GOVERNMENT OF INDIA
CHEMICALS AND FERTILIZERS
LOK SABHA

UNSTARRED QUESTION NO:3789
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DIFFERENCE BETWEEN PRODUCTION COST AND SELLING PRICES OF MEDICINES
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Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

(a) whether the selling price of medicines has increased in the country for consumers as a result of Government taxes, dividend of manufacturers and commission for distribution;

(b) if so,the facts thereof;

(c) the estimated difference between production cost of medicines and consumer selling prices in the country on an average; and

(d) the steps being taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF CHEMICALS AND FERTILIZERS (SHRI SRIKANT KUMAR JENA)

(a) to (d): There are broadly two categories of drugs under DPCO 1995 for the purpose of price fixation / revision and monitoring. These are scheduled drugs (drugs under price control) and non-scheduled drugs which are out of price control. NPPA fixes / revises prices of 74 Scheduled bulk drugs and formulations based on them with an objective to make these drugs affordable.

While fixing prices of scheduled drugs, taxes as applicable are taken into account as notified by Ministry of Finance. Dividend of manufacturers and commission for distribution is not separately considered and the same is a part of MAPE (Maximum Allowable Post- manufacturing Expenses) allowed as per provision under the DPCO 1995 in respect of scheduled formulations. MAPE is considered at 100% in the case of scheduled indigenous formulations and upto 50% for imported formulations. No one can sell any scheduled drug / formulation at a price higher than the price fixed by NPPA. / Government.

The Government has reduced the rate of excise duty twice on Drugs & Pharmaceuticals from 16% to 8% vide notification no. 4/2008 - CE dated 01.03,2008 and subsequently from 8% to 4% vide notification no. 58/2008 - CE dated 07.12.2008. The reduction in the excise duty has resulted in reduction in the prices of scheduled drugs and formulations, the prices of which are fixed by the NPPA under the provisions of the DPCO 1995. Whenever rates of excise duty, customs duty etc. are revised, the NPPA issues a notification quantifying the impact on the prices of scheduled drugs and formulations fixed by it.

As regards trade margin it may be stated that as per DPCO, 1995, prices of scheduled medicines are fixed by NPPA taking in to account a margin of 8% to the wholesaler and 16% to the retailer. In the case of non-scheduled medicines, trade margin is normally given by the industry themselves.

For the non-scheduled drugs (drugs out of price control), production costs of medicines are not worked out / estimated by the NPPA. However, there is a mechanism in place for monitoring their prices. As per the internal guidelines, companies are shortlisted where there is an increase in price of a non-scheduled formulation by more than 10% in one year and the annual turnover of the formulation pack exceeds Rs.1 crore. Further, the share of the formulator in that segment of the formulation is required to be at least 20% of the market or the medicine is one of the first 3 top brands of that group. The criteria, namely, high turnover and 10% price increase are designed to identify cases of mass consumption and to meet the requirement of `public interest`, referred to in para 10 (b) of the DPCO, 1995. Wherever any abnormal price increase is noticed, necessary action is taken. The manufacturer is impressed upon in such cases to bring down the price voluntarily within 10% limit failing which, if justified, action is initiated under para 10 (b) of the DPCO, 1995, This is an ongoing process.