ISBN 978-92-64-04414-2
Pharmaceutical Pricing Policies in a Global Market

Introduction

At the first OECD meeting of Health Ministers in May 2004, pharmaceutical pricing policy was not explicitly on the agenda. Yet the issue was raised by a number of Ministers. A particular concern they voiced related to the impact of pricing policies on the reward to private investment in pharmaceutical R&D and on the incentives for future innovation. On the one hand, countries whose policies restrict the prices pharmaceutical firms can charge for their products were, it was suggested, potentially free-riding on the rewards and incentives for innovation provided by others. On the other hand, Ministers from the former countries highlighted the strong profitability record of the pharmaceutical industry and argued that their policies gave greater weight to public health objectives than to industrial policy objectives. Ministers called on the OECD to take up work on these difficult and contentious questions to provide a basis for more informed policy making. The goal would be to document the facts about pharmaceutical pricing and reimbursement policies in different countries and the links to innovation in order to help arrive at appropriate policies and cooperative initiatives to achieve common cross-national policy goals.

In subsequent discussion of the scope of OECD work in this area, delegates from several OECD countries observed that pharmaceutical policy making serves multiple objectives that must be balanced with one another to arrive at the policy mix that best reflects national priorities. Considering the impact of policies in terms of only one objective would therefore be unsatisfactory. The objective of ensuring affordable access to effective medicines runs up against strong pressures for public sector cost-containment in recent years when pharmaceutical expenditure growth has exceeded both economic growth and growth in the health sector as a whole. There is also a tension in several OECD countries which have, or aspire to have, a significant domestic pharmaceutical industry presence and activity, between health-system performance objectives and those pertaining to industry policy.

But perhaps the most difficult trade-off in pharmaceutical policy is the seemingly inherent trade-off between *static efficiency* – in which consumer welfare is maximised by getting the most health value from today's expenditures, as constrained by the limits of present technological capability – and *dynamic efficiency*, in which the R&D incentives serve to generate growth in the capacity to prevent health conditions and cure diseases in the future. Getting the best possible price or lowest possible expenditures for pharmaceutical products in the market today may mean having fewer and less innovative alternatives for the future.

Even if it is recognised that short-term efficiency is in potential conflict with the prospect of future gains, the way forward is not clear. On the one hand, few would doubt that patients have derived significant health gains from innovative pharmaceutical products. On the other, there are many policy makers and the citizens and patients whose interests they serve, who believe that incentives in the pharmaceutical market have

yielded sub-optimal outcomes – not enough new treatments focused on the most important health concerns, too many products to treat conditions not formerly recognised as requiring treatment, not enough breakthrough innovations, and too many so-called "me-too" products introduced in therapeutic classes already amply stocked. Furthermore, national policies stand to affect not only innovation, but also the prices and availability of medicines in other countries, giving countries a rationale for strong interest in the policies of their peers.

The OECD project on pharmaceutical pricing policy was launched in December 2005. It included research to describe and evaluate the pharmaceutical market and policy environment in six OECD countries – Canada, Germany, Mexico, the Slovak Republic, Sweden and Switzerland – selected to represent a range of policy and market characteristics seen within the OECD, development of an analytic framework and indicators for assessing the impact of pharmaceutical pricing policies, and application of that framework to produce a report assessing policies. Findings from the case studies, supplemented by material from the health economics and health policy research literature and results of other ongoing work, were used as inputs to the policy analysis presented in this final report from the project.

The report is organised in two parts, with *Part 1* (Chapters 1-3) providing background information for policy makers and setting the stage for the analysis of pharmaceutical policies and their impact that is presented in *Part 2* (Chapters 4-6).

Chapter 1 provides an overview of the role of the pharmaceutical sector within the health systems and the economies of OECD countries. The second chapter is complementary in that it provides an overview of the global market for pharmaceuticals and of the activities of the pharmaceutical industry. Chapter 3 describes the range of practices used by public and private payers or purchasers and by regulators, in their efforts to define pharmaceutical prices and reimbursement amounts. Chapter 4 considers the impact of those pricing practices and closely related policies on commonly held policy goals such as promotion of public health, cost-containment and pursuit of maximum value for money. The report's final chapters consider the external impact of pricing policies, first on foreign availability and prices of medicines (Chapter 5), and second on future pharmaceutical innovation (Chapter 6). The main conclusions from the study are presented in a short final section.