

# Keeping Prices Healthy

| [Alan Moran](#)

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Roche, Upjohn, Glaxo Wellcome, Pfizer, Wyeth and Australia's very own CSL, are just some of the pharmaceutical companies operating in Australia. Most pharmaceuticals are actually paid for by the taxpayer, whose contribution is over \$4 billion a year.

According to the Productivity Commission, in Australia and New Zealand we get our pharmaceuticals at bargain basement prices. On average, prices are 30-40 per cent of those in the US and 60-70 per cent of the UK.

The regulatory authorities in the Commonwealth Health Department and its various committees can feel pleased with themselves over these findings. This is especially so since the Productivity Commission itself could not find anything different in Australia and New Zealand to cause the lower prices.

Pharmaceuticals bring massive savings to society. Combating mental illness is one dimension. In Victorian times, up to 10 per cent of the population was institutionalised for large parts of their lives. It was not very long ago that something as common as post-natal depression caused thousands of women to be placed in psychiatric hospitals. Today, the availability of modern pharmaceuticals means only a fraction of the mentally ill require to be housed in mental institutions. Nowadays, most are actually productive members of the community.

Cost savings from pharmaceuticals are likely to become even more important as the population ages. The cost of keeping someone in an intensive care nursing home is \$100,000 per year. Drugs which prevent or delay this---for example, combating Alzheimer's---aside from their immense personal benefits, bring colossal savings to the community.

It costs an estimated one billion dollars to bring a major new pharmaceutical product to the market. The costs are greatly amplified by requiring up to a decade to pass through the regulatory mill. The developer then has only a few years to cash in before patent protection expires. Even when a new drug is found, it has only a 10 per cent chance of being profitable.

There are two conditions that allow Australia the capacity to negotiate low prices for pharmaceuticals. The first is that, having been developed, the costs of producing pharmaceuticals are relatively low. Secondly, it is necessary for pharmaceutical companies to be allowed to charge different prices in different markets.

To maintain this the manufacturer must be able to ensure that products sold in Australia cannot be re-sold into the more lucrative US and UK markets. Such re-selling would undermine the higher prices in the major markets and force manufacturers to charge the same high price in Australia as they do in the US and UK.

If Professor Fels and his Australian Competition and Consumer Commission (ACCC) had their way there would be no such market differentiation permitted. The ACCC has campaigned long and hard to prevent producers controlling the re-sale of their goods to other markets. The campaign has already stopped record companies from selling CDs at higher prices in Australia from those overseas. The boot is on the other foot with pharmaceuticals. If the principle is extended to them, it would carry a \$4 billion plus price tag to the taxpayer.

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