



Competition Policy Review Secretariat  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir/Madam

### **CHF Submission to the Competition Policy Review - Amendment**

I am writing regarding our submission to the Competition Policy Review, dated 20 June 2014.

In that submission, we suggested *“the ownership of large pharmacy brands by Australia’s major pharmaceutical distributors could be contributing to the high price of Australian medicines compared with overseas markets.”* This statement was supported by some examples of vertical integration within the pharmaceutical sector.

It has been brought to our attention that some elements of one of the examples we provided were technically incorrect, and as such, we would like to clarify the statement in our submission.

Although the exact details of ownership and control arrangements within the pharmaceutical sector are intricate, obscure and difficult to comprehend, on the basis of the information publicly available, the example on page 3 of our submission should be amended to say:

*“API owns and operates the Priceline and Priceline Pharmacy retail store brands<sup>1</sup>, and their other brands include banners such as Soul Pattinson<sup>2</sup> and Pharmacist Advice<sup>3</sup>.”*

We acknowledge that while it is unclear whether API may technically “own” any retail outlets, its governance arrangements and linkages with wholesale and retail delivery of pharmacy services and medicines is significant. In its latest half-yearly report<sup>4</sup>, API lists Priceline store expansion under ‘Review of operations’ and AGM presentations<sup>5</sup> talk about growing retail operations in Priceline, Priceline Pharmacy, Soul Pattinson and Pharmacist Advice.

These technicalities aside, the central concern about the way in which current market arrangements may be contributing to higher pharmaceutical prices in Australia, remains worthy of consideration by the Review.

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<sup>1</sup> API Website, “About us” Section: Access online at: <http://www.api.net.au/aboutus.asp>

<sup>2</sup> Soul Pattinson Website, “About us” Section: <http://www.soulpattinson.com.au/about-us>

<sup>3</sup> AP Website “Our Brands” section: Access online at: <http://www.api.net.au/ourbrands.asp>

<sup>4</sup> API Consolidated Interim Financial Report for the half year ended 28 February 2014 : Access Online at: [http://www.api.net.au/investor\\_relations/2014/FINAL%20Appendix%204D%20HY14%2030%20April%202014.pdf](http://www.api.net.au/investor_relations/2014/FINAL%20Appendix%204D%20HY14%2030%20April%202014.pdf)

<sup>5</sup> Presentation at 2013 AGM: Access online at: [http://www.api.net.au/investor\\_relations/2014/ASX-FINAL-AGM-Presentation-FY13.pdf](http://www.api.net.au/investor_relations/2014/ASX-FINAL-AGM-Presentation-FY13.pdf)

In support of this point, I would highlight that a range of researchers have commented on the complex dynamics of the pharmaceutical industry in Australia, with one study describing the Australian generics suppliers industry as a “one characterized by lack of transparency and distortions such as dominance by a few major players and shadowy cross-licensing arrangements.”<sup>6</sup>

Research undertaken by the University of Melbourne and the Grattan Institute<sup>7</sup> pointed to the very high prices Australians paid for many medicines. The Grattan report says that even with price disclosure now driving prices down, many flaws remain. At page 3, that study cites examples of loopholes available to market players that can get around price reductions.

Despite PBS pharmaceutical prices being “controlled” by the Federal Government, it is clear that the pharmacy and pharmaceutical industries preside over arrangements that delivered significantly inflated prices to the consumer of many products, even well after the introduction of price disclosure in 2007, as outlined in a recent article in the Australian Prescriber.<sup>8</sup> On the basis of the published research, and given the propensity of integrated businesses to maximise returns, the possibility of high prices is hardly remarkable.

Should you require any further information, please contact our office on 02 6273-5444.

Yours sincerely



Adam Stankevicius  
Chief Executive Officer  
16 July 2014

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<sup>6</sup> Lofgren, Hans 2009, “Generic medicines in Australia: business dynamics and recent policy reform”, Southern Med Review, vol. 2, no. 2, pp. 24-28. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1471687](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1471687)

<sup>7</sup> Professor Phillip Clarke in *Healthcare: Reform or Ration*, Committee for the Economic Development of Australia, April 2013. <https://www.ceda.com.au/media/302619/healthcarefinal1.pdf>  
*Poor Pricing Progress*, Grattan Institute, December 2013 <http://grattan.edu.au/static/files/assets/003db14b/803-Poor-Pricing-Progress.pdf>

<sup>8</sup> Professor Phillip Clarke, “Pharmaceuticals, pharmacists and profits: a health policy perspective”, Australian Prescriber. <http://www.australianprescriber.com/online-first/52/pharmaceuticals-pharmacists-and-profits%3A-a-health-policy-perspective>