

Contraindicated

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The U.S. Congress is considering, once again, authorizing re-importation of pharmaceuticals from Canada. It sounds like a good idea that would make lower priced drugs available to Americans. Why shouldn't they benefit from free trade like everyone else?

Let's assume (what is by no means certain) that Canadian price controls explain the price gap between the two countries, and let's forget the mark-up Canadian re-importers would have to add to insure themselves against the costs of the American legal system. In other words, let's make all of the assumptions American proponents of re-importation make.

It's still a bad idea -- and a dream cop-out for politicians.

What we're talking about is "parallel importing." Parallel importing occurs when a distributor (a wholesaler, for example) who has the rights to distribute a good in one country sends it into another country in competition with the local distributor.

Sometimes parallel importing is not a bad idea. Australia allowed it for books when Australians were paying 44% more than Americans for identical books. What Congress has in mind for pharmaceuticals, though, is a different matter.

Europe illustrates the difference perfectly. The European Court has ruled that brand name drugs which are legally sold in one EU country can legally be resold in any other member country. Thus there is now parallel importing from countries where drug prices are tightly capped, like Greece, Spain and Italy, into countries where prices are either more loosely capped or market determined to a much greater degree, like Sweden, the Netherlands and the U.K. Parallel importing's U.S. supporters want to give American consumers the benefits of Canadian price caps on drugs, so the European case is directly relevant. But recent research on parallel importing from the London School of Economics suggests that parallel importing's fans should be careful what they wish for.

Not all drugs are parallel imported: Only ones for which there is a large gap in prices between countries are attractive. The amounts involved aren't negligible -- of six drugs and six countries studied in detail, parallel importing averaged 25% of the market. They

aren't a negligible factor in source countries, either -- something like 16% of the Greek market goes to drugs which will be exported to other EU countries.

Consumers are not the prime beneficiaries of parallel-imported drugs -- importers are. The prices of parallel imported drugs are only slightly below those of domestically sourced drugs in the target countries; for the majority of products parallel importing prices are no more than 10% below locally sourced prices, and prices in target countries do not seem to be falling to source country levels. The mark-up added by parallel importers averaged 50% over price-controlled levels.

There is nothing surprising about this. Parallel importers are in business to make a profit. Being small relative to the market, they can't have that much impact on prices in the target countries, so their best bet is to undercut the local price by no more than is required to sell their stock of drugs. That's what will happen in the Canada-U.S. case as well.

Another Euro-lesson is one country's price controls do not apply in other countries. The reason parallel importing is profitable is because middlemen can buy drugs in Greece and Spain at tightly controlled prices and re-sell them at much higher prices in the U.K., the Netherlands and Sweden. Greek drugs are not sold in Sweden at Greek prices, they're sold at whatever prices the Swedish market will bear. Expect parallel importers to buy Canadian drugs at Canadian-regulated prices and sell them into the U.S. market at just a bit below the U.S. market price. Any benefits will go to Canadian re-importers, not U.S. consumers.

The United States has a serious problem with regard to the accessibility of pharmaceuticals. Canada cannot solve this problem. American legislators are fantasizing the access problem will go away if drugs cross the Canadian border a couple of times. And Canadians might ponder this: Once the U.S. realizes that re-importation is a device, not for saving American consumers money, but for putting profits into the pockets of Canadian middlemen, we'll go from hero to arch villain and be in for another rousing chorus of "Blame Canada."

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