

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

Working Party No. 2 on Competition and Regulation

EVALUATION OF COMPETITIVE IMPACTS OF GOVERNMENT INTERVENTIONS

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24 February 2014

The attached document is submitted to the Working Party No. 2 of the Competition Committee FOR DISCUSSION under Item VII at its forthcoming meeting to be held on 24 February 2014.

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JT03354971

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OFT (1219), ‘EVALUATING THE IMPACT OF THE 2003 OFT STUDY ON THE CONTROL OF ENTRY REGULATIONS IN THE RETAIL PHARMACIES MARKET’¹

Introduction

- 2010 OFT evaluation of market study on retail pharmacies needs to be considered as part of OFT evaluation programme (based on three tenets: embedding ex-ante impact estimation in design of projects, overall estimation of positive impact of OFT interventions, and in-depth ex-post evaluation of specific interventions);
- Evaluations of market interventions and advocacy work present a number of challenges, most notably the specificities of the intervention and the issue of attribution;
- Ex-post evaluations conducted either by independent experts or, alternatively, by OFT staff and subject to independent academic review.

1. Background

- 2003 market study on restrictions on entry on retail pharmacies, issuing recommendations to government to liberalise entry in the sector;
- Partial implementation of recommendations from market study in 2005 (only in England and mostly by more permissive entry for pharmacies operating for more than 100 hours per week);
- Intervention emerging as a good candidate for evaluation given relevance of the sector, strategic importance of the intervention and the fact that at the time (2009-2010), further reforms were being considered (providing an opportunity to gain further insight into the dynamics of the sector and to re-engage with stakeholders, including Dept. of Health).

2. Approach

- Complex piece of analysis (role of external consultants);
- Combination of (conservative) bottom-up and top-down approach, to overcome disaggregated nature of data, difficulties in quantifying all benefits, and avoid over-reliance on stated preferences.
 - Bottom-up: consumer survey and demand data to elicit overall consumer value

¹ The report is available at <http://www.offt.gov.uk/OFTwork/publications/publication-categories/reports/Evaluating/oft1219>.

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- Questionnaire to Primary Care Trusts on impact of the reforms, used to validate findings from other analysis;
- Geographical Information System analysis: range of sources to construct integrated database of GP locations, pharmacies characteristics and operating volumes, combined with population and consumer data, so as to allow for spatial analysis.

3. Findings

- Increase in number of pharmacies by nine percent;
- Quantifiable benefits to consumers included lower prices for over the counter medicines, reduction in travelling times and waiting times;
- Implementation of the reforms resulted in administrative and business costs;
- Conservative estimate of benefits arising from liberalisation: £12-20 million per year;
- Non-quantifiable benefits included extended opening hours and greater choice.

4. Evaluation as an advocacy tool

- Publication of evaluation in 2010;
- OFT engagement with Department of Health during and after the evaluation to demonstrate the benefits of liberalisation;
- Insights gained continue to inform OFT (approach to) work in other public markets (e.g. dentistry, family doctors, etc.).

5. Recent developments

- In 2012, the Department of Health changed the existing ‘control of entry’ for retail pharmacies with a new system that enhances the role of ‘needs and improvements’ identified at the local level and scope for innovative providers to enter the market, and facilitates exit when required. However (as a potentially less positive development), it has changed the conditions that facilitated the entry of a large number of 100-hour-plus pharmacies.