

# ■ Around The Industry

## 2017 Fair Pricing Forum: The Message For Pharma CEOs

Drug pricing continues to be a social and political dilemma that forms a divide with the drug industry on one side and the medical community, governments and patients on the other side. Frustration over the high cost of prescription drugs has resulted in a groundswell of government and private initiatives to increase transparency, analyze value through various frameworks or directly control pricing.

### WHO'S 2017 FAIR PRICING FORUM

On a global level, the World Health Organization (WHO) has taken an active role in shaping the debate by organizing the *2017 Fair Pricing Forum*, an invitation-only meeting in May this year for members of governmental organizations, patient organizations, academia and the life sciences industry. Hosted by the Dutch Ministry of Health, the meeting prompted a productive dialogue among stakeholders, but also revealed a worrisome gap in the overall understanding of the drug industry's economics. The pharmaceutical industry's viewpoint was widely underrepresented with attendance capped at 15 pharma staff or 7%. About half the 227 registrants were government representatives from countries across the world, with the balance being WHO staff, and representatives from patient organizations, academia, and various associations along with a handful of consultants, including yours truly.

The main issues discussed at the meeting were the supply and fair pricing of generics, voluntary collaboration among payers, new business models for R&D, and transparency on pricing and industry cost. The most controversial issues were funding of drug R&D and the principle by which drug prices are set. The analyses and comments in this article are focused on these topics.

### MIND-SET OF GOVERNMENTS, WHO AND PATIENT ORGANIZATIONS

At the beginning of the forum, the participants were polled on their opinions with respect to various issues. Here are the results for the ones that involve pricing of innova-

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tive prescription drugs and R&D. It gives a good sense of how the participants are thinking about the issues. Non-responders are not included in the responses shown.

It is encouraging to see that many think of therapeutic value as an important driver of what constitutes a fair price, but the majority of respondents indicated that price should be driven by payer affordability or cost of manufacturing. Given that almost half the attendees represented government payers, this is probably not surprising. Less than 5% of respondents considered return of investment for the innovator as a reasonable driver of price. (See *Question 1, next page.*)

The high cost of medicines is mostly deemed to be caused by the focus on profits by manufacturers and lack of government intervention. Only few recognize

that the rise in cost of drug development may have contributed to this. From the discussion, it was apparent that certainly a share of participants would like to go beyond government price control and place all health care and related research in the hands of government agencies. (See *Question 2, next page.*)

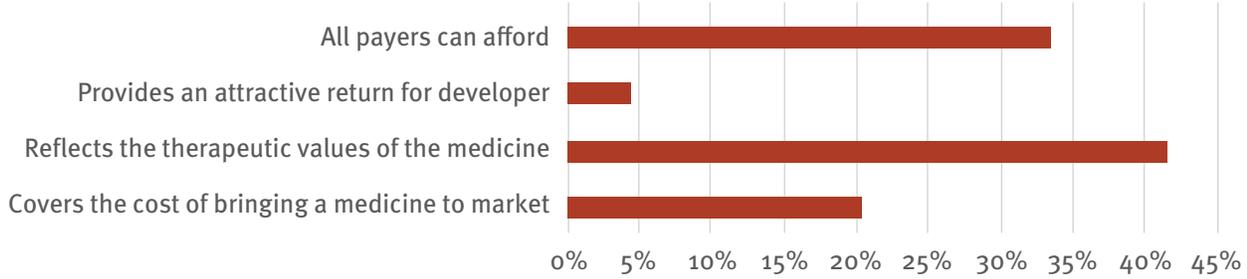
An overwhelming majority of attendees feel that governments need to interfere in pricing, through direct control with a “cost-plus” type mechanism, government collaboration in price negotiations or even compulsory licensing. Even when considering the bias in the composition of the audience and the leading nature of the question, this is very concerning. Only 6% of responses favored the non-government intervention option, although there was clearly bias in the response options provided. (See *Question 3, next page.*)

The last question was very biased as it was based on a premise of agreed need for change in the R&D model, which was rejected by most during the in-depth discussions. The general consensus seemed to be more toward favoring very limited government intervention by supplementing existing R&D efforts with incentives for specific disease areas where market conditions do not sufficiently entice new innovations, such as for anti-microbial drugs. (See *Question 4, next page.*)

### RESULTS FROM THE DISCUSSIONS

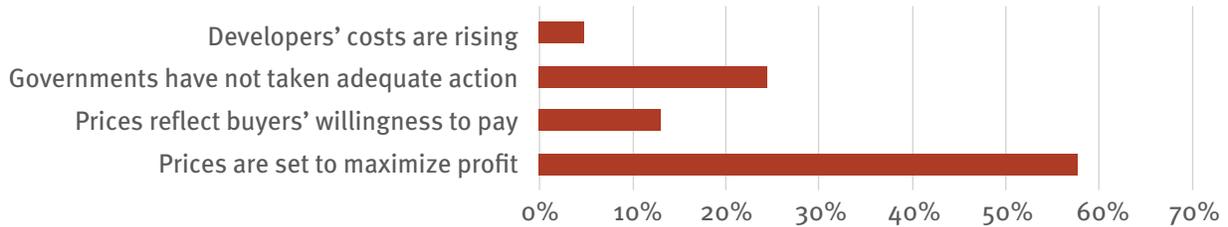
Although some participants seemingly preferred a “revolution” in terms of shifting R&D responsibilities to governments, most forum members appeared less interested in disrupting areas that work and more focused on finding solutions for areas with insufficient R&D investment incentives. Discussions related to antimicrobial resistance have demonstrated that the financing of additional incentives for globally oriented R&D efforts requires a

**1. What is a fair price?**

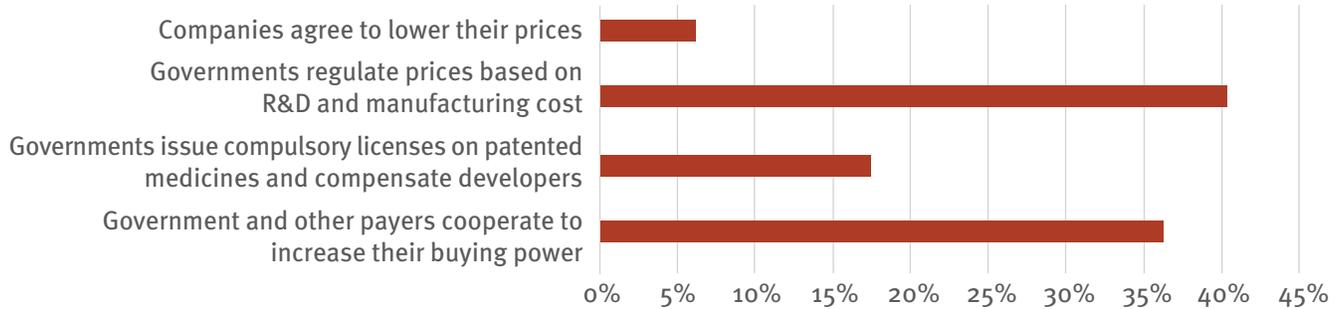


**2. Prices of some medicines have been considered too high.**

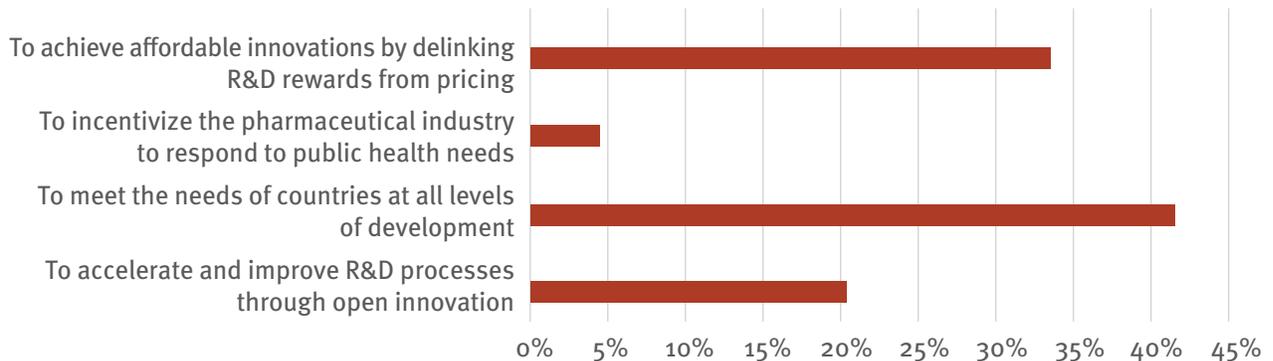
**What is driving this?**



**3. What is the most promising solution to the problem of pricing?**



**4. Why should we explore new business models for R&D?**



sort of coalition or pooling of government resources across countries – a stumbling block that needs to be addressed foremost.

Much of the discussion focused on collaboration among governments following a recent effort between the Netherlands, Belgium, Austria and Luxembourg to jointly negotiate prices for hepatitis C drugs. The effort seems to have largely evolved into a

joint health technology assessment, while leaving actual negotiations mainly with the individual budget authorities in each country. As such, this initiative is progressing along a path similar to that followed by the European Network for Health Technology Assessment over the last 10 years or so.

Joint assessments can have some advantages to the industry in terms of a

more consistent approach toward recognized benefits – for example, through an agreed-upon comparator or acceptable clinical endpoint.

**CONCERNS FOR PHARMA**

There's a clear need for continued dialogue between governmental organizations, the industry and the patient commu-

nity. Though much of the meeting's dialogue was constructive and participants endeavored to find joint solutions, it revealed a large gap in the understanding of mutual perspectives, which stands in the way of meaningful solutions. Given each entity's somewhat different responsibilities and interests, complete alignment is unlikely, but understanding each other's perspectives will help us find responsible solutions that work in the long run.

Government and patient organizations have sent strong signals for increased transparency in pricing and drug industry economics. Even though transparency is unlikely to provide solutions, the industry needs to address transparency within a broader perspective of drug company in-

vestment and the economics environment to find solutions in other areas. Government representatives and the public often lack a fundamental understanding of drug development economics, leading to an unproductive fixation on actual production costs in pricing discussions.

Particularly, the WHO is challenging the use of "value-based pricing." This is a clear contrast with most government payer systems, which tend to use some measure of demonstrated benefits and value in determining what these governments perceive as a fair price. A less understood component is that profit maximization is usually achieved where a product is priced to each country/customer at the perceived value and affordability. A drug that doesn't

reach a patient is of no value to society or to the drug manufacturer, either. The fundamental challenge of access to medicines for populations with lower affordability is the global community's insistence in freedom of flow of goods and price referencing, which naturally leads to a single price for all, independent of geographic location, medical need and income status. ▶

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