

Senate Community Affairs Committee

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-091

OUTCOME 2: Access to Pharmaceutical Services

Topic: FURTHER PBS PRICING REFORMS AND GENERIC MEDICINES

Written Question on Notice

Senator Boyce asked:

The First Assistant Secretary for the Department of Health and Ageing stated at Senate Estimates on 2 June 2010 that the Department of Health and Ageing believes that the impact of the proposed 2010 PBS reforms on the investment and jobs of the generic medicines sector would be low. At the time you gave three reasons for reaching this conclusion, briefly that (1) the reforms offer a stable pricing policy for four years (2) reforms will not take cuts out of the earnings of pharmaceutical companies (3) there is growth for generic medicines. Under the proposed reforms to the PBS, suppliers of generic medicines will face price uncertainty for over 1600 as compared to the current 162 items.

Changes to the PBS list price of items can reduce overnight by spikes of over 70% under price disclosure. How does this provide a stable pricing environment for suppliers of generic medicines?

Answer:

The proposed reforms provide pricing stability through an undertaking by Government not to introduce any new policy to generate price related PBS savings during the life of the Memorandum of Understanding. All pharmaceutical companies (both innovator and generic) can make business decisions knowing that no new price related policy will be introduced over the next four years.

Price disclosure policy itself helps ensure that the prices paid by taxpayers and consumers for PBS listed medicines reflect what the market is charging. As the price reductions are driven by companies themselves, the Government is confident that the prices paid are at a level the market can sustain, a change in price of 70% would reflect that the market was already discounting the drug at this level over the past year.

Unlike pricing policies in other countries where significant mandatory price cuts are imposed for multiple brand drugs, price disclosure uses the competition in the market to determine the price reduction for an individual drug. In this way it follows the market rather than setting it. It both leaves room for market competition and allows for the variances in discounts between drugs rather than applying a one size fits all approach.