

TABLE 7

EC Pharmaceuticals, 1987

<u>Country</u>	<u>Production (in millions of ECU)</u>	<u>Share %</u>
W. Germany	10 338	26.7
France	9 149	23.6
U.K.	6 971	18.0
Italy	5 152	13.3
Spain	2 813	7.3
EC 12	38 700	100.0

Source: *Europe in 1993: Economic Outlook by Sector*, BIPE, Paris.

The EC has an internationally important pharmaceutical industry. But its international weight is felt less in this sector than in plastics. One might even speak of a certain vulnerability that the changes involved in Europe 1992 are designed to remove. The relevant changes are discussed later in this document. This section outlines some of the sources of weakness in the EC pharmaceutical industry.

. The most fundamental source of weakness is the fact that, even 30 years after the Treaty of Rome, EC producers confront a fragmented market. Differences in drug licensing procedures, labelling, and packaging have limited intra-EC competition, as have variations in national pricing regimes. In West Germany and, to a lesser extent, the Netherlands and Denmark, prices are fixed by the government. In the U.K. profits are regulated. Prices in Ireland are, in practice, tied to those of the U.K. In France and Belgium businesses can in principle set their own prices but in practice are limited by the reimbursement rates set by the health care administrations. In Greece, Italy,

Portugal, and Spain there is regulation of price mark-ups over costs. That these complicated structures have been used quite deliberately to protect domestic markets is recognized by the EC Commission itself. It has been admitted that the system creates discriminatory effects: it is sometimes used to favour local firms and may provoke a useless decentralization of some activities along with the subsequent loss of scale economy.³³

This complex of regulations has produced wide variations in pharmaceutical prices by EC country, and wide variations in the weight of drug costs in total health care expenses, as Table 8 shows. It has also produced an industry with production facilities duplicated across EC countries, often owned by foreign enterprises.³⁴

. The EC pharmaceutical industry has a substantial export presence. Production originating in EC countries accounts for over 58 per cent of total OECD exports and pharmaceuticals account for almost 2 per cent of total EC industrial exports (see Table 9). This substantial