

Senate Community Affairs Committee

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-092

OUTCOME 2: Access to Pharmaceutical Services

Topic: PRICE DISCLOSURE (PBS)

Written Question on Notice

Senator Boyce asked:

The proposed reforms and price disclosure generally are designed to claw back to the public purse the discounts that are currently being passed on from supplier of generic medicines to the pharmacist. Your statement that the proposed reforms will not take cuts out of the earnings of pharmaceutical companies must assume that as the PBS list price falls due to the price disclosure policy, pharmaceutical companies will be able to reduce the size of discounts while not reducing their competitiveness. What evidence does the Department have pharmaceutical companies will be able to reduce the size of the discounts while not reducing their competitiveness?

Answer:

Product discounting is a business decision made by companies to gain market share. Evidence shows that within three to five years, generic manufacturers secure 50 per cent of a drug's market once it is off-patent.

Price disclosure does not discourage competitiveness in the market, it follows the market price rather than setting it. Price disclosure still leaves room for further discounting by efficient providers, because it only reduces the price to the weighted average, not the lowest price. It also does not reduce the price paid by the government where discounting in the market is less than 10 per cent of the PBS price. In this way it allows companies to continue to compete for market share.

This is demonstrated by the current program, where 15 price reductions of between 12 and 72 per cent have been achieved or have been scheduled across nine drugs, with six of these drugs having taken or scheduled to take a second reduction.