



PHARMACEUTICALS EXPORT PROMOTION COUNCIL

(Set up by Ministry of Commerce, Govt. of India)

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Has the time come for price controls on drugs?

Direct link to the News/Story:-

<http://www.thehindubusinessline.com/2010/06/08/stories/2010060851660900.htm>

The spate of acquisitions started in 2008 with the flag bearer of India's pharma industry, Ranbaxy, being bought out by Japanese drug maker, Daiichi Sankyo, for a whopping \$4.6 billion. Other large deals that followed include the acquisition of Shantha Biotech by Sanofi-Aventis and Dabur Pharma by Fresenius Kabi. The latest in this series is the buyout of Piramal Healthcare's domestic business by US pharma company, Abbott Laboratories, for \$3.7 billion.

Until now, it was only the Governments in Europe and the US that have been worried about the high cost of medicine in their respective countries. Thanks to the presence of a number of generic pharmaceutical companies in India, patients here have so far had access to drugs that are priced at a fraction of what the multinational pharma majors charge. For example, the anti-cholesterol blockbuster drug Lipitor from Pfizer costs over \$3 a capsule in the US whereas the same is manufactured and marketed by Indian generic firms as atorvastatin calcium for less than a dollar.

Worrying trend

But all this could change soon. The spate of M&A deals over the past two years has got the Indian Government concerned about the impact on drug pricing. The Union Health Minister, Mr Ghulam Nabi Azad, recently said that this is a worrying trend because 95 per cent of the medicines used in India are generics made locally. According to Mr Azad, if such acquisitions continue, multinationals will gain market supremacy and people may have to pay through their nose for essential medicine. The Minister has called for a meeting with Indian drug makers to discuss the issue.

Will medicines be costlier?

| (In Rs) | | | | |
|------------------|-------------------|-------------|---------------|--------|
| Name of Medicine | Used as | Dosage/Pack | Generic Price | MRP |
| Simvastatin | Anti-cholesterol | 20 mg x 10 | 55.00 | 185.00 |
| Nimesulide | Anti-inflammatory | 50 mg x 10 | 9.90 | 21.00 |
| Ciprofloxacin | Antibiotic | 250 mg x 10 | 15.00 | 27.80 |
| Omeprazole | Anti-ulcer | 20 mg x 10 | 16.50 | 33.00 |
| Chloroquine | Anti-malarial | 250 mg x 10 | 5.30 | 9.30 |
| Acyclovir | Anti-viral | 200 mg x 10 | 50.00 | 87.35 |

Source: Industry

The Government's concerns are not unfounded. For, there are only two options for MNC pharma companies if they want to recover the billions of dollars they have invested in these acquisitions:

Make products more expensive, and Bring more products to the market. Since patients will not take in more drugs than required, the only option for them would be to increase prices.

This has huge ramifications. Estimates show that out-of-pocket (OOP) expenditure in India is about 5 per cent of total household expenditure and purchase of drugs constitutes 70 per cent of the total OOP expenditure in urban areas. The percentage is higher in rural areas. Therefore, any increase in the price of medicine will have a major ripple effect on a billion people.

Those who disagree with the Government's intervention argue that since there are a large number of players in the market, competition will keep the prices in check just like in the telecom sector where the tariffs are unregulated. However, market dynamics in the pharma sector is different.

Options before govt.

For example, price of antibiotic drug Ofloxacin has not changed much over the past five years despite over 60 manufacturers. But price of another antibiotic drug Norfloxacin has dipped with just about 25 companies manufacturing it. One key difference between pharma and other sectors such as telecom is while a subscriber is free to choose his mobile operator, a patient has no option but to buy the medicine prescribed by the doctor.

So what are the options before the Government to ensure that consumers continue to get cheap drugs? Clearly, it cannot impose a ban on M&A deals. But it can put deterrents like imposing a transaction fee wherein every time there's an M&A deal, the buyer will have to pay a fee to the Government.

Incentives to innovate

The other thing to do would be to give incentives to Indian drug companies to innovate and move up the value chain from being just a generic firm. Once the Indian pharma companies have their own molecules and drug formulations, they will not find the need to sell out to foreign innovator companies.

But the immediate thing to do would be to make changes to the Drug (Price Control) Order which was last revised 15 years ago in 1995. There are only 74 out of 500 commonly-used bulk drugs that are kept under statutory price control.

Dr Pronab Sen, who headed the Prime Minister's special Task Force to explore options to keep drugs affordable, had recommended earlier that all the 354 drugs in the National List of Essential Medicines (NLEM) should be price-controlled. Dr Sen said the ceiling of the prices should be the weighted average of three costliest brands in a segment. The Government had drafted a National Pharmaceutical Policy in 2006, which aimed to bring more than 300 formulation drugs under price control.

But threats from the industry that they will be compelled to discontinue production of those medicines whose prices are not realistic and fears of resulting growth in grey market had forced the Government to go slow on that legislation.

Perhaps, the time is now right for the Government to push through with the policy. Otherwise, the next time you get to know of an Indian drug company being gobbled up by a multi national pharma major, you should get worried, really worried.