

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-034

OUTCOME 2: Access to Pharmaceutical Services

Topic: PBS PRICE DISCLOSURE

Written Question on Notice

Senator Siewert asked:

Under price disclosure the price of the medicine can drop below the cost of goods of some manufacturers, forcing the market exit of these less efficient suppliers. What assurances does the Government have that the remaining suppliers can produce sufficient volumes to meet the whole supply of the market?

Answer:

Pharmaceutical manufacturers make business decisions regarding the price at which they will sell their medicines to pharmacy. Price disclosure ensures that the price paid by the Government for Pharmaceutical Benefits Scheme (PBS) listed medicines more closely reflects the price those medicines are being sold for in the market place.

Price disclosure takes the average weighted disclosed price that a medicine sells for and sets the price the Commonwealth pays based on this. If the weighted average disclosed price is 10 per cent or less than the PBS price, no price reductions will occur. Because price disclosure only reduces the price paid to the average sale price and not the lowest price, and because it does not require a price reduction where discounting is less than 10 per cent, it leaves room for further discounting by efficient providers.

This means that in the event that an inefficient supplier makes the business decision to delist their medicine from the PBS then it would be expected that the larger, more efficient providers who are driving the market price will increase production to cover any supply shortfall.