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Prescription Drug Prices in Canada, Europe, and Japan

**Prepared by Minority Staff
Special Investigations Division
Committee on Government Reform
U.S. House of Representatives**

The United States is unique among industrialized countries because it is the only country that fails to protect its citizens from discriminatory pricing of prescription drugs. Canada, France, Italy, Germany, Japan, and the United Kingdom all negotiate on behalf of their citizens to obtain lower prices for brand name drugs. As a result, purchasers in these countries pay significantly less for prescription drugs than uninsured senior citizens in the United States.

Drug Pricing in Canada

In Canada, the Patent Medicine Prices Review Board establishes and enforces guidelines that determine the maximum prices at which manufacturers can sell brand name drugs.¹ Under these guidelines, the introductory prices of “breakthrough” drugs must not exceed the median of the prices of the drugs in other industrialized countries. Prices of patented drugs that do not provide a significant breakthrough in treating diseases must not exceed the maximum price of other drugs that treat the same disease. Once the introductory price is established, subsequent price increases are limited to changes in the Consumer Price Index. The Canadian pricing system results in brand name drug prices that are an average of 38% lower than prices in the United States.²

Drug Pricing in France

The French pricing system allows pharmaceutical companies to sell their products at any price. However, if these companies want the national health care system to reimburse patients for the cost of the drug, the companies must agree to a lower, negotiated price. These negotiated prices and reimbursement rates paid by the healthcare system are based on the therapeutic value of the drug and the price of the drug in other countries.³ The French pricing system results in brand name drug prices that are an average of 45% lower than prices in the United States.⁴

Drug Pricing in Germany

Germany has a decentralized national health care system, with coverage provided by over 700 insurance funds. With the exception of innovative drugs that have been patented since 1996, pricing is determined by a reference system, with prices for new drugs based upon the prices of existing drugs that provide the same therapeutic benefit. Prices for innovative drugs that were patented after 1995 are not restricted by the government.⁵ However, each individual insurance

fund can negotiate with pharmaceutical manufacturers on behalf of their covered patients. The German pricing system results in brand name drug prices that are an average of 35% lower than prices in the United States.⁶

Drug Pricing in Italy

Italy's national health care system allows manufacturers to sell their drugs at any price. However, if these drugs are to be eligible for reimbursement under the national health care system, pharmaceutical companies must set the price of the drug at a cost that does not exceed a twelve country European average price.⁷ The Italian pricing system results in brand name drug prices that are an average of 48% lower than prices in the United States.⁸

Drug Pricing in the United Kingdom

The National Health Service in the United Kingdom differs from national healthcare providers in other countries because it does not negotiate the prices of individual drugs with manufacturers. Instead, drug companies in the United Kingdom are free to establish their own prices for individual drugs. However, under the country's pharmaceutical laws, the maximum profit that drug manufacturers can earn on sales in the United Kingdom is limited.⁹ Companies that set their prices so high that they exceed maximum allowable profit rates must reimburse the government. Allowable profits are based on several factors, including the company's investments in the United Kingdom and the level of long-term risk. Generally, companies are allowed to earn returns of 17% - 21% on capital investments. The pricing system in the United Kingdom results in brand name drug prices that are an average of 31% lower than prices in the United States.¹⁰

Drug Pricing in Japan

Japan, like other industrialized countries, has a national health care system. The prices paid by this health care system are generally determined via a reference system.¹¹ Prices for new drugs are determined by comparing them with similar drugs that are already on the market. Prices are based upon the safety and effectiveness of the drug; drugs that are shown to be more effective or innovative than existing drugs are priced higher. If there is no comparable drug on the market, the price of the drug is determined by factors such as manufacturing cost and the price of the drug in other countries.

Endnotes

1. See Patented Medicine Prices Review Board, *Annual Report for the Year Ending December 31, 1999* (2000).
2. *Id.*
3. See Congressional Research Service, *Determination of Prescription Drug Prices in France, the United Kingdom, and Italy* (Sept. 11, 2000); United States International Trade Commission, *Pricing of Prescription Drugs*, Investigation No. 332-419, Publication 3333 (December 2000).
4. *Annual Report for the Year Ending December 31, 1999*, *supra* note 1, at 21.
5. *Pricing of Prescription Drugs*, *supra* note 3.
6. *Annual Report for the Year Ending December 31, 1999*, *supra* note 1, at 21.
7. See Health Policy, *The New Pharmaceutical Policy in Italy*, 46, 21-41 (1998).
8. *Annual Report for the Year Ending December 31, 1999*, *supra* note 1, at 21.
9. See *Pricing of Prescription Drugs*, *supra* note 3.
10. *Annual Report for the Year Ending December 31, 1999*, *supra* note 1, at 21.
11. See Boston Consulting Group, *Ensuring Cost-Effective Access to Innovative Pharmaceuticals: Do Market Interventions Work?* (Apr. 1999).