margins; VAT/sales tax; various central, regional and local taxes; wholesaler margins; and retail pharmacy

---

<sup>1</sup> Director, Health Project, International Policy Network, contact: ben[at]policynetwork.net (replace [at] with @)

<sup>2</sup> European Commission, 2003

<sup>3</sup> There are five main sources (Levison and Laing 2003; Levison, 2003; European Commission, 2003, and 2002<sup>3</sup>; Bale, 2001). Of these five the two Commission studies and that by Bale are arguably the most important; and relied upon by the Levinson and Levison and Laing studies. The Bale study is wide-ranging though relies on older source data from the WTO. The Commission's 2003 study covers 57 countries representing 85% of the population of all African, South American, Asian (except Japan), Caribbean, Micronesian and Melanesian countries. Meaningful comparison of data between these sources is difficult.

<sup>4</sup> This was done on the basis of the Essential Drugs List published by the WHO.

<sup>5</sup> Poor countries are not members of the WTO Pharmaceutical Agreement, a 22-member agreement, concluded during the Uruguay Round of Trade negotiations, which has led to the reciprocal elimination of tariffs (dubbed 'zero-for-zero') on approximately 7,000 products. (European Commission, 2003 and 2002).

margins. All of these levies are influenced by government intervention -- even wholesaler and pharmacy margins are often inflated because of government regulations and other restrictions on competition.

Perhaps the most disturbing levy is value added tax (VAT).<sup>6</sup> VAT is a revenue raising instrument that can exist at numerous levels of the political system, and may be applied to different classes of products, or certain sectors.<sup>7</sup> The 2003 European Commission study found that VAT rates imposed on pharmaceuticals averaged over 12%.

Table 1, below, shows the combined impact of duties and taxes (customs duty + VAT + other duties) on the price of retail medicines in selected poor countries. The global average of 18%; the lowest was found to be 0.01% in Malaysia and the highest 55% in India.<sup>8</sup> Meanwhile, Table 2 gives estimates of local price inflators for a selection of countries. These are shown to increase prices by between 48%, in Nepal, and 87% in Armenia.

**Table 1 Combined total duties and taxes imposed on retail medicines.**

Country	Combined total duties and taxes%
Mexico	24%
Georgia	25%
Morocco	25%
Jamaica	27%
China	28%
Bangladesh	29%
Bolivia	32%
Pakistan	33%
Nigeria	34%
Sierra Leone	40%
India	55%

Source: European Commission, 2003

**Table 2 Local pharmaceutical price inflators in a selection of poor countries.**

Country	LPI – increase over base price
Armenia	87%
Brazil	82%
Kenya (I)	54%
Kosovo	74%
Mauritius	59%
Nepal	48%
South Africa	74%
Sri Lanka	64%
Tanzania	74%

Source: derived from Levison and Laing, 2003.

### **Why governments tax medicines**

Given the massive negative impact of local price inflators on the cost of medicines for the poor, the question has to be asked: why do government do it? There are two main reasons: protection of local industry and revenue raising.

**Protection of local industry.** In some cases, policies are designed to protect domestic industry, without regard for the impact on the sick. Both Levison (2003) and the European Commission (2003) note that Nigeria, Pakistan, India and China all have significant local industries and are included in the group of countries with the highest

<sup>6</sup> Value Added Tax is similar but not identical to a sales tax; governments usually employ either one or the other but not both.

<sup>7</sup> Levison, 2003.

<sup>8</sup> European Commission, 2003. Applied customs rates were found for each of 27 HS numbers. To obtain an average customs rate per country, these rates were arithmetically added without weighting them. The same process was used to calculate the average rates of VAT and other duties.

import duties. Opponents of tariff removal support this theory, suggesting that lowering or abolishing tariffs could undermine the domestic industry which depends for its survival on high import barriers; it has to be said, though, that few developing countries have a viable pharmaceutical manufacturing industry. As Levison (2003) points out: 'Economically, ... tariffs impede the action of a competitive market where the best drug will achieve the best price and [they] protect inefficient [local] producers who charge high drug prices.'

**Income Generation** Tariffs generate revenue for the government. In some very poor countries, import tariffs in general represent an important source of income for governments, which may have few other opportunities to collect taxes. However, tariffs on medicines are rarely a significant source of revenue, so other factors must be at play.

## CONCLUSION

Access to medicines requires infrastructure and management systems that allow medicines to be procured, prescribed, dispensed and subsequently monitored, in as cost effective manner as possible. Very often, simplistic solutions are proposed that have no bearing on the reality of the situation. For example, activist organisations have frequently claimed that patents are blocking access in poor countries. Yet, the evidence shows that very few drugs are patented in most of Africa, or indeed most poor countries.<sup>9</sup>

Compared with poverty and lack of health system infrastructure, tariffs may be a less important barrier to access to medicines. Nevertheless, it is morally reprehensible that the governments of poor countries should continue to drive up the price of medicines through taxes, tariffs and regulations. These constitute a regressive, unwarranted tax on the sick and a barrier to treatment, condemning untold numbers to death.

## Key sources

Bale, Harvey., *Consumption and trade in off-patented medicines*. Commission on Macroeconomics and Health, Working Paper Series, Paper No. WG4:3, 2001 ([http://www.cmhealth.org/docs/wg4\\_paper3.pdf](http://www.cmhealth.org/docs/wg4_paper3.pdf))

European Commission, *Working document on developing countries' duties and taxes on essential medicines used in the treatment of the major communicable diseases*, European Commission, Directorate-General for Trade, 2003. Weblink: [http://europa.eu.int/comm/trade/issues/global/medecine/docs/wtosub\\_100303.pdf](http://europa.eu.int/comm/trade/issues/global/medecine/docs/wtosub_100303.pdf)

Levison, Libby., Laing, Richard., 'The hidden costs of essential medicines', WHO, Essential Drugs Monitor, Issue No. 33, 2003. Weblink: [http://www.who.int/medicines/library/monitor/33/EDM33\\_20-21\\_Hidden\\_e.pdf](http://www.who.int/medicines/library/monitor/33/EDM33_20-21_Hidden_e.pdf)

Levison, Libby., *Policy and programming options for reducing the procurement costs of essential medicines in developing countries*, Concentration Paper, 2003. Weblink: [http://dcc2.bumc.bu.edu/richardl/IH820/Resource\\_materials/Web\\_Resources/Levison-hiddencosts.pdf](http://dcc2.bumc.bu.edu/richardl/IH820/Resource_materials/Web_Resources/Levison-hiddencosts.pdf)

---

<sup>9</sup> Attaran, Amir., 'How Do Patents And Economic Policies Affect Access To Essential Medicines In Developing Countries?' *Health Affairs*, Vol 23, Issue 3, 155-166, 2004. (<http://content.healthaffairs.org/cgi/content/abstract/23/3/155>)