

## Bad medicine 478

### NPPA action will finish off the pharma industry

**T**he National Pharmaceutical Pricing Authority (NPPA) says that Cipla needs to pay it Rs 1,500 crore (that's a fourth the firm's turnover) for the alleged overcharging of a clutch of drugs—this includes interest added on dues pending since 2003. NPPA is on a misguided adventure. The regulator has little reason to impose such a severe penalty on the company, when the rationale on which its policy rests is itself dubious. Also, it is unclear what the final outcome of the ongoing legal battles between the regulator and many drug companies, including Cipla, on the relevant questions would be.

The Drug Price Control Order (DPCO), 2005, that the NPPA wants to implement with gusto consists of a list of 74 drugs whose retail ceiling prices it is required to notify. These drugs were selected for price control under the 1994 drug policy because of their 'mass consumption' nature and the fact that the market concentrations of these drugs were relatively high. The pharma market has transformed since then, reducing the DPCO to the point of near irrelevance. Not more than 40 of the 74 controlled drugs are now manufactured in a scale large enough to warrant any regulatory attention. Many of these drugs have simply disappeared from the market, thanks to the lunch of better therapeutic alternatives, new evidence of adverse drug reactions and the industry's determination to escape price control by stopping their production. So, we now have 22% of the Rs 45,000 crore retail pharma market (that includes Rs 4,500 crore institutional sales) under price control as against over 55% in 1995, when the DPCO took effect. The irrelevance of the DPCO is evident from the fact that some of the original antibacterial Sulfonamides (Sulfa drugs) which are not even produced, remain on it, while cholesterol-lowering statins (like Atorvastatin and Rosuvastatin), whose prices matter, are outside DPCO. Newer cancer and diabetes drugs (which are mostly imported and are truly expensive) are also not under price control.

Since there are more than a handful of producers for most drugs, and there are huge variations in prices for most drugs, government action doesn't make sense. But even if you assume the government needs to do something, there are different ways—pharma firms have offered a 50% discount on sales to the government for direct sale through its hospitals and dispensaries. Also keep in mind that drugs account for around a sixth of all Medicare costs.

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