

# Pharmaceuticals, pharmacists and profits

## A health policy perspective

### Philip Clarke

Professor of Health Economics  
Centre for Health Policy Programs and Economics  
School of Population Health  
The University of Melbourne

### Key words

cost of drugs, generic drugs, Pharmaceutical Benefits Scheme

*Aust Prescr 2014;37:148-9*

*First published online  
4 July 2014*

In the past, the Australian Government paid lower prices than other countries for new drugs. However, after patent expiry there was no effective mechanism to adjust the amount paid. The introduction of generic drugs only produced modest price reductions.<sup>1,2</sup> Consequently, the Australian Government and some consumers were paying very high prices for generic drugs when compared to other countries such as England. Australian pharmacists benefited from these high prices as the pharmaceutical industry was supplying them with these products at a discount. The wholesale price was well below the amounts the pharmacists were paid for supplying these drugs through the Pharmaceutical Benefits Scheme (PBS).<sup>3</sup> Reforms to the pricing of pharmaceuticals were introduced in 2007. One of the key elements of these reforms was price disclosure. This based future payments to pharmacists on the actual wholesale prices they paid for generic drugs. The Health Minister at the time said this provided a way of 'harvesting for the benefits of taxpayers these discounts, which have historically been going to pharmacists'.<sup>4</sup> Pharmacists were paid compensation for these reforms, but this was intended to be for a limited period of time. The Minister went on to say:

The reason why the savings to government become much more significant in five years time and beyond is because there are about 100 major drugs that are coming off patent in that time and we are compensating pharmacists, we are explicitly compensating pharmacists for the loss of discounts over the next four years, but we are not explicitly compensating them for the much greater impact of the loss of discounts in the subsequent five and more years.<sup>4</sup>

A problem with the original policy of price disclosure was that it was largely voluntary to supply the information on actual wholesale prices. As a result, in the first round of price reductions in 2009, only four generic drugs fell in price. Commenting at the time, the Pharmacy Guild claimed that this debunked 'myths about the extent to which community pharmacies are given discounts on generic drugs'.<sup>5</sup> Under the original price disclosure policy it took 18 months, from when the purchase prices were first disclosed, before the reimbursements to pharmacists were reduced to reflect these lower prices.

Community pharmacy in Australia is now going through a period of change brought about by the expiry of the patents on an increasing number of commonly used drugs. As generic versions of these drugs should be cheaper this should mean much lower prices for taxpayers and consumers, and will free up resources for allocation to other parts of the healthcare system. For pharmacies this poses challenges as their profit margins will fall if the PBS price is closer to the discounted wholesale price.

The Pharmacy Guild has recently campaigned for compensation after further changes were introduced in August 2013.<sup>6</sup> These aim to make additional savings by speeding up price disclosure and the rate at which prices of generics fall. However, if the government compensates pharmacists for more rapidly declining generic prices, should it not also compensate firms that sell computers or mobile phones, as they also face declining profit margins from falling prices? Do Australian pharmacists have a special entitlement to taxpayer funds to ensure their profitability without having to adapt to changing circumstances?

Looking ahead we can learn from the experience of other countries such as England, which has much lower generic prices. Importantly, England uses a price disclosure system, but adjusts prices downward every three months, which is four times faster than in Australia. It also uses a system of 'clawbacks' to regulate the profits that can be made by independent pharmacies through discounts.<sup>7</sup> While these changes may have impacted on some pharmacists' profit margins, the number of pharmacies operating in England has risen by 15% since 2005.<sup>8</sup> This shows that it has not had a negative impact on the overall viability of pharmacy. While pharmacy in England also faces challenges, the Royal Pharmaceutical Society is focusing on developing new models of practice, rather than seeking compensation for the impact of past reforms.<sup>8</sup>

We must also evaluate the benefits and costs of policies designed to maintain the system of community pharmacy in Australia which includes restrictions on pharmacy ownership and geographic location. In the 21st century, when consumers are increasingly purchasing a wide range of goods through the internet, is it the role of the government

to regulate where new pharmacies should be physically located? Does the Australian consumer really benefit from ownership restrictions that date back to the 1930s, when legislative change was introduced to prevent the British pharmacy chain 'Boots' from entering the Australian marketplace?<sup>9</sup>

Unfortunately, there is very little independent evidence to examine these questions. Last year the McKeon Review<sup>10</sup> into health and medical research in Australia suggested that the government invest 3–4% of current health expenditure on research to improve the healthcare system. The most recent Guild-Government Community Pharmacy Agreement involved \$15.4 billion worth of funding for 5000 community pharmacies in Australia.<sup>11</sup> While there is currently a review of the administration of the

agreement by the Australian National Audit Office, there is a need to examine broader questions regarding the regulation of community pharmacy. A transparent review of the community pharmacy sector conducted by the Australian Productivity Commission could look at the impact of current policies and evaluate options for reform. Such a review could identify the scope for efficiencies, while taking into account the special needs of some consumers (such as those living in rural areas). Surely it is time for some evidence-based policy, rather than 'behind closed door' negotiations, to shape the role and contribution of pharmacy to the Australian healthcare system. <

*Conflict of interest: none declared*

## REFERENCES

- Spinks J, Chen G, Donovan L. Does generic entry lower the prices paid for pharmaceuticals in Australia? A comparison before and after the introduction of the mandatory price-reduction policy. *Aust Health Rev* 2013;37:675-81.
- Clarke P. The price is wrong: pharmaceutical expenditure in Australia over the last decade and options for reform. In: *Healthcare: Reform or ration*. Melbourne: Committee for Economic Development of Australia; 2013. [www.ceda.com.au/media/302619/healthcarefinal1.pdf](http://www.ceda.com.au/media/302619/healthcarefinal1.pdf) [cited 2014 Jun 23]
- Clarke PM. Challenges and opportunities for the Pharmaceutical Benefits Scheme. *Med J Aust* 2012;196:153-4.
- Tony Abbott Press Conference – PBS Reform. Commonwealth Parliamentary Offices, Sydney. Thursday, 16 November 2006.
- The Pharmacy Guild of Australia, PBS Price Disclosure, Version 1.1. March 2009.
- The Pharmacy Guild of Australia. Pharmacy Under Threat. Campaign update. 2013 Oct.
- Mansfield SJ. Generic drug prices and policy in Australia: room for improvement? A comparative analysis with England. *Aust Health Rev* 2014;38:6-15.
- Smith J, Picton C, Dayan M. Now or never: shaping pharmacy for the future. The report of the Commission on future models of care delivered through pharmacy. London: Royal Pharmaceutical Society; 2013. [www.rpharms.com/models-of-care/report.asp](http://www.rpharms.com/models-of-care/report.asp) [cited 2014 Jun 23]
- Gadiel D. Harmacy: the political economy of community pharmacy in Australia. Policy Monograph 86. Sydney: The Centre for Independent Studies; 2008. [www.cis.org.au/publications/policy-monographs/article/910-harmacy-the-political-economy-of-community-pharmacy-in-australia](http://www.cis.org.au/publications/policy-monographs/article/910-harmacy-the-political-economy-of-community-pharmacy-in-australia) [cited 2014 Jun 23]
- McKeon S, Alexander E, Brodaty H, Ferris B, Frazer I, Little M. Strategic review of health and medical research – better health through research. Final report. Canberra: Australian Government Department of Health; 2013. [www.mckeonreview.org.au](http://www.mckeonreview.org.au) [cited 2014 Jun 23]
- Commonwealth of Australia and the Pharmacy Guild of Australia. The Fifth Community Pharmacy Agreement, 5CPA. 2010. <http://5cpa.com.au/about-5cpa> [cited 2014 Jun 20]

## Editor's award

Dr John Dowden, the Editor of *Australian Prescriber*, was recently awarded a Fellowship of the Royal College of Physicians of Edinburgh for his contribution to drug education in Australia and internationally. He is seen here receiving his award from Professor Derek Bell, the President of the College, at the official ceremony in Edinburgh in June this year.

