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PRICING ISSUES

No end to stand-off between drug makers, trade association

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In spite of a 9 December order by India's antitrust regulator asking the pharmaceutical trade lobby group to stop monopolistic practices that affect the supply of essential medicines, the stand-off between drug makers and the trade association continues to cripple the supply of life-saving medicines.

The trade lobby, led by All India Organisation of Chemists and Druggists (AIOCD), which controls about 700,000 chemists in India, is planning to boycott an additional 30-40 drug firms from supplying products to the retail market, after forcing at least a dozen drug makers, including **GlaxoSmithKline Pharmaceuticals Ltd**, **Cadila Healthcare Ltd**, **Lupin Ltd** and **Pfizer Ltd**, to raise the trade margin in the past six-seven months, according to the pharma industry.

In a letter in December, the Indian Pharmaceutical Alliance (IPA), a lobby group for drug makers, has alerted the Competition Commission of India (CCI) about the threat by the members of AIOCD. J.S. Shinde, president of AIOCD, confirmed that the companies will face a boycott if they are unwilling to increase the trade margin.

The medicine retailers lobby, which has been at loggerheads with drug makers after the implementation of the new drug price control regime in July, had refused to accept the reduction in margin on the price-controlled medicines. The drug makers say they can't afford to raise the margin.

Trade margin is the difference between the price at which companies sell the medicines to the wholesale distributors and the retail chemists and the maximum retail price that is fixed by the government for the patient. Typically, it is in the range of 8% and 16% (to wholesale and retail chemists, respectively) on essential drugs, and 10% and 20% on the drugs outside the essential medicines list.

Since the new drug price control order (DPCO) has almost halved the prices on essential drugs, it has led to a reduction in the upper limit of the trade margin from 16% to 13.5% on essential medicines, IPA secretary-general D.G. Shah said.

Following this, retailers and wholesalers boycotted several drug firms, including most of the top firms and stopped buying stock from them. Since the manufacturers had no other option but to release their inventory, they were forced to sell the drugs at a lower price.

"The drug makers are still making good profit even with the government-fixed prices as the new market-based pricing system allows enough margin," Shinde said in an interview on Friday. "The pharma companies, who were willing to provide a trade margin of 10% and 20% earlier, have taken...advantage to cut the margin now using the excuse of the price control order."

> New pricing has led to a cut in the upper limit of trade margin from 16% to 13.5% on essential drugs

Drug makers such as GSK Pharma, Pfizer and Cadila Healthcare (also known as Zydus Cadila) and several others in the second half of 2013 reached a settlement with the trade body.

IPA's Shah said these firms have raised their trade margin after they were boycotted by the trade in the second half of calendar year 2013. GSK and Cadila had also informed the stock exchanges that they have reached a settlement with the trade by raising the trade margin.

CCI, in December directed AIOCD and its affiliates to file an undertaking with it that they will not use anti-competitive tactics such as boycotting drug makers and blocking appointments of distributors to meet the demand for higher margins. The trade body has been given time till 9 February to respond to the CCI order.

"We don't see any signs of compliance from the trade to the CCI order," said IPA's Shah.

The government had earlier intervened in the issue. In a meeting in October, convened by D.S. Kalha, secretary in the department of pharmaceuticals, the AIOCD and the drug makers had agreed to calculate the loss (in the case of, price-controlled drugs) and gain on other medicines. This was to recoup the net loss, if any, suffered by the trade. In the meeting, the drug retailers and wholesalers had agreed to suspend their boycott of all companies immediately.

But in December, the drug industry lobby wrote to L. Rajasekhar Reddy, director general, CCI, that the trade's coercive action to extract higher margins was continuing, and the trade association had washed its hands saying it could not force its members to sell products that give them lower margins.

"We are meeting on Monday again to discuss pending issues with the industry and we expect a reasonable solution to emerge from this meeting, though a reduced trade margin, which is suicidal to many small and medium trade outlets as it will lead to compromise on quality services like temperature maintenance, safe storage of medicines, among others at chemist outlets, cannot be accepted," AIOCD's Shinde said.

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