

China to Adopt Central Procurement System for Essential Drugs at Grass-Roots Hospitals

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The General Office of the State Council of China recently released Guiding Opinions that aim to minimise distribution intermediaries and costs in order to reduce the price of essential drugs at grass-roots medical institutions. It remains to be seen how the central procurement system will be implemented.

On 19 November 2010, the General Office of the State Council of China issued the Guiding Opinions on Establishing and Regulating Procurement Mechanism of Essential Drugs at Government-Funded Grass-Root Medical Institutions (Guiding Opinions), which aim to minimise distribution intermediaries and costs in order to reduce the price of essential drugs at grass-roots medical institutions and thus make medicines affordable. Essential drugs are those drugs available to the public at all times in adequate amounts and in appropriate dosage forms, at a price the public can afford.

The following example explains why the Guiding Opinions are important: it was disclosed recently that a box of aloe pills at an out-of-factory price of RMB 15.5 was sold to patients at RMB 213 (a 1,300 per cent increase to the original price). Many intermediaries played a role in raising the price.

The Guiding Opinions provide for the following points:

1. The procurement platform will be set only at the provincial level.

Essential drugs used at government-funded grass-roots hospitals or clinics should be centrally procured and uniformly dispatched. Tendering and bidding will be adopted in the process of procurement to minimise procurement costs.

Provincial health care administrations will be in charge of establishing and maintaining procurement platforms at the provincial level. No other platforms will be allowed.

2. Local protectionism is prohibited.

Provincial health care administrations should make announcements to the public regarding procurement prices, quantities and bid-winning suppliers within three days after the completion of a procurement activity. Such announcement will be filed with the Ministry of Health and copied to the Medical Reform Office of the State Council. The public, including the news media, is encouraged to supervise the whole procurement activity. A whistle-blowing system will be established as well for whistle blowers to report unfair and irregular deals.

3. A “double-envelope” tendering system will be adopted.

A “double-envelope” tendering system will come into effect, by which a tendering company will have to envelope and submit two sets of tendering documents—one for economic and technological specifications, and one for commercial transactions.

Furthermore, bid winners must submit samples of their drugs to the food and drug administrations at the provincial level for archiving. The food and drug administrations will conduct random inspections of drugs supplied to medical institutions against archived sample drugs. Suppliers will be penalised if quality is inconsistent between supplied and archived drugs, and the punishments shall be publicly announced.

4. A benchmark price is set for essential drugs.

Provincial health care administrations and price supervision administrations will collect actual sales prices of essential drugs during the past three years. The actual sales prices will function as a benchmark in determining the procurement prices formed in the procurement platforms. The Ministry of Health and National Development and Reform Commission will combine all collected market prices to build a China-wide database.

Generally speaking, the central procurement prices shall not exceed the average actual sales prices in the market for the past three years, and the central procurement price plus some dispatching fees will be set as the actual retail price at grass-roots medical institutions.

5. Violators will be compelled to withdraw from central procurement systems.

Any company engaging in the following activities will be compelled to withdraw from the central procurement system:

- Providing fake certificates in the process of procurement
- Manipulating prices
- Failing to execute contracts after winning a bid
- Supplying non-qualified drugs
- Failing to dispatch drugs in a timely manner
- Offering bribes to procurement authorities, grass-roots medical institutions or individuals

It remains to be seen how the central procurement system will be implemented. A literal reading of the Guiding Opinions indicates some measures conflict with each other. For example, if a central procurement price is set by the average market prices in the past three years, the tendering and bidding system could be made useless or less effective for finding a competitive price.

A pharmaceutical central procurement system is not a novelty in China—the Chinese Government began to adopt a central procurement system in May 2008. For more information, click here. [WILL LINK TO: http://www.mwe.com/info/pubs/MX_1209.pdf] Many factors will contribute to the success or failure of the central procurement system, such as the willingness and determination of the Chinese Government to carry out the system. In fact, certain governmental agencies sometimes have played an important role in boosting the prices of drugs. In the example of the aloe pills, the out-of-factory price was set at only RMB 15.5, but the concerned governmental authority in Hunan set a guidance price for the same aloe pills at RMB 136, which then boosted the online procurement price to RMB 185.22. Finally, hospitals added an additional 15 per cent according to relevant regulation for retail prices, which set the retail price at RMB 213. Technically, no one violated laws or regulations in raising the price from RMB 15.5 to RMB 213, and the government itself helped the price increase 13-fold.

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