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Changes to PBS Could Cost Australia’s Biotech Industry Over \$300 Million a Year

Australia’s peak body for the biotech sector, AusBiotech, has urged caution over rumoured changes to Australia’s Pharmaceutical Benefits Scheme that have the potential to damage the country’s biotech industry.

The PBS reforms – to be considered in February by federal cabinet following recommendations from an Inter-Departmental working committee - have the potential to cost the biotech industry tens of millions of dollars in investment annually, according to Dr Anna Lavelle, AusBiotech’s CEO.

AusBiotech warns that a similar reform of New Zealand’s pharmaceutical scheme in 1993 led to a significant drop in the development of new drugs and treatments. It also saw many major pharmaceutical manufacturers leave the country. In 2004 Pfizer withdrew a 10 year \$40 million grant to fund new drug research because the company believed the new policy denied New Zealanders access to innovative medicines.

The federal government is considering reforms to the Pharmaceutical Benefits Scheme (PBS) that would promote competition among generic drug manufacturers once the patent on a branded medication expires. The move could save the government more than \$800 million however Australia’s peak biotech body argues that these savings could come at a cost including an impact on patient health due to lack of access to innovative medicines.

A committee of senior bureaucrats will submit its findings on PBS reform options to cabinet in February, with changes likely to be implemented as part of this year’s budget.

The two options that are apparently being favoured by the Inter-departmental Committee both introduce a tender system for therapeutic groups of medicines that include a product that is no longer on patent and has a generic version available. This would see the lowest price product gain an exclusive period during which they can pass the cost savings directly to patients.

In one scenario the price of other drugs in that therapeutic group – including products that are still on patent and may have advantages or differences to the tender product – will have to reduce their price to that of the cheapest drug. Under the second option the other drugs in the therapeutic group will not have to drop their price, but those that did would also be able to offer a patient discount.

In both cases, the major issue is the connection of the price between generic medicines and innovative medicines – ie when the price of a generic is decreased, the price of innovative medicines is dragged down with it.

Dr Anna Lavelle, CEO of AusBiotech, warns that New Zealand-style changes may see companies that develop innovative medicines – and that invest significantly in Australia’s biotech industry - abandon Australia in the way they have abandoned New Zealand.

“Proposals that allow for the on-going erosion of the price of innovative medicine, without any consideration of R&D investment and quality of product will see manufacturers of these products leave Australia taking with them an annual investment in biotechnology of \$300 million*,” she said.

“While it is enticing for governments to see a short term reduction in health costs because of drop in the price of medicines – they must also look at the bigger picture. This includes both public health impacts that result from restricted access to innovative medicines and the fact that an anti-innovation position will keep the international venture capital away and would see the loss of Australia’s ranking as a world biotech leader and a leader in conducting clinical trials.”

“AusBiotech is cognisant of the need for the cost of the PBS to be kept under control – however, the message we would send to Canberra is work closely with industry to achieve this and consider the medium and long term consequences of proposed changes,” Dr Lavelle said.

In 1993 the New Zealand Government introduced a reform of the pharmaceutical benefits system similar to that being considered by the Australian government. Within a year Pfizer announced the cancellation of their \$40 million, 10 year research program. The New Zealand Herald (12/5/1994) said the company withdrew the funding because it believed it made no sense to fund research in a country where the public was denied access to innovative medicines.

Dr Lavelle warned that the \$40 million loss came at a saving to the NZ government of \$18 million. “The government must look at the overall cost benefit of any reforms to the PBS – otherwise we risk going the way of New Zealand with the loss of its biotech industry and the impact that will have on Australians having access to some of the world’s best and newest drugs and treatments.”

<p>*Medicines Australia estimates that its multinational members spend about \$300 million a year in supporting biotech R&D in Australia</p>
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For further information call:

Dr Anna Lavelle, CEO AusBiotech: 0419 516 620