

SUMMARY

The Philippine medical equipment market is a lucrative one for American suppliers. Highly dependent on imports, the market continues to expand at a steady pace.

In 2004, total medical equipment imports reached roughly US\$101 million, with annual growth expected at 5 percent per year through 2008. Major factors impacting demand are population growth, steady economic growth (6.3% in 2004), and hospital expansion and upgrading. Philippine Department of Health projects are few and have little impact, but private hospital upgrades in Metro Manila and its suburbs continue to drive demand. End-users base buying decisions on quality and price.

Equipment is almost 100% imported, as are roughly 50% of medical disposables. Local production is limited to prototype units, spare parts (including improvised parts), and disposables such as surgical gloves, syringes, and needles.

In 2003, U.S. market share was a strong 24%, followed by Germany and Japan with 13% each, and Singapore with 11%. Market shares reflect the Philippine preference for U.S. products, though U.S. manufacturers face increasing competition from third country suppliers.

Products with high sales potential for U.S. suppliers are high-value, low-volume, and high-tech products like electrocardiographs; ultrasonic scanning apparatuses; violet or infrared ray apparatuses; electro-surgical instruments and appliances; and oxygen therapy equipment.

U.S. suppliers interested in selling in the Philippines should appoint a local distributor.

The import duty on medical equipment is 3 percent, in addition to a 10% value-added tax (VAT). Except for radiation-emitting equipment, USFDA-approved medical equipment does not require registration with the Bureau of Food and Drugs (BFAD).

Medical equipment covered by this report includes:

H.S. CODES	DESCRIPTION
38220000	Diagnostic lab reagents
39269010	Hygienic, medical and surgical articles
401511	Surgical gloves, rubber
701710	Laboratory, hygienic pharmaceutical glasswares
84192000	Medical, surgical/laboratory sterilizers
90181100	Electro-Cardiographs
90181200	Ultrasonic scanning apparatus
90181300	Magnetic Resonance Imaging apparatus
90181900	Other electro-diagnostic apparatus (including apparatus for functional
	Exploratory examination/checking ph
90182000	Ultra-violet/Infra-red ray apparatus
90183100	Syringes, w/ or w/o needles
90183200	Tubular metal needles & needles for

	sutures
90183900	Other needles, catheters, cannulae, & the like
90189000	Other instruments & appliances used in medical, surgical/veterinary electro-medical app
90191000	Mechano-therapy appliances, massage apparatus, psychological aptitude testing apparatus
90192000	Ozone, therapy, oxygen therapy, aerosol therapy, artificial respiration oth therapeutic respiration
90200000	Other breathing appliances & gas masks, excludg protective masks having neither mechanical parts nor re
90211100	Artificial joints
90211900	Oth orthopaedic/fracture appliances
90213000	Oth artificial parts of the body
90214000	Hearing aids, excludg parts & accessories
90215000	Pacemakers, for stimulating heart muscles, excludg parts & Accessories
90219000	Oth appliances w/c are worn/carried, or implanted in the body, compensate for defect/disability
90221100	Apparatus based on the use of x-rays for medical, surgical, dental/veterinary uses, incldg radiograph
90221200	Computed Tomography Apparatus *
90221400	Apparatus based on the use of x-rays, for medical, surgical, dental, or veterinary uses
90221900	Apparatus based on the use of x-rays, for oth uses, incldg radiography/radio-therapy apparatus
90222100	Apparatus based on the use of alpha, beta/gamma radiations, for medical, surgical, dental/veterinary **
90223000	X-ray tubes
90272000	Chromatographs & electrophoresis instruments
90309000	Parts & accessories of oscilloscopes
94029000	Medical, surgical, veterinary and dental furniture

A. MARKET HIGHLIGHTS AND BEST PROSPECTS

Market Profile

Philippine market expansion is being driven by a 2.36 percent population growth rate, expansion programs at private hospitals, and government plans to upgrade public health services.

On the private sector side, St. Luke's Memorial Medical Center, a premier private hospital, is building a 1.6-hectare private medical facility in Fort Bonifacio, Metro Manila. It is expected to be operational in 2008. Cardinal Santos Medical Center in San Juan, recently upgraded its heart station, and as of the time of this writing is renovating its emergency services and private rooms. Metropolitan Hospital in Manila and World Citi Medical Center in Quezon City are also upgrading facilities, and as of Summer 2005 are shopping for equipment including a CT Scan, Endoscopy Equipment and Instruments, a Nuclear Gamma Camera, Enzymatic Immuno Assay Equipment, Clinical Analyzers, Electrolyte Analyzers, Hematology Analyzers, Blood Bank Refrigerators, a Refrigerated Centrifuge, Cautery Equipment, Defibrillators, Fetal Monitors, Operating Room Lights, Autoclave Equipment, Anaesthesia Machines, and a Morgue Refrigerator.

In the government health sector, the Philippine Children's Medical Center and East Avenue Medical Center have recently requested bid proposals for various hospital equipment, including incubators, nebulizers, sterilizers, and x-ray equipment.

Most upgrades in public health consist of facilities renovation and improvement in the salary scales of health workers. The improvement in pay is expected to address a shortage in public health workers and encourage existing personnel to deliver better services. Many public hospitals rely on donations from private entities and foreign governments for funding of upgrades and for procuring new equipment.

According to one reliable distributor, the Government Service Insurance System (GSIS) plans to improve its healthcare services delivery by improving the capability of member hospitals. GSIS financing will equip accredited hospitals with x-ray equipment, linear accelerators, ultrasound machines, electrocardiograms, and other machines. Both public and private sector hospitals can participate in the GSIS financing program, which, by law, is mandated to purchase only new equipment.

The Department of Health, which manages about 72 hospitals, allots a significant portion of its budget to buying new equipment and physically expanding buildings.

Some hospital specialization does exist in the Philippine market. The Children's Hospital, for example, purchases and replaces nebulizers and incubators on a regular basis, while the National Kidney Institute upgrades dialysis machines regularly.

The Philippine market does face limitations, however:

1) Equipment Depreciation: Hospitals / clinics typically utilize equipment for its entire useful life. It is not uncommon for hospitals to keep high tech equipment for 10 -25 years.

2) Insufficient government funds: Budget strapped government agencies run government hospitals.

- a) The Department of Health's annual budget is 9.7 billion pesos (about \$176 million). Instead of meeting all the requirements of its 72 hospitals, the Department prioritizes its spending. Most of the budget goes to salary increases and facility renovation.
- b) Besides day-to-day operations of the local governments, the Department of Interior and Local Government also manages provincial, municipal and city hospitals. Local government officials and staff have limited or no training in health administration and lack basic information to prioritize their planning and investment needs. Local government officials are more concerned with infrastructure projects that are visible and make an impact on the electorate.

3) Medical care availability: Proper medical care is not available to most of the population. Many rural and urban poor are unserved or under served.

Statistical Data
(In US Million dollars)

	2003	Estimated 2004	Projected 2005/a	Estimated Average Annual Real Growth Next 2 Years /a
Total Market /d	74	77	81	5.0%
Local Production /a	-	-	-	-
Exports /c	22	24	25	6.5%
Imports /b	96	101	106	5.0%
Imports from the U.S. /b	23	25	26	6.5%
Exchange Rates (Pesos/US\$)	54.20	56.04	55.01	-
Year-On-Year Inflation Rate (1994=100, in %)	3.0	5.3-5.5	6.3-7.0	-

2003 Import Market Share: U.S. = 24%, Germany = 13%, Japan = 13%, Singapore = 11%.

Notes to Table:

- 1) Trade Statistics for 2003 are official figures from the National Statistics Office. Statistics for 2004 and 2005 are unofficial estimates based on industry projections. (www.census.gov.ph)
 - a/ Based on trade interviews and available official statistics.
 - b/ CIF values used for importation
 - c/ FOB values used for exports
 - d/ Total Market = Imports + Local Production - Exports

- 2) There is no available data on local production.
- 3) Exchange rate in 2004 is annual average (Source: Bangko Sentral ng Pilipinas, www.bsp.gov.ph)

Best Sales Prospects

Across the board, industry sources indicate that equipment used in the diagnosis and treatment of common ailments like heart and lung diseases, strokes, and kidney failure have the highest current demand. Best prospects include the following:

9018110040	electrocardiographs
9018198035	electroencephalographs and electromyographs
9018198045	ultrasonic scanning apparatus
9018200000	ultraviolet or infrared ray apparatus, and parts and accessories
9018907020	dialysis instruments and apparatus
9021500000	pacemakers for stimulating heart muscles, excl. parts

There are also good opportunities for used/refurbished medical equipment among private sector hospitals. On the other hand, the government buys only new equipment as a rule.

B. COMPETITIVE ANALYSIS

Local production supplies less than 2% of the market. Locally manufactured medical products consist of sterilizers, incubators, suction machines, prototype units, spare parts (including improvised parts), and some disposables such as surgical gloves, syringes, and needles.

U.S.-trained, Filipino doctors have a strong preference for U.S.-manufactured equipment, although they perceive US products to be more expensive. The U.S. and the Philippines share a unique political and historical relationship that explains Filipinos' penchant for U.S. goods and technology. The U.S. remains a major source of medical equipment, with a 24% market share. Although U.S. exports dipped in 2003, U.S. medical equipment remained the market leader, as China and other smaller players took share from runners-up Germany and Japan.

Buyer preference for U.S.- manufactured equipment is justified by product technology and quality, access to warranty parts and service, and available training for equipment handling. The U.S. dominates the market for durables (machineries and equipment) at 24% although its share in consumables (sutures, syringes, needles) is less than 10%.

Some prominent U.S. brands in the Philippines are GE Medical; Picker (imaging, radiograph equipments); Advanced Technology Laboratory (ultrasound systems); Access Cardiosystems; Control-X Medical, Inc.; Medical Illumination International, Inc.; Burton Medical; Pointe Scientific; Varian Medical Systems; SA Scientific; Cal-Tech; Gamma Biologicals; Ohmeda; Kodak (processors); Argyle (syringes, catheters, seals); Abbott; Jouan; Forma Scientific; Immunostics; Medipoint; Pacific Biotech (diagnostics); American Orthopedic; Smith and Nephew; Baxter Health Care (blood analytical

equipment, surgical instruments, dialyzers); Metro Flex; Metro Max; McCauley; and hundreds more.

Singapore, which ranks third among foreign suppliers with 11% market share, is the regional base of a number of American and European companies. A substantial amount of Singaporean exports actually originate in the U.S., a fact which is not reflected in the official data.

Germany controls 13% of the market and has technology and quality comparable to the U.S., although its presence is limited to a few German manufacturers (i.e. Siemens). The high Euro exchange rate is a major disincentive to buy European products.

Japanese medical products account for 13% of the market, are gaining wider acceptance and are expected to capture more share in the coming years. Japanese producers offer high quality, good after-sales and warranty services, and favorable payment terms.

Major Japanese suppliers include Fujirebio (chemical analysis instruments); Fukuda (bioscope and cardio-surgery series, ECG paper); Fukugawa (ENT treatment series); Hitachi, Shimadzu Corp., Showa X-ray Co., Ltd. (CT scan system, mobile X-ray units, MRI systems, ultrasound scanner, X-ray systems); Kasei Optonix Ltd. (Kyokko screen cleaners, X-ray cassettes, protective wear); Meiji Techno (microscopes); Nihon Kohden (cardiac telemetry systems, cardio-memory, monitors); and Toitu Company (actocardiograph system).

According to some industry representatives, the market is gaining awareness of European products' quality and technology, though the U.S. enjoys a long-established reputation for its high quality standards. U.S. equipment sellers are advised to offer easy/flexible payment terms and excellent after-sales service support to their distributors. Distributors claim that their European suppliers give easier payment terms, which are even made more flexible in financial crises, such during economic crash of 1997. It is true that customers look for a quality product, but price is also an important consideration, therefore a manufacturer should be able to offer both.

C. END USER ANALYSIS

Government and private hospitals are broken into three major classifications:

- 1) Primary Hospitals are capable of handling general medicine, pediatrics, obstetrics and minor surgeries
- 2) Secondary Hospitals are able to handle all services available in a primary hospital including gynecology, general surgery, and other ancillary services
- 3) Tertiary Hospitals are fully departmentalized hospitals that can handle more specialized services.

Government hospitals also have birthing homes and infirmaries,

The table below summarizes the number of licensed hospitals and approximate authorized bed capacities per hospital classification:

Number of Hospitals	Birthing Homes	Infirmary	Primary	Secondary	Tertiary	Total
Government	3	327	250	24	58	662
Private	23	463	399	82	94	1061
Number of Beds						
Government	47	6755	14261	3340	20902	45305
Private	176	6363	11328	6105	15763	39735

Over the next three years, hospitals are expected to concentrate on upgrading, not new construction.

The Department of Health is the biggest single service provider in the Philippines managing 72 hospitals all over the country. The Armed Forces of the Philippines administers 31 infirmaries, while the other 559 government hospitals are managed and supervised by provincial, municipal, or city governments under the Department of the Interior and Local Governments (DILG).

The Department of Health (DOH) oversees and regulates the national healthcare system. DOH establishes and enforces the minimum standards for facilities and services; oversees some public hospitals; has authority over local management efforts; and promotes the development of hospitals as complementary healthcare institutions.

Through the DOH, the government supervises the biggest hospitals (in terms of authorized bed capacities) such as the Philippine Heart Center (282 beds), National Kidney Institute (200 beds), the Philippine Children's Medical Center (200 beds), the Lung Center (98 beds), National Center for Mental Health (4200 beds), San Lazaro Hospital (900 beds), Jose Fabella Memorial Hospital (700 beds), and the Philippine Orthopedic Center (700 beds).

The Philippine General Hospital (PGH) (bed capacity: 1,330) is considered the best government hospital in terms of facilities and services. PGH is the teaching hospital of the University of the Philippines College of Medicine. The hospital's budget comes from the Office of the President (GMA), while expansion and upgrade projects receive ODA grants.

The management of municipal, district and provincial hospitals is the responsibility of local government officials. Unfortunately, infrastructure and education are higher on the LGUs' priority list.

The most prestigious hospitals in the private sector are St. Luke's Hospital (633 beds); Makati Medical Center (600 beds); Santo Tomas University Hospital (700 beds); Asian Medical Center (180 beds); Medical City (393); Cardinal Santos Medical Center (250 beds); Manila Doctors' Hospital (300 beds); and Chinese General Hospital (550 beds).

Public hospitals tend to place a greater emphasis on preventive healthcare, while private hospitals concentrate on curative services. Private hospitals have traditionally been equipped with more sophisticated medical equipment due to their larger budgets.

Incidence rates for hypertension and heart diseases, lung and kidney diseases, and other respiratory diseases are rising. In response, most hospital improvements concentrate on specialized services for radiology, cardiac, lung and kidney examinations, and pathology. As such, demand for ECGs, CT Scans, X-ray and Dialysis machines, and other laboratory instruments should grow.

Buying Decisions

Purchasing decisions for both public and private hospitals are based on various criteria. A major consideration is the international reputation of the manufacturer and the quality of the product. Most hospitals tend to purchase from local distributors that can provide after-sales service. Total cost and competitive prices are also primary concerns. U.S. suppliers' advantage is that their equipment does not require product modification; Philippine product standards for medical instruments are mostly based on the American system.

Every 3rd or 4th quarter, hospitals prepare annual requirement lists for the coming year. Each hospital's Board of Directors or senior management decides on or prioritizes purchase requirements depending on available funds.

Government-funded agencies also submit their annual procurement plans through a requisition voucher during the same period. The quality and price of the equipment influence purchase decisions. According to industry sources, bribery and corruption influence buying decisions in some hospitals.

Private entities purchase products using their own funds generated from income and investments. Private hospitals receive quotations from various suppliers. Procurement committees review offers (equipment, parts, after-sale service, warranties, and training are all typically considered).

The DOH and other government agencies supervising the healthcare sector improve hospital facilities or buy hospital equipment with funds coming from the National Budget or from foreign funding or grants. The healthcare budget is less than 10% of the national budget.

Foreign funding agencies may include: the U.S. Agency for International Development (USAID), Asian Development Bank (ADB), the Canadian International Development Agency (CIDA), and the Japanese International Cooperation Agency (JICA). For foreign-funded projects, the DOH and other government agencies follow the procurement regulations and procedures of the funding agencies.

Occasionally, hospitals with limited budgets settle for Asian brands because they are offered "attractive" price packages. U.S. brands are able to maintain market share, however, due to the U.S. reputation for high quality and advanced-technology

Other factors that influence purchase decisions are brand, durability, after-sale and service warranties, training programs and a company's track record.

A distributor's reputation can also influence hospital decision-makers. End-users find out which company represents a particular American supplier to check its track record on delivery, warranty, and other services. On the other hand, some hospital administrators/purchasers (in both government and private sectors) seek the advice of familiar distributors. Some distributors are selective about the products and the brands they import and distribute in the market. This kind of discrimination works both ways -- a distributor's reputation could make or break a product, and the quality or performance of a product will also affect a distributor's standing in the industry.

D. MARKET ACCESS

The Philippines imposes a 3% tariff duty and a 10% value-added tax (VAT) on imported medical equipment.

Value-Added Tax is computed based on total landed costs (cost of importation+ freight cost + insurance cost + other charges). VAT is an indirect tax that becomes part of the goods sold; a seller may thus recover this cost by passing it on to the end-users.

Unlike drugs, food supplements, and disposables, the importation of medical equipment requires no prior approval from the Bureau of Food and Drugs or the Bureau of Product Standards.

Medical equipment does not require registration with the Department of Health-Bureau of Food and Drugs (DOH-BFAD), except for radiation-emitting equipment, which requires local testing.

Guidelines for registering x-ray equipment may be obtained from the Department of Health: <http://www.doh.gov.ph/hosp/checklist.doc>

There are no import quotas for products in this sector, including used and refurbished medical equipment.

Foreign suppliers usually appoint a distributor to represent their interests in the country. Usually, the distributors handle all aspects of importation from registration (if required) of the products or service, to obtaining a license and a clearance. Distributors prefer exclusive contracts with foreign manufacturers. Distributors not only help facilitate the product's entry into the market, they also take care of advertising and promotion through sales personnel and/or dealer networks. Distributors must register with BFAD before operating.

Most hospitals purchase their equipment from distributors but occasionally buy directly from suppliers. If a foreign supplier has a distributor, it compensates the distributor through commissions and charges for after-sales/maintenance services rendered to the buyer (hospital).

End-users (both government and private) deal only with duly registered distributors to guaranty on-time delivery and parts and services warranties. Most equipment carries a one-year warranty.

Common modes of importation are Telegraphic Transfers and Irrevocable Letters of Credit (L/C). Usual L/C payment terms are from 90 days to 180 days depending on principal-distributor relationship.

Distributors make sales calls, do product demos, mount exhibits, and advertise in order to promote their respective products. American suppliers are encouraged to support these campaigns.