China steps up its scrutiny of western drugs prices

By Andrew Jack in London

The Chinese authorities are stepping up scrutiny of the prices of medicines from western pharmaceutical groups, against a backdrop of growing evidence they are often charged substantially more than richer countries.

One analysis conducted last year by officials showed 31 imported drugs were offered for sale in China at an average of twice the UK price, according to Tsung-Mei Cheng, a health policy research analyst at Princeton University with strong contacts in Beijing.

Several other similar studies were prepared in advance of regulators’ recent probes into multinational drug companies about pricing and corruption. GlaxoSmithKline, AstraZeneca, Lundbeck and most recently Sanofi have received inquiries from the authorities in regard to marketing practices.

“The Chinese government has become very concerned about high pricing on drugs,” says Ms Cheng. “They are a great barrier for access to healthcare. China is one of the biggest markets but drug prices are so high and now the government is getting a handle on it.”

Medicine comparisons are highly complex, with prices varying over time, by volume and depending on whether they are sold to the public sector or paid for directly by patients, a common practice in China. There are also discounts and mark-ups by distributors and by different government bodies and hospitals.

But with China expanding the coverage of its healthcare system, officials are keen to reduce the costs of drugs, which Ms Cheng says account for about 40 per cent of treatment compared with 20-30 per cent in countries in the Organisation of Economic Cooperation and Development.

“I think the financial crisis is levelling the playing field and forcing countries to look at the drugs that are being reimbursed,” Tim Reed, head of Health Action International, a non profit group that analyses drug prices in developing countries, says.

While innovative patented medicines typically command an important premium to older generic drugs, a high proportion of western pharmaceutical sales in China and other emerging markets are higher-priced “branded” drugs no longer under patent protection.

In recent years, some of the emerging countries including China that are seeking to build their own domestic industries have been willing to pay western prices for innovative medicines to multinational drug companies. That has encouraged investment in research and technology transfer.
But lower and middle income markets are distinctive in two important ways from the more established industrialised nations: they have a far greater dominance of “out of pocket” medicine purchases funded by patients themselves, and a greater focus on older, generic drugs rather than new and more expensive patented ones.

That has created the temptation for companies to charge high prices for medicines sold in relatively low volumes to the wealthy; and to impose a premium for what they claim are higher quality products on which the patents have expired even when lower cost equivalents made by rivals are on sale - so called “branded generics”.

In the past few months, Chinese authorities have commissioned at least three different studies examining drug prices in China compared with Taiwan, Europe and the US. They are also working with counterparts in other countries including the UK’s National Institute for Health and Care Excellence (Nice).

Another study conducted by Xi’an Jiaotong University in 2012 in conjunction with the World Health Organisation concluded: “The affordability, availability and price of medicines in China should be improved in order to ensure equity in access to basic medical treatments, especially for the poor.”

It examined the prices of 49 medicines in Shaanxi Province in spring last year, and found that procurement bodies were buying branded versions of off-patent medicines from the original manufacturer at nearly 1.9 times international benchmark prices, while the lowest-priced generic equivalent was still 1.5 times this level.