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# Sector Report: Pharmaceuticals Industry in West Bank/Gaza

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## Introduction

West Bank/Gaza's pharmaceutical industry is unique in terms of innovation and development. The industry boomed after events in 1967 resulted in closed borders with the Arab world. Prior to this event, pharmaceutical products were imported from foreign companies via importers in Amman, Jordan. After 1967, however, imports from Jordan became problematic. The only products available were either Israeli or products imported through Israeli agents.

This difficult situation led nine pharmacists in the West Bank to establish small laboratories to manufacture simple syrups and anti-diarrhea products in 1969. Political and economic instability soon threatened the viability of capital investment in the pharmaceutical industry, and indeed, in all industries, during this period. In 1970, therefore, these nine laboratories merged to become three larger companies, Jordan Chemicals in Beit Jala, West Bank/Gaza Medical Company in Ramallah, and Jerusalem Pharmaceuticals in El-Bireh.

A period of strong growth soon followed. New companies entered the field, including Balsam Company in El-Bireh in 1972 and Birzeit Company in Birzeit in 1973. Eastern Medical Company and Gama followed five years later, both situated in Ramallah. Pharmacare was established in 1985 in Beitunia, and MASCO, in Gaza, one year later.

In 1993 Birzeit Pharmaceuticals Company merged with West Bank/Gaza Medical Company and in early 1995 Jerusalem Pharmaceuticals Company merged with Balsam Pharmaceuticals Company. The aim of these mergers was to raise the standards of the pharmaceutical industry by separating the production of antibiotics from the production of other therapeutics. Such separation, it was deemed, would help meet international standards in pharmaceutical manufacturing.

## The Pharmaceutical Sector in West Bank/Gaza

After more than 25 years of growth (20 - 30% per annum, according to the Union of Palestinian Pharmaceutical Manufacturers), domestic sales in West Bank/Gaza have stagnated. Due to the growth of inter-and intra-industry, Palestinian pharmaceuticals manufacturers have expanded their capacity. Market size, however, has grown only slightly. This has resulted in producers pursuing a small target market with limited product lines that do not cover certain ailments and diseases.

Currently, there are six major Palestinian companies with approximately $45 million in capital investment, all of which are members of the Union of Palestinian Pharmaceuticals Manufacturers, UPPM. The technology being used by these companies is mostly semiautomatic (80 percent) and automatic (20 percent). The overwhelming part of sales is made in the local market with zero sales to Israel. All raw material are imported from abroad.

## A. Labor Issues

According to the UPPM, the largest of the manufacturers, Birzeit West Bank/Gaza Pharmaceutical Co., has 180 employees, followed by the Jepharm Co. with 137. The remaining companies employ a total of 235 workers—Pharmacare with 90, Jordan Chemicals with 65, Eastern Co. with 51, Gama 25 and Salha Co. with 10 employees. The latter is based in the Gaza Strip, while the rest are located in the West Bank.

## B. Locations of the Palestinian Pharmaceutical Industry

Seventy per cent of local producers are located in the Ramallah area. The remainder is spread across the West Bank and Gaza. Characteristics of the industry include unfocused local production, with manufacturers tending to produce similar products and product lines. This has created strong inter-industry competition, which, in turn, has hampered investment directed towards research and development.

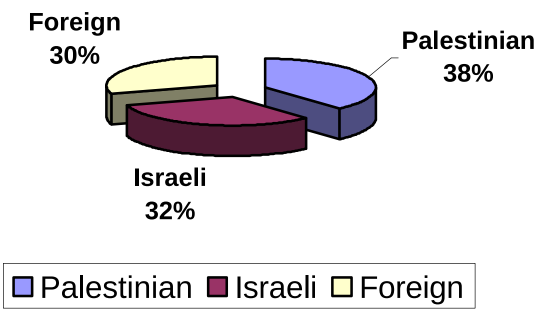
## C. Products

Palestinian pharmaceutical companies manufacture a wide range of generic and specialized medicines including antibiotics, anti-rheumatics, analgesics, tranquilizers, multivitamins, anti-emetics, cardiovascular, anti-diabetics, anti-asthmatics, antiseptics and anti-fungals. Each produces under its own brand name and all are preparing to export.

## D. Sales and Market Share

Estimates from the Palestinian National Authority and pharmaceutical industry sources suggest that the local industry covers 35-40% of the Palestinian market while the remainder is provided by Israeli and foreign products. The pharmaceutical industry in West Bank/Gaza constitutes 7% of total industrial output and contributes roughly 1% to GDP. According to a Massar survey conducted in 1998, the total value of annual supply is $65 million of which $25 million constitutes Palestinian pharmaceutical products and $40 million foreign and Israeli products.

**Figure 1: Market Share by Country**




*Source: The Pharmaceutical Industry: Reality and Perception. Massar Associates, December 2000.*

## 1. Local Supply

The results of a 1999 Massar survey of the six largest manufacturers in the West Bank show that the total value of annual sales of Palestinian manufacturers is approximately $25 million. Market share for individual Palestinian companies are as follows: Birzeit-Pal, 45.16%; Jepharm, 25.44%; Pharmacare, 10.21%; Jordan.Ch, 9.55%; Eastern, 5.49%; and Gama, 4.12%.

## 2. Foreign Supply

The largest proportion of foreign supply arrives via Palestinian dealers and distributors. These dealers distribute different products for various Israeli and foreign companies, although some dealers enjoy exclusive dealership rights. All dealers of Israeli products are distributors and none of them have exclusive dealership arrangements.

The following table indicates dealers' sales broken down by category as provided by dealers:

**Table1: Dealers' Sales by Category**

| Category | Foreign | Israeli | Total |
|---|---|---|---|
| 1.Antibiotics | $2,327,358 | $3,103,145 | $5,430,503 |
| 2.Peptic Ulcer | $193,650 | $248,978 | $442,628 |
| 3.Antidiabetics | $96,532 | $83,369.06 | $179,901 |
| 4.Cardio-Vascular System | $1,174,758 | $1,079,507 | $2,254,266 |
| 5.Non-Steroidal Anti-inflammatory | $790,188 | $790,188 | $1,580,376 |
| 6.Central Nervous System | $5,345,450 | $3,834,779 | $9,180,229 |
| 7.Allergic Reaction | $301,388 | $290,995 | $ 592,383 |
| 8.Antiprotozoal | $361,760 | $311,862 | $673,623 |
| 9.Urinary Antiseptics | $125,332 | $233,574 | $358,907 |
| 10. Others | $3,491,230 | $5,585,968 | $9,077,198 |
| **Total** | **$14,207,649** | **$15,562,369** | **$29,770,018** |
| | **48%** | **52%** | **100%** |

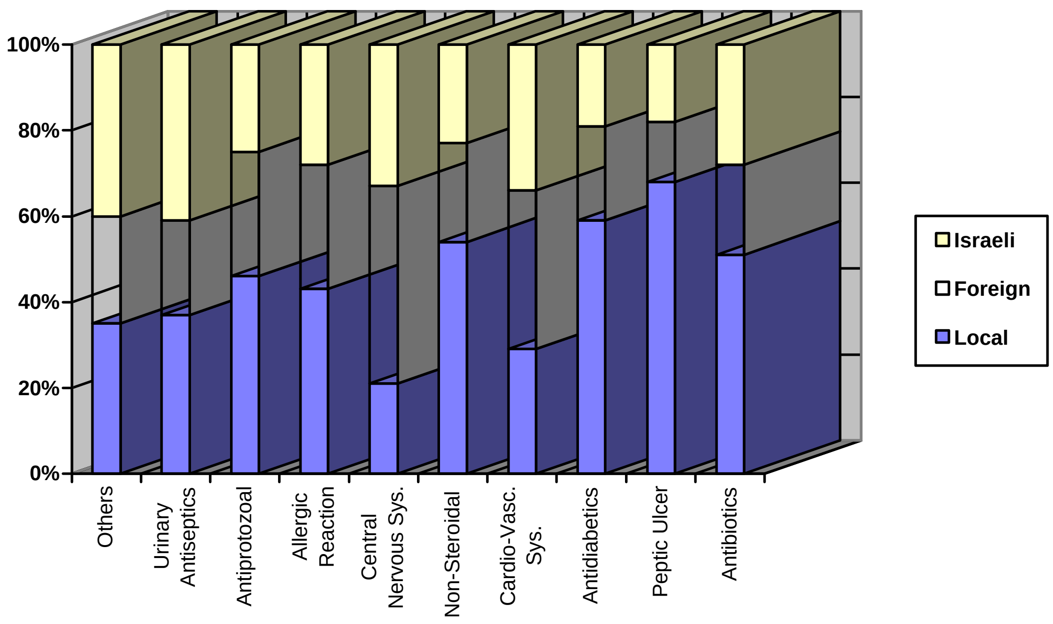
*Source: The Pharmaceutical Industry in West Bank/Gaza: Market Survey. Massar Associates, August 1997.*

The dealers listed above are dealers for Israeli and international companies as mentioned. From the international companies: Lederle, Hoechst, Russel, Smith Kline Beecham, Organon, Schering, Squibb (BMS), NOVO, Upjohn, Bayer, Lilly, Cilag, Johnson & Johnson, Sandoz, Syma, Ciba Geigy, Berna, Glaxo Welcome and others. From Israeli Companies: Teva', Dexon, Taro, CTS, Agis, Rafa, Vitamed, among others.

The actual total foreign sales of pharmaceuticals in the Palestinian market may well reach approximately $40 million per year.

The following figure illustrates the market share of major pharmaceutical categories by product origin in the West Bank and Gaza:

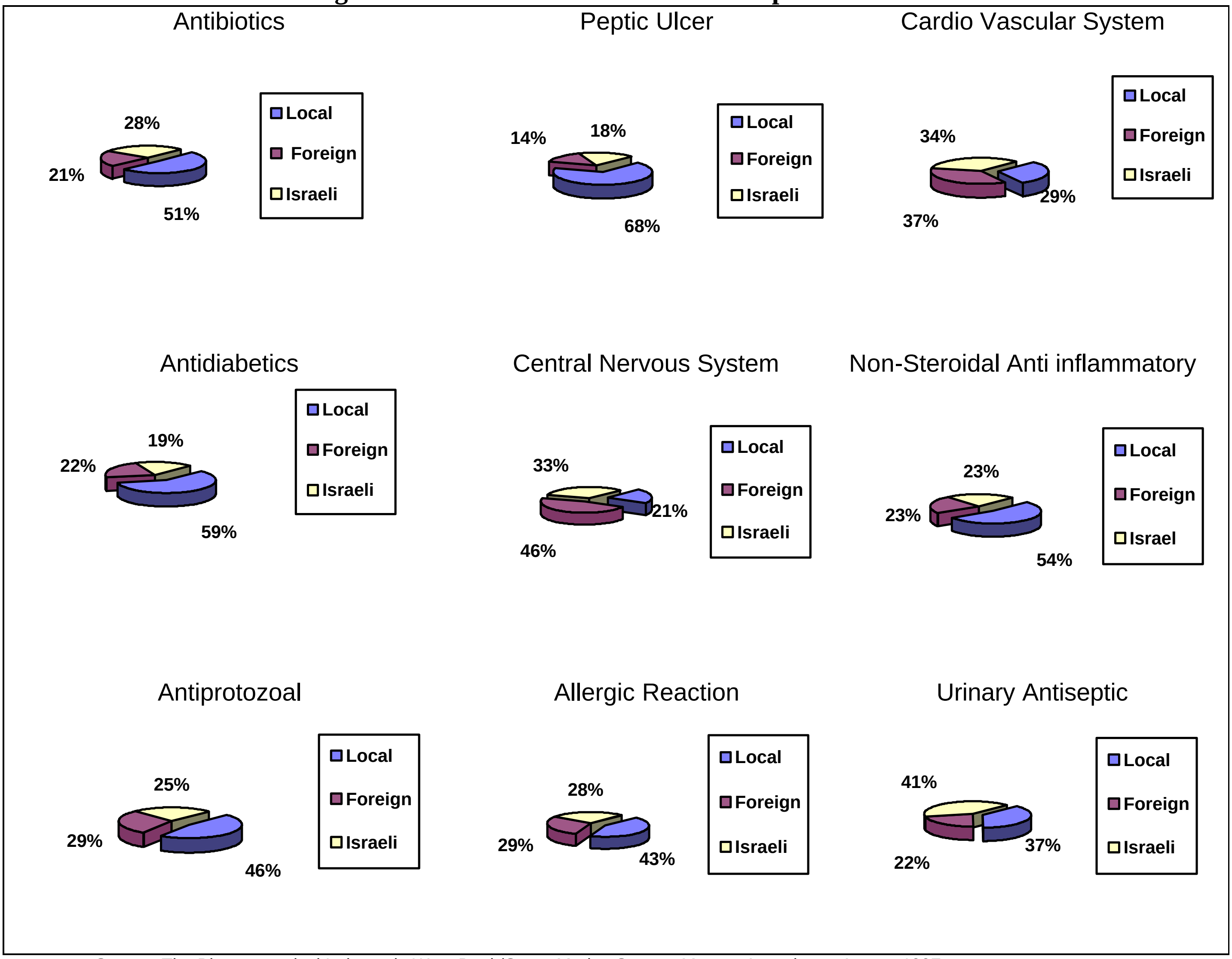
**Figure 2: Market Share by Product Category**




*Source: The Pharmaceutical Industry in West Bank/Gaza: Market Survey. Massar Associates, August 1997.*

According to the figure above, the largest market share is captured by local manufacturers in most of the common pharmaceutical categories. The largest share of local products is in the peptic ulcer category, anti-diabetics, non-steroidal, anti-inflammatory and antibiotics. Foreign products enjoy the largest share in central nervous system products while Israeli products enjoy the largest share in the urinary category.

**Figure 3: Percentage of Market Share by Product Origin for the Most Common Pharmaceutical Categories in the West Bank and Gaza Strip**




*Source: The Pharmaceutical Industry in West Bank/Gaza: Market Survey. Massar Associates, August 1997.*

## E. Exports

Pharmaceutical manufacturers are currently opening new export markets mainly in Eastern European and Arab countries. Exports represented less than 5% of total sales in 1996 but they are growing rapidly due to expanding marketing opportunities in Yemen where three companies are developing distribution networks for their products. Exports are rapidly growing with 7% of industry volume exported to Yemen, Nigeria, Russia and Ukraine. The sector has also exported to Belarus, Armenia, and Romania.

The sector has also provided many international agencies with almost all their budget related to pharmaceuticals especially PSF, MAP and ICRC.

**F. The Industry's Challenges**

The pharmaceutical industry in West Bank/Gaza has its own specific problems. These are two-fold: first, the legislative and regulatory systems relating to the industry are not clear. Second, the market combines both open and closed market characteristics.

The mixed open and closed market has created its own challenges. Foreign products can access the Palestinian market, while Palestinian products do not enjoy access to Israeli and foreign markets. The prices of Palestinian pharmaceuticals are relatively controlled, in contrast to the prices of foreign products. This may be an advantage, where local products can compete on price against foreign products. At the same time, however, it may be considered a constraint as far as profitability and development are concerned.

Other challenges face the local industry. West Bank/Gaza's limited market necessitates manufacturers to explore the feasibility of export markets. This will, however, require changes in the current status of the local industry, including the modernization of facilities, equipment and procedures to comply with the "Good Manufacturing Practices" (GMP). Several Palestinian companies are already investing millions of dollars in upgrading their facilities and equipment. Increased competitiveness from local companies is required to counter new imports originating from neighboring Arab countries. Finally, awareness and sophistication among Palestinian consumers must be improved to ensure improved quality and higher standards of local products.

Nonetheless, industry is growing rapidly overall, in spite of the recent flattening out of domestic sales and targeting local and international markets. Key competitive factors include the introduction of automated production lines, improved management and production processes, continuous training of management and line workers and the institution of quality control practices have led to significant increases in production capacities. Companies are participating in a program of training and technical assistance aimed at complying with all GMP requirements. These programs have been reflected in the continually improving range and quality of products. Palestinian labor costs are also competitive, although foreign companies tend to use capital-intensive operations.

## The Union of Palestinian Pharmaceutical Manufacturers

Current members include Birzeit West Bank/Gaza Pharmaceuticals Company (Ramallah and Birzeit); Jerusalem Pharmaceuticals Company (El-Bireh); Jordan Chemical Laboratories (Beit Jala); Eastern Chemical Company (Ramallah); Pharmacare (Beitunia)

The five members of the UPPM work together to address several objectives: representation of the industry to the public and private sector; identifying the common challenges and problems facing the sector in terms of government policy, taxation and marketing; coordinating activities especially in the areas of technical assistance and training where the members have common needs; and, cooperation with local and international organizations to develop the sector in terms of production, management, marketing and export marketing.

**The Union of Palestinian Pharmaceutical Manufacturers**
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