External reference pricing
WHO Guideline on Country Pharmaceutical Pricing Policies
A plain language summary

Main points
- External reference pricing is an approach where prices are set according to the benchmark prices for the same or similar medicines in comparable countries.
- External reference pricing is often used together with other pricing approaches, such as negotiation.
- Using external reference pricing may be more complex than it seems. It requires highly skilled staff to select, collect, check, calculate and adjust prices over time. It also requires investment in building and maintaining databases for pricing information.

Pros
- External reference pricing allows for international comparison and benchmark setting.
- External reference pricing may be easier to use than other price-setting methods (e.g. value assessment).

Cons
- Comparing prices with other countries (e.g. higher-income countries) without understanding the context could lead to unaffordable prices.
- Prices collected from publicly available sources in comparison countries may not be accurate (e.g. not the final net price).
- Checking price accuracy is difficult and requires high-level skill.

WHO GUIDELINE
Conditional* recommendations for the policy

* Consult stakeholders to understand the conditions within country context before full adoption

HIGHLIGHTS
For policymakers responsible for promoting affordable access to health products

1. WHO suggests the use of external reference pricing under the following conditions:
   - External reference pricing is used in conjunction with other pricing policies, including price negotiation;
   - Adequate resources and skilled personnel are available to implement external reference pricing;
   - Selection of reference countries or jurisdictions is based on a set of explicitly stated factors;
   - Reference prices are obtained from verifiable data sources;
   - Reference prices have accounted for all forms of discounts, rebates and taxes with a high degree of confidence; and
   - Methods for determining prices follow a transparent and consistent process.

2. WHO suggests that countries undertake regular price revisions at a pre-specified frequency when using external reference pricing.

3. WHO suggests that countries monitor the impacts of implementing external reference pricing on price, affordability and access to medicines.
What is the policy?
External reference pricing is the practice of comparing the price of pharmaceutical products in different countries to set a benchmark price. Some smaller bodies within countries, such as states, provinces or administrative regions, make their own pricing policies and purchase pharmaceutical products separately. They may refer to each other’s prices using external reference pricing.

Why is the policy implemented?
External reference pricing tries to ensure that a country does not pay more for a product than other comparable countries, or that lower-income countries pay less. It may or may not lead to affordable prices, and the prices set through external reference pricing are often used for further price negotiation. It is most often applied to products lacking competition.

How is the policy implemented?
In external reference pricing, prices of the same or similar medicines are compared among countries with similar characteristics. These characteristics include location, income, availability of medicines, market size for the product, and where the country sources the product from. Prices are compared at common points along the distribution chain from manufacturer to wholesaler to retailer. This means ex-factory prices are compared to ex-factory prices, net pharmacy selling prices are compared to net pharmacy selling prices, etc.

Prices obtained from comparison countries become final prices in various ways. Countries may choose the lowest price, the average price, or the average of the lowest prices. Others also adjust prices for factors such as market size and currency strength. External reference pricing may be applied to single-source products or, less commonly, to multisource supply products.

For more information
See the WHO Guideline on Country Pharmaceutical Pricing Policies for more information, including an overview of the evidence about external reference pricing and nine other pharmaceutical pricing policies. https://www.who.int/publications/i/item/9789240011878

THINGS TO CONSIDER

Implementation
- Do we have enough technical capacity, including database management, monitoring and evaluation?
- Do we have clear processes for settling any disagreements on the final price?
- Are we, or could we be, part of an international network that promotes price sharing and skill transfers?
- Does our pricing system have political support?

Methodology
- How comparable are prices at the same point along the supply and distribution chain (i.e. ex-manufacturer, ex-wholesaler, pharmacy and consumers)?
- How many jurisdictions do we need to compare to have confidence in our price comparison?
- How comparable are these jurisdictions in terms of market size, national income, and purchasing power?
- How will we deal with challenges such as missing data or prices that may change frequently because of unstable currency?
- Will external reference pricing give us a good starting point when we negotiate with suppliers?

How commonly is the policy used?
External reference pricing is widely used in many European countries, as well as in high- and middle-income countries in other parts of the world (e.g., Brazil, Egypt, Saudi Arabia, Thailand, Turkey, and the United Arab Emirates).