

A modest liberalization in the regulation of pharmacies would provide substantial benefits

Avance Attorneys' Economics & Policy practice has prepared a detailed proposal for revising the regulation of pharmacies in Finland, including an assessment of the proposal's short- and long-term effects. The report indicates that with modest adjustments to the current legislation access to pharmaceuticals would improve, prices would fall, and innovative new practices – in both online and brick-and-mortar outlets – would become more prevalent.

Avance Partner **Mikko Alkio** points out that *"... the annual sales of pharmaceuticals in Finland are over three billion euros, of which public expenditure constitutes two billion. Reconsidering how the distribution of pharmacies is organized is thus important also from the point of view of public finances. Currently, pharmaceuticals in Finland have low wholesale but high retail prices. All recent reports on Finnish pharmacies call for a comprehensive reform of the sector. However, previous studies have neither gone into the details of a possible reform nor considered its consequences. Our report is intended to remedy these shortcomings. Our analysis shows that a relatively minor reform would have a large impact. The Finnish Government could reach high returns with only a modest risk."*

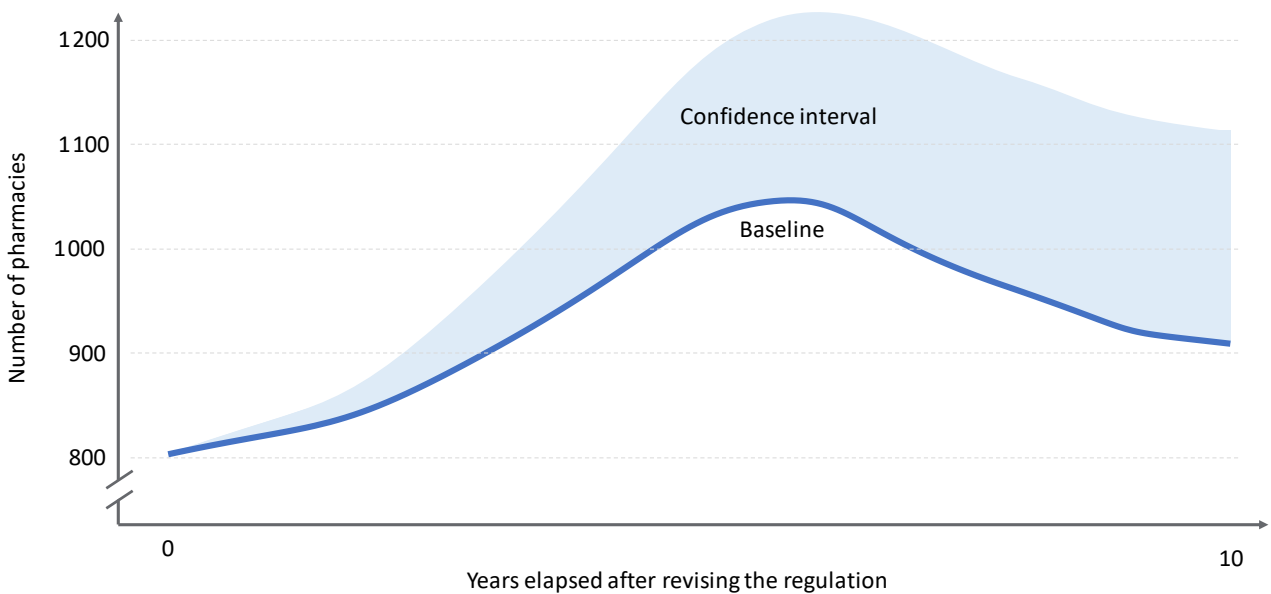
The second author of the report, Senior Associate **Lasse Nordström** notes that *"... patient safety is the primary concern in the distribution of pharmaceuticals that no legislative reform should jeopardize. In our proposal, the government maintains a tight control over pharmacies. The proposed regulatory changes are relatively minor but would nevertheless yield large efficiency gains. The proposal keeps most features of the current system – such as the pharmacy tax – intact. The idea is that further adjustments may be considered after obtaining experiences from the reform's effects."*

The third author of the report, Senior Economist **Petri Rouvinen** suggests that *"... ownership and industry structures would change as a result of the proposed reform, but existing pharmacies would especially in the initial phase have significant advantages on their side. Also, in the long term, a considerable share of pharmacies in Finland would be run by independent entrepreneurs; the market would also support several – maybe half a dozen – national operating chains. With the proposed change, the number of pharmacies and their employees would rise. The form of the proposed price competition would take place within a narrow band. Thus, pharmacies would mostly compete on efficiency and quality – e.g., on having good locations, extensive operating hours, and speedy services."*

The following table summarizes the proposed reform's new regulatory elements as well as elements that would be preserved, at least initially.

New Elements	Preserved Elements
<ul style="list-style-type: none"> • No restrictions on ownership or company form. <ul style="list-style-type: none"> - Vertical integration of pharmaceutical companies nevertheless restricted. • Abandoning restrictions on the quantity and locations of pharmacies. <ul style="list-style-type: none"> - Pharmacies would still need a license and authorities would screen that the operators have sufficient capabilities. - The license is revoked if the conditions for it are no longer met. • Limited price competition in over-the-counter pharmaceuticals. <ul style="list-style-type: none"> - The current fixed wholesale and retail prices would be interpreted as maximum prices. - Loyalty discounts allowed, as long as they are not linked to prescription purchases in any way. • Smoother online pharmaceutical services. <ul style="list-style-type: none"> - Abandoning the current requirement of a link between online pharmacies and brick-and-mortar outlets. - Maintaining strict standards – online and otherwise – for identifying and advising patients. 	<ul style="list-style-type: none"> • Pharmacy expertise still employed in advising patients. <ul style="list-style-type: none"> - Advice provided by pharmacists available for prescription and OTC drugs. • Pharmacy management by licensed pharmacists. <ul style="list-style-type: none"> - A licensed pharmacist must be involved in managing each site, with the same person involved in a maximum of four pharmacy outlets. • Pharmacies separated from other lines of business. <ul style="list-style-type: none"> - Pharmacy operations should be kept in separate companies; site-specific bookkeeping. - Pharmacies' premises must be physically separated from other retail space. • Pharmacy tax maintained. <ul style="list-style-type: none"> - The current pharmacy tax would apply to all sales in a pharmacy's retail space. - Profits after the pharmacy tax subject to customary corporation tax. - Pharmacy tax to be reconsidered after a three-year pilot phase.

Our conservative estimate suggests that – with the proposed changes – the number of pharmacies would increase by 11 %.¹ The restricted price competition in over-the-counter pharmaceuticals would reduce retail prices by approximately 5 %. The estimated long-term evolution in the number of pharmacy outlets is presented in the following figure.



¹ The analysis is based on exact locations of establishment as provided in the official business registry by Statistics Finland and on the municipal-level pharmaceuticals' market potential.

For further information on the report, please contact Avance's Senior Economist **Petri Rouvinen** (petri.rouvinen@avance.com;+ 358 50 367 3474).

The full underlying report (in Finnish only) can be accessed here:

<https://www.avance.com/wp-content/uploads/2019/05/AVANCE-Apteekki-Raportti-27-5-2019.pdf>