

Parallel paradox



BAEPD secretary-general Richard Freudenberg wants the EU's free movement of goods principles to be upheld

Are parallel traders really a weak link in supply chain safety, as Big Pharma would have us believe, or the consumer's saviour in supplying more affordable drugs?

Susan Birks spoke to BAEPD secretary-general **Richard Freudenberg** about the issues

Parallel trade in pharmaceuticals has been building a presence in Europe since the 1970s. The evolution of 'free trade' within the European Union has enabled medicines to be imported from one EU country and put on the market in another at a reduced price, in parallel with a product that is already on the market. As a result, in 2005, some 66 million packs of parallel traded medicines were distributed in the UK and around 90% of UK pharmacists now dispense them.

Yet parallel trade is a difficult pill for some in the pharmaceutical sector to swallow. Protective of their increasingly squeezed margins, large pharmaceutical companies are loathe to surrender any market share to parallel

distributors, and some major multinationals are upping the ante in an attempt to keep parallel traded medicines off the pharmacy counter. As a consequence battles are being waged in the European courts over alleged 'unfair practices'.

single voice

This all makes for interesting times for Richard Freudenberg, who has been in the parallel distribution trade since 1990 and is the current secretary-general of the British Association of European Pharmaceutical Distributors (BAEPD). The organisation represents 14 licensed parallel traders in the UK – out of the 70 plus companies that exist – but Freudenberg is quick to point out those 14 represent some 70% of the market.

A graduate in linguistic science, and a management accountant, Freudenberg has spent the past few years at the BAEPD galvanising its members to speak with one voice and fighting for a fairer deal for the parallel trade industry – or as he puts it, 'for the EU's free movement of goods principles to be adhered to'.

From the outside, parallel trade may seem easy pickings. Historically, pharmaceutical manufacturers have put more than the required amount of any one drug onto the market, creating a surplus. Wholesalers, who have a national obligation to sell to their domestic market first, would then sell on any excess.

'All we are dealing in are surpluses of a product,' says Freudenberg, in a simplistic explanation of what is in fact a very complex business. Parallel traders have first to apply for the required Marketing Authority (MA) licence from the authority in the country in which they wish to market the drug, then repackage it in the correct language and with the correct leaflet before they can sell it at a reduced cost.

decreasing margins

The process is not without its own costs, however. For example, apart from the licence fees, for every drug batch imported, the parallel trader must retain a sample for a year after the medicine's expiry date. The legal paperwork involved is also huge. Freudenberg says it is increasingly difficult to get the authorisation and to get the drugs repackaged and onto the market in good time, and that the margins being made are decreasing.

'There has to be sufficient price differential to warrant the trouble to import, repackage and market, but you won't find many of my members that make much more than a single digit gross margin. It is not the gold mine that some may think. A successful parallel trader will be looking to make 1% net,' he says.

The fact that Big Pharma's pipeline is shrinking also means fewer blockbuster drugs are coming onto the market, and that is making the parallel trader's job harder. As margins reduce, the traders have to broaden their drug portfolio.

One of the major arguments directed against parallel trade is that the distributors reap all the benefits of the developer's huge spend on r&d and marketing in getting the drug initially to market and this diminishes the developer's payback, which it needs in order to invest in new research.

But Freudenberg counters this: 'I think the figures speak for themselves. There is no evidence to support that ►