

China Liberalizes Drug Pricing Control

Beginning June 1, 2015, the vast majority drugs in China, except for narcotic and Type 1 psychotropic drugs, will be free from government-set pricing. This reform on drug pricing policy was announced by the central pricing authority, National Development and Reform Commission (“NDRC”) and other administrative authorities jointly on May 4, 2015, with the release of the *Circular Concerning Opinions on the Enhancement of the Drug Price Reform* (NDRC Price No. [2015]904) (“Circular”).

According to the Circular, the NDRC aims to gradually establish a market-driven drug pricing system and minimize government’s direct intervention in drug pricing. The Circular divides the reform of the drug pricing system into five principles for different types of drugs:

- a. **Drugs reimbursed by the Basic Medical Insurance (“BMI”) funds:** The prices will be established on the basis of reasonable medical reimbursement standards by the BMI administrations together with other authorities;
- b. **Patented drugs and drug products with exclusive sources of supply:** The prices will be determined through a transparent and multilateral negotiation mechanism;
- c. **Blood products not listed in China’s National Reimbursable Drug List, immunization and vaccines purchased by national centralized procurement, national free antiretroviral treatment for HIV, and birth-control drugs and devices:** The prices will be determined by government procurement or negotiations;
- d. **Narcotic drugs and Type 1 psychotropic drugs:** The government will continue to set the maximum ex-factory and retail prices;
- e. **Drugs not in any of the above categories:** The prices will be set by the manufacturers based on the production costs as well as market demand and supply.

While the NDRC will ultimately allow the market to decide on drug pricing, it will increase the frequency of price surveillance in the future, most likely by the monitoring of drug prices and enforcement against unlawful pricing behavior.

Since 2000, the Chinese government, especially the NDRC (formerly known as the National Planning Commission), has played a key role in the drug pricing system by setting the “government-guided prices” or the maximum retail price. Therefore, the current reform will undoubtedly be deemed the biggest change in the Chinese drug pricing system in years. According to an anonymous NDRC spokesman, although some drug prices may increase due to production costs or market demand, the NDRC expects that most drugs will not experience a rapid price increase.

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[Katherine Wang](#)