

GSK Public policy positions

Tiered Pricing and Vaccines

The Issue

The global challenges facing access and delivery of vaccinations are multifaceted, whether it is the lack of infrastructure to deliver the vaccines to those in greatest need or lack of political will of governments to invest in national immunisation programmes. Pricing however is also a factor and for over twenty years GSK has adopted a tiered pricing policy for our traditional and new vaccines whereby we ask countries to pay different prices based on their differing income levels rather than a single flat rate.

Our approach has been extremely successful in broadening access. Of the 900 million doses of GSK vaccines distributed in 2012, over 80% went to developing countries which include least developed, low and middle income countries. However, the world has changed significantly in recent years. There are now more and more countries graduating from least developed status and beginning the transition into low and middle income brackets, while others are now moving swiftly through the middle income brackets. In parallel with these macroeconomic changes, companies are being asked to provide greater transparency around how they price their vaccines.

As a global business, GSK recognises we need to respond to these changes by refining our business model into one that reflects the new economic challenges facing governments as well as the new commercial realities facing the industry. This paper summarises a new pricing model developed by GSK in 2013. In essence, the model asks countries at each step along their development journey to pay a fair price i.e. one that reflects their particular circumstances and which they can afford; one that reflects the return on investment that they receive from vaccination; and one that incentivises this investment.

GSK's Position

- The public health benefits of vaccines are undeniable; it is estimated that every year they prevent up to 3 million deaths and save 750,000 children from disabilities.
- Tiered pricing has a vital role to play in facilitating the production and reliable supply of effective, high-quality and safe vaccines, as well as in supporting the continuous development of new vaccines including malaria, HIV and TB.
- GSK was one of the first vaccine companies to adopt a tiered pricing approach. For over 20 years, we have operated within three broad tiers – higher prices for high income countries; low prices in GAVI¹ eligible countries; and intermediate prices in middle income countries.
- Tiered pricing will remain at the heart of GSK's business model for vaccines. However, the changing fortunes of developed and developing countries; the welcome challenge represented by the Decade of Vaccines (see Background); and growing external interest in price transparency, have prompted GSK to refine our model.
- Maximising access to affordable and high quality vaccines will continue to be a key goal of our approach, alongside more directly incentivising governments to invest in immunisation programmes. The revised model asks countries to accept higher prices as their incomes increase and seeks to address the longstanding equity issue of “small v large” countries by rewarding contract term and population coverage more than absolute volume orders.
- GSK will continue to reserve the very lowest prices for those countries least able to pay. For established high income countries as well as those now considered ‘middle income’ we will seek proportionately higher prices.

¹ GAVI is a nonprofit organisation based in Geneva that facilitates the purchase of vaccines. It creates a more attractive vaccines market by bringing together seventy-two developing countries under one umbrella and raising funds from leading donors – largely industrialised-country governments and key multilateral organisations – for the purchase of vaccines. The actual procurement process is handled through UNICEF.

- Commercial sensitivities are such that GSK will not publish our prices; however, our commitment to greater transparency means we are willing to share details about the criteria we apply when tendering for government contracts. We will calculate our prices for all new government tenders against these criteria and within price bands in our established GNI tiers.
- GSK will continue to offer vaccine donations in times of natural disaster or global healthcare emergencies; however, we do not see donations as a sustainable response to the medical needs of developing countries. A tiered pricing policy, which guarantees highly discounted prices for countries most in need and least able to pay is, we believe, a more appropriate response than donations.

Background

Vaccines and Global Health

No other health intervention is as simple, powerful and cost effective as a vaccine. Over the past thirty years advances in science, business and distribution have transformed the field to the point where vaccines are recognised as a “best buy” in global health, a driver of pharmaceutical industry growth and a key instrument in international development.

Vaccines have protected billions of people from the scourge of previously deadly and debilitating diseases that threatened populations across the globe. For example, smallpox was eradicated in 1979; polio cases fell by over 99%, from over 300,000 per year in the 1980s to fewer than 2,000 in 2009; and the number of reported measles deaths has dropped from 6 million to less than 1 million per year. Experts have suggested that vaccines have saved in the vicinity of 20 million lives in the last two decades.

GSK and Tiered Pricing

GSK was among the first vaccines companies to adopt a tiered pricing policy. For over twenty years we have operated a business model designed to meet medical needs and to achieve the public health benefits of vaccination within global economic realities. Our model has been guided by four key principles:

1. **Availability** – we seek to make GSK vaccines available, wherever possible, to all countries that need them, as early as possible, and to produce quality vaccines in volumes sufficient to meet global demand
2. **Affordability** – we seek to set vaccine prices at levels that allow countries across all income levels to purchase, regardless of whether the payor is a government, a supranational organisation or any other customer
3. **Quality** – we provide the same products at the same quality level no matter where they are supplied
4. **Sustainability** – we aim to operate in a way that allows the business to continue to supply innovative, high quality vaccines to all who need them for as long as they are needed.

“The Decade of Vaccines”

For all that has been achieved by GSK and others in the vaccines area over the past twenty years, around 19,000 children still die every day from largely preventable causes. Scientific innovation meanwhile is delivering new vaccines to protect against previously *unpreventable* infectious diseases, including prominent killers such as cervical cancer, malaria, rotavirus, and pneumococcal diseases.

It was against this backdrop of ongoing mortality rates and the potential offered by a new wave of vaccines that the *Decade of Vaccines* was launched in 2011. Driven by Bill Gates, the *Decade of Vaccines* challenges the global community to extend – by 2020 and beyond - the full benefits of immunisation to all people, regardless of where they are born, who they are or where they live.

Its success requires a rethinking by all stakeholders of traditional approaches to immunisation programmes and budgets. This re-evaluation needs to be built on an appreciation of the value of prevention to economies and to recognise the substantial research and development costs associated with the new wave of vaccines. A more nuanced approach to pricing that more accurately reflects ability to pay and economic progress, while incentivising investment in immunisation programmes, is also needed.

GSK's Updated Model

Consistent with our principles of availability, affordability, quality and sustainability and coupled with our commitment to innovation, GSK's updated tiered pricing model is part of our response to the *Decade of Vaccines*. It reflects the fundamental value of immunisation as an investment in health and wealth and GSK's desire to enable countries to maintain and expand upon their commitment to immunisation as their economies grow. Of note, the model is designed to support those countries which commit to vaccination for the long-term and to implementing programmes aimed at reaching large proportions of the target population.

Ability to Pay: For public markets, GSK's pricing policy will focus on expanding access via national immunisation programmes at affordable prices for governments. Gross National Income (GNI) per capita is a widely recognised index and is a good indicator of a government's ability to pay. Maximum prices and country membership in a pricing tier will therefore be defined by GNI per capita.

The World Bank classifies countries into four tiers based on GNI per capita: High Income Countries (HIC), Upper Middle Income Countries (UMIC), Lower Middle Income Countries (LMIC), and Low Income Countries (LIC). GSK's approach to public sector prices will be organised into seven tiers according to their GNI ranking. The lowest tier, tier 7, will correspond to GAVI eligible countries, while the remaining three World Bank groupings of HIC, UMIC and LMIC will each comprise two tiers.

Increasing the number of tiers enables GSK to be more finely attuned to a country's ability to pay. Introducing a more formalised and transparent approach should also support governments - particularly those graduating from GAVI - with their budget planning.

Willingness to Invest: Each Income Tier is divided into price ranges based on four criteria, three of which incentivise public health policy commitments to vaccination. These three criteria are:

- 1) the committed duration for vaccination in the disease area
- 2) the coverage of the target population which rewards the health benefit of well implemented vaccination programmes; and
- 3) for vaccines with broad age recommendations such as cervical cancer vaccines, a government's commitment to vaccinate catch-up cohorts as part of their national immunisation programme.

The fourth criteria is the committed number of doses to be purchased. It is weighted less than the previous ones together to ensure that governments with small populations who are fully committed to vaccination programmes are not disadvantaged by their size.

In 2016, 17 countries are anticipated to graduate from GAVI financing. These countries have successfully implemented mass vaccination programmes with new vaccines but are struggling with the cumulative effect of these programmes on national immunisation budgets. To support these countries, GSK will provide specific pricing support to transition to their respective tiers as they graduate.

Implications of the Policy

GSK is confident that this revised approach to tiered pricing will meet public health objectives in a way that provides access and builds a sustainable supply of vaccines. Within any given GNI per capita tier, a smaller country with a relatively high commitment to vaccination (full coverage of cohorts, long duration, and catch-up cohorts if relevant) will obtain a lower price than a large country with a lesser relative commitment to national vaccination.

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