



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

Prepared for U.S. Representative Tom Allen

**Minority Staff Report
Committee on Government Reform and Oversight
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EXECUTIVE SUMMARY

This report, which was prepared at the request of U.S. Representative Tom 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.

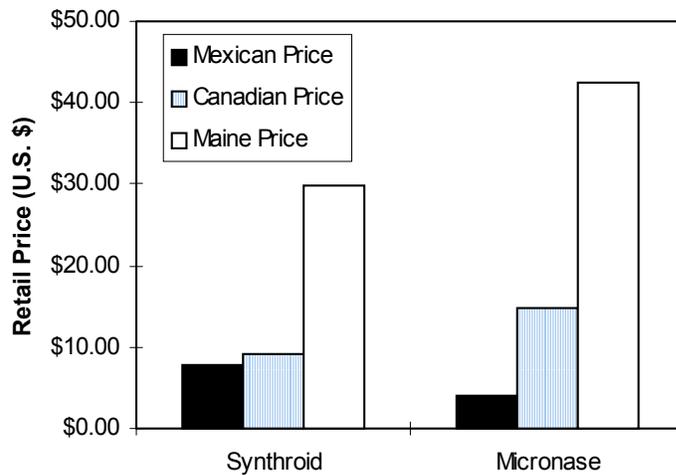
This study investigates the pricing of the ten brand name prescription drugs with the highest dollar sales to the elderly in the United States. The study compares the prices that senior citizens who buy their own prescription drugs must pay for these drugs in Mr. Allen’s district with the prices that 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.

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

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).

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 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

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).

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 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 Especialidades Farmaceuticas* (1998).

III. FINDINGS

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

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

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.

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: Dispensing Fees* (June 1998).

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 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

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.

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

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

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 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

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.

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