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Editorial

The prices of new medicines in Europe and the United States: political pressures, profits, politics and population health

Los precios de los nuevos medicamentos en Europa y en los Estados Unidos: presiones políticas, beneficios, política y salud poblacional

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Starting point: price differences between United States and Europe

In the United States of America (USA), prices of new brand-name drugs under patent are much higher than in Europe.

For years, there has been a bipartisan consensus on how the rest of the world takes advantage of the fact that the USA finances most of the cost of research and development (R&D): there is global free riding.[1,2] However, this presumption is based on list and invoice prices, and there is little evidence regarding the actual net prices paid. International differences in net prices cannot be precisely quantified at this time due to lack of transparency surrounding current net prices both in the USA and outside the USA. The prices of generic drugs are much lower than in the European Union (EU).

Higher prices in the USA stem from a lack of price regulation, a greater willingness to pay, and a policy of incentivizing innovation through pricing. In the USA, there is no single public purchaser with market power. Pharmaceutical benefit managers, as intermediaries, may not be incentivized to search for lower prices for insurers and patients. Furthermore, the public Medicare programme has been legally prohibited from negotiating prices until 2023.[3]

What are the appropriate prices?

Ultimately, drug R&D costs are covered by prices. Given the empirically proven price difference between the USA and the rest of the world, Europe in particular, the following could be the scenario:

Prices in the USA are appropriate, and prices outside the USA are too low. Therefore, prices outside the USA should be raised.

USA prices are too high and prices outside the USA are too low. The report by The Council of Economic Advisers[4] adopted this scenario, and so did most of the economic literature on international pricing.[4,5] The question of the magnitude and criteria for both downward and upward adjustments is open.

Prices in the USA are too high and prices outside the USA are appropriate. This appropriateness is because pricing in many countries is based on scientific studies of incremental cost-effectiveness, according to empirically grounded willingness-to-pay thresholds.[6]

MFN pricing: reviving international reference pricing policies

The first official proposal to implement international reference pricing in the USA dates back to 2016 under the Obama administration. In 2020, under the name *Most Favored Nation* (MFN), the first Trump administration introduced a similar proposal for international reference pricing, which was ultimately struck down by the courts. In May 2025, an Executive Order from the second Trump administration reintroduced MFN pricing policies and announced that it would use voluntary agreements with major pharmaceutical companies, involving price reductions and investment commitments in the USA in exchange for tariff exemptions.

The application framework[7] of MFN pricing policies is based on confidential agreements with industry and the GENEROUS program.[8] It would be applicable to all or most new medicines. Reference countries include the G-7 countries, except the United States, plus Denmark and Switzerland. The reference price for the USA will be the second lowest net price of this group of countries, as reported by the industry, and adjusted for the purchasing power parity and the gross domestic product of each country.[9]

So far, the stock markets have reacted positively to the first agreement signed (with Pfizer), with significant rises in share prices for 14 of the 16 companies that received Trump's letter (an average of 8.5 per cent over a two-day period).[10]

Towards price compression between Europe and the United States?

The objective of MFN pricing is twofold: on the one hand, to lower prices in the U.S., and on the other, to raise prices outside USA, thereby narrowing international price differences, particularly in Europe and other high-income countries. It is a price compression scenario.[8,11]

Even if MFN pricing were strictly applied in both the short and medium term, and if prices inside and outside USA were observable,[3] net prices in monetary terms could differ internationally due to purchasing power parity adjustments and differences in per capita income dynamics across countries. Furthermore, since a country's general price index is positively correlated with its gross domestic product per capita, net prices in the USA could remain higher than in other countries. The price difference could narrow compared to current levels.

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European pharmaceutical expenditure and prices under pressure

Several EU countries account for the largest global market after the USA. In most European countries, Health Technology Assessment (HTA) and centralized price negotiation between a large public purchaser and the pharmaceutical industry are important regulatory elements. This regulatory framework in several EU countries with a significant pharmaceutical market, supported by transparent and evidence-based cost-benefit analysis, is very likely to not only continue to have a strong influence on their decisions regarding net entry prices, but also to serve as a model for other countries with less developed HTA systems.[12] For this reason, we believe that the third scenario is the most likely one.

However, an increase in the cost-effectiveness threshold in some European countries, such as in the United Kingdom, could be accompanied by greater confidentiality surrounding net prices and more opaque pricing mechanisms. A generalised rise in the prices of new medicines, as is set to happen in the United Kingdom, where spending on new medicines is set to double as a proportion of gross domestic product within 11 years, could have negative consequences for public health due to the opportunity cost, against a backdrop of tight healthcare budgets, including an excess of 229,000 deaths and an increase in health inequalities.[13]

For these reasons, in our view the foreseeable scenarios for already strained public finances make it difficult to anticipate a significant price increase, such as that required by a multi-negotiable pricing framework where the USA price dictates the entry price of new medicines in other countries.

Adjusting expenditure, prices or patient access in Europe?

This situation could lead to a European scenario characterized by greater restrictions on patient access in the form of:[3]

Increased delays in public coverage decisions, associated not only with European regulatory procedures but also with the industry's own entry strategies in a credible multi-negotiable pricing scenario.

A higher number of exclusions from public coverage associated with the application of stricter criteria regarding the value of new medicines or indications.

Coverage decisions highly restricted and conditional on those patient subpopulations with the greatest expected incremental effectiveness. The pharmaceutical industry itself will have incentives to launch products with selective coverage to justify higher entry prices under HTA procedures.[14]

The balance for patients may not even be negative if restrictions affect new treatments with reduced efficacy or incremental effectiveness[15] in favour of innovations with greater added therapeutic value and/or selective coverage for population subgroups that can derive the greatest health benefit.

Note

This editorial is partially based on the study paper *Irrupción de la geopolítica en la política sanitaria: "política de nación más favorecida" (MFN) en Estados Unidos y precios de referencia internacionales*, published by Funcas.

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Conflicts of interest

J. Puig-Junoy is Vice-President of the Committee for the Financing of Pharmaceutical Services of the Ministry of Health.

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