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Drug Pricing Insight of Pakistan

What's the issue?

Increase in the prices of medicines across the country calls for this paper to inform the policy makers for the improvement required in the Drug Pricing Policy. The reasons of price hikes are devaluation of the rupee against the dollars has pushed up the cost of raw materials and packaging materials. Other causes are increased gas and electricity tariffs along with additional duties and interest rate. In reality prices of the medicines specially local manufactured drugs can easily be regulated. In Pakistan, out of pocket expenditures are around 70-75% of the total health expenditure and 55-60% of the total are spent on purchase of medicines for the treatment the different diseases. Majority of the medicines are purchased by the people from the pharmacies directly, making medicines the largest household expenditure after food.

The patient faces financial burden due to expensive medicines that make them worried about the treatment decisions according to the affordability and purchasing power. This is the major reason of the suffering among patients and usually disturb their social fabrics. It destroys the economic status and pushing the families in the loop of poverty. It creates a heavy load on government exchequer in terms of drug import, manufacturing and purchasing of material (Active pharmaceutical Ingredient (API) and raw materials).

Drug Pricing Policy was introduced for regulation of prices by Drug Regulatory Authority of Pakistan (DRAP) in 2015 and lastly revised in 2018. According to Drug Pricing Policy, Maximum Retail Price (MRP) fixation of originator brands shall be based on average price of the same dosage form and strength of the same brand in India and Bangladesh. If the originator brand is available in only one of these countries, MRP shall be fixed at its par after considering the exchange rate parity. MRP of generics shall be fixed at 30% less than the MRP of the originator brand , however it may be reduced to 20% in cases wherein compliance in respect of the regulatory requirements is established.

Reasons of External Reference Pricing (ERP) failure in Pakistan

The concept of External Reference Pricing (ERP) can't be adapted in third world countries like Pakistan , the reasons are mentioned below;

- Multinational manufacturers launch their products in a tactical manner in market. In response to ERP, they first introduce their products in those countries anywhere they can adjust prices freely or negotiate comparatively high prices (countries where they operating their headquarters) delay and abstain from launching in comparatively lesser price countries and maintain synthetically high list prices even when they are willing for constant to confidential rebates. They use the strategies of drug proliferation i.e. release of products with different formulations, strengths and package size.
- Another major factor which cause drastic increase in drug prices is transfer Pricing (over pricing) which is unfortunately not managed by Regulatory Authorities. A commonly used transfer pricing definition is " the price charged by one member of multinational organization to another member of the same organization for the provision of goods or services or the use of a property , including intangible property ". In other words, transfer pricing relates to the price applied to inter-company transactions. These transactions can include the sales of products, the provision of a service and use of (intangible) assets. You can imagine the impact of prices on finished products made out of this inflated raw materials through the example of 'ketotifen'. Multinational companies purchased this raw materials at the cost of 60,000 $/kg while the same raw material was purchased by other local manufacturers at 3,072 $/kg which is 1953 times lower than the raw material purchased by Multinational Companies (MNC). Here it is interesting to note that the import policy order issued by the Ministry of Commerce states ' no import shall be made except at the most competitive rates' this order has never implemented and caused variations and increase in drug prices.

- According to this study conducted on transfer pricing of 07 raw materials in 1984-85. This study revealed that foreign exchange saving could have been to the tune of about 6.5 million $ (15.80 million $ current value) per annum if these were imported from sources offering next lower price. If the money remitted abroad through transfer pricing in case of these 07 items was reflected in profits national exchequer would have been benefited to the tune of 1.6 million $ (3.88 million $ current value) in the form of taxes. The total impact of saving in case of all these imported ' over priced' raw materials, if calculated would run into over several million dollars annually .
- Multinational companies support high prices by putting pleas forward in favor of these raw materials as 'better quality or bioavailability 'but scientifically there are no two standards of quality in pharmaceuticals. The drug must confirm to established quality control specifications to the standard quality otherwise it is sub-standard. Bioavailability is certainly an important factor in drug formulations but it has no relevance in raw materials so any attempt to justify many folds higher has no validity or scientific grounds except for minor changes due to economics of scale, overhead changes etc. furthermore, most of the international sources of supply of raw materials are F.D.A approved and are collaboration of many transnational firms. Another implication of transfer pricing is that not only the multinationals are able to make enormous remittances abroad but also manage to get higher prices in respect to dosage forms based on the over prices raw materials.
- The prices of raw materials goes down after the expiry of their patent rights but the prices based on these raw materials have never show any decrease. If we considered the dosage forms produced for the above mentioned 07 over priced raw materials having 60-90% of the total market share, not only these manufacturers make extra profits but the poor public is faced to use most expensive brands of a given formulation. The high prices ultimately have impact on local manufactured drugs which are 30% low in price as compare to MNC in accordance to drug pricing policy but still huge profitable.
- The companies have been providing drugs to the market at higher prices than those at which the same medicines were offered to hospitals thus making huge profits, at the cost of immense burden on the consumers. The success of these strategies is evident that the pharmaceutical industry continuous to be one of the more profitable industries in the Global economy.

Policy Recommendations

Local Production of Raw Materials

Life saving drugs in Pakistan are four to twelve times expensive than in India because of failure to develop indigenous raw materials manufacturing base. Government should develop the infrastructure and expertise required for basic drug manufacturing. It should ensure local production of drugs whose patents have run out to lower the prices of lifesaving products.

Own Pricing Calculator

Develop own drug pricing calculator and till then consider or select comparator countries to use for ERP that must be based one economic status, pharmaceutical pricing in place, the publication of actual versus negotiated or concealed prices, exact comparator products supplied, and similar burden of disease.

Regressive Mark ups

Government should consider Regressive mark-ups for drugs (lower mark-ups for higher priced products) rather than fixed mark-ups.

Tax Reductions

Make sure any tax reductions otherwise exemptions which result in lowered price of medicines to patient/purchaser.

Transparent Pricing Policy

Formulate their pricing policies, processes and decisions transparent. If the development and production costs for particular medicines are publically known, patients and the public can more readily identify the most egregious examples of price groupings and demand action. The disclosures can also have direct effect on drug manufacturers behaviors as manufacturers may avoid pricing drugs at costs what would trigger disclosure requirements.

Research & Development

Start comprehensive national drug research programme that jointly developed by the universities and research institutes active in this field according to national health priorities to ensure coordination and collaboration in drug research. Incentives shall be provided for encouraging researchers.

Concluding Remarks

Allocations to the health sector as percentage of the Gross Domestic Product (GDP) have stagnated for most of the last two decades and account for only 0.6 per cent of the GDP during 2017-18. This is significantly lower than other countries at the same level of economic development. The funds allocation shall be enhanced to Health sector , particularly to the pharma sector for R&D, local manufacturing of drugs and medicines keeping a balance between imports and exports of the raw material and finished product. The amount available under R&D of NHSR&C Division shall be utilized , and third party audit conducted for accountability and transparency in the pharma sector.

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