Downward pressure on US drug prices if Kerry wins

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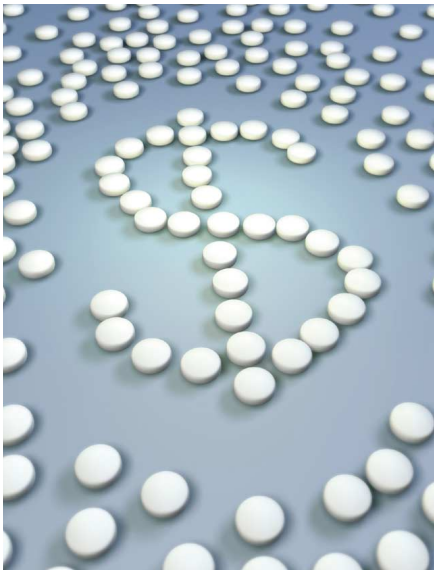
With the American presidential election approaching, health care topics emerge at the top of the agenda, both in the Democratic and Republican camps. Much focus is on the drug re-importation issue. A ban was imposed in 1987, when companies complained to Congress that the US price settings were threatened by cheaper, foreign-regulated prices. In August, Senator John Kerry promised an overhaul of the Medicare prescription drug law if elected, hitting hard on an issue of deep concern to elderly voters. He specifically said that President Bush had personally 'stood in the way' of importing drugs from Canada, which advocates say would significantly reduce costs.

Why are US drug prices so high?

America constitutes by far the largest drug market. US purchases represent 46% of world purchases, but drug prices are far higher than those in the rest of the world. This is why some American citizens have been ignoring the laws, either making trips to Canada for bargains on the drugs they need, or using the services of internet firms buying abroad on large scale. The FDA was turning a blind eye on this until late 2003, when they warned CanaRx Services about its illegal internet website and mail operation.

Why the drugs are so expensive in America, compared with the rest of the world? According to Roger Pilon, who held five senior post in the Reagan administration and is now Vice President for legal affairs at the Cato Institute and Director, some of the reasons for the US high prices are the FDA's demanding regulations, as well as the patents and the



price-control regime applied in wealthy countries like Canada, France and Germany.

Free market

First, the FDA approval in the US is extremely long. An average drug-development time is 14.2 years. During this period of time, a drug company has to go through expensive R&D to satisfy the FDA requirement on safety and efficacy. Second, drug patents recognize the rights only for a period of 20 years, starting from the time the company first applies for the FDA approval. This makes the effective life time for drug patents very short. 'And the shorter the time the company has to recoup its extraordinary R&D costs, the more it will need to charge per unit sold', says Pilon.

Finally, one should not forget that companies not only want to recoup their costs, but also want to maximize profit. And the best place for them to do so is in America, with its relatively free market. The rest of the world, companies say, will simply not pay market prices, because of socialized medical systems and controlled prices. As a consequence, Americans end up paying for most of the costs of drug R&D, while the rest of the world 'rides free'.

Lifting the ban

Who wouldn't want lower drug prices? 'I think the ban will be lifted no matter who is elected', says Pilon. However, other reforms, according to him, could improve companies' profitability, such as a longer effective life span for patents and a more flexible FDA approach on safety and efficacy. 'People dying of cancer don't want to wait 12 years until a promising new drug is finally approved by the FDA. They'll take their chances that it might not be safe'.

Lifting the ban will introduce competition into what is currently a protected market for drugs in America. More competition means lower prices. For companies however, this will result in less net profits and there would be less money to find the elusive miracle drug. The pharmaceutical industry is likely to try to continue to charge higher prices in the US, through no-resale contracts for instance. This might prove difficult, however. This pressure on prices is expected to be more pronounced in the traditional primary care segment of the market. Ban lifting could well be an incentive for pharmaceutical companies to concentrate more on new developments and new techniques of finding medication. This could, for instance, increase the interest in the biotech industry.

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