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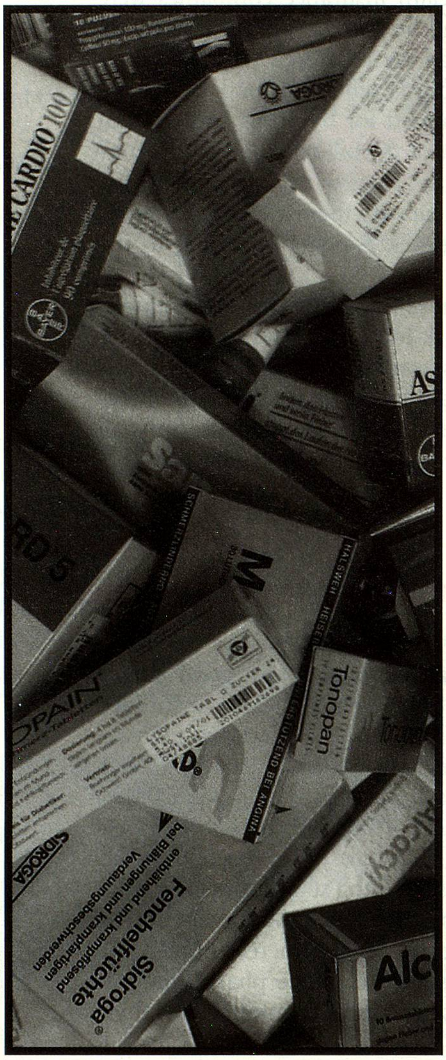
The end of the medicine cabinet

BY LISA STADLER

In 2001 the first nation-wide law on medication will come into force in Switzerland. This gives competitors an opportunity to gain a foothold in the hitherto cartel-dominated drugs market – without compromising the cost of healthcare.

UP TO THE 1920s HEROIN was used in Swiss TB sanatoriums. After all, it had the reputation of being one of the most effective cough medicines around. Between 1925 and 1929 Swiss pharmaceutical companies led the world in the production of heroin, until more adventurous souls hit on the idea of taking the substance in higher doses and injecting it instead of swallowing it. As a result, the Bayer produced medicine quickly mutated into a "Devil's drug". Although most cases are not as dramatic as that of heroin, there is a long list of medicines which are open to abuse. Often the various side effects of pills and powders are discovered only after the medicine has been launched, and in some cases the consequences are fatal. It is because of this that drugs are regarded as a special commodity in need of careful regulation.

Even now, Switzerland suffers from a tangled web of cantonal regulation in this area. Every canton has its own medication law, if indeed it possesses any at all. The Intercantonal Drugs Control Office is responsible for registering and monitoring drugs, but cantonal peculiarities persist: for example, the canton of Appenzell, a bastion of alternative medicine, has registered several natural medicines which are therefore not available elsewhere.



A dose of the free market: In future Switzerland will permit the parallel import of cheaper drugs whose patent has expired.

Standardised national regulation

The new medication law will change all this. Scheduled to come into force in the summer of 2001, it will for the first time regulate human and veterinary healthcare at federal level. For the first time, too, it provides nation-wide rules governing the approval, advertising guidelines, sales provisions and monitoring of the 10,000 or more medicaments available in Switzerland. It also regulates clinical experiments with medicines on humans. The new law also covers around 100,000 medical products such as hip prostheses and artificial joints. On the other hand, it does not take into consideration the proposal of the National Council Commission on Health and Social Security that pharmaceutical companies should be held accountable for the side effects occurring after the launch of a new drug.

By providing for the foundation of a Swiss Drugs Institute, the new law will also create a national authority for medicines and medical products. Its activities will no doubt have a strong international bias due to the heavily export-oriented pharmaceutical industry: 90 percent of medicaments produced in Switzerland are destined for sale abroad. In 1999, exports of pharmaceutical products amounted to CHF 21.1 billion, equivalent to 17 percent of Switzerland's export volume.

Booming market

In Switzerland alone the entire drugs market accounts for around one percent of gross domestic product. In 1999 185 million packages were sold at an estimated price to the public of CHF 4.6 billion. With just under two thirds of this amount paid for by the obligatory basic health insurance, drugs represent the third largest item in the social health insurance budget after hospitals and doctors. At CHF 2.9 billion they account for around 20 percent of total insurance costs. And they continue to rise: between 1998 and 1999 the basic insurance costs for medicaments rose by 6.7 percent. This is one of the reasons why pills, powders and ointments are becoming more and more of a political football. The rise in costs is mainly due to newer, more expensive medicines.

Despite their major savings potential, cheap generic medicines are having a hard time on the local market. While nothing less than equally effective copies of expensive original drugs, they generated total sales of only CHF 130.2 million in 1999: just under 3 percent of the total market volume. One

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important reason for this lamentable situation is the ordinance on margins enforced until the end of 2000 and promulgated by the Sanphar Pharmaceutical Industry Association, a federally acknowledged cartel dating back to the 1930s. Under this ordinance manufacturers received 58.7 percent, wholesalers 8.5 percent and professional suppliers (doctors or pharmacists) 32.8 percent of the selling price of every original medicament sold over the counter. Naturally, given such fixed margins, there was no incentive to encourage competition and the sale of generic drugs instead of expensive original medicines. This cartel was dissolved last summer under pressure from the Anti-Trust Commission.

Cost-cutting measures

In the first partial revision of the health insurance law, the cartel-type ordinance on margins was replaced by a performance-indexed system of compensation for payable medicines. This is scheduled to come into force in mid-2001 and will now also cover the consultation charges of professional suppliers. The idea is to encourage pharmacists and doctors to sell more generic medicaments as opposed to the more expensive original medicaments. It is hoped that this will lead to better-quality medical advice as well as lower costs.

The parallel import of medicaments whose patent has expired offers an additional opportunity for more competition and hence savings on costs. This ruling has found its way into the new medication law after lengthy debate in the National and State Councils. Since over CHF 500 million needs to be invested in research and development before a drug can be launched on the market, the product is protected under patent for a specific period in order to allow the manufacturer a return on investment. Only after the patent period has expired may the drug be copied and sold under a different name.

The new medication law recognises the need to protect research-intensive products and permits imports only of products whose patent has expired. To protect patients' health, the preparations may be imported only from countries with approval standards similar to Switzerland's.

Last but not least, medicaments themselves help to cut costs. Take heroin: as of this year the drug is to be covered by the basic insurance, albeit not as a cough medicine but as a substitution medicament in addiction therapy. Thus, for instance, HIV and hepatitis infections can be prevented. So as well as helping to cure drug addiction, it will in the long run also keep down the cost of healthcare.

Pharmacies also need to be paid for their services and in future will demand a fee for dispensing advice.