

## Press Release:

### Guaranteed PBS Price Reductions a Concern for Wholesalers

13 May, 2010

Despite a sweeping array of 2%, 5% & 16% price cuts to take effect from 1 February 2011, 1,600 PBS medicines (up from 162) will now be the subject of price disclosure pursuant to a Memorandum of Understanding between Medicines Australia and the Federal Government released with the Budget papers last night. This will include molecules such as Simvastatin that were not previously exposed to the price disclosure requirements and will result in massive price cuts on 1 April 2012 of at least 23% (on average) across all these additional 1,438 medicines.

This minimum 23% price reduction, which does not necessarily translate to a reduction in price to consumers, will be off an already reduced price due to the other mandatory price cuts.

Prior to these latest changes, Professor Ian Harper of Access Economics (based on various economist studies undertaken to look at the impact of the 2006 Reforms), reported that the estimated revenue losses to wholesalers range up to \$37 million in 2010-2011 and to \$126 million in 2014-2015 – representing a loss of around three-quarters of the current EBIT margin earned by full-line wholesalers.

The Budget announcements will lead to a significant acceleration of this impact on wholesalers.

Professor Harper concluded that: “The implications are clear:

- wholesalers will review their commercial practices, including especially the trade terms they offer to pharmacies; and
- pharmacies should expect a very different negotiating environment going forward, as wholesalers seek to recoup some of the revenue loss that PBS Reform will cost them.”

NPSA President, Mr. Elmo de Alwis, said that “though the NPSA recognises the Government’s need to find cost savings to fund its reform agenda, the Government also needs to make sure that patient access to medicines is not jeopardised.

NPSA, which is the industry association representing the full line pharmaceutical wholesalers, explained to Government, prior to the announcement, that the previously introduced savings initiatives were creating stress within the sector and sought further compensation under the arrangements. NPSA is very disappointed to see that the Government has proceeded to introduce further cuts in the face of the concerns raised, and to completely disregard the possible implications on the reliable and effective supply chain for pharmaceuticals.”

NPSA (National Pharmaceutical Services Association) members guarantee timely access to the full range of PBS medicines for all Australians, regardless of where they live, under the Community Service Obligation arrangements, renewed for a further five years under the Fifth Community Pharmacy Agreement.

#### For media enquiries:

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