CVS/pharmacy

Remarks by:

Thomas M. Ryan
Chairman, President and CEO
CVS/pharmacy

Before the HHS Drug Importation Task Force

May 5, 2004

Mr. Chairman and members of the Task Force, on behalf of CVS/pharmacy, I am pleased to be speaking with you today to share our views on the importation of prescription drugs.

By way of background, after completing our recently announced acquisition of part of the Eckerd drugstore chain, CVS/pharmacy will become the largest retail drug operator in the United States, with more than 5,000 retail outlets in 36 states, filling over 400 million prescriptions per year (equal to 13% of all prescriptions dispensed in the U.S.) In addition, we will operate the fourth largest Pharmacy Benefits Management company, PharmaCare, that will serve over 30 million lives. As a company, we are committed to helping our customers live longer, healthier and happier lives. To that end, we have been watching the importation debate with interest over the last few years. While many in our industry believe that importation is a fundamentally flawed concept and oppose it without exception, I have come to a slightly different view.

It is a view based first on the indisputable fact that modern pharmaceuticals are tremendously valuable. Not only do innovative drugs save lives and improve the quality of life for countless people around the world, but they do so in a highly cost-effective way. Pharmacists like me are eyewitnesses to the value derived from modern medicines. As

new drugs become available, we see our patients step up to the pharmacy counter healthier, livelier, and living longer.

But pharmacists' joy in that progress is tempered by the knowledge that there are patients we never see because they cannot afford the drugs we dispense, and others who are unable to enjoy their longer lives to the fullest because purchasing medications soaks up so much of their disposable income.

Over the last few years there has been some progress in reducing the financial burden faced by many of those in the greatest need, including retailer-, manufacturer- and state-sponsored discount programs and, most recently, the just-launched Medicare discount cards. While helpful, none of these programs treats the underlying condition; they only relieve some of the symptoms.

The condition I'm referring to is the way pharmaceutical prices are set around the world. As you know, identical drugs to those sold in the U.S. often cost far less in other countries due to government price controls. As a result, a multi-billion-dollar industry, operating outside U.S. law and federal regulation, has emerged to facilitate the flow of prescription drugs from Canada and other countries into the U.S.

There has been a spirited debate as to whether this importation should be made legal, and if so, under what conditions. I applaud the efforts of this Task Force in addressing this important health care issue. Much of the discussion and debate has focused on the risks to patient safety, such as the dangers associated with counterfeit drugs and the inability to consult with a licensed pharmacist, versus the value of access to prescription drugs for consumers who cannot afford them at current U.S. prices. Safety and accessibility are important questions, but again these arguments miss the core issue. The existing underlying global pricing model simply cannot be sustained.

Let me be clear: I am not advocating that price controls are the solution. The market is the best place for prices to be set. Market pricing does not mean that prices would or should be the same everywhere. For example, developing countries should not be unfairly burdened. And price differences between industrialized nations will exist, but should be determined by market forces, not arbitrary price controls. It is a fact that a Ford Taurus, Dell laptop and bottle of non-prescription Tylenol all cost more in the U.S. than in Canada. That is the market working, not government regulators.

Global pricing is a complicated problem with neither simple explanations nor simple solutions. But this much is clear: No industry can permanently sustain a pricing system in which the cost of a product varies so radically from one country to the next, and pharmaceuticals are no exception.

Everyone involved in the discussion – from pharmacists to pharmaceutical companies to patient advocates to federal agencies – must find common ground. I suggest two basic principles that might help move the dialogue forward:

First, the federal government and pharmaceutical companies must move this industry to a global pricing system that is fair across all countries and that is based on what the market is able to bear and the value delivered by the products. The United States can no longer bear the cost of R&D for the world. International trade negotiations are one place where the U.S. Trade Representative, among others, can begin to lead the way to establishing a more appropriate, market-based pricing system with our trading partners. The recent U.S.-Australia Free Trade Agreement is a notable advance on this front. This Administration must elevate pharmaceutical pricing issues to the forefront of international trade negotiations.

Second, and just as important, the U.S. government must not surrender its responsibility to ensure the medications Americans take – whether they are dispensed here or imported – are safe and free from counterfeiting. Today there are well over 100 internet pharmacies

sending medications into the U.S. from Canada alone. In addition, more than a dozen states and cities have either established, or are setting up, programs to direct their uninsured citizens to international pharmacies, or even to purchase products directly for their employees. Our concern at CVS/pharmacy is for our customers and the trust they place in our pharmacists. I believe that if CVS tried to import drugs to meet our customers' needs, Federal and state authorities would shut us down within an hour. It is not acceptable to allow this trade to continue in the shadows. It is imperative that we provide the FDA with adequate resources to ensure the safety of all drugs, including imported ones, or if that is impossible, we should provide the FDA with the resources to shut this trade down.

Fixing the disparities in price that have evolved around the world will not be a simple task, nor will it be quick. While that process moves forward, the fact remains that many Americans need help today with the cost of their prescription drugs. It is to serve this real need that CVS/pharmacy calls on the Administration and Congress to quickly establish a means for consumers to legally and safely access imported prescription drugs for a temporary period – perhaps 3 to 4 years, perhaps longer – while a viable long-term solution is pursued. To do otherwise would be to ignore the millions of Americans who, as we speak, are forced to go outside our existing system, which is intended to ensure drug safety, in order to preserve their pocketbook. At the same time, we need to be mindful of the fact that legalizing drug importation is but a temporary solution. Over the long-term it would equate to nothing more than importation of price controls that are arbitrarily set by foreign governments.

I recognize that there are many issues that require resolution before importation can be temporarily permitted. These include: deciding which drugs to import given the lack of uniform international standards governing the chemical composition of pharmaceutical products; ensuring adequate product supply; determining how to protect the intellectual property rights of pharmaceutical manufacturers since generic equivalents sometimes become available in foreign countries prior to expiration of the U.S. patent protection

period; determining whether to segregate product inventories; establishing product recall procedures; and establishing product liability standards – to name but a few of the more significant issues. Also, in designing a program of this kind, we need to prioritize providing relief to uninsured individuals – making imports available to any and all payers would likely strain supplies to the point where cost savings would disappear.

On the question of safety, opening up our domestic drug distribution system to additional sources of products undoubtedly increases the potential for counterfeit and/or adulterated products to enter the system. Therefore, I believe that the lowest risk approach would be bulk importation: sourced from designated foreign entities, imported by established domestic distributors, and dispensed by licensed U.S. pharmacies. Such a system should include requirements for clear drug pedigree and chain of custody procedures to ensure any quality issues can be traced, the use of appropriate anti-counterfeiting technologies, and adequate fees charged to exporters to offset the additional cost of federal inspections and oversight. In contrast, legalizing direct importation by consumers would involve millions of packages from hundreds of sources; the resources needed to ensure safety in that model would be massive compared to adding some safeguards to the safe, well-established distribution system already in place in the U.S. We should leverage that system to provide uninsured American consumers access to lower cost products in a safe environment.

To conclude, we all know this is not an academic exercise – millions of Americans already have opted to import drugs because they can't afford not to. We owe it them to face this issue head-on and not look the other way. If importation is made legal and safe, CVS/pharmacy, as the nation's leading pharmacy chain, is committed to playing an active role in providing access to imported drugs to American consumers who need them.