

Ramsey Pricing: A Tool to Overcome Economic Disparities in Markets

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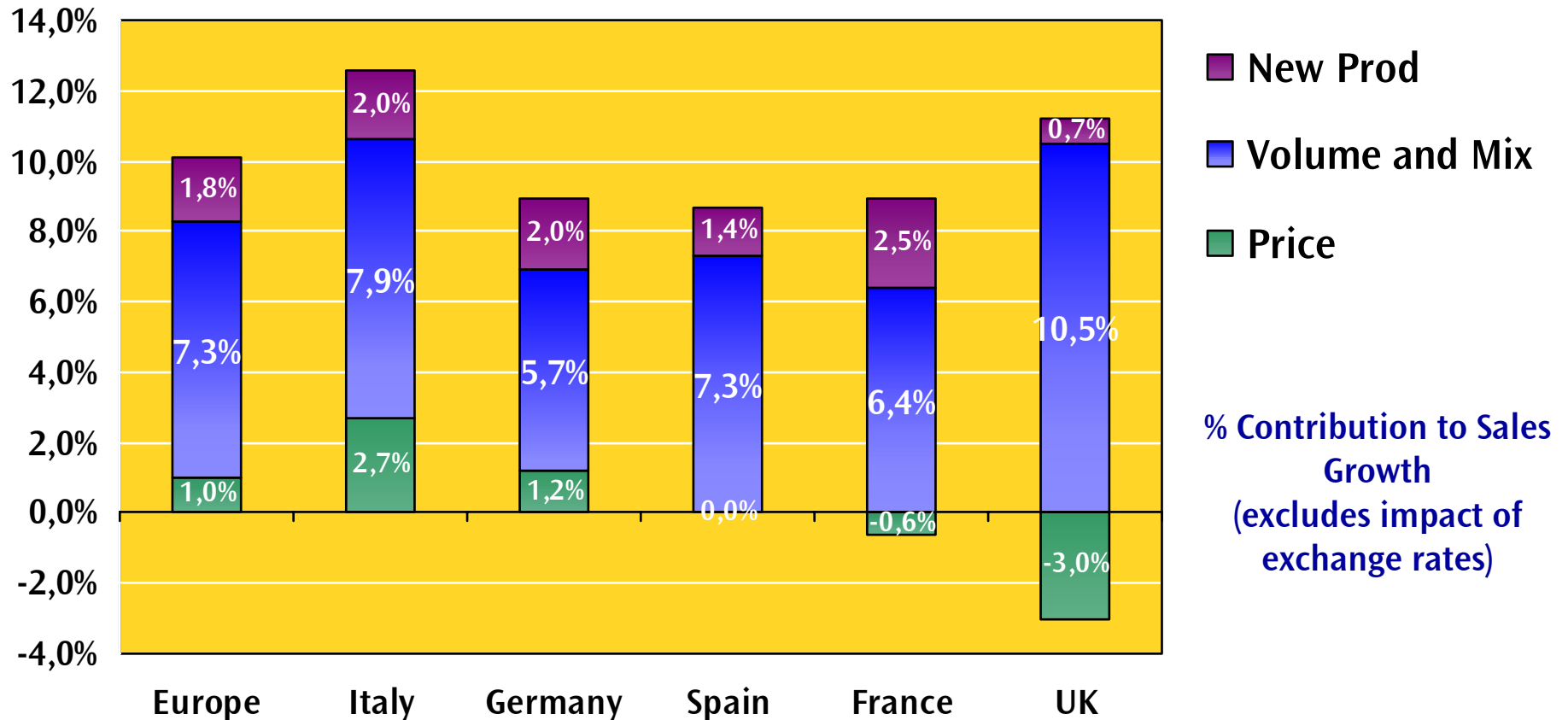
Europe - The Common Pharmaceutical Market

- Directives 65/65, 75/319 on Drug Approval / Safety
- European Patent Office since 1973
- GMP, GLP, GCP – Guidelines
- Common EU Trade Mark – Regulation 90/40
- Labelling, Packaging, Advertising - Directives 92/26-28
- EU Medicines Evaluation Agency – Regulation 93/2309
- European Monetary Union ⇒ „Eurozone“ since 1999

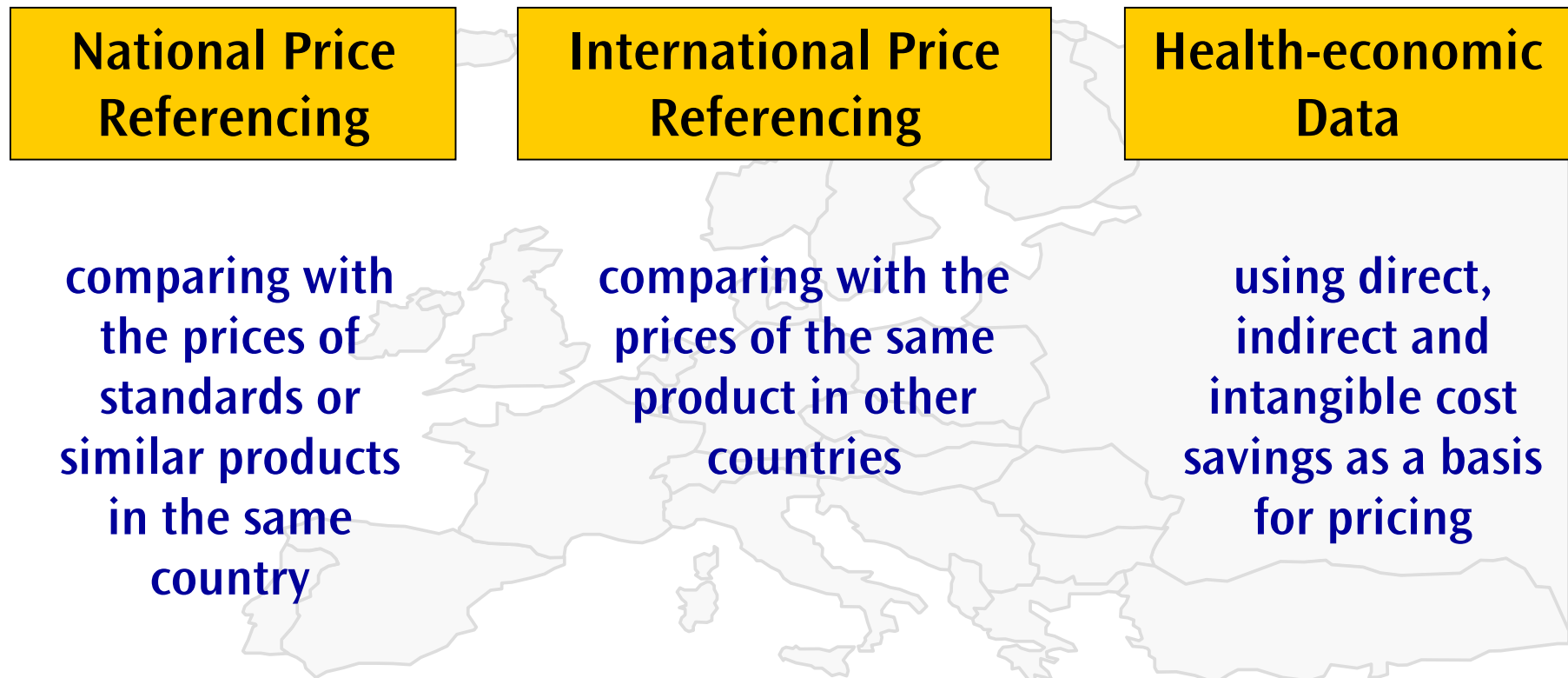
Reimbursement is a Local Issue

- Reimbursement is a local issue, and local authorities seek to understand the benefits of a new product for their patients and the cost to their budget.
- A key principle in health economics is that cost-effectiveness is based on the country-specific health care setting: local treatments patterns and local financing system determine the clinical and economic outcomes.

Dynamic of Growth in Europe's Main Pharma Markets

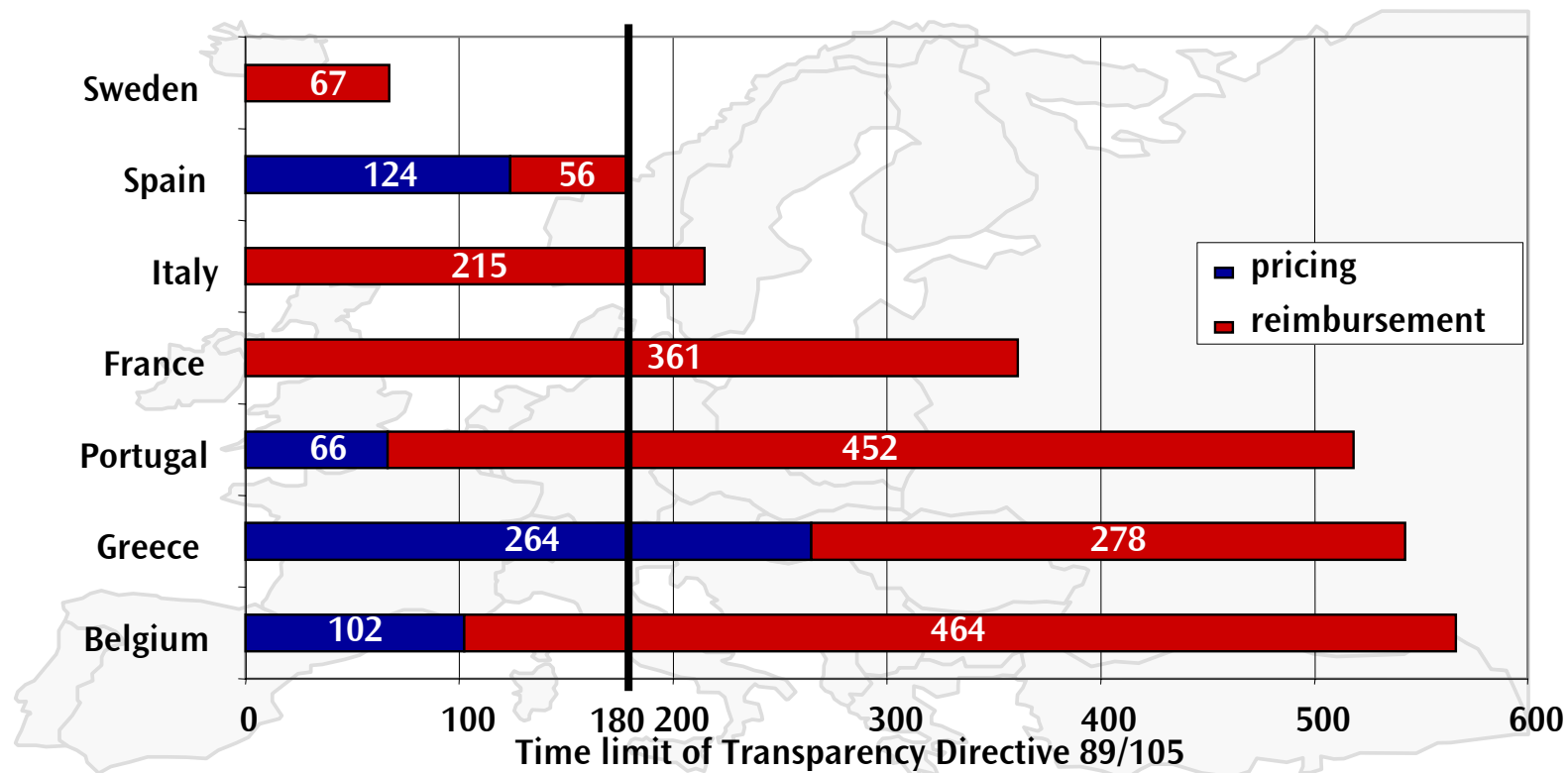


Most Frequently Used Approaches to Control Prices



Time for Pricing and Reimbursement

Average Time Intervals Between Application and Award of Pricing and Reimbursement (Days)



There is no separate pricing procedure in Sweden, Italy or France

Source: Europe Economics, 2000

Pharmaceuticals - Time to Market

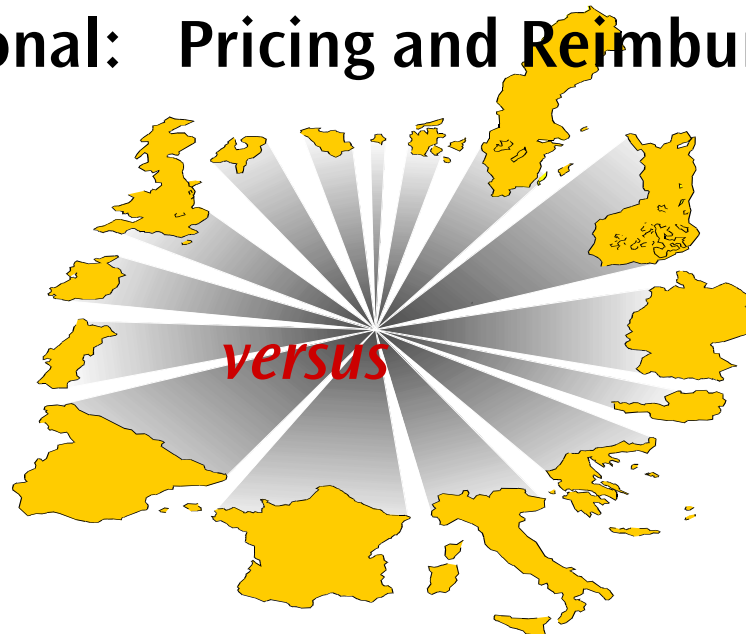
	Marketing Approval Process	Reimbursement, Listing Process
Basis	Science	Politics/ economics
Transparency	Good	Poor/ bad
Speed	Accelerating	Slowing down
Inter-state differences	Lessening	No change
Opportunity for pre-submission dialogue	Good	Rare
Guidelines documents	Good	Bad
Appeal Mechanism	Well defined	Poor
Attitude to NCEs	Advance in therapeutics	Potential budget problem
Future prospects	Harmonisation	Fragmentation

.....for many new prescription drugs reimbursement is now the rate limiting step to market

Europe - The Uncommon Pharmaceutical Market

Conflicting Principles

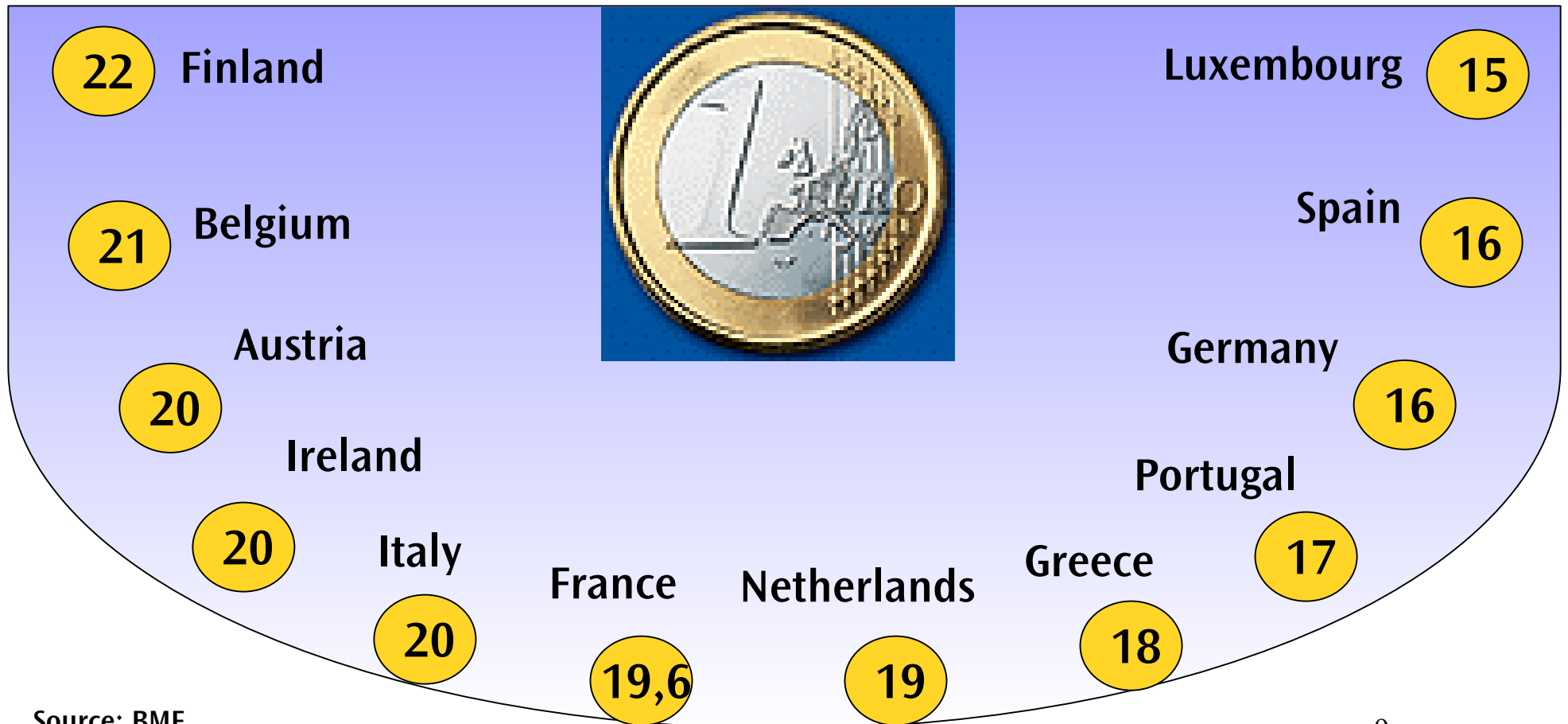
National: Pricing and Reimbursement



European: Free Flow of Goods

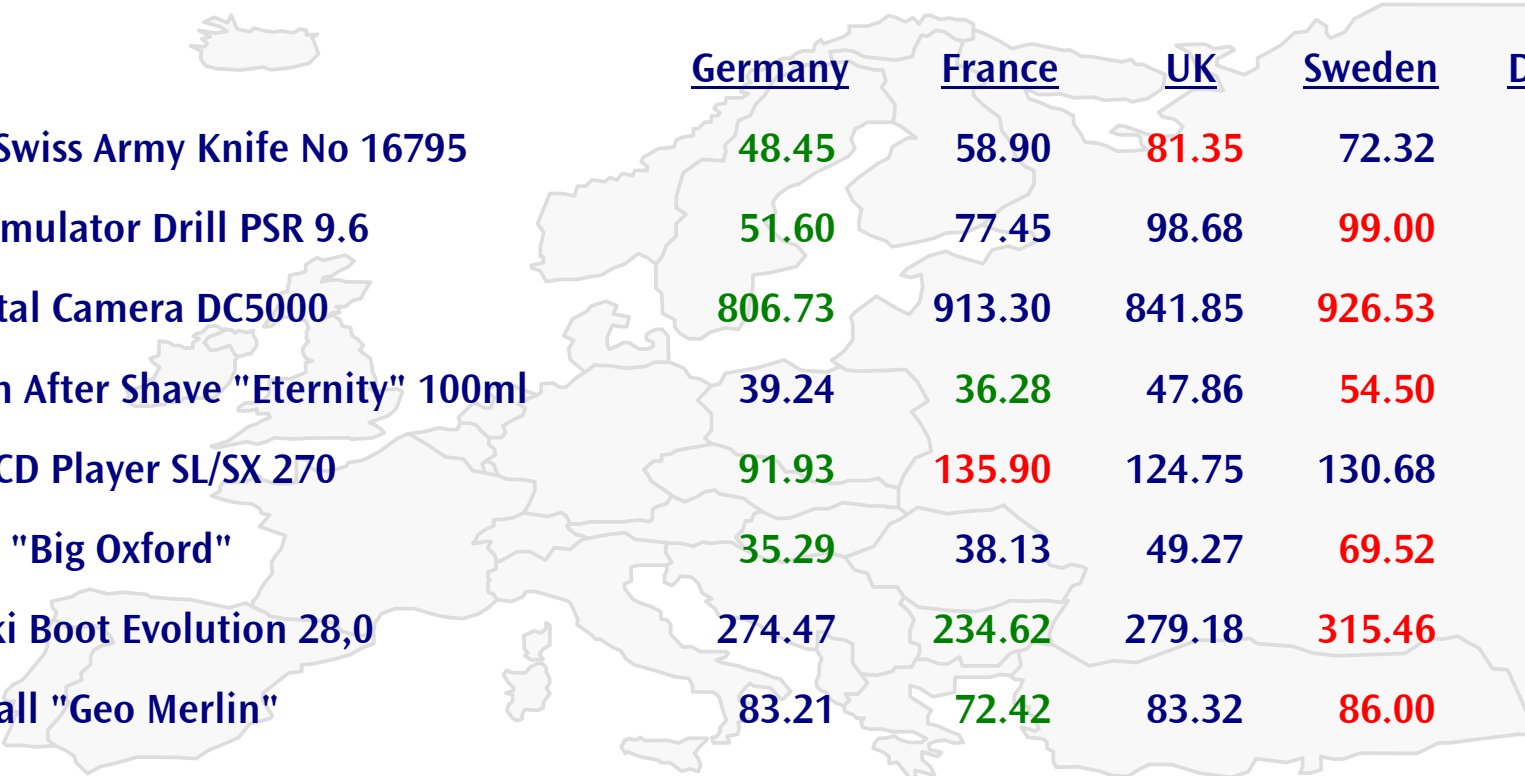
One Market – Nine VAT Rates

General VAT Rates in the “Eurozone”, 2001 in %



Price Variations in the EU

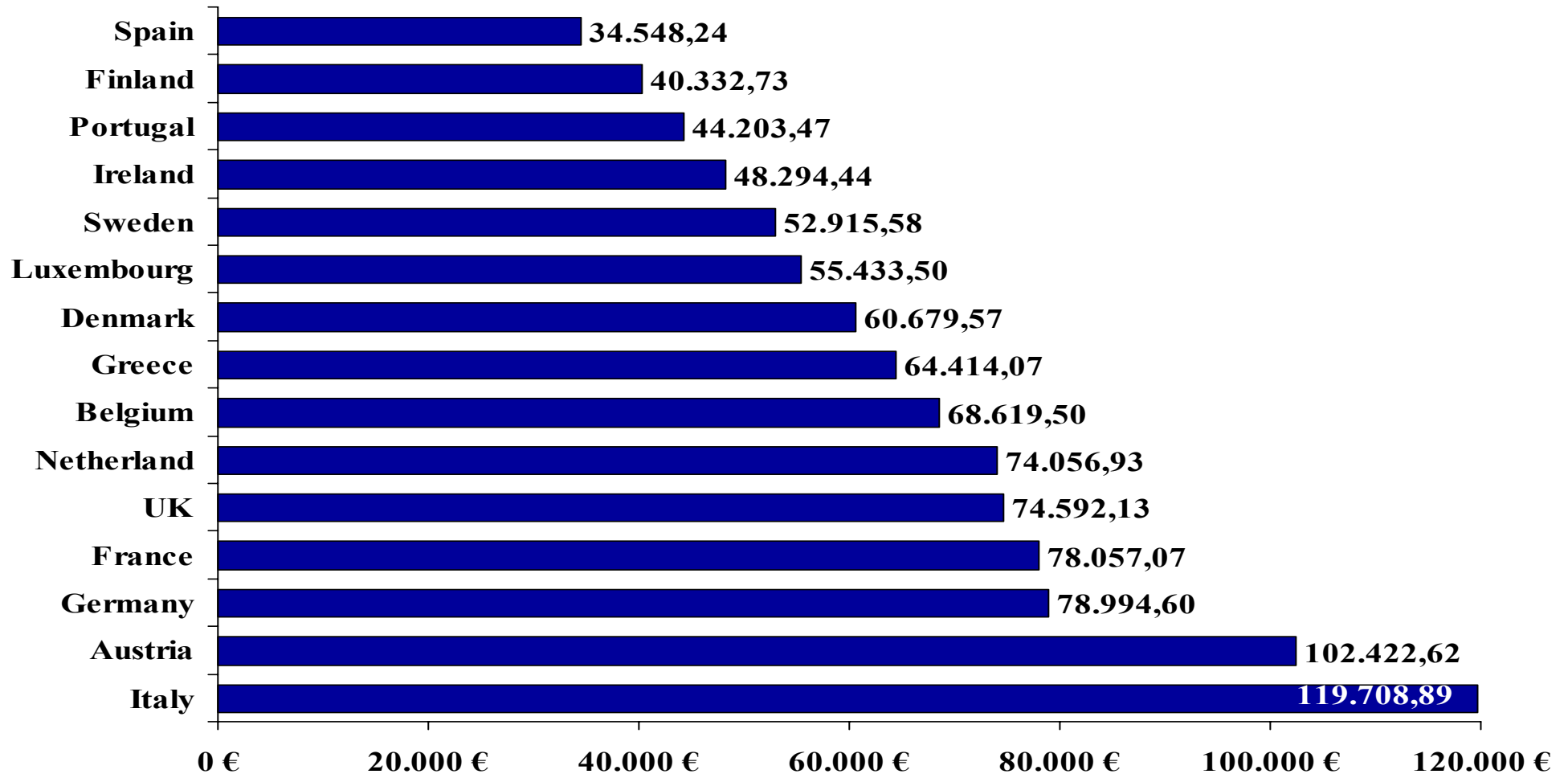
Selected Branded Goods



	<u>Germany</u>	<u>France</u>	<u>UK</u>	<u>Sweden</u>	<u>Divergence</u>
Victorinox Swiss Army Knife No 16795	48.45	58.90	81.35	72.32	68 %
Bosch Accumulator Drill PSR 9.6	51.60	77.45	98.68	99.00	92 %
Kodak Digital Camera DC5000	806.73	913.30	841.85	926.53	15 %
Calvin Klein After Shave "Eternity" 100ml	39.24	36.28	47.86	54.50	50 %
Panasonic CD Player SL/SX 270	91.93	135.90	124.75	130.68	48 %
GAP T-Shirt "Big Oxford"	35.29	38.13	49.27	69.52	97 %
Salomon Ski Boot Evolution 28,0	274.47	234.62	279.18	315.46	35 %
Nike Football "Geo Merlin"	83.21	72.42	83.32	86.00	19 %

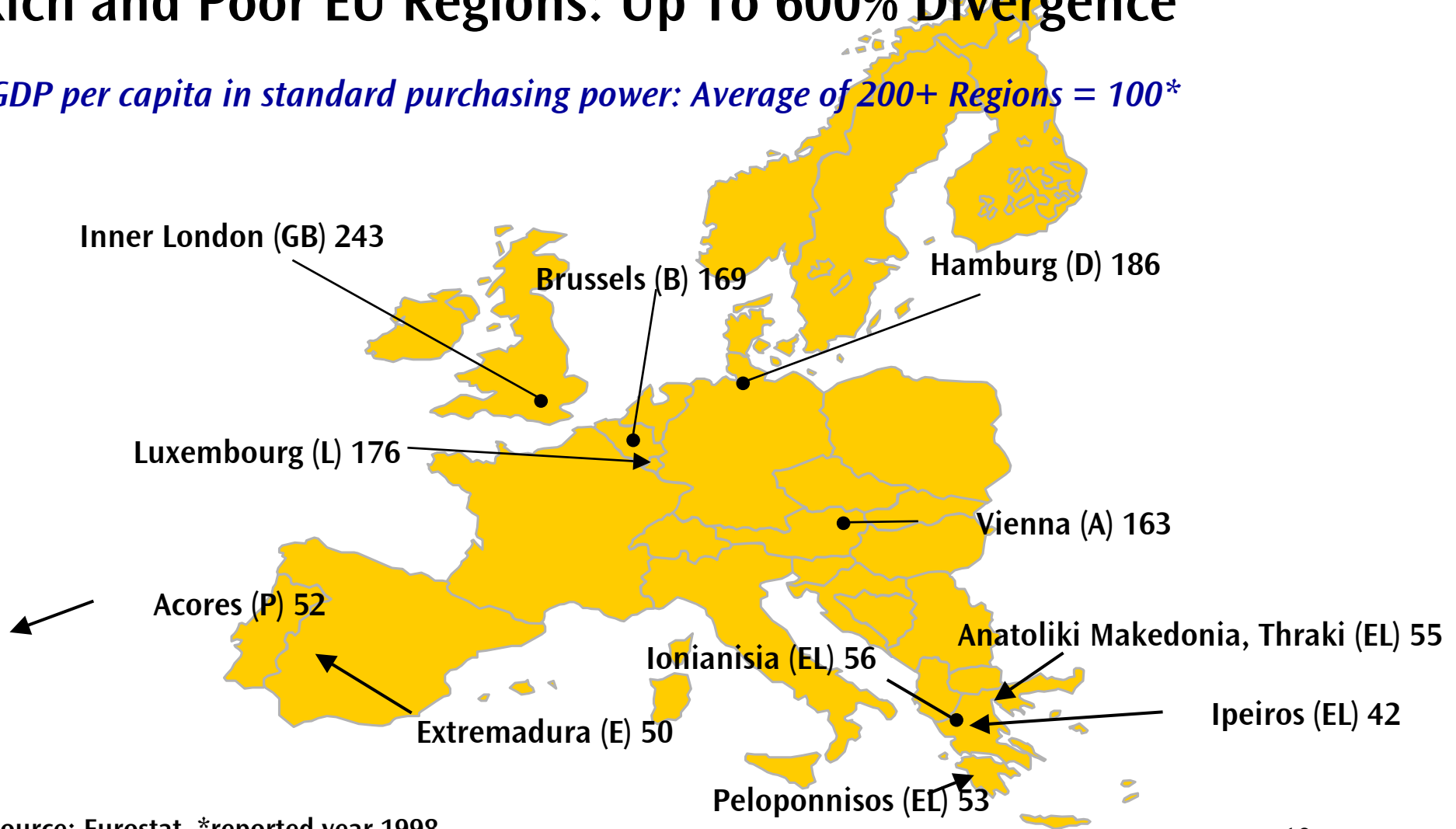
Public Prices in €

Annual Salary of National EP Members in 1999



Rich and Poor EU Regions: Up To 600% Divergence

*GDP per capita in standard purchasing power: Average of 200+ Regions = 100**

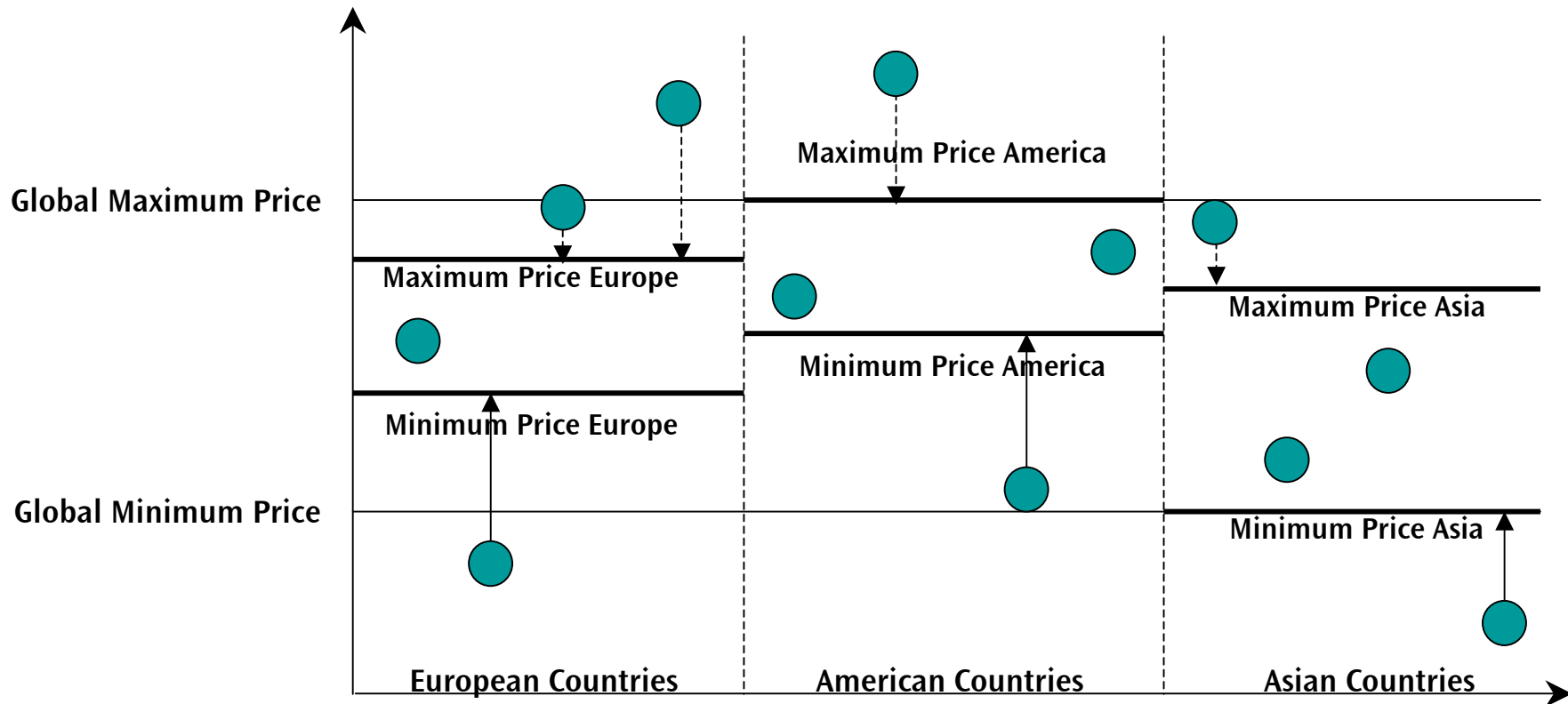


Source: Eurostat, *reported year 1998

Segmented Market and Ramsey Pricing

- Where there is a need to recover fixed costs from sales in several markets, all participants can be made better off by price discrimination due to price elasticities different between the various markets
 - The mark up over marginal cost in each market should be inversely proportional to the price sensitivity of demand, i.e. willingness to pay
 - Increased access to the product spreads the burden of fixed costs
- Approach adopted by utilities, e.g. airlines, railways

The Global Price Corridor Concept



Optimal Solution:

- 1.) Differentiate prices as much as possible
- 2.) Harmonize prices as much as necessary
- 3.) Define target price for all countries