

Competition Policy Review 2014

Submission

of

**Australian Friendly Societies Pharmacies
Association Inc.**

(AFSPA)

Friendly Society Pharmacy

This submission is made by the Australian Friendly Societies Pharmacies Association Inc. on behalf of all friendly society pharmacies. Friendly Society Pharmacies are mutual not-for-profit organisations and a long-established and well-regarded part of the Australian health care system. Friendly Societies have been permitted owners of pharmacies in Australia since 1847.

The right of Friendly Societies to own pharmacies has never been restricted but their ability to grow their pharmacy businesses in competition with pharmacist-owned pharmacies has been restricted by anti-competitive legislation for a significant period of time in a number of jurisdictions, most notably NSW, QLD and WA. Since 2005, as a result of a direction from the then Prime Minister to the Victorian Government, restrictions on growth of friendly society pharmacies was introduced in Victoria for the first time. This same wave of competition policy reform also saw a slight relaxation of restrictions on Friendly Society Pharmacy ownership rights in the other states, with modest growth being permitted where previously numbers had been frozen.

The Submission

The Terms of Reference of the Review require the Review to consider and advise on appropriate changes to legislation in relation to:

' 4.5 Identify opportunities for removing unnecessary and inefficient barriers to entry and competition..

4.6 consider ways to ensure Australian can access goods and services at internationally competitive price'

The Issues Paper identifies the regulatory restrictions operating in the community pharmacy sector as an area under consideration, in particular:

'2.6 Beyond occupational-based restrictions, restrictions may be imposed on the provision of the service itself, principally through a supply-based constraint (for example..pharmacy advice/dispensing services'

It is AFSPA's contention that the public interest is best served by maintenance of the current level of regulation of community pharmacy. Whilst we have not addressed in detail all areas raised in the Issues Paper, we wish to make a number of points that are relevant to the Panel's consideration of community pharmacy and in particular, friendly society pharmacy, particularly in relation to the areas of the Review identified above.

1. Ownership

AFSPA supports the current ownership arrangements in community pharmacy whereby ownership must be vested in either a registered pharmacist or a Friendly Society Pharmacy company. (We note however, that relatively recent legislative changes in the ACT have precluded the potential for a Friendly Society Pharmacy to operate in that jurisdiction, which is at odds with every other State and Territory).

Pharmacists are highly trained health professionals, and whilst pharmacy owners endeavour to operate their businesses in a profitable manner, it is our experience that professional practice standards are, and should remain, the foremost consideration in the daily pharmacy practice, not profit. Friendly Society Pharmacies are member-based organisations which only exist to benefit their members. As such, these pharmacies have a primary focus on healthcare outcomes for their customers, and not profit.

The operation of Friendly Society Pharmacy in Australia over the last 167 years has been characterised by excellent professional practice standards (Friendly Society Pharmacies were the first group to reach 100% compliance with the Quality Care Pharmacy accreditation program (QCPP)), a high degree of community connection and philanthropic support to local communities, and a high level of satisfaction from members and customers.

We believe there is sufficient evidence from other industry sectors as well as the healthcare sector that there are significant risks to community access and health benefit should deregulation enable the entry of for-profit entities to this sector.

Whilst we are not expert advisors on the corporate model of General Practice we believe that there is evidence emerging from this sector whereby the independence of qualified health practitioners (GPs) is being jeopardised by corporate practices and directives aimed at maximising profit for shareholders. These practices are at the expense of both patient outcomes and government expenditure on the MBS

The emergence in the last ten years of large corporate models in community pharmacy (which arguably test the boundaries of current ownership intentions) has similarly given rise to anecdotal evidence of the deleterious impact of a low-cost, low-service corporate model on patient care, pharmacist well-being and PBS payment streams.

2. The current competitive environment in pharmacy

There have been substantial shifts in the community pharmacy industry in the ten years since the implementation of changes resulting from the last Competition Policy Review. In particular, the introduction of the Price Disclosure policy in the period commencing 2007, and the government decision in late 2013 to accelerate this process, has dramatically reduced the profitability of community pharmacy. Up to 40% of community pharmacies across Australia are now considered to be at financial risk due to the substantial reduction in the average profit per prescription dispensed. Whilst there have already been significant job losses in the sector, it is likely that a number of foreclosures will occur in the next two years, and many small

pharmacies may simply close their doors, thus reducing access to healthcare services in these communities.

In addition, the ability of the traditional community pharmacist to provide health advice and service is now significantly compromised. Despite the introduction of a number of paid professional services via the Community Pharmacy Agreements, , there is insufficient compensation available for pharmacists to provide a free health advice and referral service, something that is vitally important in areas where there is limited access to GPs.

Other changes affecting community pharmacy viability have arisen due to the aggressive entry of the large supermarket players, already operating in essentially a duopoly, into the health and vitamins market. The potential for the market power possessed by these players to adversely affect suppliers, manufacturers and also consumers had been well-documented in other industry sectors.

3. Pharmacy Location Rules

AFSPA believes the current location rules should be maintained, though reviewed to address some unintended consequences, in order to ensure that National Medicines Policy of ensuring access to and quality use of medicines is maintained. While the 2011 changes to these Rules appear to have at least partially achieved their aim of ensuring that community access to community pharmacy services is maintained and giving a measure of assurance to pharmacy owners about their business operations, there remain several anomalies which in the interest of a level playing field in what is a very competitive environment need to be reviewed .

Our particular concerns are focussed on redressing the disproportionate power unintentionally afforded to shopping centre landlords and the unintended consequences of Rule 124 Short Distance Relocation (1km) and Rule 134 New Pharmacy in a Facility (Large Shopping Centre) within the current Pharmacy Location Rules.

Our concerns with these existing Location Rules, from a Competition Policy viewpoint are raised in an environment of rapid changes to the community Pharmacy sector as a result of the decisions made under the Gillard /Rudd Governments to further increase the rate of PBS Reform.

While AFSPA accepts the rationale underpinning the Simplified PBS Reform process, the speed and lack of consultation with which these changes were introduced gave little consideration to balancing the priorities of the Federal Government in reducing PBS expenditure with the practical realities of operating a viable community pharmacy business, It is against this background of rapid regulatory change and a sluggish retail environment that these Rules need to be reviewed. Indeed, Government has an important role to play in allowing community pharmacy to mitigate the impact of regulatory change, not to be further subjected to rules which could be deemed to be anticompetitive.

Conclusions

Whilst the Pharmacy Guild of Australia, for most of its 80+ years of existence, has argued to Government that Friendly Society Pharmacies should not be permitted to operate, these arguments have become extremely muted in recent years. This is due to both the continued evidence of the high professional standards of friendly society pharmacy, and the very low level of growth of these non-profit entities. In fact, the PGA and the AFSPA have in recent years signed a memorandum of understanding and are in furious agreement on the key issues confronting community pharmacy today.

In conclusion, AFSPA believes that the provision of pharmacy services via the distributed network of private pharmacists and friendly society pharmacies across Australia is a significant public good. As such, continued regulation of this industry is both appropriate and desirable. The industry at the moment is in a perilous position due to accelerated price disclosure and any future legislative or regulatory changes should be aimed at strengthening the sector rather than assaulting it further.

The Executive Members of AFSPA would be pleased to meet with the review panel or provide any additional information should it be required.