BIZCOMMUNITY

Drug firms 'let down' by snub on price rules

By Tamar Kahn

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Pharmaceutical manufacturers expressed disappointment on Monday, 3 January 2011, with the Department of Health's latest proposals for benchmarking medicine prices, saying the bulk of their recommendations were ignored.

The latest draft regulations, published for comment on 17 December 2010, are virtually the same as those published in August 2008 and still contain a controversial measure that seeks to peg prices at the lowest among a select group of countries.

This is in spite of extensive work done in both the private sector and public sector on the proposed pricing methodology.

For instance, the Pharmaceutical Task Group, which represents pharmaceutical companies, commissioned an analysis of the proposals from Grant Thornton in 2007.

The researchers concluded that the proposed methodology would produce a 35% reduction in medicine prices.

The department's pricing committee is now, three years later, projecting a smaller reduction in medicine costs, an immediate one of 10% followed by another 9.9% when the full regime is in place.

Expected knock-on effect

The government has set its sights on lowering the prices of originator medicines sold in the private sector, expecting a knock-on effect on prices of generics.

The policy push therefore has implications not only for multinational drug makers selling patented innovator medicines, but also for JSE-listed local generic pharmaceutical companies Aspen Pharmacare, Adcock Ingram and Cipla Medpro.

Generics are copies of originator medicines that are made either under licence or after the patent has expired, and are generally cheaper than originators.

In the long run, the push to lower medicine prices will also affect other players in the supply chain that charge fees for warehousing, distributing and dispensing medicines.

Main regulation change

The main change in the now-100 pages of regulations is the addition of a more detailed explanation of the rationale that underpins the proposed methodology developed by the Department of Health's medicine pricing committee, headed by Gavin Steele.

The regulations say originator drug companies should ultimately drop their prices to the lowest charged in the public sector in Australia, Canada, New Zealand and Spain.

If the South African price is already lower than this, it would not be allowed to rise.

Seek exemption

Pharmaceutical companies would be allowed to seek an exemption from charging the lowest price in the basket if they are prepared to make full disclosure of how they price their products.

The price cuts would be introduced in two stages, with drug makers initially allowed to charge the average of the lowest three prices among the basket of countries and SA. This interim period would last two years.

"I am disappointed," said Vicki St Quintin, spokeswoman for the Pharmaceutical Industry Association of SA.

"Our main concern was using the lowest (price) in the basket," she said, explaining this meant that a policy decision to cut prices in one of the basket of reference countries could have a dramatic effect on South African prices.

A more measured approach would use the average of the prices in the basket of countries, she said.

Association meeting

St Quintin declined to comment further until association members had met to discuss the association's position.

The association represents companies that manufacture or market prescription medicines.

Val Beaumont, spokeswoman for the trade association Innovative Medicines SA, declined to comment, as member companies had not yet had enough time to peruse the regulations.

Important part of regulations

International benchmarking of medicine prices is an important part of the government's attempts to regulate the supply chain for medicines sold in the private sector, work that began in earnest in 2003 with the publication of draft regulations to the Medicines and Related Substances Act.

The regulation's focus on three areas: prices charged by pharmaceutical manufacturers, logistics fees charged by wholesalers and distributors, and dispensing fees levied by doctors and pharmacists who sell prescription medicines.

The process has been dogged with controversy and conflict from the outset, and so far only the dispensing fees for pharmacists have been resolved.

Manufacturers are still debating an appropriate methodology for international benchmarking, logistics fees have yet to be capped, and dispensing doctors are still unhappy with the maximum fees allowed by the state.

St Quintin said the private sector prescription market was worth R16.4 billion, with originator brands holding 70% of the market by value and 41% by volume.

Source: Business Day