

In the Name of Research: Raising Drug Prices Here and Abroad

**David Rogers Health Policy Colloquium
Cornell University Medical College 15 Dec 2004**

Donald W. Light, Ph.D.

**Professor of Comparative Health Care Systems
University of Medicine & Dentistry of New Jersey**

**Fellow, Center for Bioethics and Leonard Davis Institute for Health
Economics, University of Pennsylvania**

**Member, George Bush's Presidential Business Commission
Member, National Republican Business Advisory Council**

Most documentation at http://bioethics.net/journal/infocus/pdf/4_1_InFocus_Light.pdf

These Slides at <http://bioethics.upenn.edu/faculty/index.php?profile=13>

**The Pharmaceutical Industry
provides invaluable medicines that
relieve pain, save lives, and cure
patients**

- **Thousands of dedicated and talented employees**
- **But executive leaders and their agents mislead politicians and the public**
- **Run up costs to American business & impair competitiveness**

Free Trade Agreements lock in high prices for American patients, based on the myth that lower foreign prices cause higher U.S. prices.

- ❑ FTAs prohibit export to USA of lower-priced drugs**
- ❑ They delay generic price competition by 5 years or more**

Anti-free Trade Clauses for Drugs :

- **raise prices in other countries,**
- **raise the global price bar,**
- **thus raise prices in poorer countries and**
- **reduce access worldwide**

Anti-free Trade Clauses for Drugs Harm U.S. Businesses

High drug prices:

- **Raise business costs and makes U.S. businesses less competitive**
- **Increase sick days, reduce productivity**
- **Impede reducing health disparities**

**Launched in Landmark Speech by FDA
Commissioner, Mark McClellan. He
claimed:**

- **Low drug prices abroad do not pay for R&D**
- **Americans have to pick up the tab. This is unfair and unsustainable.**
- **Low prices are “slowing the process of drug development worldwide”**
- **The US-foreign price gap is**

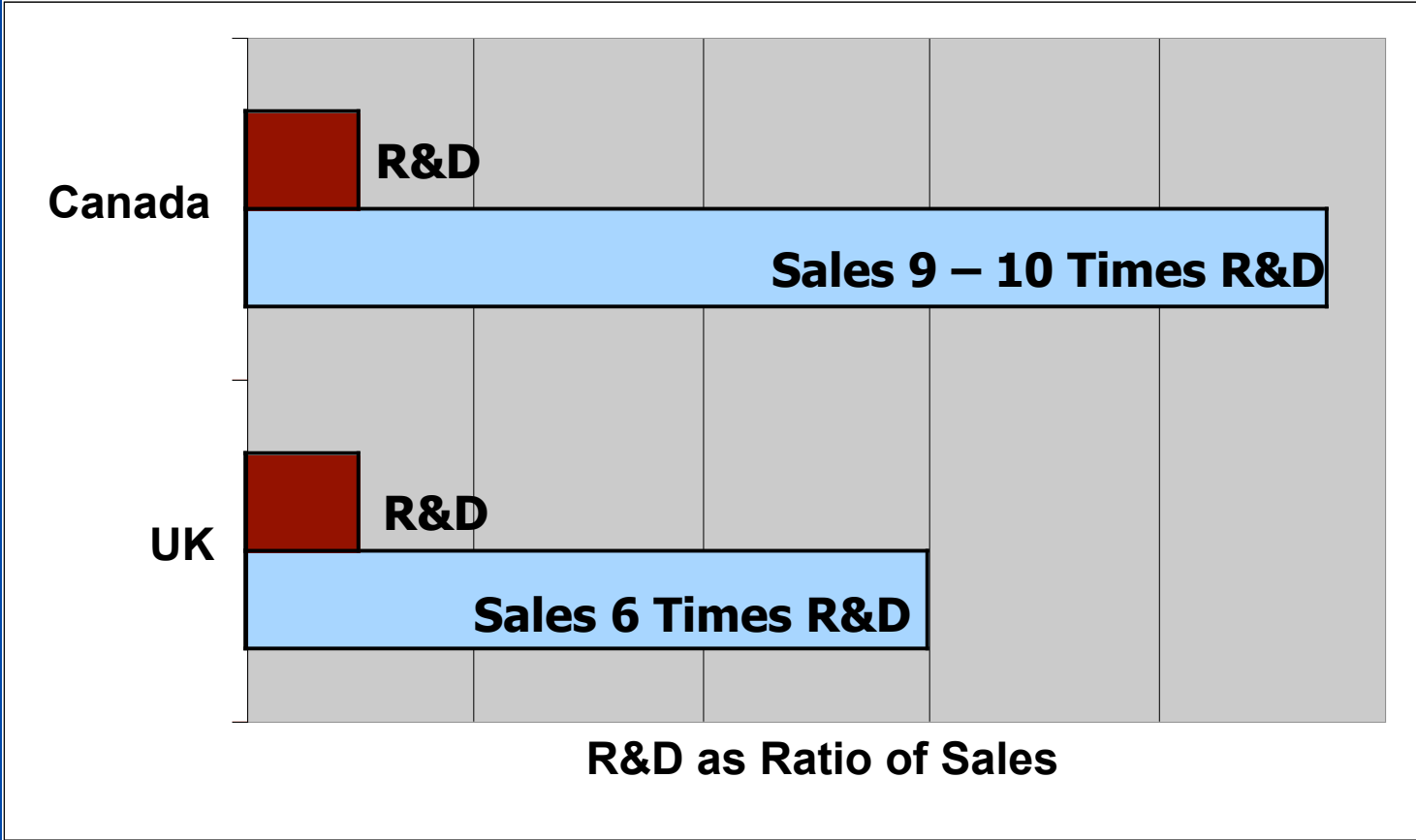
We can find no evidence that low foreign prices cause Americans to pay more for their drugs.

No evidence that other research-oriented countries are not paying their R&D costs every year just out of domestic sales at their lower prices.

There is No 'Foreign Rip-off'

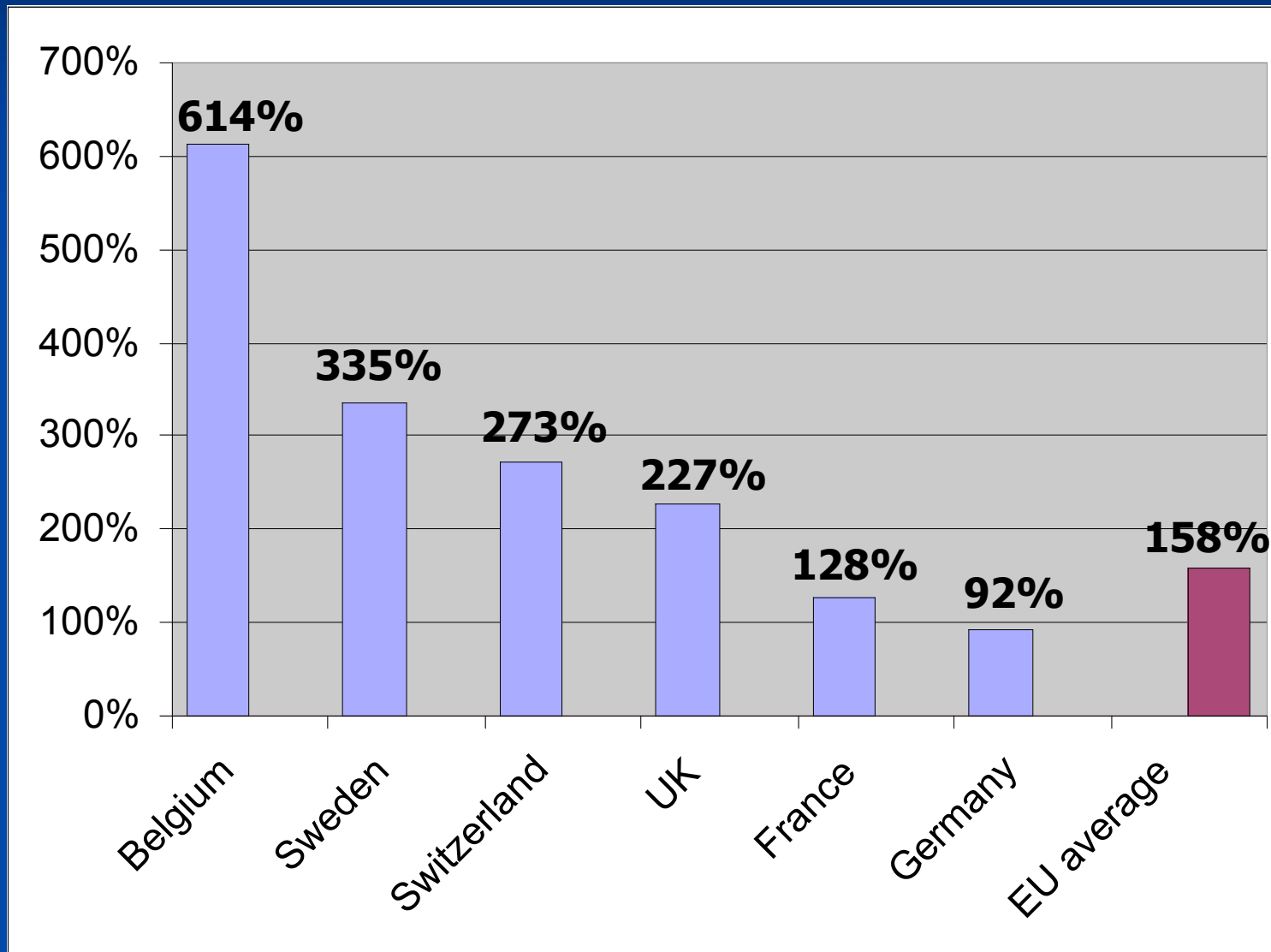
Domestic Sales Alone

Cover R&D Easily Every Year



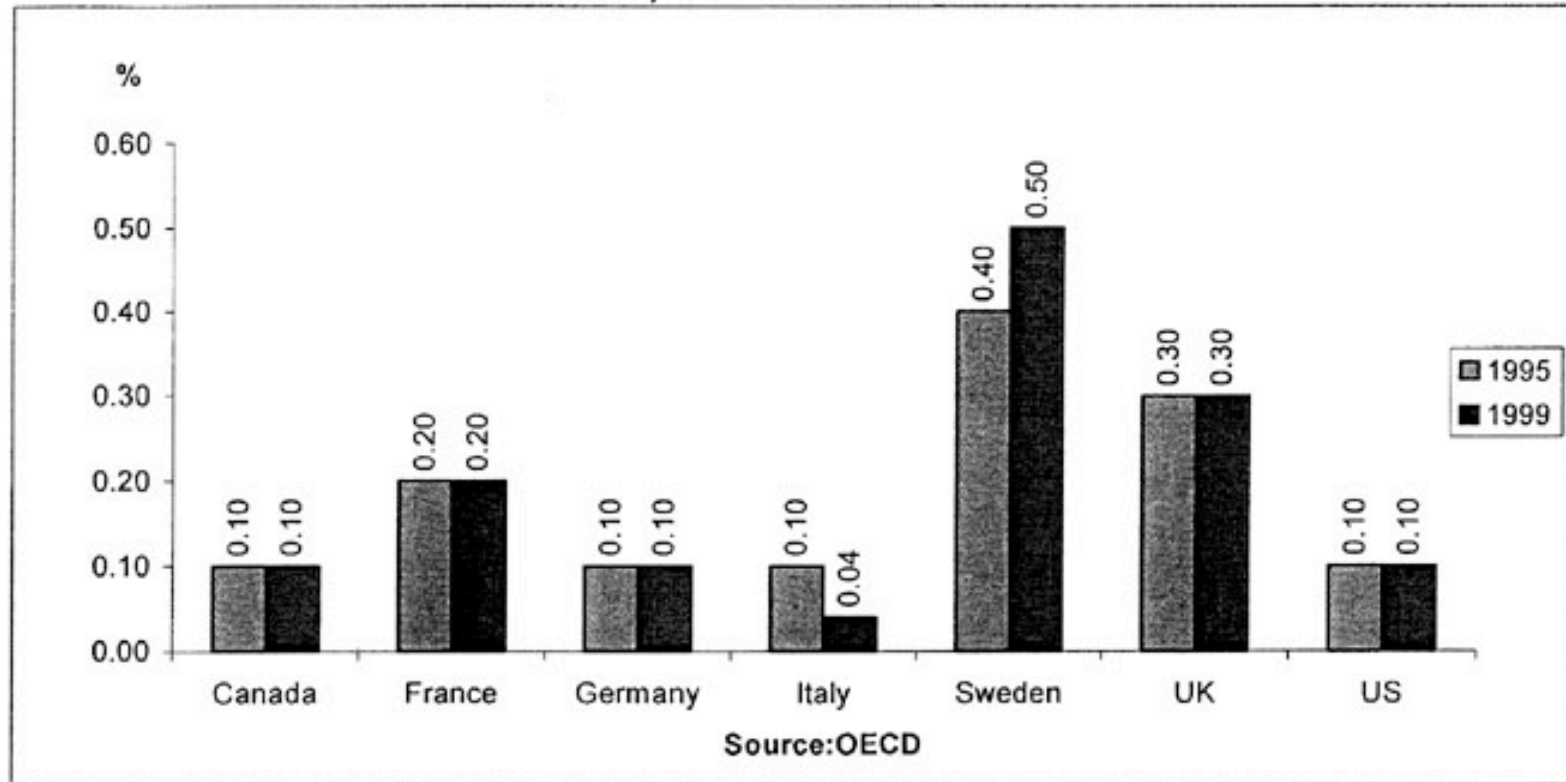
R&D Has Grown at European Prices , not Shrunk

% increase in corporate R&D, 1990-2002



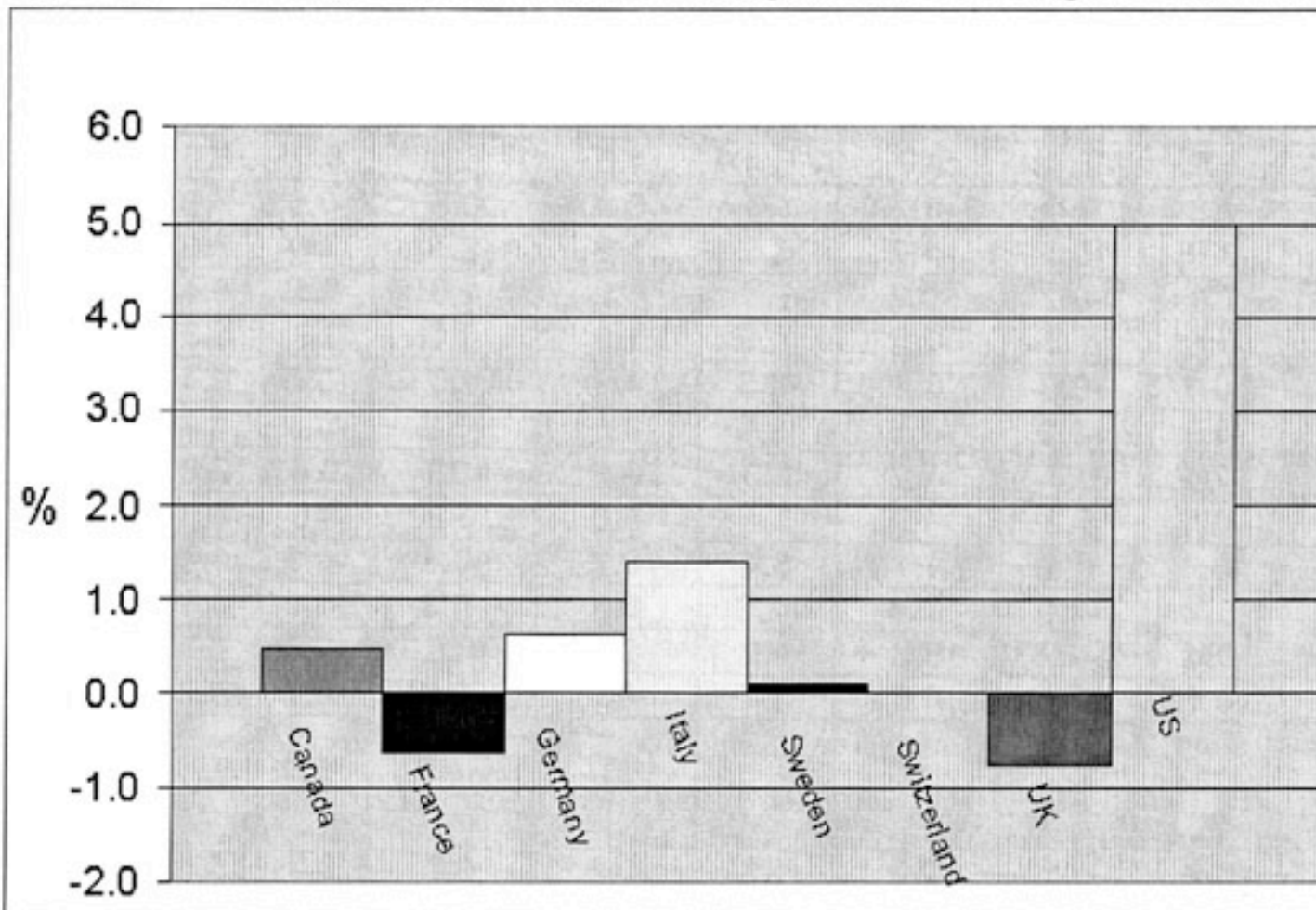
U.S. R&D not especially large % of GDP

Figure A2.6: Ratio of Pharmaceutical R&D Spending to GDP, Canada and C7-Less-Switzerland, 1995 and 1999



PRICE GAP DUE TO INCREASING U.S. PRICES, not falling foreign prices

Figure 1: Average Annual Percent Change, Patented Drug Prices, 1996-2001



Undersecretary of Commerce, Grant Aldonas's Testimony April 27, 2004

- **“caps on prices abroad impose an implicit tax on ...new and innovative medicines...”**
- **By capping prices, “foreign governments effectively undercut the value of the patent protection.”**
- **Price caps “push prices below what producers understand as fair market prices.”**

Response to Aldonas

- **Patents do not guarantee prices, only the right to attempt to sell without another version of an invention competing.**
- **“Caps” or “price controls” are misnomers for negotiated whole discount prices and value pricing. - No implicit tax or undercut value.**
- **What does “fair market value” mean in a market of patented products and prices set by the company or negotiated with large buyers?**

The New Doublespeak Lexicon

“Free market pricing” = Monopoly pricing free of normal price competition.

“Reference pricing” = Pricing according to added benefit or value. Value pricing.

“Innovative drugs” = Any new drug, 85% of which are no better for patients.

“Mandatory rebate on free priced drugs” = Rebates on monopoly prices. What all states do with Medicaid.

“Reimportation” = Global free trade made to sound like an unnatural act.

Congressman Charlie Norwood (R, Ga.)

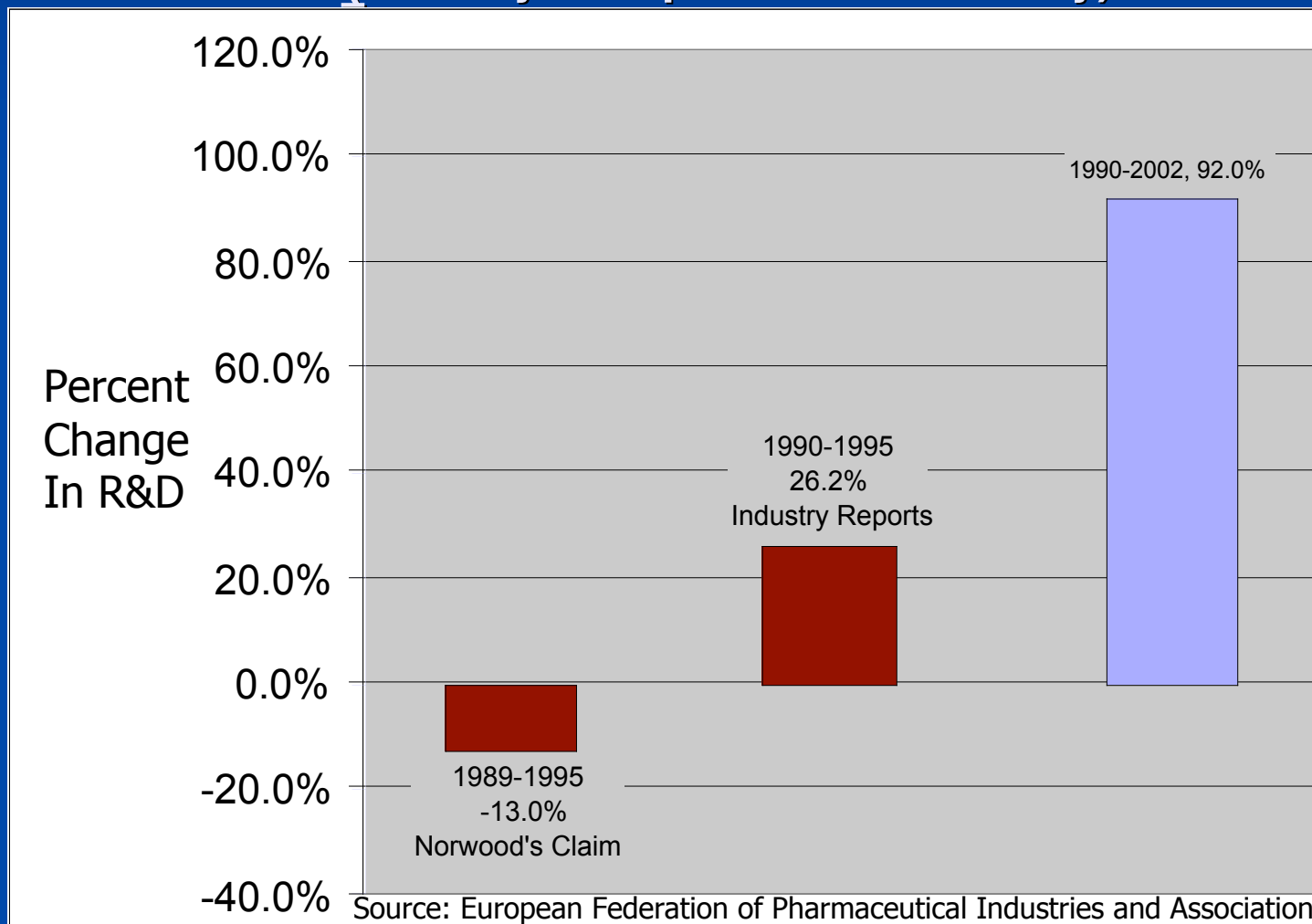
June 17, 2004 letter

- Lower European prices are no bargain, because they damage pharma R&D
- German R&D, he claims, declined 13% fr 1989-95
- But the industry's own data show it rose
26.1%, 1990-95, and
92.0%, 1990-2002!

Lower Drug Costs in Germany Have Not Decreased R&D

Cong. Norwood vs. Industry Data

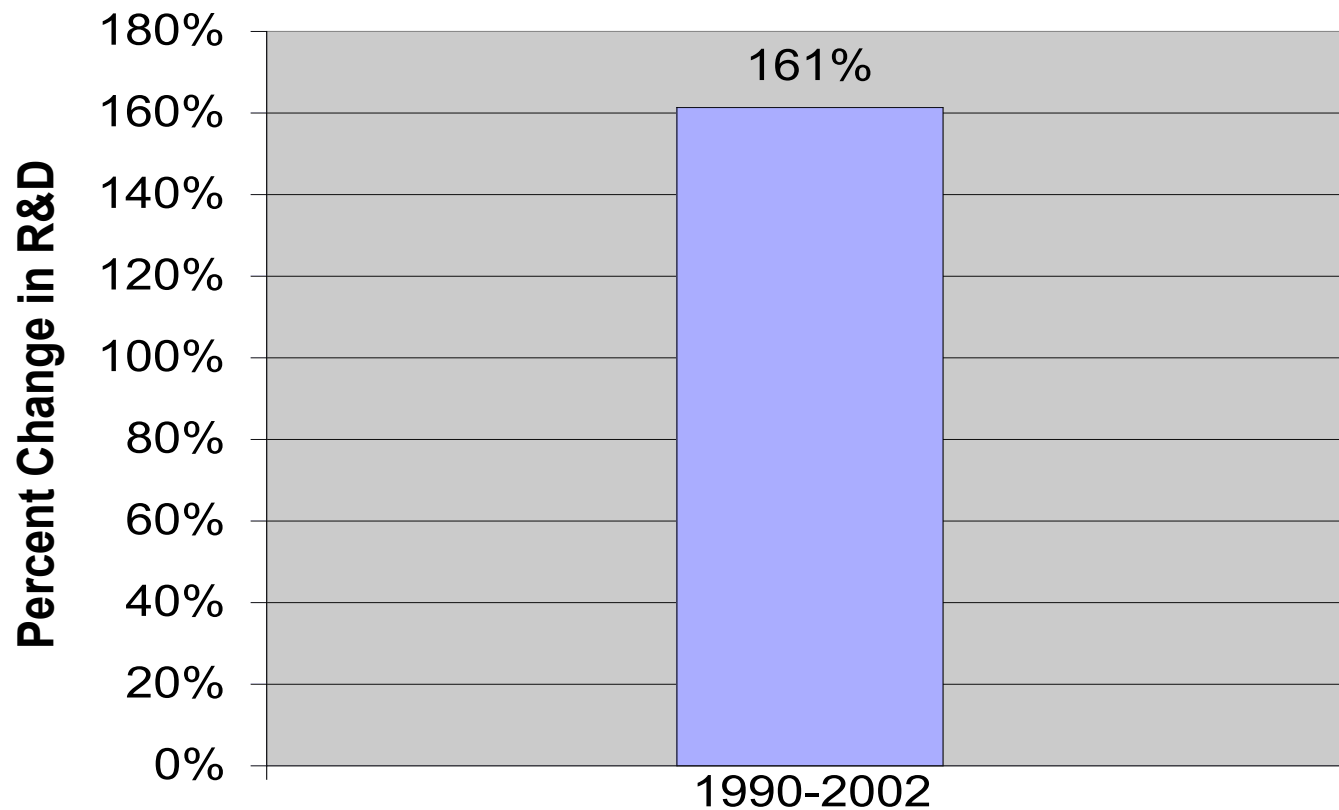
(R&D by Companies in Germany)



Cong. Norwood on Spain:

“The innovative pharmaceutical industry is irreparable [sic] damaged.”

But industry R&D has risen 161% in Spain since 1990, at an increasing rate.



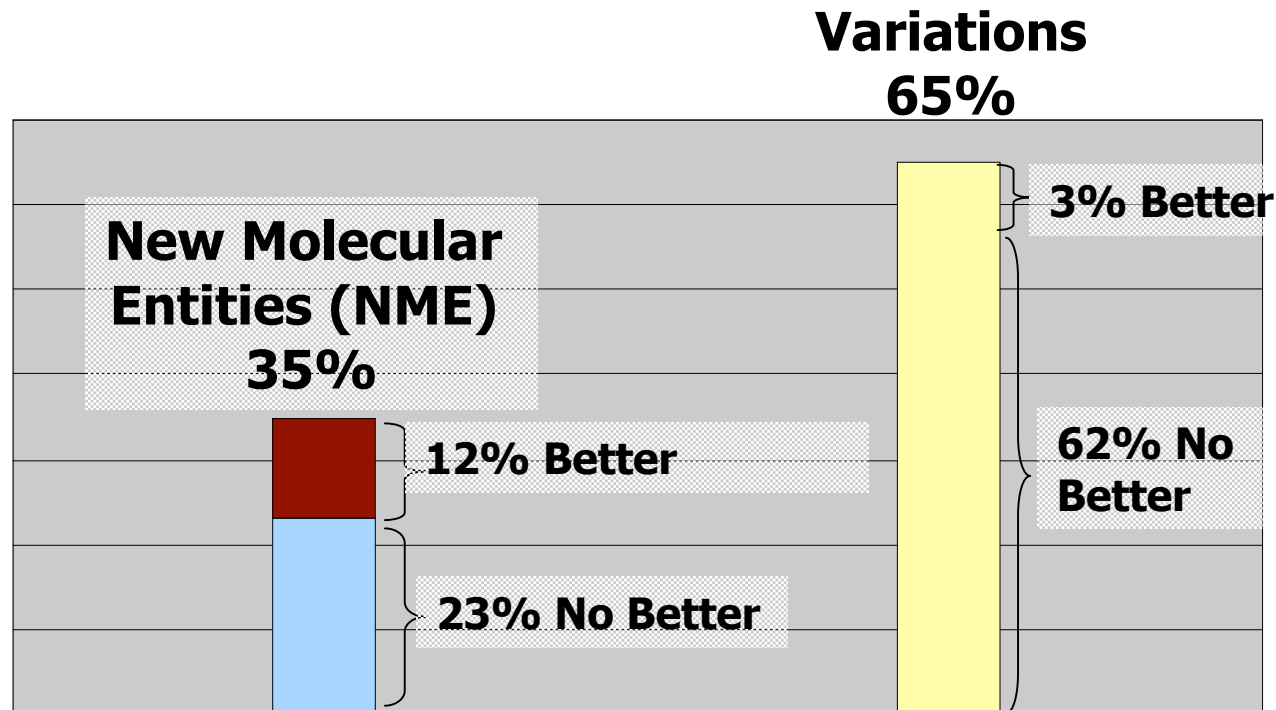
Basic Facts Congressman Norwood Ignores

Most “innovation” and most “innovative drugs” are derivatives and offer no new benefit to patients.

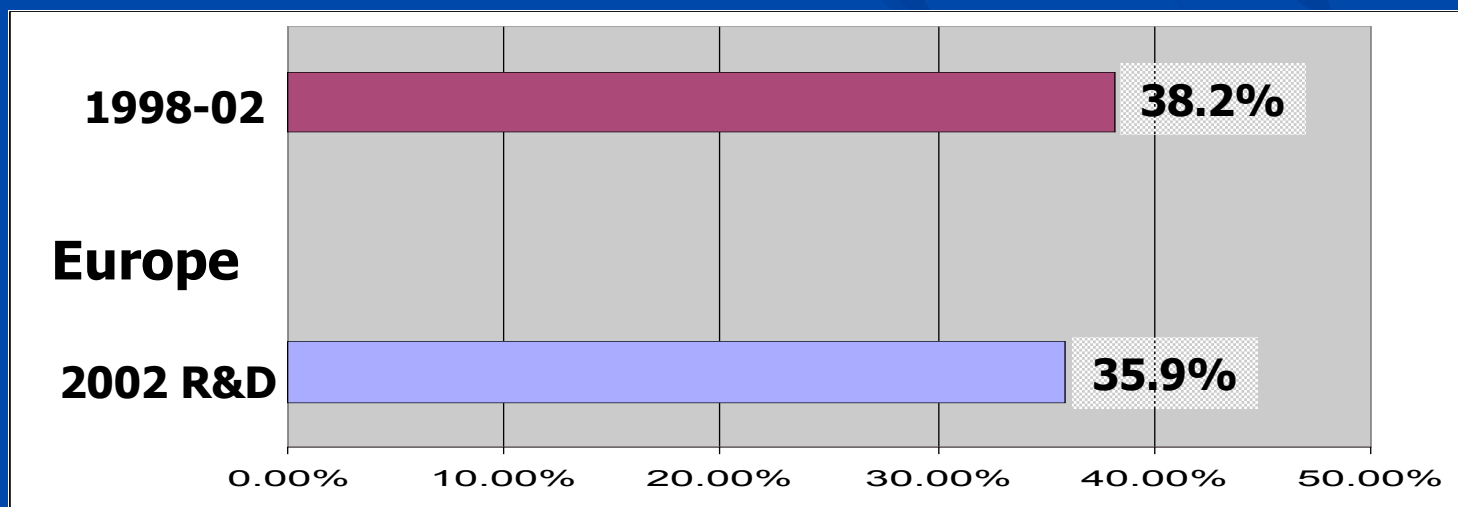
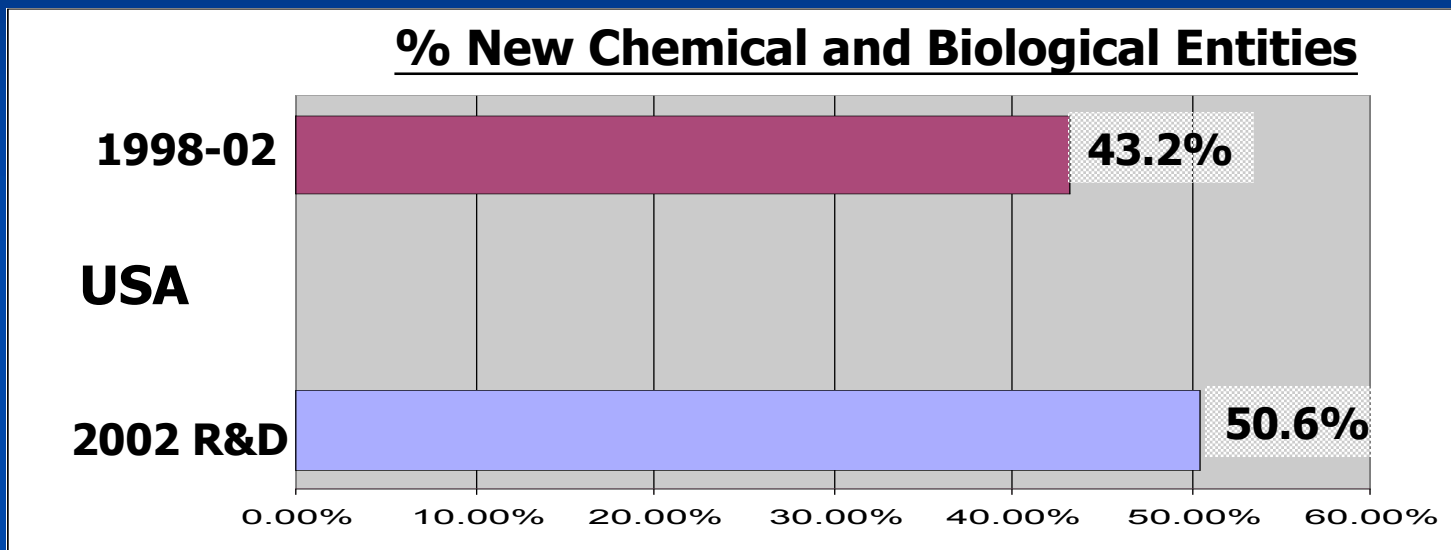
Current government incentives reward me-too research, not basic research.

Raising prices is an inefficient way to increase funds for basic research.

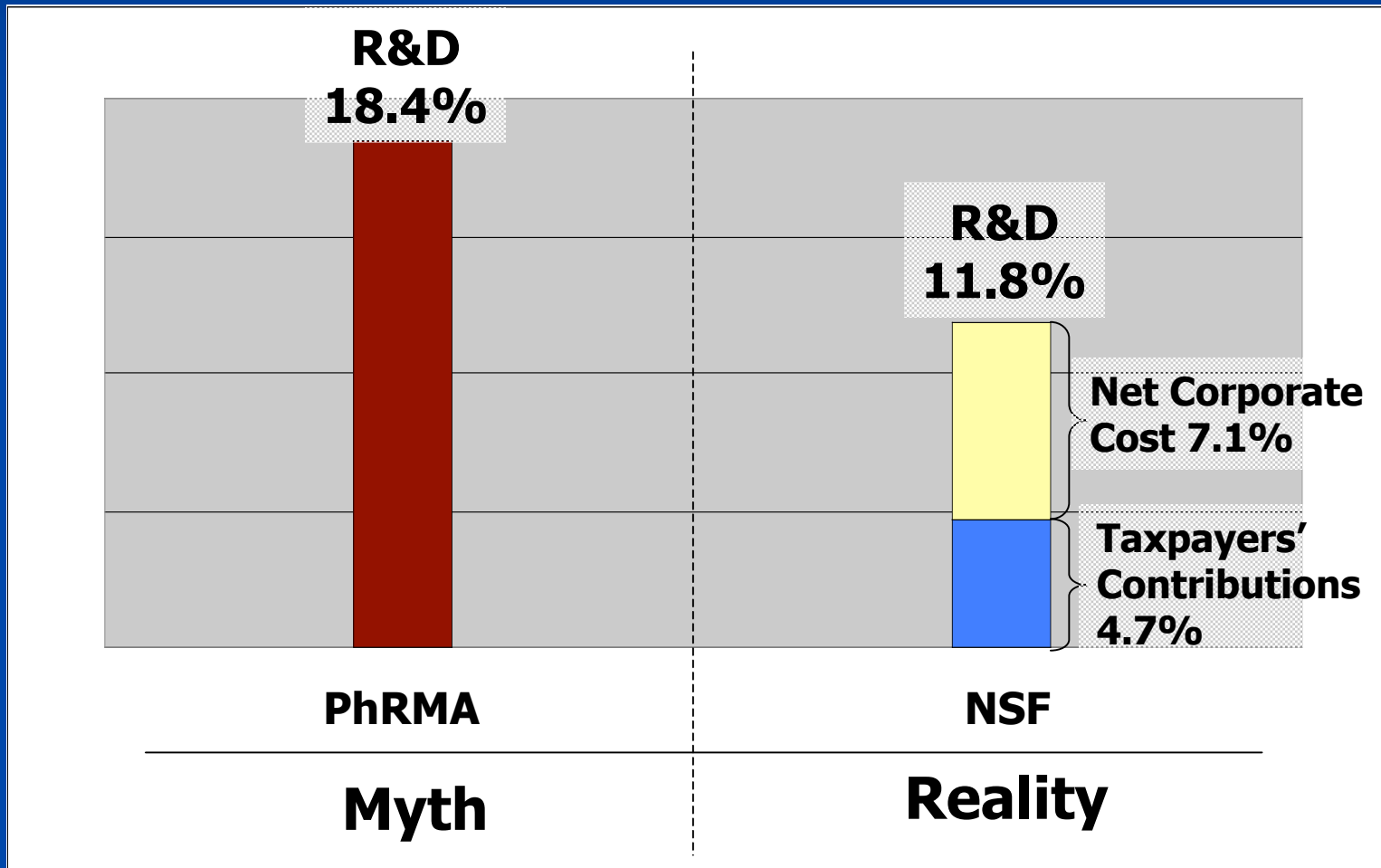
Current Incentives Reward Pseudo-Innovation: 15% or fewer new drugs are better than existing drugs



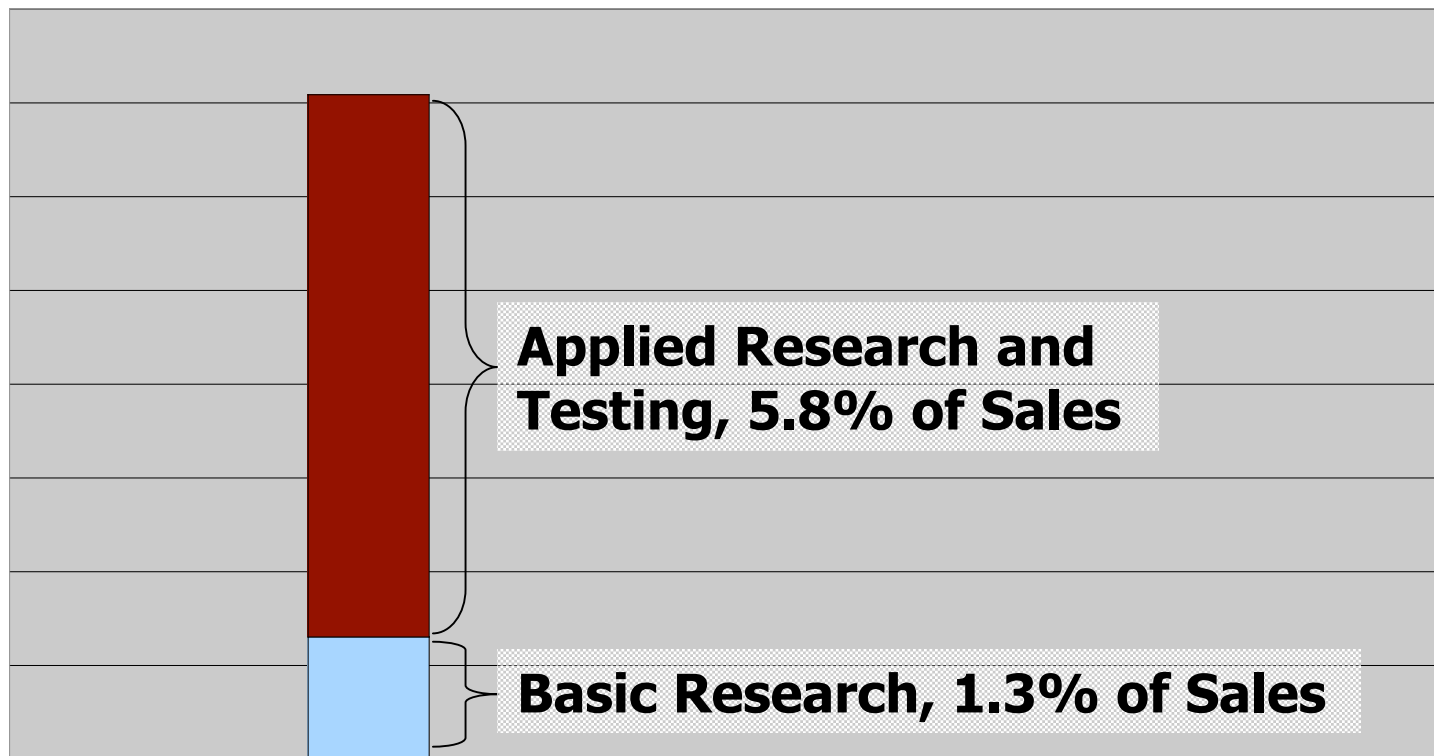
USA Less Innovative than Europe in proportion to R&D investment (% global totals)



U.S. Drug Companies Budget only 7.1% of Sales, Net to R&D



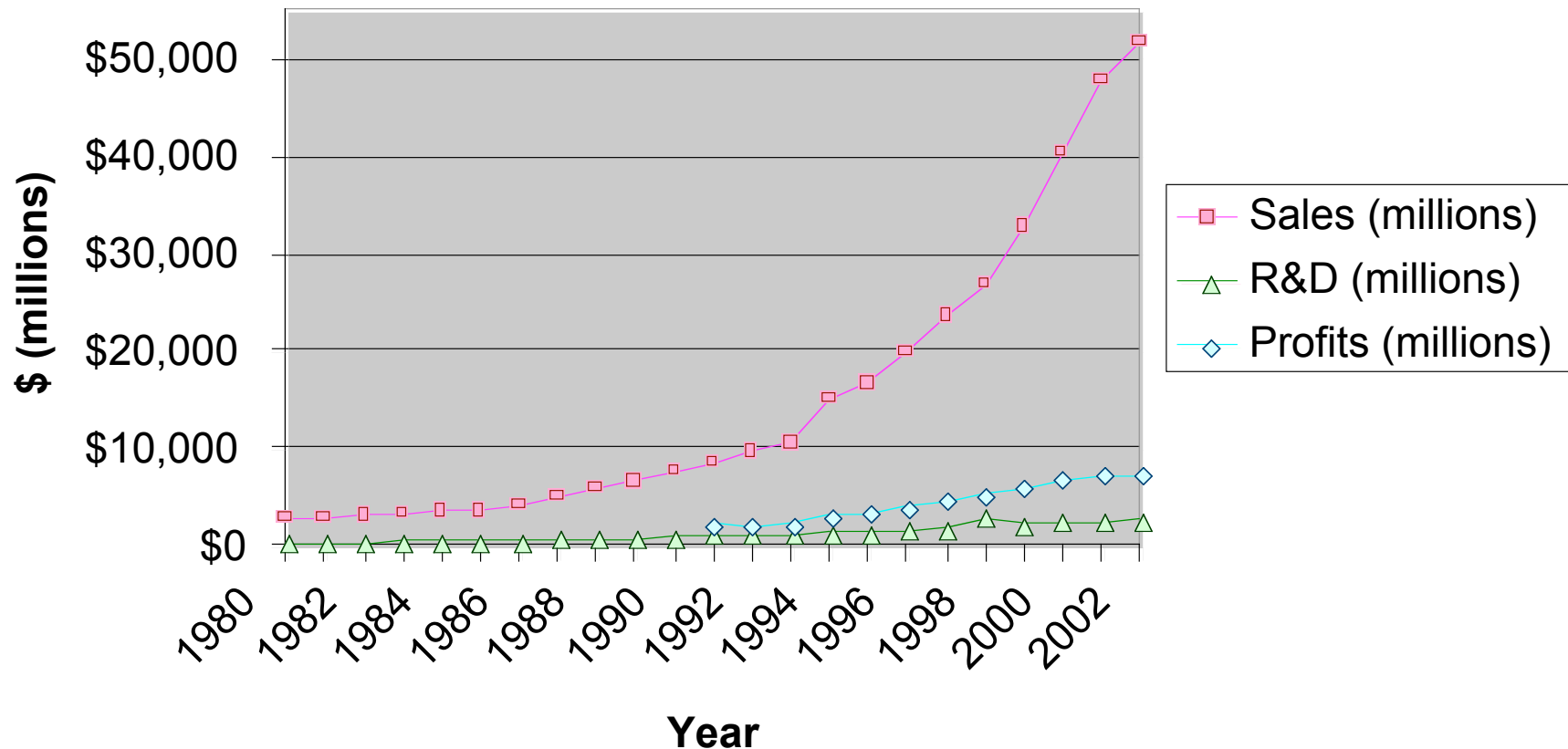
Of the 7.1% net for R&D, less than 1.5 cents per dollar sales goes to Basic Research for Breakthrough Drugs.



**Net R&D Budget
(7.1% of sales)**

Merck: Soaring Sales Did Not Go to R&D

Merck Sales, Profits, and R&D (\$millions)



Merck's R&D as Percent of Sales and Profits

Year	Sales	R&D	Profits	R&D as % of Sales	R&D as % of Profits
	(\$ millions)				
1980	\$2,734	\$234	\$415	8.6%	56.4%
1985	\$3,547	\$426	\$540	12.0%	78.9%
1990	\$7,672	\$854	\$1,781	11.1%	48.0%
1995	\$16,681	\$1,331	\$3,335	8.0%	39.9%
2000	\$40,363	\$2,343	\$6,822	5.8%	34.3%
2002	\$51,790	\$2,677	\$7,149	5.2%	37.4%

Free-Riding on Taxpayers.

Pharma provides only 7.5% of worldwide funds for Basic Research Funds

Global R&D Funds for New Drugs			
U.S. 1998 dollars			
	Total ¹	Research Funds For Breakthrough Drugs	Percent Research Funds by Source
Governmental & Public Programs	\$37.0 billion	\$ 33.0 billion ⁴	75.2%
Foundation & non-profit sources	\$ 6.0 billion	\$ 5.4 billion ⁴	12.3%
Pharmaceutical & Biotech Corporations:			
Gross Reported ²	\$30.5 billion		
Taxpayers' Subsidies ³	\$12.2 billion	\$ 2.2 billion ⁵	5.0%
Net Corporate Funds	\$18.3 billion	\$ 3.3 billion ^{5,6}	7.5%
Total Funds	\$73.5 billion	\$ 43.9 billion	100%
Notes:			
<p>1. Based on 1998 data collected by the Global Forum (2001). PhRMA's Industry Profile reported \$20.9 billion, not \$30.5 billion.</p> <p>2. Unverified and believed by reviewers to include substantial costs for market positioning, marketing, executive and management costs, legal and lobbying costs for defending and promoting patent protection from price competition.</p> <p>3. Based on 40% average for tax deductions and credits. May be low.</p> <p>4. Based on 90% for basic research. The rest for development and trials.</p> <p>5. Based on NSF data showing 18% of pharmaceutical R&D used for basic research.</p> <p>6. Net corporate R&D contributions equaled 1.8% of sales.</p>			

Costs of R&D Much Lower Than Believed

\$802 million estimate based on self-originated NMEs

- **Applies to only 21.8% newly approved drugs**
- **Cost 3.7 times more than other NMEs**
- **Half the total is built-in theoretical profits**

- **Taxpayer contributions not acknowledged**
- **No basis given for costs of basic research and discovery estimates**

- **Trial sizes larger, trials longer and discount rate larger than other evidence and studies**

Average R&D for all new drugs less than \$100 million

Pharma Clauses in FTAs:

- lock in high prices for Americans**
- make U.S. businesses less competitive and productive**
- delay normal price competition by years**
- raise prices & reduce access of drugs for patients abroad**
- provide windfall profits for drug companies**