

Preface

The pharmaceutical industry has increasingly moved into the focus of antitrust authorities. Allegations of anticompetitive conduct by drug manufacturers can be read in the news every week. This is because innovative drugs are frequently offered by just one firm holding a dominant position in the respective sub-market.

Initially, such a position may be granted by patent rights and other forms of protection of intellectual property (IP). The market power (i.e., prices above variable production costs) being established by IP laws helps pharmaceutical companies to earn revenues covering the research and development expenses incurred not only for the marketed drugs but also for drugs that never made it to the market. Insofar, some degree of market power for a predefined period of time appears necessary such that the pharmaceutical companies invest in research in the first place.

But what is an appropriate price for the drug? What happens if a drug company differentiates prices by setting the regular price in countries with a high per-capita gross domestic product (GDP) and grants a discount in countries with a low per-capita GDP? In such a situation, wholesalers might be tempted to re-import the drug from the low-income country and sell it in the high-income country. The pharmaceutical company might react by removing discounts in the low income country, unless it can restrain trade between these two countries. This raises the question whether trade restrictions and price discrimination are detrimental to welfare.

A further question concerns firms' strategies after the expiry of a patent. What strategies do incumbent firms use to prevent entrants from seeking access to the market? For example, one might think of payments made by the incumbents and received by the entrants for delaying market entry. How do such agreements affect welfare? Answering these questions is not trivial even in industries other than the pharmaceutical industry. Answers are even harder to find for the drug market that is not only subject to control by antitrust authorities. It is also protected by IP laws, regulated by government authorities, and characterized by powerful buyers such as health insurance companies.

Ms. Lehnhausen took the challenge to discuss the effects of anticompetitive conduct in this industry. Such an analysis requires presenting its specificities, including, e.g., a description of the research and development process, the buyer-seller-relationships in this market, and its regulatory environment. This excellent description will be informative for readers looking for an overview about this market.

Based on this presentation, Ms. Lehnhausen presents anticompetitive conduct taken by one firm alone (e.g., vertical restraints such as resale price maintenance, or strategies aimed at restraining the entry of producers of generics). Then, she discusses interactions between two or more firms (e.g., pay-for-delay agreements or mergers). Most importantly, she goes beyond merely listing these types of conduct but reviews state-of-the-art research on the welfare effects of these competitive restraints. These chapters, which account for about two thirds of the book, may be interesting also for readers who already know this market well and want to learn more about its recent discussion in the economics literature.

This book is a revised version of Ms. Lehnhausen's Master thesis submitted to Justus-Liebig-University Giessen. Being an assistant professor at the Chair for Industrial Organization, Regulation, and Antitrust, I had the pleasure to supervise her thesis. I enjoyed seeing the progress that she made when writing it, and I found it quite informative. It was a pleasure learning that the editors at *Springer Verlag* thought the same way when they offered to publish the thesis in their BestMasters series. I am confident that this book will not disappoint its readers.

Dr. Johannes Paha

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