THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

NEW LSE STUDY CONTRADICTS ACCEPTED BENEFITS OF EU PHARMACEUTICAL PARALLEL TRADE

Study Demonstrates No Direct Savings to Patients, Majority of Benefits Accrue to Parallel Traders

London, UK, 25 November 2003: A new study from the London School of Economics and Political Science, launched today, challenges the accepted view that pharmaceutical parallel trade benefits healthcare stakeholders and patients through opening up medicine provision and lowering costs.

The study, which analysed the impact of cross-border brand-name prescription medicine trade within the European Union, suggests that although the overall number of parallel imports is continuing to increase, healthcare stakeholders are realizing few of the expected savings. Further, the study demonstrates that profits from parallel imports accrue mostly to the benefit of the third-party companies that buy and resell these medicines. Coming as most EU countries have introduced legislation to encourage the use of parallel-imported medicines, the study provides essential reading for all involved in the debate, from the consumer to Government.

The LSE study's key objective was to provide a basis for assessing the relative future healthcare and industrial policy implications of parallel imports, with particular consideration for the fundamental principle of free movement of goods within the European Union. Parallel trade refers to the practice of importing brand-name pharmaceuticals from other EU countries, whose governments have set relatively low prices for innovative new medicines. Pharmaceutical parallel trade is thus the result of national price setting in the EU and the free movement of goods. A key driver behind the study was the lack of official data on pharmaceutical parallel imports or exports from the majority of EU countries, making informed debate on the pros and cons of the practice impossible.

Parallel trade of prescription medicines has to date been justified by several key and widely-supported economic hypotheses, summarised as follows by the LSE team:

1. Cross-country effect: Parallel trade leads to price equalisation across countries – 'arbitrage' leading to more efficient market operation
2. Destination country effect: Increased price competition in destination countries reduces overall pharmaceutical prices, benefiting payers and patients
3. Aggregate welfare effects: If price competition is the result of parallel trade, then the resulting price convergence may lead to overall welfare improvements for payers
4. Patient benefits: Patient access to innovative medicines is improved, with lower direct and indirect costs
5. Industry impact: Parallel trade has minimal impact on the pharmaceutical industry as a whole, in terms of profitability and potential to innovate, and indeed, improves overall industry efficiency

Top-line results of the LSE study, which was part-funded by Johnson & Johnson, has now provided concrete evidence to refute all of these hypotheses. The study demonstrated clearly that the vast majority of benefits from parallel trade accrue directly to parallel importers, where gross profits and revenues accrue over time in line with higher penetration rates. Taking the same sample of products across all study countries it is shown that parallel imports for 2002 sales to the 6 major destination countries accounted for only 0.3-2% of national medicine budgets, representing a total saving of just €43.1 million (or €99.2 million if the clawback is included) over locally developed and manufactured products. In contrast, the parallel importers who bought these same medicines from across the EU, made profits of €622 million. In the UK, the NHS saved €55.9 million (if the clawback is included), or 2.4% of the medicines budget from parallel imports in 2002, versus a mark-up of 49% and profits of €469 million made by the parallel importers who sold these products.

Dr Panos Kanavos, lecturer in international health policy at LSE, said: "The study clearly makes the case for urgent further debate before any additional legislation in support of parallel trade is passed, at EU or country level. There is no evidence of sustainable dynamic price competition in destination countries, with no corresponding indirect cost savings. The supposed benefits of this system need to be reviewed."

Key study findings were outlined today at an event in the British Medical Association, London. The study is currently undergoing peer review and will become available in due course on the LSE website.

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Methodology

The LSE research team used the IMS pharmaceutical sales database to track the sources, acquisition costs and sales of specific medicines in the European Union. Research focused on the sales of nineteen high volume medicines from six major drug classes over the period 1997–2002, including 3 widely-prescribed types of heart medicines – statins, ACE I and ACE II inhibitors; the newest and best selling categories of gastrointestinal and anti-depression treatments – proton pump and selective serotonin reuptake inhibitors respectively; and atypical anti-psychotic agents.

EU destination countries were considered as Denmark, Germany, the Netherlands, Norway, Sweden and the UK; EU source countries were considered as including all member states other than the destination country examined at the time.

About LSE

The London School of Economics and Political Science (LSE) is the world's leading social science institution for teaching and research. A 'laboratory of the social sciences', the School's academic profile spans a wide range of disciplines, from Economics, International Relations, Government and Law, to Sociology, Information Systems, and Accounting and Finance. Teaching and research are conducted through 18 departments and more than 30 Research Centres and Institutes. LSE has nearly 7,000 full-time students and around 750 part-time students. Since its foundation in 1895, LSE has maintained high levels of scholarly achievement. LSE was ranked second after Cambridge for the quality of its research in the most recent Research Assessment Exercise of UK universities. LSE submitted 97 per cent of its staff for assessment, more than any other UK university.