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TAXED TO DEATH

Tariffs and other barriers to vaccine and
drug delivery

By Roger Bate, PhD.

Resident Fellow, American Enterprise Institute and Co-Director of Africa
Fighting Malaria.

Contact: rbate@aei.org, 1-202-828-6029

Access to Medicines

- More than 1/3 of world's population lacks access to essential medicines
- Millions die every year of preventable and curable diseases
- Many reasons for lack of access
 - Poverty (cost of medicines and devices)
 - Lack of infrastructure
 - Lack of political will
- Many countries impose burdensome import tariffs and sales taxes
- Tariffs can encourage corruption & delays – both with serious consequences for medical care
- State imposed barriers to access can and should be removed immediately

Working Paper

- Looks at levels of import tariffs for Essential Drugs List
- Chapter 29 (active ingredients) and Chapter 30 (completed pharmaceuticals, plus bandages, wadding, swabs etc)
- 151 (formerly 53) countries examined for which reliable data could be obtained;
- Average of import tariffs for Ch. 29 and Ch. 30 plus other duties & VAT gives overall state-imposed price hike

<u>Country</u>	<u>Access to Essential Medicines (%) '99</u>	<u>Tariff (%)</u>	<u>VAT</u>	<u>Combined Tariff Rate</u>
<u>Kenya</u>	36	21.8*	16	37.8*
<u>Tanzania</u>	66	11.65	20	31.6
<u>Uganda (EACU)</u>	70	14	17	31
<u>Brazil</u>	40	10.6	18	28.6
<u>Peru (AC)</u>	60	11.4	17	28.4
<u>Pakistan</u>	65	11.1	15	26.1
<u>Bolivia (AC)</u>	70	11.9	13	24.9
<u>Colombia (AC)</u>	88	10	10	20
<u>India</u>	35	16	4	20
<u>Morocco</u>	66	18.3	0	18.3
<u>Nigeria</u>	10	11.3	5	16.3

Results and Updates

Tariff peaks

- Iran has astonishingly high tariffs and taxes (over 50%) and it was removed from econometric analysis since it was skewing results
- DR Congo's tariff rate is over 18.5% - imposed on a wide range of medicines, including certain ARVs

Duties

- Kenya imposes a number of other duties, inspection fees of 11.75%, even while its main tariff rate has been nullified

VAT and sales Taxes

- In April 2005 India introduced a VAT of 4% on medicines. Many states in India however continue to charge VAT as well as the erstwhile sales taxes which could increase the cost of medicines by as much as 20%. Import tariffs lowered to 16%.

Overall, many countries inflate the price of medicines and essential medical inputs by up to 40%.

Zero Tariff Countries

- Southern African Customs Union made significant progress – 0% tariff on Chapter 30 items (but Lesotho imposes 10% ‘withholding’ tax)
- 22 Countries (US, EU, Canada, Switzerland, Japan, Norway, Czech Rep, Slovak Rep, Macau China) have 0% tariffs as part of Pharmaceutical Agreement of WTO Uruguay Round
- Over 50% of the countries surveyed maintained tariffs between of 5% or more. El Salvador and Honduras – all very low import tariffs on average
- Many countries exempt ARVs from tariff – but available data is poor.

People die of many diseases in poor countries, not just HIV/AIDS. If ARVs exempt, why not everything else?

How do Tariffs Affect Access?

- Regression analysis shows a decrease in import tariffs is associated with an increase in access to essential medical interventions
- Vaccines the strongest negative association with high tariffs – often entirely funded by donors
- Tariffs first price hike in chain (exacerbating other markups – wholesaler, retailer, pharmacy, other supplier, since most are percentage price increases)
- Sales taxes less repressive to access than tariffs
- Why? Perhaps taxes paid by general population, less scope for corruption, unlike import tariffs
- Tariffs could indicate more closed, less free economy and more corruption. Therefore greater poverty and lower access.

Linkage between Tariffs and Corruption

- Follow up paper examines corruption, delays;
- Field evidence from questionnaires:
 - Bribes demanded in 1/3 cases – Vietnam worst performer
 - 85% of respondents report unnecessary delays (between several days and several months), Nigeria worst, followed by Kenya, Uganda. Delays involve legal fees (20% of cases) and non-official payment (90% of cases)
 - Several instances, donated ARVs charged tariff on imputed US\$ price tag
 - Official aid often exempt, but all private, NGO, charities harmed by tariff related corruption & bureaucratic bullying. Hudson estimates private donations >3.5 times official US government aid.

VAT

- VAT places significant burden on patients.
- One month's worth of ARV treatment taxed at 14% in South Africa could buy patient:

2 loaves brown bread, 6 eggs, 1 liter milk, 1 kg maize meal, 1 kg bananas, ½ kg beetroot, ½ kg tomatoes, ½ kg broccoli, ½ kg lean mince, 1 chicken.

- VAT-free medicines would improve diet of starving South African patients

Tariffs and Corruption in the field

Country	Sample size	Tariffs charged	Legal cost	Time delay	Admin charge	Other charge	Bribe demanded
Uganda	14	12	4	14	6	11	3
Ethiopia	11	9	2	11	4	11	3
Kenya	18	16	3	16	9	14	6
Nigeria	21	18	4	17	13	18	7
China	14	12	0	12	1	12	3
Vietnam	12	8	5	4	3	12	10
India	15	14	3	15	4	15	4
	105	89	21	89	40	93	36

Non-tax & tariff barriers

Medical bureaucracy

- **South Africa** - drugs wait for av. 39 months for registration (even if they are already registered in US, EU, Japan)
- **Namibia** - drugs require re-registration for all medicines already registered prior to 1990
- **Nigeria** - All (100%) goods inspected at ports and the President must approve all VAT waivers

Conclusions

- Import tariffs restrict access to medicines
- VAT impose intolerable and highly regressive burden on most vulnerable
- Medical bureaucracies ripe for reform (or complete overhaul)
- State-imposed barriers highly significant in blocking access to medicines, but are within the direct power of governments to remove
- Other structural problems require long term solutions. Governments can save lives NOW by removing tariffs, taxes and reforming bureaucracy.

Next Steps?

Moving Forward: WTO

- USTR Joins with Singapore and Switzerland to push for Elimination of Tariffs and Non-Tariff Barriers to Trade in Medicines and Medical Devices

“It is ironic that many of the countries that are in urgent need of cheap medicines also have a significant tax added to the drugs and medical devices they import. As import tariffs on medicines comprise a small proportion of government revenues, these countries should immediately eliminate these tariffs and improve access to medicines and medical devices.”

—Peter Allgeier

Deputy US Trade Representative and Ambassador to the WTO

- G8 & UN’s Kofi Annan call for elimination of medicine tariffs.