

PHARMACEUTICAL PRICE CONTROL: WILL GOVERNMENTS HARMONIZE REGULATIONS?

By B.J. Spalding

The 1980s saw drug prices skyrocket. Price increases accounted for fully 40 percent of the decade's growth in worldwide pharmaceutical sales, which in 1989 totaled \$145 billion. Price jumps made up 88 percent of U.S. sales growth, 78 percent of sales growth in West Germany, and 50 percent of South Korean sales growth.

Governments are increasingly cracking down on drug prices, though. Worldwide, government constraints should limit the price-increase component of drug-sales growth to 24 percent in the 1990s and just 17 percent beyond 2000. "The days of drug prices rising 10 percent a year are over," says Mick Kolassa, vice president of Hastings Health Care (Flemington, NJ).

Governments are focusing particular attention on high-priced biopharmaceuticals. Immunex's (Seattle, WA) anti-cancer GM-CSF, or granulocyte macrophage-colony stimulating factor, sells for \$2,000 a treatment. And Centocor's (Malvern, PA) sepsis drug, Centoxin, costs patients over \$3,000 a dose. "One dose of Centoxin displaces more than 1,000 prescriptions. That's a tough

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trade-off, with health-care dollars limited," says Kolassa.

Governments are targeting drug prices for several reasons. Overall health-care costs are spiraling out of control. In the U.S., for instance, such costs totaled 12 percent of the gross national product (GNP) last year, or \$650 billion, and could reach 15 percent of GNP by 2000. And drug spending makes up a big portion of health-care costs. In 1987, drug expenditures accounted for 19.1 percent of health-care spending in Japan, 15.8 percent in Italy, and 13.7 percent in West Germany.

KUDOS FOR JAPAN

The Japanese government's drug-pricing system gets kudos from L. John Wilkerson, chief executive officer of

The Wilkerson Group (New York). Japan's \$30.5-billion pharmaceutical market—which comprises 21 percent of the world market—has the highest per-capita drug spending. On average, Japanese annually spend \$250 apiece on prescription drugs, while West Germans each spend \$180, and Americans spend \$150 apiece. "Prophylactic antibiotics and memory enhancers are among Japan's big sellers," says Wilkerson.

The Japanese government sets new drug prices, after negotiating with a drug's maker, then lowers them by 5 percent to 20 percent every two years. It allows high introductory prices, though. The heart-attack drug, tissue plasminogen activator (t-PA), came on the Japanese market at nearly four times the

REIMBURSEMENT AND CO-PAYS

Government reimbursement of drug costs is critical, says Jim Attridge, manager of ICI Pharmaceuticals' (Alderley Park, U.K.) business operations group. Governments should base reimbursement on disease severity and treatment length, with reimbursement greater for severe diseases than for mild ones and for chronic diseases than for acute ones. For instance, reimbursement of drug costs for severe, chronic diseases should total 100 percent, while drug costs for severe, acute diseases should get reimbursed at 70 percent. Drug-cost reimbursement for mild, acute diseases, on the other hand, should come in at just 20 percent.

Attridge also backs government use of co-payments—or patient payments per prescription—to curb patient drug use. "Broadly speaking, industry favors this approach to make patients more aware of medicine costs," he says. Hastings's Kolassa, conversely, condemns co-payments. "Co-pays reduce compliance and utilization by at least 10 percent," he says. "Stay away from them."