

**Forum:** ECOSOC

**Issue:** Elaborating on means to regulate drug prices

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## **Introduction**

Consumers spend roughly twice as much on drugs as they really cost. Pressure is building in policy circles for the federal governments to take action to regulate the cost of drugs. At the same time, there is debate about the pros and cons of such action. Proponents contend that consumers will benefit from lower prices, while critics raise concerns that regulation will cut pharmaceutical revenues, which will slow the pace of innovation. Thus the debate centers on the trade-off between benefiting the current generation (with lower prices) and benefiting future generations (with greater pharmaceutical innovation and access to new drugs) as well as the extent to which alternative policy approaches can balance this trade-off. To shed light on this debate, researchers examined the impact of drug price regulation. The study had two phases. First, to provide a global context for understanding the impact of drug price regulations, the team analyzed recent global trends in drug price regulation and its effects. Second, they used a modeling approach to simulate the effects of alternative approaches to price regulation on consumer costs, life expectancy, and overall well-being. The results showed that:

- Globally, the regulation of pharmaceutical prices has increased in recent years.
- In most cases, regulation reduces pharmaceutical revenues.
- Regulatory approaches that reduce pharmaceutical revenues may generate modest consumer savings in the best cases, but risk much larger costs as decreased innovation leads to reductions in life expectancy.
- Approaches that reduce consumer costs (by cutting copayments) without affecting pharmaceutical revenues are more likely to benefit current and future generations of consumers.

## **Definition of key items**

### World Health Organization

WHO is a specialized agency of the United Nations that is concerned with international public health. It was established on 7 April 1948, headquartered in Geneva, Switzerland.

### Pharmaceutical drug (also referred to as medication and drug)

A drug used to diagnose, cure, treat, or prevent disease. Drug therapy (pharmacotherapy) is an important part of the medical field and relies on the science of pharmacology for continual advancement and on pharmacy for appropriate management.

## **Background information**

The primary and the subsequent gap arises partly from Americans' greater use of high-cost drugs and partly from higher drug prices in the United States relative to the European Union (EU). Pressure is building in U.S. policy circles for the federal government to take action to regulate the cost of drugs. In general, price controls reduced life expectancy over time. The price control scenario simulated the effect of a 20-percent reduction in manufacturer revenue while holding consumers' out-of-pocket prices constant.

An important first step in understanding the impact of drug price regulation is examining how regulation affects revenues. To date, there has been little systematic study of this relationship across the full range of developed countries. To remedy this gap, experts examined the regulatory environment from 1992 to 2004 and the impact of regulation on pharmaceutical revenues in 19 nations that are members of the Organisation for Economic Co-operation and Development. They also looked at the full array of regulatory mechanisms, ranging from direct price controls to policies for increasing the use of generics, and used a microsimulation model to estimate the effects of regulation on drug revenues. The main results showed that drug price regulation increased during the period in question; most regulations significantly reduced revenue, with direct price controls having the greatest effect; the effect of regulation in a previously unregulated market was greater than the effect of added regulation in a regulated market; and the revenue-reducing impact of regulation increased over time.

## **Major countries and organizations involved**

Special trend of increasing prices of drugs can be seen in unstable countries and regions of Africa and Asia. To a greater extent, all countries are interested in resolving this problem, in particular, the states of the World Health Organization. The U.S. consumers spend roughly twice as much on drugs as their European counterparts. This gap arises partly from Americans' greater use of high-cost drugs and partly from higher drug prices in the United States relative to the European Union (EU). The main international organizations involved in solving problems: World Health Organization, UNICEF, Direct Relief.

## **Relevant treaties and UN resolutions**

On May 22, 2009 the resolution "WHA62.12" of The World Health Organization on the issue "Primary health care, including health system strengthening" was adopted.

On May 18, 2000 the resolution on "Quality of care: patient safety" was adopted.

Nevertheless, the issue is still very important, because there are not many resolutions on the question of elaborating on means to regulate drug prices on international level.

## **Previous attempts to solve the issue**

In many countries, attempts to prevent the increase of the prices on drugs have been taken (directly and indirectly). Pressure on the high prices of drugs is building in U.S. policy (The Food and Drug Administration) circles for the federal government to take action to regulate the cost of drugs.

As the primary buyer of medicines in the UK, the Department of Health has an interest in ensuring medicines are available at reasonable prices. However it is also important that pharmaceutical companies, represented by the ABPI, are able to maintain sufficient levels of profit and competitiveness to enable them to invest in sustained research and development. The 2009 Pharmaceutical Price Regulation Scheme agreement outlines its primary objectives as to:

1. Deliver value for money
2. Encourage innovation
3. Promote access and uptake for new medicines
4. Provide stability, sustainability, and predictability

### **Possible solutions & potential problems**

Possible ways to solve the problem may include the following:

- Increasing Price Controls
- Modelling the effects of alternative drug price regulation policies
- Financing consumer price reductions without affecting manufacturer revenues appears robust and beneficial for both current and future generations across a range of assumptions. With given uncertainty about pharmaceutical markets, policymakers may find copay-reduction strategies less risky than price controls over the long term and more beneficial than the status quo.

Possible problems that may arise:

- Lack of qualified personnel
- Bureaucracy
- Restriction in terms of realization of the problem
- Regulatory approaches that reduce pharmaceutical revenues may generate modest consumer savings in the best cases, but risk much larger costs as decreased innovation leads to reductions in life expectancy
- Price controls would have small negative effects on life expectancy for current cohorts, but more significant negative effects in the future. For instance, the researchers' best estimates suggest that life expectancy would fall by the range of 0.2 years for Americans age 55–59 in the nearest years and by approximately 0.1 years for Europeans in the same cohort and year. By 2060, this effect would increase for both Americans and Europeans to approximately 0.7 years.