

### ISPOR Issue Panel:

## Can we alleviate current market failures from international price referencing of pharmaceuticals in middle income countries?

#### Moderator:

- **Lou Garrison PhD**, Pharmaceutical Outcomes Research and Policy Program, Department of Pharmacy, University of Washington, Seattle, USA

#### Panelists:

- **Iga Lipska MD, Director**, Strategies in Health, Poland
- **Jens Grueger PhD**, Global Market Access, Primary Care BU, Pfizer
- **Zoltán Kaló MD MSc PhD**, Health Economics Research Centre, Eötvös Loránd University, Budapest, Hungary

*ISPOR European Meeting, Madrid, Spain, Nov. 8, 2011*



## The Issue

- Value-based prices of innovative pharmaceuticals are based on US + Top 5 European markets.
- Due to international price referencing and the risk of parallel trade, a narrow price corridor is implemented for other European countries.
- In difficult economic situations, governments—especially in lower income countries—make extra efforts to enforce price erosion.
  - Currency fluctuations and benchmarking across countries produces price erosion.
- Ultimately, this can affect the global resources available to support innovative research, and we will all be worse off in the long run.
  - It becomes more than a regional issue for European middle income countries to consider themselves.



## What market failures?

- Innovative drugs and other technologies are information
  - Information is as a “public good”: in fact, a global public good.
  - Free rider problem: it will be undersupplied in a competitive market
  - This leads to “market failure”—an undersupply of innovation.
- Intellectual property via the patent system is an effort to provide a counterincentive to encourage innovation.
- Other kinds of market failure may be relevant:
  - Uncertainty
  - Informational asymmetry



## The Solution?

- In theory: Ramsey Optimal Pricing—differential pricing across countries based on willingness and ability and willingness to pay.
- **The problem:** with price transparency, countries are reluctant to pay higher prices than other countries.



### The Historical Risk-Sharing “Equilibrium”

- **Risk to manufacturer:** we operate with a blockbuster financing model for R&D.
  - Intellectual property—patent protection to incentivize investment and risk-taking
  - There is no *ex ante* clause to share innovation cost or to purchase drugs.
- **Risk to payer:** The payer negotiates a price and/or use.
  - The payer bears the risks of making a bad buy (i.e., when incremental health benefits are not worth the additional cost).
  - The payer is free to collect post-launch data. Manufacturers will only do this if it is in their competitive interests.
- **Individual countries strike different types of deals with manufacturers**
  - Range of country environments: negotiated prices < -- > free pricing
  - All of this provides an incentive for manufacturers to seek highest justifiable price at launch. Manufacturers would like to price for future (larger) indications.



### Objective of the Discussion

#### *Our working assumption:*

Stakeholders, especially in middle income countries and at the EU level, should understand the implications of increased transparency of pricing and should develop solutions to prevent the limited accessibility of new medicines in lower income countries.

We consider multiple perspectives: payer, industry, and academic.



Thanks!

*On to the debate,...*

*Discussion at the end.*

