

Why the Swedish consumers would be the winners if the state retail monopoly on non-prescription pharmaceutical products were to be opened up to competition

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Those of you who are familiar with Sweden may be wondering why a representative of Sweden's leading supermarket group is before you today at a conference on regulating professional services. Let me explain.

The Swedish Grocers' Federation, who I also represent here today, acts in the interest of all retailers in Sweden. As regards ICA, it consists of approx 1800 retailer owned and operated stores in Sweden with total sales of Euro 8 500 million, including the sales of a wide product range of vitamins and other health care products. In 2002 ICA also introduced ETOS, a special-purpose chain of shops offering an assortment of cosmetics, vitamins and personal care products. Apart from selling these products, the ETOS store format would be ideal (a blue-print of a pharmacy) to use for sales of non-prescription products. In fact, ETOS is already active in the Netherlands with 400 stores in which non-prescription pharmaceuticals are sold.

However, this range of products cannot be sold in Sweden because of the state retail monopoly for prescription and non-prescription pharmaceuticals (called Apoteket). It was introduced in 1970 with the aim of strengthening the state's control of medicinal products. This was Swedish policy at the time; but it is not the policy today as Sweden is committed to free market principles as a EU member. Yet the monopoly remains in force, and pharmacies in Sweden are in fact the most restricted in Europe.¹

To make things more difficult for independent retailers, the legislation adopts a wide definition of what constitutes a pharmaceutical product, meaning that the monopoly covers a wide range of products that can be sold freely in other EU Member States. The monopoly covers products as benign as anti-smoking products, aspirin pills for headaches, nasal decongestants for colds, anti-travel sickness pills, cough medicines and sore throats etc. etc.

From a consumer as well as a business perspective, I can see no reason why such anodyne products need to be sold in the state monopoly.

We want to be able to offer over-the-counter pharmaceuticals in all 1800 ICA stores. We know that consumers would welcome this. They would value the range of products we want to sell, the increased opening hours, better availability, more competitive prices and all the other benefits we could offer. But our business is held back by a monopoly introduced in a different era for policy reasons that are no longer valid today. To us, this makes no economic or political sense.

¹ In a survey prepared by IHS Wien for the Commission, pharmacists in Sweden scored a maximum 12 points indicating that they were the most regulated liberal profession surveyed – see http://europa.eu.int/comm/competition/publications/prof_services/executive_en.pdf

But you shouldn't just take my word for it. The most recent government study in 1998 reached the same conclusion. The study suggested that the business of Apoteket should be exposed to competition and that sales of non-prescription medicinal products in regular stores should be considered.² Similar conclusions were reached by the Swedish Competition Authority in 1999, which proposed abolishing Apoteket's monopoly on non-prescription medicinal products.³ Today there is a case pending in the European Court of Justice in which the Swedish monopoly will be tested.

It is important to note that ending the monopoly would benefit consumers and business alike. As a retailer, I know that competition leads to a wider range of shops offering a wider range of products, with better service and at better prices – all of which benefit consumers. Consider the following facts:

Opening hours: Most Apoteket stores only open from 9am to 5pm on weekdays and close on Saturdays and Sundays. What do you do if you have a headache on Saturday afternoon (or on a Sunday morning)? A liberalised market would offer better opening hours. Parents who work do not have to take time off to pick up medicines for their children. ICAs stores are normally at least open between 9 am and 8 pm all days of the week, many of them even with more generous opening hours.

Number of shops: Sweden has considerably fewer pharmacies (per head of population) than other EU countries⁴. Apoteket has only 900 outlets for the whole country (there are a further 1000 agents in rural areas who only sell a few products and who have no qualified pharmacist). What does this mean: consumers have to travel further to get products. Ending the monopoly would increase the number of outlets (as happened in Denmark). Apoteket itself recognises that availability and opening hours is its biggest problem⁵. Opening the market to competition would increase the number of stores dramatically - ICA alone would add 1800 outlets into the system.

Product range: Sweden has fewer competing brands of common over-the-counter products than other countries. This means less competition and higher prices.

New products find it difficult to enter the market: It is also difficult for new products to enter the market, as Apoteket, the sole gatekeeper, must accept them. ICAs wholesale business would be an interesting alternative for suppliers of new products, as they could enter the market via ICA's network of 1800 outlets.

² SOU 1998:28 "Läkemedel i vård och handel", p. 17 ff and 254 ff.

³ Konkurrensverkets Rapport 1999:4 "Konkurrens vid försäljning av läkemedel", 1999.

⁴ Sweden has one pharmacy per 11,095 inhabitants while other EU countries have one pharmacy between 1,200-3,600 inhabitants (see Konkurrens vid försäljning av läkemedel, Konkurrensverket, 1999:4, page 70).

⁵ Apoteket Annual Report 2002.

Pricing policy: The Swedish Competition Authority's 1999 report found that competition between retailers would result in more parallel imported products and generics being sold at lower prices, which in turn would reduce the total pharmaceutical costs.⁶

I hope by now you will be asking yourselves: why would anyone want to maintain this outdated monopoly? Its supporters generally offer three justifications for maintaining the monopoly: (i) ensuring distribution of products throughout Sweden; (ii) better information to customers and (iii) protection of public health. In my view, all of these arguments are misguided.

Universal distribution service throughout Sweden: This is not a problem in other countries. The Danish experience shows liberalisation would increase the number of shops. In fact, it is my strong belief that the retailing sector could improve the universal service situation in Sweden. A rural store, e.g., in Northern Sweden, needs as many sources of income as possible in order to survive – such as postal services, lottery, betting and so on. Liberalising over-the-counter pharmaceuticals would add an important business that would help bring customers to the small stores and thus permit them to be the “heart” of their local area. This could be a decisive factor in enabling the store to stay in business. Furthermore, ICA has already a country wide distribution system in place that can be used for distribution and sale of non-prescription products.

Information: The retailers would ensure that trained assistants were available to provide as good information as is currently available at Apoteket. At present, few consumers receive any advice on non-prescription products from Apoteket employees (beyond what is printed on the packet). ICA could put in place IT solutions that would provide easily accessible information online and if more were needed, we could set up a phone line with a trained pharmacist on call.

Public Health: Better availability of non-prescription drugs can only be positive for the health of consumers. In Denmark, liberalisation led to a major increase in the consumption of anti-smoking products. Liberalisation can only make things better, not worse. Why should consumers not be able to buy Nicorette on a Sunday? There is no such limitation on their ability to buy cigarettes. As you can buy non-prescription products freely at Apoteket without being asked questions or via Apoteket's own internet site, you may ask yourself why it would be a public health risk to do the same at a well organised supermarket.

Even if these concerns were justified, they could be resolved by alternative regulation or licensing systems. There is no need for a monopoly.

⁶ “Apoteket has a key role ensuring a satisfactory outcome of the proposed competition solutions. Competition between pharmacies could be expected to be the driving force behind reduced pharmaceutical costs through an increased use of parallel imported pharmaceuticals and generics.” (translation of quote from page 158).

This conclusion is widely shared. The 1998 Government study found that the rationale behind the introduction of the monopoly was originally the possibility to rationalize the distribution of medicinal products combined with the ability to offer improved services to the public. It found that the State had a number of means to ensure information and accessibility to consumers other than through Apoteket and concluded that there was no good reason why the retail monopoly should be maintained.⁷

All it needs now is for our politicians to re-regulate the market. What do I mean by re-regulation: it means ending the monopoly and adding a suitable regulatory environment for the liberalised market. The winners will be Swedish consumers. I hope this conference will help persuade our politicians that this is the best course for Sweden and that the test case currently pending before the European Court of Justice will lead to the same outcome.

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⁷ SOU 1998:28 p. 159 ff.