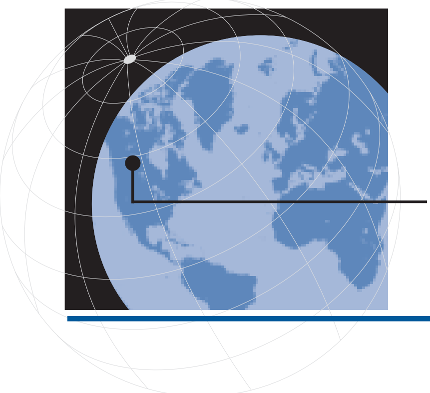

Rising drug costs in Canada

The federal government and the provinces are torn between economic and health concerns.

BY *LOUISE GAGNON*

Canadian spending on prescribed drugs increased on average more than 10% per year from 1997 to 2001 and now tops the $12 billion mark nationally. These figures were revealed in a recent report released by the Canadian Institute for Health Information, an organization that keeps track of health-care delivery data.

In the wake of the results, there are renewed calls in Canada to change pharmaceutical policy and examine ways to limit the soaring expenditures for medications.

Drugs now represent the second largest segment of health spending in Canada after hospital services.

According to the institute's report, the growth in drug expenditures during the past five years was driven primarily by an increase in prescribed drug spending, which has risen by 46% since 1997 (from $8.4 billion to $12.3 billion). The share of prescribed drugs financed by the public sector was 49%, up from 44% in 1999. Private insurers and households finance 51% of the total, a figure on the decline. With the aging of the population, Canadians will increasingly rely on the public purse to buy their medicine.

There are different factors contributing to the incredible rise in pharmaceutical costs. The first is an increase in the money paid to drug companies who hold patents. That increase came because of federal legislation designed to give greater protection to drug patents. Starting in 1987, Canada increased the amount of time before patents lapse first to seven years, then to 10, and now to 20 years. In addition, brand name drug producers use a controversial process called "ever-greening" to effectively extend patent protection beyond the 20-year limit. "Ever-greening" means releasing a slightly modified formulation of a patented drug under the same brand name.

As well, more and more drugs are being released onto the market. Indeed, there is a backlog of paperwork at Health Canada, the ministry that reviews applications for both brand-name and generic drugs. The medications referred to as "breakthrough" drugs are often highly priced because the pharmaceutical industry argues that much research has been dedicated to their development.

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Canadian provinces have publicly-insured drug plans, called formularies, to which new drugs are periodically added. When a new drug is listed on the formulary, the province picks up the tab for dispensing the drug to seniors and those on social assistance. Some provinces, such as British Columbia, have aggressively attempted to contain drugs costs associated with their formularies. Other provinces, such as Quebec, have favoured prescription of brand-name medications in its formulary, largely because Quebec is home to a large and economically important brand name drug industry.

Unnecessary duplication?

One process that can be made more efficient is the two-step review process: first health Canada must approve a new product, and then the provinces must do so before it is added to a provincial formulary

"A common drug review might help in decision making, in terms of determining what gets listed on the formulary and what does not," argues Ron Corvari, an official with the federal Patented Medicines Review Board, the body that approves the prices of new brand name products.

Canada is not alone in its attempt to cap drug costs. Regulators around the world are watching the consolidation of the pharmaceutical industry to ensure no monopoly is created for a particular therapeutic class of a drug.

But, as for Canada, any new restrictions on drug spending may require the federal and the provincial governments to come to the table and resolve their differences. Those differences arise in part from a conflict between health policy, aimed at cost constraining, and industrial policy, aimed at job creation and economic growth.

As Donald Willison, an assistant professor at Ontario's McMaster University, states in his paper on Canadian pharmaceutical policy, multinational drug companies are seeking concessions such as:

- strong patent laws
- rapid listing of products as insurable benefits
- fewer constraints on subsidizing new drugs through public insurance
- freer pricing of new drug products

Canada, the U.S., and the European Union have introduced incentives to encourage pharmaceutical investments.

"We have to accept that we are bearing the burden of the cost of doing research in our health care budget," said Willison, a member of McMaster's department of clinical epidemiology and biostatistics. "If we want to define ourselves as a knowledge economy, then we have to suffer the consequences that come with that."

Indeed, as a "global animal", the pharmaceutical industry has a presence throughout the world and is regarded as a robust sector in the new knowledge economy that has been touted in the last decade as an engine of economic growth and pride.

Provinces at cross-purposes?

Some Canadian provinces, such as British Columbia, have implemented policies to contain drug costs. Known as reference-based pricing, the policy encourages the prescription of generic drugs. Specifically, the policy reimburses seniors for the less expensive medications in a particular therapeutic category if the medications are deemed as efficacious as their higher-priced, brand name counterparts.

By contrast, the province of Quebec promotes the prescription of brand-name products through a policy whereby products must be listed on the provincial formulary for at least 15 years before the government will then reimburse at the lowest-priced or generic price of the medication.

When medications are on the list less than 15 years, the government will reimburse at the acquisition cost of the brand name or generic medication.

"The Quebec government chooses to subsidize the pharmaceutical brand-name industry," says Jim Keon, president of the Canadian Drug Manufacturers Association, which represents makers of generic drugs. "There are cheaper generic versions that can be prescribed."

Indeed, a study authored by Malcolm Anderson of Queen's University found significant delays in the approval of 34 generic drugs between 1995 and 1999. The same study also found discrepancies in the listing of less expensive generic medications on provincial drug formularies.

For its part, the province of Quebec established a universal drug plan in 1997, aimed at insuring the nearly one million Quebeckers who were not covered by a private plan through their employer or through a public plan for seniors or those on social assistance. The plan has been running a deficit since its inception and has increased co-payments for its beneficiaries, including those on social assistance.

The plan has been criticized for penalizing the more vulnerable segments of the province's society because of the hikes in the co-payments that the individually insured must pay while drug multinationals reap healthy profits.

Quebec to opt out?

The response of the health minister in Ontario, Canada's most populous province, to astronomical growth in the financing of the Ontario Drug Benefit Plan, has been to suggest that universal drug coverage for the elderly may not be necessary.

Dr. Panos Kanavos, a professor of international policy at the London School of Economics, says we just have to face the fact that health policy and industrial policy are sometimes at odds. Kanavos has studied various jurisdictions and come to the conclusion that the presence of a pharmaceutical industry wields influence on health policy.

"It's a highly politicized industry," says Kanavos. "Some countries, such as Australia, have been effective in curbing costs through implementing policies such as reference-based pricing. Australia, however, does not have a pharmaceutical industry. A province like Quebec may react if reference-based pricing was forced onto it through a national system. It would be another reason the Québécois would cite to opt out of the federation."

One solution that has been put forth is to diminish the powers of the provinces in listing or de-listing medications and place that power in the hands of a federal organization that would be responsible for a national formulary. The national formulary would supplant the provincial drug plans and be a step toward a national pharmacare plan.

"If there were a national system, it would be an important step in terms of trying to control costs because there would be a single purchaser," says Kanavos. "Centralizing drug reimbursement and revoking the power of the provinces to administer pharmaceutical care is probably not politically feasible."

Would anyone be able to sell that proposal politically to provinces jealous of their power? Willison offers a made-in-Canada solution: the provinces could harmonize their drug benefit programs while remaining independent of one another. Administrators of the plans would meet to compare notes on what drug is listed on the formulary and what drug is not, resulting in a scenario that would more closely resemble a consensus.

Drug companies and advertising

There is no doubt that pharmaceutical firms devote a healthy chunk of their budgets to marketing of new products. They often tie marketing budgets to those of research and development.

In Canada, Roy Romanow, the head of a commission studying the future of the country's health care system, repeatedly asked the head of pharmaceutical firm Aventis Pasteur to offer a figure on how much his firm spent on research and development of its products as opposed to marketing. Romanow didn't obtain a direct response.

While direct-to-consumer drug advertising is not legal in Canada, Canadian consumers of American media, particularly broadcast television, are subject to advertising that names brands of medications. That pervasiveness of marketing has put implicit pressure on provincial governments to make the latest medications available.

"Many drugs are advertised as being life savers," says Kanavos, referring to the arthritis medications that have come out in the last three years that are touted to avoid bleeding ulcers. "That claim is not true. But when consumers see the advertising, they will expect access to it. You want to limit the effect that an expensive drug will have on your budget. The solution may be to offer only a certain number of medications in a particular class of drugs."