

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-035

OUTCOME 2: Access to Pharmaceutical Services

Topic: GENERICS IN AUSTRALIA AND OFFSHORE

Written Question on Notice

Senator Siewert asked:

- a) Has the Government considered the likely mix of domestic and offshore supply of generic medicines under the proposed reforms?
- b) Is it expected that domestic manufacturing of generic medicines will move offshore?

Answer:

- a) The Department does not expect recent changes to the PBS to trigger major changes to the makeup or trade profile of this industry.

Australia's pharmaceutical industry is already made up of many players that vary broadly in their approach to the market.

The minority of industry imports are active raw materials with the bulk of imports being either intermediate or finished products. Imports are primarily sourced from the United States, the United Kingdom, Germany, France and Ireland, usually reflecting the country of origin of the major multi-national players and parent companies of Australian suppliers, that dominate this industry.

Local production mainly comprises secondary manufacturing activities such as the formulation and packaging of finished products, with the necessary active ingredients mainly imported from the player's parent company, while passive ingredients (e.g. fillers) and containers are generally sourced locally.

According to data produced by the Productivity Commission, pharmaceutical products formulated and packaged locally from brought-in active ingredients accounted for 34 per cent of total pharmaceutical sales in 2001-02 compared with 44 per cent for fully imported products (already packaged and labelled) and 18 per cent for products imported fully finished in bulk and packaged locally.

- b) The impact for pharmaceutical manufacturers and suppliers is expected to be low. This is because the major contributor to the savings, price disclosure, does not impose price reductions arbitrarily, nor demand the lowest price for a medicine – prices follow the market.

The ongoing price disclosure arrangements aim to lower the government price only to the average price actually charged by pharmaceutical companies in the market.

The market for generic drugs in Australia is significant and growing. The PBS will reach \$9 billion next year, and growth is expected to continue. The share of off-patent drugs in that market is also growing; it has increased from about 27 per cent to 34 per cent over the last four years.

Further, the Government through its Memorandum of Understanding with industry has undertaken not to introduce any new policies that generate price-related savings over the four-year period, providing pricing certainty to the industry.