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Supply Chain Policy Briefing

When it comes to food, energy and medicine, Canada needs to be more self-reliant

Governments across Canada should heed calls from the generic pharmaceutical sector to help strengthen our domestic manufacturing capabilities and the international supply chain. Waiting several months for a new car is inconvenient. But waiting months for your heart medication? That could be deadly.

Jim Keon

Opinion

For the past number of years, generic medicine suppliers—those that produce the vast majority of Canadians' daily prescriptions—have been warning that our domestic production is heavily reliant on active pharmaceutical ingredients produced in India and China. *Image courtesy of Flickr*

Before COVID-19, we saw how international disputes can wreak havoc. China, for instance, abruptly cancelled billions of dollars of canola imports from Canada sending our farmers into a tailspin. Then, throughout the global pandemic, we saw how supply lines for so many products we rely on can easily be disrupted and cause reverberations throughout our economy.

From semiconductors to baby formula, we've experienced how fragile supply chains can be. Now, with the war in Ukraine, we're seeing how the European Union's reliance on Russian oil and gas has put Europe between a rock and a hard place. Their dependence on Russian fossil fuels has meant that since the beginning of the invasion, Russia has had the EU over a barrel, so to speak.

Since the pandemic, we have all had to learn about the precariousness and "just-in-time" nature of our supply chains. We need to ensure our supply chains are resilient and reliable in this age of increasing global uncertainty, and not dependent on potentially hostile trading partners. Nowhere is this urgent need truer than in our domestic prescription drug supply.

For the past number of years, generic medicine suppliers—those that produce the vast majority of Canadians' daily prescriptions—have been warning that our domestic production is heavily reliant on active pharmaceutical ingredients (APIs) produced in India and China.

What if there's another global crisis and a country we rely on for APIs, for one reason or another, cuts off our supply? Is our pharmaceutical supply overexposed to potential trade disputes, geopolitical events, and pandemics? Are we taking risks we don't need to take?

As noted in a recent study by EY Canada, our country is increasingly dependent on imports for its supply of prescription medicines, with the number of domestically produced generic medicines declining 34 per cent over the past three years. Disturbingly, now only 12 per cent of the volume of generic medicines sold in Canada are produced domestically.

This is a risk to our domestic supply's reliability, and a missed opportunity to create more well-paying Canadian jobs. Moreover, despite the fact generic medicines are already significantly more affordable than their brand-name equivalents, there is continued pressure on Canada's generic drug makers for lower prices, which represents an additional risk. We cannot simply continue to drive down prices for generic prescription medicines without further compromising the viability of Canada's generic pharmaceutical sector, and the 11,000 well-paying jobs that go with it.

A little bit of background: generic medicines fill 74 per cent of all prescriptions and yet they account for less than 21 per cent of the overall spend on prescription drugs. That's a huge differential. Over the past 15 years, prices for some of the top-selling generic medicines in Canada have fallen by as much as 80 per cent. Today, generics can cost as little as 10 per cent of their brand-name equivalents.

Yet, surprisingly, Canada uses a lower percentage of generic medicines than the United States. Using generic medicines more often, including implementing "mandatory generic substitution" in health insurance plans so that dispensers use generics by default, would save Canadian patients, governments and employers significant amounts of money. For every percent we increase our use of generics, Canadian taxpayers could save more than $340-million.

Further, as shown in a new report by Aviseo Conseil, the generic pharmaceutical sector is especially vulnerable to inflation. Because of fixed pricing, it is unable to adjust prices in the short term to reflect increased production costs. The increasing costs of labour, transportation and a complex regulatory regime are real pressures for the industry.

The inflationary pressures faced by pharmaceutical companies don't compare to those now faced by Canadian families, but added together with the reality that global supply chains have become increasingly complex, introducing risks, disruptions and shortages of prescription medicines, industry leaders are indeed worried. The real solution to inflationary pressures on Canadian families isn't to further reduce prices of generic drugs: it's to use more of them.

Recent events—from cancelled canola, to countless supply chain problems during COVID, to the war in Ukraine—should all be wake-up calls. When it comes to food, energy and medicine, Canada needs to be more self-reliant.

Governments across Canada should heed calls by the generic pharmaceutical sector to help strengthen our domestic manufacturing capabilities and the international supply chain. Waiting several months for a new car is inconvenient. But waiting months for your heart medication? That could be deadly.

Jim Keon is president of the Canadian Generic Pharmaceutical Association.

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