

There's no 'conspiracy' in Ontario pharmacies — just flawed regulations that aren't helping patients

Opinion: Crackdowns on forms of pharmacy support like marketing fees won't benefit the government or consumers

Sign In Subscribe

FINANCIAL POST

NEWS · INVESTING · MARKETS · PERSONAL FINANCE · INNOVATION · FP COMMENT · ENTREPRENEUR · EXECUTIVE · FP MAGAZINE · SUBSCRIBE · MORE · NATIONAL POST

MOGO Your first 90 days are free. Then it's \$8.99/month. Promo code: **freeprotect** GET MOGO PROTECT

There's no 'conspiracy' in Ontario pharmacies — just flawed regulations that aren't helping patients

Opinion: Crackdowns on forms of pharmacy support like marketing fees won't benefit the government or consumers

In most Canadian provinces, generic drug manufacturers can pay allowances to pharmacies on the purchase of their products as part of ordinary market competition. *Elise Amendola/AP Photo*

SPECIAL TO FINANCIAL POST
MATTHEW FRISCH

March 21, 2019
9:23 AM EDT

There is a vast criminal conspiracy involving every pharmacy in Ontario. At least that's what recent media coverage of the province's pharmacy sector would have you believe.

Canadian Space Agency confident in rocket being used to launch \$1 billion satellite despite U.S....

SPECIAL TO FINANCIAL POST

MATTHEW FRISCH

March 21, 2019

9:23 AM EDT

Filed under FP Comment

There is a vast criminal conspiracy involving every pharmacy in Ontario. At least that's what recent media coverage of the province's pharmacy sector would have you believe.

In January, CBC's *The Fifth Estate* aired an investigation into allegations of unlawful rebates being paid to pharmacies throughout Ontario. Since the government fixes generic drug prices throughout Canada, manufacturers, unable to compete on price, will sometimes use rebates or allowances as incentives for a pharmacy to offer their products to customers, although such rebates were restricted by the Ontario government in 2010. The CBC, out to expose what passes elsewhere as normal competition, used hidden cameras, a shadowy Deep Throat figure in a parking garage, and even a fictitious drug company to add melodrama to its portrayal of rebates as a systemic evil confronting the province's taxpayers.

“The problem of illegal kickbacks inflating your drug prices is very real,” intoned the show’s host over ominous music playing in the background.

Of course, in most Canadian provinces, generic drug manufacturers can pay allowances to pharmacies on the purchase of their products as part of ordinary market competition. Ontario restricted this practice based on the then Liberal government’s misguided belief that rebates resulted in higher prices for customers. In actuality, rebates have minimal bearing on prices, which depend on a host of other factors.

But *The Fifth Estate*’s contention was that the practice is nefarious and, worse, that pharmaceutical companies and retailers in Ontario had figured out a workaround, by providing “marketing fees” and other forms of support to pharmacies that CBC says are just rebates in disguise.

The program placed much of the blame on one company in particular: McKesson Canada, the country’s largest pharmaceutical wholesaler and owner of retail businesses such as drugstore giant Rexall. The host even surprised McKesson’s president in the parking lot of her Montreal office, a classic ambush interview technique.

The show followed up a 2018 episode that alleged that Costco was circumventing the rebate rules, after which *The Fifth Estate* was tipped off that others were doing it too. Subsequently, Ontario’s Ministry of Health announced in February that it had indeed fined Costco over \$7 million in connection with an investigation that it had violated the province’s restriction on pharmacy rebates prior to August 2015. “The Ministry takes non-compliance with the prohibition on rebates seriously,” officials said.

Finally, it would seem, justice was being served to a pharmacy sector that’s been undermining the public interest. What a story! Unfortunately, it’s wrong.

Simply put, the restriction on generic rebates is flawed public policy. It doesn’t save the province money or serve any kind of purpose in the interest of public health. All it really does is make for good investigative television drama at the expense of hard-working health-care professionals who have their lives upended and are made out to look like crooks. It is grossly unfair and utterly senseless.

Our company, Kohl & Frisch Ltd., does not own any retail or manufacturing businesses in Ontario. We are an independent Canadian pharmaceutical wholesaler, more than a century old, and McKesson is in fact our largest competitor. If anything, its negative portrayal in *The Fifth Estate* should be something that pleases us from a purely competitive perspective; after all, our corporate reputation wasn’t dragged through the company parking lot by the CBC the way McKesson’s was. Yet our interest lies in having policies that are both fair and sensible in fostering a sustainable and cost-effective pharmaceutical industry.

Ontario’s restriction on rebates checks neither box. Generic drug prices in Ontario are consistent with those in other provinces where such rebates are legal, and where your local pharmacist doesn’t have to worry about hidden cameras and wiretaps whenever someone walks through the door.

Crackdowns on forms of pharmacy support like marketing fees won’t benefit the government or consumers. It would simply leave bigger margins with manufacturers and promote greater consolidation and vertical integration. This is especially a concern after Ontario proposed last year to admit private label drugs in the province. The result would be large drugstore chains marketing their own generics and essentially generating their own rebates by making margin on manufacturing — all while squeezing out generic competitors prohibited from offering rebates. This would represent a major long-term threat to independent pharmacies in Ontario, not to mention untold manufacturing jobs, while also undermining patient choice in the province.

The irony here is that governments are already seeing major savings on generic drugs. In April 2018, the pan-Canadian Pharmaceutical Alliance and the Canadian Generic Pharmaceutical Association announced a new five-year pricing plan that will save the country’s health-care system up to \$3 billion in drug costs. Further government actions with respect to price and private label manufacturing could actually end up increasing consumer costs, by dissuading generic-makers from competing against their pricier brand-name counterparts.

So, if the restriction on rebates doesn’t serve any constructive policy purpose and actually works to unduly disparage a whole community of health-care providers, perhaps we should ask ourselves where the real problem lies. Is it really that your local pharmacist is part of a broad conspiracy out to swindle patients and subvert the health-care system? Or did well-intentioned policy-makers simply miss the mark by unnecessarily restricting rebates?

Instead of further crackdowns, policy-makers’ energy would be better spent considering common-sense reforms to create a fairer and more sustainable pharmacy sector.