

The Economic Bulletin

THE PHARMACEUTICAL
MARKET IN SPAIN

Number 111, July 2014

Market evolution

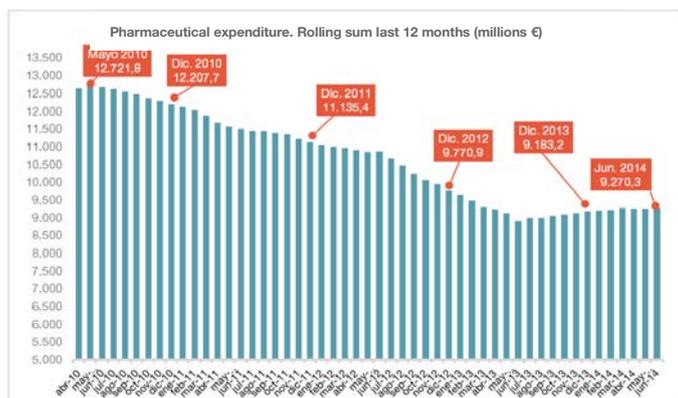
Public Pharmaceutical Expenditure (pharmacies)

	Jul. 2013- Jun. 2014	Jul. 2012- Jun. 2013	% var. 2014/13
Exp. (€ Mill.) *	9.270,3	8.898,5	4,18%
Prescrip. (Millions)	864,3	839,7	2,93%
Av. Exp. per. prescription (€) *	10,73	10,60	1,21%

*VAT included

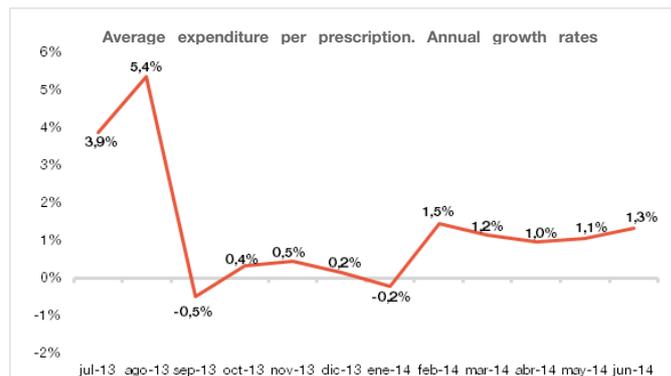
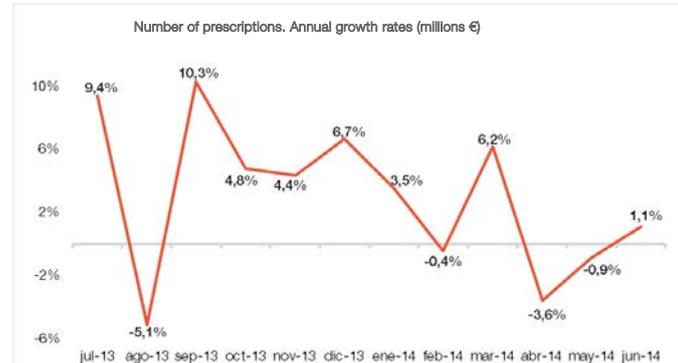
Data from the Ministry of Health, Social Services and Equality shows that in June, public pharmaceutical expenditure at pharmacies experienced a growth of +4.2% compared to the same month the previous year. The variation in expenditure is due to an increase in the number of prescriptions (+2.9%) and a slight increase in the average price of prescriptions (+1.2%).

The accumulated expenditure in the 12-month period to June 2014 was -3,451M€ lower than the recorded high in May 2010 (see the below chart), which means a fall in the market of -27.1%.



Fuente: MSSSI

As we mentioned in our previous bulletin, the annual growth rate in the 12-months period to June has experienced an important increase; changing one month to the next from +1.4% to +4.2%. However, this increase is not due to a surge in the demand of prescriptions, nor the average expenditure in June, in fact, as shown in the following charts, the annual growth of prescriptions and the average expenditure in the public pharma market in June is quite low and isn't discordant with what happened in the whole of the public pharma market over the last few months.

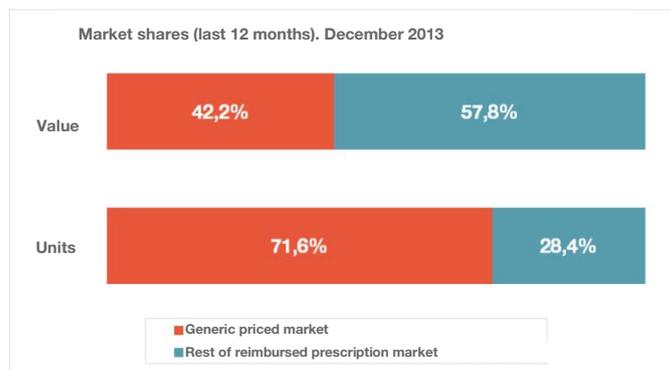


The increase in expenditure to 12-months has, once again, an underlying statistical reason, and this was to be expected. Since May, the expenditure variation rate to 12-months contained a depressor effect due to the steep fall in annual expenditure registered in June 2013 (-23%). However, in June this year, this negative phase came to an end, not only in the series of accumulated expenditure to 12-months, but also in the accumulated expenditure variation rate.

Similarly, but the other way around, we should mention the downturn the expenditure growth rate will experience to 12-months this coming month of July. July 2014 will mark the end of the accumulated expenditure series to the 12-months July 2013 figures, when pharma expenditure grew by almost +14% in the annual rate.

After these current and statistical variations, we calculate a continual fall in the pharma expenditure variation rate for the last quarter, especially as a consequence of the Price Referencing Order coming into force.

Finally, data from the IMS covering the 12-month period ending March 2014 shows the whole of the medicines market with generic prices reached 71.6% of the total prescription market in units in Spain, and 42.2% of said market value.



Source: Farmaindustria estimates from IMS
Note: prescription market net from rebates established in RDLs 8/2010 and 9/2011

Reductions in Pharmaceutical expenditure is the reason behind the 40% savings in public health costs over the last few years.

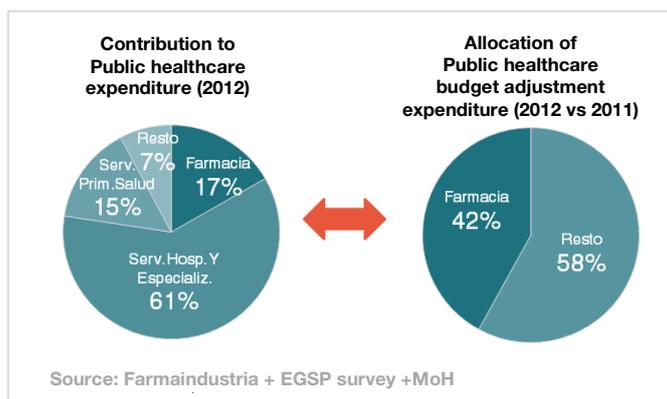
On average, health expenditure represents more than one third of the Regions' budgets. With this in mind, it is most probable that whatever cost containment policy is passed to reduce global regional public expenditure, will end up affecting health expenditure.

In fact, over the last few years, and as a consequence of fiscal adjustments to help Spain's economy, the reduction of public health spending in the Regions has been very significant,

according to the figures for 2012, published by the Ministry of Health, Social Services and Equality.¹

Between the highest registered expenditure figure of 2009 and the year-end 2012, public Spanish health expenditure dropped by 6,429 M€. From this figure, 2,707M€ correspond to reductions in public pharmaceutical expenditure (42.1% of the total reduced amount). This means that public pharmaceutical expenditure has gone from representing 19.0% of public health expenditure in 2009 to 16.7% in 2012.

Taking a closer look at what happened over this period, spendings on public pharmaceutical health in 2012 were reduced by 3,900 M€ with respect to 2011, and from that figure, 1,626 corresponds to a fall specifically in pharma expenditure (also equivalent to a 42% of the total public health expenditure in said year).



However, it is worth remembering that a large part of the reduction on public health expenditure in 2012 (according to FARMAINDUSTRIA'S estimates from diverse sources, > 1,000M€) stems from civil servants' extra Christmas salary being withheld that year, but which was paid in 2013; so bearing this in mind, the data lacks permanent effects in expenditure reduction.

Similarly, there are indications that the fall in pharma expenditure in 2013 was once again the reason behind an important reduction in public health expenditure that happened last year in our country, given that: i) pharma expenditure on NH prescriptions dropped once again in 2013 by -6% and ii) the potential reduction in all other public health items, will have been negatively affected in 2013 by the recuperation of the civil servants extra Christmas salary.

After seeing these figures, it is very probable that in 2013, pharmaceutical expenditure reduced its share in the whole of the Spanish public health expenditure.

The Cotec 2014 report confirms the pharma industry is leader in R&D.

The Foundation for Technical Innovation (Cotec) recently published its 2014 report on Technology and Innovation in Spain. This includes the evolution of the main R&D indicators and innovation in Spain.² The document also includes numerous experts' opinions on the situation and of the future development of the Spanish innovative system; it also offers a chapter on technology and business, where expenditure on R&D is carried out in the different Spanish business sectors.

Since Cotec's first publication in 1996, its report has been a role model for the scientific community and for the whole of the business sector in our country. Thus, we believe it useful to delve a little deeper with their data, so that mistaken conclusions are not drawn when comparing data offered by other sources on R&D in Spain.

Specifically, in chapter III, "Technology and business", under the heading "[...]The sectorial distribution of expenditure in R&D by companies in Spain." (Pgs.79-83)..."the distribution of expenditure by sectors, distinguishing the part of expenditure directly carried out by the sector and the acquiring of external R&D services can be seen in chart 111.7. They highlight expenditure of more than 500M€, and that corresponding to other professional activities is 750M€, a sector that includes amongst others, engineering services, companies headquarters activities and other professional activities, scientific and technical, followed by the pharmaceutical sector with 627M€, programming, services and other computer activities 625M€, automobiles 581M€ and aeronautical construction 495M€ [...]"

The 672 million euro of expenditure on pharma R&D (also reflected in the statistics of the report, page 180, table nº 18) may well surprise a lot of readers given that it is considerable lower to the 1,000M€ which is normally what is turned over as annual expenditure in pharma R&D, quoting official sources of the National Institute of Statistics ("INE").

The reason behind this apparent discrepancy is that the Cotec report only takes into account the ranking of corporate expenditure where internal R&D occurs (the development within the company's installations) and a part of external R&D (those acquired as external services to the services sector of R&D) avoiding spending in R&D financed by the pharma industry, but not acquired by the services sector of R&D but by other economic sectors.

On the other hand, the INE methodology of statistics on R&D activities (page 13) states that "(...) expenditure in R&D activities are considered those amounts allocated to R&D activities carried out within the unit or research centre (internal expenditure) or external, wherever the funds come from"³.

Based on these premises, the INE ascertains that in 2012, the pharma industry (CNAE 21) incurred total expenditure in R&D (both internally and externally) of 996.9 M€.⁴

In short, the difference between the expenditure in R&D of the pharma industry figures given by Cotec (672,2 M€) and the INE (996.9 M€) lies in that while Cotec considers internal expenditure in R&D and only a part of external R&D, the INE includes all R&D expenditure paid for by the pharma industry, both of an internal character and all the contracted ones with all the other economic sectors: businesses, public administration, higher education and non-profit private institutions.

Notwithstanding and despite the different nature of the data used, both sources coincide in showing the pharma industry as the leader in the industrial sector in R&D in Spain.

¹ MSSSI, Estadística del Gasto Sanitario Público (EGSP). Available at: <http://www.msssi.gob.es/estadEstudios/estadisticas/inforRecopilaciones/gastoSanitario2005/home.htm>

² <http://www.cotec.es/index.php/publicaciones/show/id/2583/titulo/informe-cotec-2014--tecnologia-e-innovacion-en-espana>

³ Available at: <http://www.ine.es/daco/daco43/metoi+d12.pdf>

⁴ Source: INE. Estadística sobre actividades de I+D. Disponible en: <http://www.ine.es/jaxi/menu.do?type=pcaxis&path=%2Ft14/p057&file=inebase&L=0>

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