HOUSE DEMOCRATS' INTERNATIONAL REFERENCE PRICING PLAN PUTS GOVERNMENT SAVINGS OVER PATIENTS

The Democratic staff of the House Committee on Ways and Means new report, "A Painful Pill to Swallow: U.S. vs. International Prescription Drug Prices" is a flawed depiction of the biopharmaceutical market. It uses cherry-picked data and exaggerated differences in drug prices between the United States and foreign countries as the rationale to support the extreme policies proposed by Speaker Pelosi that will severely restrict patient access to new treatments and cures and do irreparable damage to the development of future innovative medicines.

The policies proposed in H.R. 3, the "Lower Drug Costs Now Act," and supported in this new "report" would replace the current free and fair market-based system for determining the value of prescription medicines with a system that will import into the United States foreign price controls adopted by countries with single-payer health care systems, known as international reference pricing.

H.R. 3 Prioritizes Government Savings Over Patients

Reports like the one from the Ways and Means Committee neglect the fact that many patients in foreign countries are never able to get the life-saving treatment they need. **What the House Democrats are NOT telling you is that these "reduced" prices paid by foreign governments actually come at a very high cost for their patients in terms of denied or delayed access to the therapies their doctors prescribe.**

- First and foremost, **foreign countries accomplish paying less for drugs by denying access to these therapies for many patients desperately in need**. In fact: in the United States, patients get access to almost 90% of new drugs launched since 2011. In the countries that House Democrats apparently want to mimic, those numbers are far less: 50% in France, 48% in Switzerland, and 46% in Canada.[1]
- In addition to fewer options, patients in these countries must often wait years longer for new medications than patients in the U.S., and the decisions regarding who gets the therapies are made by the governments – NOT the patients and their doctors.

Comparing U.S. Prices to Foreign Prices Is Inherently Misleading

Understanding how prices vary between nations requires a comprehensive understanding of the different market access systems that exist for prescription drugs. Studies that make these comparisons – particularly those that rely on so-called list prices – should note these differences, fully explain the broader context of why these differences exist and acknowledge the consequences of the policy decisions that led to any differentials.

- By its own acknowledgment, the Ways and Means Committee report's primary focus is on the list prices of medicines, **and not prices net of the significant rebates and discounts that manufacturers provide to payers.** The authors note that much of the savings from adopting policies like IPI are thus likely "overstated."

- Yet the report nonetheless concludes that rebates are not a significant factor in analyzing prescription drug prices – based off analysis of the only foreign country in its sample that has reliable data on rebates: Germany. Furthermore, the authors of the report use an average U.S. rebate of 22%, which greatly understates the

[1] https://catalyst.phrma.org/new-analysis-shows-that-more-medicines-worldwide-are-available-to-u.s.-patients

significant variability of rebates across therapeutic areas. **Medicines in some classes have rebates as high as 60-80 percent, and the average U.S rebate is likely TWICE what the committee report erroneously assumes.**[2]

- In the United States, the growth of manufacturer rebates has caused an ever-increasing divergence between a medicine's Wholesale Acquisition Cost (WAC, or list price) and its net price (the price the manufacturer ultimately receives). In 2018, average sales for protected brand medicines were 43% lower than list price.[3]
- Recent analysis from SSR Health found that average list-to-net discounts grew to 45% in the second quarter of 2019, up from 43% during the same quarter last year.[4]
- And analysis of five manufacturers' pricing reports found that the average reduction in list price for their medicines in 2018 was 50%.[5]

- Beyond rebates, this report also suffers from the fact that the authors selected 79 drugs sold in the United States for analysis, many of which were not available in the comparator foreign countries. In fact, *none* included data on all 79 drugs that were available in the U.S. – Canada (Ontario) included only 47, while Portugal included just 37.

- A similar study conducted by the HHS Assistant Secretary for Planning and Evaluation (ASPE) – cited multiple times in this report – ran into similar difficulty in analyzing price differences between countries. Of the 27 Part B drugs ASPE examined, only 11 were available in the 16 reference countries.[6]

The Ways and Means Report Doesn't Account for the Robust Generic Competition that Exists in the United States

Research into prescription drug prices often ignores the proportion of prescriptions written for generic medications, which can significantly lower total drug spending. **Ninety percent** of prescriptions dispensed in the United States in 2017 were for generic drugs, which have saved the U.S. healthcare system hundreds of billions of dollars over the last decade. Other nations have far lower generic prescribing rates than the U.S.; for example, in the OECD, the average generic penetration rate is roughly 50%.[7] And they often pay more for comparable generic medicines.

- **The dynamic U.S. system of branded medicines facing generic competition is what fuels a sustainable innovation ecosystem. IQVIA estimates that brand medicines' loss of exclusivity will save $78 billion over the next five years – more than offsetting the $73 billion in projected spending on newly launched brand medicines over the same period.**
- This built in cost containment in the U.S. system creates financial headroom for future treatments and cures. Yet reports like the Ways and Means Committee's

[2] https://www.iqvia.com/institute/reports/medicine-use-and-spending-in-the-us-a-review-of-2018-and-outlook-to-2023
[3] Ibid.
[4] FiercePharma, "Amid a political firestorm over pharma's pricing, net prices actually fell last quarter: report" September 20, 2019.
[5] https://www.drugchannels.net/2019/09/half-off-sale-five-major-drugmakers.html
[6] https://aspe.hhs.gov/system/files/pdf/259996/ComparisonUSInternationalPricesTopSpendingPartBDrugs.pdf
[7] OECD Health Statistics 2017

essentially ignore these facts by focusing solely on branded (non-generic) drugs in their calculations.
- Because of our robust competitive marketplace for drugs, in the U.S., real net per capita medicine spending increased just $44 from 2009 to 2018 – despite the introduction of life-changing treatments for hepatitis C, rare diseases, cancer, and HIV, among others.[8]

H.R. 3 Will Destroy the U.S.-Based Biopharmaceutical Economy

As the largest market for pharmaceuticals in the world, the United States drives the innovation that ultimately improves the lives of millions across the globe.

- While the United States does disproportionately support the profits of drug companies – which are reinvested into this remarkable innovation at rates higher than any other industry – the claims of excess profit are overblown. The **biopharmaceutical industry ranks 36th among all U.S. industries in profitability.**
- In fact, only 35 public U.S. biopharma companies make any profit at all selling brand name prescription drugs – less than 10% of all U.S. biopharmaceutical companies. **That is, 90%+ of these companies are unprofitable.**
- By the Democrats' own estimates, this bill would, if enacted, likely eliminate company revenues in an amount equivalent to the entire profit of U.S. public biopharmaceutical companies each year. Doing so would undeniably and dramatically hurt investment in future R&D.
- H.R. 3 also puts in jeopardy the biotech industry's 1.74 million employees and 8 million jobs that support the industry throughout the entire U.S. This includes over 250K employees in California and almost 100K jobs in Massachusetts.

Foreign Free-Loading IS a Problem, but There Are Better Solutions

Foreign "free-loading" on American innovation is indeed a problem – and not just with drugs. Virtually every aspect of our healthcare system is more expensive than in Europe – hospital visits, diagnostic tests, etc. **Rather than impose artificial price controls – including those adopted by foreign countries with single-payer health care – policymakers should focus on solutions that correct market failures, increase competition, and lower costs for patients.** Such solutions also should export the American system by promoting fair trade agreements that force foreign countries to respect American intellectual property and fairly value American innovation.

- It's also important to recognize that the decision by these foreign countries to implement artificial price controls has come at a steep price in terms of their own once-thriving innovation economies.
- Prior to the adoption of price controls, European-based firms led the U.S. on prescription drug research and development by 24%.[9] By 2015, these firms had fallen behind their U.S. counterparts by 40%. The U.S. now accounts for nearly 60% of all innovative medicines, more than the rest of the world combined.[10]

[8] https://www.iqvia.com/institute/reports/medicine-use-and-spending-in-the-us-a-review-of-2018-and-outlook-to-2023
[9] https://www.nber.org/papers/w12676.pdf
[10] https://iri.jrc.ec.europa.eu/scoreboard16.html