PHARMOPOLY

THE CAMPAIGN FOR SAFE, FREE AND FAIR TRADE IN DRUGS ACROSS BORDERS.

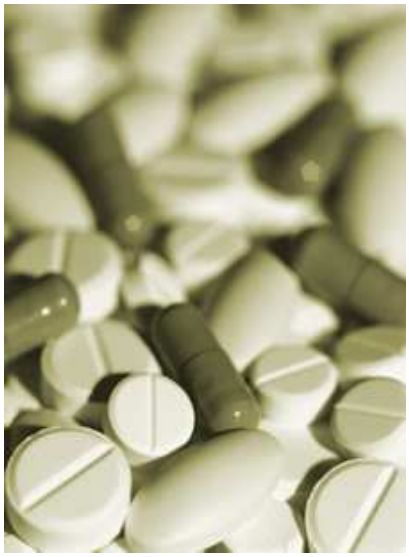
CRITICAL COMMENTARY ON PHARMA & POLITICS: MARCH 2005 #2

Global Growth's Pharmopoly campaign has three objectives; firstly to promote the tariff-free trading of drugs in the developing world, secondly defend the re-importation and parallel trading of pharmaceuticals across borders, thirdly, to lobby European legislators for patient-friendly duration limits on government granted patent monopolies which will reduce the long-term costs of drugs for patients.

PFIZER INSIDER : PROTECTING PROFIT IS THE SOLE REASON PHARMA INDUSTRY OPPOSES FREE TRADE

PAUL STAINES

Dr Peter Rost has spent 20 years in the pharmaceutical industry. On February 16, 2005, he testified before the U.S. senate committee on health, education, labour and pensions, in support of the importation of cheaper drugs from other countries, in particular from Europe.



Nothing surprising about a doctor testifying against the high prices charged by the drug industry you might think, except Dr Rost is currently a Vice-President for Marketing with the pharmaceutical giant, Pfizer Inc. Not an easy position to be in, he has faced an onslaught from the firm's lawyers since he first spoke out last year. His high profile and the backing of from several members of the U.S. congress has meant Pfizer dare not fire him for speaking out as a private citizen. Rost believes that he cannot be fired for his comments because they are made on his own time and are protected in New York, where Pfizer is based, and in New Jersey, where he lives, under laws prohibiting employment discrimination based on political beliefs. Rost says *"I joined this industry to save lives, not to take them. And that's the reason I've chosen to speak out."* He carefully explained to a U.S. Senate Committee[1] that the views expressed were his own and did not reflect those of Pfizer Inc. His subject was *"Drug Importation: The Realities of Safety and Security"*. At one point during his career, Rost was responsible for an entire region in Europe where he gained personal experience with parallel trade. He observed first-hand how the free market works and thinks the industry is making a huge mistake in opposing drug importation.

In fact, Rost told the committee, that there came a time when he had lots of parallel traded drugs coming into his market in Europe, and admitted, *"I was not happy about this."* However, in order to compete, Rost dropped his own prices, and by doing so, he said, "*I doubled sales and increased my company ranking from No. 19 to No. 7 in less than two years."*

A FREE MARKET IN DRUGS WILL REDUCE PROFITS

There is simply no reason to believe that a free market would not work just as well in the U.S. The only conceivable downside is that it might mean a reduction in profits for the pharmaceutical

industry. But when it comes to saving lives, why shouldn't the industry sector that is the most profitable in the world be expected to get along with a little less profits?

Bogus Excuses Over Safety

The biggest argument put forth by the industry against importation is safety. But in reality, the safety concern is manifestly bogus, mainly because the imported drugs are nearly all from the same manufacturers who already provide drugs to suppliers.

According to Rost, half of the large drug companies, including Roche, GSK, Novartis, Astra-Zeneca, and Sanofi-Aventis, are non-U.S. corporations anyway. He maintains that these foreign drug makers charge more in the U.S. than they charge in their own domestic markets and this is the reason why they fight against re-importation.

"So what do these foreign companies do?" he said, *"They take out big ads in American newspapers, and tell us that re-importation is not safe,"* he told the committee, "*while they know full well that it's been done safely and cost-effectively in their own home markets, in Europe, for over twenty years."*

While testifying, Rost responded to an absurd comment about safety made by FDA Commissioner, Lester Crawford, who said that his main concern about drug importation was that al Qaeda might attack the Canadian drug supply.

This fear is totally irrational because according to Rost, *"we have thousands of secondary wholesalers that trade drugs. States license them, not the FDA,"* he said. Therefore, he explained, *"All it takes for a terrorist to become a drug wholesaler is a $1,000 and a driver's license, according to Aaron Graham, head of security for Purdue Pharma, quoted in the Providence Journal."*

Rost believes drugs coming from other countries may actually be safer than those made in the U.S. A problem in this country, Rost advised, *"is that our drugs are shipped in big vats to wholesalers, and then poured into smaller, bulk-size containers, from which tablets are dispensed manually to the patient,"* which means there are lots of entry points for a terrorist. In Europe, Rost explained, *"drugs are sold in tamper-proof individual bottles or blisters, and no one touches a drug after it leaves the manufacturer."*

He told the committee, *"The German Federal Health Ministry has verified that not one single confirmed case of a counterfeit medicine has ever come through the parallel trade chain,"* and that *"The UK regulatory authority has described the level of pharmaceutical counterfeiting as "virtually undetectable."*

Rost believes re-importation is about a safe drug supply and getting drugs to consumers who can't afford them. *The "biggest problem we have today is that drugs don't work if you don't take them,"* he warned.

False Assertion - Importation Won't Save Money

During his testimony, Rost told the committee about a 2001 study conducted by the Kaiser Family Foundation that determined that 15% of uninsured children and 28% of uninsured adults had gone without prescription medication because of cost, and cited the journal, Diabetes Care in February, 2004, that reported on a study of older adults with diabetes that found 28% went without food to pay for their medication.

Rost discussed the recently released HHS report that claimed that savings from re-importation would ultimately only represent a 1% to 2% savings on drug costs, and explained *"that if this was true, re-importation of drugs would never have existed in Europe with much smaller price differentials than the US, and it would never take off in the US,"* he said.

Dr. Peter Rost gives evidence

Rost also pointed out that if this were true, the industry would not be working so hard to block it. "*Why, then, do you think, the drug industry spends so much time and money fighting re-importation?*" he asked, *"The answer is that the data in the HHS report don't support this conclusion,"* he advised.

Rost thought it important to explain to the committee that this false conclusion was based on a now discredited London School of Economics study that was sponsored by the drug industry[2].

While testifying, Rost referred to Table 7.2 in the HHS report that showed US drug prices to be 100% higher than in Europe, and said, *"So the premise of less than 20% savings assumes price gouging by importers and a complete lack of competition,"* and added, *"Of course, we in the industry know that is not how the free market works."*

Politicians Put Profits Over Lives

According to Rost, we have 67 million Americans without insurance for prescription drugs in the US. *"Many of them don't get the drugs they need because they can't afford them, because drugs cost twice as much in the US as in other countries,"* he said.

Drug prices in Canada are significantly lower than in America because, unlike the U.S., the Canadian government negotiates for cheaper prices directly with drug companies. With the exception of a few agencies, the administration will not allow the government to negotiate here, which leads to unequal and unfair drug costs for ordinary citizens.

For instance, Rost told the senate committee that in the U.S., drug companies charge high prices to the uninsured, but through rebates, sell the rest of the drugs at the same low prices charged in other countries. *"These are given to those with enough power to negotiate drug prices,"* Rost claims, *"such as the Department of Veterans Affairs and various pharmacy benefit mangers."*

Technically, it is illegal to import prescription drugs into the U.S. from other countries, but the government has never before enforced the regulation when the drugs were imported specifically for individual use. However, Bush is banding together with the major drug companies to do it now.

Canada Under Pressure despite NAFTA

In fact, many believe that Bush is behind the threat by Canada to ban importation to the U.S.. *"Canadian Health Minister Ujjal Dosanjh could issue new rules that would virtually halt drug exports. He would do so by forbidding doctors there from signing off on US prescriptions unless they actually examined the patients first. He said in a speech that Canada could just not be the drugstore for the United States," said Dosanjh's spokeswoman, Adele Blanchard. The minister said it could lead to shortages [for Canadians]. He also said it is unethical for Canadian doctors to just countersign prescriptions from an American doctor."*

Canadian pharmacies now supply drugs to about 1.8 million Americans, mostly uninsured elderly or low-income people, according to David MacKay, executive director of the Canadian International Pharmacy Association, when he testified before the Canadian Parliament.

However, besides worries over the threats by the Health Minister, Canadian pharmacies are being pressured to stop importing drugs to Americans, by manufacturers who sent out letters warning of plans to stop the shipment of products to wholesalers who sell to the pharmacies, according to MacKay. As a result, some common drugs such as the cholesterol drug, Lipitor, are not always available for American buyers, MacKay reports.

Americans who buy drugs from Canada resent Bush and the drug industry for allowing drug prices to remain high in the U.S. while trying to keep out cheaper drugs from the north.

Abraham Kaplan, who is a Canadian drug consumer says, *"I don't think the U.S. should be in the position of protecting the obscene profits of these big manufacturers."*

It remains to be seen what will happen with Bush in the U.S., should the Canadian Health Minister, Dosanjh, act to ban or limit U.S. sales, MacKay says the Canadian International Pharmacy Association would likely fight him in court.

Free Trade and Open Markets Save Lives

Just in case the plot to block supplies is successful, some Canadian suppliers have already arranged to keep selling to the U.S., with the overseas drugs, said Steve Fishman, manager of Prescriptions Direct in Hallandale, *"Eighty percent of Canada will get shut down if the minister goes forward. The other 20 percent will find alternative sources to do the same thing that their pharmacies do now,"* Fishman said.

Rost maintains that *"the fight against re-importation is a fight to continue to charge our uninsured, our elderly, our poor, our weakest, full price, while giving everyone else a rebate, is fundamentally unethical."*

Rost advised the committee that every day, *"Americans die because they can't afford life-saving drugs, because we want to protect the profits of foreign corporations. I believe we have to speak out for the people who can't afford drugs, in favor of free trade and against a closed market ..."* Blocking re-importation has a high cost, Rost warned, *"Not just in money, but in American lives."*

What Big Pharma's Lobbyists told the Senate

Stephen Pollard, Centre for the New Europe, testifies

Stephen Pollard, who put the case for Big Pharma's interests to senators in Washington last month, testified that Europe suffers from price controls and parallel trade. Pollard argued in his testimony that *"the health authorities can use their monopsonistic power to negotiate lower prices"* from the holders of pharmaceutical patent monopolies. He divided the E.U. into two categories. The first category includes Austria, Belgium, Denmark, Finland, France, Luxemburg, Spain, Sweden, and – in part – Germany. Here, prices are negotiated between pharmaceutical companies and the health authorities to reflect production costs and allow for a certain margin of profit. The second category includes those countries where prices are negotiated by reference to the price of the same product in neighbouring countries. These countries are: Greece, Holland, Ireland, Portugal, and – in part – Italy. In most cases, average prices are he claimed based on controlled prices, and so there may be a further downward pressure. The British NHS has he said a different system based on using its buying power to get lower prices but high enough to give the pharmaceutical industry a 21% profit margin.

In no country did he cite price controls in the sense of legally enforced limits or price ceilings. In truth in Britain for example, pharmaceutical suppliers are able to charge any price that the market will bear. The NHS, the biggest customer for pharmaceutical suppliers, however refuses to pay beyond what it considers a fair price. There are therefore in fact no price controls and this is also the case across other European countries.

What Price Controls?

This can not be emphasised often enough, Europe does not have price controls, it has big customers who, like the U.S. Veterans Administration, obtain volume discounts from the pharmaceutical suppliers and negotiate lower prices. Prices which are still high enough to permit the pharmaceutical industry to make average profits four times greater than the Fortune 500 average.

Pollard's case against price controls, which do not actually exist, makes no sense. Buyers negotiate with sellers in the market-place every day. Big customers get big discounts; the U.S. army can buy Humvee vehicles cheaper than retail customers because they are the biggest buyers of military vehicles in the world, Wal-Mart pays low prices for coffee because it is the biggest retailer of coffee in the world and Britain's NHS negotiates keen drug prices because it buys nearly $20 billion of pharmaceuticals every year.

"American concern with European 'free riding' on investment in R&D is understandable, and justified. European governments are, in effect, shifting the cost burden of research from Europe to the US." Pollard's concern is misplaced, because according to the OECD, the U.S. spends only 0.1% of GDP on pharma R&D, equal to Germany and Canada. The U.K. spends 0.3% and Sweden 0.5%, even France spends proportionately more at 0.2%. These figures have been near constant since 1995. Both the U.K. and Sweden have open markets for pharmaceuticals, actively encourage parallel trade and still proportionately outspend the U.S.

Pollard's cites Germany, where he says *"investment in pharmaceutical research has been declining. … Price control has limited the profitability of European pharmaceutical companies in their home markets, and has crippled their willingness and ability to spend on development of new products."*[3] An assertion contradicted by industry data showing[4] a 92% increase in R&D spending in Germany in the 1990s.

Pollard concludes that *"The fate of the pharmaceutical industry would be irrelevant to my concerns but for one thing. It is R&D which saves lives, and innovation which transforms the quality of life of patients across the globe."* Life expectancy in the E.U. is actually higher than in the U.S. and R&D spending is proportionately higher in Britain, France, Italy and Sweden. But Big Pharma's spending on lobbyists is, as the concerned Mr Pollard knows, greatest in Washington.

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1 Stephen Pollard, testimony, http://help.senate.gov/testimony/t194_tes.html

2 "Parallel trade strikes at industry's ability to invest in search for new medicines" press release, January 22, 2004, The Association of the British Pharmaceutical Industry

3 Stephen Pollard, testimony, page 9

4 Source: European Federation of Pharmaceutical Industries and Association