Prescription Drug Pricing in the 1st Congressional District in Maine: An International Price Comparison

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Prepared for Rep. Thomas H. Allen

Minority Staff Report
Committee on Government Reform and Oversight
U.S. House of Representatives

October 24, 1998

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EXECUTIVE SUMMARY

This report, which was prepared at the request of Rep. Thomas H. Allen, compares prescription drug prices in the 1st Congressional District of Maine with drug prices in Canada and Mexico. The report finds that senior citizens and other consumers in Mr. Allen's congressional district who lack insurance coverage for prescription drugs must pay far more for prescription drugs than consumers in Canada and Mexico. These price differentials are a form of price discrimination. In effect, the drug manufacturers appear to be engaged in "cost shifting." They charge low prices to consumers in Canada and Mexico and appear to make up the difference by charging far higher prices to senior citizens and other individual consumers in the United States.

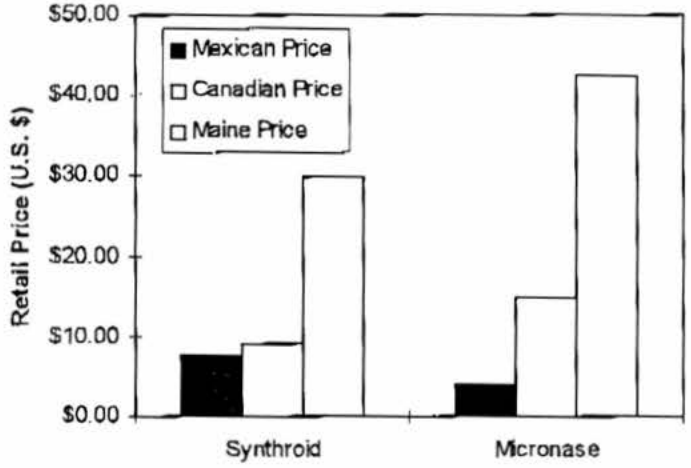
This study investigates the pricing of the ten brand name prescription drugs with the highest dollar sales to the elderly in the United States. The study compares the prices that senior citizens who buy their own prescription drugs must pay for these drugs in Mr. Allen's district with the prices that consumers who buy their own drugs must pay for the same drugs in Canada or Mexico. The study finds that the average prices that senior citizens in Mr. Allen's district must pay are 72% higher than the average prices that Canadian consumers must pay and 102% higher than the average prices that Mexican consumers must pay (Table 1).

Table 1: Maine Seniors Pay Significantly Higher Retail Prices for Prescription Drugs Than Consumers in Canada or Mexico.

Prescription Drug	U.S. Dosage and Form	Canadian Retail Price	Mexican Retail Price	Maine Retail Price	Canada-Maine Price Differential	Mexico-Maine Price Differential
Zocor	5 mg, 60 tablets	$43.97	$47.29	$103.92	136%	120%
Ticlid	250 mg, 60 tablets	$52.35	$39.61	$117.96	125%	198%
Prilosec	20 mg, 30 cap.	$53.51	$29.46	$111.89	109%	280%
Relafen	500 mg, 100 tablets	$59.55	$49.26	$116.39	95%	136%
Zoloft	50 mg, 100 tablets	$124.41	$155.52	$213.28	71%	37%
Procardia XL	30 mg, 100 tablets	$72.82	$87.78	$118.85	63%	35%
Fosamax	10 mg, 30 tablets	$45.01	$51.33	$61.66	37%	20%
Vasotec	10 mg, 100 tablets	$73.42	$57.03	$96.49	31%	69%
Norvasc	5 mg, 90 tablets	$87.71	$88.08	$111.71	27%	27%
Cardizem CD	240 mg, 90 tablets	$142.70	$88.14	$174.99	23%	99%
Average Differential					**72%**	**102%**

In the case of two additional drugs considered in the study, Synthroid and Micronase, Maine senior citizens were forced to pay at least three times, and in one case more than ten times, more than Canadian or Mexican consumers (Figure 1).

Figure 1: Price Differentials for Two Popular Drugs



This is the second congressional report on drug price discrimination requested by Mr. Allen. The first report showed that senior citizens in Mr. Allen's district are forced to pay substantially more for their prescription drugs than are the drug companies' favored domestic customers, such as large insurance companies, large HMOs, and the federal government.[1] This report shows that senior citizens in Mr. Allen's district are also forced to pay far more for their prescription drugs than are consumers in other countries. Taken together, the two studies indicate that senior citizens and other U.S. consumers who buy their own drugs are at the bottom of a complex drug pricing hierarchy. As a result, they are forced to pay more for their prescription drugs than both favored institutional buyers in the United States and individual consumers in other countries.

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[1] Minority Staff Report of the House Committee on Government Reform and Oversight, *Prescription Drug Pricing in the 1st Congressional District in Maine: Drug Companies Profit at the Expense of Older Americans* (October 9, 1998).

I. INTRODUCTION

In the United States, drug manufacturers are allowed to discriminate in drug pricing. As one industry analysis commented, "[d]rugmakers have historically raised prices to private customers to compensate for the discounts they grant to managed care customers. This practice is known as 'cost shifting.'"[2] Under this practice, "drugs sold to wholesale distributors and pharmacy chains for the individual physician/patient are marked at the higher end of the scale."[3]

The extent of this price discrimination in Maine was first documented in a report released by Rep. Thomas H. Allen.[4] This report found that senior citizens and others in Maine who lack insurance coverage for prescription drugs pay approximately twice as much for their prescription drugs as the drugs companies' most favored customers, such as large insurance companies, large HMOs, and the federal government. Mr. Allen's study also found that this discriminatory pricing imposes severe hardships on senior citizens, many of whom are on fixed incomes and must choose between purchasing their prescribed medications and paying for other necessities such as food.

The governments of Canada and Mexico do not allow drug manufacturers to engage in price discrimination. In Canada, approximately 35% of prescription drugs are paid for by the government for beneficiaries of government health care programs.[5] In Mexico, 30% of prescription drugs are paid for by the government under similar circumstances.[6] The rest of the population in these two countries must either buy their own drugs or obtain prescription drug insurance coverage. To prevent the drug companies from charging individual consumers excessive prices, both the Canadian and Mexican governments regulate prices for patented prescription drugs.[7] Drug manufacturers do not have to sell their products in Canada or Mexico,

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[2] Herman Saftlas, Standard & Poor's, *Healthcare: Pharmaceuticals*, Industry Surveys 19-20 (December 18, 1997).

[3] *Id.* at 19.

[4] *Prescription Drug Pricing in the 1st Congressional District in Maine: Drug Companies Profit at the Expense of Older Americans*, *supra* note 1.

[5] Health Canada, *National Health Expenditures in Canada 1975-1996: Fact Sheets*, 12 (June 1997).

[6] National Economic Research Associates, *Financing Health Care: The Health Care System in Mexico*, 78 (August 1998).

[7] Congressional Research Service, *Prescription Drug Price Comparisons: The United States, Canada, and Mexico* (January 1998).

but if they do, they cannot sell their drugs at prices above the maximum prices established by the government.

This report is the first effort to compare retail prices that senior citizens in Maine must pay for prescription drugs with the prices at which the same drugs are available in Canada and Mexico.[8] It finds that senior citizens in Maine who lack prescription drug benefits must pay far more for prescription drugs than consumers in Canada and Mexico. The drug companies thus appear to engage in two distinct forms of price discrimination: (1) as documented in Mr. Allen's first report, the drug companies are forcing senior citizens in Maine to pay more for prescription drugs than more favored U.S. customers, and (2) as documented in this report, the drug companies are forcing senior citizens in Maine to pay more for prescription drugs than consumers in more favored countries.

II. METHODOLOGY

A. Selection of Drugs for This Survey

This survey is based primarily on a selection of the ten patented, nongeneric drugs with the highest annual sales to older Americans in 1997. The list was obtained from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). The PACE program is the largest out-patient prescription drug program for older Americans in the United States for which claims data is available. It is used in this study, as well as by several other analysts, as a proxy database for prescription drug usage by all older Americans. In 1997, over 250,000 persons were enrolled in the program, which provided over $100 million of assistance in filling over 2.8 million prescriptions.[9]

In addition to the top ten drugs for seniors, this study also analyzed two additional prescription drugs, Synthroid and Micronase. These popular prescription drugs were included in

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[8] In a 1992 study, *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*, the U.S. General Accounting Office compared producer prices for prescription drugs in Canada and the United States. This study did not include information on retail prices. In a 1998 study, *International Comparison of Prices For Antidepressant and Antipsychotic Drugs*, Public Citizen compared wholesale prices for newly developed antipsychotic and antidepressant drugs. This study also did not compare retail prices paid by consumers, but instead looked at pharmacy acquisition costs. The study also only looked at a small class of drugs. Neither of these studies included information on prices in Maine.

[9] Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly* (January 1 - December 31, 1997).

the study because the earlier analysis indicated that there is substantial discrimination in the pricing of these drugs.

B. Determination of Average Retail Drug Prices in Maine

In order to determine the prices that senior citizens are paying for prescription drugs in Maine, the minority staff and the staff of Mr. Allen's congressional office conducted a survey of nine drug stores -- six independent pharmacies and three chain stores -- in Mr. Allen's congressional district. Mr. Allen represents Maine's 1st Congressional District, which includes Portland and southern Maine.

C. Determination of Average Retail Drug Prices in Canada and Mexico

Retail prices for prescription drugs in Canada and Mexico were determined via a survey of four pharmacies in Canada and three pharmacies in Mexico. In Canada, pharmacies were surveyed in three provinces: Ontario, British Columbia, and Nova Scotia. In Mexico, pharmacies were surveyed in Ciudad Juarez, just across the border from El Paso, Texas. No significant price differences were observed between prices at different pharmacies in Canada; similarly, no significant price differences were observed between prices at different pharmacies in Mexico.

Prices from Canadian pharmacies were determined in Canadian dollars, and prices from Mexican pharmacies were determined in pesos. All prices were converted to U.S. dollars using exchange rates in effect on October 5, 1998.

D. Selection of Drug Dosage and Form

In comparing drug prices, the study generally used the same drug dosage, form, and package size used by the U.S. General Accounting Office in its 1992 report, *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*. For drugs that were not included in the GAO report, the study used the dosage, form, and package size common in the years 1994 through 1997, as indicated in the *Drug Topics Red Book*.[10]

All prescription drugs surveyed in this report were available in Canada in the same dosage and form as in the United States. In Mexico, several drugs were not available in the same dosage and form. In these cases, prices of equivalent quantities were used for the comparison. For example, in the United States the drug Zocor is commonly available in containers containing five mg. tablets, while in Mexico Zocor is available only in containers containing ten mg. tablets. To compare Zocor prices, this report compared the cost of 60 five mg. tablets of Zocor in the

[10] Medical Economics Company, Inc., *Drug Topics Red Book* (1997).

United States with the cost of 30 ten mg. tablets in Mexico. Several drugs are also sold under different names in Mexico. The Mexican equivalents of U.S. brand names were determined using the 44th edition of the *Diccionario de Especialdades Farmaceuticas* (1998).

III. FINDINGS

A. Senior Citizens in Maine Pay More for Prescription Drugs Than Consumers in Canada

Consumers in Canada obtain prescription drugs in one of two primary ways. Approximately 35% of the prescription drugs sold in Canada are paid for by the provincial governments on behalf of senior citizens, low-income individuals, and other beneficiaries of government health care programs. The rest of the population in Canada must either buy their own drugs or obtain prescription drug insurance coverage.

The regulatory system in Canada protects individual consumers who buy their own drugs from price discrimination.[11] The Patent Medicine Price Review Board (PMPRB), established under the Ministry of Health by a 1987 law, regulates the maximum prices at which manufacturers can sell patented medicines.[12] If the Board finds that the price of a patented drug is excessive, it may order the manufacturer to lower the price, and may also take measures to offset any revenues it has received from the excess pricing.[13] Pharmacy dispensing fees for individual retail customers are not controlled by the government. Each pharmacy sets its usual and customary dispensing fee and must register this fee with provincial authorities.[14]

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[11] Patented Medicine Price Review Board, *Regulation of Drug Prices: The Role and Impact of the Patented Medicine Price Review Board* (1992) (online at www.atreide.net/PMPRB/subm.html).

[12] The PMPRB establishes a set of guidelines to determine if manufacturers prices are excessive. Under these guidelines, the prices of new drugs must not exceed the maximum price of other drugs that treat the same disease. For "breakthrough" drugs, introductory prices must not exceed the median of the foreign prices of the drugs. Subsequent price increases are limited to changes in the Consumer Price Index.

[13] These may include further reductions in the price of the drug, reductions in the price of another of the manufacturer's drugs, or additional payments directly to the Canadian government.

[14] These fees are generally only a small part of the overall prescription drug prices. In Ontario, for example, pharmacies are currently charging usual and customary dispensing fees ranging from $1.99 to $16.95. Ontario Drug Benefit Formulary Program, *ODB Facts:*

This study indicates that the Canadian system produces prescription drug prices that are substantially lower in Canada than in the United States. Average retail prices for the top ten drugs for seniors were 72% higher in the United States than in Canada (Table 1). For all ten drugs, retail prices were higher in the United States. For three drugs, Zocor, Ticlid, and Prilosec, the U.S. prices were more than twice as high as the Canadian prices. The highest price differential among the top ten drugs was 136%, for Zocor, a cholesterol medication manufactured by Merck.

For other drugs, price differentials were even higher. Synthroid is a hormone treatment manufactured by Knoll Pharmaceuticals. For this prescription drug, senior citizens in Maine pay an average retail price of $29.80, while consumers in Canada pay only $9.25 -- a price differential of 222%. Similarly, for Micronase, a diabetes drug manufactured by Upjohn, Maine senior citizens pay prices that are 188% higher than Canadian consumers.

This finding is broadly consistent with the findings of other analyses. In 1992, GAO looked at the prices that drug companies charge wholesalers for 121 prescription drugs and found that these prices were, on average, 32% higher in the U.S. than in Canada. According to GAO, "government regulations and reimbursement practices contribute to lower average drug prices in Canada. In setting prices, manufacturers of patented drugs must conform to Canadian federal regulations that review prices for newly released drugs and restrain price increases for existing drugs."[15]

GAO also investigated whether this price differential was attributable to differences in the costs of production and distribution. GAO found that drug costs -- such as research and development -- are not allocated to specific countries, and the costs of production and distribution make up only a small share of the cost of any drug. The study concluded that "production and distribution costs cannot be a major source of price differentials."[16]

B. Senior Citizens in Maine Pay More for Prescription Drugs Than Consumers in Mexico

As in Canada, consumers in Mexico also obtain prescription drugs in one of two primary ways. Approximately 30% of the prescription drugs sold in Mexico are purchased by the government and provided to eligible citizens at a significant discount through the social security

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Dispensing Fees (June 1998).

[15] U.S. General Accounting Office, *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*, 2-3 (September 1992) (GAO-HRD-92-110).

[16] *Id.* at 14.

system.[17] The rest of the population in Mexico must either buy their own drugs or obtain prescription drug insurance coverage.

The regulatory system in Mexico, like the system in Canada, protects individual consumers who buy their own drugs from price discrimination. Drug prices and rates of price increases in Mexico are controlled by the Ministry of Commerce and Economic Development (known by its Spanish acronym, Secofi) under the Pact For Economic Stability and Growth.[18] Under the Mexican law, manufacturers and the government engage in negotiations to determine the nationwide maximum prices for prescription drugs.[19] Pharmaceutical products are prepackaged and stamped with the maximum sales price, guaranteeing consistent prices throughout the country.

This study indicates that the Mexican system produces prescription drug prices that are substantially lower in Mexico than in the United States. Average retail prices for the top ten drugs for seniors were 102% higher in the United States than in Mexico (Table 1). For all ten drugs, retail prices were higher in the United States. For four drugs, Zocor, Ticlid, Relafen, and Prilosec, the U.S. prices were more than twice as high as the Mexican prices. The highest price differential among the top ten drugs was 280%, for Prilosec, an ulcer medication manufactured by Astra/Merck.

For other drugs, price differentials were even higher. In the case of Micronase, senior citizens in Maine pay an average retail price of $42.50, while consumers in Mexico pay only $4.05 -- a price differential of 950%. Similarly, in the case of Synthroid, Maine senior citizens pay prices that are 288% higher than Mexican consumers.

These findings are consistent with those of other experts. While there have been few direct comparisons of prices in the United States and Mexico, the Congressional Research Service has found that differences in the regulatory systems between the two countries result in the large price differentials. CRS concluded that "of greater importance in explaining price

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[17] *Financing Health Care: The Health Care System in Mexico, supra* note 6

[18] Jeanne Grant, *Headaches for Pharmaceuticals*, Business Mexico, 8f (August, 1991).

[19] The final negotiated price is based on a number of factors, including the purchasing power of the Mexican population, the availability of generic substitutes or other drugs that treat similar diseases, and other economic factors, such as the manufacturers cost to produce the product.

differentials in drug prices in Mexico and the United States is the fact that price controls and government procurement policies are in place in Mexico, and have been for some time."[20]

[20] *Prescription Drug Price Comparisons: The United States, Canada, and Mexico*, *supra* note 3.

LEVEL 2 - 3 OF 4 STORIES

SHOW: **60 MINUTES** (7:00 PM ET)

October 17, 1999, Sunday

TYPE: Profile

LENGTH: 2015 words

HEADLINE: WHY SO EXPENSIVE?; SENIORS TAKE A BUS TO CANADA TO BE ABLE TO AFFORD THEIR PRESCRIPTION **DRUGS** ON THEIR LIMITED INCOME

ANCHORS: MIKE WALLACE

BODY:
WHY SO EXPENSIVE?

MIKE WALLACE, co-host:

Fully 15 million of America's senior citizens--15 million of them, one out of three--have no health insurance coverage to help them pay for their prescription **drugs.** As a result, many of them simply cannot afford the **drugs** they need to keep them alive or to make their lives livable. The average annual income of America's seniors is $ 16,000, and they get that amount from Social Security payments and pensions. And a substantial number of seniors have to pay as much as a third of their income just for their prescription **drugs.**

Ms. VIOLA QUIRION: By the time I pay my rent and I pay my supplement insurance, which don't cover prescriptions, I don't have much left over.

(Footage of Viola Quirion at medicine cabinet; Quirion in living room; Quirion in kitchen)

WALLACE: (Voiceover) Viola Quirion is a 73-year-old retiree from Waterville, Maine. She spends nearly a quarter of her $ 900 monthly income on the **drugs** her doctor has prescribed: Relafen for severe arthritis in her knees and back, and Prilosec for a stomach disorder. Never married, she worked for four decades in the local Hathaway shirt factory for a salary just above minimum wage.

So you have just your Social Security...

Ms. QUIRION: That's right.

WALLACE: ...and your pension.

Ms. QUIRION: That's right.

WALLACE: And it's not enough.

Ms. QUIRION: That's right.

WALLACE: It would be enough without the **drugs**. Without the...

Ms. QUIRION: Well, without the **drug--if the drugs** weren't so expensive, it would m--be much better. I could live much better. I'd have a little--probably a little change at the end of the month. I wouldn't have to worry about how to get a--bread or a quart of milk or...

WALLACE: Is it that bad, really?

Ms. QUIRION: Oh, yes, it is that bad. It is that bad.

Mr. GEORGE KOURPIAS: We have thousands upon thousands of seniors that can't afford the medicine that's prescribed for them. We have them cutting pills in half.

(Footage of George Kourpias and Wallace)

WALLACE: George Kourpias is president of the National Council of Senior Citizens.

Mr. KOURPIAS: The average income of a senior in America is $ 16,000 a year. Fifteen million of them are not covered at all, have no prescription **drug** coverage.

WALLACE: Why aren't old folks protected by Medicare, as far as **drug** costs are concerned?

Mr. KOURPIAS: It's not part of the law. This is what we're trying to get done now. What we need to do is enact a universal, comprehensive prescription **drug** program under Medicare so everybody is covered.

(Footage of National Council of Senior Citizens protest)

WALLACE: (Voiceover) Many seniors who did have some **drug** coverage through private insurance plans have now lost it, for in just the past 18 months, nearly a million American seniors were told by their HMOs or their health plans that their **drugs** will no longer be covered. But now many seniors have discovered there are places they can get their **drugs** cheaper: Mexico and Canada.

Mr. KOURPIAS: Well, what's happening is that seniors in America have to pay two or three times the price for a **drug** that is sold in either Mexico or Canada.

(Footage of bus; seniors; seniors on bus; roadside as seen from bus; Carolyn Swift with Wallace)

WALLACE: (Voiceover) And so the seniors' council has organized and helped pay for several bus trips for seniors to go to Canada to buy their **drugs**, and we went along on one of those trips. The bus started in Portland, Maine, drove across New Hampshire, then up through Vermont, picking up about 40 seniors along the way. One of the seniors we met, Carolyn Swift, a retired English professor.

Professor CAROLYN SWIFT: I feel that we are all--on this bus, we are refugees from the American health care system.

WALLACE: What do you mean?

Prof. SWIFT: We are, all of us, inadequately insured, struggling to take our medications, without which we will die. And thank goodness Canada's here.

(Footage of Lena Sanford)

WALLACE: (Voiceover) Lena Sanford is a 73-year-old retiree from Cambridge, Massachusetts. And like most seniors who are having health difficulties, she has to take more **drugs** than the average American.

You take how many **drugs** every day?

Ms. LENA SANFORD: I take about 16.

WALLACE: Sixteen?

Ms. SANFORD: Yeah.

WALLACE: What do you take?

Ms. SANFORD: I take six alone for my lung disease. I take pills for high blood pressure, anxiety, for arthritis. I got a whole list of things here.

WALLACE: How much every month for **drugs**?

Ms. SANFORD: My **drugs** comes to 13...

WALLACE: $ 1,365?

Ms. SANFORD: For what I'm paying here in the United States, it'd be one-third over in Canada.

(Footage of Sanford)

WALLACE: (Voiceover) Lena's insurance used to cover that $ 1,365, but as we said, like millions of other seniors across the country, her insurance plan recently stopped paying for her **drugs**. So she went to Canada, because it turns out the **drugs** she needs cost more than her total monthly income of $ 1,200.

Ms. SANFORD: You know what I feel like, Mike?

WALLACE: Hmm?

Ms. SANFORD: A convict.

WALLACE: A convict?

Ms. SANFORD: I'm g--I'm leaving this country to go to another country, going over the border to get my medication so that I can live. I think it's a disgrace.

(Footage of bus; seniors and Wallace in drugstore)

WALLACE: (Voiceover) The bus crossed over to Canada from Vermont, and once

there, we followed the seniors to a Montreal drugstore where many of them had their prescriptions filled for about half the price they paid in the US. Lena Sanford said that she saved more than $ 1,000.

Unidentified Man: This in American dollars. What we have here is $ 9--915.

Ms. SANFORD: Wow. That's good.

WALLACE: That's...

Ms. SANFORD: That's great, and that's two months.

Unidentified Man: Two months' supply, yeah.

Ms. SANFORD: Unbelievable.

(Footage of pharmacist and seniors)

WALLACE: (Voiceover) The pharmacist asked us not to identify him, because, under Canadian law, he is not supposed to fill prescriptions from US doctors unless they're countersigned by a Canadian doctor. But he sympathizes with these seniors, and he told us the **drugs** he sold these women are the very same **drugs** they would get in the United States.

By whatever name, by whatever package, these are the same **drugs** here that we buy under these names in the United States? And as far as you know...

Unidentified Man: But as far as I know, there's no--there's not a s--there's not a hint of a difference, you know, between either **drug.**

(Footage of pharmacist with **drugs;** Representative Tom Allen)

WALLACE: (Voiceover) And why are the seniors' **drugs** so much less there? We asked US Congressman Tom Allen of Maine, who had requested a congressional study.

Representative TOM ALLEN (Maine): The Canadians don't let the pharmaceutical companies take advantage of their citizens, and they do it in two ways. One, there's a national price review board that makes sure that maximum prices are set for new **drugs.** And second, each of the provinces has a health care plan that covers at least seniors and the poor. And they have market power. Those plans are able to negotiate lower prices.

WALLACE: They buy in bulk.

Rep. ALLEN: That's right.

WALLACE: And so buying in bulk, they get a deep discount. Just like the HMOs or the Veterans Administration or whatever here in the United States, buy in bulk and get a discount.

Rep. ALLEN: That's right.

(Footage of pharmacist, seniors and Wallace; Allen)

WALLACE: (Voiceover) So without any bulk discount on their **drugs**, according to the recent congressional study, senior citizens like Viola and Lena are paying for their **drugs**, on average, more than twice as much as most other Americans. Congressman Allen has proposed legislation that would allow the government to buy **drugs** in bulk for seniors. But the pharmaceutical industry has harshly criticized his proposal. It's government-mandated price controls, they say.

Rep. ALLEN: The most profitable industry in the country is charging the highest prices in the world to people who can least afford it, and many of them are our seniors. And that is simply wrong.

WALLACE: Are you saying that the **drug** companies, the pharmaceutical companies of America, are gouging the seniors?

Rep. ALLEN: Yes, they are.

(Footage of Allen and Wallace)

WALLACE: (Voiceover) And later on he told us...

Rep. ALLEN: What really bothers me about this industry is that they are, you know, spending millions of dollars to stop the kind of reform that America's seniors need. They're trying to stop this discount approach that I've advocated. They're trying to stop any prescription **drug** benefit under Medicare, as it's currently constituted. And, you know, the weight of that industry, the amount of financial resources that it's able to bring to bear, both in Washington and through television around the country, is formidable.

(Excerpt from commercial)

(Footage from commercial)

WALLACE: (Voiceover) Fact is, the industry has launched a $ 30 million advertising campaign attacking various proposals to expand Medicare to pay for seniors' **drugs**.

(Excerpt from commercial)

WALLACE: We asked the top 10 US pharmaceutical manufacturers to respond to Congressman Allen's charges, but not one of them would answer our questions on camera. They referred us instead to their trade association. But they, too, declined an interview, unless it was live and unedited.

(Footage of Alan Holmer)

WALLACE: (Voiceover) While they wouldn't talk to us, the trade association's president, Alan Holmer, had said in a previously taped and edited interview with the "CBS Evening News" that proposals like Representative Allen's will cripple research and development of new **drugs**.

Mr. ALAN HOLMER: The United States has an environment that nurtures biomedical research right now. If Congress changes that, it's gonna reduce

pharmaceutical R&D, and it's gonna make it far less likely that the companies are gonna continue to be able to come out with the new cures and the new treatments to the extent that we have been able to do i--in the past dozen or so years.

WALLACE: We keep hearing that the pharmaceutical industry says, 'Hey, if government gets involved in this, this means price controls, and we don't want price controls.'

Mr. KOURPIAS: It's not about price controls. We want the industry to make profits. We're not against profits, but how many profits are they talking about?

WALLACE: You also hear that if the cost of these **drugs** to seniors goes down, it's gonna hurt research and development in new **drugs, the very drugs** that these old folks are going to need in the future.

Mr. KOURPIAS: Absolutely not.

WALLACE: Why?

Mr. KOURPIAS: It's not going to affect it again. Right now their profits are three times what they put into research and development. And billions of dollars are being spent at the National Institute of Health for the invention of new **drugs.** That helps that industry.

WALLACE: So when they cry poverty...

Mr. KOURPIAS: There's no truth to it.

Ms. SANFORD: I feel like a victim. And I also feel like a fugitive, that I have to leave the United States to go over the border and come to Canada to get over a $ 1,000 break on my insur--on my medication.

Ms. QUIRION: I've worked hard all my life. I never was on welfare. I never collected unemployment. I've worked till the age of--from the age of 15 till 67. And I get out of w--and I've never had to pay my insurance. When I worked, my employer paid the insurance. And it's the first time in my life, after retirement and all that hard work, that I cannot afford prescriptions.

WALLACE: Apparently Viola Quirion will have to wait, and wait some more, for help from her government. Last Wednesday, senior Republicans in the Congress said they do not have enough time this year to address what the elderly are after: Medicare coverage of their prescription **drugs.**

(Announcements)

LANGUAGE: English

LOAD-DATE: October 18, 1999

EXECUTIVE SUMMARY

This report, which was prepared at the request of Rep. Thomas H. Allen, compares prescription drug prices in the 1st Congressional District of Maine with drug prices in Canada and Mexico. The report finds that senior citizens and other consumers in Mr. Allen's congressional district who lack insurance coverage for prescription drugs must pay far more for prescription drugs than consumers in Canada and Mexico. These price differentials are a form of price discrimination. In effect, the drug manufacturers appear to be engaged in "cost shifting." They charge low prices to consumers in Canada and Mexico and appear to make up the difference by charging far higher prices to senior citizens and other individual consumers in the United States.

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Prilosec	20 mg, 30 cap.	$53.51	$29.46	$111.89	109%	280%
Relafen	500 mg, 100 tablets	$59.55	$49.26	$116.39	95%	136%
Zoloft	50 mg, 100 tablets	$124.41	$155.52	$213.28	71%	37%
Procardia XL	30 mg, 100 tablets	$72.82	$87.78	$118.85	63%	35%
Fosamax	10 mg, 30 tablets	$45.01	$51.33	$61.66	37%	20%
Vasotec	10 mg, 100 tablets	$73.42	$57.03	$96.49	31%	69%
Norvasc	5 mg, 90 tablets	$87.71	$88.08	$111.71	27%	27%
Cardizem CD	240 mg, 90 tablets	$142.70	$88.14	$174.99	23%	99%
Average Differential					**72%**	**102%**

Prescription Drug Pricing in the 1st Congressional District in Maine: An International Price Comparison

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Prepared for Rep. Thomas H. Allen

Minority Staff Report
Committee on Government Reform and Oversight
U.S. House of Representatives

October 24, 1998

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EXECUTIVE SUMMARY

This report, which was prepared at the request of Rep. Thomas H. Allen, compares prescription drug prices in the 1st Congressional District of Maine with drug prices in Canada and Mexico. The report finds that senior citizens and other consumers in Mr. Allen's congressional district who lack insurance coverage for prescription drugs must pay far more for prescription drugs than consumers in Canada and Mexico. These price differentials are a form of price discrimination. In effect, the drug manufacturers appear to be engaged in "cost shifting." They charge low prices to consumers in Canada and Mexico and appear to make up the difference by charging far higher prices to senior citizens and other individual consumers in the United States.

This study investigates the pricing of the ten brand name prescription drugs with the highest dollar sales to the elderly in the United States. The study compares the prices that senior citizens who buy their own prescription drugs must pay for these drugs in Mr. Allen's district with the prices that consumers who buy their own drugs must pay for the same drugs in Canada or Mexico. The study finds that the average prices that senior citizens in Mr. Allen's district must pay are 72% higher than the average prices that Canadian consumers must pay and 102% higher than the average prices that Mexican consumers must pay (Table 1).

Table 1: Maine Seniors Pay Significantly Higher Retail Prices for Prescription Drugs Than Consumers in Canada or Mexico.

Prescription Drug	U.S. Dosage and Form	Canadian Retail Price	Mexican Retail Price	Maine Retail Price	Canada-Maine Price Differential	Mexico-Maine Price Differential
Zocor	5 mg, 60 tablets	$43.97	$47.29	$103.92	136%	120%
Ticlid	250 mg, 60 tablets	$52.35	$39.61	$117.96	125%	198%
Prilosec	20 mg, 30 cap.	$53.51	$29.46	$111.89	109%	280%
Relafen	500 mg, 100 tablets	$59.55	$49.26	$116.39	95%	136%
Zoloft	50 mg, 100 tablets	$124.41	$155.52	$213.28	71%	37%
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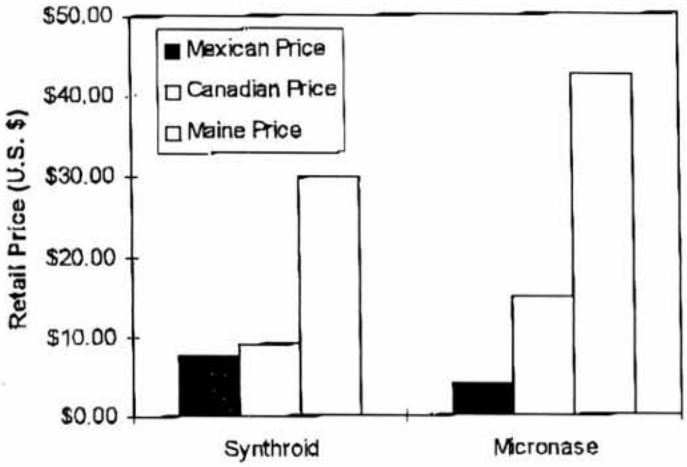
Cardizem CD	240 mg, 90 tablets	$142.70	$88.14	$174.99	23%	99%
Average Differential					**72%**	**102%**

In the case of two additional drugs considered in the study, Synthroid and Micronase, Maine senior citizens were forced to pay at least three times, and in one case more than ten times, more than Canadian or Mexican consumers (Figure 1).

Figure 1: Price Differentials for Two Popular Drugs



This is the second congressional report on drug price discrimination requested by Mr. Allen. The first report showed that senior citizens in Mr. Allen's district are forced to pay substantially more for their prescription drugs than are the drug companies' favored domestic customers, such as large insurance companies, large HMOs, and the federal government.[1] This report shows that senior citizens in Mr. Allen's district are also forced to pay far more for their prescription drugs than are consumers in other countries. Taken together, the two studies indicate that senior citizens and other U.S. consumers who buy their own drugs are at the bottom of a complex drug pricing hierarchy. As a result, they are forced to pay more for their prescription drugs than both favored institutional buyers in the United States and individual consumers in other countries.

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[1] Minority Staff Report of the House Committee on Government Reform and Oversight, *Prescription Drug Pricing in the 1st Congressional District in Maine: Drug Companies Profit at the Expense of Older Americans* (October 9, 1998).

I. INTRODUCTION

In the United States, drug manufacturers are allowed to discriminate in drug pricing. As one industry analysis commented, "[d]rugmakers have historically raised prices to private customers to compensate for the discounts they grant to managed care customers. This practice is known as 'cost shifting.'"[2] Under this practice, "drugs sold to wholesale distributors and pharmacy chains for the individual physician/patient are marked at the higher end of the scale."[3]

The extent of this price discrimination in Maine was first documented in a report released by Rep. Thomas H. Allen.[4] This report found that senior citizens and others in Maine who lack insurance coverage for prescription drugs pay approximately twice as much for their prescription drugs as the drugs companies' most favored customers, such as large insurance companies, large HMOs, and the federal government. Mr. Allen's study also found that this discriminatory pricing imposes severe hardships on senior citizens, many of whom are on fixed incomes and must choose between purchasing their prescribed medications and paying for other necessities such as food.

The governments of Canada and Mexico do not allow drug manufacturers to engage in price discrimination. In Canada, approximately 35% of prescription drugs are paid for by the government for beneficiaries of government health care programs.[5] In Mexico, 30% of prescription drugs are paid for by the government under similar circumstances.[6] The rest of the population in these two countries must either buy their own drugs or obtain prescription drug insurance coverage. To prevent the drug companies from charging individual consumers excessive prices, both the Canadian and Mexican governments regulate prices for patented prescription drugs.[7] Drug manufacturers do not have to sell their products in Canada or Mexico,

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[2] Herman Saftlas, Standard & Poor's, *Healthcare: Pharmaceuticals,* Industry Surveys 19-20 (December 18, 1997).

[3] *Id.* at 19.

[4] *Prescription Drug Pricing in the 1st Congressional District in Maine: Drug Companies Profit at the Expense of Older Americans, supra* note 1.

[5] Health Canada, *National Health Expenditures in Canada 1975-1996: Fact Sheets,* 12 (June 1997).

[6] National Economic Research Associates, *Financing Health Care: The Health Care System in Mexico,* 78 (August 1998).

[7] Congressional Research Service, *Prescription Drug Price Comparisons: The United States, Canada, and Mexico* (January 1998).

but if they do, they cannot sell their drugs at prices above the maximum prices established by the government.

This report is the first effort to compare retail prices that senior citizens in Maine must pay for prescription drugs with the prices at which the same drugs are available in Canada and Mexico.[8] It finds that senior citizens in Maine who lack prescription drug benefits must pay far more for prescription drugs than consumers in Canada and Mexico. The drug companies thus appear to engage in two distinct forms of price discrimination: (1) as documented in Mr. Allen's first report, the drug companies are forcing senior citizens in Maine to pay more for prescription drugs than more favored U.S. customers, and (2) as documented in this report, the drug companies are forcing senior citizens in Maine to pay more for prescription drugs than consumers in more favored countries.

II. METHODOLOGY

A. Selection of Drugs for This Survey

This survey is based primarily on a selection of the ten patented, nongeneric drugs with the highest annual sales to older Americans in 1997. The list was obtained from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). The PACE program is the largest out-patient prescription drug program for older Americans in the United States for which claims data is available. It is used in this study, as well as by several other analysts, as a proxy database for prescription drug usage by all older Americans. In 1997, over 250,000 persons were enrolled in the program, which provided over $100 million of assistance in filling over 2.8 million prescriptions.[9]

In addition to the top ten drugs for seniors, this study also analyzed two additional prescription drugs, Synthroid and Micronase. These popular prescription drugs were included in

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[8] In a 1992 study, *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*, the U.S. General Accounting Office compared producer prices for prescription drugs in Canada and the United States. This study did not include information on retail prices. In a 1998 study, *International Comparison of Prices For Antidepressant and Antipsychotic Drugs*, Public Citizen compared wholesale prices for newly developed antipsychotic and antidepressant drugs. This study also did not compare retail prices paid by consumers, but instead looked at pharmacy acquisition costs. The study also only looked at a small class of drugs. Neither of these studies included information on prices in Maine.

[9] Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly* (January 1 - December 31, 1997).

the study because the earlier analysis indicated that there is substantial discrimination in the pricing of these drugs.

B. Determination of Average Retail Drug Prices in Maine

In order to determine the prices that senior citizens are paying for prescription drugs in Maine, the minority staff and the staff of Mr. Allen's congressional office conducted a survey of nine drug stores -- six independent pharmacies and three chain stores -- in Mr. Allen's congressional district. Mr. Allen represents Maine's 1st Congressional District, which includes Portland and southern Maine.

C. Determination of Average Retail Drug Prices in Canada and Mexico

Retail prices for prescription drugs in Canada and Mexico were determined via a survey of four pharmacies in Canada and three pharmacies in Mexico. In Canada, pharmacies were surveyed in three provinces: Ontario, British Columbia, and Nova Scotia. In Mexico, pharmacies were surveyed in Ciudad Juarez, just across the border from El Paso, Texas. No significant price differences were observed between prices at different pharmacies in Canada; similarly, no significant price differences were observed between prices at different pharmacies in Mexico.

Prices from Canadian pharmacies were determined in Canadian dollars, and prices from Mexican pharmacies were determined in pesos. All prices were converted to U.S. dollars using exchange rates in effect on October 5, 1998.

D. Selection of Drug Dosage and Form

In comparing drug prices, the study generally used the same drug dosage, form, and package size used by the U.S. General Accounting Office in its 1992 report, *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*. For drugs that were not included in the GAO report, the study used the dosage, form, and package size common in the years 1994 through 1997, as indicated in the *Drug Topics Red Book*.[10]

All prescription drugs surveyed in this report were available in Canada in the same dosage and form as in the United States. In Mexico, several drugs were not available in the same dosage and form. In these cases, prices of equivalent quantities were used for the comparison. For example, in the United States the drug Zocor is commonly available in containers containing five mg. tablets, while in Mexico Zocor is available only in containers containing ten mg. tablets. To compare Zocor prices, this report compared the cost of 60 five mg. tablets of Zocor in the

[10] Medical Economics Company, Inc., *Drug Topics Red Book* (1997).

United States with the cost of 30 ten mg. tablets in Mexico. Several drugs are also sold under different names in Mexico. The Mexican equivalents of U.S. brand names were determined using the 44th edition of the *Diccionario de Especialdades Farmaceuticas* (1998).

III. FINDINGS

A. Senior Citizens in Maine Pay More for Prescription Drugs Than Consumers in Canada

Consumers in Canada obtain prescription drugs in one of two primary ways. Approximately 35% of the prescription drugs sold in Canada are paid for by the provincial governments on behalf of senior citizens, low-income individuals, and other beneficiaries of government health care programs. The rest of the population in Canada must either buy their own drugs or obtain prescription drug insurance coverage.

The regulatory system in Canada protects individual consumers who buy their own drugs from price discrimination.[11] The Patent Medicine Price Review Board (PMPRB), established under the Ministry of Health by a 1987 law, regulates the maximum prices at which manufacturers can sell patented medicines.[12] If the Board finds that the price of a patented drug is excessive, it may order the manufacturer to lower the price, and may also take measures to offset any revenues it has received from the excess pricing.[13] Pharmacy dispensing fees for individual retail customers are not controlled by the government. Each pharmacy sets its usual and customary dispensing fee and must register this fee with provincial authorities.[14]

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[11] Patented Medicine Price Review Board, *Regulation of Drug Prices: The Role and Impact of the Patented Medicine Price Review Board* (1992) (online at www.atreide.net/PMPRB/subm.html).

[12] The PMPRB establishes a set of guidelines to determine if manufacturers prices are excessive. Under these guidelines, the prices of new drugs must not exceed the maximum price of other drugs that treat the same disease. For "breakthrough" drugs, introductory prices must not exceed the median of the foreign prices of the drugs. Subsequent price increases are limited to changes in the Consumer Price Index.

[13] These may include further reductions in the price of the drug, reductions in the price of another of the manufacturer's drugs, or additional payments directly to the Canadian government.

[14] These fees are generally only a small part of the overall prescription drug prices. In Ontario, for example, pharmacies are currently charging usual and customary dispensing fees ranging from $1.99 to $16.95. Ontario Drug Benefit Formulary Program, *ODB Facts:*

This study indicates that the Canadian system produces prescription drug prices that are substantially lower in Canada than in the United States. Average retail prices for the top ten drugs for seniors were 72% higher in the United States than in Canada (Table 1). For all ten drugs, retail prices were higher in the United States. For three drugs, Zocor, Ticlid, and Prilosec, the U.S. prices were more than twice as high as the Canadian prices. The highest price differential among the top ten drugs was 136%, for Zocor, a cholesterol medication manufactured by Merck.

For other drugs, price differentials were even higher. Synthroid is a hormone treatment manufactured by Knoll Pharmaceuticals. For this prescription drug, senior citizens in Maine pay an average retail price of $29.80, while consumers in Canada pay only $9.25 -- a price differential of 222%. Similarly, for Micronase, a diabetes drug manufactured by Upjohn, Maine senior citizens pay prices that are 188% higher than Canadian consumers.

This finding is broadly consistent with the findings of other analyses. In 1992, GAO looked at the prices that drug companies charge wholesalers for 121 prescription drugs and found that these prices were, on average, 32% higher in the U.S. than in Canada. According to GAO, "government regulations and reimbursement practices contribute to lower average drug prices in Canada. In setting prices, manufacturers of patented drugs must conform to Canadian federal regulations that review prices for newly released drugs and restrain price increases for existing drugs."[15]

GAO also investigated whether this price differential was attributable to differences in the costs of production and distribution. GAO found that drug costs -- such as research and development -- are not allocated to specific countries, and the costs of production and distribution make up only a small share of the cost of any drug. The study concluded that "production and distribution costs cannot be a major source of price differentials."[16]

B. Senior Citizens in Maine Pay More for Prescription Drugs Than Consumers in Mexico

As in Canada, consumers in Mexico also obtain prescription drugs in one of two primary ways. Approximately 30% of the prescription drugs sold in Mexico are purchased by the government and provided to eligible citizens at a significant discount through the social security

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Dispensing Fees (June 1998).

[15] U.S. General Accounting Office, *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*, 2-3 (September 1992) (GAO-HRD-92-110).

[16] *Id.* at 14.

system.[17] The rest of the population in Mexico must either buy their own drugs or obtain prescription drug insurance coverage.

The regulatory system in Mexico, like the system in Canada, protects individual consumers who buy their own drugs from price discrimination. Drug prices and rates of price increases in Mexico are controlled by the Ministry of Commerce and Economic Development (known by its Spanish acronym, Secofi) under the Pact For Economic Stability and Growth.[18] Under the Mexican law, manufacturers and the government engage in negotiations to determine the nationwide maximum prices for prescription drugs.[19] Pharmaceutical products are prepackaged and stamped with the maximum sales price, guaranteeing consistent prices throughout the country.

This study indicates that the Mexican system produces prescription drug prices that are substantially lower in Mexico than in the United States. Average retail prices for the top ten drugs for seniors were 102% higher in the United States than in Mexico (Table 1). For all ten drugs, retail prices were higher in the United States. For four drugs, Zocor, Ticlid, Relafen, and Prilosec, the U.S. prices were more than twice as high as the Mexican prices. The highest price differential among the top ten drugs was 280%, for Prilosec, an ulcer medication manufactured by Astra/Merck.

For other drugs, price differentials were even higher. In the case of Micronase, senior citizens in Maine pay an average retail price of $42.50, while consumers in Mexico pay only $4.05 -- a price differential of 950%. Similarly, in the case of Synthroid, Maine senior citizens pay prices that are 288% higher than Mexican consumers.

These findings are consistent with those of other experts. While there have been few direct comparisons of prices in the United States and Mexico, the Congressional Research Service has found that differences in the regulatory systems between the two countries result in the large price differentials. CRS concluded that "of greater importance in explaining price

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[17] *Financing Health Care: The Health Care System in Mexico, supra* note 6

[18] Jeanne Grant, *Headaches for Pharmaceuticals*, Business Mexico, 8f (August, 1991).

[19] The final negotiated price is based on a number of factors, including the purchasing power of the Mexican population, the availability of generic substitutes or other drugs that treat similar diseases, and other economic factors, such as the manufacturers cost to produce the product.

differentials in drug prices in Mexico and the United States is the fact that price controls and government procurement policies are in place in Mexico, and have been for some time."[20]

[20] *Prescription Drug Price Comparisons: The United States, Canada, and Mexico*, *supra* note 3.