



British Association of  
Pharmaceutical Wholesalers

## Reimbursement of 'standard' branded generic medicines

### A submission by the British Association of Pharmaceutical Wholesalers

#### Background

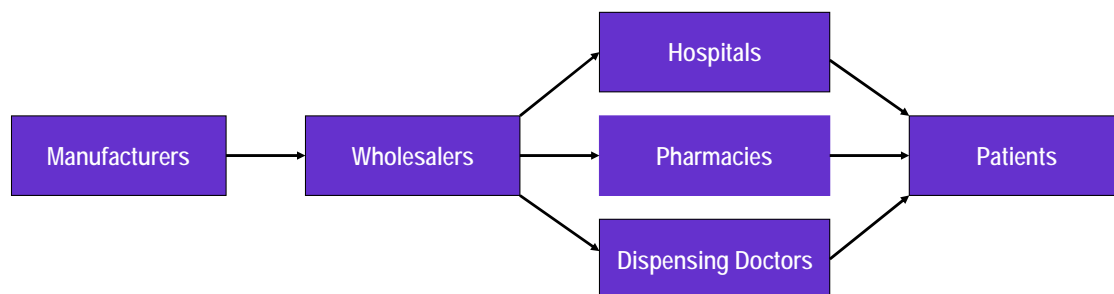
As part of the renegotiated Pharmaceutical Price Regulation Scheme, it was agreed that, subject to public consultation, 'standard' branded generics will no longer be covered by the agreement. Instead, the prices of these medicines would be covered by the new arrangements for the reimbursement of generic medicines.

A 'standard' branded generic is defined as an out of patent product to which the manufacturer/supplier, who is not the originator company, has applied a brand name and that is comparable to a true generic that is readily available (i.e. currently listed as Category A in Part VIII of the Drug Tariff). Other branded generics such as modified release preparations will remain within the PPRS scheme.

#### The BAPW

The British Association of Pharmaceutical Wholesaler (BAPW) represents the UK's full-line pharmaceutical wholesalers. Wholesalers are an essential link in the medicines supply chain. They act as a one stop shop for almost all pharmaceutical products and services, playing a key role in the cost effective and safe distribution of a diverse and comprehensive range of healthcare products.

They deliver to the front line of health services - pharmacists, doctors, hospitals, sometimes even to individual patients - across the whole country. In some countries, elements of full-line pharmaceutical wholesaling are viewed as a public service and receive state subsidies, although in the UK this is not the case. Wholesalers buy most of the medicines they supply direct from manufacturers to meet the demands of the customer - the NHS. In essence, the industry carries all the risk and investment involved in distribution of medicines with no specific investment or subsidy from, or cost to, the NHS.



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As an industry, pharmaceutical wholesale:

- Employs almost 9 000 staff;
- Makes more than 235 000 deliveries **per week**;
- Carries and supplies around 20 000 essential drugs, medicines and services;
- Delivers over 85% by value of the medicines dispensed in pharmacies, as well as around half of the medicines used in secondary care;
- Picks and delivers more than 2 billion items per year, with a combined value of over €15 billion;
- Achieves service levels touching 99%;
- Operates over 50 depots nationwide;
- Provides 50% of the computer equipment used by pharmacies;
- Provides a round the clock, on demand service to pharmacies and hospitals, 365 days a year;
- Offers very short lead times on orders and deliveries - typically less than half a day.

Some wholesalers take advantage of the fact that there are bigger margins to be made on certain products and concentrate wholly on them - these are known as short-liners. However, the British Association of Pharmaceutical Wholesalers represents only full-line wholesalers, who offer the entire range of licensed medicines needed by patients, not merely the most profitable ones

## The pricing mechanism for medicines

Pharmaceutical wholesaling is a lean industry, operating at low profit levels, typically less than two percent, in a highly competitive market. Like any part of an efficient supply chain, an onus exists on wholesalers to offer ever more competitive prices for products. However, unlike in most other supply chains, prices for medicines are largely inflexible.

### Branded medicines

For branded medicines, prices are fixed during negotiations between the ABPI and the Department of Health. Wholesalers have no part in influencing the factory gate prices of branded medicines and receive no discount for being loyal customers, purchasing in bulk or any kind other behaviour which is typically rewarded in the market place. Under each of the past two PPRS agreements, manufacturers have been able to modulate prices, which is to say reach a gross profit reduction by selecting which medicine prices to cut.

Customarily, wholesalers are allowed a 12.5% gross distribution margin on PPRS agreed prices to distribute medicines to the front line of health services. This should not be thought of as a profit margin for wholesalers. In actual fact, wholesalers use this margin to compete for custom and pass it on almost entirely to pharmacies, dispensing doctors and hospitals in order to win and maintain business. As part of the PPRS agreement, this gross distribution margin is also currently being reviewed by the Department of Health.

### Generic medicines

The pricing structure for generic medicines is also under review by the Department of Health, following the imposition of a statutory maximum price scheme in August 2000. The 'basket system' which operates below



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the maximum price scheme and by which reimbursement prices are set has delivered some savings to the NHS following a period of price uncertainty.

The pricing structure of the generic medicines market means that wholesalers and suppliers have more scope to set prices and that the market can behave in a more traditional manner to manage supply and demand. In contrast to the branded medicines market, the scheme allows traders to behave more competitively and therefore set more realistic market prices for medicines, reflecting truer costs, truer availability and truer demand for medicines. It also, therefore, has greater scope to deliver economies for NHS budgets.

### Branded generics

The BAPW agrees that branded generics should be removed from the auspices of the PPRS and transferred into the more appropriate pricing environment of the generics agreement.

Unlike branded medicines, there is no strong case for price/profit protection for those manufacturers making generic medicines. They enter what is essentially a commodity market for generic medicines, whereas branded manufacturers can spend up to £500m and ten years developing their unique, patent protected medicines. Whilst it makes some sense, then, that prices for branded medicines ensure a strong industry presence in the UK by reducing the risks involved in this significant research and development investment, generic medicine producers bear no such costs.

According to its aims, the rationale of the PPRS is:

1. To secure the provision of safe and effective medicines for the NHS at reasonable prices;
2. Promote a strong and profitable pharmaceutical industry capable of such sustained research and development expenditure as should lead to the future availability of new and improved medicines;
3. Encourage the efficient and competitive development and supply of medicines to pharmaceutical markets in this and other countries.

The BAPW would argue that whilst the PPRS could fulfill the first objective, the generics pricing agreement is equally capable of doing so. The inclusion of generic medicines in the PPRS does nothing to meet point two – in fact, arguably it undermines the presence of a research-led pharmaceutical industry on these shores by artificially promoting some generic manufacturing whose products could be sold in a more competitive market place. Finally, rewarding branded generic medicines does nothing to promote the development and supply of innovative medicines (objective three) by offering rewards to those manufacturers who manage to develop some recognition of their branded generic medicine. Again, the inclusion of branded pharmaceuticals in the scheme undermines this objective.

### **Conclusion**

The BAPW believes that branded generics fit more easily in the overall generics pricing scheme. It makes little sense to reward manufacturers who have not invested in the research of medicines, whilst the PPRS offers more price competition and has scope to produce fewer savings to the NHS. Placing branded generics in the PPRS protects manufacturers and their profits unnecessarily and reduces competition in the generics market by setting aside some products.