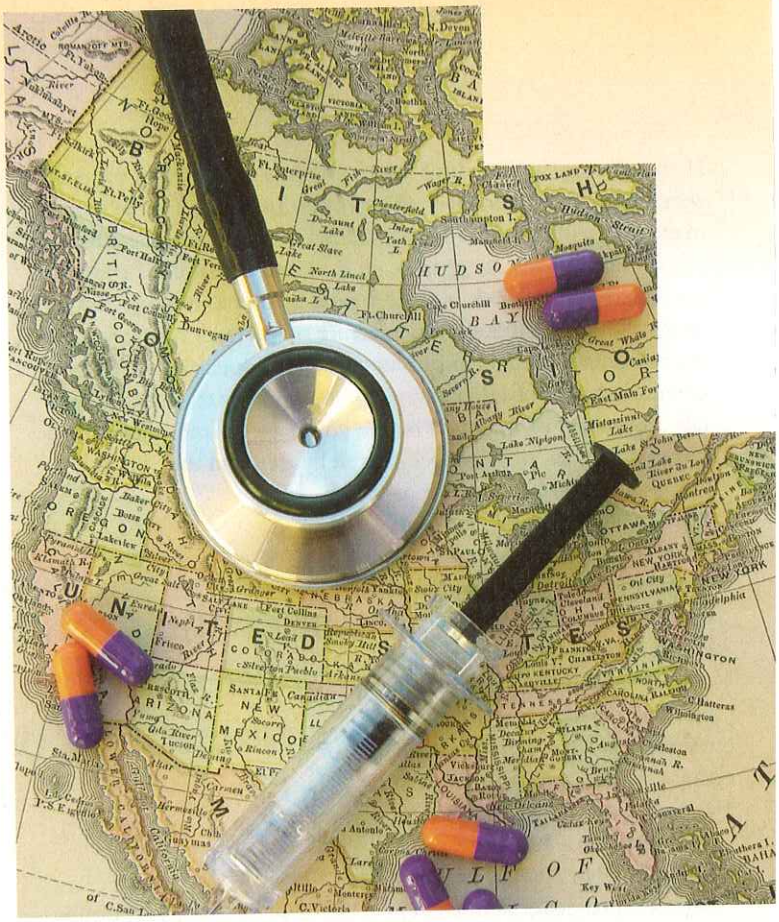
Drug Reimportation: Helpful Or Harmful?

By Alan Horowitz



Logic would say that drug reimportation — the exporting of drugs from the United States to another country and then reimporting them back into the United States — would be inefficient and costly. After all, why send products overseas, only to return them back home to be sold? But, like other aspects of American healthcare, prescription drugs do not always follow economic logic. And because of this, the prospect of legalized drug reimportation has taken on a life of its own.

Dating back a decade or more, drug reimportation has had its proponents and opponents. Bills have been passed by Congress, only to be negated when the secretaries of Health and Human Services at the time would not guarantee the safety of reimported drugs. But the issue will not stay offshore, and the U.S. Senate and House are currently considering, once again, legalizing drug reimportation.

The pharmaceutical industry is against allowing drugs to be reimported, while senior citizen groups and others are for it. The effects on patients — and the pharmaceutical industry — of drug reimportation are the sources of considerable controversy.

THE QUEST FOR LOWER PRICES

Driving drug-reimportation legalization are the high prices of prescription drugs in the United States (versus virtually every country in the world). The Congressional Budget Office (CBO) in a 2004 report states that patented drugs in industrialized countries are priced 35% to 55% lower than in the United States. Canada, which many look to as a prime source of reimported drugs if reimportation is legalized, says that U.S. drug prices were on average 67% higher in 2002 than its prices, according to that country's Patented Medicine Prices Review Board, as reported by the CBO.

Healthcare costs are straining the pocketbooks of individuals and businesses alike. Studies indicate that 22% of seniors and 32% of the uninsured do not fill their prescriptions because they cannot afford to. This is why the issue will not go away.

THE SAFETY ISSUE

The pharmaceutical industry couches the issue as one primarily related to safety. "The effects [of drug reimportation] on American patients and consumers would be potentially devastating," says Jennifer Wall, assistant general counsel at the trade group Pharmaceutical Research and Manufacturers of America (PhRMA). "By opening up our borders to commercial importation, we would open up our supply chain to counterfeiting."

An executive at Pfizer, who requests not to be identified, concurs. He says the problem of counterfeiting became obvious when Viagra was introduced in the late 1990s and quickly started to appear in countries where it had yet to be approved (the Viagra in these countries was not made by Pfizer). This executive says that, as of March 2009, Pfizer had found counterfeit versions of its medications, including Lipitor and Celebrex, in 81 countries. "The security of the global supply chain is not strong," he says. This also leads to the potential of suits against pharmaceutical companies. "To the extent that patients get hurt, we get sued," notes the Pfizer executive, adding that this happens even when the drugs purchased by the consumer were made by counterfeiters, not Pfizer.

National security is also part of the argument against reimportation. "It is tough enough to keep our borders safe without introducing new distribution channels

into our country," says pharmaceutical analyst David Moskowitz of Caris & Co. "It [drug reimportation] will not make sense from a homeland security standpoint."

Others are not so sure reimportation will present more problems than it is worth. Marcia Angell, M.D., a senior lecturer at Harvard Medical School and former editor of the *New England Journal of Medicine*, called the safety issue "bogus" in an email. "Drugs imported from Canada or Europe are at least as safe as drugs manufactured in the United States," she wrote. "It's worth noting that 5 of the top 10 drug companies are European, and they all have manufacturing plants all over the world... so drugs are flying over borders all the time."

Alan Sager, professor of health policy and management at Boston University, says, "I think safety problems associated with drug reimportation is not a reason to stop importing; it is a reason to legalize it." He likens today's situation to that of Prohibition. During Prohibition, criminals controlled the manufacture of alcoholic beverages, often leading to tainted products. Ending Prohibition brought legitimate businesses into the market, essentially ending the safety problem. He thinks safety would improve if drug reimportation were legalized, just as it did with alcohol.

David Blank, deputy communications director at the Alliance for Retired Americans (ARA), an advocacy group for retirees, notes, "We haven't had examples of people being injured from taking these [reimported] drugs." The ARA is supporting legislation legalizing drug reimportation.

The effects of drug reimportation on innovation is another reason some think it should not be allowed. Their thinking: Reimportation will lower the profits of drug companies, which will limit their ability to develop innovative drugs. Or, as Sager pointedly characterizes this argument: "The drug makers say, 'Give us all your money or you'll die. Give us high profits so we can do innovative research.'" One study, he says, found that nearly half of all research dollars go toward developing me-too drugs, rather than innovative new ones.

A study by Toronto's York University found that the U.S. pharmaceutical industry spent 24% on promotion and 13% for research and development, as a percentage of U.S. sales. "As for innovation, that is not what the big drug companies are doing. They develop drugs at later stages, and they put most of their efforts into marketing them," comments Angell.

INDUSTRY EFFECTS

So, what would the effects of legalizing drug reimportation be in the pharmaceutical industry? Some think it will drive down drug prices. According to Mary Carol Jennings, the Jack Rutledge legislative director for the American Medical Students Association, allowing reimportation will increase competition, which will lower prices, and therefore improve patient access to drugs. Giant senior citizen advocacy group AARP agrees. "We have said for many years that drug importation would increase competition and drive down prices," says an AARP spokesperson. AARP, too, supports drug reimportation legislation.

But others think the effects on prices and industry profits will be minimal. Marc Steinberg, deputy director of health policy at Families USA, a healthcare consumer advocacy organization which supports drug reimportation, notes that Canada is much smaller than the United States. "Even if we brought every drug from Canada to the United States, it would not make that much of an impact [on prices]," he says.

The logistical costs of moving drugs from country to country, the added risks of reimporting drugs, and the ability of drug companies to limit the amount of drugs sent to a country if they think those drugs will likely be shipped back to the United States, are reasons why Damien Conover, a stock analyst at Morningstar, thinks of all the healthcare reforms being considered, drug reimportation will have the least effect on the pharmaceutical industry. In fact, the CBO estimated in 2004 that a reimportation bill then under consideration by the House would reduce total drug spending in the United States by $40 billion over 10 years, or about 1%. That is hardly a major source of concern for the pharmaceutical industry.

> "The effects [of drug reimportation] on American patients and consumers would be potentially devastating."
>
> Jennifer Wall, assistant general counsel, Pharmaceutical Research and Manufacturers of America (PhRMA)

Which raises the question, Why is the industry so against reimportation? Richard Evans, a VP at AVOS Life Sciences, a life sciences consultancy, thinks that by focusing on drug reimportation, the drug industry deflects efforts to reform other aspects of healthcare which would be more detrimental to the industry. "The political utility for the industry is that it consumes legislative time, which is a finite resource. I don't know anyone who thinks passage [of drug reimportation legislation] would reduce drug prices." He compares the industry's reaction to the legislation to that of Brer Rabbit, who asked Brer Fox over and over again not to throw him in the briar patch. That, of course, was exactly what he wanted Brer Fox to do, and Evans thinks the drug industry is acting just like Brer Rabbit.