PARALLEL IMPORTS STIR DEBATE

Parallel imports came under fire. The practice—backed by the EEC's Court of Justice—involves drug distributors buying pharmaceuticals in a country with low drug prices then selling them in a country with high drug prices, at discounts of 10 to 50 percent. In low-price countries, governments generally control pharmaceutical prices, while in high-price countries, governments typically let companies set drug prices. "The European Community won't do anything detrimental to parallel imports," says EEC's Deboyser.

Increased parallel imports—which currently account for 2 percent of European Community drug sales—could devastate the European pharmaceutical industry. If distributors bought all their prescription drugs in France, where prices are among Europe's lowest, then sold them throughout Europe below market prices, the $33-billion European drug industry would drop 10 percent, to $30 billion, says Jo Walton, an investment analyst at Lehman Brothers International (London). "A $3 billion cut would wipe out the industry's profitability," says Walton.

Glaxo Holdings (London), for one, has stymied parallel trading of its products, at least from its home market, Walton says. Instead of selling its pharmaceuticals to U.K. wholesalers, Glaxo retains ownership, so wholesalers can't sell the products out from under it. Glaxo must then handle the lion's share of U.K. product distribution. It manages, though, as Glaxo controls 14 percent of the U.K. drug market, the biggest share any drug company controls of any drug market (table 1).

U.S. introductory price of $2,000 a dose. And erythropoietin, an anemia drug, came aboard at double the $30-a-dose American price. The U.S. government, conversely, allows companies to set drug prices themselves, and companies typically set initial prices fairly high then raise them throughout a product's life cycle. "The Japanese system of setting prices high at introduction then lowering them is entirely logical," says Wilkerson. "With cost containment rampant, why should companies try raising prices every year, like they do in the U.S.?"

The Japanese pricing system is already catching on in the U.S., Wilkerson believes. Since Burroughs Wellcome (Research Triangle Park, NC) introduced AZT for AIDS, it has lowered the price twice. And Sandoz Pharmaceuticals (East Hanover, NJ) has cut the initial price of Clozaril, a schizophrenia drug. Both companies acted, however, only after intense pressure from patient advocacy groups, among others. Moreover, though Genentech (So. San Francisco, CA) hasn't cut t-PA's introductory price, it's "under a lot of pressure to do so," says Wilkerson.

EEC Condemns Control

The European Commission (EC, Brussels, Belgium), for its part, condemns government control of pharmaceutical pricing, reports Patrick Deboyser, an official in the EC's division of pharmaceuticals and veterinary products. As 1992 approaches, of course, the European Economic Community (EEC) is trying to integrate the separate markets of its 12 member states—including the pharmaceutical sectors—into a single market. "Price control is simply not an effective cost-containment measure," says Deboyser. The European countries with the highest drug consumption—like France, Italy, and Belgium—control prices "most strictly," Deboyser says, adding that "keeping prices low without cutting consumption doesn't contain costs."

After 2000, the drug industry will see governments around the world harmonizing drug-price regulations, says Hasting's Kolassa. "Harmonization will happen first across Europe," Kolassa says. "Then it will stretch across the oceans, as governments learn what works and what doesn't."

PHARMACEUTICAL MARKET SHARE

WORLD	
Company	**Market Share (%)**
Merck	3.9
Bristol-Myers Squibb	3.4
Glaxo	3.4
SmithKline Beecham	3.0
Ciba-Geigy	2.8
Bayer	2.5
Hoechst	2.2
American Home Products	2.2
Johnson & Johnson	2.2
Eli Lilly	2.1
Total	**27.7**

U.S.	
Company	**Market Share (%)**
Merck	6.8
Eli Lilly	5.4
Glaxo	4.7
SmithKline Beecham	4.2
American Home Products	4.1
Marion Merrell Dow	4.0
Bristol-Myers Squibb	3.9
Pfizer	3.4
Ciba-Geigy	3.2
Johnson & Johnson	3.2
Total	**42.9**

EUROPE	
Company	**Market Share (%)**
Hoechst	4.2
Rhone-Poulenc Rorer	3.7
SmithKline Beecham	3.7
Glaxo	3.5
Merck	3.0
Bayer	2.9
Ciba-Geigy	2.7
Bristol-Myers Squibb	2.5
Sandoz	2.3
Roche	2.3
Total	**30.8**

TRENDS IN JAPAN'S DRUG INDUSTRY

The Japanese pharmaceutical industry is top notch. So reports Skip Irving, director of health-care practice at Arthur D. Little (Cambridge, MA). Between 1981 and 1988, Japan launched 27 new drugs, more than any other country. The U.S. launched 24 new pharmaceuticals during that period, while France introduced nine, and West Germany, Italy, and Switzerland each launched eight.

The Japanese drug industry leads its global competitors in productivity, moreover, with each employee generating $323,000 in 1988 sales. Employees at U.S. drug companies generated average sales of $155,000, while European pharmaceutical workers produced sales of $109,000.

Yet Japanese pharmaceutical firms are only a third as profitable as their U.S. counterparts, says The Wilkerson Group's Wilkerson. While the top-10 U.S. pharmaceutical companies average a 15.2 percent return on sales, the 10 leading Japanese drug companies average just a 5.7 percent return. Japanese drug companies also show a greater range of profitability than U.S. drug companies. The leading Japanese pharmaceutical firm is 10.6 times more profitable than Japan's pharmaceutical laggard, whereas the top U.S. drug company earns just 4.1 times as much as the bottom U.S. drug firm. "Price competition among Japanese drug companies has cut into profits," says Wilkerson. "And as price competition heats up worldwide, the global drug industry will become less profitable." Wilkerson, in fact, believes the U.S. pharmaceutical industry will see a "dramatic" two-percentage-point drop in operating income throughout the 1990s.