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Drugmakers rattled by EU austerity moves

Pricing pressures seen rising; on the flip side, this could increase generics penetration

Priyanka Goliker | MUMBAI

Europe is playing hardball with pharma.

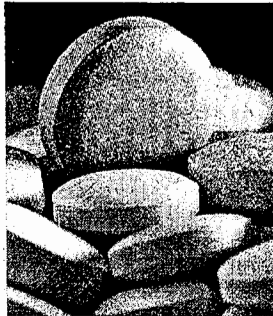
One after another, governments in the continent are coming out with measures to stem rising healthcare costs by introducing price cuts and discounts on pharmaceutical products.

Experts said the measures, introduced to deal with the impact of the economic recession, can affect the margins of drugmakers, besides increasing competition.

"Healthcare and pharma, being one of the main spending areas of governments, would see a hit," said Ajit Mahadevan, partner, business advisory services, Ernst & Young. "Drug costs are rising because of an ageing population."

Tender-based sales in EU and price cuts are producing a negative impact.

"But, given the sheer size of the EU market, no Indian



company looking at chalking out a global footing can choose to ignore it," said Sujay Shetty, associate director, PricewaterhouseCoopers.

The total EU pharma market is worth \$200 billion, or about 25% of the total global market.

Various estimates predict that leading markets like France, Germany, Italy, Spain, etc. will grow at a compounded annual rate of 5.5% till 2015.

Kiran Mazumdar Shaw,

CMD of Biocon had earlier said that the German government's decision of imposing a 16% rebate on all pharma companies present in that country would impact both margins and topline.

According to industry experts, margins in the EU are in the 10-18% range, with Germany weighing in at the lower end.

In comparison, margins in the US range from 15% to 25%, depending on the type of product and the sales and distribution network of drugmakers.

"EU looks promising, but given the generic competition that we face from the likes of Sandoz and Teva, these austerity measures would affect us to a large extent. Though entering the market might appear easy, surviving in that market, and trying to keep our heads above the water will be very tough," said a senior official from a domestic company.

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Cutting corners

► Germany has a tender system in place that has lowered margins for firms. Now, it has also imposed a 16% rebate on all pharma companies

► France is facing difficulties handling its health account deficit. A range of price cuts proposed will impact the pharma market negatively

► Spain has introduced two decrees, which would include price cuts for generic medicines and price discounts on patented products

► Italy has introduced austerity measures including reimbursement limits for off-patent drugs, and a requirement for doctors to prescribe the cheapest available drug

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