

Md. drug pricing transparency bill misunderstands U.S. medicine market

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Maryland has a well-earned reputation as a growing hub for biomedical innovation, due in large part to strong economic development plans focused on the life sciences that have been supported by a succession of Democratic and Republican governors and the state legislature. Our state is home to not only the National Institutes of Health but also to one of the largest clusters of research-based biopharmaceutical companies in the country. The majority of these companies are small enterprises focused on turning groundbreaking scientific ideas into treatments and cures for many serious and life-threatening diseases. In addition to important life-saving medicines, these companies also provide good, high-paying jobs to tens of thousands of men and women across our state.

As long-time biotech entrepreneurs in Maryland whose companies have invested hundreds of millions of dollars in research and development, we are concerned that legislative proposals under consideration in Annapolis could harm the progress our state has achieved in building this impressive biomedical ecosystem. If adopted, this legislation would have serious unintended consequences on future investment in biomedical innovation in the state.

We are acutely aware of the concerns many Marylanders have about the affordability of prescription drugs, so it is not surprising that the [Maryland General Assembly](#) is considering legislation to curtail prescription drug costs. One such legislative proposal, referred to as "drug pricing transparency," would require biopharmaceutical companies that set or increase a drug's price above a government imposed threshold to publicly disclose all sorts of proprietary and competition-sensitive information about that drug's costs and other related matters. While, on its face, this may seem like a simple and straightforward solution to address drug costs, the reality is that it reflects two fundamental misunderstandings of how drugs are developed and sold in the United States.

First is the flawed assumption that a "reasonable" price for a particular drug could be determined if purchasers and consumers better understood the costs associated with developing, manufacturing and selling that particular drug. In reality, there is no direct line to follow from such costs to the price set for any particular drug. Biopharmaceuticals are developed through a lengthy process of trial and error, which spans a decade or more and is the result of collaborations involving multiple researchers, institutions and companies working on related research projects. The vast majority — roughly 90 percent — of clinical research on new medicinal compounds fails to lead to an approved drug.

The only way small research-intensive companies like ours survive is because investors are willing to take huge risks and put significant financial resources behind our ideas. This risk-taking is based on the expectation that the 10 percent of successful research endeavors will more than pay for all the failures that occurred along the way. However, so-called "transparency" legislation treats each prescription drug in isolation and puts an artificial government price target on the few successes, while neglecting to account for the costly failures.

Second, transparency legislation assumes the price set for a particular drug is an accurate reflection of the cost of that drug to the health care system or to patients, and that it reflects what a company might actually make on the drug. Neither is true. The list price of a drug is just the beginning of a complex series of negotiations among sophisticated and powerful commercial players such as wholesalers, pharmacy benefit managers and insurance companies. The result is an actual price that is typically much lower than the list price. It also is worth noting that prescription drugs are often subjected to government-mandated discounts on top of the discounts negotiated with these commercial middlemen. And the out-of-pocket cost to patients are largely determined by insurance company policies, with generally little relationship to list prices or price increases.

Maryland's biopharmaceutical industry welcomes an honest dialogue about the cost of our total health care system and how we can work together to lower those costs.

Unfortunately, the legislation under consideration in Annapolis will do nothing to promote this dialogue, nor will it help patients or payers better understand their true drug costs. It will serve only to add more risk to our already risky business model and dampen the incentives that make it attractive to invest in Maryland's biopharmaceutical companies.

By making smart public policy decisions, we will continue our progress in making Maryland a thriving biotech hub of investment and job creation while providing enormous benefits to our families and loved ones in the form of new cures and therapies in the years to come.

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