

Deregulating the pharmacy market: the case of Iceland and Norway

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Abstract

The pharmacy market in many European countries is characterised by individually owned pharmacies that operate under tight government control regarding barriers to entry, scope of activities and profit margins. Many countries are, however, in the process of introducing pro-competitive policies, including possibilities to own several pharmacies and competition based on price. In Iceland and Norway, restrictions to ownership and competition were relaxed in 1996 and 2001, respectively. In both countries, the new policies quickly led to horizontal integration and concentration of the market, and in Norway the merging pharmacy groups integrated vertically with wholesalers. By 2004, two pharmacy groups in Iceland and three pharmacy groups in Norway controlled 85 and 97% of the markets, respectively. In combination with remaining barriers to entry, this market concentration may call for additional pro-competitive interventions to prevent unfavourable developments. Such policies will simultaneously make it more difficult to uphold traditional social objectives related to pharmacy services. Experiences in both Iceland and Norway highlight the complexity of managing reforms that fundamentally influence competitive behaviour.

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1. Introduction

Pro-competitive policies usually benefit consumers and have therefore come in for increased attention within the public sector in recent decades. Health care is by no means an exception; and reforms intended to introduce competition, first of all across providers, have been discussed at length (and to some extent implemented) in several European countries and elsewhere. Given its dominant position in the global debate, how-

ever, there is surprisingly little evidence to document the effects of competition on behaviour and market structure.

The community pharmacy market in many European countries has traditionally been characterised by individually owned firms that operate under tight government control regarding barriers to entry, scope of activities and profit margins. Within the European Union, and with some notable exceptions such as conditions in the UK, ownership has been limited to pharmacists, and the operation of pharmacies in nation-wide chains has not been allowed. In fact, community pharmacies have been organised as a guild in pretty much the same

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way today as 400 years ago. Traditional market conditions are, however, about to change. Many countries are in the process of introducing pro-competitive policies, including deregulated ownership of pharmacies and competition based on price. Interestingly enough, two non-members of the European Union, Iceland and Norway, have been at the forefront of this development.

In this article, the formation and implementation of pro-competitive policies in the community pharmacy market in Iceland and Norway will be described and compared, as well as the change in competitive behaviour and industrial organisation that followed the implementation of new policies. The main purpose of the study is to identify lessons for the management of similar reforms elsewhere. The study reported here is a follow-up of a previous study, conducted in 2001 [1], which focused on the early developments in Iceland and Norway. Since then, the markets have developed further and several studies from Norway have been published, facilitating comparison and identification of important lessons for future policies.

2. Formation and implementation of new policies

The introduction of competitive policies in previously regulated markets was a popular policy theme across the Nordic countries in the 1990s. An important argument behind suggestions to deregulate the pharmacy market was the general belief that productivity would increase with such a change, to the benefit of both consumers and the national government. More specifically, plans to introduce competition in the pharmacy market were part of wider ambitions on the part of the government to improve the availability of pharmacy services and to contain subsidies for the same services [1].

In contrast to developments in Sweden and Finland, the respective governments of Denmark, Iceland and Norway actually decided to implement pro-competitive policies. In all three countries, coalitions for and against deregulation and more competition were formed and influenced the formation and final implementation of new policies. In respect of Denmark, the formation and dynamics of these two coalitions have been described in detail elsewhere [2]. The political support for greater competition was initially strong in Denmark, and a po-

litical decision to deregulate the market was taken in the budget ('finansloven') for the year 2000 [3]. Support weakened substantially, however, as both Social Democrats and Liberals changed their position. In the end, only marginal changes were implemented in Denmark. It became possible for pharmacists to own up to four pharmacies, and some over-the-counter (OTC) medicines became available for sale outside pharmacies. So far, neither of these changes has had any large impact on the sales of existing pharmacies or on the market structure [4].

In Iceland and Norway, the political support for new policies remained throughout the process. As in Denmark, pharmacists in the two countries mainly belonged to the conservative coalition and resisted pro-competitive reforms by pointing towards unresolved issues and potential problems. In this respect, Danish pharmacists were more successful than their colleagues in Iceland and Norway. With regard to Iceland, Morgall & Almarsdóttir [5] conclude that internal strife between young and old pharmacists and between high-income pharmacy owners in urban areas and lower-income pharmacy owners in rural areas contributed to a general weakness in the position of pharmacists and to the final loss of monopoly power. In Norway, input from economists was important both in the committee that suggested pro-competitive policies and in later evaluations of new policies [4]. As in Iceland, Norwegian pharmacists were less successful in their initial struggle to prevent the implementation of pro-competitive policies.

Table 1 highlights the regulation of the pharmacy market in Iceland and Norway before and after the implementation of new policies. As can be noted, the policies that were introduced were similar; but a few important differences can be identified. In Norway, vertical integration between pharmacies and wholesalers was allowed. This decision was not in line with recommendations from the committee that had investigated the pros and cons of different competitive policies. The argument from the Department of Health and the national government was that vertical integration would create powerful purchasers that would be able to negotiate with pharmaceutical companies for discounts on prescription medicines. A second difference is that selected OTC drugs may be sold outside pharmacies in Norway since November 2003, but not so in Iceland. In this respect, new policies in Norway followed the

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