
Distribution of medicines in the UK

4 April 2007

OFT914

Summary

- 1 The OFT has today launched a market study into the distribution of medicines in the UK. This study is being carried out to determine how recent and proposed changes to distribution arrangements may affect competition, the NHS and patients. There are several possible outcomes which include giving the sector a clean bill of health, making a reference to the Competition Commission, initiating a Competition Act 1998 (CA98) investigation or making recommendations to Government.
- 2 This document sets out why the study into the distribution of medicines meets the prioritisation criteria, the focus of the study and the timescales of the study.

Why the OFT is conducting a market study

- 3 The OFT seeks to prioritise its resources to deliver high-impact outcomes that have significant benefits for consumers and the economy. Having considered the current situation within this sector the main factors which have influenced our decision to proceed to a market study are:
 - *The importance of the distribution of medicines to the UK economy and to patients.* This is a significant market and within one of the OFT's priority sectors. Sales of medicines to the NHS are worth over £10bn a year. The efficient distribution of

medicines is necessary to ensure their timely and cost effective provision.

- *The pharmaceutical wholesaling sector is undergoing significant change, the competition implications of which are unclear.* As of 5 March 2007 Unichem Limited has become the sole logistics service provider to Pfizer Limited. This represents a fundamental change to the workings of this sector and has prompted widespread concern among pharmacists, dispensing doctors and competing wholesalers. Other pharmaceutical manufacturers are also considering similar changes to their distribution arrangements.
- *Effective and efficient distribution benefits patients.* Pharmacists and patients are currently able to obtain prescription medicines quickly and easily. Changes to distribution arrangements may threaten this and if competition is dampened this could result in higher costs to the NHS.
- *The OFT is best placed to undertake this study.* An OFT investigation under the Enterprise Act 2002 facilitates market-wide consideration. The OFT can consider the impact of the recent and proposed changes by pharmaceutical suppliers and in the context of the sector's regulations. A short market study will enable it to ensure that any concerns it identifies are tackled effectively and proportionately.
- *A market study can consider all competition issues in this market.* Many stakeholders called upon the OFT to launch a CA98 investigation into the arrangements implemented by Pfizer and Unichem. The OFT does not consider a CA98 investigation to be appropriate at this stage given the market wide concerns that have been raised (see also the benefits of a market study described above).

The scope and focus of the study

- 4 We intend to focus on recent and proposed decisions by pharmaceutical suppliers to change their distribution arrangements.

We will consider the implications of the introduction of the 'direct to pharmacy' distribution model and the likely impact of exclusive distribution agreements whereby a single UK distributor is appointed.

- 5 The initial focus of the study is described below. This is indicative: we do not exclude the possibility of other issues being considered as a result of evidence presented to the OFT during the course of the study.
- 6 The OFT intends to examine:
 - the motivation for the direct to pharmacy model and its impact on competition and choice in wholesaling
 - the motivation for exclusive arrangements and their long term impact on competition
 - the incentives created by sector specific regulations, and
 - the potential impact of the different distribution models on:
 - the appropriation of the discounts secured by pharmacies and the NHS, and
 - service levels provided to patients.
- 7 In examining these issues we will consult industry and Government. We will consider how the changes in this market are influenced by sector specific regulations, parallel trade and counterfeit products.

Timetable and process of the market study

Indicative timescale

- 8 This is a short study intended to provide the OFT with a better understanding of the implications of recent and proposed changes to distribution arrangements such that it can decide if further action is appropriate and if so, what form it should take.
- 9 The OFT currently intends to publish the findings of the study by the end of the year.

Contacting the OFT

10 Given the limit to the resources and time available to the OFT and the OFT's decision to carry out only a short study at this time, the OFT will not be contacting all potentially interested parties. We will be directly contacting specific bodies and companies to obtain the evidence necessary to reach a conclusion on the impact of the recent changes.

11 However, the OFT welcomes relevant submissions on this topic and submissions should be sent to:

Pharmaceutical wholesaling study
Office of Fair Trading
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

Or can be emailed to: medicinesdistribution.study@oft.gsi.gov.uk

12 It would assist the case team if submissions are laid out as follows:

- a summary of the main points you would like the OFT to consider
- a more detailed explanation of these points
- evidence to support the views being made:
 - if this includes data or financial figures, precise definitions, the dates and source of the data should be provided
 - if this includes detailed calculations, an annexe or spreadsheet which allows the OFT to replicate these calculations should be provided
 - if this includes specific examples of events, a chronology and background to the events should be provided
 - if this includes comparators, the reasons why you consider the comparator to be appropriate should be provided
 - if you are willing to answer questions further to your submission, a named point of contact and contact details including telephone number, whom the case team can contact should be provided.

- Please clearly indicate which (if any) specific parts of the submission are confidential and should not be made publicly available.

 - If the submission is representing a business:
 - the company name and ultimate ownership
 - a brief summary of the activities of the company.
- 13 The OFT recognises that it is not always the case that evidence is available to companies to support their views. Companies may be able to suggest information the OFT should seek out. However, the OFT may not be in a position to pursue all avenues of study. Where no evidence is provided, the weight the OFT can place on the views is lower than where evidence is provided.
- 14 The deadline for comments is Friday 1 June.