

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-094

OUTCOME 2: Access to Pharmaceutical Services

Topic: GENERIC SECTOR

Written Question on Notice

Senator Boyce asked:

The Department advised this committee earlier this year that the generic medicines sector is expected to grow. I assume that suppliers of generic medicines will make commercial decisions about market entry on more than just the market size. Clearly low prices and limited market incentives to choose a generic medicine make a market commercially unattractive.

- a) What assurances can the Department provide that the proposed reforms will not cripple the generic medicines sector market and consequently jeopardise access to the market of generic medicines?
- b) What analysis has the Department done to assure the Government of the ongoing stability of supply of generic medicines?

Answer:

- a) Some countries enforce a mandatory price reduction of up to 50 per cent once a drug comes off patent, others tender for the lowest price. Price disclosure is intended to let the market set the price, and promote competition, rather than impose blanket price reductions. It leaves room for further discounting by efficient providers. In this way it follows the market rather than setting it.

In recent years, the number of scripts for F2 drugs supplied by firms that mostly produce generic brands has steadily increased from approximately 27 per cent of PBS scripts (excluding combination items) in 2005-06 to 33.8 per cent in 2008-09.

In addition, there are 19 medicines estimated to come off patent in the next 12 years that cost the PBS \$2.3 billion in 2008-09, including high volume drugs such as atorvastatin and olanzapine, which are both due to come off patent in 2012. Overall these 19 medicines represent almost 30 per cent of total PBS expenditure. These patent expiries will provide the off-patent sector with significantly increased opportunities to expand their business.

Analysis has also been undertaken on a selected list of medicines where the Department has information on the market take-up in the first five years after initial listing and also where the Department has information on the take-up of generic brands in the first three years after the entry of a first competitor brand. This analysis shows that, on average, after two or three years generic medicines have around 50 per cent market share.

Brand substitution policy was introduced in Australia in 1994 to encourage the use of generic medicines. The policy makes it possible to substitute, where appropriate, the prescribed drug brand at the time of dispensing in the pharmacy. This practice is a vital component of pharmaceutical policy in Australia and continues to be supported by Government in a number of ways, including the recent Budget measure, which committed an additional \$10 million over four years to build on the Generic Medicines are an equal choice awareness campaign, conducted by the National Prescribing Service (NPS) in 2008-09.

Based on the success of this previous campaign, which increased consumer confidence in generic medicines from 72 to 77 per cent of those surveyed, the campaign will be targeted at increasing consumers' understanding of the safety and efficacy of generic medicines, and increase their confidence to choose a generic when a popular brand medicine may cost them more. Increasing consumers' awareness of, and confidence in, generic medicines as an equal choice benefits consumers and will also contribute to the viability of the generic medicines industry.

- b) These policy changes will not result in a reduction in the volume of medicines in the Australian market. In 2009-10, expenditure on the PBS was \$8.4 billion, with a growth rate of 9.3 per cent, compared with 7.7 per cent growth in 2008-09. The current forecast for 2010-11 anticipates that expenditure on the PBS will be approximately \$9 billion. The PBS will continue to grow, as will the off patent sector.

In the 2010 Report to the Parliament, *Impact of the PBS Reform*, the measures concluded that data for the period 2005-09 shows that following the introduction of the PBS Reform, prescriptions for generic medicines are increasing at lower overall cost to Government, while prescriptions for innovator medicines are reducing but at higher proportional cost to Government. Broadly, this suggests that the PBS is buying more generics at a cheaper price while maintaining access to new innovative medicines.