Tiered Pricing
Background and Status of Policy Debate

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Differential Pricing Based on Value
Progressing the Discussion from Theory to Practice
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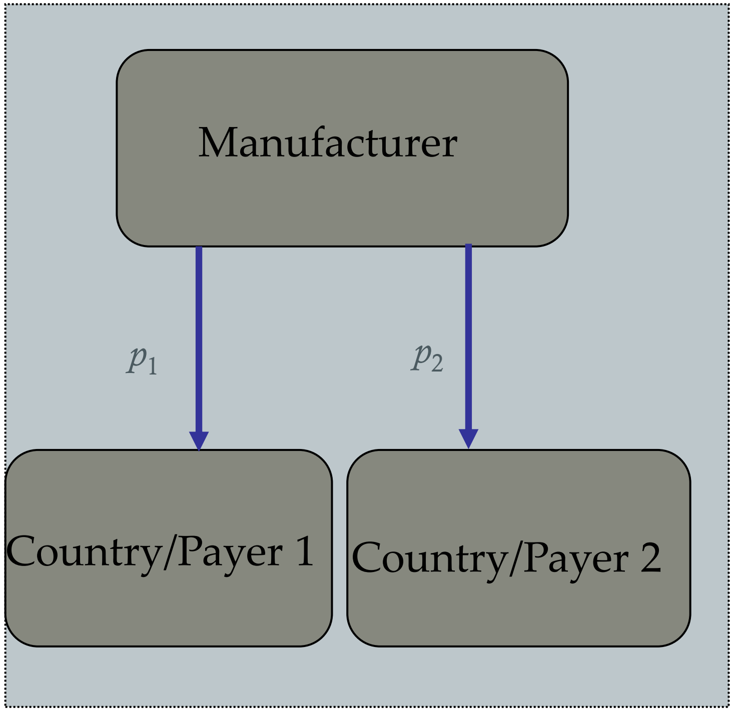
Price Differentiation - Background

- Single Price is <u>Inequitable</u> and <u>Inefficient</u>
- Individual firm led differential pricing has existed since the very early days of the pharmaceutical/life sciences industry. Addresses inefficiency of a single price and maximizes firm revenue
- Since ~2002 enhanced focus by global advocacy groups on ways to address "inequitable" pricing issues
- Tiered pricing emerges as a potential solution to address both inefficiency and inequity
- HIV/AIDS, PDPs, GAVI, Global Fund's GPRM = Intense policy debates

Single-part tiered pricing is just one of many ways to price for overall welfare enhancement



- If we limit ourselves to single-part pricing only, social welfare is maximized with Ramsey pricing where price in each market is based on elasticity of demand in that market
- However, two-part pricing (e.g. volume dependent, outcome dependent) creates more degrees of freedom and creates other interesting ways to price
- Key Q: Who determines the price levels?
  - Firm
  - Payer
  - A global coordination mechanism
  - Some loose combination of the above

To progress it is important to understand crux of the debate

1) Argument: Competition is a better tool for affordable pricing as compared to tiered pricing

- What we know so far : Yes, for some product types only

2) Differential pricing requires separable markets. Market separability falls apart very quickly due to informational arbitrage. Low price in one country spreads across boundaries due to the negotiating power of large buyers

- What we know so far : Yes, very tricky issue

3) Setting a price for a country based on Avg. GNI/capita does not resolve wide income distributions in many LMICs. Creates political pressure to bring down prices

- Yes, important issue but needs to be addressed via UHC reimbursement systems

To progress it is important to understand crux of the debate (2)

4) Under Ramsay style pricing, firm revenues only increase if price decrease leads to more patients on treatment. Other health system constraints prevent that

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5) From a firm's vantage point, the operational factors that prevent welfare enhancing tiered pricing are not adequately addressed by earlier global initiatives

- Volume of purchase
- Ability-to-Pay & Security of financing
- Other transaction costs

Important issue to address

To progress it is important to understand crux of the debate (3)

5) Tiered pricing can lead to large scale product diversion

- What we know so far : No, relatively small diversion volumes. Track and trace and other initiatives starting in multiple countries will reduce risks even further

6) Multi-part price contracts (volume or outcome based) not feasible in LMICs

- What we know so far : Information and verification intensive, but worth trying

7) Architecture and basis for price setting. Firm vs global coordination vs country payer

- Most important issue to address to achieve policy convergence

Today's Roundtable

Two interlinked proposals that may help resolve the main policy and operational barriers