Drug companies profiteering at the expense of the National Health Service

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Within the last month three drug companies in Britain have dramatically increased the prices of medicines they have recently acquired. Pharmaceutical profits are skyrocketing at the expense of a cash-strapped National Health Service (NHS).

• Alliance took over 16 product licences from Novartis. It now charges eight times the original price for Syntometrine, a drug given to almost every women giving birth to prevent haemorrhage. The price rose from 18p a dose to £1.40.

• Castlemead Healthcare took over Vallergen (used against allergies), stemetil (an anti-nausea drug), and Aerocrom (an asthma inhaler) from Rh'ne-Poulenc Rorer. It then doubled their prices.

• ICN Pharmaceuticals bought the product licences for Mestinon (used to treat the autoimmune disease myasthenia), Efudix (a cancer drug), Alcobon (for fungal infections) and the tranquilliser Librium. Alcobon doubled in price from £91.07 to £178.44 and the others quadrupled.

Such actions have added millions to the NHS medicine bill, which already accounts for 13 percent of the total cost of the NHS.

NHS spending on drugs has risen by more than 100 percent in real terms since 1980 compared with an increase in total NHS spending of less than 50 percent. This is due in part to the fact that more drugs are being prescribed. The average number of prescriptions per head has risen by 65 percent since 1979. But the price of drugs has risen by an average of 7 percent a year since the early 1980s and even more steeply in the 1990s.

One would be forgiven for thinking that the NHS, as the major purchaser of drugs (it takes 45 percent of the national industry's output), would be in a favourable position to dictate prices to the drugs corporations. This is not the case.

Since 1958 the Government's Department of Health has had an agreement with the pharmaceutical industry, the Pharmaceutical Price Regulation Scheme (PPRS). The PPRS allows drug companies to set prices that guarantee an agreed rate of return on capital employed in the UK. Since 1993, the rate of return has been set at about 20 percent, with a permitted 25 percent variation. This guarantees massive profits.

Since the drug companies are multinationals, they are usually able prepare the active ingredients in the UK, export them for manufacture abroad by their foreign affiliates and then report profits below the limits set by the Government.

Not content with a 20 percent rate of return Novartis, formed from the merger between Sandoz and Ciba, sold the product licences of 16 drugs to a company owned by a former finance director. It explained that all 16 drugs were 'uneconomic' to manufacture and sell because the prices had hardly risen in years. Under the PPRS, Novartis was free to raise the price if it reduced the cost of another drug supplied to the NHS.

Novartis still manufactures the drugs, but instead of supplying them direct to the NHS, sells them to Alliance Pharmaceuticals. So the money it makes from these transactions is not part of the profits it has to declare to the NHS.

The ostensible purpose of the PPRS was to provide the drug companies with an incentive to invest in research and development. But the industry's much vaunted high tech image is misleading. It spends twice as much on marketing as it does on R & D.

Most of the R & D is routine development, with very limited trials to satisfy the regulatory authorities that typically exclude their impact on the immunological, neurological, genetic and reproductive systems. Most

of the industry's products are imitative variants on existing products that change the formulation so as to allow another patent.

York University's Centre for Health Economics cited one example: a new anti-depressant was patented and sold at 40 times the price of existing alternatives. It was so heavily promoted that doctors prescribed it.

Even in the industry's glory days in 1972, of the 1,500 new products patented in the UK; 45 were classified as 'genuinely new', 150 as 'major innovations' and all the rest as 'me too' variants that were molecularly distinct but therapeutically identical to existing medicines.

The patenting system was crucial in permitting the growth of the pharmaceutical corporations. From the early 1940s to the mid-1970s, a series of biochemical advances produced antibiotics, tranquillisers, respiratory drugs, anti-ulcerants, etc., creating new therapeutic treatments, transforming the health and prolonging the lives of millions of workers and their families.

At the same time, the patents effectively gave the companies the right to block new entrants to the industry and charge a higher price. Patented drugs typically sell for much higher prices than their generic equivalent. In the UK, for example, the price differential is about 4:1. According to Stock Market analysts, BZW, 'gross margins on a successful patented drug are frequently 90 percent'.

The exorbitant stock market returns of the drug companies are underpinned by an internationally recognised system of intellectual property rights, a favourable domestic regulatory regime and mass health provision, be it funded publicly or through insurance. This has contributed towards driving up healthcare costs all over the world and making it increasingly unaffordable for many working people.

The number of pharmaceutical mega-mergers and their attempts to bypass the constraints of the PPRS are a response to the increasing difficulty in producing the next blockbuster drug, the expiry of patents and the crisis in healthcare provisions.

Insurance companies in the USA and publicly funded healthcare systems in countries such as Germany and the Netherlands have drawn up lists of drugs they will not pay for. Australia has refused to pay for drugs that do not cut costs elsewhere in the health and social services system. In Britain, under the new NHS White Paper, doctors are to be given a total purchasing budget to cover the cost of prescription drugs, acute hospital and community care, etc., in order to cap the cost of the NHS.

In other words, the choice of healthcare treatment is being driven by cost, not clinical judgement, to suit the needs of the giant corporations, and not patients.

See Also:
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