

Striking a balance between protecting the consumer and producer

Published on 22 Nov 2019 3:33PM

HEALTH Minister Dr Dzulkefly Ahmad has announced that the government will end Pharmaniaga's concession to distribute drugs and medical supplies to all public health institutions and facilities nationwide.

This is in line with promise 23 on the PH election manifesto: ensuring the government procurement system generates maximum benefit for the people's money.

The appointment of Pharmaniaga as the sole medical supply distributor in Malaysia is a result of a privatisation initiative by Dr Mahathir Mohamad back in 1994. Previously the role of supply chain for medicine was the responsibility of the Health Ministry.

Since then, Pharmaniaga has been awarded the concession to distribute medical supplies to the Health Ministry facilities nationwide, with the main KPI being the delivery period to all facilities, including facilities located in the remotes areas.

It is essential to review the concession after such a long time and it may save the government millions of ringgit. According to Finance Minister Lim Guan Eng, Pharmaniaga is the concession holder for the distribution of RM1.2 billion worth of drugs on the approved products purchase list in 2018.

Of the amount, almost 30% was for in-house products of Pharmaniaga.

In theory, the elimination of monopolies for an open market will lead to competitive and lower prices. Hence, applying the open tender system for medical supply distribution would lead to better services and lower prices.

Former Saudi economic adviser of Saudi Arabia, Dr Umer Chapra said in his book, *Towards a Just Monetary System*, that "all business practices that lead to the exploitation of the buyer or the seller or to a restriction of fair competition must be effectively prohibited".

Monopoly creates a class of idle market players as it does not compete except politically in obtaining licences and concessions. Thus, the profits are earned without the element of risk-taking.

Furthermore, monopolistic practices could lead to oligopolies. Oligopolistic practices should be removed or at least substantially reduced otherwise the pharmaceutical industry will be filled with cartels.

Nevertheless, the process of eliminating a monopoly should be gradual, particularly in a sector which affects the rakyat. Respect is due to Pharmaniaga, which has been in the market for years and is highly experienced in the value chain of pharmaceutical and medical products in Malaysia.

On the other hand, the Competition Act has been enforced since 2012 and it clearly states that any agreement that prevents, restricts or distorts competition is a violation of the law.

Based on the consumer price index data published by Statistics Department, the prices of health products and services do not see huge increases and contribute less to the overall inflationary pressure.

The inflation rate of pharmaceutical and medical products remains on a healthy level. For instance, the average overall inflation rate in 2011-2018 is 2.4%, and 2.6% for pharmaceutical and 2.2% for medical products.

With a proper process and open tender system, the prices of health products and services can be much lower in the future.

The transition process should take some time, perhaps a few years, in order to avoid supply disruption, especially to public hospitals and health centres. Supply disruption can lead to sudden price hikes and affect medicine quality.

Hopefully Pharmaniaga as a big company does not retrench its staff due to the changes made by the Health Ministry. The company is expected to remain stable given its experience and long involvement in Malaysia's health sector.

Let's not forget the motion tabled last year in the Dewan Rakyat by the Klang MP to reallocate RM20 billion to the Health Ministry from the PM's Office and Defence Ministry.

He revealed that reduction in government subsidies in the last few years have resulted in costs being passed onto patients.

Steps need to be carefully considered so as to not harm the rakyat's physical as well as financial health, both in the short and long term.

Therefore the government has made a responsible decision to keep Pharmaniaga's services until the open tender system is ready. This is to ensure no disruption to the supply chain of medical supplies.

Clean process and transparent government procurement to ensure good governance, better fiscal management and market efficiency are among the promises made by the PH government.

Looking ahead, an open tender system can provide opportunities for new medical-related companies, especially local SMEs, to participate in the business of medical supplies and overall healthcare sector.

The move by the health minister is most welcomed by Malaysians. It should mark a new era with a transparent and clean government procurement process.

In the end, it is about balance between the consumer and producer. For the rakyat, cheaper medical services and medicines are the priorities.

For the producers, the government has to ensure fair and square market opportunities to ensure good quality medical services and products are available in the market.

There are many challenging issues in the healthcare sector. Malaysia's public health expenditure to GDP is 2% in 2018. The ratio is low when compared to that of developed economies.

For comparison, Singapore spends 4.9% of GDP on health, Australia 9.4%, Japan 10.2% and South Korea 7.2%. The health minister said in May last year that Malaysia's target was 6-7%.

Increase in healthcare spending is important. Greater focus is highly required for the sector. Quality of health services, medical supplies to rural areas, research and development, glut of medical doctor graduates are among the key issues that need critical solutions.

Finally, the recent wake-up call from Tg Piai should motivate PH government to react more quickly and efficiently.

The government should focus on three things as guided by the consumer price index data. For every RM100 spent by Malaysians, RM30 goes to food, RM24 to rent and utilities, and RM15 to transport.

Prices of food and beverages can be lowered by reducing the super-high food imports bill. Expansion of domestic production of agricultural products must be the focus which should be supported with proper policy action plans.

Transport prices can be tapered down by the government. Fixing retail fuel price is important to ensure low inflationary pressure. The targeted fuel subsidy scheme may not benefit the sandwiched group – the M40.

Plus, the fuel price is based on the global crude oil price which is volatile. A sudden rise in the global price can trickle down to domestic fuel prices and could eventually affect B40 the most as other prices of goods and services increase significantly.

Rent prices are difficult to adjust. The best the government can do is to affordable homes to low income groups. The sandwiched group continues to be overwhelmed by high living costs.

For the PH government to regain the people's confidence, I suggest it focuses on two things – the prices of food and transport. These are short term solutions.

For the health sector, liberalising the market and ensuring better quality of medicine and services are the government's long-term strategy.