

Reprint

How Cheap are Canada's Drugs Really?

By Aidan Hollis

The disparity between pharmaceutical prices in Canada and in the US has recently attracted a lot of attention. The sudden rise of internet pharmacies and their reported large sales volumes to US consumers has been matched by information about how much cheaper drugs are in Canada. Moreover, various public figures have commented on how Canada is getting a free ride on US consumers. For example, the Speaker of the US House of Representatives, Dennis Hastert, recently complained that Canada's "price control regime is unfair to American consumers. Americans shouldn't be forced to subsidize the health care for the rest of the world." The mayor of New York called on American pharmaceutical companies to "refuse to sell drugs to Canada until they get rid of price controls."

The question this article seeks to address is whether in fact Canadian prices are particularly low. There are many different ways of comparing drug prices. One relevant comparison is between prices offered at retail pharmacies in Canada and the US. This is useful for comparing the prices paid by uninsured consumers in both countries. Nevertheless, a different comparison is suitable for the prices of drugs purchased by governments. Many drugs are consumed by people who are fully insured by the government. In Canada, full insurance applies to consumers in hospitals, many seniors, welfare recipients, and registered First Nations and eligible Inuit peoples. Various levels of government in Canada thus cover approximately 44% of the total cost of prescription drugs.(1) In the US, the federal government provides prescription drug coverage for veterans and some other government-insured consumers. In this case, a different comparison is appropriate. Here the reasonable comparison is between the prices paid by the governments in the two countries. This comparison is performed in this article.

The set of drugs compared is a subset of the top 50 prescribed medicines in Canada as measured by expenditures, limited to include only those drugs that are still without generic competition in both countries. (I exclude generic drugs because competitive market

pressures - as much as government price controls and negotiating tactics - drive the pricing of such drugs, especially in the US.) This leaves the sixteen drugs shown in the table below.

Table 1: Drug Prices in Canada and the US

Product	Ontario price	US gov't price	Canadian sales (Jan-Jun 2003) (C\$ 000)	Cost of same amount in US (C\$ 000)
Lipitor 10mg	1.60	1.45	352,649	319,441
Norvasc 5mg	1.28	0.96	134,451	100,955
Altace 10mg	0.95	0.16	133,471	22,479
Zyprexa 10mg	6.75	8.55	107,041	135,574
Zocor 20mg	2.20	1.59	100,174	72,580
Effexor XR 75	1.56	1.60	96,390	99,166
Pantoloc 40mg	1.90	0.57	95,336	28,688
Celebrex 200mg	1.25	2.78	88,732	197,482
Vioxx 25mg	1.25	1.90	74,498	113,531
Celexa 20mg	1.25	1.95	71,168	110,999
Prevacid 30mg	2.00	1.23	64,316	39,567
Fosamax 70mg	8.85	11.32	60,837	77,816
Risperdal 2mg	1.92	4.56	48,810	116,238
Biaxin 250mg	1.48	2.88	28,301	55,120
Zithromax 250mg	4.93	5.28	25,410	27,223
Lanoxin .125mg	0.09	0.11	7,547	9,742
Total			1,489,131	1,526,605

Notes: Ontario prices drawn from the Ontario Drug Benefit List, 38th edition; US prices drawn from the Federal Supply Schedule, November 2003. All values are listed in Canadian dollars, with an exchange rate of C\$1=US\$0.75

I then obtained both the Federal Supply Schedule (FSS) price, which is the maximum price paid by US federal agencies such as the Veterans Administration and the Department of Defence, and the Ontario Drug Benefit Plan price, for the most popular strength of each medication. The FSS price is shown in Canadian dollars, using an exchange rate of C\$1=US\$0.75. Evidently, the exchange rate will be important, and the lower the value of the Canadian dollar, the lower Canadian drug prices will seem in comparison. (I used the approximate exchange at the time Speaker Hastert was complaining about unfairly low Canadian prices.)

The fourth column of the table shows the amount spent in Canada on each drug in the first 6 months of 2003, according to IMS HEALTH Canada data drawn from pharmacies and hospitals. The IMS data is constructed by a survey and is the most widely used source of information on pharmaceutical expenditures. The last column shows how much

would have been spent on the same drug in Canada, assuming the same total consumption but using FSS prices instead of Ontario prices. As the totals at the bottom of the table show, using US prices, total expenditures for this weighted set of drugs would have been about 2.5% higher in the US than Canada. (In addition, it should be recognized that the FSS price represents an upper bound on government prices in the US.) In other words, US government prices are very similar to the prices charged in Canada, where the largest customer is the government. Essentially, the average price charged to the government in both countries is very close.

This result may be surprising to some readers, given the huge price differentials reported in the press between US and Canadian drug prices. However, a striking observation about drug prices in the US is that they are highest for uninsured consumers; insured consumers tend to pay less, while the government, a very large buyer, pays least of all.⁽²⁾ The fact that the uninsured are the ones facing the highest drug prices is ironic given that the uninsured consumers tend to be relatively poor. In Canada, prices tend to be almost the same across the country and whether buyers are insured or not. The government's share of purchases is very large and in effect, everyone in Canada obtains the government rate.

The large price discrepancies that have thus been reported as existing between Canada and the US thus exist also inside the US itself, and it appears that the US government is guilty of exactly the same hard negotiating as the Canadian federal and provincial governments. Speaker Hastert and Mayor Bloomberg, as quoted above, appear to believe that Canadians are getting unreasonably low prices.¹ However, if they believe this is so, then perhaps they should begin by looking at drug prices in the US, where the government and large corporations appear to get the same low prices. They might also wish to think about the issue of whether uninsured Americans should be "forced to subsidize health care" for those with insurance.

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- (1) Commission on the Future of Health Care in Canada, *Building on Values: The Future of Health Care in Canada - Final Report (Romanow Report)*. Ottawa, 2002.
- (2) Danzon, P., Making sense of drug prices. *Regulation* 23(1): 56-63, 2000.

¹In fact, the US 2003 Medicare Bill explicitly disallows the federal government from using its negotiating power for purchases for Medicare, an outcome somewhat at odds with the pricing mechanisms used for agencies with FSS pricing.

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John Mack
 VirSci Corporation
www.virsci.com
 PO Box 760
 Newtown, PA 18940
 215-504-4164, 215-504-5739 FAX
<mailto:editor@pharmamarketingnews.com>

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