Captive Economy

The Pharmaceutical Industy and the Israeli Occupation

WHO PROFITS
The Israeli Occupation Industry

March 2012

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التحالف
הקואליציה
COALITION OF WOMEN FOR PEACE

The Coalition of Women for Peace was established by bringing together ten feminist peace organizations and non-affiliated activist women in Israel. Founded soon after the outbreak of the Second Intifada in 2000, CWP today is a leading voice against the occupation, committed to feminist principles of organization and Jewish-Palestinian partnership, in a relentless struggle for a just society. CWP continuously voices a critical position against militarism and advocates for radical social and political change. Its work includes direct action and public campaigning in Israel and internationally, a pioneering investigative project exposing the occupation industry, outreach to Israeli audiences and political empowerment of women across communities and capacity-building and support for grassroots activists and initiatives for peace and justice.

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WHO PROFITS | The Israeli Occupation Industry

Who Profits from the Occupation is a research project of the Coalition of Women for Peace. Initiated with relation to the Palestinian call for boycott, divestment and sanctions (BDS) on Israel, Who Profits is dedicated to exposing the commercial involvement of Israeli and international companies in the continuing Israeli control over Palestinian and Syrian land. The project publishes information about these companies on its website, produces in-depth reports and serves as an information center.

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List of Abbreviations

BCT	Bitunia Cargo Checkpoint
CA	Civil Administration
EU	European Union
GMP	Good Manufacturing Processes
GNI	Gross National Income
GS	Gaza Strip
HMO	Health Maintenance Organization (Kupat Holim)
IMOH	Israeli Ministry of Health
NGO	Non-Governmental Organization
OEJ	Occupied East Jerusalem
OPT	Occupied Palestinian Territories
PA	Palestinian Authority
PALTRADE	Palestinian Trade Center
PMOH	Palestinian Ministry of Health
PP	Paris Protocol
UNRWA	United Nations Relief and Works Agency
UPPM	Union of Palestinian Pharmaceutical Manufacturers
VAT	Value Added Tax
WB	West Bank
WHO	World Health Organization

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Several interviewees wished to remain anonymous, including Palestinian representatives of foreign companies and officials in the Palestinian Authority.

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Executive Summary

This report describes the involvement of the Israeli and multinational pharmaceutical industries in the occupation. As the pharmaceutical industry is a highly globalized arena, the report reveals some of the ways in which Israel's occupation of Palestinian lands offers opportunities to exploit the Palestinian market. Concurrently, the report describes the development of a vibrant but struggling Palestinian industry. For the vast majority of the Palestinian population, this situation generates higher prices, especially troubling in light of the fact that the economic situation – of the Palestinian population as well as of the Palestinian Authority – continues to deteriorate.

The Paris Protocol, which regulates the financial relations between Israel and the Palestinian Authority, is a significant part of the Oslo Accords. The PP placed Israel and the future Palestinian state under the same taxation envelope. In general, this has meant that the Palestinians continue to depend on Israeli policies, customs laws and services for the import and export of goods. In the case of the international pharmaceutical industry, this dependency has inflicted strong negative economic effects on the OPT, as will be described in the report. Moreover, the Israeli Ministry of Health insisted that the import of drugs to the WB and the GS would be allowed only for drugs that are registered in Israel. This decision implied that the whole Arab market (with minor exceptions) would be denied to the Palestinian population and pharmaceutical industry. The Palestinian market is thus unable to maintain import or export relations with its closest and most natural markets. Other important pharmaceutical products that have been denied access are the cheap generic drugs manufactured largely in India, China, and the former USSR states. This exclusion stems from the fact that the drugs registered in Israel are mainly imported from the EU, North America and Australia.

As in other cases, economic interests are often disguised as ‘security reasons’. This can be demonstrated in the Palestinian industry’s inability to send drugs in bulk (usually to large pharmacy chains in Europe and North America) via the close-by Ben Gurion Airport. Hence, the goods are shipped via Jordan with a heavy levy of added costs. Uniquely in the case of pharmaceuticals, ‘quality reasons’ are sometimes used in conjunction with economic and political justifications. One such case is the refusal to allow Palestinian pharmaceuticals into occupied East Jerusalem medical institutions – hospitals and pharmacies – and even vaccines given at Palestinian-run schools. At other times, political and economic reasons are intertwined in the humiliation of an occupied people. This is seen in the demand of Palestinian representatives of large multinationals to request a ‘non-objection’ letter from their Israeli colleagues in order to receive an import license from the Israeli Ministry of Health. This demand must be made despite the fact that the authorized Palestinian representatives have signed contracts with the multinational companies, and in the absence of such requirement from their Israeli counterparts.

The situation in Gaza, with the strict closure and Israeli control over all products that enter and leave the strip, yields an absurd situation in which drugs – either donations or commercial pharmaceuticals – can enter the Gaza Strip. However, under Israel’s strict ‘security’ regulations, no pharmaceutical can leave the strip. Hence, all expired products are left to the care of the health institutions and the Gaza Strip’s PMOH. This is a heavy burden that requires professional solutions, including toxic waste dump stations and qualified personnel. Moreover, many multinational pharmaceutical companies and NGOs prefer, for various reasons, to send in-kind donations in the form of drugs, some of which approach their expiry date by the time they reach their destiny. Despite the good intentions, this tendency leaves the brunt on the Gaza Strip authorities that need to handle the disposal of huge amounts of bio-medical waste in one of the most densely populated parts of the world.

The Palestinian pharmaceutical industry suffers from various hindrances, the major of which is the burden of the annual licensing of imported raw materials (in some cases even per shipment), the costs of back-to-back deliveries to and from the WB and from the WB to the GS, the costs of shipping drugs in bulk via Jordan, the exclusion of large Arab markets in nearby countries as well as in Israel, and the inability of the Gazan industry to develop and expand due to the prohibition on export. All these obstacles generate extra costs that harm the development of the Palestinian pharmaceutical industry.

The Israeli and multinational companies enjoy the aforementioned situation in several ways. Firstly, from the four largest, originally-Israeli companies (Teva, Perrigo Israel - formerly Agis, Taro and Dexcel Pharma) to smaller companies (such as Trima) – all Israeli companies enjoy easy access to the Palestinian market, free of customs and checkpoint disturbances, e.g. change of trucks at cargo checkpoints. The Israeli manufacturers and agents do not have to amend any of their products in order to sell them in the Occupied Palestinian Territories. As a result, Israeli and multinational companies can sell drugs that are not labeled in Arabic.[1] The multinational pharmaceutical companies, e.g. Pfizer, AstraZeneca and Bayer, to name but a few, meet little to no competition from the cheaper generic drug industry, as a result of the IMOH restrictions on drug registration in Israel and the enforcement of these restrictions on the Palestinian market. Moreover, a differential pricing policy is applied by multinational companies worldwide according to the population's socio-economic status. This policy, often called price discrimination, overlooks the situation in the OPT. According to the PP, Israel and the OPT are part of the same economic envelope and the prices of drugs (to OPT representatives) are fixed according to the prices in Israel, which appears in the same category of high income markets as EU countries. This is clearly problematic in light of the fact that the OPT's major economic parameters, such as GDP and average income, fall far below the figures of Europe and even Israel.

In conclusion, despite the proclaimed reciprocity at the introduction of the PP, the economic envelope agreed upon in the PP has enhanced the Palestinian market's dependency on Israel. To date, it is de facto a captive market, held by binding economic agreements, subject to impediments and restrictions imposed by Israel, often in the name of security and quality. The Palestinian pharmaceutical industry has limited access to trade in various parts of the world, including the Arab world, and suffers

1 According to IMOH regulations, user guide in three languages – Hebrew, English and Arabic – must be attached to all medical product sold in Israel. These regulations don't treat the external labeling of the packages.

from difficulties transferring merchandise from the WB to the GS, while the Israeli industry enjoys trade everywhere, including the Palestinian market. Large Israeli pharmaceutical companies have expanded into multinational corporations, encompassing worldwide markets; the Palestinians, on the other hand, must deal with the Israeli customs and health regulations in order to import raw materials and end products or export pharmaceuticals. We therefore wish to offer a detailed description of the roots of the situation and discuss its implications.

Picture No 1: Taroctyl 100 by Taro, labeled in Hebrew | Ramallah | Dec. 2011 | Photographed by Esti Tzal

Picture No 2: Metformin 850 by Teva, labeled in Hebrew | Ramallah | Dec. 2011 | Photographed by Esti Tzal

Image No. 3: Ahava sun lotion, manufactured by Careline | Photographed by CODEPINK

Methodology

This report consists of both desk studies and field research. The desk studies included a collection and analysis of information from various public sources, e.g.: company records and publications, newspapers, publications of state authorities (including Israel's Stock Exchange and the Israeli Ministry of Health). Some of these sources are publicly-available records and others were obtained through commercial companies.

The field research comprised of meetings and interviews with representatives of the Palestinian pharmaceutical industry, Palestinian Authority, and local and international NGOs active in the field of healthcare. The studies further included visits to private pharmacies in the West Bank. Several attempts were made to meet with representatives of the Israeli and international pharmaceutical industry as well as with members of the Israeli Ministry of Health, but these efforts have remained unsuccessful until the publication of this report.

Prior to publication, we contacted all the companies and ministries mentioned in this report, requesting their comments and responses. We have received no replies.

Health and the Occupation

Historical-Political Background

Prior to 1967, pharmaceuticals were sold in the WB and the GS according to the Jordanian and Egyptian laws respectively. After the 1967 war and the occupation that followed, Palestinians were put under military rule, and their social affairs were subjected to it. In 1981, the Civil Administration assumed responsibility for many 'social' issues, including healthcare. As the Civil Administration was under the responsibility of the Ministry of Defense, the Israeli Ministry of Health (IMOH) was not burdened with the development of the healthcare system, including the pharmaceutical sector.[2] Hence, for example, despite the Israeli occupation, the Jordanian pharmacy practice law was valid in the WB until the formation of the Palestinian Authority.[3] During this time, Israel created two parallel and distinctive healthcare systems, which differed widely.[4] As part of the divide-and-rule policy, Israel refrained from developing the healthcare system in the OPT in terms of personnel, facilities and the related pharmaceutical industry.[5] Thus, Israel deepened the Palestinian population's dependency on the occupation mechanisms. This tendency is related to economical issues as well as to political ones. The economic-military control over

2 Ziv Hadas, A Legacy of Injustice. Physicians for Human Rights - Israel, 2002.

3 Jaradat Nidal and Waleed Sweileh, A Descriptive Study of Community Pharmacy in Palestine: Analysis and Future Look, An-Najah University Journal Res. (N.Sc) Vol. 17(2), 2003.

4 For further information on this issue, see Barnea T. & Abdeen Z. (Eds.), The Virus Does Not Stop at the Checkpoint, Tel Aviv: Am Oved, 2002 (In Heb.)

5 Ziv Hadas, 2002.

the Occupied Palestinian Territories (OPT) is rooted in the unique kind of occupation present in Israel/Palestine, in which two markets are part of the same territorial continuum separated by a long borderline. Israel's economic development after 1967 was achieved, to a great extent, at the expense of the Palestinian population as it enabled the further subordination of the Palestinian population, businesses and industries to Israel's economic interests. The Palestinian market became a "captive" market.[6]

The Israeli pharmaceutical industry, founded in the early days of the Zionist settlement in Israel/Palestine[7] and expanded in the 1950s and early 1960s,[8] enjoys free access to:

1) An untaxed market
2) Subordinated population
3) A market with little competition, controlled by the state
4) Healthcare services provided by the state
5) Cheap labor (if desired)

The Palestinian pharmaceutical industry had begun to develop shortly before the occupation, and the first company, The Jordan Chemical Laboratory[9], was established in 1958 in Beit Jala, near Bethlehem. The occupation has greatly affected the life of the Palestinians, including the prohibition on the import of drugs from Jordan. Several pharmacies and some former importers shifted to the local production of drugs. The Palestinian pharmaceutical industry was concentrated in the vicinity of the urban centers surrounding Jerusalem: Between Ramallah in the north and Bethlehem in the south. The industry was local and produced antibiotics, dermatological ointments and other basic generic drugs.

6 Grinberg Lev, Economic Envelopment: Three Turning Points in Forty Years of Economic and Military Domination ,Theory and Criticism, Vol. 31, 2007 (Hebrew)
Available in English on : http://www.whoprofits.org/content/economic-envelopment-three-turning-points-forty-years-economic-and-military-domination-lev

7 See for example: http://www.sle.co.il/movie.asp

8 See for example: http://www.trima.co.il/en/index.asp?ItemID=33; http://www.perrigo-pharma.co.il/About-Us; http://www.taro.com/Corporate/CompanyHistory/Page.html

9 The present-day's Beit Jala Pharmaceutical Co.: http://www.beitjalapharma.com/

Paris Protocol and Taxation Envelope

The years 1993-1995 brought several mutual Israeli-Palestinian agreements, all of which related to the so-called 'peace process'.[10] Despite their mutuality, these agreements de-facto maintained, through various means, the Israeli domination over the Palestinian economy. The Paris Protocol (PP)[11], outlining the economic relations between the two sides, is the most significant document for understanding the economy of the continued occupation.

Import to the PA from foreign countries was one of the issues regulated through the PP. In annex IV, the PA received import and customs responsibilities that were limited to a number of goods, in restricted amounts, that were agreed upon and attached to the agreement in the form of lists A1, A2 and B. Regarding the rest of the goods, it was decided that "Israel and the Palestinian Authority will employ for all imports the same system of importation, including inter alia standards, licensing, country of origin, valuation for customs purposes etc." [Article III 5(b)]. Moreover, this system of importation is based on the Israeli rates of customs and other import-related taxes (e.g. purchase tax), which would also serve as the minimum basis for the PA [Article III 5(a)].

Import between Israel and the PA was also outlined in this agreement. Annex V (originally Article V)[12], dealing with direct taxation, strengthened the existent situation in which, generally speaking, Israeli and Palestinian goods were exempt from direct taxes imposed by the other side. Article IX ensured that industrial goods would enjoy free movement, without any restrictions, including exemption from customs and import taxes between the two sides, in accordance with the law of each of the sides. In principle, the Palestinians secured their right to unrestricted export to external markets [Article IX 6]. This report will further demonstrate the inapplicability of the right to free export in the case of the Palestinian pharmaceutical industry.
The formal unification of the two economies in the import-export realm

10 All discussed documents can be found on the Israeli Ministry of Foreign Affairs website: http://bit.ly/xrZoVw

11 Officially named The Palestinian-Israeli Interim Agreement on the West Bank & The Gaza Strip Protocol on Economic Relations (ANNEXes IV&V). Signed in Paris in April-May 1994.

12 Article V was amended in the interim agreement of Sept. 28, 1995 and renamed Annex V.

was termed the “Custom Envelope”. In practice, the free flow of goods and people was one-directional – from Israel into the OPT, whereas the movement of people from the OPT to Israel was restricted in the name of security and later almost halted completely following the outbreak of the Second Intifada in 2000. The movement of goods was also subjected to restrictions in their name of security, often obscuring the economic nature of the restrictions. While the domination of the Israeli currency, customs and taxation regimes on the PA allowed only a certain level of direct intervention, the security considerations enabled and legitimized the Israeli demand for control on the movement of goods from and into the “territories”, as well as that of people, while strengthening the captive nature of the Palestinian market for Israeli products.[13]

Indeed, in 2000-2008, the Palestinian dependency on the Israeli economy increased by 52%, from 29% of its Gross National Income (GNI) in 2000 to 44% in 2008. At the same time, import from Israel to the OPT reached approximately 80% of that year’s total import.[14]

Specific consideration to the import of pharmaceuticals and donations from other countries was given in the Protocol under the title of Civil Affairs (Annex III), a part of the Interim Agreement signed in Sept. 1995: “Imports of pharmaceutical products to the West Bank and the Gaza Strip shall be in accordance with general arrangements concerning imports and donations.” [Appendix I, Article 17(10)].

Implications for the Pharmaceutical Sector

The joint “Custom Envelope” had major repercussions for the Palestinian pharmaceutical market. On the one hand, this system maintained the tax-free access of Israeli manufacturers and licensees of foreign companies into the Palestinian market, thus hampering the development of the Palestinian industry. On the other hand, it determined Israel’s import policy as the standard for pharmaceutical import into the OPT. As a result, drugs imported to the OPT would be registered in Israel. This resolution

13 Grinberg Lev, 2007.

14 Tillekens Nikki, Palestinian Economic Dependency on Israel, Alternative Information Center (AIC), 23 September 2010. http://bit.ly/cvbf2M, retrieved on December 2011.

had a major impact on cutting off the Palestinian pharmaceutical industry from almost all the Arab world and barring it as a possible market for export. Moreover, it also disabled the possibility to import from countries from which Israel does not import, mainly from India, China and Eastern Europe. The increasing number of independent Palestinian representatives and licensees of foreign companies was thus impeded. Lastly, the joint “Custom Envelope” raised the prices of drugs, as the OPT were positioned on the same socio-economic level as Israel according to the price zone[15] of multinational pharmaceutical manufacturers. In fact, the socio-economic difference between Israel and the OPT was ignored.

Regulations

Over 4,000 products are registered as medications in Israel. The Pharmaceutical Administration, an IMOH department, is the regulatory agency that inspects the pharmaceuticals market. Among the Pharmaceutical Administration’s responsibilities are the following: approving pharmaceuticals for sale and registration, compiling the National Health Insurance (NHI) list of pharmaceuticals compulsory for all health maintenance organizations (HMOs), determining maximum prices, licensing pharmacists, and regulating the pharmaceutical market.[16] As a result of the PP, the approval of pharmaceuticals in Israel is mandatory for drugs sold in the OPT, with the exception of pharmaceuticals manufactured in Palestine. On the other hand, despite the bilateral nature of the economic envelope, Palestinian pharmaceuticals are not registered in Israel, and cannot be registered for ‘security reasons’ that will be described in detail. Hence, the “free flow” of goods is one-sided, from Israel to the Palestinian territories, and the standards are set in accordance with Israel’s interests.

Palestinian manufacturers are obligated to obtain a separate license for every shipment of raw materials, whereas Israeli manufacturers are not required to do so.[17] Palestinian representatives of foreign manufacturers must obtain an annual import license, and certain products, especially

15 Price zones, often referred to as price discrimination, indicate the pricing of products according to a differential price list. In the pharmaceutical industry, price discrimination is applied on a national level. The issue will be elaborated later in the report.

16 Country web page on Israel, WHO website: http://bit.ly/yk81zO, retrieved on December 2011.

17 Bassim Khouri, interview, August 2011. On file with Who Profits.

food supplements and infant formulas, require license per shipment.

In order to renew their annual import license from the IMOH, Palestinian agents of multinational pharmaceutical companies are required to submit a “non-objection” letter from their Israeli counterparts. This requirement disregards the fact that these Palestinian representatives serve as direct agents and have signed contracts with the multinational companies. The demand for a license is particularly disturbing in light of the fact that in 1999 the regulations in Israel were amended, thus changing the previously-exclusive arrangement. Since these amendments came into force in 2000, various non-profit organizations, particularly the HMOs and recognized pharmaceutical traders, have been able to import licensed pharmaceuticals from developed countries without approval from the manufacturer or its representative. Yet, Palestinian representatives, who are obligated to import licensed pharmaceuticals from developed countries only, still require such an approval.

According to the PP, donations[18] should be exempt from regulations and licenses. According to some of the interviewers, pharmaceuticals marked as “donation to the PA” are treated as such and the only verification process ensures that they are indeed drugs. Donations can include drugs that are not registered in Israel.[19]

18 Gaza Jericho Agreement, Protocol on Economic Relations [ANNEX IV, article III (19)]. Signed in Paris in April-May 1994.

19 Dr. Angelo Stefanini, interview, August 2011, Mahmoud Daher, interview, August 2011. On file with Who Profits.

The Israeli-International Pharmaceutical Industry

Globalized Industry

The pharmaceutical industry is one of Israel's most successful export spheres. The field can be traced back to the beginning of the new Jewish settlement in Israel/Palestine. The first drug companies were pharmacies that gradually expanded their services to the manufacturing and distribution of drugs in the growing Jewish settlement. One of these companies was SLE, established in 1901 in Jerusalem by H. Salomon, M. Levin & Y. Elstein. Today, SLE is fully owned by Teva, the largest Israeli pharmaceutical company and among the leading generic pharmaceutical companies worldwide.[20]

In its present form, the pharmaceutical industry is anything but a local enterprise. On the contrary, the very core of the industry is its multinational nature. Raw materials are imported from various countries, including

20 www.campaign.derby.co.il/sarit/rl2009/TEVA%202.ppt. See also: Annual Report 2007 to the Registrar of Companies, Israeli Ministry of Justice, retrieved on November 2011.

India and China. Production lines process one or more active ingredients into drugs for human consumption, and these are sent, either in bulk or per pack, to drug suppliers and distributors. Today, many of the larger companies own a range of facilities in various countries – from chemical and raw material producers to drug packaging and distributing agents. This allows these companies to control the whole life cycle of a drug – from raw material to finished product.

Important facts pertaining to Israel's pharmaceutical industry in 2008 (in figures): [21]

- There are approximately 30 pharmaceutical companies, manufacturing mainly generic products.
- Over 7,000 workers are employed in the industry and at least 20,000 additional ones are employed in affiliated services.
- In 2007, the sales turnover was over 4.5 billion US$.
- Over 80% of the products are exported.
- Pharmaceuticals export constitutes 10% of the total industrial export.
- The products are sent to approximately 120 countries worldwide, including the US, Europe, East Asia and South America.
- Over one quarter of the drug market in Israel relies on the Israeli pharmaceutical industry.

The Israeli pharmaceutical industry is well-suited to the reality of the global pharmaceutical industry. Approximately 30 pharmaceutical companies are operating in Israel, of which Teva is by far the largest and most multinational, as it is the strongest enterprise on the Israeli market and was ranked first in Dun's100 list of leading industrial enterprises. Still, several other companies have emerged in the globalized pharmaceutical industry, including: Agis, today fully owned by a US firm and renamed as Perrigo Israel (ranked 41 on Dun's100 list of leading industrial enterprises); Taro, presently owned by the India-based Sun Pharma (ranked 44 on the list); and Dexcel Pharma, an Israeli-owned and Israel-based multinational company (ranked 64 on Dun's100 list).[22]

21 Atad, Amnon, The Israeli Pharmaceutical Empire. The Medical Website, 11 September 2008. http://bit.ly/xJC4SU, retrieved on December 2011.

22 Dun's 100 Israel – Largest Enterprises - Israeli Industrial Companies by Sales Volume, Dun & Bradstreet, Israel, 2011.
http://duns100.dundb.co.il/ts.cgi?tsscript=2011e/e59a1, retrieved on December 2011.
Dun's 100 Israel – Largest Enterprises – Strength Ranking Table, Dun & Bradstreet, Israel, 2011, http://duns100.dundb.co.il/ts.cgi?tsscript=/2011e/power1, retrieved on December 2011; Atad, Amnon, 2008.

In conclusion, the Israeli pharmaceutical industry is a flourishing, export-based branch that plays an important role in the global generic pharmaceutical industry and in the globalized economy.

Teva Pharmaceutical Industries

Teva Pharmaceutical Industries is a global pharmaceutical company and the world's largest generic drug manufacturer. The company develops, produces and markets generic, innovative and branded drugs. Teva currently operates in approximately 60 countries with an estimated 45,000 employees worldwide.

The North American market constitutes 60% of the company's sales, 25% of the company's sales are on the European market and other regions (primarily Latin America, Israel, Russia and other Eastern European countries that are not members of the EU) comprise the remaining 15%.[23]

The Israeli Market:
Teva is the largest commercial (and industrial) company on the Israeli market by equity, net profit, operating income and market value.[24]

The company is the largest provider of healthcare products and services in the Israeli market, by sales volume.[25] In addition to innovative, generic and OTC pharmaceutical products, Teva distributes healthcare products and services, including consumer healthcare products, hospital supplies, dialysis equipment and disposables, diagnostics and home care services. An Israeli subsidiary – Salomon, Levin and Elstein Ltd., provides logistical support for Teva's sales and distribution activities in Israel, including the distribution of third parties of several multinational pharmaceutical companies.

Revenues: 16.1B US$ (2010).[26]

Ownership: Public company traded on the NASDAQ and the TASE.

Subsidiaries/Global Presence: The company's operations are

23 http://bit.ly/xaAmpT; See also Annual Report 2010.

24 Dun's 100 Israel – Largest Enterprises – Strength Ranking Table 2011.

25 Dun & Bradstreet, Israel, 2011. On file with Who Profits.

26 http://bit.ly/xaAmpT; See also Annual Report 2010.

conducted through a network of global subsidiaries, located primarily in North America, Europe, Latin America, Asia and Israel. Teva operates in approximately 60 countries and owns pharmaceutical production sites in 19 countries.

Main Subsidiaries (partial list):
United States: Teva Pharmaceuticals USA, Inc. | Plantex USA, Inc.
Canada: Teva Canada Ltd. (formerly known as Novopharm Ltd.).
Hungary: Teva Hungary Pharmaceutical Marketing Private Ltd.
UK: Teva UK Ltd.
The Netherlands: Teva Pharmaceuticals Europe BV, Pharmachemie BV | Plantex Chemicals BV
France: Teva Sant SAS | Laboratoire ratiopharm SA | Croatia: Pliva Hrvatska d.o.o.
Germany: AWD. Pharma GmbH & Co. KG | Teva GmBH | CT Arzneimittel GMBH | ratiopharm GmbH
Poland: Teva Pharmaceuticals Polska sp. z o.o.
Italy: Teva Italia S.r.l. | Ratiopharm Italia S.r.l.
Spain: Teva pharma SLU
Czech Republic: Teva Czech Industries s.r.o. | Teva Pharmaceuticals CR, s.r.o.
Russia: Teva Ltd. Liability Company.
Chile: Laboratorio Chile SA
Peru: Corporacion Infarmasa
Mexico: Lemery SA de CV
Argentina: IVAX Argentina SA | Teva-Tuteur SA
Israel: Assia Chemical Industries Ltd. | Salomon, Levin and Elstein Ltd.[27]

Main Headquarters: Petach Tikva, Israel

Products found in WB pharmacies: Moxypen, Fusid, Laxadin, Optalgin, Metformin, Maxyn, Dexamycin, Stilla, Acamoli, Dinoxin, Carvedivol, Tevapirin, Digoxin-Zori, Ikacor and Muscol.

Products Photographed in WB pharmacies: Metformin, Rectozorin, Laxadin, Optalgin, Lenitin, Acamoli and Acamoli Cold.[28]

27 Ibid.

28 Teva Products were found in Palestinian pharmacies on several field trips carried out by the Who Profits research team during Nov. and Dec. 2011.

Picture No 4: Metformin, Rectozorin, Optalgin and Laxadin by Teva on a pharmacy Shelf in Ramallah | Dec. 2011 | Photographed by Esti Tzal

Selling in the OPT

When Israel occupied the WB and the GS[29], its pharmaceutical industry was already established, although some of the companies had been founded only several years prior to the occupation. The economic boom that characterized Israel in the years that followed was accompanied by a Palestinian one. However, the occupation also generated a deepening dependency on the Israeli market. These two processes were not accidental; they were part of a conscious decision to strengthen the control over the Palestinian population.[30] In the case of pharmaceuticals, the “open bridges” policy was not applied, and pharmaceuticals imported to the WB via Jordan and to the GS via Egypt, were no longer available. The Palestinian industry was just taking its first steps and companies such as SLE[31] found a ‘captive’ market. SLE was Teva’s predecessor, and is presently its full subsidiary, operating as a distribution unit throughout Israel and the OPT. SLE also distributes products of approximately one dozen multinational pharmaceutical companies.

29 Israel occupied the Syrian Golan Heights, but this territory is beyond the scope of this report due to the political differences and the project's focus on the OPT.

30 Hever, Shir, The Political Economy of Israel’s Occupation, Pluto Press, 2010.

31 The company from which Teva evolved and one of its subsidiaries at present.

SLE - Salomon Levin Alstein

A fully owned subsidiary of Teva Pharmaceutical Industries. The company provides logistical support for Teva's sales and distribution activities in Israel, including the distribution of third-party products, among which are several multinational pharmaceutical companies.

SLE also distributes the products of the following companies on the Israeli market: Bayer, Biotis, Reckitt Benckiser, Janssen-Cilag, Sanofi-Aventis, Novartis, GlaxoSmithKline, AstraZeneca and Solgar. [32]

Main Headquarters: Netanya, Israel.

Throughout the years, the Israeli pharmaceutical industry, as well as Israeli representatives of multinational companies, enjoyed this 'captive' market without any regulations. Despite international obligations, under Israel's rule, the healthcare system in the OPT did not enjoy the Israeli quality and quantity of services,[33] and the Palestinian population turned to local pharmacies as their primary source of information. Many drugs, including antibiotics and some steroids, were, and still are, sold over the counter (OTC),[34] despite the fact that this was not the case in Israel. As most of the pharmaceutical trade is conducted via local private pharmacies, the Palestinian market, despite its relatively small size, has been profitable and within easy reach. Before 1994, there had been no restrictions on the free flow of pharmaceuticals from Israel into the WB and the GS. Palestinian representatives sold Israeli merchandize and pharmacies offered products by all the largest Israeli companies, including Teva, Taro, Perrigo Israel (formerly AGIS) and Dexcel Pharma. Trima is a smaller company, but holds a unique place due to its close cooperation with Maabarot Products Ltd., manufacturers of Materna – a line of infant formula products that are very popular in the OPT. Both companies are under the same ownership[35].

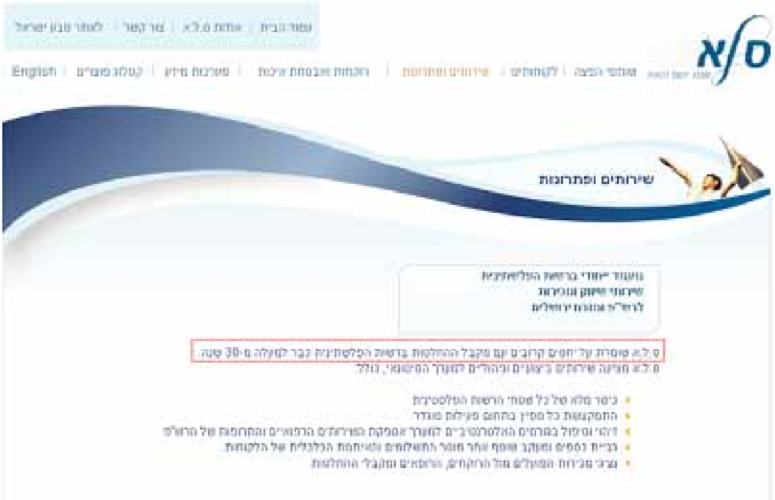
32 SLE Website: http://212.199.213.4/sle/partners.asp.

33 33 Ziv Hadas, 2002.

34 Jaradat Nidal, and Waleed Sweileh, 2003.

35 Either full of partial ownership of Kibbutz Maabarot.

SLE, for example, proudly announces in its publications that the company maintains good relations with the Palestinian Authority and enjoys a special position on the Palestinian market:



Picture No 5: SLE's Website: "For over 30 years, SLE has maintained close relations with decision makers in the PA" | Dec. 2011 |

The 1994 PP economic agreements strengthened this tendency. In accordance with the PP, no taxes or levies were imposed on trade from the Israeli side, and the flow of Israeli pharmaceuticals into the WB and the GS continued. Only in the past two years, the PMOH has asked Israeli manufacturers to register according to the same process that Israel applies, and requires several years. At present, the registration process is mainly a political request with no economic consequences, and the process has begun but has not been completed. In the meantime, there are no restrictions on pharmaceutical sales on the Palestinian market, and Israeli manufacturers and representatives sell their drugs without even translating the labels into Arabic.

Picture No 6: Acamoli and Acamoli Cold by Teva, labeled in Hebrew and English | Ramallah | Dec. 2011 | Photographed by Esti Tzal

It is important to note that despite the reciprocity declared in the PP and as a result of the mechanisms that were established in the agreement, Palestinian manufacturers are prevented from selling their goods in Israel, mainly due to the fact that these cannot be registered in Israel. This issue will be discussed in detail in the following chapter.

In the past few years, since the completion of the separation wall around the Jerusalem area, Israel has unilaterally decided to change its regulations and disallowed Palestinian manufacturers to distribute their products in Occupied East Jerusalem. This is particularly troubling as the prominent hospitals in the WB are situated in Occupied East Jerusalem, providing healthcare services to the Palestinian population of the WB. As a result, the entire Palestinian population of East Jerusalem and the hospitals that serve Palestinians from across the WB are obligated to purchase Israeli and multinational drugs. This obstacle to Palestinian-produced pharmaceuticals has serious economic implications as well as political consequences. This issue will also be described in detail in the following chapter.

Protection of Economic Interests

As described above, despite the formal bilateral ties, in practice, the Oslo Accords have brought little change to the pharmaceutical industry. The PP ensured the continuation of the free flow of goods from Israel to the OPT, which enjoys the absence of any levies or import taxes. This also applies to Israeli representatives of multinational pharmaceutical companies, who enjoy unrestricted trade in the OPT. The tendency to protect national economic interests is not unique to Israel. However, in the case of occupation, the protection of economic interests is far more problematic. The PP clearly favoured the Israeli industry over the Palestinian one by applying the Israeli minimum standards for the import of goods and by ensuring free entry of Israeli products into the OPT. In the case of drugs, the PP also disallows products that were not registered in Israel to be sold in the OPT, using the 'quality' maxim and thus disabling reciprocity. Moreover, Israel imposes further obstacles to the import of goods required for the industry and on its export, in the name of 'security'. Thus, Israel defends Israeli products[36] from competition as it does not open the Palestinian market to cheaper products from India, China or the rest of the Arab world. Israel further defends the interests of multinational pharmaceutical companies, perhaps for the sake of international economic agreements or due to its desire to join certain economic frameworks. The majority of Israel's pharmaceutical companies are also registered agents or licensees of international companies, and maintain strong ties with multinational companies. Perrigo Israel, for example, is, at present, a full subsidiary of the American-based Perrigo Ltd. The former Agis Industries Ltd. manufactures and sells Israeli products but also products made in India, as two of the company's production sites are located in the Indian subcontinent. Perrigo also distributes the products of its US base company, as well as the products of several other multinationals, e.g.: Siemens, Solvay Talecris, Bayer Diagnostics, Genzyme, and more.[37]

Perrigo (Formerly Agis)

Perrigo is a global healthcare supplier. The company develops, manufactures and distributes over-the-counter (OTC) and prescription pharmaceuticals, nutritional products and active pharmaceutical

36 Pharmaceuticals manufactured in Israel and ones imported to Israel by Israeli licensees.

37 Perrigo website: http://bit.ly/KP48wz (in Heb.).

ingredients (API). It is the world's largest manufacturer of OTC pharmaceutical products for the store brand market.[38]

Through its fully owned subsidiaries, Perrigo engages in the production and distribution of consumer healthcare products, generic prescription drugs, API and consumer products, primarily in the United States, Australia, Israel, Europe, India and Mexico.

The Israeli Market:
Perrigo Israel was founded in 1961 under the name Agis. In 2004, Agis was purchased by Perrigo US and became its fully-owned subsidiary. Perrigo Israel imports, manufactures and distributes RX products, OTC medications, diagnostics and medical devices, and has 900 employees. Perrigo is the second largest pharmaceutical company on the Israeli market by sales volume.[39]

The company collaborates with numerous international pharmaceutical and diagnostic companies, e.g.: Solvay, Nycomed, Talecris, Schwarz Pharma, Siemens Healthcare Diagnostics, GSK, Genzyme, Allergan and Sakura. On the Israeli market, the company focuses on the marketing of gastro-, women's healthcare- and dermatological products.[40]

Revenues: 2.7B US$ (2011)[41]

Ownership: Major shareholders: Fidelity Management & Research Company (8.37%), Perrigo Company (8.23%) BlackRock (6.69%) and Moshe Arkin (5.34%)[42]

Traded: NASDAQ | TASE

Subsidiaries/Global Presence:
Main Subsidiaries (partial list):
US: L. Perrigo Company | Perrigo Company of South Carolina, Inc. | Perrigo New York, Inc. | Perrigo Holland, Inc. (formerly J.B. Laboratories, Inc.)| Perrigo Florida, Inc. (formerly Unico Holdings, Inc.)

38 Perrigo website: http://www.perrigo.com/company/company_landing.aspx.

39 Dun & Bradstreet, Israel, 2011. On file with Who Profits.

40 Perrigo Isreal website: http://www.perrigo-pharma.co.il/About-Us

41 Perrigo's financial data on the NASDAQ website: http://www.nasdaq.com/symbol/prgo/revenue-eps.

42 Perrigo's ownership data on the NASDAQ website: http://www.nasdaq.com/symbol/prgo/institutional-holdings.

Israel: Perrigo Israel Pharmaceuticals Ltd.
UK: Wrafton Laboratories Ltd. | Brunel Pharma Ltd. (formerly Brunel Healthcare Ltd.) | Galpharm Healthcare Ltd.
Mexico: Quimica y Farmacia, SA de CV | Laboratorios Diba, S.A
Germany: Chemagis GmbH
China: Zibo Xinhua - Perrigo Pharmaceutical Company, Ltd.
India: Perrigo Laboratories India Pvt Ltd
Australia: Orion Laboratories Pty Ltd.

Main Headquarters: Michigan, USA

Products found in WB pharmacies: Agisten Cream, Baby Agisten, Agisten 200, Uterogestan

Products photographed in WB pharmacies: Agisten Cream, Baby Agisten, Agisten 200[43]

Picture No 7: Agisten Cream, Baby Agisten and Agisten 200 by Perrigo | Ramallah | Dec. 2011 | Photographed by Esti Tzal

Israel thus discourages the development of a strong pharmaceutical industry in the OPT and enhances the dependency of the Palestinian market and society on Israeli products and on the international community. As a result, the prices of drugs in the OPT are relatively high considering the

43 Perrigo products were found in Palestinian pharmacies on several field trips carried out by the Who Profits research team during Nov. and Dec. 2011.

standard of living, and very high in comparison with other Middle Eastern countries.[44] This tendency is further enhanced by several other factors, including the high costs of drug production for the Palestinian industry due to the occupation and the price discrimination zones of multinational companies. Both issues will be discussed in the following chapters.

The links between economy, nationality and preservation of interests is also attested by the companies, as is demonstrated in the introduction to Teva's 2009 Social Responsibility Report:

> Teva is a leading Israeli-global company in the generic drug industry...Teva is inseparably connected with the State of Israel... It is a source of national pride and a substantial contributor toward Israel's economic and social strength. We strive to continue to build the company for the benefit of Israeli society in general."[45]

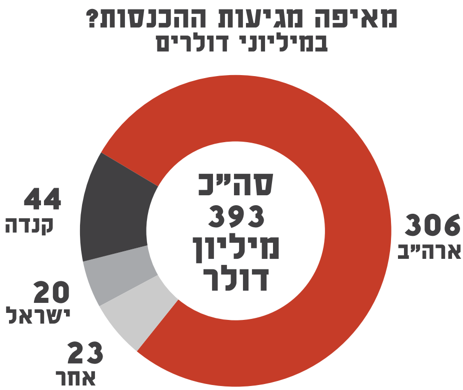
Picture No 8: Pharmacy Shelves loaded with Teva products | Ramallah | Dec. 2011 | Photographed by Esti Tzal

44 World Bank, West Bank and Gaza, Health Policy Report, Reforming Prudently under Pressure: Health Financing Reform and the Rationalization of Public Sector Health Expenditures, 2009. Available on: http://bit.ly/xVXmUY.

45 Frost, Philip (Chairperson), Yanai, Shlomo (President and CEO) Social Responsibility Report, Teva website, 2009. http://bit.ly/LG8CGS

Involvement in the Occupation

In his book, The Political Economy of the Occupation, Shir Hever explains that “the profits made by Israeli companies through the exploitation of the captive Palestinian market... have contributed to the funding of the occupation... The redistribution is difficult to follow as companies systematically hide their operations in the OPT.”[46] Hever further explains that the difficulties in obtaining data regarding the financial sources of the occupation are part of an intentional obscurity policy, aimed to deter national and international pressure pertaining to the privileging of settler population and the violations of international law. Indeed, the breakdown offered by Israeli pharmaceutical companies traded on overseas stock markets[47] does not differentiate between Israel and the OPT or distinguish the share of the OPT market from other markets. For example, Taro’s revenues in 2010 were divided between the US (306), Canada (44), Israel (20) and “other” (23) – all figures are in US$ millions.[48]



Picture No 9: Division of Taro's revenues according to Calcalist. The pie chart does not include a separate category for the OPT | July 2011

46 Hever Shir, 2010, p. 73.

47 Private companies or ones traded on the Israeli stock exchange. This is a common practice approved and encouraged by the government. Products from the settlements are not marked clearly, if at all.

48 Handler Snir, Bottom Line: The Miraculous Indian Drug, Calcalist, July, 10, 2011 (In Heb.). http://bit.ly/xIU3f9, retrieved on December 2011. Division of Taro's revenues according to Calcalist: Taro’s revenues in 2010 were divided between the US (306), Canada (44), Israel (20) and “other” (23) – all figures are in US$ millions. The pie chart does not include a separate category for the OPT

Taro Pharmaceutical Industries

Taro Pharmaceutical Industries is a multinational, science-based pharmaceutical company. The company develops, manufactures and markets prescription and OTC pharmaceutical products, primarily in the United States, Canada and Israel. The company's major areas of focus include pediatric creams and ointments, liquids, capsules and tablets, mainly in the dermatological and topical, cardiovascular, neuropsychiatric and anti-inflammatory therapeutic categories. The company operates mainly through three entities: Taro Pharmaceutical Industries Ltd. ("Taro Israel") and two of its subsidiaries, Taro Canada and Taro US.

In 2010, the company's revenues in the United States constituted 78% of its total consolidated net sales. An additional 11% of the sales came from the Canadian market and the remaining 5% was sold on the Israeli market.[49]

The Israeli Market:

Taro Israel manufactures and markets proprietary and generic pharmaceutical products for the local market as well as for export. The company conducts its own research and development, also through the Taro Research Institute, a fully-owned subsidiary.

Taro is the third largest pharmaceutical company on the Israeli market. In 2010, sales in Israel constituted 5% of the company's total consolidated net sales.

Revenues: 392 million US$ (2010)[50]

Ownership: Public company, controlled by the Indian pharmaceutical company Sun Pharma.

Traded: NASDAQ

Subsidiaries/Global Presence:
US: Taro Pharmaceuticals US, Inc.
Canada: Taro Pharmaceuticals, Inc.
Cayman Islands: Taro Pharmaceuticals North America, Inc.
The Netherlands: Taro Pharmaceuticals Europe BV

49 See Taro's Annual Report 2010: file:///C:/Documents%20and%20Settings/dell%20user/My%20 Documents/WhoProfits/Reports/%D7%AA%D7%A8%D7%95%D7%A4%D7%95%D7%AA/Taro/ Taro%20Annual%20Report%202010.htm.

50 Ibid.

Israel: Taro Research Institute Ltd. [51]

Main Headquarters: Haifa, Israel

Products found in WB pharmacies: Taroctyl, Lozopine, Strocort 4, Rokacet.

Products photographed in WB pharmacies: Taroctyl, Rokacet.[52]

Picture No 10: Rokacet by Taro, labeled in Hebrew | Ramallah | Dec. 2011 | Photographed by Esti Tzal

Although the direct profits that Israeli pharmaceutical companies harvest from the captive Palestinian market may be obscure, it is clear that the pharmaceutical industry in Israel is deeply involved in affairs pertaining to the occupation, and contributes to the dependency of Palestinians on the Israeli economy. The fact that occupied East Jerusalem is closed to Palestinian manufacturers and the difficulty, if not impossibility, in manufacturing some products due to the restrictions on the import of raw materials, such as glycerin, allow the Israeli pharmaceutical industry to profit from the occupation. However, there are also companies that benefit from assisting in Israel's maintenance of the occupation – Israel's various security forces. One company that openly states that it supplies

51 Ibid.

52 Taro Products were found in Palestinian pharmacies on several field trips carried out by the Who Profits research team during Nov. and Dec. 2011.

pharmaceutical products to the Israeli security forces, i.e. the Israeli army, the Israel Police and the Israel Prison Service, is Trima, a company based in a kibbutz, as can be seen on its website (in Hebrew – the sentence is, remarkably, omitted in the English version)[53]:

Picture No 11 – Trima's website: "In addition, the company supplies products to the security forces (The Israeli Army, The Israel Police and the Israel Prison Service)" | Dec. 2011

Trima Israel Pharmaceutical Products, Maabarot

Trima is an Israeli pharmaceutical company specialized in generic products. The company manufactures and markets Rx and OTC pharmaceuticals. Dermatology, allergy, NSAID and neurology are only a few of the company's main fields of activity. Trima employs over 200 employees.

Trima is Israel's official representative of Gedeon Richter (Hungary),

53 http://www.trima.co.il/Content.asp?ItemID=1, Retrieved on December 2011.

Sinclair Pharma (UK), and Frensenius Kabi (South Africa). The company also imports to Israel the products of Juste (Spain), Harras Curarina and Optima (Germany), Pharmathen (Greece), PH&T (Italy) and Trenker Laboratories (Belgium).[54]

Revenues: Approximately 10 million US$.[55]

Ownerships: A private company, owned by Kibbutz Maabarot (50%) and the Tomer family through the Motivan Group (50%).

Subsidiaries/Global Presence: Trima exports its own products to several countries in Central and South East Asia, e.g. Georgia, Azerbaijan, Thailand, Vietnam and Singapore.[56]

Main Headquarters: Kibbutz Maabarot, Israel.

Products found in WB pharmacies: Minoxi, Allegro.

Products photographed in WB pharmacies: Minoxi, Allegro.[57]

International Differential Pricing - Price Discrimination[58]

One of the troubling issues regarding the economic envelopment of the Israeli and Palestinian markets is the one of price discrimination. Price discrimination is the process of differential pricing of identical items to different groups of consumers, for reasons not necessarily associated with costs.[59] In the pharmaceutical international industry, the system is usually applied to countries by offering identical products for different prices and price scales in various countries. Hence, the term ‘price zones’

54 Trima website: http://www.trima.co.il/en/index.asp?ItemID=36.

55 Dun & Bradstreet, Israel, 2011. On file with Who Profits.

56 Trima website: http://www.trima.co.il/en/index.asp?ItemID=37.

57 Trima Products were found in Palestinian pharmacies on several field trip carried by the Who profits research team during Nov. and Dec. 2011.

58 Who Profits would like to thank Dr. Angelo Stefanini for bringing this important issue to its attention.

59 Lichtenberg R. Frank, “Pharmaceutical Price Discrimination and Social Welfare,” Capitalism and Society: Vol. 5, Issue 1, Article 2, 2010. Available on: http://bit.ly/xxAsQU.

is also associated with the system. Companies may also differentiate prices according to socio-economic indicators within a certain country and in accordance with the prevalence of certain diseases in some countries.[60]

In general, it can be said that there is a significant positive correlation between the per-capita income and the drug-price index: On average, the price of drugs is lower in low-income countries. Undoubtedly, the per-capita income in the WB, and even more so in the GS, is much lower than in Israel. Moreover, approximately 47% of the Palestinians live below the official poverty line of 2.1 US$ per person, with unemployment rates of approximately 20% in the WB and 40% in the GS.[61] Nevertheless, as a result of the economic envelopment of Israel and the OPT, the Palestinian territories are categorized under Israel's price zone, and the latter is in the top price zone scale, that of Europe. In basic terms, German consumers (or the country's representative) purchase insulin for the same price as that paid by a Palestinian consumer (through a Palestinian or an Israeli agent).

60 Bate Roger and Boateng Kathryn, Drug Pricing and Its Discontents: At Home and Abroad. Health Policy Outlook, American Enterprise Institute for Public Policy Research, No. 9, August 2007.

61 For an in-depth analysis see: World Bank, 2009. Available on: http://bit.ly/xVXmUY.

Implications for the Palestinian Population: The Cost of Drugs

In 2009, the World Bank issued a comprehensive report on health policy, including an analysis of the expenditures of the health sector in the OPT. With regards to the costs of pharmaceuticals, WB specialists revealed the following:

- Drug prices in the private sector are often unaffordable for a large percentage of the population.
- The lowest priced generic product in the public sector was on average 4.5 times higher than in Syria, which has a similar GDP per person.
- The prices of imported drugs are similar to those in Israel and are often higher than in Arab countries, e.g. Syria.[62]

As there is a strong reliance on the private sector and a significant segment of the OPT's population turns to the local pharmacies for advice on health matters and to purchase drugs, these results are worrying. Therefore, OPT residents must spend far more than those of other Arab countries, in absolute numbers, and much more than Israel's residents, in relative numbers. It should be noted that these high prices are paid from empty pockets, as the economic state in the OPT continues to deteriorate and the levels of unemployment are remarkably high. Inevitably, the more vulnerable segments of the population, such as the elderly, the mentally and physically disabled and underprivileged groups (such as divorced women with children) face difficult decisions and must often choose between health services against other basic necessities.

62 Ibid.

The Palestinian Pharmaceutical Industry

General Introduction

The Palestinian industry serves a population of almost 4 million WB and GS residents.[63] Drugs are sold and/or distributed in three primary types of pharmacies: Public ones administrated by the PMOH, NGO-run pharmacies and private pharmacies. In the public pharmacies, drugs are sold for a relatively small co-payment of 3 NIS (approx. 0.8 US$). These drugs are available according to an essential drug list (EDL) that the PMOH outlined in keeping with the EDL recommended by the WHO.[64] The NGO-run pharmacies differ per organization, but many of them, including the UNRWA ones (more prominent in the GS than in the WB), distribute drugs without charge.[65] However, in the last few years, the public pharmacies have suffered a chronic shortage of drugs. For example, in August 2011, 150 out of approximately 520 items were not in stock in the central drug stores of the PMOH in GS.[66] As a result, and due to the fact that many Palestinians refer to the local pharmacy as a significant center of

63 2,568,555 in the WB and 1,657,155 in the GS (July 2011 est.) The CIA Fact Book, retrieved on Dec, 2011.

64 526 items according to the Palestinian General Directorate of Pharmacy website. http://pharmacy.moh.ps/index.php?page=1262006204, retrieved on November 2011.

65 Fargier Marie-Paule et. al. Palestine: Support to the Drug Management System in Palestine, Feasibility Study and Project, Agence Francaise de Development, 2009.

66 Interviews with Mahmoud Daher and Dr. Bassim Khouri, 2011. On file with Who Profits.

medical information,[67] the private sector functions as the major pivot of pharmaceutical trade.

- The estimated size of the Palestinian pharmaceutical market is 105 million US$.
- 1,200 local products are registered at the PMOH, yet these cover only approximately 160 of the 450 EDL products.[68]
- 75% of the drugs manufactured in Palestine are sold on the local private market.
- In 2009, there were approximately 1000 pharmacies in the WB.
- 50% of the market consists of Palestinian manufacturers, 35% consists of Israeli companies and approximately 15% comprises of imported products.[69]
- Israeli companies cover approximately 15-20% of the public market (procured by the PMOH).[70]

Palestinian Industry – History and Current Tendencies

At the time of the 1967 occupation, the Palestinian pharmaceutical industry was only nascent, with one small company, the Jordan Chemical Laboratory (today's Beit Jala Pharmaceuticals)[71] operating in Beit Jala, near Bethlehem. Due to the new situation in the WB, following Israel's occupation and the post-1967 discontinuation of the drug trade through Jordan, pharmacies and former agents of pharmaceuticals founded small establishments that began to manufacture simple syrups and antidiarrheals. This small-scale industry flourished, despite its local essence and relatively simple products.[72] Some of these companies were later sold to or merged with other Palestinian manufacturers, like the Palestine Medical Company, Eastern Chemical Company and Balas Pharmaceuticals Company in the WB, and MASCO in the GS.

Today, there are six manufacturers of medications for humans in the OPT. Five of them are located in the WB and one is based in the GS. The

67 Jaradat Nidal, and Waleed Sweileh, 2003.

68 World Bank, 2009.

69 Interview with UPPM representative. On file with Who Profits.

70 World Bank,2009.

71 Beit Jala Pharmaceutical Co, website: http://bit.ly/wrc0qX.

72 PalTrade website, Parmecuiticals: http://www.paltrade.org/old/Sector/Pharm.html.

companies are the following:

Name	Popular/Former Name	Date of Establishment	Based in
Beit Jala Pharmaceuticals	JCL, formerly Jordan Chemical Laboratory	1958	WB
Al Quds Pharmaceutical Company	Jepharm	1969	WB
Birzeit Pharmaceutical Company	BPC	1974	WB
Gama Pharmaceutical Company		1978	WB
Pharmacare PLC	Dar A-Shiffa	1985	WB
Middle East Pharmaceutical Company	Megapharm	1993	GS

The manufacturers are assembled under the Union of Palestinian Pharmaceutical Manufacturers (UPPM). Four companies have a WHO-GMP certificate, and two of them – Pharmacare and Beit Jala pharmaceutical – hold an EU GMP certificate which allows them to sell their products to EU countries.[73] The industry exports to 17 countries, mainly in Eastern Europe, the former USSR, and several Arab countries.

As described above, the Palestinian pharmaceutical market is closed and captive. The situation is further aggravated by general restrictions and issues that arise from the Israeli domination of the OPT, as ratified by the Oslo Accords and the subsequent Paris Protocol. In addition, special obstacles are imposed on the industry, and prevent it from growing into today's globalized pharmaceutical industry. These impediments have serious consequences for the pharmaceuticals' production costs, will be described below.

73 Interview with UPPM representative. On file with Who Profits.

Impediments to Production

Licensing

The Palestinian manufacturers must receive an import license from the IMOH for all raw materials imported from abroad, regardless of their origin or possible usage. This demand is unique to Palestinian manufacturers, whereas Israeli producers are exempt from it. There are only a few materials that require a license from Israeli manufacturers, but these can be received on an annual basis, whereas the Palestinians require one for each separate shipment, regardless of whether it is a restricted item[74] or one that is freely imported by Israeli manufacturers.

Applying for a license for every single shipment is time consuming and costly as license fees should be paid and manpower must be assigned for the process. The license further demands an approval of both PA and Israeli customs and health authorities. The process could take between 3-4 days and many weeks, causing severe delays in production. In the case of production aimed for the international markets, the duration of the process affects the ability to compete in tenders and may cause loss of liability.

More importantly, each shipment to the OPT is delayed, for a period ranging from several days to several weeks, for security inspection, even in cases in which the license has been obtained, the supply comes from Europe, and the shipment passed security at a European airport. The costs of the security check, performed by a private Israeli company, is paid by the Palestinian manufacturer, in addition to the storage costs, which are also charged by a private Israeli company, predominantly Maman.

Maman Cargo Terminals and Handling

The Maman Group is a provider of logistics and aviation services. The group's subsidiaries supply management and operation services to cargo terminals in Israel, including logistics services, storage, distribution, bonded warehousing services and international delivery.

74 Restricted items could comprise of materials subject to international regulations or of "dual-use" substances that cannot enter the OPT due to Israeli prohibitions.

The group operates a cargo terminal at Ben Gurion airport, which provides storage, import and export services, and handles hazardous and climate-controlled materials. The terminal processes approximately 70% of all the cargo that passes through Ben Gurion Airport, estimated at 300,000 tons of cargo annually.
Through its subsidiary, Logisticare, the group operates storage sites at the Lod industrial zone, "Airport City," Kadima, and in close proximity to the Ashdod and Eilat harbors. [75]
Revenues: 107 million US$ (2010)[76]

Ownerships: Maman was established as a state-owned company, and was privatized in 1989. The company is currently publicly traded on the Tel Aviv Stock Exchange and is controlled by the IDB Group. Major shareholders: The IDB concern holds 65.3% of the company's shares (through Taavura Holdings), EL-AL Israel Airlines holds 15% of the company and Phoenix Holdings owns an additional 7.4%.[77]

Traded: TASE

Subsidiaries/Global Presence:

Israel – Logisticare | Logisticare Bonded | Maman Cargo and Security | KLP Maman| Tal Limousine | Laufer Aviation-GHI | Maman Aviation | Archive 2000 | Jerusalem Archive
Czech Republic - MEL - Maman Euro Logistics
India - PSBedi-Maman

Main Headquarters: Lod, Israel

Thus, the import of raw materials adds enormous costs to the Palestinian pharmaceutical industry, 'balancing' the low expenditure on manpower and decreasing competitiveness with the Israeli companies. In the words of one of the manufacturers: "If security were the issue, then a list of problematic items would have been compiled, but controlling each shipment inflates costs, causes delays and sabotages the work of the companies." [78]

75 See Maman's Annual Report, 2010.
76 The company's financial data on the TASE website: http://bit.ly/x6Q6dk.
77 Maman Website: http://www.maman.co.il/maman/en/index.htm; TASE website, Ibid.
78 Interview with Bassim Khoury, August 2011.

Picture No 12: Manan's sites at Ben Gurion Airport | Ben Gurion Airport | Dec. 2011 | Photographed by Esti Tzal

Picture No 13: Manan sites at Ben Gurion Airport | Ben Gurion Airport | Dec. 2011 | Photographed by Esti Tzal

Importing Materials into the Gaza Strip

The production of drugs in the GS is even more problematic as it requires coordination at various levels and yields numerous added costs due to logistics. As a result, drugs manufactured in the GS can be more expensive than other Palestinian or Israeli products.

The overall cost of transferring a shipping container from the Ashdod port to the GS (less than 30 km), is approximately 5000-8000 NIS (1300-2100 US$), during the peak of the blockade it reached 20,000 NIS (5250 US$). The WHO staff once calculated that transportation from New York to San Francisco is less expensive than from Ashdod to the GS.[79]

The materials are unloaded, stored, undergo security inspection and are charged import duties. During this process, the cargo is stored by Israeli companies, such as the Maman group, a subsidiary of which operates cargo and handling services at the Ashdod port. After the materials are cleared, a transfer into the GS is coordinated. The flow of goods into the GS is limited to a certain number of trucks per day.[80] Thus, cargo and transportation companies charge different tariffs, according to urgency. The urgent the shipment is, the higher the cost, rising up to 10,000 NIS (2,600 US$). In the cargo crossing, the trucks are again unloaded, scanned, and loaded onto Palestinian trucks that enter the GS.[81] In the case of raw materials, which must be stored in appropriate conditions and handled with care (some are strong chemicals), speedy transportation is crucial. Hence, Megapharm, a Gaza-based company, suffers extremely high added costs.

Dual-Use

In addition to the general restrictions on the import of raw materials, there are approximately sixty substances that are considered as a possible threat to Israel's security as they could potentially be used to produce explosives. These materials, generally referred to as 'dual-use' products, are decided on by Israel in an unknown and opaque procedure, which results in a list that is distributed by the Civil Administration offices in the WB and the GS. The list may change according to the whim of Israeli security officers and has far-reaching implications for the pharmaceutical industry.

The main problem is that once a material is declared 'dual-use,' the production of all relevant products is halted. Even when subsidiaries are available, the regulatory process of registration holds back production.

79 Interview with Mahmoud Daher, August 2011.

80 The amounts are dictated by Israel and vary from shipment to shipment.

81 Interview with Mahmoud Daher, August 2011.

Such was the case with glycerin. Glycerin ($C_3H_8O_3$) is an excipient used for the production of capsules. It can be found in most pharmacies as an anti-constipation medication. Yet, in 2000,[82] it was declared a ‘dual-use’ product as, in a highly-complicated chemical processes, it could be used to prepare Trinitroglycerin – an active ingredient in the manufacture of explosives. Once it was declared a ‘dual-use’ substance, the production of all pharmaceuticals containing glycerin was halted and many workers were discharged. Moreover, it became impossible to comply with orders from distributors. The replacement of an excipient and the registration process may take up to six months. In the case of glycerin, other ingredients could be used as substitutes, but the economic loss suffered during the process was vast. Most importantly, when a company is out of the market for such a long time, patients begin to use other drugs and it is far more difficult to regain the customers’ trust.[83] Pharmacare, for example, had to abandon several products following the declaration of glycerin as a ‘dual use’ material.[84] Due to its significance, the UPPM advocated on behalf of the industry via the health coordinator at the Civil Administration in the settlement of Beit El. The two sides reached a compromise, allowing the Palestinian pharmaceutical industry to import specific amounts of glycerin for indicated periods of time. Every gram must be reported and its eventual use should be detailed.[85]

The declaration of hydrogen peroxide (H_2O_2) as a ‘dual-use’ substance yielded similar results. Hydrogen peroxide is used for hair bleach and may be found in products offered in hair salons and even grocery shops. Yet, at some point, it was declared ‘dual-use’. Since the material is highly important for sterilization, many production lines were halted as a result of the decision. In the meantime, Israeli products containing glycerin, hydrogen peroxide and many other ‘dual-use’ materials, enter the OPT and are not even inspected at the checkpoints. Israel’s avenue of export thus remains uninterrupted.

The situation in the GS is far more severe and complicated. Prior to the lifting of certain restrictions in the blockade on the GS, it had been very difficult to bring in numerous kinds of raw material, even ones that were vital to the production of antibiotics, such as amoxicillin. It was almost impossible to meet the demands of the Israeli authorities. For example,

82 After the breakout of the Second (Al-Aqsa) Intifada.

83 Interview with Ahmad Mansour, August 2011, On file with Who Profits.

84 Interview with Bassim Khoury, August 2011.

85 Interview with UPPM representative, August 2011.

the material had to be packed in a transparent container, despite the fact that the substance must be kept in opaque containers. The WHO intervened, and yet, it took months before the material was allowed into the GS.[86] As said, in the chapter Palestinian Industry – History and Current Tendencies, the only Palestinian pharmaceutical company operating in the GS, Megapharm, was forced to halt its production and suffered great losses. The production workers were not paid – an especially painful blow in light of extremely high rates of unemployment in the strip. During this period, it was also difficult for WB companies to coordinate the entrance of goods into the GS,[87] whereas, in this case too, Israeli and multinational companies encountered far fewer problems.

Impediments to Sales

Flow of Goods

Once the materials enter the OPT, they are manufactured into various end products for internal use and for export. There were numerous problems selling the products within the WB due to the many internal roadblocks, seizures, curfews etc. In the last several years, this situation has slightly improved, yet there are still many costly obstacles to the flow of goods within the WB for Palestinian pharmaceutical companies. Of course, these hindrances are not encountered by Israeli companies that import drugs into the WB. For example, the transportation of goods from the Ramallah area[88] to Bethlehem can take four hours (on a bad road), whereas it would only have taken half an hour had there been a free and easy connection. Thus, while the Palestinian companies must pay four times more for the fuel, driver and vehicle, Israeli companies are not held at checkpoints, are not required to coordinate routes that cross the '67 lines and do not change tracks when doing so. The transport of pharmaceuticals produced in Israel does not require long bypasses on bad roads to refrain from this costly process of coordination.

86 Interview with Mahmoud Daher, August 2011.

87 The issue will be discussed in the following chapter on the impediments to sales.

88 The majority of WB pharmaceutical companies are situated in the Ramallah area.

| Picture No 14: Doxylin 100 by Dexcel Pharma, labeled in English | Ramallah | Dec. 2011 | Photographed by Esti Tzal

Dexcel Pharma Technologies

Dexcel Pharma is an international, research-based, pharmaceutical company, specializing in products for the treatment of gastroenterological, cardiovascular and central nervous system diseases.

The company has subsidiaries in the US, UK and Germany, and has approximately 1,000 employees worldwide. Approximately 85% of the company's production is exported to international markets.[89]

Israeli Market:
The company is the fourth-largest Israeli pharmaceutical manufacturer, ranked by sales volume.[90]

Revenues: 260 million US$ (2010)[91]

Ownerships: The company is fully owned by its founder and CEO Dan Oren.

Subsidiaries/Global Presence: Dexcel Pharma conducts its operations in 20 countries through local subsidiaries and distributors. Some of the countries in which the company operates are: UK, Germany, Denmark, Norway, Spain, Sweden, Ireland, Czech Rep. US, Singapore and Australia

89 Dexal Pharma website: http://www.dexcel.com/English/About_Us/Overview.

90 Dun & Bradstreet, Israel, 2011. On file with Who Profits.

91 Dexal Pharma website.

Main Subsidiaries:
US: Dexcel Pharma Technologies, Ltd.
Germany: Dexcel Pharma, GmbH
UK: Dexcel-Pharma, Ltd.

Main Headquarters: Or Akiva, Israel

Products found in WB pharmacies:
Doxylin 100, Cadex 2, Dizothiazid 25
Products photographed in WB pharmacies: Doxylin 100, Cadex 2, Dizothiazid 25[92]

From the West Bank to the Gaza Strip

Although the Oslo Accords clearly state that the OPT should be considered as one entity (regardless of the forms of government in its different parts)[93], Israel demands from WB companies – manufacturers as well as importers – to coordinate shipments to the GS, erecting various obstacles to the trade in times of relative tranquility, and all the more forcefully during times of war.

When a WB manufacturer wishes to dispatch drugs to the GS, s/he must first contact the health coordinator at the Civil Administration offices in the WB in order to organize the transfer of goods. Other civil issues must also be coordinated with the PA and Hamas authorities. This double coordination procedure leads to extra costs and problems. As the situation in the GS is uncertain and the borders are often closed arbitrarily, products are sometimes held for weeks until all the coordination aspects are cleared. Once an approval is granted, Palestinian trucks bring the goods to the Bitunia cargo checkpoint (referred to by Israel as a "terminal"). After the security check,[94] the goods are sealed and loaded onto an Israeli truck that transports them to the relevant cargo checkpoint at the GS border. The trucks are then discharged, undergo another Israeli security check

92 Dexal Pharma products were found in Palestinian pharmacies on several field trips carried out by the Who Profits research team during Nov. and Dec. 2011.

93 The Palestinian-Israeli Interim Agreement on the West Bank & The Gaza Strip Protocol on Economic Relations (Article IV). Article IV deals with the jurisdiction of the PA and clearly states that: "The two sides view the West Bank and the Gaza Strip as a single territorial unit, whose integrity will be preserved during the interim period".

94 Today, security checks are usually conducted by the scanning of goods.

and are loaded onto a Palestinian truck that takes them into the GS.[95]

From the 2009 Gaza war until June 2010, coordination was even more difficult and the process was delayed to such an extent that the delivery of drugs, at a time when they were most needed, took up to one month.

As both the Bitunia cargo checkpoint and the cargo crossing points around the GS operate during a limited number of hours[96] and the procedures are time-consuming, the process usually takes two days, thus inflating the costs of storage/truck service. Moreover, in the case of products with temperature sensitivity, extra care and coordination with the health authorities is needed, adding further procedures to the already cumbersome process.[97]

Picture No 15: Goods at Kerem Shalom checkpoint| Kerem Shalom | Jan. 2009 | Photographed by ActiveStills

The situation is even more difficult in the case of imported pharmaceuticals as there is no direct import from Israel's Ashdod port to the GS, although the distance between the two is only 35km.[98] Thus, the imported pharmaceutical end products must travel from Ashdod to the Bitunia border checkpoint in the WB, after passing it they are stored in warehouses in Ramallah. Once a permit has been obtained, the products

95 Interview with Bassim Khoury, August 2011.

96 Bitunia checkpoint opening hours: Sun.-Thu.: 8:00-16:00; Fri.: 8:00-11:00; Sat.: Closed; GS checkpoints close at 13:00.

97 Representative of a Palestinian import company, Personal Communication, August 2011. On file with Who Profits.

98 This is the case with WB based Palestinian importers. Donations may follow a direct route.

are transported from the WB, via Bitunia, and undergo the process described above for the locally manufactured products. [99]

The problems of shipping and import and the time needed for materials to reach the GS encourages the import of drugs form the Israeli market, which face fewer difficulties and can be obtained in less time and with far less effort.

The Case of East Jerusalem: A Socio-Political Arena of Subordination

> "I think East Jerusalem is very important, not only for its symbolic value. It constituted 5% of our market. Loosing 5% of your market overnight is very significant...
>
> It has absolutely nothing to do with security and nothing to do with health and safety issues – our products are licensed in Europe, so why can't they be sold in East Jerusalem?"[100]

There are approximately 285,000 Palestinians in occupied East Jerusalem (OEJ).[101] Israel's decision to annex the territories occupied in and around Jerusalem in 1967,[102] in violation of international law, met with resistance by numerous international bodies which continuously repeat that East Jerusalem is an occupied territory and should be considered so until a final resolution is achieved[103]. For the residents of East Jerusalem the annexation implied that they would receive most of the civil amenities via Israeli institutions. Healthcare services, for example, are provided through the Israeli HMO system. At the same time, OEJ has continued to serve as a center for the Palestinian population from all over the WB, for many different issues, including healthcare. The primary reason is that many of

99 Representative of Palestinian import company, Personal Communication, August 2011.

100 Interview with Bassim Khoury, August 2011.

101 Choshen Maya and Korach Michal, Jerusalem, Facts and Trends 2010-2011, The Jerusalem Institute for Israel Studies, http://www.jiis.org/.upload/facts-2011-eng-internet.pdf.

102 On June 28th 1967, The Knesset (Israeli Parliament) approved an amendment to the arrangements of government and law order, inserting article 11 B. According to the article: "The law, the jurisdiction and the administration of the state will apply in all territory of the Land of Israel, that the government will announce by an order.

103 See for example UN Security Council's resolutions 242 (1967), 446 (1979), and 478 (1980), all based on the fourth Geneva Convention (1949).

the important healthcare institutions – general and specialist – are based in OEJ. Since the erection of the separation wall, many of the services were cut off from their beneficiaries.[104] For many years, trade between the WB and OEJ continued and the OEJ medical institutions used Palestinian products.[105] In the past few years, coinciding with the completion of the physical separation of OEJ from the rest of the WB, Israel has changed its policy.[106] In the case of pharmaceuticals, this change in policy had a dramatic effect on all sides of the matrix: Palestinian manufacturers, private pharmacies, the local population and the numerous medical institutions. The official reason for this change is that OEJ is a part of Israel and products sold in Israel must be registered. Palestinian products are not registered in Israel for reasons that will be discussed below. As far as we know, the decision was not issued as a formal order, yet it is enforced at checkpoints.[107] It is important to note that the Palestinian medical institutions continue to provide services solely to the Palestinian population. Yet, they are unable to use cheaper, local materials. Moreover, in order to provide care to Palestinian patients, OEJ healthcare centers are now obligated to purchase Israeli products. Accordingly, the OEJ medical institutions' expenditures have seen a tremendous increase. On the other hand, blocking of Palestinian products from entering the OEJ inflicted a significant loss of income on the Palestinian pharmaceutical industry. According to one manufacturer, 5% of the company's trade had been with OEJ institutions and was cut off due to the mentioned changes in policy.[108] Therefore, the Palestinian population cannot buy local Palestinian products in private Jerusalem pharmacies and are obligated to pay much higher prices than those who reside in the WB. In the light of the many plights suffered by the Palestinian OEJ population, e.g. high unemployment rates, the high cost of drugs is particularly distressing.

Another important repercussion of the inability of Palestinian medical products to enter OEJ, is the issue of vaccines administered in schools. The OEJ education system is mostly under Palestinian supervision and control. Thus, the PA is responsible for inoculating all school-age children. Yet, it is impossible to vaccinate these children with products purchased

104 For a comprehensive description of the healthcare system and the effects of the separation wall on it, see: Habib Ibrahim, A Wall at its Heart, Physicians for Human Rights-Israel, 2005 (Heb. only), http://bit.ly/xPZhw5.

105 Interview with UPPM representative, August 2011.

106 For more information see: PALTRADE, Movement of Goods from the West Bank to East Jerusalem and Israel, Palestine Trade Center, 2010.

107 Ibid.

108 Interview with Bassim Khoury, August 2011.

in Palestine. The Palestinian institutions, catering to the Palestinian population in occupied Palestinian territory, have no choice but to use Israeli/foreign products bought in Israel.[109]

Picture No 16: Palestinian patients waiting for treatment in an OEJ clinic | Siluwan Neighborhood, OEJ | Mar. 2007 | Photographed by ActiveStills

Absence of Affirmative Action

The Palestinian pharmaceutical industry suffers from Israeli policies that obstruct its growth even within the OPT. Affirmative action on the part of the PA and the international community could be helpful in such a situation. Indeed, the PA has a policy of preference to local Palestinian industry in tenders, for up to 15% in price.[110] Apart from that, the PA chooses the better offer. Due to the numerous hurdles detailed in this report, the Israeli and multinational industries can often submit better offers to official Palestinian tenders.

Another important aspect is the fact that many drugs used in the public sector are procured by the international community that generally prefers to send in-kind donations rather than cash. By doing so, the international community discourages the growth of the Palestinian pharmaceutical

109 Interview with Raed Hamadeh, August 2011. On file with Who Profits.

110 PMOH Tender for 2012. On file with Who Profits. See also: http://www.moh.ps/?lang=0&page=4&id=368

industry and further strengthens the tendency to take advantage of the captive Palestinian market, thus deepening the economic crisis in the OPT.

International organizations that have local or regional offices and issue local tenders, such as the WHO and UNRWA, refrain from developing an affirmative action policy, thus overlooking the barriers faced by the Palestinian industry, as well as the privileges of Israeli companies, on the Palestinian market. These international organizations can also provide products that are not registered in Israel when these are marked as donations. As mentioned, in such cases Israel does not enforce the PP standard regulations. Importantly, UNRWA acts for the benefit of the Palestinian refugees in the region. For practical reasons, e.g. since its central purchasing department is located in Jordan, most of the tenders exclude Palestinian manufacturers. It should be noted that small quantities are purchases from local manufacturers, mainly in cases of temporary shortage.[111]

Lastly, the international community complies with the Israeli policy, even when it is in violation of international law, as in the case of OEJ. For example, in a drug tender for supplying drugs for use in OEJ issued by CARE international, a massive American-international aid agency working in the OPT, it was clearly stated: “Since the requested pharmaceuticals (sic.) are to be delivered to hospitals operating inside Jerusalem, vendors with stocks inside the West Bank and Gaza need permission from the relevant Israeli authorities in order to deliver inside Jerusalem.”[112]

Impediments to Export

> I believe that with globalization, there will be a time that unless you are able to compete on the international market, you will not be able to compete in your home market.[113]

111 Interview with UPPM representative, August 2011.

112 Please see Appendix II for a reprint of the relevant tender, copied by kind permission of PALTRADE.

113 Interview with Bassim Khoury, August 2011.

Enabling Palestinian Drugs to Enter the International Market

As mentioned, the Palestinian pharmaceutical industry exports to 17 countries, mostly in Europe and some Arab countries. Two of these companies hold a GMP certificate which allows them to export to the EU. The drugs are exported in packs or in bulk. Exporting in bulk implies that the industry manufactures end products that are later sold under the name of a different company, either a pharmaceutical brand or a chain brand. As the majority of the world's large chains now have brand names for over-the-counter (OTC) medications, these types of drugs are often bought in bulk from countries with low production costs. Yet, due to security reasons, the shipments in bulk are complicated and relatively expensive, making import from Palestinian manufacturers less attractive and hindering the ability of the Palestinian industry to compete on the international market. Products sent in bulk are packed in sealed containers that should only be opened under special conditions, in what is commonly called a "clean" environment. Palestinian products shipped from the OPT for export through Israel are subjected to the discretion of the officers in charge of the Bitunia cargo checkpoint. Even the WB health coordinator at the Civil Administration offices cannot guarantee that the containers pass the Bitunia cargo checkpoint without being opened. The only solution is to send the shipments through the Jordanian borders as the Jordanian authorities have agreed not to open the sealed containers at the border crossing and only scan them when they reach the airport. Materials are thus transferred through the Jericho area, which is prone to extremely high temperatures for several months every year, hence demanding refrigerated trucks, special containers, etc. This detour significantly increases the price of the procedure. By comparison, Israeli manufacturers export in bulk without any problem of this kind.[114]

Enabling Palestinian Drugs to Enter the Israeli Market

Palestinian manufacturers have voiced dissatisfaction with the fact that Israel does not admit Palestinian products, whereas Israeli products flow freely into the Palestinian market. Some of the Palestinian manufacturers wish to enter the Israeli market and believe they can compete in terms of

114 Interview with Bassim Khoury, August 2011.

quality versus cost. However, when the UPPM approached the IMOH, requesting inspection of the manufacturing facilities in order to be allowed to export to Israel, the request was refused in the name of security. The IMOH claimed that as the Palestinian facilities are in areas subjected to the PA, Israeli staff cannot enter these territories as its safety cannot be guaranteed. On the other hand, the Israeli Civil Administration sends inspectors to examine the premises of the Palestinian dairy industry.[115] Since a delegation must visit the premises as a part of the licensing process, Palestinian manufacturers are unable to offer their products on the Israeli market. Palestinian drug manufacturers can thus export to 17 countries – and two of the companies are licensed to export to EU countries – but not to Israel.

Export to the Arab World

In principle, the Arab world is a natural destination for export, constituting a large market in which labelling in Arabic is an asset. Yet, here too, the occupation raises various, mostly political, obstacles. As is the case with export to Israel, a formal delegation must visit the production sites and meet with the various official authorities. As the facilities are on occupied land, Arab countries refuse to send a formal delegation and do not wish to meet with IMOH representatives. Thus, despite its proximity, Palestinian manufacturers have no access to the Arab world, including the lucrative markets of the Persian Gulf. Very few Arab countries have agreed to relinquish the demand for formal on-site inspection and put their trust in the PMOH certification methodology. At present, Jordan (following formal inspection of the Palestinian production sites), Algeria and Qatar are among them.[116]

Export from Gaza

Export from the GS is subject to harsh restrictions, obscurely related to security matters. Yet, to date, there are only two items that can be exported from the GS: Carnations and strawberries are sent overseas via the Israeli agricultural export company – Agrexco.[117] No other products

115 Interview with UPPM representative, August 2011.

116 Ibid.

117 In Sep. 2011 Agrexco entered a liquidation process. During the composition of this report the fate of

are formally permitted to leave the GS – not even drugs. This creates a situation in which Megapharm, the Gaza-based pharmaceutical company, can only manufacture for internal use. The company cannot even sell its products to the WB, even though the Palestinian territories are officially considered one entity.[118] This policy dictates the limits of the company's expansion and denies it the possibility to develop additional production lines as these must be competitive. However, growth is impossible within the limitations of such a small local market.

Implications for the Palestinian Population: Expired Drugs in Gaza

As almost no export is allowed to leave the GS, once drugs expire they cannot be returned to the manufacturer. The problem of discarding the expired drugs thus falls on the GS authorities.

The problem is encountered with all pharmaceuticals that enter the GS, be they Palestinian, Israeli or multinational manufacturers. However, one of the main sources of pharmaceutical supply to the GS is international organizations, including UN agencies, e.g. UNRWA, WHO, WFP, UNFPA, UNICEF, CARE international, Islamic Relief Organization, and others. Many of these drugs are sent as in-kind donations and are treated as such by the Israeli authorities. Unfortunately, many of the drugs come from unknown sources, collected on campaigns etc., and are not necessarily very crucial to the GS. In fact, many of these drugs arrive close to their expiry dates, and are thus unusable. The disposal of expired drugs is expensive and problematic, partially as the fields for the burial of solid toxic waste are close to the border with Israel, an unsafe area, especially during times of tension. Thus, the GS becomes a large landfill for expired drugs, used by many companies that are not responsible for their own waste treatment.[119]

company's activities in the GS was still unclear.

118 Interviews with UPPM representative and Mahmoud Daher, August 2011.

119 Email correspondence with Dr. Angelo Stefanini, August 2011.

Picture No 17: Red Cross Truck at the GS border| Kerem Shalom Checkpoint | Jan. 2009 | Photographed by ActiveStills

Impediments to Import

The Effects of the Paris Protocol

Imported end products enter the OPT from two main sources: Israeli representatives of multinational companies and Palestinian representatives who are direct licensees of multinational companies. The Israeli agents usually work with large pharmacies or with small chains that act as distributors in the OPT. Direct Palestinian representatives have their own distribution network. As a result of the PP, direct import is more difficult for Palestinian representatives as the process is different and more costly. The protocol further allows Israeli cargo management, ground-handling, storage and transportation services to benefit from the procedure the Palestinian importers must follow. According to the agreements, most of the tax revenues collected by Israel should be transferred to the PA, apart from a small fee of approximately 3% that Israel retains for “management services”. However, the whole import cycle must go through Israel and only Israeli companies benefit from it. The cycle begins with the import license and continues with services: the use of the port (port tax), storage, ground handling (including custom clearance) and transport that is owned, managed and manned by Israelis. Today, there are very few Palestinians working in Israel, and those who do are by no means in positions that require security clearance (e.g. in the airport) and in management positions. Thus, the system is purely Israeli.[120] Moreover, Palestinian importers must pay private Israeli companies for the security clearance Israel demands for each shipment to the OPT. Once the goods reach the Israeli port, the whole clearance process takes approximately one week and usually costs 5%-10% of the shipment value. Port tax, security checks and VAT add a further 14%. Altogether, 20% of the value of the shipment is allocated to clearance and taxes.[121] This expensive process applies to all pharmaceuticals that may legally enter the OPT, i.e. those registered in Israel.[122]

The PP further affected the OPT pharmaceutical market in the inability to import items from many parts of the world, especially from emerging markets in East Asia and Arab countries. Many European companies that offer quality, innovative products, suitable for the OPT market, cannot enter the Palestinian market as they must first register in Israel. Thus, the needs of the Palestinian market are subjected to Israel's interests. If in Israel there are other drugs that satisfy the large customers[123] the incentive for a multinational company to go through the registration process for the Palestinian market decreases. Indeed, the Palestinian market is relatively small in terms of quantities and cash turnover. Importers thus lose their competitive edge as their ability to offer new drugs for lower prices is almost non-existent. When a Palestinian importer contacts a multinational, requesting to register a certain product or to make changes (such as re-labelling), s/he may receive minimum aid, or a refusal, due to the lack of economic interest in the small Palestinian market. For example, a Palestinian importer previously brought in a Vitamin B Complex named XXXXX FORTE from one of the large multinational pharmaceutical companies. The complex sold well on the Palestinian market and was first registered as a drug. When its manufacturing resumed after a break, it was registered as a food supplement. Yet, according to IMOH regulations, the word FORTE cannot be used on a food supplement. The Palestinian importer contacted the company and asked to change the label to allow the product to be re-imported to the OPT. The answer from

120 Interview with Mahmoud Daher, August 2011.

121 Representative of Palestinian import company, Personal Communication, August 2011. On file with Who Profits.

122 Vitamins, infant formulas and other food supplements must undergo a more complicated and costly process that demands chemical testing for each shipment as these products can be imported even if they are not registered in Israel.

123 In Israel these are mainly the four public HMOs.

the multinational company was that the volume of the sales in the OPT did not justify a special label. Thus, the product's import could not be resumed.[124]

This situation also affects the growth potential of small businesses. Ahmad Mansour, a pharmacist and pharmacy owner in a large village in the Qalqilya province, who previously worked with one of the major WB importers, told Who Profits about his attempt to expand his business:

> We tried to cooperate with a Spanish company that offers good and reliable products. The company produced some drugs that are not available in the OPT and drugs that could compete with those available in Israel. But, since the company was not registered with the IMOH, and since it would take a lot of effort, time and more, and considering all the extra fees – tax, customs clearance, delays at ports – it would not be profitable to import, and we abandoned the idea.[125]

Thus, the expansion possibilities of small and medium-sized businesses in the OPT are affected by the consequences of the PP and by the ongoing occupation. The ability to offer new, imported products for competitive prices is reduced by the lack of freedom and the various limitations imposed by the occupation.

Non-Objection Letters

Palestinian importers must follow a unique procedure that demonstrates the control Israel has over the Palestinian people and the subordination of the Palestinian market to the interests of Israel's economy. As mentioned, Palestinian representatives must renew their import license on an annual basis. The license is issued per pharmaceutical product, according to an IMOH list of approved medications. The whole process is relatively straightforward and the IMOH import and export department usually provides the license within one week. However, in addition to this demand, Palestinian importers must submit a letter from the Israeli representative(s)

124 Representative of Palestinian import company, Personal Communication, September 2011.

125 Interview with Ahmad Mansour, August 2011.

of the relevant multinational(s), declaring they have no objection against the Palestinian representatives' activity on the Palestinian market. This is the so-called 'non-objection letter'. The letter is required by the Israeli authorities despite the fact that the Palestinian agents are the direct representatives/licensees of the multinational(s). The procedure of obtaining the non-objection letter depends on the Israeli representative. The license and non-objection letters are an annual procedure that may take up to two months, and must be prepared by January 1st of every year in order to ensure continuity in trade.[126] This procedure does not have severe economic implications and is usually conducted on friendly terms and without many obstacles. Yet, it leaves the Palestinian representatives at the mercy of the Israeli business community and reveals the exact consequences of the reciprocity delineated in the PP.

Implications for the Palestinian Population: Availability of Drugs from the Arab World

The Palestinian community is affected in many ways by the inability to buy drugs produced in the Arab world. The first issue pertains to the price of the drug as compared to the cost of living. The economic situation in the WB, and more so in the GS, is closer to that of Syria than it is to Israel.[127]

Plavix (produced by Sanofi-Aventis, a multinational pharmaceutical company), a medication prescribed after open heart surgery, serves as a good example. In the OPT the drug costs 420 NIS (110 US$) for a box of 30 tablets.[128] In Syria, the same medication would cost approximately 50 NIS (13 US$).[129] One of the foremost reasons for the price gap is that the drug is produced by a Syrian company, and is manufactured and sold under the brand Sanofi-Aventis. The Syrian factory supplies Plavix to the Arab world, but not to the OPT. Another example is Meladinin, an Egyptian medication for the treatment of Vitiligo (a skin disease). In Egypt, the medication costs 8-10 times less than the equivalent medication found on the Palestinian market.[130]

Many patients, especially those in need of complicated surgery and treatment for severe illness, e.g. cancer, heart conditions or implants,

126 Representative of Palestinian import company, Personal Communication, August 2011.

127 World Bank, op. cit.

128 In 2012, the price has gone down by half (US$55).

129 Interview with Ahmad Mansour, August 2011.

130 Ibid.

receive medical care outside the OPT. Upon their return from Egypt or Jordan, the patients often discover that the medication prescribed to them is not registered in Israel. In very special cases, unique permits are issued for specific amounts of a medication not registered in Israel. The Palestinian supplier fills out a form that should be signed by the director of the PMOH pharmaceutical department. The supplier then submits the form for custom clearance, after which the medication can be ordered. The procedures must be repeated for each separate shipment of the relevant medication. In principle, the Israeli market might offer a suitable medical solution but also a complicated one: it would require an alternative prescribed medication, which could be more costly, issued by a local doctor who did not treat the patient previously. In light of this complicated process, many patients turn to the cheap alternatives offered on the Palestinian market instead of insisting on the medication prescribed to them abroad.[131]

Conclusions

The report details the state of the OPT as a captive market for Israel, as sanctioned by the PP. The case of the pharmaceutical industry demonstrates how a small country like Israel could generate a strong, stable, multinational and highly profitable industry with an immense impact on the country's economy. The case of the pharmaceutical industry reveals that the "invisible hand of the market" is in fact a strongly manoeuvred mechanism, disguised as 'security' and 'quality' concerns. The Palestinian territory is subjected to a direct colonial system, despite the relative 'self-government' of some of the areas. Israel controls the OPT's borders and, in most cases, many of the economic affairs that affect trade. The Palestinian pharmaceutical industry is thus, in many respects, a prisoner of the Israeli system – it is dependent on government bodies such as the IMOH and the Israeli customs, and on the Israeli market, with its manufacturers, distributors and cargo dealers.

This fact is disguised under the PP, which served as a bilateral agreement. Today, it is clear that the PP has in fact privileged the interests of the Israeli economy, thus creating a situation often referred to as 'neocolonialism'. The term is usually applied to postcolonial situations in which mostly former European colonisers draft economic agreements with their former

131 Interview with Mahmoud Daher, August 2011.

colonies, as a way of maintaining and enhancing European economic supremacy. These agreements usually determine regulations that favour the free – and also tax-free – flow of goods from the European state to the former colony, thus ensuring a situation in which import is cheaper than independent production. Accordingly, these agreements often fixate a situation of economic underdevelopment in the former colony, limiting the economic growth of individuals, corporations and the national economy. This kind of neocolonialism often takes the form of allegedly-bilateral agreements that in fact leverage unequal situations to solidify economic control. In many cases, neocolonialism is marketed as an act of good will toward underprivileged countries. In the Palestinian case, the findings of this report reveal a tendency to deploy both mechanisms. Israel's direct rule allows direct exploitation of land and resources, and in the case of pharmaceuticals, it enables Israeli manufacturers and representatives to bring in their products without checkpoints, security checks, special permits or even a demand for relabeling in Arabic. The politics of the occupation creates a continuation of the structured inequality, as can be seen in the case of the GS, in which it is extremely difficult to import raw materials, export pharmaceuticals and even discard expired pharmaceuticals. This inequality is also manifested in OEJ, in which Palestinian institutions that serve the Palestinian population are obligated to purchase goods produced by the occupier, due to the illegal annexation of East Jerusalem under international law. It is further demonstrated in the humiliating demand for Palestinian agents to obtain a 'non-objection' letter from their Israeli colleagues, in order to import goods directly from multinational companies to the OPT.

The indirect neoliberal colonialism allows further exploitation of the market – one that is often less apparent to the untrained eye. This can be seen in the ways in which the Israeli standards are used in ways that disconnect the Palestinian pharmaceutical industry from entering many markets, some of which are even within easy geographical and cultural reach, such as the Arab world and Israel itself. This exploitation is further demonstrated in the obstacles to the import of raw materials to the WB and even more so to the GS. These impediments prevent the Palestinian industry from benefitting from the Palestinian market and manufacturing affordable, good quality pharmaceuticals. The Israeli pharmaceutical industry uses its privileged position, as a result of government assistance and the occupation, without acknowledging this fact. In its 2009 social responsibility report, Teva proclaimed it has joined a global initiative to implement values of social and environmental responsibility among corporations. The initiative includes, among others, commitment to key principles in the fields of human rights, fair trade and employment. "Teva sets itself liable to responsible and ethical production, distributing and marketing of pharmaceuticals to the public as well as the medical community and institution."[132] The company proudly leads the Israeli pharmaceutical industry, and thus its blatant disregard of problematic issues pertaining to the occupation is indicative of the previously discussed neocolonialism It is not unique to Teva: all Israeli pharmaceutical companies sell their products on the Palestinian market and profit from it, without paying any price for the occupation and its damage.

132 Social Responsibility Report, Teva website, 2009 (in Heb. only), http://bit.ly/wXX6Uq, retrieved on December 2011.

Appendices

Appendix I
List of Restricted Dual-Use Goods

The following list of restricted dual-use goods was taken from the Defense Export Control (Controlled Dual-Use Equipment Transferred to Areas under the Palestinian Authority Jurisdiction) Order 2008, and translated from Hebrew:

A. Chemicals

1. Chlorate salts
   a) Potassium chlorate – $KClO_3$
   b) Sodium chlorate – $NaClO_3$
2. Perchlorate salts
   a) Potassium perchlorate – $KCLO_4$
   b) Sodium perchlorate – $NaClO_4$
3. Hydrogen peroxide – H_2O_2
4. Nitric acid – HNO_3
5. Musk xylene – $C_{12}H_{15}N_3O_6$
6. Mercury – Hg
7. Hexamine – $C_6H_{12}N_4$
8. Potassium permanganate
9. Sulfuric acid – H_2SO_4
10. Potassium cyanide – KCN
11. Sodium cyanide – NaCN
12. Sulfur – S
13. Phosphorus – P
14. Aluminum powder – Al
15. Magnesium powder – Mg
16. Naphthalene – $C_{10}H_8$
17. Fertilizers
   a) Ammonium nitrate – NH_4NO_3
   b) Potassium nitrate – KNO_3
   c) Urea – CH_4N_{2O}
   d) Urea nitrate – $CH_4N_2ONO_3$
   e) Fertilizer 27-10-17
   f) Fertilizer 20-20-20
   g) Any fertilizer containing any of the chemicals in items a – c
18. Nitrous salts of other metals:

a) Sodium nitrate – $NaNO_3$
b) Calcium nitrate – $Ca(NO_3)_2$

19. Pesticides
    a) Lannate
    b) Endosulfan
20. Nitrite salt
21. Methyl bromide – CH_3Br
22. Potassium chloride – KCL
23. Formalin – CH_2O
24. Ethylene glycol – $C_2H_6O_2$
25. Glycerin – $C_3H_8O_3$

B. Other Materials and Equipment

26. Platen, titanium, or graphite plates, less than 10 cm thick
27. Communication equipment, communication support equipment.
28. Equipment that could disrupt communication networks
29. Infrastructure equipment for communication networks
30. Lathes for removing metals (including center lathe machines)
31. Lathe spare parts, lathe equipment and accessories
32. Machine parts that can be used for one or more of the following functions: erosion, screwing, purification and rolling
33. Casting ovens for over 600 degrees Celsius
34. Aluminum rods with a 50-150mm radius
35. Metal pipes with a 50-200 mm radius
36. Metal balls with a 6-mm radius and bearings with 6-mm radius metal balls
37. Optical binoculars
38. Telescopes, including aimers (and markers)
39. Laser distance measuring equipment
40. Laser pointers
41. Night vision equipment
42. Underwater cameras and sealed lenses
43. Compasses and designated navigation equipment, including GPS
44. Diving equipment, including diving compressors and underwater compasses
45. Jet skis
46. External marine engines of over 25 Hp, and designated parts for the engines
47. Parachutes, hang-gliders, and flying models
48. Balloons, dirigible airships, hang gliders, flight models, and other

aircrafts that are not operated with engine power

49. Devices and instruments for measuring gamma and x-rays
50. Devices and instruments for physical and chemical analysis
51. Telemetric measuring equipment
52. All-terrain vehicles.
53. Firearms and ammunition for civilian use (e.g., for hunting, diving, fishing, and sports.
54. Daggers, swords, and folding knifes of over 10 cm.
55. An object or a system of objects that can emit fire or detonators, including fireworks.

Appendix II:

Part of a Tender for Pharmaceutical Products for East Jerusalem, CARE International[1]

9. Delivery time will be considered as a major criterion in determining the supplier. Please indicate in the original tender document the expected delivery time of each item. All factors such as holidays, security situation, etc. should be taken into consideration when stating delivery dates. This is very important and item # 28 of this tender document will be adhered to.

10. Since the requested Pharmaceuticals are to be delivered to Hospitals operating inside Jerusalem, Vendors with stocks inside the West Bank and Gaza need permission from the relevant Israeli Authorities to deliver inside Jerusalem. The ability of the interested vendors to obtain this permission should be clearly stated in their submitted offers.

11. CARE International has the right to increase / decrease the quantity or drop any or all items mentioned in the tender .

12. The offers submitted should be valid for six months from date of submission.

13. In your offers please state the quantities available for immediate delivery and the expected delivery time for the remaining quantities.

14. Please take into consideration that the whole quantity mentioned in the BOQ may be ordered partially.

15. Pharmaceuticals will be ordered through Contracts of Purchase, which give detailed information about the items and quantity requested as well as dollar amount.

16. No information will be given about prices, items, or suppliers responding to this tender.

17. The tender must be delivered to CARE International in the pre-numbered sealed envelope before 2:00pm on Monday 30th April 2007

18. The supplier will be responsible for any damages that occur to the supplies. Supplies will be checked at Hospitals warehouses.

19. Invoices must be written in English and addressed to CARE International. Invoices must be submitted to the Ramallah Procurement Department. Procurement departmentwill give the vendor a copy of the invoice signed by the officer in charge. Contract of Purchase and tender numbers should be stated on the delivery notes and on the invoices .

20. Suppliers must take into consideration in their pricing that the payment conditions are as follows:
    - Payment will be made within three weeks after: All items have been delivered to the assigned destinations and have passed the quality assurance test. Partial payments will not be made.

Tender Conditions
Tender 12-2007-039
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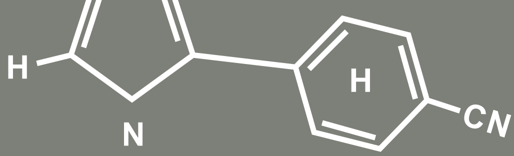
Annex C :
One page of a tender
document by international
aid organization

CARE INTERNATIONAL

133 Courtesy of PALTRADE, Palestine Trade Center. Published originally on Movement of Goods from West Bank to East Jerusalem and Israel, 2010.



شقور | Shaqqur

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