PRICE CONTROL ON DRUGS

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—EUGENE BLACK

PRICE CONTROL ON DRUGS

I

Prof. P. R. Gaitonde

The Government is introducing economic measures with the speed of lightning, more with a view to non-economic considerations, though ostensibly they are designed to bring about an improvement in the living conditions of the people. The latest casualty in this avalanche of Governmental measures is the Drug industry, the prices of drugs being sought to be controlled by the Drugs (Prices Control) Order of May 16, 1970. It is proposed to discuss in this paper the economic implications of this order and at the same time analyse the question, whether there were any compelling economic reasons that necessitated the promulgation of such an order.

At the outset, it may be admitted that controls may be desirable, if there is an overall shortage of a commodity that has to be equitably distributed amongst the consumers at a reasonable price. Controls may also have to be enforced during a period of emergency or war. But in the absence of these conditions, the implementation of price controls may only prevent the economic utilisation of resources, eliminate healthy competition amongst producers, hamper the growth of the industry and defeat the very objectives, for which they are instituted. In the absence of an emergency or war, competition is the most promising means to achieve and secure prosperity. It enables the consumer to secure the gains

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of economic progress, that results from higher productivity and more efficient utilisation of resources. Once, controls are imposed, they tend to perpetuate themselves, create artificial shortages and black-market and foster a sense of vested interest in those that are charged with the responsibility of implementing these controls.

It is in the context of this brief commentary on price controls during normal times, that the results of the present Drugs (Prices Control) Order of 1970, have to be assessed.

Though public memory is said to be proverbially short, yet no one is likely to vouchsafe the fact that there was any outcry regarding the shortage of drugs prior to May 1970, nor was there any persistent public resentment against the prices of drugs prevailing at that time, that would have justified governmental intervention. This does not mean that drug prices were not high, but these were considered an integral part of the rise in the general level of prices. As a matter of fact, economists and leaders of public opinion consistently deplored the helplessness of the Government to prevent the general price level from soaring upwards. Government, however, soothed the people by telling them that a rising price level was a concomitant of economic development and had to be put up with in the interest of economic progress. It is, therefore, difficult to understand the sudden solicitude of the Government for the health of the people, when it decided to impose price control on drugs only, especially when prices of all other commodities continued to rocket skywards.

Food, shelter and clothing are the basic essentials of a healthy life and people who get them in the right quantity and of the right quality at reasonable prices, do not either need drugs or require them on rare occasions. A Government that is able to provide the basic necessities of life to all its citizens, need hardly be concerned, if the prices of drugs, which they may buy occasionally, show an upward tendency. As a matter of fact, the yearly *per capita* expenditure on drugs in our country is Rs. 4|- and price control of the rigid variety on drugs that is now imposed is likely to yield a consumer's surplus or savings of hardly 50 paise. The Government, instead of making available this phyrric gain to the consumers of drugs, should have directed its energies to the fulfilment of its socialist objective of providing the basic necessities of life at reasonable price. Probably, the Government feels, that having: failed in this effort, it should enable people to save at least 50 paise per year on drugs, when they suffer from diseases, for lack of proper nutrition!

It is interesting to note that while the index number of wholesale prices of selected commodities with the base year 1952-53 being equal to 100 was 101.53 in 1956-57, that for drugs and pharmaceuticals with the same base year was 88.7, in 1956-57. These indices rose respectively to 211.6 and 136.9 in 1968-69. The rise in the wholesale prices of selected commodities was, therefore, much higher by 111.6 per cent as against the rise in the prices of drugs which was 36.9 per cent over the base year.

,Another fact, which is equally revealing is that as against the prices of drugs prevailing in 1956, those prevailing in 1963 for the same drugs were much lower. For example, the price of Terramycin soluble tablets for a pack of 25 tablets had declined by 47 per cent in 1963 over the 1956 price level, that of Deltacortril 5 m.g. for a pack of 100 tablets had declined by 87 per cent, whereas, the reduction in the price of Diabinese tablets for a pack of 100 tablets was of the order of 12 per cent. After 1963, however, there was no further reduction in the prices of drugs.

In 1963, in the wake of Chinese aggression, **Gov**ernment being apprehensive that drug prices might rise, imposed the first Drug Price Control Order, prohibiting the manufacturers from raising the prices of drugs without its permission. Very few price increases were permitted by the Government between the period 1963-1966, in spite of the fact, that the cost of raw materials, packing and other items like taxes had increased substantially. When the emergency ended, the Government issued an Order under the Essential Commodities Act, laying down that no new drug or formulation was to be marketed, without the prior approval of the Government as to its price. This naturally arrested the growth of the industry and all representations from the manufacturers to allow the industry to function in a free atmosphere did not meet with any positive response from the authorities. In August 1966, the Government requested the Tariff Commission to review the cost structure of 18 basic drugs and their essential formulations, with a view to bringing down their prices. The Commission took two years to complete its study and submitted its report in August 1968. The Government neither took an immediate decision on the report, nor disclosed these recommendations to the industry. The effect of this dilly-dallying attitude on the consumer was really adverse.

It is an established fact, known to the pharmaceutical industry, that when a new drug is marketed for the first time, its price initially is high on account of the heavy cost of production and the large expenditure incurred on research and sales promotion. As production increases and the drug is marketed in larger quantities, costs decline and the price comes down, enabling the producer to pass on the economies of scale to the consumer. Such a reduction in the prices of drugs had already taken place between 1956 and 1963, as mentioned earlier. If the forces of competition had been allowed to operate, prices of many

a drug would have declined after 1963, but in view of the rigid price control and the Damocles' sword of a further price reduction, which the Government might enforce, it appears that the manufacturers kept the prices, at the level existing in 1963 and the benefits of economies of scale, reaped by the industry between 1963-69, failed to be transmitted to the consumer. This is an instance of how price control can work to the detriment of the consumer.

Though the Tariff Commission concluded in its report that, "by and large, the prices in the Indian market of formulations compare favourably with the prices of similar formulations in the domestic markets of other countries", the Government decided to promulgate on the 16th of May 1970 the Drugs (Prices Control) Order of 1970.

Dr. Triguna Sen, Minister for Petroleum and Chemicals, outlining the scheme of price control. pointed out that its objectives were (a) to bring down the prices of drugs, (b) to put a curb on the profits of the manufacturers, (c) to fix the prices of drugs on the basis of a formula that could be applied uniformly to all firms and all products and (d) to provide sufficient incentives to the industry to continue its growth from the basic stage, develop research facilities and to provide more employment.

In order to achieve these objectives, the Government, under the Order, fixed the selling prices of 17 basic bulk drugs and in respect of others, the manufacturers were to inform the Government about the existing maximum selling prices, an increase in which could only be permitted after Government approval was obtained. The Order laid down a formula for calculating the retail price of all formulations. The formula was:—

$$RP = (MC + Cc + Pc) \times \left(1 + \frac{Mu}{100}\right) + Ed,$$

where RP = retail price, Mc = material cost, Cc = Conversion cost, Pc = Packing charges, Mu = Making-up, Ed = excise duty. Normally a mark-up of 75 per cent was to be allowed, and in the case 9f those drugs involving appreciable product development and research, a mark-up of 100 to 150 per cent was permissible. According to the Order, the manufacturers' price was to be calculated **by** deducting 20 per cent from the retail price in the case of ethical drugs, i.e., drugs sold only under a doctor's prescription, and 15 per cent in the case of other drugs. The difference between the retail price and manufacturers' price was to be considered as the trade commission to be divided between the retailer and all other intermediaries in the proportion of 12:8 for ethical drugs and 10:5 in the case of other drugs.

According to an alternative scheme of pricing provided in the order, the gross profit before tax was not to exceed 15 per cent of the sales turnover of all formulations. The pricing of a product according to this scheme had to receive the prior approval of the Government.

No one would deny that the objectives of the Order, as outlined by the Minister, are indeed laudable. The moot question is of their achievement. It is difficult to understand, how the attainment of the goal of fixing the prices on the basis of a formula "which could be applied uniformly to all firms and all products" could be reconciled with the objective of providing "sufficient incentives to the industry to continue its growth from the basic stage, develop research facilities and expand in such a manner to provide diversification of entrepreneurship." Growth, research and development assume the plough-back of sizeable profits from the current activity in the industry. In the case of the drug industry, the development of a new product is a time-consuming process, involving **a** period of three to four years, during which huge funds have to be spent on research, analy-

sis and clinical tests. **A** mark-up of 10 or 15 per cent pre-tax profit on turnover, which in reality means a 5.25 per cent after-tax profit, contemplated in the order, cannot be expected to provide the necessary incentive for research nor the required resources for development. Under the new dispensation, the drug industry is, therefore, likely to slide down in its achievements and its growth and expansion will only remain a distant dream. This submission is supported by statistical data. The number of new products introduced by the pharmaceutical industry in 1963-64 was 69; in the subsequent years, their number was 56 and 91. After the new products were brought within the perview of the price control order in 1966, the number of new products introduced in 1966-67 was just 22. The Order of 1970 is likely to cause a further setback to the growth and development of this industry and this would, in turn, have adverse effects on the creation of job opportunities. Today, the industry provides direct employment to over 60,000 people in the organised sector, 10 per cent of whom are technically trained. In addition, the industry provides indirect employment to over 1,50,000 people in the distribution trade, besides sustaining and encouraging the growth of ancillary industries. ,All these gains are likely to slip out, on account of the straightjacket into which the industry has now been put by the recent Government fiat.

The Government, in its anxiety to control high drug prices, has assumed that high drug prices are the consequence of the profiteering motive of the manufacturers. The Government has, however, conveniently assumed away the fact that high prices can also be due to the high cost of raw materials used in the manufacture of drugs and supplied to the industry by Government-owned agencies like the Indian Drugs and Pharmaceutical Ltd. (IDPL) and the State Trading Corporation (STC). The following table gives the prices of some of the basic materials in the international market and those quoted by Government factories in the Public Sector:

Item	*Rs. per kg.* *Imported*	*Indian*	*Percentage Increase*
Phenacetin	19	44.49	132
Amidopyrine	56	119	113
Tetracycline HCL	283	1000	353
Diethylamine	6.76	21	210
Phcnobarbitone	48	156	325

It is natural for the IDPL to sell basic raw materials at high prices, because no accurate estimates are made of their cost of production and because capacities of IDPL lie unutilised, its overhead costs are high and even the capital costs of its projects have increased by more than 60 per cent as compared to the original estimates thus adversely affecting the economies of these projects.

In addition to the high costs of raw materials, there has been an increase in excise duties and other taxes and wages of the employees over the last few years. Cost of packing materials has also gone up, perceptibly, by almost 15 to 50 per cent between 1969 and 1970. Under the circumstances, it is difficult to expect a reduction in the prices of the formulations, unless all these basic costs are brought down. The IDPL can help a long way in this direction.

Similarly, allowances have to be made for the unsold stocks of drugs, which cannot be sold after the expiry date, as well as for the stocks of chemical raw materials, specially vitamins, anti-biotics, which are liable to get deteriorated by storage. In devicing the new formula, no heed has been paid to these risks. As a result, the industry will find its profitability greatly reduced, which may even result in the curtailment of export, losses on which have been subsidised from profits on domestic operations. The industry has steadily improved its export performance from a

meagre Rs. 89 lakhs in 1964 to Rs. 7.16 crores in 1969-70. This highly desirable activity is likely to be adversely affected.

Even in the implementation of the Order, during the last few weeks, the Government has not acquitted itself creditably. Amendments to the original order have followed one after the other in quick succession. After finding that the prices of 50 per cent of the drugs were reduced consequent upon the implementation of the Order, and prices of 35 per cent of the drugs remained the same, while those of 15 per cent of the drugs went up by the application of the new formula, the Government, in desperation, asked the producers to charge the same prices for the last category of products, which prevailed prior to 16th May, 1970. It is thus clear that the new Order has been promulgated, without a proper study of the problem. In the bargain, the Government has only helped to spread confusion in the ranks of the industry, chemists and the general public.

The drug industry in our country has grown rapidly since 1952 and has vast potentialities of development. In the interest of the health of the people to which it caters, the industry cannot be allowed to suffer and stagnate by the pinpricks which a rigid price control Order administers. The threat of "takeover" of the industry will not solve the problem of developing the industry on right lines, nor is the constant refrain of "discharge your social responsibility" going to help the industry march from one milestone of progress to another.

It must be noted that the industry has a vital role to fulfil in promoting the well-being and health of our people. It is an industry which within a period of fifteen years has increased its capital investment by six times. It stood at Rs. 150|- crores in 1967 and will go up to Rs. 200 crores at the end of the Fourth Plan. The value of its output, which was

Rs. 34 crores in 1954 has shot up to Rs. 235 crores in 1969 and is expected to rise to Rs. 350 crores by the end of the Fourth Plan. The industry today depends for its requirements of raw materials on indigenous sources and the imported raw materials represent today only 8.7 per cent of the value of its production. The industry will have to take greater strides, if the value of its output is to rise rapidly, by at least an additional amount of Rs. 625 crores by 1980-81, to meet the needs of our growing population, which is estimated to be 700 million then. This would call for an additional investment of about Rs. 750 crores over the next decade, that is Rs. 75 crores per year. Unless, therefore, the economic climate improves and the industry is able to find resources from its present surpluses, it would not be possible for it to discharge its social responsibility of providing the people quality drugs in adequate quantity.

The present efforts of the Government to put it into the straight-jacket of price controls is likely to hamper its growth and adversely affect the long-term interest of the consumer. Instead, the Government must seek to supply the basic raw materials required by the drug industry from its Public Sector undertakings at reasonable prices as well as attempt to hold down the general price level by following a proper monetary and fiscal policy. The high content of taxes, about 20 to 30 per cent of the prices, should also be reduced. This would enable the industry to obtain other items that it requires for manufacturing its products at reasonable prices; the crippling burden of taxation must also be reduced. It is only then that the industry will be able to plough back surpluses into its new programmes of research and development. The industry has the will to expand, the Government must clear the way by generating a growth-oriented climate, by removing the present restraints on that industry.

II

DRUG PRICE CONTROL & THE CONSUMER

By

N. H. Israni

The emotional subject of drug prices has been under active public and press discussion for the last 4-5 months but it is amazing to see how many people really know the facts or are prepared to appreciate the facts in a broad and balanced perspective.

While no one really questions the laudable objective of bringing down the drug prices or, for that matter, the prices of any other commonly used item, in fact what has happened with the Price Control Order is not in the long-term interest of either the vital drug industry or the consumer even though the consumer has gained immediately.

There is a tremendous confusion. Erroneous impressions have been created that instead of drug prices coming down, they have generally gone up, that the industry is trying to reduce production and create shortages, and that the industry is not co-operating with the Government in the implementation of the Price Control Order. Let us examine the facts.

Until 1963, there was no drug price control and the prices were left to the forces of keen competition

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The author *is* Managing Director *of* a Pharmaceutical *Company* which is an essential feature of the industry the world over. The history of the years prior to 1963 showed that many bulk drugs were imported and as international prices of these bulk drugs decreased, and local formulation production increased, the prices of antibiotics, anti-TB drugs, hormones, vitamins, etc. also came down in India year by year with corresponding benefit to the consumer. Thus, without any price control the industry made substantial price reductions of its own accord. Just to quote a few examples: price of Tetracycline capsule was brought down from Rs. 2.50 in 1956 to Rs. 1.15 in 1963, price of Penicillin Ointment came down from Rs. 1.25 to '56 paise, price of PAS, which is an important anti-TB drug, came down from Rs. 19.00 to Rs. 6.60, price of Vitamin C tablets came down from Rs. 5.50 to Rs. 2.50, price of very important hormone product —Prednisolone tablets—came down from Rs. 1.97 to 26 paise. There are hundreds of such examples.

Soon after the Chinese aggression took place, the Government, in 1963, thought that supplies of essential drugs would be disturbed and that this would result in some price increases. There was no valid basis for this assumption. This led to the imposition of a Drugs Price Control Order which prevented anyone from raising the drug prices without the Government's approval. It is commonsense that if any shortages were expected, the right course was to increase supplies rather than to impose a negative price control.

We all know how the general price index has been moving up year by year. The overall index of wholesale prices which was at 121 points in 1961 went to 153 in 1964-65 and 212 in 1968-69. In addition to the general increase in the price level, the pharmaceutical industry was affected by wage increases, increase in raw material prices, and higher costs of imports consequent on devaluation in 1966.

This together with the increasing Government taxes and levies and other factors, particularly the use of costly indigenous materials, affected the production cost of several drug products, but the Government would not entertain the idea of any price increases. This obviously made the manufacturers hesitant to reduce the prices of other important items where the costs had come down because of increased production, operational economies or other factors.

The two important points to be noted are:

(a) The price control thus inhibited to some extent forceful competition and did not serve the consumer's interest.

(b) It became increasingly necessary to subsidise low margin products, which were under cost pressure, with high margin products.

The industry told the Government that given free competition, the prices of essential drugs must in fact come down and urged that this proposal be given a fair trial for a period of one year.

Instead of agreeing to abolish the price control, the Government then asked the Tariff Commission to review the cost structure of 18 essential basic drugs and their formulations with the objective of bringing down the prices.

The Tariff Commission submitted its report in 1968. Among other things, it came to the conclusion that, in spite of the fact that the cost of bulk drugs in India were higher than those in other countries due to high cost of raw materials, low productivity, smaller units, etc., the prices of drug formulations, *which were ultimately bought by the consumer,* were in fact lower in India and compared favourably with the consumer prices of drugs in other countries. This report also showed that the profit margins of the pharmaceutical manufacturers in India were lower than those generally obtaining in other countries.

In February 1970, the industry representatives were called to Delhi and were asked to give a formula by which all drug prices could be reduced by 25% to 30% and unnessary high public hopes were created. The Tariff Commission's report showed that the pre-tax profit of the selected different manufacturers varied from 5% to 25% of turnover. Thus, the Government's suggestion to the industry to reduce prices of *all* drugs by 25% to 30% meant closure of the entire industry. Obviously, the industry had to tell the Government that it was impossible to reduce *all* drug prices, but offered to reduce prices of selected essential drugs, viz., antibiotics, hormones, vitamins, etc. from 10% to 25%. This was not found acceptable since the Government, by this time, had already decided to "rationalise" all drug prices through a rigid price formula, which is now incorporated in the new Price Control Order.

There is no other country in the world which has adopted such a rigid approach. Flexibility of pricing coupled with free competition is an essential feature of the pharmaceutical industry the world over. However, in India, from 1963, a situation had beer, created under which certain products had to live with low margins and the others with high, and the latter had to subsidise the former. In a situation like this, it must be accepted and expected that when a rigid formula is uniformly applied to all products, some prices are bound to come down and some go up. However, in spite of this, our Government, in its wisdom, decided that the prices of all drug

formulations must be rationalised and asked the industry to act accordingly.

All major manufacturers have revised their prices. The leading 50 manufacturers who produce about two-third of India's drug requirements and market about 2,500 products have reduced prices of 1,100 products constituting about 50% of their production. These price reductions range from 50% to 5% in certain cases. These reductions have brought down substantially the drug cost of treating various ailments, viz., typhoid, dysentry, allergy, chest infections, urinary infections, skin disorders, nutritional deficiencies, cardiac disorders, diabetes, etc. Prices of 1,000 products which constitute another 35% of the production of these manufacturers have not been changed, despite rising costs. The prices of the remaining 400 items constituting about 15% of the industry's production were increased. In most cases, these increases were the bare minimum and were well within the formula of the Price Control Order.

These increases became inevitable because of the high cost of indigenous bulk drugs and materials particularly those supplied by government owned Indian Drugs and Pharmaceuticals Ltd., (IDPL), high prices of canalised imports through State Trading Corporation, and increased prices of packaging materials — bottles, aluminium foil and cellophane, etc. some of which have gone up by 50% in the past two years. However, the important question is: Have consumers in general ultimately gained or lost as a result of these price decreases and increases? The preliminary assessment shows that the annual loss of profit to the industry will be about Rs. 15 crores. This is a good, immediate gain to the consumer.

Unfortunately, as the Minister of Petroleum and

Chemicals himself told the Parliament recently, the Press has given undue publicity to certain price increases without highlighting the major and more important price reductions effected by the industry. This has created a distorted picture. While it has been pointed out that the prices of Codopyrin and Saridon have gone up by a few paise, no one has really highlighted that the prices of Benadryl, Abdec, Ferradol, Vidylin, Waterbury's Compound, Burnol, Clearasil, Chloromycetin, Terramycin, Achromycin, Ledermycin, Incremin, etc. have gone down very drastically and prices of Aspro, Anacin, Gelusil, Phosfomin, Strepsils, etc. have been maintained without change.

I am not blaming the Press. It is a part of human nature to rush into conclusions without waiting for a broad picture to emerge and without taking an overall view of things. The price changes of 1,500 items and their various packings, all effective from the first of August 1970, the frequent issue of amendments to the Price Control Order, and the conflicting announcements that appeared, created such a confusion in the market that not many people really knew what was happening. Everyone got excited—the industry because of its losses, the dealers because their margins were reduced, the public because of the price increases of the few common items they had to buy routinely, etc. The best course in this situation would have been to allow the matter to settle down for some time, assess the situation properly and to take any corrective action required. However, once again our Government got into action and amended the Price Control Order, telling manufacturers that all price reductions stay, but all price increases stand cancelled, until those price increases are scrutinised by the Government. This has led to further announcements, revisions in price lists, etc. and the confusion has increased. I am sure many of these price increases will be allowed by Government within the next few months because the fact is that the costs have gone up.

If we analyse the situation carefully, we find that the vast majority of manufacturers have only reduced their prices and have either not increased any prices at all or increased the prices of a few minor items only. Most of the price increases are made by about 10-12 companies which have also reduced their prices substantially. Thus, instead of issuing a hurried amendment to the Price Control Order, the most logical action would have been to scrutinise and correct. these increases selectively, which would have avoided so much of the added confusion.

Let us now analyse in a constructive manner what this Price Control means from the consumer's point of view.

There is no doubt whatsoever that there is an *immediate* gain to the consumer. Prices of various essential items have come down drastically and the anticipated loss of profit of about Rs. 15 crores per annum of the industry is the gain of the consumer. However, from the long-term point of view, the consumer would stand to lose (unless the situation is corrected in the near future). First of all, the price control system is based on cost plus formula and there is no incentive for efficiency and reducing costs. Secondly, as material costs by virtue of import substitution or canalisation through Government agencies, wages, Government taxes, etc. go up, prices of drugs must go up since there is no flexibility left. Thirdly, since price increases will be resisted, there is no incentive for the industry to pass on the economies of scale for essential drugs to the consumer, particularly, as the Government, through the price control mechanism, has inhibited competition and has virtually created conditions which are inconsistent with some of the principles incorporated in the Monopolies and Restrictive Trade Practices Act. Fourthly, the sword of price control hanging on the industry's head, as experience in many other industries has shown, cannot generate an atmosphere of confidence, innovation and enterprise. This is bound to affect the industry's investment and growth, particularly in regard to basic and new drugs, which the people of our country would need in the coming years. Instead of making the country self-reliant, this must then lead to either shortages of drugs or increased imports, apart from affecting badly our fast developing exports of drugs. Last but not the least, drug research and development are extremely sophisticated and expensive. I do not see how the industry can be expected to set up research unit.; and make heavy commitments for recurring expenses when its margins are squeezed and there is a real danger of further squeeze under political pressure.

All this is not in the best *long-term* interest of the consuming public and the country's economic and technological development in this important health sector. For some short-term gains, which could have been achieved in a more persuasive and voluntary manner, we have sacrificed our long-term interests. Instead of aiming to reduce drug prices in a selective, priority-oriented manner, we have created an instrument of compulsion which equally applies to essential and non-esential items and is based on various irrational considerations. If we really wish to safeguard the long-term consumer interests, which is tied up with the country's and the industry's healthy development, then the following steps need to be taken.

(1) We must abolish the price control and create greater forces of competition instead of inhibiting competition through the price control mechanism. This competition can be intensified by allowing the

industry to expand freely without any ideological considerations, particularly in the field of essential drugs, by permitting the industry to import ita necessary requiremens fully but on a competitive basis and by substantially improving the performance of the existing Public Sector units which supply various bulk drugs at high costs which must be reduced. This guided freedom to operate will also generate additional employment which we need most.

(2) We must encourage and not penalise cost consciousness and innovation in the industry. **A** lot has been done by the industry in these areas but a lot more can be done. We must learn to appreciate efficiency and not run it down.

(3) We must allow the industry to grow and make profits—and reasonably good profits ultimately to encourage basic research, specially in tropical disease problems: Research in drug industry is extremely sophisticated and expensive. Out of **3,000** compounds which have to be vigorously screened, hardly one comes out successful in the market. **A** worthwhile research unit of bare minimum size involves a capital cost of Rs. 2 to **3** crores and minimum recurring expenses of Rs. **50** to **60** lakhs. This kind of risky research is not financed by banks and can be indulged in only by large-size units having good profits—today and tomorrow. Research must ultimately bring better drugs, cheaper drugs and drugs which treat the tropical diseases of our people and those of the countries around us through export of Indian goods and technology.

(4) In any attempt either to bring down prices, to safeguard consumer interest otherwise or to seek any fruitful results, the industry in general must be looked upon with confidence as a necessary and responsible partner and all issues resolved in a persuasive manner rather than resorting to compulsion

which should be applied only under exceptional circumstances and to those defaulters in the industry who are not prepared to fall in line with the desirable objectives which may be jointly agreed upon and pursued by the Government and the industry in general.

(5) We must examine the burden of direct and indirect taxes on drugs. Today, every rupee that we pay for drug includes about 22 paise or 22% as excise duties, central sales taxes, state sales taxes, octroi, licence fees, customs duties, etc. payable directly or indirectly at various steps. There is no reason why the drugs should be so heavily taxed and the burden increased almost every year.

III

WILL THERE BE A SHORTAGE OF DRUGS?

By

Champaklal Zaveri

Price control is an emergency measure and should be resorted to only in such circumstances. In normal conditions, higher production and competition are the only effective measures to control prices and ensure better service to the community.

It is said that Drug Prices are too high and beyond the reach of the poor man. No one can deny that medical treatment—including drug—like other necessities of life is beyond the reach of the poor man. But to say that prices of drugs in general are exorbitant is not fair. The prices of a few brands may be high but it cannot be said of all drugs. Especially, drugs from Indian manufacturers have been reasonably priced. This is not because of any price control measure, but on account of competition. The competitive pressure in this industry is so great that the average Indian manufacturer has to maintain a reasonably low price level. In fact, the low price was the factor that helped him to promote his product against established brands. Even today, he will not be in a position to take full advantage of the mark-up permissible to him. The Government, instead of taking advantage of this

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situation and helping this sector, has inadvertently acted against its interest.

Drug prices are to be viewed in proper perspective of medical treatment as a whole. A vial of ten ml. of B-Complex parenteral solution would cost Rs. 3|-, while ten injections of the same solution would cost him Rs. 30|-. I only put this before you to give proper appreciation of the situation, and not to cast any reflection on the medical profession.

The U.S. Commissioner of Foods and Drugs, Dr. James Goddard, has very aptly said: "Basically, none of us wish to make the expenditure for drugs and other illness of any kind. So unwanted an expenditure is too high no matter what the price level is."

Drug prices were brought under Statutory Control in April 1963, following the Chinese aggression. This Order, as Dr. Triguna Sen rightly described, had the effect of freezing the prices of drugs as on 1st April 1963. The prices of raw material were, however, not frozen.

The implication of this Order can be illustrated by an example. Say A was selling a formulation at Rs. 3|-. B and C were selling the same formulation at Rs. 4|- and 6|-, according to the price fetching capacity of the manufacturer. The cost of production, say Rs. 2|-, is more or less same in all the cases. The higher overheads of the big manufacturer are being offset by his more efficient production technique and bigger production. With prolongation of the Order after the Indo-Pakistan conflict, and subsequent devaluation, the situation became very difficult for A. As the cost of production went up, B too found his position untenable. Thus the manufacturers who were selling at cheaper price were penalised. The implications of 1963 price freeze order was unfair to many manufacturers who were selling drugs at a low price.

Later, the Government did realise this difficult

situation created for the small-scale manufacturer, but could not come out with a defreeze order as drug prices had already assumed political colour.

Here again a question would be asked why the Indian manufacturers did not come out with these facts before the Government in particular and public in general? It was done very often but went unnoticed.

As regards the recent Drug Price Control Order, the Government could have issued a draft order seeking reactions of the trade and industry before promulgating the final order. Nothing would have been lost and much of the confusion and misunderstanding could have been avoided.

Drug firms have issued their price lists and the survey as given by the Minister in the Lok Sabha showed the prices of 54% of drugs have been reduced considerably while 25% have been kept unchanged and in 21% the prices have been increased.

The two main reasons for a price increase are:

1) The steep rise in costs over the last seven years which was not reflected in the prices up to now.

2) The steep rise in the prices of raw materials which the industry has to buy from Government undertakings.

The rise in prices of raw materials is being explained as a price the country has to pay for import substitution.

As a result of this steep rise in the prices of raw materials, the increase in prices of certain formulations was inevitable.

The price control policy of the government, as Dr. Triguna Sen has rightly described, is one of rationalisation of price structure, and not merely of price reduction.

There was considerable criticism both in Parliament and the Press against this price increase. Unfortunately, the positive side, i.e., substantial reductions, were hardly taken notice of,

Faced with criticism, the Government came out with the fourth amendment order bringing all the price increase back to May 15th level.

It is difficult to comprehend the necessity of this amendment. The Government had powers under the original order to force a revision wherever they found the prices unreasonably high. They could have taken up an immediate scrutiny of 400 odd formulations with price increase, instead of issuing an amendment, which created so much confusion in the trade and put the distribution system out of gear.

This amendment affects the Indian sector very badly. It is the Indian sector that needed a rationalisation of the price structure more than the foreign sector.

Let us hope that matters will settle down and that the Government will quickly decide on the revised prices. Very often the Governments do not realise the difficulties of trade and industry. For instance, how difficult it is for a pharmacist to refer to two or three price lists and decide which is the correct one, and how annoying it is for the customer to wait. Each mailing of price list to 40,000 chemists costs Rs. 6,000/- to 8,000/- to the manufacturer.

The Government has taken upon itself the responsibility of supplying raw materials. They should see adequate supplies are available in the country and should not hesitate to retrace their programme of canalisation in case Government undertakings are found to be inadequate to the task. Or else the country will face an acute shortage of drugs.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. SHROFF
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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