

NOTE

Pricing Drugs

Bharat Jhunjunwala writes :

Minister for Chemicals Ram Vilas Paswan has suggested that the number of drugs covered under the Drug Pricing and Control Order (DPCO) may be increased from present 74 to 354. This is opposite to the direction being followed in the recent years. In 1979 about 80 percent of the drugs were covered under DPCO whereas only about 25 percent are covered presently. In 1995 the coverage of drugs under DPCO was reduced substantially. Drug companies were given a free hand to fix the price of many drugs. At that time there was a steep increase in the market price of many drugs. The Drug Policy of 2002 had again suggested that the coverage under DPCO be further reduced from 74 to about one-half that number. Now Paswan has suggested in the Draft National Drug Policy 2006 that coverage under DPCO may be increased substantially so that more drugs are available to the people at controlled (i.e. low) prices.

But various ministries are opposing Paswan's efforts, however. The Planning Commission has said that this may hurt the drug industry in the country. The industry may not be able to generate resources for making investments. Commerce Ministry has said that this may lead to low domestic production. People will be forced to buy expensive imported drugs in absence of domestic production. The Finance Ministry has said this measure is unnecessarily intrusive. The basic philosophy of economic reforms is to minimize state intervention. Ministry of Consumer Affairs has said that this will hit at the growth of the drug industry and prevent it from becoming global. The argument is that drug companies should be allowed to charge high prices at present so that they can make investments and that will lead to lower prices in the long run.

This opposition to Paswan's suggestion is based on the assumption that control of prices is detrimental to the growth of the drug industry. This is not borne out by facts. About 80 percent drugs were covered under DPCO in the seventies and eighties but that did not lead to stagnation of Indian drug industry. Indian companies found ways to produce cheaper drugs and India emerged as the global player in many drugs such as antibiotics in precisely that period. Like any other company, drug companies too seek to maximize their profits in the given macro environment. They will continue to invest and produce drugs under the expanded DPCO exactly as they had done in the seventies and eighties.

Furthermore, Paswan simultaneously proposes to increase the margins in the process of price fixation. The present policy is to allow 100% markup to the cost of production. Paswan proposes to make this 150%. Research intensive companies will be allowed a 200% markup. New drugs invented in the country will be exempted from DPCO for five years. Thus the drug companies will have adequate liquidity to make investments in research and production facilities. Companies that make huge profits from marketing and brand-making alone will be affected more. ✍ ✍

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