

# Parallel Importation of Prescription Drugs: Evidence from the EU

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# Ambiguous Welfare Effects

Trade-offs between:

- Utility from future and existing drugs
- Welfare of more and less price-sensitive customers
- Direct benefits and costs of PI

# Causes of Prescription Drug PI

- National regulations and price controls
- Imperfect price discrimination
- Vertical control problems

# Consequences of PI

- Price-impact
- Shortage and exit from low-price markets
- Resource waste in PI activities
- Reduced profits for innovative firms

# PI of drugs in the EU

Main characteristics:

- Diverging national price controls
- PI permitted in EU but not from ROW
- Policy to support and facilitate PI
- Commercial but not private trade permitted

# PI in a high-price market

Price changes in Sweden	Unweighted mean 1994-1998	Weighted mean 1994-1998
All products (125 obs)	+6.6%	+0.1%
Products with PI competition	+2.8%	-4.4%
Products w/o PI competition	+7.6%	+1.0%
Difference	-4.8%	-5.3%

Source: Ganslandt and Maskus (2004), "Parallel imports and the pricing of pharmaceutical products: evidence from the European Union", Jour of Health Economics 23, pp. 1035-1057

# PI competition

Price effect in Sweden	IV-FE (5) in table 6	IV-FE (12) in table 6
PI competition	-18.9%	-12.1%
EU-membership	-1.7%	+0.5%
Trend	+0.1%	+0.1%
Constant	+98.4%	+97.5%
Observations	24 751	13 138
Products	196	196

Source: Ganslandt and Maskus (2004), "Parallel imports and the pricing of pharmaceutical products: evidence from the European Union", Jour of Health Economics 23, pp. 1035-1057

# Important caveats

- PI only for a minority of products
- Long-run effects substantially different from short-run effects
- Effects in small and large markets will not be the same

# Lessons

- Direct price-effects can be substantial (reduction 12% to 19% of original price)
- Large volume of PI for individual products (up to 72 percent of consumption)
- Shortage and exit in low-price markets

# Dynamic considerations

- Lower returns to R&D
- Less scope for international free-riding