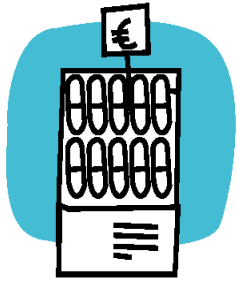




Unit 3: Are medicines an economic good like any other ?



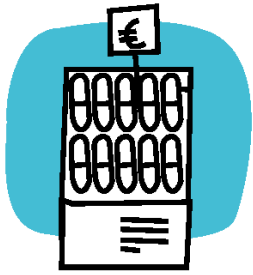
2. External Reference Pricing (ERP) as policy in Europe

- Hello everyone. My name is Izabela Jelovac. I am a researcher at CNRS a member of GATE Lyon Saint-Étienne and affiliate at Hospinnomics. I will now talk to you about ERP policies in Europe. To understand ERP we'll look at product launching for new drugs. Two things companies think about when launching a new drug: during the product launch pharmaceutical companies have two important decisions to make which will or won't adhere to regulators. These two decisions concern: the pricing of new drugs and the launch sequences of new drugs on different markets.
- These two decisions, pricing and launch sequences are very important for pharmaceutical companies and for health care systems in general. Furthermore, these two decisions vary, depending on the policies of different countries for bringing down the cost of pharmaceutical care. One interesting cost-limiting policy is External Reference Pricing (ERP). What does ERP policy look like in Europe? When it comes to setting a price for a drug in a country ERP takes into account the cost of the same drug in other countries which we call reference countries. In France, for example for the government to set the price of a new drug it looks at the price of the same drug in Germany, the UK, Italy and Spain. Each country has its own list of reference countries which can vary in length, or the list may be empty. Each country has its own way of taking reference country prices into consideration. It can result in minimum price policies or average price policies. Each country can decide to adjust its prices according to price changes abroad. What are the effects of ERP policy? One can expect prices to be affected and indeed, effects on prices can be observed: prices naturally converge in European countries that implement ERP policies. This is natural: by referring to each other and using each other's prices, prices end up being similar. The first consequence of this is that it limits the ability of pharmaceutical companies to set different prices in different markets to try and take advantage of differences in market conditions in each country. So, the first effect is price convergence as opposed to price discrimination which is more advantageous to pharmaceutical companies. We have observed a second effect on launch sequences of new products. We suspect and we have empirical evidence that pharmaceutical companies have a tendency to first launch products in more profitable markets and launch them in less profitable ones later. They may not even launch products in these markets at all. This is a consequence of ERP policy in Europe or rather, it's the strategic response of pharmaceutical companies to the ERP policy. My colleague Nicolas Houy and I have looked into this phenomenon of pharmaceutical companies' strategic responses to ERP policy. We have pinpointed one main dilemma facing pharmaceutical companies. It seemed to us that every time a pharmaceutical company considers selling a new product in a given country they have to weigh gains from future sales in that country against losses due to the fact that that country's prices will be used across countries with different willingness to pay. By identifying this central dilemma Nicolas Houy and I have come to several conclusions. First, we identified the few instances in which pharmaceutical companies will want to delay the product launch of new medications. Most importantly, we found that most of the time companies will want to sell their product as soon as possible in more profitable markets and forgo other markets altogether. Furthermore, this central dilemma for companies showed us that the centralized procedure for marketing authorization in the EU i.e. the step that precedes the product launch benefits pharmaceutical companies more than it does the countries which could otherwise be served more often and potentially at a lower cost.





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- These are theories that still need empirical validation. Still, we thought it was important to understand and imagine potential strategic responses from pharmaceutical companies so as to foresee the potential consequences of drug-related policies and ideally, to control health care costs. Thank you.



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