SENATE STANDING COMMITTEE ON COMMUNITY AFFAIRS

LEGISLATION COMMITTEE

Inquiry into the National Health Amendment (Pharmaceutical Benefits Scheme) Bill 2010

SUBMISSION

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SUBMITTER

Australian Pharmaceutical Industries Ltd

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Senator Claire Moore
Chair
Community Affairs Legislation Committee
The Senate
Parliament House
Canberra ACT 2600

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Dear Senator Moore,

Thank you for the opportunity to provide comments to your committee in relation to the National Health Amendment (Pharmaceutical Benefit Scheme) Bill 2010. I will keep my comments brief.

API is the major distributor of pharmaceuticals in Australia. It currently delivers medicines to more than 80% of Australian retail pharmacies. It is able to provide the full range of medicines on the Pharmaceutical Benefits Scheme to any pharmacy in Australia which enables them to meet the health and wellbeing needs of their patients. The timely delivery of medicines is critical to ensuring that members of the community can receive life-saving or health stabilising treatment from their local pharmacy.

API distributes these medicines from a number of distribution centres around the country.

API is one of three National CSO Distributors operating in Australia today – and two of the three wholesalers are publically listed companies.

The wholesalers operate on extremely low margins of around 2% and any changes that are made to their operating environment must be closely managed. Government is the monopoly payer and if it does not get its payment levels right, then the viability of the wholesaling industry is placed under threat.

The wholesalers enter into an agreement with Government to supply the full range of PBS medicines to any community pharmacy, via a daily delivery service. They are paid a wholesale margin – which is calculated as a percentage of the approved PBS price to pharmacy for PBS medicines. Under the current Community Pharmacy Agreement, that margin is now 7% (down from 10% in 2006).

Over the past five years the wholesaling industry has shown its willingness to assist the government of the day with PBS reform and has delivered substantial savings to government, with $150m delivered during the 4th Community Pharmacy Agreement.

When PBS Reforms were introduced in August 2008, the wholesalers were broadly compensated for the collateral damage caused by reducing drug prices. However, further PBS reform price adjustments have been processed over the past two years without any additional compensation for the wholesalers. The Department of Health state in their submission that the current agreement will provide wholesalers almost $950m over the life of the agreement, compared to total funding of $660m under the 4th Agreement. This is not entirely accurate – they are not comparing like with like.

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The 5th Community Pharmacy Agreement executed in July this year, coupled with the signing of the MOU with Medicines Australia puts in train a new tranche of PBS reforms that will give the Government savings in the order of $2.9b but will cost the wholesalers in the order of $220m, over the next five years. This is based on the Government's own figures.

Like the other wholesalers operating in Australia (who are represented by the National Pharmaceutical Services Association), API was not consulted by the Department of Health about the flow on effect of these two agreements. We find that very disappointing as we made a number of efforts to engage with them. Whilst we had a number of conceptual discussions, there was never a real discussion around what level of remuneration for wholesalers, would be considered fair and reasonable.

The very fact that we have a CSO pool at all acknowledges that the wholesale margin does not cover the costs for the timely delivery of medicines in Australia. In the savings of $2.9b made through the 5th Pharmacy Agreement and the MOU with Medicines Australia, API believes that unless the CSO pool is supplemented, we cannot have any confidence of being able to fulfil our obligations to Government, to Pharmacists and to the Australian public, in the medium to long-term without other systemic changes or impacts.

The current economic position confronting API has caused us to review our cost base and subsequently close two distribution centres in regional areas of Australia - one in Toowoomba and the other in Kempsey.

We found the decision to close the Toowoomba and Kempsey centres very hard to make. API had been in the Kempsey area for thirty six years and in Toowoomba for sixteen years. Thirteen long standing employees were impacted. Where practicable API tried to find employment for these staff within their network – however, the majority had to be made redundant.

We will continue to review our cost base in light of the impact of Government changes to Community Pharmacy remuneration and pricing and in light of the further PBS reforms that are proposed in The National Health Amendment (Pharmaceuticals Benefit Scheme) Bill 2010.

While we will review our cost base, we will continue to review all other aspects of the way we do business in Australia, including changing trading arrangements with community pharmacists.

In summary, we strongly urge Government to review the level of savings that will be achieved from the PBS reforms proposed in The National Health Amendment (Pharmaceutical Benefits Scheme) Bill 2010 and the impact to the wholesaling sector to ensure we can continue to fulfil our obligations to Government and to the Australian public. As stated above, Government is the monopoly payer and if payment levels are not right, then the wholesaling sector will need to undertake systemic change.

Yours sincerely,

Stephen Roche
CEO & Managing Director