

Estimating the Effects of Global Patent Protection in Pharmaceuticals: a Case Study of Quinolones in India - Chaudhuri, Goldberg, & Jia
Claudia Rus & Jonah Haase

IPP - Intellectual Property Protection

TRIPs - Trade Related Intellectual Property - members of the WTO must enforce patents on pharmaceuticals.

Moral dilemma: profits vs. access to life-saving medicines

Anticipated Effects of TRIPs

- Price increases: will adversely affect low-income households (minimal insurance, out-of-pocket).
- Pharmaceutical companies: no price increases due to therapeutic substitutes; consumers unwilling to pay high price for new products, will use older, limit pharmaceuticals' ability to charge a lot; lack of patent enforcement discourages research that primarily affects poor countries.

This case study: attempt to display impact of enforcing pharmaceutical patents on the prices and welfare of the developing countries - specifically in India.

India was chosen for the study because:

1. low-income country that did not recognize TRIPs prior it going into effect.
2. India has minimal insurance, out-of-pocket
3. disease profile is similar to other low-income countries
4. largest producer of generic drugs in the world

The welfare loss will be calculated by measuring the additional expenditure that the people must incur in order to maintain similar utility levels while generic products are removed from the market and prices begin to fluctuate.

Key aspects:

- Previous studies assumed that consumers were indifferent between domestic and foreign products, which means that all welfare losses were due to price increases.
*Yet prices are frozen in this study, and there is still a welfare loss.
- "Ease of Access" effect - domestic products are more easily accessible to consumers. With their removal, there is a reduction in variety. The smaller distribution network can provoke welfare losses.
- Price regulation: reduce incentive for investment in product innovation.
- Cross-Price Effects: without price regulation, prices will adjust to monopoly prices. As demand increases for "therapeutic substitutes", their prices also increase.

Conclusions:

1. Concerns about the welfare effects of TRIPS in developing countries :

- Patent enforcement would result in a large welfare loss for the Indian economy (\$144- \$450 million annually) depending on:
 - the way policies are implemented
 - the extent of price regulation
 - the degree of the distribution network expansion
- TRIPS does not have much negative effects on the Indian pharmaceutical industry.
 - in some cases, profits of domestic firms may even increase
- The profit gains of the foreign firms are
 - \$53 million/year when patents are enforced (in the absence of price regulation)
 - \$19.6 million/year with price regulation (pre-TRIPS level)
- The biggest welfare losses of TRIPS concern the Indian consumers:
 - “product variety “/ “ease of access” effect
 - “expenditure switching “
 - “price adjustment” effect (substantial)
 - *IPR enforcements without price regulation is likely to determine foreign firms to market their products in developing countries and use licensing more extensively.
 - *Accompanying price regulation can prevent patent holders from exploiting their market power but not without diminishing the incentives of such firms to expand their operations in the developing world.
- These adverse effects from the introduction of a patent could be mitigated by the availability of close therapeutic substitutes available within narrowly defined therapeutic categories

2. Other opinions: From Professor Jagdish Bhagwati :

- WTO must be about mutually gainful trade
- IPP is for most poor countries a simple tax on their use of knowledge (a transfer to the rich producing countries)
- There seems to be no evidence that the creation of new medicine will be compromised in the absence of patents
- For the case of medicines designed for the poor countries- public money in the rich countries should be used to create incentives for such innovation.