

**BRIEF ANALYSIS**

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## Prescription Drug Costs: Has Canada Found the Answer?

By William McArthur

Some Americans faced with the rising costs of prescription drugs have begun looking longingly at Canada, where prescription drugs appear to cost less than in the United States. Some seniors are taking bus trips from New York and New England to Quebec to buy cheaper drugs.

While some drugs do cost less in Canada, others don't. Furthermore, large numbers of Canadians come to the United States to buy drugs because so many drugs are not available at any cost in Canada. The Canadian government purposely restricts the overall availability of prescription drugs through a combination of a lengthy drug approval process and oppressive price controls. The result is that patients are often harmed.

**The Crisis in Canadian Health Care.** The approach to drugs and drug therapy is symptomatic of the afflictions of Canada's deteriorating health care system: overburdened, forced to ration care and operating in a straitjacket of centralized bureaucratic planning.

- Although Canada ranked fifth among the 29 members of the Organization for Economic Cooperation and Development (OECD) in the percentage of gross domestic product spent on health care in 1997, it ranked in the bottom third for availability of medical technology.
- In a February poll, 78 percent of Canadians said their health care system was in crisis.

**Prescription Drug Coverage in Canada.** Canada's 10 provincial governments subsidize prescription drugs for certain populations — primarily the poor, elderly and

those in long-term residential care. The remainder of the population in six provinces must pay for their drugs out of pocket, but four provinces have some coverage of pharmaceuticals. For example, in British Columbia an individual must pay for the first \$800 in drug purchases each year, and the government pays 70 percent of costs between \$800 and \$2,000 and 100 percent of costs above \$2,000. Government subsidies cover only the provincial "formulary," the list of drugs approved for the provincial health plan.

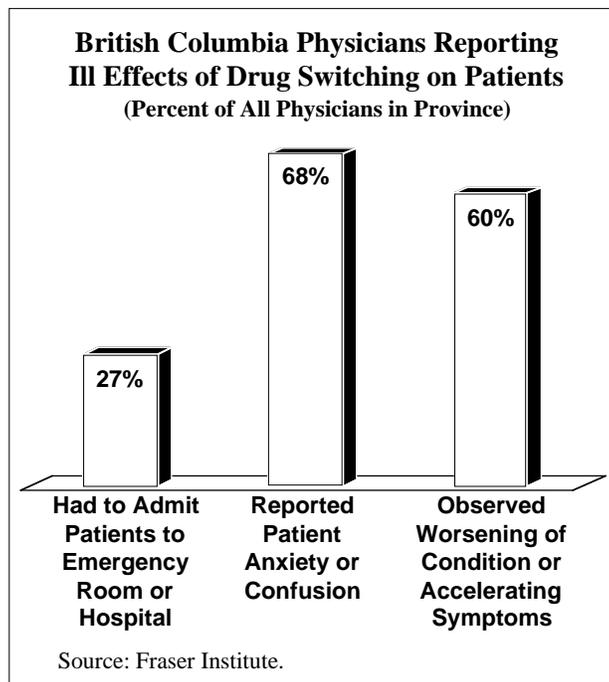
**Delaying Approval of Drugs.** One way Canada tries to control costs is by dragging out the process of approving expensive new drugs, no matter how beneficial they are. The federal approval process takes 13 percent longer than in the United States. For example, Viagra was not approved in Canada until a year after approval in the United States. From 1994 through 1998 the federal government considered some 400 drugs, but ruled that only 24 — or 6 percent — were substantial improvements over their predecessors. Many drugs never win federal approval and cannot be purchased in Canada.

Even if a drug wins federal approval, it faces 10 more hurdles — the 10 provinces. Each province has a review committee that must approve the drug for its formulary. Of

99 new drugs approved by the federal government in 1998 and 1999, only 25 were listed on the Ontario formulary. Further, the provincial approval times vary greatly from province to province. For example:

- Nova Scotia approves drugs for its formulary in 250 days.
- The wait for approval in Ontario is nearly 500 days.

In theory, Canadians whose drug purchases are not subsidized can buy any drug that has federal approval even if it does not have provincial approval. In practice,



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drug companies often don't market those drugs widely because the demand is likely to be so low, thus limiting availability still further.

**Rationing with Price Controls.** Price controls are the reason some prescription drugs cost less in Canada than in the United States. The Patented Medicines Price Review Board (PMPRB), a government agency that oversees the pharmaceutical industry, negotiates a final price for prescription drugs with pharmaceutical companies rather than relying on the drug manufacturers to cut their own prices. Generally, the board does not allow a new drug to be priced higher than the most expensive existing drug used to treat the same condition. Thus the Canadian system penalizes patients who have difficulty with a more popular medicine but would thrive on the second, third or fourth medicine that is similar but not exactly the same.

Canada also keeps down the price of some prescription drugs by depending on other developed countries to bear a larger share of the research and development costs required to bring drugs into production. These costs average US\$600 million per drug, so prices in the global market must reflect the need to attract investment and earn profits for future research and development. However, the cost of actually manufacturing most drugs is small, so manufacturers have discretion in pricing, which is why Canada can force them to set drug prices lower. If patients in every country paid a less-than-fair price for drugs, no money for research and development of new drugs would be available.

**The Failure of Controls.** While keeping some prescription drug prices down through price controls, Canada has been unable to control overall drug costs. OECD statistics reveal that when the PMPRB was created in 1988, per capita expenditures on prescription drugs was \$106; by 1996 that had doubled to \$211 per person. A study of international drug price comparisons by Prof. Patricia Danzon of the Wharton School of the University of Pennsylvania concluded that, on the average, drug prices in Canada were higher than those in the United States. Some individual drugs cost far more in Canada. For example, the anti-hypertensive drug atenolol is four times more expensive in Canada than in the United States. And a University of Toronto study found that the main effect of price controls on prescription

drugs was to limit patients' choices so that they had to rely more on hospitals and surgery.

**Harming Patients.** All provinces require that chemically identical and cheaper generic drugs be substituted for more expensive brand-name drugs when they are available. However, British Columbia has gone farther with a "reference price system." Under this system, the government can require that a patient receiving a drug subsidy be treated with whichever costs the least: (a) a generic substitute, (b) a drug with similar but not identical active ingredients or (c) a completely different compound deemed to have the same therapeutic effect. Patients are often forced to switch medicines, sometimes in mid-treatment, when the reference price system mandates a change. As the figure shows:

- Twenty-seven percent of physicians in British Columbia report that they have had to admit patients to the emergency room or hospital as a result of the mandated switching of medicines.
- Sixty-eight percent report confusion or uncertainty by cardiovascular or hypertension patients, and 60 percent have seen patients' conditions worsen or their symptoms accelerate due to mandated switching.

In my own experience, a 64-year-old male patient had controlled peptic ulcers for more than five years when the government required that he be switched to an older, less effective drug. Within three days he required hospitalization and a lifesaving blood transfusion. After 10 days in the hospital and several more transfusions, he was discharged and placed on the same drug he had taken originally.

**Conclusion.** Through limiting the availability of prescription drugs and controlling the prices of those that are available, Canada has succeeded only in preventing Canadians from obtaining drugs that might have reduced hospital stays and expensive medical procedures. Despite prices on some individual drugs that are lower than in the United States, Canada has been unable to hold down the overall cost of either prescription drugs or other health care. The result is a lower standard of health care at a higher cost than Canadian patients and taxpayers have a right to expect.

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