European drug deal could cost Canadians $2.8B

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PARIS — Europe's massive pharmaceutical industry, feeling the squeeze as indebted governments around the world try to contain health-care spending, sees potentially lucrative new horizons in countries such as Canada and India.

That's why the industry has lobbied the European Union to seek expanded patent protection for brand-name drugs in ongoing free-trade negotiations with both countries.

If successful, that effort would cost Canada's health-care system $2.8 billion a year, according to a critical report released Monday that was funded by the Canadian Generic Pharmaceutical Association.

"Canada would have the most extensive structural protection of innovative drugs of any country in the world," wrote the authors, University of Calgary economist Aidan Hollis and Paul Grootendorst, of the University of Toronto's faculty of pharmacy.

"Payers — consumers, businesses, unions and government insurers — would face substantially higher drug costs as exclusivity is extended on top-selling prescription drugs."

Ontario would naturally bear the brunt, with $1.2 billion in extra costs, according to the study. Quebec is next at $773 million, followed by B.C. at $249 million and Alberta at $212 million.

The report suggests increased research and development spending — the carrot always dangled to entice countries to broaden patent rights — would amount to just $345 million.

"Extending exclusivity periods beyond the current level in Canada, therefore, appears to be an expensive way of encouraging such investments," they wrote.

One European analyst said increased patent rights abroad is a natural route for the EU to take, given the squeeze put on the industry caused by U.S. health-care reform and deficit-cutting measures in Europe.

"The pressures are quite significant," said David Kaegi, who follows the industry with Bank Sarasin & Company, a major bank based in Basel, Switzerland.

"So, any increases in patent protection (through free-trade agreements) would be welcome by the industry."

But patent protection is also one of the most sensitive issues in global free-trade discussions. One trade negotiator with a provincial government said Monday that the figure, if true, is "higher than anticipated," and added that provincial capitals are concerned about a trade deal hiking drug costs.

Kaegi said political sensitivities is one reason why no one in the stock market is betting that the EU will score a patent breakthrough in global trade negotiations.

Before its recent struggles the European industry had enjoyed staggering growth, with its trade surplus rising seven-fold from 1990 to $70 billion in 2008, according to the European Federation of Pharmaceutical Industries Associations.

Its 2,200 companies employed more than 600,000 people in 2008, according to the EFPIA's website. The association, which couldn't be reached for comment Monday, stresses on its website that it supports the EU's attempt to open markets for exports.

Roughly $4 billion of the industry's surplus is in trade with Canada, according to the Canadian study.

Jason Langrish, spokesman for a pro-free-trade lobby group funded by Canadian and European multinational corporations, said a "balance" needs to be struck.

"Canada must recognize that strong intellectual property protection is the basis for creating the knowledge-based industries of the future, including in pharma," said Langrish, executive director of the Canada Europe Roundtable for Business.

"The EU must recognize that the proposed changes come at a time when governments are under pressure to limit health-care costs for an aging population."

However, he noted that health-care costs in many European countries are lower than Canada's despite stronger intellectual property rights there.