

Competition Issues in the Distribution of Pharmaceuticals in Jamaica

March 2014

INTRODUCTION

The free flow of information among market participants is one of the critical assumptions of a competitive market. In 2007, the Fair Trading Commission published a report on the results of its study of the distribution of prescription drugs in Jamaica. The report describes the structure of the various stages of the distribution chain and documents perceptions on the part of consumers, among others, regarding limitations in the substitutability of generic for innovator drugs. The study concluded that, among other things, the absence of a mechanism for policymakers to capture and respond to consumer perceptions, real or contrived, is likely impeding competition between generics and innovators.

A generic drug is the main vehicle used to promote consumer welfare through unbridled price competition with the innovator drug. To the extent that the discovery of a “new” drug requires significant risks and expenditure, the patent system offers monopoly rents over a limited period to drug manufacturers and thereby provide the proper incentives to encourage greater rates of product innovation. The patent system presumes that once the patent on an innovator expires, homogenous alternatives (generics) would enter and drive prices down from monopoly to competitive levels. In the pharmaceutical industry, therefore, consumers would sacrifice allocative efficiency (lower prices) in the short run for dynamic efficiency (greater product innovation) in the long run.

NON-PRICE COMPETITION

An important issue identified in Jamaica is that there is a perception among consumers, physicians and pharmacists that generics sold locally are not perfectly substitutable for innovator products. Such a perception would contribute to a downward stickiness in the price of the innovator drug and explain why innovator products continue to command a premium price even after the entry of more affordable generic alternatives.

Consumer Perceptions

Table 1 Consumer Preference for Innovator and Generic Drugs

	%
I would choose a generic medication once it is available	30.7
I would choose a branded medication, even if a generic medication is available	21.1
The type of medication I choose will depend on various factors	32.1
I do not have a preference	16.2
	100.1

Source: FTC (2007, p. 37)

Table 1 shows that approximately two out of every ten patients surveyed indicated an unqualified preference for branded medication (innovator product) over generic alternatives whereas

approximately three out of every ten patients preferred generics. Less than two out of every ten patients were indifferent between accepting innovator and generic products.

The study attempted to explore why only a small proportion of patients were indifferent between innovator and generic drug by controlling for price, the most obvious difference between the two groups of drugs. The results of this exercise was telling as it showed that after accounting for the fact that generics were more affordable than innovator drugs, approximately two out of every three patients surveyed expressed a strict preference for branded medication.

Table 2 Consumer Preference for Innovator and Generic Drugs, controlling for price differences

	%
Prefer generic medication	11.5
Prefer branded medication	64.1
Preference depends on various factors	6.9
Indifference	17.5
	100.1

Source: FTC (2007, p. 41)

It is evident from the response displayed in Table 2 that the majority of consumers perceive significant non-price differences between generic and innovator products. If patients are to benefit from lower prices, policymakers should identify the basis of the perceived differences and take such steps as necessary to eliminate any misperception.

The views of medical professionals (physicians and pharmacists) were also solicited as it was believed that they would offer more rational position on the issue. The survey indicates that patients may be responding to differences in the therapeutic effectiveness of innovators and generics.

Physicians Perceptions

Physicians were asked questions regarding the substitutability between innovator and generic drugs. The results indicate that the physicians opinion were largely consistent with that of patients in the sense that the majority of physicians do not support the view that generics are equally effective as innovator products. In fact, less than half the physicians surveyed (46.8%) agreed with the statement that “...All generics that are rated as bioequivalent can be considered therapeutically equivalent with the innovator products.”

Table 3 Physicians Opinion on the Therapeutic Equivalence of Innovator and Generic Drugs

	%
Strongly agreed	8.2
Agree	38.6
Neutral	23.6
Disagree	23.6
Strongly disagree	6.0
Total	100.0

Source: FTC (2007, p. 48)

Pharmacists Perceptions

Pharmacists were also asked to comment on the substitutability between innovator and generic drugs. While there was a greater support for generics among pharmacists compared to physicians, there was still a significant fraction (38.9%) of pharmacists who do not agree with the statement that "...All generics that are rated as bioequivalent can be considered therapeutically equivalent to the innovator products."

Table 4 Pharmacists Opinion on the Therapeutic Equivalence of Innovator and Generic Drugs

	%
Strongly agreed	25.0
Agree	36.1
Neutral	5.6
Disagree	30.6
Strongly disagree	2.8
Total	100.0

Source: FTC (2007, p. 50)

CONCLUSION

Innovator products continue to be sold at a premium over generic drugs in Jamaica. Accordingly, patients are not securing all the potential benefits generics were intended to generate by way of unbridled price competition with innovator products. The survey conducted by the Fair Trading Commission suggests that this premium could be persisting because of a systematic belief among consumers, physicians and pharmacists that generics available in Jamaica are not as effective as innovator products in bringing about therapeutic relief.

Reference

Fair Trading Commission. An Assessment of Impediments to Competition in the Pharmaceutical Sector in Jamaica, 2007.