



## Improving the Reference Mechanism While Ensuring Meaningful Referencing

### Key Messages:

- The current country basket correctly reflects the socio-economic level of Cyprus
- The economic situation of Greece is not comparable with Cyprus
- A better implementation of the current P&R mechanism can improve affordability of medicines for patients' access while preserving access to innovative medicines.
- A more holistic approach will provide efficiency gains to the Cypriot health system without undermining the access to innovation of the Cypriot citizens.

### *"The current country basket reflects the socio-economic level of Cyprus"*

Price referencing shall ensure that prices in a country are in line with comparable countries. 23 out of 27 Member States of the European Union use this pricing mechanism, and as stated recently by Leopold et al., "European countries generally tend to choose European countries with similar economic comparability and/or geographic proximity."<sup>1</sup>

This has been proposed for Cyprus in a publication related to Cyprus' pricing and reimbursement of pharmaceuticals.<sup>2</sup> In fact, the current country basket, including primarily Austria, France, Greece and Sweden, reflects the socio-economic situation in Cyprus as several indicators show.

In terms of GDP Cyprus is close to the EU average, ranking slightly higher than Greece. Nevertheless, as indicated in the Eurostat report on "Income and Living Conditions in Europe" GDP is of limited value.<sup>3</sup>

- The mean household consumption of Cyprus is much higher than the EU average, comparable to Austria, Belgium or Denmark;
- The GDP growth of Cyprus has slowed down in recent years; however, with 0.5% in 2011 it follows its peers and is comparable to Sweden, Austria and France. The GDP growth rate of Greece, however, slowed down rapidly and is negative since 2008 (2011: -6.9%);

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<sup>1</sup> Leopold C et. al. (2012), Differences in external price referencing in Europe – A descriptive overview; Health Policy 104, 50-60; p. 55

<sup>2</sup> Merkur S, Mossialos E (2005), A pricing policy towards the sourcing of cheaper drugs in Cyprus; Health Policy 81:368-375

<sup>3</sup> Eurostat (2010), Income and living conditions in Europe; ed. Anthony B. Atkinson, Eric Marlier; [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-31-10-555/EN/KS-31-10-555-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-31-10-555/EN/KS-31-10-555-EN.PDF); p. 388: "Not only is GDP an imperfect measure of real national income, but also national income is only one of several dimensions with which societies are concerned."



- In terms of unemployment Cyprus is with 73.8% people working close to Austria, Finland or the UK and also close to its EU 2020 target of 75%. Greece, however, ranks last;
- In terms of the ratio between richest and poorest people Cyprus (rank 15) is comparable with Germany (rank 16), Denmark (rank 14) or France (rank 17) while Greece ranks 25<sup>th</sup>.

#### Summary

	Cyprus	Austria	France	Greece	Sweden
GDP Index	99	126	108	90	123
Rank	17	4	12	18	5
Employment rate	73.8	75.2	69.1	59.9	80
Rank	8	6	14	31	1
GDP growth rate	0.5	3.1	1.7	-6.9	3.9
Rank	27	8	16	31	5
Mean consumption	30'856	30'482	29'632	27'081	29'885
Rank	7	8	12	15	10

Source: Eurostat (accessed: 18/04/2012)

Taking these factors into account Cyprus is – in socio-economic terms – not only better off than the European average but also much closer to countries such as Austria, France or Sweden than to Greece.

On the other hand, R&D spending in Cyprus is – though small compared to Germany or France – still close to Italy, the Netherlands or Spain.<sup>4</sup>

#### ***"The economic situation of Greece is not comparable with Cyprus"***

Member States such as Greece have concluded an agreement for temporary financial assistance, which led to extraordinary price cuts for pharmaceutical products, rebates or other types of agreements.

These agreements are meant to ease the pressure of budget constraints and concluded between the relevant authorities and pharmaceutical manufacturers. The impact on pharmaceutical prices can be significant in order to ensure that patients in these Member States obtain continued access to innovative medicines.

<sup>4</sup> Kanavos P et al. (2011), Differences in costs of and access to pharmaceutical products in the EU; Directorate General for Internal Policies (Ed.); report requested by the European Parliament's Committee on Environment, Public Health and Food Safety (ENVI), p. 30



However, the feasibility of these agreements depends eventually on refraining from referencing prices of pharmaceuticals applied in countries receiving or in the process of receiving financial assistance.

One may even question the inclusion of Greece into the Cyprus reference country basket at all since according to Leopold that "it was reported by PPRI network members that in most cases, Greece had the lowest price per basket."<sup>5</sup>

***"A better implementation of the current pricing and referencing mechanism can improve affordability of medicines for patients' access while preserving access to innovative medicines"***

Having comparable prices requires regular re-referencing to the reference countries. Re-referencing on a regular basis ensures that local prices reflect price evolution in the reference countries.

The Cypriot legislation contains this provision but it has not been effectively enforced. Having a look at the re-referencing rules of the countries to which Cyprus is referencing shows great variety: while Greece re-references 3 times a year, France references only at launch and Spain only one year after launch. The other reference countries have no explicit rules. This means re-referencing too often would not be sensible for Cyprus since there would usually be little or no price evolution in those countries; the potential price reduction has to be counter-balanced with the resources needed for the re-referencing process.

"(...) the frequency of reviewing prices differs among countries, e.g. Portugal reviews its prices on a quarterly basis and Norway published a schedule on which it is made transparent in advance when prices of the different products according to their anatomical therapeutic chemical (ATC) class are reviewed; other countries like Hungary do not regularly review their prices."<sup>6</sup>

Price differences between Cyprus and its reference countries let assume that re-referencing did not take place on a regular basis. The enforcement of a regular re-referencing would therefore be a policy option that could provide large savings to the healthcare budget of Cyprus.

*Recommendation:* Given the fact that re-referencing does not take place that often re-referencing conducted by Cyprus should not take place more than every third year.

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<sup>5</sup> Leopold C et. al. (2012), Differences in external price referencing in Europe – A descriptive overview; Health Policy 104:50-60; p.57

<sup>6</sup> Leopold C et. al. (2012), Differences in external price referencing in Europe – A descriptive overview; Health Policy 104:50-60, p. 55



This would balance the resources needed to undertake the re-referencing and the likeliness of price changes in the reference countries.

Re-referencing should be based on principles of good governance and meet the purpose, i.e.:

- To take into consideration currency fluctuations as well as inflation;
- To use exchange rates based on purchasing power parities and take into consideration yearly average of the price of a medicine in order to avoid the distortive effects of continuous currency fluctuations;
- To ensure that official list prices are taken for re-referencing;
- To take into consideration cost containment measures that may have been imposed as extraordinary and temporary measures and focus on the price prior to the extraordinary measure (e.g. Greece).
- To take into account changing IP status in the reference countries.

***“A more holistic approach will provide efficiency gains to the Cypriot health system without undermining the access to innovation of the Cypriot citizens”***

The pharmaceutical healthcare system in Cyprus is divided into that which is under the authority of the Ministry of Health and that, which operates on the basis of private enterprises and the free market. In the current healthcare system (under authority of the MoH), there is no guaranteed patient access to medicines by virtue of each patient’s medical need and the medical expert’s opinion.

Despite the fact that new medicines are directly placed in the private market; any designated price stands as an objective obstacle to a patient’s access to this medicine in the sense that the patient must pay for it out of his/her own personal budget. The introduction of all innovative medicines (as in almost all EU countries) requires their inclusion in the formulary lists of offered medicinal products and their financing by the healthcare care system of each country. Thus the patient does not pay at all or is required to pay only a small fraction of the price of the medicine, which has been approved by the particular country under the specific healthcare system.

The current procurement procedure by Ministry of Health via the tendering system generally leads to lower prices for medicines that have a competitor but at the same time excludes access to medicines by virtue of each patient’s medical need and the medical expert’s opinion and delays the introduction of new medicines.



Proceeding with the implementation of proposed solutions aimed at reducing inequalities in access to high standards of healthcare including the introduction, access and availability of patients to new medicines, will lead to similar price levels but with the benefit of access to all approved medicines for all Cypriot citizens.

### **"Other mechanisms that provide savings to the Cypriot health system"**

Regulations can have a major effect, through controls on remuneration of the distribution chain. "Despite recent reductions in distribution margins, the impact of distribution in different Member States can be as high as 50% of a drug's retail price (...)." <sup>7</sup>

Demand-side policies can target all stakeholders within the distribution chain and provide a more efficient use of government budget. The pharmacy margins in Cyprus reach 37%. This is much higher than in many other European countries such as Portugal (below 20%), Slovakia (approx. 23%) or Austria (30%) as the recent report of the European Parliament has shown.

Savings for the health systems can be achieved through many ways and should not only focus on the medicines budget but rather take a holistic budget approach. Savings should be guided by the principles of improving citizen's health. Measures to reduce cost should therefore focus on efficiency gains be it through a better coordination of care, the avoidance of unnecessary doctors' visits, or reducing the length of hospital stays etc.

In fact, the pharmaceutical expenditure in Cyprus as a share of GDP reached according to OECD 1.3% in 2008 while the EU average is at 1.7%. This is comparable with countries such as Austria (1.4%) or Sweden (1.2%) and below many other high-income countries such as France (1.8%) and Germany (1.6%) but below Greece (2.4%). Eventually, according to OECD the average expenditure per capita per year was in Cyprus €320 in 2008 while Austrians spent €454 and French €521.

With regard to in-patient and out-patient care Cyprus is spending more than the EU average (2% and 6% respectively). This may be a sign that further efficiencies might also be explored in this area. To conclude, savings can be gained in different ways; while cost cutting can affect citizen's health efficiency gains are more promising because – instead of stopping services – they focus on improving service delivery.

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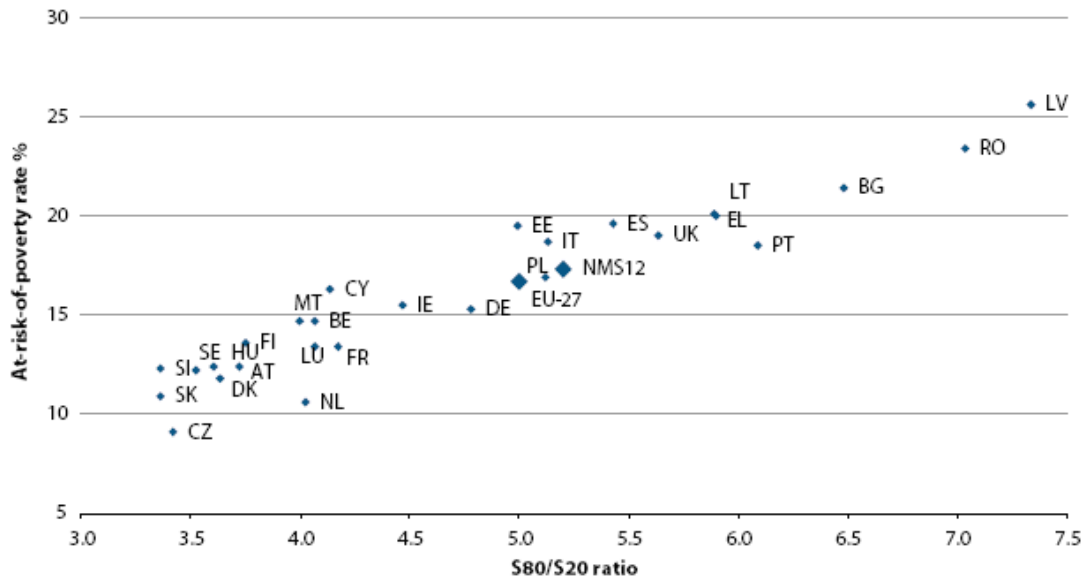
<sup>7</sup> Kanavos P et al. (2011), Differences in costs of and access to pharmaceutical products in the EU; Directorate General for Internal Policies (Ed.); report requested by the European Parliament's Committee on Environment, Public Health and Food Safety (ENVI), p. 52



## Charts

### Income and Poverty<sup>8</sup>

Figure 5.5: National at-risk-of-poverty rates and S80/S20 ratios, EU-27, Survey Year 2008

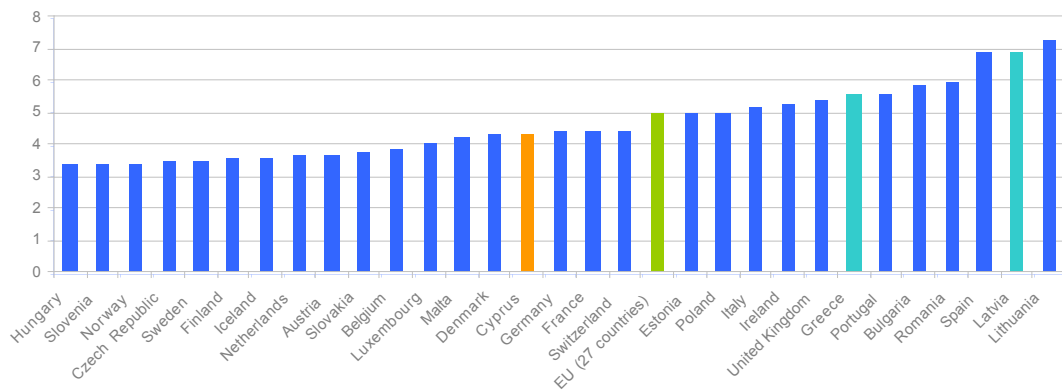


Source: See Figure 5.1.

Reading note: Each point corresponds to a Member State in EU-27, showing on the horizontal axis the S80/S20 ratio and on the vertical axis the at-risk-of-poverty rate.

### Eurostat (accessed: 18/04/2012)

Income Ratio of the Richest 20% to the Poorest 20% (Eurostat)



<sup>8</sup> Eurostat (2010), Income and living conditions in Europe; ed. Anthony B. Atkinson, Eric Marlier; [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-31-10-555/EN/KS-31-10-555-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-31-10-555/EN/KS-31-10-555-EN.PDF)



**Table 5.3: National at-risk-of-poverty rates in EU-27, Survey Years 2003–2008**

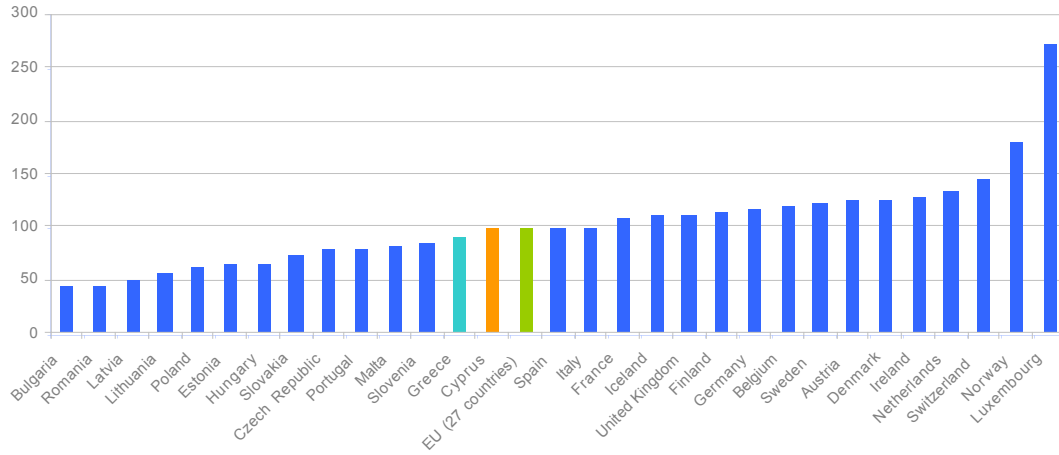
	2003	2004	2005	2006	2007	2008
EU-27	:	:	15.9	16.2	16.7	16.6
EU-15	:	:	15.7	16.0	16.5	16.4
NMS12	:	:	:	:	17.6	17.3
NMS10	:	:	17.3	16.7	15.1	15.0
BE	15.3	14.3	14.8	14.7	15.1	14.7
BG	:	:		18.4	21.8	21.4
CZ	:	:	10.4	9.8	9.5	9.1
DK	11.7	10.9	11.8	11.7	11.7	11.8
DE	:	:	12.3	12.7	15.2	15.3
EE	:	20.2	18.3	18.3	19.4	19.5
IE	20.1	20.9	19.7	18.5	17.3	15.5
EL	20.7	19.9	19.6	20.5	20.3	20.1
ES	:	19.9	19.7	19.9	19.7	19.6
FR	:	13.5	13.0	13.1	13.1	13.4
IT	:	19.1	18.8	19.6	19.8	18.7
CY	:	:	16.2	15.8	15.5	16.3
LV	:	:	19.2	23.1	21.2	25.6
LT	:	:	20.5	20.0	19.1	20.0
LU	11.9	12.7	13.7	14.1	13.5	13.4
HU	:	:	13.4	15.9	12.3	12.4
MT	:	:	14.1	13.6	14.4	14.7
NL	:	:	10.8	9.9	10.2	10.6
AT	13.2	12.8	12.3	12.6	12.0	12.4
PL	:	:	20.6	19.1	17.3	16.9
PT	:	20.5	19.4	18.5	18.1	18.5
RO	:	:	:	:	24.8	23.4
SI	:	:	12.2	11.7	11.5	12.3
SK	:	:	13.3	11.6	10.5	10.9
FI	:	11.1	11.7	12.5	12.9	13.6
SE	:	11.3	9.3	12.3	10.8	12.2
UK	:	:	19.1	19.2	19.1	19.0

Source: See Figure 5.1.

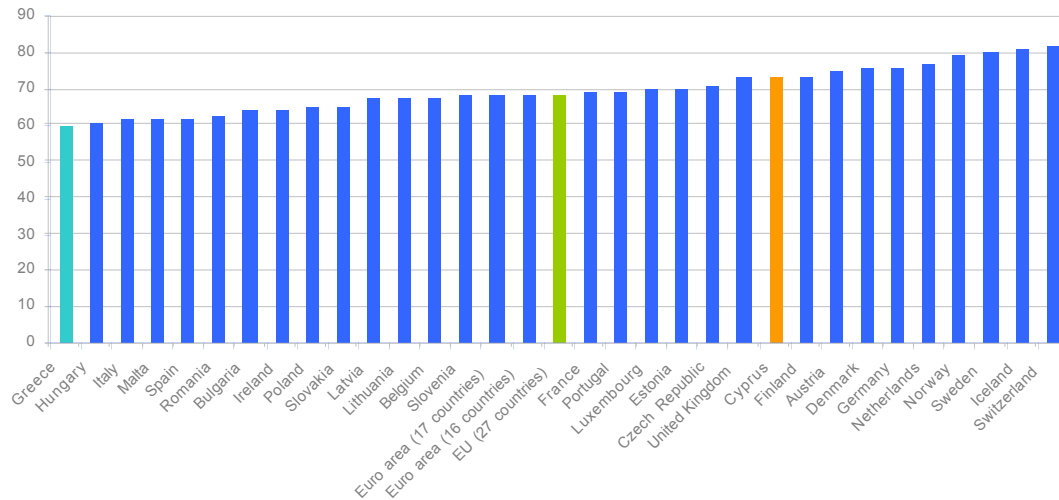


**Eurostat Data (accessed: 18/04/2012)**

2010 GDP per Capita in PPP (Eurostat; EU = 100)



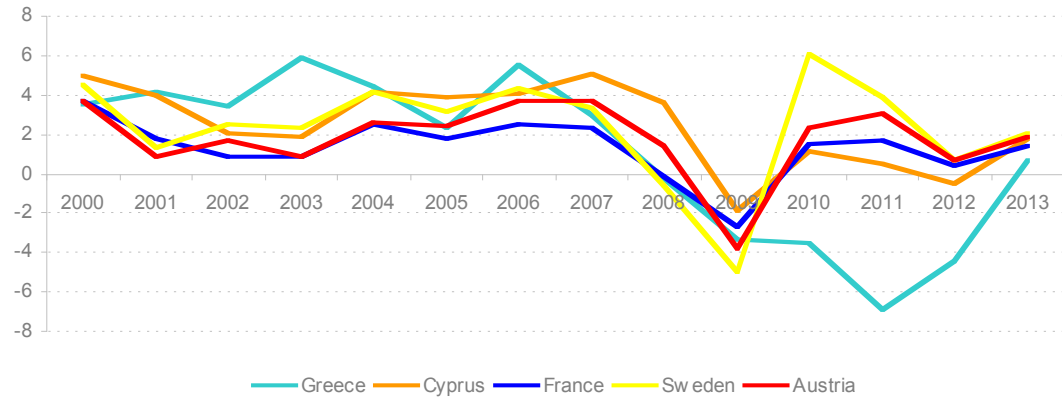
2011 Employment Rate of 20-64 Years Old Citizens (Eurostat)



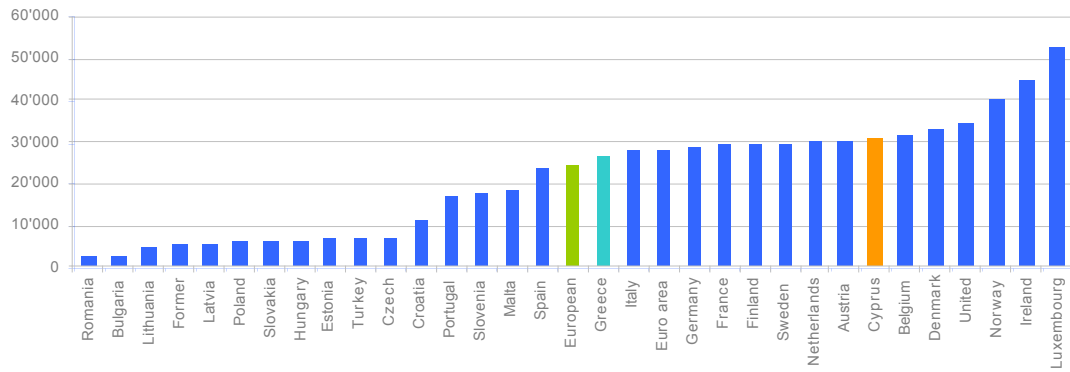




GDP Growth Rate of Cyprus and Its Reference Countries between 2000 and 2013 (Eurostat)



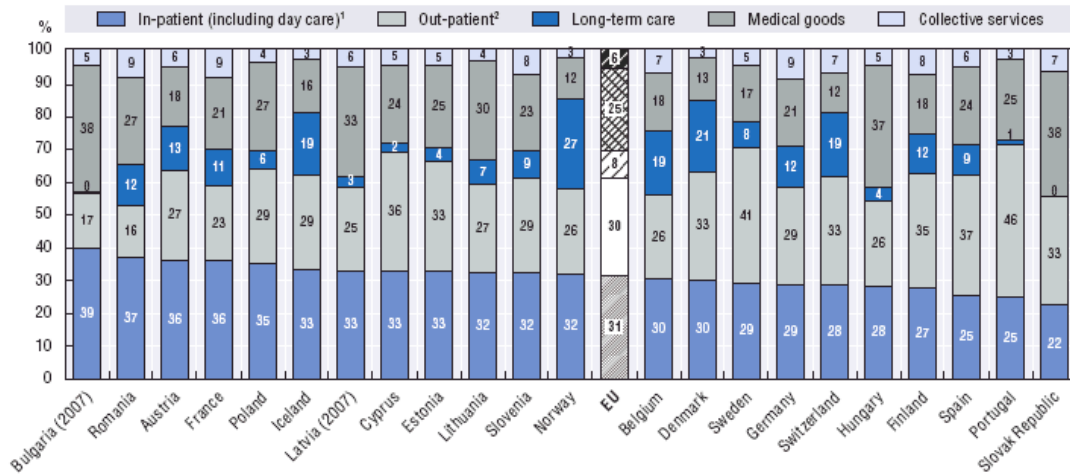
Mean Consumption Expenditure By Household in 2005 (Eurostat)





### 4.3.1. Current health expenditure by function of health care, 2008

Countries are ranked by in-patient curative care as a share of current expenditure on health



1. Refers to curative and rehabilitative in-patient and day care services provided in hospitals, day surgery clinics, etc.  
 2. Refers to curative and rehabilitative care in doctors' offices, clinics, out-patient departments of hospitals, home-care and ancillary services.  
 Source: OECD Health Data 2010; Eurostat Statistics Database.

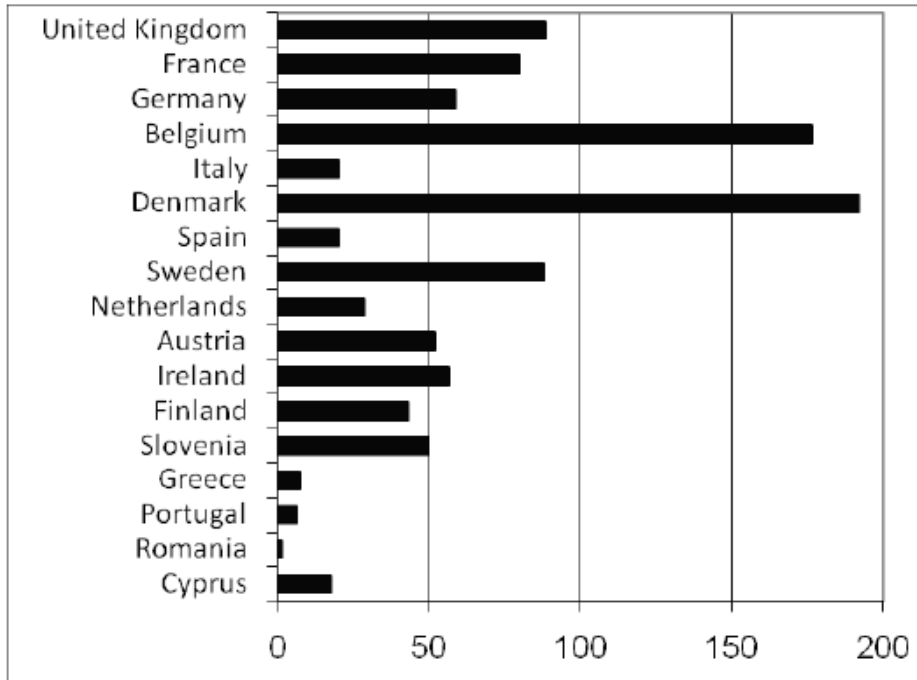
StatLink <http://dx.doi.org/10.1787/888932337433>

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**Figure 12 Per capita R&D Spending per Member State in 2008, Euros**

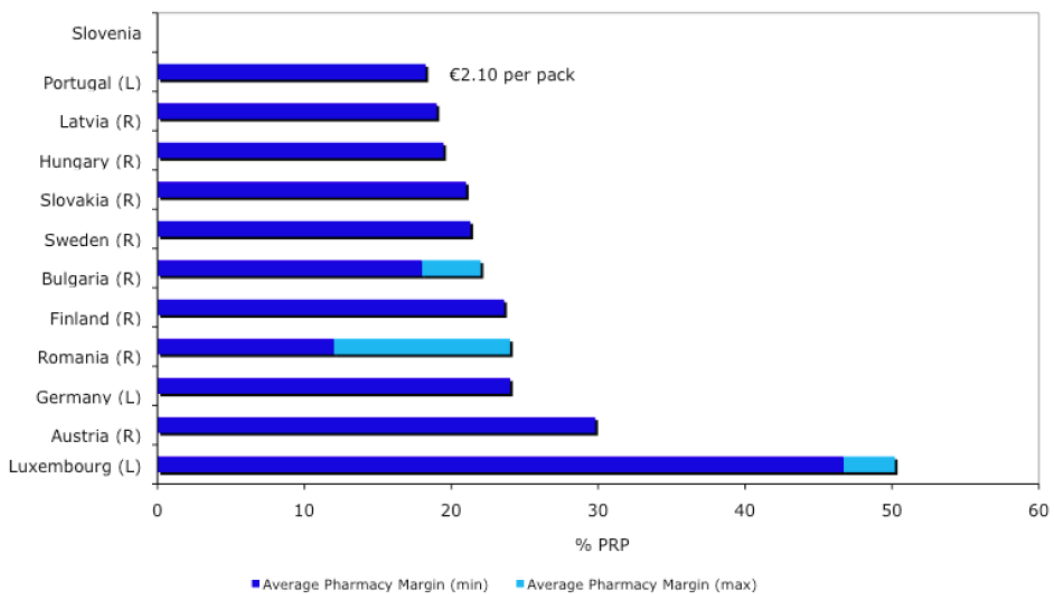


**Source:** EFPIA, The Pharmaceutical Industry in Figures- 2010 Edition.

**NB:** 2007 data used for Austria, Cyprus, Denmark, France, Netherlands, Romania and Slovenia.

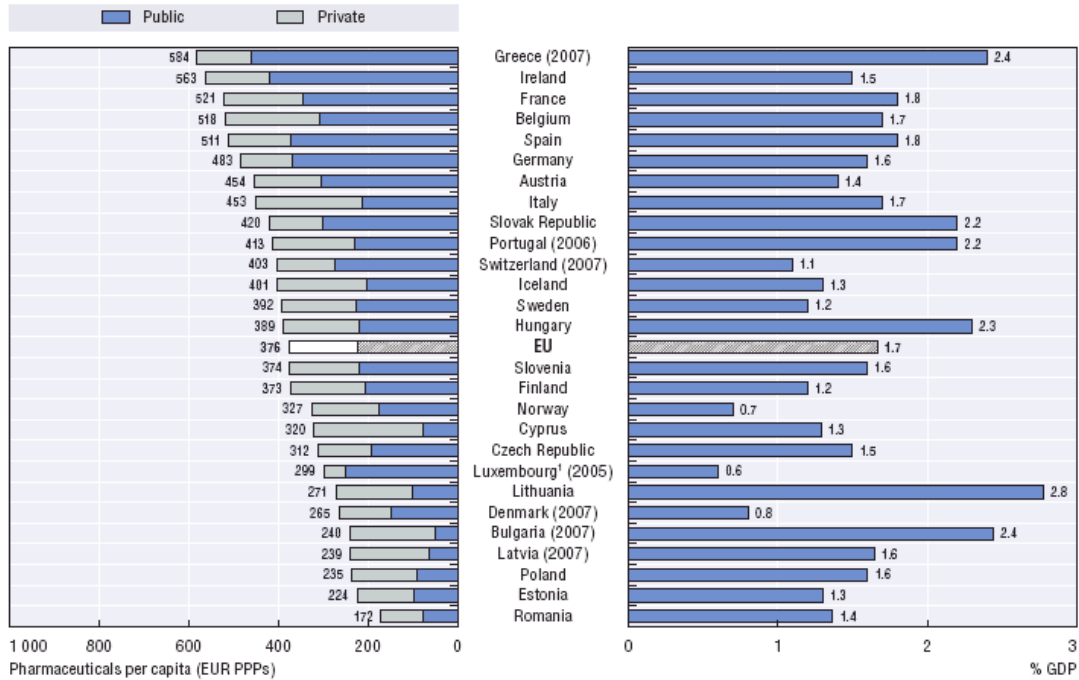
**Figure 16: Average pharmacy (retail) margins as share of retail price in selected EU Member States**

Average Pharmacy Margins presented across EU27 Countries. Greater than one source (2007-2010) creates minimum and maximum values. Countries with 'R' denote regressive margins and 'L' denotes linear markups.




**Source:** Kanavos (Pharmaceutical Policy, 2010, lecture 9)

#### 4.4.1. Expenditure on pharmaceuticals per capita and as a share of GDP, 2008



1. Prescribed medicines only.

Source: OECD Health Data 2010; Eurostat Statistics Database; WHO National Health Accounts.

StatLink  <http://dx.doi.org/10.1787/888932337490>