BIZCOMMUNITY

Health Minister's low, single exit-price increase disappoints industry

By Linda Ensor

28 Dec 2017

Health Minister Aaron Motsoaledi has gazetted an increase in the single exit price for medicines and scheduled substances, which the pharmaceutical industry says is "pitifully low" and will have a devastating impact on small manufacturers, in particular.

123rf.com

The Pharmaceutical Task Group, which represents all the formalised trade associations and covers about 95% of the market, plans to take up the 1.26% increase announced last week with the minister in a bid for him to use his discretion to decide on an increase that is higher than that generated by the formula used.

Aspen Pharmaceutical senior executive Stavros Nicolaou said that while the industry agreed that the increase was based on the formula, the minister had discretion to make decisions outside of it. In the long term, the industry wants to have the formula restructured so it adequately reflected market forces.

"In the past, the formula has only been used as a guide. The minister does have the discretion to operate outside of it and has applied this previously.

"Although the percentage increase was not totally unexpected, it does not accurately reflect real market conditions insofar as some of the inflationary drivers in the industry are concerned, such as input costs and salaries and wages," Nicolaou said.

British American Tobacco SA is buying Twisp, if approved by competition authorities, with the deal set to be finalised by the middle of 2018

Medical scheme increases, for example, had been much higher than the 1.26% - between 7% and 10.5%.

The industry wrote to the independent pricing committee, which advises the minister, and highlighted these concerns in November appealing for the use of ministerial discretion and the use of the formula simply as a yardstick.

Nicolaou said if no adjustment was made to the 1.26%, smaller manufacturers might find it economically unviable to continue producing certain products.

Konji Sebati the CEO of the Innovative Pharmaceutical Association of SA, which represents multi-national pharmaceutical manufacturers, said the association was expecting an increase of at least 4%. She was baffled as to how the Health Department had arrived at the "very low" 1.26% figure as there was a set formula, nothing that, "From our observation, none of these factors [in the formula] were considered".

However, the department's deputy director-general for regulation and compliance Anban Pillay insisted that the formula - which the pharmaceutical industry itself had agreed on - had been rigorously applied and no objections had been raised during discussions with industry on the 1.26% increase.

Pillay said the increase adequately took into account the elements of the formula, which included various factors impacting on medicine prices such as the exchange rate and inflation.

He noted that the proposal to increase the single exit price was published for industry comment. The industry itself had done its own calculation and had come to roughly the same figure based on the formula.

The industry had proposed that possible future deterioration in the rand should be factored in by making a higher increase, but Pillay said it was not possible to determine a price increase on the basis of speculation. Future rand-exchange trends were not something included in the formula.

It was agreed, however, that an additional price increase would be made later in the year, should the rand deteriorate significantly, to compensate for short-term effects, as had happened in the past.

Source: *Business Day*