



Australia's bad drug deal: High pharmaceutical prices

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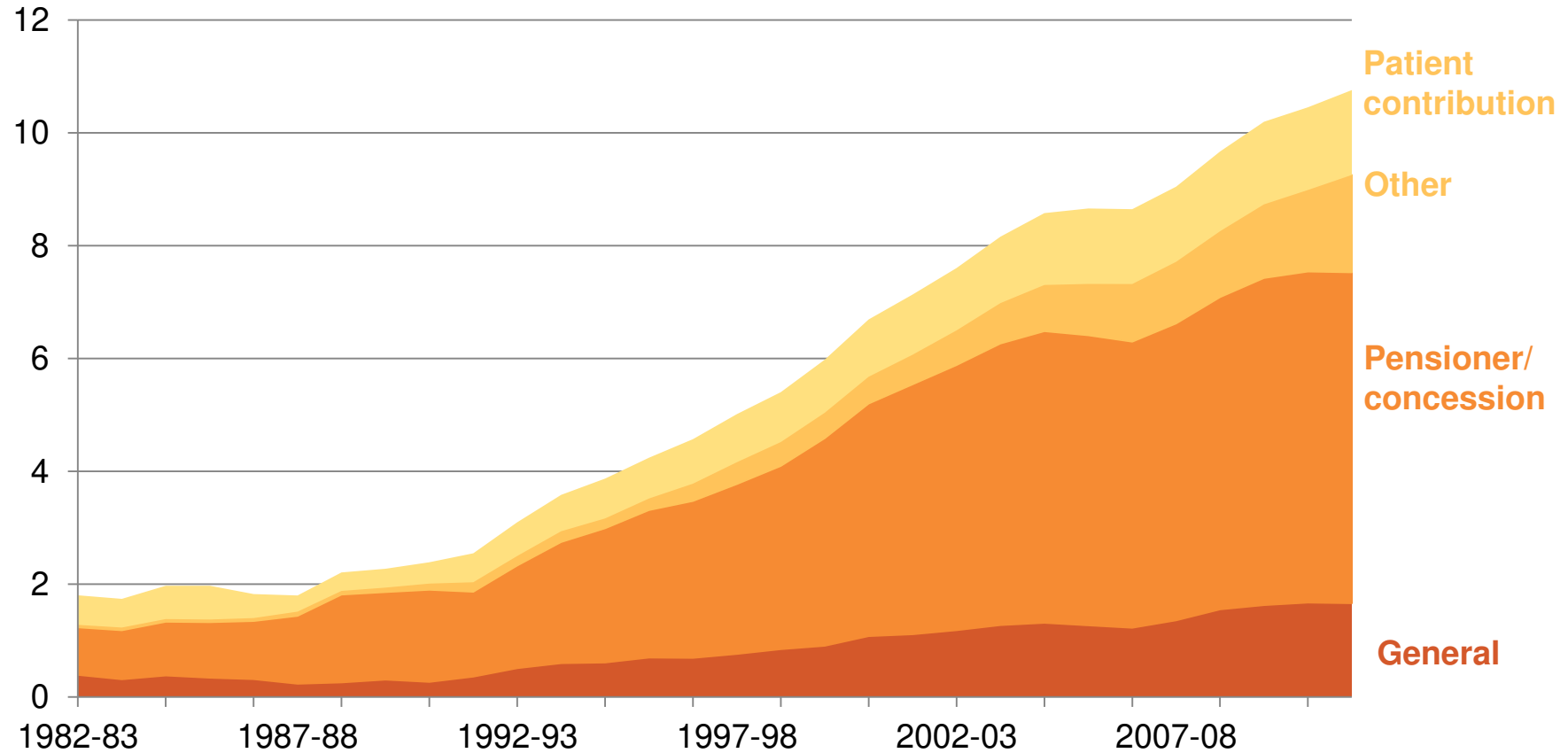
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Agenda

- Pharmaceutical Benefits Scheme (PBS) costs and prices
- Grattan analyses
- How pharmaceutical pricing works now
- A better way to purchase
- Responding to potential concerns

Australia's total spending on the Pharmaceutical Benefits Scheme is increasing in real terms

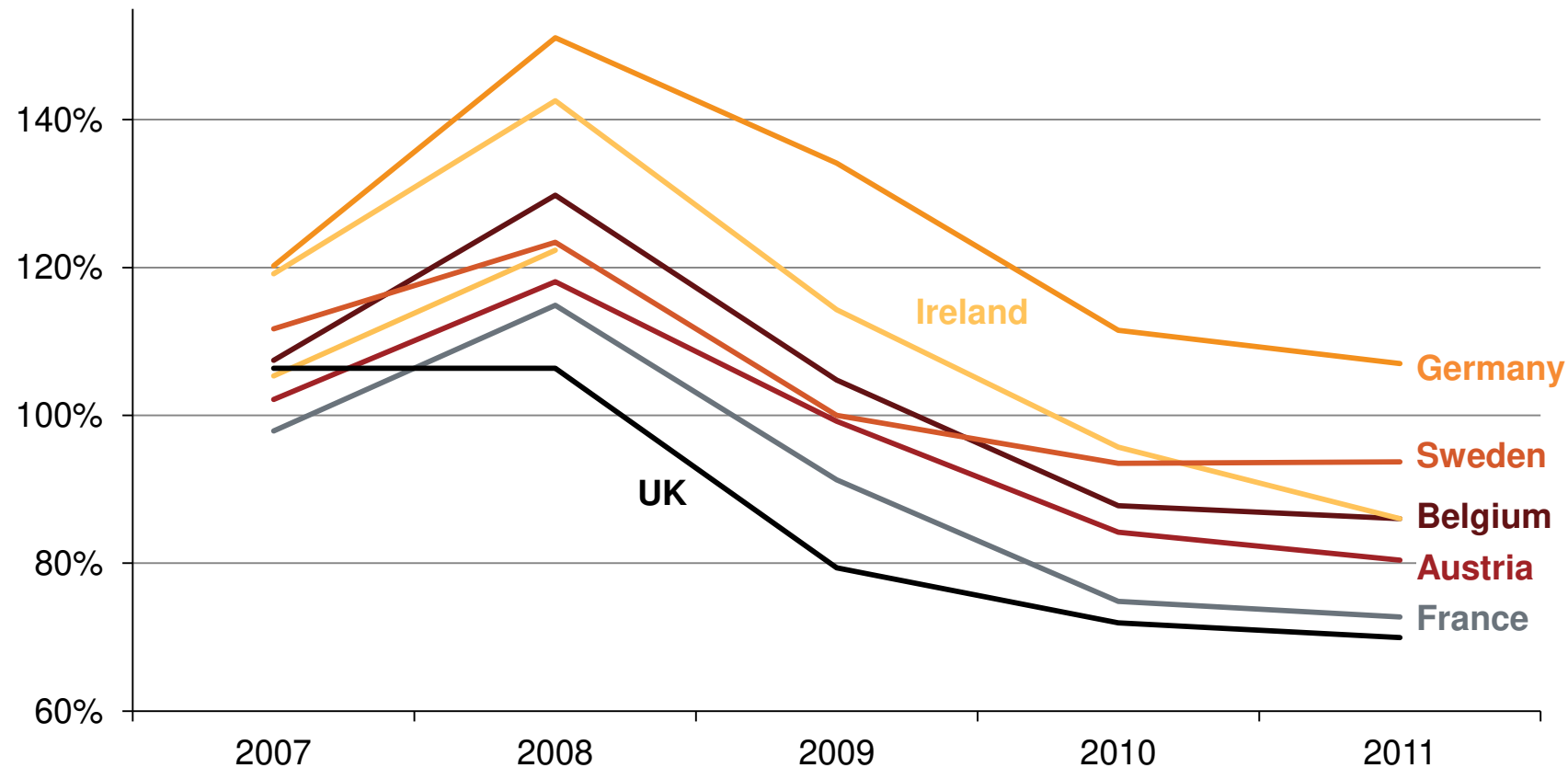
\$ billion (2011-12 dollars)



Although our prices were cheaper than UK and Europe five years ago, they're not now

Australia's pharmaceutical price ranking against selected countries, 2007-2011

Prices relative to Australia (Australia = 100%)



Source: Grattan Institute analysis of OHE data

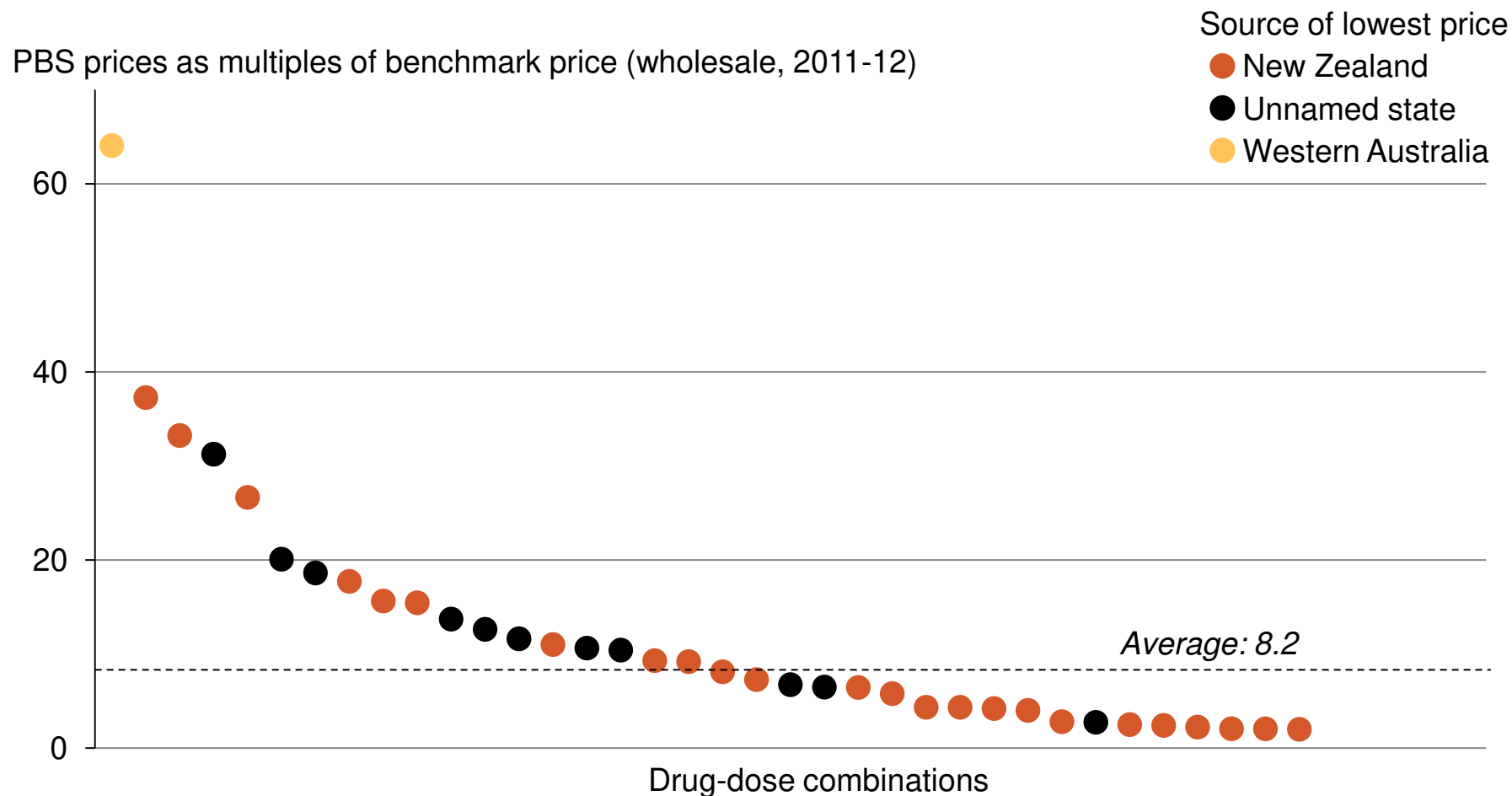
The market has two distinct submarkets

- Patented drugs
 - Sole supplier arrangements
 - No patient choice
 - The (relevant) policy issues are whether the incremental benefits of listing this drug is worth it and what should the subsidised price be?
- Off-patent drugs
 - Potential for multiple suppliers
 - Low marginal cost of production
 - The (relevant) policy issue is what should the subsidised price be?

Grattan analyses

- Identified the 50 drug-dose combinations that are highest volume on PBS and the 50 that are highest expenditure on PBS
- Combined into list of 75
- Compared prices of these drugs-doses with prices paid by PHARMAC, the New Zealand purchaser
 - 62 identical
 - 11 substitutes
 - 2 not matched
- Compared prices paid by public hospitals in two states
 - One unnamed state: 59 identical drugs
 - Western Australia: 39 identical drugs

PBS prices are far higher than the comparators we studied – often by more than an order of magnitude

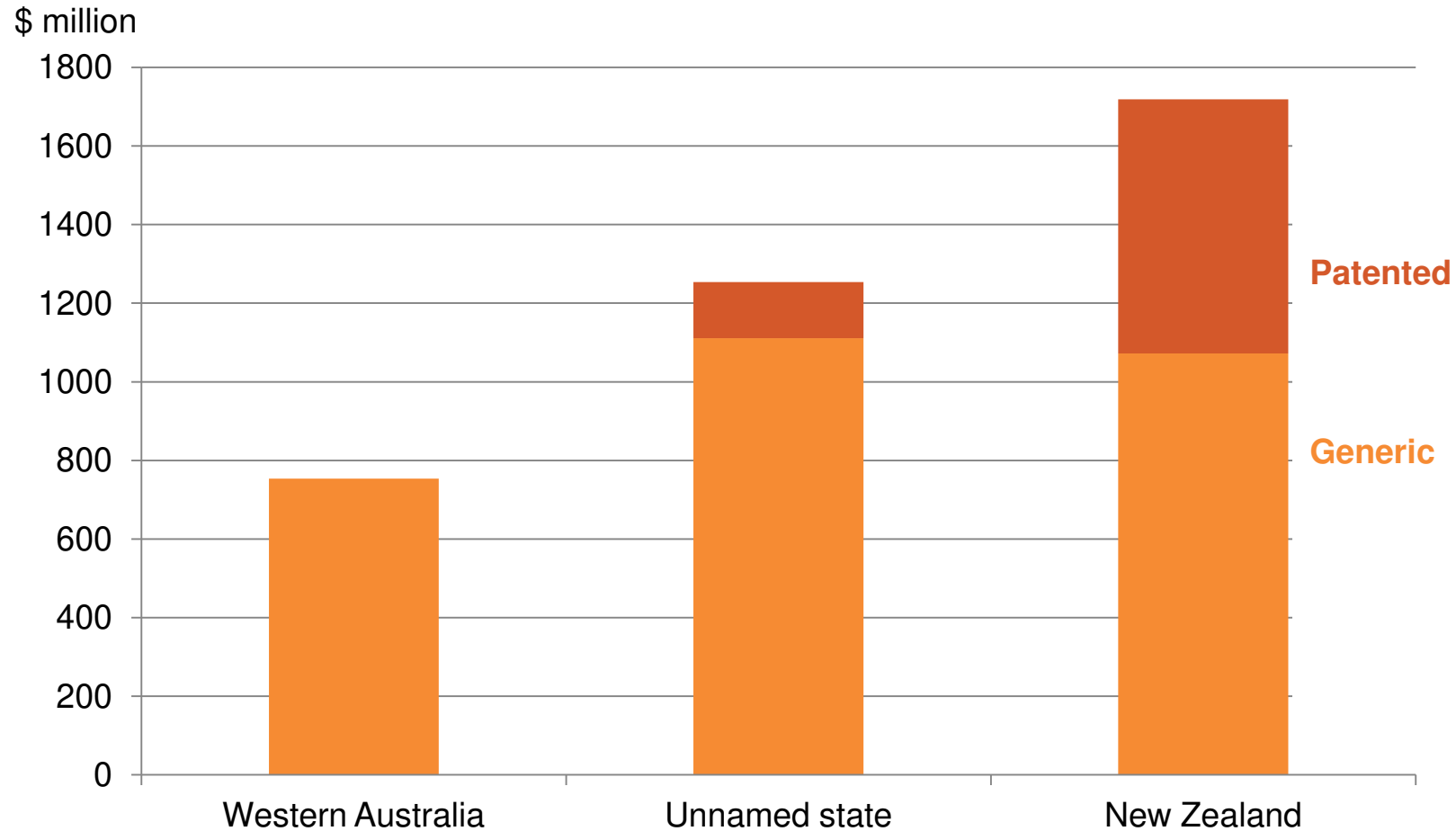


Note: chart represents the 58 identical doses for which the benchmark model was cheaper than the PBS. Only 39 drugs where the PBS cost is more than twice that of the comparator are displayed (average is for all 58 doses).

Source: Grattan Institute analysis

One country, many prices

Estimated savings for generic and patented drugs

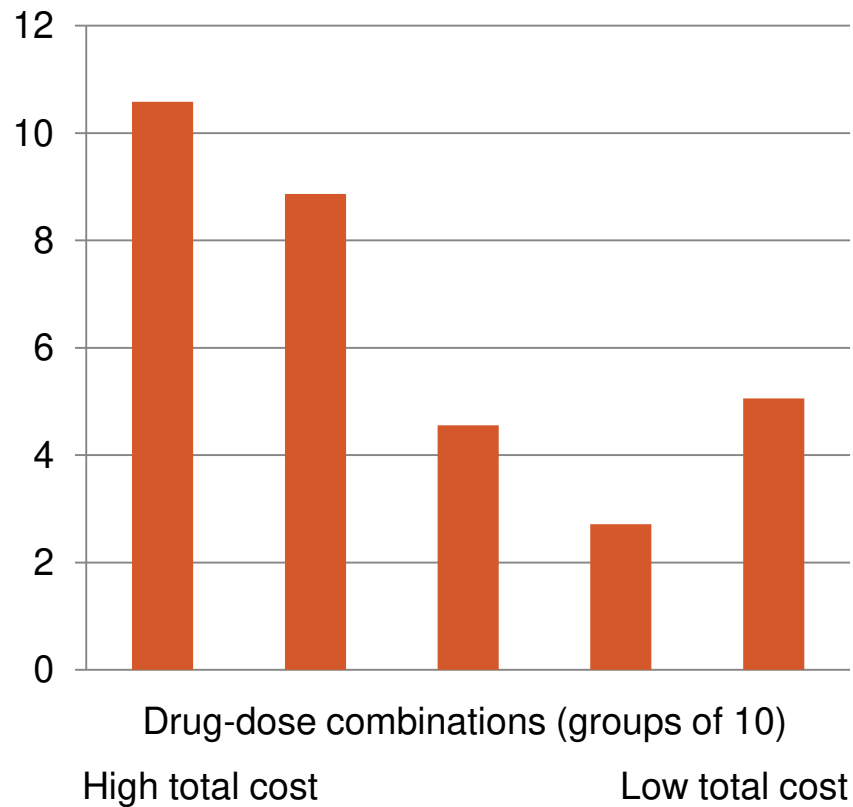


Source: Grattan Institute

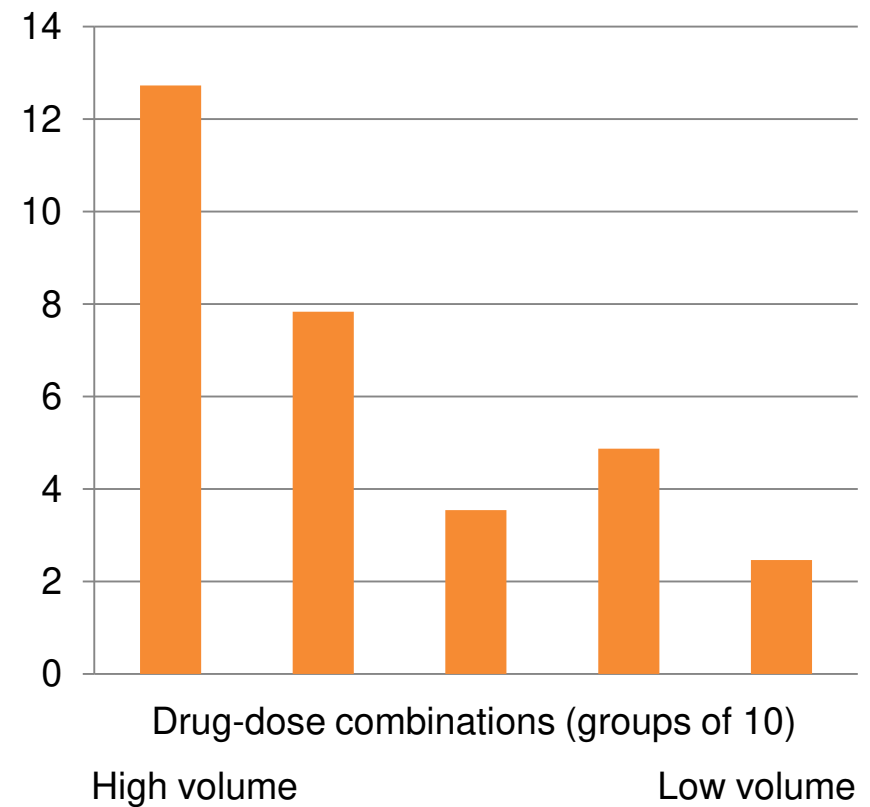
Our performance is worst when it matters most

Ex-manufacturer prices for identical drugs as multiples of NZ prices, by total cost (left) and volume (right), 2011-12

Multiples of NZ prices



Multiples of NZ prices



Source: Grattan Institute analysis

The Atorvastatin story

- \$700 million expenditure in 2011-12 (Pfizer brand name: Lipitor); \$570m by government

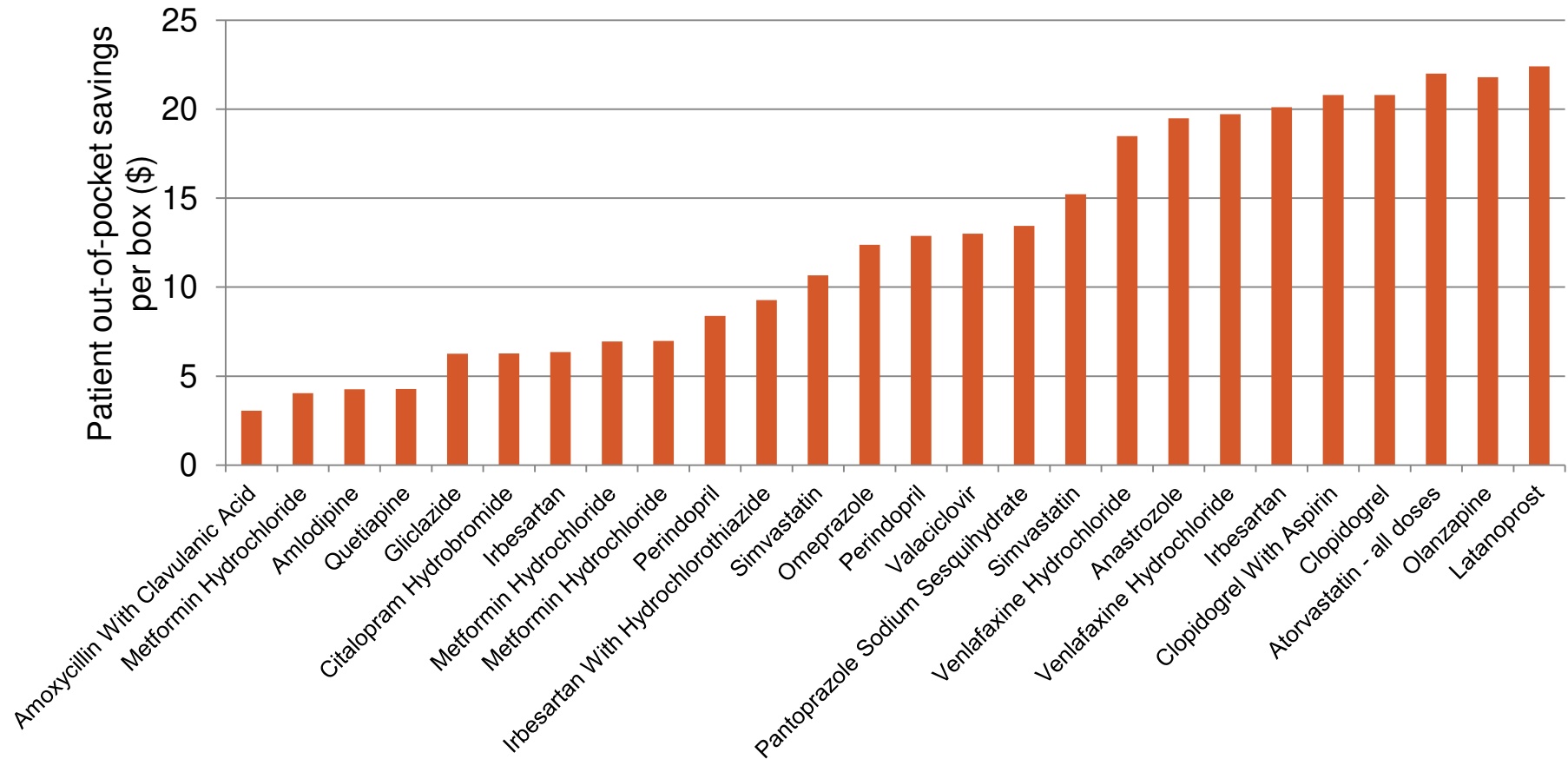
Australian price
30 X 40mg tablets
\$51.59*

New Zealand price
90 X 40mg tablets
AU\$5.80

- If Australia paid the NZ price with current pharmacy mark-ups, the price would plummet to \$14.10, a savings to consumers of \$22 per prescription.
- On current prescription volumes, and across the most commonly prescribed forms of Atorvastatin, these higher prices (compared to NZ) amount to excess costs to government of over \$1.4 million every day
- If patients in Perth could buy Atorvastatin at the same price as their local public hospital, they'd save \$19 per prescription

Lower prices would mean big savings for patients

Patient savings per pack (non-concessional patients), based on benchmark prices, selected doses, 2011-12

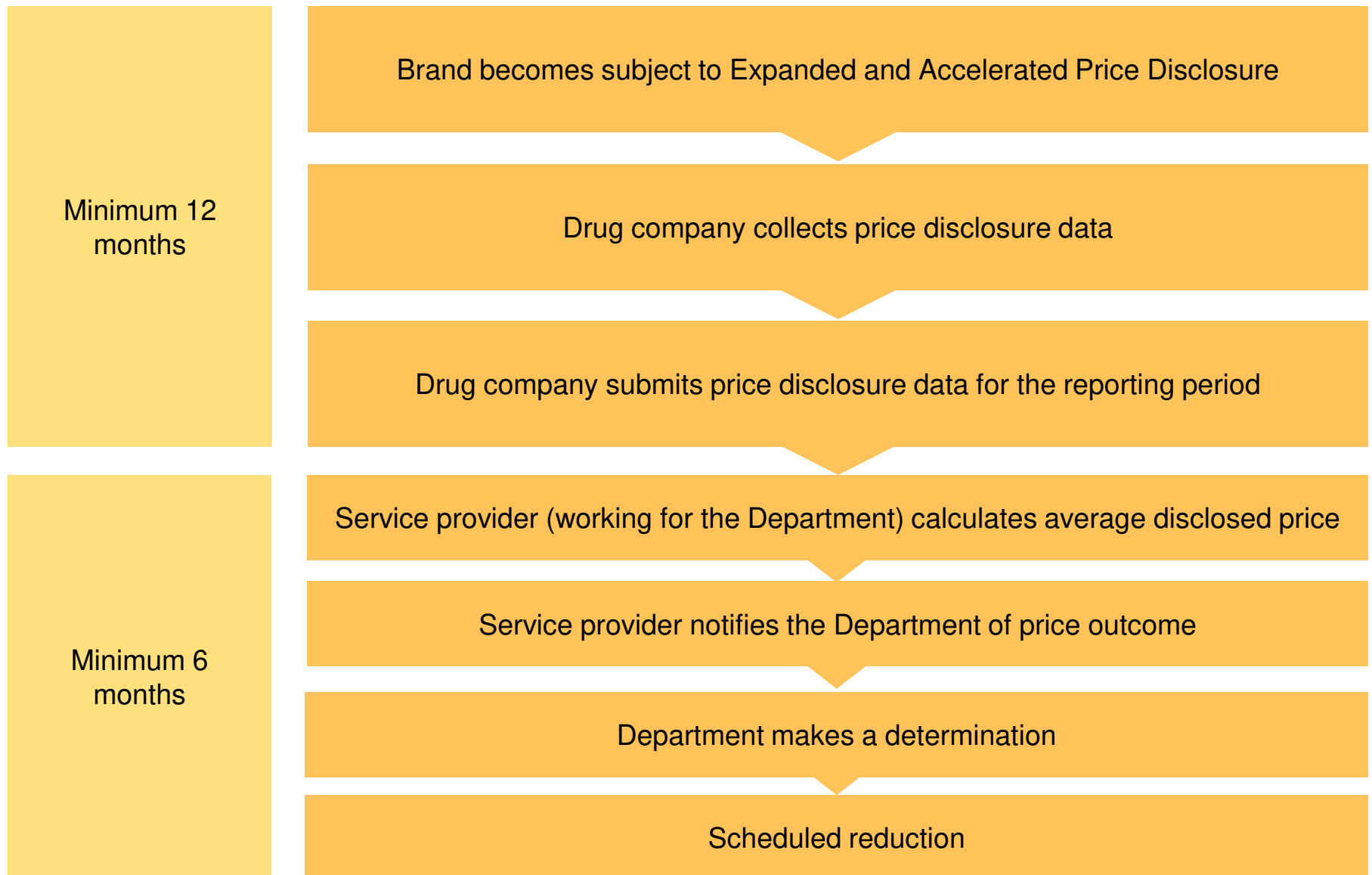


Source: Grattan Institute

The problems of the process

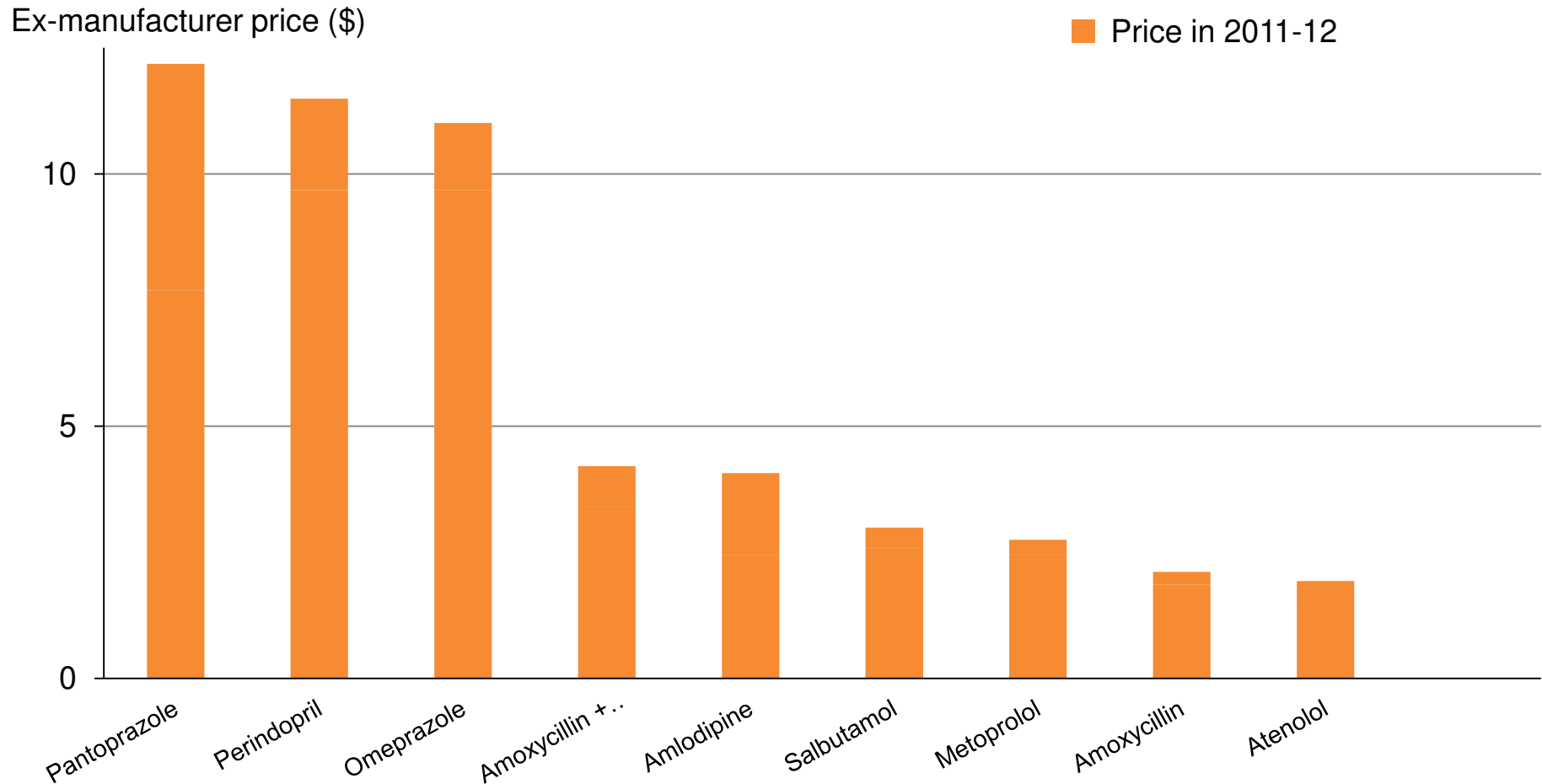
- 'Expanded and accelerated price disclosure'
- Embedded politics
- Framework agreement (MOU)
- Timid price cuts on new generics

The current price disclosure process



Current efforts to reduce prices don't go far enough

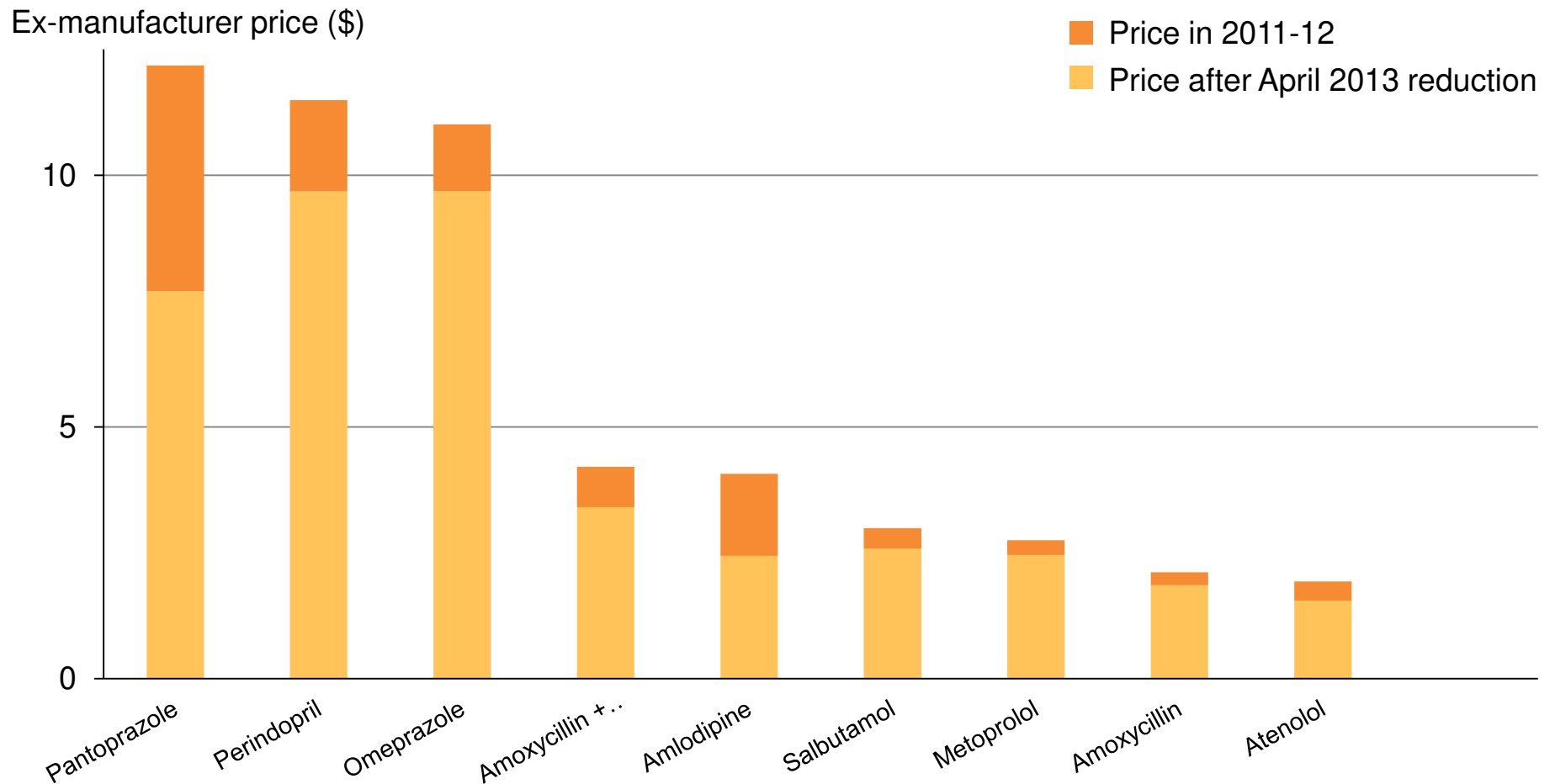
Current prices for drugs targeted for price disclosure



Source: Grattan Institute analysis. Note: "Amoxicillin +" is amoxicillin with clavulanic acid.

Current efforts to reduce prices don't go far enough

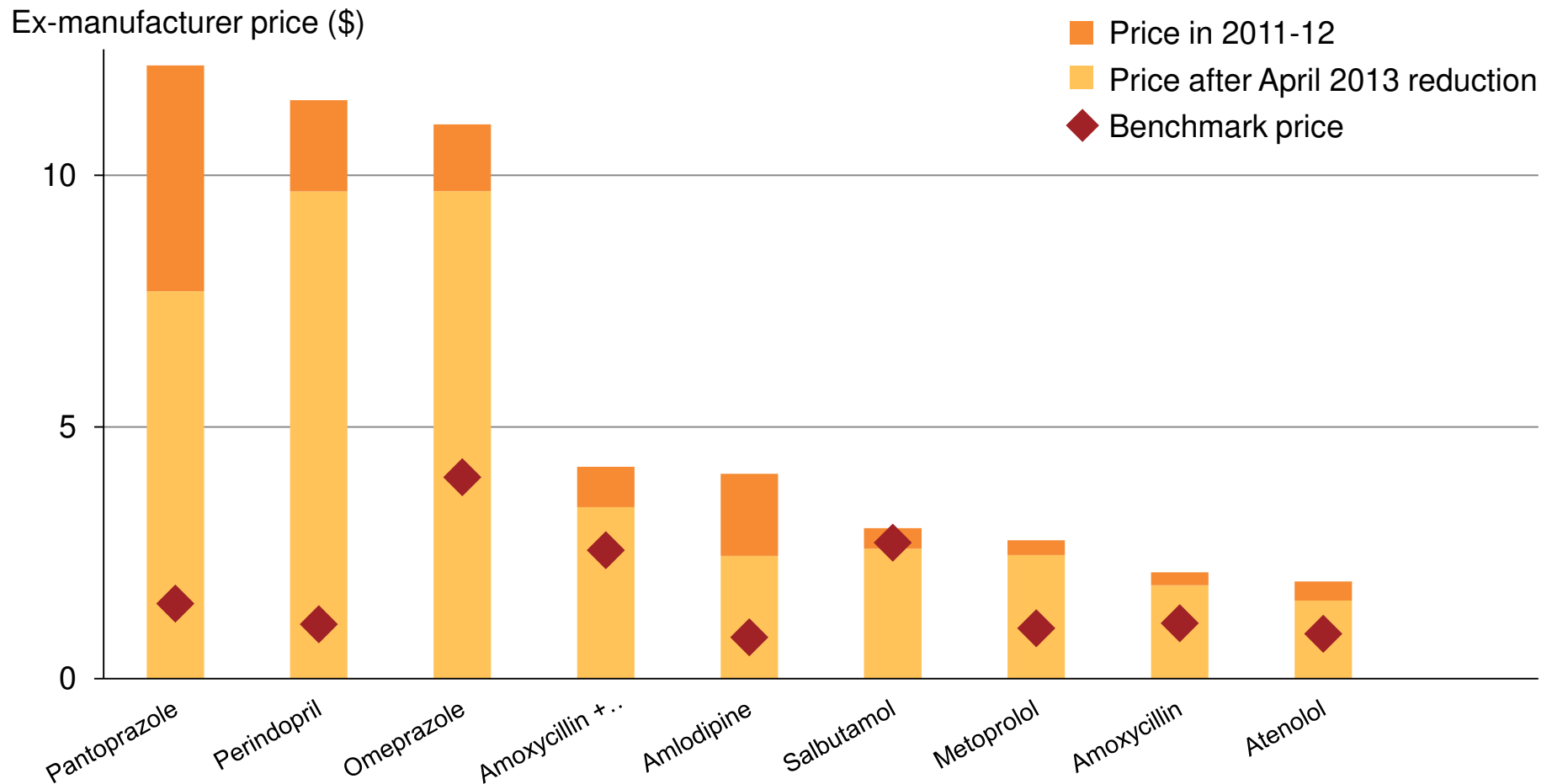
Price disclosure brings some drug prices down....



Source: Grattan Institute analysis. Note: "Amoxicillin +" is amoxicillin with clavulanic acid.

Current efforts to reduce prices don't go far enough

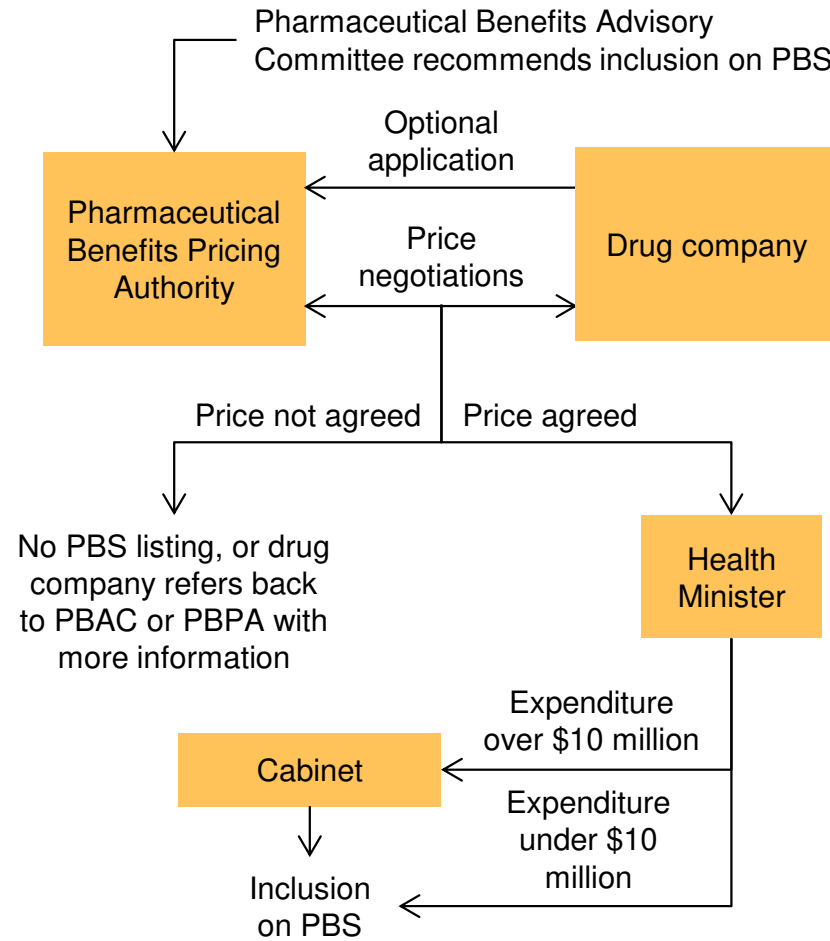
But benchmarking would save a lot more money



Source: Grattan Institute analysis. Note: "Amoxicillin +" is amoxicillin with clavulanic acid.

The current flawed process - 1

The pricing authority is an internal committee of Department of Health and Ageing comprised of 'representatives' (Medicines Australia, generics manufacturers, consumers)



The Minister (and possibly Cabinet) have a say at the end of the whole process

The current flawed process - 2

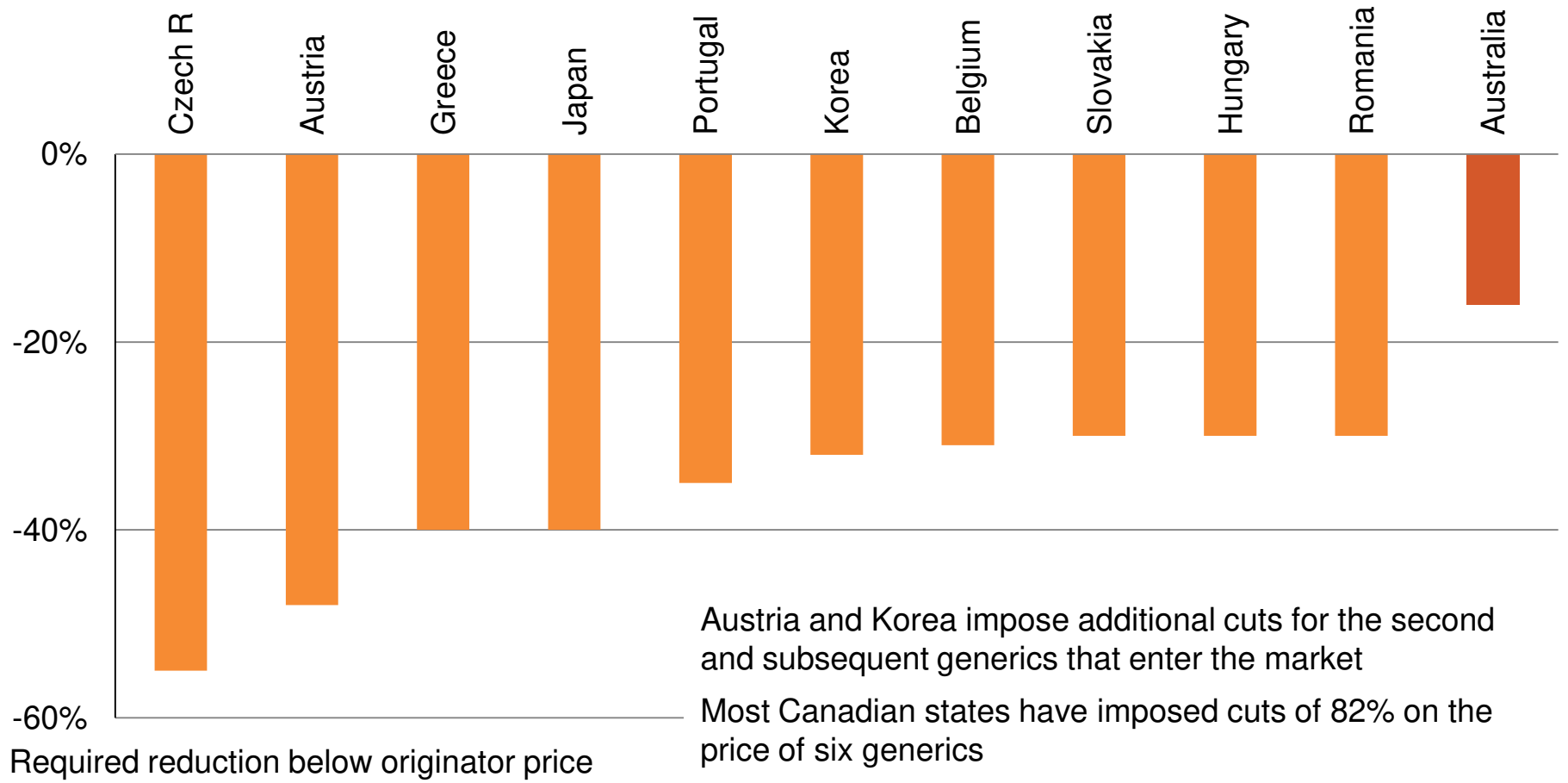
The whole framework is governed by a political accommodation: a memorandum of understanding between Medicines Australia and government:

The Commonwealth undertakes not to implement new policy to generate price-related savings from the PBS during the period of agreement [May 2010 to July 2014], that is, measures that would change the ex-manufacturer prices of particular medicines, other than that reflected by this MOU

- Current Memorandum of Understanding between the Commonwealth and Medicines Australia

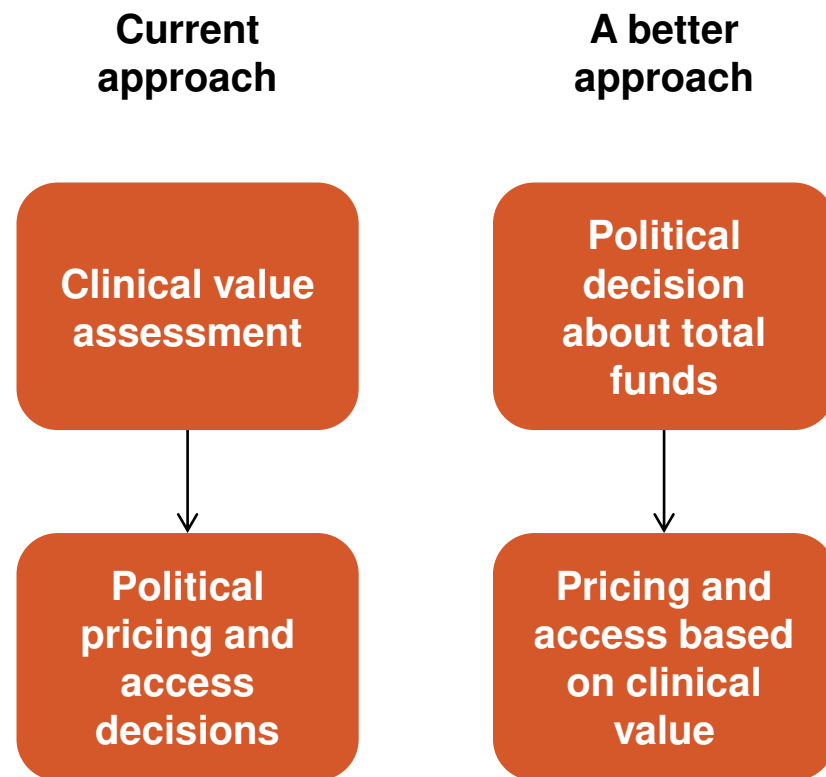
Other countries require tough price drops with new generics

Mandated generic price reductions, selected countries



Reform stage 1: get the foundations right

- Independent governance
- Indexed (rather than uncapped) budget to live within
- Reverse the politics
- All this can happen in 2013-14



Next stages of reform

Stage 2

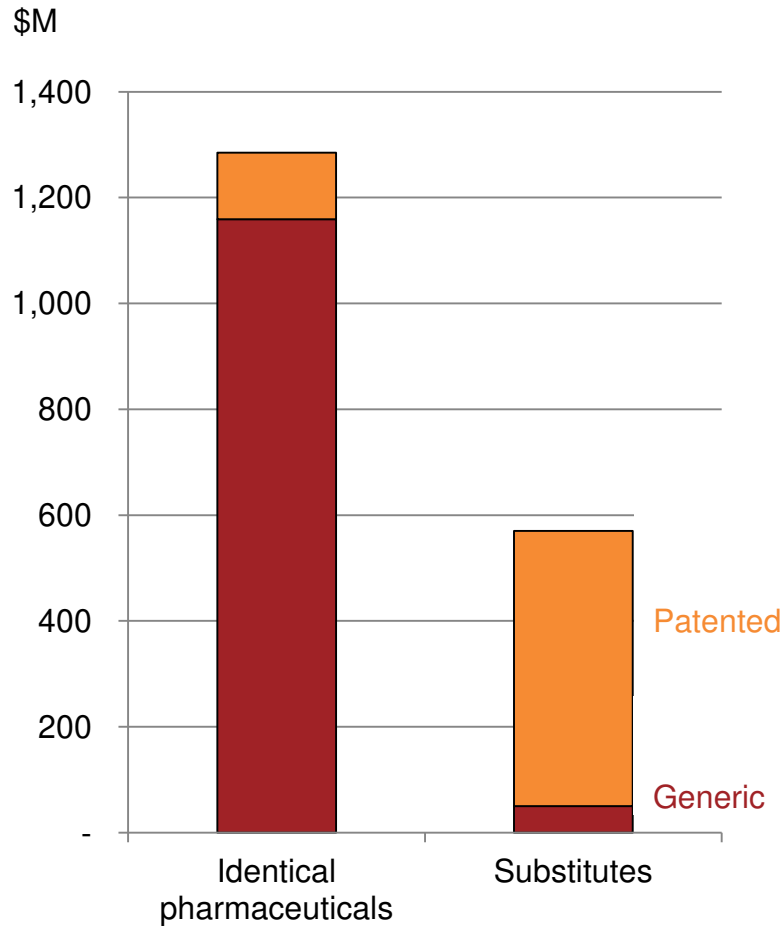
- At least a 50% cut for new generics
- Benchmark pricing on regular basis thereafter
- These changes generate savings of at least \$1.3billion each year

Stage 3

- Widen application of therapeutic premiums for substitute drugs
- This is likely to generate a further \$550 million of saving each year (indicative estimate only)

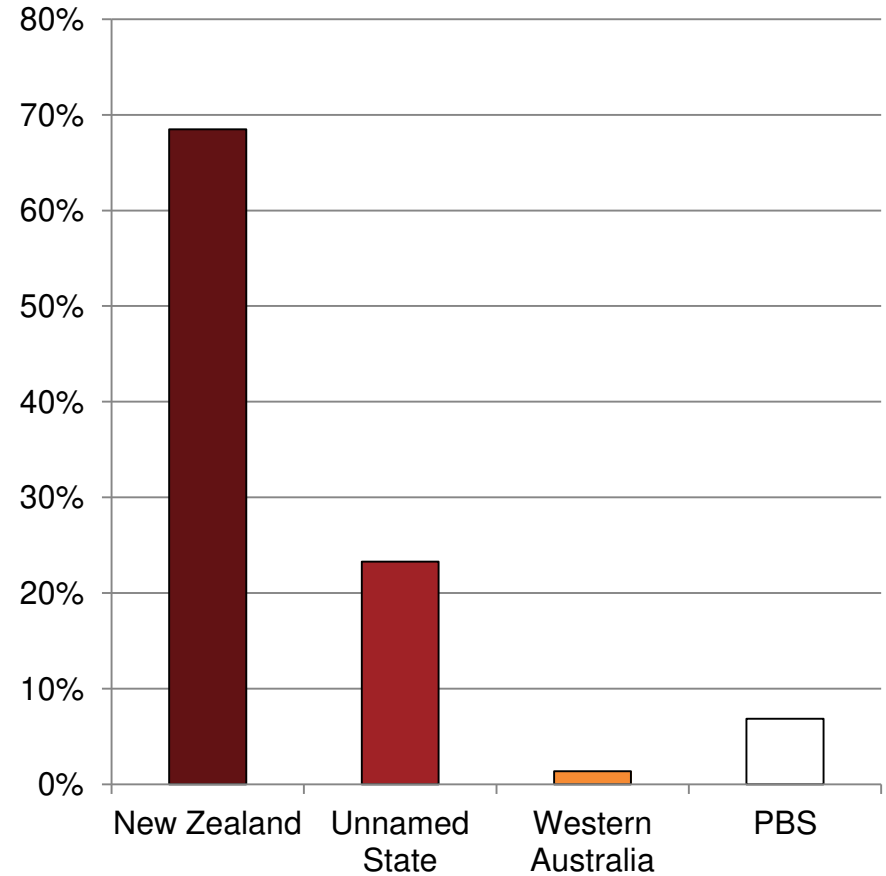
Benchmarking against three jurisdictions yields up to \$1.86 billion in savings

Generic pharmaceuticals make up the majority of savings

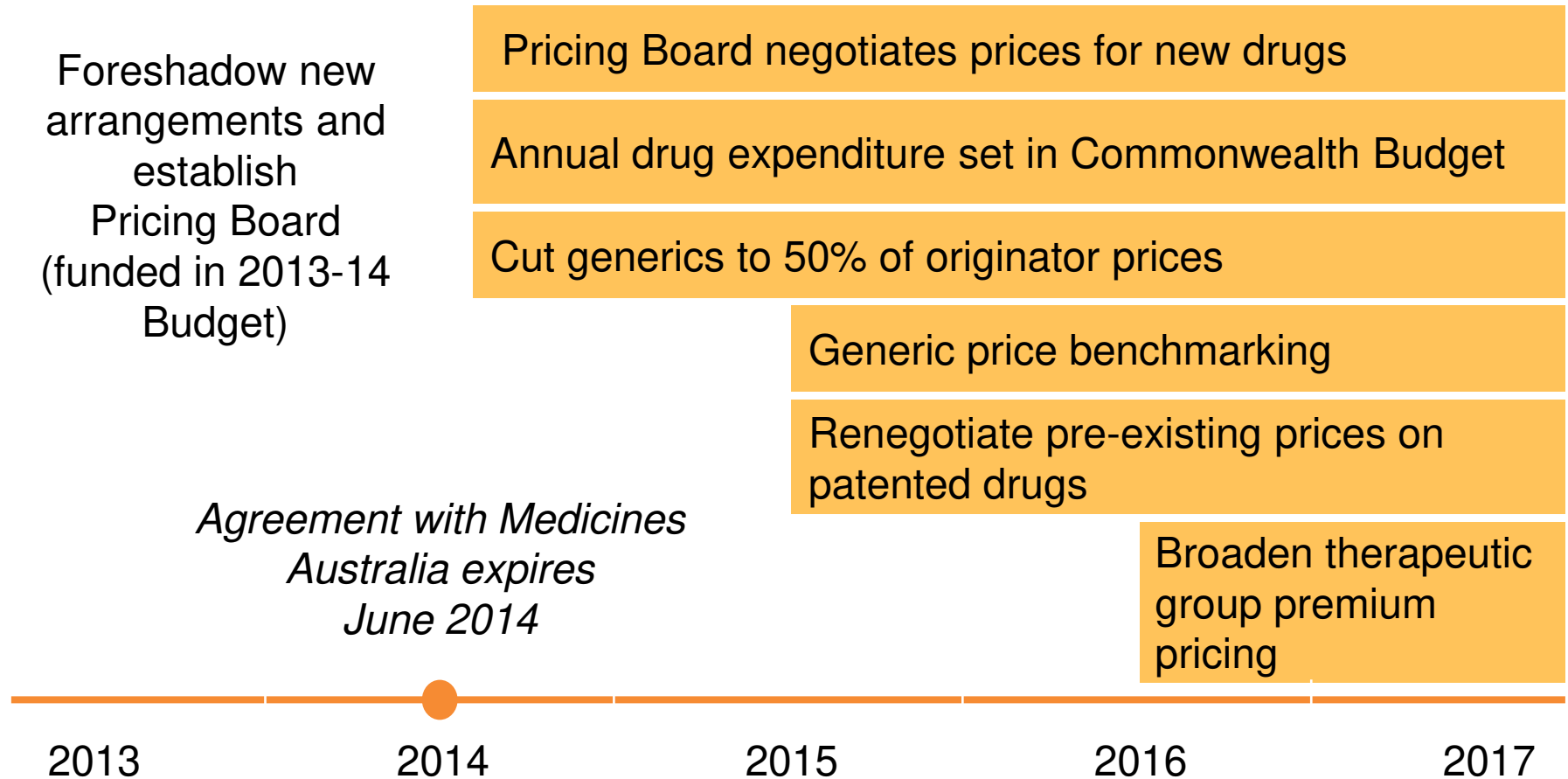


Most savings come from New Zealand's cheaper prices

Percentage of drugs from each jurisdiction



Possible phase in



Criticisms – can we compare ourselves against other jurisdictions?

- ***“The idea you can just pick and choose elements of other countries’ systems and that automatically gives us a better, stronger system...is incorrect”***

- Minister Plibersek, 18 March

- Considerable debate in the literature about difficulty of cross-national policy learning

- We were selective in what of New Zealand (and Western Australia and other state) we picked up on

Criticisms – public hospitals are loss leaders?

- In Australian public hospitals, ***“companies are happy to take a very low price...so that when [patients] go into the community, they stay on that particular brand of medicine”***

- Minister Plibersek, 18 March

- Little evidence that companies making a loss selling to public hospitals
- This does not explain the even lower prices in New Zealand. The hospital prices are close to those.

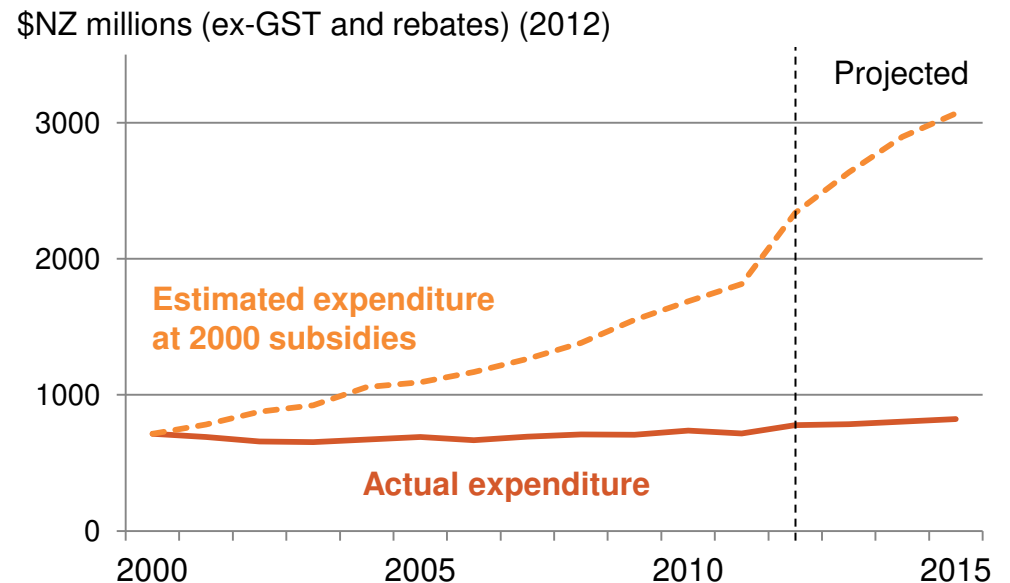
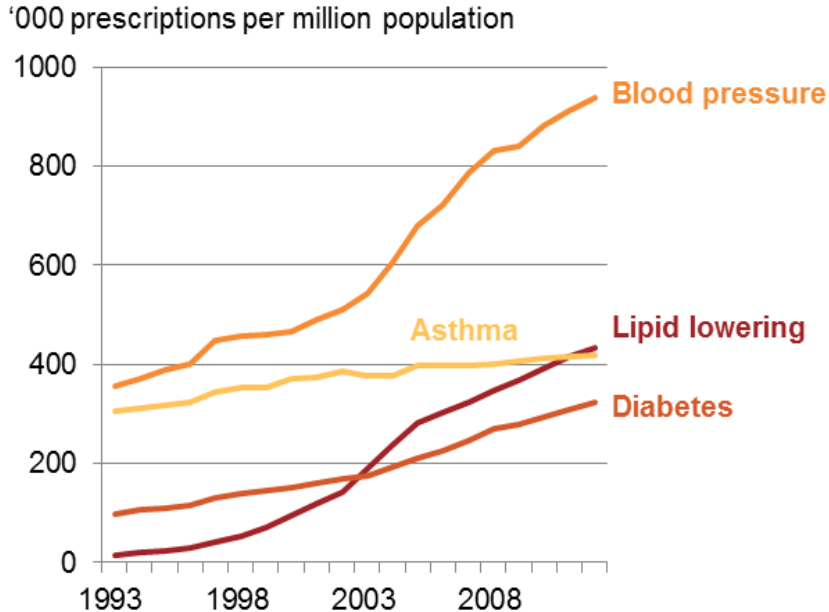
Criticisms – sole supplier/tendering process would create problems with access

“New Zealand is a basket case when it comes to access to medicines...it’s the last place health policymakers in this country should be looking to for ideas”

– Dr Brendan Shaw, CEO Medicines Australia

- Only relevant to patented drugs, not relevant to our proposed generic drug pricing reforms (vast bulk of savings)

-However NZ does have lower access and a lag time with getting new drugs on market, but prescription volumes for most commonly used drugs has increased while expenditure has been nearly flat

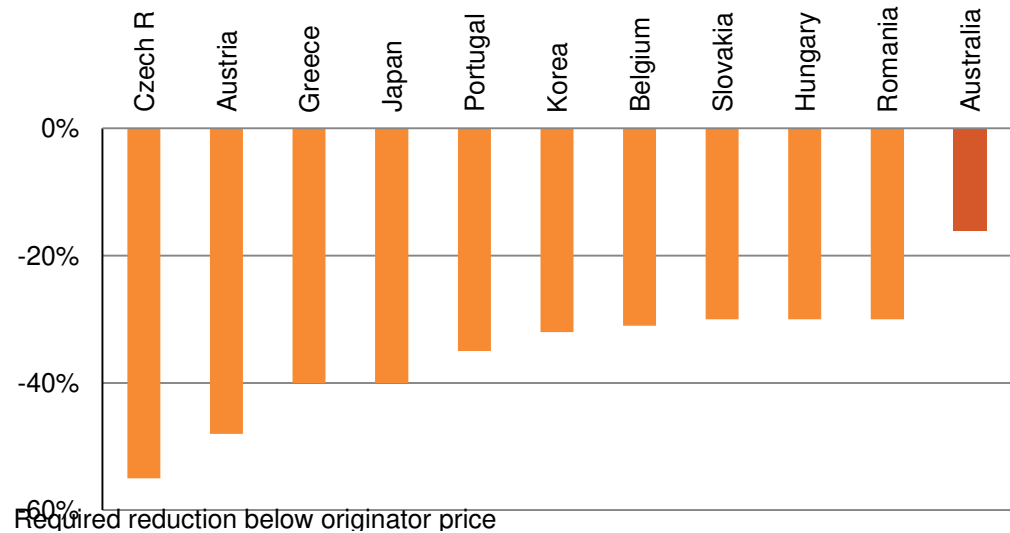
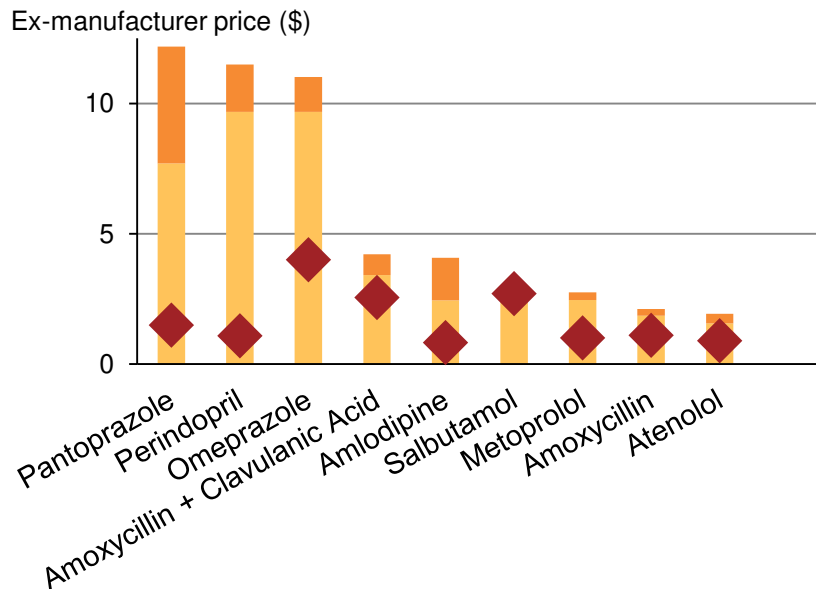


Criticisms – the current system is working fine

“Australian suppliers of generic medicines already sell their medicines at international world best prices due to a very competitive generic medicines industry in Australia...[Grattan’s] concerns are unfounded as [price disclosure ensures that the government benefits...”

- Kate Lynch, CEO Generic Medicines Industry Association

Similar statements from the Health Minister, *Brisbane Times* and *Pharma in Focus*



Criticisms - Choice

“It’s true that New Zealand does get a good price for generic medicines, but they have a great deal less choice for patients”

- Minister Plibersek, Monday 19 March

- Choice by itself is not a pre-eminent value (e.g. no choice for patented medicines because of trade-off of value of choice and value of innovation and patent protection)
- Choice is supposed to be part of competitive ideal and lead to savings
- Our model does not propose elimination of choice (benchmarking model, not tendering)
- How much should choice count against cost savings to patients?

Would patients prefer a choice of 13 brands, or \$22 saving?

Code & Prescriber	Medicinal Product Pack (Name, form & strength and pack size)	Max qty packs	Max qty units	No. of repeats	DPMQ	Max Safety Net	Max price to consumer
8215J	ATORVASTATIN atorvastatin 40 mg tablet, 30 (PL , CMI)	1	30	5	\$52.62	\$36.10	\$36.10
Available brands							
APO-Atorvastatin							
Atonvachol							
Atorvastatin GH							
Atorvastatin Pfizer							
Atorvastatin SCP 40							
Atorvastatin Sandoz							
Chem mart Atorvastatin							
Lipitor							
Lorstat 40							
STADA Atorvastatin							
Terry White Chemists Atorvastatin							
Torvastat 40							
Trovas							



Other concerns – lower income for retail pharmacies

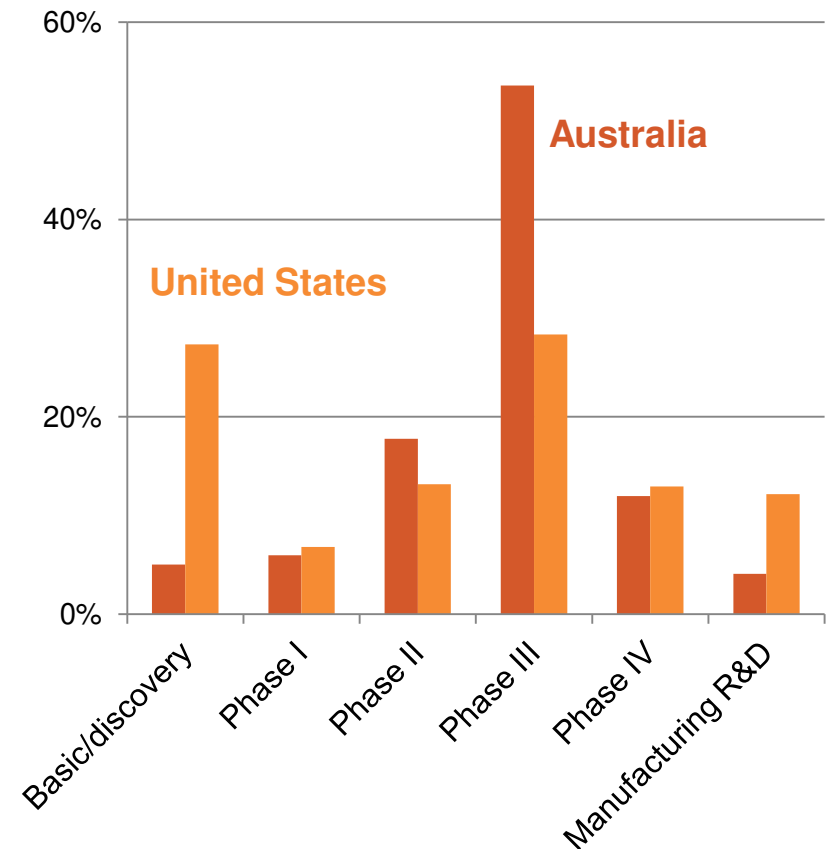
- Retail pharmacy income will decline from price disclosure
 - Unanticipated additional income for pharmacies from manufacturer discounts (i.e. agreed and subsidised ex-manufacturer not market price)
 - Difficult to quantify discounts (largely secret), likely substantial.
- Pharmacy income partly based on per cent mark-ups so impacted by price
 - Report impact \$20,000 per pharmacy
 - May require restructure of subsidy arrangements (e.g. Rural Support Scheme)

Other concerns – loss of research and development in Australia

Lower prices = lower profits in Australia will hinder in-country R&D

- Little evidence in-country prices drive R&D location
- Australian research is vulnerable to competition from countries that can conduct clinical trials more cheaply
- Direct strategies to support R&D preferred to indirect ones

Types of pharmaceutical research and development, Australia and USA, 2008



Ending Australia's bad drug deal

1. Start by getting the foundations right: independent governance and an incentive to save
2. Tougher rules on generic pricing
3. Promoting costs-effective choices

Savings

Stage 1 and 2: \$1.3 billion each year (2014-15 onward)

Stage 3: around \$550 million each year (2016-17 onward)

Full report available at grattan.edu.au

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