

## CBI MARKET SURVEY

## THE PHARMACEUTICAL PRODUCTS MARKET IN LATVIA

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**Introduction**

This CBI market survey gives exporters in developing countries information on some main developments in the pharmaceutical products market in Latvia. The information is complementary to the information provided in the CBI market survey 'The pharmaceutical products market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from <http://www.cbi.eu/marketinfo>.

**1 Market description: consumption and production**

Data concerning consumption of pharmaceutical products in Latvia are derived from the European Federation of Pharmaceutical Industries and Associations (EFPIA). The latest report from this organisation (The Pharmaceutical Industry in Figures, 2009 Edition) provides data as of 2007. Data for previous years are derived from previous editions of this report. Please note that data are given at ex-factory prices.

**Consumption**

Latvia was the fourth smallest EU market for pharmaceutical products in 2007, accounting for 0.2% of the total EU market (slightly smaller than the Lithuanian pharmaceutical market). Germany and France, the largest pharmaceutical markets in the EU, individually accounted for 18% of the EU market. Between 2004 and 2006, Latvia's pharmaceutical consumption increased at an annual average rate of 21%, amounting to € 257 million in 2007. Latvia's pharmaceutical consumption increased at a much higher rate than the average EU pharmaceutical consumption, which grew by an annual average rate of 6.7% between 2004 and 2006.

**Generic medicines**

According to the Latvian Generic Medicines Association (LGMA), the market for generic medicines in the country amounted to 64% by volume and 33% by value, with respect to the total Latvian pharmaceutical market in 2009.

The promotion of generic medicines by the Latvian government is an intensive process, mainly used to contain healthcare costs in the country (Business Monitor International, 2008). In this sense, physicians are encouraged to prescribe cheaper products and generic substitution is encouraged among pharmacists (although it is voluntary) (Pharmaceutical Pricing and Reimbursement Information - PPRI, 2008).

**Trends in consumption**

- **Non-prescription availability:** The Latvian pharmaceutical market is characterised by a population which has built up a high level of resistance to drugs. The availability of non-prescription products, which will allow for easier consumer access to pharmaceutical products, might contribute to intensifying this resistance. Around one third of all pharmaceutical products available in the country consists of non-prescription products (PPRI, 2007).
- **Retail sector:** Pharmacy chains have rapidly consolidated in Latvia's pharmaceutical retail sector, where the leading players are LS Senator Farm and Tamro (from Finland) (Business Wire, 2007).

For more information on trends in pharmaceutical products, please refer to the CBI survey 'The pharmaceutical products market in the EU'.

### Production

EFPIA does not provide data on Latvia's production of pharmaceutical products.

Although Latvia is a small market, its pharmaceutical production is fairly significant. According to the Investment and Development Agency of Latvia (2008), the pharmaceuticals, medical and phytochemical goods sector accounted for 27% of the chemical industry in the country in 2007; the medicines and pharmaceutical sector employed almost 2,000 people (of which more than 1/2 is composed of senior experts and researchers).

However, according to Espicom business intelligence, approximately 70% of the Latvian pharmaceutical market is supplied by imports from neighbouring countries, as local production is limited and mainly geared towards exports (Espicom, 2008). According to Pharmaceutical Pricing and Reimbursement (PPRI, 2007), local pharmaceutical manufacturers sell approximately 25% of their manufactured products in Latvia, thus covering 6.5% of the total consumption of pharmaceutical products in Latvia.

Interesting international companies present in Latvia include:

- GlaxoSmithKline - <http://www.gsk.com>
- Pfizer - <http://www.pfizer.com>
- Sanofi-Aventis - <http://www.sanofi-aventis.com>
- Berlin Chemie-Menarini - <http://www.berlin-chemie.com>
- Roche - <http://www.roche.com>

Interesting local pharmaceutical companies are:

- Grindeks - <http://www.grindeks.lv>
- Olainfarm - <http://www.olainfarm.lv/eng>

### Trends in production

- **Pharmaceutical production:** Latvia's pharmaceutical industry is increasing at fast rates. In 2007, pharmaceutical production had one of the most significant increase rates among the sub-sectors of the chemical industry; it increased at a rate of 12% (Investment and Development Agency Latvia, 2008).
- **R&D:** In spite of having low levels of R&D investment, Latvian companies hold patents for twelve active ingredients. Typically, however, the Latvian pharmaceutical industry has been geared toward production of generic medicines for the domestic market and to catering to the Russian market (Investment and Development Agency Latvia, 2008).

For more information on trends in pharmaceutical products, please refer to the CBI survey 'The pharmaceutical products market in the EU'.

### Opportunities and threats

- /+Latvia is a very small market for pharmaceutical products but, at the same time, it is a market which is growing at impressive rates. The expanding Latvian market could, therefore, represent real opportunities for exporters in developing countries.
- +/-Latvia is one of the countries with the highest penetration rates of generic medicines in the EU, which is an indication of its generic-friendliness. Nonetheless, Latvia's own production meets the demands of its small domestic market.
- Latvia's production is mainly geared towards exports, which indicates that the country represents potential competition to other pharmaceutical products suppliers.

Exporters should take into account that the same trend can be an opportunity for one exporter and a threat to another. Please, review these opportunities and threats according to your own situation. Chapter 7 of the CBI market survey 'The pharmaceutical products market in the EU'

presents an example of an analysis of whether a trend/development is an opportunity or a threat.

## 2 Trade channels for market entry

The trade structure for pharmaceutical products across the EU is mostly similar, but reveals slight variations according to the diverse pharmaceutical and healthcare systems existent in each country. These variations hardly affect an exporter's market approach, since they are related to the way pharmaceutical products are domestically dispensed to the end-consumer. Some of the specific characteristics of the Latvian pharmaceutical trade channels and trends therein are outlined below:

- **Pharmaceutical wholesalers** in Latvia are allowed to distribute products to pharmacies and other pharmaceutical wholesalers, as well as to licensed veterinarians and to practising physicians, to enable their work. Pharmaceutical products can be distributed to other institutions, organisations and undertakings, provided that the wholesalers have a permit from the Ministry of Health (MoH) (PPRI, 2007).
- In the second quarter of 2009, the top three **pharmaceutical wholesalers** in Latvia accounted for nearly 70% of the total wholesaler turnover in the country (IHS Global Insight, 2009). The leading wholesaling companies in Latvia are:
  - Recipe Plus - <http://www.recipe.lv>
  - Tamro (Phoenix) - <http://www.tamro.lv> – a Finnish wholesaler
  - Magnum Medical – <http://www.magnum.ee/eng/subsidiaries-mmlv.htm> - an Estonian wholesaler
- In 2007, Latvia had around **800 pharmacies** distributed over more than **100 branches**, which are mostly privately owned (PPRI, 2008).
- Pharmacies in Latvia are permitted to sell non-prescription products **via the Internet**, provided they observe procedures related to advertising and as long as the pharmacy ensures a 24-hour service plus the provision of information and consultation without charge. Nonetheless, it is prohibited to distribute pharmaceutical products from other countries through the Internet (PPRI, 2008).
- The level of **parallel trade** of pharmaceutical products in Latvia is very low; the price level, although adjusted according to EU standards, is nevertheless still below the EU average (PPRI, 2008).

Please, refer to the CBI survey 'The pharmaceutical products market in the EU' for further information on EU pharmaceutical trade channels.

### Price structure

Pharmaceutical price decisions are made along with reimbursement decisions in Latvia, and price regulation is only applied to reimbursable products. International price comparison (i.e. international price benchmarking) is not compulsory, but is done for decisions on reimbursement price. The price used as reference is the ex-factory price (i.e. at the manufacturer level), and the price should not exceed that in other countries with similar socio-economic factors.

Different prices apply throughout the various trade channels. The margins applied to pharmaceutical products in Latvia can be expressed in the following manner:

Wholesalers and pharmacists are remunerated via regressive mark-ups. The mark-ups are regulated by Regulation of the Cabinet of Ministers.

Wholesaler: Regressive margins (different for reimbursed and non-reimbursed products)

Pharmacists: Regressive margins (different for reimbursed and non-reimbursed products)

State (Value Added Tax - VAT): a reduced VAT of 10% is applicable to pharmaceutical products (the standard VAT rate is 21%)

Please, note that the same pricing procedures are applied to generics.

For further information on price structure of pharmaceutical products in Latvia, please refer to: [http://ppri.oebig.at/Downloads/Results/Latvia\\_PPRI\\_2008.pdf](http://ppri.oebig.at/Downloads/Results/Latvia_PPRI_2008.pdf)

### 3 Trade: imports and exports

#### Imports

In 2008, Latvia was the fifth smallest importer of pharmaceutical products in the EU, accounting for approximately 0.3% of total EU imports (slightly smaller than Lithuania's imports). Between 2004 and 2008, Latvia's imports increased by a strong annual average rate of 15% in value and 1.9% in volume, amounting to € 321 million or 5.5 thousand tonnes in 2008. Switzerland, the leading supplier of pharmaceutical products to Latvia, accounted for 18% of total Latvian imports. Nonetheless, the majority of Latvia's imports (78%, in terms of value) was sourced in EU countries. Imports sourced in EU countries increased at an annual average rate of 17% in terms of value between 2004 and 2008. Lithuania, which accounted for a 16% imports share in 2008, was the leading intra-EU supplier of pharmaceutical products to Latvia. Other important EU suppliers were Germany (11%) and France (7.9%).

The role of developing countries in supplying pharmaceutical products to Latvia is small, but it is significant when compared to other EU countries. In 2008, imports sourced in DCs accounted for 3.1% of Latvia's total imports, which was higher than the EU average of 0.8%. Moreover, imports from developing countries increased at an annual average rate of 9.6% in value between 2004 and 2008. India was the main DC supplier in 2008, accounting for 1.9% of total imports, followed by Croatia, which accounted for another 0.8% of imports. Whereas imports from India increased by 23% annually between 2004 and 2008, imports from Croatia decreased at an annual average rate of 2.0%.

In 2008, Latvia's imports of pharmaceutical products consisted almost entirely of packed pharmaceutical products. Non-packed pharmaceutical products accounted for an insignificant share of total imports.

#### Exports

Latvia is one of the smallest exporters of pharmaceutical products in the EU. In 2008, the country was the seventh smallest EU exporter, accounting for approximately 0.1% of total EU exports. Nonetheless, Latvia's exports increased by an annual average rate of 20% in value and 8.0% in volume between 2004 and 2008, amounting to € 171 million or 3.4 thousand tonnes in 2008. Approximately 45% of Latvia's exports was destined to other EU member countries, and another 30% to non-EU countries. Russia, the leading destination, accounted for 30% of Latvia's exports, followed by Lithuania (30%) and Estonia (13%). DCs accounted for a share of 25% of total Latvian exports.

In 2008, Latvia's exports of pharmaceutical products consisted almost entirely of packed pharmaceutical products. Non-packed pharmaceutical products accounted for an insignificant share of total exports.

#### Opportunities and threats

- Imports of pharmaceuticals into Latvia are low. Although imports increased strongly in the last couple of years, Latvia remains the fifth smallest importer in the EU.
- + Developing countries play a relatively more important role in the Latvian pharmaceutical market than in the EU in general. Moreover, imports from developing countries are increasing strongly.
- Imports from developing countries are dominated by India and Croatia, which may represent strong competition to other DC suppliers.

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#### Useful sources

- EU Expanding Exports Helpdesk - <http://exporthelp.europa.eu>
- Eurostat – official statistical office of the EU - <http://epp.eurostat.ec.europa.eu>
- Understanding eurostat: Quick guide to easy comext  
[http://epp.eurostat.ec.europa.eu/newxtweb/assets/User\\_guide\\_Easy\\_Comext\\_20090513.pdf](http://epp.eurostat.ec.europa.eu/newxtweb/assets/User_guide_Easy_Comext_20090513.pdf)

#### 4 Price developments

Pricing systems vary in the individual EU countries, thus this is also the case for price developments. The main price developments observed in Latvia in recent years are the following:

- Due to being a member of the European Union, prices of pharmaceutical products in Latvia have been levelled according to EU standards but, at the same time, Latvia's gross domestic product (GDP) per capita is, on average, 6-7 times lower than in the EU. The levelling of prices has increased affordability and equity problems in the country (PPRI, 2007).
- In 2009, the VAT rate applicable to pharmaceutical products in Latvia was increased from 5% to 10%; the standard Latvian VAT rate was increased from 18% to 21%.

#### Useful sources

- ITC market news service (MNS) - <http://www.intracen.org>
- PPRI – Pharmaceutical Pricing and reimbursement Information - <http://ppri.oebig.at>

#### 5 Market access requirements

As a manufacturer in a developing country preparing to access Latvia, you should be aware of the market access requirements of your trading partners and the Latvian government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>, select 'pharmaceutical products' and 'Latvia' in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: <http://www.intracen.org/ep/packit.htm>

Information on tariffs and quota can be found at <http://exporthelp.europa.eu>

#### 6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from <http://www.cbi.eu/marketinfo> - go to search publications. For more information on doing business in Latvia, visit the following websites:

#### Trade associations

- Association of International Research-based Pharmaceutical Manufacturers (AFA) – <http://www.siffa.lv>
- Latvian Chemical and Pharmaceutical Industry Association – <http://www.lakifa.lv>
- Latvian Generic Medicines Association - <http://www.lpma.lv/en/>

#### Trade press

- Cito! - <http://www.vza.gov.lv> (see Publications) – is an informative bulletin for physicians, pharmacists and other health care professionals.

- Aptieka - <http://iaptieka.lv> – information on Latvia’s healthcare sector

**Trade fairs**

- Baltic Expo Beauty - <http://www.latexpo.lv> – wellness and beauty fair. The next event will be in Riga, in March 2010.
- Medbaltica - <http://www.bt1.lv/bt1/medbaltica> - national exhibition for medicine. The fair is held once every two years, and the next one will take place in May 2010.

This survey was compiled for CBI by ProFound – Advisers In Development  
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