Generic drug pricing – is it becoming a runaway train?

Rob Munro

The global pharmaceutical industry often struggles to convince the world at large that it is putting patients’ interests alongside those of its shareholders. In October, a Sunday Times investigation found some companies are increasing the cost of generic drugs by up to 2000 per cent, accusing them of “milking the NHS”. What is behind this rise in generic drug prices, a market that, in theory, should deliver a stable and predictable cost base?

Rise of the generics market
Consolidation has been one of the big trends within global pharma in recent years and has had the effect of driving up generic prices as competition declines. In the year leading up to April 2015, global pharmaceutical merger and acquisition deals were valued at $462 billion, a sum described by the Financial Times as “greater than the gross domestic product of Austria”. The paper said there was “no end in sight” with much of the “frenzied” deal making focusing on the generics market.

For example, the acquisition of Allergan by Israel-based Teva in July for $40.5 billion created a concentration of generic market share that hugely increased the company’s power to control prices in a previously fragmented market. Teva now controls around 20 per cent of the global generics industry.

As more and more blockbuster drugs fall off the patent cliff, we can expect generics manufacturers to become targets for larger companies looking to maximise revenue without the risks and investment associated with new, branded drugs. Indeed, from a situation where generics companies were once the poor cousins of the branded giants, they are now very much in the ascendant, attracting huge investor interest and subsequent pressure to produce spectacular returns. While this may be good news for pension funds and others looking for growth and profits, it is bad for patients and the NHS, as drug prices inevitably begin to creep up as the market becomes dominated by a few big players.

One indication of the problem is the increase in requests to the government’s “no cheaper stock obtainable” (NCSO) system, run by the Pharmaceutical Services Negotiating Committee (PSNC). Once dealing with a few unusual instances of generic shortages caused by supply issues, the NCSO service has been inundated with requests to sanction the prices of generics, which have in some cases risen well above brand prices.

Controlling generic drug pricing
The Department of Health also now has the ability to issue “price concessions” on a month-by-month basis, whereby drugs can be bought at higher prices than originally negotiated by the PSNC. Among the list of 12 price concessions granted for October 2015 are procyclidine 5mg tablets at an eye-watering £14 for 28 compared to the BNF price of £1.87 and mefenamic acid 500mg tablets at £12.15 for 28 (BNF price £5.64). Although such prices may be one-offs and due to factors such as supply chain problems or raw material shortages, there is no doubt that generic drug inflation will soon become a major headache for UK prescribers.

The situation in the USA has already seen congress and the Food and Drug Administration (FDA) stepping in to try to find ways to control runaway generic drug prices, and examples of “price gouging” by companies with recently-acquired generic licences have been widely vilified in the press and on social media.

The challenge for a market-driven generics drugs industry is whether it can balance the needs of investors with those of its customers and still retain the respect of both.

References

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