

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-265

OUTCOME 2: Access to Pharmaceutical Services

Topic: SAVES FROM THE FURTHER REFORMS AND IMPACT ON WHOLESALERS

Written Question on Notice

Senator Fierravanti-Wells asked:

- a) What does DOHA forecast the impact of the additional changes to the PBS reform arrangements to be over and above the projections of PWC?
- b) How will wholesalers survive the current PBS reforms, let alone the further reforms, given the quantum of the reforms are likely to wipe out a significant percentage of their combined annual results.
- c) If the assumption is that wholesalers will adjust their prices to pharmacy, what evidence is there that wholesalers have the capacity to do this within the constraints of a very competitive market. It seems clear that to date wholesalers have not been able to maintain their returns in the face of reducing income due to cuts in PBS prices.
- d) What will happen to patient services if one of the three wholesalers withdraws from providing services as a result of these further reforms?
- e) Were these issues discussed with the wholesaler before the reforms were agreed to?

Answer:

- a) The impact of the further PBS pricing reforms over and above the estimated impacts of the 2007 PBS reforms (as reported in the Ministers report to Parliament – *The Impact of PBS Reform*) is estimated to be a saving to the Government of \$1,876.3 billion over the period 2010-11 to 2014-15.
- b) The Department will provide sufficient notice of which medicines are affected by the further PBS reforms under price disclosure arrangements. This allows time for wholesalers and community pharmacies to effectively manage stock levels, as they have demonstrated with previous price reductions under the 2007 PBS reforms.

Importantly, a reduction in wholesaler margin does not necessarily equate to a reduction in wholesaler income because medicines are provided to pharmacies under different trading terms.

Eligible wholesalers are sharing in some \$950 million over five years to distribute medicines under Community Service Obligation (CSO) arrangements, 58 per cent more than the previous agreement. The payments from the CSO supplement the wholesale margin of 7.52 per cent for most drugs which is paid under the Fifth Community Pharmacy Agreement.

Payments from the CSO are not affected by price reductions as it is a fixed unit rate per box of medicine supplied (approximately \$0.60 per unit).

- c) Australia's biggest supplier of medicines to wholesalers and community pharmacies, DHL Supply Chain (DHL), in their submission to the Inquiry is supportive of the Bill. Further, DHL suggest that the Commonwealth pays too much in wholesaler remuneration (\$3.24 per prescription on average in 2008-09, including both wholesale margin and CSO) and recommends the application of a significantly reduced unit rate for all PBS items of \$0.70 per unit.

Australian Pharmaceutical Industries (API), a pharmaceutical wholesaler, have noted in a release to the Australian Stock Exchange on 28 October 2010 that 'The impact of PBS reforms announced this year is significant, however we are confident that initiatives are in place to offset or mitigate any major impact on the business'.

- d) There are currently five eligible wholesalers (CSO Distributors) receiving funding from the CSO. Three supply all PBS medicines nationally, and two supply all PBS medicines within nominated jurisdictions. The Department does not believe patient access to PBS medicines will be affected by these reforms.

CSO incorporates a range of standards, most importantly,

- that at all times they will hold stock of one originator brand and two premium-free brands of every PBS medicine; and
- will deliver any PBS medicine to any pharmacy anywhere in Australia within 24 hours when requested.

In addition to CSO Distributors, the Department is aware of one major national distributor, DHL, and various state based pharmaceutical wholesalers such as SWAPS in Western Australia and Barretts in Victoria.

- e) The Deputy Secretary of the Department met with the National Pharmaceutical Services Association on 29 January 2010 to discuss PBS sustainability issues, in the context of the negotiations of the Fifth Community Pharmacy Agreement and wholesaler remuneration.