

**Philip Held**

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**From:** Frank McCormick [fmccorm@astound.net]  
**Sent:** Monday, July 21, 2003 6:54 AM  
**To:** Philip Held  
**Subject:** Reimportation of American-produced prescription drugs



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**REVIEW & OUTLOOK****No New Drugs**

Criticism of the proposed Medicare prescription drug benefit has rightly emphasized its cost to taxpayers. But another price could be lost lives due to a decline in the number of innovative new medicines. As part of the deal to secure one-vote passage of its Medicare bill last month, the House will soon be voting on a measure that would allow the widespread reimportation of American-produced prescription drugs, which often sell at significantly lower prices abroad.

We don't have much time for the pharmaceutical industry's contention that such imports would pose a significant health risk to American consumers. But sponsor Gil Gutknecht (R., Minnesota) is selling nonsense when he argues reimportation is about giving U.S. consumers access to "world market prices." Rather, it's an attempt to import foreign price controls. At best it won't work. At worst, it will threaten pharmaceutical innovation, which is increasingly done by U.S.-based drug companies.

The pharmaceutical business is one that requires massive investments -- it costs more than \$800 million to develop and market the average new drug -- but where the marginal cost of producing an extra pill approaches zero. That's what makes it such an attractive target for the likes of Rep. Gutknecht, who want to demagogue about the high costs of prescription drugs. It's also why drug makers having been willing to tolerate price controls in places like Canada, so long as their ability to recoup R&D costs in the larger U.S. market remains intact.

But what if something like the Gutknecht bill were to become law? Drug makers would surely respond by limiting the supplies they send abroad, raising the prices they're willing to accept there, or both. (GlaxoSmithKline has already shut off supplies to Canadian pharmacies exporting outside Canada.) The expectation of significant savings through reimportation is unlikely to materialize. And that's the benign scenario.

Far worse, reimportation could end up undermining the intellectual property protections the U.S. has worked so hard to build into the world trading system. That's because foreign governments could take the industry's response -- supply limits and higher prices -- as an excuse to seize drug patents. The U.S. is already facing strong pressure within the World Trade Organization to allow the "compulsory licensing" of drugs to generic producers for an ever-widening array of maladies. Needless to say, the less able drug companies are to recoup the costs of development through patent protection, the less risk they will be willing to take in finding new drugs.

If Congress is looking for ways to lower the cost of drugs, it would do better to focus on streamlining the Food and Drug Administration's expensive approval process. It would also do well to remember that drugs account for just 9% of health spending and that they often reduce overall costs by slowing disease progression or obviating the need for invasive surgery. Ask a person living with AIDS if he thinks his medication is worth the price.

We can't help but note the free-trade hypocrisy of drug reimportation's biggest proponents. The Manhattan Institute's Robert Goldberg points out that Rep. Gutknecht has fought for tariffs to protect Minnesota's dairy industry. In the Senate, North Dakota Democrat Byron Dorgan backs tariffs on Canadian wheat. Don't consumers of these goods have a right to "world market prices" too?

We're glad to see that President Bush, who has largely been AWOL on the Medicare debate, has expressed his opposition to the reimportation bill. And we hope the pharmaceutical industry, which has thrown its weight behind the proposed Medicare drug entitlement, will learn a thing or two about the risks of doing business with Washington. As experience in Canada and Europe shows, the quickest way to make a federal case of your pricing and profits is to make your major customer the government.

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