Bio rages against pharmaceutical price controls

WASHINGTON, D.C.—Even before the Clinton administration formally presented its package of health-care reforms to Congress and the American public, representatives of the biotechnology industry began registering their complaints. Criticisms focus on proposals that touch on drug-pricing issues, as well as presidential jawboning on these issues. Any federal move to control drug prices will badly damage the industry, industry representatives say.

The Biotechnology Industry Organization (Bio, Washington, DC) is taking an unabashedly aggressive stance. Though praising much in Clinton's health-care-reform package, Bio is condemning the two principal provisions affecting pharmaceutical pricing. Among these provisions:

- A new National Health Board could investigate "unreasonable" introductory drug prices, apparently with subpoena power to review company documents on research and development (R&D) costs and pricing policies.
- Pharmaceutical firms would have to give Medicare--the federal insurance program for the elderly and disabled--a 15 percent rebate on their average nationwide price for each drug Medicare reimburses. Indeed, the Secretary of Health and Human Services could bargain down the price of a drug before Medicare agrees to reimburse it, and, if a firm resists, Medicare could refuse to reimburse its drug. The pharmaceutical industry contends that such rebates could cost it up to $2.25 billion annually. Previously, however, Medicare did not reimburse out-patient prescription drugs.

Although these provisions do not give the government actual authority to set drug prices, they amount to "de facto price setting," asserts Charles Ludlam, who is BIO's vice president for government relations. Instead of emphasizing the price of drugs, says Ludlam, the administration should consider the overall savings in health-care costs that effective drugs can bring. He adds, moreover, that the administration does not address the importance of

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Health-care reform will speed alliances

NEW YORK—Traditionally, the biggest of the established pharmaceutical firms wouldn't pursue a drug unless it could produce annual revenues of at least $200 million. Such high-revenue demands, naturally, closed pharmaceutical-company doors for many of the innovative first-generation products developed by biopharmaceutical firms.

This scenario may change in the new health-care system envisioned by the Clinton administration. "Big pharmas may have to take a keener interest in the smaller biopharmaceuticals as an important part of their portfolios." So stated Michael Page, executive vice president of Vector Securities International (Deerfield, IL) at his firm's recent conference here entitled "Clinical Advances in Biotechnology."

In the new health-care environment, a new type of company will deliver care. These health-care-delivery firms—while assuming the risk for more than 500,000 lives at a fixed cost per life—will distribute their capitated dollars between groups of physicians and hospitals. They will control the prescribing habits of their physicians through strict formularies. And because of this control, they will have enormous leverage with pharmaceutical companies to negotiate discounts on drugs, since no pharmaceutical firm will want its drug left off the formularies.

To gain an advantage over rival health-care-delivery firms, these companies must deliver the highest quality care for the lowest cost. With regard to pharmaceuticals, they will "need to boast that they have the most life-saving treatments and the most economic outcomes. So they will need the most innovative drugs," says Page.

Pharmaceutical companies—to fulfill this need for innovative drugs—will have to turn to biopharmaceutical firms, the currently unquestioned source of such drugs. Since most pharmaceutical-company pricing negotiations with health-care-delivery companies will be "across a basket of drugs, a basket that contains a number of highly innovative biopharmaceuticals is paramount. These biopharmaceuticals could become a significant bargaining chip in negotiating margins across the entire basket of drugs," Page contends. He adds that biopharmaceutical firms, for their part, should "look for pharma partners with important products in the same therapeutic area as their niche products."

Another conference speaker also believes that the new health-care environment will increase pharmaceutical-company dependence on biopharmaceutical firms. Robert Easton, senior consultant at The Wilkerson Group (New York), sees pharmaceutical-company profits falling in this new environment. "Profit pressure will drive down research spending. At the same time, pharmaceutical companies will have an increasing need for innovation, so they will increasingly turn to biopharmaceutical companies. The mating dance will only become more intense," says Easton.

Outside of the Vector conference, Easton's boss has quantified this increasing pharmaceutical-firm dependence. John Wilkerson, chairman of The Wilkerson Group, believes that, among pharmaceutical firms, "a gradual shift is occurring to improve research productivity and, increasingly, to cut development-cycle times. Given this situation, it is not surprising that biopharmaceutical companies are increasingly seen as a significant source of novel high-impact pharmaceuticals. In fact, several leading pharmaceutical companies already plan to shift between 35 and 50 percent of their internal research spending to biopharmaceutical companies." **—B.J. Spalding**