

## **Senate Community Affairs Legislation Committee**

**Inquiry into the National Health Amendment (PBS) Bill 2010**

***Public Hearing held on 9 November 2010***

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### **NPSA – Further Submission**

**Document Date: 12 November 2010**

<b>Introduction:</b>	<p>Thank you for the opportunity to represent the interests of the full line pharmaceutical wholesale industry at the Senate Hearing on 9 November 2010.</p> <p>We provide in this further submission:-</p> <ul style="list-style-type: none"><li>❖ Section 1 - Answers to questions raised during the Hearing</li><li>❖ Section 2 - Elaboration on points raised during the Hearing</li><li>❖ Section 3 – Clarification of NPSA recommendations in respect to the National Health Amendment (PBS) Bill 2010.</li></ul>
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## Section 1 - Answers to questions raised during the Hearing

1.	<p><b>Correspondence with the Minister's Office</b></p> <p>Did NPSA receive a response to its letters to the Minister's office in which it outlined the potential consequences of further reforms to the PBS arrangements? What was the interaction between DOHA and the Minister's office with the wholesalers?"</p> <p>Clarify the way that the response to the letter sent to the Minister's office post the Budget was circulated within NPSA.</p>
17.04.2009	<b>NPSA letter</b> to Minister (in response to media speculation) <b>seeking consultation</b> in respect of further PBS reforms referred to in the press..
12.05.2009	<b>Minister response</b> re NPSA letter of 17 April 2009 stating that the Minister is unable to comment on matters that may or may not be in the Budget.
18.09.2009	<b>NPSA meetings</b> with DOHA and Minister's Office to discuss negotiations for the Fifth Community Pharmacy Agreement and problems with specific (non-PBS Reform related) PBS pricing concerns. PBS Reform was not discussed other than in passing.
24.09.2009	<b>DoHA letter</b> to NPSA inviting it to provide an overview of the impacts of PBS Reform (2006) from the perspective of the NPSA for consideration in the development of the report of the Minister to each House of the Parliament.
09.11.2009	<b>NPSA response</b> including an Overview prepared by NPSA on the impacts of PBS Reform (2006) from the perspective of the NPSA for consideration in the development of the report of the Minister to each House of the Parliament
29.01.2010	<b>NPSA meeting</b> with DOHA at which NPSA made representations in respect to concerns it has with the ongoing impact of the PBS Reform (2006) arrangements.
26.03.2010	<b>NPSA letter</b> to Minister outlining the ongoing impact of the PBS Reforms (2006) and the potential risk of further PBS reforms and specifically requesting certainty for the sector, predictability, a period within which to adjust to the PBS Reforms (2006) before there are any further reforms and <b>"engagement and consultation before any further changes are contemplated."</b>
20.04.2010	<b>Minister response</b> re letter of 26 March 2010 stating that NPSA's letter has been forwarded to the Department for further investigation.
22.04.2010	<b>NPSA meeting</b> with Dr Phuong Pham, Adviser Minister Roxon, and representatives of DOHA. <b>NPSA requested that it be consulted in respect to any further PBS reforms.</b> Dr Phuong foreshadowed that there would likely be change to the PBS reform arrangements in the Budget, informed NPSA that there was no opportunity for transitional funding for wholesalers and that he was not in a position to provide detail on the likely changes. Dr Phuong said that NPSA would receive a full briefing on the package after the Budget.

11.05.2010	<b>Federal Budget.</b> (followed by an industry briefing)
09.06.2010	<b>DoHA letter to NPSA</b> in response to NPSA's letter to Minister Roxon of 26 March 2010 which did not address the scale of the impact of the PBS Reforms (2010) on the sector. This letter was circulated to NPSA Directors and Members by email on 24 June 2010.
05.10.2010	<b>NPSA letter</b> to Minister re PBS Reform – National Health Amendment (PBS) 2010. <i>(Awaiting response)</i>

## Section 2 – Further Elaboration of NPSA Evidence

1.	<p>NPSA makes the following comments in respect to <b>Consultation</b>:</p> <ul style="list-style-type: none"> <li>At no stage was NPSA privy or consulted in respect to the proposed PBS Reforms agreed to in the MOU with Medicines Australia.</li> <li>NPSA was not able to negotiate transition arrangements to ensure that supply is maintained under the new arrangements. NPSA would have sought to discuss the need for transition funding if it was given the opportunity.</li> <li>If consulted, NPSA would also have sought to make recommendations in respect to how to ensure that supply is maintained when price changes are effected.</li> <li>It is unclear whether the saving in wholesale margin funding is included in either the Guild or the Medicines Australia savings. If the savings from the wholesale margin have not been taken into account when calculating the \$1.9 billion of savings under the Medicines Australia MOU, then any adjustment mechanism in favour of the wholesalers would not impact on the total savings.</li> </ul>
2.	<p>NPSA seeks to elaborate on its evidence in respect to the <b>significance of the impact</b> to wholesalers of the PBS Reforms (2006) and (2010).</p> <ul style="list-style-type: none"> <li>The quantum of the impact is such that it could wipe out the entire sector profitability based on the published data of the participants. Wholesalers operate on profit margins of under 2% of sales so therefore a price reduction of 23% on 1600 lines is significant.</li> </ul> <p><b>Loss Due to Reduction in Wholesale Margin Funding</b></p> <ul style="list-style-type: none"> <li>The estimated NET reduction in wholesale margin funding due to all PBS Reforms (including the 12.5% Generics Price Reduction Measure) is \$383 million over 2010 – 2015 i.e. <b>\$76 million per annum</b> on average, as follows:             <ul style="list-style-type: none"> <li>❖ 12.5% Generics Price Reductions Measure- \$95 million</li> <li>❖ PBS Reform (2006) \$285 million. Partially offset by additional CSO funding of \$115 million (net impact \$170 million)</li> <li>❖ PBS Reform (2010) - \$118 million</li> </ul> </li> <li>The estimated reduction in wholesale margin funding pursuant to the Bill (PBS Reform (2010) is <b>\$24 million per annum</b>.</li> <li>NPSA is not aware of how the Government has accounted for the savings in the wholesale margin and whether these savings are included in the \$1.9 billion of savings referred to in the Medicines Australia MOU</li> </ul> <p><b>Loss Due to Devaluation of Inventory</b></p> <ul style="list-style-type: none"> <li>The loss shown above does not include the likely devaluation of inventory on hand on 1 April 2012 when the most significant price cuts are imposed. The overall impact on the sector is therefore likely to be higher than \$383 million above. Given the uncertainties associated with the price cuts resulting from the National Health Amendment (PBS) Bill 2010 (i.e. the actual level of the price reduction, the effectiveness of the arrangements agreed with suppliers to mitigate the loss, the value of the stock in the supply chain at the time of the devaluation), NPSA is not able to reliably quantify the likely impact however, indicatively, the likely impact could be around \$30 million for the sector on 1 April 2012.</li> </ul>

	<ul style="list-style-type: none"> <li>▪ The ability of wholesalers to negotiate acceptable arrangements with the suppliers is limited by the fact that wholesalers are required to supply each medicine to all pharmacies regardless of whether the supplier of the medicine agrees to an arrangement which keeps the supply chain appropriately stocked to meet the demands of patients. Experience to date suggests that not all suppliers negotiate acceptable arrangements.</li> </ul>
3.	<p>Mr Davies agreed with Senator Boyce that Pharmaceutical wholesaling “is no different from wholesaling in any other area”. NPSA seeks to elaborate on this response.</p> <ul style="list-style-type: none"> <li>▪ Wholesaling businesses differ from distribution businesses in that they take title of the inventory. Wholesaling businesses often outsource distribution functions to distribution companies like Toll, Australia Post or DHL. In this way pharmaceutical wholesalers are not different to wholesalers in other sectors.</li> <li>▪ The wholesaling of pharmaceuticals in Australia is however very different in other respects to wholesaling in other sectors and it is these differences that make the sector vulnerable to PBS Reform:-             <ul style="list-style-type: none"> <li>▪ Under the Community Service Obligation arrangements (the “CSO”) the range of medicines is prescribed by Government. Wholesalers cannot de-range medicines that are unprofitable to range. Generally the high volume medicines are profitable to distribute while over 90% of all PBS medicines by NHS Code are ordered on average in pharmacy less than once per week and are not profitable to wholesale;</li> <li>▪ The maximum price that pharmaceutical wholesalers can charge is also capped under the CSO;</li> <li>▪ Wholesalers are required to supply all pharmacies (incl. rural locations) generally within 24 hours under the service standards mandated under the CSO;</li> <li>▪ Wholesalers bear considerable cost due to the financing of the inventory of the sector. The estimated value of this finance is in the order of \$900M to \$1B.</li> </ul> </li> </ul> <p>The significance of this difference in the context of the National Health Amendment (PBS) Bill 2010 is that wholesalers have limited options to absorb or pass on the impact of the reforms. The sector is fiercely competitive and does not have the capacity to absorb the massive cuts through efficiency or productivity improvement.</p>

### Section 3 –NPSA recommendations in respect to the Bill

1.	NPSA does not support passage of the National Health Amendment (PBS) Bill 2010 without appropriate transition arrangements in place to ensure the sustainability of the full line wholesale sector in Australia which underpins patient access to timely supply of medicines.
2.	<p>NPSA seeks transition funding as follows:-</p> <ul style="list-style-type: none"> <li>▪ \$34 million per annum due to the shortfall from PBS Reform (2006)</li> <li>▪ \$24 million per annum due to the impact on wholesalers of PBS Reform (2010) – the subject of the National Health Amendment (PBS) Bill 2010.</li> </ul>
3.	<p>NPSA needs assurance that price reductions will be effective for wholesalers at least 4 weeks prior to when the price reductions need to be effective for pharmacy.</p> <p>This is to ensure that wholesalers are not impacted by a significant devaluation in their stock. Alternatively, wholesalers need additional transition funding to compensate them for the estimated devaluation of stock on hand as at the date of each price reduction.</p> <p>NPSA estimates that \$30 million would need to be paid to ensure that stocks are maintained in the supply chain when prices are reduced.</p>
4.	<p>NPSA supports the Guild's proposed changes to the National Health Amendment (PBS) Bill 2010 as follows:</p> <ul style="list-style-type: none"> <li>▪ That the proposed 1 December 2010 start data for price disclosure be delayed until 1 February 2011.</li> <li>▪ That the duration of the data period for this 1 February round of price disclosure be reduced to 8 months.</li> </ul>