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REIMPORTATION: TROJAN HORSE, NOT FREE TRADE

By Doug Bandow

"There's no question that prescription drugs cost too much in this nation," claims Sen. Jim Jeffords (I-Vt.). He offers no evidence to back his claim, but many Americans agree with him. In response, legislators at the state and national levels are pushing a variety of measures to control prices, restrict use, and limit patents.

Among industrialized states, only America offers a genuinely free market in drugs. This offends socialist Rep. Bernard Sanders (I-Vt.), who complains that "in Vermont and all over the United States, alone among industrialized nations, the drug companies can charge any price they want for their product—no matter what the consequence."

In response, Rep. Tom Allen (D-Maine) would limit U.S. prices to an average of those sold overseas. Some state legislators have suggested restricting local prices to those overseas, particularly in Canada.

More seductive, however, is the idea—backed by Congress but opposed by the Department of Health and Human Services—to allow reimportation of American drugs from foreign nations. Even some traditionally free market politicians advance the proposal. Many drugs are cheaper in other countries, most famously Canada and Mexico, so let Americans buy their pharmaceuticals abroad. What could be a better example of "free trade" in action, they ask?

In fact, reimportation is designed more to import foreign regulatory regimes than necessary medicines. Full reimportation would mean Canadian-style, or even Mexican-style, prices in the U.S. That, in turn, would mean Canadian-style or Mexican-style access to drugs in the U.S.

No discussion of pharmaceuticals is meaningful without remembering the benefits of drugs. Are medicines too expensive? Saving lives, improving health, enhancing quality of life, eliminating the need for hospitalization and surgery—these benefits are all worth paying for. "Three decades ago medical technology was rather primitive by today's standards," writes Dr. E.M. Kolassa of the University of Mississippi School of Pharmacy. "Today, physicians have at their disposal medications and technologies that provide for the immediate diagnosis and treatment of most of the disorders that affect modern man."

Nevertheless, complains Elizabeth Wennar, spokeswoman for the Coalition for Access to Affordable Prescription Drugs, Glaxo, which has cut off Canadian pharmacies supplying American customers, cares nothing for "the quality of care and well being of seniors who cannot pay the exorbitant American prices for their life-saving drugs." That's a strange charge, given the fact that Glaxo created these life-saving drugs in the first place. And they would not have been developed but for prices high enough to cover the R&D costs of failures as well as successes.

But, complain industry critics, drugs cost less in foreign countries. In their view, then, companies obviously are gouging Americans. So let people buy the same products overseas.

However, international comparisons must be viewed with skepticism, since there is no "correct" price. Prices overseas generally reflect the lower incomes in some states and the highly politicized nature of most foreign health care systems. Exchange rate variations also matter: for years America's relatively strong dollar made drugs overseas seem particularly cheap.

Patricia Danzon of the Wharton School also points to issues of patent protection, price controls, and continuing availability of prescription drugs without prescriptions. After adjusting for such factors as well as the role of generics (which are less important overseas), volume discounts, and frequency of use, she and Jeong Kim found, using 1992 data, "that the average U.S. consumer would have paid 3 percent more in Canada, 27 percent more in Germany, 30 percent less in France, 9 percent less in Italy, 8 percent less in Japan, 44 percent more in Switzerland, 9 percent more in Sweden, and 24 percent less in the UK."

Consider Canada. Canada's economy has suffered in recent years, with the currency losing nearly a quarter of its value over the last decade. (Even worse is the Mexican economy; poor people in poor countries have less money to spend on everything.) As a result, many goods are cheaper in Canada than in the U.S.

Canadians also benefit from less, and less expensive, product liability litigation. Economist Richard Manning estimates that one-third to one-half of the drug price differential between the two countries is due to the higher cost of lawsuits in America.

Even so, Canada is no bargain. Dr. John Graham, Director of the Pharmaceutical Policy Research Center at Canada's Fraser Institute, and Tanya Tabler, a student at the Faculty of Pharmacy at the University of Alberta, recently surveyed prices on both sides of the border. Although costs were lower in Canada, Graham and Tabler observed that given price differences within countries, "a shopper can save almost as much money by bargain hunting within his own area as by crossing the border."

Moreover, reimportation creates safety problems, depending upon who is reselling what to whom. Reimported Mexican drugs have killed consumers; the Royal Canadian Mount Police warn that pharmaceutical counterfeiting up north is an "epidemic." After years of neglect, the Food and Drug Administration has begun targeting pharmacies that promote reimportation.

Trojan Horse. Most important, however, reimportation, no less than attempting to equalize prices internationally by legislative fiat, would effectively apply foreign price controls on the American market. This is, in fact, the policy's objective.

Explains Sen. Byron Dorgan (D-ND): “It is not my intention to have the American people go to another country for their drugs. It is my intention to force the pharmaceutical industry to reprice their drugs here in the United States."

Rep. Sanders is even more explicit: "It is likely that the day after reimportation passes, the pharmaceutical industry will lower their prices in the United States to the same level that they sell their products worldwide." But why stop at Canada? Mexico has lower prices. Or, better yet, look to Congo or Afghanistan, known hotbeds of pharmaceutical research.

Free Riders. U.S. citizens are not paying higher prices to subsidize foreign consumers. Pharmaceutical companies base their prices on local supply and demand. As long as they can cover the marginal cost of marketing an additional pill overseas, they will do so; they will not sell at a loss overseas no matter how profitable the domestic market. And if they could charge more in the U.S. they would do so, irrespective of foreign opportunities. National markets operate independently of one another.

In practice, uniform international prices would be impossible to maintain. Exchange rate vagaries would quickly create price differentials. Trying to maintain uniformity would not only be administratively difficult; it would be economically suicidal, since no business can ignore the economic conditions of the market within which it is selling.

True Cost. Indeed, forcing firms to choose between sales in the U.S. and foreign nations would encourage drug makers to stop selling overseas rather than dump drugs at distress prices in America, their largest market. Overseas customers would have access to fewer medicines; U.S. manufacturers would lose sales and revenue; Americans would bear an even greater relative burden of global R&D expenditures.

Thus, reimportation could work only by forcing companies to sell to foreign retailers at lower prices. For instance, Glaxo is cutting off Canadian pharmacies that ship south of the border to prevent reimportation. Which is why Americans hoping for a free, or at least a reduced cost, lunch are so upset. They really want regulation. Reimportation does not reflect free trade; it is the antithesis of free trade.

Pharmaceuticals are expensive. So are doctors' visits, heart bypass operations, cancer treatments, and hospital stays. Before Americans complain about the price of drugs, they should remember the benefits they are receiving.

Nor is reimportation an answer to rising pharmaceutical costs. In the name of free trade Washington would join other countries in confiscating the wealth of drug makers. Companies might have little choice but to continue providing their existing wares for less. Firms would not, however, have the same incentive to make new medicines. Which means future Americans would live shorter, more sickly lives. For there are no foreign markets off of which Americans could free ride.

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