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31 May 2007

**NATIONAL HEALTH AMENDMENT
(PHARMACEUTICAL BENEFITS SCHEME) BILL 2007**

Ms GRIERSON (Newcastle) (12.00 p.m.)—I rise today to speak on the [National Health Amendment \(Pharmaceutical Benefits Scheme\) Bill 2007](#). It is always important to restate and acknowledge that the PBS is a Labor initiative. The PBS was established almost 60 years when the government of the day decided that penicillin—a wonder drug, as we now know—should be made available free of charge to all Australians, regardless of where they lived or how much they earned. For 60 years the PBS has, in its many forms, tried to ensure affordable access for all Australians to essential medications.

Labor has always tested the PBS against outcomes for consumers in terms of price and the sustainability of the overall system, ensuring Australians have affordable access to the drugs which deliver the best health outcomes. Labor's approach to the PBS and to the proposed changes is based on three core principles, which we test this bill against: ensuring sustainability in the long term; ensuring patients can afford the drugs they need; and, ensuring that we utilise the PBS as part of broader preventative strategies, including the best possible management of chronic disease and prevention of disease.

Regrettably, this bill does not deal with this third principle. The government's approach has been one of bandaids and election grab bags of one-off handouts rather than a holistic approach to ensuring that the health needs of Australians are met in full cooperation with state governments. Australians, as health consumers, no matter where they live, test quality of life against their health care—access to health services and their overall health and wellbeing. Until we see the PBS delivering in a holistic way for the health needs of this country, we would always find the government's approach regrettable.

Labor remains concerned that this package will not pass the test of affordability for patients and will not pass on enough savings to consumers. I will return to this aspect of the bill in more detail later. The bill is one of four interconnected measures in the government's announced reform of the PBS. The government's stated aim of these reforms is to 'give Australians continued access to new and expensive medicines while ensuring the PBS remains economically sustainable into the future'. That is perhaps the most bipartisan approach, which we have always supported with the PBS. It is essential that the PBS is managed well, that government costs are managed efficiently and that the cost-benefit analysis is done in an independent way, particularly when assessing drugs to go on the PBS. That is something we give full, bipartisan support to.

Labor will always support changes that are aimed at increasing competition, rewarding innovation and maintaining access to medications for all Australians, and this bill contains some measures to support those aims. We would also say to the government, 'Let's match that with a really concerted effort on research and on support for innovation through the education and health portfolios. That would have to be acknowledged as an area where we do not see enough effort from this government.

Also, we are concerned that this new bill does not provide any further protection for consumers. Lack of protection for consumers remains a real issue of concern for Labor. The bill amends the National Health Act and deals with changes to the structure and pricing of PBS listed medicines and includes the creation of formularies for classification of medicines, primarily in dividing innovative and generic medicines; removal of ongoing price links between formularies; the introduction of pricing mechanisms to reduce the cost to government; staged price reductions for medicines according to formulary classification and requirements as to price disclosure for all new brands; principles for the calculation of the weighted average price; and, requirements for suppliers of new brands of medicines listing on the PBS to guarantee supply for a minimum period and imposing penalties for failure to meet this commitment. If you think that sounds complex, it is. These are very complex reforms and measures. That is one of the reasons why this bill definitely requires closer scrutiny by a Senate committee.

Regrettably, the Howard government has a poor record with respect to the management of the PBS. Since 1996, under the Howard government expenditure on the PBS has fluctuated considerably. Because it failed to manage the growth in PBS expenditure, in 2005 the government implemented increases in the copayments that patients are required to pay when they have their prescriptions filled. We now know that the one-off increase in patient copayment resulted in three million fewer PBS prescriptions being filled in 2005-06 compared to the previous financial year. It is absolutely clear that more and more Australians, particularly pensioners, are forgoing their medication because of cost. For members of parliament in their electorates, it is both alarming and terribly sad to hear a constituent say, 'It's okay, I'm halving my dosage of that drug so I can continue to take it.' We should all be aghast at the implications for health care of those sorts of strategies, which go to the heart of questions about cost and affordability.

We know that families which may have two or three children suffering asthma or another chronic illness sometimes have to make choices—choices about who will have medication and who will not, about which prescriptions can be afforded. I hear too often from GPs in our Hunter Urban Division of General Practice that many patients do go to the doctor, but that is the end of it—they do not then go and fill the prescription recommended; they just hope they will get better. That is a terrible public health outcome.

Researchers with the National Centre for Social and Economic Modelling examined the distributional impact of the PBS on different groups in Australian society. Based on data from 2001-02, their report found:

“The PBS is highly progressive, with PBS benefits declining from six per cent of the disposable income of the poorest 20 per cent of Australians to 0.3 per cent of the income of the most affluent 20 per cent ... as a result; two-fifths of PBS outlays were directed at the poorest one-fifth of Australians.”

That would be a desirable outcome. The study also found that older Australians receive far greater benefits from the PBS than younger Australians, and that women receive higher benefits on average than men. It is the highly progressive nature of the PBS that is increasingly threatened by the Howard government's mismanagement. Its highly progressive nature ensures that the people who need it most, the elderly, the chronically ill and the poor, and particularly people who find it hard to afford medication and health care, benefit the most. That is a marvellous feature of the PBS and one that should never be compromised. Last year we saw the health minister approve special price increases for a range of commonly prescribed PBS medicines, including treatments for reflux and ulcers, blood pressure and a commonly prescribed antibiotic. Once again, patients were forced to pay more because the Howard government was unable to deliver on the implementation of its 12.5 per cent generic price cut policy, a policy that did not deliver intended benefits to people. The bungling and mismanagement around this policy is a worrying sign of how the government will deliver on the proposed changes within this bill. Instead of using the PBS as the scapegoat for rising health costs, as we saw in the *Intergenerational report*, the government should really do some serious work on the social and economic benefits of the PBS and preventative health measures.

The government claims that this bill will deliver massive savings—\$3 billion—but it is hiding behind the general idea of ‘savings’ without explaining that the savings are to government and not to the consumers or that they might, in the worst case scenario, be at the expense of the consumer. So it may be a case of cost-shifting to consumers. The government have also failed to clarify where their supposed savings of \$3 billion over 10 years will come from; neither do we see a commitment that those savings will go into health care. Labor will insist that this bill go to a Senate committee so that this issue and other matters of concern to Labor can be examined in detail. Labor will also reserve our right to move amendments if we cannot be assured that some of our concerns are properly addressed in this bill.

The bill comprises one component of four interconnected measures. Unfortunately, it does not include measures aimed at restricting or minimising the price to consumers. There is no consumer protection to be found in this legislation. The central change in the bill is the creation of formularies for all medications. From 1 August 2007, PBS medicines will be listed on two separate formularies: formulary 1, or F1, will comprise approximately 450 single brand medicines. However, it will not contain single brand medicines which are interchangeable at the patient level with multiple brand medicines. I have read some background briefs, and when you are looking at categorising drugs by their molecules and by their replacement brands it is a rather difficult bill to understand completely. Formulary 2, or F2, will comprise approximately 230 multiple brand medicines and any single brand medicines which are interchangeable with multiple brand medicines at the patient level. These are generally generics, off-patent drugs and

different versions of older drugs. A transitional pricing arrangement will apply to F2, with two sub-formularies being created.

There will be no ongoing price links across medicines listed on F1 and those listed on F2. Reference pricing will continue to apply between medicines that are linked within reference pricing groups on F1. Reference pricing will continue to apply within Therapeutic Group Premium groups and across different brands of the same medicine listed on F2.

Over various stages in the coming years, medicines listed on F2 will be subject to mandatory price reductions and will move to a system of price disclosure where the price that the government pays will reflect more closely the actual price at which the medicine is being sold into the market. Weighted averages will be used to ensure that prices continue to drop when there are new market entrants in a competitive field—complex mechanisms are designed to ensure that the markets cannot be manipulated at the government's expense. Finally, the legislation will protect supply by requiring the suppliers of new brands of medicines listing on the PBS to guarantee to supply for a minimum period and imposing penalties if they fail to meet this commitment. This provision is needed to ensure that fly-by-night manufacturers do not set up just to drive down prices and drive out competitors, then abandon the market.

Some excellent work around these reforms has been done by academics—one in particular whom I would like to quote, and that is Andrew Searles, from the University of Newcastle, who has undertaken postgraduate research. His view is that the reforms are overly complex. I would have to agree with him. I am sure that there are people who can analyse it a lot better than we can, but his view is that the complexity conceals the impact of these new formularies, particularly their impact on reference pricing.

There is a risk, then, that the change will lead to higher prices for Australians paying for medicines. He also points out that the F1 formulary will not be subject to mandatory price cuts and, most importantly, that reference pricing in this formulary will be reduced from that which previously existed. While reference pricing will still apply within the F1 formulary, medicines in the F1 formulary will not be reference priced to those in the F2 formularies, which we have spoken of, even if they provide medical health outcomes. It is Mr Searles's belief that this would be likely to lead to prices for medicines in the F1 formulary that are higher than would have prevailed before the reforms, and that would make that group of medicines more expensive. That needs to be looked at very closely by a Senate inquiry.

Again, when we analyse the F2 formularies, which will be subject to mandatory price cuts, we find that much will depend on whether the medicines are listed in certain subcategories, F2A or F2T. Despite those initiatives, there is a risk that generic prices will not fall to the levels paid by New Zealand, for example. One of the reasons is that if there is not a competitive market, if there are not enough competitors in the generic drug-producing market, you will not see true competition and you will not see prices fall as we would all hope. It is true to say that these reforms do encourage the wider use of generic medicines in Australia—and that is a very worthwhile inclusion—but only as long as the generic pricing market is competitive enough to get those prices down. The

reforms also create a stakeholder reference group, but the group does not include consumers or patients, and it certainly does not include taxpayers. I think they were included at a later stage, but initially they were not involved.

I share the concerns listed by people such as Andrew. I put on the record the very real danger that these reforms will not result in improved affordability for Australian patients. Andrew has argued in his paper that reference pricing between drugs that provide identical health outcomes will be broken. He acknowledges that drugs within the F1 formulary with the same therapeutic uses will still be reference priced, but as the comparator changes there is uncertainty as to what this will mean in terms of price. The creation of the F1 formulary may well result in higher medicine prices, as I said earlier.

There are a great number of issues in this legislation that need to be considered. There has been discussion by academics and commentators that, since the signing of the FTA with America, we have seen some differences in the market and that those differences build up and perhaps impact on the pricing of drugs generally and on the price the Australian government pays. Any policy that is introduced by the government regarding the PBS will undoubtedly involve some tension between meeting industry needs, meeting government's costing needs and providing affordable medicines to Australians. It is important that we ensure this legislation goes before a Senate committee so it can be measured against those goals. Is this the most cost-effective way for government to ensure the PBS is efficient and can be sustained over time to deliver those goals of affordable medicines to all Australians? Is it arranged in a way that promotes competition in the pharmaceuticals industry? Is it arranged in a way that rewards innovation in new drugs and entrepreneurship? Does it protect the independence of the Pharmaceutical Benefits Advisory Committee? One would always hope that it would.

I note the commentary on the PBAC recently and that it would be remiss of the government to introduce a full cost-recovery process. The PBAC have always taken their advisory role very seriously and have been very professional in ensuring that the drugs that are absolutely essential and have been rigorously assessed are placed on the PBS. They do it independently—and we would hope they would always do it independently—without fear or favour of government intervention. Therefore, giving them financial autonomy, rather than financial dependence, would be essential. If they do have to operate on a full cost-recovery basis they can be at risk of compromising their decisions and their outcomes and that would be unfortunate.

In conclusion, it is important that this set of reforms be looked at by a Senate committee. It is regrettable that the process will be a very short one and that very little time has been allocated, but to get it right it is worthy of further scrutiny and input from interested Australian academics, consumer groups, advocacy groups and, of course, the pharmaceutical industry. I support the bill but note that the shadow minister, the member for Gellibrand, Nicola Roxon, has reserved her right to move amendments to the bill pursuant to the outcome of the Senate inquiry.