

## Trade deal with US could bring with it a bitter pill

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THE PHARMACEUTICAL industry (including Medicines Australia, formerly the Australian Pharmaceutical Manufacturers Association) appeals to two lines of rhetoric to justify its demands for higher medicine prices in Australia under the US-Australia Free Trade Agreement.

The first is that higher medicine prices cover international research and development costs. The second asks that the community view industry representatives as patient advocates, reforming pricing arrangements under Australia's Pharmaceutical Benefits Scheme to ensure "more timely access to some of the world's leading medicines." (Hayes, CT January 15). Both of these claims are dangerously misleading.

In 2001 the top 10 United States pharmaceutical companies spent an average of 27 per cent of revenue from drug sales on marketing and promotion, a figure that has increased 32.4 per cent annually since 1999. Only 18 per cent went to research and development. This follows research indicating that in this oligopolistic and deregulated industry, administrative, marketing and promotional expenses on doctors and patients, capturing competitor's market share, generates more profit than researching and developing innovative therapies. In fact our Productivity Commission has found that only 10 per cent of PBS-listed medicines were truly innovative while 40 per cent were "me-too" drugs, slightly differentiated versions of the original.

An answer to the second argument is that the PBS places no limits on market access to new medicines. Access to the Australian market only requires safety and efficacy clearance through the Therapeutic Goods Administration. Australians can readily buy drugs not listed on the PBS in the private, non-PBS market. For example, Viagra has been legally available for sale in Australia for years but it is not covered by the PBS.

The additional PBS listing and pricing process determines which drugs should be subsidised for sale by Australian taxpayers. It balances therapeutic benefit with what is affordable to individuals and the community. This requires companies to show that their product is therapeutically superior to alternatives to extract a premium above the price of available products. In other words, the price of new products is "referenced" to therapeutically similar alternatives.

Reference pricing has been targeted for dismantling by the US FTA negotiators. A deregulated pricing environment, as in the US, is more profitable for pharmaceutical companies as they can use marketing and promotional means to create brand loyalty and extract higher prices above what is justified on therapeutic grounds alone.

Insight into the potential effects of the Australia-US FTA can be gained through a case-by-case comparison of the prices of Australia's most popular brand-named medicines against those charged by manufacturers in an unregulated environment such as the US.

US prices in these tables are based on the Federal Supply Schedule, a catalogue of manufacturer prices administered by the US Department of Veterans Affairs.

Australia uses economic evaluations or reference pricing in determining the prices of pharmaceuticals while the FSS does not. The wholesale price for sales in Australia is calculated from the standard dispensed price for maximum quantity published in the Schedule of Pharmaceutical Benefits effective from May 1, 2003, minus the pharmacist standard dispensing fee and pharmacists' 10 per cent mark.

It is apparent from the table that the wholesale prices of 10 of the most prescribed drugs in Australia are at least 79 per cent to 306 per cent more expensive in the US. The average (unweighted) price increase is 147 per cent. While differences in health systems, demand conditions, patent laws and production costs make it difficult to exactly predict prices in Australia in a deregulated environment, if the pharmaceutical companies via the mechanisms in an Aust- US FTA are successful in eliminating or undermining our PBS reference pricing system, Australia could expect to see price increases of this order. Some diuretics and contraceptives are four times more expensive in the US and the anxiety medicine Valium and the antibiotic Keflex are more than 10 times more expensive.

The Productivity Commission's 2001 report into pharmaceutical price comparisons analysed the reasons behind the low prices in Australia when compared to the US. It concluded that "Australia's cost-containment arrangements may have contributed to keeping [pharmaceutical] prices relatively low. The application of reference pricing in particular may have been significant". More generally, the Commission noted that the largest price differences (highest prices compared to Australia) were observed in those countries that do not have systematic price setting mechanisms such as our PBS.

Industry rhetoric aside, Australia has little to gain from trade deals that force changes to critical public insurance systems such as the PBS. The Australian government and people have been previously disappointed by the outcome of trade negotiations with the US. This time the stakes, our long- term access to health care and medicines, are so much higher.

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