

# Price Leakage Due to International Reference Pricing: Impact of Pfizer’s Not-for-Profit Pricing Initiative on Price Levels in Additional Countries

Izmirlieva M, Trenti S  
GlobalData, London, United Kingdom

## Objectives

In May 2022, Pfizer announced it will make 23 patent protected medicines and vaccines available on a not-for-profit basis to 45 low- and lower-middle-income countries. However, tiered pricing carries risks. If other countries reference prices in any of the 45 under International Reference Pricing (IRP), price cuts could be imposed on Pfizer products elsewhere. We analyze Pfizer’s initiative as a case study for the pharma sector in assessing price leakage risk, both under Pfizer’s list of 45 countries, but also if the program was extended to all low- and middle-income countries (LMICs).

## Methods

Countries in the Pfizer list of 45 were checked against the GlobalData IRP Matrix to identify all first-degree referencing relationships and see which additional countries (outside the 45) reference any of the 45 countries. The same assessment was then performed for a list including all 84 low-income + lower-middle-income countries, and then for a list including all 139 low-income + lower-middle-income + higher-middle-income countries.

## Results

To reduce the risk of price leakage under IRP, a pharmaceutical company needs to either offer a higher price to low-income countries than it may have done otherwise or, if it still chooses to price its medicines for low-income countries based on their ability to pay, it will need to ensure that the low price is kept confidential.

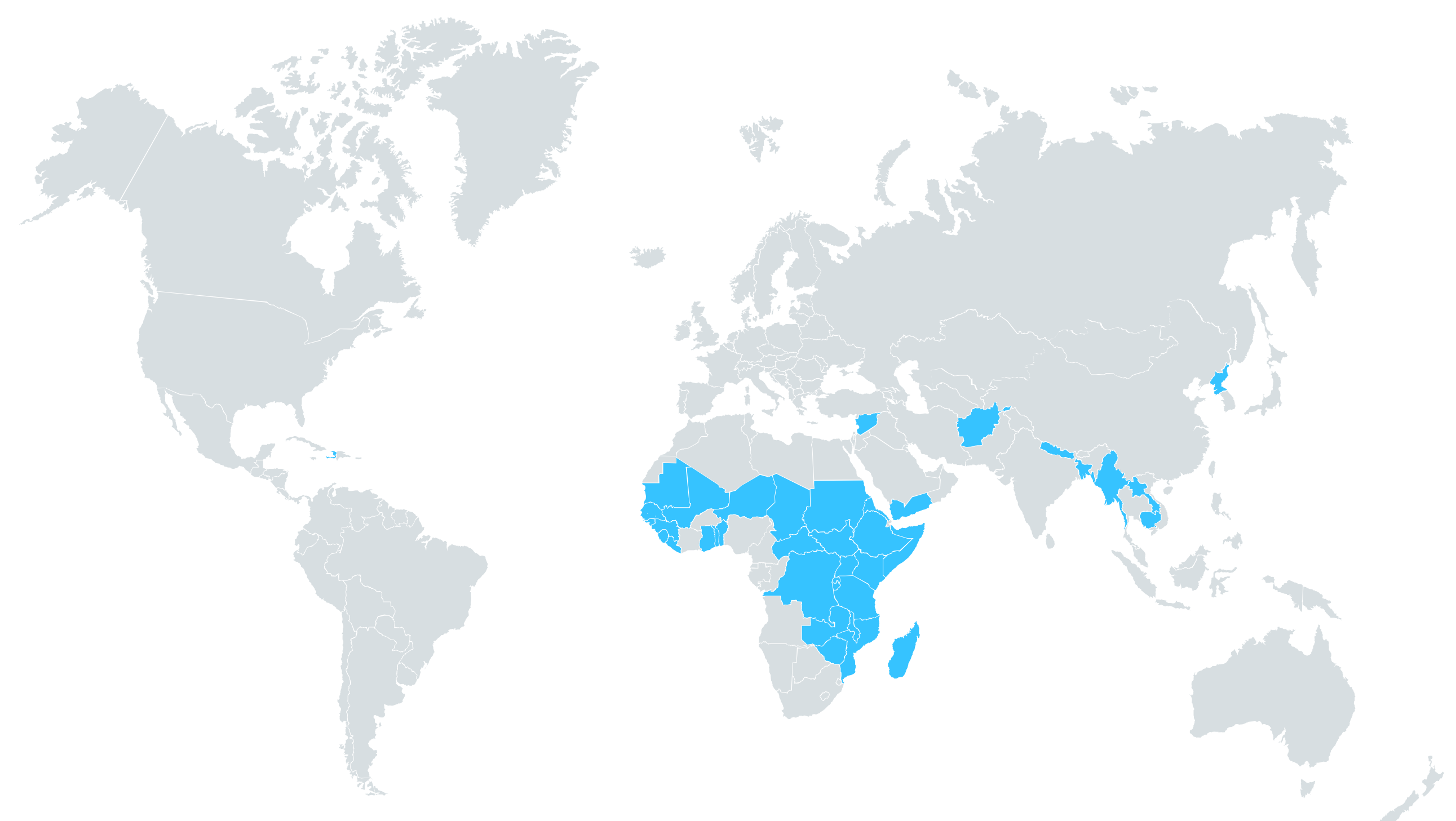
Under Pfizer’s well-publicized Accord for a Healthier World program, price confidentiality is not an option as the company is effectively disclosing the price it will charge for some products in 45 countries. To mitigate the risks of price leakage, the company needs to limit the affected products and/or carefully select the countries to which it will give at-cost preferential pricing. Pfizer has vowed to provide cost-pricing to 23 patent-protected products and vaccines, but also to all future patented products in selected therapeutic areas. Hence, country selection for inclusion is crucial. Pfizer’s list of 45 countries includes all low-income countries and a small number of middle-income countries, with a population totaling 1.2 billion people.

Our analysis indicates that by selecting all low-income countries and a small number of middle-income countries for inclusion in the program, Pfizer is limiting the direct impact on drug prices to 45 countries directly, and seven additional countries indirectly, via IRP.

However, if Pfizer – or other pharmaceutical companies considering similar pricing strategies – were to extend the low, publicly-known price to all lower-middle-income countries, the low price will have a direct effect in 84 countries and will indirectly impact prices in nine additional countries due to IRP.

Alternatively, if the not-for-profit, publicly known price were to be extended to all higher-middle-income countries, the low price will directly affect 139 countries and price levels in eight additional countries will be at risk of reduction due to IRP.

Countries included in Pfizer’s Accord for a Healthier World Program



Source: GlobalData, based on Pfizer

Countries directly referencing markets included in Pfizer's Accord for a Healthier World Program

Referrer country	Reference countries/ territories								
	Bangladesh	Cambodia	Kyrgyzstan	Laos	Myanmar	Sudan	Syria	Tajikistan	Yemen
Belarus			Formal						
Egypt						Formal			
Iraq							Informal		
Kyrgyzstan								Formal	
Pakistan	Formal								
Qatar									Formal
Uzbekistan			Formal					Formal	
Vietnam		Formal		Formal	Formal				

Note: Formal and informal refer to type of referencing used under IRP.

Source: GlobalData IRP matrix

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## Conclusions

Tiered pricing and IRP are theoretically incompatible. If a company offers a lower price to countries with a lower ability to pay, and makes that price publicly known, the price will be referenced by other countries with higher ability to pay, resulting in these higher-income countries setting their drug prices at a level lower than what market efficiency or the company’s pricing strategy would dictate. Reducing prices in selected countries, and making the reduced price publicly known, generates significant risks for the pharmaceutical industry as a result of price leakage under IRP.

While we only considered first-degree IRP effects in this analysis, the price pressure would multiply if second-degree IRP (i.e., consider which countries reference prices in the countries directly referencing the company’s initial list) and internal price linkage are taken into account.