



**CANADIAN FEDERATION
OF INDEPENDENT BUSINESS.**

237 8th Avenue SE, Suite 410
Calgary, Alberta T2G 5C3

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Jonathan Denis
MLA, Calgary Egmont
#719 Legislature Annex
9718 - 107 Street
Edmonton, Alberta T5K 1E4

Dear Mr. Denis:

The Canadian Federation of Independent Business represents 10,000 business members in Alberta, including 155 in the retail pharmacy sector. We are writing to offer the small business perspective on the province's pharmaceutical drug strategy. We understand the province wants to contain the growing costs of pharmaceutical drugs, however, we hope this will be achieved without inadvertently harming the ability of retail pharmacies to deliver vital community-based services.

Expenditures on pharmaceuticals including markups and fees paid to pharmacies for prescribed medications totalled more than \$24 billion in Canada in 2007. As a percentage of overall health spending, this is more than what is spent on physicians' services and is second only to spending on hospitals. The number of prescriptions is steadily increasing as a result of the aging population and the discovery of new therapies to address medical needs.

Using generics does cut costs: Although generics accounted for 43 per cent of drug prescriptions in 2005, they accounted for only 18 per cent of drug expenditures. Nevertheless, there is widespread concern that generic drugs are not providing the benefits they could, and the Patented Medicine Prices Review Board, the federal Competition Bureau and the Fraser Institute have reported that Canada has some of the highest generic drug prices among OECD countries.

It is no surprise that governments are considering ways to better manage these generic drug expenditures, including ways to pay lower prices when they reimburse pharmacies for claims submitted under these provincial plans. Ideas include bulk inter-provincial purchasing, contracts that allow only one generic supplier to provide products to the government plan, and limits on rebates that pharmacies are permitted to receive from generic drug companies.

However, there appears to be a fundamental misunderstanding within government about the economics of the retail pharmacy business. It has been extensively reported that pharmacies receive rebates, or professional allowances, from generic drug companies as payment for stocking their products. These rebates can be as high as 80 per cent of the cost of the product, but is about 40 per cent on average. Because provincial governments have strict limits on dispensing fees, these rebates have become a vital revenue source to the retail pharmacy sector. If government cuts off this revenue source, without allowing pharmacists to make up the revenue through increased dispensing fees or new sources, it will seriously impair the sustainability of retail pharmacies.

The October 2006 enactment of Ontario's Transparent Drug System for Patients Act was the first and most controversial initiative to date. Ontario's Bill 102 slashed the amount the province reimburses for generic drugs, limited a new version of rebates to 20 per cent of the invoice price and required that rebate money be spent by pharmacies only on direct patient services. The legislation spurred protests from pharmacists as well as drug manufacturers.

When asked about the Ontario approach, former Alberta Health Minister Dave Hancock said, "We're looking at other models across the country. I'm not satisfied the Ontario model will do the trick." However, the retail pharmacy sector remains concerned that reforms similar to those enacted in Ontario could be taken without meaningful consultation with the pharmacy sector.

There is an alternative: The Nova Scotia government and the Pharmacy Association of Nova Scotia recently negotiated an agreement on a new contract that serves the needs of both pharmacy and the government. Under this model:

- Nova Scotia Health negotiates with the Pharmacy Association of Nova Scotia to determine maximum professional fees, allowable mark-ups, and definitions of cost that pharmacies can charge for prescriptions covered under the Pharmacare program.
- The Pharmacare program establishes a Maximum Allowable Cost for drugs that have a generic alternative. This maximum allows pharmacists to continue to receive rebates from generic drug manufacturers for the majority of drugs.
- A Pharmacare Allowance has been created, which transfers a portion of the pharmacy's rebates to the Pharmacare program, so government and its clients can share in the benefit. This allowance is 15 per cent on the top 20 generic drugs covered by Pharmacare.

There is an emerging trend towards compensating pharmacists for the wide range of medication management services they deliver that are not linked to dispensing, including the ability to prescribe drugs under certain conditions such as chronic disease management and other wellness programs. As these alternatives develop, it may become possible to see rebates reduced.

In the meantime, Alberta must find an approach that ensures the cost of pharmaceuticals is minimized, without threatening the viability of the retail pharmacy sector. The province should:

- Work with the Alberta Pharmacists' Association to negotiate an agreement, rather than impose an approach through legislation.
- Accept an approach to reducing rebates that is gradual, to allow pharmacies time to adjust.
- Allow pharmacies to develop new revenue streams that will decrease reliance on manufacturer's rebates over time.

Thanks once again for the opportunity to contribute to this consultation. If you have any questions or concerns, please don't hesitate to contact me at 403-444-9290 or 780-421-4253.

Regards,

Original signed by

Danielle Smith, Director of Provincial Affairs, Alberta