



Encouraging innovation in *medicines*

The Pharmaceutical Price Regulation Scheme (PPRS) was created by negotiation between the UK Government and the pharmaceutical industry in 1957. It is renegotiated every 5 years; the current scheme dates from 2005.

The objectives of the PPRS are to:

1. Secure the provision of safe and effective medicines for the NHS at reasonable prices.
2. Promote a strong and profitable pharmaceutical industry capable of such sustained research and development expenditure as should lead to the future availability of new and improved medicines.
3. Encourage the efficient and competitive development and supply of medicines to pharmaceutical markets in this and other countries.

The Office of Fair Trading announced in September 2005 that it would be conducting a market study into the PPRS. After six months gathering data, the OFT announced that it would continue the study. The OFT describes the purpose of the study as to consider whether the scheme is the most effective means of meeting the Government's objectives.

THE ROLE OF THE PPRS

The PPRS has provided a good, stable environment of benefit to the industry, the NHS and ultimately patients. It is the stability of the PPRS that has contributed to the UK's relative success in this sector. Any proposals for change should only be considered following the most careful regulatory impact assessment.

The development of new medicines is characterised by long timescales of investment and return. Significant expense is required to discover effective molecules, understand their mode of working, develop efficient delivery systems, and ensure that they are safe for use by patients.

To be able to sustain and foster such long-term research, it is vital that a company has long-term stability in its markets, and retains a degree of price freedom compatible with the objectives of the PPRS, especially at the launch of a new medicine.

While it is in the Government's interest to ensure that patients have access to new and improved medicines, it wants to ensure that does not lead to excessive costs to the NHS. It achieves this through the PPRS by setting an overall profit cap on the return on capital employed by companies.

Both competition and regulatory policies must take account of the medium and long term, balancing cost-cutting in the current year with maintaining the incentive for investment for the future. Undue emphasis on short-term price competition or on the exercise of government monopoly purchasing power can push prices below levels needed to provide returns on long-term investment. This emphasis would be to the detriment of public procurement objectives, which in the case of the NHS is achieving better health for patients.

The pharmaceutical industry recognises the need for such a system of regulation in the UK and believes that the PPRS represents a package of measures which need to be considered as a whole.

INNOVATION AND R&D

Innovation is a key part of improved healthcare. It delivers health benefit and / or savings elsewhere in the NHS. More than 40 per cent of all medicines introduced in the past 10 years are in the Government's top priority areas of cancer, heart disease, mental health and diseases of the elderly.

Competition to deliver innovative new products is crucial to the NHS. The PPRS allows this by providing appropriate rewards within a stable regulatory framework.

The UK investment record in pharmaceuticals is good – £9 million every day and well ahead of any other sector of the UK economy. Such investment has resulted in the UK being second only to the United States in the discovery and development of the world's leading medicines.

THE ASSOCIATION OF THE BRITISH PHARMACEUTICAL INDUSTRY

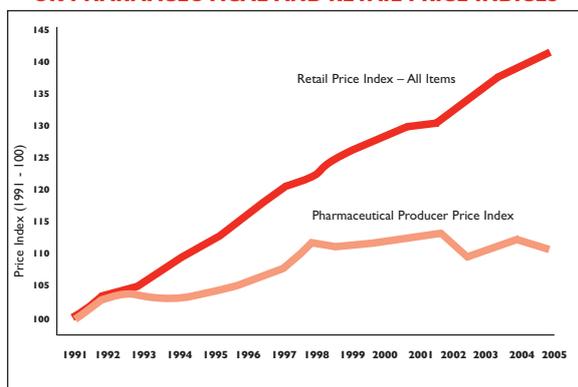
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The pharmaceutical sector is also a significant supporter of academic research, hosting nearly 700 PhD students in laboratories and funding more than 300 separate collaborative research projects. This provides access to new compounds, technologies and resources that students and universities would not otherwise have.

PRICE COMPETITION

The UK market is highly competitive: medicines are 21 per cent cheaper today in real terms than ten years ago and medicines spend per head of the population in the UK is lower than in most other comparator countries.

UK PHARMACEUTICAL AND RETAIL PRICE INDICES



Two aspects of competition operate simultaneously within the UK system. First, companies are anxious to produce the best, most effective medicines – innovation itself drives the search for improvement in every company. This leads to a pipeline of patented new products.

Added to that, the UK system benefits from having very strong price competition at the off-patent stage, when generic versions of medicines become available and prices fall significantly, leading to savings to the NHS. These savings provide “headroom for innovation” in the development and use of new treatments for patients.

CONCLUSION

If the UK wants to keep its world-leading pharmaceutical industry and the health and economic benefits that it brings to society, the environment has to be right. The PPRS has played its part in helping to strike the right balance between protecting taxpayers’ interests, offering a fair return on investment and fostering innovation.

SOME RECENT UK INVESTMENTS BY THE PHARMACEUTICAL INDUSTRY

AMGEN is making a significant R&D investment in the UK with plans to create a European Development Centre in Uxbridge, and to add to existing facilities in Cambridge. **Science Minister Lord Sainsbury said: “This move reflects the efforts made by the Government to provide a UK environment which offers commercial stability and fair and efficient regulation.”**

GLAXOSMITHKLINE invested more than £150 million in capital projects to support its research and development efforts in the UK. Nearly £100 million was invested at GSK’s manufacturing sites in the UK for capacity increases, upgrades or equipment replacement.

LILLY has invested heavily in new technologies such as systems biology, genomic medicine and bioinformatics. New £25 million laboratories were opened in Surrey and plans for an additional £20 million investment have also been announced.

BRISTOL-MYERS SQUIBB’s new headquarters in Uxbridge cost £5.5 million and houses more than 200 employees. New £3 million laboratories for analytical chemistry and offices for clinical supply management were opened in Moreton, Cheshire.

MERCK SHARP & DOHME has continued to invest in pre-clinical research in the UK. A new global centre for chemistry at Hoddesdon to serve the company’s organic and synthetic chemistry organisation needs will be completed in 2006.

A new building for **NOVARTIS** at Grimsby, costing nearly £180 million, in the single biggest industrial investment ever made in North East Lincolnshire and will house the manufacture of the active ingredient of the company’s anti-hypertension medicine.

A new £2 million aseptic pharmacy-compounding unit was opened by **BAXTER** to serve the Christie Hospital and the North West region with chemotherapy provision.

GILEAD relocated its European headquarters to the UK, moving its commercial, medical and administrative functions to Stockley Park.

ASTRAZENECA is in the final stages of completion of a £61 million new cancer research building.

PFIZER invested more than £15 million in the Utilities Plant at Sandwich, ensuring continuity of suitable water for boilers and to generate electricity for process steam.

Investment totalling more than £22 million by **SANOVI-AVENTIS** included expansion of manufacturing facilities at Dagenham, Fawdon and Holmes Chapel.

With the integration of Celltech into **UCB**, the new R&D organisation is investing £14.5 million in additional laboratory facilities at its Slough R&D headquarters.

New £75 million headquarters have been opened by **ROCHE**. The facility brings together some 1,200 employees involved in the development, sales and marketing of new medicines.

EISAI has announced a capital investment of £75 million to develop a new strategic European base at Hatfield in Hertfordshire. The new facility will include additional discovery research laboratories, clinical development, sales and marketing, manufacturing and the EU headquarter functions.