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Govt’s Plans of Capping the Trade Margin of Medical Devices at 30%

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AIMED recommends first point of sale to be defined as the price by Manufacturer, whether Overseas or Indian, on which GST is initially paid whereas, Importers cunningly want first point of sale to be from their end to the distributors and not from overseas manufacturers to them to avoid coming into the trade margin regulation ambit

While hailing Govt’s move to rationalize and cap Trade Margins in Medical Devices to achieve the overall goal of affordable healthcare for all by making all critical and lifesaving medical devices available at affordable prices, Mr. Rajiv Nath, Forum Coordinator of Association of Indian Medical Device Industry (AiMeD) strongly emphasized that if the Government plans to bring down prices of commonly used medical devices by capping the trade margin at 30% on the first point of sale as reported in press then it is unrealistically low and won't allow delivery to last mile.

Medical Devices usually go through 4-7 change of hands along the supply chain before they reach a consumer in a distant village and at each point of supply chain there are freight costs , inventory carrying costs , rental, salaries , marketing and sales overheads and service and statutory expenses of compliance and his need of net profit by a reseller. There also seems to be confusion of Margin which is on sale price of product and Markup which is based on purchase price of products and we have suggested defining these terms so no confusion among stakeholders.

AIMED recommends that The Government must implement the following:

1 Cap Trade Margins of Devices priced over Rs. 1 Lacs to 50%

2 Cap Trade Margins of Devices priced over Rs. 1000 but < Rs 1 Lacs at 66%

3 Cap Trade Margins of Devices priced less than Rs. 1000 at 75%.

4 For Orthopedic Implants for 2 & 3 above cap these to 75% & 85% respectively.

Advantage:

1MRP of Medical Devices will reduce to less than half of current prices

2 Hospitals will start buying on evaluating cost of purchase & quality

3 Manufacturers will be encouraged to attract clients on Competitive features.

4 Level playing field between Imports and Domestic products

So if we talk about Rationalization of Trade Margins it has to include Imports, you can't have importers having over 200% Margin as was indicated in NPPA report on Catheters & Guidewires and the whole supply chain have only a 35-50% Trade Margin.

Niti Aayog has sought opinion on following three options -

1. MRP = Landed Cost + %age of Trade Margins (as decided by the government)
2. MRP = Price at the First Point of Sale (Stockist) + %age of Trade Margins (as decided by the government)
3. MRP = Landed cost + mark-up due to services rendered + %age of Trade Margins (as decided by the government)

AIMED recommends that The Government must implement the following:

First Point of sale for Mfr is Price on which GST is charged first time

2 On Overseas Mfr GST is charged on Import CIF landed price in BIE (Bill of Entry)

3 On Indigenous Mfr GST is charged on Ex Fcy Pricepost discounts

4 Indigenous Mfrs need to be equated with overseas Mfrs and not with Importers

Everyone in a supply chain has intermediate costs and value addition - so what value importers are doing and the question is what's a rational margin for them?

The DOP report did not regulate the trade Margins of Importers and without this “Make in India” will be challenged and will always be at a competitive disadvantage, as Indian Manufacturers will not be able to match the deep pocketed budgets for marketing, market creation, training, sponsored overseas trips, sponsored events for lobbying etc if Importers are not considered Traders and kept outside the purview of Trade Margins. The reason the importers state intermediate costs like R&D and clinical evaluation are not part of the Import landed price is basically to avoid custom duties. They can't avoid Customs duty by lowering Transfer prices and then seek to induce hospitals with higher MRP and higher Trade Margins . This tactical marketing warfare has cost the consumers dearly and harmed ethical marketing.

Trade Margins can be considered to be capped initially for Devices Notified as Drugs but DOP needs to consider the AiMeD proposal which aims to control the trade Margins between import landed / Ex Factory Price and the MRP and not the one proposed by the Committee on Trade Margins for Drugs or the options offered by Niti Aayog which is limited to Margin between MRP and Price to Distributor as Medical Devices are not Pharmaceutical Medicines and need differential distribution channels and service support .

NPPA had sought Landed Price from importers and we had cautioned NPPA and said it should be CIF import price which is easily verifiable from GST records and not Landed price to importers warehouse as the basis.

"When a market no longer works as an open competition market for the benefit of the consumer or for Domestic manufacturer and even clouds the judgement of hospitals of what's reasonable leading to loss of trust in medical profession and rage and violence against Doctors, then, it's time for government to step in and regulate and tax based disincentives to print High MRP and Capping of Trade Margins are options available to be exercised before considering Price Caps for priority Devices to treat priority diseases " said Mr Gurmeet Chugh, Jt Coordinator, AiMeD.

Mr. Nath opined "GoI needs to take policy decisions to give level playing field if not a strategic advantage to domestic Mfg while safeguarding consumers or India will remain 70-90% import dependent."