

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Additional Estimates 2010-11, 23 February 2011

Question: E11-062

OUTCOME 2: Access to Pharmaceutical Services

Topic: PBS REFORMS

Written Question on Notice

Senator Boyce asked:

- a) What is your response to industry claims that as pharmaceutical wholesaling is a high volume, low margin business with profit around 2% of turnover that the impact of the current PBS reforms is making the whole industry unviable?
- b) As far as the Department is concerned, have any unintended consequences of the PBS Reforms been observed?

Answer:

- a) The Government is aware that generally in the pharmaceutical sector, wholesalers' income depends on the level of discounting in the supply chain, which is a commercial arrangement between manufacturers, wholesalers and pharmacists. As a result, wholesalers often operate at margins of two to three per cent, instead of the full 7.52 per cent wholesale margin that is available to them under the Fifth Community Pharmacy Agreement, to compete for market share.

The extent to which a reduction in the wholesaler price component of the supply chain translates into a loss to the wholesaler depends on the price at which the wholesaler purchases the product from the manufacturer, and the price at which it then sells to the pharmacy. A reduction in commercial prices that flows through to wholesalers may result in a reduction in the discount provided to the pharmacy, and/or a reduction in the price at which the product is sold to pharmacy.
- b) No. However, the Government has committed to establishing a discussion group with key industry stakeholders, including the National Pharmaceutical Services Association, to consider any unintended consequences or relevant issues arising from the *National Health Amendment (Pharmaceutical Benefits Scheme) Bill 2010* and consequent implementation of Further PBS Reform.