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## Drugmakers Protect Their Turf

Medicare Bill Represents Success for Pharmaceutical Lobby

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No industry in negotiations over the \$400 billion Medicare prescription drug bill headed to the House floor today outpaced the pharmaceutical lobby in securing a favorable program design and defeating proposals most likely to cut into its profits, according to analysts in and out of the industry.

If the legislation passes as Republican leaders predict, it will generate millions of new customers who currently lack drug coverage. At the same time, drug-manufacturing lobbyists overcame efforts to legalize the importation of lower-cost medicines from Canada and Europe and instead inserted language that explicitly prohibits the federal government from negotiating prices on behalf of Medicare recipients.

"It couldn't be clearer there is going to be a positive effect overall," said Dan Mendelson, president of Health Strategies Consultancy, which bills itself as a think tank and consulting firm. "The volume will definitely go up. There will be a lot of people who didn't have coverage before who will have it now and a lot of people getting an upgrade in terms of coverage."

Democrats and consumer advocates complain that the Republican-crafted compromise does little to contain soaring drug costs. They say that by handing the Medicare drug program's administration to private insurers, Congress missed a chance to exert pressure on pharmaceutical companies to reduce prices.

But Republicans and some industry analysts say that adopting a drug-purchasing mechanism similar to those in corporate health plans is the best way to extract discounts from drugmakers.

If Medicare negotiated on behalf of its 40 million beneficiaries, "I wouldn't be negotiating; I'd just be fixing the price," said Thomas Scully, the program's administrator. "Let's get seniors organized into big purchasing pools that get bulk discounts and see how they fare."

Representatives of the industry's main lobbying arm, the Pharmaceutical Research and Manufacturers of America (PhRMA), declined yesterday to discuss the legislation. But the clearest indication that the bill offers a brighter future for the industry came from Wall Street, where pharmaceutical stock prices have steadily risen over the past week as the legislation's prospects for passage improved. Analysts at Goldman Sachs & Co. project the new Medicare benefit could increase industry revenue by 9 percent, or about \$13 billion a year.

After objecting for years to proposals to add prescription drug coverage to Medicare, the pharmaceutical lobby recently shifted positions and poured enormous resources into shaping the legislation. Since the 2000 election cycle, the industry has contributed \$60 million in political donations and spent \$37.7 million in lobbying in the first six months of this year.

The lobbying continued in earnest this week with a television and print advertising campaign urging passage of the bill. In one series of witty commercials sponsored by the industry-backed Alliance to Improve Medicare, elderly citizens look into the camera and demand: "When ya gonna get it done?"

One Republican with ties to the industry said drugmakers eluded the three things they feared most: legalized importation of lower-cost medicines, many of them patented or made in the United States; government price controls; and easier market access for generic drugs that cost considerably less than brand-name drugs. "In their view, by improving access for all seniors, we will ameliorate any pressure on the industry toward price controls or reimportation," the source said.

About 24 percent of Medicare beneficiaries -- nearly 10 million senior citizens -- do not have any prescription benefits. Some of them buy medicine at the highest retail prices. Academic studies and anecdotal evidence suggest, however, that many go without prescription medicines and would become new customers for drugmakers if the bill becomes law. The remaining 30 million Medicare recipients buy some supplemental drug coverage, according to the most recent government figures.

Even those with some drug coverage are expected to spend more with the new benefit, said Fredric E. Russell, whose investment management company owns several drug stocks. Whenever a new health benefit is offered, he said, patients and doctors jump at the chance to take advantage of it.

Under the bill, beginning in 2006, all Medicare beneficiaries would have the option of buying a drug plan for about \$35 a month, plus a \$275 annual deductible. Insurance companies and pharmacy benefit managers (PBMs) would administer the programs for the government.

The great unknown is what sort of prices those insurers will ultimately negotiate on behalf of their Medicare clients, said Kristine Bryan, senior health care analyst at Brown Brothers Harriman & Co. "Generally, when you have a large purchaser, you have the ability to demand better pricing," she said.

Republican congressional staffers also point out that because the bill waives a requirement that state Medicaid programs receive the "best price" available, the new private insurers could save Medicare \$18 billion. It would, however, likely increase states' drug costs.

Many Democrats say private purchasers have not been as successful at bargaining as have government programs such as the Veterans Administration and Medicaid, which secure some of the steepest drug discounts available.

"We've been going through PBMs for 10 years and nothing's happened except the price of drugs has gone up," said Democratic presidential candidate Howard Dean, a physician.

Perhaps the most striking political victory for the pharmaceutical industry was the decision to reject provisions that would have allowed Americans to legally import drugs from Canada and Europe, where medications retail for as much as 75 percent less than in the United States. Polls show that an overwhelming majority supports the change, and the House approved the provision, 243 to 186. But the Bush administration and pharmaceutical lobby said the move was dangerous and would cut into future research and development.

The provision was dropped from the bill's final version.

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