

Anemic loonie begins to affect health care sector

Anne Mullens

In brief

ALTHOUGH MOST NEWS surrounding the declining dollar has concentrated on its impact on Canadian shoppers, economists say it is bound to affect the financially strapped health care system too. They point out that many of the goods purchased by Canadian hospitals come from the US, and the weak loonie means their price will rise.

En bref

MÊME SI LES NOUVELLES relatives à la chute du dollar ont porté avant tout sur l'impact que la chute aura sur les acheteurs du Canada, les économistes affirment qu'elle en aura inévitablement sur le système de soins de santé en difficulté financière. Ils signalent que les hôpitaux du Canada achètent beaucoup aux États-Unis et que leurs prix augmenteront, à cause de la faiblesse du dollar.

When the Canadian dollar went on its historic slide this summer, hitting record lows day after day, the economic impact was felt far beyond the wallets of cross-border shoppers and snowbirds planning to spend winter in the Sunbelt.

Canadian hospitals, which purchase large amounts of American-made medical supplies and equipment, are among the country's biggest cross-border shoppers, and this summer they saw their tightly stretched budgets hit yet again because of deteriorating exchange rates.

"The dollar's drop is bad news for the Canadian health care sector because we import so much of our pharmaceuticals, medical devices and equipment from the States," says economist Michael Decter, chair of the Canadian Institute for Health Information. "If you are a net exporter the dollar drop is a boon, but if you are a net importer like the health care sector it means a significant increase in costs."

Decter, a former deputy minister of health in Ontario, estimates that purchases of US medical goods by Canadian hospitals total at least \$1 billion annually. This year alone the Canadian dollar lost 4.2% of its value in relation to the US dollar between Jan. 1 and Aug. 1. On annual purchases of \$1 billion, this would mean a loss of purchasing power totalling roughly \$42 million; in the last calendar year (August 1997 to August 1998) the dollar's decline totalled 7.5%. Many financial managers of hospitals and health care companies across Canada told *CMAJ* they are starting to feel the pinch.

And politicians may feel the pinch as well. An analysis done for the CMA indicates that the sick dollar may have an effect on the 1999 budget if Ottawa is forced to raise interest rates to support the loonie, and this hampers economic growth. If that happens, "the finance minister may choose to stimulate the economy with tax breaks and debt reduction and hold off on putting money into programs (or reduce the amount we anticipate may be going into health care). Much will hinge on how well the Canadian economy continues to perform in spite of the low dollar."

Richard Woo has no doubts that the declining dollar will affect his budget. "The long and short of it is that it does have an impact," says Woo, chief financial officer for the British Columbia Cancer Agency. The bulk of the agency's \$130-



Features

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million budget covers labour costs, but about 15% is spent on goods and services, and a large part of this is devoted to chemotherapeutic drugs, equipment and medical supplies that are made in the US. "We try to buy Canadian, but even if we are dealing with a Canadian company they are usually buying from a US company, so we eventually see an increase in price," says Woo.

He can't estimate the total cost the agency will face because of worsening exchange rates, but says it is protected by a US bank account into which research grants delivered in US funds, as well as incidental American income, is maintained in US dollars. "You can lose so much money simply changing currency back and forth," he points out.

That is what the Queen Elizabeth II Health Science Centre in Halifax learned in July, when it decided to stop converting its US income to Canadian dollars. John Walsh, manager of budget and client services at the QE II, says that even though the 1100-bed hospital had a US bank account into which it placed US income "such as research grants or bills paid by Americans who happened to get sick while in Halifax, the hospital had been in the habit of converting US income to Canadian funds and then converting it back whenever a US invoice was paid.

"We would pay the bank a fee each time," says Walsh, "and it didn't make much sense."

In July, prompted by the dollar's continuing decline, the hospital changed the policy and now only converts US currency if there is a shortage in operating funds and the money is needed to cover cheques drawing on Canadian funds.

During the 1997 fiscal year, the QE II paid US\$1.5 million directly to American companies for items such as a US\$230 000 mammography van and a US\$300 000 computerized patient care information system, and US\$300 000 for parts for some oncology equipment manufactured in the US.

"With an outlay of \$1.5 million and an exchange rate that changes from 1.39 to 1.49 over a year, we could save as much as \$160 000 by not converting the currency," says Walsh. "That would supply the salary for 3 or 4 people."

Many hospitals' financial officers said that in terms of overall budgets the amount paid in US currency exchange is relatively small, because the main expense — labour costs — is paid in Canadian dollars. "But no one wants to see the dollar continue to drop," says Wilma Jacobsen, financial accountant for Victoria's Health Region. "It adds up."

Professor Richard Plain, a health economist at the University of Alberta, says the falling dollar will make most phar-

maceutical products more expensive in Canada, and its impact may end up hitting provincial drug plans harder than hospitals. Another negative, although less visible, effect will be that the US health care market will look even more attractive to some Canadian physicians and researchers.

"With its dollar so strong, the US will have an even greater ability to attract top-line PhDs and physicians, and this could have a long-term impact on Canada," says Plain.

Although many of the medical supplies and goods used in Canada come from the US, few Canadian health care companies have large export markets to the US or elsewhere. Ideally, says Decter, exporters should be riding a profit boom, but for some companies the declining loonie is proving to be a two-edged sword.

One such company is Apotex, the generic drug manufacturer, which now sells 115 different products; 35% of its sales are in international markets.

"On the one hand [the falling dollar] is helping us because it makes our sales abroad more competitive," said Elie Betito, the director of public and governmental affairs at Apotex. "But on the other hand we are being hammered, because the cost of ingredients, which we buy mostly from the US and Europe, has gone through the roof."

Some health care organizations have done their best to protect themselves from the vagaries of currency fluctuations. In Toronto, the Mount Sinai Hospital, the Toronto Hospital and the Hospital for Sick Children have joined forces and for several years have purchased supplies as a consortium. With a combined annual budget of \$1.1 billion, of which about \$250 million is spent on supplies, the 3 hospitals have considerable clout in the market.

"What we have done with our contracts is put clauses in them that protect us against the US dollar rising," says Sandra May, director of purchasing for the Shared Health Supply Services. "Generally there is a pegged rate at the start of the contract and if the US dollar goes above a set rate, say 3% or 5%, there is the option to raise prices on an annual basis. We haven't seen too much price change so far."

Most of the contracts are negotiated in Canadian funds through a network of distributors, and costs related to the fluctuating dollar are absorbed by the supplier if the increase is less than the set rate. The 3 hospitals have also favoured very long-term contracts of 3 to 5 years.

But that doesn't mean the hospitals will be protected from exchange-rate-related price increases forever. "Who knows, the next time we negotiate we may very well be hit by price increases of 10% or more," says May. ?

