



CANADIAN ASSOCIATION FOR PHARMACY DISTRIBUTION MANAGEMENT
ASSOCIATION CANADIENNE DE LA GESTION DE L'APPROVISIONNEMENT PHARMACEUTIQUE

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August 15, 2011

The Honourable Madeleine Dubé
Minister of Health, Government of New Brunswick
Department of Health
PO Box 5100
520 King Street, 5th Floor
Fredericton, New Brunswick
E3B 5GB

Dear Minister,

Subject: Our Comments on Proposed Changes for 'Fair Drug Prices for New Brunswickers'

On behalf of the Canadian Association for Distribution Management (CAPDM), whose New Brunswick pharmaceutical wholesaler members include AmerisourceBergen Canada, Kohl & Frisch Limited, and McKesson Canada, I am writing in regard to the proposed changes to the New Brunswick Pharmacare Programs in order to achieve 'Fair Drug Prices for New Brunswickers'. I would request that this be received as a submission on behalf of our industry and our association.

Background

Established in 1964, the Canadian Association for Pharmacy Distribution Management (CAPDM) is the voice of Canada's pharmacy supply chain. Members consist of pharmaceutical distributors, self-distributing pharmacy chains, prescription and non-prescription drug manufacturers (brand and generic), as well as goods and service providers with an interest in the pharmacy supply chain sector.

Approximately 95% of pharmaceutical products in New Brunswick are distributed to pharmacies, hospitals and other health facilities by pharmaceutical wholesalers. Distribution of pharmaceutical products by pharmaceutical wholesalers is safe, secure and efficient and is the system of choice for pharmacies and manufacturers. By offering next-day delivery five days a week, pharmaceutical wholesalers help to ensure timely patient access to vital pharmaceuticals and over-the-counter medicines. In addition, two of our wholesaler members, Kohl & Frisch and McKesson Canada, contribute to the local economy by locating their distribution centres in the city of Moncton.

We were pleased with the opportunity to dialogue with you during the consultation process, and we are following up with this written submission for your consideration, highlighting the pharmaceutical wholesale industry's perspective on the proposed changes.

We would like to see this spirit of open dialogue continue and we hope that we can collaborate with you further on these proposed changes, as well as any future consultation opportunities.



Comments on the Proposed Changes

We have fully reviewed the proposed changes and we would like to point out our concerns and offer our suggested solutions on:

1. Ensuring adequate funding of the pharmaceutical wholesale channel
2. Phased approach for new generic prices

1. Ensuring Adequate Funding of the Pharmaceutical Wholesale Channel

Pharmaceutical wholesalers are paid for their services of distributing pharmaceutical products within New Brunswick based on a percentage of the products' price. The amount in actual dollars that pharmaceutical wholesalers are paid to distribute generic drugs (via the manufacturer-paid generic fee for distribution) in New Brunswick will decrease as generic prices are reduced. In Quebec the generic manufacturers stopped paying the fee-for-distribution in response to the lower generic price and other policy positions in that province. In order to ensure that the current benefits of delivery frequency, geographical reach, and reserve capacity (e.g., for pandemic support) are preserved, a compensatory financial mechanism would be required. With the proposed compensatory mechanism the pharmaceutical wholesalers will still experience a dramatic decrease in revenue which we accept and will adapt to as part of the industry's contribution to the "Fair Drug Prices for New Brunswickers" initiative. But without the compensatory mechanism, the reduced generic prices will push pharmaceutical wholesalers through a cost threshold where difficult decisions will need to be made.

We believe that the adoption of the Wholesaler Distribution Fee model as applied in Quebec and Saskatchewan and currently under review in other jurisdictions provides a compensatory financial mechanism that is balanced for pharmacy supply chain stakeholders and the New Brunswick government. It is fully transparent and allows the pharmaceutical wholesalers to remain viable even in the face of significant revenue reductions. Implementation of the Wholesaler Distribution Fee will keep pharmaceutical wholesalers above the cost threshold and being fully transparent provides maximum clarity for the government of New Brunswick.

In Quebec, pharmaceutical wholesalers distributing in the province enter into an agreement with the government to be paid a protected wholesale upcharge fee on the distribution of brand and generic drugs. Currently, wholesalers can charge no greater than a 6.25% (6.5% in April 2012) wholesale upcharge fee when distributing brand and generic drugs on the Quebec formulary. Wholesalers cannot reduce the wholesale upcharge for the pharmacy by any discount, directly or indirectly, except for a 2% prompt payment discount made within 30 days of the purchase.

In 2011, Saskatchewan adopted the Wholesaler Distribution Fee model as part of its strategy to reduce generic prices. Pharmaceutical wholesalers in Saskatchewan are now paid a non-rebatable 6% wholesale upcharge (except for 2% PPD) for distributing generic drugs, while the reimbursement on brand drugs remains unchanged.

The model was readily endorsed by stakeholders within the pharmacy supply chain in Quebec and Saskatchewan. Reasons for the Wholesaler Distribution Fee model being accepted by government and industry stakeholders included;



- Allows provincial governments to pursue generic price reduction policies while ensuring adequate funding of the wholesale supply chain, thereby preserving timely pharmacy and patient access to vital medicines
- Fully transparent and on-invoice. Governments know what service they are paying for and where the money goes.
- Funded by generic drug cost savings
- Revenue-neutral to pharmacy if applied to generic drugs only
- Reduction in distribution costs for generic manufacturers creates more flexibility for supporting generic price reductions and government policies

We believe that the Wholesaler Distribution Fee model could be similarly implemented in New Brunswick on generic drugs only as part of its new pricing policy. A 6% non-rebatable wholesale upcharge on generics would ensure that pharmaceutical wholesalers do not pass a cost threshold as generic prices are reduced, thereby maintaining the viability of the wholesale supply chain. Furthermore, the 6% non-rebatable wholesale upcharge would be revenue-neutral to retail pharmacies and provide more flexibility for manufacturers to support the province's generic price reduction policy.

We therefore recommend that:

- The Government of New Brunswick implement the Wholesaler Distribution Fee model on generic drugs -- a 6% non-rebatable wholesale upcharge fee for reimbursing distribution of generic drugs by pharmaceutical wholesalers.

2. Phased Approach to new Generic Prices

We certainly understand and support the Government of New Brunswick's desire to achieve better value for healthcare dollars. However, we suggest the lowering of generic prices be done in a phased approach.

Pharmaceutical wholesalers are paid for their services of distribution of pharmaceutical products based on a percentage of the products' price. Even with the implementation of the Wholesaler Distribution Fee, the anticipated reduction of generic prices in New Brunswick will result in a significant revenue reduction for pharmaceutical wholesalers.

This revenue reduction is further complicated by long-term business contracts that pharmaceutical wholesalers have with many customers that contain commitments and costs that will remain even as revenue is reduced. Because of greatly reduced revenues due to lowered generic prices coupled with our need to honour existing customer contracts that require maintaining current costs, it is vital that pharmaceutical wholesalers have a reasonable transition period to adapt to the new model.

The implementation of the Wholesaler Distribution Fee will help to keep the pharmaceutical wholesalers above the cost threshold and therefore able to maintain current levels of service. But recognizing that revenue will still be significantly reduced, the pharmaceutical wholesalers recommend a phased approach to the application of reduced generic pricing beginning with newly launched products and capturing the full market in a 12 – 18 month phase-in.

We recommend that: The government of New Brunswick takes a phased approach of 12 – 18 months in the application of reduced generic pricing thus allowing a smooth transition and market adaptation.



In closing, we thank you for the opportunity to comment on the proposed changes. We want to support the Government of New Brunswick's mandate to improve the value and accountability of the New Brunswick drug system, and we believe that our recommendations will allow you to pursue the 'Fair Drug Prices for New Brunswickers' mandate while ensuring that the province's pharmaceutical wholesale supply chain and the pharmacies it serves are protected from unintended consequences of the proposed changes.

As a summary, we recommend:

1. The Government of New Brunswick implements the Wholesaler Distribution Fee model of a 6% non-rebatable wholesale upcharge for reimbursing distribution of generic drugs by pharmaceutical wholesalers.
2. Reductions in generic prices be phased in, accomplished by reducing the prices of new generics to begin and the balance of the products phased in over a 12 -18 month period.

We look forward to hearing your thoughts on our recommendations for refinement of the province's pharmaceutical policy and once again underline that CAPDM and the pharmaceutical wholesalers are ready to continue to engage in open and frank discussions.

Yours sincerely,

David Johnston
President and CEO
Canadian Association for Pharmacy Distribution Management
Ongoing Excellence and Innovation for the Pharmacy Supply Chain