# CURRENT PARALLEL TRADE PRACTICE IN THE PHARMACEUTICAL INDUSTRY FOCUSING ON EUROPEAN SINGLE MARKET, UTILIZING A COST-SAVING ANALYSIS IN THE ALLERGEN IMMUNOTHERAPY MARKET OF GERMANY

Mohammed Madkour

Fresenius University of Applied Sciences, Wiesbaden Germany

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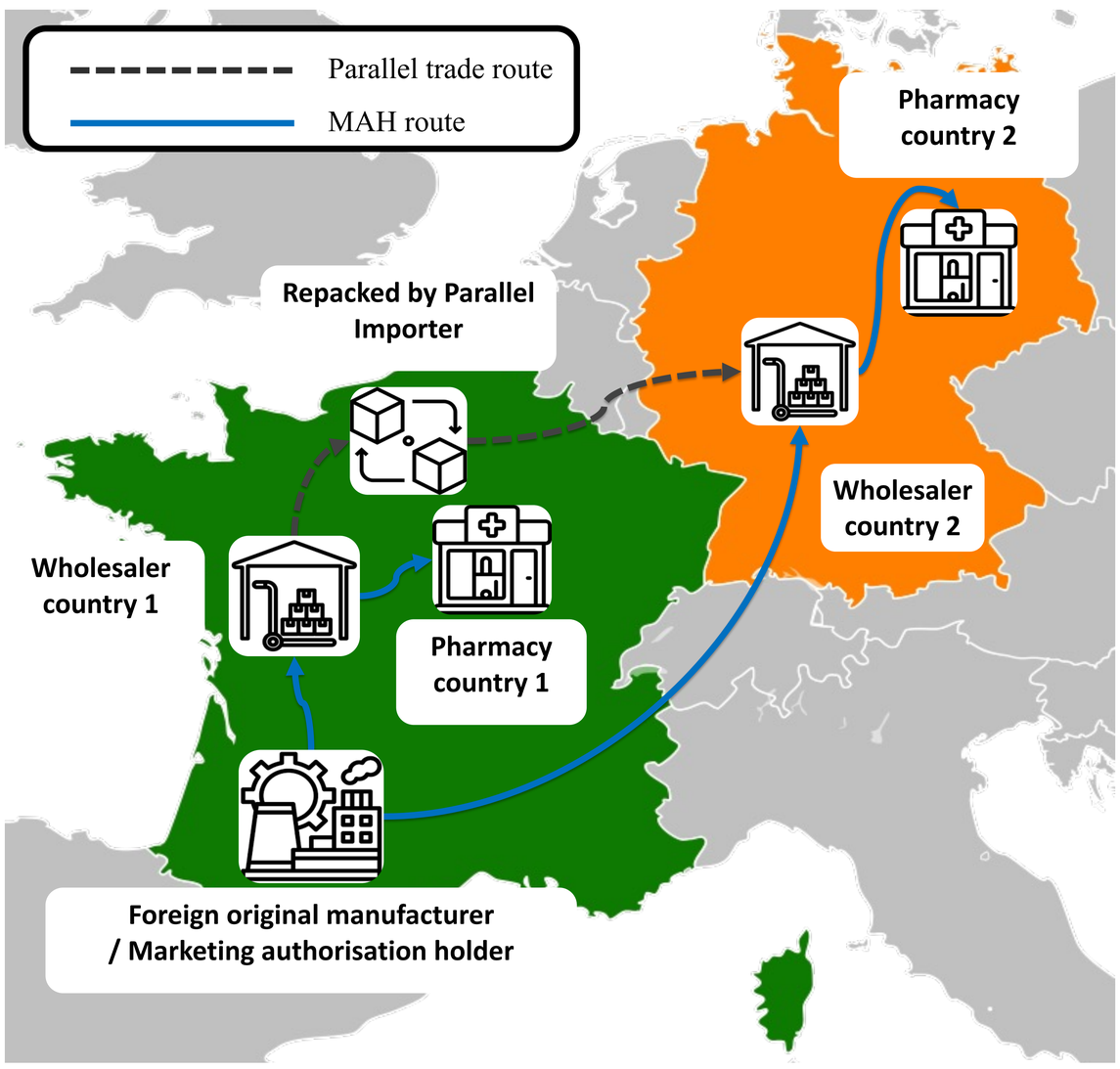
## INTRODUCTION

Parallel trade in the European Single Market (ESM) refers to the practice of a wholesaler purchasing goods at a low price in one member state and reselling them at a higher price in another [1]. The European Economic Area (EEA) has always benefited from establishing a state of ''free movement of goods'', which applies to all industries operating in EU. In comparison to pharmaceutical drugs, price controls on consumer goods are not strictly enforced by the authorities. That could imply that the healthcare market's response to parallel trade (Figure 1) [2] will be distinct from that of other industries, thus understanding how parallel trade shapes the microeconomics of healthcare market is vital to investigate any impact on access and innovation in EU.




**Trade chain of the marketing authorization holder and the parallel trader (Figure 1)**

## OBJECTIVES

The research gap was to investigate the savings reaped from parallel trade by considering all stakeholders involved (including wholesalers, distributors, pharmacies, sickness funds (payors), patients who benefit from innovation and manufacturers of both commercial interest and R&D contribution in the discussion). While understanding whether the current PT practice maintain the perfect balance between equitable access across EU countries and still rewards innovation to the extent that R&D players continue to thrive in the long-term.

The objectives of the study were:

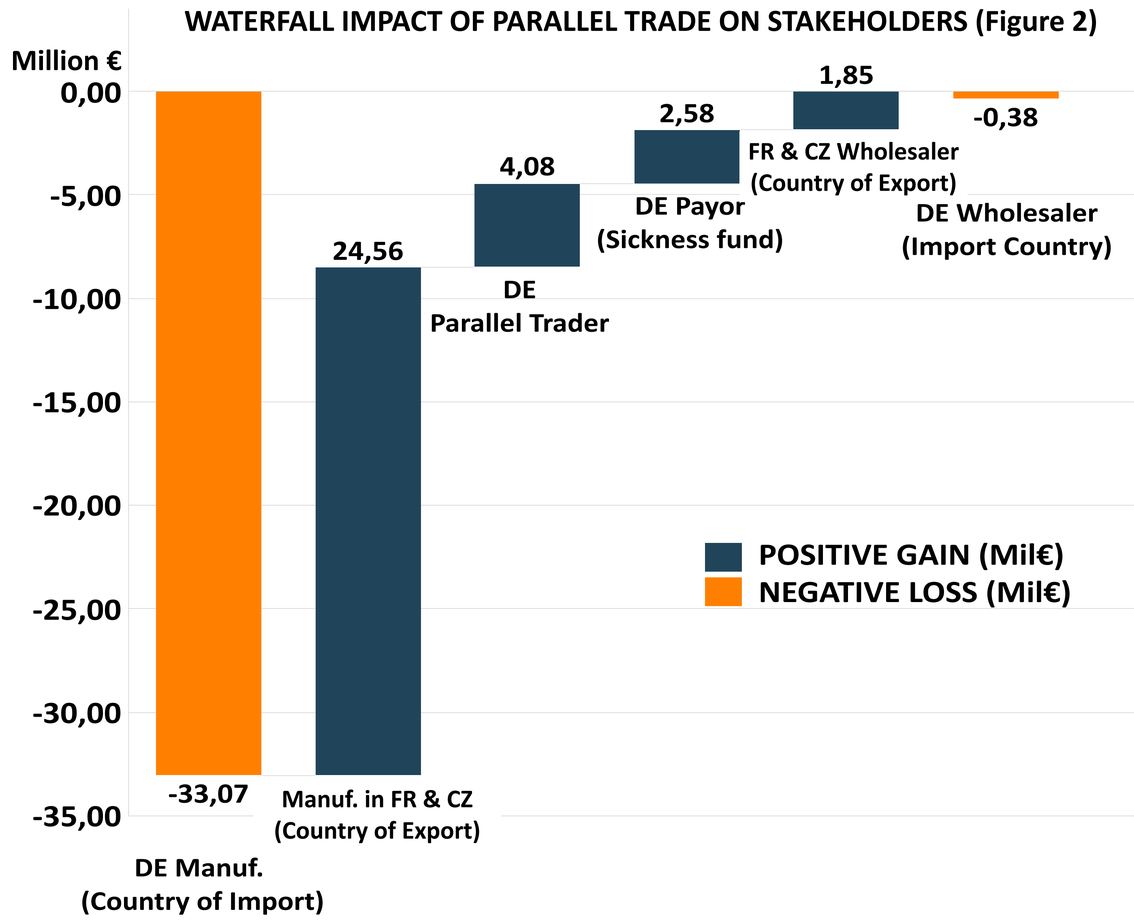
1) Present the current facts and figures of Parallel Trade (PT) in Germany (DE) through literature review
2) Analyse the microeconomics of parallel trade and the welfare implications
3) Identify how pricing strategies are linked to parallel trade and the repercussions of such relation
4) Perform a cost-saving analysis to derive quantitative outcomes of the consequences of using parallel traded packs, with respect to other stakeholders involved in terms of gains and losses

## METHODS

The first part of the study reviewed parallel trade in Germany and Europe, through explaining its political, legal, and economic context. It also explored how differential pricing between EU member states happens, which is a vital enabler for PT in EU. The second part was a cost-saving analysis, that identified accounting gains and losses of all involved stakeholders from PT practice, by using a real-world example from the allergen immunotherapy market in DE between Mar 2020 and Apr 2023. The third part prospected the opportunity cost in terms of jobs created by PT versus the R&D industry, which enables the assessment of the economic/societal footprint of both industries.

## RESULTS

Literature review presented that PT saved the DE healthcare around €204 millions in 2018 [3]. Savings were augmented in the grass pollen immunotherapy market (Figure 2) in DE, where the parallel traded packs originated from France (FR) and Czech republic (CZ). The cost-saving analysis concluded that parallel traders profited around €4.1 millions, sickness funds saved €2.6 millions. While the profits/savings reported were on the expense of incurring R&D manufacturer's losses of around €8.5 millions in a market size of €136 millions (6% turnover erosion) in the same period.




Turning to the economic and societal footprint of PT business in Germany, the opportunity cost of PT business in 2018 was the turnover erosion from the R&D manufacturers. Such erosion (€202 millions) resulted in a forgone R&D investments of around €30 millions (assuming average reported R&D expenditure per sales is 15%)[4], which means a decreased R&D productivity on the long-term. While the prognosis of jobs created by the business showed that PT business in 2022 had a marginal cost (one unit of job) of nearly double that of the R&D industry (Table 1) [5,6]:

| Year 2022 | Parallel Trade Business | R&D Industry |
|---|---|---|
| Turnover | €6 billions | €42,962 billions |
| Direct employment | 7,6k jobs | 115,5k jobs |
| Marginal cost per unit job | €758k/ job | €372k/ job |

## CONCLUSION

Although PT offers cost-saving figures for payors in the direct medical costs, it is crucial to consider not only the accounting aspect but the economic and societal footprint as well, which is visible in the jobs created, health utilities forgone due to R&D budget erosion from decreased profits on the long-term. Access and innovation could be affected by parallel trade practice. However, confirming whether Parallel trade as a policy needs revision due to the possible negative links with access and innovation is still unclear. Future research should consider the European healthcare market welfare when evaluating parallel trade practice, with respect to access and innovation within EU member states.

## REFERENCES

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