



23 April 2007

Hon Peter Costello  
Commonwealth Treasurer  
Treasurer's Office  
Room MG47  
Parliament House  
CANBERRA ACT 2600

**Re: Pricing of Prescription Medicines**

Dear Treasurer,

I am writing to you to request that you ask the Productivity Commission to conduct an inquiry into the regulation of pricing of prescription medicines in Australia. CHOICE is concerned that current regulation and market arrangements for the pricing of prescription medicines fail to deliver fair prices to consumers and create significant inefficiencies.

The result of current arrangements and practices is that pharmacists are able to charge extra fees not contemplated by the agreement and not be penalised. As a result consumers are paying more than they should for some prescription medicines.

There is no legal barrier to pharmacists charging more than what is stipulated in the Pharmacy Agreement (the Agreement). The Agreement is not embedded in legislation and the Commonwealth is unable to enforce compliance by individual pharmacists.

Research undertaken by CHOICE has revealed that for *below co-payment* medicines, some pharmacists charge a higher price for drugs than the prices set out in the Agreement. A copy of the article which reports on our research is attached to this letter.

The research undertaken by CHOICE surveyed 4.5% of pharmacies across Australia asking for the prices of five commonly prescribed below co-payment prescription medicines. CHOICE found that between 5% and 26% of pharmacists were charging above what was stipulated in the Agreement.

For example, our research found that the PBS 'dispensed price' for the brand name drug Amoxicillin, a commonly prescribed antibiotic is \$11.55. Because this drug was below the 2006 co-payment of \$29.50, pharmacists can add an extra \$0.99 cents for the 'recording fee' and \$3.45 for the 'extra allowable fee'. The maximum price pharmacists can charge (which includes all the allowable extra fees as set out in the Agreement) for this drug is \$16. Yet CHOICE found that 26% of pharmacists were charging above this price. The

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highest price for this drug that we were quoted was \$19.90. This means that some consumers were paying \$3.90 more for this drug than they should have to.

Many Australians cannot afford to buy the medicines they need. A 2002 Commonwealth Fund study showed that 21% of Australians did not fill their scripts because of high costs. Australia ranked third out of five countries (Canada, New Zealand, UK and US) in terms of lack of access to affordable medicines. Working families are particularly disadvantaged as they are not eligible for concession cards (a copy of this study is attached).

We are aware that the Productivity Commission made a submission to the National Review of Pharmacy in 1999. That submission however did not make judgements about whether particular regulations were in the public interest.

We believe that a review of pharmacy pricing which considers the public interest would benefit the Australian community.

Such an analysis could consider:

- the relevance and need for the Pharmacy Agreement,
- the possibility of imposing sanctions on pharmacists who charge more than the allowed maximum price determined by Government,
- the need to increase the transparency around pricing, and
- consumers' ability to pay for the medicines they need.

Please contact me on 02 9577 3225 or Gordon Renouf, manager of Policy and Campaigns on 02 9577 3246 if you require further information.

Yours Sincerely,

Peter Kell  
Chief Executive

*Attachments: (i) Commonwealth Fund Study  
(ii) CHOICE article on prescription prices*