HOW A STRONG PHARMACEUTICAL CHAPTER IN TTIP WILL BENEFIT THE EU

EFPIA

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An ambitious pharmaceutical chapter in TTIP that aligns regulatory regimes and reduces duplicative costs will increase EU export of pharmaceuticals by €9 billion and provide 19,000 highly productive and qualified jobs in the EU pharmaceutical industry and 60,000 additional jobs in related industries in the EU.

The Transatlantic Trade and Investment Partnership Agreement (TTIP), which is currently being negotiated between the EU and the US, promises great benefits for EU companies and citizens and for the individual EU economies.

EFPIA has asked Copenhagen Economics to assess the economic impacts for the EU from an ambitious pharmaceutical chapter in TTIP. We have based this assessment on the same large-scale global economic trade model used by the European Commission, and the assumptions and data used in this study are therefore fully compatible with the European Commission's own impact assessments.

A truly transatlantic industry

To understand the impact of TTIP on the pharmaceutical industry it is important first to understand that the industry is already highly interconnected across the Atlantic:

- Eight out of ten of the worldwide top pharmaceutical companies are located in the EU or the US
- The EU and the US combined represent 75 per cent of global R&D in life science
- More than 80 per cent of global pharmaceutical sales are in the EU and the US markets
- More than 60 per cent of US pharmaceutical imports are from the EU, and the US is a key market for the introduction of new products for EU manufactures.

Consequently, aligning the transatlantic pharmaceutical marketplace, reducing regulatory divergence and lowering trade costs will benefit companies and citizens on both sides of the Atlantic and in other parts of the world.

A strong economic footprint in Europe

The benefits from TTIP are significant because the pharmaceutical industry has a strong economic footprint on the EU economy.

Ensuring good market access to foreign markets is critical to continued export growth and job creation in the pharmaceutical industry and related industries.

The pharmaceutical industry brings value to the EU economy

The EU pharmaceutical industry:
- Provides 600.000 highly productive jobs
- Supports an additional 2.0 million jobs in other industries in the EU
- Creates long-term employment in the EU via its high R&D intensity
- Develops innovative medicines that improve health and well-being of EU citizens

Impacts of TTIP for pharmaceuticals

Transatlantic trade in pharmaceuticals is covered by *The Pharmaceutical Tariff Elimination Agreement* from 2005, which means that there are virtually no tariffs on pharmaceutical products. But US non-tariff barriers (NTBs) remain high and impose a cost burden to EU pharmaceutical companies equivalent to a tariff of 19 per cent.

An ambitious pharmaceutical chapter in TTIP that aligns regulatory regimes and reduces unnecessary duplicative costs will reduce such barriers and deliver benefits from TTIP to companies and citizens throughout the EU. Our study finds that an ambitious pharmaceutical chapter in TTIP:

- Increases EU pharmaceutical exports to non-EU countries with 9 billion EUR
- Creates 19,000 new high value jobs in the EU pharmaceutical industry
- Supports around 60,000 additional jobs in related industries in the EU
- Improves the efficiency of EU regulatory resources
- Frees up resources for EU pharmaceutical companies that can be invested i.e. in the development of new medicines
- Creates 8,000 jobs in US pharmaceutical affiliates in the EU if TTIP lowers FDI barriers by 25 per cent.

TTIP it is of key importance in many countries such as Germany, France, the United Kingdom and Belgium. Country analyses in Denmark and Ireland carried out by Copenhagen Economics certainly show that the pharmaceutical industry is the number one industry when it comes to delivering jobs and welfare gains from TTIP - and by a wide margin.

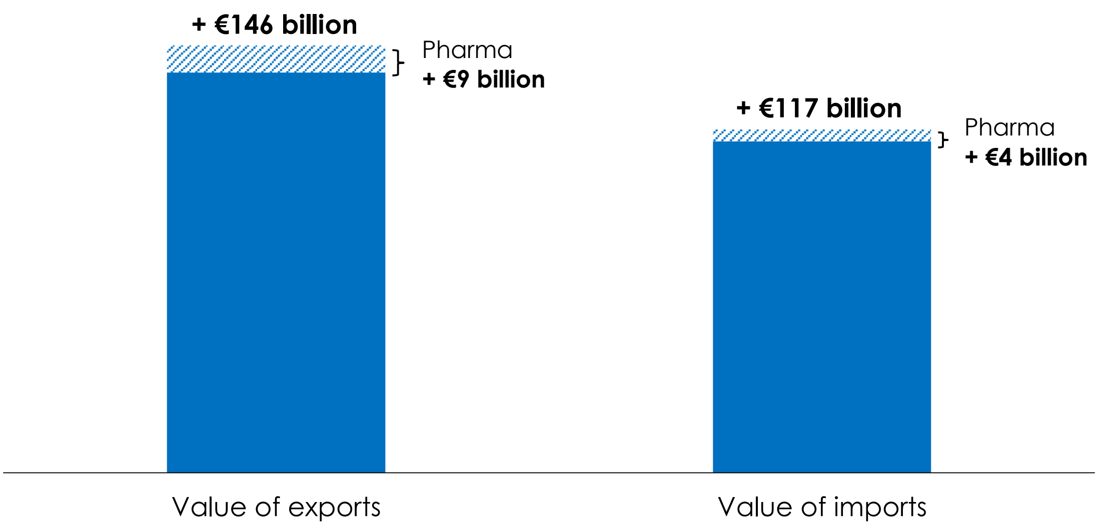
About the study

The study looks at the pharmaceutical industry and its economic footprint in the EU28. The scope is defined as all pharmaceutical operations/manufacturing in the EU regardless of ownership and location of HQ. Indirect impacts in supplier industries are quantified using the most recent input-output tables from EU countries and reflect how increased activity in the pharmaceutical industry spreads across supplying industries and EU borders.

The study builds on the following key assumption on NTBs:

- The study relies on key estimates of the impact and reduction potential of NTBs on transatlantic trade in pharmaceuticals as estimated by the European Commission and CEPR.
- CEPR estimated NTBs in pharma-chemicals to be: 19 per cent trade cost equivalent on imports to the US and 14 per cent trade cost equivalent on imports to the EU.
- An ambitious pharmaceutical chapter in TTIP is assumed by the European Commission to reduce the trade cost impacts of NTBs by 25 per cent, i.e. from 19 per cent to 14 per cent in the US and from 14 per cent to 10 per cent in the EU.
- No impacts of tariffs in the pharmaceutical industry since tariffs are virtually zero.

Impacts of TTIP on EU external trade



Note: Diagram shows the impact of TTIP on EU's total external trade for both goods and services.

About the authors

The authors are part of Copenhagen Economics' practice on international trade. The experts in the trade practice have performed numerous studies and assignments on the economic impacts of trade liberalisation.

The authors have advised the Chief Economist team at DG Trade over the past ten years on economic impact assessments of trade and investment policies, including inter alia on the free trade agreements with the US, Korea, Canada, Japan and Mercosur.

In many of these studies, Copenhagen Economics has collaborated with Professor Joseph Francois. Professor Francois was in charge of the CEPR study on TTIP from 2013 carried out on behalf of the European Commission.

For this study, we have relied on results from the same global economic trade model (a so-called CGE-model) which is being used by the EU Commission in their impact assessment of TTIP using the same detailed data and assumptions as applied in the TTIP study for the EU Commission.

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About Copenhagen Economics

Copenhagen Economics is the leading economic consultancy in the Nordic region. Founded in 2000, the firm counts more than 60 people and operates across the world. Global Competition Review (CGR) lists Copenhagen Economics as one of the top 20 economic consultancies in the world.

We provide independent advice based on recognised research methods, and our experts have in-depth sector knowledge.

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