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PRESCRIPTION DRUGS

Prices and Regulation in
Canada and Europe

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Messrs. Chairmen and Members of the Committee:

I am pleased to be here today to testify on our work pertaining to international prices and regulation of prescription drugs. As the health care reform debate proceeds, Congress and the public remain concerned about issues of prescription drug pricing. Widely reported disparities in prescription drug prices between the United States and other countries have fostered speculation that U.S. consumers may be needlessly paying high prices for prescription drugs. While some advocate government action to reduce prescription drug prices, others have expressed concern about the effects these proposed policies might have on the pharmaceutical industry.

Over the past several years, we have examined prescription drug pricing and regulation in other countries. As part of this effort, we compared U.S. prescription drug prices (at the producer level) with the prices of identical drugs in Canada and in the United Kingdom.¹ In addition, we reviewed the various policies that Canada, France, Germany, Sweden and the United Kingdom have adopted to limit national expenditures on prescription drugs.² Specifically, we examined the effects of these policies on pharmaceutical prices, expenditures, and research and development. The results of our analyses support several conclusions:

- Manufacturers of brand-name prescription drugs typically charge more for identical drugs in the United States compared to Canada and the United Kingdom.
- Canada, France, Germany, Sweden, and the United Kingdom have each adopted a series of policies intended to control national prescription drug expenditures, but so far these policies have achieved only limited success.
- There is a positive relationship between the level of prescription drug prices and pharmaceutical firms' expenditures on research and development; however, the precise size of this relationship is difficult to determine.

¹See Prescription Drugs: Companies Typically Charge More in the United States than in the United Kingdom (GAO/HEHS-94-29, Jan. 12, 1994) and Prescription Drugs: Companies Typically Charge More in the United States than in Canada (GAO/HRD-92-110, Sept. 30, 1992).

²See Prescription Drugs: Spending Controls in Four European Countries (GAO/HEHS-94-30, May 17, 1994) and Prescription Drug Prices: Analysis of Canada's Patented Medicine Prices Review Board (GAO/HRD-93-51, Feb. 17, 1993).

BACKGROUND

In the United States, some prescription drugs are purchased by consumers, some are financed by insurers, and some are paid for by government programs such as Medicaid. In many other countries, prescription drugs are financed through a national health insurance system. In the countries we reviewed, consumer demand for prescription drugs has increased as the out-of-pocket cost to beneficiaries is reduced through national insurance. A recent study by the Congressional Budget Office³ concluded that if prescription drug coverage is expanded under health care reform, then the United States can also expect to see an increase in the demand for prescription drugs.

If drug prices do not fall, increasing demand for prescription drugs will translate directly into an increase in the national health system's expenditures for prescription drugs. Out of concern for the financial viability of their national health insurance systems, Canada and the four European countries have all imposed national policies to restrain pharmaceutical prices and to limit the demand for prescription drugs. In each country, however, the need for cost containment has been tempered by concern that these policies could diminish the development of new drug products.

U.S. PRICES FOR BRAND-NAME DRUGS TYPICALLY EXCEED PRICES IN CANADA AND THE UNITED KINGDOM

We found that manufacturers charge wholesalers higher prices in the United States than in Canada or the United Kingdom for identical, frequently dispensed brand-name prescription drugs. Specifically, in 1991 a sample of 121 frequently dispensed drugs that we studied would have cost 32 percent more in the United States than in Canada if a common U.S. prescription of each drug were purchased at factory prices in each country. Similarly, in 1992 a sample of 77 frequently dispensed drugs we studied would have cost wholesalers 60 percent more in the United States than in the United Kingdom.

U.S.-Canadian and U.S.-U.K. drug price differentials for specific products varied widely. For example, U.S. prices ranged from being 44 percent lower to 967 percent higher than Canadian prices; U.S. prices ranged from 62 percent lower to 1,712 percent

³See Congressional Budget Office, How Health Care Reform Affects Pharmaceutical Research and Development, June 1994.

higher than U.K. prices.⁴ Table 1 shows a sample of commonly prescribed medications that were included in both our Canadian and U.K. studies. For these drugs, we were also able to obtain the current wholesale price in Sweden. As shown in Table 1, U.S. prices are generally higher than prices for the same drug in these other countries, although a number of products are priced lower in the United States.

Our qualitative conclusion--that U.S. prices are typically, but not always, higher than prices charged in other countries--is consistent with other international price comparison studies. For example, preliminary results of a new study by the Department of Health in the United Kingdom show that a sample of 26 commonly prescribed drugs would cost over twice as much (102 percent more) in the United States than in the United Kingdom.⁵ This study also found that U.S. prices exceed those in Germany, the Netherlands, Italy, Spain, and France. The results of this study are summarized in Figure 1.

We should explain that the size of estimated differentials can vary across studies because of differences in the methodologies used. For example, in conducting the U.K. and Canadian comparisons, we were struck by the wide variety of strengths, dosage forms, and package sizes that manufacturers produce for each drug. Two chemically identical products might be manufactured by the same company in the United States and in Canada or Europe, but nonetheless differ in these respects, making comparisons more difficult.

IN CANADA AND IN EUROPE,
COUNTRIES IMPOSE NATIONAL POLICIES
TO CONTROL PHARMACEUTICAL PRICES AND SPENDING

U.S. brand name prescription drug prices are generally higher than in other countries largely because, unlike the United

⁴These results apply to prices that manufacturers charge wholesalers in the United States. Other U.S. purchasers--mail order pharmacies, hospitals, and some health maintenance organizations (HMO)--may receive discounts from manufacturers that are not captured by this price measure. However, our qualitative conclusion--that U.S. prices are generally higher than prices in other countries--is largely unaffected by the presence of these discounts in the U.S. market. For example, when we estimated U.S.-U.K. price differentials after adjusting for manufacturers' discounts, we found that manufacturers would receive 51 percent more in the United States than in the United Kingdom for the market basket in our study.

⁵Department of Health, Pharmaceutical Industry Branch, United Kingdom, "International Drug Price Comparisons", 1994.

States, these other countries have comprehensive regulations that restrict pharmaceutical prices. In each of the countries we studied, the government has imposed national pharmaceutical spending control policies, some regulatory and some more market-based. The balance struck varies from country to country--ranging from direct government control of pharmaceutical pricing and spending to strengthening competition by reshaping incentives. For example, France has emphasized the regulatory approach by imposing stringent product-by-product price controls, and Canada's Patented Medicine Prices Review Board controls price increases for prescription drugs. By contrast, the United Kingdom has combined flexible regulations with more market-oriented strategies. Drug manufacturers have considerable pricing freedom within the U.K.'s profit controls, but the government has also sharpened competition among drug companies by encouraging physicians to prescribe less expensive medicines.⁶ Both Sweden and Germany limit government reimbursement for individual drug products; in Germany, these reimbursement controls are coupled with restrictions on overall pharmaceutical spending.

Regulations Have Been More Effective
at Limiting Drug Prices Than at
Restraining Drug Spending

In Canada and in the European countries, government policies have had mixed success in restraining pharmaceutical expenditures. On the one hand, drug prices in these countries have grown relatively slowly--less than the rate of general inflation. However, total pharmaceutical spending--which is affected by the quantity of drugs sold as well as their prices--has continued to rise substantially. In France, Germany, Sweden and the United Kingdom, governments have been supplementing their traditional pharmaceutical policies with additional measures, such as increased cost-sharing and physician drug budgets. These new strategies are intended to limit the demand for prescription drugs by encouraging consumers and physicians to consider the cost-effectiveness of alternative drug therapies.

REDUCTIONS IN DRUG PRICES
LEAD TO LOWER R&D EXPENDITURES,
ALTHOUGH SIZE OF EFFECT IS UNCERTAIN

Despite the differences in their specific pharmaceutical policies, each country confronts a similar dilemma--preserving a strong pharmaceutical industry while controlling national health

⁶For example, the U.K. government provides physicians with information on the safety and cost-effectiveness of alternative drug products and also informs physicians about how their prescribing habits compare to those of their colleagues.

spending. The reasons for this dilemma are straightforward: if the government reduces pharmaceutical expenditures, then pharmaceutical firms will receive less in revenues. Firms will then expect to receive less revenue from future prescription drug products, thus reducing their incentive to incur the risk and expense involved in pharmaceutical research and development (R&D). Therefore, government policies that result in a decline in drug prices can be expected to lead to a decrease in firms' expenditures on R&D for new drugs.⁷

The significance of a reduction in R&D is difficult to assess, however, for three reasons. First, only imprecise estimates are available to measure just how much R&D spending declines for each dollar in reduced revenues. Second, it cannot be determined how a reduction in R&D spending would change the mix of drugs developed--for example, how many "breakthrough" drugs would be developed versus drugs that represent more limited improvements over existing therapies. Third, several factors other than drug prices--such as patent regulations, tax credits, and the size of the pharmaceutical market--also influence pharmaceutical R&D.

CONCLUSION

The debate over health care reform has heightened interest in international prescription drug pricing and regulation. Lacking firsthand experience with pharmaceutical price and spending controls, the United States can learn from its Canadian and European counterparts' attempts to contain drug pricing and spending. However, although government regulation has restrained drug prices in the five countries we examined, the implications--and the desirability--of similar intervention in the U.S. pharmaceutical market are unclear. More specifically, the effects of a price reduction in any of these countries may differ from the effects of a similar price reduction in the United States, because each of the 5 countries represents a relatively smaller share of the global pharmaceutical market. In addition, the particular price and spending control policies used in these countries may not be readily transferrable to the United States because of institutional differences across countries. In any case, any gains from regulation of drug prices or spending must be weighed against the consequences of such regulations for pharmaceutical research and development.

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⁷Of course, government policies need not be the only source of decreases in drug prices. Increasing competition or other market forces could cause firms to decrease their R&D expenditures as well.

Chairmen, this concludes my prepared statement. I would be pleased to answer any questions you might have.

Table 1: International Differences in Manufacturers' Wholesale Prescription Drug Prices (1991-1994)

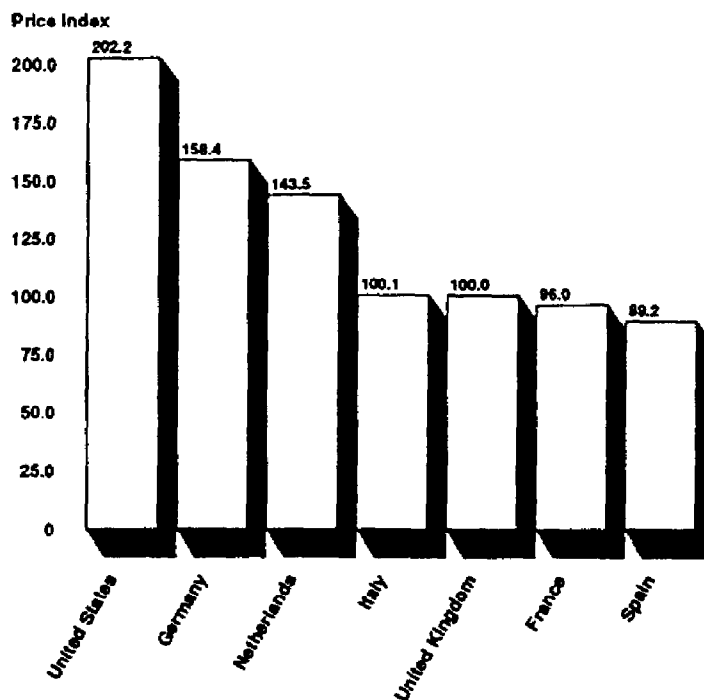
Product	Manufacturer	Major Use	U.S. Sales Rank (1993)	% U.S. Price Exceeds Canada ^a (1991)	% U.S. Price Exceeds U.K. ^b (1992)	% U.S. Price Exceeds Sweden ^c (1994)
Premarin	Ayerst	Estrogen	1	162	197	219
Zantac	Glaxo	Ulcer	2	30	58	109
Xanax	Upjohn	Anxiety	7	183	279	488
Ceclor	Lilly	Respiratory	11	60	107	207
Provera	Upjohn	Uterine	15	75	96	340
Capoten	Squibb	Hypertension	20	-4	43	85
Lopressor	Geigy	Hypertension	26	126	322	108
Zestril	Stuart	Heart	33	-16	-10	19
Triphasil	Wyeth	Contraception	34	65	835	623
Pepcid	Merck	Ulcer	35	35	38	100
Volaren	Geigy	Arthritis	45	24	144	301
Estraderm	Ciba	Estrogen	48	-27	9	57
Ceftin	Allen and Hanburys	Infection	51	75	63	232
Zovirax	Burroughs Wellcome	Infection	55	-33	-62	-35
Timoptic	Merck	Glaucoma	68	-6	38	69
Hytrin	Abbott	Hypertension	70	30	16	251
Inderal	Ayerst	Hypertension	79	251	884	1,159
Trental	Hoechst	Hemorrhage	92	-34	24	-24
Tegretol	Geigy	Seizure	94	21	182	235
Valium	Roche	Anxiety	95	432	1,044	1,071

^aU.S.-Canadian data are taken from GAO's report, Prescription Drugs: Companies Typically Charge More in the United States than in Canada (GAO/HRD-92-110, Sept. 30, 1992).

^bU.S.-U.K. data are taken from GAO's report, Prescription Drugs: Companies Typically Charge More in the United States than in the United Kingdom (GAO/HEHS-94-29, Jan. 12, 1994).

^cFor U.S.-Swedish comparison, Swedish data were obtained from Sweden's National Health Insurance Board, Pharmaceutical Branch; U.S. data were obtained from Medi-Span, Inc.

Figure 1: Comparing International Prescription Drug Prices



Source: Pharmaceutical Industry Branch, Department of Health, United Kingdom

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