

No, raising drug prices in Canada will not help the U.S.

May 18 2018, by Joel Lexchin

Donald Trump's solution to [soaring American drug prices](#) is to have other countries, such as Canada, raise their prices. This is not a new position; [American officials have been advocating this approach](#) for at least the past 15 years.

The call for Canada to increase [prices](#) just reinforces a recent [report from the Office of the United States Trade Representative](#). This castigated Canada's attempt to rein in [drug](#) costs by tightening up our rules for how much [drug companies](#) can charge.

The bizarre logic behind the U.S. proposal is that Canada, and other countries that regulate [drug prices](#), have been "freeloading" off high prices in the United States.

Because Canada keeps the price of brand-name drugs lower than those in the U.S., drug companies are supposedly "forced" to charge Americans high prices—to generate the profits necessary to pay for research and development (R&D) to produce new life-saving medicines.

Raising Canadian drug prices is not going to lower those in the U.S. But it may put more money into the pockets of the most profitable drug companies.

Rewarding Big Pharma

In 2016, Big Pharma companies had profits of over 25 per cent and biotech companies were not far behind at 24.6 per cent.

Most of this money does not go into researching new drugs.

In 2015, out of the top 100 pharmaceutical companies by sales, 64 spent twice as much on marketing and sales as on research and development. Fifty-eight spent three times as much, 43 spent five times as much and 27 spent 10 times the amount.

Only 8.3 per cent of their revenue went into developing new drugs.

Besides marketing and sales, more money goes into paying out dividends and buying back corporate stock than is spent on R&D. Between 2006 and 2015, the 18 U.S.-based companies listed in the S&P 500 Index spent US\$465 billion on R&D but US\$261 billion on stock buybacks and paid out US\$255 billion in dividends.

Incentivizing these buybacks is stock-based compensation that rewards senior executives for stock-price "performance."

Buybacks automatically increase earnings per share because there are fewer shares. This in turn leads to an increase in demand for shares and higher share prices, which rewards executives who receive most of their income through stock-based pay.

'Me too' drugs

When companies do produce new drugs it is not just their money that has generated these products. The National Institutes of Health invested in every one of the 210 new drugs approved by the Food and Drug Administration from 2010 to 2016.

For the 40 years since 1970, [public sector research in the U.S.](#) resulted in 153 new drugs, vaccines or new uses for existing drugs —more than half of which have been used in the treatment or prevention of cancer or infectious diseases.

Most of the drugs that companies produce are "me too" products: Drugs designed not to provide better treatment but rather to generate more profits.

Figures from the Patented Medicine Prices Review Board, a Canadian federal agency that sets the maximum price for new patented drugs, show that out of 691 new drugs introduced onto the Canadian market from 2010 to 2016 [only one in 10 were either substantial improvements or breakthroughs.](#)

NAFTA concerns

If Trump is serious about pushing this demand then we should worry, especially with NAFTA up for renegotiation.

The original 1994 version pushed Canada to [delay the entry of lower-priced generics.](#) When the U.S. was part of the Trans-Pacific Partnership (TPP) negotiations it [pushed countries to further strengthen their patent laws.](#)

Rules in the U.S. delay the entry of equivalent versions of biologics for 12 years and the U.S. tried, unsuccessfully, to get all of the other countries that were part of the TPP agreement to adopt that standard.

Already here in Canada, [eight of the top 10 drugs, as measured by cost per person treated,](#) are biologics. Five of these cost more than CDN\$10,000 per year.

We don't know what is happening with NAFTA but given its track record on drug patents it's hard to believe that this is not an issue for the U.S. In fact, in [Trump's speech on May 11, 2018](#), he promised that "the U.S. Trade Representative will prioritize addressing unfair intellectual property and market access policies in our trade agreements, so that partners contribute their fair share to innovation."

The solution for U.S. drug prices is for the American government to take on the drug companies —not to blame other countries for its unwillingness to do so.

If Canada gives in to Trump, we will be paying more for our drugs and that may lead to even further delays in launching a national pharmacare plan.

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