

# US Senate holds hearing on rising generic drug prices

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The price hikes of a number of generic drugs have limited patient access, according to expert testimony before a US congressional committee. The Senate's Special Committee on Aging held its first hearing on the rising prices of generic drugs on Wednesday. Subsequent hearings of the bipartisan Senate investigation are planned after the start of the new year.

The hearing follows the release on December 1 of a bipartisan report by the Senate Finance Committee based on an 18-month investigation that detailed the high prices of hepatitis C medications. On that same day, the House Democratic Steering and Policy Committee held a hearing on the topic called for by House Minority Leader Nancy Pelosi.

Doctors, patients, pharmacy benefit managers, company representatives and other experts were called to testify before the Senate committee on Wednesday. The hearing highlighted the parasitic corporate strategies of Turing Pharmaceuticals and Valeant Pharmaceuticals, companies that acquire drugs, primarily off-patent ones open to generic competition, from other firms and then jack up the prices of the medication to reap significant profits.

The justified popular anger over rising drug prices is being exploited by politicians of both big parties who pose as opponents of this price-gouging, but in reality have no intention of taking on the giant pharmaceutical industry and its multimillion-dollar congressional lobby.

The rising prices raise "troubling questions about whether companies like Turing and Valeant are taking advantage of the patients who depend on their products for survival," said Senator Claire McCaskill of Missouri, the top Democrat on the committee.

A patient whose brain infection was being controlled by the anti-parasitic drug Daraprim (pyrimethamine) testified at the hearing. When Turing Pharmaceuticals acquired Daraprim in August, it hiked the price from \$13.50 a pill to \$750, an increase of more than 5,000 percent. As a result, the patient could no longer access the medication and her brain infection flared up. She only recovered after an expensive hospital stay.

"Her own cost and the cost to the health system, however, were enormous," said Gerard Anderson, director of the Center for Hospital Finance and Management at the Johns Hopkins Bloomberg School of Public Health, in his written testimony.

David Kimberlin, a doctor at the University of Alabama at Birmingham's hospital, testified that the price hike of Daraprim (rising from \$1,200 per treatment to "no less than \$69,000") has made it more difficult to care for babies with toxoplasmosis, a

parasitic disease transmitted through poorly cooked food or cat feces.

The disease can be particularly harmful to babies and individuals with weakened immune systems, such as AIDS patients. Pregnant women who become infected "can transmit the parasite to their fetus, resulting in brain damage, blindness, deafness, or even death," Kimberlin wrote. A liquid formulation of Daraprim is needed to treat the 400-4,000 babies born each year with congenital toxoplasmosis, but has become more difficult to obtain due to the high price.

"Babies' lives literally hang in the balance here," Kimberlin told the committee.

Kimberlin added that a survey by infectious disease societies of its members found more than 30 cases in which people had difficulty obtaining the drug promptly.

Nonetheless, Nancy Retzlaff, the chief commercial officer for Turing Pharmaceuticals, still claimed at the hearing that "no patient will be denied access to Daraprim."

A representative from the pharmacy benefits manager Express Scripts suggested the use of a cheaper alternative to Daraprim made by compounding pharmacies. These drugs, however, are not approved by the FDA and have put patients' health at risk in the past, including in the deadly meningitis outbreak in 2012.

Martin Shkreli, the CEO of Turing Pharmaceuticals responsible for the company's pricing strategy, is unapologetic for the role he plays as a capitalist. Although he was not present at the hearing, McCaskill referred to him as "Mr. Wu-Tang," alluding to reports earlier this year that he spent \$2 million to purchase the sole copy of Wu Tang Clan's "secret" album.

Valeant Pharmaceuticals has also dramatically increased the prices of several of the drugs it has acquired, with price hikes ranging from 720 to 2,849 percent, including its treatments for Wilson disease (Syprine and Cuprimine), diabetes (Glumetza), and heart problems (Isuprel and Nitropress).

"If we continued to purchase the same amount of each drug, it would cost our organization just over \$1.6 million more for isoproterenol and approximately \$290,000 more for nitroprusside compared to what we paid for the previous year," testified Erin Fox, a director at the University of Utah Health Care, using the chemical names for the drugs Isuprel and Nitropress.

Consequently, Isuprel was removed from the crash carts used for emergencies. "Physicians reported that this isn't the first medicine they use, but it could be critical when heart rate is extremely low,"

said Fox.

In addition to scandal surrounding its pricing strategies, Valeant's shady business practices have led industry analysts to compare it to Enron. For example, an investigation by the short-selling firm Citron, as reported by *Business Insider*, discovered that the company used two firms, R&O and Philidor, to give the appearance that it had higher sales revenues.

"It is apparent to Citron that Valeant has created a network of 'pharmacies' as clones of Philidor. Why do these exist? Citron believes it is merely for the purpose of phantom sales or stuff the channel, and avoid scrutiny from the auditors," wrote Citron.

As the *New York Times* noted in a 2014 article, Valeant Pharmaceuticals is "a drug company that doesn't develop drugs. Instead, it runs a serial takeover operation, furiously buying companies and products to propel its growth."

The committee also singled out two other companies, Rodelis and Retrophin, for similar practices. Rodelis acquired a drug to treat drug-resistant tuberculosis that had been on the market since 1955 and then jacked up the price more than 2,000 percent before eventually returning it to the original nonprofit owner. Retrophin did the same with a drug used to treat a serious kidney disease.

As committee chairwoman Senator Susan Collins, a Republican from Maine, remarked, "The companies we're investigating look more like hedge funds than they do traditional pharmaceutical companies"

"Each of these companies has hiked the price of off-patent drugs they recently acquired by 20, 30, or even 40 times the prior price, at times putting these drugs out of reach for patients and the doctors who treat them," Collins said.

However, Collins did her best to distance the blatantly parasitic activities of these drug companies from the pharmaceutical industry as a whole. "As one industry expert I recently spoke with put it, 'these companies are to ethical pharmaceutical companies as a loan shark is to a bank,'" she said.

(The notion of "ethical pharmaceuticals" arose in the late nineteenth century to refer to drugs prescribed by physicians that accurately listed ingredients, in contrast to "patent medicines.")

The rising costs of many generic drugs is related to the growing consolidation within the industry, such as Teva Pharmaceuticals' recent \$40 billion purchase of Allergan's generics division. Additionally, prices have been inflated by the active collusion among drug manufacturers to delay the introduction of lower-priced generic alternatives.

"If they can reduce the amount of competition, then they all can earn higher profits," said Anderson in his written testimony.

Anderson's testimony provides significant insights into how generic drugs are priced.

To gain FDA approval, a generic drug company must announce the average wholesale price (AWP) of the drug, which is then used by Medicare, Medicaid, and most private insurers to determine how much they will pay pharmacies. The price actually paid for the drug by pharmacies, however, is often much lower than the AWP used by insurers.

Under the US's privatized system of health care, insurers must guess what the pharmacy is actually paying, which is often hidden behind confidential agreements between wholesalers and

pharmacies. When the insurer guesses too high—Anderson says they are sometimes off by a factor of 10 or more—the pharmacies stand to gain a greater profit. This is known in the industry as "marketing the spread" between the pharmacy price and the insurer price.

Thus, generic drug companies have a financial incentive to announce high AWPs because they generally result in greater profits for pharmacies, which, in turn, will opt to carry these higher-priced generic drugs even when lower-priced competitors are available.

"The entire generic drug pricing is designed to earn profits for the generic drug company and the pharmacy," Anderson said.

Despite the exposure at the Senate hearing of the unscrupulous practices of the pharmaceutical companies, Democratic and Republican politicians alike will not challenge the for-profit health care system in America that is the basis of these practices.

Democratic presidential front-runner Hillary Clinton recently launched a TV ad in which she vows to take on high drug prices, as well as high deductibles, co-pays and other out-of-pocket costs for ordinary Americans. However, in the section on her campaign web site titled, "Affordable health care is a basic human right," Clinton reaffirms her support for the pro-corporate Affordable Care Act (ACA).

The cornerstone of the program popularly known as Obamacare is its "individual mandate," which requires all those uninsured through their employer or a government program to obtain insurance from for-profit private insurers or pay a tax penalty. The ACA aims above all to ration health care for working people while it drives down costs for the government and big business.



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