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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

The Right Remedy For Pricy Drugs

The U.S. should let in Canadian imports -- but build in safeguards

Few questions better reveal the link between trade policy and the lives of millions of Americans than whether Washington should permit imports of prescription drugs from Canada. Right now it is illegal for U.S. residents to buy pharmaceuticals north of the border or from anywhere else abroad without a federal waiver. Yet for lots of Americans, the lure of such purchases is intense because many of the same products available in the U.S. can be had in Canada at prices 30% to 50% lower. The reason is that Ottawa, like virtually all other governments except Washington, heavily regulates the price of medicines.

The Bush Administration has been resisting legalizing imports on grounds of safety. It has good reason, given the growing volume of counterfeit drugs, with potentially disastrous human consequences, that the Food & Drug Administration says are penetrating our porous borders. Were free trade allowed, it wouldn't be just American-made drugs flowing south but lookalike pharmaceuticals that enter Canada from Asia.

To figure out how to protect Americans, however, does not require a yearlong study -- such as the Administration says it needs. As Senator John McCain (R-Ariz.) said in recent congressional hearings: "We are talking about seniors who are going to bed tonight making a decision about whether to pay for a prescription drug or to eat."

SENATOR JOHN KERRY IS ASSAILING President George Bush's inaction. So are at least 19 state governments that want their citizens to have access to Canadian drugs. With 43 million Americans lacking any insurance for drug coverage and with the price of prescription drugs skyrocketing, Kerry and the states have a point. But in their zeal to move quickly, they are underemphasizing safety considerations.

Companies such as Pfizer ([PFE](#)), Wyeth ([WYE](#)), and Eli Lilly ([LLY](#)) say that imports from Canada will undercut their profits in the U.S. and hurt research and development. They want Ottawa either to raise its prices for patented drugs or to embargo drug exports, and they may be pressuring Canada by reducing shipments north. While Big Pharma is certainly profitable and its arguments self-serving, America's well-funded scientists have produced the overwhelming share of breakthroughs. That's why the research operations of non-American companies such as Switzerland's Novartis ([NVS](#)) are migrating to the U.S. And as Merck & Co. ([MRK](#)) Chairman and CEO Raymond V. Gilmartin told me, U.S. competitiveness hinges on industries such as pharmaceuticals that are at the forefront of innovation.

I believe Congress should act quickly to allow imports. But it must move just as fast to give the FDA what it needs to ensure the safety of America's drug supplies. The agency is already overburdened with new priorities such as protecting the nation against bioterrorism and helping to ensure food safety. It could need up to \$1 billion to do the job.

Ultimately, however, Americans would be able to satisfy only a fraction of their needs from the Canadian market. Far more important is making sure that the new Medicare law -- which comes into effect in 2006 -- brings down prices as advertised. Given the millions of people desperate for lower-priced pills, why not move up the effective date by one year? And why not mount a government-industry examination of ways for the pharmaceutical business and regulators to bring new drugs to market more cheaply than the current \$800 million to \$1 billion-per-drug cost?

Another initiative would be to use trade policy to encourage changes in countries getting a free ride on drug development costs. As Harvard University health-care economist Joseph Newhouse told me, U.S. consumers are subsidizing other wealthy nations that are not paying their fair share of R&D. It's not just Canada that is regulating prices but also the European Union and Japan. Perhaps global research consortiums could be set up to share research costs, too.

U.S. borders are evaporating just when they seem increasingly important -- whether America seeks to thwart illegal immigrants, mad cow disease, SARS, or tainted money. There are no easy ways to balance the openness Americans want with the physical and emotional security they crave. These difficulties notwithstanding, when it comes to prescription drugs, there is an urgent need to do better -- now.

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