New Age Dawning

Although Ministry of Health and Welfare revises usually lower pharmaceutical prices to match market trends, no biennial government revision was scheduled for fiscal 1991 and it was expected that the companies would enjoy sharply higher earnings. In fact, however, sales value will probably rise by only about 5%, well below earlier estimates, because of a slower-than-expected increase in sales volume, as the government took steps to curb medical expenditures for elderly people amid criticism that Japanese patients are led to use pharmaceuticals excessively.

Pharmaceuticals producers will see some increase in shipments and subsequently improved sales. But many manufacturers' profits are likely to fall because of higher R&D spending, depreciation and labor costs, especially for "detail men" (medical salesmen). There will be some exceptions, namely a few companies that have managed to introduce hit products.

Fiscal 1991 witnessed the beginning of a change in drug distribution. Under the Japanese pharmaceutical marketing system, there are considerable gaps between the government's officially guaranteed prices set for medical insurance purposes and those which medical institutions actually pay. These gaps have resulted from fierce sales competition, involving both makers and wholesale companies. As a result, complex forms of price discounting and rebates prevail, meaning extra income for hospitals.

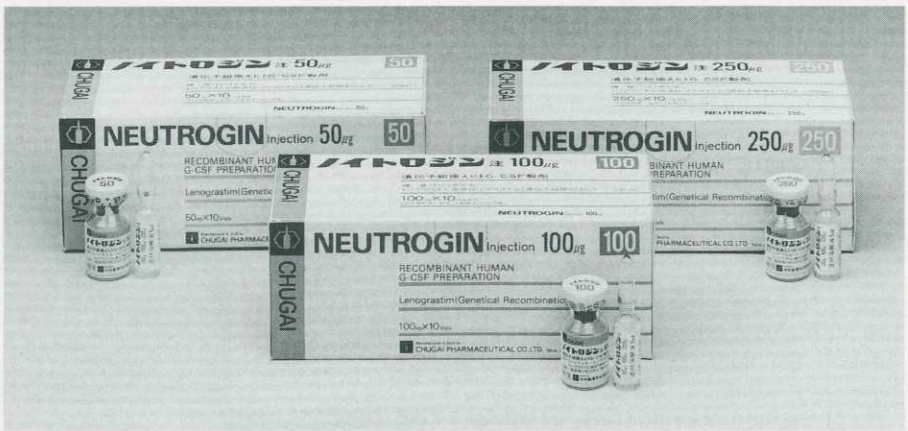


Photo: Chugai Pharmaceutical Co.

G-CSF, a new cancer drug expected to be put on the market in fiscal 1992.

Aware of the fact that these practices make the market non-transparent, producers—especially the major ones—began to introduce a list price system. Under this arrangement, the manufacturers sell drugs to wholesale companies at specified prices, to which the wholesalers add their margins on resale. Drug makers also began to abolish post-sale discounting and to clarify rebate rules and conditions. These arrangements are expected to gradually increase transparency in the pharmaceuticals market, making it difficult for both makers and wholesalers to cut prices.

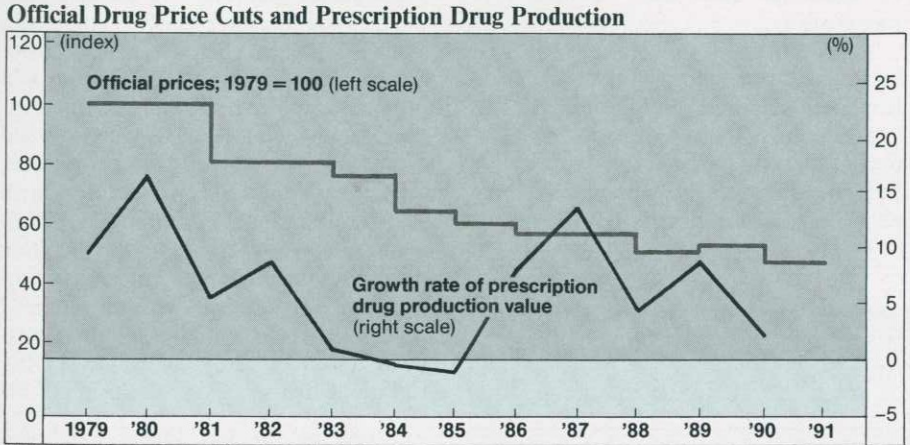
Another important development has been the commercialization of new "bio-drugs," resulting from increasingly active R&D efforts using biotechnology. The blood-increasing hormone erythropoietin (EPO) achieved sales worth ¥42 billion ($323 million) in 1990, the first year after its launching, while sales of tissue plasminogen activator (TPA), an agent for dissolving blood clots, were ¥24 billion ($184 million) in 1991, when it made its debut. In fiscal 1992, a cancer drug called granular colony stimulation factor (G-CSF) is expected to be put on the market, and this should help the annual sales of bio-drugs reach over ¥100 billion.

What is more, another 44 bio-drugs are now undergoing clinical studies, the official testing period preceding commercial production. It is perhaps no exaggeration to say that the age of bio-pharmaceuticals has arrived. Competition in this area is likely to become more fierce as drug makers are eager to form partnerships, even with foreign pharmaceuticals companies, and to start joint R&D projects.

Throughout fiscal 1992, manufacturers are likely to face a severe situation. In April, the government is expected to revise its official prices downward. Therefore, the key to the makers' performance lies largely in their ability to develop new drugs that can get high official prices. In the meantime, leading producers' attempts to improve product distribution may spread to medium-sized and small makers. That will make one thing clear: companies that cannot develop new drugs will find their future business increasingly tough.

(Hirokazu Miyagawa, senior economist)

Official Drug Price Cuts and Prescription Drug Production



Note: The higher index in 1989 reflects the introduction of the consumption tax in April of that year.
Source: Pharmaceutical industry production statistics, Ministry of Health and Welfare.