

# Intelligence MEMOS



From: Rosalie Wyonch  
To: Canada's Pharmaceutical Price-Setters  
Date: June 3, 2019  
Re: **DRUG PRICES: TALKING BEYOND THE TALKING POINTS**

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Drug prices and whether they are too high, too low, or just right is currently a hotly debated topic in Canada. On one hand, governments and consumers assert [that drug costs are growing unsustainably](#). On the other hand, patenting pharmaceutical companies argue that drug spending has remained a constant share of health spending for the last decade and that further reducing prices may [limit investments in the research and development of new treatments](#).

Both sides have a case.

Prescription drug expenditures account for a relatively constant share of total health spending, but health spending in general is growing unsustainably. In fact, prescription drug spending has actually declined slightly as a share of total health spending since 2006: it accounted for 13.8 percent of health expenditures in 2006, declining slightly to 13.4 percent in 2016. As a share of GDP, prescription drug spending has grown slightly, from 1.4 percent to 1.5 percent of GDP from 2006 to 2016.

Controlling total drug costs is a priority for governments as Ottawa ponders some form of a universal pharmacare program that will inevitably require increases in public expenditures on prescription drugs. In addition, [ongoing confusion about proposed changes to Canada's drug pricing regulations](#) is adding uncertainty for the pharmaceutical industry.

Currently, the maximum price for a drug is determined by comparing it to other drugs in the same therapeutic category or to the price of the same drug in comparator countries. As a result, drug prices in Canada are similar to, or slightly higher than, those in other developed nations, except the United States. With complex interactions between regulations, patent laws, and R&D tax incentives and subsidies, it is [difficult to determine whether Canada's contributions to global pharmaceutical R&D are "optimal."](#) It is clear, however, that Canada is less of a free-rider than some other countries that employ restrictive drug pricing policies.

Proposed changes to the regulations would modify the list of countries used to compare prices. Changes to the regulations would also consider new factors to reflect the value of new medicines and Canada's "willingness and ability to pay for patented medicines." Drug price regulations would become more restrictive as a result, in addition to adding complexity: determining the value of a new medicine before it has been widely used is a complex and controversial calculation.

Regulation of ex-factory prices (the price large buyers and wholesalers pay to manufacturers) is only one component of drug costs. Drug prices can be lower than the regulated maximum price, and frequently are. Typically, price adjustments take the form of discounts and rebates granted by pharmaceutical companies to provincial insurance plans (large purchasers) and to hospitals and pharmacies that distribute their drugs. Often the amounts of these discounts are confidential. In addition, [dispensing costs account for more than a quarter of total drug expenditures in public insurance plans in Canada](#) (based on publicly listed prices).

Many foreign governments play a more interventionist role than Canada when it comes to pharmaceuticals, either in the form of direct regulation of drug prices or indirectly via the government's role in drug insurance plans. Canada, like other developed nations, faces an inevitable tension between the obligation to contribute its fair share to global pharmaceutical R&D financing and the desire to save money for the taxpayers, private insurers and patients who pay for the drugs. This also comes as pharmaceutical companies face [declining productivity from investments in researching and developing](#) new products.

The fiscal pressure on government budgets of prescription drugs is likely to grow, but policymakers and industry stakeholders should move past talking points about whether or not drug spending is growing unsustainably. Pharmaceutical pricing, insurance and regulation are complex issues and any changes can have unforeseen consequences for patients in terms of cost and access to necessary medications. Only when both sides set aside their talking points and start discussing the complex underlying issues will real progress be made.

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