

30 March 2001

**MORE EQUITABLE PRICING FOR ESSENTIAL DRUGS:
WHAT DO WE MEAN AND WHAT ARE THE ISSUES?**

*

NOTE TO READERS

Executive Summary

- **governments of developing countries**
- **Governments in industrialized countries**
- **pharmaceutical companies**
- **Consumer groups and non-governmental organizations**
-

•

Preventing diversion - *How can diversion away from intended countries and populations be prevented?*

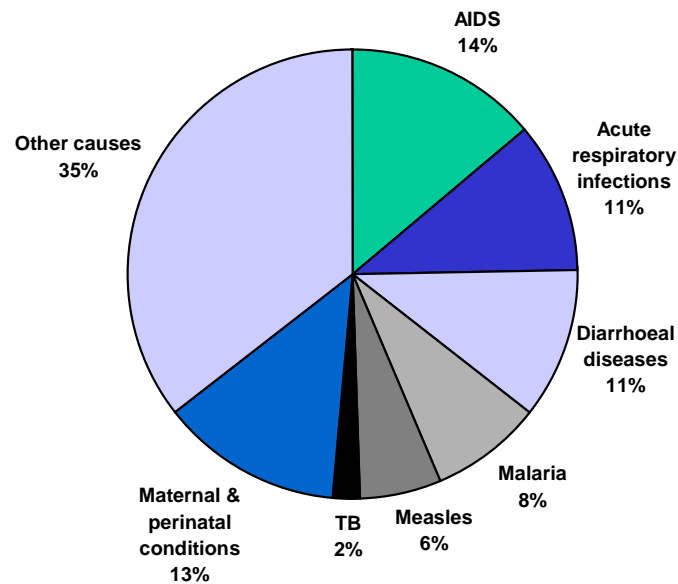
Ensuring political support - *How can developed countries be persuaded not to demand the same low prices?*

Sustainability and dependability -

Part A: Context and experience

1. The context: disease burden, health systems and access to essential drugs in low income countries

Figure 1. Two out of three deaths among children and young adults in Africa and South East Asia are due to seven causes - Ages 0 – 44



*

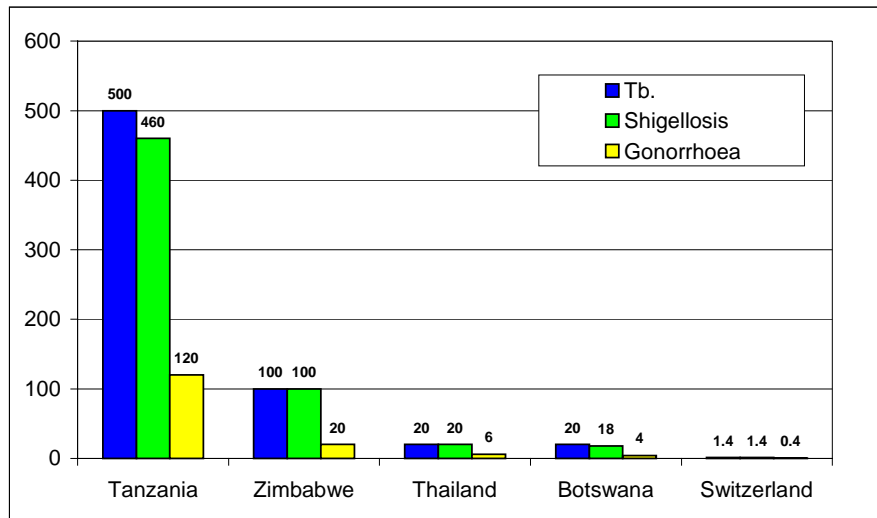
Figure 2 : Public and private shares in health financing differ in high and low income countries



2. Access to essential drugs: four factors, five groups of actors

Essential drugs are those drugs that satisfy the health care needs of the majority of the population, they should therefore be available at all times in adequate amounts, and in the appropriate dosage forms, and at a price that individuals and the

Figure 6: Cost of treatment in working hours, three conditions in five countries.



4. Experience to date with differential pricing: lessons for the future?

4.1. Vaccines

4.2. Contraceptives

4.4. Observations for more widespread differential pricing of essential drugs

-
-
-
-
-
-

-
-

Part B: A framework for dialogue

goal of differential pricing

1. Which health problems and products should be priorities for differential pricing?

Burden of disease

International list or individual country lists

Identification of specific products for differential pricing

Cost-effectiveness considerations

Diagnostics as well as pharmaceuticals

2. Which countries should benefit?

3. How can differential pricing be achieved in the context of international agreements?

Options – may be used in combination	Comments
1. Patent holder remains the sole producer of the medicine and initiator of differential pricing	<ul style="list-style-type: none">• This is the current situation in countries implementing

4. What factors will contribute to lower price?

5. Should a “target price” be set for individual products?

Options	Pros	Cons
1. Do not attempt to establish a target price for individual products	<ul style="list-style-type: none"> Requires no action 	<ul style="list-style-type: none"> With no target price there is no benchmark for negotiation, other price reduction strategies or for assessing progress
2. Use existing therapeutic alternatives as benchmarks for comparison	<ul style="list-style-type: none"> The price of existing treatments is generally known and therefore this is a relatively non-complex and transparent approach 	<ul style="list-style-type: none"> Price comparisons with existing treatments could be quite misleading unless the treatments were equivalent in therapeutic effect
3. Use marginal cost of production plus a percentage for profit as a target price	<ul style="list-style-type: none"> Seemingly a logical and fair approach to achieve best prices for low income countries without generating losses for producers 	<ul style="list-style-type: none"> Learning a manufacturer’s actual marginal cost of production has proven difficult in practice, except perhaps where production is publicly-owned
4. Suggest a target price of under 5% of the quoted price in developed countries	<ul style="list-style-type: none"> Quoted drug prices (“list price”) in most developed countries are known; therefore this benchmark is observable Experience has shown that developing country prices may fall to as low as 1% to 5% of the developed country price for a product 	<ul style="list-style-type: none"> Actual experience demonstrates widely variable prices changes over time and under full competition Used on a large scale this approach would create an incentive for producers to increase stated launch prices, further reducing price transparency
5. Suggest a target price using cost-effectiveness analysis	<ul style="list-style-type: none"> Established methods exist and a growing number of countries are using cost-effectiveness analysis for reimbursement purposes 	<ul style="list-style-type: none"> Treatments which are relatively cost-effective may still not be affordable by low income countries Though established methods exist, there are a number of methodological debates
6. Suggest a target price based on per capita GNP or average daily wage	<ul style="list-style-type: none"> An annual treatment cost of not more than the average annual per capita income for a country has been described as an “affordable” target for public expenditures on treatment A total cost per outpatient visit equal to the daily agricultural wage has been suggested as an “affordable” maximum for out-of-pocket payments 	<ul style="list-style-type: none"> The higher the prevalence of a condition, the less feasible is such an approach

6. How would differentially priced products be financed?

Options - used in combination	Comments
-------------------------------	----------

8. How can diversion away from intended countries and populations be prevented?

Options - may be used in combination	Pros	Cons
1. Use pharmaceutical technology to support market segmentation by using different brand names, packaging, dosage forms and other measures	<ul style="list-style-type: none"> Differentiation already exists among generic and brand name products in the same market as well as among those produced in different regions of the world 	<ul style="list-style-type: none"> Differentiation using these measures could be misperceived as differences in product quality
2. Use regulatory mechanisms to ensure that differentially priced products registered in target countries are not registrable in other countries	<ul style="list-style-type: none"> Regulatory differences already exist, with mutual recognition of marketing authorization far from universal 	<ul style="list-style-type: none"> Use of regulatory measures to segment markets and differentiate products could be viewed as counter to harmonization efforts
3. Purchaser undertakings	<ul style="list-style-type: none"> Purchasers have a strong incentive to reduce diversion as a matter of good management, regardless of the source of their products Support to purchasers to prevent diversion also improves supply system efficiency 	<ul style="list-style-type: none"> Purchasing undertakings alone may be insufficient to control diversion Not all purchasing agencies in resource-limited settings may be able to meet all undertakings
4. Export controls in target countries	<ul style="list-style-type: none"> Stop diversion close to source and are thereby more direct 	<ul style="list-style-type: none"> Place additional burden on governments and systems in low income countries
5. Import controls in countries which are not target countries	<ul style="list-style-type: none"> High and middle income countries are better resourced to control imports 	<ul style="list-style-type: none"> Requires efforts by a large number of countries who do not benefit either from lower prices or from production and sale of differentially priced products

9. How can developed countries be persuaded not to demand the same low prices?

Options	Pros	Cons
1. Global and national advocacy for differential pricing	<ul style="list-style-type: none">• With almost any scenario success will depend on support from governments, companies, non-governmental organizations, international agencies, and other bodies in <u>both</u> developing and developed	

10. What mechanisms are needed to ensure sustained and dependable differential pricing?

Options - some mutually exclusive, but most may be used in combination	Pros	Cons
1. Leave entirely at the discretion of individual companies	<ul style="list-style-type: none"> • Approach which is least cumbersome and involves the least intrusion into private business 	<ul style="list-style-type: none"> • Not predictable and may not be sustainable from the perspective of equitable access for low income countries
2. Monitor and publish league tables of company participation in differential pricing	<ul style="list-style-type: none"> • Provides a transparent and voluntary approach • Provides a specific indicator for directing political encouragement 	<ul style="list-style-type: none"> • Ranking of an individual company will depend in part on the fit between its particular product range and the burden of disease in developing countries
3. Develop an international agreement on differential pricing for low income countries	<ul style="list-style-type: none"> • Could provide consistency and predictability for both producing countries and beneficiary countries 	<ul style="list-style-type: none"> •

References

New York Times

Licensing Law and Business Report