Prescription Price Controls A Sticking Point in U.S.
Mary Massingale - Copley News Service

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As local, state and federal officials spar over re-importing cheaper prescription drugs from Canada, observers on both sides of the border point to a lack of price controls by the U.S. government as a major influence on American prescription drug prices.

"The United States is probably the only country that I know of in the developed countries that does not have the same degree of oversight over the pricing of drugs," said Wayne Critchley, executive director of Canada's Patented Medicine Prices Review Board.

However, a spokesman for the pharmaceutical industry said price controls stifle the innovation that leads to the development of new medicines.

"The average cost of researching and developing one new drug has increased from $231 million 20 years ago to more than $800 million today," said Jeff Trewhitt of the Pharmaceutical Research and Manufacturers of America. "Price controls do not take that into account. There's a better chance of getting a return if you have competitive market pricing."

But U.S. Rep. Jan **Schakowsky,** D-Ill., disagreed, saying the federal government should extend the prescription-drug bargaining it currently negotiates for veterans to the Medicare prescription benefit being hammered out in Congress. Both House and Senate versions contain a clause banning the Medicare program from bargaining for lower prices,
Schakowsky
said.

"It's against free-market principles to prohibit negotiations," **Schakowsky** said.

Price controls play a large role in the Canadian market, but the nation's public health system also is part of the equation. Although public prescription drug plans are managed at the provincial rather than federal level, they all must provide coverage for senior citizens and residents receiving public aid.

Those two populations make up 40 percent to 50 percent of the prescription-drug market, Critchley said, creating an incentive for private insurers to adopt the same drug formulary - or list - sanctioned by the provinces.

"As a result, drug manufacturers want to get their drugs listed on that formulary," said Critchley.

The strength of the Canadian dollar against the U.S. dollar also contributes to the price inequity, Critchley said, as the Canadian currency is currently trading at about 75 cents to the American dollar.

However, the greatest factor in limiting prescription drug prices appears to be the Canadian price-review board. The panel was established in 1987 as part of legislative changes increasing patent protection for prescription drugs to 20 years - the standard used by countries belonging to the World Trade Organization. Once a drug's patent expires, other companies can produce a generic version of the drug. In exchange for the increased Canadian patent protection, the pharmaceutical industry agreed to increase its spending on research and development in that country.

The Canadian board also oversees the pricing of patented prescription drugs by restricting price increases to no more than the consumer price index. Prices of new drugs cannot exceed the most expensive drug that treats the same disease, Critchley said. A "breakthrough" drug cannot exceed the median of prices in the seven developed countries that Canada uses as a basis for comparison: the United States, the United Kingdom, France, Germany, Sweden, Switzerland and Italy.

"The system has worked," said Critchley. "We have a very high rate of compliance with the restrictions on prices."

Trewhitt said the nearly 90 PhRMA member companies comply because they fear the Canadian board will "compulsory license" their patents and let other companies produce the drugs.

"It is an implied threat that they will find some other way to get the product if you don't go along with the price controls," Trewhitt said.

Critchley acknowledged that some companies have recently increased drug prices, although "the tendency is that the price does not go up once the drug is on the market." But the price-review board can roll back price increases it considers to be excessive.

The New York Times reported on Tuesday that Pfizer Canada, GlaxoSmithKline, Eli Lilly and! Bayer have increased Canadian drug prices 4 percent to 8 percent since summer. The U.S. Congress began discussing legislation dealing with prescription drug re-importation this past summer, and the debate has spread across the country as municipalities and states have researched the option as a way to hold down skyrocketing drug costs.

Gov. Rod Blagojevich is pushing a plan that calls for Illinois to re-import drugs from Canada for the prescription needs of 230,000 state workers and retirees. Blagojevich claims the program would save the state $91 million off the annual $340 million cost, but the Food and Drug Administration claims that savings is inflated.

Trewhitt said such re-importation plans would flood the U.S. market with artificially priced products and thereby reduce any incentive for researching new prescription drugs.

In 2002, PhRMA companies spent $32 billion on research and development in the ! United States against $150 billion to $180 billion in sales, Trewhitt said. For the same year, the pharmaceutical industry spent $1.2 billion on research and development in Canada against sales of $13.1 billion, according to Critchley.