



For immediate release

NEW STUDY CAUTIONS PROVINCES ABOUT TENDERING FOR GENERIC MEDICINES

Increased Risk of Drug Shortages and Later Market Entry of Cost-Saving Prescription Drugs

Toronto, October 24, 2012 – Tendering for generic prescription medicines, as announced by Canada’s Premiers in July 2012, could result in drug shortages and delayed savings to Canada’s health-care system, according to a new study by two of Canada’s top academics on pharmaceutical policy.

The study, *Tendering generic drugs: What are the risks?*, was authored by Professor Aidan Hollis of the Department of Economics at the University of Calgary and Paul Grootendorst from the University of Toronto’s Faculty of Pharmacy. The study was commissioned and released today by the Canadian Generic Pharmaceutical Association (CGPA).

At their meeting of July 26 and 27, 2012 in Halifax, Canada’s Premiers announced that they will identify three to five generic drugs to include in a national competitive bidding process, or “tender”, by fall 2012 and that lower prices would take effect by April 1, 2013. The paper released today evaluates the risks of this proposal.

According to the study, if implemented in Canada, tendering will have a substantial impact on the market and could result in some undesirable consequences, such as:

- Potential drug shortages because of less redundancy in the drug supply system
- Less patent litigation by generic manufacturers resulting in delayed availability of lower-cost generic drugs
- Less manufacturing of generic drugs in Canada
- The closure of some generic drug manufacturing plants in Canada
- Less competition in generic drug markets in Canada
- Less customer service offered by generic suppliers to pharmacies
- The closure of some pharmacies
- Less “free” customer service in the remaining pharmacies

The study points out that tendering removes the incentive for generic pharmaceutical manufacturers to mount legal challenges to invalid or non-infringed patents on brand-name drugs. Payers for prescription drugs in Canada, whether they be government- or employer-sponsored drug plans, or uninsured patients, are the chief beneficiaries from early generic entry enabled by this litigation.

The study notes that New Zealand’s tendering system is often viewed as a model for Canada due to lower per-unit prices for some medicines. However, many important drugs are genericized much later in New Zealand than in Canada. For example, the top-selling drug atorvastatin was genericized only in February 2012 in New Zealand, almost two years later than in Canada. Olanzapine and venlafaxine became generically available in New Zealand approximately four years later than in Canada.

“We estimate that early generic entry on five of the top-selling drugs results in billions of dollars of savings to drug plans and consumers. Tendering will reduce margins and hence the advantages of early entry. It will also expose the early entrant to additional damages in the event that a brand firm successfully sues a generic firm for patent infringement. We thus predict that tendering will result in the delayed arrival of lower-cost generic drugs.”

(more)

The authors found that competition amongst generic pharmaceutical manufacturers also results in another valuable benefit to consumers: multiple generic firms producing medium to high volume drugs, which in turn affords some redundancy in the system. Should one manufacturer be unable to supply, others can normally fill the gap. This competition results in generic drug companies producing a wide range of low-volume drugs, not because they are particularly profitable, but rather to offer pharmacies a wide range of products and the convenience of “one-stop shopping”. If, however, high-volume drugs are procured via tender, some low-volume drugs or drugs with high development or manufacturing costs may no longer be produced.

The international experience with tendering indicates that, over time, tendering reduces the number of domestic manufacturers and increases the supply of foreign-produced generic drugs. In New Zealand, for example, almost all tenders are sourced by foreign manufacturers; there is only one domestic generic manufacturer remaining.

The study concludes that, “It is obviously important for provinces to explore these issues carefully, since tendering has important implications for overall costs, patients, generic manufacturers and pharmacies. Tendering is but one of the approaches that can be used to procure generic drugs. We believe that there are other approaches that could be used to control prescription drug costs in Canada that are better aligned with Canada’s existing systems of patent litigation, generic manufacturing and distribution. These deserve serious consideration.”

To view the full report, please visit www.canadiangenerics.ca

About the Canadian Generic Pharmaceutical Association

The Canadian Generic Pharmaceutical Association (CGPA) represents Canada’s generic pharmaceutical industry. The industry plays an important role in controlling health-care costs in Canada. Generic drugs are dispensed to fill 60 per cent of all prescriptions but account for only 25 per cent of the \$22-billion Canadians spend annually on prescription medicines.

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