

# India Just Did What Millions of Americans Wish the U.S. Government Would Do

By Sean Williams /// July 19, 2014

The United States is unquestionably the premier economic superpower around the globe. It has the highest GDP, the greatest number of world-renowned universities, and of course has the most followed financial markets around the globe.

Compared to India the U.S. appears to be a giant. Despite India's population nearly equaling four times the current population in the U.S., India's 2013 GDP of \$1.9 trillion is dwarfed by the United States' \$16.8 trillion. Furthermore, whereas the passage of the Affordable Care Act, better known as Obamacare, helped reduce the U.S. uninsured rate below 14%, an estimated 80%-plus of India's 1.2 billion people are believed to be without insurance. The list of night-and-day discrepancies between the two nations is a mile long.



But, India is also setting a standard in its country that I suspect millions of Americans would love to see implemented in the United States.

## India lays down the law on Drug Makers

*Just last week India announced in a surprise decision from the National Pharmaceutical Pricing Authority, or NPPA, that it would be capping the price of 108 different drugs ranging from diabetes treatments to HIV therapies in order to make access to these drugs more affordable for Indian citizens. This decision follows a move last year in which India initiated price controls on more than 30% of existing medicines within the country, once again in an effort to ensure that its citizens have access to these much needed drugs.*

Think about what a price cap would mean in the United States. Right now there's a huge debate over the price being charged for **Gilead Sciences** (NASDAQ: GILD ) revolutionary oral hepatitis C treatment, Sovaldi, which runs roughly \$1,000 per day. A

standard 12-week treatment is therefore going to cost the patient and insurance company a whopping \$84,000.



Source: [StockMonkeys.com](http://StockMonkeys.com), Flickr.

On one hand Gilead could be viewed as justified in its superior pricing given that Sovaldi can be offered to select genotypes without the need for interferon, thus dramatically reducing the side effects associated with treatment. More importantly, Sovaldi's success rate of eliminating detectable levels of the disease after 12-weeks ranged 90% and higher in its multiple clinical studies. Yet, this is a price that's far too high for most uninsured Americans to pay and is even causing insurers to grimace in pain. Gilead has also taken substantial heat from Congress over the pricing of its drug, to the point where it's even possible that insurers could begin denying coverage to members simply because of Sovaldi's high cost. If price caps were in place within the U.S. this wouldn't even be a discussion.

Realistically, however, price caps would be incredibly difficult to implement in the U.S.

One reason India's prescription drug costs will regularly undercut prices found in the U.S. simply relates to the cost of the health care system itself. Within the U.S., pharmaceutical companies spend millions upon millions of dollars annually in order to protect their patents. These costs add up into significant price hikes for U.S. prescription drugs.

Also, the standard of living in the U.S. is significantly higher than that of India. Higher prices aren't as "noticeable" in the U.S. as they are in India for this reason, which makes it tougher for Congress to establish a feasible "cap level. "

### **This decision could have unintended consequences**

What the NPPA is doing in India could have some very interesting effects on the pharmaceutical sector and for its citizens; although there could be some unintended consequences along the way as well.

On one hand, reduced prescription prices should yield better access to key drugs for India's largely uninsured population. Simply not being priced out of the market for certain key drugs could drastically improve India's life expectancy, which has improved from 60 years in 1994 to 66 years in 2012 according to data from the World Bank. Overall, India's life expectancy still lags the global average of 70 years established by the

World Health Organization in 2012. Long story short, better access to game-changing medicine could yield a healthier nation that ultimately winds up being more productive.

But the NPPA's actions could have a ripple of negative reactions throughout the pharmaceutical sector which could damage the diversity of products that Indian citizens currently have to choose from.

Specifically, as *Reuters* pointed out, subsidiaries of **Sanofi** (NYSE: SNY ) , **Abbott Laboratories** (NYSE: ABT ) and **Ranbaxy Laboratories** (NASDAQOTH: RBXZF ) are the most likely to be hurt by this decision. **Dr. Reddy's Laboratories** (NYSE: RDY ) , the nation's No. 2 drugmaker, noted it wouldn't see as big of a hit from the ruling and stuck by its previous full-year forecast. This isn't too surprising considering that Dr. Reddy's is primarily engaged in generic drug production and the sale of active pharmaceutical ingredients rather than fully branded pharmaceutical products.

For Sanofi India, Abbott Healthcare Private, and Ranbaxy, all three could be staring down a considerable drop in profits or perhaps even losses for key brand-name treatments. The big question will be whether or not these pharmaceutical giants decide to pull their branded drugs out of India altogether following this decision. If this were to happen it would reduce competition and potentially remove superior branded therapies from the market which is bad for consumers on both counts.

Another alternative involves these drugmakers sticking around but dramatically reducing research and development within the country. If price controls would yield losses for developed drugs then it won't be worth Sanofi, Abbott, or Ranbaxy's time to develop new therapies. This, too, would be bad news for India's citizens as it would mean a steep drop off in innovation and it could thwart new pharmaceutical companies from setting up shop in India.

Although it's too early to tell exactly how this action will be received by big pharma and India's citizens, this is a situation all health care investors should be closely monitoring as the success or failure of India's price-capping on key branded drugs could be the test case other countries refer to when choosing to cap or avoid capping drug prices within their own countries.

**If you think India's price controls are game-changing, then wait until you get a look at the potential behind this revolutionary new product!**

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*Sean Williams has no material interest in any companies mentioned in this article. You can follow him on CAPS under the screen name TMFUltraLong, track every pick he makes under the screen name TrackUltraLong, and check him out on Twitter, where he goes by the handle @TMFUltraLong.*

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