

Time to address sickening waste by cutting pharmaceutical prices

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*Australia needs to follow New Zealand's example to bring down the prices of our drugs, writes
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Australians are paying far too much for prescription drugs. We waste more than \$1.3 billion a year – this equates to over one-tenth of the entire pharmaceutical benefits scheme budget – on inflated prices. A government seeking to balance its budget and find money for new reforms should start by cutting drug prices.

In the last financial year, Australia spent over \$700 million on one drug, atorvastatin, marketed as Lipitor. It lowers cholesterol to reduce the risk of heart disease. Patients without a concession card now pay \$36.10 for each box of 30 40mg tablets. The government puts in \$31.44 to make up the total cost of \$67.54.

But neither government nor patient needs to pay this much, a new Grattan Institute report, [*Australia's Bad Drug Deal*](#), reveals. New Zealand's wholesale price for a box of 90 tablets is \$5.80, less than 4 per cent of Australia's. With New Zealand's price, Australian patients would buy the drug for \$14.10. The government would save \$1.4 million a day on just one drug.

When the PBS was introduced in 1949, Australia led the world by making life-saving drugs affordable. Australia was a leader again in the 1990s, introducing cost-effectiveness requirements for drugs.

But over the past decade, Australia has become a laggard. Other countries have leap-frogged us and are negotiating much lower prices for generic drugs, which are cheaper because they are no longer under patent.

What happened? In Australia almost every step of price negotiation is compromised. The government sets no limit on spending to force trade-offs and tough negotiations. Australia's pricing body is directly influenced by vested interests: two of its six members represent pharmaceutical manufacturers.

A political decision from the minister or even cabinet is required before a drug is listed. When a drug comes off patent, Australia only requires a tiny 16 per cent price cut, much less than many other countries.

In New Zealand, by contrast, the political process is reversed. The government sets a budget for drugs, then independent experts decide. An independent body, PHARMAC, makes sure the right drugs are available and that the country sticks to its budget. Australia should urgently follow suit.

Huge savings are possible, and good models are even closer to home than New Zealand. Public hospitals in at least two Australian states get much lower prices than the PBS. But when he was scratching around for savings in the health portfolio, the Treasurer couldn't touch PBS drug prices. The government has a sweetheart deal with pharmaceutical manufacturers that slows the winds of competition.

Signed by then health minister, Nicola Roxon, the agreement promises not to introduce any new measures to reduce prices until mid-2014. But that agreement will expire soon, opening the way for reform. Australia must re-engineer its pricing processes, and transform the PBS from an uncapped, open-ended system.

The government must slash prices as soon as new generic drugs are introduced. Canadian provinces have just cut prices for six generic drugs by more than 80 per cent. An initial cut of at least half, then annual international benchmarking, will bring Australia into line with world's best practice. A further reform should be promoting cost-effective choices. New Zealand's range of drugs is not as wide as

Australia's, but it has substitutes with a similar effect. Switching to drugs similar to those used in New Zealand would save another \$550 million a year.

Health spending in Australia is growing rapidly. The need for savings is ever more acute. The first place to look should be where there is waste - where we can get more bang for the buck. Australia's absurdly high pharmaceutical prices should be top of the list.

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