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Prescription Drug Pricing in the 7th Congressional District of Maryland: An International Price Comparison

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**Prescription Drug Pricing in the 7th Congressional District of Maryland:
An International Price Comparison**

Prepared for Rep. Elijah E. Cummings

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

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EXECUTIVE SUMMARY

This report, which was prepared at the request of Rep. Elijah E. Cummings, compares prescription drug prices in Maryland’s 7th Congressional District with drug prices in Canada and Mexico. The report finds that senior citizens and other consumers in Rep. Cummings’s 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 are discriminating against senior citizens in Rep. Cummings’s district by denying them access to prescription drugs at the low prices available to consumers in Canada and Mexico.

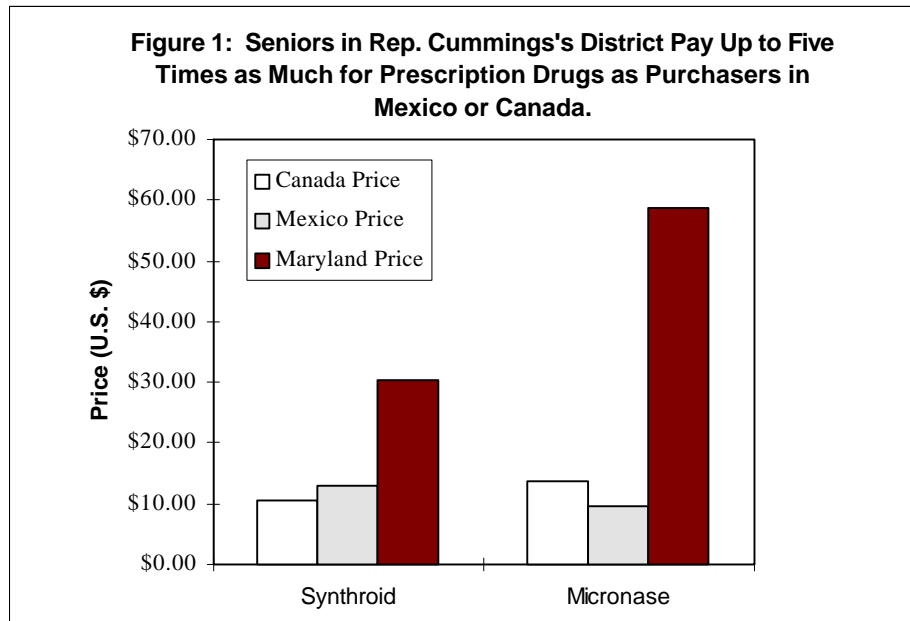
This study investigates the pricing of the five brand name prescription drugs with the highest 1997 dollar sales to the elderly in the United States. The study compares the prices that senior citizens who buy their own prescription drugs must pay for these drugs in Rep. Cummings’s district with the prices 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 Rep. Cummings’s district must pay are 98% higher than the prices that Canadian consumers pay and 95% higher than the prices that Mexican consumers pay (Table 1).

Table 1: Seniors in Rep. Cummings’s District Pay Significantly Higher Prices for Prescription Drugs Than Consumers in Canada or Mexico.

Prescription Drug	U.S. Dosage and Form	Canadian Price	Mexican Price	Maryland Price	Canada-Maryland Price Differential		Mexico-Maryland Price Differential	
					Percent	Dollar	Percent	Dollar
Zocor	5 mg, 60 tab.	\$46.17	\$67.65	\$113.97	147%	\$67.80	68%	\$46.32
Prilosec	20 mg, 30 cap.	\$55.10	\$32.10	\$122.62	123%	\$67.52	282%	\$90.52
Procardia XL	30 mg, 100 tab.	\$74.25	\$76.60	\$144.89	95%	\$70.64	89%	\$68.29
Zoloft	50 mg, 100 tab.	\$129.05	\$219.35	\$238.44	85%	\$109.39	9%	\$19.09
Norvasc	5 mg, 90 tab.	\$89.91	\$99.32	\$127.17	41%	\$37.26	28%	\$27.85
Average Differential					98%		95%	

In dollar terms, an uninsured senior citizen in Rep. Cummings’s district would pay over \$745 for prescriptions for these five best-selling drugs, while a consumer in Canada would pay under \$400 -- a difference of more than \$350. A consumer in Mexico would pay under \$500 -- a difference of more than \$250. The drug with the highest differential in dollars is Zoloft, which costs \$109.39 more for an uninsured senior in Rep. Cummings’s district than it would cost a similar consumer in Canada.

In the case of two additional drugs considered in the study, Synthroid and Micronase, senior citizens in Rep. Cummings’s district were forced to pay at least two times, and in one case more than six times, the prices charged to Canadian or Mexican consumers (Figure 1).



This is the second congressional report on drug price discrimination requested by Rep. Cummings. The first report showed that senior citizens in Maryland's 7th Congressional District are forced to pay over twice as much for their prescription drugs as the drug companies' favored domestic customers, such as HMOs and the federal government.¹ This report shows that senior citizens in Rep. Cummings's district are also forced to pay substantially more for their prescription drugs than are consumers in other countries. Taken together, the two studies indicate that drug manufacturers engage in a consistent pattern of price discrimination, resulting in prices for senior citizens and other consumers who buy their own drugs that far exceed those paid by other purchasers in the United States and other countries.

¹ Minority Staff Report of the House Committee on Government Reform and Oversight, *Prescription Drug Pricing in the 7th Congressional District in Maryland: Drug Companies Profit at the Expense of Older Americans* (April 1999).

I. INTRODUCTION

In the United States, drug manufacturers are allowed to discriminate in drug pricing. As the Congressional Budget Office reported in a 1998 study, “[d]ifferent buyers pay different prices for brand-name prescription drugs. ... In today’s market for outpatient prescription drugs, purchasers that have no insurance coverage for drugs ... pay the highest prices for brand name drugs.”² In 1999, the Federal Trade Commission reached the same conclusion, reporting that drug manufacturers use a “two tiered pricing structure” under which they “charge higher prices to ... the uninsured.”³

This discriminatory pricing imposes severe hardships on senior citizens. As documented in the previous report released by Rep. Cummings, senior citizens often have the greatest need for prescription drugs, but the least ability to pay for them.⁴ The elderly in the United States, who make up 12% of the population, use one-third of all prescription drugs,⁵ with the average senior using 18.5 prescriptions annually.⁶ They also frequently have inadequate insurance coverage or no insurance coverage at all to pay for these drugs. Approximately 75% of Medicare beneficiaries lack dependable, private-sector prescription drug coverage,⁷ and 35% -- over 13 million seniors -- do not have any insurance coverage for prescription drugs.⁸ As a result, many seniors cannot

² Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry*, xi (July 1998).

³ Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change*, 75 (Mar. 1999).

⁴ *Prescription Drug Pricing in the 8th Congressional District in Maryland: Drug Companies Profit at the Expense of Older Americans*, *supra* note 1.

⁵ Senate Special Committee On Aging, *Developments in Aging: 1993*, 103d Cong., 2d Sess. 35 (1994) (S. Rpt. 403).

⁶ Senate Special Committee on Aging, *Developments In Aging: 1996*, 105th Cong., 1st Sess. 121 (1997) (S. Rpt. 36).

⁷ National Economic Council, Domestic Policy Council, *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage* (July 22, 1999).

⁸ Health Affairs, *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, 237 (Jan./Feb. 1999).

afford the high costs of prescription drugs. One study estimated that more than one in eight seniors were forced to choose between buying food or paying for prescription drugs.⁹

In part to protect their citizens from these hardships, 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.¹⁰ In Mexico, 30% of prescription drugs are paid for by the government under similar circumstances.¹¹ 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.¹² 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.

This report is the first effort to compare prices that senior citizens in Maryland's 7th Congressional District must pay for prescription drugs with the prices at which the same drugs are available in Canada and Mexico.¹³ It finds that senior citizens in Rep. Cummings's district 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 Rep. Cummings's first report, the drug companies are forcing senior citizens in Rep. Cummings's district to pay more for prescription drugs than more

⁹ Families USA Foundation, *Worthless Promises: Drug Companies Keep Boosting Prices*, 6 (Mar. 1995).

¹⁰ Health Canada, *National Health Expenditures in Canada 1975-1996: Fact Sheets*, 12 (June 1997).

¹¹ National Economic Research Associates, *Financing Health Care: The Health Care System in Mexico*, 78 (August 1998).

¹² Congressional Research Service, *Prescription Drug Price Comparisons: The United States, Canada, and Mexico* (January 1998).

¹³ 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. A recent Canadian study, the Patented Medicine Prices Review Board's *Tenth Annual Report*, compared manufacturers' prices for a wide selection of drugs, but contained no information on specific drugs. None of these studies included information on prices in Maryland.

avored U.S. customers, and (2) as documented in this report, the drug companies are forcing senior citizens in Rep. Cummings's district 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 five 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.¹⁴

Based on the PACE data, the five patented, nongeneric drugs with the highest sales to seniors in 1997 were:

- Prilosec, an ulcer and heartburn medication manufactured by Astra/Merck.
- Norvasc, a blood pressure medication manufactured by Pfizer.
- Zocor, a cholesterol-reducing medication manufactured by Merck.
- Zoloft, a medication used to treat depression manufactured by Pfizer.
- Procardia XL, a heart medication manufactured by Pfizer.

In addition to the top five drugs for seniors, this study also analyzed two additional prescription drugs, Synthroid and Micronase. Synthroid is a hormone treatment manufactured by Knoll Pharmaceuticals, and Micronase is a diabetes medication manufactured by Upjohn. 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.

¹⁴ Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly* (January 1 - December 31, 1997).

B. Determination of Average Drug Prices in Maryland's 7th Congressional District

In order to determine the prices that senior citizens are paying for prescription drugs in Maryland, the minority staff and the staff of Mr. Cummings's congressional office conducted a survey of six drug stores -- including both independent and chain stores -- in Mr. Cummings's congressional district. Mr. Cummings represents the 7th Congressional District in Maryland, which includes downtown Baltimore, the inner harbor area, and parts of Baltimore County.

C. Determination of Average Drug Prices in Canada and Mexico

Prices for prescription drugs in Canada and Mexico were determined via a survey of pharmacies in Canada and Mexico. At the request of the minority staff of the Committee on Government Reform, the surveys were conducted by the Office of NAFTA and Inter-American Affairs of the U.S. Department of Commerce. In Canada, pharmacies were surveyed in three provinces: Ontario, British Columbia, and Nova Scotia. In Mexico, pharmacies were surveyed in Monterrey and Guadalajara.

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 commercially available exchange rates.

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*.¹⁵ The dosages, forms, and package sizes used in the study are shown in Table 1.

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).

¹⁵ Medical Economics Company, Inc., *Drug Topics Red Book* (1997).

III. FINDINGS

A. Senior Citizens in Maryland's 7th Congressional District 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.¹⁶ The Patent Medicine Prices Review Board (PMPRB), established under the Ministry of Health by a 1987 law, regulates the maximum prices at which manufacturers can sell patented medicines.¹⁷ 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 the manufacturer has received from the excess pricing.¹⁸ 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.¹⁹

This study indicates that the Canadian system produces prescription drug prices that are substantially lower in Canada than in Rep. Cummings's district. Average prices for seniors who lack insurance coverage were 98% higher in Rep. Cummings's district than in Canada (Table 1).

For all five drugs, prices were higher in Rep. Cummings's district. For two drugs, Zocor and Prilosec, the prices in Rep. Cummings's district were more than twice as high as the Canadian

¹⁶ Patented Medicine Prices Review Board, *Tenth Annual Report for the Year Ended December 31, 1997* (1998) (online at www.atreide.net/PMPRB).

¹⁷ 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 prices of the drugs in other industrialized countries. Subsequent price increases are limited to changes in the Consumer Price Index.

¹⁸ 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.

¹⁹ These fees are generally only a small part of the overall prescription drug prices. In Ontario, for example, pharmacies charge usual and customary dispensing fees ranging from \$1.25 to \$12.00. Ontario Drug Benefit Formulary Program, *ODB Facts: Dispensing Fees* (June 1998) (dispensing fees converted to U.S. dollars).

prices. The highest price differential among the top five drugs was 147%, 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 Rep. Cummings's district must pay an average price of \$30.47, while consumers in Canada pay only \$10.53 -- a price differential of 189%. Similarly, for Micronase, a diabetes drug manufactured by Upjohn, senior citizens in Rep. Cummings's district pay prices that are 335% higher than Canadian consumers.

In dollar terms, uninsured senior citizens in Rep. Cummings's district pay \$109.39 more than consumers in Canada for a prescription of 100 tablets of Zoloft, and \$70.64 more than consumers in Canada for a prescription of 100 tablets of Procardia XL. Overall, prescriptions for the five most popular drugs would cost a senior citizen in Rep. Cummings's district over \$350 more than consumers in Canada.

The findings in this report are consistent with the findings of other analyses. In 1992, GAO looked at the prices that drug companies charge wholesalers for prescription drugs in the United States and Canada. The results of the GAO study showed that, for the top five drugs in the United States, the average differential between the price in the United States and the price in Canada was 79%.²⁰ 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."²¹

Similarly, in 1998, Canada's Patented Medicine Prices Review Board performed a comprehensive review of prices in Canada, the United States, and six European countries.²² The Board found that prescription drug prices in the United States were 56% higher than prices in Canada, and that prices were even lower in other industrialized countries. Prices in the United States were 96% higher than prices in Italy, 75% higher than prices in France, 55% higher than prices in the United Kingdom, 47% higher than prices in Sweden, 40% higher than prices in Germany, and 26% higher than prices in Switzerland. The United States had the highest prices among the eight industrialized nations that were part of the survey.

²⁰ U.S. General Accounting Office, *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*, 14 (September 1992) (GAO-HRD-92-110). For a broader set of 121 drugs, which included both brand name and generic drugs, GAO found that the average price differential was 32%.

²¹ *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*, *supra* note 20, at 2-3.

²² *Tenth Annual Report for the Year Ended December 31, 1997*, *supra* note 16, at 18.

GAO also investigated whether the price differential it observed 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.”²³

B. Senior Citizens in Maryland’s 7th Congressional District 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.²⁴ 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.²⁵ Under the Mexican law, manufacturers and the government engage in negotiations to determine the nationwide maximum prices for prescription drugs.²⁶ 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 Rep. Cummings’s district. Average prices for the top five drugs for seniors were 95% higher in Rep. Cummings’s district than in Mexico (Table 1). For all five drugs, prices were higher in Rep. Cummings’s district. The highest price differential among the top five drugs was 282%, for Prilosec, an ulcer medication manufactured by Astra/Merck.

²³ *Prescription Drugs: Companies Typically Charge More in the United States Than in Canada*, *supra* note 20, at 14.

²⁴ *Financing Health Care: The Health Care System in Mexico*, *supra* note 11.

²⁵ Jeanne Grant, *Headaches for Pharmaceuticals*, *Business Mexico*, 8f (August, 1991).

²⁶ 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.

For other drugs, price differentials were even higher. In the case of Micronase, senior citizens in Maryland's 7th Congressional District pay an average price of \$58.76, while consumers in Mexico pay only \$9.48 -- a price differential of 520%.

In dollar terms, uninsured senior citizens in Rep. Cummings's pay \$90.52 more than consumers in Mexico for a prescription of 30 tablets of Prilosec, and \$68.29 more than consumers in Mexico for a prescription of 100 tablets of Procardia XL. Overall, prescriptions for the five most popular drugs would cost a senior citizen in Rep. Cummings's district over \$250 more than consumers in Mexico.

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."²⁷

²⁷ *Prescription Drug Price Comparisons: The United States, Canada, and Mexico*, *supra* note 12.